Reports

THE IMPACT

# Impact Investing: **Mapping Families' Interests & Activities in 2020**

A joint report with Universität Zürich[UZH] Center for Sustainable Finance & Private Wealth

THE IMPACT

The ImPact is a global membership community of families committed to impact investing. The mission of The ImPact is to help families make more impact investments more effectively.

Universität Zürich[UZH]

**Center for Sustainable Finance & Private Wealth**

The Center for Sustainable Finance and Private Wealth (CSP) is an academic research institution at the University of Zurich, Switzerland's largest university. The mission of CSP is to research the most pressing issues, and to train wealth owners and investment professionals, in order to drive more capital towards effective means for sustainable development. See www.csp.uzh.ch

# IMPACT INVESTING:

# MAPPING FAMILIES' INTERESTS & ACTIVITIES

## FOREWORD

Impact investing has gone mainstream. Major financial institutions and the largest conventional investment managers have developed impact investment platforms and products, signaling their commitment to using impact investment as a tool to accomplish the Sustainable Development Goals (SDGs). However, while the direction of travel is positive, the pace of capital flowing towards solving the world's most challenging problems remains insufficient. Further, the rapid growth in the industry has stoked concerns about greenwashing and necessitated a deeper understanding of impact objectives between private asset owners and wealth managers.

This report aims to clarify the impact themes, geographies, and asset classes that private asset owners are seeking. The objective is to identify market gaps in the impact investment landscape and help wealth managers better serve their clients to mobilize private capital to the well-targeted impact investments needed to achieve sustainable development.

In this second annual report, we expanded our survey audience from a U.S.-only group of ultra high net worth (UHNW) investors to a global audience. That change we planned; the other we did not.

COVID-19 of course upended nearly every aspect of life in 2020. It demonstrated the inextricable connectivity and fragility of systems around the globe, and it demonstrated our collective ability to mobilize significant resources in the face of crisis. As such, we asked families how COVID-19 influenced their interest in and approach to impact investing.

Join us—towards impact!

***Dr. Falko Paetzold, Initiator & Managing Director, Center for Sustainable Finance and Private Wealth (CSP), University of Zurich***

***Sam Bonsey, Executive Director, The ImPact***

# OVERVIEW

**Impact Investing: Mapping Families' Interests and Activities** is part of a multi-year effort to study a problem that many ultra high net worth (UNHW) families have identified as critical, timely, and important: the existing impact investing opportunity set does not fully match their specific investment interests. The 2020 version of the survey, the second of three planned annual surveys, added a third component--inquiring how COVID-19 influenced families' impact investing strategy.

1. **COVID-19:** How if at all, has the COVID-19 pandemic affected your impact investing strategy?

2. **Market gaps:** In what asset classes, geographies, and impact sectors do families want to invest but lack sufficient investment opportunities? Are there areas in the impact investing market that are oversaturated with investment opportunities?

3. **Satisfaction with financial intermediaries:** How satisfied are families with the products and services provided by the financial institutions that serve them? How can wealth managers and investment advisors improve their impact investment offerings?

The goal of the study is to amplify the collective voice of families and to send a signal to financial intermediaries on the interests of wealth owners and possible opportunities for future impact investment products and market development.

This 2020 survey is the SECOND annual survey that The ImPact is conducting with grant support from the John D. and Catherine T. MacArthur Foundation and academic support from the Center for Sustainable Finance and Private Wealth (CSP) at the University of Zurich.

In this study, we surveyed UHNW families that have a family office or family foundations all over the world. The survey was distributed by The ImPact and CSP in May of 2020. Participation in the survey is fully anonymous.

We received responses from 57 UHNW families. While we are mindful of the small sample size of this study, we are sharing observations and insights that stem from investors with very substantial investment portfolios and what we believe are important initial findings that we will further explore in subsequent surveys.

## KEY INSIGHTS

1. COVID-19 has inspired many families to invest more in impact investments.

    - 35% of respondents said that they feel more motivated to pursue impact investments and plan to deploy more capital towards impact as a result of the COVID-19 crisis.

    - Very few respondents said that COVID-19 would fundamentally change their prioritization of impact themes, but nearly half said it would have some effect.

2. Of the respondents already making impact investments, 60% acknowledged that there was a gap between their interests and current investments.

    - The **three sectors of greatest investor interest** are Education, Agriculture and Food, and Environmental Conservation. Market demand for Environmental Conservation is fairly well met, but there are significant gaps between investor interest and active investments in Education and Agriculture and Food.

    - The **most significant areas of unmet investor interest** are Base of the Pyramid Services, Water Investments, and Agriculture and Food.

3. Of the families who cited a gap between their interests and current investment into impact, most (75%) are actively pursuing impact investments and consider it to be a "matter of time" before their interests and investments are aligned. The two most common hurdles that families cited as the reason for the gap between their interests and investments were:

    - **Their own knowledge gap:** Families who are still in a "learning mode" find it more challenging to deploy capital when their investment advisors are also unfamiliar with or unaware of impact investment opportunities.

    - **Product gap:** Families are actively looking for investments but are not finding investable opportunities that meet their needs. This barrier, for some families, could be related to a lack of knowledge. But the survey also highlighted that even experienced investors are not finding suitable opportunities in some market segments.

4. Families are more satisfied with advisors who have impact expertise compared to those who do not. In this survey, an eye-popping 40% of families who are working with private banks and wealth managers with no impact specialists are actively seeking new advisors.

    - Private bank and wealth management advisors with no specialized impact investing capabilities were, by a wide margin, the worst performing group in our survey in terms of client satisfaction.

    - In-house family office staff with no impact specialists was the only other group to register dissatisfaction in our survey. All categories that included an impact investing specialist scored highly for client satisfaction.

