Wealth and Investment Management

The Value of Being Human: A Behavioural Framework for Impact Investing and Philanthropy

September 2015

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Foreword

September 2015

Akshaya Bhargava
Chief Executive Officer,
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Focusing on investor behaviour and applying a scientific approach to investment management has been a fundamental part of our business for many years. We have spent a significant amount of time and effort in building out our capabilities in Behavioural Finance to improve our understanding of clients' financial needs, and to serve them better as a result.

One area where this is increasingly important is in social impact investing, a sector that has undergone high levels of growth in recent years and created a clear opportunity for individuals and wider society. As investors increasingly seek to use their wealth to deliver positive social outcomes, as well as financial ones, the need to understand how our emotions can affect decision-making is all the more valuable. How can investors strike the balance between combining their social objectives with financial goals?

Our own research shows that investors are keen to embrace impact investing, but turning these good intentions into a comprehensive investment strategy is proving harder to achieve. There is clear evidence of a desire to do social good through investments, but until now investors have been ill-equipped to navigate this complex area with any degree of confidence. Lacking the tools they need to make balanced and informed investment decisions, many feel unprepared or unable to realise their social and philanthropic ambitions.

This is why we have developed **The Value of Being Human: A Behavioural framework for impact investing and philanthropy.** Building on our existing work in this area, our aim is to provide investors with a framework that gives them the tools they need to better understand themselves, their needs, and how to best approach the complicated question of doing social good with their wealth. This whitepaper introduces this framework, and addresses the most vital and frequently overlooked component of the social finance ecosystem – investors themselves; focusing on demand, rather than supply.

We are integrating this process into the very fabric of how we approach wealth management day-to-day. Incorporating this new model into our existing investment framework supports our ambition to continuously meet our clients' expectations for the highest level of bespoke investment advice.

A year ago, Sir Ronald Cohen, the chairman of the G8 taskforce on impact investment, challenged the sector to "*bring the invisible heart of markets to guide their invisible hand*" in order to capitalise on the social impact investment opportunity. It is our hope that the investor-focused approach presented in this whitepaper takes a meaningful step towards answering that challenge and provides a valuable resource to investors and all interested parties.

Executive Summary

Many investors are keen to embrace impact investment. But while surveys conducted for this study found that more than half the respondents expressed interest in such investments, fewer than one in ten (9%) had actively engaged. We believe the explanation for this gap is straightforward: people may want to use their investment for social good, but they don't know how to.

In that context, an increase in the supply of impact investment options – the number of funds available is expected to increase significantly over the next five years – will not meet investors' needs. The latent demand seen in our surveys will not be unlocked until investors get the help they need to integrate impact investments into broader financial portfolios or philanthropic strategies.

This report provides such help. Based on detailed research, it sets out a design proposal for a new impact investment and philanthropy framework, the first of its kind, and an accompanying social personality profiling tool to help investors understand their own preferences for balancing social and financial objectives.

In this paper, we describe not only the framework, but also the research findings that shaped it, in order to appeal to both investors and those interested in the fields of impact investment and philanthropy. Some of our key findings include:

- **To unlock latent demand for impact investment, we need to focus on the needs of the investor as much, or more, than on the supply of products.** There is considerable interest from investors in deploying their wealth to do social good at the same time as pursuing their financial objectives. However, just focusing on your financial needs is complex enough; adding in social considerations is extremely daunting, so most investors keep things simple by expressing their social preferences only through philanthropy. Our proposal seeks to help investors approach the appealing but daunting set of opportunities of the middle ground of impact investing with comfort and confidence.
- **Any approach to impact investment should embrace the full continuum of options from traditional investment to philanthropy.** The important question for investors is how best to serve their financial and social needs as they deploy their wealth. Any framework that doesn't consider the full range of options will provide an inadequate response to this question or, worse, promote one approach at the expense of another. This framework helps investors to understand how to approach both impact investing and philanthropy.
- **To unlock impact investment's full potential, we must acknowledge that achieving social good at no cost to the investor may be the exception, rather than the rule.** The industry needs to be honest that the more mainstream the investment, the more likely that it could raise funds on traditional capital markets anyway. True impact investment therefore often involves some cost – be it lower returns, reduced liquidity, or higher risk – in return for the social and emotional benefits one receives from backing social causes. Accordingly, the framework begins by letting advisers work with clients to determine what kind of social returns they want, what type of vehicle is most appropriate to achieve these, and how much of their overall portfolio is right to devote to this area. The latter is their social budget – an allocation of credits that can be "spent" on either impact investments or philanthropy to achieve social good.

September 2015

Greg B Davies

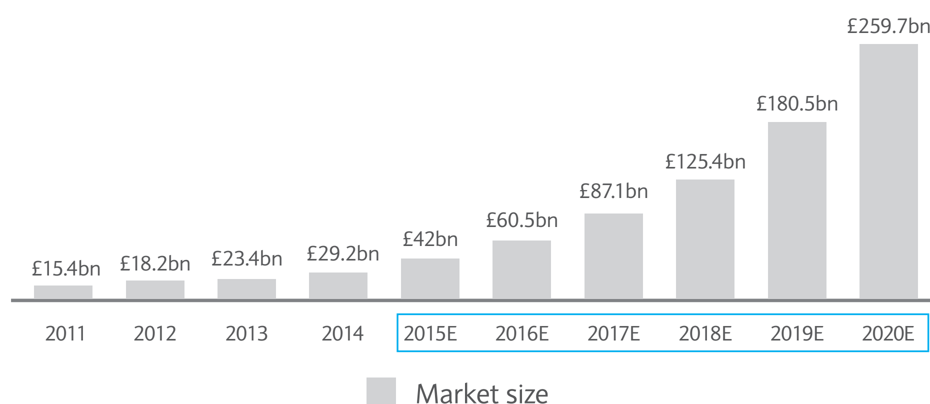
Head of Behavioural-Quant Finance, Barclays

- **Differing attitudes in three key areas help investors consider the appropriate size for their social budget.** A series of questions in the framework determine a *Social/Financial Balance* score, which measures willingness to forego something of financial value in order to achieve a social or environmental impact. This score strongly correlates with interest in impact investing and philanthropy, and the proportion of money devoted to impact investments by those already active in this area, making it the main element in suggesting a *social budget* of credits with which investors might feel comfortable. Other attributes also include a sense of *Personal Satisfaction* from giving and a sense of *Moral Duty* to give back. High scores in either area lead the framework to suggest a bigger social budget.
- **The framework provides diverse options for turning the social budget into social investments.** The social budget provides individuals with a number of credits for individuals to "spend" on seeking social return, up to a maximum of 100. The tool helps individuals make decisions about how they want to distribute their allocation. It is up to investors, armed with a better sense of the trade-offs involved, to distribute their credits in the vehicles most likely to maximise their social utility. As the framework is focused on the investor and not the likely outcomes of specific investments – something still poorly measured – investment choices will vary by personal intuition about what does the most good.
- **The framework is likely to increase both impact investment and philanthropy.** One worry about impact investment is that individuals may simply shift their charitable giving into this type of asset, thereby having little, if any, positive impact. Our research shows, however, that 90% of those looking to engage in impact investment expect to do so using money currently uninvested in cash, or already dedicated to traditional investments. Only 7%, not 8% would reduce charitable giving. Moreover, on average, the framework suggests a social budget for philanthropy slightly *higher* than current levels of giving.
- **Impact investment may address an important portfolio weakness.** Investors are likely to help themselves financially through impact investment in a hitherto unrecognised way. Many have existing portfolios that are cash heavy, too liquid and too short term. By nature, many of the riskier social investments which attract higher credits in the framework are longer term and less liquid. Putting money into these may not just provide social dividends, but could also encourage them to deploy cash that they have been unable to bring themselves to put to work, resulting in a better portfolio structure in purely financial terms.

Introduction

Too much writing on impact investment has the underlying assumption that, “if you build it, they will come.” Various heady projections based on a few years of growth – including one giving a six-fold increase in assets under management between 2015 and 2020 – are based largely on questionable extrapolations of increasing supply. They fail, however, to address a basic issue facing the sector: demand. Simply put, will mainstream investors be comfortable using impact investments as a vehicle to achieve social and financial returns?

Chart 1: These figures, derived from a 2013 Cabinet Office report, Status of the Impact Investing market, show that the size of the market could reach at least £260bn by 2020.



The willingness to do so is certainly there. As shown by the survey underpinning our research in this report, many investors – a large majority sophisticated and experienced – are at least moderately interested in impact investing. Fewer than one in ten, though, have actually taken the plunge. Unless this changes, the sector will remain a niche option, despite growing solidly. How, then, to unlock this latent demand? This won't come from focusing on investment funds and products as so many analyses have in the past. Instead, we need to focus on investors themselves, to better understand what holds them back from a market that clearly interests them, something painfully lacking from current discussions.

The key problem our research uncovers is a lack of understanding in how to use impact investing most effectively to meet investor's financial and social goals

The key problem our research uncovers is a lack of understanding in how to use impact investing most effectively to meet investor's financial and social goals. Many, daunted by even standard investing, quite reasonably shy away from the added complexity of incorporating social good. Most find the sector difficult to understand and navigate. There is limited information available on how they should combine their social objectives with their financial goals or how they should evaluate and select investments as part of a broader portfolio. According to our survey, one-third of high net worth investors say that they have limited knowledge of this type of investment.

