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Back to the Frontier: Investing that Puts Impact First

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Abstract

Impact investing has boomed over the past decade, driven by the ethos that financial performance goes hand-in-hand with social and environmental impact. But more wealth holders now see the value of putting impact before investment, and prioritizing people and planet.

Click here to see Mariah Collin of The Bridgespan Group discuss how impact investing has evolved from frontier to mainstream over the past decade.

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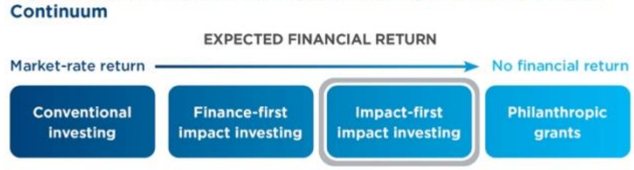
Figure 2: Where Impact-First Impact Investing Sits on the Returns Continuum



Source: Matt Bannick with The Bridgespan Group; adapted from: Matt Bannick, Paula Goldman, et al., "Across the Returns Continuum," *Stanford Social Innovation Review*, Winter 2017.

Impact investing has evolved from frontier to mainstream over the past decade as investors validated the prospect of achieving market-rate returns alongside social or environmental good. Few paid attention to a companion approach that put impact first and accepted below-market returns. But that is changing. Impact-first impact investing is rapidly emerging from the neglected middle ground between market-rate impact investing and philanthropic grants *(Figure 2).*

Impact-first impact investing, also called "catalytic capital," is well-suited for investors "who want to support enterprises or funds that have high-impact potential but struggle to raise suitable financing because they are too early-stage or otherwise risky, expect to generate only modest returns, or require a longer investment time horizon," explained the Catalytic Capital Consortium, a leading advocate.

Among all investors, wealthy individuals and families are uniquely positioned to champion impact-first investing and be leaders in the field. Fiduciary obligations bar conventional impact investors who have raised capital from multiple parties with the explicit intent to deliver market-rate returns. By contrast, high-net-worth individuals (HNWIs) and family investment offices have the discretionary power to declare impact a priority when investing assets.

Though a small number of family offices already have incorporated the impact-first approach as part of their overall investment strategy, many others remain on the sidelines. Some fear that putting impact first means bad investing or not caring about returns. Advocates maintain that neither is true. Instead, impact-first simply means that the returns that matter most are measured in lives changed, not merely financial gain.

In more than three dozen interviews with HNWIs, family office directors, fund managers, and intermediaries, we heard how pioneers in the field, such as Omidyar Network, Blue Haven Initiative, Ceniarth, and Spring Point Partners, have put impact first by pursuing a three-step

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process: 1) clarifying a commitment to impact and 2) relying on trusted collaborators to set the stage for 3) choosing the investment approach that best fits their needs.

1. **Commitment to impact:** Impact-first investing is one stop on a continuum between market-rate investing and philanthropy. Committing to putting impact first means embracing values that place social or environmental good ahead of financial return.
2. **Trusted collaborators:** People who have accumulated wealth are accustomed to tapping friends and peers for advice, and this holds true when it comes to impact investing. As an ecosystem of organizations supporting HNWIs and family offices in impact-first investing emerges, it is crucial that mutual trust is established between all collaborators.
3. **Pick an approach that fits your needs:** This is an operational choice with three broad—sometimes overlapping—options: outsource to advisers and fund managers, take a lean approach with one or two impact specialists who complement existing family office staff, or hiring a team and building an organization dedicated to impact investing.

Regardless of the investment approach, when the time comes to choose what to invest in, there is something for everyone, a tribute to the changes in the impact-first area over the past several years. HNWIs and families can turn to the growing number of investment funds that source and conduct due diligence on impact businesses. Some funds are agnostic about the types of businesses they choose. Others target specific sectors, themes, or geographies.

Wealth holders who want to get started can test the waters with a modest commitment of 10 percent of assets and gain the experience and confidence to go bigger in the future. If impact-first means leaving returns on the table in exchange for social or environmental benefit, it is a tradeoff worth making.

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About The Bridgespan Group

At The Bridgespan Group, we collaborate with ambitious, mission-driven organizations and philanthropists to create breakthrough results. We've advised leading philanthropists on how to make big bets, teamed with nonprofits to create real change, helped nonprofit leaders build their management skills, and developed insights around how nonprofits can expand their reach and impact.

The Bridgespan Group is a nonprofit advisor and resource for mission-driven organizations and philanthropists. We collaborate with social sector leaders to help scale impact, build leadership, advance philanthropic effectiveness, and accelerate learning. We work on issues related to society's most important challenges and on breaking cycles of intergenerational poverty. Our services include strategy consulting, leadership development, philanthropy advising, and developing and sharing practical insights.