WOMEN, MILLENNIALS, AND INVESTING FOR IMPACT

How Gender and Generation Could Help Reshape the World

By Jackie VanderBrug

If you are a financial professional, please consider these questions for a moment. How prepared are you for the coming Great Wealth Transfer? What do you know about the investing preferences of women and millennials? And how familiar are you with impact investing?

The Great Wealth Transfer is, of course, a popular name for the $30 trillion or more that is expected to pass from the baby boom generation to heirs over the next few decades—a figure that incidentally far exceeds the $12 trillion boomers' parents gifted them[1] (see the sidebar, "The Transfer Has Begun").

Women and millennials (people born between about 1980 and 2000) are expected to be recipients of a large slice of that $30 trillion, and it's reasonable to assume they'll choose to invest a lot of it. At the same time, if your client base is anchored by traditional investors (that is, older white males), you may be less familiar with more diverse gender and age cohorts.

As for impact investing (or investing for financial returns as well as positive societal and environmental change), it has expanded from socially responsible investing to include investing based on environmental, social, and corporate governance (ESG) factors, as well as other solution-oriented strategies. Understanding the growing field of impact investing is important because, as you'll see, women and millennials in particular are showing considerable interest in it.

SHOW ME THE MONEY: GENDER AND DEMOGRAPHICS

Women and millennials (along with generation X, the smaller demographic group between millennials and boomers) eventually will control a vast portion of that inheritable $30 trillion. What's more, they are expected to make trillions of dollars of income themselves, either by creating it or through investment returns. In fact, the U.S. Trust 2017 Insights on Wealth and Worth® survey of more than 800 high-net-worth households found that women accumulated 47 percent of their wealth from earned income and 35 percent from investments, but acquired just 13 percent through inheritance. (Some 10 million businesses are owned by women, and 89 percent of them are sole proprietorships.[2]) Millennials had similar numbers for earned income and inheritance but accumulated less from investments (19 percent), no doubt because they are young and have been investing for a shorter time.

U.S. Trust Wealth and Worth survey results support what most advisors might instinctively assume about women and millennials: Each group has financial values and goals that differ from those of traditional investors, especially on investing for social or environmental impact. What might be less obvious is that women are more inclined than men to seek advice, whether from a broker or investment advisor (53 percent of women vs. 43 percent of men), a financial planner (30 percent vs. 24 percent), or a wealth manager (27 percent vs. 22 percent). Similarly, Cerulli Associates, a research and analytics firm, found that 30 percent of women and 45 percent of men are self-directed investors although 25 percent and 17 percent, respectively, use advisors.[3]

WOMEN AND WEALTH: MORE THAN JUST SECURITY AND IMPACT

Women and men alike seek financial security. Women are more likely, however, to look for wealth to do something more. Here's what several studies found.

When asked what wealth means to them, women and men both rank financial security high on the list—women at 88 percent and men at 81 percent—according to results from a survey by the Center for Talent Innovation (CTI).[4] Beyond security, though, women are more inclined to look to wealth to provide more, not just for themselves and their families but for society at large. In short, they have more desire to use wealth to create positive change. CTI research found that 76 percent of women want to invest in companies that promote well-being. Likewise, in the U.S. Trust survey, 63 percent of women said they consider the social, political, or environmental impact of the investment important in their investment decisions.

With these differences in mind, advisors who seek to understand their female clients' goals and perceptions stand to create valuable connections. While male clients' interest has almost caught up to their female counterparts, our research shows women still lead in implementation (see figure 1). What may be key here is the ability to adjust tonally. Bring up impact investing performance early in conversations with both female and male clients. After that, focus on areas of interest. For women that might be a portfolio's social and environmental impact; for men a deeper look at impact's potential risks and returns.

