

THE INDIVIDUAL IMPERATIVE RETAIL IMPACT INVESTING UNCOVERED



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Foreword

Saadia Madsbjerg

Managing Director, Innovative Finance



Impact investing has grown impressively in the past decade. In one sense, the factors driving investors have not changed. We invest to plan for the future, and we hope for a better, wealthier tomorrow. And yet, our sense of what constitutes wealth has changed, and a rapidly innovating financial services industry has responded by creating new modes and investment tools that generate social or environmental returns alongside financial ones. Early innovations in impact investing catered to accredited and institutional investors. The next frontier for impact investing lies with retail investors.

After all, mass affluent retail investors are projected to have some \$100 trillion in investing power globally by 2020, the equivalent of BlackRock fifteen times over. And as “The Individual Imperative – Retail Impact Investing Uncovered” highlights, a majority of retail investors believe that impact investing can fix a financial system that is inherently unbalanced or unequal.

As a provider of risk capital for social good, The Rockefeller Foundation champions the research and development of financial instruments to successfully enable, accelerate, and harness retail investments for public good. We are seeing early success across the United States and Europe with retail investment products such as ESG Exchange Traded Funds, fixed income community notes, listed investment trusts, and impact mutual funds.

Our aspiration is to grow early successes into a normal course of investing behavior. “The Individual Imperative – Retail Impact Investing Uncovered” provides valuable insights from investors and financial institutions into what it will take to fully realize that aspiration. The report shows that driving retail investors to allocate a larger portion of their assets to areas that also have a positive impact on society requires a sustained commitment to innovation – in products and offerings, but also in sales and advisory channels.

We hope that the report inspires new thinking and collaboration within the institutions currently committed to growing the sector, and equally that this report highlights the great opportunity that exists for the financial institutions who have yet to seize it. If we can provide individuals with the ability to finance the world we want to live in, it is our ultimate hope that we might begin to reshape the world – and to realise the vision of a better tomorrow.

Embracing the ‘and’

The term ‘impact investing’ was coined in 2007, when a group of investors met in Rockefeller’s Bellagio Center on Lake Como, Italy, to explore a new investment concept that could simultaneously effect social and environmental change.¹ Just over a decade later, an exploration has become an energised – albeit still nascent – industry.

The GIIN Annual Impact Investor Survey 2018 reports that impact investing assets under management (AUM) have grown at a rate of 13% per annum (among those surveyed in 2013).² The network estimates that impact investing AUM worldwide totalled US\$502 billion at end-2018, with more than 1,340 organisations engaged in impact investing.³

No longer the preserve of institutional investors and UHNWIs, the practice of impact investment has blossomed across age groups, wealth brackets and asset classes.⁴

Fund managers report the amount of capital invested by retail investors to have grown by 20% CAGR over the last five years. As interest among retail investors grows, so impact investment has the potential to be ‘democratised’, a way for anyone with an active interest in the future of the planet and of society to make a real difference.

There is, after all, a substantial audience to engage. In the US alone, the retail investment market consists of around 75 million individuals, who collectively control in excess of \$17 trillion investable assets.

“You can demonstrate to those investors that you can be good investors and good global citizens at the same time,” says David Richardson, executive director, business development, Impax Asset Management. “It’s not an or, it’s an and.”

This report, which draws on a survey of 200 retail investors and 300 advisory firms that serve them, explores what it will take to truly democratise impact investment. What is the expected growth of the industry, what are the motivations of individual investors, how are they measuring success and what must the advisory community do to show them the way?

¹ www.gih.org/Examples/EXDetail.cfm?ItemNumber=6907

² www.thegiin.org/assets/2018_GIIN_Annual_Impact_Investor_Survey_webfile.pdf

³ www.thegiin.org/assets/Sizing%20the%20Impact%20Investing%20Market_webfile.pdf

⁴ http://reports.weforum.org/impact-investing-from-ideas-to-practice-pilots-to-strategy-ii/4-democratizing-impact-investing-for-retail-investors/4-2-creating-and-distributing-impact-products-for-retail-investors/?doing_wp_cron=1552908368.1464970111846923828125





Key findings include:

SOCIAL AND FINANCIAL ROI IN TANDEM

Our research reflects a growing belief among retail investors that they can generate both financial and social returns from investments. The majority (55%) believe a clear link can be proven between financial investment and social returns.

