RESEARCH BRIEF

Cicero Social Impact

QUANTIFYING THE VALUE OF IMPACT INVESTING

The desire to do well by doing good has resulted in an explosion of interest and activity in impact investing. But so far, no one has demonstrated exactly when, why, and how much investors prefer impact *relative to other investment priorities.* Our research fills this gap and, in doing so, strengthens the business case for impact investing and clarifies preferences for impact among Millennials, Gen X, and Baby Boomers.

KEY TAKEAWAYS

Little if any previous research analyzes how investors value impact *relative to other investment goals*, in particular by *simulating investors' decision-making behavior*. We find that:

- Impact considerations comprise 15% of investors' overall investment decision-making.
- Confidence in an investment's impact potential matters more to investors than how proactively the investment pursues impact.
- Investors are willing to give up as much as 1.30% in financial return and pay as much as +66 bps in management fees to have high confidence that their investments generate positive impact.
- For investors, high confidence in impact involves measuring outcomes, a more rigorous approach than declaring intent or counting outputs (e.g., the number of people served).

Existing research simply asks investors to state how interested they are in impact investing. Instead, we *simulated real-world decisions*, asking more than 1,200 retail and mass affluent investors to choose between investments with different levels of financial return, risk, liquidity, management fees, and impact. That enables us to quantify exactly how much financial return different types of investors are willing to give up and how much more fees they are willing to pay in return for greater social or environmental impact. We believe this is the first research of its kind.

The findings are fascinating. While financial return remains the most important feature of an investment (40% of the average investor's decision-making), impact considerations are significant (15% importance). Moreover, financial return and impact were the only features of an investment where the differences across generations were statistically significant. To understand this further, we explored two impact considerations—strategy and confidence:

1. **Impact strategy**, ranging from no concern for impact to avoiding negative impact (i.e., socially responsible investing) to pursuing positive impact (i.e., impact investing), and
2. **Confidence in impact**, or the extent to which investors can trust that impact will be achieved.

Intriguingly, the data reveals that confidence in an investment's impact matters much more to investors than the intended impact strategy (or lack thereof). In fact, investors are willing to give up as much as 1.30% in annual return and pay up to 66 basis points (bps) more in management fees when they have high confidence in an investment's impact potential. Of course, this high-confidence impact premium varies by financial return targets and by generation. For example, for 9-10% target returns, we found that Millennials are willing to pay 58 additional bps while Boomers will pay 43 additional bps.

These findings then beg the question: *What makes investors confident in an investment's impact?* Today, most impact investments report intent (e.g., the activities target a social or environmental issue) or outputs (e.g., the number of people served, or units of service provided). But to achieve high confidence in an investment's impact potential, our research shows that investors expect to see robust measurement of outcomes—the positive changes an investment generates.

While there is much more to share from this research, these initial insights have big implications:

- We have confirmed exactly how much impact matters to retail investors of all ages, particularly Millennials.
- Investors of all generations think about impact investing more in terms of real impact, not simply declared intent or an assumption of impact.
- Wealth managers and financial advisors have an opportunity to both charge higher fees and attract more clients if they can credibly demonstrate their impact offerings and results.
- Though it may be challenging, impact funds can attract more investment if they can specify the outcomes they are aiming for and measure those outcomes rigorously.

CONTACT: JACOB ALLEN
JALLEN@CICEROGROUP.COM