April 2023

IMPACT IN MOTION: A WHITE PAPER ON SINGLE-FAMILY OFFICES

Ella Tan and Erin Cher

ABOUT THE MILKEN INSTITUTE

The Milken Institute is a nonprofit, nonpartisan think tank focused on accelerating measurable progress on the path to a meaningful life. With a focus on financial, physical, mental, and environmental health, we bring together the best ideas and innovative resourcing to develop blueprints for tackling some of our most critical global issues through the lens of what's pressing now and what's coming next.

ABOUT THE ASIA CENTER

The Milken Institute Asia Center extends the reach and impact of Milken Institute programs, events, and research to the Asia-Pacific region. We identify opportunities to leverage the Institute's global network to tackle regional challenges, as well as to integrate the region's perspectives into the development of solutions to persistent global challenges.

ACKNOWLEDGMENTS

The Milken Institute is grateful to the family office principals and experts interviewed who contributed to the ideas and recommendations summarized in this report. We especially thank our Milken Institute colleague Kristen Ho for her support on the project.

CONTENTS

INTRODUCTION

Wealthy families in predominantly Western societies have long relied on setting up private professional family offices to manage family assets beyond dependence on private banks and brokerage firms.

By 2040, Asia could account for more than half of the global GDP and about 40 percent of global consumption.[1] As a result of global economic expansion, wealth accumulation in Asia has similarly been rising. In just five years, the aggregate wealth of billionaires in 2018 was over a third higher than in 2013, while the number of billionaires has increased by 38.9 percent. Amidst this growth, Chinese entrepreneurs are swiftly making up a large portion of these billionaires, with China having the second-largest billionaire group.[2]

The number of family offices in the region has correspondingly undergone an unprecedented surge within the past two decades, as professional family office entities have emerged as an attractive platform to steward family wealth and private assets. According to *Bloomberg*, the number of family offices established in the Asia-Pacific region grew 44 percent within two years through 2019, faster than any other region in the world.[3] In Singapore alone, family offices grew from fewer than 100 in 2017 to almost 700 in 2022.[4] Strikingly, the number jumped fivefold just between 2017 and 2019.[5]

Amidst high inflation, geopolitical unrest, and digital disruption, family offices provide wealthy families with more control over their wealth and assets. In response to these risks and uncertainties, family offices are able to review their options with greater urgency and flexibility. Yet no two families are alike. Hence there is no one-size-fits-all formula for setting up one's family office entity. Its motivations, goals, and structure will all be necessarily different.

This paper seeks to understand the burgeoning family office landscape, explore motivations and operational approaches single-family offices have adopted, and examine how each family may uniquely define its motivations and goals, which then influence strategies utilized in private wealth management practices. In particular, with continued growing interests in environmental, social, and governance (ESG) factors and climate change, how are family offices incorporating impact-driven goals into their operations, if any?

Anecdotal narratives have been randomly sampled from representatives from 12 single-family offices based in five countries across Asia, Europe, the Middle East, and North America. Each individual was interviewed via video conferencing technology under the Chatham House Rule. Interviewees will be identified via randomly assigned letters for ease of reference, and quotations cited have been paraphrased for contextualization and coherence.

SINGLE-FAMILY OFFICES: STRUCTURE AND OBJECTIVES

WHAT IS A FAMILY OFFICE?

Family offices can refer to entities set up either by the family principals or external intermediaries to offer tailored wealth management solutions in an integrated fashion to promote and preserve one's private assets. Due to the cost of setup and operations, this endeavor is usually undertaken by high-net-worth individuals, affluent families, and third-party intermediaries.

In its simplest setup, a family office is established to manage an individual or family's wealth—a single-family office (SFO). While most traditional SFOs are set up primarily for investment management, others also perform operational functions on behalf of the family. Since family offices can be very expensive to establish and operate, only the extremely wealthy with complex financial, investment, and personal needs will usually opt to establish one. The structure and operation of SFOs also tend to be influenced by the principal's personal identity and values.[6]

Multifamily offices (MFOs), on the other hand, may refer to a wealth management entity managing the aggregated wealth of more than one family unit or individual, or commercialized wealth advisory firms focused on investment management services and sometimes philanthropic advisory.

