Impact Investing on the Rise:

How Financial Advisors are Adapting

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Impact investing is the practice of making purposeful investments that generate financial returns, while also helping to achieve social or environmental benefits—exemplifying the idea of "doing well while doing good." There are a variety of ways to engage in impact investing, from the simple to the sophisticated, and consumers are increasingly utilizing strategies to align their investments with their values.

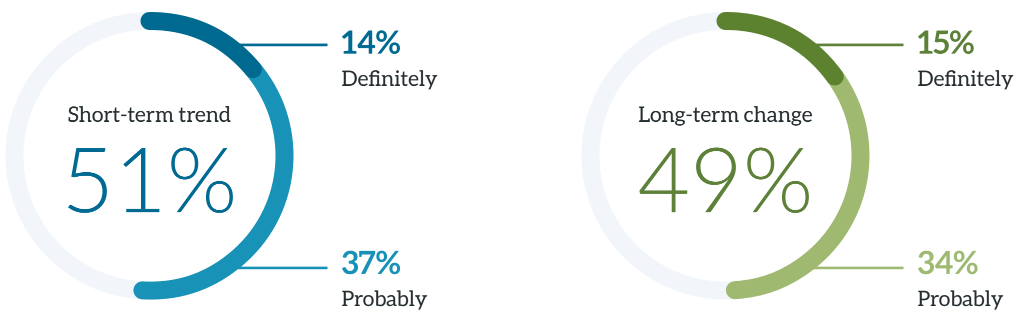
Impact investing has become increasingly popular in recent years, particularly as there are generational shifts in wealth from Baby Boomers to Gen Xers and Millennials—with the younger generations acquiring wealth and growing more sophisticated in their investment strategies. As the movement grows, some financial advisors are embracing the concept and initiating values-based conversations with clients. However, despite its growing popularity, impact investing is still a new concept for many investors—and their advisors.

Fidelity Charitable conducts periodic tracking studies among advisors to measure how attitudes and adoption of charitable planning tactics have evolved. The 2019 survey also aimed to understand the advisor perspective on impact investing and how advisors counsel clients on these strategies. This report highlights findings from the survey that show how advisors are approaching the impact investing conversation with clients—and where further opportunity may lie.

Advisors are split on whether impact investing is a short-term trend or a long-term change.

Advisors said that it's a toss-up on whether impact investing is here to stay—with 51 percent saying impact investing is a passing trend and 49 percent saying it's a long-term change. Advisors should consider how their client base will change over time as Millennials—a generation eager to make a positive impact on society—take on a greater share of wealth. Eighty-seven percent of high-net worth Millennials say that a company's environmental, social and governance (ESG) record is "an important consideration in their decision about whether to invest in it or not"[1]—and they are already acting on that belief. More than three-fourths of Millennials said they had made at least one impact investment—compared to only 30 percent of Baby Boomers.[2] Socially responsible investing is clearly an area of interest for Millennials that could scale dramatically as younger investors enter the mid-point of their careers and begin to build greater wealth. Younger women, in particular, will take on greater financial power through a massive wave of intergenerational wealth transfer in the next few decades—positioning them to be leaders in putting impact investing strategies into practice.

Perceptions of impact investing as a short-term trend vs. a long-term change

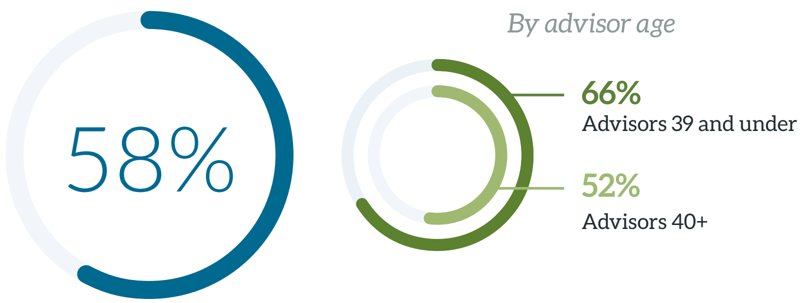


[1] U.S. Trust, "U.S. Trust Insights on Wealth and Worth®" 2018.
[2] Fidelity Charitable, "Impact Investing: At a Tipping Point?" 2018.

More than half of advisors are personally interested in impact investing.

While advisors are split on whether impact investing is a long-term change, 58 percent say they are personally interested in impact investing—with Millennial and Gen X advisors most likely to be interested. This could show that younger advisors are representative of their generation and in tune with growing investment trends.

Percentage of advisors who are personally interested in impact investing



In their own words

Advisors on their personal interest in impact investing

"**I believe in being responsible with my investment choices** and the impacts they make environmentally."

"I am highly interested in this branch of investing because clients, along with myself, love how it **emphasizes making a positive impact on specific social and environmental causes.**"

"[Impact investing] represents a significant opportunity to bring **innovation, incentives, and resources from businesses to the social sector**."

"I **don't typically invest based on social feelings** or beliefs."

"Some groups seem extreme and I **personally like a more balanced approach to social and environmental issues**."

Roughly half of advisors report that they understand impact investing well.

As impact investing gains popularity, advisors are increasingly educating themselves on impact strategies—particularly those advisors serving markets where demand is highest. Fifty-three percent of advisors said that they understand impact investing well, but there is a wide disparity between advisors with higher and lower assets under management. As impact investment opportunities become increasingly accessible to investors of all asset levels, demand for impact guidance will expand among clients at a range of wealth levels. This indicates an opportunity for advisors to broaden their knowledge in order to initiate more impact investing conversations with a wider range of clients.

Percentage of advisors who say they understand impact investing well

Advisors define impact investing by a variety of investment strategies.

