

The New Continuum

Aligning interests, investments and impact





Contributors

Amantia Muhedini
Sustainable Investing Strategist
UBS Global Wealth Management
Chief Investment Office

Nicole T. Sebastian, CAP®
Senior Strategist
Family Advisory and Philanthropy Services Americas
Family Office Solutions Group

Andrew Lee
Head of Sustainable and Impact Investing
UBS Global Wealth Management
Chief Investment Office

Lynette Jefferson
Head of Sustainable Investing & Inclusive
Investment Solutions

Shrinivas Chellappa
Alternative Investment Strategist
Family Office Solutions Group






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UBS serves high net worth and ultra high net worth individuals, families and family offices across the globe by delivering the expertise, advice and customized solutions you need—from across the firm and around the world.

Family Advisory and Philanthropy Services seeks to exceed client expectations by serving as a thought-partner to families of exceptional financial success by providing advice and solutions on topics critical for families to flourish for generations. These topics include intentional communication and decision-making, generational transitions, family wealth education, family governance and creating meaningful philanthropic legacies to maximize impact locally, nationally and globally.

The Family Office Solutions Group delivers the entire wealth management offering exclusively to ultra high net worth (\$100m+) and family office clients in a seamless and dedicated manner by providing holistic advisory support and customized solutions. We help think through important decisions with you and tailor strategies to your particular needs, whether you require institutional investment banking support or next-generation succession planning.

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Introduction



The underlying basic tenet of investing is to preserve and grow wealth through financial gain. But what counts as the “bottom line” is being shaken by new forces. There has been and continues to be an incremental and consistent shift toward incorporating other priorities in investment strategies, such as the effects on society and the environment.

The driving principles behind investment and philanthropic strategies have historically been unrelated, but we are beginning to see a convergence of these themes among ultra high net worth individuals and families in terms of how they deploy their capital across both strategies. We often say that “philanthropy is biography” and this also stands true for investing. Both are inspired by what the investor cares about, how they want to influence the world they live in, and the legacy they want to leave for their own family and the world at large.

This convergence to date may be more of an organic evolution rather than an intentional one. Investors are increasingly looking to align their investment portfolios with their preferences and interest in sustainability. Although sustainable investing is not new overall, it is “new to me” for many individuals who have not articulated (or discovered) how to weave their impact and sustainability objectives through the end-to-end value chain that runs from sustainable investing through to and including philanthropy.

What we are increasingly seeing is an intentional through-line narrative of impact. Of investors wanting to make a difference. Of investors wanting to be purpose-driven and wanting to utilize both investment and philanthropic deployment structures and strategies to contribute to, or even drive, improvement or enhancement in measurable ways.

One definition for the word “impact” provided by the Oxford English Dictionary is that of “a marked effect or influence.” In this paper, we define impact as a measurable outcome caused by the intentional deployment of capital, seeking to achieve positive change.

The considerations of interests, investments and impact have historically been largely disconnected. We are now starting to see a convergence of views that is influencing approaches that include all three. It is our hope that this paper will serve as a guide to help investors intentionally ask the same questions and align their investment and philanthropic strategies, seeking impact across all.

The process of alignment across strategies is iterative and it requires taking risk, assessing sustainability and financial performance, refining investment strategies and then continuing to make choices in the pursuit of improvement. It does not function in a vacuum without consideration of investment risk and market rate returns. Instead, it requires adopting a comprehensive analytical framework that is based dually on financial goals and investor interests, so there is no misalignment between actions and values or beliefs.

The concept of effecting real change, of making incremental societal or environmental enhancements for good, is truly the underpinning of this approach. In many cases, impact can even be “systemic,” seeking to identify and address the root causes of issues on a large enough scale that leads to long-term positive impact and social change.

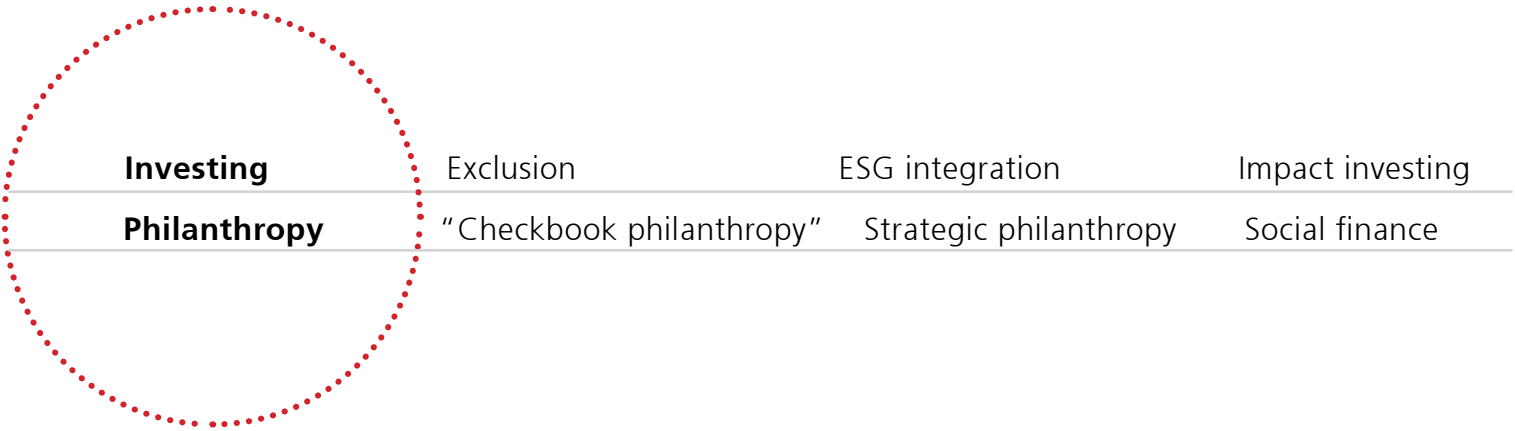
Investing isn’t one-directional and philanthropy isn’t either. There is an element of cyclicalness of investing for returns and for impact—it is the learning process and the resulting recalibration of this iterative process that leads to systems change.



Chapter 1: The end-to-end value chain

Motivations can converge across sustainable investing and philanthropy. Let’s go further and describe the two parallel tracks that interweave purpose, values and intention, creating an “impact continuum” of choices led by behaviors and preferences.

Impact continuum



It is important to note that while we are framing these as parallel tracks in order to illustrate the similarities across both investing and philanthropy, all of these options can (and do often) present concurrently. This continuum does not create an either/or proposition, but instead presents the menu of options available.

Each point on the continuum serves a specific purpose. In theory (and in practice), one could end up with any combination of these six categories in your basket, each emphasizing different goals and degrees of impact. The concept of diversification is relevant here, as incorporating a variety of both investment and philanthropic tools may help you achieve your goals more holistically and completely.

Considering both these “tracks” in parallel allows you as the investor to incorporate what is important, and how you activate or deploy all your various tranches of capital.

So, let’s work our way across these parallel tracks, from left to right.



Making more conscientious, values-based and holistic investment decisions is starting to become more commonplace overall, and especially among younger demographics. Responsible investing historically began with the practice of excluding specific businesses and/or industries that were deemed to engage in harmful or unethical practices that negatively impacted society or the environment. To this day, investors often apply exclusions related to “sin stocks” such as tobacco, weapons and gambling, as well as companies that incorporate animal testing or are opening new coal-fired power plants. Excluding sectors that are not aligned with sustainability objectives, or that might even exacerbate global challenges, may align with your personal values and preferences.

