Other Voices

Impact investing on the cusp of mainstream wealth management

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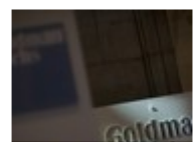
By **William Burckart**

The news releases arrived in noteworthy succession throughout 2013. Morgan Stanley, names in the financial services industry announced plans to establish or augment their activities around impact investing. Such investments are made with the intention of generating measurable social and environmental impact alongside appropriate financial returns.

Each firm signaled a different approach and each used diverse language to describe its efforts. But the gist was the same: The significance of investment directed at achieving impact is growing, as is the willingness to engage in it beyond the traditional confines of corporate philanthropy.

Advisers who don't believe impact investing will play a meaningful role in their own client strategies aren't seeing the writing on the wall. Investing for meaningful impact will become part of mainstream planning and, in fact, will be the core portfolio for many next-generation investors who stand to inherit upwards of $41 trillion in baby boomer wealth.

A 2013 study by the World Economic Forum found that next-generation investors consistently ranked impact performance as their primary investment criterion, ahead of return. As individuals and institutions look to



services industry to supply — and financial planners to advise on — financial products and strategies consistent with these broader goals, firms will have to figure out how to serve a new set of client demands.

RESHAPING GLOBAL PRIORITIES

The deepening embrace of impact investing by the financial services industry mirrors a broader reshaping of global priorities. Skyrocketing deficits, uncertain financial markets and staggering needs have thrust the urgency of impact investing to the forefront. What have emerged as a result are new opportunities, challenges and innovation in all sectors that will help lay the groundwork for a more prosperous future.

This shift was captured in 2010 when 93% of corporate chief executives responding to an Accenture survey indicated that sustainability would be critical to the future success of their meshed with core businesses, fundamentally transforming principal capabilities, processes and systems.

To offer perspective on the financial services sector's response to the surging interest in impact investing, Impact Economy and the Money Management Institute recently published a special report, "Serving Client Demand for Impact Investing: A Hands-on Guide for Financial Advisors and Senior Management." The report explores the genesis of the interest by financial service institutions in impact investing, their struggles with certain aspects of implementing these kinds of investment programs and a potential path forward.

While a number of firms are beginning to adapt to the concept, investors, investment funds and advisers nonetheless struggle with different elements of impact investing strategies. Evidence suggests that global financial institutions are succeeding, to varying degrees, in aligning impact investment programs with their responsibility mission but, on the whole, have not succeeded in aligning these programs with their financial mission.

This is the principal reason why impact

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appears to be on the doorstep, and the very issues limiting the growth of impact investing are, in turn, creating a number of conditions for pushing it forward. Many firms are using components of their institutional platforms — namely corporate philanthropy, Community Reinvestment Act-motivated lending, socially responsible investing or wealth management — to match particular client demand.

Some examples: **Citigroup Inc.**, though not adopting the impact investment label, has nonetheless mobilized resources along similar lines, with a focus on inclusive finance, via the Citi Microfinance business group and Citi Community Capital. In 2013, Deutsche Bank AG created a head office for environmental, social and governance investing to further drive ESG integration in the asset and wealth management areas of the firm. Goldman Sachs' impact-related investing activities are split into two departments: the Urban Investment Group and the Goldman Sachs Foundation. Social Finance was launched at JPMorgan Chase in 2007, bridging the firm's corporate responsibility department, which includes global philanthropy and sustainability initiatives, and the investment bank.

organizational functions, including advising, originating, trading, managing and distributing capital. Even there, though, progress is beginning to be made. This is evident in Morgan Stanley's new Institute for Sustainable Investing, which offers wealth management clients access to investment products with values alignment, ESG integration, various sector exposures, and impact-specific products.

"CRAZY UNCLE IN THE ATTIC'

An alternative approach may be to embed impact investing across divisions of an institution. As Mark Sloss, senior portfolio manager and head of premier portfolio services at **UBS Wealth Management** Americas, said, “Impact investing should not be cloistered like the crazy uncle in the attic.” UBS envisions an “open architecture” model that welcomes the currently unstructured nature of impact investing. As a result, socially responsible and sustainable investing efforts are housed within the firm's Wealth Management Americas division.

Regardless of the approach financial services firms favor, an impact investment program can wealth or asset management practices of a financial institution, irrespective of whether these investments help to meet institutional philanthropic or compliance mandates (the current added value for most impact investing by financial institutions). In our experience, positioning impact investing in this manner provides financial institutions and advisers with a way to respond to the growing demand.

Embedded within the concept of impact investing (and the wider spectrum of impact-related investing, such as socially responsible investing) are demographic trends that reflect a cultural inclination for “doing well and doing good” simultaneously. This is notably different from the old model of “making money and giving back,” personified by Bill Gates and Warren Buffett.

A number of trends will begin to influence future decision making, including growing consumer demand from the global poor, the need for resource efficiency and green growth, the rise of the sustainable or “virtuous” consumer, and the massive intergenerational wealth transfer between baby boomers and their beneficiaries.

If impact investing has at times been

in the attic," perhaps the time has come to let the crazy uncle out. Despite his eccentricities, he is looking more and more like the rich uncle — aligned with the priorities of the soon-to-be owners of $41 trillion in global capital, and potentially a harbinger of a new force for social good.

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