5. Looking ahead, families plan to deploy more assets toward impact:

    - On average, impact investments currently represent only a modest percentage of a family's total portfolio. Most families surveyed have less than 30% of their assets deployed towards impact.

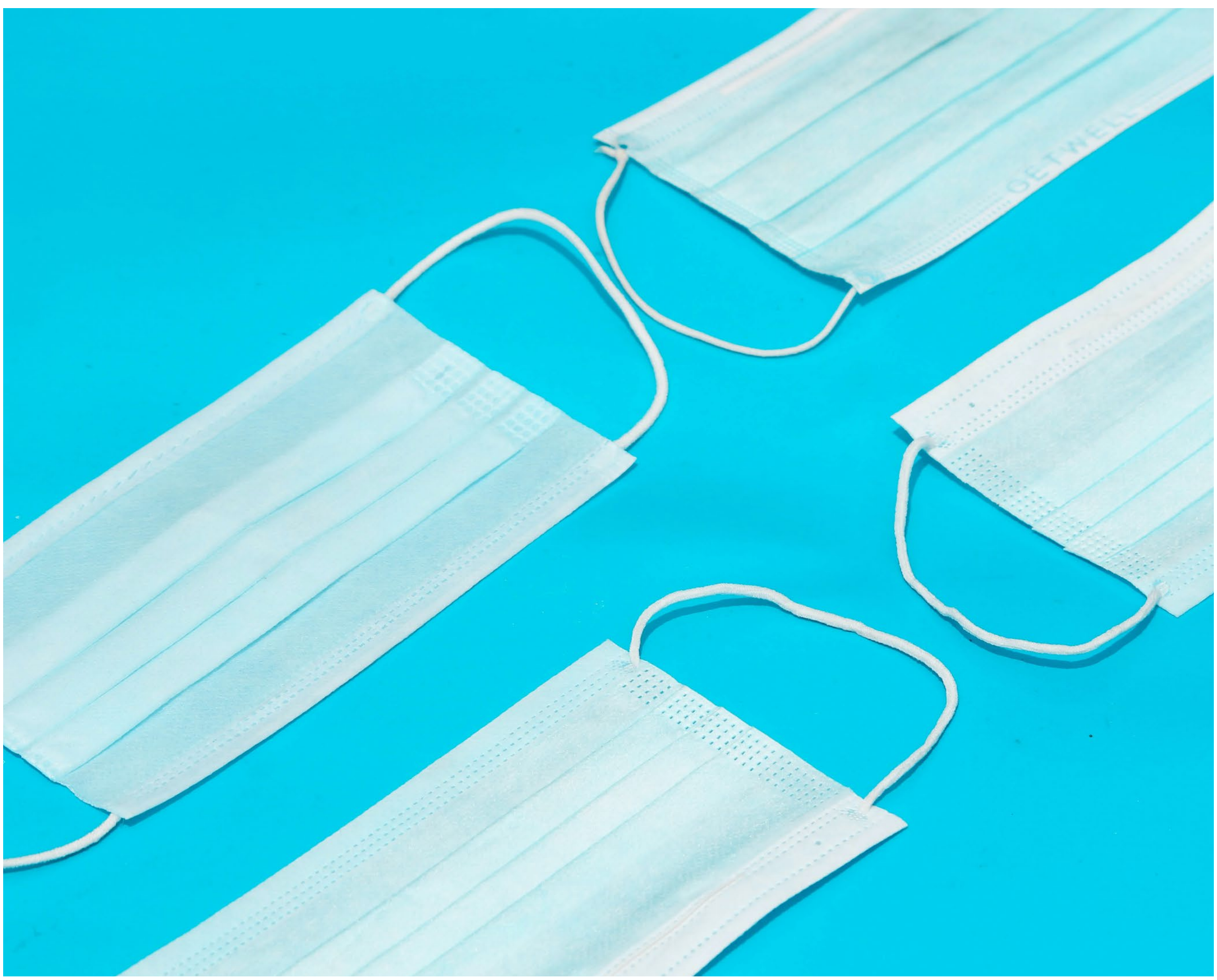
    - Rising trend—However, families are planning on increasing their allocation to impact investments, and they plan to do so in the short-term. The majority of the families surveyed (53%) plan to allocate >50% of their portfolio to impact within five years. That number jumps to 67% in ten years.

## KEY INSIGHTS EXPLAINED

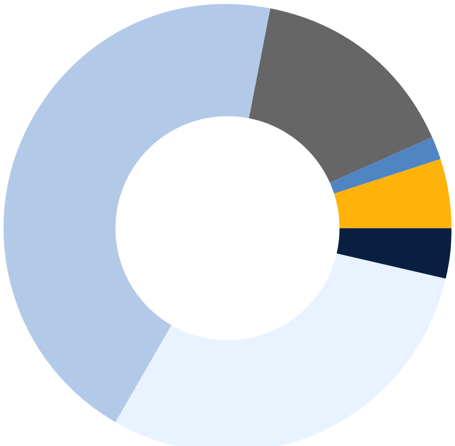
### **KEY INSIGHT 1:** COVID-19 has inspired many families to invest more in impact.

COVID-19 caused us to reexamine nearly every part of our lives in 2020. The fragility and interconnectedness of our economic, health, and social systems were fully exposed during the global pandemic. We asked our respondents what, if any, effect it had on their impact investment strategies. Specifically, we asked about how COVID-19 changed the **amount** they planned to invest, **strategies** they planned to invest in, and **motivations** for pursuing impact investments.

As the following chart indicates, respondents felt more motivated to pursue impact investments. But the amount and themes that they invested in were more likely to change incrementally rather than substantially. This is not surprising since we are, especially at the time the survey was sent, still very much in the midst of the crisis. We look forward to following the lasting effects in the future.



