STEP JOURNAL+

Finding value

Thursday, 29 July 2021

Carly Doshi, Sianne Haldane and Michele Fugiel Gartner discuss the rise of the blended values approach for building a portfolio

Key Points

What is the issue?

Traditional philanthropy is giving way to 'total portfolio impact', which considers both social and financial returns.

What does it mean for me?

Advisors need to be prepared to lead clients in conversation about the financial and social impact spectrum.

What can I take away?

An understanding of the merits of total portfolio impact, as well as advice on its application for individual investors, trustees and other fiduciaries.

We sit at a crossroads as a global community. Contemporary issues such as climate change, COVID-19 and social justice are too significant and pervasive for any one sector, industry or government to solve. Within philanthropy, complex issues are leading to massive changes in an industry too often characterised as just a tax-efficient pastime. Today, traditional charitable models are increasingly being replaced by blended models that seek to create social and financial impact.

Under the new approach, philanthropists focus on identifying values and enacting these values through a variety of channels. For individuals, this frequently includes acting on their philanthropic values via multiple roles in which they sit. For example, investors today are increasingly engaging in shareholder advocacy and asking for environmental, social and governance (ESG) advice. Meanwhile, families are using their private businesses to create sustainable supply chains and view business as a vehicle to extoll their social values. Even public company executives are joining in as they align their corporations alongside broader existing frameworks, such as the UN Sustainable Development Goals, to demonstrate their efforts at contributing to some of the world's biggest challenges.

This blended approach has a new name: total portfolio impact.

For trustees and other fiduciaries, the concept of ‘total return’ is nothing new. Still, consideration of social and financial returns adds a layer of reflection and inquiry, and potentially even responsibility. The authors will explore this new paradigm, how these new definitions drive individual behaviour (often far beyond the realm of philanthropy) and offer advice for how each of us: philanthropists, trustees, family offices and advisors can maximise our positive impact.

Defining total portfolio impact

Historically, financial returns and social or environmental outputs have been treated as independent conversations, each with distinct purposes and goals. Therefore, the financial returns of an investment and the social returns of a social intervention were measurements conducted independently of one another. By contrast, total portfolio impact is an approach that seeks to align investment goals with broader values, mission or purpose. The outcome of this approach is a more dynamic and resilient investment strategy that furthers the overarching goals of the investor, inclusive of financial and social, not to the exclusion of either.

Adoption of the new model

Adopting this approach requires intentionality, strategy and flexibility to look across financial and social investments. It also demands cohesion, potentially across a collaborative team of experts, for implementation. As an example, investing in tobacco company stocks while supporting cancer charities would present as a conflict and the overall total portfolio impact would be lessened by these activities at odds with one another.

Values can shift at the individual, client level and reflect cultural changes or even what dominates a given news cycle. Applying a total portfolio impact approach is not static: it requires identifying and formulating personal values in context with the changing environment. It is vital to understand what a portfolio looks like broadly, where and how assets are invested, and if this aligns with current values, priorities and long-term wealth goals.

Government policies can be drivers for enacting these conversations. For example, the EU Markets in Financial Instruments Directive (MiFID II)[1] increases the transparency across the EU's financial markets and standardises the regulatory disclosures required for firms operating in the EU. This transparency includes a requirement to understand a client’s preferences, including ESG preferences, creating the perfect opportunity for a values-based conversation.

---

[1] *Commission Delegated Regulation (EU) 2017/565 of 25 April 2016*

Developing a total portfolio impact approach first requires an individual to consider the blended values they bring with them to each role in which they may sit, including the:

- individual investor;
- business owner;
- corporate director or shareholder;
- philanthropist/foundation board member;
- trustee; or
- active citizen.

Each of these roles brings with it varying considerations and prioritisation. Some priorities are set by statute: the corporate director owes loyalties to the company, just as a trustee owes various fiduciary obligations to present and future beneficiaries. For other roles, such as an individual investor or individual philanthropist, the prioritisation is less pre-defined, and decisions are driven by personal preference, values, and other factors.