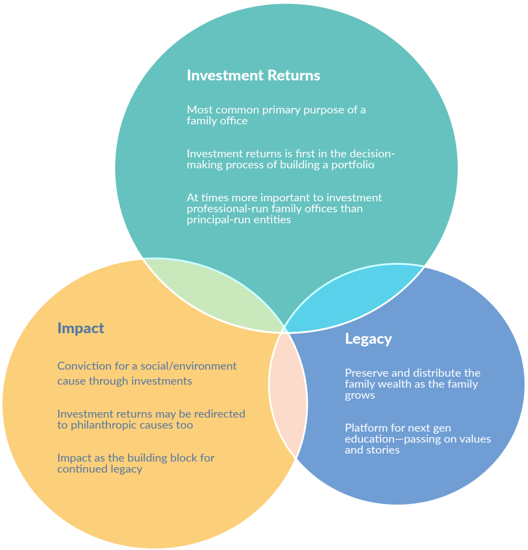
Naturally, there is no one-size-fits-all model for families to opt for an SFO or MFO, since all families differ in size, source of wealth, family dynamics, and, consequently, motivations and goals. Each family office is thus as distinctive as the family it supports, with the family characteristics shaping the governance structures and investment decisions. It also leads to many permutations of family office objectives and purpose. Although family offices are designed around the unique needs of their principals, this paper seeks to identify possible commonalities that span across the SFOs.

OBJECTIVES AND PRIORITIES OF A FAMILY OFFICE

Understanding the intent and objectives of a family office can provide insights into the subsequent varied decisions on structure and investments. To understand and demonstrate how family offices may align or differ, representatives from 12 single-family offices comprising family principals and C-suite investment professionals were polled to rank three factors (investment performance, legacy, and impact) in order of importance for their organization, among other interview questions.

Based on an interview poll, the weighted diagram (Figure 1) reflects the overlapping nature of our interviewees' answers. The objectives and priorities of an SFO often include differing importance and combination of impact, legacy, and investment returns and could even differ between members of the same SFO.

Figure 1: Objectives and Priorities of a Family Office



Source: Milken Institute (2023)

INVESTMENT PERFORMANCE

Unsurprisingly, investment performance most consistently came up as the top priority among family office representatives we interviewed. This deceptively simple poll brought many of our interviewees to a pause, though when pressed for an answer, many still chose investment returns as the most important objective for the family office. After all, wealth preservation and generation are primary motivators for private asset management and lay the foundation for other forms of impact or legacy objectives to be realized. Therefore, even impact-driven family offices start with a strong financial foundation before overlaying their social impact or climate-action related goals.

> **"Investment returns is of the utmost importance, otherwise there is no point running a family office nor speak of any other legacy issues."**
>
> *— Family Office I*

While many studies (such as Morgan Stanley's 2019 *Sustainable Reality* report and GIIN's *Perspectives: Evidence on the Financial Performance of Impact Investments*, 2017) have shown that there is not necessarily a trade-off between investment performance and achieving substantial social impact, impact-driven respondents pointed out that while still prioritizing returns, the family often does not require extremely high returns.[7] Yet it is noteworthy that those more involved in impact investment found it more challenging to detangle one objective from the other. For them, the investment process is a continuous assessment between impact and financial objectives—a balancing act where impact is seen as an extension of the family legacy, which affects risk and expected returns.

It is also striking that most of the investment professionals interviewed prioritized investment performance, while the family office principals often ranked impact or legacy above profits.

> **"We function as a pure investment arm to the family. While not separate from the family principals, our primary measure of success as investment professionals is still return on investment. Legacy is important to the family, but it is not necessarily implemented through us."**
>
> *— Family Office K*

IMPACT

Family offices with an impact-driven mandate believe they can influence and shape society through their investments, usually by focusing on social impact or climate-action-related opportunities. This commitment is oftentimes further reinforced when investment returns are redirected to fund private philanthropic activities of similar impact-driven considerations. For some interviewees, "impact" is seen as part of the legacy they are building for future generations, thus forming their investment principles.

> **"Our desire is to be good stewards; our desire is to [positively] impact the environment or the ecosystem that we're operating in ... and we want our bucket of money to be able to run in perpetuity and impact lives even when I am no longer around."**
>
> *— Family Office J*

LEGACY

Wealth management for high-net-worth families has grown significantly complex. As the family grows larger and branches out, a family office also provides a platform to bind the younger generations of family members together to manage family assets. A well-structured family office not only helps preserve and distribute the family wealth in the long term but also supports passing on family history, values, and ties, thereby keeping the family tree intact through generations. Among interviewees, legacy was regarded more highly by family offices that support families of multiple generations. In contrast, many of the younger family offices felt that legacy would naturally follow if the impact and investment performance were strong.