It can be problematic to generalize broadly on the views of roughly half the population, but Bank of America research into women's philanthropic motivations over the years has demonstrated a clear trend: Women (more than men) give where they do based on the difference they think it will make.[5] Moreover, when asked in the U.S. Trust survey what motivated them to engage in impact investing, the top reason cited among women was, "It's the right thing to do as a responsible citizen and an investor"; 62 percent agreed with this statement (see figure 2).

In a similar way, as part of their motivation for an investment approach, women are more likely to say, "I want to make a positive impact on the world."

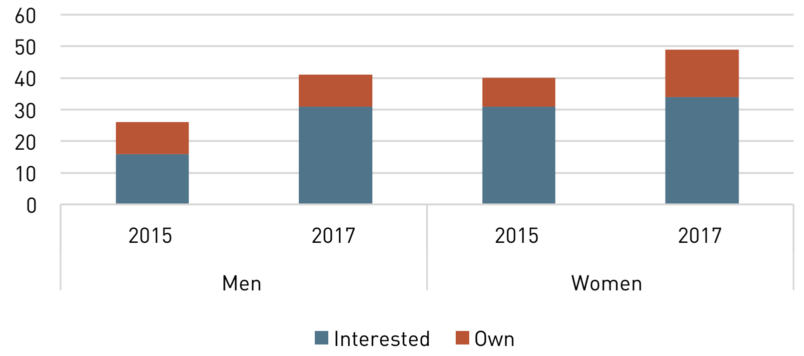
Women are more inclined than men to tie their interest in impact to issues: More than half of women (32 percent more than men) say they feel strongly about supporting specific issues. In other words, for women, it's not simply about a general sense of doing good. Whether it's the environment, women's rights, or good jobs, they want to see progress.

Perhaps further verifying the importance for women of doing good, significantly fewer women than men in the U.S. Trust survey said their impact investing or interest in impact is driven by a belief that good corporate citizenship is a driver of performance. In other words, for women, impact investing does not seem to be primarily

Figure 1

MALE AND FEMALE—THE GROWTH OF INTEREST AND INVESTMENT IN IMPACT

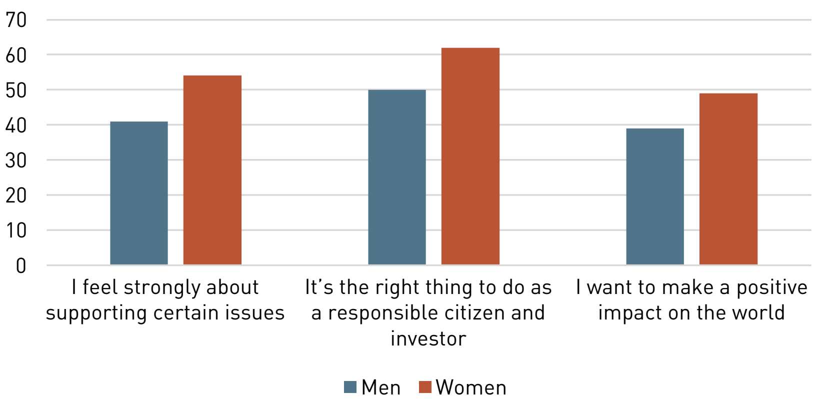
INTEREST AND OWNERSHIP IN IMPACT INVESTING



Source: U.S. Trust 2017 Insights on Wealth and Worth®

Figure 2

MOTIVATIONS FOR IMPACT INVESTING 1



Source: U.S. Trust 2017 Insights on Wealth and Worth®

about achieving a better risk-adjusted return. Men, by contrast, place a higher priority on the potential that impact provides to reduce business risk (see figure 3).

It's not that women don't believe that companies with high ESG scores may have lower risk or better financial performance—it's simply that neither is a main driver of their interest (for them, lower risk and better performance were #5 and #6 out of seven choices related to their interest in impact). What's more, only 20 percent of women (vs. 38 percent of men) are motivated by finding companies with good corporate records such that they may be less susceptible to business risks.