FROM AWARENESS TO ACTION

Of the retail investor respondents who are aware of impact investing, the vast majority (78%) state that they are currently making impact investments. Over half of those (55%) expect their allocation to impact investing funds/products within their portfolios to increase to 6-20% over the next two years.

BRIDGING THE PERCEPTION GAP

Our findings highlight a disconnect between how advisors believe they are perceived by clients and the actual perceptions of investors looking to gain a foothold in impact investment. Closer collaboration, along with more thorough education and policy initiatives, are needed to bridge the gaps.

GUIDED BY HEARTS AS WELL AS MINDS

Investors are driven by personal values, rather than relying purely on metrics-driven returns. They are choosing impact for a number of reasons, but almost a third (29%) say “a personal issue close to my heart” is one of their top two influences for incorporating impact investing into their investment portfolios.

NEW VEHICLES FOR CAPITAL TO MAKE IMPACT

There is a clear need to develop innovative, scalable products to cater for the growing base of retail investors. While appetite for impact investment is growing, 29% of advisors say that there are not enough ready-made impact opportunities on offer to potential investors.



A call for innovation

It will require a wave of innovation and new thinking in order to create the conditions required to incubate successful impact investment.

The growth of impact investment platforms is a sign of such creativity. OpenInvest offers new ways for retail investors to engage with impact investing. CNote allows retail investors to crowdfund impact investments in increments as small as \$1.⁵ Meanwhile, Motif – another online impact platform – aims to simplify the investment process for the retail market by dealing in dollar amounts rather than shares, with the option to either pay as you go or subscribe monthly.⁶ Our research suggests use of similar platforms is set to grow – more than a third (35%) of investors say they are likely to use one over the next 12 months.

In the future growth of the impact industry, the role of the advisor will be key. Respondents are clear that, to remain relevant in this market, advisors must adapt to the mindset of the modern investor. This means finding investments that offer transparent, measurable impact, while still delivering financial ROI that is competitive against traditional investment products.

Advisors will need to catch up quickly in terms of their knowledge and understanding of the impact market, allowing them both to find and explain the most exciting new opportunities to receptive clients. This active engagement will fuel the growth of impact investing as more and more investors are brought on board in an effective, strategic manner.

⁵ www.thetransformseries.net/2019/03/28/cnote-a-retail-impact-investment-revolution-in-the-making/

⁶ www.motif.com/about/press/press_release/introduces-motif-impact-portfolios

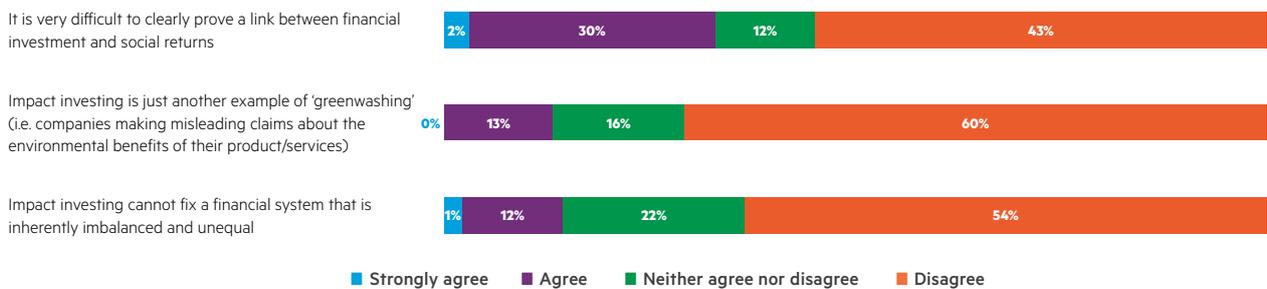
Section 1: A new model of investment

While impact investing may be perceived as requiring a degree of sacrifice in terms of financial return, the evidence points to a reality that is quite different. Since 1990, the MSCI KLD 400 Index, comprising companies with strong sustainability profiles, has outperformed the S&P 500 in terms of annualised returns.⁷

“There has been a gradual realisation among investors, and supported by academic and industry research, that there is no requirement to give up financial returns to have an impact,” says Damian Payiatakis, head of impact investing, Barclays. “In fact, some make an argument that, by considering impact in the investment process, you can actually do better financially; what’s termed ‘impact alpha.’”