As a result, many investors simply keep their social and financial objectives entirely separate, donating money via philanthropy to satisfy social objectives, and focusing their investment portfolio solely on financial goals. This makes a complex set of trade-offs and decisions much easier for the investor, but at the cost of eliminating a range of potentially more efficient combinations: impact investments largely fall in the wide gap between the extremes of altruistic donation and pure financial efficiency.

If impact investment is to fulfil its long-term potential rather than be just another brief investment fad, this comfort gap among investors will need to be closed. Our goal is to help do that.

Defining impact investment

Impact investments are investments made into companies, organisations, and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances.

Definition from the *Global Impact Investing Network*[1]

Where is impact investing today?

After an initially slow start, impact investing is now accelerating. Between 2012-2014, the number of funds globally expanded by more than 50%, reaching well over 300.[2] In September 2014, the G8 taskforce published a report[3] challenging policy-makers to "harness the power of entrepreneurship, innovation and capital for public good". Achieving this goal will depend on the willingness of investors to participate through mechanisms such as impact investing.

For now, though, most investors find the sector difficult to understand and navigate. There is limited information available on how they should combine their social objectives with their financial goals or how they should evaluate and select investments as part of a broader portfolio.

This report aims to help investors best deploy their wealth in a way that balances their financial and social objectives, detailing our proposal for a new impact investment and philanthropy framework. This underpins a tool that will enable investors to develop practical solutions to the questions and decisions they face around impact investing:

- How do you understand your own preferences for balancing social good versus achieving more traditional financial objectives?
- How do you develop a clear, practical way of deploying your wealth optimally, and comfortably, in the light of this knowledge through a blend of philanthropy, and a broad range of both traditional and impact investments?

This report aims to help investors best deploy their wealth in a way that balances their financial and social objectives

1 http://www.thegiin.org/cgi-bin/iowa/resources/about/index.html

2 http://knowledge.wharton.upenn.edu/article/social-impact-demand-financial-sacrifice/

3 Impact Investment: The Invisible Heart of Markets, Report of the Social Investment Taskforce established under the UK's presidency of the G8, September 2014.

We believe this framework is the first of its kind. To date, most approaches to impact investing have focused on the supply side – the products. Our framework is different in that it focuses on demand – the needs of the investor.

This work builds on a philosophy for investing we have been using at Barclays for many years,[4] which takes ideas from behavioural finance to offer practical solutions to investors whose natural human instincts and emotional responses to perceived risks and rewards may sometimes inhibit good investment decision-making.

In short, our framework, which is data-driven and grounded in empirical evidence, aims to change impact investing behaviour for the better. We do not pretend to have all the answers – we simply offer a starting point to address one crucial, and hitherto absent, aspect of the ecosystem. In time, we hope that others will build on our work.

Impact investment: challenging received wisdom

Can we really unlock the full potential of impact investment with a product-focused approach, rather than by focusing on investors?

Evidence from the field of behavioural finance plus our experience as specialists in investor decision making, strongly suggests we will not unlock demand by focusing only, or even primarily, on investment funds and products. Investors seldom make optimal decisions based on what is available; instead, they make comfortable decisions, largely based on what is easy. For example, despite a vast range of investment options, many people remain uninvested (holding cash) for long periods, often because of the lack of a clear framework that enables them to overcome the complexity or discomfort of the investment decision.

To truly unlock the latent demand for impact investment, we need to focus on the investors, providing them with a clear framework that weaves social concerns into their investment decisions, and giving them the tools that allow them to engage comfortably with this exciting and growing market.

At Barclays we want to address the entire ecosystem: the demand for impact investment, the supply, and how these two are connected. This white paper addresses the first of these, providing a robust framework and profiling tool to help us, and the industry, understand investors' values and needs. This is an essential precursor to our next steps: taking the time to source the right products for our clients, and to incorporate this framework fully into our proposition.

Investors seldom make optimal decisions based on what is available; instead, they make comfortable decisions, largely based on what is easy

An evolving framework

The essential question an investor needs to answer is: how do I best use my wealth to serve all my objectives, both financial and social? To do this we need to consider the full range of options, from donating to investing, as both can play an important role. Investors need to consider how much they should give through philanthropy, as well as how much to allocate to impact investing, and to find ways to ensure their wealth is structured to fit the *combination* of their financial and emotional needs – and social objectives are part of the equation.

4 As detailed in our paper *Overcoming the Cost of Being Human:* https://wealth.barclays.com/en_gb/home/research/research-centre/white-papers/Behavioural-Finance/Overcoming-the-cost-of-being-human.html

Our framework does not recommend which specific investments investors should make. We intentionally avoid taking sides on which particular products are more effective at achieving social good (although this is a valid question that requires further research).

Instead, the framework explores how much they should be *willing* to do, in terms of both impact investing and philanthropy. It also looks at the *characteristics* that would make investors most comfortable with impact investments. For example, what categories of investments would they choose, what is the appropriate timeframe, and how much risk are they prepared to bear?

The ultimate goal of the impact investors should be to maximise the social outcome per pound each is prepared to contribute, but this requires more sophistication and maturity than is currently in place. In the meantime, we want to take the essential first step of simply maximising the *amount* investors are willing to contribute within parameters that are appropriate to them.

The framework explores how much investors should be *willing* to do, in terms of both impact investing and philanthropy

How we did it

The design process began with two separate behavioural surveys of just over 1,800 individuals in the UK.[5] The surveys were designed by our behavioural experts using robust, scientific psychometric and survey design techniques, and built on previous work in this area from groups such as NESTA.[6] The first was conducted in September 2014 and the second in November 2014. Conducting two surveys ensured that we could establish that our findings were stable and replicable across populations. The sample for both surveys included a mix of retail investors, affluent investors with larger sums to invest and high net worth individuals.[7] By looking at these different wealth levels, we will be able in future to extend this framework beyond the high net worth population for which it was originally created.

As we worked towards developing a simple and practical tool that could guide real decisions, we started with a much more complex and comprehensive conceptual framework of all the possible trade-offs that investors might be called on to make when considering impact investment. This notion of examining possible trade-offs between financial and social objectives represents a natural extension of our existing *Wealth Philosophy* for traditional investments, in which we also consider other non-financial aspects of investors' objectives, most notably their behavioural needs for emotional comfort along the investment journey. Our social profiling framework draws on our long experience of designing, building and using our *Financial Personality Assessment*, and uses very similar techniques to help investors unearth and understand their social objectives.

It relies on statistical analysis of the surveys' large number of attitudinal statements that reflect:

- the full complexity of the possible trade-offs that people could make between social and financial outcomes;
- attitudes that have previously been explored or are of interest to others in the impact investment industry, such as NESTA's work;
- a range of possible motivations for impact investment and philanthropy;
- a range of possible concerns and barriers to impact investing and giving;
- other attitudes, psychometric scales, and beliefs that are explored in existing academic literature on altruism, philanthropy and related topics.

This analysis distils all these possible nuances in the data down to a small number of essential dimensions that best explain how people differ on core aspects of their attitudes. For example, respondents may all react similarly to a diverse set of questions. This indicates that these questions, while different in specifics, tend to reflect a more fundamental, underlying attitude. These dimensions include attributes such as: willingness to balance social and financial objectives; an individual's sense of moral duty; whether they are more comfortable with donating or investing for good; and whether their current priorities make this the right time to focus on social objectives.

The surveys were designed by our behavioural experts using robust, scientific psychometric and survey design techniques

5 These data were collected by Research Now.

6 Social Impact Investment: are we nearly there yet?, Nesta, 15 September 2014.

7 Retail investors: those with investible assets of less than £50,000; affluent investors: those with more than £50,000 of investible assets; high-net-worth investors: those with more than £1m of investible assets.

The evidence for demand stacks up

In addition to these underlying dimensions, our research reveals that many high net worth and affluent individuals do have an appetite for impact investment. Among our respondents, 56% have at least a moderate interest in the sector and this number rises to 66% among our High Net Worth respondents (see Chart 2).

Almost seven in ten say that, when investing, they would like their money to do some good, as well as provide them with a return. On average, they believe they would allocate 13% of their portfolio to these types of investments – although this is a very rough estimate, given the low level of knowledge among investors about the sector. Helping investors to have a clear view of this issue is precisely the question our framework is designed to address with greater accuracy.

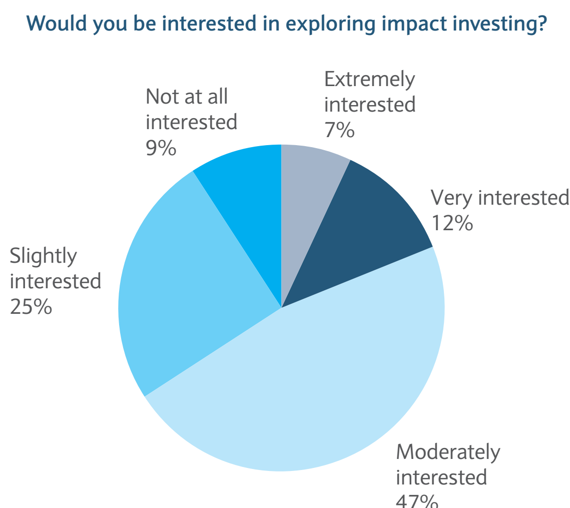
Who is investing now?

