Millennials Keen on Impact Investing

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The United States' wealth management industry is in the midst of a transition unlike anything it has ever seen. Over the next several decades, as baby boomers age and transfer their wealth to the next generation, an unprecedented $41 trillion will change hands, according to researchers from the Social Welfare Research Institute at Boston College, whose report focuses on the 55-year period between 1998 and 2052.

These young inheritors are, for the most part, Millennials — the generation born between 1978 and 2000. As it turns out, this group's attitudes about social responsibility, private capital and the intersection between the two do indeed appear to differ from those of their parents, perhaps starkly.

Not surprisingly, this figure has captured the rapt attention of financial institutions, which are beginning to realize that they will need to alter their own approach to socially responsible investing if they are to attract any portion of this huge tranche of transferred wealth.

"Think back to the great philanthropists of years past who thought of making money in the first half of their lives and giving it away in the second half," says Justin Rockefeller, a trustee and member of the investment committee at the $739 million Rockefeller Brothers Fund, great-great grandson of John D. Rockefeller, and, at 33, himself a Millennial. "Today, that view is still pretty pervasive, that there's capitalism and making money on one side, and philanthropy on the other. I think the younger generation is seeing that as a false dichotomy, or at least something that will increasingly become a false dichotomy."

Data indicates that he's right: Millennials are more likely to embrace a philosophy that financial interests and social interests ought to directly overlap, thereby ostensibly benefitting both wallet and world.

In late 2011 Deloitte Touche Tohmatsu commissioned two surveys: one of over 1,000 Millennials and another of 390 current business leaders. Both surveys asked whether business success should be based on more than just profit — 92 percent of Millennials said it should, and 71 percent of business leaders agreed. When each group was asked to describe the purpose of business, Millennials most often said “innovation” and “societal development,” while business leaders’ top responses were “profit” and “value.” Over half of Millennials believed that in the future, more than any other sector of society, business would achieve the greatest impact on solving society’s biggest challenges. Just over a third of business leaders thought so, too.

These are no longer abstract philosophical schisms for the wealth management firms and advisers who are overseeing the massive transfer of assets from one generation to the next — the schisms are practical, and they’re starting to force changes at firms and family offices from the inside out.

“Our experience has been that typical family offices are now getting very interested in impact investing and that interest has been driven by the younger generation,” says Martin Whittaker, a managing director at Sonen Capital, a San Francisco–based firm specializing in social and environmental investment management, and co-founder of CREO, a private family office network focused on the cleantech, renewables and environmental opportunities space. “It’s causing a ripple through the wealth management community, which is now trying to figure out, ‘Well, what do we do?’ You’re starting to see wealth managers grow and build expertise in this space.”

A few major firms are out of the gate early in the race to do just that; perhaps furthest ahead is UBS’s private wealth management division. In June UBS held its annual Young Successors Program, a four-day conference that convened UBS wealth managers and advisers, their clients and the Millennials poised to take over those clients’ wealth. This year marked the first time the conference was held in the U.S.

Steven Schroko, head of client development at UBS and lead organizer of the U.S. conference, says that the program’s concept materialized out of the firm’s perceived need to prepare for the upcoming tsunami of transferred wealth, especially given another statistic that had caught Schroko’s eye: Studies indicate that 90 percent of successors fire their parents’ advisers upon receiving their inheritances.

The firm opted to host a conference designed to demonstrate to their young clients-in-the-making that UBS is plugged into what matters to them. This year, that pitch included an appearance from pop singer Mandy Moore, but mainly focused on UBS’s know-how within sustainable investing. Panels convened on topics like “Sustainable Investing: Aligning Your Personal Mission with Your Investments” and “Philanthrocapitalism.”

“We would not be able to have that same level of attention from their parents,” Schroko says. “The children are much more engaged."

At this stage, family foundations and private wealth management offices are the outfits responding the most dramatically to demands from young investors who are eager to do more sustainable investing. But still, here and there, institutions, too, are starting to show signs of hewing to young people who are calling for change.

University endowments are one obvious place where this is happening. In 2000, only 15 of the country's universities had an official committee on investor responsibility to help them oversee their endowments. Today, about 45 of them do.

At least part of the credit for the recent spike in that attention from endowments belongs to the Responsible Endowments Coalition, a Brooklyn, New York–based organization that advocates for colleges and universities to make their investment practices more responsible. The coalition was founded in 2004 by a group of students from five East Coast colleges and universities who wanted to mobilize the billions of dollars sitting in their university endowments to push for social change. Today, members of the coalition meet with university students interested in lobbying their schools to create committees on investor responsibility and also sit down with endowment administrators and trustees to support efforts to get sustainable investing underway.

Dan Apfel, the coalition's executive director, says that in the vast majority of cases, his organization is channeling an interest in sustainable investing that already exists among the college students they visit, rather than trying to drum it up.

"There are definitely a lot of students these days who think about connecting money with social justice and environmental issues," he says. "They don't understand why a school says, 'Our mission is sustainability; our mission is to make the world a better place,' when that university doesn't have an obligation to do the same thing [through its investments]."

No one can be certain how swiftly, if at all, Millennials will pull sustainable investing into the mainstream as they get older and ascend the ranks as trustees, advisers and portfolio managers. In fact, perhaps Millennials aren't unlike past generations and are simply susceptible to the strong idealism typical of our second decade.

"Obviously a family's younger generation is going to push the envelope regardless," says Sonen's Whittaker. "I think that's partly young people's DNA."

But the fact that this generation is pushing this particular envelope at a time when many sustainable investment products have developed a track record, climate change arguably is past the point of debate and the Internet is ensuring the rapid dissemination of this information means that Millennials may indeed be the generation that helps usher sustainable investing into the mainstream.

“I think you have a confluence of different things happening right now,” adds Whittaker, “and all of that is enabling the next generation of investors to do what they’re doing.”