Bridges Ventures Research
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The Power of Advice in the UK Sustainable and Impact Investment Market

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Bridges Ventures is a sustainable growth investor established in 2002 with a mission to use its commercial expertise to achieve focused social or environmental benefit, as well as attractive returns for investors. Bridges Ventures has raised six funds to date which total almost £275m: Sustainable Growth Funds I, II and III, the Bridges Sustainable Property Fund, CarePlaces Partnership and the Bridges Social Entrepreneurs Fund.

Bridges Ventures originated the concept of this report with the goal of contributing to the development of the sustainable and impact investment sectors by unlocking the potential of intermediary advisers to support these types of investment.

This report was written under the auspices of the first Bridges Fellowship Programme. The Bridges Fellowship Programme was established by Bridges Ventures to provide time and space for individuals to dedicate to thinking, innovating and writing about big questions in the fields of social and environmental entrepreneurship and sustainable investment. Fellows are supported by the expertise and experience within the Bridges Ventures team and its wider network, with the hope that they will be in a position to make a contribution to this sector of the economy in both a theoretical and, importantly, a practical way.

Susannah Nicklin, CFA

Susannah comes to the Bridges Fellowship after nearly 20 years in financial services. She worked with Goldman Sachs in NY, Sydney and London as an investment banker and sellside analyst, and with AllianceBernstein as a private banker, heading up the family office practice in London. Susannah is now helping others engage with sustainable and impact investment and pursuing her own entrepreneurial ambitions. She is on the investment committee of the Berkshire Community Foundation, and is a Director of Pantheon International Participations PLC. Susannah holds a BA from Stanford University.

Introduction to the Report

By Susannah Nicklin

As the first Bridges Fellow, my remit was to research the current state of investment advice-giving in the UK for sustainable and impact investment. The central questions were:

- Who advises asset owners wishing to make sustainable and impact investments?
- How is this done?
- What is needed to unlock greater capital flows into the sector?

It was our hope that we could raise the profile of current practitioners and advance ideas to unlock far greater capital flows into the sector. We hope the report will be of use to people engaged in social and sustainable finance, but also will provide context for investors, advisers and other market participants new to the sector.

We discovered a keen appetite to discuss this topic, fuelled varyingly by enthusiasm, frustration and confusion, and we are grateful to everyone who contributed their perspectives. There are many dynamic tensions in the sector and conflicting trends – even playing out over the course of this research.

We have set out to describe what exists currently and to analyse the specific issues, challenges and opportunities for growth in this area. We intentionally chose to cast a wide net, looking across the spectrum of sustainable and impact investment in our analysis, based on our definition of the market as described in the report. We believed that asset owners who seek advice in either impact or sustainable investment may likely be interested or inclined to ask for guidance on the other. Further, this new paradigm of capital deployment is still not well understood by the vast majority of people. Therefore, a key role for advisers will be contextualising opportunities in light of broad market choices and integrating these choices alongside conventional investments.

The report reflects findings from over 90 interviews, conducted with representatives from across the chain of advice:

- advisers already working in this area and traditional investment advisers
- traditional fund managers and specialists in impact/sustainable investing - from VC through to liquid public markets
- institutional, private client and retail asset owners and fiduciaries
- business consultants and other related intermediaries, such as accountants, solicitors and philanthropy advisers
- social entrepreneurs and angel investors
- corporate sustainability executives
- academics
- trade bodies and industry associations

We hope you enjoy the report, and that it encourages or facilitates your engagement with sustainable and impact investing. Please let us know any questions or ideas sparked, and your feedback is welcome.

How we define the market

The notion that markets and business cannot operate in isolation from society and the environment is not new. Socially-conscious investing arguably dates back centuries, with religions laying down directives on how to invest according to ethical values.[1] More recently, the social climate of the 1960s, followed by the push from investors to eliminate the institutionalized racial discrimination of Apartheid in South Africa, brought socially-conscious investing to the fore. By the 1980s, Socially Responsible Investing (SRI) had a dedicated investor base, focused on systematically 'screening out' harmful products and practices (such as tobacco, weapons or oppressive regimes). Back then, this investment style was driven primarily by ethical motivations, rather than commercial considerations.

Many investors have recognised that, by factoring social, environmental and governance risks (ESG) into their investment decisions, they are able to protect value and deliver greater long-term wealth to shareholders.

Over time, in addition to ethical motivations, many investors have recognised that, by factoring social, environmental and governance risks (ESG) into their investment decisions, they are able to protect value and deliver greater long-term wealth to shareholders, particularly in a world of increasing transparency. As a result, the broad category of responsible investors today range from those who 'negatively screen' harmful products or practices, to those who also address ESG risks through active ownership and to a much wider universe of investors who look at ESG risks as a part of their overall analysis of the portfolios they hold. The extent to which the ESG factors are central to selection of investment varies widely within this universe of investors.[2]

Taking this further, and building upon "best-in-class" SRI, some investors have deeply integrated social and environmental factors into investment analysis and begun pro-actively looking for ESG opportunities, selecting companies which they believe will outperform the market because they operate (or have the potential to operate) in a more sustainable way than their peers over time – be it through their environmental management, stakeholder engagement or governance practices. This Sustainable Investing centres on backing businesses that can flourish in a changing landscape, and we distinguish it from Responsible Investing because it focuses not just on protecting value against risk but on creating additional value, through both investment selection and portfolio management.

While Sustainable Investing focuses on how companies behave in a changing social and environmental context, Thematic Investing goes beyond this to focusing on businesses that can actively shape that context, by offering solutions to a pressing social or environmental issue. Thematic investors focus deliberately on one or a cluster of issue areas with the intention to make a positive social or environmental impact. For example, a clean energy mutual fund might focus on climate change, while a private equity firm might focus on affordable healthcare, water scarcity or investment in low-income areas. These investors identify situations where a social or environmental need creates a commercial growth opportunity, with the potential to deliver positive impact alongside market, or above market, returns.

There are, of course, many pressing social or environmental issues where commercially-viable solutions do not present themselves. Traditionally, such issues have been resolved by government or grant-funded charity, with 100% financial loss. While there

[1] From biblical times, Jewish laws laid down directives on how to invest according to ethical values, while Quakers have long practiced socially responsible investing, based on their beliefs in human equality and nonviolence.

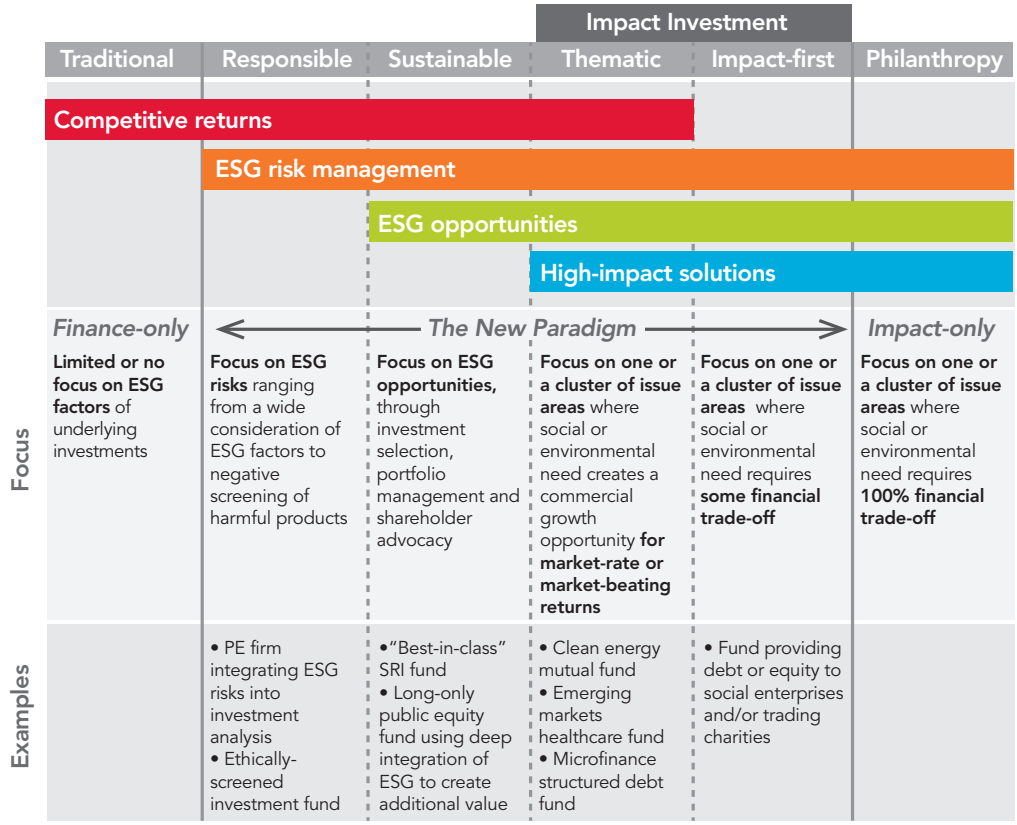
[2] With growing commitment, the signatory base of the UN Principles for Responsible Investment (UNPRI) already accounts for approximately 20% of the world's capital (UNPRI Annual Report 2011: *http://www.unpri.org/publications/annual_report2011.pdf*).

continues to be a clear role for public funding and grants, the evolution of social enterprises has shown that there are situations where a social or environmental need requires only some financial trade-off, rather than complete financial loss. The result is a more scalable solution than charity, as well as an opportunity to bring incremental investment inflows to address social and environmental challenges, which governments and aid alone cannot solve. To support these enterprises, the impact-first investor has emerged—an investor who is willing to back sustainable, often profitable, business models that cannot generate market-rate returns due to the nature of the impact being created.

While thematic investors differ from impact-first investors in their ability to generate competitive returns, the impact intention of both types of investor is broadly the same—namely to back solutions to social or environmental issues. As a result, both thematic and impact-first investors seek to track and manage their impact alongside their financial return. We therefore call both types of investing Impact Investment.[3]

In summary, we have developed the following 'map' of the market to help clarify the terms and position the choices available to asset owners. Importantly, we use only dotted lines to distinguish between types, as we do not want to over-simply the picture and recognise that some investors may consider themselves as between or across categories.

Spectrum of Capital



With thanks to Clara Barby for her assistance in authoring this section and developing the *Spectrum of Capital* graphic.

[3] This definition is consistent with the GIIN's description of impact investment as "actively placing capital in businesses and funds that generate social and/or environmental good and a range of returns, from principal to above market, to the investor."

Report Outline

Executive Summary

Chapter 1: Overview of current advisory landscape

Chapter 2: The products and services – What can advisers offer?

Chapter 3: Where next for sustainable and impact advisory services?

Chapter 4: Opportunities outweigh the challenges for advisers in this market

Chapter 5: Conclusions: More advisers – within larger organisations or on their own – should serve this market

Appendix A:
What does 'advice' mean in practice?

Appendix B:
Profiles of representative advisers

- Consulting firms: Cambridge Associates and Mercer
- Integrated global bank: UBS
- Private banks: C. Hoare & Co. and Lombard Odier
- Discretionary manager/advisor: Rathbones Greenbank
- Independent Financial Advisers: Barchester Green, Ethical Futures and Ethical Investors
- Clearly So, Hermes Equity Ownership Services, D-Capital (UK); OnValues and Quadia (Switzerland); Imprint Capital (US)

Executive Summary

The Power of Advice in the UK Sustainable and Impact Investment Market

- There is latent demand among a wide range of asset owners for sustainable and impact investment approaches across asset classes
- The sustainable and impact investment market structure has weak links: more specialist investment advisers and well-informed mainstream asset allocators are needed for greater capital to flow
- The difficult macro environment, with great anxiety among all investors, means the advisor's role is vital in interpreting and positioning investments
- Specialist advisers must demonstrate their worth primarily as outstanding investors, with the ability to optimize social, environmental and financial returns
- Increasing product pipeline may force the issue: a growing need for gatekeepers
- This is still a niche segment of the market, with small share of total AUM, but early entrants are gaining traction as they educate and market their services
- Scale will be achieved if fragmented slivers of demand can be aggregated via collaboration between mainstream and specialist institutions, making the market accessible and economically viable for larger participantsInvestment advisers can play a profoundly influential, catalytic role in creating more sustainable capital markets and directing investment to achieve combined financial, social and environmental returns. With this report, we wanted to identify the drivers for making this happen sooner rather than later in the UK.

There is exceptional expertise, innovation and commitment demonstrated by those who have laid the groundwork in the sustainable and impact investment market over the previous decades.

Nevertheless, there remains a disconnect between large pools of capital and this resident (and growing) expertise and innovation. Early-adopters and highly intentional, committed pioneer investors have forged their own paths, demonstrating that even with an immature market it is possible to systematically incorporate blended value into diversified portfolios.

It is not easy for the less intrepid or well-resourced investors - trustees, charitable entities, retail, high net worth, or many mainstream institutional investors - to know where to turn for good advice and implementation. It is even less common to see advisers actively introducing the ideas to clients who have not already raised their hands to express interest.

So, how is this likely to change, and when?

No time like the present

We believe the time is right, now. There are already many promising developments, with new products and new investors rapidly evolving the sector. Our research suggests that there are now powerful – and diverse - motivations for investment advisers to enter the market:

- The sense that this is 'the right thing' for financial services firms to do, particularly in light of tarnished reputations and the trust deficit of recent decades

- A belief that services in this market will bring either a competitive edge or soon be a competitive imperative
- A response to articulated client demand
- An opportunity to diversify the return sources of portfolios and reduce both systemic and idiosyncratic risk
- Potentially helpful to influence investor/client behaviour to improve returns over cycles
- A shift from 'bolt-on' CSR to an integration of social and environmental stewardship within the business lines
- Staff interest and desire to align their work with helping to solve social and environmental challenges to achieve greater personal meaning
- Commitment to innovation and product development
- The 'democratising' implications of the internet and social media for financial advice and investor engagement

As investors redefine their fiduciary duty, adopt ESG metrics, and develop their own commitments to sustainable and impact investment, they will seek advisers able to make recommendations for achieving financial and social/environmental returns on their capital.

Amongst everyone we interviewed there is a widely felt and readily articulated sense that as investors – from pension and foundation trustees through to individual savers – assess or redefine their fiduciary duty, adopt ESG metrics, and develop their own commitments to sustainable and impact investment, that they will seek advisers able to make recommendations for achieving financial and social/environmental returns on their capital. The market potential is compelling: JPMorgan has forecast the Impact Investment market to reach $500bn[4], and already the combined universe of sustainable and responsible funds in Europe exceed £5trn and in the UK alone are approximately £1trn[5], with annual asset growth rates outstripping the broad market. There is little doubt that sustainable and impact investment increasingly will attract attention and capital.

Specialists vs the mainstream? Or specialists and the mainstream?

So, with all this going for it, who will lead the charge to unlock greater asset flows? Will the organic expansion of independent specialists catalyse capital? Or will big mainstream players with deep pockets be necessary to move the needle?

We believe the answer is both, together.

Advising in new markets is an expensive and highly complex task. There are stiff headwinds from the broader economic realities for financial institutions and many specific commercial challenges of operating in this sector. Nevertheless, the status quo is shifting. Market players that develop the expertise in-house or build linkages with specialists, will not only act as responsible corporate citizens, but will also bolster the resilience of their own business models.

Our research suggests that independent specialist advisers and expertise housed within large organizations can successfully participate in and grow this market. Indeed, there is a powerful opportunity for specialists and mainstream financial institutions to work alongside each other for mutual benefit. The slivers of client demand at each large organization may not in themselves merit the investment of resources needed to serve them. However, across the market, these slivers combine to make a sizeable pie.

[4] JPMorgan, December 2010.

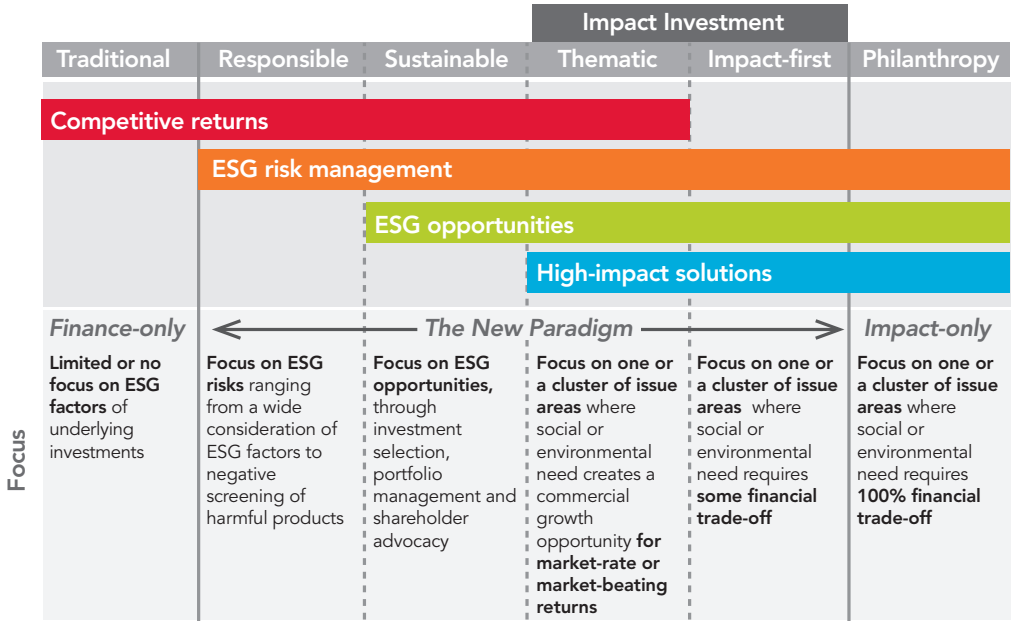
[5] According to the European SRI Study 2010, published by UKSIF, and as of 31 December 2009.

