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Using Responsible Investing to Engage the Next Generation

Responsible investing can be used as a bridge to connect generations. Conversations on values and basic investment know-how can be developed, helping to prepare heirs for their inheritance.

Successful wealth transfer in families necessitates that heirs are well prepared for the responsibilities associated with their inheritance. Families can use the topic of responsible investing (RI) to bring together multiple generations to explore family members' personal values and how they interpret wealth. RI can also be used to teach about investing in general and the value of working with family advisors, including wealth management advisors.

Connecting with Responsible Investing

Much like discussions about philanthropy, conversations focused on RI can help build bridges between generations, potentially creating opportunities for wealth holders and their heirs to infuse their values into new areas or expand into familiar ones.

Also, families may find increased interest in RI among family members, especially millennials. In a recent survey from FactSet Research Systems, Inc., investors were asked to what extent they want their investment manager to consider strategies seeking both financial and social good (Chart 1, page 2). Nearly 80% of respondents expressed some interest in responsible investing. Among millennial investors surveyed, more than 60% expected their wealth management firm to screen investments on the basis of environmental, social, and governance (ESG) factors.

The Many Faces of Responsible Investing

RI covers a range of strategies. The terms ESG investing, socially responsible investing (SRI), impact investing, and activism have all been used to describe investment solutions that reflect investors' values. RI can be passive or active, with options for all levels of wealth. (For more information on the meaning of these different RI terms, see the Responsible Investing Guide, page 3.)

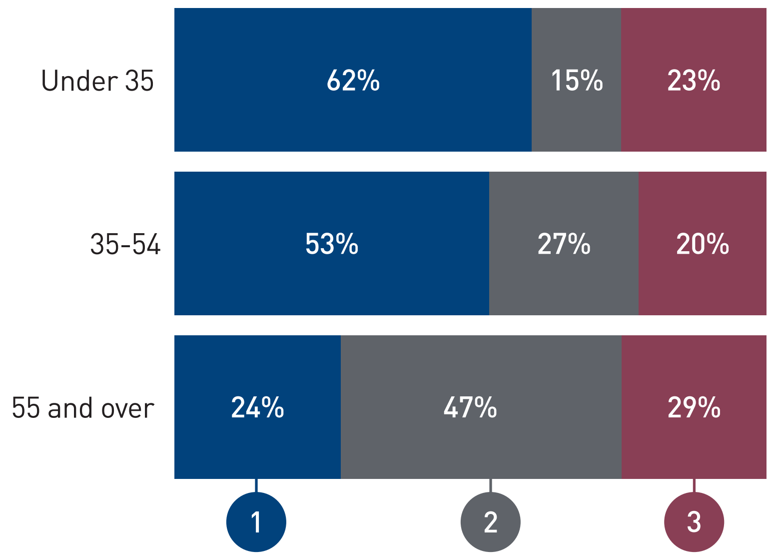
With several RI strategies available, it may be easier to engage heirs in conversation about topics they feel passionate about and how their values fit with their investment plans. This broad spectrum of options may make it easier for wealth holders who are hesitant about integrating investments with what they might consider a more philanthropic mandate to dip their toes in the water. Whether individual stocks, a mutual fund with a high rating for a particular ESG area of interest, or a private equity investment focused on making an impact in a specific area, RI can connect with the values of younger generations and help accommodate their wealth levels and investment goals.

Opening Dialogs

One of the top wealth concerns of affluent families is how their wealth will affect their children and grandchildren. Families want their wealth to create opportunities, provide security, and empower younger generations to pursue meaningful careers and make positive contributions to society. They often fear wealth will disempower the next generation. They may not want to create situations in which their children and grandchildren are reluctant to work or fail to contribute to society. Nor do they want their heirs to feel their accomplishments aren't their own and are more about the family's prosperity. Additionally, families may not want to establish expectations concerning inheritance or income amounts should something happen to affect the family's wealth. Consequently, there is typically a tug and pull between wanting the next generation to understand the role

Chart 1
Interest in Responsible Investing

To what extent do you agree that your portfolio should be managed and allocated in a socially responsible manner?