It is widely accepted that advisors to investors and philanthropists practice their trade by assisting clients in developing their own, personalised plan. The investment advisor might help a client consider risk tolerance, time horizon and diversification, whereas the philanthropy advisor might help validate a client's personal and family values, amount and frequency of giving, and degree of certainty of a social outcome. These inputs inform the plan. However, under this new paradigm, where individuals deploy capital used for both financial and social purposes, advisors need to understand the lexicon of both investment and philanthropy and be able to consider both nimbly, all in furtherance of the client's long-term vision or desired purpose of their capital.[2]

Application to fiduciaries

Fiduciaries, being bound to the highest standard of putting their clients' interests above their own, have long grown comfortable with standards governing their decisions. In the case of trustees, where investment and distribution decisions are paramount, considerations have typically been driven solely by financial considerations. Even when considering 'total return', the broad definition of investment prudence that allows a trustee to take various levels of risk within a single portfolio, the totality has traditionally been only with regard for the financial qualities of the investment, not the social qualities. Considering the example above, a trustee who both distributes to cancer charities and invests in tobacco companies might not run afoul of traditional fiduciary standards, including that of a prudent investor, if the tobacco investments are sound, but the fiduciary would not be optimising total portfolio impact.

Thankfully, such fiduciaries are already finding that the law permits and potentially even favours such actions. Charity trustees in particular have a good deal of latitude to invest in this area. In the UK, the Charity Commission for England and Wales and Her Majesty's Revenue and Customs already recognise that charities may invest

---

[2] For a detailed discussion on the meaning of money from both an investment and social purpose perspective, see Emerson, Jed, *The Purpose of Capital: Elements of Impact, Financial Flows, and Natural Being*, Blended Value Group, 2018.

their assets in a manner that advances their charitable purposes, enabling them to align their investment activity with their charitable mission. In the US and elsewhere, case law is sparse but the approach is trending. Further, there is a growing body of evidence demonstrating that impact-led investments that avoid harm and provide social solutions can mitigate financial risk and may provide opportunities for financial outperformance. This dovetails neatly with the fiduciary obligation to act as prudent investors.

The advisor's responsibility

Shareholder theory, where an organisation's only goal is the maximisation of shareholder return, is changing. Never before has there been more opportunity (even a mandate) for individuals to think more broadly about the impact of their investments. Opportunities such as ESG, responsible investing and active shareholder engagements mean that individuals are engaging socially in what may have traditionally been a financial-only relationship.

In turn, the advisor's role is changing from focusing on the financial values of individuals only, to one that must concern the social impact values as well. This role includes the socioemotional wealth of individuals and families,[3] which are non-financial factors required to meet needs, continue influence and extend legacy. These non-financial factors include the ability to enact a client's values.

All advisors, including fiduciaries, investment managers and philanthropy consultants, must be fully aware of, and aligned on, the vision and understand what individual or family wealth wishes to achieve. It also requires a 'do no harm' approach to monitor the impact of investments that may be at odds with broader giving or business aims. The most trusted advisor of the future will be one who can create teams of experts to address the total portfolio impact of their clients.

What are the next actions I can take?

Questions for advisors:

- Have I offered a values-based conversation to my clients?
- Do I know the values that my clients are seeking to express?
- Are these values changing?
- Do I know where to get additional support to help my clients express their values?
- Which STEP resources would be valuable to assist me with these conversations?

[3] Gómez-Mejía, L. R. et al. (2007) 'Socioemotional Wealth and Business Risks in Family-controlled Firms: Evidence from Spanish Olive Oil Mills', *Administrative Science Quarterly*, 52(1), pp.106–137.

Questions for advisors to ask clients:

- What are my roles (head of a family business, trustee, principal investor, shareholder, philanthropist)?
- Within these roles, which values do I want to see expressed?
- Am I currently expressing those values?
- Have I spoken with my advisors about my options?
- Do I need to find additional advisory expertise to express these values?

Carly Doshi, Sianne Haldane and Michele Fugiel Gartner

Carly Doshi TEP is Head of Wealth Planning and Advisory, Americas, at HSBC; Sianne Haldane TEP is Chief Impact Officer at Maanch; and Michele Fugiel Gartner is a Chartered Advisor in Philanthropy