More and more asset owners care about sustainability and the social and environmental impact of their investment decisions; their fiduciaries will need to reflect these concerns in portfolios. The good news is that compelling new products are being developed around the world: social impact bonds, funds supporting high growth businesses in deprived areas, sustainable agriculture and fishery funds, new forms of community finance, green retro-fit and real estate, funds of impact funds – the list is long and inspiring.

In light of this, we have developed a 'map' of the capital spectrum which illustrates the new capital deployment paradigm and frames the increasing range of choices advisers can make available to their clients.

We use only dotted lines to distinguish between types, as we do not want to over-simply the picture and recognise that some investors may consider themselves as between or across categories.

Spectrum of capital



Advisers that have sufficient expertise to make recommendations across this spectrum will be able to offer clients a valuable and hard-to-find service. It provides a win-win-win outcome:

- clients receive better service and more appropriate investment advice/portfolios,
- advisers have happier clients, increased AUM and keep pace with market innovations, and
- the capital deployed can be used to generate sustainable social and environmental benefit at scale.

Challenges and opportunities for advisers

But if this is the case, what are the considerations holding back participants? Are there off-setting benefits that may not be broadly recognized?

We have identified in the report the key challenges and opportunities we see for advisers in this market, and summarized them below. There are often two sides to the same coin: an issue that creates a challenge, also often opens up an opportunity.

It is a promising time for institutions and individuals with the skills and resources to articulate the business case for sustainable and impact investing, to respond to the moral and personal choices of their clients, and to contextualise and implement sound strategies.

Challenges

- Human capital: Challenges of organisational cultures, mental models and skill sets
- Complexity: Expectations, measurement, track record and too many cooks
- Scale: Fragmented and small universe of investable product combined with fragmented slivers of demand
- Policy and legal issues: Expanding the options available to investors – and their advisers – is contingent on innovative and proactive government policy and new regulations
- Capital: To withstand these four preceding challenges, advisers need sufficient and focussed funding to operate and grow

Opportunities

- Human capital: Opportunity to harness eager resources and talent across the generations, attracting seasoned bankers with consciences and capital, younger talent with time and temerity
- Reputational benefits: Strengthens license to operate, may facilitate relations with broader stakeholders including shareholders, lenders and government bodies
- Competitive advantage/differentiation: Helps attract client assets in a crowded marketplace
- Deepens client relationships: Increases retention
- Engaging with philanthropic capital can expand asset base
- Specialism can permit 'wholesale' collaboration with big mainstream players; aggregation of demand is a win-win

On balance, the findings indicate it is a promising time for institutions and individuals with the skills and resources to articulate the business case for sustainable and impact investing, to respond to the moral and personal choices of their clients, and to contextualise and implement sound strategies. The quantity of players is not so important – indeed the demand aggregating function is vital, and quality and collaboration are paramount.

Fortunately, there are already some outstanding specialist advisers in the UK and overseas. But this is not enough. The vast mainstream investment advisory community itself needs advice – and convincing. There is a risk that if firms prevaricate or attend to different priorities, they will fall behind, leaving others to capture the opportunity, build the expertise and respond most effectively to investors' demands and societal needs.

They need not do it alone, indeed the best outcomes will likely come from closer collaboration and partnerships. Those already in the sector – asset owners and value creators alike – must help equip all intermediaries to understand sustainable and impact investment, demonstrate the multiple forms of value that can be created, and put opportunities in context. The power of advisers – both generalists and specialists – can be harnessed better, and must be, if greater capital is to flow where it is most needed.

Chapter 1

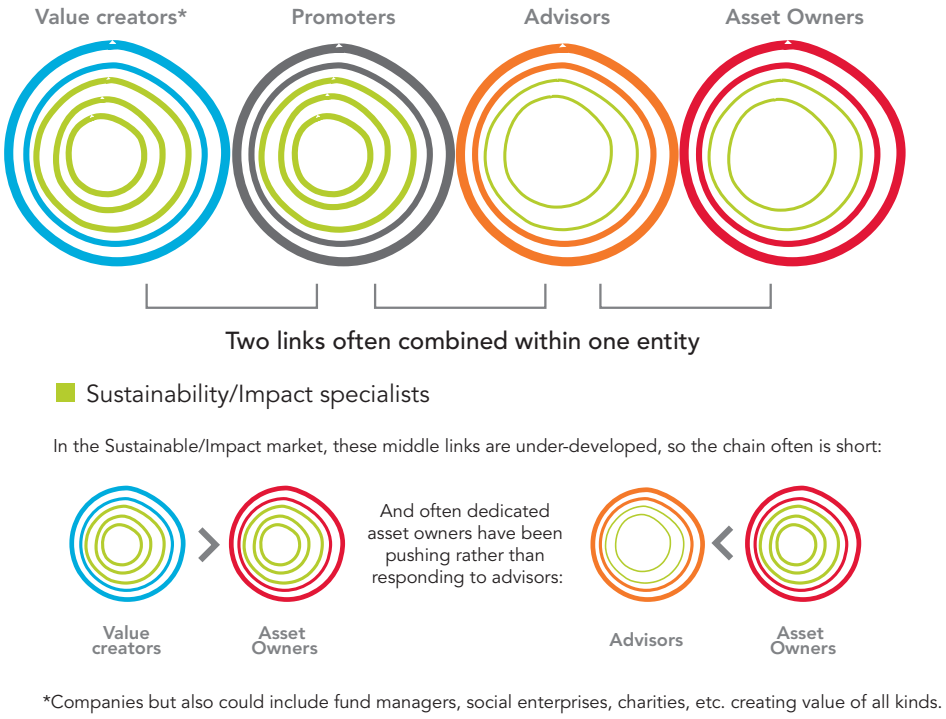
Overview of the current market

For markets to function, buyers and sellers need ways to meet each other and ways to get to know each other. Specialist intermediaries play a vital role in this process across sectors of the economy. In financial markets, with large sums at stake and a high level of complexity in the transactions, advisers often perform the catalytic role of helping make suitable matches between asset owners and entities raising capital or exchanging assets.

If the market for sustainable and impact investing is to grow and thrive, this advisory capability must develop alongside with aligned missions and commercial viability. The supply of innovative, impactful and attractive investment products is increasing. Likewise, there is greater awareness of this market and rising demand from asset owners across categories. These dynamics have been fueled by many forces.

In this report, we particularly set out to describe how asset owners in the UK are being advised on sustainable and impact investment choices, and consider what is needed to strengthen this link in the chain.

Connecting Capital and Value



This is a simplification of the roles played within the investment process, but it may be helpful to indicate where the weak links are, and where a fulcrum or multiplier effect can be created.

In green, we have illustrated the roles within the wider market that impact and sustainable specialists play. In our analysis, specialism at the lefthand half of the chain is of particular importance and adds most value. To achieve greater scale it is necessary for these specialists to engage and harness the broader platforms of non-specialist advisers and their clients on the right. Of course now and in the future, there will be

committed, specialist investors who actively seek specialist impact and sustainability advice across their investments – and there are attractive opportunities presented by this demand.

However, it is the generalist advisers and investors will largely be responsible for carrying sustainable and impact investment into the mainstream and 'mobilising the money'. This can be achieved by determined efforts of specialist value-creators and promoters forcing the agenda and demonstrating the relative merits of their approaches. Initially and for some time to come, this may need to take place directly with asset owners, who then validate the demand needed for advisers and other asset allocators to take note.

In the UK, it is still only a relatively small and fragmented group of people who are in the position to be able to offer investment advice and implementation in this market, particularly independent advice unaffiliated with a specific product or manager. A central question now is how to raise the profile of these offerings in order to engage more broadly and systematically with asset owners - and thereby develop a reliable 'irrigation system' for the sustainable and impact investment capital markets. It is also important to make sure that the enthusiasm and hopes resting on these innovative approaches are not dented or set back due to expectations not being set correctly by the advisory community.

In the Appendix, we include profiles of a selection of sustainable and impact investment advisers serving different types of investors.

Diverse asset owners, diverse advisers: promising developments

Below, we have shown the types of investment advisory services that exist in the UK and matched them loosely from top to bottom with the products (on the left) and the markets (on the right) that they typically handle. This 'map' of the market describes mainstream investment relationships, but is equally valid for the sustainable and impact investment markets.

Investment opportunities	Investment advisers	Asset owners
Deposits	IFAs	Retail clients
Listed funds	Wealth managers	HNWs and small institutions
Direct: listed equity/ debt	Private banks	UHNW and larger institutions
Illiquid funds	Discretionary asset managers	Big institutions
Structured products	Financial consultants	
Direct: private equity/ debt		

Sustainable and impact investment advisory is no different from the mainstream, in that there are already and will continue to be a range of advisers serving the wide spectrum of asset owners. This is often dictated by the economics of scale and regulation. In this report, we have looked broadly across the advisor universe, including those serving retail clients through to the largest institutional investors.

The research conducted for this study indicates dramatic variation of interest and familiarity with sustainable and impact investment within the advisory community. One consultant told how in one day she met with senior executives at two big financial

services firms with similar profiles, and their approach was entirely different: at one, the C-suite was unequivocally convinced of the business case for developing capabilities in impact/sustainable investment, in the other there was resounding skepticism and caution. We found this ourselves. This is a natural pattern in the early stages of innovation and adoption.

What is notable and perhaps not surprising, is that the two ends of the spectrum – the small, boutique ethical wealth advisers in the UK and the pension/foundation consultants – have greater experience and are arguably further along in defining their approach, than most of the mainstream institutions that offer investment advice to the mass market and high net worth clients in the UK. Also of note is how Swiss and US advisers are stealing the march on UK players (granted, they are arguably serving larger target markets – the 50 states in the US, and the Continental and global investors served out of Switzerland).

Some of the leading pension/foundation consultants have begun to build impressive intellectual capital and proprietary research resources to help their clients globally act as responsible investors or pursue mission-related investment strategies.

The smaller retail specialists in the UK have been at it for many years and have developed expertise, loyal client bases, and working methods that are aligned with their business goals. Nevertheless, the aggregate wealth managed or under the advice of these specialist advisers is still tiny relative to the invested assets in the UK. Likewise, leaders in this field express aspirations to have a broader range of products to use in client portfolios and to respond to diverse client needs across the range of impact agendas.

Some of the leading pension/foundation consultants – Mercers, TowersWatson, Cambridge Associates – have begun to build impressive intellectual capital and proprietary research resources to help their clients globally act as responsible investors or pursue mission-related investment strategies. However, it is a challenge for their specialist units to influence the whole firm and shape strategy, particularly when the universe of suitable, large-scale product remains sparse.

The UK's bulge-bracket and private banks, wealth managers, most insurance companies, and the national IFA distribution networks have as a group been slow to enter the sector, although there are individual cases of this and some promising momentum emerging.

It may be helpful to start by categorizing the various populations of asset owners/investors and briefly describing what type of advisor generally serves them.[6]

Retail clients: Served by IFAs

The advice and products offered to retail clients in the UK must conform to higher regulatory hurdles and must be cost effective despite smaller sums involved, which often limits the type of investments and level of service that can be offered. Therefore, the retail market is largely catered to by independent advisers (IFAs), the big retail institutions, both traditional financial players such as insurance companies and High St banks, as well as recent entrants from other segments of the retail marketplace (ie, supermarkets) and online "DIY" models.

Retail clients are typically charged fees on a percentage of assets invested, occasionally with initial and transactional fees and other costs also involved, and this revenue is shared along the chain of supply, often between the 'manufacturer' - ie, the fund manager, and the 'distributor,' ie typically the advisor. There has also been a growth

[6] (We have not included brokers in this analysis, as thus far the impact/sustainable investment market is not sufficiently deep or liquid to attract them. However, there are interesting developments in this space, as Ethex and the Social Stock Exchange take form.)

in 'platforms': these are another link in the chain, sitting between the client-facing advisor and the fund management industry. The Retail Distribution Review has been introducing important changes in business models and charging structures, with a shift from traditional commission arrangements to 'fee-based' models. In this arrangement, advisers will be encouraged to charge for allocation advice and financial planning services separately from the fees for the platform services or the management of underlying assets.

Sustainable and impact investment advice in this market is primarily given by a committed cadre of ethical IFAs, including Barchester Green, Holden & Partners, Ethical Investors, Ethical Futures, Adiddi/MAD Investing, the GAEIA Partnership, Truestone, individuals at Helm & Godfrey, and others. Client assets are typically invested through platforms of pre-screened investment options.

With some limited exceptions, these advisers assemble portfolios of regulated 'ethical' collective investments (ie, unit trusts, OIECs, SICAVs etc), such as traditional negatively screened SRI funds, thematic 'sustainable' funds or 'best in class' ESG-screened funds. There is also a trend for IFAs to move their larger client portfolios (over £200k typically) to discretionary asset managers, with the advisor's role focussed on selecting/monitoring these managers, financial planning and client management. A young firm, Worthstone, is seeking to distribute impact investments to the IFA community, and they have been actively working to educate, raise awareness and understand the hurdles needed to be crossed for uptake in this market segment.

Two firms in the UK offering discretionary services for ethical/sustainable IFAs are Rathbones Greenbank and King & Shaxson. Mainstream, non-specialist IFAs and wealth managers may also offer some form of 'ethical' fund service, though it is rarely actively promoted and the product range is often limited.

Private clients and smaller institutions: Served by private banks and discretionary wealth managers

This is the domain of the traditional private banker: a well-informed person or team, typically representing a firm licensed to manage assets, knows a wealthy client's overall financial circumstances and is entrusted to make recommendations and manage assets for the individual or his family. This is often the way smaller charities and foundations are also looked after.

The payment terms are typically based on ad valorem fees, often reflecting varying expense ratios of the underlying instruments/funds. Asset allocation and financial planning advice is often provided for 'free' or partly subsidised by revenues from managing the assets, via constructing portfolios of internally and externally managed funds.

Historically, private banks have offered the ability to apply negative screens to client portfolios (ie, restrictions on holdings in certain industries or specific companies) and have typically included SRI funds on their approved lists, although again these services have not often been actively promoted and are usually only implemented upon the client's instruction.

In recent years, private banks have invested in developing their philanthropy services. By most accounts, this a client servicing expense rather than a revenue producing part of the business. However, the in-house expertise in this area and the nature of the client relationships developed by creating philanthropic strategies, may give these banks a helpful head-start when introducing any further impact or sustainable investment offerings.

However, it is still rare to find specific expertise among private bankers in building portfolios around sustainability or impact agendas, and again the product range available to them is often limited, typically consisting of handful of ethical equity or bond mutual funds. Some early movers, however, are building capability to serve and promote this market more actively.

It is still rare to find specific expertise among private bankers in building portfolios around sustainability or impact agendas, and again the product range available to them is often limited.

Some examples of this, with UK presence, are:

- UBS's Values-Based Investing team advises and manages portfolios for clients who wish to align the deployment of their assets with personal values and sustainability.
- Lombard Odier has a recently formed unit that provides philanthropy services, impact investment strategies and new-style SRI/ESG fund management.
- C. Hoare & Co have launched a donor-advised fund for clients wishing to invest charitable capital for combined financial and social/environmental returns.
- Coutts & Co. have run successful social enterprise angel-investor events with ClearlySo,and have plans to expand this in the coming year.
- UBS, Deutsche Bank and JPMorgan have established impact funds, capitalized all or in part by the firms' own balance sheets, that may serve as test beds for future client offerings; Merrill Lynch as well is exploring an approach.
- JPMorgan has recently developed an impact investment product alongside the Gates Foundation which is intended to be offered to its private clients.
- Credit Suisse Research recently published a report on impact investing that has attracted external interest and focussed internal thinking on how to commercialise the intelligence
- Also, in the US this spring, Morgan Stanley launched its "Investing for Impact" platform for its 17,000 Morgan Stanley Smith Barney financial advisers, serving a reported 4 million clients.[7]

Some investment managers also work directly with private clients on a discretionary basis and have developed expertise in sustainable investment. In the UK, these include Jupiter, Newton, RCM and Insight, amongst others. Sarasin & Partners also integrates its heritage of sustainable investment in its discretionary services for its clients.

These initiatives show foresight and leadership, and will hopefully lay the groundwork for market development. However, it is still very early days and they have yet to channel significant capital into the sector.

Larger Institutions: Served by financial consultants

Pension funds and other larger institutional investors typically hire financial consultants to advise the trustees and investment committees on asset allocation, manager selection and strategy and policy. Given their size, these large investors will typically manage their money through 'separately held' accounts with fund managers, rather than in mutual funds, and they will normally follow their consultants' advice to hire a range of managers across the asset classes. Some larger institutions, including sovereign wealth funds, have their own in-house investment research and strategy teams, so may not rely on external advisers to a great extent (acting instead more like their own multi-asset portfolio manager).

The financial consultants' model of advice is based on fixed consulting fees, although recently some consultants are also moving into "Implemented Consulting' and

7 Global Impact Investment Network interview with Audrey Choi, 31 May 2012.

'Fiduciary Management,' which can attract ad valorem fees akin to asset management models.