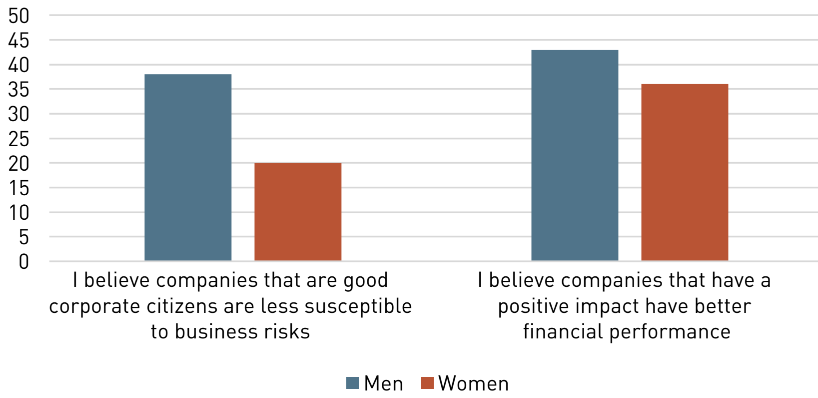
Based on these results, impact investing for a woman may be part of her identity, or the person she wants to be. By honoring that aspiration, financial professionals may successfully attract or retain more female clients.

MILLENNIALS: AUTHENTIC EXPRESSION, INTEGRATED ACTIVITY

Impact investing may be consistent with many women's identities, but it seems to be part and parcel of millennials, many of whom are seeking to integrate investment and philosophy (see figure 4). Three-quarters of millennial investors in the U.S. Trust survey agree with the statement, "My investment decisions are a way to express my

Figure 3

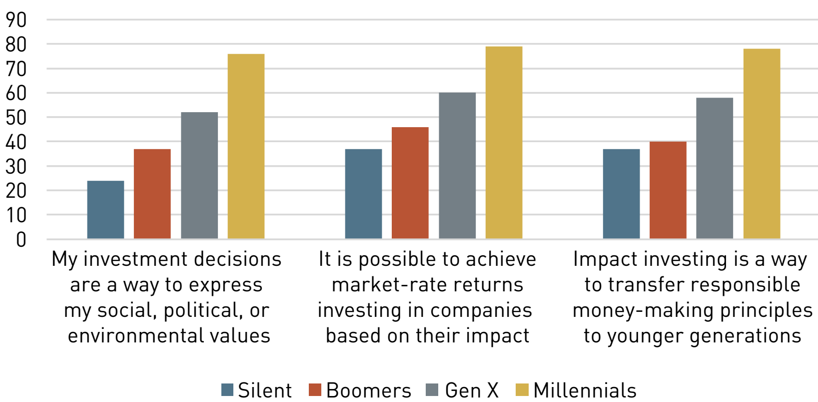
MOTIVATIONS FOR IMPACT INVESTING 2



Source: U.S. Trust 2017 Insights on Wealth and Worth®

Figure 4

ATTITUDES ABOUT IMPACT INVESTING



Source: U.S. Trust 2017 Insights on Wealth and Worth®

social, political, or environmental values." To put that in generational context, only one quarter of silent generation investors (those born 1925–1945) agree with that statement. Increasingly, with more investable options and growing media attention, millennials place a priority on this form of expression; only one in five agree that impact investing "is not important to me."

For about half of millennial investors, as with women, this sense of concern is grounded in strong convictions about certain issues. Millennials have few if any concerns about blending investing and philanthropy, or doing well and doing good. Many millennials bring a more holistic or inclusive view that allows the use of a broad spectrum of impact-producing tools: buying, giving, investing, volunteering, and so forth. Their elders have concerns with this broad approach: Twice as many boomers say they are not interested in impact investing because they don't mix philanthropic goals and investing goals. The difference may exist because most millennials do not view the pursuit of impact goals as a trade-off or financial compromise. Indeed, 79 percent believe it is possible to achieve market-rate returns investing in companies based on their impact, whereas only 37 percent of silent generation investors believe this to be true.

