April 2019 | Volume 9, Issue 1

Sentinel Trust
Together, families prosper℠

OnWatch

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IMPACT INVESTING: *Profit with Purpose*

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Over the last decade or so, a new way of thinking about investing has developed – so-called "Impact investing." It is a targeted approach to investing capital with the intention of generating measurable social and environmental impact alongside financial returns.

Historically, there has been little connection between a family's values and its investments. Many families simply used a portion of their investment profits to fund social or environmental causes. Some socially-conscious families went further by avoiding investing in companies with negative impact upon their subject causes. Impact investing can go much further.

The Global Impact Investing Network (GIIN) was created by the United Nations (UN) in 2009, shortly after the term "Impact Investing" was coined. The impact investment market has been growing at tremendous rates over the last decade. According to a 2018 GIIN survey, 229 responding fund managers, banks, pension funds, family offices and other investment institutions reported managing $228 billion in impact investing assets.

For many impact investors and funds, the UN's 17 "Sustainable Development Goals" (also known as "Global Goals") have become the guideline for strategic investment decisions. These goals may be found at https://sustainabledevelopment.un.org/sdgs. Examples include: no poverty; zero hunger; good health and well-being; quality education; clean water and sanitation; and industry innovation and infrastructure.

About Sentinel Trust Company

Sentinel Trust Company, LBA is an independent wealth management firm and multi-family office that provides comprehensive wealth and succession planning, fiduciary, investment management, philanthropic, and family office services to a select group of affluent families and their closely held entities and foundations. Founded in 1997 as the successor to two 40-plus-year old single-family offices, Sentinel Trust currently serves more than 30 multi-generational families nationwide and is responsible for approximately $4 billion in assets as of December 31, 2018.

Learn more at *www.sentineltrust.com.*

GIIN has taken the Global Goals further by establishing the core characteristics of impact investing. The characteristics, which have become industry standard when evaluating opportunities, are:

- **Intentionality:** An investor's intention to have a positive social or environmental impact through investments is essential to impact investing.
- **Investment with Return Expectations:** Impact investments are expected to generate a financial return on capital or, at minimum, a return of capital.
- **Range of Return Expectations: I**mpact investments target financial returns that range from below market to risk-adjusted market rates and can be made across asset classes.
- **Impact Measurement:** A hallmark of impact investing is the investor's commitment to measure and report the social and environmental performance and progress of the underlying investments.

Impact Investing Examples

We have seen numerous examples of impact investing, including:

- low-income housing,
- a fund that targets cancer research and helps that research become commercially successful,
- sustainable agriculture,
- renewable energy funds that are generating returns comparable to typical oil and gas investments,
- conservation,
- microfinance companies that provide access to start-up capital in third world countries,
- healthcare, and
- education.

Some of the world's largest institutions have focused a portion of their capital on impact investing. Blackrock, the world's largest investment firm, has created multibillion-dollar funds to allow investors to direct capital toward impact goals. UBS established its first impact fund-of-funds, which raised over $500 million by 2017. UBS also committed to investing at least $5 billion of private client assets in UN Sustainable Development Goal investments.

Performance Hit?

Do impact investors sacrifice investment returns to positively impact a community or policy? GIIN partnered with Cambridge Associates to create the Impact Investing Benchmark. The benchmark comprises 51 private investment (PI) funds pursuing a range of social objectives across geographies and sectors.

Cambridge stated, "Despite a perception among some investors that impact investing necessitates a concessionary return, the Impact Investing Benchmark has exhibited strong performance in several of the vintage years studied as of June 30, 2014. In aggregate, impact investment funds launched between 1998 and 2004—those that are largely realized—have outperformed funds in a comparative universe of conventional PI funds. Over the full period analyzed, the benchmark has returned 6.9% to investors versus 8.1% for the comparative universe, but much of the performance in more recent years remains unrealized."

Investing families who ask things like, "What do we really care about?" or "What really inspires us?" have more options to use their investment dollars to further their answers to those questions. The impact investing market has given us flexibility to align at least some of our assets with our values.

Preparing College-Bound Kids for FINANCIAL INDEPENDENCE

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Client Relationship Officer, Assistant Vice President

The transition to college can include an important step to prepare your child for life-long financial maturity and independence. While there are many ideas and financial objectives, a focus on three main goals for this stage in your child's life can help ease the transition for both generations: setting budgets, establishing credit and saving for the future.

