



# Quantifying the Value of Impact in Investing

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# Executive Summary

1

Interest in impact investing is high and growing, particularly among younger generations.

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2

Very little previous research assess how investors value impact relative to other priorities.

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3

Our research uses a rigorous, choice-based conjoint analysis to quantify how much investors are willing to give up for impact.

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4

Investors are indeed willing to pay for impact, with Millennials preferring impact 28% more than Baby Boomers.

5

When investors are highly confident their investments are making a difference, the impact premium increases—**they're willing to give up as much 1.3 percentage points in financial return and pay an additional 58 basis points in management fees.**

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6

For investors, high confidence in impact is achieved not by labeling or counting outputs alone. It involves measuring outcomes—the positive change created by their investments.

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7

Maximizing investors' confidence in impact could shift trillions of dollars toward impact investing while fund managers could generate millions of dollars in additional management fees.

*About Cicero Social Impact*

Cicero is a purpose-driven management consulting firm with targeted focus on **People** and **Impact**.

Cicero Brings a deep functional expertise in research, advanced analytics, strategy, operational excellence, and transformation to identify and capture value for clients in service of Cicero Group's overarching purpose: Helping people create and continuously deliver extraordinary results.

## Cicero Operates Across a Wide Array of Industries and Functions

### Social Impact

Strategy & Program Design

Monitoring & Evaluation

Implementation Support

### Education (K-16)

Appraisal & Root Cause Analysis

Leadership Development

Instructional Coaching

### Corporations

Strategy & Operational Excellence

Customer Insights & Analytics

Private Equity Services

LOCATIONS: UTAH, TEXAS, WASHINGTON DC, DELHI

EXECUTING STRATEGY ACROSS

**49** COUNTRIES



ENGAGEMENTS SPANNING

**17** LANGUAGES

## STRATEGY & PROGRAM DESIGN

We collaborate with our clients to clarify the impact they envision, specify what it will take to drive that change, and develop a detailed, practical blueprint to achieve it.

## MONITORING & EVALUATION

We help purpose-driven organizations identify the data that matters and collect and use that data in appropriate, timely ways to prove and improve the impact they're achieving.

## IMPLEMENTATION

We translate ambition into results by joining our clients' team to launch new initiatives, conduct ongoing analytics, build the capacity of partners, and enhance the team's long-term capabilities.



# OUR SOCIAL IMPACT CLIENTS

Our clients are driven to improve the world around them. They seek our help to clarify the change they want to see, cut through the complexity, and make that ambition a reality.

## NONPROFITS

## FOUNDATIONS

## CORPORATIONS

## FUNDERS

## GOVERNMENT

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- younglife** (You were made for this..)

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**Timothy Docking**, Managing Director, Refugee Investment Network

**Brendan Minitier**, Editorial Page Editor, Dallas Morning News

*Context & Research Design*

# The market for impact investing is large and growing particularly among younger generations.

“

As trillions of dollars shift to millennials over the next few decades, as they become CEOs and CIOs, as they become the policymakers and heads of state, they will further reshape the world's approach to sustainability.

Larry Fink, CEO of Blackrock

Annual Letter to CEOs  
January 14<sup>th</sup>, 2020

”



In the US, there are **73M Millennials** (22% of population, \$6T in wealth), **65M Gen X** (19%, \$31T in wealth), and **71M Baby Boomers** (20%, \$62T in wealth).<sup>1</sup> By 2050, Millennials are projected to be 19% of the total US population, while Boomers will only be 4%.<sup>2</sup>



**Ninety percent** of Millennials are **willing to pay more** for products that contain environmentally friendly or sustainable ingredients.



**Seventy-five percent** of individual investors are **interested in sustainable investing**, and this increases to **86%** for Millennials.

# Previous research argues that investors are willing to pay more for impact.

## Investors are willing to sacrifice financial returns for impact

A 2019 study by the Cambridge Institute for Sustainability Leadership simulated investment decisions and found that median savers would sacrifice up to 2.5% in financial returns to invest in a sustainable fund.<sup>1</sup>

## Investors want to be confident in their investments' impact

A 2020 survey by the GIIN found that as the impact investing market matures, investors are increasingly willing to integrate robust impact measurement and management systems, even at an additional cost, to easily compare investments and track impact.<sup>2</sup>

## Despite high demand, impact VC funds typically have lower returns than standard funds

A 2019 study from UC Davis and UC Berkeley found investors in impact funds received 2.5-3.7 ppts lower IRRs on average than investors in traditional VC funds, despite a large (and growing) demand for impact-focused funds.<sup>3</sup>



# However, this research is limited—it relies on stated preferences rather than choices involving tradeoffs.

## Previous Research

### Stated Preferences

Previous research typically measures the stated preferences of investors and consumers, failing to capture important tradeoffs made in actual purchase decisions.

*Example: Would you prefer an apple or an orange?*



## Our Research

### Tradeoffs & Willingness to Pay

Our research fills this gap by introducing real tradeoffs in investment decisions, more accurately capturing investors' and consumers' actual purchase behavior and willingness to pay for certain products.

*Example: Which fruit option below would you prefer?*



## Our research set out to answer a set of basic, but pivotal questions.

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1.

How much are investors willing to pay for impact—either in terms of foregone financial return or management fees?

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2.

What kinds of investors are more likely to prioritize impact over traditional returns?

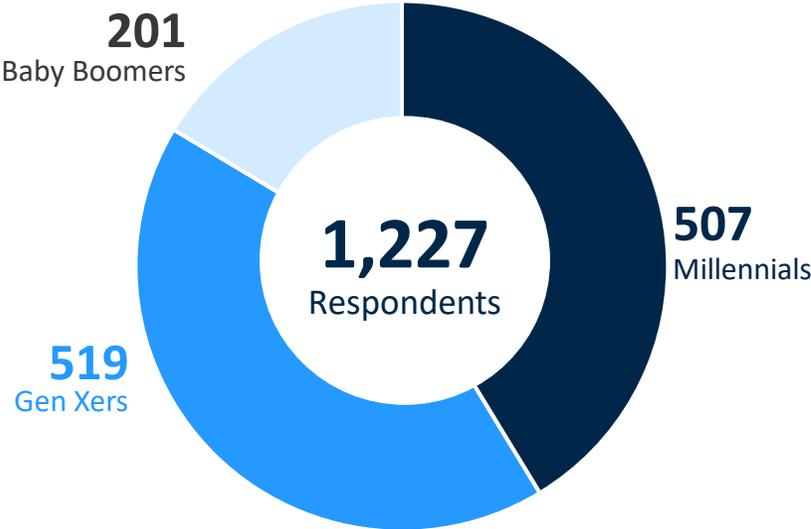
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3.

What is it about an impact investment that makes investors choose it over traditional options?

# More than 1,200 respondents indicated their awareness, preferences, and activity regarding a range of impact investing and philanthropy topics.

## Survey Sample



## Respondent Criteria

- \$50,000+ Annual Household Income
- Basic Level of Financial Acumen
- Liquid Investment Assets
- Aged 24+

## Survey Topics

### Investment Perceptions & Attitudes

- Wealth and investment acumen
- Investment decision-making and roles

### Risk Aversion

### Impact Perceptions and Attitudes

- Preferred issue areas
- Perspectives on impact measurement
- Perceptions on impact-return tradeoffs

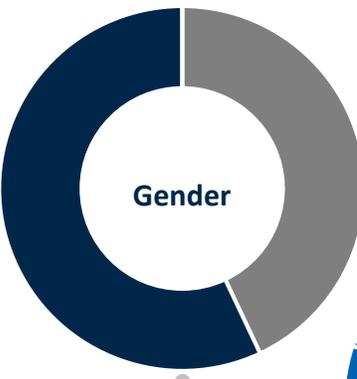
### Donation vs. Impact Investing Preference

### Respondent Demographics

# The survey's findings provide a nationally representative sample of individual investors across three generations with a margin of error of <1%.

