NEWTON
Investment Management

Spring 2019

SOCIAL INVESTMENT: MATCHING STRATEGIES TO INVESTORS' GOALS

Part of BNY MELLON

For distribution to UK professional investors only.
Please read the important disclosure at the end of this document.

OXFORDRisk

CONTENTS

INTRODUCTION AND SUMMARY

SOCIAL INVESTMENT: MATCHING STRATEGIES TO INVESTORS' GOALS

Interest in 'social investment' (the collective term for investments which seek to achieve some combination of economic, social and environmental goals) is growing fast in both the UK and the US, but the pace of adoption of available solutions has lagged. There is still a relatively low level of awareness of social investment, both in terms of identifying investor goals and the solutions available to meet those goals. The research presented here sheds some light on why this may be.

Social investment is a specialised and often personal subject, with engagement driven by varied and sometimes conflicting combinations of investment and social goals. Some investors want these goals to align, so that their social goals do not detract from their financial goals. Others actually prefer the reverse, as a form of 'proof' of tangible social impact. Without a way to reliably distinguish between these – and other – goals, there is a risk that the same solutions are offered to investors with different objectives.

The key to untangling this web is understanding the factors that differentiate social-investment attitudes – specifically how these attitudes cluster together to describe common groups of potential investors. The research covered in this paper points to six broad profiles, detailed in Exhibit 1. Investors are distinguished by attitudes far more than by demographics.

These profiles are the key to interpreting the research, and offer a platform from which to answer the following questions:

1. What drives investor interest in social investment?
2. What are investors seeking to do? What is the bridge that links interest with action, and turns potential investors into actual investors?
3. What obstacles need to be overcome?
4. Which next steps should proponents of social investment take?

OXFORDRisk

Outline of research

In this paper, we review the findings of two separate research studies carried out by behavioural finance specialists *Oxford Risk*:

1. A study of UK investor attitudes to social investing. The data for this study was collected by Centapse (now part of *Oxford Risk*) in 2017 for the UK government independent advisory group's report *Growing a Culture of Social Impact Investing in the UK*.
2. A study of US investor attitudes to social investing. The data for this study was commissioned by Newton from *Oxford Risk* in October 2018.

The samples in both studies were representative of the investor population (i.e. those over 18 with access to some investible wealth), and captured a broad spread of respondents by age, gender, geographic location, education, and wealth. The survey took each respondent approximately 15 minutes to complete, and, to ensure academically reliable findings, the questions were randomised for each individual, thus avoiding biases that often arise from question ordering.

The data was put through a battery of statistical analyses (including factor analysis, cluster analyses, and fully controlled multivariate regressions) to ensure findings were valid and robust.

WHAT SORT OF SOCIAL INVESTOR ARE YOU?

Exhibit 1: Social investment profiles

The profiles shown in the table below emerged from the battery of statistical analyses (including factor analysis, cluster analyses, and fully controlled multivariate regressions) applied to the data in the UK survey. **They show that all groups are potentially open to investing, but there are few messages that will appeal to both an 'optimiser' and a 'disinterested' person**, and those messages will not be the most compelling for either.

