



worthstone
inspiring impact investment

SEEKING THE VIEWS OF THE FINANCIAL ADVISER AND WEALTH MANAGER DISTRIBUTION CHANNEL

Report to Advisory Group to UK Government
on social impact investments

November 2017

Executive summary

This survey produces some key messages for wealth managers and financial advisers in the UK. Client demand for social impact investing solutions is significant and many expect this to increase in the future. Furthermore, client motivations have extended beyond avoiding harm (ethical investing) to actively pursuing positive change, with a significant percentage wanting investment portfolios that mirror their own ethical values and a majority expressing a desire to actively invest in companies that realise social or environmental good. This provides an opportunity for the sector but also presents some challenges.

There is concern amongst advisers that the current product sets are not designed to meet the non-financial (social) objectives of clients. There is a gap between what clients need to achieve their overall wealth objectives and what the industry is delivering currently. The industry needs to continue a programme of educating advisers and developing solutions that meet the social objectives of clients. Respondents indicated a strong demand for further education and tools to support them in this sector, this is critical to build competence and confidence. Enabling advisers to serve clients best interests will help realise the potential for leveraging private investment capital as a force for good in society.

Acknowledgements

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Background, scope and method

Worthstone was commissioned by the Government Inclusive Economy Unit to seek the views of the financial adviser and wealth manager community across the UK. A set of survey questions and format was constructed in collaboration with the Advice and Distribution working group, with additional support and dissemination by the Chartered Institute of Securities and Investment. The survey was open from 10th August 2017 until 10th October 2017.

The objective of the survey was to obtain the views of individuals in the wealth management industry on social impact investments. The individuals interact with clients either through advisory, planning or investment decision-making services. To provide clarity and ensure consistency across respondents, we asked them to consider and keep in mind the following definition: *“When thinking about the form of investments discussed in the survey please consider investment strategies which may produce a positive environmental and/or social impact alongside a financial return. This includes familiar categories commonly labelled as Ethical, SRI, ESG, Sustainable and Impact Investments.”*

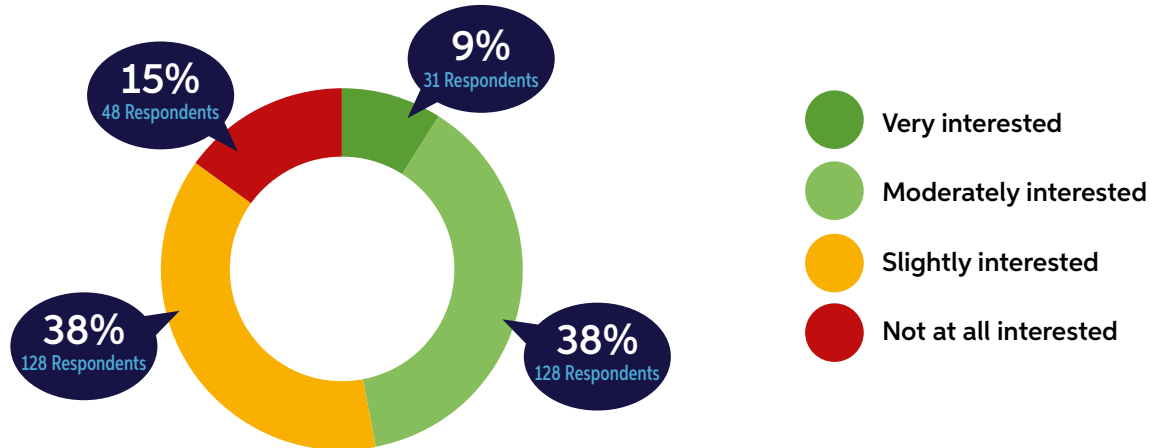
The survey analysis included 335 respondents. Just over half described their role as “client-facing” (55%), with those making investment decisions being the remainder. Respondents in other roles were not included. Of these respondents, 83 had not discussed impact investments in the previous year and therefore were not asked some of the questions.