## Survey Respondent Demographics

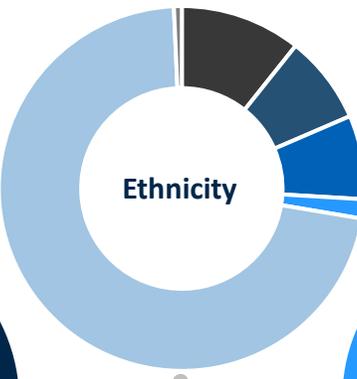
(n = 1,227)



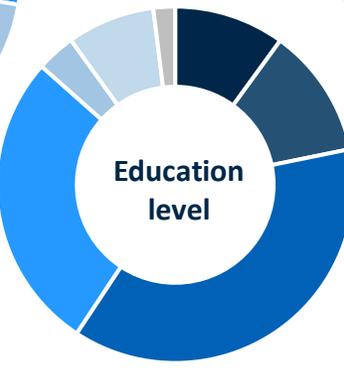
- Female
- Male



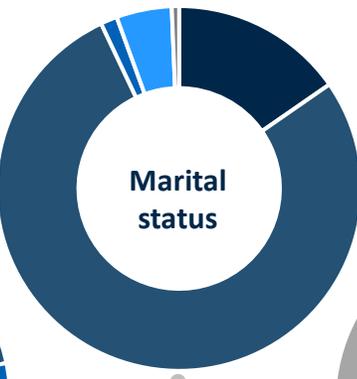
- Employed Full-Time
- Employed Part-Time
- Self-Employed
- Student
- Homemaker
- Active Military
- Retired
- Unemployed



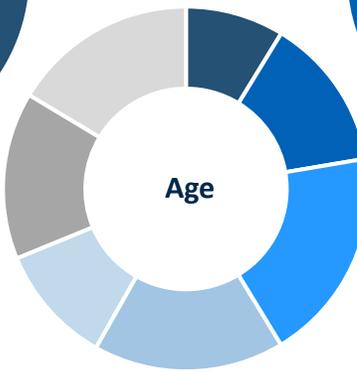
- Asian or Pacific Islander
- Black or African American
- Hispanic or Latino
- Native American or Alaskan Native
- White or Caucasian
- Prefer not to say



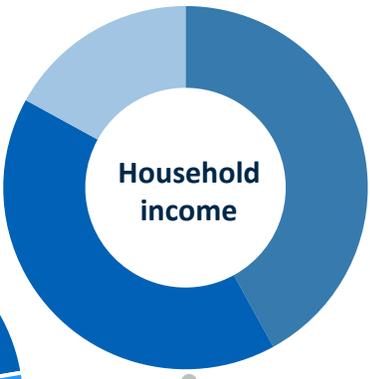
- High School / GED
- Associate Degree
- Bachelor's Degree
- Master's Degree
- Ph.D. or higher
- Professional Degree
- Trade School



- Single, never married
- Married or Domestic Partner
- Widowed
- Divorced
- Separated



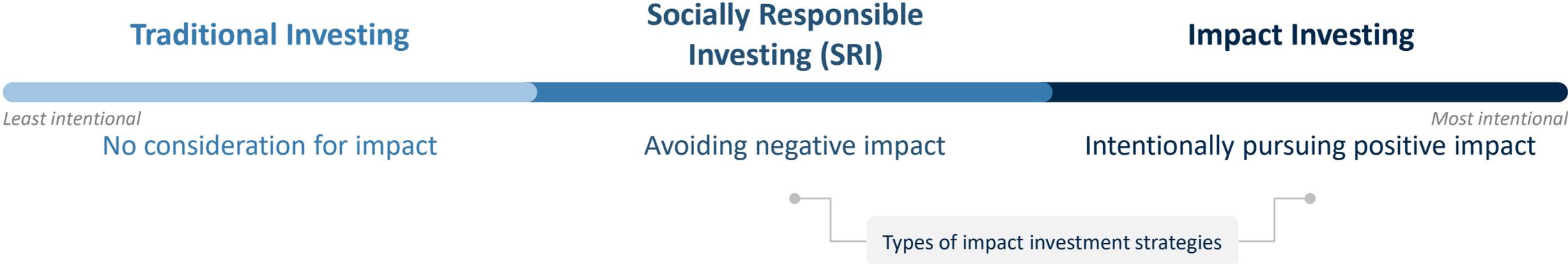
- Under 24
- 24 to 29
- 30 to 34
- 35 to 39
- 40 to 44
- 45 to 49
- 50 to 55
- Over 55



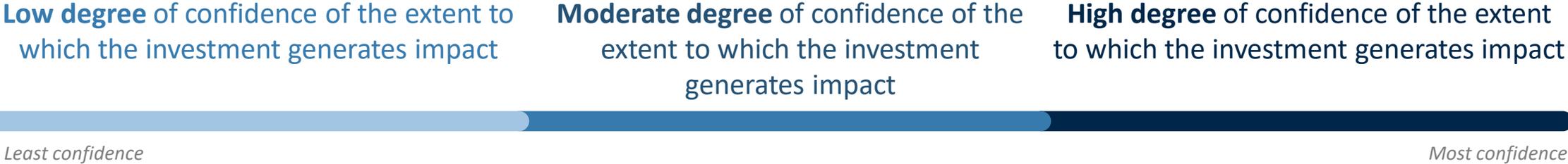
- \$50,000 to \$99,999
- \$100,000 to \$199,999
- \$200,000 or more

# Impact Strategy and Confidence in Impact were two key concepts we tested throughout the survey.

## Impact Strategy



## Confidence in Impact



# To improve on previous efforts, the research design combined a traditional survey with a robust choice-based conjoint analysis to approximate real-world tradeoffs.

## Key Attributes (Tradeoffs) of The Choice-Based Conjoint

- Annualized Financial Return** represents the annual return earned by an investment (ranging from 1-2% to 13-14%)
- Risk Level** represents the return risk on your investment ranging from risk-free (e.g., cash) to high risk (e.g., stocks)
- Management Fees** represents the management fee of your investment (low: <0.75%; moderate: 0.75%-1.25%; high: >1.25%)
- Impact Strategy** represents the intentionality and type of impact an investment pursues (see previous page)
- Confidence in Impact** represents the investor’s confidence level that the investment is making impact (see previous page)

*Illustrative Conjoint Analysis Choices Seen by Respondents*

	Option 1	Option 2	Option 3
<b>Annualized Financial Return</b>	10-11% return	6-7% return	13-14% return
<b>Risk Level</b>	Moderate to High risk	Moderate risk	High risk
<b>Management Fees</b>	Average fee	Low fee	High fee
<b>Impact Strategy</b>	No consideration for impact	Intentionally pursuing positive impact	No consideration for impact
<b>Confidence in Impact</b>	Low degree of confidence of the extent to which the investment generates impact		

# In addition to typical survey findings, the conjoint analysis yields precise quantification of several key outputs.

**Step 1:** Survey respondents participate in the conjoint analysis

**Step 2:** Conjoint data is used to simulate a marketplace

**Step 3:** Market simulation captures respondents SOPs & WTP

	Option 1	Option 2	Option 3
<b>Annualized Financial Return</b>	10-11% return	6-7% return	13-14% return
<b>Risk Level</b>	Moderate to High risk	Moderate risk	High risk
	Option 1	Option 2	Option 3
<b>Annualized Financial Return</b>	8-9% return	10-11% return	5-6% return
<b>Risk Level</b>	Moderate risk	High risk	Low risk
<b>Management Fees</b>	High fee	Low fee	Average fee
<b>Impact Strategy</b>	Avoiding negative impact	Intentionally pursuing positive impact	No consideration for impact
<b>Confidence in Impact</b>	Low degree of confidence of the extent to which the investment generates impact		

*Illustrative Conjoint Analysis Screens*

## Market Simulator

*Utility scores estimated by the conjoint are used to estimate Share of Preference (SOP) across the investment features in a simulated market.*



### Share of Preference (SOP)

*% of respondents that would prefer this option and claim they would actually consider purchasing if offered*

### Willingness to Pay (WTP)

*Maximum price for which SOP did not decrease compared to the core product at the minimum price (2% financial return)*