Almost one-third (32 percent) of all high-net-worth investors fall in the impact investing "aspirational gap," that is, those who are "interested and not yet investing." Advisors hoping to expand or sustain their businesses should understand impact investing thoroughly enough to be able to explain its potential benefits and risks. They also should be able to describe how impact investing has changed over time, with environmental and social change now far more quantifiable; and with impact investors more focused on performance and returns. (See the sidebar "Impact Investing: It's a Whole New World" for more on these changes.) Here is a checklist of millennial investor preferences and concerns based on U.S. Trust 2017 Insights on Wealth and Worth® survey results:

Importance and identity. Nine out of 10 millennials say that a company's impact on society and the environment is an important basis of their investment decisions. For millennials, the main question about impact investing has migrated from "if" to "how." Nearly 80 percent say they would invest in companies that have a positive impact rather than avoid investing in companies that are harmful.

Awareness of events. The top reason millennials give for their interest in companies based on their ESG impact is that they feel strongly about supporting certain issues. Again, this generation, which has grown up in the digital era, is used to gaining almost instant knowledge of global events. They've watched extreme weather devastate communities, famine create refugee crises, and global health epidemics pass unchecked across borders. They may have a growing sense that many crises may be connected, for instance through climate change.

Results before returns (just). Millennials are the only demographic to say that evidence of positive social and environmental impact would be more likely to motivate them than evidence of positive returns (45 percent vs. 41 percent). This slight preference is not due to a lack of interest in performance but rather to seeing no trade-off. In a world they are about to inherit, as it were, they find impact more important than returns. Nearly eight out of 10 say it is possible to achieve market-rate returns investing in companies based on their impact; only 60 percent of gen Xers and 46 percent of baby boomers say they think this way.

Lastly, remember that millennials are the first generation to grow up entirely in the digital era. As such, they almost certainly will inquire about the online technology that advisors offer, including social media, smart phone apps, real-time portfolio monitoring, and more. Consider taking appropriate steps.

ADVISOR CHECKLIST

With the Great Wealth Transfer underway, and with women and millennials expected to inherit or create trillions, what should advisors be discussing with them?

FINANCIALS FIRST

As we've seen, the performance of impact-related investments is not the top motivator for many women or millennials. Nevertheless, we believe financial results should be front and center in early conversations. Here's why:

- Many investors still believe impact equals underperformance even though that has not been the case for some time now; impact-related investments can offer market returns.
- The number-one factor that would prompt families to invest, or invest more, in impact is evidence of performance returns, according to the U.S. Trust survey.
- It helps to reference a study or two, depending on the interest level of your client. We often cite our "Performance Realities" paper, which debunks the underperformance myth across the landscape of impact investment approaches; it also presents equity and quant strategy research outlining the role ESG plays in signaling future earnings volatility.[6]
- Advisors should be able to communicate why good companies can be good investments, the relevance of ESG data to performance, and the changing nature of the global economy. Clients may drop their misconceptions when you explain the link between a company's resource efficiency and its future opportunities, the advantages of a motivated workforce given costs of turnover, and the need for innovation.

CONVEY THE IMPACT

As you might expect, the conversation should not be limited to performance; simply conveying that most impact investments are not concessionary rarely will be enough. As we've noted, women and millennials are motivated by the impact potential.

- Take time to explain the importance of both direct impact (through companies that have solutions to global and local challenges such as clean water) and systemic impact (through shifting policies and practices). Notably, the growth in ESG-related funds and the metrics that they use is attracting attention in corporate C-suites.
- Provide examples from impact managers' reports about their metrics for change, in absolute terms (such as low-income housing units built or women-led companies financed) or in comparisons (such as carbon intensity or women on the board or portfolio vs. benchmark).
- Unpack the role of engagement with your client. Explain how investors and managers may proactively use engagement practices to spur companies to adopt better social and environmental practices. Recent examples in the news include companies improving environmental packaging, providing greater diversity disclosure or stronger family leave benefits, and reducing deforestation. Support your clients in determining how they want their proxies voted.

