

THE MILLENNIAL PERSPECTIVE:

Understanding Preferences
of the New Assets Owners

**An ImpactAssets issue brief exploring
critical concepts in impact investing**

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With every generation, attitudes shift and trends emerge that define an era. As the Millennial generation comes into adulthood, countless researchers and journalists are expounding on the behaviors and attitudes of this “Next Generation.” Reaching generalized conclusions with regard to any group of people is tough, and the discussion regarding “NextGen” is the same: This next generation is uniquely collaborative or narcissistic depending on the article, author or perspective! Yet, there is a growing consensus that global events and rapidly changing technology have combined to create a perspective among Millennials that is unlike that of their parents or grandparents.

A UNIQUE WORLDVIEW

The NextGen worldview has numerous implications, but one place it is clearly at play is in financial markets, where their perspective is already influencing the way they put assets to work. Millennials are demanding more integration of their money and values by seeking personal fulfillment in their careers, applying a global consciousness to their purchases and

investing in sustainable, impactful business models. This Issue Brief takes a closer look at the factors that have shaped the Millennial worldview, the potential impact of the sizable assets that will transfer to them over the next three decades and the ways financial advisors and other service providers may better understand and respond to a Millennial mindset.

WHAT IS “NEXTGEN”?

“NextGen,” “Generation Y,” or “Millennial,” refers to the approximately 80 million U.S. individuals born between 1980-2000. Millennials are the largest generation in American history, approximately 20 million larger than the Baby Boomer generation. The oldest in the generation are now entering their 30s. This generation experienced their formative years

around the turn of the millennium and have been surrounded by rapid globalization and technological innovation. Millennials are the first generation to be truly global, sharing experiences across cultures and geography, connected by technology more than any generation before them.

CRITICAL FACTORS SHAPING THE NEXTGEN PERSPECTIVE

Consider for a moment the major global events that occurred between 1980 and today. In their relatively short lives, Millennials have experienced major boom and bust periods, including the prosperity of the nineties dot-com frenzy, as well as the financial markets’ collapse in 2008 and subsequent recession. As teens and young adults they witnessed 9/11, the Arab Spring, long wars in Iraq and Afghanistan, multiple terrorist attacks, and dramatic political division within the U.S. This generation has known from a young age that the ice caps are melting, that there are slums in the developing world with deeper poverty than they will ever experience and that they cannot count on receiving Social Security. On the other hand, they are the children of the Baby Boomers! By many accounts, they have been coddled, celebrated and given trophies simply for showing up and participating. When the first batch of Generation Y entered the workforce, corporate America was shocked by how confident and indifferent to seniority this group of college graduates turned out to be. The next batch of Gen Y college graduates

Timeline of global events (1980–2013)

1981	AIDS epidemic identified
1985	Hole in the ozone layer discovered
1989	Exxon Valdez spill
1989	Berlin Wall comes down
1989	World Wide Web invented
1990	Operation Desert Storm
1994	Nelson Mandela elected, ending apartheid
1997	Kyoto protocol proposed
1999	First U.S. hybrid car sales, Honda Insight
2000	Dot-com bubble burst
2001	9/11 World Trade Center attack
2001	Enron scandal revealed
2003	Iraq War launched
2004	Facebook launched
2005	Hurricane Katrina hits Gulf Coast, causing costliest natural disaster in U.S. History
2007	First generation iPhone is released
2008	First fully electric sports car, Tesla Roadster, produced with lithium ion battery
2008	Lehman Brothers files for bankruptcy
2008	Barack Obama, first black president of the United States, elected
2011	Arab spring, organized through social media, brings down regimes across the Arab world
2011	Occupy Wall Street movement protests income inequality and wealth distribution in the United States
2013	G8 convenes Social Impact Investing Forum

had much more difficulty finding jobs and many have returned home to live with their parents in droves, earning them yet another moniker as the “Boomerang generation”.