Exclusions as a tool can be applied to complement both traditional and sustainability focused strategies, but by itself, this approach does not create a way for the investor to drive positive change in those industries, or to drive a “race to the top” for continuous improvement for companies within each sector.

With respect to philanthropy, giving often starts with the practice of “checkbook philanthropy”—of making cash donations to nonprofit organizations. Donations in this category are often of a responsive nature—donating to a nonprofit’s direct outreach for a campaign, donating to a friend’s race efforts, or attending a gala or other fundraising event. Included in this category also

are the direct donations to organizations and causes that are meaningful and important to the donor (see [“Understanding motivations: The power of a philanthropic plan,”](#) UBS, 2020).

What is missing in the checkbook philanthropy category is that it lacks active inquiry around effecting change. While philanthropic efforts in this category can be sizable and generous, they may result in simply putting a Band-Aid on an issue as opposed to trying to get to the root cause of that issue. For example, if someone wants to support a homeless shelter by donating to increase the number of beds in that shelter, that is a noble effort. But it does not seek to assess, understand or address the variables that

contribute to homelessness. Donations of this nature will continue to pay for more beds, never tackling the underlying causes of homelessness with an eye toward reducing it and helping create new pathways to lift people out of such hardship (or prevent them from becoming homeless in the first place). The inquiry around prevention or tackling homelessness at its root cause will take time, so a parallel effort could include investing in this inquiry, while also donating toward the purchase of more beds for the shelter, an imminent and time-critical need.

Moving along the continuum, we start to see shifts in behavior and more active consideration as part of the examination of investment options



(either in terms of returns being sought or looking for improved philanthropic outcomes). Progress or movement along both themes starts to occur simultaneously. Investors begin to see that the deployment of capital is not simply one-directional, and the same types of questions can be asked.

On the investment track, moving from exclusion to environmental, social and governance (ESG) integration enables one to become intentional not only about which issuers are screened out from the investment universe, but which are screened in. As we have noted in the paper by the Chief Investment Office (CIO), "[Sustainable investing portfolios: Investing for good and for returns](#)," ESG integration means considering relevant environmental, social and governance factors proactively in the investment decision-making process alongside financial considerations. ESG integration can be applied across all investment strategies, and it can also be leveraged in strategies that have an explicit sustainability focus. A proactive and explicit focus on ESG

enables investors to ask whether their portfolio is positioned for a changing world where sustainability considerations such as climate change or diversity are increasingly influencing financial performance. It also allows for alignment between interests in topics as varied as access to water, pollution and waste management, or people's well-being, and investment opportunities that provide long-term growth opportunities.

On the philanthropy track, the active consideration begins to move away from responsive checkbook philanthropy to a version of philanthropy that is purpose-driven and solutions-oriented, and one that emphasizes the application of performance measurement and of management tools. John D. Rockefeller coined this to be the "business of benevolence."

The model of strategic philanthropy applies the principles of business and, in particular, venture capital, to philanthropy to increase the efficiency and impact of those philanthropic efforts over a

long-term horizon. It seeks to address a pressing societal or environmental issue with a particular emphasis on interventions that can be scaled, if proven effective.

The focus on outcomes while driving toward solutions encourages an iterative process to continually refine and improve program delivery. This methodology also emphasizes moving away from funding interventions that don't have measurable impact (see "[Venture philanthropy: Achieving greater impact and driving towards systems change](#)," UBS, 2020).

As we move furthest to the right in our illustration, we are also advancing to the most sophisticated considerations on the continuum.

At this stage, inquiries about impact are fully embedded into both the investment and philanthropic considerations. The questions are no longer compartmentalized. They are no longer exclusively focused on the cost-benefit analysis of seeking market rate returns versus accepting some returns along with a compromise. It is also no longer a choice between directed philanthropy with no expectations and a targeted focus on performance, paradigm shifts truly moving the needle on issues that matter.

On the investing continuum, impact investing seeks to drive intentional, measurable positive change while looking for competitive market returns. The most intentional of approaches, it enables investors to make a positive difference through their capital by providing needed financing to address global sustainability challenges.

Wealth is now being catalyzed in a fully integrated way along the continuum, with the goal of contributing to improvements, enhancements, betterment of companies, of the environment, of humanity, of society.

What is strategic philanthropy?

Strategic philanthropy has four defining characteristics:

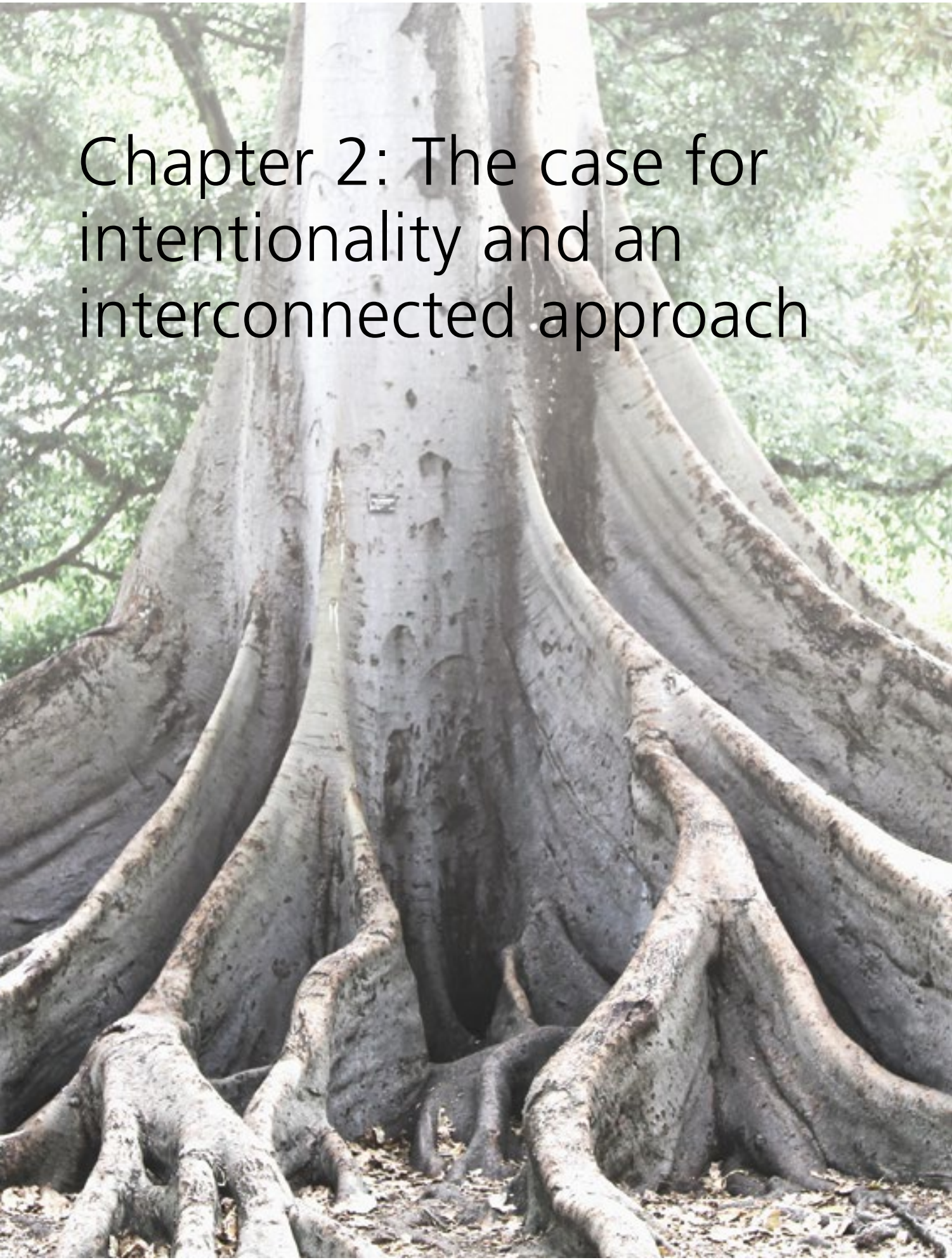
- 1. Innovation:** It takes risks that other types of funding might not.
- 2. Evidence:** It requires evidence that the problem can be solved.
- 3. Collaboration:** Funders, specialists and other philanthropists join to achieve maximum scale and impact.
- 4. Scale:** Its ambitions can extend to solving larger, complex challenges of a regional or global nature.

