Investor motivations for impact:

A behavioural examination

BARCLAYS

Contents

Foreword

Impact Investing

Damian Payiatakis,
Head of Impact Investing

Do investors care about the impact their investments make on the world?

Increasingly we see they do. However, a gap continues to exist between investor intention and action.

Impact investing is more and more visible in the media and discussed within the financial services industry. With most attention centring on causes and assets raised, investors can be overlooked.

However, they are the key to taking the field into the mainstream. At Barclays, our position in the market advising clients on their wealth means we focus on investors. We're working to integrate "impact" into how we serve these clients – not simply offering products, but as a holistic way of investing.

Helping these clients relies on our understanding of their motivations and behaviours. So, I'm fortunate to work with leaders in the field of behavioural finance. We had the privilege to join the Advisory Group to UK Government to help support the growth of the industry; and within one Working Group, our Behavioural Finance team supported a survey of investors, which unsurprisingly aligned with our groundbreaking research from 2015.

Having a second data set provided an opportune moment to revisit our original research for review and comparison, especially as our own thinking has evolved considerably.

Delving more deeply has allowed us to assess how to address the latent demand that investors exhibit. By sharing our findings we hope they may be useful for others on the same journey.

Personally, the research evoked further contemplation of how we invest. Having been trained in traditional investment theory, our starting premise has been one of a "rational economic man." However, in the real world, we know investors have more complex biases and motivations (as well as more than one gender, age, or culture).

Though tentative, the research points to how impact investing may enable investors to overcome natural biases which hamper good investment decision-making, and therefore investment returns. Additionally, investors may derive emotional returns from holding impact investments. So, incorporating impact into our investment theory may be valuable for investors personally, but also valuable financially.

These potential benefits evoke a question; "Will impact investing be a better way to invest?"

The industry will need to mature further to resolve this question. In the interim, we are committed to supporting any investor who wants to intentionally protect and grow their assets, whilst making a positive contribution to the world. We hope our research helps achieve this dual aim.

Behavioural Finance

Dr Peter Brooks,
Head of Behavioural Finance

The Barclays Behavioural Finance team was established over a decade ago with the simple aim of deepening our understanding of investors to better serve them on their investment journeys.

We have spent many years building a better understanding of the financial personality of our clients and integrating this into our investment management approach.

However, our work is not done. Investors are constantly looking to use their wealth in new ways and challenging us to help them achieve new objectives. We need to understand their changing motivations, preferences and the role their emotions play in any new investment decisions.

One such area of our focus has become impact investing. Our clients increasingly tell us that they want their money to achieve both their personal objectives and to generate positive social and environmental outcomes. Investors are recognising that the world around us is changing and the future may be very different to the one we envisage for ourselves and future generations, if we do not act.

This whitepaper aims to delve deeper than we have before into how investors think about impact investing. We hope the paper is interesting to those individual investors who may be thinking about making an impact investment. We provide an opportunity to reflect on their view of impact investments, in the hope of making investment decisions that best suit them.

We also hope to give the impact investing industry a deeper understanding of investors. If impact investing is going to be successful in gathering the assets to do good with, then it must reflect what investors value. It may also be the case that impact investing leads to good investor behaviours. We examine whether the knowledge that their investments are impactful may help nervous investors stay invested during turbulent markets. Additionally we report on whether viewing impact investments through themes and causes may be a way to unlock demand.

We hope this whitepaper helps investors to better understand themselves and their motivations around impact investing.

Acknowledgements

We would like to express our gratitude for the thoughtful analysis, report drafting, and diligence of Alex Joshi at Barclays. As well, the report would not be as clear, articulate, or well-presented without the benefit of Katherine Doyle and Cohn & Wolfe.

Moreover, we have appreciated the opportunity to contribute to the Advisory Group to UK Government on 'Growing a Culture of Social Impact Investing in the UK' and Greg Davies who led the working group's 2017 research referenced throughout this report. We would like to thank Antonia Rofagha and Rob Hewitt of the Inclusive Economy Unit for providing access to the data.

Finally, we are extremely grateful to the many anonymous survey respondents who freely gave their time to provide their views on this important new approach to investing.

Executive Summary

Impact investing continues to gain momentum, with many new products entering the marketplace. But how do investors themselves feel about the sector? What are their views, expectations and behaviours when it comes to impact investing?

This report sets out to answer these questions, based on an in-depth examination and comparison of data collected for our groundbreaking research from 2015 with approximately 2,000 investors, with data collected in 2017 by the Advisory Group to the UK Government from 1,000 UK investors.

Investor activity is increasing

Impact investment activity has increased between 2015 and 2017: 15% of investors have now made an impact investment, compared to 9% two years before. There remains, however, a significant gap between activity and interest, with 56% of investors saying they are interested in exploring impact investing - highlighting the conversion challenge for the industry.

Millennials are driving impact forward today – but the industry must engage older investors

Millennials are the most active age group when it comes to impact investing: in 2017, 43% of respondents under 40 had made an impact investment, compared to 9% of those aged 50-59, and only 3% for those aged over 60.

While younger age groups display greater interest and activity, older investors, who hold greater wealth today, represent an important opportunity for the sector. To engage older investors more effectively, the industry will need to address their skepticism and misconceptions and a posible view that these new types of investments are inherently risky. We can do this through greater education to dispel misconceptions, and ensure advisers are equipped to support their older clients with information and insights that are relevant to their stage in life.

Identifying specific ‘causes’ for impact outcomes increases investor engagement

Investors are willing to invest larger amounts of their wealth in impact assets when the investment is linked to a specific cause, rather than the general concept of impact investing.

When asked how much, if any, of a hypothetical £100k inheritance they would allocate to impact investments, investors given a list of specific causes allocated an average total of £63,000 to impact investments. This compares with £15,000 for those who were asked what they would allocate to impact generally, without causes specified. This shows how the way such investments are framed dramatically affects engagement.

Personal values are strongly correlated with interest in impact investing

Different guiding principles – the personal values that shape investors’ decisions in all areas of life – are more or less strongly correlated with the propensity to engage with impact investing. ‘Making a difference’ is the principle most strongly correlated with interest in impact investing amongst our sample of investors; while the research showed that if an investor rates ‘family security’ as highly important, they are typically less interested.

The strength of this correlation has doubled over the last two years, highlighting just how vital a role personal values play in investor decision-making around impact opportunities.

Investors expect market-rate returns from an impact investment

We found that 82% of investors would expect close to, or above, market returns from an impact investment. This could be indicative of a maturing sector, and a growing understanding of the case for impact amongst investors.

Introduction

Today's investors are more conscious than ever about the impact that their investments have on the wider world. They recognise that their capital isn't simply numbers on a page, or in their bank account: it has a tangible effect on people and the planet.

That's why 'impact investing' is gaining momentum. Impact investing responds to the desire to invest purposefully by offering a way to both generate financial returns from investments, while considering and monitoring the impact of the investments on society.

In 2015, as the interest around impact investing began to grow, Barclays conducted ground-breaking research to explore this trend and help investors better understand both what they were looking for from their investments, and how to approach the complicated question of using their wealth for social and environmental good.

Since then, the impact investing sector has continued to develop and grow. There is more coverage in the media. The range of participants and investment opportunities have increased. It appeared a good moment to (re-) consider investor demand – had it changed too? Do investors think differently about impact investing, now that it is more visible and familiar?

In this paper, we revisit the data collected in our 2015 research and complement it with new data from multiple sources, to paint a picture of how things have changed in just a few years.

We set out to discover whether our past findings about investors are still relevant, given how much greater awareness and activity there has been in the impact space, and to identify exactly what's changed. We also bring our behavioural finance expertise to bear, to dig deeper into the role of the values and motivations behind investors' choices, and uncover valuable new insights. These insights mean we can offer practical solutions to investors whose natural human instincts and emotional responses may sometimes inhibit good investment decision-making.

Ultimately, the insights detailed in this report aim to help the wealth and investment management industries to better serve our clients. But we will also raise some key questions about where the industry goes next – and how we bring impact investing even further into the mainstream.

We draw out our findings across four key areas: the role that age plays; the causes investors care about; the motivations behind making an impact investment; and, crucially, investor views on financial, social and emotional returns.

What is impact investing?

It's been just over a decade since the term 'impact investing' was coined. In that time, the sector has evolved and matured and, to some extent, is still in flux. It's difficult to arrive at a widely understood or agreed definition of exactly what is meant by impact investing – and even more one that mainstream investors can easily understand.