In the sustainable and impact investment market, two of the leading pension fund consultants globally – Mercers and Towers Watson – have been at the forefront of thought leadership in regards to responsible long-term investment strategies and sustainability as a fiduciary duty. They work in depth with major institutional clients who wish to understand their duties as signatories of the UNPRI, who seek to align long-term liabilities with longer-term investment approaches. Cambridge Associates, one of the most influential consultants in the endowment and foundations market, has a dedicated mission-related investment team in the US, and is beginning to extend this offering to Europe. Some pension funds and other institutions will choose to outsource their fiduciary governance role and oversight for responsible investment to a third party, such as Hermes Equity Ownership Services.

Whilst there is senior-level institutional support in the consultant community for building expertise and assisting clients wishing to invest responsibly, the firms would still like to see more obvious market signals of meaningful client demand before these initiatives are given even greater priority.

Family Offices: Various forms of advice

Family offices vary as much as pieces of string. They differ widely in size, sophistication, investment approach, charitable inclinations, structure and dependency on outside advice. Some work with investment advisers in the way private individuals do, others have their own in-house investment teams and operate as institutions, many fall in-between.

Single family offices typically act in ways entirely distinct from multi-family offices, which in some forms are better described as boutique wealth managers. Single family offices in themselves vary greatly, but to generalize, they can often take less conventional positions and adopt highly intentional, tailored investment programmes, given longer term financial time horizons, discretionary wealth, limited reporting requirements or need for public 'fiduciary' conservatism, and shorter chains of decision-making. The rise of the still-living wealth creator, the young patriarch or matriarch, has also led to highly engaged investment activity within newly formed single family offices.

Like foundations, the single family office has been, and is perceived to be, among the most predisposed type of investor for adopting sustainable and impact investment strategies. A recent book by Julia Balandina Janquier contains case studies of family office impact investors to date and specifically sets out to help others in similar circumstances understand and navigate this market.[8]

Independent consultants assisting the range of asset owners

There is also a small group of experienced independent consultants who help institutions and individuals develop their sustainable and impact investment strategies, including Geoff Burnand of Investing for Good (now in partnership with the Social Investment Business), David Carrington, Kelly Clark of Marmanie Consulting, Daniel Brewer of Resonance, and others in the UK. In Switzerland, Julia Balandina Janquier acts in this capacity, and OnValues in Zurich is an example of a purely consulting-based model, charging only on a project or retainer basis, with proprietary research and

[8] Dr. Julia Balandina, CFA, is the founder of JBJ Consult, advising private, sovereign, and institutional investors on structuring and deployment of capital for impact. She is the author of the "Guide to Impact Investing for Family Offices and High Net Worth Individuals."

intellectual capital used to advise on sizeable client mandates. Quadia in Geneva also serves this market, as a wealth manager and independent advisor with implementation capabilities.

Industry bodies and associations: Enabling advisers

It is also worth noting and giving much credit to the non-profit entities currently providing data and research for intermediaries and investors directly. Good examples of these organizations, playing outstanding and catalytic roles in this market, are the EIRIS, the Global Impact Investment Network, UNPRI, UKSIF (and its Ethical Investment Association sub-group), NESTA, Fair Pensions, and others. It is hoped that their very good work will be incorporated collaboratively and sustainably into the business models of existing players and new entrants.

Many hope that foundations and endowments will act as the catalytic investor to 'prime the pump' of this market. However redeploying the capital of charitable trusts into this sector will take concerted effort on the part of intermediaries.

Distinctions between serving For-profit clients and Charitable clients

Many people in the social investment market hold out significant hope that foundations and endowments will act as the catalytic investors to 'prime the pump' of this market. They are uniquely positioned with access to high risk capital (grant-making budgets) and large investment portfolios with long time horizons, combined with institutional imperatives to promote a social or environmental mission. It would seem these pools of capital should indeed be the obvious 'first movers' in impact and social investment.

Certainly, much of the influential leadership globally has thus far has come from US foundations, such as KL Felicitas, Omidyar Network, W. K. Kellogg Foundation, and the F.B. Heron Foundation, and the Rockefeller Foundation and the GIIN have outstandingly supported and documented this work for the public record. Likewise, some UK and European foundations are also blazing trails, captured in an excellent report by the MISTRA foundation in 2011 on mission-related investing and seen in the market-building efforts of a cadre of UK foundations including Esmée Fairbairn Foundation, the Shell Foundation, Friends Provident Foundation, Young Foundation, Lankelly Chase, Trust for London, and Panahpur Trust.

However, the conversations behind this report, suggest that redeploying the capital of charitable trusts into this sector will take concerted effort on the part of intermediaries, unless there is a statutory power or obligation introduced. The structure of boards of trustees, usually voluntarily giving their time, fosters conservativism and can inhibit bold action and experimentation. They normally will look to their conventional asset manager to guide them on all investment choices, along with one or two members of the board with professional financial markets experience. If neither these trustees nor the investment manager make a persuasive case for mission-related investment, then it is not likely to happen. It is somewhat different for programme-related investment, funded by the grant-making budget, as charity staff are increasingly keen to innovate and deploy this approach, and they would likely be able to gain board approval. However, when only c5% of a foundation's total asset base at any given time is allocated for grant-making, clearly the big prize is to unlock even a small percentage of the endowment capital.

It is also notable that the pioneering foundations in the UK have largely developed and implemented their Mission-Related or Programme-Related Investment programmes themselves, thus far without the guidance and often without the involvement of their conventional investment managers. Their decisions and commitment to this approach have been driven by internal champions who have made the shift away from the divided mental model of philanthropy vs investment. They have been willing to experiment, and had the influence and persuasive powers to bring their trustees and organizations along with them.

In the US, an innovative and growing firm, Imprint Capital, is bridging this gap between foundations 'doing it themselves' and not doing it at all. One of the firm's first clients was the W.K. Kellogg Foundation, which has allocated $100m to mission-related investment (MRI). Imprint did the legwork to develop the investment portfolio, split 75% US/25% international, and continues to oversee it. Since then, the Imprint team has built resources and expertise within its 17-strong team in response to client demand, and now delivers highly tailored services to a broad range of clients, including private and community foundations, wealth managers, banks, and, in collaboration with other advisers, high net worth individuals. John Goldstein, one of the founders of Imprint, said, "Market knowledge from being in the market and making investments, gives you valuable insights and is the only way to create programmes and strategies. Having an 'us' out there creates opportunities for on-ramps for others - we do the sweat equity."

The interesting question here is how foundations and charitable endowments in the UK will engage with sustainable and impact investment – will they lead their advisers or will advisers begin to lead them? A working group of people from foundations making early MRI commitments, including Esmée Fairbairn, Lankelly Chase, and Trust for London, have been convening since last year, extending invitations to other foundations to join and learn about the concept and opportunities, gathering 'Dragon's Den-style' panels to review new investment offerings, and assembling open-dialogue workshops to train staff and trustees. Interest in these meetings has been high, and there is encouraging momentum for collaboration and 'toe-dipping'. Anecdotally, it appears the staff of the organizations are often leading the trustees to make a shift. And again, so far, these activities have been done largely without concerted participation from the foundations' investment advisers or managers – who generally have either not taken an interest or had the resources to assist even if interested.

One advisor/manager that has a deep interest in this market and an eagerness to participate, is CCLA, which manages assets for churches and other non-tax-paying organizations. CCLA has been actively studying developments in the MRI and impact investment markets. However, even with the best will in the world, the senior professionals at CCLA see barriers. They hear almost all of their clients talking about MRI, but few doing it. Often the complexity and logistics of implementing a single investment – let alone an overall strategy - dents trustees' enthusiasm. In impact investment, the primary challenge is the limited range of opportunities and 'the small and difficult' nature of those that do exist; there is not sufficient money in the deals to grease the wheels of the ecosystem to support them. Lack of liquidity and the GP/LP structures also prove problematic for them. Similarly, CCLA would find it challenging to undertake bespoke MRI as it would not be economically viable for them - very few organizations have the same mission.

Indeed, CCLA, counter to the widely held 'great white hope', expects individuals rather than the charitable world to play the lead role in impact/sustainable investment. Individuals can act decisively and with conviction, whereas trustees "usually end up with a compromise solution." CCLA helps trustees identify where the compromises lie, making sure the key priorities are achieved, while managing economical, liquid, income-generating portfolios. Thus far, this has not been reliably compatible with the integration of impact investments.

Again, there appears to be an opportunity for aggregation of fragmented demand from the non-profit sector, where specialist advisory services could be of benefit.

A word on fiduciaries

Amongst all of these categories – retail mostly aside – are investors acting in a fiduciary capacity. This means that they act on behalf of and in the interests of others, with duties of loyalty and prudence. On both sides of the Atlantic, there is an emerging debate at high levels about the nature of fiduciary duty and how it can be revisited to adequately protect beneficiaries broadly in light of long term sustainability trends and ESG considerations. As the trenchant report produced by FairPensions highlights,[9]

> ***"…When it comes to responsible and sustainable investment approaches: historically, fiduciary obligation has more often been interpreted as a barrier to such approaches than a catalyst for them."***

There is innovative work being done in various pockets – including government policy, academic research, and private initiatives – to enable fiducaries to understand and participate with greater confidence – and urgency – as intentionally responsible, sustainability-minded investors.

With this in mind, there is innovative work being done in various pockets – including government policy, academic research, and private initiatives – to enable fiducaries to understand and participate with greater confidence – and urgency – as intentionally responsible, sustainability-minded investors. The Charities Commission guidance (CC14) issued in November 2011 advances this by defining and endorsing 'mixed motive' investment.

It is clear that advisers with expertise in sustainable and impact investment also have a vital role in carrying this baton, too: they should be at the forefront of educating, validating and providing credible options for fiduciaries wishing to take steps in this direction.

Further, one of the objectives advanced by the Fair Pensions report is reducing the asymmetry of risk and reward between intermediaries and fiduciary owners. If fiduciary asset owners begin to take this to heart, they may reward advisers able to more fully align interests.

[9] "Protecting our Best Interests: Rediscovering Fiduciary Obligation," Christine Berry, Fair Pensions, March 2011.

Chapter 2

The products and services – what is available for advisers in this market?

Thus far, UK advisers serving sustainable and impact investors have had a very narrow range of investment products to choose from. Though there are many new and experimental funds and structures in this sector, there is limited liquid, regulated product beyond traditional ethical or SRI equity and bond funds, and some microfinance offerings.

Sustainable investment options

For retail clients and those requiring liquidity, advisers in the UK have almost only had at their disposal the traditional regulated equity and bond SRI products.

There are confusing market signals in this sector. As EIRIS records the highest ever AUM in retail SRI in 2011, at over £11bn, two of the biggest fund managers in the market – Henderson and Aviva –have dramatically changed course. Henderson chose to integrate its funds into its mainstream product line, and Aviva is seeking a 'new home' for the funds and the management team.

On the other hand, specialists seem to be gaining traction. The success and reputation of the likes of Generation Investment Management indicates there is demand for well-structured, scaled vehicles by which investors can both proactively guide capital to sustainable businesses and protect themselves against long-term social and environmental risks. Generation runs long-only equity portfolios constructed around long-term sustainability factors, and has had to close its funds to new investors as it had reached what it deemed its maximum capacity. Others, including Sarasin & Partners, Jupiter, F&C, RCM, SAM, Kleinwort Benson Investors and others manage thematic sustainable equity portfolios and are actively reaching out to new categories of investors. Sarasin has experienced dramatic growth since 2008. Likewise, the success of ResponsAbility in Switzerland and others such as Blue Orchard, Azure and Finethic, which has recently established a presence in the UK, demonstrates the levels of demand for scaled microfinance and other financially sound investments that are also managed to deliver social benefits.

Impact investment options

In the nascent impact market in the UK, investments have been made largely without independent advice, with clients making their own choices and relying on managers to come directly to them. Aside from the few funds that exist such as Bridges Ventures Growth Funds and Social Entrepreneurs' Fund, the Ethical Property Company, Venturesome and Big Issue Invest, impact investment opportunities to date have mainly been direct, early stage commitments with a high level of risk and illiquidity. Even the fund structures – which have played such a vital and catalytic role in proving the concept and building the market – typically have been unregulated, require an investor to tie up funds for several years and have high minimum investment hurdles, thus making them marketable only to institutional investors, the very wealthy and the highly committed.

This dramatically restricts what can be offered by advisers without the scale or financial resources to manage discretionary portfolios or recommend unregulated investments, or by those whose 'panel' of investment choices has rigid criteria.

There are also issues with regulation which enshrines the split between philanthropy and investment, and which limits certain investment in or by social organisations.

This is not to say, however, that there is not a wide and growing range of impact investment product. The much celebrated Social Impact Bond launched last year by Social Finance is just one of many examples of new structures and opportunities being developed for a broader range of investors across different impact themes. Funds of impact funds are being launched, with global offerings from Oxfam/Symbiotics and Spring Creek Global Investment (working in the UK with Social Finance), and a new investment trust being developed by Big Issue. UK intermediaries are actively building capacity - examples include Investing for Good's charity bond programme and Resonance Ltd's work with community share issuance and affordable housing, among many others. Big Society Capital has recently opened its doors officially and it is hoped its wholesale financing will further support pipeline growth.

It is nonetheless sometimes hard for advisers to know how to source and assess offerings, and this is where specialism in particular has benefits, and where specialists can assist mainstream institutions (e.g., ESG risk analysis, research, due diligence, etc). To help catalogue the growing impact investment universe, the GIIN's "Impact Base" is emerging as a valuable database for finding and monitoring impact funds across the globe, and should be a very useful resource for advisers.

Promising developments in the UK

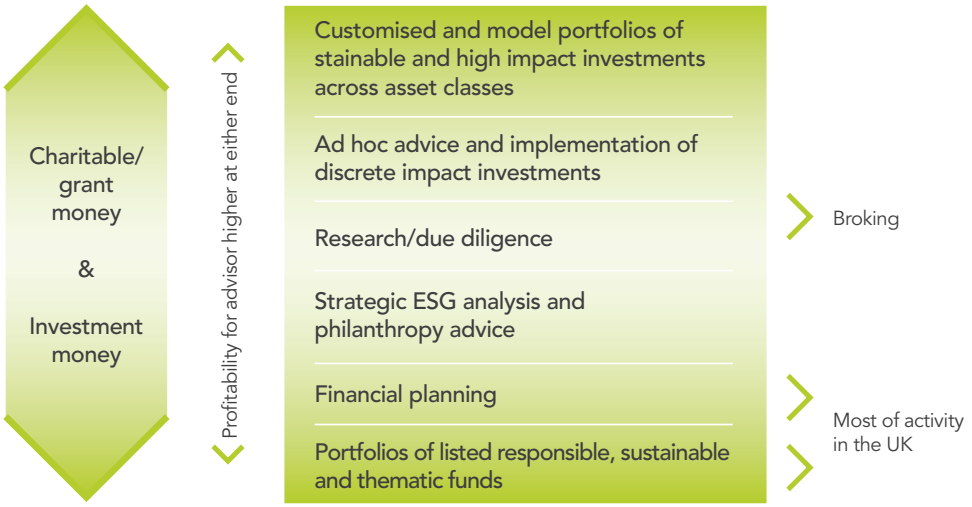
In addition to those mentioned above, there are other promising developments taking place in the UK market that suggest a growing role for advisers in impact and sustainable investment:

- The ethical IFA community is actively engaging with fund managers to push for better and innovative product, to encourage structuring with the retail market in mind, and to develop linkages with discretionary managers able to tailor portfolios of more sophisticated strategies,
- TowersWatson is undertaking a strategy of integrating ESG consideration across its consulting mandates, Mercers has specialists globally positioned to serve clients seeking to implement their UNPRI commitments or adopt/learn about long term responsible investment strategies, and Cambridge Associates is actively building on the success of its dedicated Mission-Related Investment group in the US with a view to operate in the UK/European market.
- Further, with the recent Charity Commission 14 Guidance establishing the accepted concept of 'mixed motive' investment, the increased capital base for mission-related and programme-related investment from foundations may incentivise mainstream advisers/managers to expand their offerings and in-house expertise.

In the US and Continental Europe, client-led services with highly customised investments structured to meet unique objectives and mandates are a more recent phenomenon. This model is suitable for sizeable portfolios of socially-minded/regulated pension funds, sophisticated charitable organizations or for individuals with considerable 'excess' wealth.

The graphic below illustrates the range of services that could be developed for investors in sustainable and impact investment. It is notable, however, that the services at the top and the bottom of the square are likely to be more profitable activities. Those in the middle may be seen to be necessary parts of the offering – particularly at the higher end of the market – and helpful resources to market when competing for client assets.

Services: Current and Ideal



Partnership approach between intermediaries, government, and catalytic investors is needed

The chicken and the egg – what next for sustainable and impact investment advisory?

The vitality and scale of the sector will likely depend on some participants adopting a 'build it and they will come' strategy, while the rest evolve in an iterative manner, waiting on the sidelines until the concept is proven or clients are being lost to competitors who offer it.

The pioneering fund managers in this sector often hear from advisers that they would like to offer their product, but that they need clients to ask for it first. This chicken and egg situation will be solved when advisers have easy access to sufficiently diversified and properly structured investable products and when clients know to ask for triple bottom line results.

In the meantime, this does not mean advisers should just sit back and wait. Indeed, quite the opposite.

Specialists – and the mainstream players – can build brand, stimulate demand by raising public and professional awareness through targeted PR and marketing. Most importantly, they can do the core work of all investment advisers – nurturing strong client relationships, asking the right questions, and thus growing their asset base. Given that the market is still underserved, it should indeed be arguably easier to succeed than it would be running a conventional advisory business in a crowded market with commoditised products.