Seven key themes from client-facing financial advisers and wealth managers

1. Substantial interest in impact investing among clients

Almost half of respondents (47%) said that clients in general had at least a moderate interest in impact investing with almost 10% stating that clients were very interested.

Figure 1. The interest shown by clients in impact investing

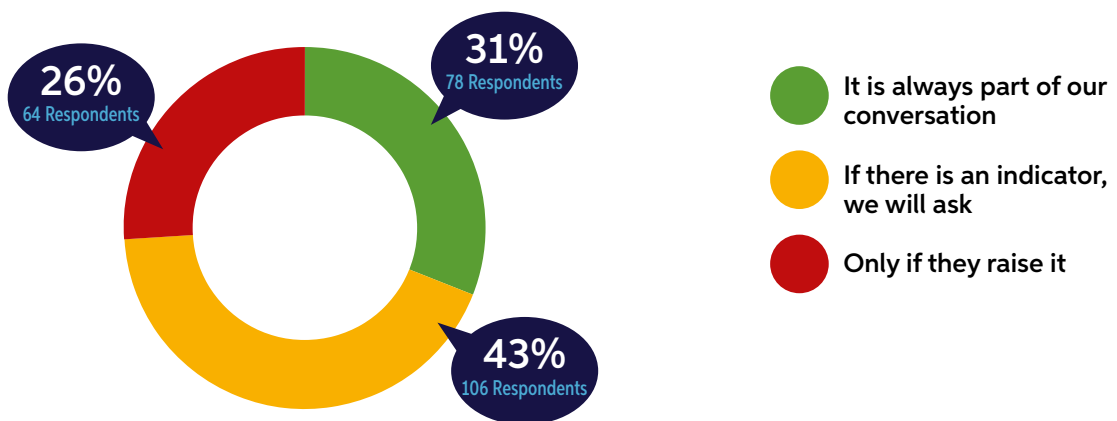


(See Question 3 in Appendix)

2. A significant part of the process is asking clients if they care about the impact of their investments

Almost a third (31%) of respondents who discussed impact investing with clients said it was *always* part of the conversation. A further 43% will ask the question if there is an indicator and the remaining 26% will *only* raise it if the customer asks.

Figure 2. The extent to which advisers discussed impact investments with their clients

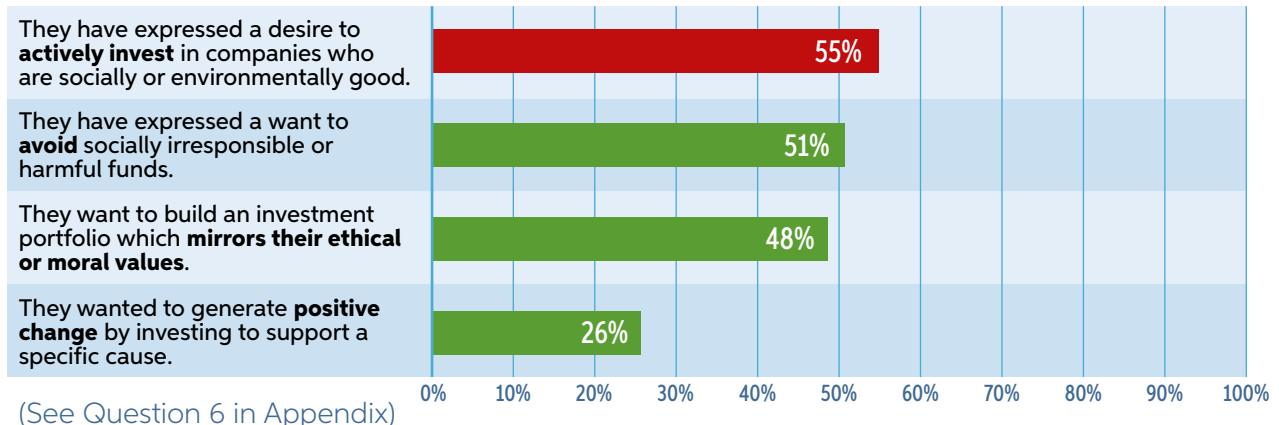


(See Question 5 in Appendix)

3. Most clients want to do good with investments, not just avoid harm

Just over half (51%) of respondents had as a top choice that clients interested in impact investing “expressed a desire to actively invest in companies who are socially or environmentally good”. 55% said the main motivator was “to avoid socially irresponsible or harmful funds”, interestingly, 70% of these respondents also chose another option, indicating the variety of customer motivations that are observed. 48% said the client wanted “to build an investment fund which mirrors their ethical or moral values”.