The Millennial perspective has been shaped by consistent economic, geopolitical, and environmental turmoil. Many are skeptical of stability in housing markets, job markets or financial markets and, as a result, are conservative and questioning, as well as entrepreneurial. Technological advances and the proliferation of mobile and social media have provided the next generation with unprecedented access to information and networks. As a result they are confidently self-directed, but seek out expertise from a variety of sources.

Millennials also have a heightened awareness of the many inequalities in the world today,

through news media, social media, and travel in an increasingly globalized world. The evolving interconnectedness across cultures around the world has contributed to increased knowledge, curiosity and sense of responsibility towards the global community.

In decades of unprecedented, accelerated change, Millennials are adapting to the world around them and the global challenges and opportunities that they will inherit. For those interested in understanding this new perspective, it is important to peel back the layers of the NextGen worldview and the circumstances that influence them. Increased understanding creates an opportunity to partner with Millennials as they develop into responsible stewards and changemakers of the future.

WEALTH TRANSFER TO THE MILLENNIAL GENERATION

As a part of this demographic transition, a tremendous shift of financial and generational influence is also coming. Over the next several decades, it is estimated that \$30 trillion¹ in financial and non-financial assets will pass from Baby Boomers to their heirs in North America alone. This transfer is expected to peak between 2031 and 2045, during which 10% of total wealth in the US will be changing hands every 5 years.² Take a minute to reflect on those basic projections; the impact of this

wealth transfer and how that capital will be invested—and to what ends—deserves pause!

Many articles and white papers have noted that Millennials consider social responsibility to be a major factor in evaluating investments, far more than previous generations, and have a keen interest in impact investing. However, financial advisors have been slow to immerse themselves in really understanding the landscape of investments that provide both social and financial return.

¹ The “Greater” Wealth Transfer: Capitalizing on the Intergenerational Shift in Wealth, *Accenture*, June 2012, p. 1

² *ibid*, p.1

Financial advisors too often fall into one of two categories when asked about impact investing. They either think its quaint and outside of their purview or are under the false impression that working in the “space” for the past few years makes them unassailable experts on the topic. In truth, I’m looking for the same thing from all my advisers: a robust analysis of the market and a simple investment hypothesis. The discussion of impact should start there and layer on a concise theory of change and a way to measure additionality.
— Matthew Palevsky,
29 year old investor, Chairman,
Ethical Electric

Being knowledgeable of and receptive to impact investing and other sustainable investment approaches can be a key differentiator and competitive advantage for advisors looking to participate in the coming wealth transfer. In addition to attracting new clients, engaging in conversation about socially responsible investment options can be impor-

tant groundwork to lay with existing clients that are preparing for an intergenerational wealth transfer. The priorities of the next generation may be more socially or environmentally focused than that of the current generation and gaining their confidence early by demonstrating a willingness to explore a values-based portfolio can provide a useful bridge to improve retention of existing client assets.

Moreover, one reality any wealth or family office advisor knows from personal experience is that:

For many inheritors, the next thing to go when parents pass is their advisor!

Those wealth advisors who plan on effectively meeting the evolving demand of their client base, as well as those who aspire to maintain a growing practice, are well advised to get ahead of this shift in demand. Assisting Next-Gen clients in clarifying how their own investment strategies, goals and approaches may well differ from that of their parents is a valuable practice for both client and advisor.

A NEW APPROACH TO FINANCIAL ADVISING FOR THE NEXT GENERATION

Over coming years, the relationship between financial advisors and their clients will evolve in a variety of ways as the next generation comes into their wealth. Due to factors mentioned earlier in this Brief, Millennials are not passive clients that will accept the options

presented to them with blind confidence in an advisor to manage a portfolio for targeted returns. As a result of the tumultuous financial climate and information-saturated environment they grew up in, Millennials often mistrust financial markets and question the

need to pay for financial advice. In general, Millennials have positive relationships with their parents and are not simply rebelling against existing strategies, but they value transparency, networks, and expertise when choosing an advisor.

I grew up in a family that believed people can make money and do good at the same time. Financial and social return are both important to me.