Budgeting

Budgeting can be accomplished through an interactive process in which you and your child work together to establish income (including allowance) and spending categories and acceptable amounts for each. Suggesting parameters for collegiate spending gives your child the ability to build his own sense of how much he should be allotting to activities or expenses. The dollar amount spent may not be the most important thing. Often the more significant part of this discussion is the percentage of the total budget spent on a category (dining out, club activities, etc.).

After completing the budgeting process, take your child to the bank to open a checking account. If and as provided in the budget, you can deposit the monthly allowance into this account and watch how your child manages the funds.

Credit Score Motivations

Introducing responsible use of credit can have a powerful impact on your child's financial future. Starting a discussion about responsible debt management now can influence decisions made further down the road when your child wants to acquire a car or a home.

In addition to its importance for future borrowing, your child's credit score can provide an objective and even fun way for your child to gauge progress. Credit scores are determined by various factors including: number and type of accounts; length of credit and payment history; and the amount of credit used versus credit available. Your student can use a smart phone app to monitor her credit score, which might motivate her to identify and do things that might favorably impact it.

Begin by helping your student obtain a credit card. Many card issuers have "starter" student credit cards that offer a small line of credit to younger borrowers. You could agree to guarantee this starter card if necessary. You might add your child as an authorized signer on one or more of your credit cards, which can bolster your child's credit by adding length and number of accounts.

Importance of Savings

Use this time with your student to discuss saving for the future. Incorporate this idea into your budget discussion by adding a "savings" category to the budget (and increasing the allowance as needed to permit it). Help your child to open a savings account at the same bank where she has her checking account. Let the bank officer help to explain savings alternatives and introduce other product offerings.

Introducing your child to financial professionals and institutions that can help guide the development of financial skills at this stage in life can be instrumental in achieving the ultimate goal of financial independence. There are, of course, a multitude of ways in which you can begin preparing your child for financial independence. By focusing your attention on these three key financial goals, you can ease your child into the collegiate experience and, in turn, help set the stage for long-term financial success.

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WHY YOUR ONLINE ACCOUNT REPORTING IS SO DATED

JAMES C. REED, CFA
Director of Business Operations, Senior Vice President

Open an account with Schwab, Fidelity or the other big-name investment firms and you get a shiny website that reports your up-to-the-minute investment values. Now, look at your on-line account offered by your family office and you see way-out-of-date investment values. What's up with that?

Frankly, we get that complaint, especially when the stock market is either booming or busting and clients want to see how their portfolios are doing. After all, when there are significant market moves, you hear about them incessantly on TV, radio, the internet, etc. It's only natural to want to know whether you are benefiting or suffering.

The genesis of the issue is the timing of when pricing is available for different types of investments:

- **Publicly traded stocks** – virtually instantaneous pricing
- **Mutual funds** – nightly pricing
- **Many hedge funds (non-public partnerships that hold publicly traded securities)** – priced monthly or quarterly, with a three- to six-week lag after the end of the period before the data is received by the investor
- **Private equity and real estate funds** – priced quarterly with a three- to six-month lag after the end of the period
- **Direct investments in business entities** – only when an appraisal is done or a new round of equity is raised

The Schwabs of the world offer their clients only "liquid" publicly traded securities and mutual funds, so their clients' account values can be updated each day.

Family offices offer their clients most or all of the above-mentioned investments. Indeed, it is not uncommon for publicly traded stocks and mutual funds to comprise only a minority of family office clients' portfolios. A large portion typically is held in less liquid and less frequently valued hedge funds, private equity, and real estate funds.

Family office clients choose to participate in the less liquid investments because they expect to receive better returns over the long term than retail investors receive from publicly traded stocks and mutual funds. One trade-off is the loss of instantaneous pricing—hence the out-of-date prices when you check your account online.

Trust us, that's frustrating to your family office, too. But your family office is able to provide updates and periodic reports that are ultimately more useful and meaningful than the moment-to-moment value changes in your portfolio. And maybe it's better for your blood pressure to avoid that daily portfolio pricing, too! ■

Sentinel Trust Company is a family-owned, multi-family office focusing on the unique needs of affluent families and their closely held companies and foundations. Sentinel Trust provides advice on investment, tax, and estate strategies, serves as corporate trustee, and provides lifestyle services with a personal touch.

Together, families prosper℠

Founded in 1997 as the successor to two established, investment-focused single family offices, Sentinel Trust offers the stability of an institutional firm, the entrepreneurial spirit of a young firm, the personal feel of a family office and the in-house technical skills of independent planning and investment management firms.