Our findings reflect this growing belief among retail investors. The majority (55%) of investors believe a clear link can be proven between financial investment and social returns, indicating an underlying trust in the principles of impact investment.

To what extent do you agree/disagree with the following statements?



Retail investors drawn to impact investment

78%

Retail investor respondents we surveyed who are aware of impact investing say they are currently making impact investments

vs.

22%

Are aware but not yet making investments

⁷ www.ft.com/content/292ecaa7-294c-3a4b-bde6-a7a744cb85a9

Allocations set to rise

55%

Investors expect their allocation to impact investing funds/products within their portfolios to increase to 6-20% over the next two years.

Great expectations

Underlining the potential for the democratisation of impact are the signs of excitement in the retail market. Of those retail investors who are aware of impact investing, the vast majority (78%) state that they are actively making impact investments.

Appetite is growing as well, with respondents looking to increase their allocation to impact investing funds and products over the next two to three years. While the majority of investors (77%) currently have 4-5% of their portfolio invested in impact investing funds/products, over half (55%) expect this to increase to 6-20% over the next two years.

This trend has not gone unnoticed by the advisory community: one in four advisors reports a growing desire among retail investors to incorporate impact investments into their portfolios. “The appetite for impact investment is growing as the investment opportunities grow, so it's supply and demand working together,” says Justina Lai, director of impact investing, Wetherby Asset Management.

Fixing a broken system?

This increasing appetite reflects a wider shift in the very nature of investment. Post-financial crisis, investors are looking beyond the purely financial in terms of getting a return on their investment. “The financial crisis showed people that the current system of capitalism was quite broken, and so there's been a movement towards reimagining capitalism,” says Lai.

“

We see investors recognising that there's an inevitable transition underway from a depleted economic model to a more sustainable one. When investing in this new economic model, there should be some measurable, positive outcomes beyond financial performance.

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— DAVID RICHARDSON

EXECUTIVE DIRECTOR, BUSINESS DEVELOPMENT
IMPAX ASSET MANAGEMENT

“We see investors recognising that there’s an inevitable transition underway from a depleted economic model to a more sustainable one,” adds David Richardson. “When investing in this new economic model, there should be some measurable, positive outcomes beyond financial performance.”

Investors are coming to recognise not only the power they wield, but also the responsibility incumbent upon them; and with this comes an awareness of the social and environmental impact of their investment choices.

“We’re seeing great interest in investment solutions around climate change,” says Richardson. “This is a headline issue for a lot of investors, along with impact-oriented investments around gender diversity and gender equity.”

Investors are also more conscious of the long-term implications of their investments. “Due to social media, everyone can see what the corporate sector is doing, what the public sector is doing, or not doing. That transparency is one of the reasons for an increased appetite [for impact investing],” says Erika Karp, founder and CEO, Cornerstone Capital. “It’s an awareness that we’ve simply never had before.”

What is driving the appetite for impact?

Our research shows that, increasingly, investors are driven by personal values, rather than relying purely on metrics-based returns.

Almost a third (29%) ranked “a personal issue close to my heart” as one of their top two reasons for incorporating impact investing into their portfolios.

“We are seeing an increasingly values-driven client base,” says Hans Stegeman, head of research and investment strategy, Triodos Investment Management. “They are not interested in all the metrics we can offer institutional clients – they have their own values and they want these to be aligned with their investments.”

What drives impact investing?

32%

Retail investors pick “to generate better returns” within their top two choices

29%

“A personal issue close to my heart”

25%

To benefit my local community

“

There’s a growing recognition that there’s a false dichotomy between generating financial returns and creating impact, and that addressing fundamental global, social and environmental challenges gives rise to new investment opportunities.

”

— JUSTINA LAI

DIRECTOR OF IMPACT INVESTING
WETHERBY ASSET MANAGEMENT

Reaching the millennials

The 2008-09 financial crisis shook the investment community to its core. Yet it is arguably the ‘millennial’ generation who were hardest hit. Research by The Federal Reserve Bank of St Louis in the US found that families with heads of households born between 1980 and 1989 had a median net worth 34% lower than predicted in 2016.⁸

The picture is mirrored in the UK. An Institute for Fiscal Studies report found that median earnings for people in their 30s are an estimated 7% lower than pre-financial crisis growth rates, while pay for those in their 20s is 5% lower.⁹

“Millennials have a reason to be angry and disruptive,” says Erika Karp. “In my view, they were betrayed in terms of the stewardship of financial capital, natural capital and human capital.”