— Anonymous, 24 year old impact investor

Gen Y investors are not naïve or careless with their assets; in fact, reports show Millennials are more conservative and skeptical than their parents when it comes to financial markets and advice received from financial advisors.³ In a recent Accenture survey, 43% of Millennial respondents (ages 21-30) described themselves as “conservative” investors, compared with 31% of Baby Boom respondents (ages 46-70). With a majority of Millennials identifying themselves as “self-directed” investors, they spend a significant amount of time researching alternatives and consult multiple sources before making major investment decisions.⁴ The group surveyed was four times more likely than Baby Boomers (2% vs. 7%, respectively) to say they are unwilling to act

on the advice of a financial advisor without first consulting other sources.

Millennials are skeptical of stock market investments, and half (51%) of high net worth Millennials fear they will lose money by investing in traditional equity securities. Additionally, nearly two-thirds (64%) of high net worth Millennials said they were more comfortable investing in physical assets rather than stocks.⁵ Despite their reservations and skepticism about stock markets, Millennials are actually willing to accept a higher risk profile or receive lower returns to invest in companies that create positive social or environmental impact.⁶ Furthermore, one study found that 45% of wealthy Millennials want to use their wealth to help others and consider social responsibility a factor when making investment decisions.⁷

While previously this field [socially responsible investment] was dominated by a doom-and-gloom approach, primarily using negative screens, NextGens are saying we need to look at opportunities; investing, rather divesting. This is a positive opportunity . . . It's an empowered mind set.

— Phillippe Cousteau, 32 years old, President and co-Founder, Earth Echo International

³ Generation D: An Emerging and Important Investment Segment, *Accenture*, p. 5

⁴ *ibid*, p. 5

⁵ U.S. Trust Insights on Wealth and Worth, U.S. Trust, p. 15, 19

⁶ *ibid*, p. 20

⁷ 2013 High Net Worth Millennials, *Spectrem Group*, May 2013

While these attitudes may seem to contradict each other—a conservative approach to traditional investment, but a willingness to accept higher risk or lower returns for positive social impact—they make sense when considered through the Millennial worldview. The unique attitude and investment preferences of the Millennials are not a fad nor indicative of an immature approach to investing; they are the logical and engrained response to the global environment in which they came of age. In a world where financial markets have been

opaque and unstable, skepticism and caution are survival tactics. For a generation that is keenly aware of social and environmental challenges, progressive action must be taken. Millennials are highly engaged investors and as a generation are developing a unique approach to deploying their assets for tangible impact. By diving deeper into factors that have shaped the NextGen perspective, an understanding of their investment preferences gains clarity and validation.

UNIQUE WORLDVIEW LEADS TO A UNIFIED PORTFOLIO APPROACH

Millennials have an innate changemaker mentality. A recent study by Telefonica found that 52% of U.S. Millennials believe they individually can make a difference globally,⁸ meaning that a single person's actions can make a difference, even if that person does not have tremendous wealth or power in the traditional sense. Millennials make many decisions that reveal this intention of broader impact.

In their jobs, purchasing decisions, travel preferences and more, Millennials are finding ways of expressing individual values through their choices. Beyond a career that makes money and pays the bills, they seek jobs that provide personal fulfillment and reflect corporate responsibility. Research indicates that as many as 85% of Millennials prioritize work that is enriching to themselves but also enriching to the world and 71% want to work for a

company that encourages some form of global or community social responsibility.⁹ In a phrase, while many of those in the Great Generation sought to work during the week and be a part of community on the weekends, and the Boomer Generation sought personal fulfillment and social change, many of those in the Next Generation seek profit with purpose!

I'm not willing to invest my financial resources in ways that create additional problems for us to solve later on down the road. It just doesn't make sense.
— Courtney Hull, 31 years old, investor

Millennials have grown up with an awareness of supply chains and their social and environmental impacts. In elementary school, many learned the importance of recycling, the

⁸ Telefonica Global Millennial Survey: Global Results, Telefonica, p. 23

⁹ <http://www.forbes.com/sites/karstenstrauss/2013/09/17/do-millennials-think-differently-about-money-and-career/>

effects of climate change and the reality of extinct and endangered species. As a generation, they are more widely interested in sustainability because the decline of natural resources and the effects of global warming have been constant topics in the media during their lives.

