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**Abstract**

Along with a rise of sustainable finance and sustainable investing, for many Family offices embracing impact investment strategy is a natural step forward. With an estimated $5.9 trillion of assets under management globally, family offices are well positioned to make a meaningful positive impact as well as maintain both a sense of accountability and mission across generations. Education, poverty and the arts have traditionally benefited from philanthropic support of wealthy families. Now nature, biodiversity, and the climate crisis are gaining their attention. Given the fact that Family offices have unique investor's profiles, including expertise and resources at disposal as well flexibility in allocating their assets, they may serve as a role model in an ongoing transition.

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## Sustainability Engagement

Family offices are set up for generations and thus keep a long-term perspective on both doing business and investing. Many of Family offices have been actively engaged in sustainability via framing business operations and decision-making around its principles, and through strategic philanthropy. Along with a recent rise of sustainable finance and sustainable investing, for many Family offices embracing impact investing approach is a natural step forward. The recent Campden Wealth Study of Family Offices confirms an increase in portfolio allocations into sustainable investing from 20% to 36% between 2019 and 2020. It is predicted to rise up to 47% in 2022 and further to 54% in 2027. Similarly, UBS 2020 Global Family office Report shows that about 60% of the 121 Family offices surveyed perceived sustainable investing as a necessary step in maintaining their sustainability engagement legacies, with 39% of them declaring to engage more in coming years.

Family offices are therefore expected to make a transition from sustainability engagement to investing with sustainability goals in coming years, and play a significant role in supporting Un SDGs. With an estimated $5.9 trillion of assets under management globally, Family offices are well positioned to make these meaningful positive impacts as well as maintain both a sense of accountability and mission across generations. Given the fact that Family offices have unique investor's profiles, including expertise and resources at disposal as well flexibility in allocating assets, they may serve as a role model in an ongoing transition.

Among the most prominent examples of sustainability engagement and impact investing are: Bertarelli family - Bertarelli Foundation, focusing on marine protection, health and life science (Switzerland); Grajales family and Inversiones Brembo (Colombia), investing with sustainability and impact lenses; Dilmah family and Dilmah Tea & Conservation (Sri Lanka), with motto that business success should be shared, uses an impact lenses in investing, Kluczyk family - Kulczyk Foundation (Poland) working towards alleviating inequalities and through Incredibles Academy - supporting young entrepreneurs; and Bulgheroni family - Fundación Educando (Argentina), offering education to less privileged groups.

## Sustainable & Impact Investing

Currently, engagement of family offices in sustainable investing varies: "(...) while some families are at the beginning of their learning curve in implementing impact investments, others already have incorporated sustainability/ESG into investment decisions." says Bertelsmann Foundation Report. In order to accelerate the transition towards sustainable and impact investing it is essential to establish a sustainable investing leadership position, aligned with Family office values and mission. Building internal engagement and awareness of contemporary world challenges as well as developing internal culture oriented towards achieving sustainability goals among employees through trainings is essential. In addition to this, communicating progress and impact achieved both internally and externally is crucial. Once the Family office makes a first move, it is likely to continue along the sustainable investing path, says the Bertelsmann Foundation Report.

There are many advantages of impact investing for Family offices, and among them there is:
- a longer-term horizon of an investment
- verifiable and measurable outcomes of an investment
- legacy and continuation of sustainable approach in doing business
- legacy and intergenerational transfer of values
- significant contribution to solving global & regional problems / UN SDGs
- co-creation of powerful innovative products and services
- expanded an individual family impact
- enhanced a mission-driven image of a Family office

How all of the above can be achieved by Family offices?

**Steps towards Impact**

Among available sustainable investment strategies there is: sustainable-themed investing, ESG-aligned investing, and SDGs-aligned or impact investing. In 2020, the latter approach - an impact investing experienced the highest growth rate among all sustainable investment approaches, reflected in an annual increase of 70%, according to the Swiss Sustainable Finance's investment study. Impact investing is directly linked to UN 17 SDGs, with the goal to generate significant positive socio-environmental outcomes, and a step towards a more credible strategy in sustainable investing. It goes beyond simply a declaration that an investment meets ESG criteria, and requires credible justification backed with properly performed assessments.

In order to design an impact investing strategy and related policies, it is essential to follow impact-related standards. There are multiple approaches and frameworks available to quantify positive socio-environmental impacts generated by investments, including: IRIS (Impact Reporting and Investment Standards), GIIRS Rating (Global Impact Investing Rating System), or SASB Standards. But there is no consensus in terms of how to measure contribution of investments to specific SDGs and their targets. Thus, assessing companies' contributions as well as analysing how investments and portfolios affect SDGs, remains in most cases a manual process.

A credible impact assessment, which needs to be performed during a screening process, should include: materiality analysis, definition of objectives with related targets and metrics, performance monitoring and reporting. Measuring an investment impact on SDGs, on the other hand, should cover: an assessment of investments alignment to specific SDGs goals and targets, an assessment of how they affect a corporate performance over time as well as overall outcomes/impacts.

## Impact Themes, Funds & Start-Ups

Family offices nowadays have a choice to allocate capital and expect positive impacts in emerging or underdeveloped regions, as well as developed economies. They may choose among various impact investment themes, corresponding best to their values and mission. The top impact investment topics in recent years as indicated by the Swiss Sustainable Finance's market study were: water, environment, microfinance, energy, housing and community development. Education, poverty and the arts have traditionally benefited from philanthropic support of wealthy families, now nature, biodiversity, and the climate crisis are gaining their attention.

A rapidly expanding green industry with focus on renewable energy, low-carbon transport, energy-efficient buildings, clean technologies, improved waste management, sustainable agriculture presents a great impact investment opportunity for wealthy families. The recent Campden Wealth study shows that in fact 86% of high net worth individuals, Family offices and foundations believe their private capital is key in addressing climate change. Also, the majority of them see the transition to net zero economy as “the greatest commercial opportunity of our age”. Moreover, the study also suggests that those who are already engaged in sustainable investing expect to achieve 50% of portfolios to be sustainability-aligned by 2022.

In addition to engaging more in sustainable investing, Family offices may also take a leadership role in educating about advances of this approach and expanding an impact investing ecosystem. For instance, by investing in impact start-ups, Family offices may co-develop their strategies aligned with SDGs, and provide them with support and an individual business advise. Alternatively, Family offices may engage in sustainable and impact funds early on, influencing their strategies. A success of a Snowball multi-asset impact investment fund, co-founded by Alexander Hoare, proves that: “it is possible to invest money positively whilst making a sound financial return and to ensure all investors – no matter how much money they have - can invest in this way.” Amundi also proved it is achievable by launching the Planet Emerging Green One fund (EGO) with USD 1.4 billion of assets and focus on emerging market green bonds. Another example, BlueOrchard Finance introduced an Emerging Markets SDG Impact Bond fund with focus on sustainable infrastructure and clean energy - within a year assets exceeded USD 300 million.

## Conclusions

Family offices are increasingly getting involved in sustainable and impact investing as it is a natural step following their sustainability engagement. This transition towards a sustainable and impact investing reflects Family offices values, legacy, and support for resolving global challenges. As capital markets are powerful drivers for sustainable developments, sustainable and impact investing bring in novel opportunities and create significant value for society at large. Now Family offices have a unique opportunity to take a lead in this meaningful change, contribute to greater positive impacts, educating and accelerating a sustainable investing trend.

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