## Chart 1: The effects of COVID-19 on impact investing strategies



### COVID-19: IMPACT INVESTING ALLOCATION (Q1)

As a result of the COVID-19 crisis, do you think you will invest more / less / the same in impact investing during 2020 compared to what you had initially planned to invest?

- Invest substantially more
- Invest more
- Invest the same
- Invest less
- Invest substantially less
- Not sure

### COVID-19: PRIORITIZATION OF IMPACT THEMES (Q2)

Did you change your prioritization of impact themes in response to the COVID-19 crisis?

- Changed completely
- Changed substantially
- Changed somewhat
- Changed a little
- Remained the same
- Not sure

### COVID-19: IMPACT MOTIVATION (Q3)

As a result of the COVID-19 crisis, I am more motivated to pursue impact investing.

- Completely agree
- Agree
- Not sure
- Disagree
- Completely disagree

**KEY INSIGHT 2:** **There is a gap between families' impact investment interests and capital deployed.**

We asked participants if there was a gap between their impact investment interests and their current deployment for impact. 60% of respondents said "yes." This means that significant capital is waiting to be deployed if the right investment solutions are provided or further developed.

The three sectors of greatest investor interest are Education, Agriculture and Food, and Environmental Conservation. The level of interest in Environmental Conservation roughly matched the level of investment, suggesting a well-met market. However, interest in Education and Agriculture and Food far outpaced the level of investment, indicating an unmet market gap.

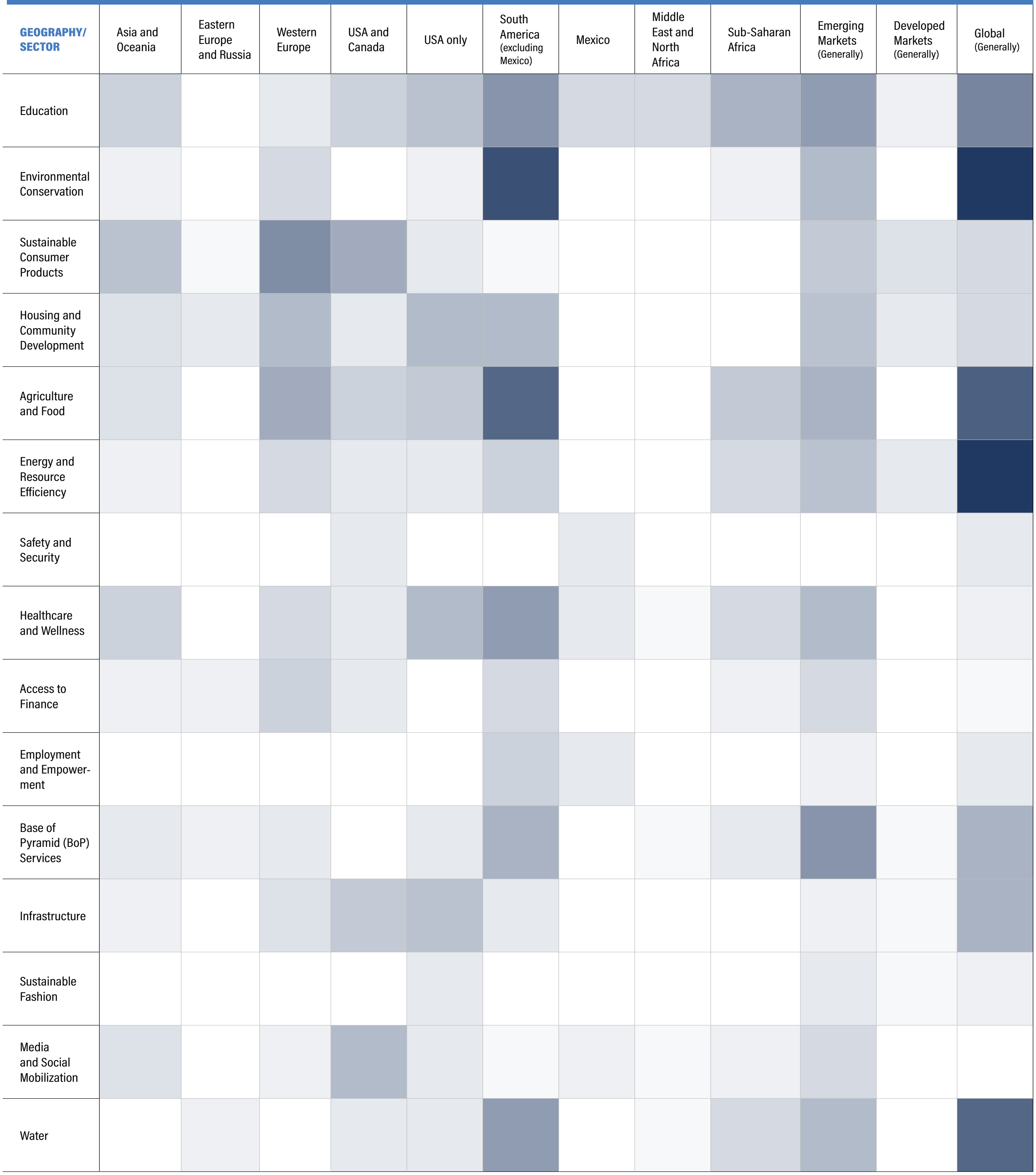
## Mapping Impact Investment Interest

The sectors of greatest investment interest to the families we surveyed are:

1) Education
2) Agriculture and Food
3) Environmental Conservation

These are sectors that families are interested in but currently not invested in. As shown in the following heat map, when geography is incorporated, the highest scoring sectors are globally-focused Energy and Resource Efficiency and global Agriculture and Food investments.

