What Makes Millennials and Impact Investing the Perfect Match?

By Alexandra Douwes and Logan McIntosh

Whether or not you buy into the many stereotypes about millennials, it's hard to deny that the preferences, expectations, and decisions of the generation born between 1980 and 1997 will have a meaningful impact on the financial services industry for decades to come.

Millennials are 80-million strong in the United States alone, and their tech savviness, values-driven ethos, and desire for customized, convenient solutions is transforming how money is managed and financial advice is delivered. With millennials, the role of a financial advisor has shifted from service provider to trusted partner; product exclusivity has been replaced by expectations of transparency and accessibility; and investment strategies are moving beyond financial returns to align with personal values.

The world is more connected than ever before, and technology has increased awareness and inspired consumers to take greater responsibility for the social and environmental impact of their actions. This is particularly evident when it comes to making and purchasing investments. Morgan Stanley reports that 86 percent of millennials are interested in socially responsible investing, and millennials also are twice as likely to invest in a stock or a fund if social responsibility is part of the value-creation thesis.[1] The concept of blending financial returns with positive social change has gone mainstream with the rise of impact investing. As of 2016, more than one out of every five dollars under professional management in the United States is devoted to sustainable, responsible, or impact investing strategies, totaling $8.72 trillion.[2] As millennials surpass baby boomers in both numbers and purchasing power, the interest in values-aligned strategies will continue to grow.

According to PWC's Wealth Management Industry Infrastructure survey, 88 percent of advisors agree or strongly agree that millennials represent a significant opportunity for the industry; yet much of this generation can feel misunderstood by financial professionals. Impact investing provides a significant opportunity for advisors to build relationships with millennials around the interests, passions, and values that drive them. In this article, we will explore why impact investing resonates so strongly with millennials, and how financial advisors can use impact investing to attract, engage, and retain the next generation of clients.

MILLENNIALS AND MONEY

To understand the strong appeal of impact investing for millennials, we must first understand the trends and societal pressures that have shaped this generation's approach to money.

LACK OF FINANCIAL LITERACY

Sixty-nine percent of millennials have no formal financial education.[3] Therefore, it is no surprise that 60 percent of millennials believe they lack the knowledge and experience necessary to invest wisely.[4] This isn't to say they aren't being proactive about their financial future; they just don't know where to start. Although 86 percent of millennials are saving, only 37 percent have a financial plan.[5]

TRUST ISSUES

Millennials have an increased awareness of disingenuity. Rather than believing the polished messages brands put out in the world, millennials turn to peers for trusted guidance. In fact, 85 percent trust recommendations from friends and family above all other forms of advertising.[6] When it comes to money, 53 percent feel they have no one to trust for financial advice;[7] in fact, affluent millennials are twice as likely to turn to social networks for financial advice.[8] No longer is age, level of experience, or brand recognition the determining factor; millennials are seeking out financial partners who understand where they are coming from and can tailor the financial decision-making process to fit their personal situations.

DIGITAL TRANSPARENCY

This demographic has been instrumental in transforming the way the world communicates by being the first adopters of many social media tools. The millennial generation grew up as digital natives, with unprecedented access to information and an unparalleled ability to communicate online. Live streaming, 140-character updates, and peer reviews have enabled real-time feedback and enhanced accountability between businesses and consumers. Millennials have

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come to expect on-demand access with the click of a button, driving the financial services industry to develop secure, digital capabilities and mobile-friendly offerings to meet the needs of the uber-connected consumer.

SOCIALLY CONSCIOUS ETHOS

According to Deloitte's 2017 Millennial Survey, 84 percent of millennials feel it is their duty to make the world a better place. From the products they buy to the careers they choose and the organizations they support, millennials are evaluating decisions through an impact lens. And in doing so, millennials are holding companies, organizations, leaders, and themselves accountable for making responsible, socially conscious choices. Research shows that this generation is committed to making impact-first decisions when it comes to issues they care about, whether it's taking a pay cut to work for a responsible company,[9] seeking out employers who share their personal values,[10] or paying more for sustainable products.[11] Regarding consumer ethics, 9 in 10 millennials would switch brands to one associated with a cause.[12] Social impact is no longer reserved for philanthropy or volunteer activities; millennials are integrating personal values across every facet of their lives.