*Investors and Impact – General Findings*

# Not surprisingly, Baby Boomers indicated they had 3x more liquid assets than later generations.

## Accumulated Wealth

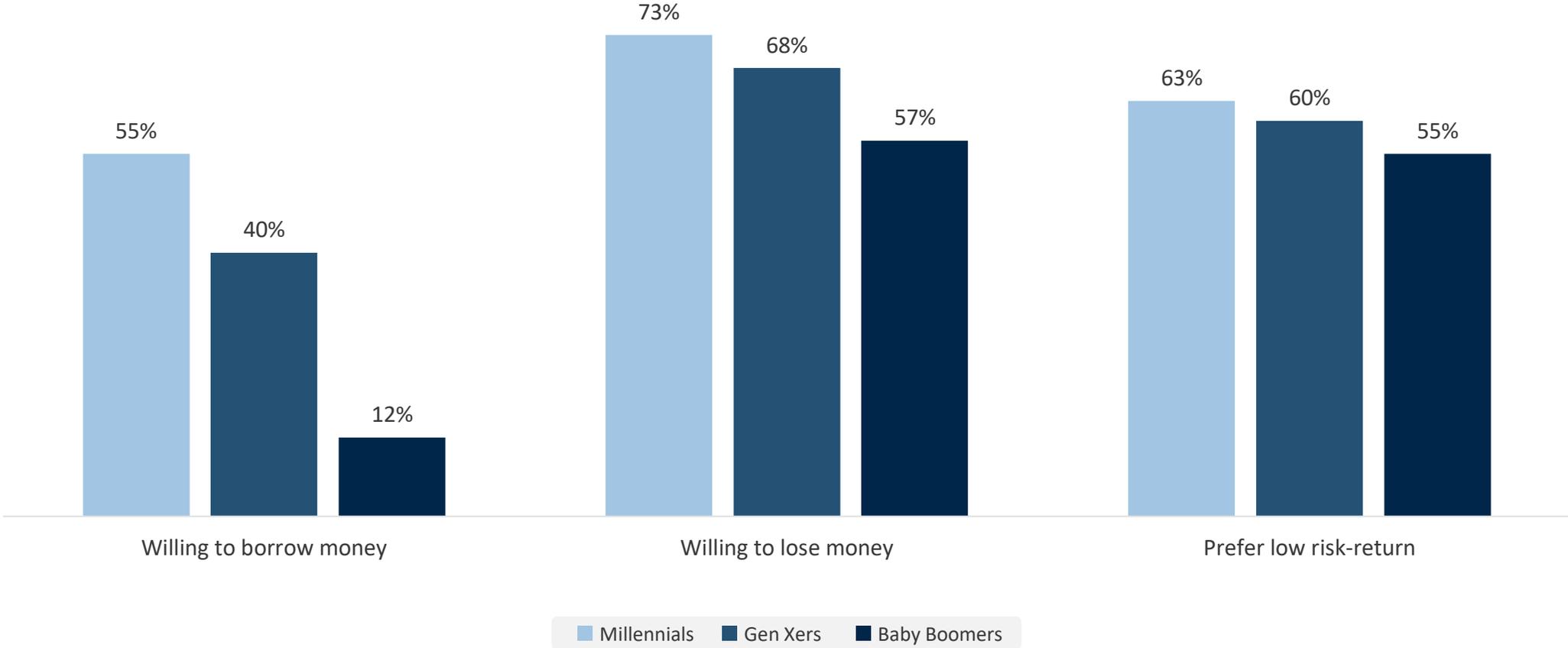
Overall value of personal and joint liquid investments, cumulative %



# As investors, Millennials are less risk-averse than their older peers.

## Risk Aversion – By Generation

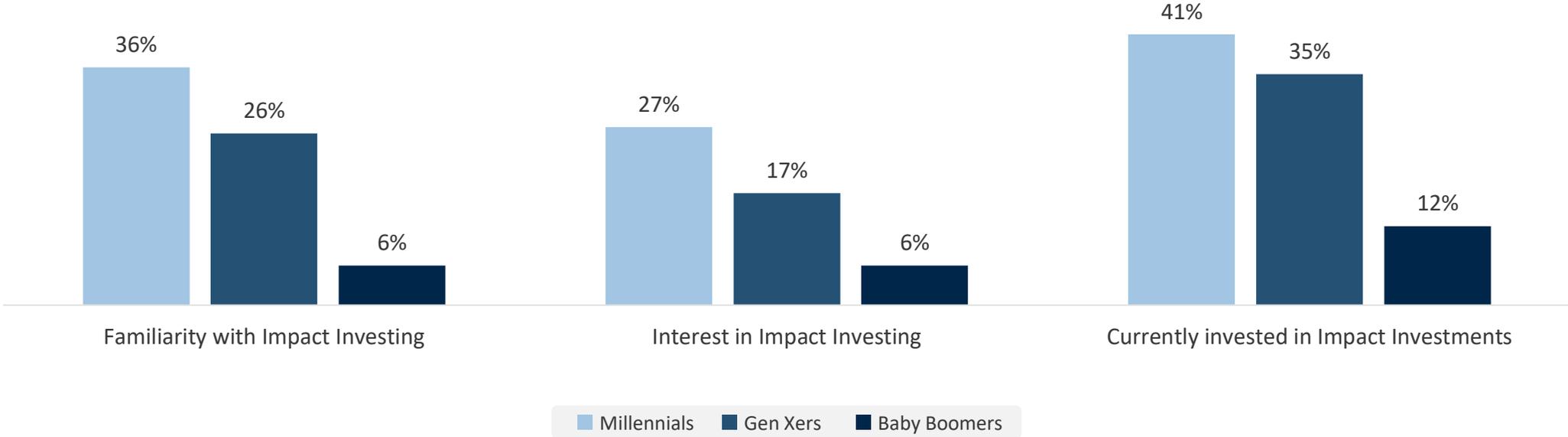
Top 2 (Slightly Agree & Strongly Agree)



# Younger generations also report that they are markedly more familiar with, interested in, and invested in impact-oriented assets.

## Familiarity and Interest in Impact Investing – By Generation

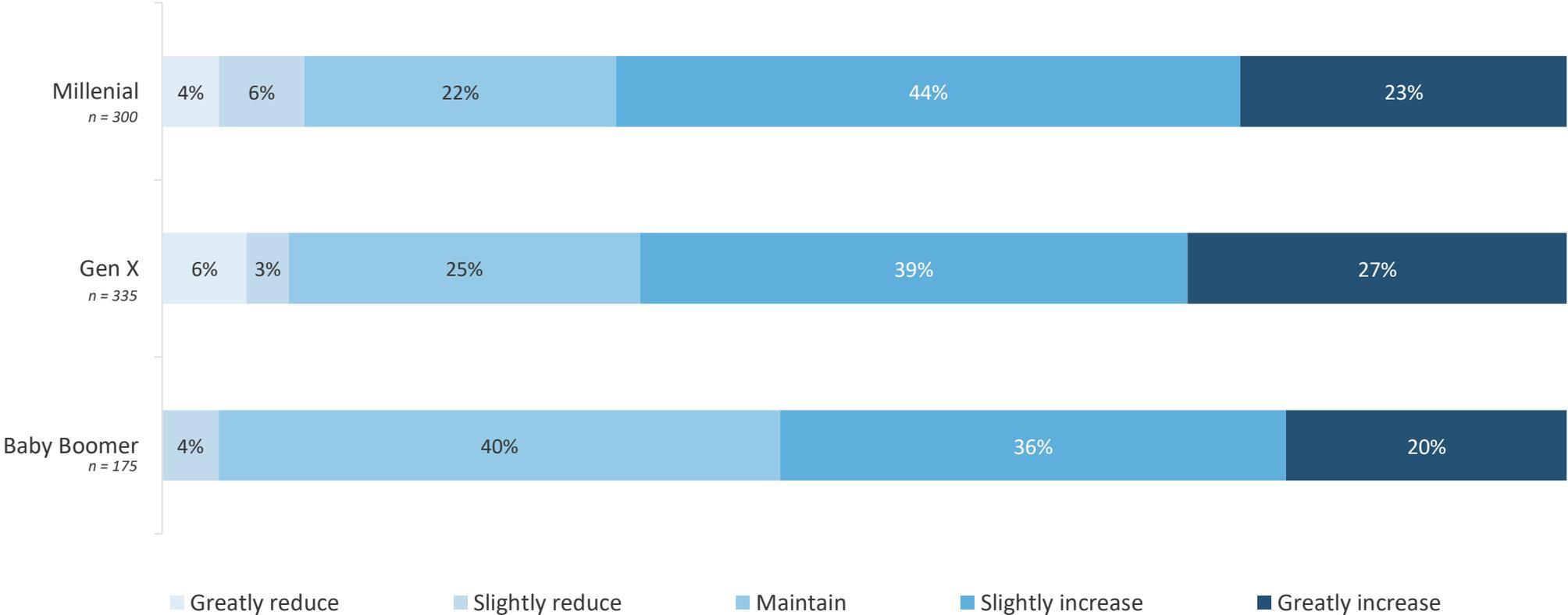
Top 2 (Slightly Agree & Strongly Agree)



However, between half and two-thirds of respondents in every generation say they would like to increase their level of impact investing in the next 12 months.