Despite these high levels of interest, only 9% of our sample says that they have already invested in the impact-investing sector. This suggests that there is a great deal of latent demand that investors currently do not have the knowledge, guidelines, or framework to act on.

Once investors have made a commitment to impact investing, they are strongly likely to repeat the exercise: 90% of those that have invested previously in impact investments are likely to do so again. This suggests that tools that encourage investors to try impact investing once may well result in greater engagement and sustained demand over time. Tax breaks, such as Social Impact Tax Relief (SITR)[8] in the UK, are one such tool, but such financial incentives, important as they are, do not do much to make impact investment *easier* (rather than just cheaper). Investors need help getting over the barriers to making that crucial first investment.

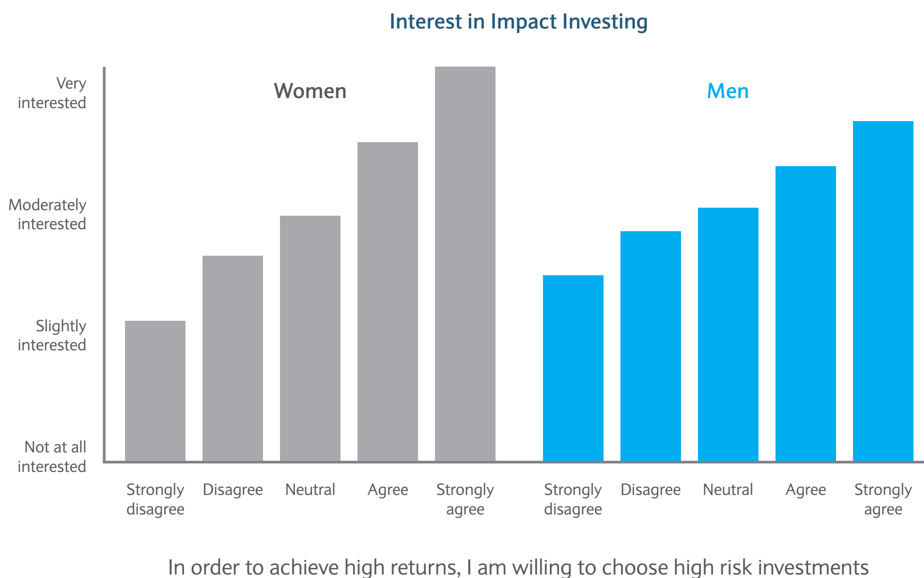
There is a great deal of latent demand that investors currently do not have the knowledge, guidelines, or framework to act on

Chart 2: The level of interest among high net worth respondents for impact investing is high, with around two-thirds at least moderately interested.



8 Social Impact Tax Relief: available only in the UK, the SITR rules currently allow individual investors to invest up to £1m in social enterprises, on which they get both income and capital gains tax relief. Investments must be held for at least three years to qualify.

Chart 3: Gender differences in interest in impact investing. Risk-seeking women are particularly interested in impact investing.



Our data also provide insights into which individuals are most likely to be interested in impact investing. Individuals with a higher risk tolerance, and younger or wealthier individuals, typically have a greater interest in the sector.

Investors who have already achieved a good degree of market efficiency with their previous asset allocation decisions, however, are not as likely to invest as those with less sophisticated approaches to portfolio strategy. This group scores highly on the *Market Engagement* dimension of our *Financial Personality Assessment*,[9] which looks at the extent to which investors find it emotionally easy to enter the markets in the first place. It is those who find this most difficult who are most likely to be interested in impact investing, perhaps in many cases because the thought of doing social good finally gives them sufficient rationale to do something that otherwise makes them feel uncomfortable.

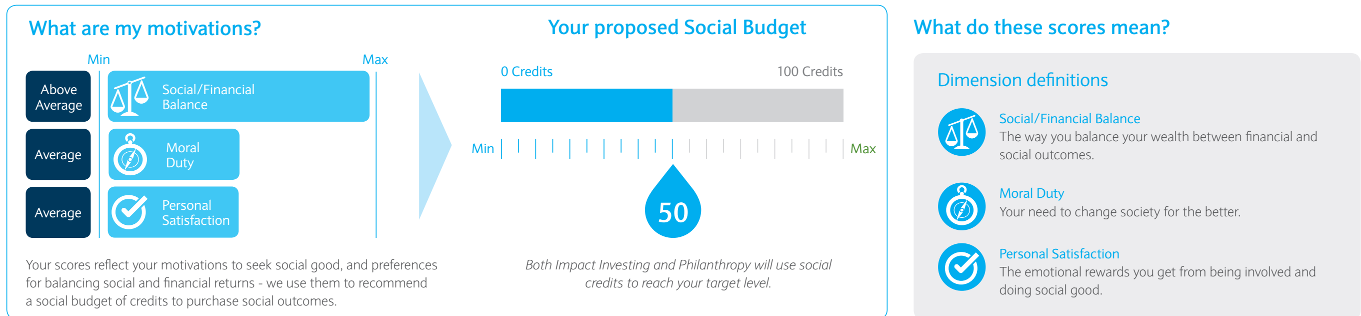
In other words, our survey suggests that there is an opportunity for those investors who are not already fully invested in the appropriate assets to meet their needs and goals (i.e., those with lower *Market Engagement* scores) to achieve social good while *also* increasing the financial efficiency of their portfolio. This is good news for the investor, good news for society, and good news for financial advisors, since these investments are likely to bring new money into the investment system, rather than cannibalising existing business.

Individuals with a higher risk tolerance, and younger or wealthier individuals, typically have a greater interest in the sector

9 See *Overcoming the Cost of Being Human*.

Introducing your social budget

Chart 4: This extract from the profiling tool illustrates how an investor's social budget might appear, highlighting their motivations for impact investment and their proposed social budget, along with an explanation of these scores.



What do these scores mean?

Dimension definitions

Social/Financial Balance
The way you balance your wealth between financial and social outcomes.

Moral Duty
Your need to change society for the better.

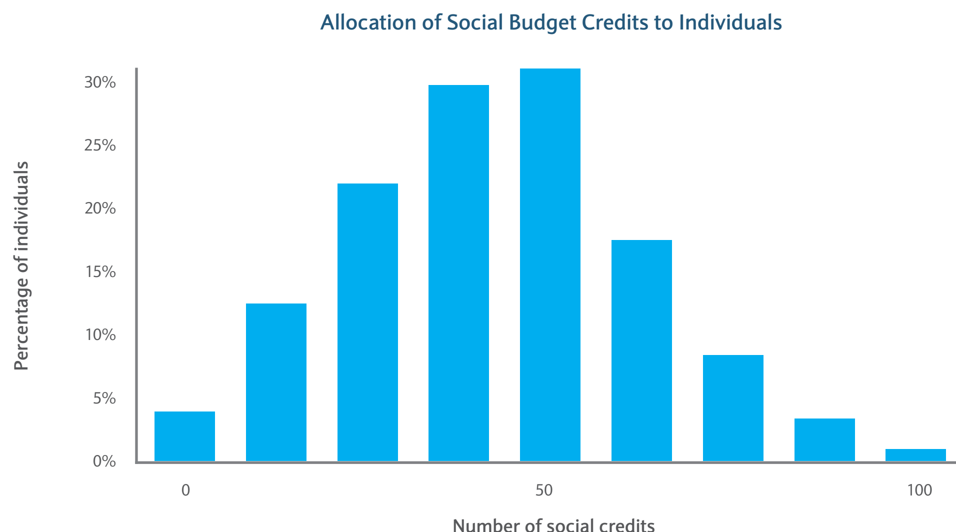
Personal Satisfaction
The emotional rewards you get from being involved and doing social good.

Our framework starts by providing investors with a suggested *social budget* (Chart 4). Based on three of the fundamental dimensions extracted from the survey responses, the framework proposes a certain number of *credits* that investors can "spend" to pursue social good by allocating those credits to either philanthropic donations, or to various types of impact investments.

Investors who are firmly focused on their financial needs will get a relatively small allocation of credits; by contrast, investors who feel a strong need to balance the social and financial aspects when structuring their wealth will get a more substantial allocation. The total number of credits in an investor's social budget could vary from zero (for someone who is entirely focused on financial outcomes to the exclusion of social) to 100 (for someone who is heavily biased towards social outcomes), with most investors lying between 25 and 75 credits (see Chart 5).

> The framework proposes a certain number of credits that investors can "spend" to pursue social good

Chart 5: The distribution of appropriate social budget credits among our survey population. The most common outcome is an allocation of 50 credits, or just below. Indications are that an individual's allocations will increase as their wealth level increases and they are more easily able to balance social and financial trade-offs.