Millennials are also wrestling with the impact of global issues such as growing inequality, climate change and sustainability. A recent WEF survey found that the millennial generation view climate change and the destruction of nature as the most critical issue they face.¹⁰

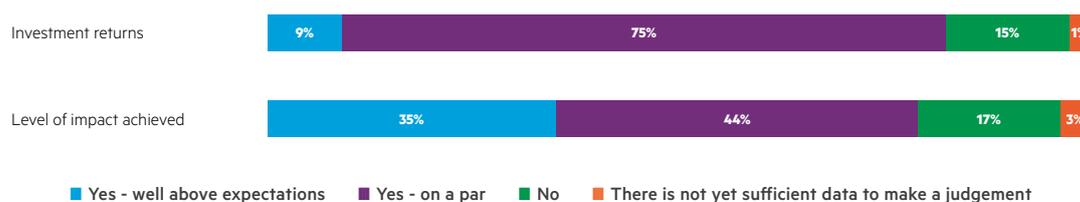
“They are the ones that are going to be most impacted by climate change”, says David Richardson“. They really have the most at stake in this need to change the status quo.”

REINVENTING INVESTING

Yet, rather than turning their backs on the financial system, we found investors’ faith in it is being restored through the ability to create a link between strong financial returns and social impact.

Millennials are the second-most active generation engaged in impact investing. While half of advisors view 36-49 years as the age group currently most involved in impact investing, 29% identified 18-35 years. And the majority (72%) of millennial respondents disagree with the suggestion that “impact investing cannot fix a financial system that is inherently balanced or unequal,” highlighting a motivation to improve the system from within, rather than turn their backs altogether.

Are your impact investments performing in line with your expectations in the following areas?



⁸ <https://news.stpublicradio.org/post/10-years-after-great-recession-millennials-still-struggle-catch-economy#stream/0>

⁹ www.independent.co.uk/news/business/news/financial-crisis-millennials-hit-hardest-uk-workers-earnings-wages-gdp-ifs-a8533761.html

¹⁰ www.weforum.org/agenda/2018/01/this-is-what-millennials-want-in-2018/

Section 2: Retail appetite and adoption reality

Despite significant appetite for impact investing, there are daunting barriers to greater adoption. One is the lack of standardisation in measuring the 'impact' of investments. "You can intend to have an impact, but unless advisors can show what that impact is and how you can manage it, then there's a disconnect between what you say you're trying to do and what you're actually achieving," says Payiatakis.

Our research finds that investors are struggling particularly hard to quantify the environmental impact of their investments – 61% of investors state that this cause is difficult to measure. Advisors report a similar issue – 34% say it is difficult to measure impact for their clients.

Measuring the carbon footprint of investments, for example, is not straightforward. A recent CFA Institute report found that there was no standard methodology established for doing this; an investment portfolio's carbon dioxide emissions can be measured in several different ways, with several different types of emission.¹¹

This lack of standardisation creates difficulty for advisors looking to gauge both the level of impact their client is achieving and to communicate this effectively. "When you have that conflicting information, it can be challenging to sort through what's right and what's real," says Richardson.

IN SEARCH OF GENUINE IMPACT

Beyond environmental standards, retail investors face a broader challenge: 8 in 10 find it difficult or extremely difficult to measure impact. This difficulty appears to stem from confusion over what is a 'genuine' impact investment; and a third of advisors say this is their top challenge when looking to make impact investments.

The advisory community is also grappling with the issue of quantifying impact: a third agree that the industry's approach to measuring impact is inconsistent and/or unclear. A similar number say the lack of industry consensus on impact measurement is hampering the industry's growth.



Advisors struggle to quantify impact

35%

Advisors agree that the industry's approach to measuring impact is inconsistent and/or unclear. This is cited as the no. 1 challenge for advisors

31%

Advisors believe a lack of industry consensus on impact measurement is hampering the industry's growth

¹¹ www.cfainstitute.org/en/research/cfa-magazine/2018/how-should-investors-measure-the-societal-impact-of-investing

A universal way to measure impact

To help advisors be clearer on their definition of impact investing, certification of impact needs to evolve across the industry. Progress is underway: the Impact Management Project regularly brings together members of a Practitioner Community of more than 2,000 organisations in various locations and formats. Through facilitating discussions across the globe, the project aims to build a consensus around “how to measure, report, compare and improve impact performance”.