In the medium term, regulation may enlarge the market and benefit those who are prepared to advise. For instance, proposals in the UK are being advanced that could introduce statutory powers, even potentially obligations, on charitable trustees to invest a small percentage of endowments into social enterprise. This would have a dramatic effect by driving demand on the basis of which investment advisers could build expertise and grow.

In the US, advisers are already experiencing an inflection point. Tim Freundlich from Impact Assets commented, "We do believe that we are approaching a ramped phase in the adoption curve….Highly curated and supported platforms presented in partnership with wealth advisers will be a critical next stage of development….Better and better optimized product will absorb capital flows." Indeed, the recent report by the Calvert Foundation "Gate Ways to Impact - Industry Survey of Financial Advisers on Sustainable and Impact Investing" suggests that U.S. advisers are on average willing to place 2.5% of their total AUM in sustainable investments, for a market potential of $650 billion.[10]

With this sort of latent market potential, it is up to the "converted" to help the unconverted take exploratory steps on the basis of strong performance records and solid research. Scaled capital will not be forthcoming as a leap of faith or gesture of goodwill, and public benefit is not sufficient incentive for the majority of investors. The investment propositions must be structured and marketed head-to-head with conventional opportunities, showing the optimization of social, environmental and financial returns. If the financial rate of return is below market, then the investor will need to be 'sold' on the social or environmental impact created, often in conjunction or as an alternative to a philanthropic donation.

[10] Gate Ways to Impact - Industry Survey of Financial Advisers on Sustainable and Impact Investing", Rockefeller Foundation, Calvert Foundation, Hope Consulting, Envestnet, Veris Wealth Partners and DeutscheBank, June 2012.

Who will lead the charge?

Our research suggests that many mainstream financial institutions are not necessarily natural 'homes' for this newer model of investment advice, at least not given current organizational structures and incentives.

Research by Monitor Inclusive Markets and Emerson/Bugg-Levine point out that "large corporations with existing business tend not to focus on innovations for poor customers when they have rich customers to worry about. It should not be surprising that no microfinance operation within an existing retail bank has reached significant scale; every large microfinance operation was built as part of an independent organization."[11]

This may have relevance for the impact/sustainable investment advice as well.

We believe that creative "win-win" commercial arrangements between big institutions and specialists may play a key part in unlocking greater capital flows into the sector.

Big institutions with infrastructure and global distribution capabilities are certainly well positioned to drive capital into this market. However, there are also inherent conflicts, lack of senior-level consensus and expertise, and the problem that, at least in the short term, the market is too small to make a difference to a big bottom line, even if the unit is successful.

As we have seen in other markets recently, specialists have much going for them here as well. However, there are two very real challenges for specialists: having enough funding to reach sufficient scale to be sustainable and the ability to attract personnel capable of advising on sustainable and impact investment in the context of the wider capital markets.

With bigger financial firms interested but often unmoved by the slivers of demand they observe, and with specialists better poised to handle these needs, there is an opportunity. We believe that creative "win-win" commercial arrangements between big institutions and specialists may play a key part in unlocking greater capital flows into the sector.

[11] Ashish Karamchandani, Mike Kubzansky and Paul Frandano, "Emerging Markets, Emergin Models", Monitor Inclusive Markets, 2009. Also, Antony Bugg-Levine and Jed Emerson, "Impact Investng: Transforming How We Make Money While Making a Difference", 2011.

Chapter 4

Challenges and opportunities for advisers

We have identified both challenges and opportunities for all organizations considering offering investment advisory services in the sustainable and impact investment market. As we discuss, there are often two sides to the same coin: an issue that creates a challenge also often opens up an opportunity.

Challenges

1. Human capital
2. Complexity
3. Scale
4. Policy and legal issues
5. Capital

1. Human capital issues: culture and skill sets, engagement with clients, time horizons, compensation structures

Cultures and skill sets

The motivations for sustainable and impact investment spring from many sources, but at some level there must be sense of the moral or civic duty for businesses and individuals to act in ways that benefit or protect the planet and its people, not just now, but with future generations in mind.

However, the investment advisory world over the last decades has primarily concerned itself with a very narrow remit, with the broader civic or moral duty distilled into optimisation of returns. Practitioners have been encouraged by scholarship and convention exclusively to maximise notionally "risk-adjusted" financial returns, measured over increasingly short time periods. Much has been written about this and the consequences continue to be seen and felt around the world today.

This relates directly to our topic, in that the institutions in position to re-deploy assets and re-formulate investment approaches to incorporate impact or sustainable investment, will likely struggle against legacy cultures, both within and without, and may even come up against legal hurdles. It will take time, influencing across organisations, and training to re-engineer mindsets and value propositions. The "trade-off" mindset of financial return or social/environmental benefit needs some coaxing and practice – along with hard evidence of track records - to adopt the "and" mentality.

As one seasoned impact investor recently wrote in a Credit Suisse report:

> ***"Social returns are not fungible like financial returns. An investor might be neutral between two investments with the same financial returns, but that doesn't mean he would be indifferent to the choice between an impact investment that created USD 1 million in reduced carbon emissions, compared to one that produced USD 1 million in additional income to impoverished farmers in Africa. One cannot compare two completely different impact initiatives."*** [12]

And once the will is there, the skill sets of these advisers will need to include hybrid methods of investment evaluation and different levels of engagement with their clients.

[12] Mark Kramer, Credit Suisse Research, 2012 "Investing for Impact: How Social Entrepreneurship is Redefining the Meaning of Return."

New types of data may need to be collected, relationships with new fund managers will need to be built, and measurement and reporting requirements may change. This will require training, infrastructure and deliberate hiring practices, which will cost money, take time and may not easily fit with status quo structures.

> ***"Once people see that there are real opportunities in this space, they often dive in with inadequate human resources. But, staffing the right talent for mission investing is the key challenge in my opinion, for two main reasons. First, people doing this work need to understand both investing and social change-making. People with this hybrid skill-set are hard to find. Second, the two sides of building and managing these programs – the internal process of building ties with the finance and program teams and the external process of seeking out and executing the best opportunities – are both full time jobs that take focus and a distinctive set of skills."*** [13]

This sector needs investment advisers that have the ability to contextualise impact and social investment in relation to conventional investment, traditional philanthropy and broader market conditions.

The investment advice market, although highly technical, is still largely a people business. The products and approaches in the social investment arena are still relatively new, far from being commoditised. Therefore, the credibility and judgement of those directing clients to put money towards them is even more profoundly important.

More than anything else, this sector needs investment advisers that have the ability to contextualise impact and social investment in relation to conventional investment, traditional philanthropy and broader market conditions. Relative calls need to be made. Capital will flow reliably into this sector only when investors understand what they are getting and why it is better than the alternatives – or at least a valuable complement. Particularly in the current highly anxious investment environment, where even well-regarded funds and strategies are struggling to attract funding, the pitch needs to come from individuals and firms with impeccable investment credentials and integrity.

With the tailwinds of trust and track record, advisers will be able to influence asset owners to commit capital to this arena and bring sustainable capitalism and impact investment into the mainstream. However, initially, the high caliber advisers themselves need to be persuaded – both of the merits of the investment propositions and of the interest within their client bases.

Engagement with clients

Not only will an ability to analyse and contextualise new product be important, but the ability to engage with clients in new ways will also be an essential skill. There have been moves already – by firms seeking to improve their reputations and thanks to regulatory forces – to shift from a product-led approach towards a more solutions-based, client-centric model in the advisory market in the UK. This philosophy of service almost definitionally must reside within any entity providing sustainable and impact investment advice.

John Goldstein, of Imprint, who has been at the leading edge of scaled efforts in this market in the US, emphasizes the essential skill of 'deep listening"– not jumping in with pre-packaged recommendations for clients. "In this market, there is always a specificity of context which means there is a need to listen hard, on many levels: mission, cultural, financial."

[13] Global Impact Investment Network interview, Aug 2010, Tom Reis, Director of Mission Driven Investing at the WK Kellogg Foundation.

Time horizons

Clients are typically concerned about wealth preservation, creation and their legacy in the world over the span of their lives and beyond. Typically, advisers have measured their performance, or sold product, on the basis of short-term returns. Revisiting time horizons for different pools of capital, and the implications of this to investment approaches, is an important catalyst for sustainable investment.

Compensation structures

Compensation and team structures may also need to be altered. Historically, advisers often earned their keep – even fortunes – with great asymmetry between the risks and rewards experienced by them vs their clients, often alongside a fundamental mismatch of time horizons.

Typical advisory structures reward the relationship managers individually on 'production' of bringing new assets in to manage. This has meant advisers – except recently at the larger private banks – have not actively assisted in decisions about philanthropic capital, which typically are 'outflows' of assets when the only deployment method is a grant. Also, these incentive structures often generate territoriality and non-collaborative units. Even within a team of relationship managers, the rivalry to raise assets can incentivise advisers to keep information to themselves or promote investment strategies amongst their client base which are most lucrative or least time consuming, rather than most appropriate or beneficial. Complex or smaller scale impact investments with less attractive rates of financial return may likely get short shrift.

A better structure for this market may be to create a team-based approach with models of compensation aligned with the clients' objectives, based on both impact and financial returns, particularly if time spent is often inverse to relative levels of AUM invested in impact vs conventional strategies.

As clients become more articulate about their roles as fiduciaries and the impact/sustainability factors of concern to them, they will likely seek advisers whose compensation structures are more closely aligned with their needs. From the conversations conducted for this research, there is a sense that clients have accepted that good advice and execution costs money; there is a willingness to pay if the desired outcomes are achieved - financial or impact-related - and thus transparency and appropriate expectation-setting are vital.

2. Complexity: Expectations, measurement, track records and too many cooks

Almost all of the people interviewed for this report highlighted complexity of the task as one of the key barriers to the adoption and potential success of investment advisory services in the sustainable and impact investment market.

We have broken this complexity down into three parts: expectations and measurement, inadequate track records, and the interweaving of public and private interests.

Measurement

In pursuit of blended value, the combined measurement of financial and social/environmental returns is a critical enabler. There has been much written about this and many great minds are bent to the task currently. The Global Impact Investment Network's Impact Reporting and Investment Standards is, according to Bugg-Levine and Emerson, 'the strongest effort yet to create a standard for impact measurement' and similar initiatives will contribute a necessary service for use by advisers as well as investors.

In fact, it would be difficult for an advisor to transact with clients at scale without an agreed framework of measurement. However, this framework need not be perfect or all-purpose at the outset, as it will become more effective with use. Also, it probably need not be entirely rule-based. Even in mainstream investing, for example, one die-hard value investor could have once argued to include Apple shares in a value portfolio, while another would not have countenanced it.

An influential advisor in this market will need to clearly articulate the different agendas being addressed by portfolios for different clients. In the traditional markets, the risk/return formulation is quite straightforward (though of course even this has its critics and a chequered track record). In advising on optimisation of financial and non-financial returns, expectations need to be set and managed particularly deftly. On the one hand, this should lead to better, more nuanced recommendations and client experiences, as advisers make greater effort to listen, align goals with products, and use a broader range of tools in setting strategies. On the other hand, however, this will also involve costs in time and resources, particularly upfront as systems and methods are tested and adopted.

In advising on optimisation of financial and non-financial returns, expectations need to be set and managed particularly deftly.

Track records

Another level of complexity facing advisers in this market is the issue of limited track records: of products and managers. This subsequently entails more complex, bespoke research and calls for greater transparency and rigour in the due diligence process. The interviews conducted for this report suggest that the track record of a firm or an advisor/portfolio manager from the 'mainstream' world may be able to be imported – particularly if partnered with gravitas, credentials and commitment in social or environmental enterprise, or the charitable or development world.

The recent report by the Calvert Foundation "Gate Ways to Impact – Industry Survey of Financial Advisors on Sustainable and Impact Investing" indicates that evidence of financial performance and the need for longer track records are two of three main hurdles – the other being uncertain client demand – keeping US advisers from embracing this market.[14]

Interweaving of public and private interests

Third plank of complexity is the inherently more intricate web of 'interested parties' in this endeavor, in contrast to conventional impact/sustainability-agnostic investment. Sustainable and impact investment sits at the nexus of private and public interests. Thus, any advisor in this market needs to have the perspicuity and resources to operate across these worlds, to build relationships and transact with government bodies as well as with traditional commercial partners, to understand the economics and cultures of the non-profit sector as well as cut-throat mainstream finance.

[14] Gate Ways to Impact – Industry Survey of Financial Advisers on Sustainable and Impact Investing", Rockefeller Foundation, Calvert Foundation, Hope Consulting, Envestnet, Veris Wealth Partners and DeutscheBank, June 2012.

3. Scale

Advisory business models need meaningful scale to cover the substantial fixed costs required to deliver what is an expensive and highly regulated service. This issue of scale is particularly important in the sustainable and impact investment advice market, though it could be seen as a 'game of two halves.'

In direct impact investment, the lack of scale both in sources and uses of funds has thus far undoubtedly made it a largely uneconomic market for advisers to operate. The highly engaged approach of many sustainable and impact investment clients, and the limited commonality of objectives, mean the staff to client ratios in this type of advisory work need to be higher. Also, the small deal sizes and marginally profitable business models do not afford sufficient margin to compensate for the high level of complexity and (costly) labour intensity of sourcing, due diligence, structuring, monitoring and then – ideally – exiting. This issue may be addressed in time as more and varied credible fund structures are created to spread risk and create easier access. The GAVI programme (IFFim) bonds and some microfinance funds are excellent examples of accessible scaled product with demonstrable impact. It is these sorts of instruments that are needed alongside the smaller, higher risk investments to deploy more sizeable mandates, bring useful diversification to portfolios and create liquid supply on which wealth advisers can rely – and pay their rent.

The issue of scale in the sustainable investment market is another matter, particularly when the $35 trillion of assets managed by the UNPRI signatories is taken into account. Scale should seemingly not be a barrier when the majority of pension fund mandates in Europe now including some ESG restriction or overlay requirement, and when consumer research clearly shows the retail appetite for sustainable or ethical investments.[15] The latest EIRIS/IPSOS Mori poll showed that 38% of the British public with a financial product/service are interested in green or ethical financial products and services, with 90% saying they would likely switch to a different provider if it offered such alternatives. However, with both Henderson and Aviva disbanding their SRI and sustainability businesses, it appears there are also commercial challenges at this end of the market, too.

Uncertain demand and challenge of aggregation when missions diverge

While certain social, regulatory and reputational forces are driving demand, many institutions do not see it. As a small example, a leading Channel Islands trust company, which acts as trustees for structures holding over £20bn of assets including many charitable trusts, has no SRI portfolios and has never been asked for them, even though this is on the investment preferences checklist.

Further, to be economically attractive, discretionary portfolio management requires sufficiently large pools of capital with common investment objectives. In the impact and SRI market, almost by definition, it is harder to group investors together by common objectives, ie, when risk-adjusted return is no longer the single aim and when mission agendas vary considerably.

The implications of this challenge of scale seem to be twofold:

- Big, diversified financial institutions can find the cost/benefit analysis of participating in this market leaves them on the sidelines: it is likely to be economically immaterial to profits in the near term and yet may require some complex cultural or structural adaptation. The reputational and longer-term commercial benefits are outweighed

[15] EIRIS/Ipsos MORI national consumer survey which explores consumer attitudes to ethical finance in Great Britain, 2011. The poll surveyed 1,030 adults.

by more pressing priorities in core business areas and the lack of management 'ownership' and confidence in this market.

- Small institutions and new entrants mostly do not have the capital nor breadth of skills to support expansion of their services and effectively market their offerings to wider client bases. As one seasoned leader in the field said to me, 'Good advisers are not always good at running businesses.'

4. Corporate/product structures, taxation and regulation

A much-cited barrier experienced across the investment chain is the lack of flexibility of current corporate structures, regulations and tax policies to accommodate the combined use of philanthropic and investment capital for both social benefit and financial return. The outlook for advisers is to a meaningful extent contingent on these barriers being lifted by proactive government legislation.

Many fiduciaries have actively shied away from adopting sustainable investment strategies due to concerns about breaching responsibilities, without fully understanding the latitude allowed by law.

At its heart, the issue involves the perceived and very real, important distinctions between 'philanthropic' and 'commercial' capital. The binary distinctions – and financing implications - between commercial enterprises and entities serving the public good, makes it difficult for capital to flow efficiently and for advisers to comfortably assist. This is a complex subject, at the nexus of company and trust law, financial products regulation, tax regimes, and social policy formation. There are also differences across jurisdictions, and this, too, creates problems for investors, who often span countries. As one veteran advisor observes, many early participants have 'put impact investment into the philanthropy bucket; it is just easier from the regulatory perspective." And as discussed earlier, many fiduciaries have actively shied away from adopting sustainable investment strategies due to concerns about breaching responsibilities, without fully understanding the latitude allowed by law.

There are, however, positive developments underway. New corporate structures in the US (the LL3C and B-Corp) and those being explored in the UK (eg, the SELLC) could significantly benefit the sector by making social investment easier and legally transparent. Similarly, it is clear from other precedents, such as the Programme-Related Investment legislation in the US, that government policy could have transformative effects on this sector. Some of the ideas being reviewed by the current UK government would provide clear legal support and fiscal encouragement for investors – and their advisers – to enter this market with greater confidence.

5. Capital: Financing the Ugly Duckling

For all the reasons outlined above, this more nuanced and creative, client-led approach to investment advisory may take more time and be less scalable than conventional investment advisory work, particularly in the early years. Firms with other highly profitable business lines may not see any reason to deploy capital in this direction if the analysis suggests a lower ROI than other strategies or business opportunities available to them.