They are also becoming adults in a time when electric cars are widely available, grocery stores offer organic food and coffee shops advertise fair trade sourcing. Their purchasing decisions are informed and influenced by the perceived social and environmental integrity of any given company. NextGen consumers had early experiences of popular brands coming under fire for tacitly allowing unethical working conditions in the production of their goods. In a new era of corporate social responsibility, companies such as Warby Parker and Tom's Shoes have gained tremendous Millennial support for their one-for-one models of donating products in the developing world. Sustainable choices are clearly possible, and Millennials are increasingly holding both companies and themselves to a higher standard.

By aligning their roles as professionals and consumers with their personal values, Millennials are building unified portfolios to advance their views of how the world should be. The social and environmental implications of their choices are considered an integrated part of decision-making, which is powerfully different from the bifurcated approach of previous generations who perceived doing well and doing good as separate activities.

How we manage our money has to reflect our values and vision for a better world. As a young couple, this is part of our planning for our family's future legacy—to set an example that wealth is a privilege to be managed for more than personal gain. It was critical for us in choosing advisors that they understood the social and environmental impacts we were aiming for and would work collaboratively with us to build a portfolio of impact investments.

***— Ian Simmons and Liesel Prizker
Simmons, Blue Haven Initiative***

CHANGING NATURE OF BUSINESS TOWARD BLENDED VALUE

Doing well and doing good has been associated with for-profit and non-profit organizations respectively in previous generations, but these silos are weakening as new business models and corporate forms emerge focused on creating blended value, the idea that

“the value created by an organization is fundamentally indivisible. Thus, one cannot speak of simply “economic value”, “social value” or “environmental value”—these quantities are simply parts of one essential value.”¹⁰ A growing number of blended value organizations,

¹⁰ <http://www.blendedvalue.org>

whether they are non-profit or for-profit, have an impact thesis at the core of a revenue generating business model.

As an economy, we're past the point of either-or, revenues or philanthropy, making money or making good; through the globalization of markets and supply chains, our economies and planetary ecosystems are now vastly intertwined.

— Courtney Hull, 31 years old, investor

Thought leaders and social entrepreneurs that integrate business with social and environmental change were hard at work long before the conversation about Millennials heated up, but

these ideas have gained momentum and are manifesting in clearly observable ways across many types of organizations. This changing business landscape is important to understanding both the career choices of Millennials as well as the range of opportunities they see to affect positive change in their lives, communities and world. New corporate forms are now gaining legal status to recognize that the role of the corporation may not be solely about maximizing financial value for shareholders. Registering as a Benefit Corporation, a legal corporate form now available in 19 states—including the critical state of Delaware—explicitly allows a business to consider environmental and societal issues in addition to profit. Other corporate forms include L3Cs (low profit limited liability company), Social or Flexible Purpose Corporations, and hybrid

BUSINESS MODELS: BEYOND FOR-PROFIT AND NON-PROFIT

TYPE	DEFINITION	HOW COMMON?	WHERE
Benefit Corporation	A new class of corporation that voluntarily meets higher standards of corporate purpose, accountability, and transparency. Benefit Corporation is a legal status administered by the state.	Over 500 registered	Legally recognized as a corporate form by 20 states (including Delaware)
B-Corp Certified (not a form of incorporation)	B Corps are certified by the nonprofit B Lab to meet rigorous standards of social and environmental performance, accountability, and transparency.	There are more than 950 Certified B Corps from 32 countries and 60 industries	Worldwide
L3C—Low-Profit Limited Liability Corporation	A statutory type of LLC primarily designed to assist for-profit companies with a focused charitable purpose, hoping to obtain program-related investments from foundations.	Over 700 registered	Legislation passed in nine states
Social Purpose Corporation (WA) Flexible Purpose Corporation (CA)	A similar structure in WA and CA; for-profit corporation type that includes social or environmental purpose in its charter. Boards and management are protected from shareholder liability when they weigh their special purpose(s) against shareholder value—both in the ordinary course of business and in change of control situations.	SPC legislation became effective in June 2012—89 registered in WA FPC legislation became effective in January 2012—number of registrations not available	WA, CA
Hybrid (not a form of incorporation)	Joint venture between a non-profit and a for-profit legal entity to exploit the benefits of both corporate forms. Often the non-profit will own a controlling interest in the for-profit to protect the social mission.	N/A	N/A

corporation structures, which define the ways these companies will integrate social and environmental initiatives into the total value they are creating for shareholders.

