

A Growing Appetite for Impact Investing: What Wealth Advisors Need to Know

Impact investing is a new and fast-growing investment approach intended to create both financial returns and societal benefits. Many high-net-worth individuals (HNWIs) appear to be interested in making a positive impact with their wealth, particularly women and millennials. However, they are unsure who to turn to for help. In this handout, you'll learn how wealth advisors can help current and prospective clients navigate impact investing.

What Is Impact Investing?

Impact investing is an approach to investing that seeks to generate a financial return while making a deliberate positive impact on societal or environmental issues.

The Global Impact Investing Network (GIIN) defines impact investing as “investments that are made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return.”¹ Impact investment products exist across asset classes, in private and public markets, and in both developed and emerging markets.

Impact investing arises from more familiar approaches, such as ethical investing, responsible investing and sustainable investing. These approaches all seek to reflect investors' values or interest

in positive environmental, social or management practices. But they rarely seek to achieve specific and measurable societal impacts – this is the realm of impact investing.

Demand for Impact Investing

The growth of impact investing is being driven by increasing interest among institutional investors and, more and more, among high-net-worth investors. HNWIs are people with more than US\$1 million in investable wealth. In 2014, the population of HNWIs was 14.6 million people worldwide with a total wealth of US\$56.4 trillion. There were 331,000 HNWIs in Canada with assets worth more than C\$1.0 trillion.²

Many investors are interested in impact investing, which presents a significant opportunity to add value to existing client relationships.

High-net-worth individuals globally

90% agree on the importance of contributing to social impact

Most likely to want to make an impact:



95% people under 50



93% women



High-net-worth individuals in Canada

86% agree on the importance of contributing to social impact

Most likely to want to make an impact:



93% people under 50



92% women



Globally there is a broad consensus among HNWI's on the importance of contributing to social impact, with 90% of all HNWI's agreeing that contributing to social impact is at least to some degree important. Appetite for impact is highest among younger investors and women, with 95% of people under the age of 50 and 93% of women agreeing. These are both higher than the overall average.

“It’s much more ‘normal’ to younger people.”

—RBC Wealth Manager, 2015

In Canada, 86% of HNWI's agree on the importance of contributing to social impact, and women (92%) rate it even higher than men (83%). 93% of HNWI's under age 50 also agree, with a keen interest showing among millennials and Generation Xers.³

“HNW women as a group are investing differently than men. They are more likely to view investing as a way to express their values through socially innovative investment strategies.”

—Bank of America Private Wealth Management, U.S. Trust Insights on Wealth and Worth, 2014

Women and millennials may present new opportunities for wealth advisors. The number of women with significant wealth will grow as a result of both higher incomes and the transfer of wealth expected to take place in the next 20 years or so.⁴ Millennials are also expected to be the beneficiaries of a multi-trillion dollar wealth transfer due to occur in the next generation.⁵

HNWI's Underserved in Identifying Impact Investing Opportunities

Despite mounting interest in social impact, investors report that they have no reliable sources of advice for identifying investment mechanisms and opportunities. In fact, about one-third of Canadian HNWI's (33.6%) would like more guidance from their wealth manager on social impact.⁶

What Do Wealth Managers Need to Know About Impact Investing?

Impact Investments Now \$60 Billion Globally

Since 2007, impact investments have grown to more than US\$60 billion globally.⁷ Major financial institutions and other institutional investors remain the principal investors, with family offices, retail investors and foundations making up about 27% of the market.⁸



In Canada, total responsible and sustainable investments under management are now about C\$1 trillion, of which more than C\$4.1 billion are impact investments.⁹



Fast Global Growth: US\$2 Trillion by 2025

Estimates of the future size of the impact investment market propose that this growth will continue at a rapid pace and to even larger scale. One estimate from the GIIN suggests US\$2 trillion by 2025.¹⁰ Estimates in the US alone suggest US\$400 billion – US\$1 trillion by 2020.¹¹