As Goldstein of Imprint says, "Ours is a complex business model. (It is) not the simplest and most direct route to commercial success." It could be argued there are many sectors and commercial enterprises that continue to open their doors every day, meeting the needs of communities – even of financiers – but not easily achieving abnormal profits.

However, financial service professionals are not accustomed to this in their own businesses, typically, and their compensation structures almost actively work against them investing in new product or service development for the longer term, or for the

benefit of all the firm's stakeholders. High percentages of revenues are allocated to compensation based on short term measures of success. The systemic implications of this have been commented on by many sage observers of the financial crisis. What is relevant here is that these entrenched patterns and economic incentives continue to persist and certainly will largely determine mainstream capital allocation to sustainable and impact investment advisory activities; and it is likely to be tentative and inadequate.

Sufficient capital to grow this sector effectively may need to come from sources external to the financial services industry – or those within it - who have lower ROI hurdle rates and longer term investment perspectives.

Opportunities

While there are clearly many challenges facing the would-be advisor in this sector, the opportunities may more than compensate. We have identified the following six main attractions.

1. Human capital: Opportunity to harness resources and talent across the generations: seasoned bankers with consciences and capital, younger bright sparks with time and temerity
2. Reputational benefits: strengthens license to operate, may facilitate relations with broader stakeholders including shareholders, lenders and government bodies
3. Competitive advantage/differentiation: helps attract client assets in a crowded marketplace
4. Deepens client relationships, increasing retention
5. Engaging with philanthropic capital can expand asset base
6. Specialism can permit 'wholesale' collaboration with big mainstream players; aggregation of demand is a win-win

1. Human capital: an opportunity for cross-generational, high potential collaboration

Despite all the many headwinds, any investment advisory services business in this market should has one very important thing going for it: 'pulling power.' It should be able to attract outstanding people.

Despite the media's portrayals, there are experienced bankers who have consciences and money. In fact, some have misgivings about their chosen careers in light of the financial crisis and bad behaviour of peers, and would welcome the chance to put some things right. Also, the younger generation is looking for the 'and' – across sectors and across motivations, and want to bring this conviction to Wall St and the City. They have the luxury of time and more flexible personal cost bases to make this a reality. This could be an opportunity for cross-generational business-building, a chance for leading practitioners to test their skills in new territory and make a positive, enduring difference in the world of finance and beyond.

Working in this capacity could answer the big and multi-dimensional question all great finance professionals will increasingly ask – why? It could provide sustainable wealth creation and help investors allocate resources for the long-term benefit of our planet and its people.

2. Reputational benefits

Financial services firms are increasingly keen to improve and manage their reputations, particularly after the debacles of the financial crisis. As corporate social responsibility strategies are reviewed and evolve towards greater integration with business lines, the integration of sustainable and impact investment into advisers' 'tool kits' is likely to be an effective way to promote reputations and indicate corporate values.

3. Competitive advantage: an 'angle' in a crowded market

The investment advisory market is a crowded place. As affluence has expanded over the last few decades, financial services firms have recognized the profitability and relative stability of wealth management businesses. Many firms have expanded their operations, boutiques and other new entrants have come on the scene, and corporate activity has been high.

The integration of sustainable and impact investment into advisers' 'tool kits' is likely to be an effective way to promote reputations and indicate corporate values.

However, the industry has also experienced some very dark years, partly of its own making and partly the consequence of the financial crisis, increased regulation and heightened volatility. Valuable reputations have been badly tarnished and trust eroded across the investing public.

Against this backdrop, the opportunity to provide investors highly aligned, responsive, and principled investment advisory services is especially compelling. Most wealth managers have difficulty differentiating themselves, and the underlying products are now largely commoditised. Many investors are looking for new approaches, wanting to be more engaged and empowered in the stewardship of their assets, but needing the skills, research and guidance to do this with prudence, creativity and optimized financial and social outcomes. The trend towards early wealth generation, too, is likely to fuel demand for sustainable and impact investment advice.

4. Healthier and deeper client relationships

Private bankers and wealth managers are having to work harder than they have in the past – to rebuild trust, justify their fees, and manage portfolios in highly volatile market conditions. Opportunities to engage deeply with their clients on broader, values-based agendas, and to deliver services exogenous to the short-term vicissitudes of the market should allow advisers to retain clients more effectively and weather storms or disaffection.

There is much research that shows investors are their own worst enemies, being driven by emotion and often selling low and buying high as the fear-greed pendulum swings. One of the most important roles an advisor can play is helping investors approach their investments with greater emotional intelligence. The integration of rigorous ESG analysis into portfolio construction may be highly beneficial in this regard. If investors understand that their capital is being deployed in a way that is aligned with sustainable business practices, that it is actively being placed with managers operating to high standards of governance, and that they are funding products and services designed with regard to environmental and social costs and benefits, then the 'buyers' remorse' and the flight response when short-term indicators are difficult, may be mitigated.

Over time, advisers could capture data on their clients' behaviour to understand if there is indeed a correlation of reduced churn and switching costs in private client portfolios with the integration of ESG factors. This would be a helpful contribution to financial theory and practice.

The trend towards managing private portfolios for absolute return is also a helpful backdrop for incorporating ESG and impact strategies. Personalized goals matter more and advisers are already more accustomed to departing from the constituents of a standard benchmark.

5. Philanthropic and Investment capital: Expanded asset base could increase revenue

Another real advantage for credible advisers in this market is the ability to advise on or manage the portion of a client's assets committed to charitable or social goals – typically not within the scope of conventional wealth management. In fact, these philanthropic commitments typically lead to outflows from conventional portfolios. In contrast, by extending the asset base under management with capital targeted towards impact and mission-related investments, new revenue streams can be developed.

6. Specialism permits 'wholesale' collaboration

Many firms interviewed for this report expressed a wish for someone – a specialist, not in direct competition – who could help that small sliver of their client base wishing to make values-based investments. Aggregation of demand by entities in this position would be helpful for all parties, but financial services is not a sector known for collaboration. However, as highlighted by the Hague Framework developed last year, this is central component of bridging the worlds of philanthropic and investment capital. It is also likely to be a core part of the commercial model that ensures economic viability for specialist advisers.

Chapter 5

Conclusions: More advisers – within larger organisations or on their own – should serve this market

We believe it is a promising time for institutions and individuals with the skills and resources to articulate the business case for sustainable and impact investing, to respond to the moral and personal choices of their clients, and to offer the research and infrastructure to advise on strategies delivering financial, social and environmental returns.

Of course, this is an expensive and highly complex task. There are stiff headwinds from the broader economic realities for financial institutions currently and many specific commercial challenges of operating in this sector. Nevertheless, the status quo is not sustainable. Market players that develop the expertise in-house or build linkages with specialists, will not only act as responsible corporate citizens, but will also bolster the resilience of their own business models.

More and more asset owners care about sustainability and the impact of their investment decisions. Compelling new products are being developed around the world – the list is long and inspiring.

Fortunately, there are already some outstanding specialist advisers in the UK and overseas. But not enough. The vast mainstream investment advisory community itself needs advice – and convincing. There is a risk that if firms prevaricate or attend to different priorities, they will fall behind, leaving others to capture the opportunity, build the expertise and respond most effectively to investors' demands and societal needs. And there is no time to wait.

Those wishing to see this sector fulfill its potential to help meet society's pressing challenges, must help equip intermediaries to understand sustainable and impact investment, demonstrate the multiple forms of value that can be created, and put opportunities in context. The power of advisers – both generalists and specialists – can be harnessed better, and must be, if greater capital is to flow where it is most needed.

Appendix A

What does 'advice' entail?

The role of an advisor is complex, and success requires the integration of multiple qualities, skills and resources.

It can be quite confusing for the uninitiated to understand the different ways investment advice is given. Given the variety of 'homes' for investment advisers – from IFAs through to pension consultants – what is the common ground, ie, is there a common denominator that clients are paying for? In basic terms, advisers are intermediaries who act for the benefit of their investing clients, rather than as product managers or 'placement agents' – ie, they represent the buyer rather than the seller. They need to have the capacity to undertake market research, to develop relative recommendations from across a range of investment options, to integrate investments sensibly into financial and tax planning structures, to construct and look after portfolios (though not necessarily to provide custody or management of the underlying funds), and to communicate with and report to clients.

Below is a brief summary of the investment advisor's role and its various components, necessarily simplified.

Establishing objectives

The clients of investment advisers have many different requirements. They could be meeting their own financial obligations or those of others for whom they act as a trustee, sustaining a lifestyle throughout retirement, maximizing the value of an estate to be left to family, or channeling capital towards a social or environmental need close to the heart. In all cases, clients typically seek a balance of multiple goals – typically with the constraints of limited resources, risk aversion or biases, and/or time. A vital component of the advisor's role is helping clients to understand and articulate these objectives, and the options they have to accomplish them.

Investment screening and recommendations

Investment advisers not only advise in the abstract, but they often also identify, recommend, source and arrange investments to meet evolving client objectives and respond to changing market conditions. In order to do this, advisers must "gatekeep" and vet investment opportunities for their clients on an ongoing basis. This dictates two other central roles of an advisor:

- market awareness and access, and
- due diligence capabilities, grounded in both proprietary and externally sourced research.

Depending on the firm, advisers may screen and consider direct investments, source externally managed funds or delegate certain investment strategies, while some advisers will work for companies that 'manufacture' their own product – exclusively or in part using this to populate client portfolios. The distinctions are often referred to as 'open-architecture' vs 'closed architecture'.

Implementation

The degree of implementation offered by advisers varies greatly, The spectrum ranges from an offering where the value mostly resides in implementation – ie, broking-like advisory where investment ideas are put opportunistically to clients and then transacted, – to a service where the value is largely or exclusively in the advice, ie responsibility for strategic asset allocation or the selection of managers, Discretionary

portfolio management seeks to combine the two – embedding advice into an implemented strategy.

Under 'advisory'-only arrangements, the client is shown appropriate investment opportunities by their advisor, and the client makes the decisions about when and at what level to invest, or divest. Under discretionary arrangements, the client sets investment objectives with the advisor, and it is then at the discretion of the advisor to implement strategies (buying and selling investments) to meet these objectives. Often clients will have arrangements for both advisory and discretionary services – with the same or separate firms, for different pools of assets.

On-going monitoring

Of course, markets and companies rarely perform as anticipated. Therefore, investment advisers also have the ongoing role of monitoring the match between portfolios and client circumstances, as both change, making tactical calls and rebalancing or changing strategic allocations. They often need to generate income and disburse cash to clients, either through yield or harvesting capital growth, and thus liquidity is also a powerful consideration.

Compensation

One of the causes for much confusion in this market is the fact that investment advisers rarely get paid explicitly for their advice. In fact, as many people know, clients do not like to pay for advice alone. Therefore, most investment advisers fund the research, analysis, modeling and other related activities needed to form recommendations, by charging fees on transactions or on the assets being advised on or managed – known as AUM or AUA.

The compensation for investment advisers often depends on whether the client is buying an advisory-based transaction or on-going discretionary management. Under advisory arrangements, investment advisers usually charge commission on the transaction – commonly via a fixed fee, spread or a percentage of the investment value. Discretionary management typically attracts an ad valorem fee based on the value of the portfolio. Investment advisers rarely operate on a performance fee basis.

However, some pension fund and specialty consultants provide an exception to the rule about advice not being explicitly paid for. They have chosen to maintain their impartiality and to remain the umpires rather than the players,and thus have charged project-based or hourly fees. This continues to be the dominant model for the pension fund consultants, though it is now being supplemented with the introduction of 'Implemented Consulting' and 'Fiduciary Management'. In the alternative investment world, Albourne Partners has run a non-implemented, retainer-based consulting business for the last 18 years, and OnValues in Switzerland has done this in the sustainable and impact investment market since 2002.

Appendix B Profiles

The following profiles do not represent the market comprehensively and should not be viewed as recommendations for advisers. Rather, we hope these examples serve as an indicator of the breadth of expertise and range of services that currently exist to aid interested asset owners.

- Consulting firms: Cambridge Associates and Mercer
- Integrated global bank: UBS
- Private banks: C. Hoare & Co and Lombard Odier
- Discretionary manager/advisor: Rathbones Greenbank
- Independent Financial Advisers: Barchester Green, Ethical Futures and Ethical Investors
- Specialist advisory firms: ClearlySo, Hermes Equity Ownership Services, D-Capital (UK); OnValues, Quadia (Switzerland); Imprint Capital (US)

Cambridge Associates

Name of firm: Cambridge Associates

Location: Headquartered in Boston, Massachusetts with additional offices in London; Singapore; Sydney; Beijing; Arlington, Virginia; Dallas, Texas; Menlo Park, California.

When founded: 1973

Size of team engaged/equipped: More than 1,000 employees across eight global offices; The dedicated Mission-Related Investing ("MRI") team includes 16 employees, globally.

Ballpark number of clients: Approximately 930; 39 of those clients have made mission-related investments.

Description of client based served and targeted: We serve both nonprofit and for-profit institutional investors, including colleges and universities, foundations, healthcare organizations, religious institutions, museums, libraries, service organizations, U.K. charities, corporate and public pension plans, and high-net-worth investors.

Current AUM or AUA: Our clients represent aggregate assets totaling nearly USD$3 trillion. We have the most engaged relationships with our advisory clients and feel that their assets best represent our firm's actual assets under advisement. We currently advise more than USD$100 billion in advisory assets.

Description of services provided: Cambridge Associates provides independent investment advice and research to institutional investors and private clients worldwide. We deliver a range of services, including investment consulting, outsourced portfolio solutions, research services and tools (Research Navigatorsm and Benchmark Calculator), and performance monitoring, across all asset classes.

Our advice to clients covers a broad range of investment issues such as strategy and policy, asset allocation, manager selection, alternative assets, risk management, performance evaluation, and mission-related investing.

Cambridge Associates has been an advisor to socially responsible and mission-based nonprofits for over 35 years, and we have served various mission-related investment needs of clients throughout our history. For clients who wish to extend their values to their investment programs, we have assisted in the development of socially responsible and mission-related investment strategies. We have a dedicated MRI group that focuses on assisting clients with their SRI and MRI programs. This group also seeks to expand our firm's database coverage of institutional-quality SRI and MRI managers and publish research on the various impact investing topics. Our research has encompassed a broad range of SRI and MRI strategies such as positive and negative portfolio screening, shareholder activism, faith-based investing, impact investing, and program-related investing.

Range of investments offered to clients: We serve the majority of our clients in a non-discretionary capacity and assist them in building customized portfolios to best suit each investors' unique needs, objectives, and expectations. We research and recommend to our clients individual investment managers across a broad range of asset classes, including traditional long-only investments, hedge funds, and private investments, for inclusion in their investment portfolios. Examples of asset classes that we recommend to our clients include U.S. equity, global ex-U.S. equity, commodities, U.S. fixed income, global ex-U.S. fixed income, long/short equity, credit opportunities, U.S. venture capital, real estate and private equity.

Information collected from our research staff is captured in our proprietary investment manager database, which currently tracks information on over 7,000 managers and 23,000 funds across traditional asset classes, private investments and hedge funds across geographical regions. Information on the SRI and MRI managers is centralized in these proprietary databases. Currently, the databases track more than 590 SRI and MRI products across asset classes with strategies including

- Environmental, social and governance (long-only, long/short, and passive)
- Clean energy and technology (long-only, long/short and private funds)
- Faith-based strategies
- Mission-focused fixed income
- Screened fixed income
- Screened hedge funds
- Emerging markets development/Microfinance
- Double bottom line Venture Capital/Private Equity
- "Smart growth", community (re)development, and green building real estate
- Renewable energy
- Conservation-oriented land & timber
- Carbon/climate change abatement projects
- Water quality & biodiversity

Description of research and fund selection process: As an investment consultant, we are responsible for performing rigorous manager due diligence on behalf of our clients. Our due diligence is primarily conducted by a dedicated team of approximately 100 professionals based in eight offices worldwide and supplemented by information and insights from over 200 investment consultants. We meet with thousands of managers every year and strongly believe that our process has allowed us to identify truly talented managers versus those that have merely experienced strong performance due to favorable market conditions.

We believe that strong due diligence is the foundation of a successful investment program, and the rigorous evaluation that we perform on all investment managers prior to client recommendation reflects this belief. Our process takes a forward-looking, judgmental approach rather than emphasizing past performance alone, and aims to identify managers that can demonstrate strength and stability across the quantitative and qualitative factors. These factors include the adherence to a manager's product and its strategy, stability in the organization, lack of turnover, performance, risk and risk controls, compliance, and reasonability of fees.

If a strategy has a social or mission related component, we assess the strategy's stated purpose, and how effective the manager is in incorporating the social or mission-related goals into the overall investment strategy. Though there is no "one-size-fits-all" approach, we will also evaluate managers' internal social or mission performance measurement capabilities, where applicable. MRI manager due diligence is a joint effort between members of the dedicated MRI group and the firm's approximately 100 dedicated manager research professionals.

Method of impact measurement and reporting/benchmarking: Relative to traditional investments benchmarking, measuring the impact of social and mission-related investments can be a complex and challenging task. Some of our SRI and MRI clients choose to compare performance to traditional benchmarks while others use an established benchmark such as the KLD Domini 400 Social Index or the Dow Jones Sustainability World Index. We can help clients evaluate the advantages and disadvantages of various benchmarks. We can also assist with the development of a custom blended benchmark.