> **"Having a fully professionalized and institutionalized family office entity supports the family's multigenerational continuity and legacy. The entity sets up standardized governance structures (such as executive committees as well as rigorous decision-making processes) and provision of various non-financial services (such as legal services, estate planning, and family councils) that continues to keep the house in order even in times of conflict and disagreement, as the family branches grow through generations."**
>
> *— Family Office A*

STRUCTURE OF FAMILY OFFICES

Even within the narrow category of SFOs, the entity can perform an array of services of varying complexity for its principals. In this section, the most commonly observed family office functions and services were identified and categorized broadly, although by no means exhaustive or mutually exclusive.

TYPES OF FAMILY OFFICE

The Financial and Administrative Manager

The manager primarily focuses on back-office services such as financial advisory, tax planning, filing, record keeping, and managing cash flow and expenses. As a family grows larger with more complex wealth planning needs, these essential services are outsourced from individual family members to family office professionals. These services lay the foundation for legacy and succession planning by creating a wealth governance framework that sets important boundaries and conflict resolution solutions. Most of our respondents provide or engage in this range of services.

Holding Company

Many large families possess business interests across multiple entities, industries, and jurisdictions. A holding company legally unites various business interests and ownerships of the family principal(s) and allows for good corporate governance across business lines.

> **"The holding company is sort of the brain of the entire operation. The strategy comes from this holding company, while their foundation and personal trusts are separate entities."**
>
> *– Family Office E*

The Investment Office

The family office acts as a private investment arm of the family, usually focused on wealth management and preservation through a diversified investment portfolio, beyond the owners' operating businesses. They may have higher risk appetites and, thereby, more freedom and flexibility in terms of investment strategies since investment mandates are directly set by the family principals and/or the investment committees, instead of being accountable to third-party investors or the public. They are also often set up to protect and grow wealth across generations, which may allow them to hold longer-term investment horizons and strive for the highest portfolio return rate, instead of being preoccupied with quarterly returns reports, for instance.

The Full-Service Family Office

The full-service family office offers most, if not a full suite of, financial and non-financial services to support the operation and lifestyle of its family principals, including a wide range of concierge and lifestyle services. These unique and non-specific duties cover any task, from chauffeur and private chef to philanthropic and charitable giving, depending on the family's needs. It is not uncommon for a philanthropic family to rely on family office staff (at times, though not always, from the investment teams) to deploy philanthropic capital, implement charitable strategies, and monitor and measure the impact of their charitable endeavors.

Family Office A, for example, frequently organizes activities such as family reunions and customized financial education programs to facilitate intergenerational family interaction and knowledge-sharing, designed to educate and preserve family legacy. The family office has over half of its staff dedicated to non-investment services for the family members.

FAMILY PRINCIPAL INVOLVEMENT

"When you have seen one family office, you have seen one family office" is a common saying across the industry. Some may be structured solely around the needs and vision of one family principal. In contrast, others have chosen a more institutionalized approach with professional investment committees, board members, and advisors.

Through our interviews, we noted that the family was often more involved in running the investments and managing the office of newer family offices. As time passes and the number of generations increases, the family office becomes the glue that holds the family together. As the family grows in size, it soon becomes inevitable that investment decisions become a source of conflict, especially if decision-making authority is not properly established. Families at this stage may consider separating the family members from the office and "professionalizing" the office to regain its objectivity in wealth management.

SETTING UP A FAMILY OFFICE: CONSIDERATIONS AND CHALLENGES

Historically, a family office would display a strong home bias. Families tend to pick locations where their home base is—jurisdictions they are familiar with operating out of. Today, family offices have more factors to consider when deciding where to conduct operations to best suit their needs as family branches grow and relocate and business interests extend abroad. From geopolitics to business incentives and access to talent and skilled professionals, our interviewees shared their top factors of consideration and obstacles they face when setting up their family office.

REGULATIONS AND TAX REGIME

When deciding where to set up a family office, choosing a jurisdiction with a favorable regulatory and tax environment is crucial. Family offices must comply with local laws and regulations that safeguard the family office investments and structure and thus factor the cost of compliance and tax considerations into account.