Level of group interest in social investing – from high to low

Group	Optimisers 17%	Altruists 15%	Moderately interested 25%	Conservative 11%	Disinterested 15%	Self-interested 16%	Survey average
Interest in social investment	**High**	**High**	**Average**	**Medium low**	**Medium low**	**Low**	
Who are they?	Young, high-earner, optimistic; possibly live in London	Mostly female, retired, possibly found organising a fundraising event for an endowment/foundation	The largest group; tend to the centre/average in most things	Older, often retired with lower wealth, and fairly settled in their ways; tend to be female	Generally uninterested in social issues; most likely to live outside London	Relatively lower income, but higher wealth; older	
Average age	40	54	48	60	54	57	51
Male	45%	42%	48%	40%	62%	58%	49%
Married	89%	69%	79%	72%	75%	76%	67%
With > bacherlor's degree	74%	66%	61%	55%	62%	54%	63%
In London	27%	11%	14%	10%	7%	8%	13%
Average income/average investible assets	60k / 200k	50k / 220k	55k / 150k	40k / 220k	50k / 150k	50k / 200k	50k / 150k
Average cash savings	100k	80k	80k	50k	90k	100k	80k
Frequency of investment reading	Weekly	Monthly	Monthly	Monthly	Quarterly	Quarterly	Monthly
Altruism	Very high	Very high	Moderately high	High	Average	Moderately low	
Impact desire	High	Very high	Average	High	Low	Low	
Impact trade-off	High	Slightly high	Slightly high	Low	Moderately low	Very low	
Money focus	High	Moderately low	Moderately high	Average	Average	Moderately high	
Perception of barriers	Moderately high	Low	Moderately high	High	Moderately low	High	
Need for evidence	Very high	High	High	Very high	High	High	
Already know about social investment?	44%	14%	21%	5%	2%	23%	23%
Likely to say...	I'm efficient; I want to get the most bang for my buck	It's all about the social outcome; I just want to give back	I'm interested, but not if it requires much effort yet	I'm concerned with social issues, but not convinced by this new-fangled impact investing stuff	Most causes look alike; how do I know I'll make a difference or see a return?	Sorry, I'm not interested	
Offer them...	The most effective and efficient answer	The opportunity to match their values to their investments and make it easy		Low risk options with trusted endorsement	A single compelling reason to get off the fence	Nothing specific	
What's stopping them?	Lack of evidence of effectiveness and efficiency	Perceived lack of the perfect investment opportunity and complexity		It's too new, and too risky – lack of trusted validation	Barriers and lack of interest	Barriers	

The key social investment profiles, and what they mean for driving demand

The major attitudinal factors on which people differ are:

IMPACT DESIRE

The degree to which they want to make a positive difference and have a social impact at all (e.g. I would like to exclude investments that are unethical).

IMPACT TRADE-OFF

The degree to which they will sacrifice something (e.g. returns, liquidity) to get it; **the willingness to forgo something to do social good** (e.g. with a social investment, I would accept a lower financial return than I could obtain with a traditional investment). This is the most salient of the factors that distinguishes the groups.

In addition, people differ in how much they:

- **have a personal sense of altruistic duty**
  (e.g. I believe I have a responsibility to make the world a better place),
- **perceive there to be barriers to social investing**
  (e.g. social impact is difficult to measure),
- **want evidence of actual social impact**
  (e.g. I would only consider doing social good if I can make sure that the impact is measurable and real), and
- **see money as a measure of success**
  (e.g. I believe money is the best measure of success).

Tellingly, the enthusiastic 'optimisers' do not stand out so much in their desire ('altruists' actually have higher impact desire) as in their greater sense of duty to translate their desires into reality, and optimism about doing so. **Those who overcome inertia to act on their desires are the ones who are willing to forgo something by 'purchasing' social good with their wealth.**

RESEARCH FINDINGS PART I.

Getting started: what drives investor interest?

The main driver of social-investment interest is simply awareness that it exists at all.

The research is clear: in both the UK and the US, **the primary drivers of interest are knowledge and experience of social investment, and an awareness of investment**. Opportunities to align investments with values are readily seized... when they are known about. Optimisers may be motivated proactively to seek out solutions; this is less true for the other groups.

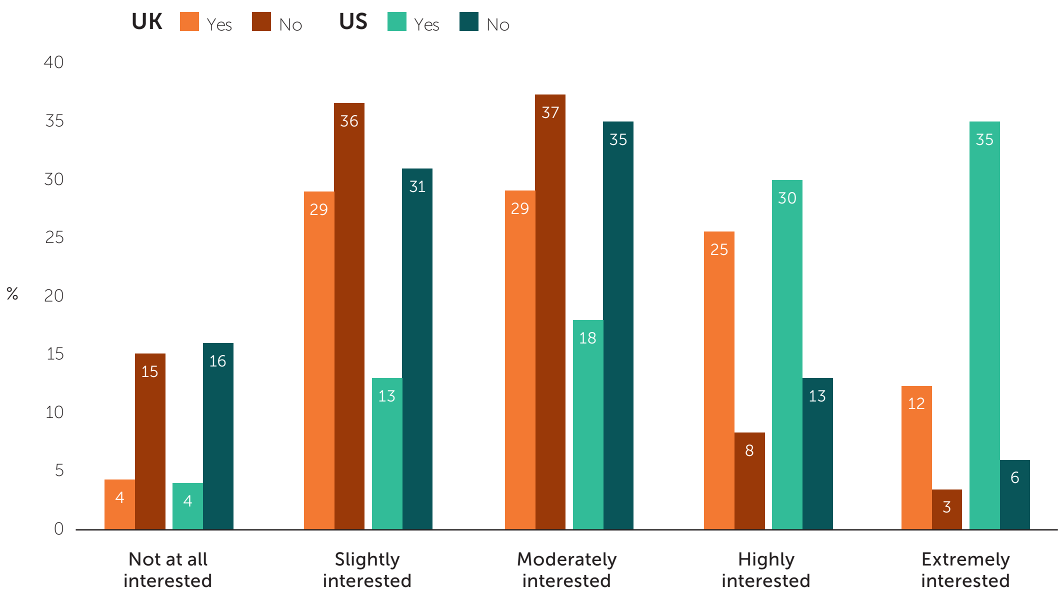
> Investors in the US are substantially more likely than those in the UK to know what social investment is (45% compared with 23%).