We use *credits* as a neutral currency to reflect the wide range of actions that may be used to try and achieve social good: donating money utilises a certain number of credits; and various sorts of impact investments each account for a certain number of credits. Some investments will use fewer credits (where they have expected returns very much in line with traditional investments) and some more credits (where they call for the investor to deliberately accept lower returns, less liquidity, or higher risks). The core question underlying this currency is: what proportion of the expected annual returns from the portfolio does the investor feel comfortable in devoting to doing social good each year?

Why *spending* on social good?

There are a number of ways that social good may be achieved at no, or minimal, cost to the investor – that is, without substantially lower expected returns, increased risk or reduced liquidity. Examples include investment funds that simply avoid stocks that fall foul of screens based on factors such as socially responsible investment criteria, as well as vehicles that provide tax breaks to compensate for the increased costs or risks of impact investing.[10]

The conversation with investors, however, also needs to be about *spending* their wealth to pursue social good. There are several reasons for this:

- This is what happens with standard philanthropy – donors *give away* wealth to enable social good. In order to establish impact investment on a continuum between traditional investing and philanthropy, it will be useful to include the possibility of *foregoing* something to do social good.
- Although many impact investments may appear to have zero cost, this is relatively untested – at the very least, they may come with decreased liquidity and/or increased risk. Investors need to be prepared for this. This will help the industry to be more resilient to future shocks.
- Many investors will not get the emotional benefits of doing social good unless there is some cost to doing so. There is abundant evidence in the behavioural literature that, if people are financially rewarded for doing good (i.e. there is an *extrinsic* motivation for doing so), this can undermine their innate *intrinsic* motivation for it. Pretending that doing social good is costless may actually remove their motivation for doing it unless they are thereafter paid to get involved. This would be a very unfortunate unintended consequence of trying to convince people (with the best intentions) that they can do social good at zero cost to their own financial situation.

Moreover, if we only focus on the impact investments that are easiest, lowest-cost, and lowest-risk, then we will fail to catalyse those parts of the social ecosystem that need the most help.

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Determining an investor's social budget

The first step in setting an individual investor's social budget is to quantify the extent to which they are willing to balance financial and social outcomes – this concept emerges from our survey analysis as the primary dimension, **Social/Financial Balance**, on which investors attitudes differ. Our survey suggests that this is also overwhelmingly the dimension that is most predictive of the degree to which they want to get involved in impact investment and philanthropy.

10 The tax breaks from the current SITR legislation, whilst providing effective compensation for the costs or risks of many impact investments, may still not render a significant proportion of possible social investments *zero* cost. For the more extreme, or esoteric impact investments, investors will still need to be prepared to accept some potential efficiency loss.

Chart 6: The continuum between pure financial investment and pure philanthropy. To make impact investment successful, it will be essential to unlock the middle layers between these two extremes, which are investments but may require accepting some financial cost.

The dimensions of social attitudes

Our framework has identified a number of core dimensions in how people feel about social good. These are based on the extent of agreement, on a scale, to a number of attitudinal statements. Here, we show a few examples of the statements which relate to each of these underlying scales.

Social/Financial Balance
I wouldn't mind locking up my wealth for long periods in an impact investment.

With an impact investment I would accept a lower financial return than I could obtain with a traditional investment.

Moral Duty
I have a responsibility to make the world a better place.

Personal Satisfaction
I like helping others because it gives me a sense of control.

Philanthropic Orientation
I would prefer using some of my returns from traditional investments to donate to charities directly, rather than making impact investments.

Financial Security
My main responsibility is to myself and my family.

Our framework has identified a number of core dimensions in how people feel about social good

Impact investment: challenging received wisdom

Can impact investment really come for free?

Although sacrifice-free impact investment is possible, it may be the exception, rather than the norm.

At one end of the scale, pure philanthropy means totally sacrificing return – you give the full amount away so your returns are negative 100% (ignoring tax relief). At the other end, negative screening (an approach where investments in activities specifically defined as unacceptable are avoided, but where those that remain are just conventional investments) generates a profile that is almost, though not necessarily completely, free. Tax breaks, such as SITR, may also sufficiently compensate investors for social investments that are close to this end of the spectrum so as to make them essentially zero cost (or even a better deal than traditional alternatives).

In fact, in the long run, some impact investments may deliver better financial returns precisely *because* they are sustainable, although there will still be short-term costs. They may be higher-risk than some traditional investments. They may be relatively illiquid, and the initial commitment required may be high. Equally, our survey data suggest that many investors expect returns commensurate with traditional investments. That may be an appropriate expectation for the subset of investments close to the 'free' end of the continuum, but could give rise to disappointment if investors believe this to be universally true.

To genuinely catalyse the market and generate a wider range of impact investments to do maximum social good, we must do more than restrict our efforts to the 'free' social investments. These will be an essential starting point for most investors, but we must also unlock investments that would not be made purely on the basis of traditional levers around risk and reward. After all, if an investment is judged to be worth making purely on the basis of traditional financial considerations, such as risk and return, it does not need to be socially beneficial to persuade people to invest - even investors with zero interest in social good will buy it.

If we are to do *additional* good through impact investments, we need to persuade investors to consider assets that would not otherwise be purchased – investments, that is, that look like a poor alternative on a risk-return basis when compared with traditional investments. If impact investment only promotes assets that would have received backing in any case, it will have failed to expand the pool of socially valuable projects that get funding.

Promoting the case for impact investments that involve some cost will help the sector become more resilient to shocks – since setbacks will be less surprising (and traumatising). Furthermore, many investors will feel that investing is less valuable if there is no trade-off. They may not regard their investments as making an otherwise unachievable impact unless they are sacrificing some return. So making this case to investors may not be that difficult – indeed, 2013 research by *Worthstone* found that 71% of independent financial advisors report that their clients "would be prepared to accept a reduced potential return in order to achieve their philanthropic or community-based goals".

Although sacrifice-free impact investment is possible, it may be the exception, rather than the norm

A high *Social/Financial Balance* score indicates that an investor is willing to forego something of financial value – for example expected return, or liquidity – in order to achieve social or environmental impact. Those with a lower score may be less willing to give up financial value. Importantly, however, they may also believe they can achieve their social goals with a risk- and tax-efficient investment portfolio that reflects their ethical values.

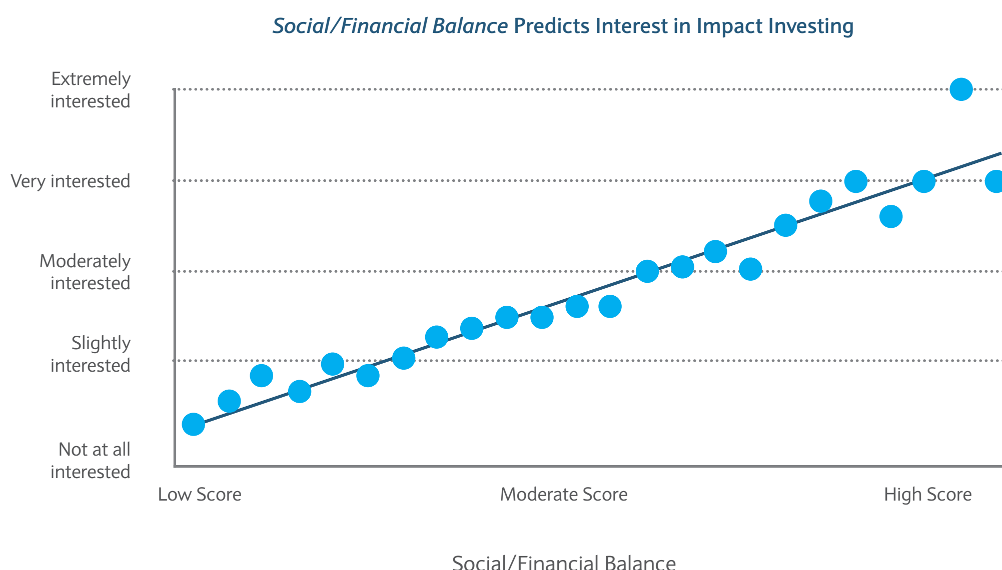
Having tested the investor's strength of feeling on the balance between financial and social outcomes, our framework then refines the measurement of their attitudes, and adjusts the size of their social budget, by testing two further motivations:

- **Moral Duty:** Investors who score highly on this measure get a larger social budget because they believe that they have the duty and ability to do their part to effect social or environmental good. A low score suggests the investor believes investing for impact is a choice, rather than a duty; they may also be more uncertain about their ability to effect change.
- **Personal Satisfaction:** Investors who score highly on this measure derive personal satisfaction from doing social or environmental good. As a result, they get a larger social budget to reflect the additional benefits they gain. This type of investor needs access to investments where they can get involved, make a public donation or get lots of engagement and communication from the social enterprises. Having a lower score suggests the investor does not gain much personal satisfaction in return for doing social or environmental good. These investors may still want to invest for impact but they are not concerned with reward or recognition. Investments and donations that can be made anonymously and discreetly, at a distance, may be more appropriate.