## Chart 2: The intensity of impact investment interest of families by sector and geography




**Interpreting the heat map showing current impact investment activities**
White indicates zero current investment, with increasing levels of investment activity indicated by darker shades of blue. For example, respondents are currently not invested in the Education sector in Eastern Europe and Russia. There is a relatively high level of investment in the Agriculture and Food sector in South America (excluding Mexico). The highest level of investment is in global Energy and Resource Efficiency.

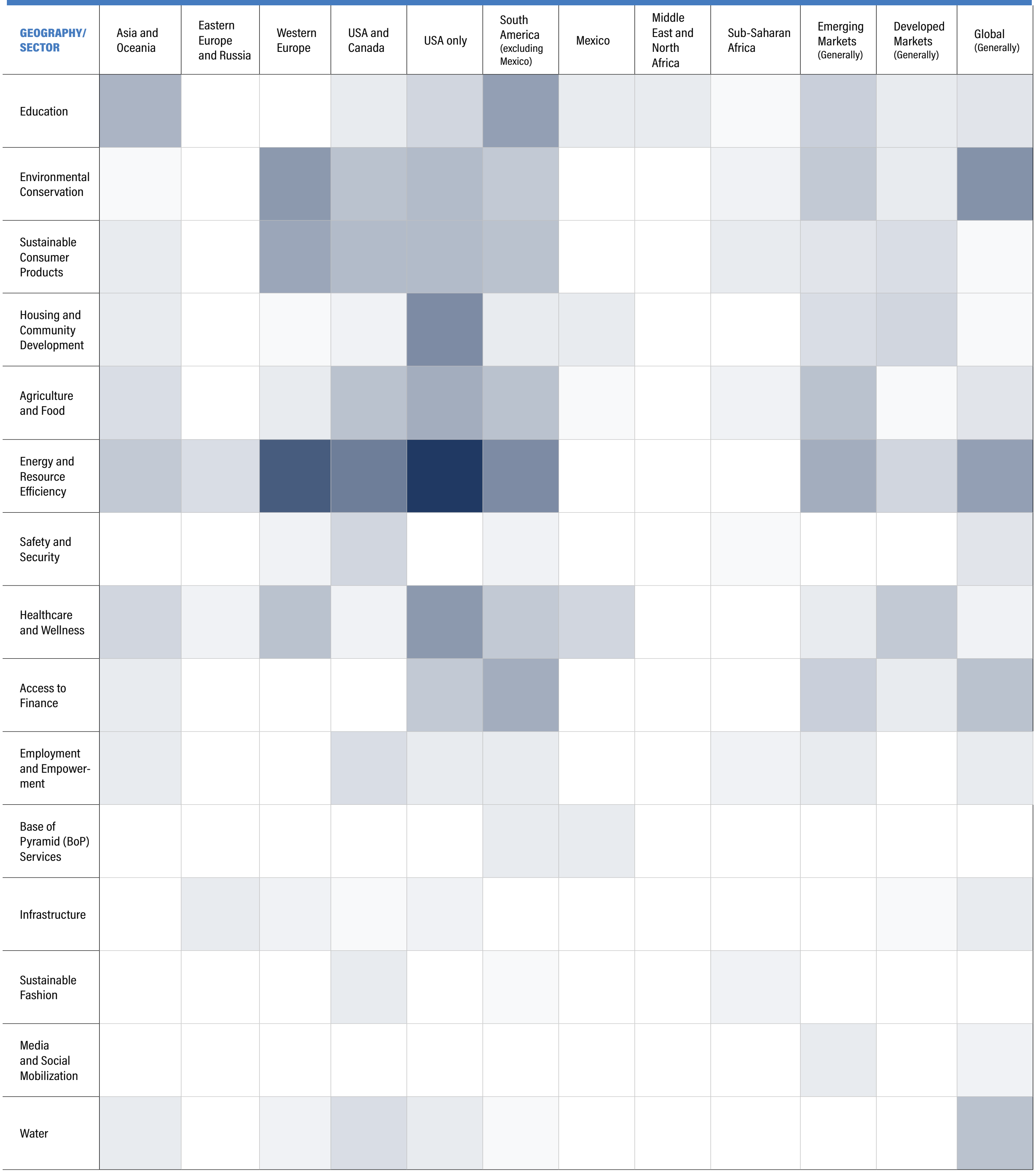
## Mapping Impact Investment Activity

The three sectors with the highest levels of current investment activity among survey respondents are:

1) Energy and Resource Efficiency
2) Environmental Conservation
3) Agriculture and Food

The heat map on the next page charts current investment activity by sector and geography. It shows that the market segment with the greatest investment activity is the Energy and Resource Efficiency sector in the United States.