Investors in the US are substantially more likely than those in the UK to know what social investment is (45% compared with 23%), and to have invested in social investments before (31% versus 13%). US investors also display notable interest in social investment, with 66% saying they are at least *"moderately interested"*, as opposed to the UK's 53%. This gap is bigger for those who are most enthusiastic: only 6% of UK investors are *"extremely interested"*, while in the US almost 20% fall into this category.

The most revealing data is that which shows levels of interest among those who have not previously known what social investment is. As shown in Exhibit 2, interest levels are fairly similar for the UK and the US, although US investors are slightly more interested. For those who do not know what social investment is, only 3% of UK investors are extremely interested (US: 6%). For those who do know, this increases to a striking 35% in the US. In the UK, those who know what it is are more interested, but there is nothing like as large an effect, with 12% being extremely interested. This implies that the experience of social investment has been, for whatever reason, more effective in the US.

Exhibit 2: The effect on interest in social investment of simply knowing what it is

Question: UK and US – Do you know what social investing is?



Source: Oxford Risk, November 2018.

> A one-size-fits-all approach is not appropriate, not least given the contrast between investors who are prepared to trade off liquidity or risk for social outcomes, and those who are not.

Raising investor awareness: education and the role of advisers

Social investment knowledge and experience are primarily a matter of awareness of opportunities. This can become complicated because many opportunities fall under the broad umbrella of 'social investment'.

There is a social-investment spectrum of sorts, from donations at one end to screened investment funds at the other. The boundaries between options can also be blurry. For example, screening criteria can have an 'ESG', 'ethical', or 'sustainable' focus. For some investors, the subtleties of distinctions are important, but for most the nuances merely complicate and confuse. Perhaps most interestingly, there is also variation in investor motivations. Some want to keep their returns while also feeling as if they are taking a more moral stance. Others want specifically to sacrifice some returns, as a form of 'proof' of their social desire. This is a key point that we will return to in more detail later.

Education affects both investors and their advisers. Because social investment is an area that requires specialist knowledge, both investors and advisers could be less likely to raise the topic where that knowledge is lacking. Where adviser knowledge is lacking, burgeoning investor interest could be cut off.

What should a successful engagement plan include?

Raising awareness is key to engaging audiences of both investors and advisers. There is a bridge to be built between the green shoots of a social goal and an awareness of the many ways in which that goal could be cultivated, refined, and ultimately met.

The profiles make clear that the scepticism of a substantial section of the audience is probably a given, even if general awareness rises. The 'disinterested' and 'self-interested' are unlikely ever to take action, however well appeals to action are made. Everyone else is open, in principle at least.

We should therefore acknowledge the obstacles uncovered by the research, and present information in a way that addresses them and considers potential objections. A one-size-fits-all approach is not appropriate, not least given the contrast between investors who are prepared to trade off liquidity or risk for social outcomes, and those who are not.

RESEARCH FINDINGS
PART 2.