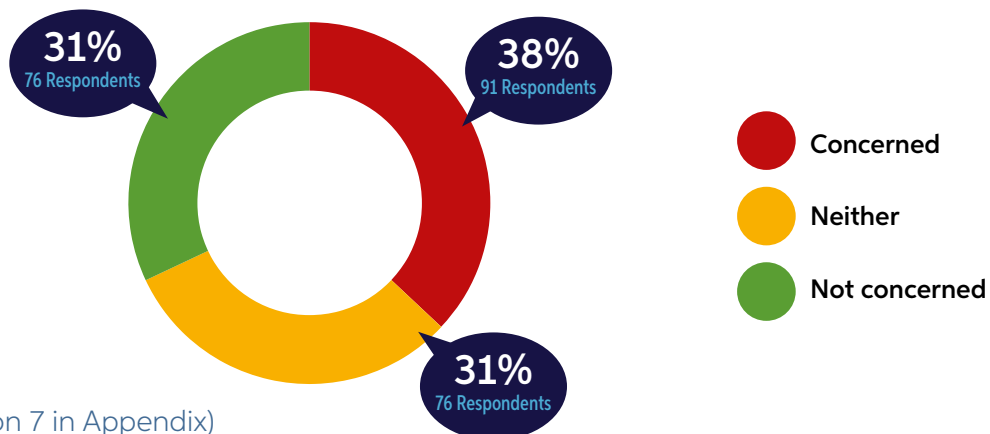
Figure 3. Client motivations behind impact investing



4. Some adviser concern that products are not designed for non-financial objectives of clients

More than a third (38%) of respondents are concerned or very concerned that the investment products they offer “may not align with their investors non-financial preferences and aims”. However, just under a third (31%) are not concerned about this issue.

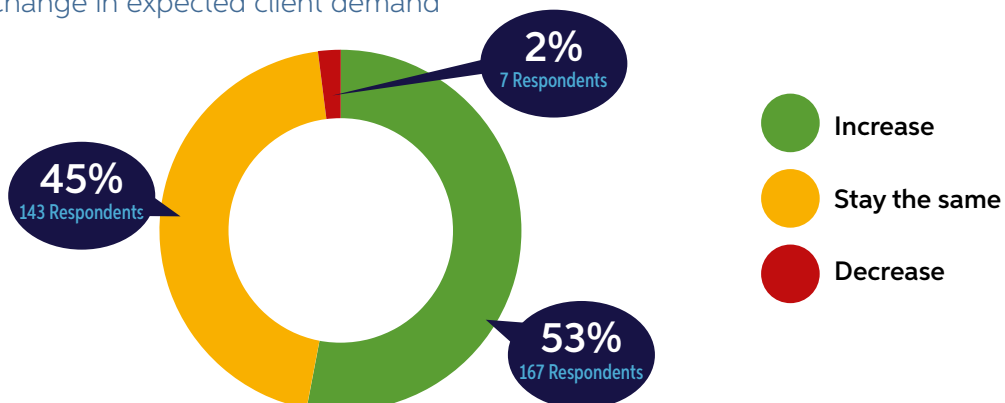
Figure 4. Adviser concerns about meeting clients’ non-financial objectives



5. Client demand expected to grow, if modestly

53% of respondents thought that client demand would increase at least slightly over the next 12 to 18 months. 45% thought it would stay the same.