So far, this hasn't proven a barrier to the rapid growth of impact investments, but it can be a source of confusion for individuals when it comes to investing in line with their impact preferences.

At Barclays, we view impact investing as *"Investing to intentionally generate financial returns and positive societal outcomes, to protect and grow assets, whilst making a positive contribution to our world."*

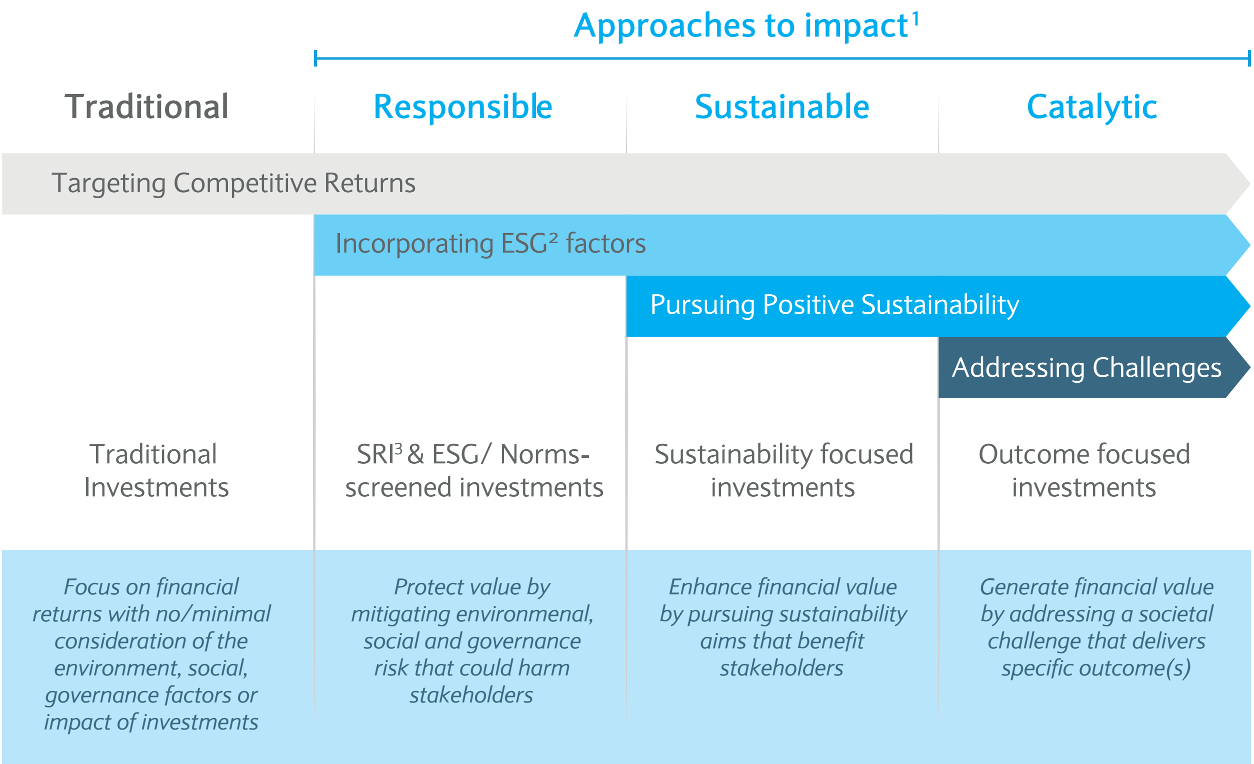
Overall, we believe impact investing recognises the impact that every investment makes - and offers investors new possibilities in how they invest.

We focus on the action of investing, rather than on specific investments – and we don't see impact investing as a single approach. Instead, we identify several different practices that help to build consideration of impact into the process of investing. We view all these approaches as valid and different from 'traditional' investing, which has typically been unaware of – or unconcerned by – the impact, either deliberate or unintended, that it has on society and the environment.

Broadly, we group the various approaches to impact investing as Responsible, Sustainable, and Catalytic, as illustrated in Figure 1. In this report, we span across all three approaches, as our focus is on investor preferences and desire for impact rather than the specific strategy they use to build consideration of impact into their portfolio.

Figure 1

Approaches to impact investing.



1. Our categories have been adapted from Bridges Fund Management "Spectrum of Capital" (2012) with support from Bridges Impact+ team
2. ESG refers to Environmental, Social and Governance topics
3. SRI refers to Socially Responsible Investing

Our methodology

In this report, we've revisited the data collected for our 2015 study of approximately 2,000 UK investors, and complemented it with data collected in 2017 by the Advisory Group to the UK Government[1] from 1,000 UK investors. Throughout, we refer to these two sources as the '2015 data/survey' and '2017 data/survey'. Both studies asked the same, or comparable, questions of its sample.

We also reference work we've conducted for market research purposes with Toniic[2] a leading global network of impact investors, and data from the Financial Times Investing for Global Impact 2018 report that we support.

Our focus has been on affluent and high-net-worth investors, as these segments have been active impact investors. However, we believe our conclusions are relevant to individual investors across the wealth spectrum.

1. Advisory Group to UK Government (2017) - Growing a culture of social impact investing in the UK
2. Toniic is the global action community for impact investors, whose mission it is to empower impact investors.

Section 1

Engaging investors of all ages

"At my age, how interested am I in impact investing?"

We'll start by telling you something you have probably already heard: millennials are the generation elevating impact investing. Socially and environmentally conscious, they're strongly interested in social causes and willing to invest their capital in a way that reflects this.

At the same time, they're set to benefit from a significant intergenerational wealth transfer from Baby Boomers (those currently aged approximately 55-78), and so it's no wonder they're receiving so much attention: they have the potential to completely re-shape the wealth and investment management industry.

Our data backs this up – millennials are the age group most interested and active in impact investing. It's not the whole story, however. We believe that in the next three to five years, engaging older generations in impact investing is critical to truly gain momentum and growth of the impact investing industry. The outcomes that impact investing hopes to achieve can't wait for millennials to come into their future wealth. They require the engagement of the investors who hold the greatest wealth today and those groups who currently show less interest.

Who's interested – and who's active?

Interested

Our 2015 research found that, across all investors, 56% were at least moderately interested in impact investing. When we broke this down by age, we found that younger generations express the most interest, with the average age of those extremely interested almost 20 years lower than those not at all interested (44 and 62 years of age respectively). The 2017 data we examined shows similar results, with these average ages now 41 and 55 respectively[3].

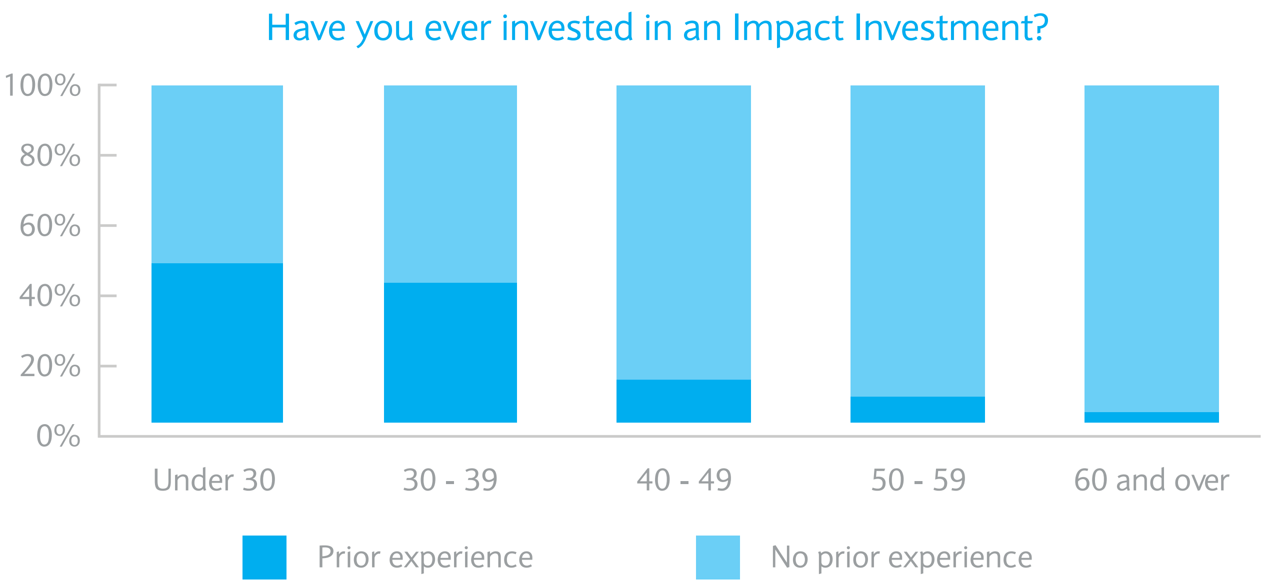
While more than half of investors expressed at least a moderate interest in 2015, just 9% of respondents had already made an impact investment. Two years later, this proportion has risen to 15%, signalling that more investors are turning their interest into action – although this level is still considerably lower than those who expressed an interest.