### Desire to Increase Impact Investments – By Generation

Overall willingness to increase the amount of impact investments in the next 12 months, cumulative %

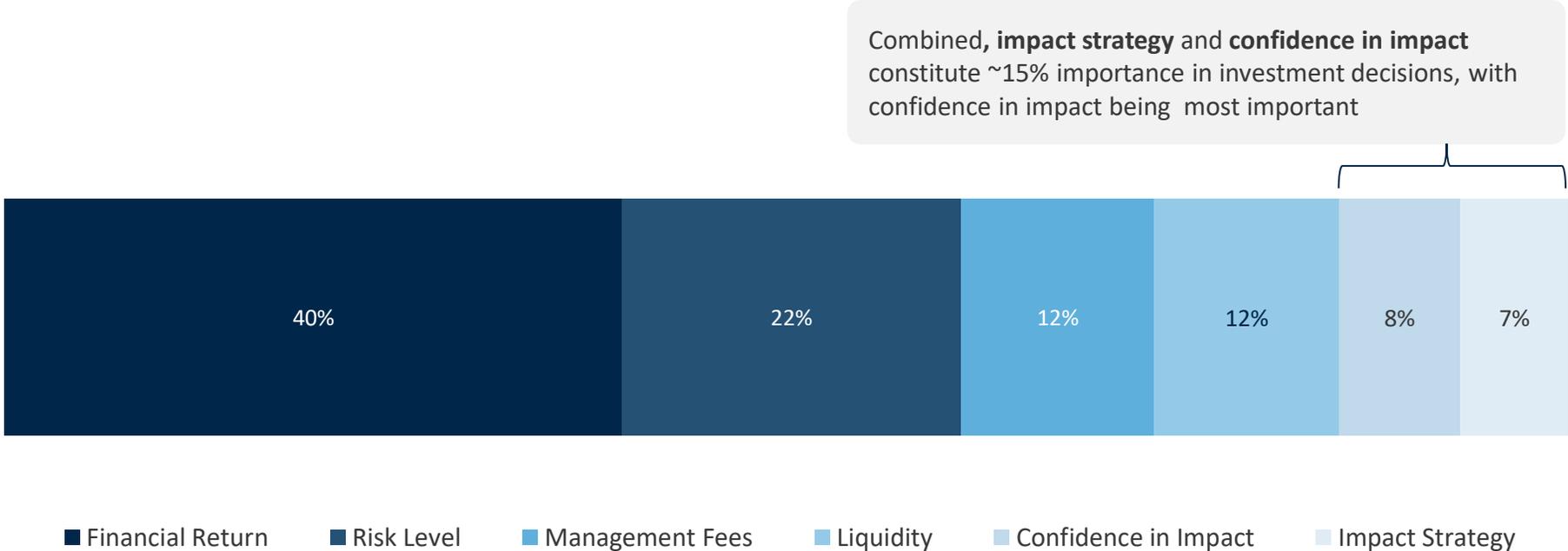


*How Much Investors are Willing to Pay for Impact*

# While the financial aspects of investments are still the top priority, impact considerations constitute 15% of investors' decisions.

## Importance by Feature Category – All Investors

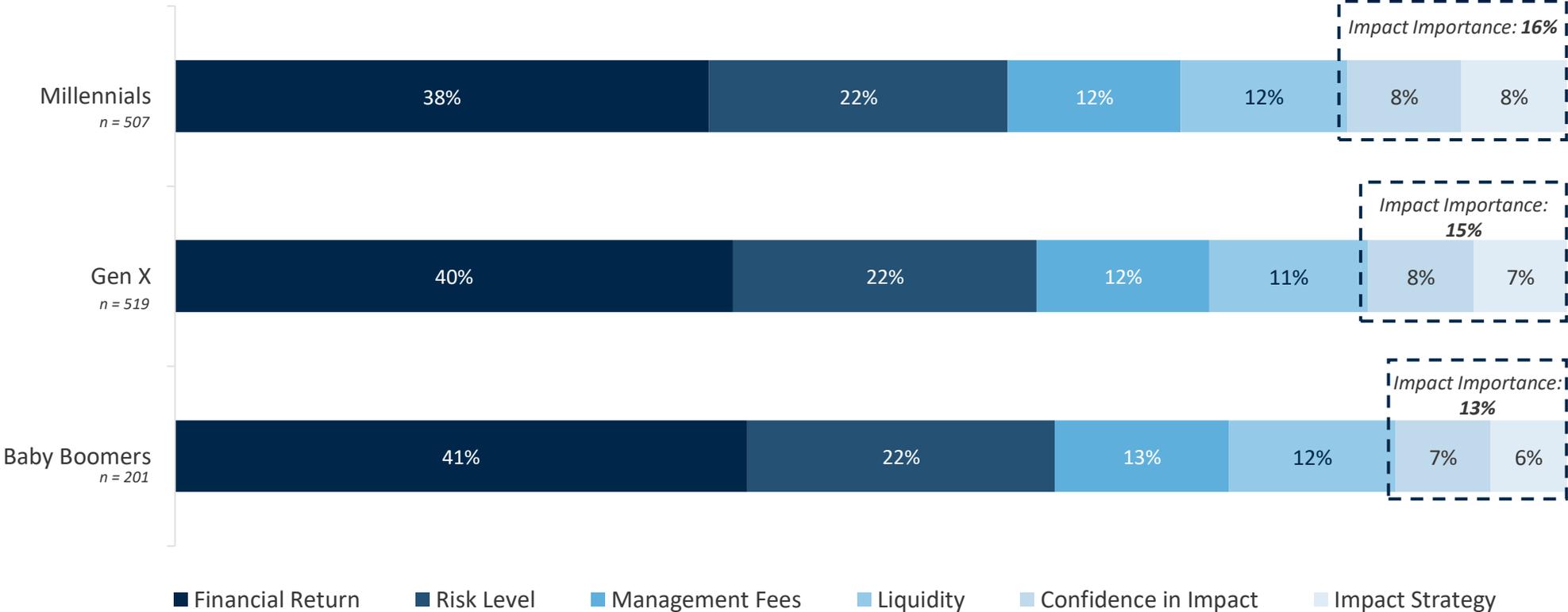
Importance Based on Attribute Category, cumulative %



# Millennials consider impact 28% more important and financial return 7% less important than Boomers.

## Importance by Feature Category – By Generation

Importance Based on Attribute Category, cumulative %



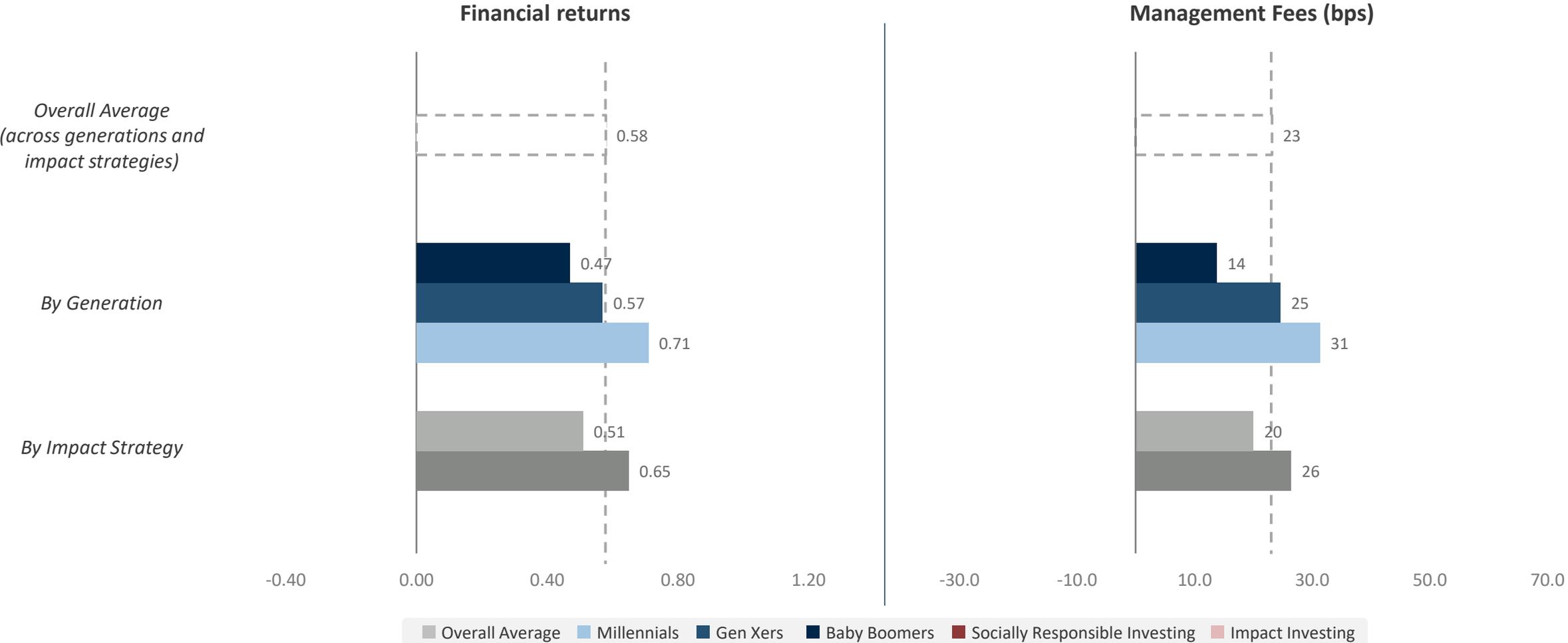
**But are investors willing to pay for impact? The following pages display investors' willingness to pay (WTP) more/less compared to a base case of a traditional investment.**

	<b>Base Case Used for Comparison</b>
<b>Annualized Financial Return</b>	7-8%
<b>Risk Level</b>	Moderate Risk (mix between stocks and bonds)
<b>Management Fees</b>	Average Fees (0.75% – 1.25% of asset value)
<b>Impact Strategy</b>	No consideration for impact
<b>Confidence in Impact</b>	N/A

*The next few pages indicate how much more/less investors are willing to pay —either in terms of foregone financial return or management fees—if everything else about the investment were the same as the base case.*