Figure 5. Change in expected client demand

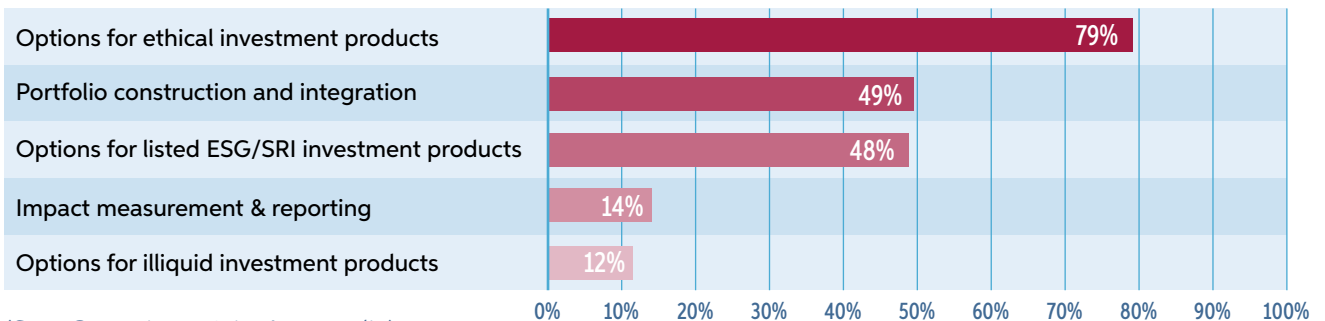


6. Ethical products are the most common solution offered by those that serve the interested clients

262 respondents offered some kind of support to clients interested in social impact investing. Almost 80% are offering ethical investment products and for a third of these it is the only service offered to interested clients.

Portfolio construction and integration for impact investing was offered by just under half of these respondents as were options for ESG/SRI investment products. Impact measurement and reporting is only offered by 14% of respondents and options for investment in illiquid products by 12%.

Figure 6. Levels of service currently on offer to support clients interested in social impact investing

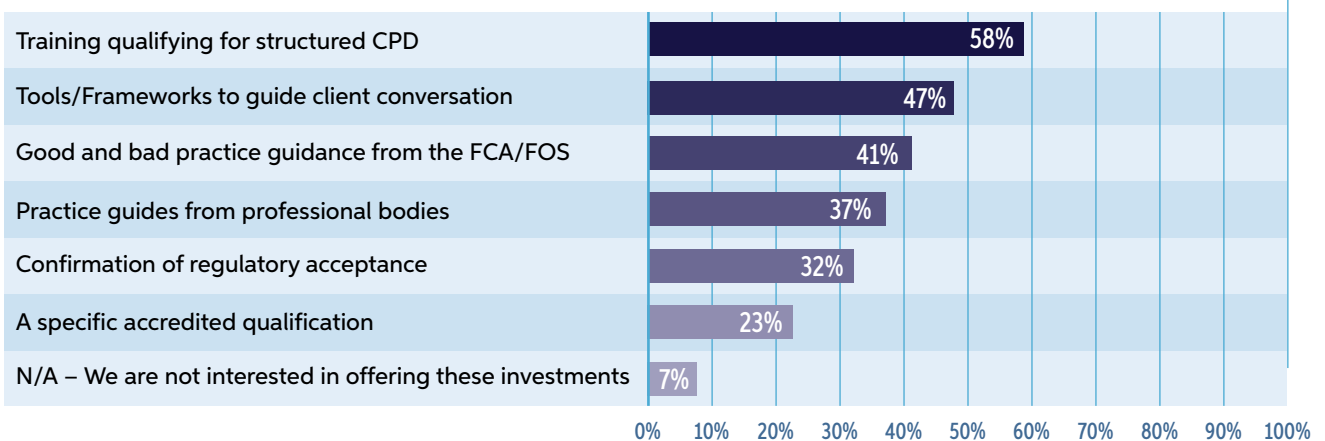


(See Question 10 in Appendix)

7. Strong demand for further tools to support advisers

Training qualifying for CPD was the most popular idea for enabling impact investments to be offered to clients with 58% of respondents identifying it. 47% would appreciate tools/frameworks to guide client conversations, while 41% thought that good and bad practice guidance from the FCA/FOS would be helpful. Practice guides from professional bodies were identified by 37% as having the potential to assist.

