UNLOCKING PRIVATE ASSETS FOR IMPACT

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

A report of the Individual Impact Investing Commission
November 2022

Big Society Capital
The Beacon Collaborative
The Researchery

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EXECUTIVE SUMMARY

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

Its importance should not be understated. According to the Global Impact Investing Network (GIIN), accelerating the growth of impact investing is absolutely essential to attaining the Sustainable Development Goals (SDGs) which will allow humankind “to achieve a better and more sustainable future for all by eradicating poverty, ending world hunger, realising human rights for all, achieving gender equality, reducing environmental degradation and delivering a transformative blueprint for people, planet and prosperity.”

High Net Worth Individuals (HNWI[1]) and families are important players in the ecosystem, a tour de force when it comes to their own entrepreneurial outlooks and imagination, and with an outsized role in supporting opportunities for social and environmental transformation by impact-led enterprises. They have the discretionary power to declare impact a priority. We believe it is critical that more HNWI and families are attracted to impact investing so that they can experience its rewards, unencumbered by perceived or actual barriers.

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

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

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

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

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

PROJECT BACKGROUND

In December 2021, the Beacon Collaborative and Big Society Capital brought together the Individual Impact Investing Commission for a 6 month challenge to better understand what holds wealthy individuals and families back from impact investing.

HNWI and family investors have not been explicitly consulted previously as a group to ascertain their experiences and desires vis-a-vis impact investing. As a significant minority with a unique role to play, the time is ripe to discover their thoughts, beliefs and wishes regarding impact investment, and make recommendations to overcome these, to encourage and significantly increase their impact investing.

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

DEFINITIONS AND SCOPE

The definition of impact investing and its overall ecosystem can be confusing and difficult to navigate. This itself is an early barrier to entry. Believing that the breadth of opportunities available to impact investors across the spectrum of capital is a positive, the Commission intentionally adopted an approach that embraces a broad ecosystem.

For this Commission, Impact Investing embraces a wide range of expectations of financial return, legal structures and financing mechanisms. The Commission therefore adopted the following definition, based on the 2017 independent Advisory Group to the UK Government, but with the explicit inclusion of the words “and the environment” to denote that this is wider than some definitions of social impact investment:

> *“Investment in the shares or loan capital of companies and enterprises that not only measure and report their wider impact on society and the environment— but also hold themselves accountable for delivering and increasing positive impact.”*
>
> *Independent Advisory Group, 2017* [2]

By embracing this broad ecosystem, the Commission believes it has been inclusive of impact investors choosing a variety of mechanisms and vehicles, avoided placing impact investors into one end of the spectrum or another and taken the view that what constitutes an impact-led enterprise is not defined by its legal structure, but by its activities and goals.

BARRIERS AND RECOMMENDATIONS

The barriers that HNWI and family investors experience are not dissimilar to those affecting other types of investor. However, they can be more keenly felt because HNWI investors and some family offices do not typically have access to the same levels of resource as institutional investors or fund managers, and can be inhibited by a number of externalities. This is a frustrating experience leading to a reduced pipeline of opportunities, stalled progress, or far more leg work than ought to be necessary.

In response to the identified barriers, twelve recommendations were agreed to be central to improving the impact investing ecosystem for HNWI and family investors in the UK[3]. The barriers and recommendations are shown in the table below, alongside a list of suggested actions for bringing them about.

TABLE OF RECOMMENDATIONS AND SUGGESTED ACTIONS

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

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

<table>
<tr><td rowspan="9">The need for values-centred advice, including impact investing options</td><td rowspan="3">1 of 2. Endorse professional accreditation for financial advisors to HNWI, ensuring they are qualified to offer impact investing advice</td><td>Investment and wealth management organisations providing professional advice to HNWI should require staff to undertake accredited impact investing training.</td></tr>
<tr><td>Trusted intermediaries and/or accreditation bodies should review and approve course materials.</td></tr>
<tr><td>The CFA’s impact investing certification (currently in development) is welcomed and should be promoted.</td></tr>
<tr><td rowspan="6">2 of 2. Require all advisors (financial, legal, tax and philanthropy) to establish their HNWI clients’ values and appetite for impact investment</td><td>The FCA’s Sustainability Disclosure Requirement (SDR) disclosures should include specific reference for advisors to consider impact investing, particularly for HNWI.</td></tr>
<tr><td>Regulatory bodies for advisors should embed the requirement for client conversations about appetite for impact investment.</td></tr>
<tr><td>Professional advisor firms should embed the requirement for client conversations about appetite for impact investment into their Know Your Customer (KYC) and compliance procedures.</td></tr>
<tr><td>HNWI should challenge existing advisors who are not engaging and offering a conversation on impact investment.</td></tr>
<tr><td>Advisors should be more willing to talk about concessionary returns where investors may be open to considering them.</td></tr>
</table>