Once such standards are in place, argues Meg Brown, managing director of business development at Impax Asset Management, advisors will become more confident in advising clients. “The idea then is to have a good set of labels that the advisor can feel confident that their funds are not greenwashed, and instead have a high potential of meeting the social and environmental intentions, as well as financial performance.”

“The industry is maturing, so it means the products themselves must be more transparent, your impact must be more transparent, and you must prove to your clients that you can really deliver the impact you claim..”

— HANS STEGEMAN

HEAD OF RESEARCH AND INVESTMENT STRATEGY
TRIODOS INVESTMENT MANAGEMENT

Investors value experience

‘Depth of direct impact investment knowledge and experience’ is the most important quality for investors when selecting an advisor

73%

Investors choose this within their top three reasons for selecting an advisor.

Advisors play catch-up

Not only must financial advisors appeal to a growing investor base, they must learn to cater for a values-driven approach, and clearly map out the level of impact achieved for their clients.

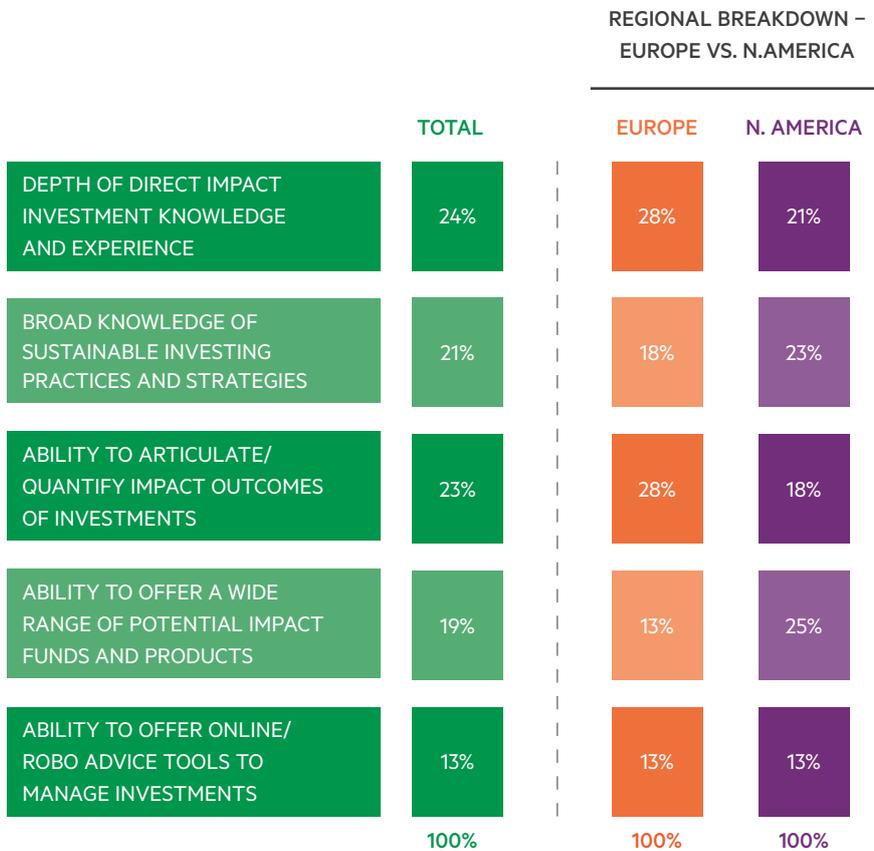
“{Retail investors} want to see in your eyes and hear your story of how you select the investments,” says Stegeman. “They need to see that you believe in what you do, so that their values are aligned not only with the product, but also with the people.”

At scale, this is no easy undertaking. While a values-driven approach may rely less on sophisticated metrics, it puts pressure on the advisor to attain a deep and clear understanding of the motivations of each individual client.

Advisors are not yet consistently delivering trusted impact investment advice to retail clients. Around four in ten of investors rank ‘difficulty sourcing credible investment advice’ as their main challenge to increasing their allocation to impact investing. For almost three-quarters (73%) of investors, ‘depth of direct impact investment knowledge and experience’ is the most important quality when selecting an advisor.

Retail investors search for impact: A regional perspective

How important are each of the following qualities when you select an advisor for impact investing?