Strategic philanthropy is designed to tackle the root cause of a problem. In doing so, the impact can be greater and certain issues can be eradicated. As strategic philanthropy evolves, so grows the potential for effecting impact at scale.

Social finance is an innovative, newer impact-inspired category within philanthropy whereby private capital is being introduced into the equation to address substantial and pressing societal and environmental issues. This approach requires significantly larger sums of philanthropic capital, and is part of a movement of utilizing innovative financing vehicles for philanthropic purposes that incorporate pay-for-performance results-based financing and accountability measures. Donors are “investors” in these models and look for the organizations they support to generate a measurable social (and sometimes financial) return.

Wealth is now being catalyzed in a fully integrated way along the continuum, with the goal of contributing to improvements, enhancements, betterment of companies, of environment, of humanity, of society.



A photograph of a large tree with prominent, thick, buttressed roots. The roots are light-colored and spread out in a fan-like pattern from the base of the trunk. The background shows green foliage and sunlight filtering through the leaves.

Chapter 2: The case for intentionality and an interconnected approach

Why do families consider impact or sustainability in their giving and investing? The reasons vary and are often deeply personal.

Some have a personal connection to a specific topic, issue or geography. Others are hoping to create a legacy that will have a lasting positive impact. And others seek to embed topics that matter—to themselves, to people and planet, and to their portfolios—into how all their capital is deployed to minimize risks and maximize opportunities.

While it is true that motivations differ across individuals, we believe that these goals can intertwine and converge if we adopt a systems approach to positive change.

Applying a systems lens to aligning interests with capital

Our world is interconnected. The natural environment, our health, governance systems, economic growth, political decisions, investment decisions and social outcomes are all part of a complex system of interrelated components. A change in one part of a system can result in unpredictable, perhaps unintended, consequences in a different part of the same system. These changes are often cyclical, rather than linear in nature, and operate in feedback loops.

The connection between the food system and the natural environment provides a good, albeit simplified, example to illustrate how a system works: bees and other pollinators like

butterflies and birds are critical to global food production. In 2016, the Food and Agriculture Organization of the United Nations estimated that up to USD 577bn of annual food production relies on contributions by pollinators. Yet, as global demand for agricultural production and yield increases, so does the use of pesticides, which critically threatens pollinator populations worldwide. As bee populations decline, the use of alternative techniques to keep yields up increases, potentially causing a downward spiral for a species that is critical to the food system.

Why does this matter? The complex connectedness of global systems is why we believe that considering both tracks of philanthropy and investing is appropriate for all investors who express an interest in social or environmental topics, regardless of their initial motivation.



Myth 1: Do I need to give up financial returns to align all my capital with my sustainability preferences?

For example, investors or philanthropists who are interested in helping to finance innovative forms of distributed renewable energy may do so because they are interested in helping to address climate change. However, as additional technologies that support global decarbonization goals become viable—with the help of early stage philanthropic, venture or growth equity financing—positive ripple effects are created for everyone. In addition, climate change risk may manifest itself as portfolio risk. Thus investors keen on financing solutions might also seek to explore whether their liquid investment portfolios reflect their interest in the climate. Conversely, someone

interested primarily in future-proofing their portfolio might consider making investment-relevant environmental (or social and governmental) issues a part of their investing decisions. The CIO publication, "[The future of earth](#)," illustrates some of this complexity as well as the opportunities that emerge from these challenges.

Common misconceptions on returns, financial and beyond

Simultaneously considering sustainability across the investment and philanthropic portfolio may be helpful to wealthy individuals and

families in aligning their interests with their capital. And regardless of the initial goal or motivation, we find that common questions arise for many investors that are relevant for both philanthropy and sustainable investing considerations. Interestingly, the same myths, misconceptions and questions arise simultaneously as well, and they can be addressed and dispelled with the same responses.

Embedding investor interest and preferences across all tranches of capital does not imply having to sacrifice financial returns. In fact, we find evidence that considering ESG factors, investment decision-making and impact investing may result in comparable or better financial returns as compared to traditional investing (see the CIO report, "[A private investor perspective: Sustainability matters](#)").

Even beyond looking at data and academic evidence on the topic, revisiting the origin of this misconception might be helpful to better understand it. In our view, a few factors have blended to create this long-standing myth.

First, present-day sustainable investing as an investment approach has its origin in faith-based investing, as well

as in the civil rights movements of the 1960s and 1970s, where various communities opted to screen out specific sectors or companies that did not align with their values. This investment approach did not necessarily integrate the value-based considerations with traditional investment practices, raising questions about the expected risk-adjusted returns for this approach. However, sustainable investing today is moving toward ESG integration and impact investing, the two fastest growing approaches, where financially relevant sustainability or impact considerations are integrated into the investment decision-making process.

Second, driving positive change is often compartmentalized from other aspects of our personal and economic lives. There are merits to the paradigm of "learn, earn, return" and,

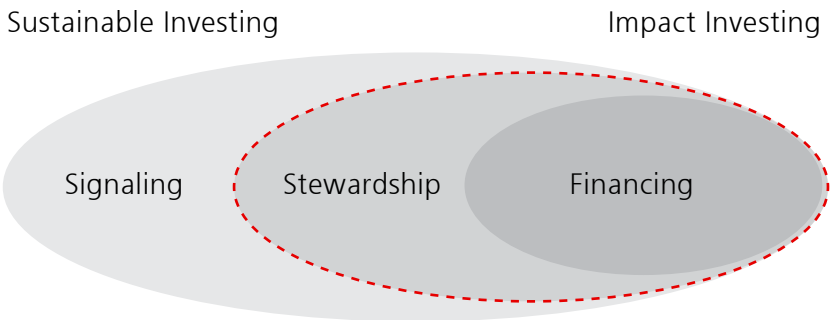
more importantly, to consider giving as part of an approach to managing capital and achieving each individual's or family's goals. Yet, we find that this compartmentalization often implicitly marries the concept of sustainability with that of philanthropic giving, and an implicit assumption is that to make a difference, one must give up returns. On the contrary, we believe that social and environmental concerns and topics are financially material and important to consider across one's investment approach. Even more so, as is discussed in the CIO report, "[Three steps to becoming a more profitable and sustainable business](#)," sustainability may bring commercial benefits to companies at all stages.



