BLOOM, NOT BUST

The Rise of Impact Investing and the Next Wave of Wealth

By Noel Pacarro Brown, CIMA®, CPWA®
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The study indicates millennial investors are leading the way for this trend and that this shift is not limited to just one generation. Understanding the reasons why the millennial generation would be more interested in investing with impact can help advisors adjust their approaches appropriately. This exercise likely would benefit a wealth management practice regardless, because interest in and adoption of impact investing is expected to grow across the entire age spectrum.

The money mentality of millennials can be understood by reflecting upon some key members of this generation. In his 2016 book *Born a Crime*, millennial comedian and commentator Trevor Noah explains how many of his peers seem to feel about wealth:

> The first thing I learned about having money was that it gives you choices. People don’t want to be rich. They want to be able to choose. The richer you are, the more choices you have. That is the freedom of money.

Trevor Noah, of course, is describing what money means for him as a mixed-race individual from South Africa. His realization, however, resonates with many of the next generation who see wealth as allowing for greater access to experiences and a greater abundance of choices. When following this logic in reverse, without money, people are limited in what they can do and their options become very narrow. Wealth,
then, in and of itself is not the goal. Wealth means freedom, and how it is developed, acquired, and maintained is more important to this generation. In this freedom, many members of this group are choosing to use their wealth as levers for change.

For example, a nonprofit network called The ImPact was formed by family offices to influence positive change using all forms of capital, not just through philanthropy. An article in the Financial Times described this approach:

“There is a capital P in The ImPact. The P is what happened when some of the youngest members of some of the richest families in America got together and decided that the philanthropy of their parents and grandparents fell far short of the good they could be doing in the world. What about the rest of their family fortunes, they thought. Charity is all very well, but shouldn’t the money they invest in stocks, bonds and private companies also be put to work to fix social and environmental problems?”

“The P is what brought together Rockefellers and Fords and Pritzkers and the scions of other historic dynasties from the US and abroad last month at Kykuit, John D Rockefeller’s country pile 34 miles from New York, which is now used to convene non-governmental organisations. There they debated how to bring “impact investing” to life and sealed a pact: “I commit to explore the impact of all of my investments and invest to create measurable social benefit.”

The pact is the brainchild of Justin Rockefeller, great-great-grandson of the oil baron turned philanthropist, and Josh Cohen of City Light Capital and is modelled on the “Giving Pledge” created by Warren Buffett and Bill Gates. Giving Pledge signatories promise to devote at least half their fortunes to philanthropy. Founding members of The ImPact met at Kykuit to discuss how they, and their family offices, can fulfill their promise to do good in other ways.”

**NEXT GENERATION: ALIGN VALUES**

In addition to examining their investments and philanthropy, the next generation is keen to align their values in all aspects of their lives. Goldseker and Moody (2017) describe this phenomenon: “These next gen donors all speak to a desire to have their values align with their actions, whether as donors, investors, social entrepreneurs, consumers, or parents.” This philosophy can drive employment decisions for this group as well. Instead of primarily focusing on pay, benefits, and other traditional considerations for employment, the majority of millennials will require something more. In a study conducted by Deloitte & Touche in 2015 “of college-educated, full-time employed Millennials from 29 countries, 60 percent choose jobs that had a ‘sense of purpose’; and among businesses where Millennials say there is a strong sense of purpose, there is significantly higher reporting of financial success and employee satisfaction.”

The evidence suggests that having purpose in the workplace can attract young talent and allow for greater profitability. Again, this sentiment is not limited to certain channels such as philanthropy. Decisions that are rooted in purpose and not just profit pervade all parts of the next generation’s financial lives.

Consequently, millennials’ expectations of corporations and the entire economic system are different from their elders’. This generation believes corporations and capitalism on the whole must play an integral part in shaping our collective future, and they believe they can influence this change. “Philanthrosocialism” is a term used to describe this belief in action:

“This approach reveals a cautiously pragmatic attitude of next gen donors towards capitalism. They realize it is a system that can cause global problems and foster deep inequalities—that they have personally benefitted from, in some cases to an astounding degree. But rather than overturn capitalism, they want to use it to redress inequality (Bishop and Green 2008).”