To help our clients evaluate the performance of their SRI and MRI programs, we track a number of social and mission investment indices. Some investors also wish to determine whether a program is generating "social returns." While we do not evaluate social or mission-related performance, we can assess the suitability of each investment in the context of a client's particular objectives. We also assist clients with evaluating managers' internal social performance measurement capabilities. In addition, Cambridge Associates has established relationships several organizations that conduct research on social and mission-related performance measurement metrics.

Charges/fee structure: Our services range from comprehensive portfolio oversight relationships to limited relationships that provide access to our research tools and services. Each arrangement is customized to meet each client's needs. Pricing for these services vary from basis point fees to a fixed-fee approach.

Other relevant information or observations: We provide the following services for clients interested in an MRI program:

- MRI Focused Client Meeting. We lead and facilitate an introductory MRI meeting to discuss the MRI landscape, help an institution address how it might pursue MRI, consider different investment approaches given the institution's mission and objectives, and initiate dialogue on building an institution's MRI portfolio, if appropriate.
- Full MRI Program Design and Implementation. We will design, document, implement, and monitor an MRI program for part or the entire investment portfolio.
- MRI Manager Searches. Depending on the prospective and specific MRI investment, Cambridge Associates will conduct a manager search on behalf of the institution.
- Manager Information and Due Diligence. At a client's request, we will provide information and/or conduct due diligence on a Mission-Related Investment manager.
- Additional Customized Services. One-off MRI-related projects (e.g., develop an MRI investment policy statement).

Illustrative example of recent client engagement: Recently, we helped a $1.1 billion nonprofit membership organization with multiple asset pools to develop a strategy for initiating and implementing an MRI program for its foundation. This organization, has worked with Cambridge Associates since 1999. In initiating an MRI program, the foundation focused on four target issues and three general objectives while also concentrating on eight specific geographic regions. The team considered various strategies and approaches to determine an appropriate mission fit, including active ownership strategies, loan guarantees, and the broad universe of mission-related investments, both market rate and below market rate, and across the spectrum of asset classes.

For the first phase of the MRI program, we recommended a portfolio consisting of fully-insured, low-risk cash and below market rate fixed income investments with community banks and reputable nonprofit organizations. The portfolio structure was designed to reflect the foundation's mission, stated objectives, and targeted geographic regions while also aligning with the investment program's risk constraints and liquidity needs.

Mercer

Name of firm: Mercer

Location: Mercer has more than 19,000 employees serving clients in over 180 cities and 40 countries and territories worldwide. RI team members are located in Toronto, New York, Montreal, London, Stockholm, Melbourne, Sydney and Tokyo.

When founded: Started in the United States in 1937 as the employee benefits department of Marsh & McLennan, Inc., our company took the name of "William M. Mercer" in 1959, when Marsh & McLennan acquired William M. Mercer Limited, a Canadian firm founded by William Manson Mercer in 1945. In 1975, Mercer became a wholly-owned subsidiary of Marsh & McLennan Companies, Inc. In 2002, we changed our corporate name to Mercer Human Resource Consulting. The company became Mercer in 2007. In 2004, Mercer formally launched a global business unit focused on RI and ESG issues.

Size of team engaged/equipped: Mercer's RI business unit includes a core team of approximately15 analysts and consultants and draws on a broader network of RI champions across the business.

Ballpark number of clients: Globally, the RI business unit provides direct advice to approximately 60 clients annually. However, Mercer's RI business unit also provides research and advice that is used by Mercer's broader client base. Mercer has both long-time clients (some spanning decades) and more recent client partnerships. Globally, we consult to approximately 25,000 clients annually and provide them with advice and services to help address a broad array of human resource and investment issues.

Description of client based served and targeted: We work directly with leading responsible investors to develop cutting edge strategies and implementation plans, as well as those investors looking at RI for the first time. Our consulting is increasingly undertaken in conjunction with colleagues from our investment consulting business so that we can provide truly integrated solutions to Mercer clients. To date, we have provided RI advice to national pension plans, sovereign wealth funds, corporate plan sponsors, endowments and foundations, industry bodies, and other significant institutional investors from around the world.

Current AUM or AUA: Total AUA varies with the nature of the client work. Approximate total RI AUA is in excess of US$1 trillion.

Description of services provided: Mercer's RI business unit offers clients an integrated and tailored service that helps them achieve a cost-effective responsible investment strategy throughout the investment cycle. We work on projects that range from education to strategy and policy development to implementation (assessing the investment approach to ESG of client's external managers, developing a coordinated approach to active ownership, etc.)

Range of investments offered to clients: Mercer's RI business unit has been focused primarily on providing advisory services to clients.

Description of research and fund selection process: Mercer's Responsible Investment manager research includes three main areas: ESG research, Sustainability-themed research and SRI manager research. A dedicated manager researcher provides rating of both RI "themed" strategies that target specific environmental issues such as climate change or water scarcity as well as ratings for traditional SRI products, including screened products or "ethical" branded products. Additionally, Mercer is the leading consultant in the area of ESG research, accessible via Mercer's Global Investment Manager Database, having developed

a proprietary four-factor model which rates the integration of ESG factors into mainstream investment strategies. Coverage includes more than 5000 strategies as of 31 December 2011.

Method of impact measurement and reporting/benchmarking: By assigning a unique ESG rating as part of our manager research process, we facilitate the assessment and monitoring of all fund managers on a consistent ESG metric.

Charges/fee structure: The RI business unit works in a range of contexts, across a variety of markets. As such there is no defined fee structure across the business with common fee structures being project-based, retainer-based and to a lesser-extent, asset-based fee structures.

What is your outlook for your business and this market?: Key drivers of growth/change and other important threats/opportunities? Multiple market developments signal the continued (and arguably, increased) importance of environmental, social and governance (ESG) considerations looking ahead. In particular, alignment of interest, time horizons, engaged ownership, resource scarcity and climate change will be large forces shaping the investment industry in the decade to come.

Other relevant information or observations: There is a need for more explicit demand signals from a broader group of asset owners to drive the mainstreaming of ESG integration in investment decision-making and ownership processes.

Illustrative example of recent client engagement: A global multi-line insurer with asset management business sought the development of a comprehensive approach to responsible investments (RI) at the group level. In developing a group-wide RI policy, the organization sought to adopt industry-leading best practices. Mercer conducted an internal and external mapping exercise and gap analysis, providing recommendations for the integration of the RI policy into manager monitoring and non-financial services procurement activity. Subsequently, Mercer provided support to the client in becoming a signatory to the UN-backed Principles for Responsible Investment and subsequent reporting of progress.

UBS

Name of firm: UBS

Location: Switzerland

When founded: 1872

Size of team engaged/equipped: UBS has around 64,000 employees. Please refer to the 2010 annual reporting for additional information
http://www.ubs.com/global/en/about_ubs/investor_relations/annualreporting/2010.html
UBS WM VBI team has 6 members. Other units within UBS (e.g. Wealth Management Research, Asset Management, Investment Bank) have dedicated teams for topics as sustainability, clean-tech, etc.

Ballpark number of clients: UBS does not disclose information regarding clients beyond the information contained in the Corporate Report

Description of client based served and targeted: UBS covers almost all client segments in Switzerland. For international clients, UBS focus on Ultra High Net Worth, High Net Worth and Core Affluent, together with Family Offices and Institutional clients (e.g. foundations, pension plans)

Current AUM or AUA: please refer to pg 80 of the CR online Report that you can find on our website
http://www.ubs.com/global/en/about_ubs/corporate_responsibility/cr_in_banking.html

Description of services provided: Range of investments offered to clients:
The link below will take you to the information about VBI services and products.
https://www.ubs.com/global/en/wealth_management/philanthropy_valuesbased_investments/value_based_investing.html

Description of research and fund selection process: Our SRI research teams focus on a range of ESG issues, with a view to understanding what impact developing trends such as demographics, resource constraints, and other potential environmental and social constraints might have upon the sectors and companies covered by our analysts. The teams were established in each of our business divisions to serve their respective clients.

In the Investment Bank, the equity research team launched major UBS publications on water in 2006, climate change in 2007, and corporate governance in 2008. A report published in 2011, Q-series®: Water Risks to Business, had the highest readership of any Equity Research publication in the first half of the year. In 2010, the team launched the ESG Analyzer, a publication that helps clients take ESG issues into consideration at every stage of the investment process. The ESG Analyzer was published several times in 2011, specifically for Europe and for South Africa, and is planned to be launched for other regions next year in response to client demand.

In our asset management business, an internal SRI research team manages portfolios grouped around themes such as climate change / energy efficiency, water and demographics. The SRI research team in our wealth management business conducts SRI research and provides advice to private clients on SRI investment solutions. Client interest in some aspects of SRI – for instance climate change, demographics and water – has grown, and so has research coverage. The SRI teams regularly collaborate with analysts in other teams to write about emerging SRI themes, and relevant research content is regularly published by

a growing number of specialists within the mainstream. For example, in August 2011, WM Research published a paper about Impact Investing, a new investment philosophy that is attracting interest from our clients. While, in late 2011, Swiss Bank published an edition of its "UBS outlook" research magazine for SMEs (small- and medium-sized enterprises) on the topic of energy, including an analysis of renewable forms of energy.
https://www.ubs.com/global/en/about_ubs/about_us/research.html

Method of impact measurement and reporting/benchmarking: Measurement is one of the hallmarks of Impact Investing. Unfortunately, and due to the private placement nature of this product, we are not allowed by law to disclose any information regarding our impact investing offering during the raising period.

Charges/fee structure: Same as above for impact investing. For SRI products, the link provided above gives access to all product fact sheets.

Lombard Odier & Cie

Name of firm: Lombard Odier & Cie

Location: Geneva, Switzerland

When founded: 1796

Size of team engaged/equipped: Impact Investing and SRI: 6 persons

Ballpark number of clients: NC

For Impact Investing services: mainly Very High Net Worth Individuals.

For SRI services: both institutional investors and private clients.

Current AUM or AUA: >£500m (for SRI and Impact Investing altogether)

Description of services provided: Lombard Odier has developed a comprehensive, A to Z advisory service offering on both Impact Investing and SRI. These services cover the following areas:

Design: Understanding the client's values, objectives and constraints

- Assess the client's current portfolio from both a financial an extra-financial standpoint
- Define with the client a tailor-made SRI or Impact Investing strategy that suits his/her requirements and situation. Establish a SRI or Impact Investing charter.
- Determine responsible voting policy (when applicable)

Implementation

- Define the process by which the strategy is enforced in the investment portfolio (what approaches, asset classes, proportion of total AUM, etc.)
- Select and recommend investments that match that strategy, either through funds, direct investments, ESG integration, exclusions or a combination of all that approaches

Monitoring: Establish a regular extra-financial reporting (either ESG or social impact measurement) Adjust strategy according to the extra-financial and social results

Range of investments offered to clients:

- Selection of internal and external SRI equity and bonds funds
- Selection of external Impact Investing funds (mainly as Private Equity or debt instruments in SME with limited liquidity)
- Taylor-made SRI and Impact Investing mandates
- Upon client requirement, possibility to access direct Impact Investment deals.

Description of research and fund selection process: For direct lines, Lombard Odier has developed a proprietary ESG scoring model covering about 3'500 listed companies on a worldwide basis. That scoring is used for both bonds and equity direct investments. A monitoring and exclusion process is also maintained on controversial weapons and child labor

The selection of external funds relies on two processes: 1) the usual due diligence and validation process used for mainstream investment funds, covering all the aspects of governance, financial performance, risk management, etc. and 2) an additional due diligence specifically covering the social dimension of the fund. That second due diligence is performed by SRI and Impact Investing experts

independently form the traditional analysis. That due diligence looks at how the social dimension is integrated in the investment strategy, operational processes, reporting, governance, incentive scheme and how serious and consistent is the team about achieving its social impact objectives.

Only the funds having received a positive evaluation from both teams are eligible to the SRI and Impact Investing masterlist.

Method of impact measurement and reporting/benchmarking:

SRI: for equity and bonds, Lombard Odier consolidated ESG scoring is used as the main reporting indicator

Impact Investing: social reports used by external fund managers are used as a basis for social reporting. Tailor-made consolidated reporting can be created for the client upon request.

Charges/fee structure:

Design: advisory services are charged on a timesheet basis, as consulting fees. Initial ESG portfolio diagnosis is offered

Implementation: Investments in funds or tailor-made mandates use a traditional management fees structure based on asset under management. Specific request (for instance tailor-made due diligence on a proprietary deal) might use either a transaction fee or a consulting fee

Monitoring: standard ESG reporting is free of charge. Tailor-made reporting efforts are charged on a timesheet basis.

What is your outlook for your business and this market?:

Outlook for Impact Investing: we believe the market is still in its infancy but the no-turning back point has already been reached. Strong growth in AUM is expected for that industry over the next years

Outlook for SRI: the market has already reached a high level of sophistication with specialised rating agency, data providers, consulting firms, asset management companies, etc. AUM are also significant, even in comparison to more established asset classes such as Hedge Funds. It is however unclear whether the market will evolve towards more integration in the mainstream financial industry (and ultimate disappearance of SRI as a stand-alone feature) or further development as a separate market

Key drivers for impact: investing comes from the demand from private clients, whereas new regulations and institutional appetite drive the SRI market growth.

The threats and opportunities for the sector lie in our collective capacity to build a real infrastructure or ecosystem (SRI has made huge progress in that direction over the past decade but Impact Investing is still very limited). Standardisation and impact measurement will also be key for both industries in the near future.

C. Hoare & Co

Name of firm: C. Hoare & Co

Location: 37 Fleet St, London EC4P 4DQ

When founded: 1672

Size of team engaged/equipped: Flexible

Ballpark number of clients: n.a.

Description of client based served and targeted: High net worth private clients who share our values

Current AUM or AUA: n.a.

Description of services provided: We provide seminars for philanthropists, we provide a donor-advised charity account, we act as trustees of charitable trusts, we are bankers and investment managers to charities, and we run charitable foundation.

Range of investments offered to clients: We offer ethical investment management, seeking out positive ethical impacts

Description of research and fund selection process: We populate investment portfolios with third party funds, which must adhere to best practice and pass our due diligence process

Method of impact measurement and reporting/benchmarking: None yet

Charges/fee structure:

Investment management 1%
Donor advised account 0.5%
Banking free above a threshold
Trusteeship ~ 1%

Other relevant information or observations: We treat our charitable trust, the Golden Bottle Trust as an 8th partner for drawings. GBT double matches staff who do GAYE (a third of all staff).

Rathbone Greenbank Investments

Name of firm: Rathbone Greenbank Investments

Location: Bristol and Liverpool, with clients nationally

When founded: Members of the Rathbone Greenbank team have been managing ethical and socially responsible portfolios at Rathbones for over a decade, while its founding members have been involved in ethical investment for over 20 years. The 'Greenbank' name was formally constituted within Rathbones in 2004.

Size of team engaged/equipped: 15

Ballpark number of clients: 1,200

Description of client based served and targeted: Private clients, charities and trusts who wish their investments to reflect their values

Current AUM or AUA: £450m

Description of services provided: Discretionary investment management services for private individuals, charities and trusts, who wish their investments to reflect their values. All portfolios are ethically screened, and our investors range from those who have strict social, ethical or environmental concerns to those who wish their portfolio to be more broadly 'socially responsible'. We are pleased to work with professional advisers, and many of our clients have been recommended by their IFA. The team at Rathbone Greenbank has been at the forefront of ethical and socially responsible investment for over a decade, and includes a full time in-house ethical research unit. Rathbone Greenbank has the backing of one of the UK's oldest and most highly regarded investment management houses, Rathbone Investment Management.

Range of investments offered to clients:

- Discretionary portfolios for private clients, charities and trusts
- SRI/thematic managed fund portfolios for private clients, charities and trusts
- Social enterprise investments (debt and equity) as part of a broader investment mix

Description of research and fund selection process: Rathbone Greenbank Investment managers have full access to the wider Rathbone Group's internal research capacity and to the Rathbone Investment & Stock Selection Processes. Regular investment strategy meetings (at both Group and team level) ensure that all asset classes and industry sectors are covered in detail. Each member of the Greenbank investment management team has additional specific sector research responsibilities.

Complementary to this process, and we believe uniquely amongst private client discretionary managers, our dedicated in-house ethical research team produces bespoke social & environmental assessments of FTSE 350 companies and a selection of overseas stocks. This is based on a proprietary research methodology and company database. Researchers apply the criteria entered via our client ethical questionnaire to produce client-specific portfolio screens, ensuring that investments meet clients' ethical preferences.

These views are combined to produce a fully integrated ethical investment management process.

Managed funds are selected on a combination of their financial and ethical suitability. Investment team members have responsibilities for the maintenance of a database of bespoke questionnaire replies from fund managers on key ethical and financial issues. Buy lists are regularly reviewed and maintained.

Method of impact measurement and reporting/benchmarking: After a portfolio has been screened, we focus mainly on our fiduciary duty of achieving acceptable financial returns. Assessing non-financial impacts is difficult, time-consuming and there are few agreed definitions of how to quantify such intangible values. However, despite the difficulties of comparing different companies with very different operational impacts, we have developed several in-house tools for assessing the impacts made by investments in certain areas. As part of our ethical review of companies, we benchmark company performance against their peers, gaining useful comparative ratings to identify social and environmental leaders.

As part of our regular portfolio review process, we provide a detailed breakdown of clients' investments using our in-house ethical activity analysis. Portfolios are also regularly rescreened as part of this process to ensure the ongoing ethical suitability of holdings for each client. In addition, we have developed the capacity to benchmark the carbon intensity of a client's holdings, on request, against the FTSE 350. We also produce an annual ethical review for each client's consolidated holdings, and report on our engagement activities through our bi-annual newsletters.