Myth 2: Do sustainable investing strategies deliver any real change?

As sustainable investing moves further into the mainstream and investment vehicles increasingly claim the “ESG” designation, investors wonder whether these strategies are truly sustainable or are making a real difference. While some of these concerns may be valid for specific strategies or products, sustainable investing overall does not refer to a single investment product or even to a product line. Instead, it is an investment philosophy that integrates financially relevant ESG information in decision-making. There are multiple ways to implement sustainable investing preferences into

Figure 1: Approaches to sustainable and impact investing



investment strategies in an intentional manner, and each approach brings its own benefits, as we discuss in the CIO paper, “[How a sustainable investing framework can help.](#)”

For example, investing in ESG leaders strategies, which select companies that are the best among peers in managing ESG topics, brings the positive benefit of signaling to the market that a positive ESG behavior—such as decreasing a company’s carbon footprint or good work conditions for employees—is rewarded. We would agree that this investment approach does not generate measurable,

intentional positive change. However, helping to change the existing conventions on what is commonly considered in valuations for equity and debt is a way to gradually move toward systemic change. Therefore, this approach has a role to play in incrementally addressing some of the most pressing social and environmental challenges, both globally and close to home.

For individuals who are keen to further make a difference with their capital while also seeking competitive returns, ESG engagement or impact investing strategies may be more appropriate. These are

strategies that proactively look to finance innovation or engage with issuers to achieve positive change in a transparent manner. It is now possible to diversify across sustainability approaches, as we have outlined in the CIO publication, “[Sustainable Investing Portfolios: Investing for returns and for good.](#)”

Myth 3: Is it possible to measure impact performance in philanthropy or investing?

It is true that there is no widely accepted convention for defining and monitoring impact in sustainable investing and philanthropic giving. However, there are three important concepts for investors to understand how their capital is driving measurable change through either investing or giving: what impact is being targeted, how capital is managed for impact and how this impact is measured.

Some frameworks are emerging and quickly converging on each of these three components. Notably, on impact management and measurement, these frameworks include the Impact Management Project (IMP) and

the Global Impact Investment Network (GIIN), which are building consensus among the philanthropy and sustainable investing communities on how to manage, measure, compare and report impact on environmental and social issues. The IMP, in collaboration with a broad network of leading practitioners and standard-setting organizations, has identified five dimensions through which impact can be understood and assessed, and an accompanying set of data categories for each dimension. The GIIN has developed the IRIS+ system, which helps investors to translate impact goals around topics like gender equality or climate change

into specific metrics that can be tracked and measured. The GIIN and IMP work in concert with each other, and are two examples of the growing set of tools available to impact investors today. Strategic philanthropy also provides a framework for achieving impact objectives by driving toward measurable outcomes. It allows you to understand impact at every stage by looking at its key components:

- Inputs: What resources are being put into a project? This includes time, skills and money.
- Outputs: What work is being done? This is usually measurable

activity, such as the number of teachers properly trained, or the number of books provided to a library.

- Outcomes: What is the net result of the resources applied and work done? What has changed, and is there quality evidence? For example, what is the percentage increase in literacy results after an intervention to improve education (i.e., due to trained teachers utilizing an enhanced curriculum and perhaps also incorporating the books in the library into their lessons).
- Impact: What is the long-term, system-level change that has resulted following

the outcomes? In the example noted above, has the increase in literacy resulted in reduced inequality, improved overall academic performance or better employment prospects for the group targeted?

The first step to driving impact is identifying the specific issues where an individual or family seek to make a difference. The United Nations defined many of these challenges in 17 United Nations Sustainable Development Goals (UN SDGs), adopted in 2015 as a plan of action to tackle the most pressing social and environmental issues by 2030. The UN SDGs are a universal call to action to end poverty,

protect the planet and improve the lives and prospects of everyone, everywhere. Meeting the UN SDGs requires a massive investment, as the UN calculates that there is an annual funding gap of USD 2.5 trillion, which will come mainly from governments, with significant contributions by private capital and philanthropy.¹ The UN SDGs are proving to be a powerful tool through which to identify impact targets, and to coalesce investors and philanthropists around a clear set of objectives.

Chapter 3: Getting started

How can families and individuals think about which tools from their philanthropy and investing toolbox to utilize as they consider how their capital can help to advance their passions, preferences and goals?

We believe that there are three key steps to help you get started:

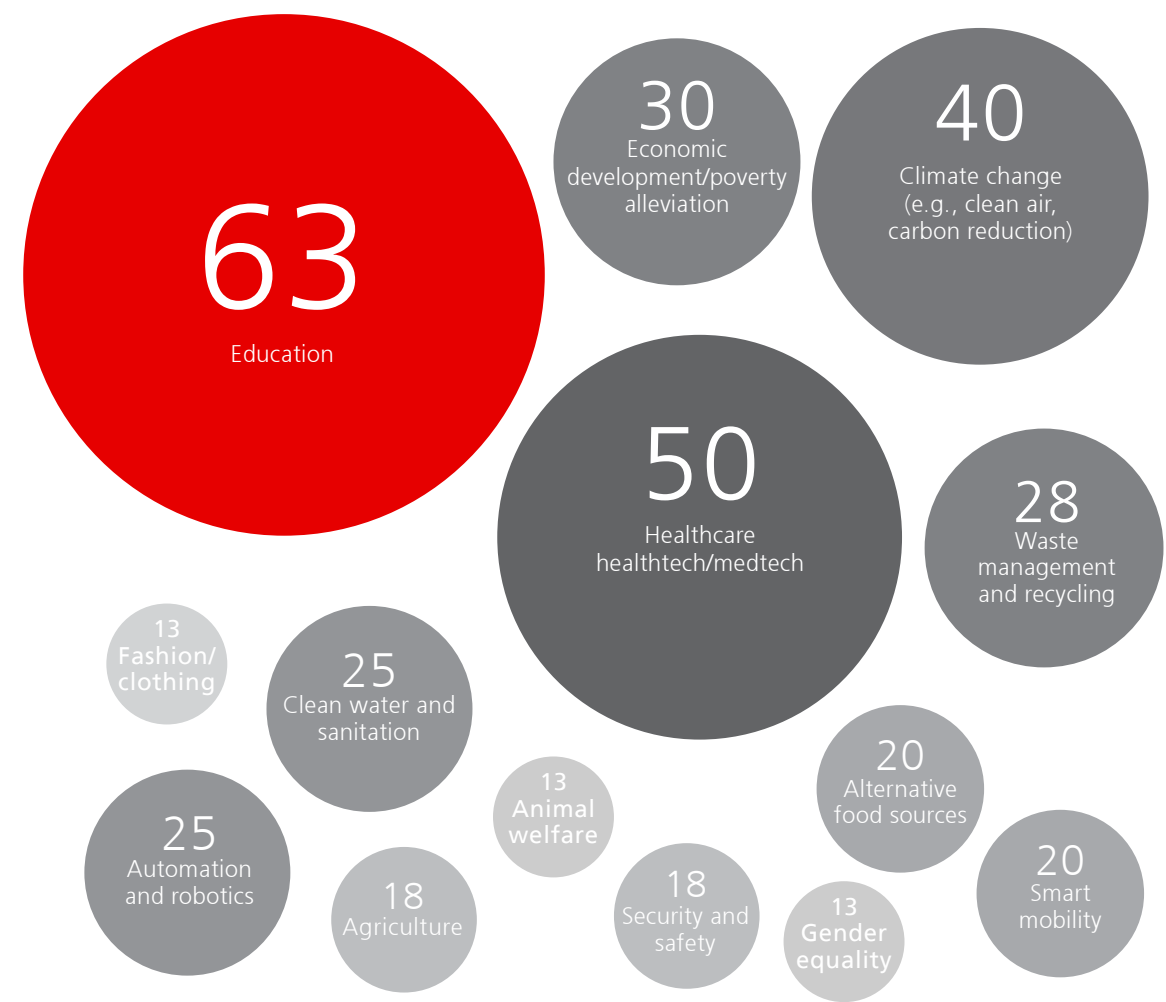
1. Articulate your preferences and objectives;
2. Understand your options, both in investing and philanthropy;
3. Develop a plan to deploy your capital.