Active

It's younger investors who have the most prior impact investing experience, and have driven the increase in activity over the last two years. In 2015, 30% of respondents under 40 had made an impact investment, rising to 43% in 2017. This 43% compares to 9% of those aged 50-59, and 3% for those aged over 60.

Figure 2

Prior impact investing experience by age.



Barclays research, 2015

3. We have approximated using the average of the midpoint of the age categories available to respondents in the 2015 research. In the 2017 survey respondents were asked for their actual age and so true average ages are provided.

This data confirms that millennials aren't just interested in impact – they're the group most likely to take action to invest for impact. We believe that developing products and services built around the wants and needs of millennials will be crucial to attract and retain 'next generation wealth'. But we mustn't overlook older investors - after all, these are the investors with the highest investable assets and the wealth to drive the impact sector forward today.

Intriguingly, the Financial Times' Investing for Global Impact 2018 study found that Gen-X (those aged approximately 35 - 55) and Baby Boomers led the first forays into impact investing – hinting at a more nuanced picture around appetite for impact investing across generations.[4] 32% of family office and foundations' first impact investments were proposed by family members aged 33-55, compared to 18% for those over 55, and 21% for those under 35. [5]

Share of portfolio

When we compare the size of impact investments to investible assets in portfolios of different age groups, our 2015 data shows that younger investors allocate a greater proportion of their wealth to impact investing. For those aged under 40, prior impact investments make up 17% of reported investible assets, falling to 9% for those a decade older, and to 6% for those over 60.

While this might seem to support the idea that millennials are the most enthusiastic impact investors, it isn't necessarily surprising: younger people, in general, have fewer assets, and so it's possible that one type of investment could make up a greater percentage of their portfolio. Older generations are also likely to have been investing over a longer period, and have existing portfolios that must be adjusted as new impact products come to market - a process that isn't always simple.

Experience increases appetite

In 2015, we found that 90% of those who had made an impact investment were likely to do so again, and in fact would allocate a higher proportion of their portfolio to impact in the future. Investors with prior experience would allocate 22% – more than one-fifth – to impact investments, compared with 9% for those who hadn't tried impact investing before. Younger investors say they would allocate the highest proportions: those aged under 30 would allocate three times as much of their portfolio to impact investments as those 60 and older.

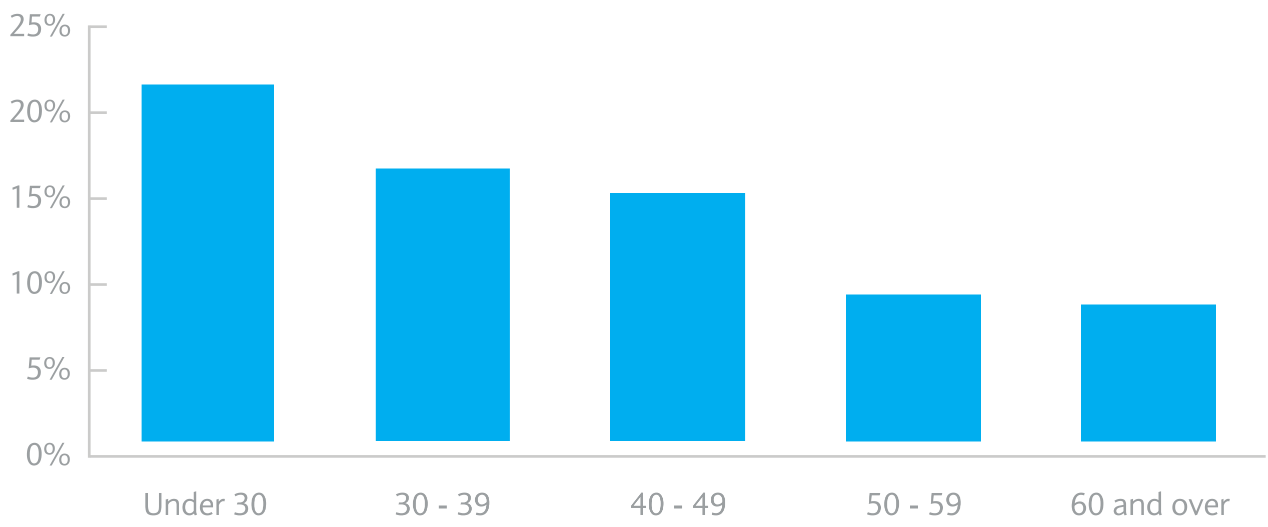
What does this tell us? It suggests that, once investors have made an impact investment, they are likely to do so again - and to increase the size of their commitment. This highlights a key opportunity for the sector: if we can help investors to make that first investment, we could secure greater growth.

4. Financial Times Investing for Global Impact, 2018

5. The remainder were proposed by people outside of the family such as external consultants.

Figure 3

Proportion of a portfolio that would be allocated to impact investing.



Barclays research, 2015

Understanding and awareness peaks amongst those aged 30-39

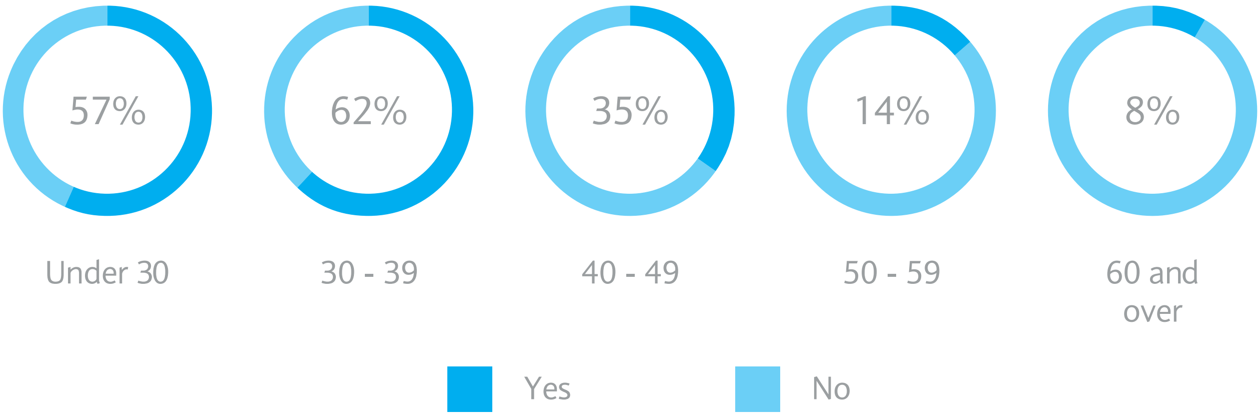
There's a crucial contextual factor that might explain why younger investors show the greatest enthusiasm for impact investing: they demonstrate a better understanding of what impact investing is, and so may be more aware of the different investment opportunities available.

In the 2017 data, 57% of those under the age of 30 said they know what impact investing is, rising to 62% for those aged 30 to 39. But this falls dramatically amongst older investors: 35% of those aged 40 to 49 know what impact investing is; amongst those aged 50-59 only 14% do; and knowledge drops to 8% for those aged 60 and over.

These findings suggest that improving understanding around impact investing is necessary to increase activity in the sector. In fact, when asked in the 2017 survey about the reasons they might personally avoid impact investing, the most common reason cited by respondents was a feeling that they didn't know enough about it.

Figure 4

Do you know what Impact Investing is?



Barclays analysis of data from advisory group to UK Government, 2018

Greater education and knowledge sharing about impact investing should increase investor engagement. Investors would benefit from better understanding topics such as:

- The differences between terms and approaches in the space (e.g. ethical investing and responsible investing)
- The different forms that impact investments can take (e.g. funds, direct investments, listed equities)
- The types of social and environmental themes into which they can invest, as well as those they currently cannot
- The different outcomes that impact investments are targeting (both social and financial)

It's also important that there is continual development in how we measure, report and manage outcomes. We believe that a high-quality impact investment is intentional about the positive contribution it seeks to make, and generates the data required to measure and report on its outcomes. This is currently the focus of regulators and industry initiatives such as The Impact Management Project[6], as well as data and ratings agencies[7], and will be important for the future growth of the impact investor sector.