Globally, there have been several new regulations affecting family offices. In Europe, the European Union implemented the DAC6 (a directive on mandatory disclosure and exchange of information on cross-border tax) and proposed the Anti-Tax Avoidance Directive III (ATAD 3) to promote tax transparency and prevent the use of shell companies for tax evasion and avoidance.[8]

In Asia, Hong Kong's and Singapore's friendly tax and business environments have made them popular locations for wealthy families looking to set up a family office in the region. A 2022 study by Agreus shows that almost half of the family offices in Asia are situated in either Singapore (25 percent) or Hong Kong (20 percent).[9] The success of these two cities is primarily due to their respective governments nurturing a business-friendly environment with favorable regulatory financing frameworks and a world-class financial ecosystem. To attract family offices, Hong Kong's Legislative Council passed the Limited Partnership Fund Bill in July 2020 for companies to set up as limited partnerships, a popular format for family offices. Likewise, in January 2020, Singapore's Variable Capital Companies Act came into force, allowing family offices a wider range of structures to support the diverse needs of ultra-high-net-worth families.

Attractive tax incentives help draw family offices onshore, too. For Family Office B, Singapore's 130 program was part of the reason they chose to set up in Singapore over the United States. Although stricter conditions have been imposed on this tax incentive scheme since April 2022, experts are hopeful that the revised regulations would raise the level of professionalism in the industry and attract more wealth from the region.[10]

However, excessive regulation may introduce rigidity into the family office sector and discourage the setup of family offices. For Family Office D, although the family appreciated how Singapore's regulatory framework and related infrastructures lend confidence to the security and stability of their investments, there were too many requirements they had to comply with.

For a start, family offices and principals often prefer to bring in their trusted teams, especially if they are setting up a new entity in an unfamiliar jurisdiction. For some family offices looking to qualify for tax exemption schemes (such as Family Office G), multiple requirements around asset size, hiring local investment professionals, local business spending, and local investments may be overly prescriptive and can create too many hoops to jump through when considered together, especially for newcomers.

ACCESS TO TALENT

Notwithstanding the abundance of investment and financial service talents in metropolitan financial hubs like New York, London, Singapore, and Hong Kong, finding talents interested and willing to work in a family office setting as opposed to a multinational bank or asset management firm remains a challenge.

> **"It is very difficult to find the right kind of talent interested and willing to work in a family office environment. Unlike large financial institutions, where there is perceived upward trajectory, family offices tend to have flatter hierarchy and are perceived to offer less room for growth beyond your annual expected salary increments and promotions."**
>
> *— Family Office H*

Depending on size and structure, a family office will need to hire talents with expertise across asset management, legal, accounting, and other fields. Recognizing the unique needs of high-net-worth families and their family offices, the Monetary Authority of Singapore and the Singapore Economic Development Board (EDB) jointly established the Family Office Development Team (FODT) to enhance Singapore's competitiveness as a global wealth management and family office hub. One of its key roles is to work with educational institutes and partners, such as the Singapore Management University's Business Families Institute (BFI) and the Wealth Management Institute (WMI), to build training and certification programs, and bring standardization into the family office industry in Singapore. InvestHK similarly acts as a central point of contact to support a family office's setup and connection to relevant local agencies in Hong Kong.

CULTURE AND PERSONAL AFFILIATIONS

A single-family office is ultimately a private wealth management structure. It is not uncommon for family principals to prefer (first) operating out of a home base familiar to them, where trusted employees and advisors can be brought in easily. After all, unlike banks and asset managers, family office professionals are inextricably involved with sensitive and confidential family decisions, including but not limited to wealth generation, inheritance, conflict resolution, tax concerns, and lifestyle decisions. There needs to be a high degree of trust between family and family office professionals.

The local lingua franca may also be an essential factor. Our respondents whose families and investments originated in China, such as Family Office H, found Singapore attractive due to the large Chinese diaspora and Mandarin spoken language. Similarly, for Family Office C, a French-speaking environment like Switzerland is conducive for their operation, given their network with Swiss banks and language similarities in French.