First, it's important to identify the causes that are most important to you. The UN

SDGs can provide a helpful starting point through which to identify which issues you and your family would like to target. While this is an incredibly personal decision, some shared priorities are emerging. For example, in a 2020 survey from our UBS Global Family Office, we found that the world's largest family offices are aligning around education, health and climate change as some of the top impact investing priorities (see Figure 2: Impact investing priorities).

Figure 2: Impact investing priorities:
Education, healthcare and climate change lead

Sustainable investing
Impact investing priorities, in %



Second, in addition to sustainability challenges, consider your preferences in terms of how these challenges are reflected in your portfolios. For example, if you are focused on water scarcity, is your preference to consider how to preserve water on our planet or how to ensure that the companies you invest in are properly managing this resource? Or perhaps both? Whichever the answer might be, it presents its own set of implementation approaches.

Third, articulate the main objectives for each sustainability issue you care about and each capital pool you are

utilizing. Let’s continue with the example of water scarcity. Is the objective to finance new solutions to desalinization or to enable efficient use of water in agriculture? Or is your objective to increase the availability of clean water to a specific community in a measurable way? Or, perhaps, both. Once again, these different objectives will point to different actionable ideas for your investments and philanthropic portfolios, and often these ideas will work in concert with each other.

Continuing to build on the water scarcity issue, and using a philanthropic lens, are you

passionate about providing clean water that is also easily accessible so that girls do not have to make a perilous, day-long trek to get water for the family, thus not being able to attend school? Does providing clean water in schools allow children not only to be present, but to be able to learn because they are not experiencing water-borne illness as a result of drinking contaminated water? Do you want to ensure that birthing clinics have clean water available so that mothers and newborns are not exposed to unhygienic conditions?

These are just a few examples of the vast array of water-related

Source: UBS, 2020.
GFO Report Methodology—UBS Evidence Lab surveyed 121 of UBS’s clients globally. Participants were invited using an online methodology and the sample was distributed across 35 markets worldwide. The 121 single family offices that were surveyed represent a total net worth of USD 142.4 bn, with the individual families’ net worth averaging USD 1.6 bn (not all families disclosed their wealth).

issues, some of which can be tackled through investment vehicles, others through philanthropy, and many through a combination of deployment strategies and asset classes. The overarching topic of water reinforces the case that the UN SDGs are interconnected in both basic and profound ways. Addressing the threat of climate change impacts how we manage our natural resources, achieving gender equality or better health outcomes helps to eradicate poverty, and promoting inclusive societies will reduce inequalities and help economies prosper.

In pursuit of connectivity across philanthropy and investments

An inquiry into what matters to you and your family will be key to developing an investment and philanthropic strategy that can align with your sustainability objectives and preferences, while also helping you meet your financial goals. Some challenges are best addressed through philanthropic grants alone, and others are poised for commercial investment.

For example, sustainable investing can signal investor preferences to companies. If large numbers of investors vote with their capital, they might lower the cost of capital for companies that are

better prepared to manage sustainability risks and opportunities, thus benefiting companies that have a smaller environmental footprint, or those with better diversity and inclusion policies in place (for more on this, see our report, *“Education primer: ESG leaders”*). However, if you are seeking to specifically promote gender equality by increasing access to education for young girls, it might be more effective to fund in-school or after-school education programs for girls directly through a grant or donation.

It is possible to align significant pools of your capital—both philanthropic and investment—to address the challenges or issues you care most about. Because of the

systemic nature of most global challenges, including the above example of addressing the myriad challenges presented by water scarcity, often there might be opportunities to adopt a series of strategies across tranches of capital to drive change at multiple levels.

Asking the right questions is the first step and a framework like the one shown on the right (Figure 3) may help you determine how best to allocate your assets to move the needle on an issue or cause that is important to you, while working simultaneously toward your financial goals.

Figure 3: A few sample questions to consider in articulating your preferences and objectives

The sustainability challenge you want to address	Is the challenge global or local?
	Is it targeted to a specific issue or demographic, or is it broader?
Potential solutions	What is the cause of the problem I hope to address?
	Can the issue be resolved in the short term, or does it need long-term, patient capital to address the challenges?
	Do solutions currently exist or is there need for innovation?
	Are there other funders (government, nonprofit or private) already funding potential solutions?
	Is there a need or desire for the solutions to scale or exist in perpetuity?
	What specific asset classes in the portfolio can we explore to address the challenge?



Chapter 4: A Deeper Dive

The menu of possible options across investing and philanthropy is vast, and understanding the benefits of each approach is helpful in this process. Investments broadly are evolving to reflect investor interest in society/environment, thus providing increasingly more opportunities for individuals to align their capital to their objectives.

In sustainable investing, at the highest level there are three broad approaches, which can be implemented independently or in parallel to each other:

- 1. Exclusion:** excluding companies or industries from portfolios where they are not aligned with your values.
- 2. Integration:** integrating environmental, social and corporate governance factors into traditional investment processes to improve portfolio risk/return.
- 3. Impact investing:** investing with the intention to generate measurable environmental and social impact alongside a financial return. (See the case study, "Venture fund for female founders.")

Sustainable investing is not a specific investment solution or strategy. It is an investment philosophy, and as such it can be deployed across all asset classes and in nearly all types of financial instruments—ranging from equities or bonds all the way to private markets. Each sustainable asset class brings a different sustainability benefit. For example, investment in ESG leaders, or companies that are better than their peers in managing for ESG risks and opportunities, signals that responsible corporate behavior is important to you and may also improve your portfolio’s risk-adjusted return profile (see the sidebar, “ESG Leaders” and the CIO publication, “*Education primer: ESG leaders*”). By contrast, investments in green bonds may provide exposure to debt that is used to finance specific environmental projects for corporations, municipalities or governments while bringing defensive characteristics to a portfolio in periods of market

drawdowns (our report, “[Shades of green bonds: questions and answers](#),” provides more detail on this investment approach).

For investors who want to use their investment capital to drive positive changes, impact investing is the most intentional of sustainable investing approaches. When it comes to impact investing, there is always a specific intention or target, and the outcomes resulting from deploying capital should be measured. For example, investing in an Opportunity Zone (OZ) through an Impact Qualified Opportunity Fund may specifically target local-level economic development through increased affordable housing and investment in local businesses in a particular underserved or under-resourced community (see the sidebar, “Opportunity zones,” and the CIO report, “[Opportunity zones: Great potential, potential challenges](#)”).



ESG leaders: focused on issues that matter

ESG leaders use an approach to equity investing that prioritizes companies judged to manage their ESG risks and opportunities better than their peers. These companies have a smaller (or improving) environmental footprint, and often have a better record on social issues when compared to their peers. This approach signals to companies that performance on ESG issues is important to investors, but it does not yield measurable, lasting impact given the nature of holding equities through public markets.