These features provide clients with a unique degree of transparency regarding the ethical performance of their investments.

Charges/fee structure: Please contact us for detailed information

What is your outlook for your business and this market?: The market continues to grow as more and more people seek to integrate their values into their financial affairs. The global issues of managing / adapting to climate change, water scarcity, biodiversity and deforestation, protecting human rights, promoting global healthcare and ensuring human development pose significant challenges, but also create opportunities for businesses with robust business models. Increasingly stringent environmental and social regulation will create more opportunities for well run companies to excel, supported by amenable tax regimes.

In this context, we see considerable opportunities for investments in companies which 'first do no harm' and 'then do some good', taking a long-term view of the performance of companies, investing along key trends and themes such as those mentioned above. Good management of non-financial issues can have direct financial benefits – in the avoidance of environmental fines, for example – but can also serve as a proxy indicator for the quality of the management of other aspects of a company's performance.

An important threat comes from the adoption of social and environmental issues by the mainstream financial services sector. Climate change and clean technology are examples of issues which are now mainstream investment themes. In many ways this is encouraging, since our portfolios are supported by more in-depth research. However, there is always a risk that business could be lost to our mainstream competitors who buy in SRI research and work from screened lists. We are confident that ethical investors need greater confidence in the underlying ethical activity of their holdings than is capable through such approaches, and we continue to add new business from clients disappointed by mainstreams attempts

to provide ethical investment products. There is a considerable advantage in having a dedicated team of investment professionals who all have a personal interest in sustainability.

Other relevant information or observations: As responsible investors, we consider active ownership to be a vital element of responsible investment management. We have a written engagement policy, and commit significant resources to this important activity, regularly engaging directly with companies on issues of social and environmental performance. We have helped our clients to table special resolutions on social and environmental issues at the AGMs of FTSE 100 companies. In addition, our parent group operates a Corporate Governance Committee which overseas active voting on our top 200 holdings; two members of the Greenbank team sit on this committee. Rathbones is also a signatory to the UN Principles for Responsible Investment, and plays an active role in the PRI Engagement Clearinghouse.

Barchester Green Investment Ltd

Name of firm: Barchester Green Investment Ltd

Location: Salisbury and London although we offer services to clients on a global basis.

When founded: 1985

Size of team engaged/equipped: 15

Ballpark number of clients: 1600-1800

Description of client based served and targeted: Retail clients, Professionals, Those with an interest in ethical and environmental investments

Current AUM or AUA: - £100M

Description of services provided: We provide a range of investment and insurance services to private and corporate clients. Our main areas of work are; ethical and environmental investments mainly via collectives, we provide advice on corporate and individual pension schemes and on personal insurance.

Range of investments offered to clients: Pensions, SIPPS, Investment Bonds, OEICs, Unit Trusts
Venture Capital Trusts
Enterprise Investment Schemes
Open Ended Investment Companies
Unit Trusts
Investment Trusts (ITCs)
Self-Invested Personal Pensions
Small Self-administered Schemes (SSAS)

Description of research and fund selection process: Our buy lists are constructed using a range of data sources, these are:

- Old Broad Street Research (OBSR)
- Morningstar
- Meetings with individual managers
- Our asset allocation modelling is driven by the Distribution Technology Dynamic
- Planning service.

Method of impact measurement and reporting/benchmarking:
Meetings with individual fund managers and SRI personnel
World Wise Investor
Investment Management Association
Fundslibrary

Charges/fee structure: Adviser charging, commissions (till 31.12.12), Fees
A mix of fees and commissions.

What is your outlook for your business and this market? Key drivers of growth/change and other important threats/opportunities?: We believe that the demand for responsible investment with an emphasis on environmental themes will remain strong allowing us to continue to build our asset under influence/advice.

The major restriction on this growth is recruitment of suitably qualified and experienced advisers.

Illustrative example of recent client engagement: We were recently approach by a large UK Charity to carry out a full review of their investment strategy focusing on the opportunities in mission direct and high social impact investments.

We provided a full review of the existing Charity and were able to implement an alternative which is in line with the organisation's values.

Ethical Futures llp

Name of firm: Ethical Futures llp

Location: Edinburgh

When founded: 19th Sept 2005

Size of team engaged/equipped: five – two RI (partners) and three support staff 2 f/t & 1 2/3 p/t.

Ballpark number of clients: 850 on database – 200+ active

Description of client based served and targeted: mass affluent; ages from c 30 – 90+

Clients are broadly, social & legal professional (education, health, social & voluntary sector, solicitors & advocates), SME owners/employees– environmental sector, design, media & IT and non-working with inherited wealth.

Current AUM or AUA: circa £37m

Description of services provided: Financial advice & planning form an ethical perspective. Our offering staircases according to needs and life stages; offering simple product advice to detailed financial planning. Key component to all advice is that it is ethically & values led and this is reflected in financial products selected.

Range of investments offered to clients: Illiquid impact investments and public SRI market funds?): personal & stakeholder pensions, onshore /offshore investment bonds, ISA's OEICs & UT's, Discretionary services (through 3rd parties), VCT & EIS, life assurance, mortgages, other protection plans. Advice – as a service in itself – not product linked.

Description of research and fund selection process: Combination of ethical screening using standard positive & negative screens and fund research based upon performance, charges, assets, management fund style and assessment of ethical management approach + detailed due diligence questionnaires & desk based research for discretionary services.

Method of impact measurement and reporting/benchmarking: Standard industry benchmarks + use of clients own objectives for investment portfolio as a whole i.e. is it doing what they need it to do.

Charges/fee structure: Moving to fixed fee structure splitting work into data gathering, analysis &advice, implementation & review.

First stages will be explicit fee which can be recoupled via plan if preferred, implementation is 0.5% for lump sum % of premium for regular and reviews are split as fund monitoring 0.5% p.a. actual full reviews funded via a monthly retainer fee.

Other relevant information or observations: We aim to grow organically and continue to advise mass affluent – our core approach is only to advise on ethically screened investments and this will not change. We expect to move to include social impact funds in the future but cautiously and only with required due diligence in place.

Illustrative example of recent client engagement: Client approached us because her current advisers, a solicitors firm, were closing their investment arm. She was being encouraged to transfer portfolio to Brown Shipley.

She took this as an opportunity to seek a more ethical approach – she had given previous adviser instructions to invest ethically but bar one traditional ethical fund and one thematic she had over 20 collectives with no ethical criteria ……she mistakenly believed that natural resources was an environmental fund!

We re-assessed risk, investment motivation & objectives and also of course ethical priorities – after consideration of various options we recommended transfer to a full discretionary service with bespoke ethical approach to more closely meet her aspiration for the funds to be positively invested.

Ethical Investors (UK) Ltd – T/As Ethical Investors

Name of firm: Ethical Investors (UK) Ltd – T/As Ethical Investors

Location: UK

When founded: 1989

Size of team engaged/equipped: 9

Ballpark number of clients: 5000

Current AUM or AUA: £200m

Description of services provided: Range of investments offered to clients: Mutual funds, direct equities, social impact investments/bonds/environmental impact investments

Description of research and fund selection process: All funds are researched from an ethical and financial point of view. Underlying holdings in funds are checked against stated ethical values. We have a sister company, Ethical Screening, which undertakes corporate research and stock lists are checked by them.

Method of impact measurement and reporting/benchmarking: Depends entirely on the investment and the objectives of the client.

Charges/fee structure: We charge fees to clients; a one-off 3% on the first £100K invested and nothing above plus an annual servicing fee of 0.5%.

Observations on your experience and expectations for the future:

- The only financial planning firm which has a partner company offering ethical research to support the financial planning business
- We donate 50% of our net trading profits to charities and good causes via our own Foundation – Ethical giving capitalisation.

ClearlySo

Name of firm: ClearlySo

Location: London, UK

When founded: September, 2008

Size of team engaged/equipped: 10-20 (staff and advisers/consultants)

Ballpark number of clients: 100+ social businesses and enterprises, 300+ investors, 100+ corporates

Description of client based served and targeted: ClearlySo serves social businesses and enterprises and impact investment funds looking to raise between £0.3-£4.0 m of capital as well as the investors looking to provide it. The latter group includes institutions, foundations, high net worth individuals and corporates.

Current AUM or AUA: ClearlySo does not manage its own funds but is an intermediary to the potential impact investor marketplace.

Description of services provided: ClearlySo helps Social businesses and enterprises to raise capital, typically in the range of £0.3 to £4.0 million. It does so by connecting them with socially-minded investors, including institutions, foundations, high net worth individuals and corporates. ClearlySo identifies and targets the most attractive social entrepreneurs and impact funds and, for the entrepreneurs, critiques their business plans and models, assists them in structuring offers to investors, trains them to pitch for capital, introduces them to interested investors and negotiates on their behalf.

For investors, ClearlySo works with financial institutions (for example, Coutts Bank) and through its own network to build the UK's largest social business angel network. These and other investors are introduced to attractive, investment propositions and impact investment funds. ClearlySo also provides angel investment guidance and advice as well as making available impact investor training and seminars.

In addition, ClearlySo maintains ongoing relationships with foundations, dedicated impact investment organisations, corporate investors and mainstream financial institutions in order to understand and help meet their specific impact investment needs and requirements.

Consultancy work has included bespoke research projects for organisations looking to increase social investment (e. g. City of London Corporation, Marks & Spencer).

Range of investments offered to clients:

- Direct equity, debt and quasi equity angel investments into private companies and other Social businesses and enterprises not traded on exchanges
- Grants to high-impact social enterprises
- Participations in structured impact investment (debt and equity) funds

Description of research and fund selection process: ClearlySo sources deal flow from its pipeline of 2,500+ social businesses and enterprises which is then screened to identify those which:

- Are currently looking for capital
- Offer a compelling market opportunity
- Demonstrate a source of sustainable and defensible competitive advantage
- Exhibit an experienced and well-functioning senior management team and Board
- Present a robust and realistic business plan with credible financial figures
- Have a clear path to exit (or clarity if not) which, if achieved, will represent a good deal for investors.

Once screened, ClearlySo selects specific investment opportunities which are most relevant to the particular client or client group and works with the social businesses and enterprises to refine the investment proposition and pitch the investment opportunity to potential investors.

With respect to impact investment funds, ClearlySo is looking predominantly at three factors. These include:

1. The credibility and track record of the investment team
2. The industrial "logic" of the fund and the ability of the organisation to sustainably secure relevant proprietary deal flow
3. That the fund in question generates social impact and deploys a robust and credible methodology to measure this and to report on it.

Method of impact measurement and reporting/benchmarking: This is customised in the case of each particular investment opportunity. The new and selected metrics and reporting system needs to be reliable, robust, realistic and practical to generate. ClearlySo is averse to costly impact measurement systems.

Charges/fee structure: Most investors do not pay fees to ClearlySo to have the opportunity to see impact investment opportunities. Members of the ClearlySo Social Business Angel Network will pay an annual fee. SBE clients pay a percentage of funds raised as well as an ongoing retainer to ClearlySo and/or fees based on staff time.

Other relevant information or observations: ClearlySo was launched in March 2009 as a social business. Its goal is to be the main advisor on capital raising for social businesses and enterprises and impact funds in the UK; connecting them with all relevant investor groups. As one of very few operators in the area with an FSA license to practice, and a range of experienced professionals, ClearlySo is already a leader in this area.

ClearlySo believes that there is not a capital shortage in the sector, but that there is a perceived lack of quality investment propositions available. ClearlySo searches for and identifies those which are investment-ready and works to enhance the quality and capacity of others. ClearlySo also invests in understanding the detailed needs of investors in this area.

Illustrative example of recent client engagement: In 2008, ClearlySo was approached by a very large and well-managed social enterprise (let's call it ABC) with a financial problem. Its business requires costly assets to operate, and it was solely dependent upon large banks for its financial needs. ABC sought ClearlySo's advice to lessen its dependence on the banks without any increase in costs.

Equity funding was not a viable option for ABC given its legal structure. Working together with ABC and a lead investor, ClearlySo helped devise a 2-part structure which not only reduced its dependence on the banks, but offered a substantial cost-saving as well. The £4m financing involved a portion which was five-year debt at well below market rates and a "quasi-equity" instrument, the rate of return on which was a function of the revenue growth of ABC. If revenues did not grow the quasi-equity portion of the financial package would carry a 0% interest rate, but if ABC did well the investor could earn up to 20%.

This has been one of the largest ever financings in the social enterprise sector and, significantly, the investors included a range of dedicated social investors as well as more traditional investors.

Hermes Equity Ownership Services Ltd

Name of firm: Hermes Equity Ownership Services Ltd

Location: London

When founded: 2004

Size of team engaged/equipped: 28

Ballpark number of clients: 24

Description of client based served and targeted: Pension Funds and Fund Managers

Current AUM or AUA: £65bn

Description of services provided: Stewardship services.

Hermes Equity Ownership Services (EOS) is a pioneering advisory service which enables its clients to be responsible investors and owners of companies. It helps institutional share owners around the world to meet their fiduciary responsibilities and become active owners of public and private companies. EOS' team of engagement and voting specialists monitors its clients' investments in companies and intervenes where necessary with the aim of improving performance. EOS' activities are based on the premise that companies with informed and involved shareholders are more likely to effectively manage risk and achieve superior long-term performance than those without.

Owned by BT Pension Scheme, the UK's largest pension fund, EOS has a strong commonality of interests with the global coalition of investors it represents. Hermes and BTPS have extensive experience of implementing the United Nations' Principles for Responsible Investment (UNPRI). EOS' Chief Executive, Colin Melvin, chaired the committee that drew up the original principles. This insight enables EOS to help clients who wish to become signatories or have already achieved signatory status to meet the challenges of the PRI.

Range of investments offered to clients: Stewardship services on equities, bonds, private equity and hedge funds investments.

Method of impact measurement and reporting/benchmarking: The value of the services is demonstrated through the delivery of engagement of results relative to pre-set objectives and milestones.

Charges/fee structure: Based on the value of the assets under advice and the number of securities covered. Typically less than one basis point.

What is your outlook for your business and this market?: The world needs stewardship to address the present 'crisis in capitalism' and this will be a clear driver of growth for EOS in the next few years. The challenge is to approach this with the right business model. Stewardship services are best provided on a collaborative basis between large long-term investors, which may not lend itself to a conventional corporate and commercial structure.

onValues Ltd.

Name of firm: onValues Ltd.

Location: Zurich, Switzerland

When founded: 2002

Size of team engaged/equipped: 2 full-time staff, plus a network of 6-7 external collaborators that contribute to specific projects

Ballpark number of clients: 12-15 at any given time

Description of client base served and targeted: asset owners, typically family offices, foundations and pension funds, interested in implementing responsible and impact investing strategies

Current AUM or AUA: AUA £400-600m at any given time

Description of services provided: We focus exclusively on independent consulting. Being management owned and not involved in money management, we are fully independent and not conflicted in recommending the best available solutions to investors. We have a strong focus on responsible and impact investing but cover the entire investment expertise spectrum. Services include investment governance, strategy and process design & implementation; selection and monitoring of external asset managers; implementation of reporting systems (including impact reporting). onValues also actively participates in shaping the further development of the sustainable, responsible and social investment markets by contributing proprietary research and facilitating investor networks.

Range of investments offered to clients: We provide advice for practically all asset classes, including private and public equities, fixed-income, real estate and other real assets, commodities etc., always with the goal of integrating environmental, social and governance aspects relevant to a specific asset class and investment.

Description of research and fund selection process: Please see ***http://www.onvalues.ch/our-clients-and-services.html***

Method of impact measurement and reporting/benchmarking: We support efforts to harmonise impact measurement and reporting, e.g. under the GIIRS and IRIS standards. At the same time, we engage with investment managers inviting them to develop meaningful impact indicators for specific investments.

Charges/fee structure: We charge time or task based fees, not asset based, because we think that this enhances our unbiased advice for all clients.

What is your outlook for your business and this market?: We have the privilege of working in a field that we believe will continue to considerably grow in the future. We see HNWI interest for responsible and impact investing constantly growing. Interest of institutional owners (large foundations and pension funds) also grows, but is sometimes held back by regulatory and self-imposed constraints, and by turbulences in financial markets.

Other relevant information or observations: Please see ***http://www.onvalues.ch/news-and-publications.html***

Illustrative example of recent client engagement: Please refer to the case-study on Riverstar Group – one of onValues' clients – describing motivations/context for hiring us and our role, in *"Sustainable Investing for Institutional Investors: Risks, Regulations and Strategies"* by Mirjam Staub-Bisang, John Wiley & Sons (forthcoming in April 2012).

D. Capital Partners Ltd (a Dalberg Group Company)

Name of firm: D. Capital Partners Ltd (a Dalberg Group Company)

Location: London

When founded: 2011

Size of team engaged/equipped: 6 FTEs

Ballpark number of clients: 4-5

Description of client based served and targeted: D. Capital serves a wide range of clients ranging from family offices, private foundations, high net worth individuals, development agencies, corporations, and institutional investors.

Current AUM or AUA: £12m

Description of services provided: D. Capital acts as an intermediary across a range of investment types and between investors to ensure efficient capital deployment and enhance liquidity and transparency in the impact investment market in frontier markets, with a strong focus on emerging countries.

We work as advisers, partnering with our clients, as well as asset managers, actively investing. We bring the full breadth of our consulting expertise and local knowledge alongside direct investing experience to every partnership we pursue.