IMPACT AND IMPACT INVESTING

The poll conducted at each interview was a gateway to understanding how each family office had defined its roles and goals for the family's interests. Each family office's approach toward defining impact varied across the board, which did not echo existing literature on the growing interest in sustainable investments, particularly impacting investing. For instance, Campden Research found in a 2021 study that Asia-Pacific families have a strong focus on sustainable investing, with 57 percent reportedly involved in the space and expected to increase their sustainable investments from 26 percent in 2021 to 30 percent in 2022 and 43 percent in 2026.[11]

DEFINING IMPACT INVESTING: INVESTING FOR FINANCIAL RETURNS VERSUS PURE IMPACT

The finance industry still does not have a consensus on or standardized definitions of common terminologies and concepts despite widespread healthy interests in sustainable investments. The concept of *impact investing*, for instance, has very different connotations across our sample of family office interviews.

Figure 2 illustrates the possible duality of the definition of impact investing. First, it describes a spectrum of investment practices, which can include responsible investing, ESG investing, and even philanthropy. Therefore, impact can be generated via different means and platforms, dependent on each family office's approach.

Second, in its stricter definition, impact investing is a distinct investment practice that intentionally seeks to create a positive, measurable social or environmental impact alongside a financial return (see Impact First Investing below).[12]

Figure 2: Duality of the Concept of Impact Investing

Traditional Investing	Responsible Investing	Thematic Investing	Impact First Investing	Philanthropy
Seeks returns with little to no consideration of ESG factors.	Aligns with family's ethical, social, or moral values. Practices exclusionary screening, which removes controversial companies or sectors from an investment portfolio.	Sustainability factors and financial returns drive investment selection. Uses ESG metrics in investment decision (factors considered, such as carbon footprint, gender equality).	Targeted themes and financial returns drive investment selection. Social and environmental considerations take precedence over financial returns. FO seeks real, measurable impact.	Financial returns disregarded in favor of social and environmental solutions. Philanthropic activities are kept separate from investments to avoid conflict of interest.

Focus on Financial Return ⟷ Focus on Promoting the Welfare of Others

Source: Milken Institute (2023), adapted from Sonen Capital[13]

Of the 221 single-family offices surveyed in UBS's *Global Family Office Report 2022*,[14] UBS found that an exclusionary-based investment strategy (i.e., negative screening) is the most common tool for investing sustainably by family offices globally, and only 24 percent of family offices proactively make impact investments. In the Asia-Pacific region, 53 percent of family offices have sustainable investments, 31 percent have ESG integration investments, 25 percent use an exclusion-based investment strategy, and just 9 percent perform impact investing. As families become more calibrated in incorporating their values into their investment decisions, we see how investors progressively shift from a "do no harm" mindset to one that actively seeks a measurable environmental or social impact.

> **"For us, we create impact mostly through our capital in nonprofit channels and investment channels. We invest where our marginal dollar is most able to affect some change where the work or business will otherwise not exist, instead of beating down the door to invest in the hottest deal in town where then our contribution doesn't really make that much of a difference."**
>
> *— Family Office B*

Because of the broad interpretation of impact investing to our interviewees, impact investing will be referred to as a spectrum of practices, including responsible investing, thematic investing, and impact-first investing, for the rest of the paper.

DRIVERS OF IMPACT INVESTING

Since there is no one-size-fits-all model of a family office, families differ in their reasons for adopting impact investments. When interviewed, the motivations behind impact investing by the family offices in our sample can be organized into three broad categories.

PURPOSE- AND PASSION-DRIVEN

The family, usually the patriarch or matriarch, may be passionate about a particular cause and want to pay it forward by making an impact. This may originate from a backstory or family experience that drives their beliefs and compels them to take definitive action to generate positive effects through their investments. These families believe in the power of their assets to generate recurring and sustainable outcomes and address specific social and environmental challenges, thus amplifying their giving beyond philanthropic practices.

INFLUENCE OF GENERATIONAL SHIFT

As millennials start to make up the largest portion of the world population today, we see them taking over senior leadership positions either as family principals or investment professionals. Millennials and their younger counterparts are more socially aware and ethically conscious than previous generations because they grew up better educated, more well-traveled, and more connected through the internet and social media. These next generations of socially conscious family members, family office staff, or advisors play an influential role in steering the direction of a family's philanthropic and investment activities, often with more consideration for sustainability and equality.

According to Capgemini's *2020 World Wealth Report*, 41 percent of high-net-worth, under-40 individuals were drawn to sustainable investments, compared to only 16 percent of high-net-worth, over-60 individuals. Furthermore, almost half (49 percent) of the ultra-high-net-worth, under-40 individuals were interested in sustainable investing options.[15] As the family wealth changes hands, family offices will be increasingly asked to manage and align impact objectives into investment decisions.