What does that mean in terms of investment performance? Robust empirical evidence going back over 40 years suggests that investing in ESG leaders has a positive or, at worst, neutral effect on returns with potential lower downside risk. Selecting companies that are best-in-class in managing their ESG issues helps investors mitigate potential risks in their portfolios.



Venture fund for female founders

Rethink Impact is a venture fund that invests solely in start-ups founded by women using technology to solve the world’s biggest problems. The fund aims to bridge the funding gap that exists today in start-ups founded by women. While the fund helps to address the gender gap in access to investment capital, it is an impactful strategy because it aims to drive intentional, measurable change in four sectors that provide significant impact opportunities: health, economic empowerment, sustainability and education.

UBS clients have contributed a significant amount to Rethink Impact’s two fund raisings. Target returns from the fund are comparable to peers in the asset class given the significant addressable market, gap in funding and specific focus on sectors that have a tailwind to secular growth.

While a range of investment solutions are available (e.g., mutual funds, bonds, etc.), private drawdown vehicle structures can be excellent choices for impact investing. This solution set includes venture capital, private equity, direct investments, private debt, real estate and infrastructure funds, offering the full spectrum of risk/return profiles—from high risk/return to moderate. Often these funds have specific themes, such as venture capital investing in clean energy

technologies or businesses led by minorities and women (see the case study, “Venture fund for female founders”).

We believe that it is possible to create a fully diversified, 100% sustainable portfolio composed of building blocks with specific sustainability benefits that can be articulated and demonstrated. See Figure 4 for an illustration of our 100% sustainable strategic asset

Figure 4. Target strategic asset allocation for a sustainable portfolio

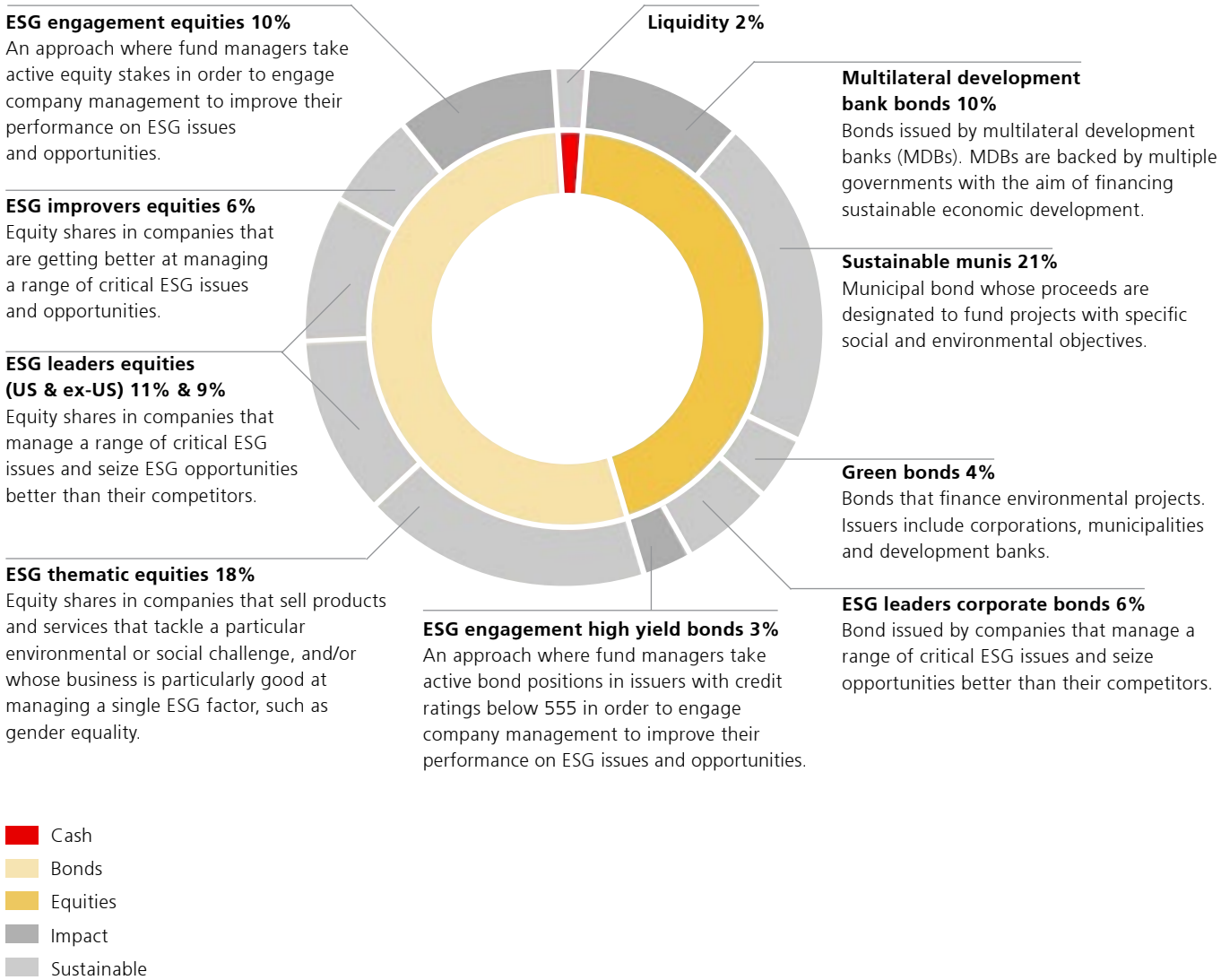


Opportunity zones

Opportunity Zones (OZs) are economically distressed census tracts where private investments may receive preferential tax treatment if they meet specific criteria, as established by the December 2017 Tax Cuts and Jobs Act. This legislation allows investors to roll over eligible capital gains taxes into Qualified Opportunity Zone (QOZ) investment vehicles to access significant tax benefits.

OZs represent approximately 12% of all US census tracts and cover nearly 35 million people (about twice the population of New York). On average, these geographical areas experience approximately double the poverty rate of the nation, and lower education and home ownership rates.

An impactful QOZ has the potential to bring much-needed capital to increase and revitalize the affordable housing supply in a community, while increasing economic opportunities. However, it’s critical for the sponsor of a QOZ to clearly articulate and formalize the targeted social and economic impact of the investment. It must be transparent and make a commitment to evaluating metrics such as: the number of living wage jobs that will be created; the number of affordable housing units that will be made available; or to improved education levels in the community as a direct or indirect result of this investment.



allocation. For more detail, see the CIO piece, [“Sustainable investing portfolios: Investing for returns and for good.”](#)

Individuals also have ample choice within the realm of philanthropy, whether through more traditional forms such as donations and grantmaking, or through more evolving forms of strategic philanthropy including social finance.

For instance, some challenges are best addressed through philanthropic grants alone. One of the major reasons is that even at scale, some of the most pressing social issues may not yield an investment or commercial return, or are not suited to being addressed by market participants. Yet other types of social or environmental challenges are better suited to commercial investment to

encourage systemic change by signaling to the market that sustainability matters to investors. Finally, some challenges are ideally suited to private capital investment that would enable them to scale. Social finance helps bridge the gap between traditional philanthropy and impact investing and seeks to provide two pathways to scale: either by attracting government/donor funding or more commercial capital, thus de-risking innovation to make it commercially viable for private investment.

