IMPACT INVESTING

Millennials Will Bring Impact Investing Mainstream

Next Gen values, experiences, and preferences are poised to accelerate impact investing, directing billions of dollars toward social benefit.

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By Jed Emerson & Lindsay Norcott | Apr. 24, 2014

The ongoing wealth transfer to the "millennials"—the approximately 80 million individuals born in the United States between 1980-2000—presents an opportunity for this generation to invest billions of dollars into impact investments instead of traditional investment vehicles. This is due to many interrelated factors, including the unique worldview of this "next generation," and is dependent on the simultaneous maturation of systems that make impact investments possible.

Millennials compose the largest generation in American history—approximately 20 million larger than the baby boomer generation. In their relatively short lives, they have experienced major boom and bust periods, including the prosperity of the 1990's dot-com frenzy, and the financial markets' collapse in 2008 and subsequent recession. As teens and young adults, they witnessed 9/11, the Arab Spring, long wars in Iraq and Afghanistan, multiple terrorist attacks, and dramatic political division within the United States. Millennials are the first truly global generation; they share experiences across cultures and geography, and are more connected by technology than any generation before them.

Accenture has estimated that over the next several decades, baby boomers will pass $30 trillion in financial and non-financial assets to their heirs—that's in North America alone. Accenture expects this transfer to peak between 2031 and 2045, during which 10 percent of total wealth in the United States will change hands every five years.

Keeping the sheer size of that transfer in mind, consider the research on how millennials approach investing: A 2013 U.S. Trust report found that they are skeptical of stock market investments, and half (51 percent) of high-net-worth millennials fear that they will lose money by investing in traditional equity securities. Additionally, nearly two-thirds (64 percent) of high-net-worth millennials said that they were more comfortable investing in physical assets than stocks. Interestingly, despite their reservations and skepticism about stock markets, they are actually willing to accept a higher risk profile or receive lower returns to invest in companies that create positive social or environmental impact. In another study, Spectrem Group found that 45 percent of wealthy millennials want to use their wealth to help others and consider social responsibility a factor when making investment decisions.

The transfer of wealth to this generation presents a compelling opportunity to take impact investing mainstream. Here is what it will take to convert this opportunity into lasting social benefit:

- **Build impact investing expertise among financial advisors.** Many established firms are just now building impact investment expertise; the smaller, mostly independent firms that have a strong practice are well positioned to gain market share, as investors consider opportunities to create social and environmental value with their assets. In 10 years, impact investing should not be regarded as a nice-to-have niche; instead, advisors should expect to have to answer the question, "What are the options for achieving combined social and financial returns?"
- **Improve impact measurement.** Impact measurement is important to unlocking investments, but is sometimes complex and resource-intensive. For skeptical millennials, improved impact measurement is essential. Existing standards such as the Impact Reporting and Investment Standards and collaborative efforts such as the Impact Investor Project are good starting points. Fund managers, intermediaries, and social enterprises will all need to increase the use of standards and impact measurement to establish impact investing as a mainstream portfolio option.
- **Make impact investing research and resources open and available to would-be investors.** With a majority of millennials identifying themselves as "self-directed" investors, they spend a significant amount of time researching alternatives and consult multiple sources

before making major investment decisions. An Accenture survey found that millennials are *four times more likely* than baby boomers (28 percent vs. 7 percent, respectively) to say that they are unwilling to act on the advice of a financial advisor without first consulting other sources. ImpactAssets created the "ImpactAssets 50" to showcase some of the many available impact investment firms; much more can be done here to share knowledge and surface a wide range of opportunities suitable for various asset classes, investment areas, return parameters, and impact benchmarks.

The concept of seeking positive social impact as well as financial return has existed since humans began to lend money. In today's modern financial markets, however, impact investing is still regarded as a niche, albeit an increasingly popular one. The wealth transfer to millennials has the potential to direct billions of dollars toward social and environmental good, and cement this important practice as a mainstream investment strategy.

For a deeper exploration of this topic, see the recently released ImpactAssets issue brief, "The Millennial Perspective: Understanding Preferences of the New Asset Owners."

Jed Emerson is ImpactAssets' chief impact strategist and an internationally recognized expert on impact investing, performance metrics, and sustainable finance. As originator of the term "blended value," Jed has spent more than two decades exploring how capital investment strategies may be executed to create multiple returns (@BlendedValue).

Lindsay Norcott (@LindsayNorcott) is strategic initiatives officer at ImpactAssets, where she builds knowledge resources that advance the field of impact investing. She is also part of the team behind the Social Capital Markets conferences.

Tags

GIIRS & IRIS, Millennials, Performance Metrics

COMMENTS

BY Gerald Z. Rossow, Esq.

ON April 28, 2014 07:37 AM

In 2009 I created and taught a capstone course to MBA students at Lynn University, Boca Raton, Florida, on "Social Enterprise," i.e., high social purpose with profitability - no books, hands-on, creativity and team effort to create companies that will meet this purpose. The course was very well received.
This led me to create a Social Enterprise Center to be housed on a university campus (where all needed physical facilities and faculty resources are immediately available), and many positions will be filled by students. The purpose is to bring together US companies and financial sponsors with like companies and government officials from Latin American countries that offer projects of high public purpose (with profitability), ideal today for emerging "impact investments."
Colleges were interested during the recent depression years but would not entertain such a social vehicle even though I forecast new student enrollments of $4 million by international students.
This program is ready to go today. I seek partners and investors.

BY Meeta Kothare

ON May 2, 2014 01:19 PM

Thanks for an excellent post! The millennials' appetite for impact investing provides an excellent opportunity for universities to make this generation part of the solution. Many of them are still enrolled in colleges or will be in a few years. Very few business schools and public policy schools around the country currently offer courses related to impact investing. As more business schools start offering such courses and better yet, integrating the concepts within their existing finance curriculum, we will see an expansion in the pool of well-trained financial advisors. Similarly, public policy schools should offer courses that include newer approaches to solving social problems, while giving students some exposure to basic finance to eliminate the mystery behind it. More cross-disciplinary work among departments will produce graduates who have both technical skills in finance and a richer understanding of societal issues. Call it "blended value" in education (with apologies to Jed!).

BY Gerald Z. Rossow, Esq.

ON May 3, 2014 07:15 AM

Re my Social Enterprise Center/impact investing: this center focuses on creativity, proactivity (no books), planning, strategy, hands-on performance by students and development of new international projects

My belief is that nearly every B-school course should be modified to include proactivity and critical thinking..

BY Gerald Z. Rossow, Esq.

ON May 4, 2014 08:34 AM

The issue to me re impact investments is not the investment process itself, but the adequacy, quality, abundance and immediacy of suitable projects. My Social Enterprise Center concept with its emphasis on development and facilitation would answer that issue..

BY brian jensen

ON June 4, 2014 01:07 PM

this is one of the most inspirational things i've read in a while. i had no idea my generation was so altruistic. thanks for this.

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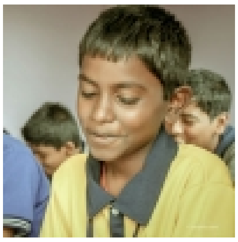

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