1 I expect my wealth management firm to screen investments based on environmental, social, and governance factors
2 A socially responsible investment process is nice to have, but not essential
3 I am apathetic to my investment being socially responsible

Source: FactSet Research Systems Inc.

of wealth in the family and how to prepare to steward and manage it, and not wanting to share details about the wealth, for example, what assets are owned, how much income they are generating, and so forth.

RI is a topic that can help develop conversations around values and goals without putting actual dollars and cents around the value of wealth and inheritance. RI can be used to teach the fundamentals of investing, how individual investments fit into the portfolio, and how to monitor and gauge performance. General discussions on asset class, research on particular investments, and their impacts and decision-making opportunities can help provide a chance for the younger generation to work together—something they'll likely need to do once they inherit. This is particularly important for families who would like to manage their wealth as a unit, involving all generations.

Wealth managers can be a significant resource to help families build their knowledge base in the area of responsible investing. They can work with individual family members and the family unit as a whole to help create an environment in which to explore issues important to successful succession using RI as a starting point.

Cultivating Interest

Often families find their children and grandchildren don't seem interested in being engaged when it comes to learning about wealth management. Perhaps they are busy with family, school, or careers, or maybe they're uncomfortable with the wealth or with the language of finance. They may feel they don't need to learn about the family wealth because someone else has always managed it.

A hallmark of many millennials is their undeniable commitment to philanthropy and social responsibility. They typically have a true desire to create a lasting and positive impact on the world, infusing that desire into multiple aspects of their lives—their work, social lives, and community engagement. Many millennials

Responsible Investing Guide

Responsible investing covers a range of investment approaches that take ESG into consideration. Most approaches either select or restrict securities based on broad societal values or individual principles.

Environmental, social, and governance—Commonly refers to seemingly nonfinancial issues corporations face, but there's no one definitive list of these issues. ESG issues can be difficult to quantify monetarily and aren't part of traditional financial analysis, but they do have the ability to affect the risk and return of an investment. ESG investing screens for investments that incorporate environmental (climate change, pollution, energy efficiency), social (human rights, community relations, data protection, privacy), and governance (how a company operates) factors.

Socially responsible investing—Exclusionary screens of securities or industries historically based on ethical or religious factors but increasingly based on various ESG factors. Screens can also be applied to actively or passively managed separate accounts.

Impact investing—Strategies (often private investments) that seek to have a specific positive impact on society, for example, renewable energy, sustainable agriculture, and emerging/frontier market economic development.

Proxy voting service—Advisors may assist clients with voting proxies in accordance with their values and beliefs. Proxy advisory services can guide shareholders who may typically forgo voting because they feel uninformed on issues. Proxy guidelines are designed for investors seeking to support ESG shareholder resolutions and support the long-term social impact of the companies in which they invest. They are a form of activism.

are concerned about the effects of their actions and seek to proactively affect change. In our experience, millennials who are aware of a way to build their values into their investing will likely respond positively to conversations about RI.

It's important for parents and grandparents to listen to younger family members and understand not only what causes are important to them, for example, the environment, but also how they see themselves affecting change. It's equally important to understand if they're interested in acting proactively, passively, or both. Because millennials tend to be committed to actively making an impact, they might be most interested in conversations about the types of investments that address their cause—for example, excluding companies that employ practices considered harmful to the environment, making investments in opportunities that address solutions for environmental sustainability, or both.

Preparing heirs for their future responsibilities surrounding wealth is one of the most important steps a family can take to help navigate successful wealth transfer. Education takes many forms and should include topics that garner attention and interest. Responsible investments could provide a way to appeal to the next generation's hearts and minds, creating pathways to explore family values and learn the wealth basics necessary to be successful wealth stewards.