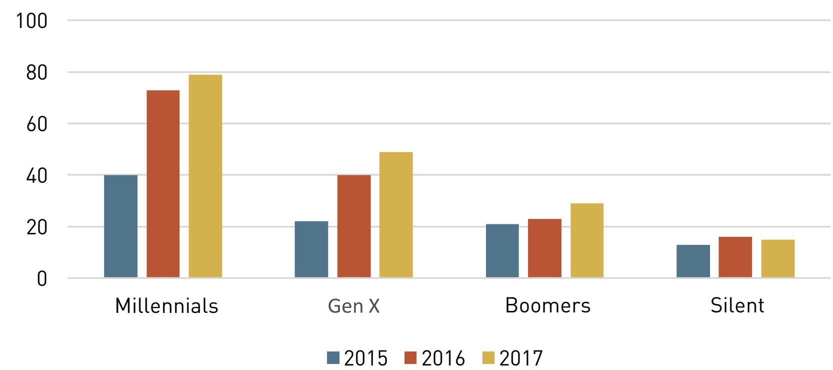
PROVIDING GUIDANCE

For most individuals, impact investments are still new—and lack of familiarity often means assumptions of risk that are unwarranted. You may have had some experience with this sort of incorrect assumption when emerging markets entered the financial mainstream or alternatives began to be part of your conversations. (For more on the myths surrounding impact, see the sidebar "Impact Investing: It's A Whole New World.")

U.S. Trust research suggests that only 18 percent of investors discuss impact investments with their financial advisors. Research by State Street Global Advisors shows that more than three-quarters of

Figure 5

PERCENT OF INVESTORS WHO HAVE REVIEWED THEIR INVESTMENT PORTFOLIOS FOR IMPACT



Source: U.S. Trust 2017 Insights on Wealth and Worth.

investors get their information about impact investing from sources other than their advisors.[7] Women and millennials are significantly more likely to bring up the subject with you. What's more, investors across most demographics are increasingly interested in reviewing their portfolios for social and environmental impact (see figure 5). You may have an opportunity to engage clients by bringing up impact before they do.

Some individuals will come to you with very clear interests and a set objective such as moving to an impact-only portfolio within three years. The majority, however, will come with a broader inclination to begin to leverage their portfolios for good, and also some real questions about the viability of and approaches to impact. How you frame the conversation is vital: Four out of 10 investors say they would invest in impact if their advisors recommended it.

OPPORTUNITIES FOR BUILDING YOUR PRACTICE

SEEK INTEGRATION

Impact investing fits naturally into a goals-based wealth management framework. Take steps to find out how it might mesh with your clients' goals.

- During the initial discovery process, inquiring about clients' beliefs, passions, and values can provide greater connection and insight into impact priorities and opportunities.
- When creating a portfolio, be sure to address interests and objectives such as thematic exposures to sustainable solutions or avoidance of firms with particular practices.
- When reporting on performance, include impact performance.
- Have the impact conversation with all clients and prospects, not just those you think are inclined to be interested. Note that some will ask if impact is an integral part of your overall policy or just something you're offering because you know it's likely to attract their interest.

THE TRANSFER HAS BEGUN

The Great Wealth Transfer is often described as "coming," but in fact it has already begun. This admittedly unofficial assessment is based on these points:

- Boomers were born between 1946 and 1964, and the most senior recently celebrated their 70th birthdays; 2.5 million did so in 2016, according to recent AARP estimates.
- According to U.S. tax law, anyone age 70.5 and up must begin taking required minimum distributions from retirement savings such as traditional individual retirement accounts (IRAs) or face a financial penalty.*

In other words, one source of the vast pool of funds that the post-World War II generation has amassed over a lifetime is effectively starting to move out of retirement accounts and into bank accounts, with at least some of it also beginning to change hands. Individuals age 70-plus have an average of $220,000 in IRAs, according to 2013 data from the Employee Benefit Research Institute.