6. The Impact Management Project is a group of over 700 impact investing practitioners from across geographies and disciplines building a consensus on how to talk about, measure and manage impact.
7. For example MSCI, South Pole Group, Sustainalytics, Bloomberg, Trucost, and VigeoEIRIS.

The role of risk aversion

We've seen how interest and activity in impact investing falls as investors get older. One behavioural explanation for this may relate to investors' risk tolerance.

The earliest impact investments focused on private equity assets into early-stage organisations, often in emerging markets. Some of those who continue to associate impact investing with these higher-risk investments may be reluctant to engage with the topic, even if financial returns are targeted to compensate.

Investors approaching retirement, or who have already retired, may also show a lower appetite for risk, and because novelty is often perceived as being riskier, they may be reluctant to adopt this new approach.[8]

Contesting myths

Since the 1950s, investing has generally focused on maximising risk-adjusted returns, or in the case of Barclays, anxiety-adjusted returns. We see these as the best possible returns relative to the anxiety, discomfort and stress investors will have to endure over a volatile investment journey.

Given the extra consideration of societal impact, impact investing has often been misunderstood as requiring investors to give up financial returns to 'do good'. While some do target, or offer, lower returns, this is not a defining characteristic of impact investments.

This myth has been challenged by various research studies[9], which show that impact investments are not riskier than traditional investments and have the same potential to generate financial returns as non-impact investments.

But consider the inverse view – could impact investing actually be less risky for investors?

Identifying and analysing the risks of an investment are core to every investment process. At its most basic, impact investing takes a wider set of considerations into account, notably environmental, social and governance (ESG) factors. Evidence shows that investments made with these factors demonstrate a strong relationship between diligent sustainable business practices and economic performance[10].

If that relationship holds for the long term, then impact investing may turn out to be a better way to invest. We await further evidence over time.

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8. Notably, from our experience speaking with older investors active in impact, they view the approach as part of leaving a legacy, succession-planning, and passing down family values with financial wealth.

9. Introducing the Impact Investing Benchmark, Cambridge Associates and Global Impact Investing Network (2015).

10. ESG: sustainable investing and bond returns, Barclays (2016), From Stockholder to Stakeholder, Oxford University Smith School (2014).

Different age groups require different approaches

While the data shows greater engagement amongst younger investors than older generations, we believe impact investing can be effectively and efficiently undertaken by investors at all life stages. The question is:

How can we bring impact investing to front of mind and best engage older investors?

We believe there are two key ways of achieving this. Firstly, by overcoming the lack of awareness, knowledge and legacy view that separates financial returns and impact, as above.

Secondly, we need to ensure that advisers are enablers, rather than barriers, to engagement with impact assets.

While impact investments have been a comparatively small part of the investment landscape, they will not have been at the forefront of advisers' minds. But as investors become more aware of and interested in this approach, advisers must be better prepared and willing to discuss it with clients. This is particularly important as older investors with larger portfolios, and who have more complex financial decisions to make, often have advisers or take advice when needed.

Ultimately, if impact investing is to truly enter the mainstream and become integrated into regular investment processes, the industry will need to build an approach that captures the interest of, and caters to, the whole spectrum of investors.

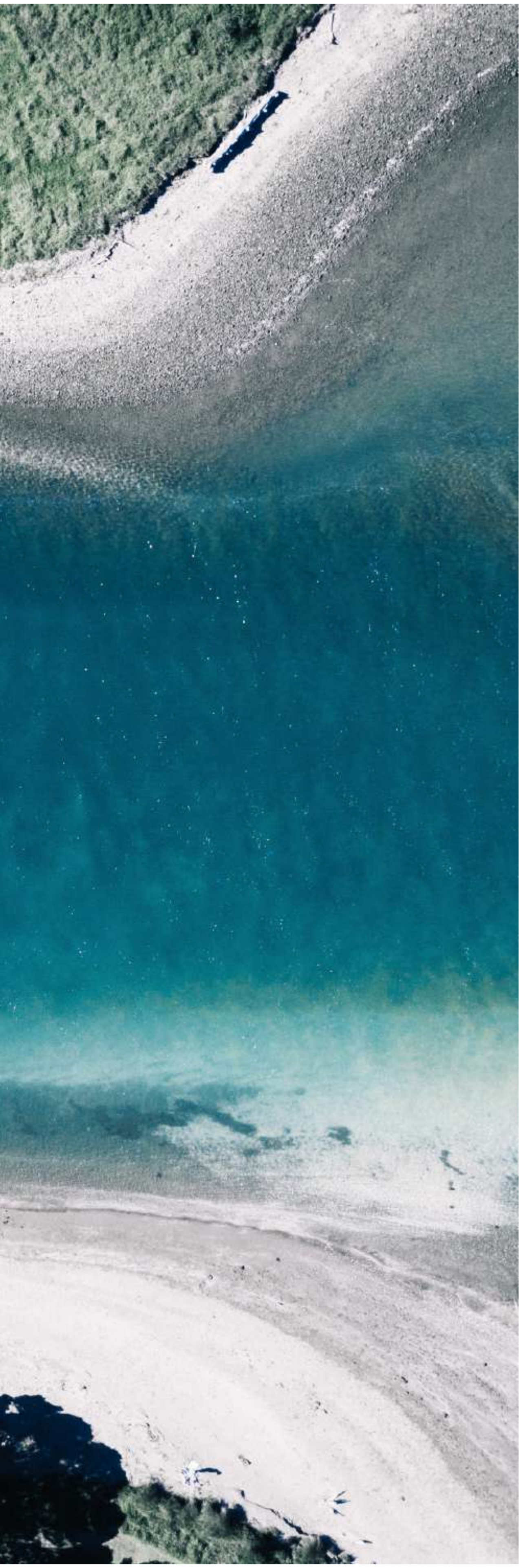
Key conclusions

- Once investors have tried impact investing, they are likely to do so again - and to increase the size of their commitment. This highlights a vital opportunity for the sector: if we can help investors to make that first investment, we could secure greater growth of the market.

- When asked why they might personally avoid impact investing, the most common reason cited by respondents was a feeling that they didn't know enough about it. This highlights the vital importance of continued education and knowledge sharing in increasing investor engagement.

- Older investors may retain out-of-date ideas about the riskiness of impact investments, or view them as a 'novelty' and therefore riskier. In fact, given the wider set of considerations taken into account in an impact asset – notably environmental, social and governance (ESG) factors – such investments could make good financial sense.

- Different age groups will respond to different approaches when it comes to impact investing. While younger age groups display greater interest and activity, older investors represent a huge opportunity for the sector. To engage older investors more effectively, the industry will need to dispel misconceptions and ensure advisers are equipped to support their clients in making impact investments.



Section 2

Causes investors care about

“What impact is important to me?”

By definition, impact investments are concerned with outcomes: in other words, the social and environmental results that the investment generates alongside financial returns. The exact nature of those outcomes can vary, from improving access to education, to encouraging low-carbon energy innovation and much more.

If we want to attract new investor audiences to engage with impact investing, we need to have a thorough understanding of the causes that will resonate with each group. By doing so, the industry can encourage them to consider impact investing as a way of fulfilling their aspirations for both their own capital and the wider world.

