DECEMBER 2015

Next Generation Investors: Values and Value

When Mark Zuckerberg and Dr. Priscilla Chan announced the formation of the **Chan Zuckerberg Initiative**, they chose not to organize as a foundation. Instead, they created an LLC, potentially becoming the world's largest and most visible impact investors. As globally-recognized next generation leaders, their decision, and the degree to which they are successful, could have a lasting impact on both philanthropy and investing.

The Impact Investing Toolkit

The next generation of investors is looking to expand their impact toolkit. An LLC gives the family more flexibility than a traditional foundation. They can provide support through philanthropic grants, investments on commercial or concessionary terms, and advocacy. As more people consider this approach to creating a legacy, the market for investment vehicles with transparency to both financial and social returns will grow. A 2015 survey by **U.S. Trust** found that 1/3 of high net-worth individuals surveyed owned or were interested in impact investments, and the proportion jumped to 60% of Millennials and 40% of women.

Rethinking Asset Class Categories

Part of the impact investing movement is simply asking the question, what am I funding and does it reflect my values? Many investors—particularly next generation—are beginning to apply an impact lens to their portfolio as well as a financial one. This means turning away from corporate bond deals where funds go to buying back stock to pump up the share price, away from bets on currency or interest rate moves, and away from complex synthetic instruments and derivatives that are nearly impossible to track back to real economic activity. The focus is turning toward more direct and transparent investment opportunities.

5 Questions to Consider for a Values-Based Portfolio

1. What do you need to accomplish with your investments?

Consider both your personal goals (what do I need it to do?) and broader interests (what would I like it to do for society?). For example, if you'll need the money back in the near term and want to support your community, consider opening an account with a local community bank. Think of it as the "It's a Wonderful Life" option, now with FDIC coverage. Your account is insured, and your capital is put to work where you live.

Are you building up a nest egg for yourself or your children and have a longer time horizon? There are many opportunities for patient capital to align with longer-term investment opportunities. One is simply a diversified portfolio of public equities, screened for the sustainability of their business models and governance practices.

2. What characteristics does each investment choice bring to your portfolio?

By asking what objective each part of your portfolio is intended to meet instead of what it's called you will significantly broaden your opportunities. Think in terms of expected return, volatility, liquidity, and impact. It doesn't matter if the investment opportunity is an affordable housing bond, a green energy equity fund, or a portfolio of accounts receivables in emerging markets, the price can only move up or down.

How much volatility can you tolerate? How much flexibility in getting your money out are you willing to trade for a higher return on your investment? Are you willing to risk not getting some of your money back at all? If impact is your first priority, is return of your capital sufficient, rather than return on your capital? Learn more about **unconventional risk in impact investing** through trade receivables.

Together, we can leave a legacy built on the values we hold in common.

3. What are your guiding values and how will you measure success?

In some ways, defining your personal or family values can be the toughest part of the process. A survey by **U.S. Trust** found that only 10% of wealthy families had developed a family mission statement regarding the values and wishes about how the family's wealth should be used. Your family's mission may be a diversified approach to impact or simply identify what you will not fund.

Look for clarity on the outcomes the investment manager aims to achieve. What's the case for success? How is it tracked? Many impact investment managers are on the cutting edge of what they are doing, and the high cost of detailed reporting could undermine their ability to serve target markets. Consider that the more transparent and direct an investment is, the easier it is to evaluate the progress.

4. How sustainable is the investment without your support?

Investors seeking long-term sustainable change will want to know that progress can continue even if the manager eventually redirects investment activity or winds down a fund. An investment vehicle, which provides direct lending at below market rates, risks driving out market-based sources of capital, leaving a void when they move on to another market or cause. By contrast, financial services designed to develop local capacity create lasting financial inclusion.

Bringing the **first factor to Kosovo**, AGC delivered a much-needed source of finance and development support to SMEs. Before AGC entered the market in Kosovo two years ago, factoring did not exist. Today, there is a legal process to license factors, and a growing market for supply chain finance.

5. Are you willing to be a pioneer?

Many impact investment vehicles that are truly making a difference and changing the status quo are new and need time to prove their models and establish their success. They require patient, determined investors who want to figure out how their money can make a difference. They also need advocates who can make the case for values and value. That's why AGC is working with the **Initiative for Responsible Investment** at the Harvard Kennedy School. The initiative's goal is to catalyze leadership among next generation stewards of family wealth to mobilize capital into impact investing.

AGC is grateful for the support of pioneering investors who are looking to build stronger financial ecosystems in emerging and underserved markets through flexible funding, proprietary technology, and business support. Together, we can leave a legacy built on the values we hold in common.

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