Figure 7. Top tools on advisers wish list to enable more social impact investing



(See Question 11 in Appendix)

Appendix

Q1: Which best describes you/your firm? *Answered: 473 Skipped: 0*

Description	Total number of respondents
Financial Adviser/s or Planner/s	138
Wealth Manager	320
Family Office	15

Q2: Which best describes your role? *Answered: 473 Skipped: 0*

Description	Total number of respondents
Client-facing (e.g. Financial Adviser, Financial Planner)	184
Investment decision-making (e.g. Investment/Discretionary Manager)	151
Sub-total	335
A role serving the distribution (e.g. product provider or infrastructure employee e.g. business development for an investment house, life office or platform)	20
Infrastructure	13
Executive	23
Other (please specify)	82
Total	473

Q3: In general, how interested would you say your clients are in impact investing?

Answered: 335 Skipped: 0

Not at all interested	48
Slightly interested	128
Moderately interested	128
Very interested	31
Total number of respondents	335

Q4: In the last year, with how many of your clients did you discuss impact investments?

Answered: 335 Skipped: 0

	None (0%)	Some (under 20%) (30-70%)	Majority (>70%) (100%)	Total
Total number of respondents	83	157	23	335

Q5: To what extent do you discuss with clients whether they care about the impact of their investments? *Answered: 248 Skipped: 4 (excluding those 83 who do not discuss with clients)*

	Only if they raise it	If there is an indicator, we will ask	It is always part of our conversation
Total number of respondents	64	106	78

Q6: If a client is interested in social impact investing, which of the following, in your opinion, best describes their reasons for investing? [Please select all that apply]

Answered: 243 Skipped: 9 (excluding those 83 who do not discuss with clients)

	Total number of respondents
They have expressed a want to avoid socially irresponsible or harmful funds	133
They have expressed a desire to actively invest in companies who are socially or environmentally good	124
They want to build an investment portfolio which mirrors their ethical or moral values	116
They wanted to generate positive change by investing to support a specific cause	62
Other (please explain)	3

Q7: How concerned are you that investment products you offer may not align with your investors non-financial preferences and aims?

Answered: 243 Skipped: 9 (excluding those 83 who do not discuss with clients)

	Not concerned	Neither	Concerned
Total number of respondents	76	76	91

Q8: When you do discuss social impact investments with clients, what best describes your approach?

Answered: 239 Skipped: 13 (excluding those 83 who do not discuss with clients)

	If a client raises it, we will discuss	It's a topic we discuss and if we have options, we will offer them	Fully integrated into how we advise & invest on behalf of clients
Total number of respondents	82	106	51

Q9: In the next 12-18 months, in your opinion, client demand for these investments will:

Answered: 317 Skipped: 18

	Decrease	Stay the same	Increase
Total number of respondents	7	143	167

Q10: What are you/your firm doing to support clients' interests in social impact investing? [Please select all that apply]

Answered: 307 Skipped: 28

	Total number of respondents
Options for ethical investment products	207
Portfolio construction and integration	128
Options for listed ESG/SRI investment products	127
Impact measurement & reporting	37
Options for illiquid investment products	31
We do not offer any options	45

Q11: Which of the following would help you offer more of this type of investment for your clients? [Please select all that apply]

Answered: 299 Skipped: 36

	Total number of respondents
Training qualifying for structured CPD	173
Tools/Frameworks to guide client conversation	142
Good and bad practice guidance from the FCA/FOS	124
Practice guides from professional bodies	111
Confirmation of regulatory acceptance	95
A specific accredited qualification	69
N/A – We are not interested in offering these investments	21

Worthstone is the market leading expert on social impact investment for the retail investment adviser. We offer a service to financial planners and wealth managers that includes access to a database of the retail impact investing fund universe and detailed profiles to help advisers identify the most impactful funds.

For further information on the benefits of these services please email gavin.francis@worthstone.co.uk or go to www.worthstone.co.uk

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