Connecting with a cause

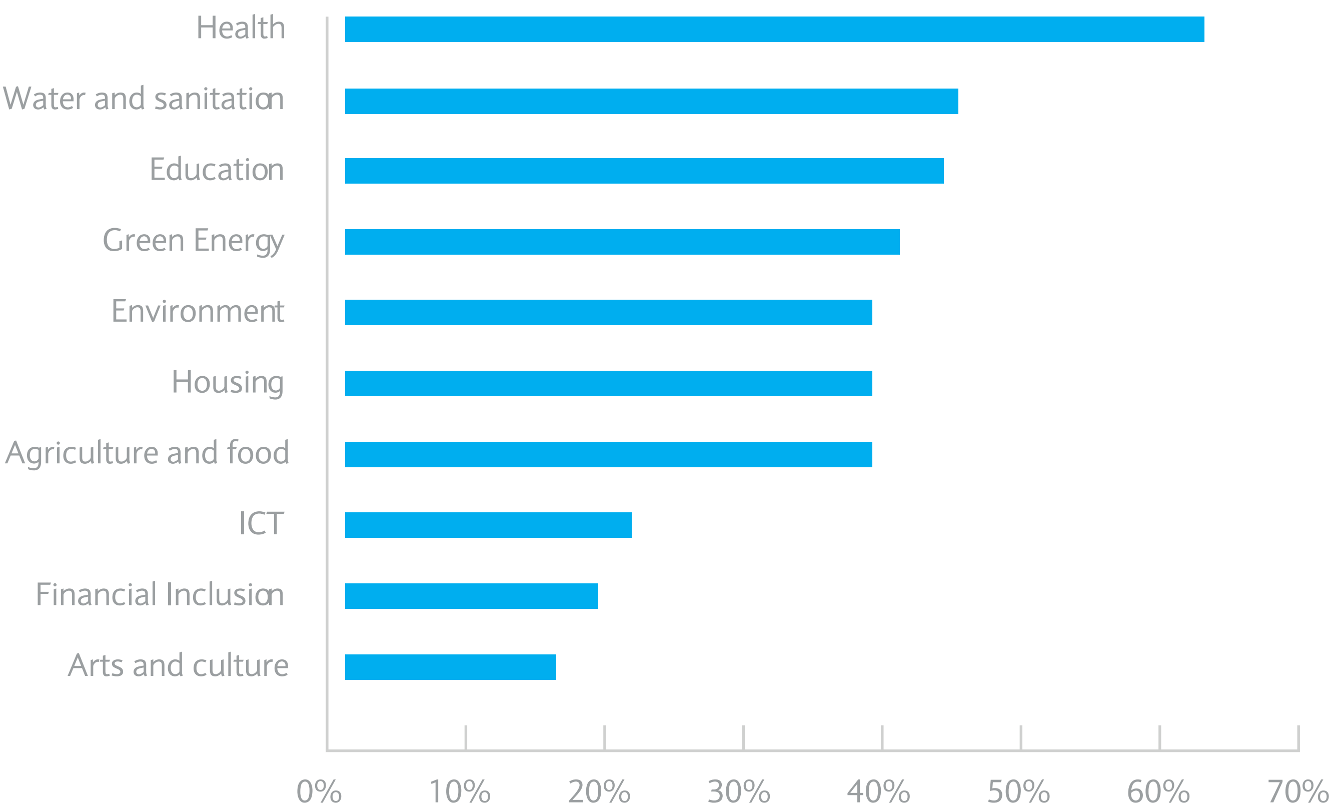
We've found that developing narratives around the specific themes that impact investments address could be an effective way of getting investors to commit – after all, people connect with stories.

Investors are particularly engaged by, and willing to invest their money into, the causes they care about. The most important social and environmental objective or cause for individuals in our 2015 survey was 'Health', selected by 61% of respondents, followed by 'Water and Sanitation' (44%), 'Education' (43%), and 'Green Energy' (40%). Across both the 2015 and 2017 surveys the most important causes to investors have stayed stable.[11]

To test this further, individuals were asked if and how they would allocate a £100k inheritance to different causes. Respondents allocated approximately 10% each to 'Health' and 'Education' - roughly double that of other themes.

Figure 5

Most important social and environmental causes to investors.



Multiple selection allowed, Barclays research, 2015

11.. To get a sense of the potential growth of the sector, we examined research with family offices and their foundations, where general investment fashions begin. In the Financial Times' Investing for Global Impact 2018 study, the most popular themes for impact investments were clean energy, education, food, and health – similar to that of our investor sample. 40% of these respondents view impact investing as a core portion of their portfolio. As a satellite portfolio can, in many cases, represent the first step in moving towards a core impact portfolio, the proportion of family offices holding satellite portfolios indicates how impact activity amongst these institutions could increase. If individual investors follow this pattern, this points to the potential for a significant expansion in activity in the sector.

Returning momentarily to differences by age, it's interesting to note its influence on both cause preference and the intensity of preference.

For younger investors, 'Education' is the most important cause, versus 'Health' for older investors, suggesting that an investor's stage of life – and related concerns – influences the causes they engage with, and potentially invest in.

There are also other nuances at play. Framing conversations about impact investing around specific causes could be a strong hook for engaging millennials. In 2017, in addition to asking about the causes that respondents valued, they were asked to rate how important they thought each cause was. Across every cause, the average importance was higher for those under 30 than their elders, suggesting that younger age groups are more engaged with social and environmental issues than their older counterparts and could therefore be more receptive to messaging around these themes.

This suggests it may be necessary to ensure that different causes are reflected in impact discussions and products, to attract a range of age groups to impact investing. Having made an initial investment that chimes with their primary cause, investors will hopefully go on to make other impact investments.

A majority of investors would choose the impact investment they felt most passionate about over the one that had the most social impact regardless of sector.

A specific cause encourages a larger investment

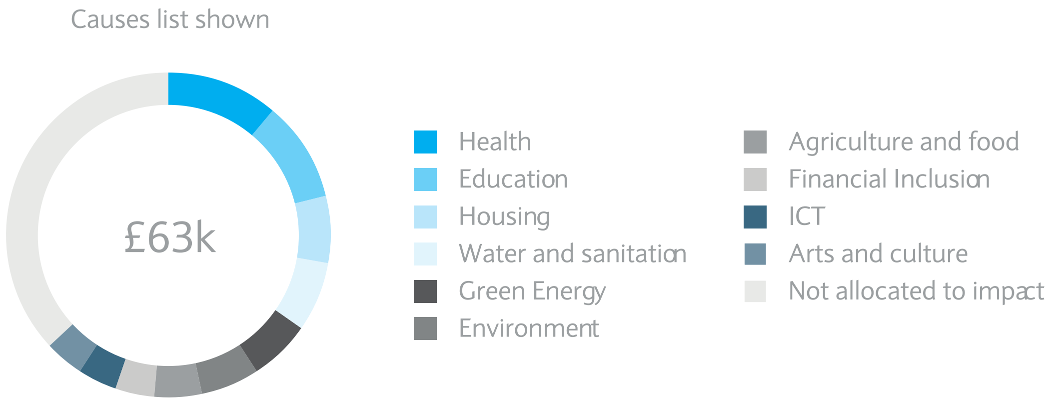
Our analysis found that investors are willing to invest larger amounts of their wealth when the investment is linked to a specific cause, rather than the general concept of impact investing.

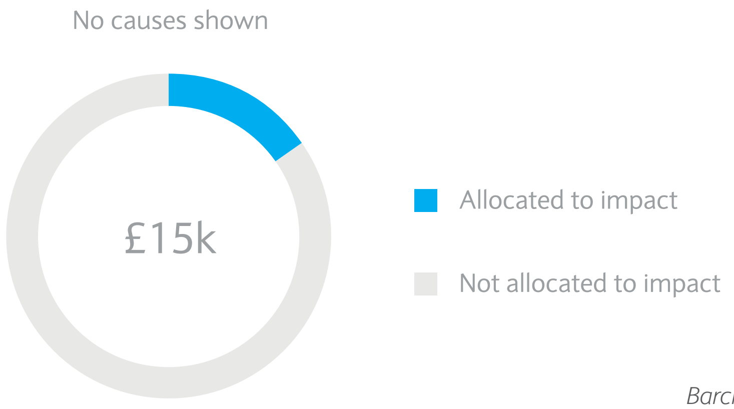
We divided our sample into two groups, and asked half of all respondents how much, if any, of a hypothetical £100k inheritance they would allocate to impact investments across a list of specific causes. The other half were instead asked about the total amount they would allocate to impact, without being given categories. Those given a list of categories allocated a total of £63,000 to impact investments, compared with £15,000 for those without the list.

These results present an important takeaway for advisers and wealth managers: when talking to clients about impact investment opportunities, it's essential to make these conversations relatable and specific so that they capture the investor's interest. Advisers should focus on the themes and types of outcomes targeted by specific impact investments, rather than talking about impact investing in more general terms.

Figure 6

Amount of a £100k inheritance that would be allocated to impact investments.





Barclays research, 2015

Personal causes resonate more

We also found that investors favour investments that align with personal causes, even if they don't generate the greatest impact. In one survey question, respondents were given the choice between an impact investment in the cause about which they felt most passionate, and one that produced the most impact. 66% chose the investment with greater personal connection, with this result consistent across the different causes that investors most strongly supported.

This shows how powerful causes could be when it comes to engaging investors in the sector. It does, however, raise the challenge for advisers and product providers of having a full range of investments outcomes available.