** Retirement Plan and IRA Required Minimum Distributions, IRS FAQs, 2017.*

IMPACT INVESTING: IT'S A WHOLE NEW WORLD

Impact investing often is associated with lower investment returns, lack of data showing social or environmental progress, smaller funds, and limited ways to invest for impact. But the strategy has evolved rapidly over the past decade or so, to the point where these views no longer hold true and are essentially myths. This is what impact investing looks like today:

- A broad spectrum of strategies has evolved. These new approaches tend to be more active and demanding, more focused on profit and measurable impact, and based on the notion that strong ESG performance and corporate profitability are positively correlated.
- Asset types focused on impact can include equities, bonds, exchange-traded funds, real estate investment trusts, and many more.
- Many impact- or ESG-focused indexes can help investors gauge performance. They include the MSCI ACWI Sustainable Impact Index, the Thomson Reuters Corporate Responsibility Indices, and many more.
- Many corporations publish a robust set of impact data in annual corporate sustainability reports. According to the Governance & Accountability Institute, more than 80 percent of S&P 500 companies now publish such reports, up from just 20 percent in 2011.
- Industry groups such as the Sustainability Accounting Standards Board are working to ensure data are reported consistently from company to company and industry to industry.
- Investors have access to a rich dataset on workforce diversity, carbon emissions, water/energy usage, and waste, as well as the programs companies have invested in to better their communities and make a positive impact across their ecosystem.
- U.S.-based assets under management (AUM) committed to sustainable, responsible, and impact investing grew from $640 billion in 1995 to $8.7 trillion in 2016, a 14-fold increase, with AUM now almost 22 percent of $40 trillion in overall assets under management.*

** The Forum for Sustainable and Responsible Investment, 2016.*

SHARE YOUR STORY

Clients and prospects may want to know how your company and you walk the walk.

- Be prepared to share the ways in which your firm views the opportunities in ESG factors, how this has evolved over time, and where you are making progress. (For example, Bank of America has committed to be carbon-neutral in all its locations by 2020 and has a $125-billion commitment to environmental investments.)
- Clients also may get more personal, enquiring about where you are engaged in this growing field, what thought leadership you have offered, and which associations you belong to.

CREATE INTERGENERATIONAL CONNECTIONS

Share with your mature clients that a large majority of millennials (78 percent in the U.S. Trust survey) view impact investing as a way to transfer responsible money-making principles to younger generations, and specifically their own generation. Passing on values is something that older generations hope to do. Inherited money or real estate can be helpful to younger generations, but 86 percent of boomers in an Allianz study consider family stories, values, and life lessons to be the most important part of a family's legacy.[8] Impact, therefore, may be an area where children's and parents' goals can align. As an advisor, supporting conversations among generations in the same family may be key to keeping younger members as clients (two-thirds of children fire their parents' financial advisor after they inherit their parents' wealth, according to data published by *InvestmentNews*[9]).

CONCLUSION

All of this may seem like a lot to take in, especially if you've been an advisor for many years. Even so, the world is changing, so it's important—for you, your business, and your clients—to keep pace. The Great Wealth Transfer may be taking place over many decades but it has started, and women and millennials in ever greater numbers are looking for advice on impact.

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ENDNOTES

1. From "The 'Greater' Wealth Transfer: Capitalizing on the Intergenerational Shift in Wealth," Accenture LLC (2015), https://www.accenture.com/us-en/~/media/Accenture/Conversion-Assets/DotCom/Documents/Global/PDF/Industries_5/Accenture-CM-AWAMS-Wealth-Transfer-Final-June2012-Web-Version.pdf.
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