RETIREMENT, REIMAGINED

Millennials know it's going to be on them (rather than Uncle Sam) to save for the future. More than one-third of those age 19–35 say they expect to receive 0 percent of their retirement income from Social Security, and 21 percent say they have no idea what to expect.[13] This has had a significant influence on millennials' approach to saving. Studies show that millennials started saving at 22 years old, almost 10 years earlier than previous generations, compared to generation X at 28 and boomers at 35.[14] In fact, 62 percent of millennials save 5 percent or more of their income, almost double the rate of other older generations at that age.[15] As retirement is being reimagined, millennials increasingly are open to exploring different career options. With the lack of retirement support and employer benefits such as pensions, combined with the reality that millennials most likely will need to continue working well into their retirement years, this generation is drawn to careers that offer a greater sense of meaning from the get-go, rather than waiting until retirement to start giving back and doing what they love.

Putting money to work to address a global or local social challenge gives millennial investors the opportunity to experience the return of their investments in a more tangible way.

THE MILLENNIAL ATTRACTION TO IMPACT INVESTING

By understanding some of the motivations that shape the millennial mindset, it's easier to recognize how and why impact investing appeals to this investor demographic. Other generations may have preferred to spend the first 50 or 60 years of their lives accumulating wealth before giving all or part of it away, but millennials do not view doing well and doing good as autonomous (or sequential) motivations. They view their financial activity as an extension of who they are, with 67 percent of millennials agreeing that investment decisions are a way to express their social, political, and environmental values.[16]

By aligning financial products with personal values and societal purpose, millennials can view money as a tool for good, alleviating the intimidation factor that so often is associated with investing. Here are some ways impact investing caters to the millennial mindset, making this field increasingly popular among this demographic.

IMPACT IS MORE ENGAGING THAN INTEREST RATES

Given that the average millennial has a relatively low level of knowledge when it comes to personal finance, impact investing can be a powerful engagement tool. An impact investment inherently has a compelling story to tell—one that extends beyond market returns and earnings before interest, tax, depreciation, and amortization. Putting money to work to address a global or local social challenge gives millennial investors the opportunity to experience the return of their investments in a more tangible way. From themed portfolios built around goals such as clean water or zero waste, to exchange-traded funds (ETFs) composed of companies that meet certain impact criteria such as a minimal carbon footprint or high percentage of female leadership, new products and platforms are enabling investors to contribute directly to the causes they care most about.

PORTFOLIOS CAN INSPIRE PURPOSEFUL DIALOGUE

Digging into the themes, causes, and geographies that are most important to someone can establish a framework for connecting people with portfolios in a more meaningful way. Impact investing can be used to deepen relationships between investors and financial professionals, as well as to inspire cross-generational dialogue within families. The Global Family Office Report found that millennials are moving the needle, with two-thirds of family offices agreeing that families with millennial children would see an increased demand to participate in impact investing. Philanthropy is no longer the only way to put money to work for the common good; rather, 47 percent of family offices reported that impact investing is a more efficient use of funds than philanthropy to achieve social impact.[17] This generational demand is prompting a much larger conversation about the purpose, and opportunity, surrounding family wealth.

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GLOBAL CITIZENSHIP IS DRIVING GREATER COLLABORATION

There are few asset classes where the power of collaboration is more salient. Thanks to new technologies and the growing popularity of crowdsourcing, tackling global challenges has become a team effort. Millennials are the most-networked generation to date; as a result, they share a heightened sense of empathy for peers around the world who may be experiencing particular challenges more directly. Philanthropy plays a critical role in this ecosystem, but impact investing offers a sustainable and results-driven alternative to affecting change. It prioritizes collaboration over competition and has the power to unite public and private sectors under the guise of a shared purpose.