## Chart 3: The Intensity of current impact investment activities by sector and geography



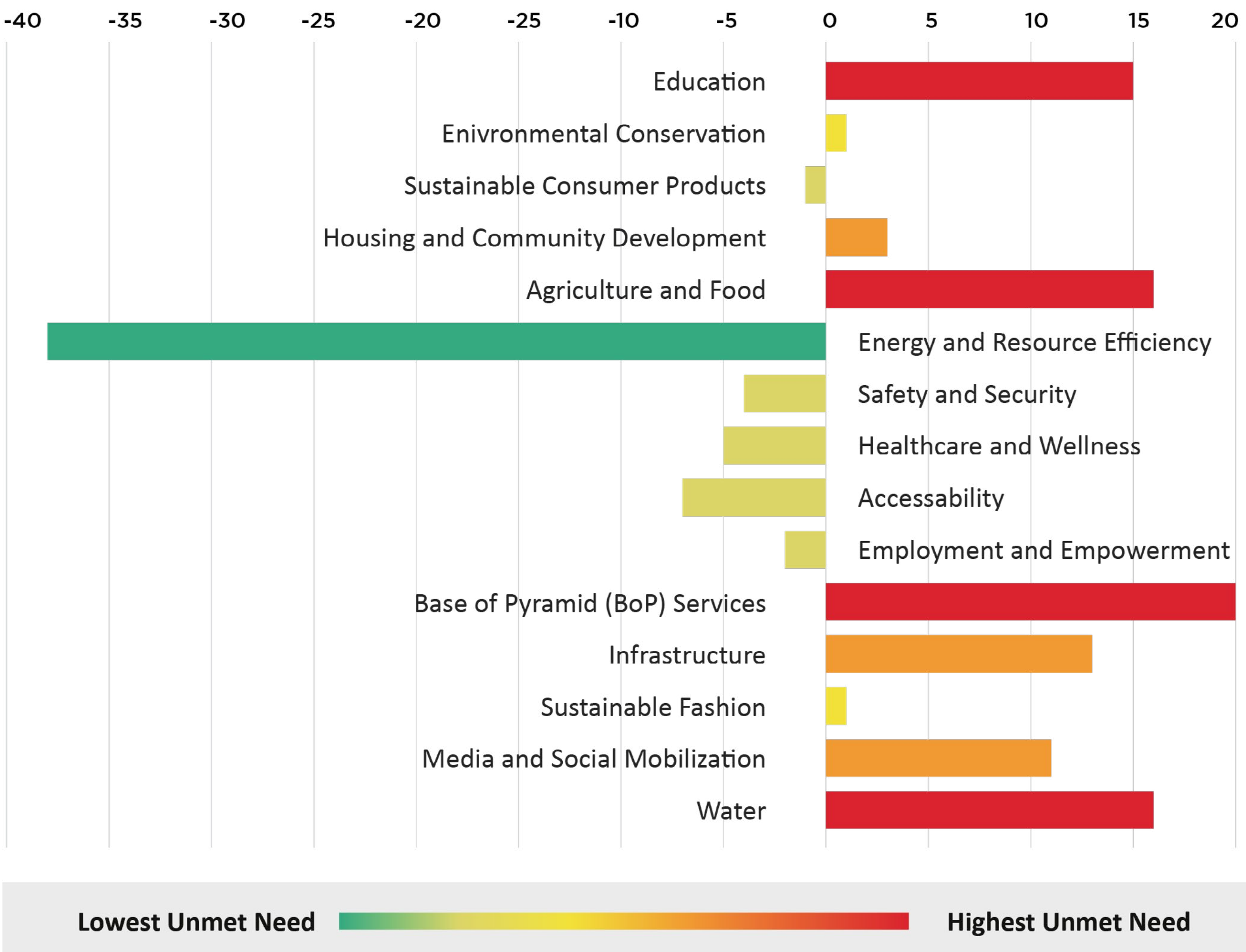

**Interpreting the heat map showing current impact investment activities**
White indicates zero current investment, with increasing levels of investment activity indicated by darker shades of blue. For example, respondents are currently not invested in the Education sector in Eastern Europe and Russia. There is a relatively high level of investment in the Energy and Resource Efficiency sector in Western Europe. The highest level of investment is in Energy and Resource Efficiency sector in the United States.

## Mapping Market Gaps

The survey results show that in certain sectors, such as Environmental Conservation, high levels of investor interest are aligned with relatively high levels of current investment. In other sectors, though, we see particularly high levels of interest but low levels of current investment activity. These potential "market gaps" are the largest in the following sectors, as illustrated in the following chart.

1) Base of the Pyramid Services
2) Agriculture and Food
3) Water

**Chart 4: Gap between interest and current investment activity across impact sectors**




**Interpreting the gap between interest and current investment activity across impact sectors**
The chart highlights the extent of the gap between families' interests and current investment activities in each impact sector, regardless of geographies. The sector with the largest positive number has the widest gap between levels of interest and levels of current investment activity. When a sector has a negative score, the level of current investment activity exceeds the level of investment "interest without investment" in that sector. To understand how the scores are calculated, please see the Methodology section at the end of the report

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Similar to last year's survey, the Energy and Resource Efficiency sector had the most impact investment activity and hence the narrowest gap between investor interest and active investments.

**KEY INSIGHT 3:** **Families are moving assets toward impact investments; knowledge gaps and product offerings remain the major hurdles.**

Approximately 60% of respondents indicated that there was a gap between their interest in impact investments and their current capital deployment for impact. From this subset of respondents, we sought to better understand what was creating that gap.

Most (75% of respondents) said they were actively pursuing investment opportunities and believed it was only a matter of time before their level of investment matched their level of interest. The top three explanations for what was currently holding families back were:

1) Limited availability of impact products that meet their investment standards within their target impact sectors.

2) Being early on their impact investment journey. Many families consider themselves in "learning mode," not investing mode.

3) Their financial advisor or staff are unfamiliar with opportunities in their target impact sectors.

As families and advisors come up the learning curve, we would expect to see more capital flowing to impact investments, but there is also a need for the development of more investment offerings that fit families' impact targets.

## KEY INSIGHT 4: Families are generally satisfied with the impact investing product offerings from advisors and staff who specialize in impact investments and only express dissatisfaction with those who lack impact expertise.