Impact investing is multi-faceted, with a variety of ways for investors to engage. Advisors are most likely to define impact investing with simple tactics, like investing in specific mutual funds, exchange-traded funds or private funds that invest in companies based on social, environmental or governance criteria. These strategies are easy access points for many clients—particularly those at lower asset levels—to begin exploring impact investing.

Fewer advisors—only 38 percent—include making loans to charities in their definition of impact investing. Advisors who become well-versed in the full breadth of impact strategies will be most prepared to help their most sophisticated clients achieve their goals.

Percentage of advisors who associate various tactics with impact investing

		By assets under management	
	Total	**$25M to $99.9M**	**$100M or more**
Investing in mutual funds or exchange-traded funds that invest in companies based on environmental, social or governance criteria	60%	58%	61%
Investing in private funds, such as venture capital, that focus on companies with social or environmental benefits	59%	52%	63%
Investing in small businesses or start-ups that focus on social or environmental benefits	53%	47%	57%
Investing in public companies based on social, environmental or governance criteria	50%	41%	56%
Providing loans to charitable organizations	38%	34%	40%

Advisors have discussed impact investing with fewer than half of their clients.

Advisors say that they have discussed impact investing with 41 percent of their clients, on average. They also report that one third of their clients have made an impact investment. However, nearly 60 percent of consumers said they are interested in investing in public companies with good social and environmental practices—and 44 percent said that assistance from a financial advisor would encourage them to make an impact investment.[3] This strong consumer interest represents an opportunity for advisors to discuss impact investing more broadly and to deepen client relationships by providing valuable counsel to those who are interested in investing in this way.

Average percentage of clients with whom advisors have discussed impact investing

Average percentage of clients who have made an impact investment

[3] *Fidelity Charitable, "Impact Investing: At a Tipping Point?" 2018.*

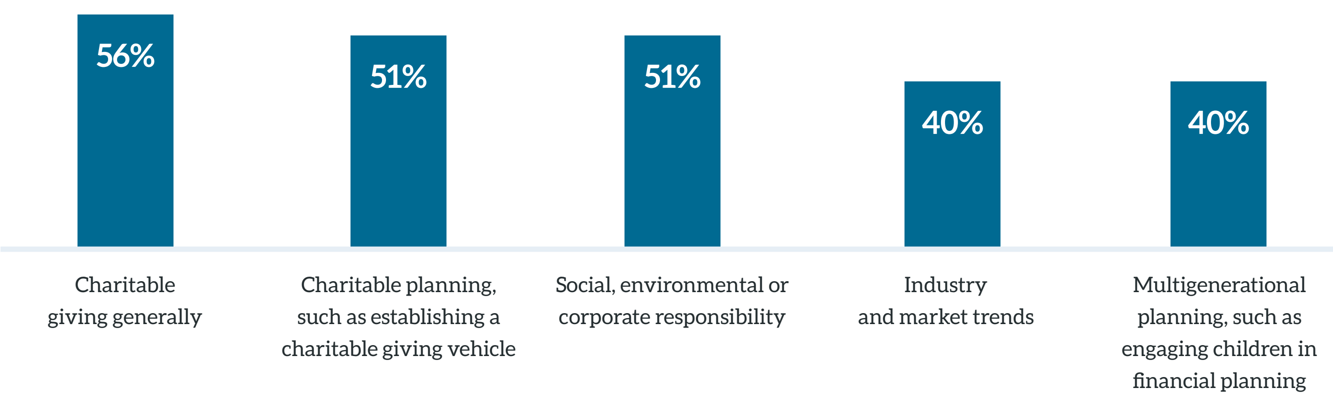
More than half of advisors say they are likely to discuss impact investing with clients who are interested in charitable giving.

There are a variety of topics that an advisor might use as a segue to impact investing, but in general, a client's interest in charitable giving is most likely to encourage an advisor to have the discussion. In this, advisors are on target, as a strong inclination toward charitable giving is highly correlated to interest in impact investing. In fact, 79 percent of consumers who have made an impact investment rate charitable giving as "very important"[4]—which underscores the link between philanthropy and impact investing. Advisors say they have discussed charitable giving with 58 percent of their clients—but impact investing with only 41 percent. This disparity signals an opportunity for advisors to capitalize on this natural connection point to start more conversations about impact investing with clients.

Fewer advisors said that they would be likely to discuss impact investing with clients interested in multigenerational planning. However, as younger generations are most likely to be interested in making impact investments, this could be a missed opportunity for advisors to provide valuable, relevant guidance that could solidify long-term client relationships.

Topics that would encourage advisors to discuss impact investing with clients

The client is interested in...



[4] *Fidelity Charitable, "Impact Investing: At a Tipping Point?" 2018.*

Conclusion

Client interest in impact investing is showing no signs of slowing down, but advisor help is needed to provide guidance and dispel myths related to the practice. Now is the time for advisors to prepare for a forthcoming wave of wealth transfer and the associated investment strategies to which clients will gravitate. Millennial clients—particularly Millennial women—are gradually taking control of a greater share of wealth, and these investors place a priority on aligning their financial choices with their values.

As impact investing becomes more mainstream and accessible to all investors, advisors would be well-served by continuing their impact investing education so they are poised to provide meaningful advice to clients who are interested in investing in this way. Advisors who are knowledgeable and confident about impact investing will be in the best position to take advantage of this opportunity to deepen client conversations and build multigenerational financial plans that will make an impact now and in the future.

Methodology

W5, an independent research firm, conducted a research study on behalf of Fidelity Charitable about financial advisors and the charitable conversation. 250 professional advisors in the U.S. were surveyed March to April 2019, including financial advisors, certified public accountants (CPAs) and attorneys. This data analysis focuses on data collected from 175 financial advisors whose assets under management have a total market value of $25 million or more.

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