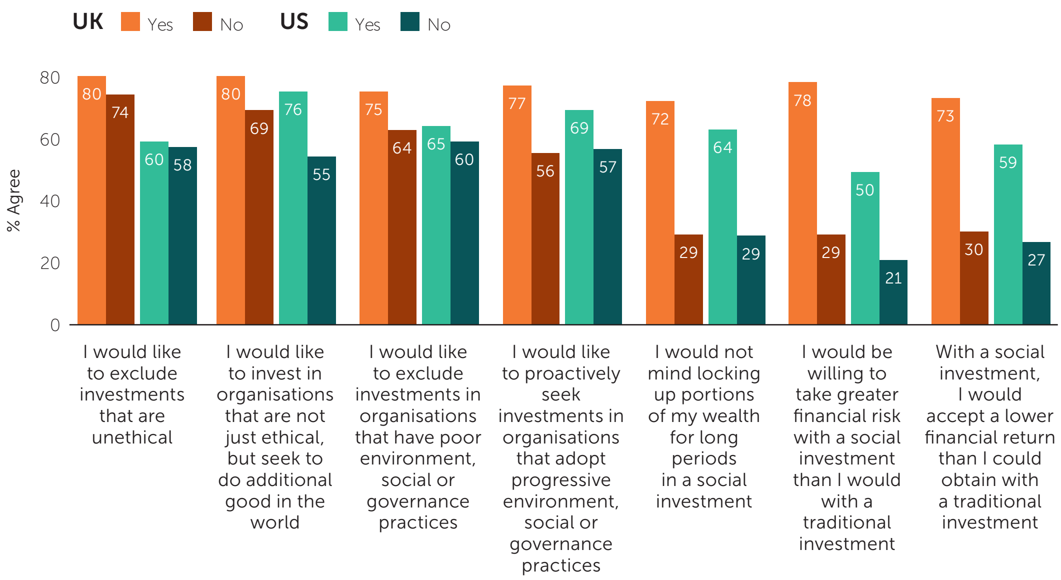
What are investors seeking to do?

Returns revisited:
Understanding the counterintuitive demand for symbolic sacrifices

It is not possible to isolate precisely what drives investors, once interested, to take action, because we can study only their responses to existing engagement efforts. However, **there are lessons to be learned from looking at what separates those in our sample who have invested before from those who have not.**

Exhibit 3: Previous investors are distinguished by their comfort with making trade-offs

Question: Have you ever invested in a social investment?



Source: Oxford Risk, November 2018.

Exhibit 3 shows that the separation between those who have invested before and those who have not is starkest when it comes to comfort with giving up liquidity or returns, or taking on more risk towards a social end. **In summary, those who invested were not the ones with an increased desire for social outcomes, but those who were comfortable to actually make the necessary trade-offs.**

Why this might be so was not specifically covered by the research, but it is a common finding that, once humans are paid to do something they do anyway, they stop being willing to do it for its own sake, and thereafter expect to be paid. Extrinsic motivation can 'crowd out' intrinsic motivation. Furthermore, because proof of actual impact is desired by all groups, but often hard to support with evidence, sacrifice could be seen as a heuristic for this proof.

Believing that potential investors are interested in only those options that do not sacrifice expected returns risks excluding a large pool of investors whose intrinsic motivation is to do good, or even to maximise social outcomes. If your 'social' choice is the same as a 'default' option, or does not cost you anything, or even *pays* you, your emotional return (the non-financial benefit you feel as a result of your positive action, and your possible motivation for choosing a social option) may quickly disappear.