Specifically, we offer advisory and partnership for the following challenges:

- Investment strategy: Formulating investment hypotheses and theories of change that can be translated into concrete steps to generate clearly defined financial and social returns.
- Transaction sourcing and execution: Tapping into our extensive network to generate a transaction pipeline robust enough to meet the specific goals of the investment strategy.
- Assembling and managing capital vehicles: Designing innovative and effective financing structures while mobilizing capital from diverse sources to fund such vehicles.
- Portfolio management: Drawing on deep experience within emerging markets and impact investing to extract investor value, manage risk, and achieve development impact.
- Strategic growth: Translating investment success into longer-term business building opportunities, guided by rigorous financial, economic, and social metrics.
- Building partnerships: Helping investors and entrepreneurs to identify and build partnerships with financial and technical partners, drawing on comparative organizational strengths.

Range of investments offered to clients: D. Capital offers non-discretionary portfolio management services to its clients, through a range of investments tailored to the clients' investment strategy. Our types of investments include but are not limited to the list below:

- Direct angel investments (equity, quasi-equity and convertible debt)
- Fixed income investments

- Mezzanine financing
- Fund investments
- Innovative financing design and structuring

Description of research and fund selection process: D. Capital adopts a comprehensive and thorough approach to selecting investments to include in its portfolio.

Following an initial screening of the D. Capital database of investment opportunities, a selection of opportunities is presented to a selected investment committee. Investment opportunities are sourced from D. Capital's network and Dalberg on-the-ground presence that provides access to a large number of investment opportunities in the field of impact investing. Based on D. Capital's initial opportunity assessment, the Investment Committee selects the shortlist of opportunities that will have to undergo comprehensive due diligence, including an onsite visit. Following due diligence, the D. Capital submits an Investment Memorandum to the Investment Committee, along with an Investment Recommendation for their approval. A final approval from the Investment Committee is necessary before an investment can take place.

The investment selection process ranges from 3 to 9 months from sourcing of opportunities to final investment decision and fund disbursement.

Method of impact measurement and reporting/benchmarking: D. Capital developed an Impact Assessment screening tool to guide the funding decision process. All potential opportunities are classified based on the following 6 impact dimensions:

- Investment Strategy Fit: fit with existing investment strategy, time needed to manage investment etc.
- Operations: specific characteristics of the target investment, such as country risk, management strength etc.
- Profit: potential financial impact
- People: potential social impact
- Planet: potential Environmental impact
- Industry specific impact (if applicable): agro-business, education, health, microfinance etc.

These selection indicators are used as a screening and funding decision tool and are further refined and developed over time depending on the clients' needs.

Each potential funding opportunity is assessed according to these 6 dimensions and plotted on a spider web. This allows to assess the mix and possibly necessary trade-off between the different impact dimensions that might need to be made when selecting projects for funding and hence when composing a diversified portfolio for the client.

Charges/fee structure: Retainer fee; management fee structure

D. Capital has developed a customized fee structure, that is based on a retainer management fee and set according to the financial cost structure as well as impact targets of its client investors.

What is your outlook for your business and this market?: D. Capital aims to address the following market gap in the impact investing space in emerging markets.

- DFIs and long-term players need assistance in developing products
- New players (Institutional investors and Family Offices) need help navigating this space and finding 'appropriate' investments
- Bridge is needed between capital and investments

However, we recognize the challenges that the impact investing industry faces:

- Lack of supply of good companies, or operationally savvy entrepreneurs that are investor-ready
- Lack of proven investment track record by investment managers
- Lack of innovative financing vehicles through which investors can channel capital.

Quadia S.A.

Name of firm: Quadia S.A.

Location: Geneva

When founded: February 2010

Size of team engaged/equipped: 7

Ballpark number of clients: 15

Description of client based served and targeted: HNWI, Foundations, Pension Funds

Current AUM or AUA: Not disclosed

Description of services provided: Quadia is a specialized investment firm offering to private and institutional investors tailored discretionary and non-discretionary wealth management, asset management and investment advisory services, focusing on impact investing. This includes outlining the client's needs and objectives, defining a customized investment strategy, creating a well diversified portfolio of investments, actively managing portfolio companies and closely monitoring and reporting portfolio performance, both on the financial and social and environmental returns. Quadia's experts are also carefully managing investment exits on behalf of clients by carefully taking into account financial, legal and tax aspects. Quadia also offers its clients ad hoc professional investment advisory services such as detailed business, financial, legal and social impact analysis on investment products and companies. The large continuously generated investment deal-flow creates a healthy basis for a successful portfolio selection process. Furthermore, Quadia manages two specialized investment funds.

Range of investments offered to clients:

- Cash Management
- Bonds
- Private Debt
- Public Debt
- Public Equity
- Private Equity
- Venture Capital
- Project Finance
- Sustainable Real-Estate
- Sustainable Commodities

Either through discretionary or non-discretionary mandates, direct investments or through funds

Description of research and fund selection process: In line with the client's investment profile and objectives, Quadia will carefully select funds that have either been already analyzed by its investment team, or that have been earmarked for future analysis, drawing from its large deal flow database. The investment team will also actively search within its databases and network in order to identify more funds that could fit to the client's profile. A first review of the selected funds is discussed on a management level, and the narrow selection is submitted to the investment committee for approval. The due diligence process will then start, i.e. the

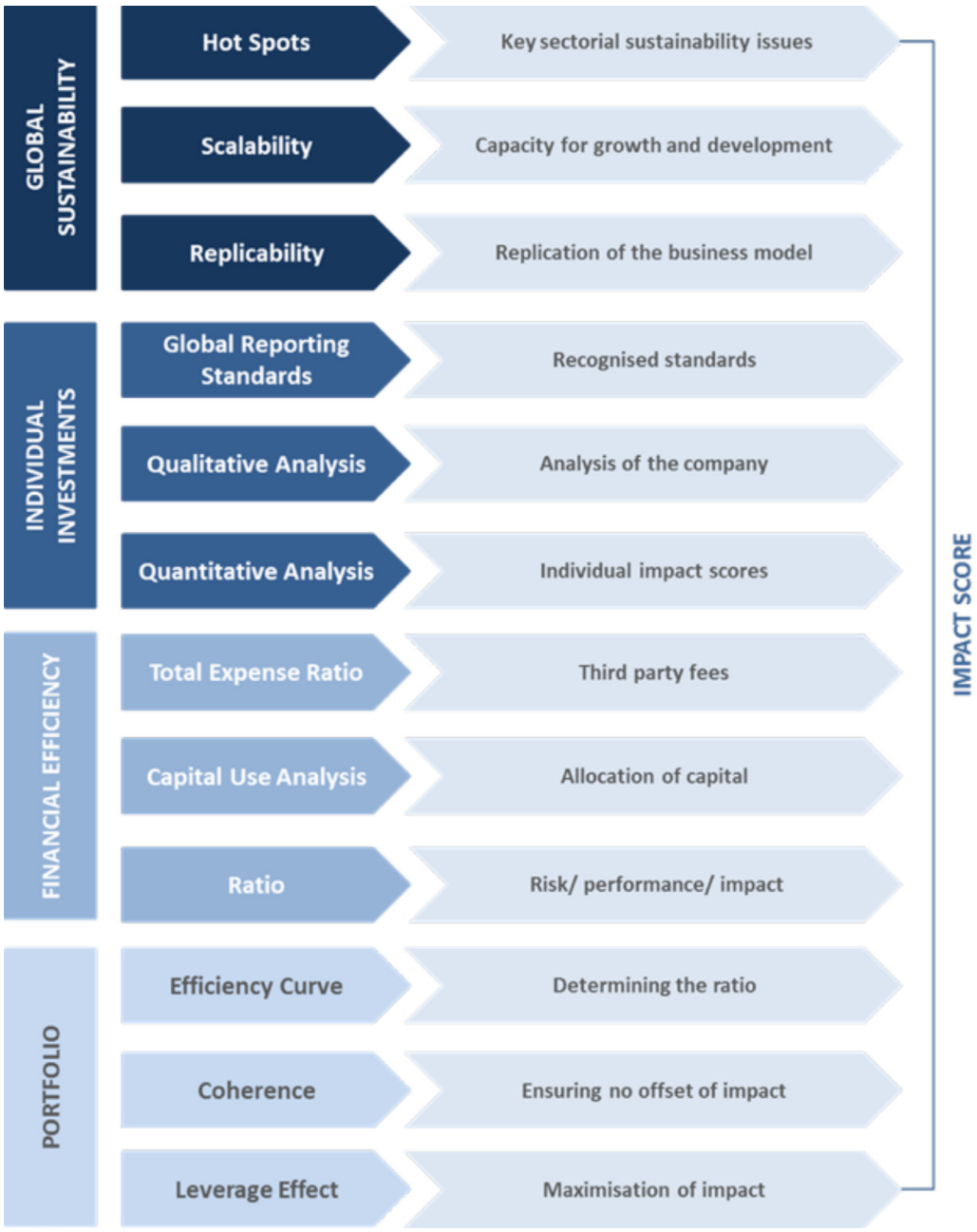
detailed analysis of the investment strategy, country, market, industry, business, legal, tax, governance and social impact aspects. The investment team uses in-house developed professional investment tools and produces a comprehensive and well-structured due diligence report. Several meetings with the fund's management and team will follow, to discuss in more detail potential issues and answer questions. In most occasions, Quadia will negotiate investment terms that can be adjusted, always within a realistic framework and in line with the fund's legal documentation. Following approval from the investment committee and the client, Quadia will manage the execution process and thereafter the monitoring and reporting of the fund's development and performance.

Method of impact measurement and reporting/benchmarking: Quadia prioritizes its investments in the areas where capital is most needed for optimal impact returns in these nice areas we call, « Hot Spots ».

For Quadia, the ability to properly and systematically measure sustainable added value objectives of our investments is essential. Positive value creation is an integral part of an investment's objective. Its measurement and its analysis are part of the overall return breakdown.

Quadia's impact measurement (QIM) takes place on 4 levels:

- Global Sustainability – identifying the major hot spots to be addressed and which industries and their sub-sectors can offer scalable and replicable solutions to social and environmental concerns;
- Individual Investments – measuring the impact of investments throughout their value-chain and at every step of their life-cycle (due-diligence and post investment) using the most appropriate tools and standards available in the market;
- Financial Efficiency – monitoring costs and allocation of capital and benchmarking through a risk/financial return/impact ratio;
- Portfolio – structuring the portfolio with an objective of reaching an optimum distribution of investments so that the whole portfolio has greater value than the sum of its parts.



Charges/fee structure: The fee structure varies on the type of mandate. For wealth management, the fees for discretionary and non-discretionary management mandates start at 1.5% of assets under management with performance fees added in certain circumstances. For asset management, a management fee of 2.75% is applied to the Impact Finance Fund, a Luxembourg SICAV/SIF that Quadia is co-managing. As for advisory services, they are usually charged on a time basis or at a pre-agreed fix amount.

What is your outlook for your business and this market?: Quadia Collaborative Investing

1. Business and sustainable value chain development – "Greening" large global supply chains – or setting future operational goals on trading with only the most sustainable business partners and suppliers – is a very important step in creating the market for more sustainable businesses. Doing so will provide needed increased access to more sustainable products and services.

Finding those sustainable businesses to fill large global supply chains, and ensuring required volumes of supply, will be a challenge. Aligning large businesses with impact investors who are interested in providing early stage investments to grow these businesses could be a strategic and efficient way to accelerate these goals.

2. Institutions and impact priority setting – Deep knowledge of current global sustainability "hot spots" will be required in order to distinguish between sustainable business models (those that will have the most significant positive impacts towards sustainable development) and those that will not. Institutions specializing in understanding the key global sustainability hot spots are uniquely positioned to help investors prioritize what areas are most urgent, and therefore where investment can deliver maximum impact. The investment case for the sustainable business will require knowledge of policy trends, consumer behaviour trends, and industry trends that will affect future economic value.

3. Investor networks and scaling impact – A promising development for impact investing is the rise of impact investor networks. Like minded investors that come together to co-invest can accelerate scale of impact but can also provide access to broader deal flow of investible impact projects. Investor networks also serve to attract a broader group of investors who want to test impact investment on a smaller scale.

Other relevant information or observations: One of the key strengths of Quadia is that it has managed to create a very coherent team of professionals that combine expertise from different areas, such as venture capital, private equity and project financing investing, private banking and wealth management, and sustainability and social impact investing, which nevertheless shares the passion for creating value for its clients in the social impact investing space.

Quadia is today considered one of the largest wealth managers in Europe with exclusive focus in social impact investing.

Imprint Capital

Name of firm: Imprint Capital

Location: San Francisco, CA

When founded: 2007

Size of team engaged/equipped: 19 full time staff members, 3 senior advisers

Ballpark number of clients: 26

Description of client based served and targeted: We work with three key segments of clients:

- Large foundations (have worked with 40% of top 20 US foundations), community foundations and family foundations
- Family offices/families and high net worth individuals investing their own money for impact
- Financial institutions who are either working to serve clients/prospective clients interested in impact investing or deploying their own capital for impact

Current AUM or AUA: $188m as of April 30, 2012 (please refer to our form ADV for updated figures); we also have advisory engagement not tied to specific pools of committed capital that are not included in this figure – our clients have over $1.5bn in impact oriented capital.

Description of services provided: Imprint is a registered investment advisor exclusively focused on impact investing. We work with clients to develop and manage impact investment programs and portfolios across investment areas and asset classes. Our services are designed to provide full customization based on clients' specific goals and priorities. We assist in every aspect of impact investing from creating impacting investment programs to building and managing impact investment portfolios.

Program Development: We work with clients to develop impact investment programs grounded in their mission objectives, financial parameters, and organizational context. We utilize a research driven process to identify and develop a pipeline of relevant and actionable investments as the basis for the program strategy.

Portfolio Management: We apply a fundamental, thesis driven investment process to build portfolios for clients. We leverage our market visibility to source and diligence transactions across asset classes and investment areas. We utilize professional portfolio management systems to deliver comprehensive financial and impact reporting to clients.

Range of investments offered to clients: Imprint Capital is a non-discretionary impact investment advisor that does not take custody of funds. On a non-discretionary basis Imprint advises/invests across the full range of asset classes and investment structures on behalf of its clients.

Asset Classes:

- Cash
- Fixed Income
- Public Equity
- Private Equity
- Real Estate

- Absolute Return
- Direct Equity and Debt

Structures:

- Funds and Products
- Custom Solutions
- Direct Transactions

Description of research and fund selection process: Imprint's research, strategy and investment team members (a total of 14 full time employees) are involved in manager identification, verification and database maintenance. First, our research team seeks out and maintains information on managers and enterprises in each of the impact sectors Imprint covers (Energy & Environment; Developing World; Food, Health & Well-Being; Education; Corporate Social Responsibility; and Communities).

The investment team structures, diligences, and oversees execution and management of fund investments, direct transactions, and custom client solutions, combining their investment experience with the insights from our research team. This process is reinforced as we tap the expertise and networks of our large foundation clients and investees who bring further market knowledge, diligence capacity, and insight to our process.

Our diligence and structuring process combines the core elements of traditional investing with further work identifying, diligencing, (as applicable) structuring to support, and track performance on key mission and social objectives.

Method of impact measurement and reporting/benchmarking: Imprint tracks financial and mission performance on a quarterly basis. We evaluate performance relative to conventional benchmarks and peers, as well as the drivers of performance and overall portfolio fit. Our process typically includes a semi-annual review that addresses the drivers of performance in the prior year, organizational changes, new product offerings/strategic development of the firms, and other matters.

Our impact reporting is tailored to the mission thesis underlying the investment. For more direct investments, we work with investees to tailor a specific set of reporting metrics. Some clients have us present integrated dashboards of social outputs across all investments – others have distinct sets of investment specific quantitative and qualitative objectives. Additionally, we have worked as an early user/source of feedback for IRIS and will commence a similar activity with GIIRS to see if we feel these tools add to our work in this area.

Generally, we review financial performance based on actual client returns vs. composite returns – the adoption of InvestorForce is facilitating this aspect of our work.

Charges/fee structure: We charge clients the following types of fees:

a. A flat fee based on the type and level of service we provide our clients. This flat fee can be structured on a project basis, as an ongoing retainer or per individual investment recommendation.

b. A percentage of the assets we are advising on.

c. For direct investments, an incentive fee based on the performance of the investment in a company recommended by us. Generally, our incentive fee

would equal a percentage of the realized gain from the disposition of, or transaction regarding, such investment, provided, however, that the amount realized from the disposition of, or transaction regarding, such investment exceeds the cost, plus an amount calculated in the same manner as interest, accruing at an agreed upon annual percentage rate, compounded annually (i.e., the "hurdle").

We currently do not have a set fee schedule given the variability of our client needs and the customized nature of our work for each client.

What is your outlook for your business and this market?: We see continued strong demand for our work and growth in the impact sector broadly. The intersection of broader societal trends, effectively field building/evangelization by long-standing thought-leaders and new participants, and an influx of talent into the sector all are key drivers.

Illustrative example of a recent client engagement: Imprint was hired by a medium-sized family foundation to create an investment policy statement and begin its progress towards having a substantial portion of its assets invested towards impact. Imprint collaborated with the client's asset consultant to create an integrated investment policy statement (IPS) that incorporate mission objectives and financial context and created a distinctive process to allow the foundation to make and manage investments across the risk/return spectrum, from purely commercial impact investments to deeply concessionary investments. Since the creation of the policy, Imprint has recommended managers which have grown the foundation's percentage of assets invested towards its mission to almost 30% in less than a year of work.

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