Increasing engagement through thematic narratives

These findings suggest building investment products and narratives around specific causes could be an effective way of driving inflows into impact assets. Humans identify and connect with stories, and as the industry seeks to broaden the appeal of impact investing, thematic narratives could present a key means of doing so. By addressing the causes individuals care about, providers of impact propositions could induce investors to get invested sooner and more fully.[12]

12. This also opens up questions for future research, about both investors and investment options. For example, what do investors (or advisers) do if the specific cause of interest is not being addressed by currently available impact investing options? Should they invest in other impact causes? Or in traditional investments? Do they hold off investing altogether? And how do investors move from one theme to another, or incorporate impact across their portfolio?

Fulfilling the need for emotional comfort

At the core of human nature is the desire for short-term emotional comfort – and we're willing to give up long-term benefits to feel more at ease in the moment. Unfortunately for our financial health, this trait can adversely affect our investment results. We're more likely to give up on a long-term investment if the swings we experience in the short-term make us feel uncomfortable.

Becoming more comfortable with your investments may be as straightforward as bringing the beliefs, views and causes you care about into your portfolio. For reluctant investors, or those for whom investing is not the status quo, holding investments which reflect their personal beliefs can help them feel more confident in keeping investments in place.

The emotional comfort of impact investing can help solve the problem of reluctant investors holding too much cash in their portfolios. Reallocating some of this excess cash to impact investments will likely make portfolios more efficient, while also potentially decreasing stress about how your investments are impacting society – and your returns – in the long run.

Putting money towards specific causes can increase the amount investors put towards impact – and could help them overcome their reluctance to get invested. Narratives around impact may also broaden the appeal of impact and help boost inflows from investors.

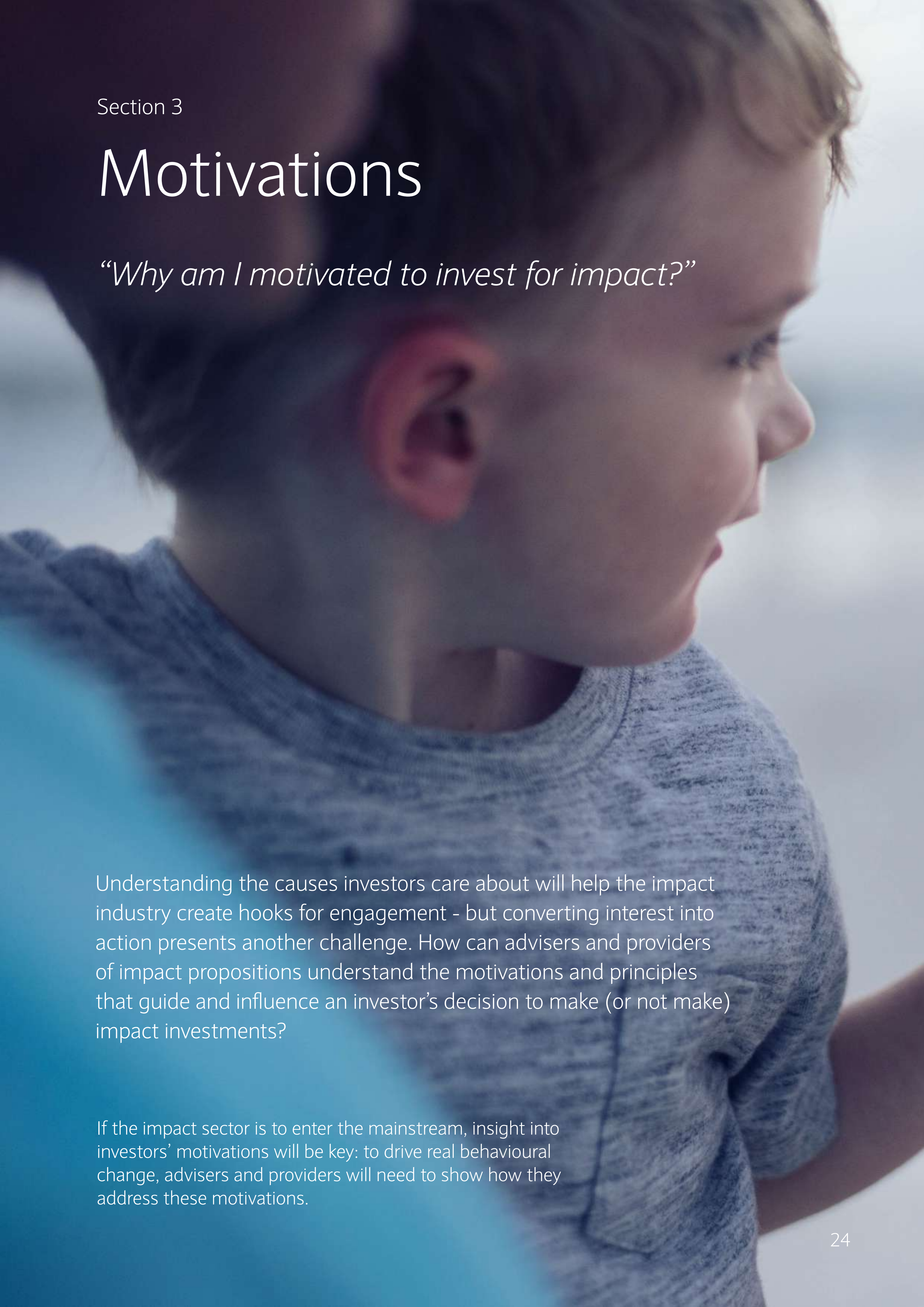
Key conclusions

- Investors are particularly engaged by, and willing to invest their money into, the causes they care about. The most important social and environmental objective or cause for individuals in both the 2015 and 2017 surveys was 'Health'.

- There are, however, variations across age groups: age has an influence on both cause preference and the intensity of preference. For younger investors, 'Education' is the most important cause, versus 'Health' for older investors, suggesting that an investor's stage of life – and related concerns – influences the causes they engage with, and potentially invest in.

- Investors are willing to invest larger amounts of their wealth when the investment is linked to a specific cause, rather than the general concept of impact investing. This suggests that, when talking to clients about impact investment opportunities, it's essential to make these vivid and specific so that they capture the investor's interest.

- Building a narrative around specific causes could be an effective way of driving inflows into impact assets. By addressing the causes individuals care about, providers of impact propositions could induce investors to get invested sooner and more fully.



Section 3

Motivations

“Why am I motivated to invest for impact?”

Understanding the causes investors care about will help the impact industry create hooks for engagement - but converting interest into action presents another challenge. How can advisers and providers of impact propositions understand the motivations and principles that guide and influence an investor’s decision to make (or not make) impact investments?

If the impact sector is to enter the mainstream, insight into investors’ motivations will be key: to drive real behavioural change, advisers and providers will need to show how they address these motivations.

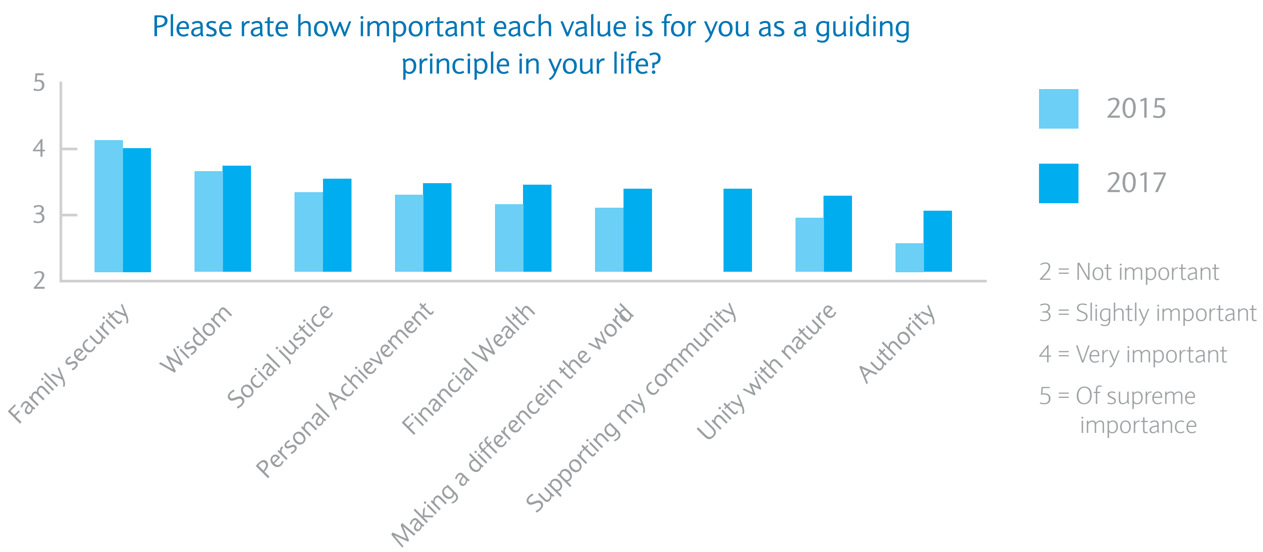
The importance of guiding principles

To get to grips with this, we first sought to understand the values that investors held. Personal values serve as guiding principles in an individual's life, and given that they apply across many situations, they can be expected to also influence investment behaviour. We found that the most important principles included 'Family security', 'Wisdom', 'Social justice', and 'Achievement' (Figure 7)[13].