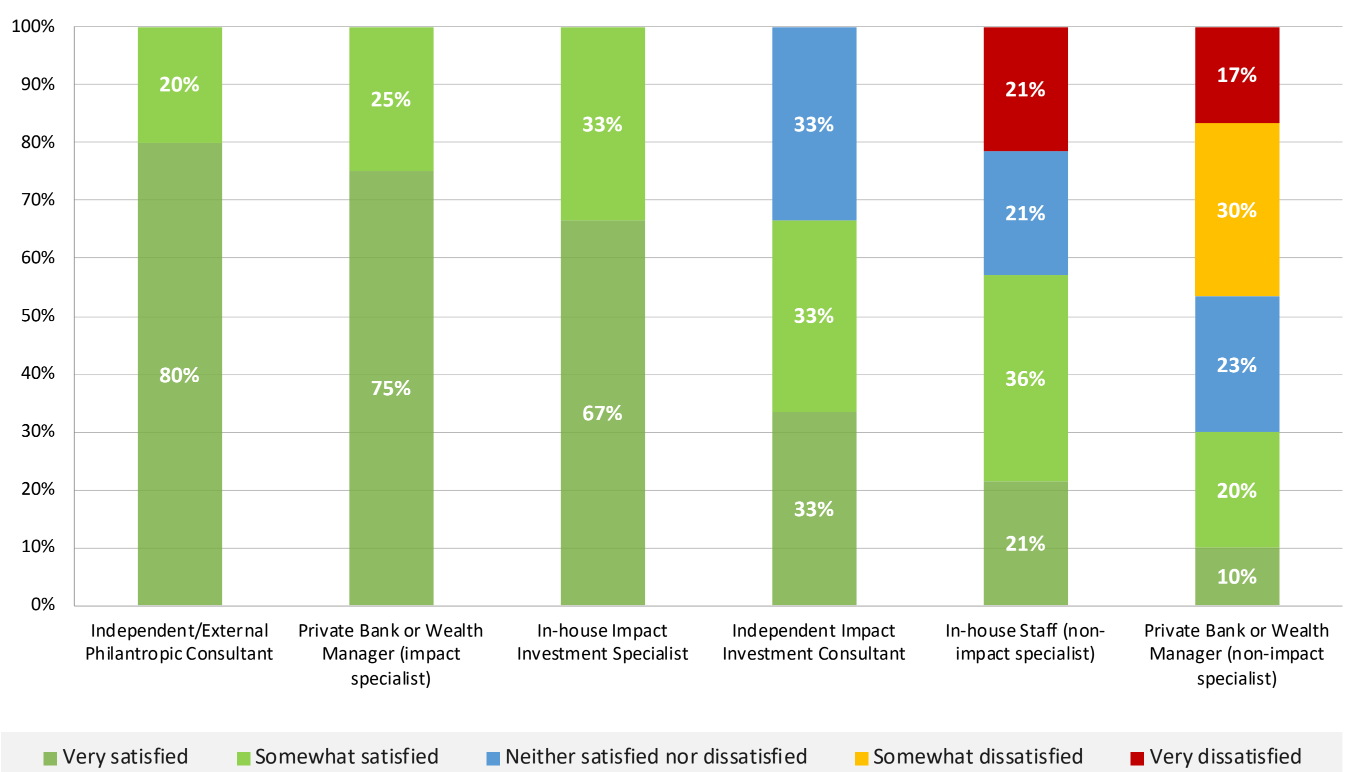
Respondents were the most satisfied with advisors who had impact expertise. Advisors at private banks with impact expertise had the highest scores, followed closely by in-house staff who were impact investing specialists.

On the other hand, the clear weak spots were in the same categories (private banks and in-house staff) who did not have impact investing expertise. This data suggests that it is inadequate to "tack on" impact investing product offerings as part of the client experience. Instead, families expect deep expertise and robust impact investment options. **Families who are working with impact specialists are very satisfied. Conversely, about half of all respondents with advisors at wealth managers without impact specialists expressed dissatisfaction.**

**Indicative of that dissatisfaction, 40% of respondents who currently use an advisor at a Private Bank or Wealth Manager without impact investing expertise are actively seeking a new advisor.**

*The survey did not ask respondents to specify whether they were seeking new advisors to complement their existing advisor relationships or if they were planning to leave their current advisors altogether.*

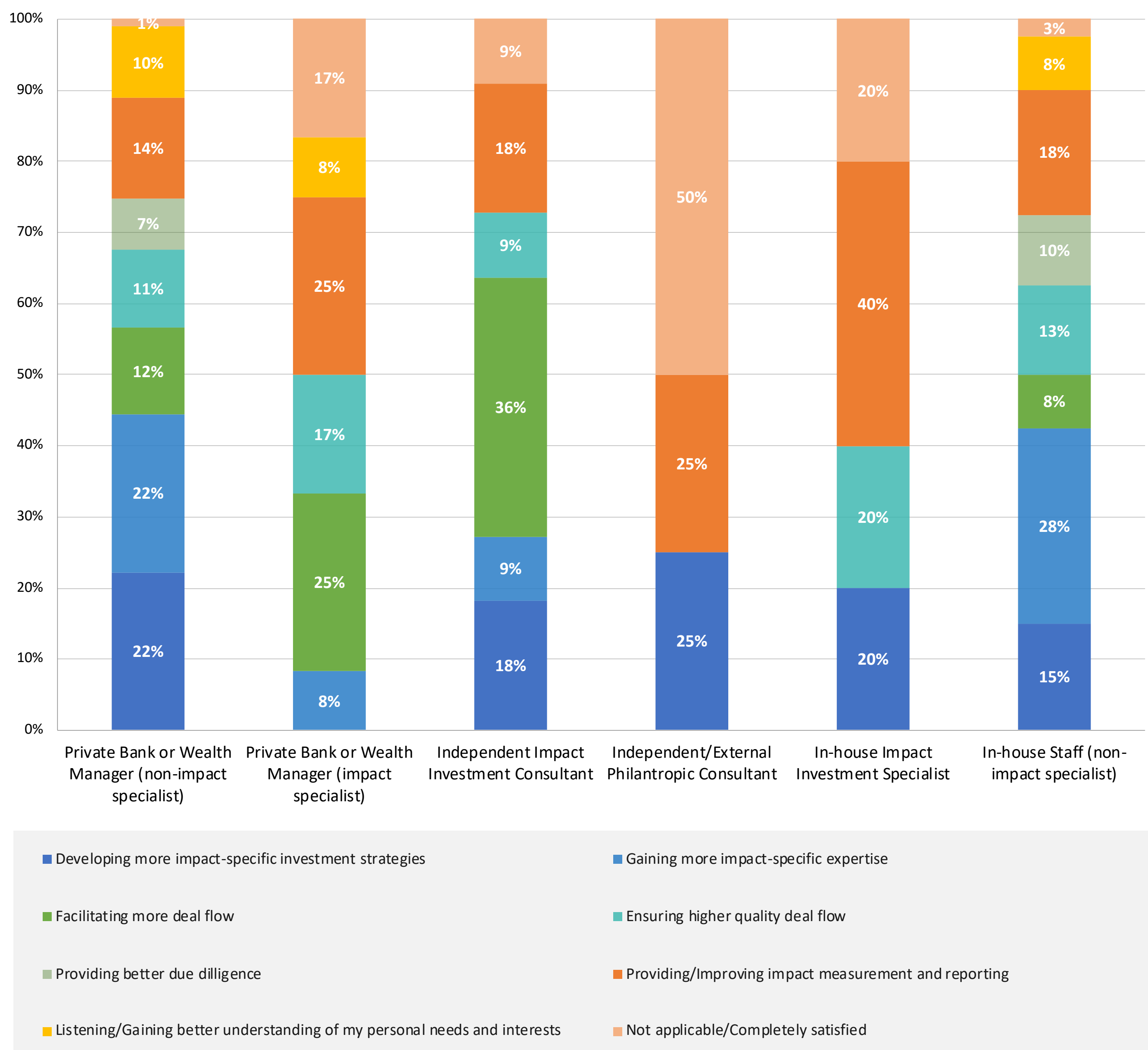
### Chart 5: Level of satisfaction with impact product offerings