On the flip side, impact investing can also be used as a tool to engage younger family members in the family office. Allowing the younger generation to drive portfolio construction through self-selected positive impact initiatives ensures involvement and continuity in the legacy desires of family principals and stewardship of assets across generations. Younger cohorts of impact-oriented, non-family-member investment teams may also be inclined to work for family office entities with defined impact goals, instead of those without clearly defined goals or larger asset management firms where they see less direct influence on impact-related investment decisions.

> **"We've been requested to talk to some of the single-family offices about our journey in impact investing, why we started, how did we get started, what was the framework to execute. One trend we see is that a lot of the family offices have succession planning and wealth management in place. For them, it's also a way to engage the next generation because that's what they're more interested in."**
>
> *— Family Office E*

FINANCIAL RETURNS

Wealth generation and preservation remain the foundational objectives for the setup of a family office. Fifty percent of the Asia-Pacific family offices surveyed in UBS's *2022 Global Family Office Report* believe sustainable investments will outperform the overall market in the next five years.[16] Yet, for many others, the jury is still out on whether impact-related investments can outperform traditional investments.

A family office must navigate ideological differences within teams and investment committee members on how much financial compromise might be acceptable to achieve non-financial value and objectives, vis-à-vis a profit-maximizing but less *impactful* investment alternative. As evident from our poll on Objectives and Priorities of a Family Office, family office representatives find it hard to tease apart the relative importance of financial returns, impact, and legacy. Each is interconnected; financial returns and impact creation can often be mutually reinforcing depending on the family office.

ENGAGING IN IMPACT INVESTING

Impact investing refers to a myriad of investment practices that drives some form of positive impact alongside a financial return. The intentionality and specificity of predetermined impact criteria and goals may exist along a spectrum (see Figure 2).

Impact investments are often not carved out as a separate asset class within an investment portfolio. Thus, it leaves much room for family offices to interpret their approach, benchmarks, and goals and, consequently, how they are operationalized in deal sourcing, selection, asset management, and impact evaluation.

Numerous means of impact investment in a family office's toolbox may include but not be limited to:

- social impact bonds and development impact bonds;
- private debt opportunities with an impact lens, such as collateralized loan obligations or asset-backed securities;
- listed equities, indices, and exchange-traded funds; and
- blended finance opportunities to draw in other family offices and foundations that are perhaps not as mission-driven.

INVESTMENT THEMES

Family offices enjoy great flexibility in their deployment of private capital compared to other institutional investors, thus allowing them to customize their diversified portfolio of investments that suit their returns and impact needs.

Common themes for family office impact investments include health and wellness, education, food, and the environment. The *2021 Campden Research* study confirms the significant interest of family offices in aligning their environmental commitments with their portfolios. Eighty-six percent of high-net-worth individuals, family offices, and foundations believe their private capital will be "essential" in addressing climate change. The survey also reported that 70 percent of respondents see the transition to a global net-zero emissions economy as "the greatest commercial opportunity of our age."[17]

CREATING AN IMPACT IN PORTFOLIO CONSTRUCTION

There are several ways that a family office may organize its investment portfolio to generate impact. We have listed the three most frequently cited examples in our literature review and conversations with the family offices. Family offices may employ a combination of two or more of these approaches for different segments of their portfolio, depending on their objectives, desired degree of direct family office involvement, and available resources.

Opportunistic Deployment

Case-by-case evaluation of impact investment opportunities allows for flexible execution and fit into the existing portfolio. This approach may be appropriate for those new to impact investing or those not committed to supporting a particular impact theme. Family offices employing this approach typically do not actively seek out impact-first investments but are ready to embrace them when "the right opportunity comes knocking at the door." The success of these investment cases serves as proof-of-concept for its financial viability and for investors to identify the areas they feel committed to.

> **"I don't have [an impact investing bucket]. I prefer to look at investments from a bottom-up perspective. First, does it make money? Second, is it harming the environment? Third, does it have an impact and sustainability angle? ... I am working at a family office that is looking at legacy, looking at leaving behind a functioning Earth for the principal's children, grandchildren, great-grandchildren, etc. So, we will not go out and intentionally do investments that are harmful. But having said that, we still have to make money for the family to even exist."**
>
> *— Family Office F*

Carve-Out

Family offices can carve out a standalone portion of their portfolio to focus on impact investments. This approach allows family offices with a traditional portfolio to transition into an impact-generating portfolio and allows risk-averse investors to scale up over time without worrying about the financial risks of the core portfolio. The family can also outsource the carved-out portion of its portfolio to a fund manager specializing in impact strategies.