Compared with the primary dimension, these two motivational dimensions are much less predictive of past or planned donations or impact investment, with *Personal Satisfaction* having a stronger influence than *Moral Duty*. We take this into account in how we determine each individual's social budget: the number of credits is largely based on the investor's primary *Social/Financial Balance* score, with high scores on the other two each increasing the budget slightly.

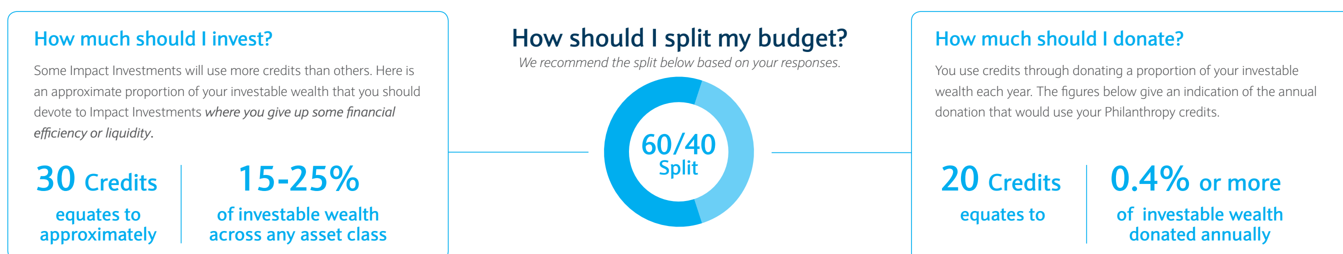
> If we are to do *additional* good through impact investments, we need to persuade investors to consider assets that would not otherwise be purchased

Chart 7: The relationship between **social/financial balance** and interest in impact investing. This attitudinal dimension is highly predictive and thus forms the core of how our framework allocates social credits: the higher the score on the scale, the greater the interest in impact investing and the more credits the investor is assigned.



Splitting the budget

Chart 8: Another extract from our tool, recommending how an investor might split their budget between impact investment and philanthropy, how much they should donate, and how much of their investment portfolio they might allocate to impact investments. These three components are discussed in each of the next three sections of this paper.



Once an investor's social budget has been determined, the next question is how it should be split between impact investment and philanthropy – in other words, how many credits should be awarded to each? Some investors will have a natural preference for one or the other, but we have very deliberately created a framework that embraces both. There are a number of reasons for this:

- The essential question an investor needs to answer is holistic: how do I use my wealth to serve both my financial and social objectives? This question will never be effectively answered by examining investment and philanthropy separately. Each represents a specific way of deploying available assets, so any framework seeking to answer this question must address the choice between them;
- It would be counter-productive to encourage impact investing but in the process to discourage philanthropy;
- Individuals need answers to the question 'how much should I give?' as much as they do to questions about how to pursue impact investing. Indeed, without a clear answer to this question, individuals are likely to be less engaged and donate less than they would if they had a clear amount in mind to provide a *mental anchor* for how much they should give. So, charities too need individuals to have clear aspirations of how much they should give – targets that are currently largely lacking.

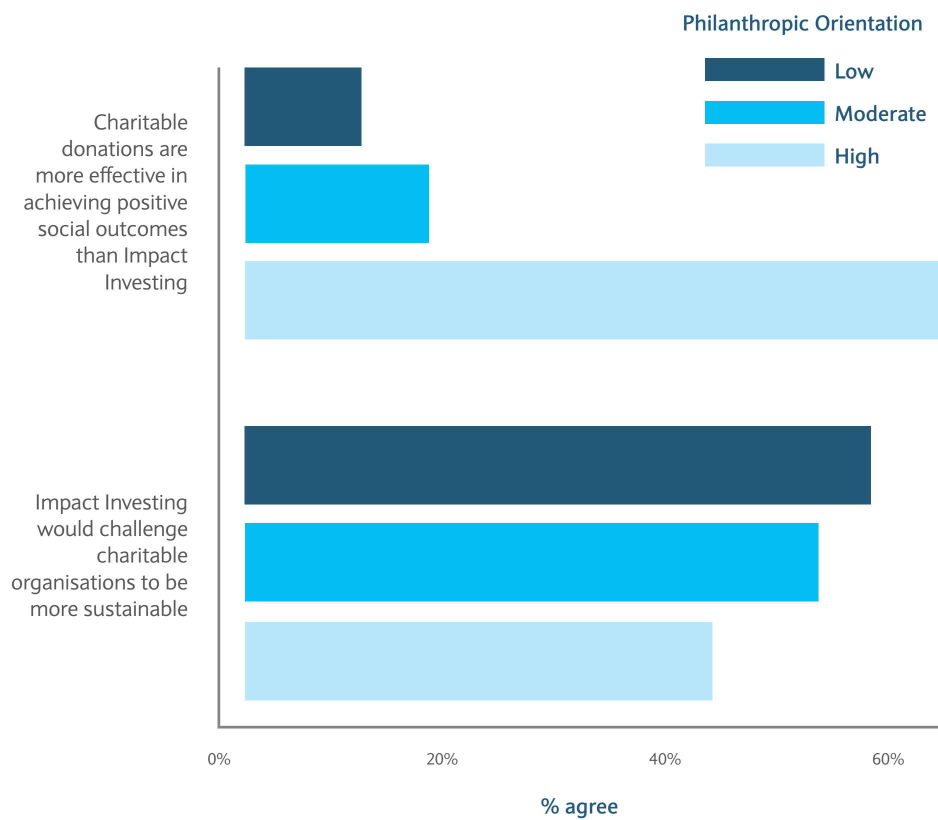
> It would be counter-productive to encourage impact investing but in the process to discourage philanthropy

Our framework sets out to determine an appropriate split, according to the investor's attitudes about the role of charity relative to impact investment. This **Philanthropic Orientation** is another dimension on which people reliably differ, and using certain questions in our profiling tool, we can establish each individual investor's score. Some people are naturally more comfortable with donating, while others feel happier with investing, with most people somewhere in the middle. The tool recommends a guideline split of the social budget between impact investment and philanthropy tailored to the individual's specific score, anchored on a 50/50 split for the middle of the road scores.

Our survey results provide some interesting explanations for why investors incline to charity or impact investing. For example, people who score highly on philanthropy seem to like the direct, immediate and simple nature of donating to charity. People who incline towards impact investment seem to be less likely to regard the charity sector as being as efficient as it could be, and to think that an investment approach could improve this by bringing greater professionalism to the task of doing good.

Some people are naturally more comfortable with donating, while others feel happier with investing

Chart 9: Investors with a high philanthropic orientation are much more likely to believe that charitable donations are more effective than impact investing at achieving positive social outcomes. Those with a low philanthropic orientation are more likely to think that impact investing would challenge charities to be more sustainable.



Turning credits into actions – philanthropy

The credits dedicated to philanthropy in an investor's social budget translate into a suggested annual donation defined as a percentage of their investable wealth. By operating in percentage terms, the same framework can be applied to all individuals, and consistently to the same individual over time. It also enables us to talk about philanthropy consistently with investment returns. Our survey data and industry expertise suggest that, for philanthropy, a mapping of 1 credit to 2 basis points of total investable wealth annually is approximately right. So a 25-credit philanthropy allocation equates to 0.5% of investable wealth *annually*.

More specifically, that calibration looks at how much our survey respondents indicated they have *actually* donated to charity over the past 12 months. The number of philanthropy credits that our theoretical social budget framework allocates to each individual is very strongly related to the amount they have historically donated, and we have used this relationship to establish our exchange rate between credits and the suggested donations as a percentage of wealth. For most investors, our formula actually suggests a total charitable donation that is a little *higher* than the amount they have been giving until now.

Still, this will not always be the case: a small number of investors may find they are already exceeding their recommended percentage of investable wealth for philanthropy. This may be because they have been compensating for a lack of impact investment options by giving more to charity, or just because there will always be some people that are unusually generous. Either way, we do not recommend reducing the allocation to charity, but do suggest making up the gap on impact investment.

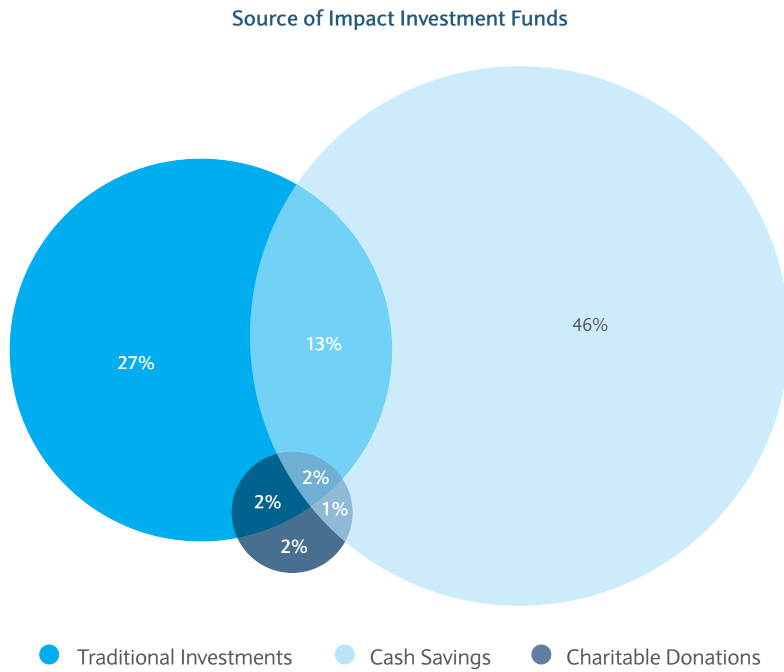
It is right to be concerned about the possibility that promoting impact investment would harm philanthropy. Our survey data suggest, however, that **most** of those who are keen to invest say they would take the money out of their savings and investments, rather than cannibalising their philanthropy. Only **7%** say they would reduce charitable donations.