DOING GOOD IS GOOD BUSINESS

With the belief that you can do well and do good simultaneously, millennials view sustainability efforts as simply smart business management. In fact, this generation ranks "to improve society" as the number-one priority of business.[18] With new blended approaches toward sustainable change, no longer are business and philanthropy separate philosophies. With the rise of social entrepreneurship, millennials are driving innovation at the intersection of profit and purpose. Impact investing caters to the "doing good, doing well" mentality and improves upon traditional ways of creating more meaningful, and responsible, strategies for putting money to work.

TIMELY OPPORTUNITY FOR FINANCIAL ADVISORS

All generations share a desire to make a difference, but millennials are uniquely positioned to use impact investing as a tool to affect change at scale. Why now and why this generation? It all comes down to timing. From the societal pressures that have shaped the millennial mindset, to the technologies that enable greater transparency, to the rise of mission-driven companies that are successfully pursuing both profits and purpose, we are at a tipping point.

This unique convergence of circumstances poses a significant opportunity for financial services professionals. Here are a few of the key ways that advisors can leverage impact investing to attract, engage, and retain millennial clients.

USE EDUCATION AS AN ENTRY POINT

Because the millennial generation has a relatively low level of knowledge when it comes to personal finance, there is a significant opportunity for advisors to position themselves as an educational resource for those looking for guidance. Millennials recognize the need for professional help, with 84 percent seeking financial advice.[19] They are highly relationship-oriented and looking for a collaborative process, one in which advisors can help them discover and understand their options. Impact investing represents an excellent conversation starter and strategic entry point when approaching a new client demographic.

Passive solutions such as ETFs and index funds in particular can help advisors establish relationships with new millennial clients and introduce the basics of investing. According to Schwab, 63 percent of millennials, more than any other generation, expect ETFs to be their primary investment vehicle in the future.[20] This generational affinity for ETFs, combined with a desire for a more socially responsible approach, illustrates increasing demand for passive solutions that incorporate an impact lens. Low-cost options, such as ETFs, that address immediate client needs can help advisors get a foot in the door with prospects who are unsure of how to get started.

LEVERAGE STORYTELLING

Tying a financial product to a cause or purpose makes the investment process more relatable. Use storytelling to engage prospects and clients by explaining how the investment strategy can directly contribute to the causes and themes they are most passionate about.

Impact investing also can help filter out intimidating industry jargon by connecting financial investments with positive social change. Expand the conversation beyond a stock's historical performance and dig into the company's mission, the people the company is employing, and the leadership's vision for the future. By highlighting the influence of sustainable business practices in the long run, financial advisors can educate young investors on how they can connect their investment holdings with their principles and desired impact.

TWEAK THE TRADITIONAL

Adapt existing methods to help connect investors to their portfolios on a deeper level. For example, consider revising the investment questionnaire to help get at the "why" behind the numbers by incorporating discovery-oriented questions such as the following:

- What are some of the most important reasons why you are saving?
- How do you define your own success?
- What are some of the "firsts" you want to take in the next five years?
- What are you most concerned about being able to afford in life?

Advisors can illustrate how portfolio decisions can align with a client's individual needs and personal circumstances. These types of questions can help shift the conversation to expand beyond risk and return profiles to a client's vision for the future and the values behind the personal motivation. By digging into investors' key motivations, advisors can show clients that their portfolios can be a purposeful tool for manifesting life goals and legacy.

SUMMARY

Millennials are looking for partners and resources who understand where they're coming from and the challenges they are facing. Having entered adulthood amid the chaos of the financial crisis, many millennials have an inherent skepticism about the market. Impact investing humanizes money

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management by aligning financial objectives with personal interests, and it can be used by financial advisors to connect with millennial investors in a more authentic way. Advisors who are able to empower their clients to make more-educated decisions that are aligned with both their financial objectives and values will become trusted partners to the next generation of conscientious investors.

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