Companies that do not have a social mission at their core are also increasingly incentivized to mitigate financial risk by strengthening ESG (environmental, societal, governance) policies and corporate social responsibility initiatives, and are incorporating these considerations as part of their core business strategy. This pressure comes from cautionary examples, consumer demand and growing evidence of cost savings to make sustainability a key factor in practicing good business. Overall, companies are being held to higher standards by employees, consumers and investors than they ever have been before.

The integration of personal values and business can also be seen in the rapid growth of crowdfunding, which has disrupted traditional financing by increasing both eligible sources and uses of funds. Microfinancing websites like Kiva have revolutionized the way we lend money and connect with one another to help alleviate poverty, distributing over \$500 million in microloans since inception. Creative projects received more funding through the Kickstarter crowdfunding platform in 2012 than from the National Endowment for the Arts; over \$1 billion has been pledged through the site since it launched in 2009. Entrepreneurs and social ventures have a new route to funding through platforms like IndieGogo and Givkwik. Crowdfunding is a social source of

funds enabling people with passion and innovative ideas to secure funding when traditional venture funds are not a fit, and allows individuals to invest at an accessible level in projects and ventures that they believe in.

Millennials look at their career, consumer, and investment options and see a business landscape where market driven solutions are a powerful answer to some of the world's greatest problems. They don't want to choose between financial gain and sustainable impact, and increasingly they are creating options that incorporate both objectives.

Investors have always had a responsibility to generate positive returns, but never have they had more of a responsibility to generate positive impact. The next generation of investors think about investing in a fundamentally different way. They are investing to blend profit and purpose—and it is generational shifts in money, mentalities, and manpower driving this change. Millennials have a mindset where they want to use money to make a difference. The “Facebook Generation” is also adept at using technology to make investments so Millennials will naturally gravitate towards financial advisors who understand sustainable investing and new online investment platforms.
— Michael Sidgmore, 25 year old investor, Special Advisor, Panorama Point Partners

ROLE OF FINANCIAL ADVISORS DURING THIS IMPORTANT TRANSITION

As Millennials transition into control of their wealth and seek to apply their worldviews to their portfolios, financial advisors will play an important role. Though it may not be an immediate source of revenue since many Millennials have not yet come into their own as asset owners, financial advisors who anticipate and respond to Millennial investors' interests will earn valuable loyalty as Millennials increasingly begin managing their own assets.

The average age of a financial advisor is just over 49 in the US¹¹ and while many financial advisors nearing retirement may be less inclined to adjust their approach, developing

relationships with their clients' heirs can preserve a valuable annuity. For advisors with many years left in their careers, taking the time to understand and adjust to the attitudes and objectives of NextGen investors can attract clients with significant assets and is a smart investment in future-proofing an advisory business.

It will be important for financial advisors to identify common goals between themselves and NextGen clients. Young investors seek financial security, but they seek it through sustainable investments they hope will help solve some of the world's toughest problems.

WHAT YOUNG PEOPLE WANT FROM WEALTH MANAGERS

Sound money management advice is only one item on a long menu of services that young investors are demanding from their advisors. Here are some of the others:



Source: Millennials and Money, Merrill Lynch, <http://www.pbmg.ml.com/pwa/pages/Millennials-and-Money.aspx>

¹¹ The "Greater" Wealth Transfer: Capitalizing on the Intergenerational Shift in Wealth, *Accenture*, June 2012, p. 1

Advisors who share in the goal of blended value creation and are willing to problem-solve with their clients to find investments that fit a client's values and financial objectives will be uniquely positioned to cater to Millennials.