Despite a lack of clear standards against which to define and measure impact, more than half of advisors believe their industry to be effective in communicating to investors the benefits of different impact products/funds.

How can the advisory community move beyond this impasse to truly understand the needs of their clients? The answer, argues Lai, lies in identifying individual passions, and designing a portfolio that reflects them. “Clients are always looking for advisors that actually hear them, that understand what their overarching goals are and how investment capital can play a role within that,” she says.

One difference between institutional and retail clients is the need for the latter to see advisors engage with the investee company in line with their values, adds Stegeman. “On top of (metrics), our retail clients really want us to show what we do when we have impact, so our engagement approach, the dialogues we have with our investee companies, the results that we can achieve,” he says. “That’s more material and more tangible than core financial metrics.”

THE INDIVIDUAL IMPERATIVE
RETAIL IMPACT INVESTING UNCOVERED



Section 3: Finding new opportunities for impact

While one barrier to greater adoption of impact investment is the disconnect between advisors and investors, another is a lack – real or perceived – of product availability.

There is an evident need to develop innovative, scalable products to cater for the growing base of retail investors. Close to a third (29%) of advisors feel that there are not enough ready-made impact opportunities on offer to potential investors.

In a recent report, GIIN highlighted the currently available range of impact investment products as a key area for expansion. “The accessibility of impact investments must be increased by developing products suitable for the full spectrum of investors, and to accommodate the capital needs of various types of investee,” the report states.

Advisors acknowledge that better promotion and marketing of products/funds by the advisory community will have the greatest impact; 23% rank this as the most important factor in encouraging more investors to consider investing for impact. Better promotion of products comes down to proving their value to the client, says Payiatakis. “Where investors really get value is when an advisor doesn’t just propose the one-off product they happen to have available on their shelf, but helps clients understand their impact preferences, the market landscape, and what investments fit both their financial and impact objectives,” he says.

When marketing an impact investment product to the retail market, there is no ‘one-size-fits all’ approach. A step-by-step guide to marketing an impact investment product, released by GIIN, states that: “Targeting investors is an art that involves predicting which are more likely to say ‘yes’ and knowing enough about how investors think and operate to make the best first impression.”¹³ Understanding the specific interests of retail investors and tailoring a marketing strategy accordingly is crucial to engaging an evidently growing market. They want to be engaged by the advisory community – but they also want to be understood.



“

Where investors really get value is when an advisor doesn't just propose the one-off product they happen to have available on their shelf, but helps clients understand their impact preferences, the market landscape, and what investments fit both their financial and impact objectives.

”

— DAMIAN PAYIATAKIS
HEAD OF IMPACT INVESTING
BARCLAYS

¹³ www.thegiin.org/marketing-an-investment-fund/

The UK government acts

The need to expand the product base available to retail investors has also been recognised by policymakers. The UK government has been clear that the supply of impact investment products is yet to meet demand. In 2017, it pledged to work with leaders in the investment and savings industry to make social investment more accessible to the ‘everyday investor’. “Investing can and should be a force for good, and it’s vital that industry and government work together to make it easy for people to invest in the causes they care about,” said John Glen, economic secretary to the Treasury.¹⁴

GROWTH IN THE RETAIL IMPACT OFFERING

When looking to choose an impact investment product, the retail market by its nature offers less choice than the institutional market. “The kinds of opportunities that are available to retail investors tend to be more broad-based and more passive in nature,” says Lai. “I believe that impact by definition requires some level of active management,” she adds.

Yet the growing demand from retail investors for impact means that more and more impact investment solutions are coming to market.

“While there are varying degrees of quality, there are certainly more choices,” says Richardson. “We are seeing a great interest in investment solutions around climate change – a headline issue for a lot of investors. We’re also seeing interest in impact-oriented investments around gender diversity and gender equity,” he says.

This cause-based approach lends itself to thematic investment, says Stegeman. “We will likely see more emerging market funds or microfinance funds, which will also be more focused and transparent on their impact,” he says.

Karp agrees that the supply side is able to respond to the range of issues that investors are engaged with. We have clients that are interested in gender, water investing, we have clients that are interested in alternative energy sources, social justice and racial equality. “We’re able to find products in each of those areas that we would define as a ‘true’ impact product,” she says.

Yet, argues Karp, the wealth of products coming to market increases the risk of ‘impact-washing’. “There’s a lot of new products out there that, in my view, are labelling only. I think there need to be more ‘real’ products out there. I would argue this issue is present across all asset classes.”