Indeed, the fact that the framework covers philanthropy as well as impact investment means people can for the first time obtain a clear mental *anchor* for how much they should donate, expressed as a percentage of their investable wealth. This may have a beneficial effect on philanthropy, since some research has concluded that wealthier people tend to give less to charity, as a percentage of their wealth.[11]

For most investors, our formula suggests a total charitable donation that is a little higher than the amount they have been giving until now

11 One such study was conducted by the Centre for Charitable Giving and Philanthropy – How generous is the UK?, CCGAP, April 2011.

Chart 10: Where investors say they would take the money from in order to allocate towards impact investing. The overlaps in the Venn diagram refer to investors who would allocate from more than one source.



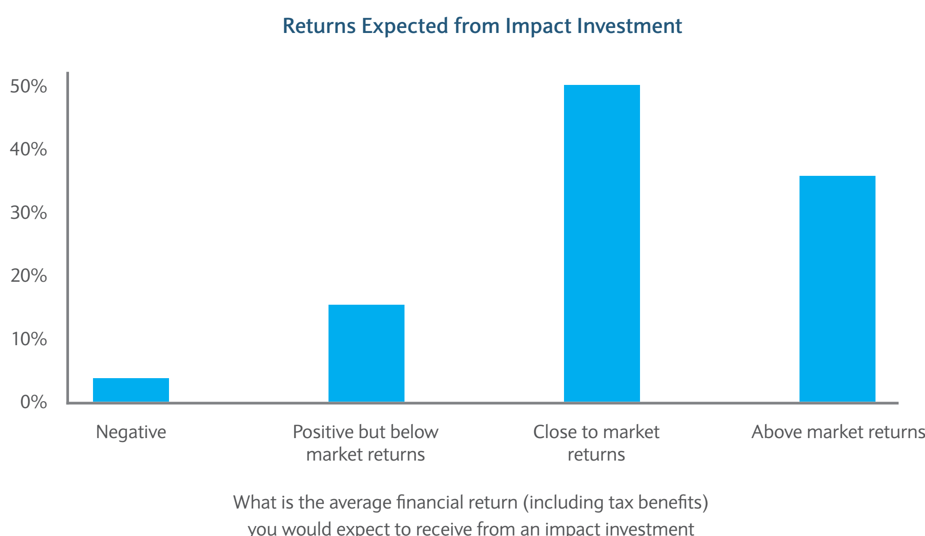
Note: Percentages do not sum to 100% because 7% reported other sources for the funds.

Only 7% say they would reduce charitable donations

Turning credits into action – impact investment

Using credits for impact investment implies that investors should be prepared to accept reduced financial efficiency, in terms of either lower returns, or reduced liquidity, or accepting the potentially higher risks that come from an approach that has yet to be fully tested through the market cycle. Yet many investors do not appreciate this. Among our respondents, 81% expect to achieve a return from impact investing that is either close to the market benchmark or above it, and only 19% expect to sacrifice performance.

Chart 11: More than 80% of investors expect to achieve either close to market returns, or above market returns, from their impact investments.



Financially efficient investments can of course also have impact. But these investments do not need assistance, since investors will make them in any case. In fact, the high numbers of investors who do not expect to sacrifice performance may be regarded as a positive, since it suggests there is scope to encourage more of them to consider impact investment. If, however, investors approach this field with unrealistic expectations and these are not realised, this could have a severe negative impact on the long-term development of the sector.

This highlights the importance of educating investors about the returns they are likely to achieve. These may indeed be close to market returns… but they may not; nor should other costs, such as diminished liquidity, be overlooked. The optimistic expectations that many investors appear to have of the potential for investing for social good with no sacrifice of return may give rise to disappointment and disillusionment.

Investors also need to consider the level of illiquidity they would feel comfortable with when engaging with impact investment. Among our respondents, more than 90% agree that they would be prepared to lock up their money for two years. This drops to just over 20% for six years (see Chart 12), but these results suggest that impact investors would on the whole be prepared to accept quite significant illiquidity.

If investors approach this field with unrealistic expectations and these are not realised, this could have a severe negative impact on the long-term development of the sector

Chart 12: The period of time for which investors say they would be willing to lock up their funds in impact investments. For example, more than 90% of those willing make such investments are willing to commit funds for 2 years; just over 50% are willing to commit for 4 years; and over 20% for 6 years.

Note: Chart data are restricted to those who are willing to invest in impact investments.

In practice, many investors have far more liquidity than their financial planning needs require.[12] This may be in part because of a desire for emotional comfort, as the model detailed in *Overcoming the Cost of Being Human* explores, but also because easily accessible, but less liquid, investments can be difficult to find. Impact investment can play a valuable role in tackling both lack of comfort with illiquidity, and lack of availability of less liquid options.

First, the fact their investment is doing social good may provide sufficient rationale to overcome the investor's need for "liquidity comfort", giving them good reason to accept some less liquid holdings. Investors who do not feel emotionally comfortable with being as fully invested as a purely rational analysis would suggest, may be persuaded to overcome their fears and doubts by the idea they are doing something that has a positive social purpose. The gain here is twofold: the impact investment of choice gets additional support and the investor's portfolio becomes more appropriate for their needs.

Investors may overcome their fears and doubts with the idea they are doing something that has a positive social purpose

Second, many social enterprises require long-term commitment for investors to reap the longer-term benefits of sustainability. Currently, there is a shortage of investment vehicles suitable for investors for whom it makes sense to lock their money up for longer. If investors widen the search for these vehicles into the impact investment space, they will have more options.

We start, as for philanthropy, by assuming that 1 credit is equivalent to 2 basis points of foregone return. This helps to ensure that the credits mean the same regardless of whether they are spent on impact investment or philanthropy. So a 25 point allocation, say, is a foregone return of 0.5% on the total investable wealth.

12 This can mean they fail to benefit from the boost to expected returns (the 'liquidity premium') that can come from being prepared to commit to longer term investments.

We cannot, however, simply convert this 0.5% into a portfolio allocation. This is because different types of impact investment require different types of trade-off: some may call for reduced returns, which can be measured by a percentage cost commensurable with the foregone percentage from donations; but some instead call for more risk, or less liquidity, which cannot be so easily compared.

There is a big difference between an asset where the investor gives up a little expected return, or a little liquidity; and one where they give up lots of upside and liquidity, and take on higher risk. Impact investments are not all equal: our framework thus maps each product to a number of credits reflecting the degree of sacrifice required of the investor. An allocation to the "easy" ones therefore counts for fewer credits than allocating to those where the sacrifice is much larger, and hence where a given investment allocation uses far more of the investor's social budget.[13]

Based on what investors tell us about their preferences and attitudes to risk, we are able to steer them towards focusing their social budget on impact investments with lower liquidity, with lower efficiency, with both, or with neither. And while there is nothing to prevent investors from putting money into impact investments where no sacrifice at all is required, this will not account for any of the credits in the budget.

In this sense, our framework is aspirational. Based on our survey evidence, the typical investor is likely to see a recommended 50:50 split between impact investment and philanthropy. Since most people are not currently doing any of the latter, and our model produces slightly increased donations for the former, the typical individual would more than double the amount they currently devote to social causes by following the allocations suggested by our framework.

The typical individual would more than double the amount they currently devote to social causes by following the allocations suggested by our framework

It is also worth noting that this framework is neutral on the issue of asset allocation versus a satellite approach when it comes to implementation. In theory, impact investment is a strategy that can be applied across all asset classes, enabling investors to allocate across equities and bonds. In reality, however, it may sometimes be more pragmatic in the short term to group these in a satellite portfolio. Over time, investors could make the transition to bringing impact investing inside the main asset allocation. As the G8's report[14] put it, while "impact investment should be considered a strategy that can be applied across a variety of asset classes… some asset owners/intermediaries are choosing to treat impact investment as an asset class, often including it within alternatives."

The Barclays impact investment framework in practice

Jack is an investor with a moderate *risk profile* and total investable wealth of £5m. Before thinking about any social good (impact investment or philanthropy), Jack expects returns (on average, over time) of 7.5% per year. Some years will be higher, and some lower, but this is a reasonable average over time – so this year, Jack expects to turn £5m into £5,375,000.

Jack gives to charity each year, but is not too sure how much is appropriate. Over the course of this year, he has donated around £20,000, equivalent to 0.4% of his total investable wealth. His total investable wealth at the end of this year therefore falls to £5,355,000.