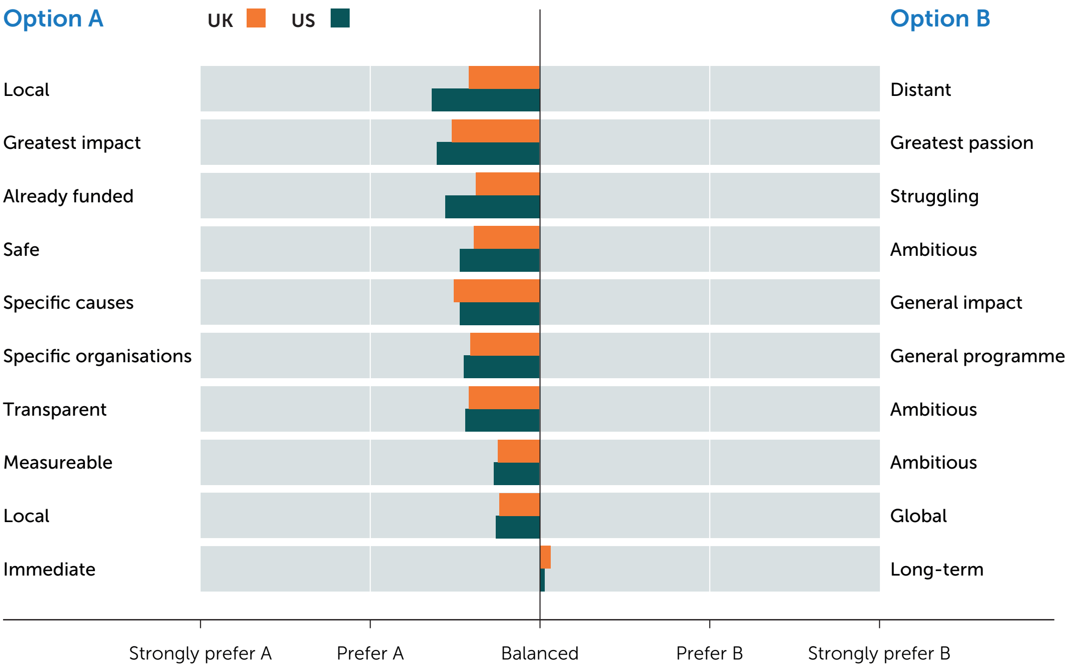
The highest-interest group ('optimisers', who make up 17% of all respondents) display high intrinsic motivation, with a further 40% ('altruists' and 'moderate') showing somewhat high intrinsic motivation. This should be reflected in available strategies. Other groups are motivated very differently, but are also better catered for already.

Interested social investors tend to support all causes, or none

The research surveyed motivations attached to each of the UN development goals, and found little pattern to the specific causes that most influence potential investors. Instead, there is a very strong tendency for **individuals to either support all causes or none**. Those who believe in doing social good will be inclined to believe all social causes or development goals are important, while those who are not will be relatively unconcerned about all causes and goals. This is not to say individuals won't have specific preferences in terms of the causes they support, but these seem to be highly individual and idiosyncratic.

There is, however, a tendency to favour more general values like certainty and universality, such as a clear link between an investment and its impact, and the evidence of long-term, global benefits. This desire for a measurable and specific impact aligns with the strong need for evidence seen in both the UK and the US, as the motivations in Exhibit 4 show.

Exhibit 4: Specific causes may not matter, but universal cause traits do



Source: Oxford Risk, November 2018.

The key point to note in connection with Exhibit 4 is that **individual preferences for causes in both the UK and the US are idiosyncratic, and can't be predicted by either demographics, or even by the social investment profiles covered in this study**, so there is no strong case for focusing on them when promoting social investment options. What is important for each investor is to align more general cause traits with their own values.

The research also found that a notable number of individuals had opposing preferences, preferring a more hands-on role in personal, local, passion-driven causes. Such individuals largely come from the 'optimisers' group; they tend to have a higher risk tolerance and a greater focus on money as a measure of success. They also tend to score highest on impact trade-off, and therefore represent the group for which efforts to explain social investment strategies might usefully be improved.

RESEARCH FINDINGS PART 3.

Obstacles to overcome: what stops people investing?

Barriers tend to be viewed collectively, and so they are best tackled together

So far we have looked at positive calls to action. The research also cast light on what stops people investing. In a world of unknowns – where potential investors know neither exactly what they want, nor how a particular product would deliver it – barriers to investment need to be addressed. Commonly cited barriers include seeing social investment as too new or too risky, or believing that there is insufficient evidence of eventual impact.