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

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

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

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

CALL TO ACTION

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

If you are a key player in this marketplace, a financial, tax or wealth advisor or a fund manager, a family office or a HNWI investor or potential investor, please consider what influence you can bring to this collective effort. Could you bring our Recommendations in front of your strategy review committees and your boards, share this report and link to it from your websites? Please get in touch with us if you have other ideas of how this work can be amplified and lead to further initiatives: iiic@beaconcollaborative.org.uk

CONTRIBUTORS AND PARTNERS

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

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

Commissioners

Sir Harvey McGrath, former Chair of Big Society Capital (Chair)
Matthew Bowcock, Co-Founder & Chair at The Beacon Collaborative
Jamie Broderick, Board member of Impact Investing Institute
Sherry Coutu, Entrepreneur and Philanthropist
Cansu Deniz Bayrak, Senior Partner, Bethnal Green Ventures
Ceris Gardner, Partner, Maurice Turnor Gardner LLP
Scott Greenhalgh, Chair of Certitude and former Executive Chair, Bridges Evergreen
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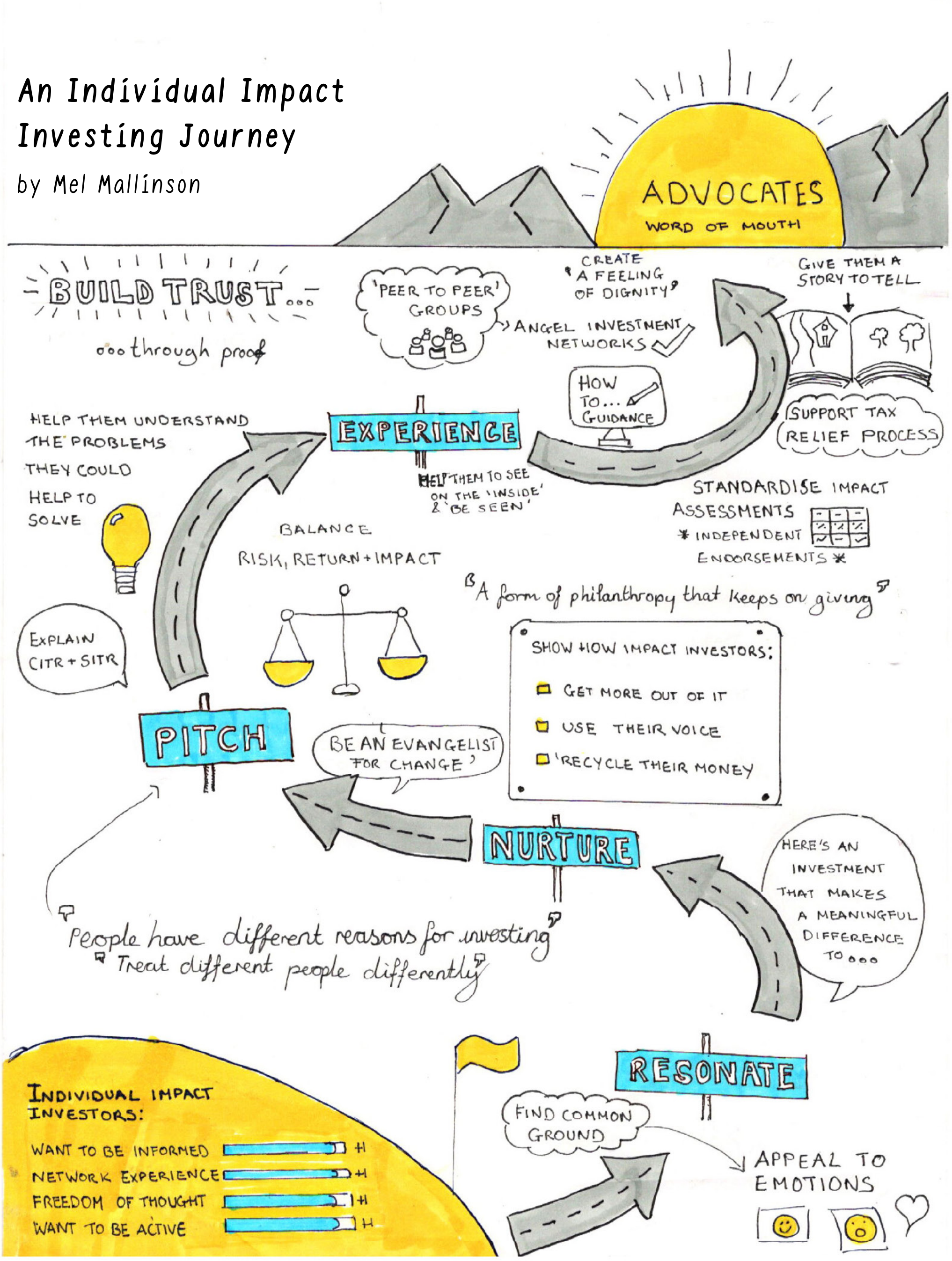
Sketchnote