13 There is no 'right' way to do this mapping – ours is, at present, intentionally simple but this could conceivably become much more sophisticated over time as the industry develops and our understanding of the risk, return, and liquidity implications of impact investing inproves.

14 A portfolio approach to impact investment, Social Impact Investment Taskforce, September 2014.

Jack uses our profiling tool, which suggests a budget of 50 social credits, split evenly between impact investment and philanthropy. In the case of philanthropy, the model suggests 1 credit equates to 2 basis points of total investable wealth, so Jack's existing level of donations equates to 20 philanthropy credits. That leaves 5 of his 25 philanthropy credits unspent – in other words, the framework suggests an aspirational level of donations of £25,000 this year. This seems a reasonable target, so Jack increases his donations by £5,000, reducing end-of-year wealth to £5,350,000. Even before Jack has considered impact investment, the tool has provided a useful anchor point on how much he should donate (this will often be more than people are currently giving).

As for impact investment, however, Jack is completely disengaged – all 25 of his credits remain unspent.

Jack also scores highly on the *Financial Priorities* dimension, indicating that, while he wants to do social good with his wealth, his current priority is the financial security of his family. So Jack needs ways to move towards spending the recommended credits gradually over time, looking for other ways to get involved at low cost in the meantime.

The first step is to look for ways Jack can do social good without any cost to financial efficiency. In practice, this means:

- Looking through existing equity and bond holdings to identify those with negative social or environmental impact. These can then be replaced with other options, such as negative screened equity funds that exclude stocks that do not conform to environmental and social governance (ESG) or socially responsible investment (SRI) standards;
- Taking advantage of tax breaks for impact investment, such as social investment tax relief (SITR). This way, even if the investments do involve financial trade-offs for investors, they may be mitigated, or even entirely offset by the tax relief.

Jack finds opportunities in these categories that are each equal to 40% of his portfolio, including £1m in SITR qualified products and £1m in ESG screened funds. This means that 40% of his portfolio is now doing some sort of social good (or at least actively avoiding harm).[15] The effect is being achieved at minimal cost to Jack – he may even be getting a benefit, depending on how he is using his tax breaks. But, because none of these options involve a financial trade-off, Jack has still not spent any of his SII credits. You might describe this as the 'starter pack' approach to SII.

Now meet Jill, who has an identical profile to Jack, but who is less concerned with immediate financial security, and wants to go further and spend some of her credits to do social good. Jill is willing to give up some potential financial returns to channel money towards impact investments that are less compelling on a purely financial basis, but that look set to deliver valuable social outcomes. In other words, these are investments that would be unlikely to happen without investors accepting some reduced returns.

This framework is neutral on the issue of asset allocation versus a satellite approach when it comes to implementation

15 These could be from any asset class – the idea here is not to alter the financially sensible asset allocation of the investor, but rather to ensure that a suitable asset allocation is *implemented* using socially beneficial products and assets. So, for example, a low risk investor should not increase her equity allocation to incorporate SIIs, but instead seek bond type SII products.

Jill has 25 impact investment credits to spend. For philanthropy, 25 credits equate to 0.5% of foregone wealth, so 25 SII credits should involve a similar trade-off. Now, let us assume that, for the move into impact investments that Jill is considering, her 7.5% expected returns would come down to 5% – that is she would have to give up 2.5 percentage points (one third) of her anticipated returns.[16] On that basis, she should allocate 20% of her portfolio to these investments, which will equate to forgoing the 0.5 percentage points of return, as 25 credits implies.

Jill can still make the same shifts as Jack into SITR products and screened funds, but she will also move £1m of her investable wealth into impact investment funds on which there are no tax breaks, and some expected loss of upside. These still deliver 5% returns on average, which is much better than leaving this wealth in cash, from both a financial and social perspective. She now has:

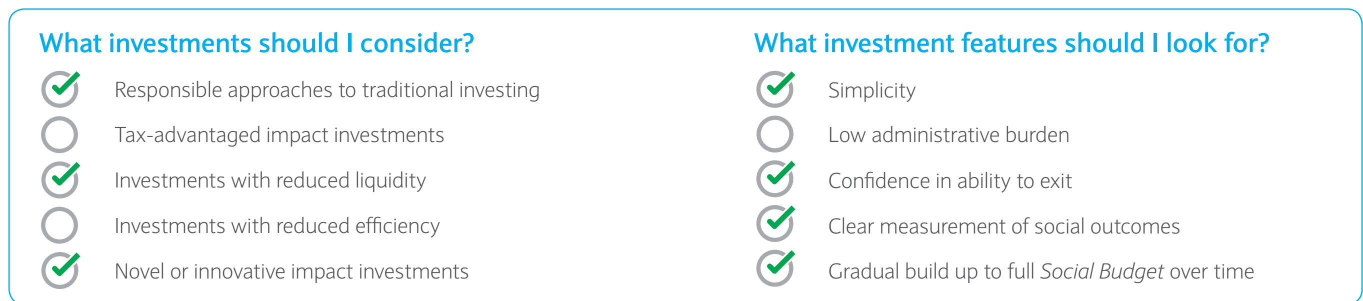
- £1m in traditional, but negative screened investments
- £1m in tax-relief impact investments
- £1m in additional impact investments
- £2m in traditional assets, where impact has not yet been a consideration

This fully utilises her 25 SII credits, with the money all invested in asset classes that are consistent with her original asset allocation, and 60% of her portfolio has some social orientation. Of course, over time she could move 100% of her portfolio into ESG/SRI screened investments whilst using the same 25 credits.

16 This is merely an assumption – we want to examine roughly what percentage allocation would be implied for 25 credits on impact investments for which the investor would need to give up some, but not all of the upside. In other words, these are still investments that deliver a decent positive return, but noticeably less than the non-impact equivalent. Being prepared to forego around one third of the upside seems a reasonable, though somewhat arbitrary, starting assumption.

Overcoming concerns and barriers to impact investment

Chart 13: Extract from the profiling tool that provides more precise individual recommendations on what sort of investments the individual should seek or avoid; and which features are likely to be most attractive, or concerning. Each individual will get a specific pattern of ticks, based on their own responses.



In our survey data, there is a further underlying attitudinal dimension that explains, in large part, how people differ in their attitudes towards concerns or barriers that may prevent them from embracing impact investing. Three specific aspects tend to come as a set and are reflective of a deeper underlying tendency to a general concern about impact investment. Investors tend to share all these concerns, or not particularly worry about any:

- **Simplicity** – the extent to which investors wish to avoid complicated product structures or challenging tax issues;
- **Administrative convenience** – the extent to which they wish to avoid burdensome paperwork;
- **Confidence in the ease of selling investments** – the extent to which they are concerned about whether it will be possible to exit when required, about whether a secondary market exists, and also about the potential social damage likely to be caused by an exit from the investment.

Many investors will have anxieties about most or all of these issues, or none of them, but our profiling tool does allow us to determine each investor's particular pattern of concerns and specific worries. This makes it possible to address them proactively, which may include:

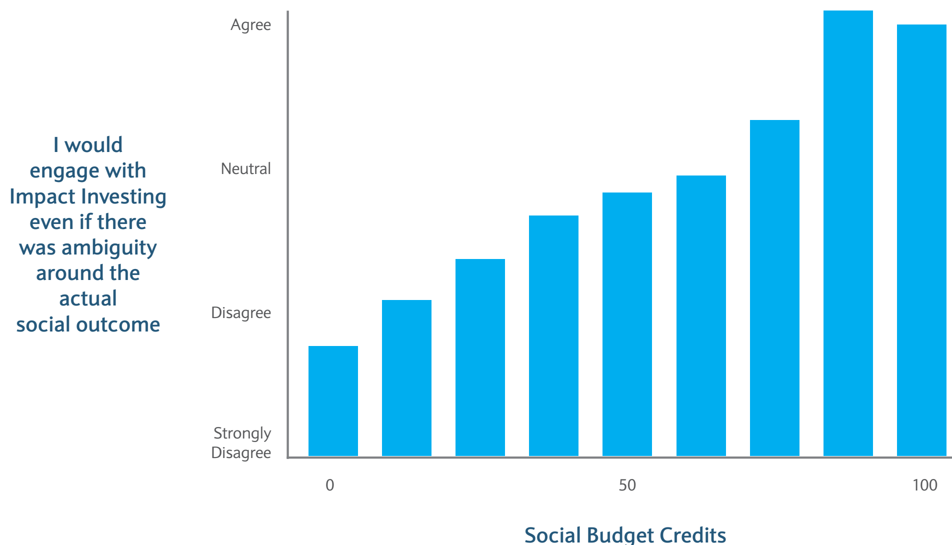
1. Constructing a personalised narrative to address their particular concerns and encourage them to participate;
2. Screening products from the impact investment universe in order to identify and filter out those that are likely to make each investor uncomfortable.

By addressing these concerns, we can help investors to feel much more comfortable with the practicalities of impact investment.

Apart from these three concerns, there is one additional issue that seems fairly universal, which is about the much-debated issue of measuring the social outcome actually delivered by investments. Some investors worry that impact investments may not provide good-quality data on the social return generated. But this may be less problematic than first appears – after all, many people worry about measuring what is achieved by philanthropic activity, but they still donate to charity.