> **"Out of the holding company, impact investing is one of the key objectives. We invest in everything from pre-series to Series A with key goals in improving access to education and financial inclusion. We are also interested in backing mission-driven founders and providing a platform for them."**
>
> *— Family Office E*

Integrated

With an integrated approach, impact considerations cut across the overall portfolio construction. Families may use this approach to varying degrees. At the onset of impact investing, families may start with setting an impact goal or set of impact parameters to be gradually overlayed into their existing, mainstream investment portfolios. A committed impact investor sketches out in broad strokes the ESG factors to be explicitly included in the investment financial analysis and looks for impact opportunities within existing portfolios and asset allocation processes.

> **"We don't have a separate impact asset class ... In the fund investments, we are ensuring that fund managers are taking into account best practices and that we can opt out of an investment for which we are not comfortable from an ESG perspective. We measure the impact of our investments by scoring ourselves against liquid benchmark, checking each underlying company in the portfolio and measured against industry-standard ESG risk ratings."**
>
> *— Family Office K*

CONCLUSION

The continued growth and prominence of SFOs as a new community of astute institutional investors is a globally well-regarded trend. Against this backdrop, this paper sought to explore the motivations and interests of these stewards of private assets, beyond statistics and a generic understanding of family office incorporation.

With the increasing sophistication of family offices, either through the employment of investment professionals or more savvy principals as investors, family principals and family offices are paying attention to themes and assets related to sustainable finance. Such interests, we found, may be expressed differently from SFO to SFO—some as an umbrella investment mandate and others seeing the SFO as the investment vehicle to generate profits for the affiliated private foundation to utilize for more specific impact-driven goals.

The verbal interviews conducted with a random sample of 12 global SFOs within Milken Institute's network represent a small piece of the pie within the context of the global single-family office network. Yet interviewees consistently echoed that no two family offices will operate and invest the same way, even if they are two branches from the same family tree. Apart from investment returns, impact, and legacy, the operation of an SFO is also organized differently when other variables, such as family dynamics, size, and expertise of in-house teams and changing market and business environments, are simultaneously considered.

Sustained, widespread market interests have encouraged continued growth of the sustainable finance landscape. More nimble and oftentimes more innovative than their large institutional counterparts, there is no doubt SFOs will keep pace with the adoption of impact-related investment practices, integrating them in their own unique fashion into their private wealth management entities.