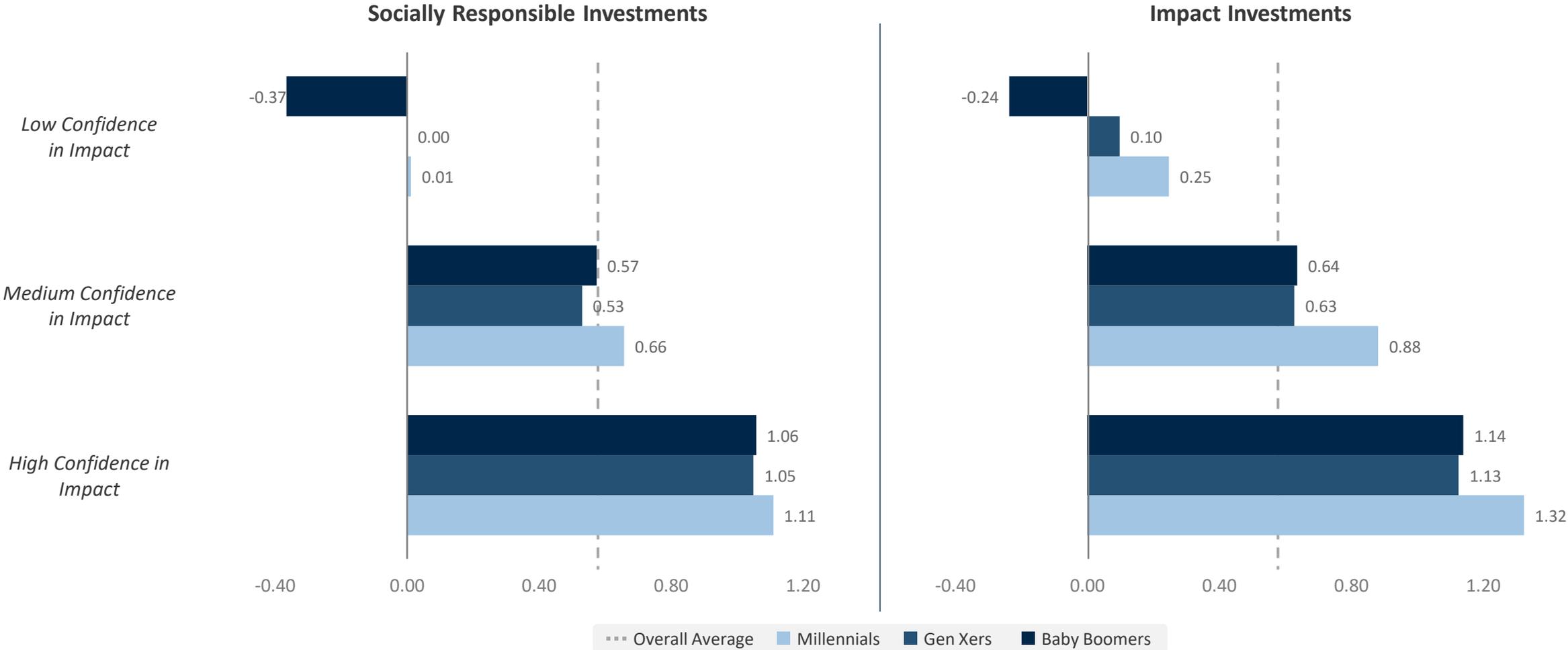
To achieve impact, investors are willing to forego an average of 0.58 percentage points (pp) and pay 23 additional basis points (bps) compared to the base case.

**Change in Willingness to Pay vs. No Impact**



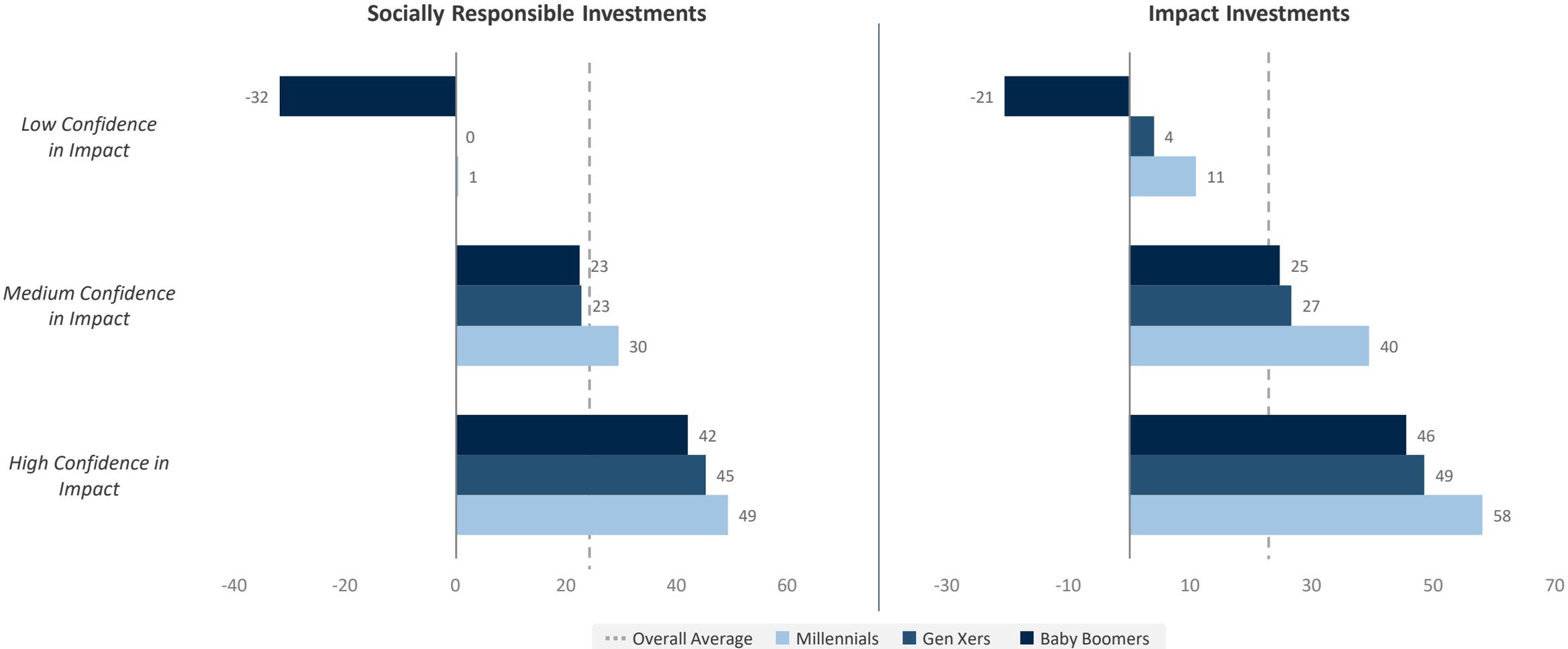
But it depends crucially on investors' *confidence that their money will make a difference*. When confidence is high, they will forego more than 1pp (up to 1.32pp) in annualized returns.

Change in WTP in Foregone Financial Returns (percentage points) vs. No Impact



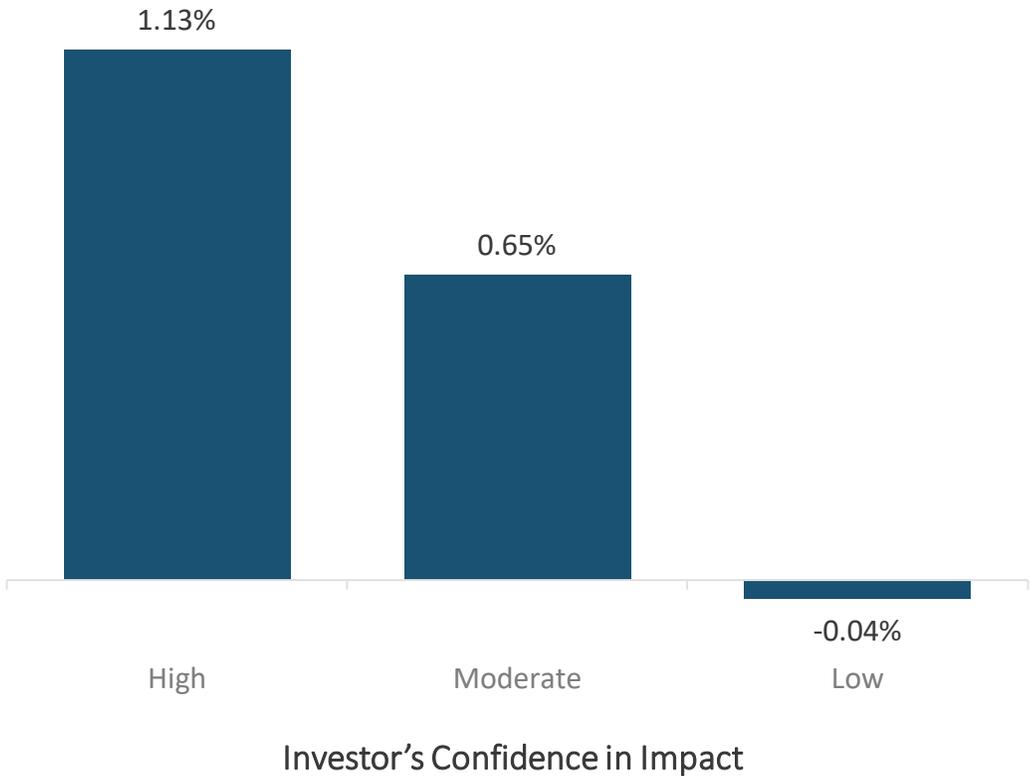
The same pattern holds true for management fees—all investors are willing to pay at least an additional 46bps (up to 58 bps) *when they are confident in their impact.*