The predominant philanthropic investment model does not include an expectation of a financial return. However, there is a newer school of thought that permits a subset of philanthropic investments to achieve impact through performance measurement frameworks, while also receiving a financial return for reaching or exceeding performance goals. These innovative



Concerted effort provides clean drinking water to Uganda’s schoolchildren

In Uganda’s schools, access to safe drinking water is a critical issue. Approximately 440 children die every week due to waterborne diseases in the country, some 40% of which are caught in schools. The Impact Water Uganda social success note, launched in 2018, is an innovative pay-for-performance financing tactic that makes it possible for Impact Water, a social business, to raise working capital to provide water purification systems across the country’s schools although it cannot pay attractive financial returns.

UBS Optimus Foundation lent Impact Water a USD 500,000 working capital loan so that it could provide 1.4 million children with safe drinking water over a period of five years. If this target is met, the Rockefeller Foundation, a philanthropic funder, will provide an outcome payment of USD 200,000 split between the investor (UBS Optimus) and the social business (Impact Water). This structure incentivizes Impact Water to achieve greater measurable social impact, while leveraging the impact of the Rockefeller Foundation’s capital.



**The UBS Optimus Foundation:
A unique client partnership**

The UBS Optimus Foundation is unique in the financial industry as a global philanthropic organization dedicated to improving the lives of the most vulnerable children in partnership with UBS clients. The foundation builds and utilizes innovative financing mechanisms and vehicles to measure outcomes and achieve impact, always with an eye toward saving lives, improving livelihoods and breaking cycles of poverty, violence and great inequalities. As such, it’s recognized internationally as a thought leader in deploying private finance for social impact. Above all, UBS Optimus seeks to address the root causes of societal challenges through results-based philanthropy.

Optimus’ success can be highlighted through its innovative work in pioneering strategic philanthropy, and especially forms of social finance and blended finance. (See the sidebar “What are social finance and blended finance?” and the case study “Concerted effort provides clean drinking water to Uganda’s schoolchildren.”)

financing vehicles will not replace traditional philanthropy (nor should they), but they do provide an exciting and innovative new framework for accountability and achieving outcomes tied to incentives through pay-for-performance models.

Increasingly, private philanthropy is taking on a more prominent role as provider of risk or seed capital. As it’s effectively a donation, philanthropic capital can take the first loss that makes a project financeable for those investors or lenders requiring a return in certain blended finance models, or to provide future opportunities for philanthropists

to fund projects with successful outcomes. Philanthropic capital can also test new models in areas such as education or health, so proving successful models worthy of additional funding (see the case study, “Last Mile Health: Delivering healthcare to Africa’s remote communities”). In some cases, philanthropic capital might even be used to cut losses on programs that prove not to have measurable results or successful outcomes. To be clear, most philanthropy does not yield financial returns (indeed it is not structured to do so), but the emphasis on success and measurable impact can be incredibly



What are social finance and blended finance?

Social finance is a broad term used to describe philanthropic or development finance that aims, firstly, to make an impact and, secondly, may also pay a philanthropic return on the investor’s risk capital if performance targets are met. Examples include impact bonds and loans for impact, which incentivize project operators to perform through making payments only if targets are met. These examples are designed to be more effective than straightforward grants and are suited to clients whose priority is to make an impact, recognizing that the risk profile of social finance differs from that of a normal investment.

Within social finance, blended finance is an emerging and novel concept. It is defined by the Organization for Economic Co-operation and Development (OECD) as the “strategic use of development finance for the mobilization of commercial finance towards sustainable development in developing countries.” In other words, blended finance is a combination of development capital and commercial capital. Typically, the development or philanthropic capital enhances the risk-return profile of a project for commercial investors such as banks or institutional investors.



Last Mile Health: Delivering healthcare to Africa’s remote communities

In March 2014, when Ebola broke out in Liberia, Last Mile Health needed to scale up its activities quickly. A pioneering community-based healthcare organization dedicated to bringing medical care to remote parts of Liberia, it needed to increase its reach in a country reporting 300 to 400 new cases a week. The funds contributed by UBS clients helped to train and employ over 1,300 community healthcare workers, support 38 health facilities, educate people about how to respond to and contain the outbreak and distribute essential personal protective equipment.

By January 2016, the World Health Organization declared Liberia free of Ebola. However, the UBS Optimus Foundation and UBS Philanthropy Advisory team continued to collaborate with Last Mile Health.

The organization’s professionalized community health workers are on track to reach all 1.2 million Liberians living in remote communities by 2021, and its founder believes that if its model were scaled up still further, 3 million lives could be saved every year in sub-Saharan Africa alone.

attractive as it increases the probability of social return on investment. In addition, tackling some of the most challenging social and environmental issues purely through philanthropy can indeed have socioeconomic benefit in other arenas.

Within strategic philanthropy, forms of social finance such as development impact bonds (DIBs) are emerging as multiparty financing structures that include philanthropic investors, direct service providers, third-party evaluators, outcome payers and multinational organizations (see the case study, “The world’s first development impact bond for education”). DIBs are more closely aligned

to social impact bonds (SIBs), as opposed to other types of investment bonds. They are most often significantly smaller in size than SIBs and can even be thought of as pilot SIBs. If these pay-for-performance models are successful, they can potentially be converted into larger-scale SIBs. Another distinction is that the outcome payer in a SIB structure is always a government entity, whereas in a DIB structure the outcome payer could be a government entity, but could also be a foundation, a private philanthropist, a private company or a combination of several funders. DIBs can be structured to pay the charitable investors (you can think of them as providers of risk capital) a philanthropic return based on the outcomes achieved, which can then be recycled



What are Development Impact Bonds (DIBs) and Social Impact Bonds (SIBs) and how are they different from sustainable investing fixed income strategies?

Development Impact Bond (DIB): Results-based contract that incorporates the use of funding from investors to cover the upfront capital for a service provider to deliver an intervention. Investors are repaid by outcome payers if the service provider delivers results. Development Impact Bonds (DIBs) are also known as Impact contracts. (Source: “[In good company: Aligning stakeholder interest for development with social finance](#),” UBS Optimus Foundation, January 2021.)

Social Impact Bond (SIB): An innovative financing mechanism in which governments or commissioners enter into agreements with social service providers, such as social enterprises or nonprofit organizations, and investors to pay for the delivery of pre-defined social outcomes. (Source: OECD)

DIB and SIB structures are a form of social finance, designed to bring additional capital to fund strategic, scalable philanthropic and social interventions. They are distinct from Green, Social and Sustainability (GSS) bonds, which are issued by market participants with the goal of financing GSS objectives while providing market-rate returns to investors.

OECD Blended Finance Principles, 2018.

The world’s first development impact bond for education

In India’s Rajasthan, financial innovation has improved education for over 7,000 girls across 166 schools in 140 villages, while demonstrating the effectiveness of impact bonds. Over a three-year period ending in 2018, the Educate Girls Development Impact Bond boosted girls’ enrollment in schools and their learning. It led to a raft of innovations, including a better child-centric curriculum and a shift in mindset that prioritizes the integration of girls into the education system.

The DIB was based on a strong partnership: Educate Girls was the nonprofit carrying out the program, the UBS Optimus Foundation provided the up-front risk capital and The Children’s Investment Fund Foundation paid for the outcome once the program’s targets were reached, which included a bonus to Educate Girls for exceeding the agreed-upon targets.