When we looked at the relationship between these principles and interest in impact investing, we found that 'Making a difference' was the principle most strongly correlated with interest. While this connection may not be surprising, it does provide valuable insight into the active choice that investors make when they undertake an impact investment.

Figure 7

The importance of values as guiding principles in the lives of investors.



Barclays research, 2015, and Barclays analysis of data from advisory group to UK Government, 2018

Perhaps a more revealing way of looking at this is to identify the principles that correlate with lower interest in exploring impact investing.

In our sample if an investor rated 'Family security' as highly important, they were typically less interested in impact investing – suggesting that some investors prioritise their immediate family's (financial) needs over wider society and the environment. In the context of age and interest in impact investing, it's noteworthy that older investors showed stronger agreement with the personality statement 'My main responsibility is to care for my family and myself'.

13. The list presented to respondents was based on Milfont, T. L. (2007). Psychology of environmental attitudes: A cross-cultural study of their content and structure (Doctoral dissertation, ResearchSpace@ Auckland).

The correlation between principles and interest in impact has strengthened

Between 2015 and 2017, the guiding principles investors deemed most important have remained consistent, but the strength of the correlation between the importance of a guiding principle and interest in exploring impact investing has approximately doubled. It's difficult, at this stage, to say whether this is the result of the impact industry advancing - or potentially changes in the wider world.

One explanation of this strengthened correlation between guiding principles and interest in impact investing might be part of a wider reaction to recent populist movements. Today, there is increasing recognition of the power of individuals and their collective voice. In the same way that some consumers buy (or do not buy) certain products or certain brands to express their views, investors may increasingly believe that they can drive change through their investments.

This is supported by separate research we carried out with a network of individuals who have been involved in impact investing from its earliest stages. From a sample of these Toniic[14] members, we found that two-thirds (66%) strongly agreed with the statement that they 'undertake impact investing to drive societal change through the organisations and projects that their capital is allocated towards'. And more than half (54%) strongly agreed that impact investing allows them to influence how capital markets and financial systems operate.

For the individual investor, impact investing allows their capital to work towards their financial goals, whilst allowing them to play a role in shaping the world around them.[15] Our research indicates that by highlighting how impact investing aligns with personal guiding principles, the industry could engage those investors who may not immediately recognise its relevance for themselves.

Family first?

Can self-interest and impact co-exist? The finding from our 2015 sample – that investors with the strongest priority for 'Family security' have the least interest in impact investing – suggests potentially not.

However, the latest study shows this negative correlation between 'Family security' and interest has decreased. Since the first survey in 2015, and considering recent events in 2017, significant economic, political and environmental uncertainty has increased. As such, investors may be prompted to think more collectively – as one research participant noted:

"It's just impossible to ignore, every day you read articles on environmental chaos, social degeneration, it's profoundly depressing. You can either stand up and be counted or sit down and wait for the world to end, and I think those that can help out, that have money to help out, absolutely have a responsibility to do so." - Research participant

'Family security' may have now become a far more global issue.

14. Toniic is the global action community for impact investors, whose mission it is to empower impact investors.

15. An interesting note is that the causality between guiding principles and interest in impact could go either way, leading the alternate question: can impact investing change people's values and priorities? Another for future research.

Younger investors are more easily convinced

Having a positive attitude towards something is one thing – acting on this attitude is another. Even when we want to do something, or know we should, undertaking the task, habit, or decision for the first time can be daunting.

Given the gap between interest in impact investing (56%) and action (9% in 2015 and 15% in 2017), we wanted to explore where incentives and barriers play a role in encouraging, or inhibiting, investor action.

As a starting point, in 2015 we asked those investors interested in impact investing about the factors that would influence their decision to invest, at least in principle. The factors most likely to affect their decision were:

- A demonstrated track record of positive financial returns
- The level of [financial] risk
- A demonstrated track record of positive social returns
- Tax relief

Looking specifically at the importance of both financial and social returns to investors, another contrast emerges across age groups. Younger investors may be readier to appreciate the merits of impact investing, whilst older investors may be sceptical and need to see tangible results.

Comparing the deciding factors from 2015 with those in 2017, we found that financial returns and financial risk remain consistently important in investors' decision-making, whilst tax considerations have become considerably less important. The least important factor in the 2017 survey is the geographic area of the impact, implying that investors are comfortable with investments in foreign regions and markets. From a behavioural finance perspective, this is contrary to the typical preference for familiar investments, which is perceived as a barrier to any investing.

Familiarity and the home bias

Emotional comfort isn't the only behavioural bias we exhibit when investing – in fact, it's one of several. While investing may seem like a calculated and logical activity, human nature plays a significant role in how we handle our money and investments.

Here, we look at two related traits that play a role in investing: familiarity bias and home bias.

Familiarity bias refers to our preference to put money into investment areas we already know and with which we feel comfortable. Home bias is our preference to invest in local assets – those 'close to home.'

These biases are often bad news for returns. Investing too heavily in familiar regions and industries or having returns being correlated to your employer, local economy and personal income stream can all contribute to making a portfolio less efficient.

Familiarity bias could prevent investors from turning towards impact investing options, as the businesses tackling social and environmental challenges may be using new technologies or operating in markets unfamiliar to investors.

However, once investors decide to put money into impact investing, the familiarity bias may play out in a different way than in traditional investing. Because investors are choosing investments that support causes that they're already familiar with and support, it seems the familiarity bias is softened – geographical considerations seem less important for impact investors.

To help investors overcome this, building a narrative around the causes behind impact investing could be key. This can help those for whom investing is not the status quo to feel more comfortable with the material – and ultimately invest more.

It could also help to highlight that impact investing can, in our view, include larger, well-known companies who are innovating and whose products or services are addressing a societal challenge. This could make impact investing seem more accessible, and not only help increase investment, but also encourage investors to keep their money in the investment for longer, which may ultimately improve long-run returns.

Key conclusions

- Different guiding principles – the personal values that shape investors' decisions in all areas of life – are more or less strongly correlated with the propensity to engage with impact investing.

- 'Making a difference' was the principle most strongly correlated with interest in impact investing amongst our sample of investors; while the research showed that if an investor rates 'family security' as highly important, they are typically less interested.

- By highlighting how impact investments can be aligned with guiding principles, the impact industry could engage those investors who may not immediately recognise the relevance of impact assets to themselves.

- The familiarity bias may play out in a different way in the context of impact investing compared to traditional investing. Because investors are choosing investments that support causes which they already care about, it seems the familiarity bias is softened – geographical considerations seem less important for impact investors.

Section 4

Investment returns

"What do I want my investments to achieve?"

Within the impact investment community, there's growing belief that the industry has made the case for comparable financial returns through impact investing – and indeed, this is supported by a growing body of evidence.[16] However, some still suggest that to be fundamentally distinct from traditional investing necessitates giving up returns, or another form of flexibility.[17]

These people may find young demographics' strong interest in impact investing surprising – and since young investors are likely to be trying to build their wealth, 'doing good' with their money should be a lower priority.

We do not believe that a requirement to make trade-offs is inherent to the practice of impact investing. For some investors and investments, of course, this can be a conscious choice – one that should be acknowledged, and, in some cases, applauded.

Still, our interest is mainstream investors, where the view that impact investing requires a trade-off has been one of most commonly encountered misunderstandings. With this in mind, we explored mainstream investors' beliefs around financial returns – their understanding and expectations, and even their willingness to seek a lower return.