By addressing these concerns, we can help investors to feel much more comfortable with the practicalities of impact investment

Chart 14: The relationship between the number of social budget credits an investor is allocated and their need to clearly measure the social outcome. Investors with a high number of social credits tend to be more tolerant of ambiguity in measuring social outcomes, and therefore more willing to bear costs that may be associated with these types of investments.



Impact investment: challenging received wisdom

Is lack of measurement of social outcomes really the main block to industry development?

Our survey shows that 68% of people want to receive progress reports on their impact investments. Not all investors, however, necessarily expect social returns to be measurable – 48% say this would not put them off impact investment, against 47% who say it would.

In our survey, we also asked whether investors agree with the following statement: *I would engage with impact investing even if there was ambiguity around the actual social outcome*. As expected there was a general tendency to disagree: 16% agreed; 35% were neutral; and 49% disagreed. This also appears, however, to be strongly linked to people's general unwillingness to engage. As we can see from Chart 14, those who are more concerned about ambiguity in measuring social outcomes are also those who are least willing to balance social and financial objectives. Those who receive a large social budget are much more tolerant of ambiguity, and lack of precise measurement is much less likely to deter them. Also, eliminating ambiguity, e.g. through a simple 'kite mark' or 'badge' approach may be much easier and cheaper than requiring intensive quantification of outcomes… and may be sufficient to give investors the comfort they need.

Those who are more concerned about ambiguity in measuring social outcomes are also those who are least willing to balance social and financial objectives

Impact investment: challenging received wisdom (continued)

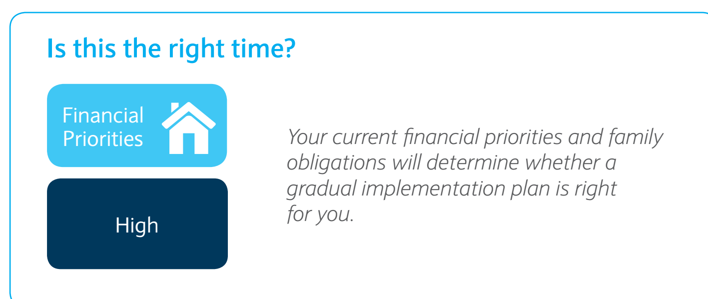
Our framework does not yet enable us to be precise about how to calculate the social good achieved for each pound invested. The evidence from our survey, however, is that the key priority should be to help investors to understand how much impact investment they should be doing, and get them comfortable with how to do it. Measurement of outcomes will certainly help with this, but most of the blocks to unleashing latent demand for impact investment are much more fundamental than issues about precise measurement of outcomes.

Furthermore, as an industry, we should be very cautious about requiring levels of precision from social enterprises in measuring social outcomes from their work that are unnecessary, or spuriously precise. This can place a huge administrative burden on such organisations, whose time, resources and effort may be much better spent on their core activities. It may also lead to valuable investment capital flowing more to measureable outcomes than valuable outcomes. As Einstein may have said: *Not everything that can be counted counts, and not everything that counts can be counted.*

Not everything that can be counted counts, and not everything that counts can be counted
– Einstein (attributed)

Convinced but not ready

Chart 15: The final tool extract, showing the individual's score on the **Financial Priorities** dimension.



Even at this stage, however, there may be one further issue to address for many investors (Chart 15). This concerns their other **Financial Priorities** – the final attitudinal dimension from the data. Some investors, while their responses may indicate they should have a large *social budget*, will nonetheless feel unwilling to commit to impact investment immediately, because they are concerned that sacrificing financial efficiency will make it harder for them to fulfil their personal financial aspirations, or responsibility to their families. In other words, while the concept appeals to them, they are not yet ready to commit, other than to investments where there is no sacrifice of return. This is particularly true of the less wealthy segments of our survey, for whom the balance between social and financial objectives is more important.

When the framework identifies this concern, investors can consider particular options such as those that provide a tax benefit, or a risk-return profile close to that of traditional investments.

Where should the money come from?

Increasing exposure to impact investments means reducing allocation to either traditional investments, cash savings, donations to charities, or regular spending.

Among survey respondents who are keen to invest in this sector, most expect to divert money from savings or traditional investments. Only 7% report that they would reduce their charitable giving, if they could do good through their investing activities. In any case, some of these investors may only be giving as much as they are because they have not yet got to grips with impact investment. However, even then we would not recommend they reduce donations to engage in impact investing, but look first to underutilised cash holdings.

Looking at cash as a source of funds for impact investment is crucial. Many, if not most investors are underinvested for their long-term financial needs, holding too much cash in their portfolios. Reallocating some of this excess cash to impact investment is likely to *add* to portfolio efficiency rather than detract from it.

It is important to recognise this as a win-win for investors. Theoretically, they may be sacrificing market return by allocating to impact investment rather than to the most financially efficient traditional assets. In practice, however, if this allocation was held in low-returning cash, then this is the wrong comparison. Even slightly less efficient impact investments are much better than very inefficiently sitting on cash for long periods. The social benefits on offer can finally provide investors the comfort to move their money out of this cash into better-performing assets – thus generating *both* social good and enhanced returns.

The social benefits on offer can finally provide investors the comfort to move their money out of cash into better-performing assets – thus generating both social good and enhanced returns

Putting cash to productive use

Imagine an investor with £5m in investable assets, which he will not need to draw on for many years (if at all). Like many investors, James finds investing somewhat nerve-wracking. Over the years, he has managed to commit £3m to an efficient, moderate-risk portfolio which, over the long term, has expected returns of, say, 7.5%. James cannot, however, bring himself to put the other £2m at risk and, for years, has been holding it in cash, which is earning 1%. His expected return from this combination this year is £245k.

James is, however very interested in using his wealth to do social good. He finds £1m worth of good impact investments that would require him to forego some of the upside he would expect from a fully financially efficient portfolio. Let us assume that this would require accepting expected returns of 5%, rather than 7.5%. At first glance, this appears expensive: giving up 2.5% on £1m amounts to £25k per year.

Note, however, that he would never build up the emotional comfort to invest this £1m at 7.5%. But the thought that this money will be put to good social use may be what finally gives him sufficient incentive to deploy this cash. When he does so, he is putting £1m into impact investments and, despite the fact that he's foregoing some potential returns, his overall portfolio expected returns *increase* by £40k to £285k this year.

Conclusion

With this framework, Barclays is setting out the first usable tools for investors grappling with the challenges of how to donate money to charity and invest for impact, while considering their need for purely financial outcomes.

Our work deliberately focuses on the demand side. While plenty of research focuses on supply – the different types of impact investments available – this does not enable investors to make informed decisions and choices on the basis of their own circumstances, attitudes and desires.

The framework draws on our analysis of investors' responses to key behavioural aspects of impact investment. But while this empirical evidence has informed our approach, it is not possible to be entirely scientific about very personal and emotional convictions. There is an element of art to our framework too.

A year ago, Sir Ronald Cohen, the chairman of the G8 taskforce on impact investment, challenged policy-makers and other interested parties to take up the group's recommendations in order to "bring the invisible heart of markets to guide their invisible hand". With this paper, Barclays aims to play its part in delivering on that challenge. We look forward to hearing the contributions of many others.

Chart 16: Example output of the profiling tool, showing how all the components come together in a single page.

How much good should I buy?

What are my motivations?

Min | Max

Score	Dimension
Above Average	Social/Financial Balance
Average	Moral Duty
Average	Personal Satisfaction

Your scores reflect your motivations to seek social good, and preferences for balancing social and financial returns - we use them to recommend a social budget of credits to purchase social outcomes.

Your proposed Social Budget

0 Credits | 100 Credits

Min | Max

50

Both Impact Investing and Philanthropy will use social credits to reach your target level.

What do these scores mean?

Dimension definitions

Social/Financial Balance
The way you balance your wealth between financial and social outcomes.

Moral Duty
Your need to change society for the better.

Personal Satisfaction
The emotional rewards you get from being involved and doing social good.

How much should I invest?

Some impact investments will use more credits than others. Here is an approximate proportion of your investable wealth that you should devote to impact investments *where you give up some financial efficiency or liquidity.*

30 Credits equates to approximately **15-25%** of investable wealth across any asset class

How should I split my budget?

We recommend the split below based on your responses.

60/40 Split

How much should I donate?

You use credits through donating a proportion of your investable wealth each year. The figures below give an indication of the annual donation that would use your Philanthropy credits.

20 Credits equates to **0.4% or more** of investable wealth donated annually

How and when?

What investments should I consider?

- [x] Responsible approaches to traditional investing
- [ ] Tax-advantaged impact investments
- [x] Investments with reduced liquidity
- [ ] Investments with reduced efficiency
- [x] Novel or innovative impact investments

What investment features should I look for?

- [x] Simplicity
- [ ] Low administrative burden
- [x] Confidence in ability to exit
- [x] Clear measurement of social outcomes
- [x] Gradual build up to full *Social Budget* over time

Is this the right time?

Financial Priorities: High

Your current financial priorities and family obligations will determine whether a gradual implementation plan is right for you.

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