“*There’s a lot of new products out there that, in my view, are labelling only. I think there need to be more ‘real’ products out there. I would argue this issue is present across all asset classes.*

— ERIKA KARP
FOUNDER AND CEO
CORNERSTONE CAPITAL

¹⁴ www.gov.uk/government/news/government-gears-up-for-social-impact-investment-drive

“Sometimes it’s still very hard for our customers to see what is really an impact product, and what is a sustainable product,” adds Stegeman. “With sustainable investing, it is not clear that you are making an impact, only that you are not doing any harm. It can be very difficult for customers to see the difference.” Even with impact investing, Stegeman argues, definitions can be blurred. “Customers can see the cost, they can see the financial return, but, especially on the social impact aspect, there is no common language. So, we see all kinds of products that look almost the same but will differ in terms of impact – it’s hard for our clients to see the difference,” he adds.

The danger of ‘impact washing’

The term ‘impact-washing’ is used to describe a situation whereby impact investment is used as a marketing tool to hide unethical practices. This is a very real risk within the industry, in light of the fact that definitions are not yet clearly defined, and the ability to accurately quantify impact remains under question.

According to Payiatakis, the onus to avoid impact-washing rests squarely on the industry. “Impact investing is seen a homogeneous approach. It isn’t; different investment managers integrate impact into their decision-making in different ways. For the industry to succeed, we have to be more transparent and explicit to clients about the investment process and impact outcomes,” he says.

Knowledge is power

Once they recognise the appetite present in the retail market, the next positive move for advisors is to start to reflect that enthusiasm in adopting a more proactive approach. “Most advisors are not forward-thinking, instead sitting back and waiting for their clients to push them on impact investment issues,” says Lai. “This is partly due to a lack of education, and partly it’s misperception around a trade-off in financial returns,” she adds.

Our research highlights just how important a strong knowledge of the field is when communicating with clients: 62% of investors chose ‘broad knowledge of sustainable investing practices and strategies’ within their top three qualities when selecting an advisor for impact investing.

Equally highly ranked was advisors’ ability to explain and quantify the potential impact of a product. The problem from the advisors’ perspective is a lack of resource: 32% cite a lack of in-house expertise in sustainable or impact investing as the greatest barrier to increased adoption.



55%

UK advisors rate their industry as effective in articulating the benefits of impact investing to clients, compared to 40% of US advisors.

The knowledge gap needs to be filled if advisors are to communicate with and engage their retail clients successfully. “Enabling advisors to ask the right questions and product teams to analyse beneath the labels is the important next stage the whole industry needs to reach,” adds Payiatakis.

The UK has been something of a pioneer in its drive to improve communication channels between investors and advisors, employing well-directed strategies that other countries could benefit from examining. An industry-led advisory group commissioned by the UK government to work on mainstreaming impact investing has created a social impact investing guidance tool. The purpose of the tool is not only to increase knowledge of impact investment among advisors, but to encourage them to offer products to clients.¹⁵ Our findings suggest that such initiatives are having an effect: 55% of UK advisors rate the industry as effective in articulating the benefits of impact investing to clients.

There are a growing number of options for advisors who want a fast-track upgrade to their impact education. For example, Fidelity Charitable, the second-largest grant-maker in the US, has launched an impact investing module to educate advisors on how to integrate impact investing into their practices in order better to serve their client bases.¹⁶ Advisors who take advantage of such offerings will immediately gain authority in the eyes of investors.

32%

Advisors who cite a lack of ‘experimentation with funds/funding models’ as the greatest challenge to increasing their allocation to impact investing.



Harnessing technology to attract the investor

Retail investors are undoubtedly interested, but to become truly engaged, they require more than reheated ‘traditional’ ESG investment products. This need to innovate is recognised across the industry: 32% of advisors cite a lack of experimentation with funds/funding models as the greatest challenge to increasing their allocation to impact investing.

¹⁵ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/659063/Impact_Investment_Adviser_Tool_-_Final_Report__UsCreates.pdf

¹⁶ www.fidelitycharitable.org/about-us/news/fidelity-charitable-launches-impact-investing-module.shtml

A group of fund managers led by Aberdeen Standard Investments (ASI) are working in partnership with The Big Issue magazine to launch the 'Big Exchange' – a mobile-first investment platform, which will allow investors to select their preferred area of impact advice and risk appetite for investments. The platform will offer 30 to 40 environmental impact funds to retail investors, with a minimum investment requirement of £500.¹⁷ However Nigel Kershaw, chairman of the Big Exchange and the Big Issue Group, has stated that he wants to get this figure down to £2.50.