## What Do Families Want To See Improved?

The following chart captures where families would like to see improvement from their financial advisors. Unsurprisingly, it differs by advisor type. But in broad terms, for non-impact specialists, the development of impact strategies and expertise, along with deal flow development rank highly. Impact measurement and deal flow rank highly for advisors with impact expertise.

**Chart 6: How advisors and consultants can improve their impact services**




**Interpreting how advisors and consultants can improve their impact services**
"Private Bank or Wealth Manager (non-impact specialist)" refers to a private bank or wealth management firm that does not have specialized impact investing capabilities. On the other hand, "Private Bank or Wealth Manager (impact specialist)" refers to a private bank or wealth management firm that specializes in or has impact investing capabilities. For example, 22% of the respondents would like to see their non-specialist private bank or wealth manager develop more impact-specific investment strategies, and 22% of respondents would like them to develop more impact-specific expertise.

**KEY INSIGHT 5: Looking ahead, families plan to deploy more assets toward impact**

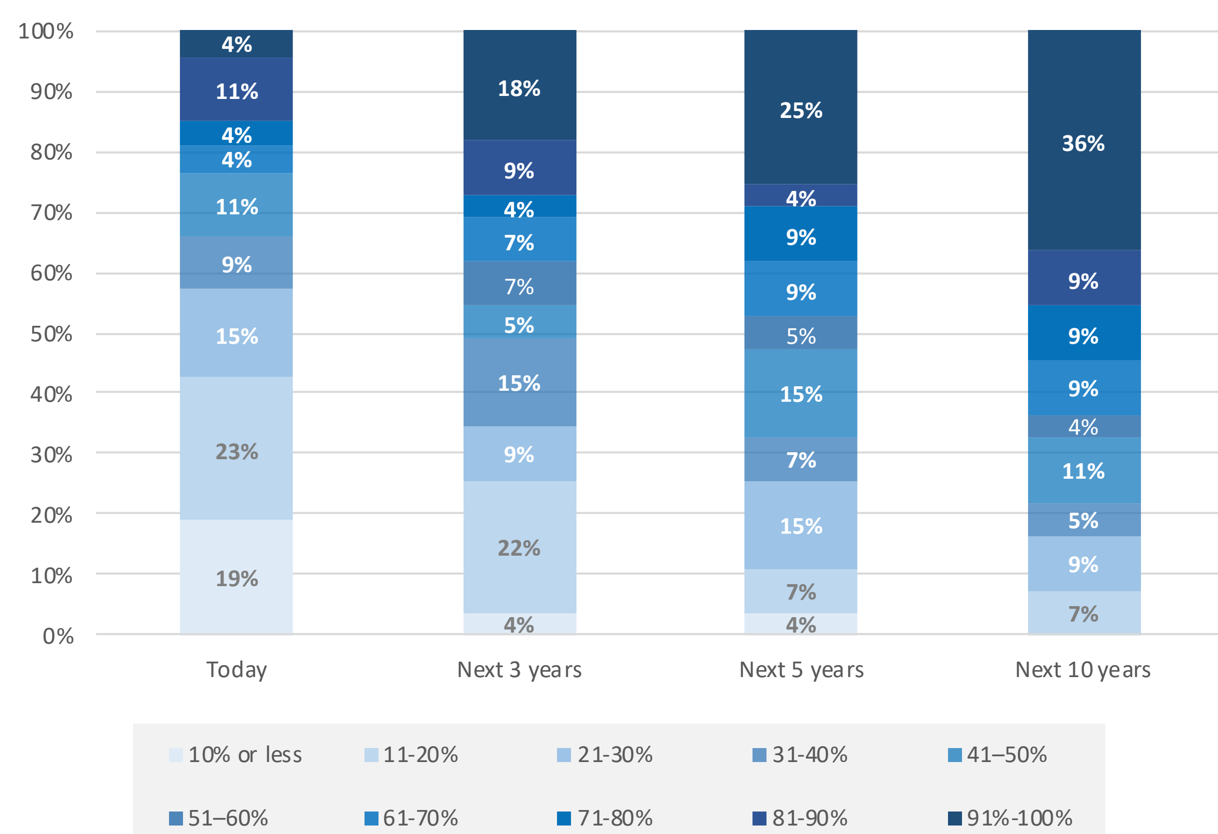
Our data points to continued steady growth of the impact investing market among private asset owners. Respondents across the board expect to increase their allocation to impact investments in the short and long term. That is most easily identified by looking at the extremes of the following data.