ENDNOTE

1. Oliver Tonby et al., *The Future of Asia: Asian Flows and Networks Are Defining the Next Phase of Globalization* (McKinsey Global Institute, September 19, 2019), https://www.mckinsey.com/~/media/mckinsey/featured%20insights/asia%20pacific/the%20future%20of%20asia%20asian%20flows%20and%20networks%20are%20defining%20the%20next%20phase%20of%20globalization/mgi-future-of-asia-flows-and-trade-discussion-paper-sep-2019.pdf.
2. UBS and PwC, *The Billionaire Effect: Billionaires Insights 2019*, no. 6 (November 8, 2019), https://www.pwc.ch/en/publications/2019/billionaires-insights-2019-web.pdf.
3. InvestHK, "Hong Kong: A Growing Hub for Family Offices," *Bloomberg*, accessed December 15, 2022, https://sponsored.bloomberg.com/article/invest-hk/a-family-home-in-hong-kong.
4. Faye Ong, "Singapore Family Office Scene Set to Soar in Sophistication," *Business Times*, August 24, 2022, https://www.businesstimes.com.sg/companies-markets/banking-finance/whos-who-private-banking-aug-2022/singapore-family-office-scene.
5. Lawrence Wong, "DPM Lawrence Wong at the Owners Symposium of the Global-Asia Family Office Summit 2022," Prime Minister's Office Singapore, September 29, 2022, https://www.pmo.gov.sg/Newsroom/DPM-Wong-at-Global-Asia-Family-Office-Summit-Owners-Symposium.
6. Dianne H.B. Welsh et al., "Perceptions of Entrepreneurship across Generations in Family Offices: A Stewardship Theory Perspective," *Journal of Family Business Strategy* 4, no. 3 (September 2013): pp. 213226, https://doi.org/10.1016/j.jfbs.2013.07.003.
7. *Sustainable Reality: Analyzing Risk and Returns of Sustainable Funds* (Morgan Stanley Institute for Sustainable Investing, August 6, 2019), https://www.morganstanley.com/ideas/sustainable-investing-competitive-advantages; Abhilash Mudaliar and Rachel Bass, *GIIN Perspectives: Evidence on the Financial Performance of Impact Investments* (The GIIN, November 14, 2017), https://thegiin.org/research/publication/financial-performance/.
8. Alain Huyghe et al., "ATAD3: The EU Commission's Corporate 'Unshell' Proposal and Its Impact on Private Clients and Holding Structures," Lexology, May 17, 2022, https://www.lexology.com/library/detail.aspx?g=7c55a3df-e2f8-4535-83ab-51a554803cce; Mira Bazlen, Samuel Bussmann, and Hagen Luckhaupt, "DAC 6–Overview," *MME Legal*, November 18, 2020, https://www.mme.ch/en/magazine/articles/dac-6-overview.
9. Peter Shadbolt, "Asia's Family Offices: Singapore vs Hong Kong—Which City Is Better?" *Citywire Asia*, March 15, 2022, https://citywire.com/asia/news/asia-s-family-offices-singapore-vs-hong-kong-which-city-is-better/a2382131.
10. Edward Tang, "Singapore's Tougher Family Office Rules Likely to Attract More Wealth: Family Offices," AsianInvestor, April 26, 2022, https://www.asianinvestor.net/article/singapores-tougher-family-office-rules-likely-to-attract-more-wealth/477416.
11. James Beech, "Global Family Office Report 2021: Asia-Pacific Family Offices Accelerate Wealth, Growth and Sustainable Investing but Formal Succession Planning and Cryptocurrency Investing Lags," Campden FB, November 17, 2021, https://www.campdenfb.com/article/global-family-office-report-2021-asia-pacific-family-offices-accelerate-wealth-growth-and-su.

12. "What You Need to Know about Impact Investing," The GIIN, accessed October 26, 2022, https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing.

13. "Impact Evaluation and Measurement," Sonen Capital, accessed October 26, 2022, http://www.sonencapital.com/impact/methodology/.

14. Stephanie Perryfrost and Gabriele Schmidt, *Global Family Office Report 2022* (UBS, June 10, 2022), https://www.ubs.com/global/en/family-office-institutional-wealth/reports/gfo-client-report.html.

15. *World Wealth Report 2020* (Capgemini, July 9, 2020), https://www.capgemini.com/nl-nl/wp-content/uploads/sites/7/2020/07/World-Wealth-Report-WWR-2020.pdf.

16. *Global Family Office Report 2022*.

17. James Beech, "Families Ramp Up Sustainable and Impact Investments in Response to Covid-19 and Climate Change," Campden FB, September 14, 2021, https://www.campdenfb.com/article/families-ramp-sustainable-and-impact-investments-response-covid-19-and-climate-change.

ABOUT THE AUTHORS

Ella Tan is a senior associate at the Milken Institute Asia Center's Policy & Programs team. Her current research focuses on the best practices and challenges in creating and managing a sovereign wealth fund, vaccination access and delivery, and the role of cloud technology to enhance resilience and advance the ESG goals of the financial sector. Tan is a graduate of the National University of Singapore and has an MSc (economics) from the Singapore Management University.

Erin Cher is an associate director at the Milken Institute. In this capacity, Cher co-leads the Business and Program Development team at the Milken Institute's Asia Center based in Singapore, where she oversees end-to-end strategic development of programmatic offerings and fundraising strategies for the Asia Pacific region. Cher also manages a portfolio of strategic relationships and sponsor partners with whom the Milken Institute engages year-round, including at the Global Conference and summits in Asia, Middle East and Africa, and London. She manages two of the Institute's key communities out of Asia Pacific: the Global Capital Markets Advisory Council and Forum for Family Asset Management. Both networks convene senior executives and investment professionals from the world's largest pension funds, endowments and foundations, insurance companies, state and corporate treasuries, single-family offices, and sovereign wealth funds through private forums to discuss the opportunities and challenges facing institutional investors in the financial markets. Cher additionally leads the Financial Markets track in the programs across Milken Institute events.

MILKEN INSTITUTE

LOS ANGELES | WASHINGTON | NEW YORK | MIAMI | LONDON | ABU DHABI | SINGAPORE