Change in WTP for Management Fees (bps) vs. No Impact

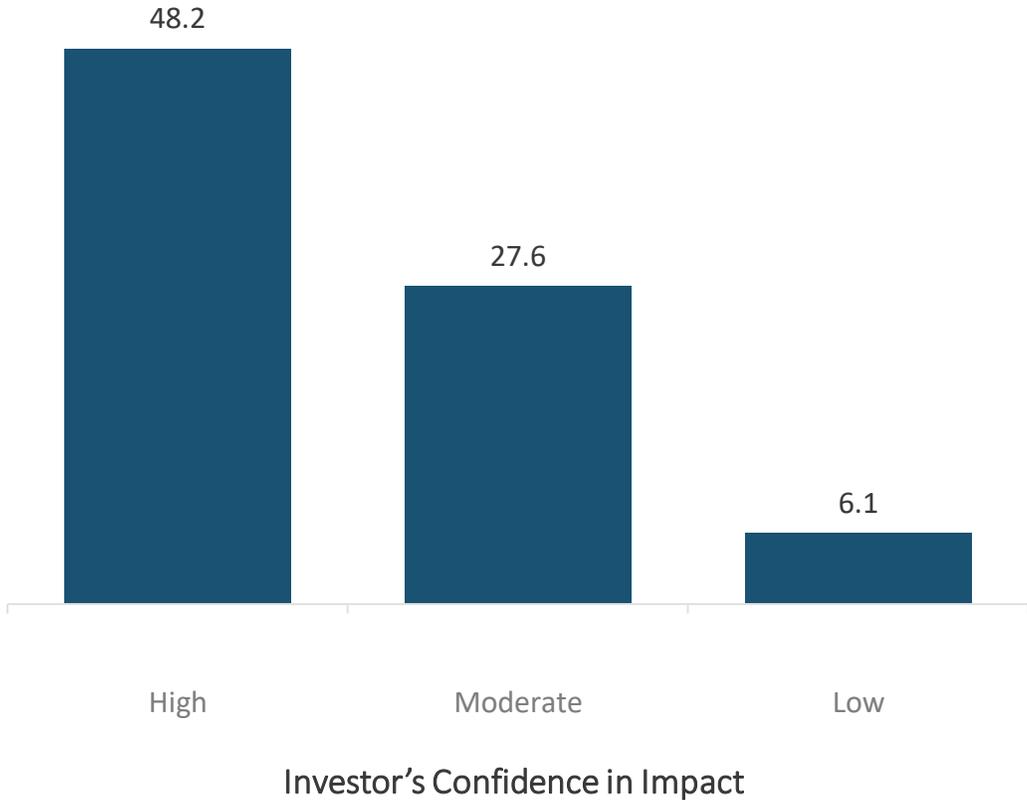


**In short, investors will pay significantly for impact, *but only when they are confident their money is making a difference*. Perceived unwillingness to pay is likely due to skepticism about impact.**

**Financial Return Given Up for Impact**  
(foregone percentage points, all generations, any impact strategy)



**Additional Management Fees Paid for Impact**  
(additional basis points, all generations, any impact strategy)



# Greater focus on high-impact investments could dramatically affect society and the environment, individual investment behavior, and fund managers' and wealth advisors' ability to serve clients.

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## Investor Behavior

*Consider an investor who invested \$1,000 per month over 30 years. If she gave up 1.12% in annualized returns in order to have high confidence in the impact of her investments, she would effectively be paying \$150,000 for impact.*

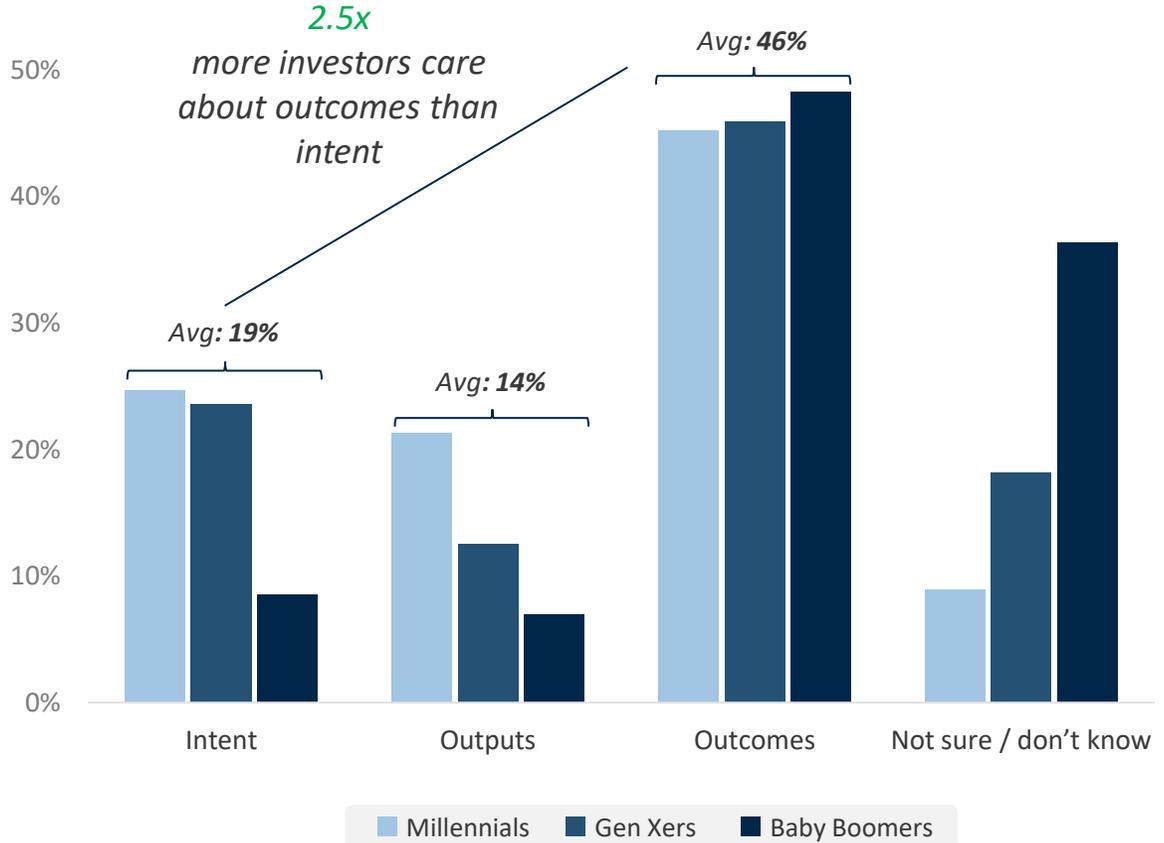
## Financial Provider Fees

*An additional 58 basis points for high confidence in impact amounts to additional fees of \$580,000 per year for \$100M in assets under management (not to mention the additional investment and client volume such an offering would attract).*