Online impact investment platforms can further advance the democratisation of the industry by allowing potential investors to browse opportunities that are accessible both in terms of intuitive tech and a lack of financial jargon. OpenInvest launched one such platform in 2015, with the stated aim of reducing complexity and promoting mainstream values-based investing. With causes such as 'Stand up to Donald Trump' and 'Divest from Big Tobacco', the platform clearly aligns investors with values that are important to them personally.¹⁸ Impact investing platforms are growing in popularity: 35% of investors state they are likely to use one over the next 12 months. And the number is much higher in Europe – almost half (45%) say this is the case.



How likely are you to use
an online impact investing
platform to manage your
investments over the
next 12 months?



¹⁷ www.ft.com/content/b51e7623-c28d-3a81-95d2-9f137c86f2b2

¹⁸ www.openinvest.co/invest-your-values

PAIN POINTS: ADDRESSING THE DISCONNECT BETWEEN INVESTORS AND ADVISORS

Retail investors feel that advisors are failing to understand adequately their interests and intentions. If left unaddressed, frustrations will mount – threatening to stagnate a burgeoning industry.

LOST IN TRANSLATION: INVESTORS STRUGGLE TO INTERPRET 'IMPACT'

There is a clear knowledge gap between investors and their advisors: 68% of retail investors find it difficult to define impact investment to their peers, while only 22% of advisors see this as a challenge when talking to potential investors.

CREDIBLE ADVICE IS THE HOLY GRAIL FOR INVESTORS

Difficulty sourcing credible investment advice is the no. 1 barrier to further adoption among retail investors – chosen by 37% as their main challenge to increasing their allocation to impact investing. Yet 54% of advisors believe their industry is effective in articulating the benefits of impact investing products/ funds to individual investors.

AN AGREED DEFINITION WOULD HELP TO UNLOCK GROWTH

Yet while there is clearly a misperception of how their advice is being received, advisors are clear on the path forward: an agreed definition of impact investing is seen by advisors as the no. 1 influence on retail investors considering impact investment in the future.

Section 4: Conclusions and recommendations

CREATE A COMMON LANGUAGE

While there is a growing awareness among investors that impact investing can deliver both strong financial returns and a lasting social impact, a lack of common language to both define and quantify the level of impact achieved is holding the industry back. If you cannot clearly define impact, how can you prove you are not doing harm? While initiatives such as the Impact Management Project – which brings together over 2,000 practitioners with the aim to establish a consensus for impact measurement and management – are making great strides in this area, there is much work to be done.

ALIGN INVESTMENT OPPORTUNITIES WITH PERSONAL VALUES

Advisors need to understand the underlying motivations of retail investors, and how these may differ from an institutional client base. Our survey highlights that this segment of the investment community is increasingly driven by causes close to their hearts, rather than quantifying their impact through standardised metrics. To achieve this, advisors will need to shift to a more collaborative relationship with their clients and tailoring their portfolio according to individual needs.

IMPROVE TRANSPARENCY TO ENCOURAGE ACTION

As metrics and definitions improve, this will increase the transparency and quality of advice that advisors are able to give to investors. Yet the advisor relies on the information that is given by asset managers or product owners. Improving this relationship will help advisors to ask the right questions.

ADDRESS THE KNOWLEDGE GAP

This research clearly highlights a knowledge gap within the industry between the advice sought by retail investors and the capabilities of advisors to offer such advice. This challenge is not insurmountable. Advisors must become more proactive in seeking out the education opportunities that are increasingly available to them. This will in turn empower advisors to add depth and context to their investment advice. Once this shift takes place, the advisory community will be able to engage the growing base of retail investors looking to investigate impact investing.

About the research



Online survey of 500 respondents; 200 individual investors with investable assets, 300 institutions that serve them

All institutions: AUM \$100 million +



Individual investors: 50% \$100,000-225,000 in investable assets; 50% \$225,000 and above in investable assets

30% of individual investors were aged 18-35



North America (US, Canada): 250

Europe (UK, France, Germany, Italy, Spain, Benelux, Switzerland, Nordics): 250