Following this first success, the Quality Education India DIB was launched in 2018 to improve literacy and numeracy for 300,000 children. It is currently the world’s largest DIB for education.

and reinvested in new philanthropic opportunities. For example, a DIB seeking academic improvements will pay a philanthropic return if learning targets are met or exceeded. DIBs are pioneering pay-for-results approaches that help to attract more capital to these projects (see the case studies, “Reducing maternal and newborn mortality rates in Rajasthan” and “The world’s first development impact bond for education”).

Within the realm of philanthropy, both strategic philanthropy and the emerging field of social finance now focus increasingly on outcomes rather than simply inputs or outputs. In fact,

both charitable giving and innovative blended finance models can be structured around specific, measurable impact. In the area of DIBs, it’s even possible to earn both philanthropic and investment returns based on successful outcomes (see “[In good company: Aligning stakeholder interest for development with social finance](#),” UBS Optimus Foundation, 2021). Further, within certain innovative blended finance models, philanthropic capital can even be deployed as the first “tranche” in a risk capital framework, making it possible to attract greater amounts of additional investment capital that demands competitive market levels of return.



Backing multilateral development bank bonds

Since the creation of the World Bank at the end of the Second World War, multilateral development banks (MDBs) have issued bonds to fund their activities, which include supporting transport infrastructure and other economic development and social projects, typically in developing countries. MDBs play a critical role in providing capital where it is most needed, with particular emphasis on poverty reduction and income growth. These institutions typically seek to deploy capital where it would not have been otherwise available, making impact possible. MDB bonds provide investors with high-grade bond exposure comparable to US Treasuries in credit risk profile. MDBs are backed by sovereign governments, including G7 countries, and normally AAA-rated. To date, none have ever defaulted on their debt.



Reducing maternal and newborn mortality rates in Rajasthan

Rajasthan has one of the highest maternal and newborn mortality rates in India, with 244 mothers dying for every 100,000 births and 47 infants dying for every 1,000 births. Launched in 2018, the Maternal and Newborn Health development impact bond—known as the “Utkrisht” bond, taken from the Hindi for excellence—is supporting government efforts to reduce these deaths by improving access to, and quality of care in, up to 440 private healthcare facilities in Rajasthan.

The UBS Optimus Foundation provided the upfront capital so that work could begin on enhancing these private health facilities.

The resulting interventions should reach up to 600,000 pregnant women with improved care during delivery and save up to 10,000 maternal and newborn lives over the course of five years. The outcome funding to be provided depends on a set of independently evaluated targets being met.

Concluding remarks

At a time when funding for environmental and societal challenges is simultaneously insufficient and urgent, the range of ways that capital can be deployed to address these needs is growing rapidly. There are now many more options than simply providing philanthropic grant capital or excluding companies in sectors such as gambling or alcoholic beverages from investment portfolios. New and emerging solutions give you the option of being more strategic with your philanthropy or building sustainable investment portfolios without sacrificing market returns.

At UBS, we are at the forefront of developing these new pathways to impact. We have prioritized this as an area of growth for our business and are developing innovative mechanisms for you to achieve your philanthropic and impact objectives. And we are among several organizations around the world aiming to collectively develop frameworks and solutions that attract more capital for tackling environmental and societal challenges at scale.

By using philanthropy as risk or seed capital, the UBS Optimus Foundation is pioneering new strategic philanthropic and social finance vehicles, including pay-for-results models. Within sustainable investing, too, we are at the forefront of developing innovative approaches, including participating formulation of the conventions underlying impact investing and designing the first 100% sustainable strategic asset allocation based on sustainable building blocks. Using these building blocks, we have the flexibility to offer investments tailored to both your risk/return goals and aligned with impact objectives. UBS is the first major global wealth management firm making sustainable investing its preferred solution for clients seeking to invest globally, thus underscoring our commitment and confidence in sustainable investing.

We hope that this white paper serves as a blueprint for aligning your investment and philanthropic strategies. And however you choose to seek impact, we are here to help.

Contributor biographies

Amantia Muhedini

Sustainable Investing Strategist
UBS Global Wealth Management
(212) 713-6203
amantia.muhedini@ubs.com

Amantia Muhedini is a Sustainable Investing (SI) Strategist in the Chief Investment Office, Global Wealth Management. Prior to UBS, Amantia was a sustainable investing fellow with Morgan Stanley’s Investing with Impact team focusing on impact measurement and product development. She also spent time at Working Capital—the Supply Chain Innovation Fund conducting impact and commercial due diligence on potential investments.

Amantia previously was an Investments Associate at the Omidyar Group’s Humanity United, addressing forced labor in global corporate supply chains. She is also a member of the Governance Council of United World Colleges International (UWC), a global education organization, and was a founding board member and acting Executive Director for UWC Albania, an education nonprofit based in Albania.

Amantia holds a B.A. from Princeton University and an M.P.A. from Columbia University’s School of International and Public Affairs.

Nicole T. Sebastian, CAP®

Executive Director, Senior Strategist
Family Advisory and Philanthropy Services Americas
Family Office Solutions Group
(212) 713-2140
nicole.sebastian@ubs.com

In January 2019, Nicole joined the newly formed Family Office Solutions Group (FOSG) within UBS, serving as a Senior Strategist representing Family Advisory and Philanthropy Services Americas. Nicole works closely with Advisors in Private Wealth Management, where FOSG delivers dedicated and comprehensive services to ultra high net worth clients. In this role, Nicole works with families on understanding values and philanthropic intent in the context of family wealth. She provides advice on family wealth education, communication and decision-making, multigenerational wealth transitions, and family governance as well as on charitable vehicles and building and enhancing philanthropic legacies. She also helps clients to be strategic and impactful with their philanthropic giving.

Nicole joined UBS in 2014 to establish and lead the UBS Optimus Foundation presence in the US, a global network that supports programs focused on the potential to be transformative, scalable and sustainable in the areas of health, education and child protection. Under her leadership, the Foundation platform became available to all clients and employees of UBS Financial Services Inc., and this offering now serves as a true differentiator and is a core component in delivering the

Andrew Lee

Head of Sustainable and Impact Investing
UBS Global Wealth Management,
Chief Investment Office
(212) 821-6167
andrew.lee@ubs.com

Andrew joined UBS Global Wealth Management’s Chief Investment Office in July 2012 and is Head of Sustainable and Impact Investing. He and his team support clients globally with advice, strategy and thought leadership on incorporating sustainability considerations into investments. Andrew also oversees the Americas thematic investing team. Prior to his current role, he was Deputy Global Head of the CIO Ultra High Net Worth/Alternatives/Sustainable and Impact Investing group, with specific responsibility for the impact investing and private markets teams. He is a frequent speaker at industry conferences and has been quoted in various publications including *Barron’s*, *Bloomberg*, *Reuters*, *the New York Times* and *the Wall Street Journal*. Andrew is a Managing Director based in New York.

Prior to joining UBS, Andrew was Managing Director overseeing investments for a private New York-based single family office. In this capacity, he was responsible for managing asset allocation, theme development, due diligence and execution of all direct and indirect investments for the family investment vehicles. Previously, Andrew was part of a long/short equity hedge fund team at Deutsche Asset Management. Before this, he worked at Lazard in the generalist banking (M&A) and real estate private equity groups.

Andrew has an M.B.A. from the Wharton School and an A.B. from Harvard College.

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