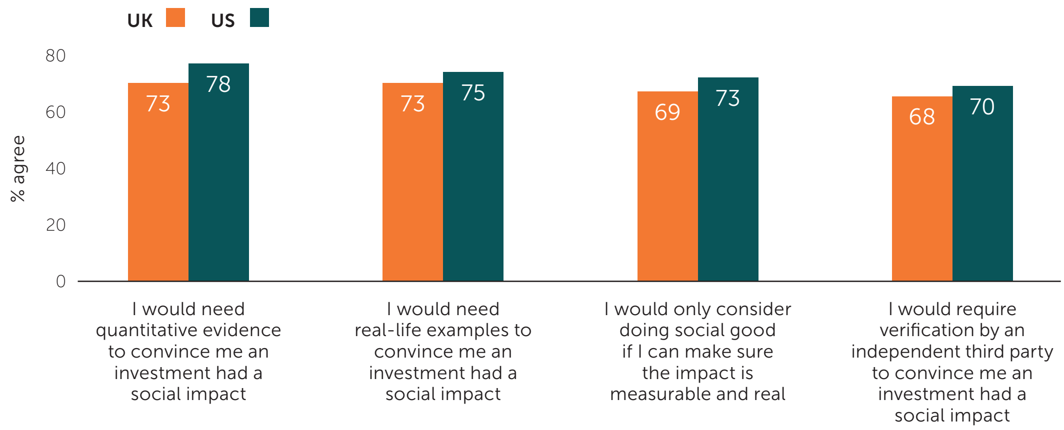
However, **with the exception of knowledge, analysis shows that all barriers in effect reflect a single underlying factor**; investors who indicated concern about any one barrier to social investing strongly tended to be concerned about all barriers. Specific barriers were not the issue. This suggests that, instead of being the real reason for avoiding social investing, these common barriers often seem to be symptoms, or readily available excuses given by those who have low interest in doing social good with their investments.

Similarly, when it comes to evidence, **people do not distinguish much between types of evidence; they tend to take satisfaction from all evidence or none**. This suggests that, once again, raising general awareness and engendering an overriding feeling of comfort with social investment, rather than tackling specific objections, should be the focus in terms of overcoming objections. For example, in Exhibit 5 we can see that, in both the UK and the US, the average desire for evidence and measurement of impact is much the same regardless of the type of evidence. And people strongly tend to give the same response for all these questions – they either want all types of evidence or none.

Highlighting specific barriers could even create them, especially among lower-interest groups, who are quicker to turn any cause for concern into a reason for inaction.

“Raising general awareness and engendering an overriding feeling of comfort with social investment, rather than tackling specific objections, should be the focus in terms of overcoming objections.”

Exhibit 5: Need for evidence of impact is a symptom, not a cause, of lack of investment



Source: Oxford Risk, November 2018.

What story should explanations of social investment tell?

All investors seek comfort with their investment decisions. Such comfort most reliably comes from a general understanding of what is being invested in, how that fits with personal values, and how it helps in the achievement of societal, as well as personal, goals, including the story the investor is trying to tell about themselves.

For a specialist area like social investment, where knowledge is low, perceived barriers are high, and there is a lack of clarity about the aims of different approaches, these factors are arguably especially important. **There is less benefit in prioritising specific causes in messaging, and more in focusing on values with which the investor wants to be aligned**, such as transparency, certainty, and universality. These values forge a clear link between investment and impact, and provide evidence that, yes, you *can* make a difference.

RESEARCH FINDINGS PART 4.

Next steps

Why has social investment not been more widely adopted already?

This is not a question research can address directly, but one possible explanation stands out. The broad range of investor desires and investment options may need better coordination if suitable matches are to be made.

This is a specialist and personal area, described by a terminology that means different things to different people, and **yet most approaches to market-specific solutions have arguably been too broad-brush in nature to be able to help the industry respond to an uptick in investor interest**.

One salient example of this is the distinction between solutions which may offer something akin to a free lunch, and those which are not intended to. The nuances are important in seeking to ensure that the intrinsic motivation of altruistic investors is not crowded out.

It can feel at times as though investors and the investment industry are each looking to the other to describe precisely what is required. The industry should not expect investors to tackle the complexity of how to approach social investing. It should instead seek to do the 'heavy lifting' for them, using well-designed decision processes to help investors understand what they want, and which investments are best suited to meet their goals.

The majority of investors, and advisers, will engage only if navigating the complexity of social investment is made easier for them. The key to resolving this is therefore likely to involve a more sophisticated tailoring of messages between groups based on their most pressing needs, in order to reduce the universes of investors and investment solutions to more manageable sizes.

"The majority of investors, and advisers, will engage only if navigating the complexity of social investment is made easier for them."

What a suitable solution may look like: lessons from investor risk-profiling

Investors have long been guided to suitable investments by psychometric risk-profiling. A similar approach could help match investors to a suitable social investment solution.