An Individual Impact Investing Journey
by Mel Mallinson
ADVOCATES
WORD OF MOUTH
BUILD TRUST...
...through proof
'PEER TO PEER' GROUPS
CREATE A FEELING OF DIGNITY
ANGEL INVESTMENT NETWORKS
GIVE THEM A STORY TO TELL
HOW TO... GUIDANCE
SUPPORT TAX RELIEF PROCESS
HELP THEM UNDERSTAND THE PROBLEMS THEY COULD HELP TO SOLVE
EXPERIENCE
HELP THEM TO SEE ON THE 'INSIDE' & 'BE SEEN'
STANDARDISE IMPACT ASSESSMENTS
* INDEPENDENT ENDORSEMENTS *
BALANCE RISK, RETURN + IMPACT
"A form of philanthropy that keeps on giving"
EXPLAIN CITR + SITR
SHOW HOW IMPACT INVESTORS:
GET MORE OUT OF IT
USE THEIR VOICE
'RECYCLE THEIR MONEY
PITCH
'BE AN EVANGELIST FOR CHANGE'
NURTURE
HERE'S AN INVESTMENT THAT MAKES A MEANINGFUL DIFFERENCE TO...
"People have different reasons for investing"
"Treat different people differently"
INDIVIDUAL IMPACT INVESTORS:
WANT TO BE INFORMED
NETWORK EXPERIENCE
FREEDOM OF THOUGHT
WANT TO BE ACTIVE
RESONATE
FIND COMMON GROUND
APPEAL TO EMOTIONS

REFERENCES

1 This Commission accepts that a number of definitions of High Net Worth and Ultra High Net Worth are used in the literature. Some are based on income levels, some on assets or investable wealth, and thresholds or tiers vary. In turn, these variances in definition can affect the suitability of individuals for different investment opportunities. This Commission has not adopted a specific definition, in order to be as inclusive as possible. We recognise that people with significant, surplus investable wealth are a vital part of growing the impact investing ecosystem, and uniquely positioned to advance its potential to bring about positive social and environmental change. In this report 'HNWI" is used as a shorthand for this diverse group.

2 Independent Advisory Group to the UK government, Growing a culture of social impact investing in the UK, 2017.

3 The importance and indeed the difficulty of understanding impact returns were also cited as a significant barrier by the Commission. However, as it is such a vast and complex topic, it was recognised to be too specialised for this project. Standards for impact measurement and management have improved substantially in recent years, with recognised exemplars from the GIIN's Impact Measurement and Management (IMM) guidelines, and tools such as IRIS+, and others. No doubt there is more progress in the pipeline, as this is a live and recognised topic. Our wider recommendation is that advisors need to draw on best practice in the industry to help investors understand exactly what impact returns their investments will produce.