**WEALTH MANAGEMENT AND NEXT-GENERATION INVESTORS**

Based on these examples, it’s clear that financial professionals must modify their approaches to wealth management to effectively reach this next generation of investors. When advisors are talking to the next generation of wealth holders focused on wealth accumulation, they are going to be asked how that wealth can be aligned with goals as it’s grown, not just how it can be grown to achieve a retirement goal. In the case of younger investors who inherit wealth, advisors likely will hear concerns that existing assets are inconsistent with their personal values before they have any conversation about how to get the best yield from those existing assets. When offering counsel about the purpose of assets for young families that have recently joined the top 1 percent, advisors may be better received if they address concerns about the potential toxicity of wealth and how best to steward wealth to confirm a family’s purpose rather than boasting of top performance or minimized costs. Again, money as a means for choice and intention is the underlying value. Trevor Noah says, “People don’t want to be rich,” and this is a stark change from previous decades where the goal really was to “be rich.”

Once advisors understand this major shift in identity for investors, they’re faced with the question of how to change their approaches to these investors. How does intention and purpose translate to the implementation of academic-based portfolio construction, wealth planning, simulated risk management, and accountant-based reporting? How do wealth advisors,
The rise of impact investing and the next wave of wealth

**INVESTING WITH IMPACT**

The growth of investing with impact has accelerated in recent years with interest led by millennials and sparking adoption by other generations. In dollar terms, according to the most recent report published by US SIF (The Forum for Sustainable and Responsible Investment), at the end of 2017, of the $46.6 trillion in assets professionally managed in the United States, $12 trillion, or approximately 26 percent, were in some form of sustainable, responsible, or impact investment (see figure 1). This constitutes 38 percent growth in one year (from year-end 2016).6

This steep increase makes it obvious that, even though the wealth transfer may be underway already, the trend cannot be limited to just millennials, and that other generations are part of this rapid growth.

Thankfully, the process an advisor goes through with a client is no different from that other generations are part of this rapid growth. Financial planners, pension consultants, and portfolio managers integrate the more qualitative nonfinancial requests of their clients? The answers can only come once advisors assess their own values, their own practices, and their own biases. Deep discovery with others may be limited in scope if an advisor has not engaged in personal deep discovery. Beyond this critical rite of passage, the tools for effectively working with a client are abundant in the blossoming impact investing landscape.

During some of the most formative years of their lives, many young investors witnessed peers, parents, and friends who they may have considered “rich” lose significant wealth during the financial crisis. For many people in the United States, it was “the rich” who were to blame for the crisis itself. Most of the activists who participated in the 2011 Occupy Wall Street movement were 34 years old or younger. This means that those individuals are now at most 41 years old.7 For young adults to have experienced such financial loss and, for some, to have lived through more than a decade of economic struggle, the goal of “being rich” has lost a lot of its panache. In addition, a Federal Reserve report published in 2017 shows that, despite being the largest generation in the U.S. workforce, “millennials earn 20 percent less than boomers did at the same stage of life.”8 Therefore, advisors who, during deep discovery, jump into the financial planning process with questions about dreams and ambitions likely will miss the cues of fear, apprehension, and anxiety that result from memories of the financial crisis and the harsh reality of earning less than their parents. To compound the situation, many millennials first experience personal finance via student debt. A recent Forbes article reported that, as of summer 2018:

**Student loan debt is now the second highest consumer debt category—behind only mortgage debt—and higher than both credit cards and auto loans. According to Make Lemonade (https://www.makelemonade.co/), more than 44 million borrowers collectively owe $1.5 trillion in student loan debt in the U.S. alone. The average student in the Class of 2016 has $37,172 in student loan debt.9**

For many, their foundational financial experiences have led to years of being in the red, owing money long before they’ve had the chance at a career. This is why, when a financial professional extolls the magic of compounding as a reason to invest early, some millennials may wonder if this phenomenon happens in the reverse, too. For some, the lesson of the magic of compounding, which is a favorite of finance professionals, may feel more like a life sentence because they’ve been getting farther and farther in the hole.

The point is that, with millennials, it’s never a bad idea for advisors to address the heart first before engaging the mind. Explaining how money itself is not toxic but merely a tool that can be used for

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**Figure 1**

**SUSTAINABLE INVESTING GROWTH IN THE UNITED STATES (IN BILLIONS), 1995–2018**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Assets (in Billions)</th>
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<tr>
<td>1995</td>
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</tr>
<tr>
<td>1997</td>
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<tr>
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<td>2017</td>
<td>$22,000</td>
</tr>
</tbody>
</table>

Sustainable investing growth since 2015 38%
good is a helpful place to start. Describing what good debt and bad debt look like, the ways debt is used to create wealth, and how it was used improperly leading up to the financial crisis provides context and perspective.