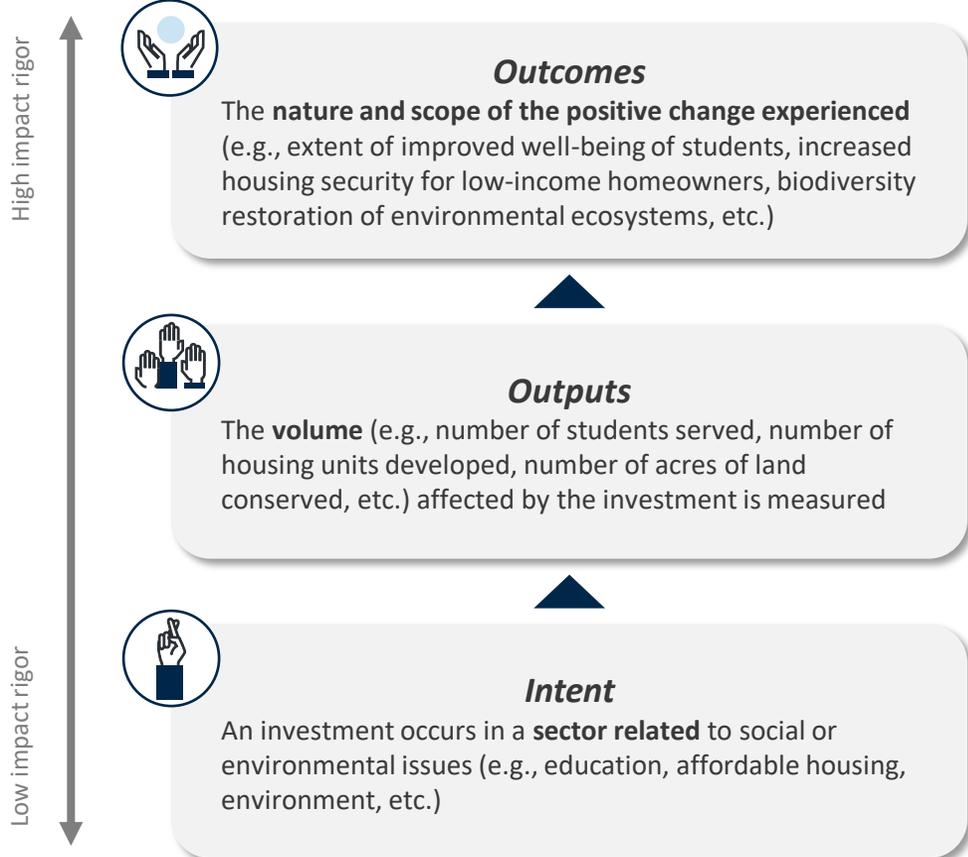
*Increasing Confidence in Impact*

# Confidence in an investment’s impact comes when funds go beyond labels, inputs, and outputs and measure actual outcomes—the positive change created by the investment.

## Measurement Needed to Feel Confident in Impact – By Generation



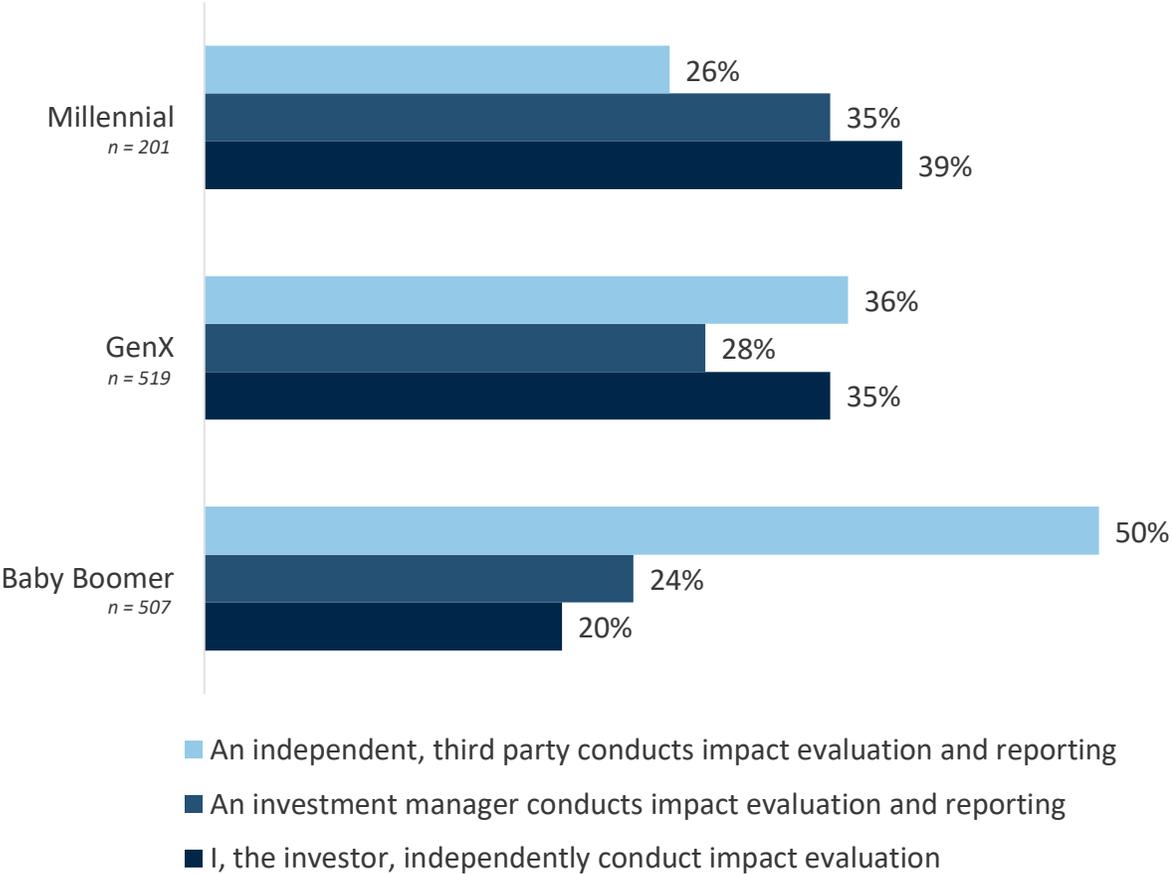
## Theory of Change Framework



# Intriguingly, perspectives vary substantially across generations regarding who is best able to assess impact. Millennials trust themselves the most to gauge outcomes.

## Impact Evaluation Needed – By Generation

Level of evaluation needed to feel confident investment is making impact, cumulative %



“

*I am very confident about the future of impact investing because it gives me extra joy to put my money on that.*

“

*I wish it was a clearer final picture of how the impact investing is helping others; the idea is great but I would need to see more.*

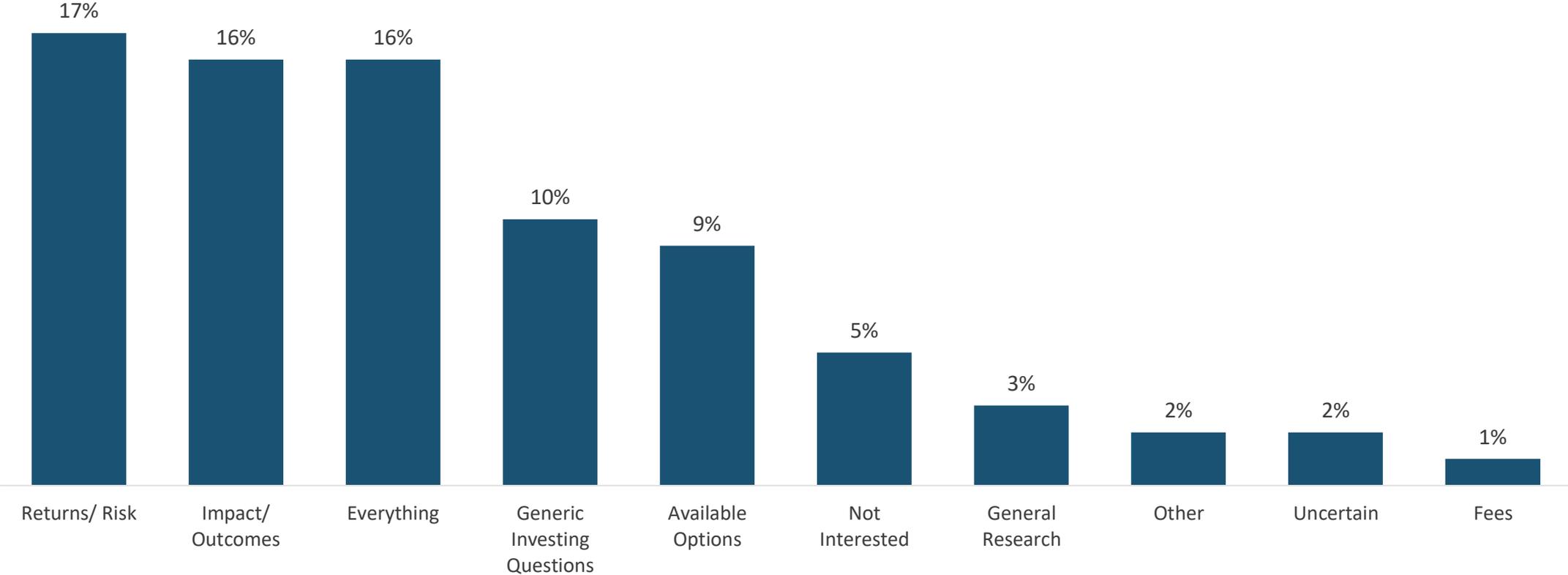
“

*What are more profitable ways I can help contribute to my community?*

# Not surprisingly, 79% of investors say they're interested in learning more about impact investing, with an emphasis on risk/returns, impact, and 'everything' as the topics of greatest interest.