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16. Friede, G., Busch, T., & Bassen, A. (2015). ESG and financial performance: aggregated evidence from more than 2000 empirical studies. Journal of Sustainable Finance & Investment, 5(4), 210-233. Chicago.
The authors examine 2200 individual studies and find that 90% report a nonnegative relationship between ESG criteria and corporate financial performance, with the large majority reporting positive findings.
17. M. Bolis, C. West, E. Sahan, R. Nash and I. Irani (2017). Impact Investing: Who are we serving? Oxfam and Sumerian Partners.

The emotional returns from impact investing

Sacrificing financial returns is not a condition of impact investing. In fact, most investors expect market or above market returns from their impact investments.

However, investors don't just earn financial returns from holding investments; they may also receive emotional returns. They can derive value from the personal satisfaction or feeling of purpose that holding an investment gives them. These emotional returns can be particularly important with respect to impact investments, from knowing we are having a positive impact on the world, to the social recognition we may receive from being seen to be involved in the impact sector.

In fact, in some cases, the opportunity to generate impact and gain these emotional returns may reduce the need, or desire for financial returns. If investors believe it is possible to have the win-win situation of doing good and generating returns, but are then willing to accept a lower return, this suggests they place significant value on the social impact of their investments. In other words, these investors may be earning considerable emotional returns.

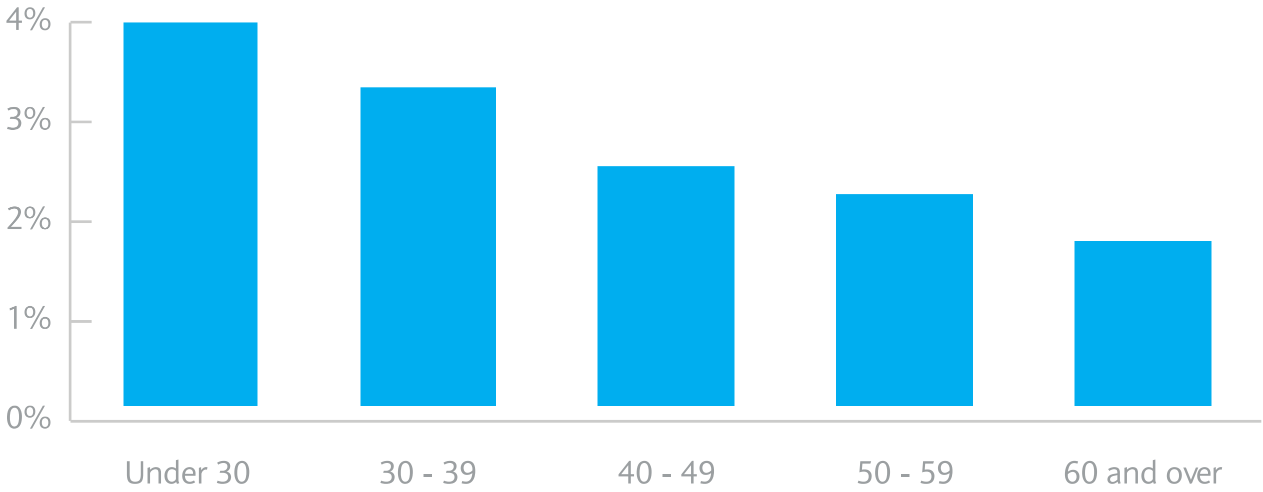
To test the appetite for sacrificing returns for societal impact, we asked investors hypothetically how far they would be willing to sacrifice returns for an impact investment compared with a traditional investment.

One quarter (26%) would not be willing to sacrifice any returns. For those who would, the amount investors would be willing to sacrifice decreased with age. Younger investors are most willing to accept a lower return, and lock their money up for longer time periods. It appears that younger investors receive higher emotional returns from impact investing.

Figure 8

Hypothetical returns sacrifice for social impact.

How much of your investment returns would you be willing to sacrifice for an impact investment in comparison to the returns you would get from a traditional investment that has an expected annual return of 7% ?



Barclays research, 2015

Most impact investments do not explicitly target a lower level of financial returns, and financial returns will be coupled with the emotional returns from holding investments that have a societal benefit. However, even if it was necessary to make concessions for delivering impact – and there are some investments that explicitly target lower returns than other comparable investments – holding these investments in a portfolio may still raise portfolio efficiency. For example, incorporating impact investments with low correlation to other asset classes in a portfolio may offer the diversification benefit of lowering the overall portfolio risk.

What investors truly want are the best possible returns relative to the anxiety, discomfort and stress they will have to endure over the volatile investment journey - 'anxiety-adjusted returns'. The emotional benefits coupled with potential diversification benefits from holding impact investments may mitigate some of the emotional stresses that can come with investing. However, a key question is whether these emotional returns will help investors to stay invested in times where other behavioural biases may lead to selling - for example, the panic selling that can accompany a period of volatile, falling markets. Only time will tell if this is the case.

Investors expect financial returns

Our 2015 data found that 82% of investors would expect close to, or above, market returns from an impact investment. This is consistent amongst respondents, regardless of prior impact investing experience: the only notable difference is that a very small proportion (4%) of those without prior experience expect negative returns, whereas no investors with prior experience expected negative returns.

This could be indicative of a maturing sector, and a growing understanding of the case for impact amongst investors. The past performance reported by investors and organisations active in impact investing supports this view:

- 91% of impact investing organisations report investments meeting or exceeding expectations for financial performance, 98% report the same for social impact.[18]
- 75% of family office and foundations report their financial performance meeting or exceeded expectations, and 88% reported this for social returns.[19]

Despite this, concerns about relative underperformance are one of the potential barriers that respondents report when it comes to increasing existing allocations to impact investing. And while these experiences are encouraging as with all investments, past performance is not a guide to future performance.

In the 2017 survey, less than a third (31%) of respondents said they would accept a lower financial return from an impact investment compared to a traditional investment, and just a quarter (25%) would be willing to take on greater financial risk. Bearing this in mind, we might expect that investment propositions that request higher levels of flexibility from investors than traditional investments may struggle to gain support. Investors expect their impact investments to provide them with good financial returns alongside the social and environmental outcomes generated.

18. Global Impact Investing Network, Annual impact investor survey 2018, of 209 respondents representing impact investing organisations.To ensure that respondents had meaningful experience managing impact investments, survey-eligibility criteria required that respondents either: (1) had committed at least USD 10 million to impact investments since their inception or (2) had made at least five impact investments, or both.

19. Financial Times Investing for Global Impact 2018

Key conclusions

- We do not believe that a requirement to make trade-offs is inherent to impact investing. However, the view that impact investing requires a trade-off has been one of most commonly encountered misunderstandings of the sector in the past.

- There are signs that this perception is shifting: according to our 2015 research, 82% of investors would expect close to, or above, market returns from an impact investment. This could be indicative of a maturing sector, and a growing understanding of the case for impact amongst investors.

- In addition to financial returns, investors can also earn emotional returns from investments. They can derive value from personal satisfaction or feeling of purpose that holding an investment gives them. These emotional returns can be particularly valuable and prominent with impact investments.

- A key question for the future is whether these emotional returns will help investors to stay invested in times where other behavioural biases may lead to selling.

Section 5

Where next?

Based on our analysis, we can see the demand side of the impact market has moved forward from our first research in 2015. Investor interest in impact investments is stronger – and there are signs of growth in activity.

There still remains, however, a significant gap between interest and action. If impact investing is to enter the mainstream, the industry will need to close this gap and take steps to encourage individuals to make that first impact investment. After all, as we know, doing so often leads to further investments.

We hope that this report has provided new insights of this nature that will help advisers and providers re-assess the way they think about impact investing. But it doesn't stop here. We believe the industry must further discuss and consider:

- How best to engage older investors, who hold greater wealth today and present a currently under-explored opportunity - alongside millennials who are already enthusiastic about impact investing.
- How members of the industry should talk about impact investing, in order to start individuals on the impact journey. Will thematic narratives help them to frame impact and its outcomes in a way that resonates with individuals?
- The importance of behavioural insight as the sector seeks to gain further momentum. The values and motivations of investors play an essential role in impact investing decision-making, as the findings of our report make clear.
- How impact investing might actually change the way individuals invest – will it affect, and even correct, common biases? Finally, what additional value can the emotional returns of investing provide to both investing practice and investors? How does suitability and fiduciary duty reflect these non-financial preferences that investors have?

We believe that a greater focus on understanding individuals, their values and motivations is the key to achieving this. With insight into how values and motivations shape investing behaviour, the industry will be equipped to move the market forward - converting the high interest in impact, into tangible investing.

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