For all clients, it’s important for advisors to develop an understanding of their backgrounds, conceptions, and misconceptions. However, it’s equally as important for some millennial clients to learn about an advisor’s thoughts and philosophy about the financial crisis, the global markets, and the state of wealth in America. Deep discovery can become an exchange instead of a one-sided inquiry, and financial professionals must be prepared to answer the very questions they pose. If prospects describe their desires to live a life of total alignment, financial professionals may be inclined to relate with examples from their own lives.

Similarly, a young couple who talk about their hopes to raise resilient and worldly children provide an opportunity for an advisor to confirm the importance of this value by relating personal or professional experiences, conveying their ability to be a trusted resource for these parents. The paradigm has shifted from clients seeking advice from a knowledgeable advisor to clients seeking counsel from a knowledgeable advisor they can relate to, trust, and work with at every stage of life. In a world of experts rich with specialized knowledge and specific skills, many millennials recognize the sophistication required for a financial professional to perform advanced work. But they also want this person to provide them with a bridge between their own world and the world of finance and economics. This, however, requires a shared ethos, open and transparent articulation of values, and a continual demonstration of thoughtful custom design of strategies and solutions.

**WHY DOES THIS MATTER?**

Why should a financial professional change an approach if it’s been working for the past few decades and the wealth transfer is taking place over the next decade? The reason is simple: This level of intimate work makes the work itself more meaningful for all involved. Millennials sometimes are called self-centered, narcissistic, or entitled, but they can just as easily be seen as engaging only in those things that matter most. If this generation perceives that life is short, global connection is a given, information is exhaustive, and yet economic advancement is limited, it’s easy to see why anxiety may accompany even the smallest decision. This worldview can make one feel as though every decision must count. It also can lead to paralysis, for fear of failing to make every decision count. To be able to relate to millennials in this moment, we must have our own personal answers to these fears. In this process, our work takes on greater meaning while we become more effective as professionals.

In these moments of apprehension, advisors with decades of experience can provide beneficial perspective. Relating on a personal level, then offering a professional view can solidify a strong working relationship. Talk through the most punctuated moments in the market throughout its history, and what resulted from them over time. Explain how first-time investors are rarely immune to irrational fears of loss, and yet over the long run, they can learn to cope with fluctuations that are all part of the business cycle. There are fewer better tools for building wealth than disciplined, tax-managed participation in the capital markets over long time frames. Offering this seasoned perspective while still being relatable can be a winning combination.

Imagine what the capital markets could accomplish if an entire generation leads all the other generations to be most interested in collective prosperity, not just profits at any cost. For the sake of our own future and the future of our children, bringing in the next generation to join in wealth creation sustains the growth of enterprise across the globe. Should the expressed desire of values, intention, and purpose within each dollar invested help direct multinational companies toward greater environmental consciousness, improved social practices, and enhanced diversity of thought at top leadership levels, one can only imagine greater possibility and gain a sense of pragmatic optimism. When raising our own resilient global citizens, or teaching our clients to raise theirs, the capacity for hope and renewal is expansive within the global markets, and the blossoming of investing with impact is upon us.

Noel Pacarro Brown, CIMA®, CPWA®, is a financial advisor, first vice president, investing with impact director, family wealth advisor, senior investment management consultant with the Conscious Wealth Management Group at Morgan Stanley. She earned a BA with honors from Brown University and a Masters in Teaching from Pacific University. Contact her at noelbrown@morganstanley.com.

**ENDNOTES**


Continued on page 34
The Rise of Impact Investing

Continued from page 16


REFERENCES


Noel Pacarro Brown is a Financial Advisor with the Global Wealth Management Division of Morgan Stanley in Honolulu, Hawaii. The information contained in this article is not a solicitation to purchase or sell investments. Any information presented is general in nature and not intended to provide individually tailored investment advice. The strategies and/or investments referenced may not be suitable for all investors as the appropriateness of a particular investment or strategy will depend on an investor’s individual circumstances and objectives. Investing involves risks and there is always the potential of losing money when you invest. The views expressed herein are those of the author and may not necessarily reflect the views of Morgan Stanley Smith Barney LLC, Member SIPC, or its affiliates.

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