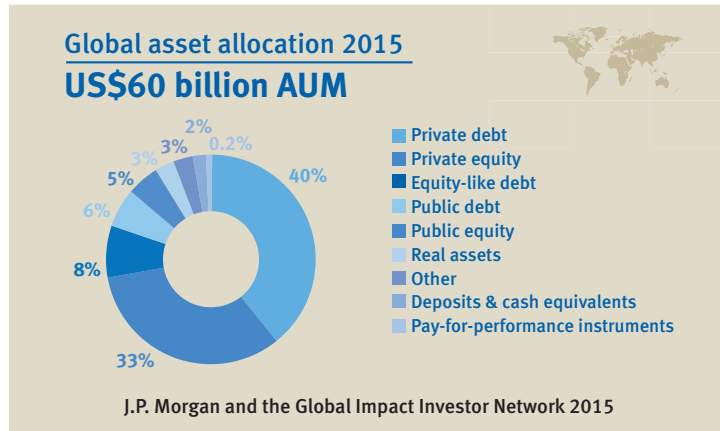


The Canadian impact investment market is estimated to grow almost sevenfold to C\$30 billion by 2023.¹²

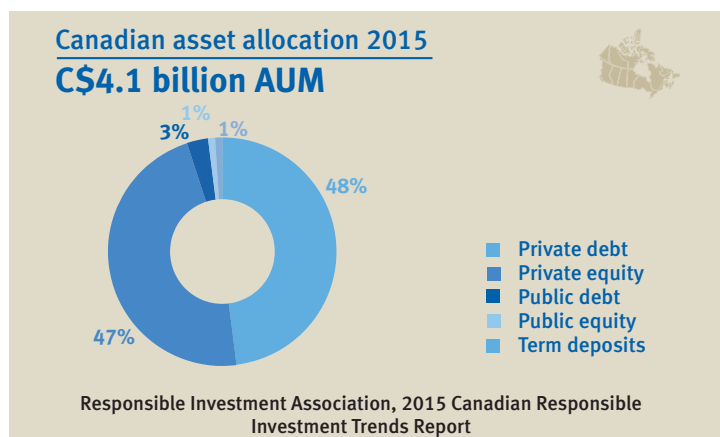


Impact Investments Comprise a Range of Asset Classes and Products

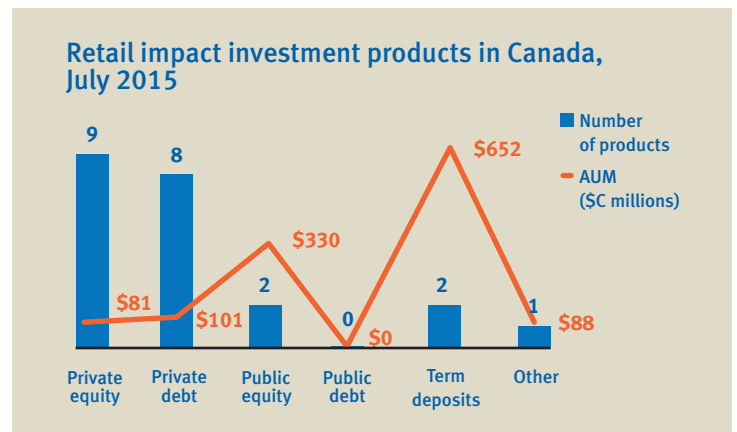
Impact investments can be found across asset classes and a range of products. Globally, assets tend to be allocated to private debt (40%) and private equity (33%).



In Canada, impact investments under management totalled over C\$4.1 billion in 2015 with even higher proportions of private debt (48%) and private equity (47%) than in global markets. Of this total, products valued at more than C\$400 million were available directly to individual investors.



As of July 2015, at least 22 impact investment products were available to individual investors in Canada,¹³ up from 16 in 2014.¹⁴



Examples of Products in Canada, the US & the UK

- Impact Ventures (UK): Impact-first growth capital for proven and innovative social enterprises. Backed by Berenberg Private Banking.
- Access Capital (US): Investments that help build stronger communities through support of low- and moderate-income home buyers, affordable rental housing units, small business loans and economic development projects.
- SolarShare 5- and 15-Year Solar Bonds (Canada): Invests in solar projects that are already built and generating stable revenue.