## Top Areas of Interest in Impact Investing – By Topic

Post-coded free response; (n=1,125)



## When asked what else they wish they could learn about impact investing, investors repeatedly lamented how difficult it is to know whether an investment is making a real difference.

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“

*“I wish I had a better idea as to the impact my investments are having. It's not easy to find.”*

*“I wish I knew more about how to find out which investments are high and low impact or negative/positive.”*

*“[I wish I had] more access to returns and actual impact data. You have to do a lot of heavy lifting sometimes to see what is actually being done with the funding with specific numbers instead of more promotional type materials.”*

*“[I wish I knew] how it impacts social issues that I care about? [I wish I knew] how will the investment be measured and by whom?”*

*“[I want] a more concise document from start to finish that explains the intended process.”*

*“[I wish I knew] the total extent that my investment has on my carbon footprint.”*

”

## *Conclusions and Recommendations*

# Recommendations for Fund Managers

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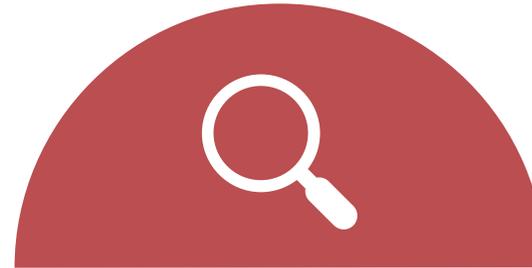
## **Impact Investing is Growing**

Impact investing is already a growing space. As Millennials continue to grow and inherit wealth, impact investing is set to expand further.



## **Impact Measurement Can Help Capture Funds**

Investors have an appetite for impact investments, even for a cost of foregone financial return, if they feel confident in its impact.



## **Access to Impact Data Must Increase**

Investors want to feel confident their investments are making impact – this information should be made easy to find and understand.



## **Measuring Outcomes Instills Confidence**

To feel confident in impact, investors express interest in knowing what ultimate outcomes have changed, not just simply positive outputs.

# Recommendations for Wealth Advisors

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## **Impact Investing is Growing**

Impact investing is already a growing space. As Millennials continue to grow and inherit wealth, impact investing is set to expand further.



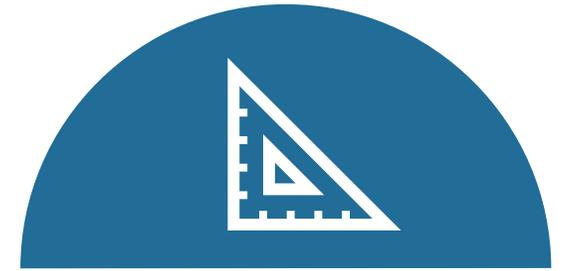
## **Investors Will Pay For Confidence in Impact**

Investors have an appetite for impact investments, even for a cost of increased management fees, if they feel confident in its impact.



## **An Outcomes Focus Instills Confidence**

Investors want to know how much a supposed impact investment is focused on, measuring, and improving society and/or the environment.



## **Younger Investors Trust Their Own Assessments**

Millennials are more likely to trust personal or fund managers' impact evaluations – a large shift from older generations .

# Impact-oriented funds and assets can increase investors' confidence by focusing on outcomes throughout the fund's lifecycle—even before impact results are available.

## Introduction

- Specify the 'impact thesis':
  - Who does the fund aim to benefit (individual or community demographics)?
  - What social or environmental problem will it address?
  - Why does this issue matter?
  - How will the assets solve the problem?
  - Why are you confident the solution will work?
- Articulate the outcome 'theory of change' and measurement strategy:
  - What are the ultimate, long-term, and near-term outcome metrics?
  - How, when, and by whom will they be measured and reported?
- Estimate the expected SROI (social return on investment) in comparison to alternatives.

## In-Flight

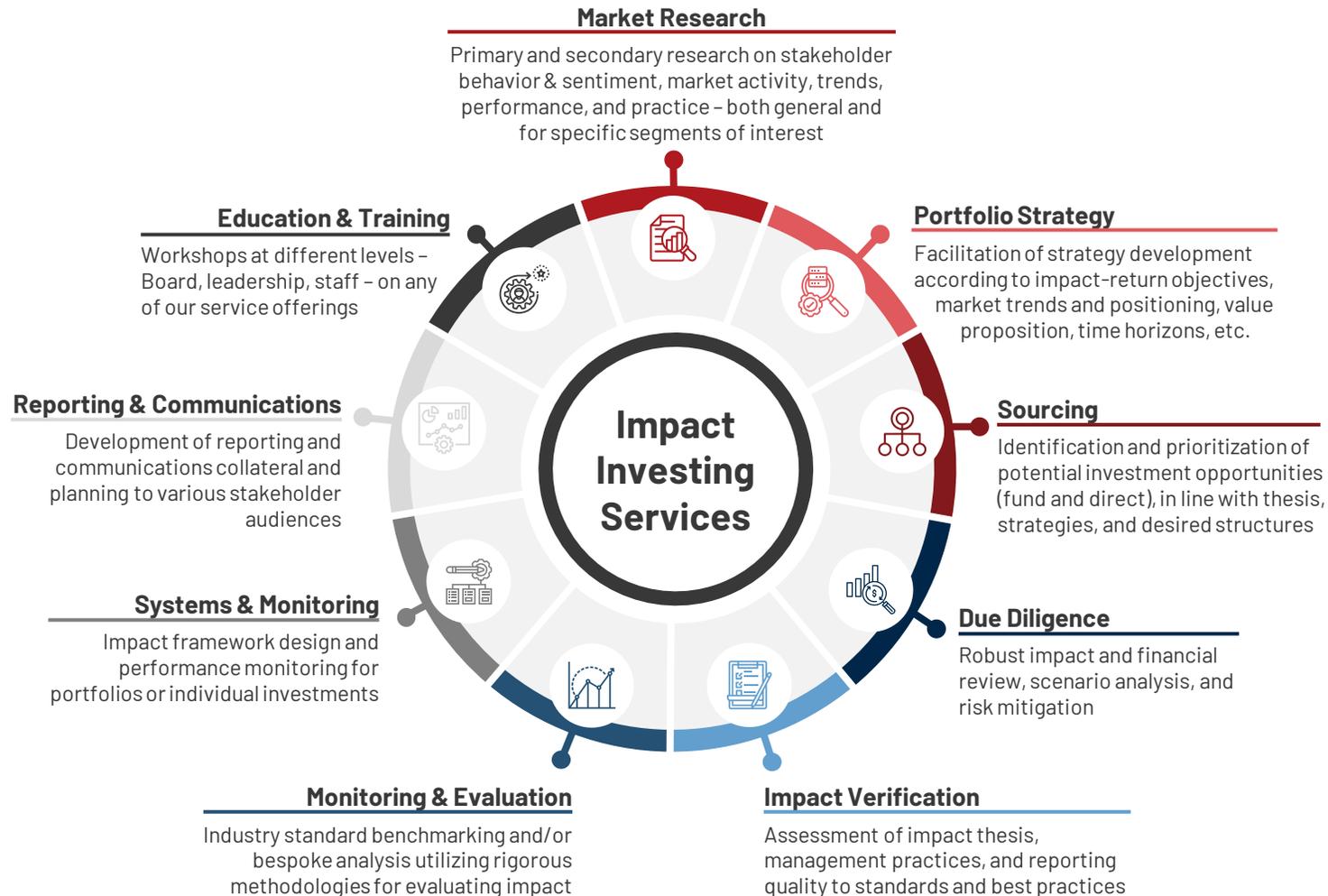
- Execute the measurement strategy with fidelity
- Use external 'impact verification' to:
  - Validate the impact thesis and its alignment with existing standards
  - Verify effective execution of the measurement strategy
- Report interim impact progress for each asset and the entire fund
  - Educate stakeholders about the social / environmental context, issues, and solutions
  - Focus on near-term outcomes for early beneficiaries
  - Share both successes and failures

## Wind Down

- Report full results, including:
  - Average impact on intended beneficiaries and outcomes
  - Comparisons with alternative solutions
  - Illustrative stories and qualitative insights
  - Lessons learned about the solutions, the assets, and the broader issues
- Leverage insights for improvement
  - Refine investment thesis, sourcing, diligence, and monitoring processes
- Incorporate impact track record and methods into future fundraising

# Cicero provides a range of services for investors, wealth advisors, and fund managers.

## Cicero's Impact Investing Services



## Industry Standards We Leverage

- United Nations Sustainable Development Goals (SDGs)
- IRIS Catalog of Metrics
- IRIS+ Core Metrics Sets
- Impact Management Project (IMP)
- United Nations Principles for Responsible Investment (UNPRI)
- B Analytics / GIIRS
- Operating Principles for Impact Management
- Global Reporting Initiative (GRI)
- Aeris CDFI rating system
- Sustainability Accounting Standards Board (SASB)
- Principles for Responsible Investment (PRI)
- Social Bond Principles