Profiling analysis (such as that involved in the 'personas' detailed in Exhibit 1) shows that individuals are not on a single mission. They have different requirements, and will respond to different types of communications depending on their personality characteristics, their attitudes to social investment, and the stage of the investment cycle they are in. The personas represent points on a spectrum of investor interest which depicts the likelihood of receptiveness to messages. The specifics of each profile should guide the content of those messages.

It is common in any persuasive exercise to have groups at both ends of the spectrum that do not need one's time; they will either act, or they will not. Social investment is a little different, however, because the most interested group cannot act until there is something for them to act on.

It is important to understand what makes each group different in order to tailor messages. For example, the need for evidence is key to supporters and sceptics alike, but each of the middle two groups/personas (the 'moderately interested' and the 'conservative') are strongly divided by their source of motivation and perception of barriers.

Overall, the research shows that there is substantial latent (and untapped) demand for social investment.

Profiling investors' financial personality and social preferences is core to Oxford Risk's business.

KEY FINDINGS

The key findings that can help address latent (and untapped) demand for social investment are:

1. Lack of awareness among potential investors is the main obstacle to engagement. The first priority should be simply to boost overall awareness.

2. Investors do not generally perceive differences between 'types' of social investing, or reasons not to engage. Generally, they either care or they do not, and they are either put off or they are not. Time spent on these subtleties may be wasted.

3. Where granularity is required, it is in understanding the desire for impact and the trade-offs an individual is willing to make to obtain it. Many are willing, or even desire, to sacrifice financial returns for social outcomes; to overlook this is to risk alienating those most motivated to maximise social outcomes. It makes sense to target investors who lean towards the notion of a 'free lunch', as well as those who consciously wish to optimise the trade-offs between financial, social, and emotional returns.

4. The focus of tailored messaging should be on expressing values like transparency and evidence of impact. Investor comfort can be created by demonstrating that portfolios can be aligned with the unique set of values each profile of potential investors possesses. Investors will always prefer comfort over detail.

5. Social investment profiling based on the six groups identified by the survey data could be central to a comfort-oriented solution. Tailored messaging can be used to inspire interest via education, and investment via increased clarity of relevant options. Such content could profitably harness applicable case studies, examples and stories, as well as validation or accreditation from respected, trusted organisations, and thoughtful, well-designed, disclosure of detail.

FOR MORE INFORMATION

Business development & consultant relations

Jon Bell
T: 020 7163 2448
E: jon.bell@newtonim.com

Ross Byron-Scott
T: 020 7163 2337
E: ross.byron-scott@newtonim.com

Oliver Fairfull
T: 020 7163 4549
E: oliver.fairfull@newtonim.com

Jin Philips
T: 020 7163 6386
E: jin.philips@newtonim.com

Matt Pumo
T: 020 7163 3985
E: matt.pumo@newtonim.com

Stephanie Smith
T: 020 7163 6377
E stephanie.smith@newton.com

Client directors

Rorie Evans
T: 020 7163 4977
E: rorie.evans@newtonim.com

Alan Goodwin
T: 020 7163 4404
E: alan.goodwin@newtonim.com

Mark Hammond
T: 020 7163 3961
E: mark.hammond@newtonim.com

Kevin Heynes
T: 020 7163 2699
E: kevin.heynes@newtonim.com

Freeman Le Page
T: 020 7163 4424
E: freeman.lepage@newtonim.com

James Mitchell
T: 020 7163 2009
E: james.mitchell@newtonim.com

David Moylett
T: 020 7163 3795
E: david.moylett@newtonim.com

Kelly Tran
T: 020 7163 2388
E: kelly.tran@newtonim.com

newtonim.com   @NewtonIM   Newton Investment Management

Further reading

1

2

3

1 https://www.newtonim.com/uk-institutional/insights/articles/the-evolution-of-responsible-investing/
2 https://www.newtonim.com/uk-institutional/special-document/responsible-investment-policies-and-principles/
3 https://www.newtonim.com/uk-institutional/insights/articles/active-ownership-does-it-work/

Issued in the UK by:
Newton Investment Management Limited, The Bank of New York Mellon Centre, 160 Queen Victoria Street, London, EC4V 4LA

T: 020 7163 9000

Registered in England No. 01371973
Newton Investment Management is authorised and regulated by the Financial Conduct Authority.