When asked what Millennials are looking for from their wealth managers, "understanding the needs of investors in their twenties and thirties" and "communicating in a language that resonates with that age group" topped the list.¹² In addition, providing values based investing options and giving them access to unique products and services are also high priorities.

Meeting these needs begins with engaging collaboratively with NextGen investors to earn their trust. NextGen investors want to feel empowered by their decisions, and engaging them through open, respectful communication will help earn their trust and build a strong relationship. Financial advisors may have to provide additional rationale or transparency regarding fees in order to help Millennial investors understand the value that financial advisors can provide. And it is critical that advisors seeking to offer effective guidance to their NextGen clients take care not to condescend those clients. One strategic advisor to younger asset owners observed how easy it is for a traditional wealth advisor, used to

being "the expert," to find themselves sitting across the table from someone twenty, thirty or even forty years their junior and suddenly begin adopting the patronizing tone of a parent. Needless to say, such advisors will not meet with success in coming years!

Given the interests and worldview of Millennials, financial advisors would be well served to educate themselves on trends in philanthropy, social enterprise and values-based investing. A working knowledge of microfinance, Socially Responsible Investing, ESG (Environmental, Social, Governance) investing and Impact Investing will give Millennial clients confidence that a financial advisor is able to advise on social and environmental objectives in addition to standard financial advice.

The field of impact investing is evolving rapidly, unlike Modern Portfolio Theory. This means it's more important than ever for advisors to continuously educate their clients (and for clients to continuously educate their advisors). When this discussion breaks down, impact ends up meaning something quite different to everyone in the room.
— Matthew Palevsky, 29 year old investor, Chairman, Ethical Electric

¹² Millennials and Money, Merrill Lynch, <http://www.pbmg.ml.com/pwa/pages/Millennials-and-Money.aspx>

CONCLUSION

There is quite a flurry of conversation regarding Millennials, the impact they will have and the global challenges they will inherit. Though the conclusions of these conversations vary, there is no doubt that this generation has grown up in a unique time and has a markedly different worldview from previous generations. Given the unprecedented wealth transfer that will take place over the coming decades, engaging Millennials is critical to the future business of financial advisors. And while socially responsible and impact investing may have been niche offerings in the past, demand is rapidly growing among the next generation that realizes that social, environmental and financial outcomes are inextricably linked in an increasingly globalized world.

Millennial investors may not all choose to pursue a unified portfolio of investments that integrate financial, social and environmental

goals or agree to higher impact in exchange for lower return or directly invest in social enterprises in the developing world; however this new generation as a whole has a much more integrated worldview that seeks value beyond pure financial return. This is a logical response to the events that colored the social and economic picture over the past thirty years, and will be a lasting difference between Millennials and previous generations. Adapting to this Millennial perspective requires an ongoing, two-way conversation between advisor and client that is rooted in understanding a client's intentions as an asset owner—and as an intelligent person seeking their way in the world. Helping Millennials construct a portfolio that fully integrates their social and environmental objectives, as well as their financial goals, will create loyal clients for one's practice and a more sustainable world for us all.

Lindsay Norcott is Strategic Initiatives Officer at ImpactAssets. Jed Emerson is Chief Impact Strategist for ImpactAssets and an internationally recognized leader in impact investing. We would like to thank and acknowledge the contributions of Gita Drury and Emma Allison for the research and interviews that shaped this Issue Brief. As part of ImpactAssets' role as a nonprofit financial services firm, Issue Briefs are produced to provide investors, asset owners and advisors with concise, engaging overviews of critical concepts and topics within the field of impact investing. These Briefs are produced by various ImpactAssets staff as well as collaborators and should be considered working papers—your feedback on the ideas presented and topics addressed in IA Issue Briefs are critical to our development of effective information resources for the field. Please feel free to offer your thoughts on this Issue Brief, as well as suggestions for future topics, to Jed Emerson at JEmerson@impactassets.org. Additional information resources from the field of impact investing may be found at the IA website: www.ImpactAssets.org