First, 19% of respondents have less than 10% of their assets deployed in impact today. In only three years, that number drops to 4% of respondents who expect their allocation to be that low. This would seem to support the sentiment that many respondents felt they were early in their impact journeys but expected to come up the learning curve quickly.

On the other hand, today, only 4% of respondents are invested fully (100%) in impact. That number jumps to 25% and 36%, respectively, as we look to respondent expectations for five and ten years in the future. Again, this matches the expectation from most respondents that it is "only a matter of time" before their investments match their interest in impact. Further, it suggests that there is still plenty of runway in the impact investing market.

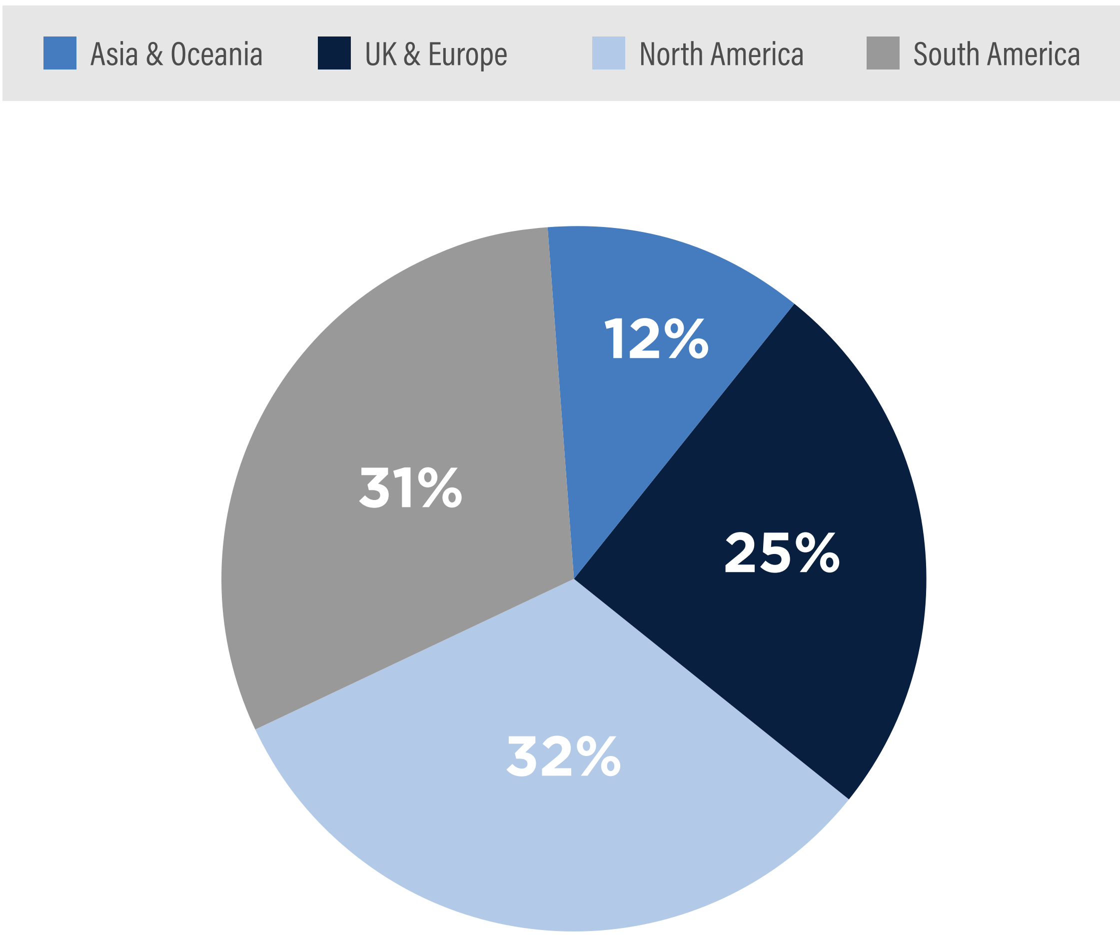
However, realizing that growing demand will require a maturation of the impact investing ecosystem and necessitate the further development of education and expertise among both families and advisors.

**Chart 7: Trend of percentage of investable assets deployed in impact**



## METHODOLOGY

**Geographic breakdown of respondents**




We believe the insights from the survey can help families:

1) Draw attention to underserved impact investing sectors and geographies.

2) Send clear demand signals and identify areas of unmet interests to financial Intermediaries.

3) Form a collective voice to drive external bankers, advisors, and managers to improve their impact investment capabilities and product offerings.

Please reach out to The ImPact (info@theimpact.org) if you would like to participate in the upcoming surveys. All survey data is fully anonymized.

## METHODOLOGY

Respondents and interviewees answered questions regarding their impact investing activities and interests, where they see gaps and areas of product saturation, and their level of satisfaction with financial advisors, managers, and impact investment products. All survey data is self-reported, fully anonymized, and is in relation to families' investment portfolios, including personal, family office, and family foundation portfolios. The survey employed ranking questions, asking respondents to rank their top three options in terms of sectors, geographies, and asset classes of their current impact investments, and where they are interested but not yet invested. In analyzing the results, we applied weights to their responses to amplify the relative importance of their selections. I.e., we use a score as follows: (number of respondents that ranked the option first × 3) + (number of respondents that ranked the option second × 2) + (number of respondents that ranked the option third × 1).

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**Academic Research**

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