Supporting Your Client Now

1. Be mindful that most people seem to be interested in making a positive impact with their investments, but they rarely articulate this or ask about it. Women and younger people may be particularly interested.
2. When getting to know your client, consider asking if they would like their investments to be more consistent with their values.
3. Listen for words like “responsible”, “sustainable”, “legacy”, “philanthropy”, “community”, “impact”. Ask clients or potential clients to elaborate to learn more about what’s important to them.
4. Clients who set up philanthropic foundations will very likely be interested in impact. Ask them about their interests and objectives for their gifts as well as the funds in their foundation.

Available Resources

The RBC Social Finance Initiative is tracking the rapid growth of impact investments and has a growing set of resources available to practitioners. Learn more at www.rbc.com/socialfinance or contact us at socialfinance@rbc.com.

About this Report

Royal Bank of Canada (RBC®) commissioned this research to better understand impact investing, the size and growth of the market, and the potential interest of investors.

Research was conducted by the Michael Lee-Chin Family Institute for Corporate Citizenship in collaboration with Bridges Impact+. The Lee-Chin Institute investigated the current state of play of impact investing in Canada and interest among high-net-worth individuals. This was complemented by research by Bridges Impact+ on the rapidly growing impact investing markets in the UK and US.

The RBC Social Finance Initiative

The RBC Social Finance initiative is a multi-million dollar commitment to spark social and environmental change through private capital and financial markets. This commitment includes the \$10 million RBC Generator, a pool of RBC capital designed to finance social enterprises, a \$10 million investment of RBC Foundation assets in socially responsible investment funds and strategic partnerships to catalyze the growth of social finance in Canada.

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About Michael Lee-Chin Family Institute for Corporate Citizenship

The Michael Lee-Chin Family Institute for Corporate Citizenship at the Rotman School of Management, University of Toronto, helps current and future business leaders integrate sustainability into business strategy and practices. The Lee-Chin Institute supports research and teaching, develops and disseminates practical tools and provides advisory and research services to select corporate clients.

About Bridges Impact+

Bridges Impact+ provides sustainable and impact advisory services to a range of external clients, from investors to governments to charities to corporations. The aim is to provide rigorous but eminently practical recommendations — all rooted in 14 years of experience in the day-to-day realities of investing for impact at Bridges Ventures.

¹ Eyes on the Horizon: The Impact Investor Survey, J.P. Morgan and the Global Impact Investing Network, 2015, p. 6-7.

^{2,3} Cap Gemini RBC Wealth Management Global HNW Insights Survey 2015.

⁴ Michael J. Silverstein and Kate Sayre, “The Female Economy,” Harvard Business Review, September 2009.

⁵ www.morganstanley.com/ideas/30-trillion-challenge.

⁶ Cap Gemini RBC Wealth Report 2015: Canada Fact Sheet, p. 1-2.

⁷ Impact Investing Brief, Global Impact Investing Network (www.thegiin.org/impact-investing/).

⁸ Eyes on the Horizon: The Impact Investor Survey, J.P. Morgan and the Global Impact Investing Network, 2015, p. 6-7.

⁹ “2015 Canadian Responsible Investing Trends Report,” Responsible Investment Association, p. 3.

¹⁰ “What is the Market Potential of Impact Investing?” (Issue brief) Global Impact Investing Network.

¹¹ From the Monitor Institute, JP Morgan and the Rockefeller Foundation and the Calvert Foundation, quoted in USSIF Foundation, Report on US Sustainable, Responsible and Impact Investing Trends, 2014.

¹² MaRS Impact Investing brief, April 2014.

¹³ LCI survey of 108 Canadian financial institutions and community-based impact investments plus 12 interviews, June – July 2015. This is only a snapshot of what may have been on offer during the year as not all of the organizations surveyed responded, these products open and close regularly and more products are in development.

¹⁴ “State of the Nation: Impact Investing in Canada,” MaRS Centre for Impact Investing and Purpose Capital, 2014, p. 40.

