This is just for UK advisers – it's not for use with clients.

Family Wealth Unlocked – Part 2

The growing appetite for responsible investing across the generations in 2021

With £5.5tn in personal wealth due to be passed to the next generation by 2047,* the role intergenerational planning advice played, prior to the pandemic, was already a significant one. Yet the crisis has reframed individuals' investment priorities. Not just for those over 55 with IHT liabilities, but for all generations.

To understand the detail of post pandemic change, in late 2020 we commissioned research with 1,000 previously advised individuals to help advisers better understand new and changed cross-generational priorities. The resulting insight has now become the 'Family Wealth Unlocked' report.

In the first part of Family Wealth Unlocked downloadable here, we saw:

The different ways gifting is being employed today

- The concerns clients have with passing on their inheritance early
- How advisers are being shared across generations
- What clients want more of from their adviser experience

A trend that speaks loudly in the research is the growth in appetite for sustainable and responsible investing. Responsible investment funds saw net retail sales treble to £10bn in 2020, compared to £3.2bn in 2019.**

Responsible investing is becoming increasingly normalised, making it a fundamental building block within intergenerational financial planning. It also helps clients to leave their children more than just a financial legacy in terms of planet, environment and society.

> There are fundamental differences between, Sustainable, Impact, ESG, SRI and wider responsible investments. For the sake of simplicity, in this report we use 'responsible investing/investments' as a term to represent the broad church of options.

* https://www.kctrust.co.uk/partner-blog/infographic-intergenerational-wealth
** £5.2bn inflows to active funds in December, in second highest inflows on record.

Who is the pandemic most encouraging to seek advice – and for what purposes?

For many, the crisis has changed financial priorities – and accelerated actions. Farewill, the will writers, saw volumes rise 267% year-on-year, with the greatest spike among Millennials and Generation Z.*

The primary motivations behind the need for advice were the traditional 'receiving an inheritance' (24%) and 'preparing for retirement' (23%), but new needs stimulated by the pandemic now present themselves.

Just over 1 in 5 (21%) were seeking advice to 'begin their investment journey', with Millennials indexing highest across all generations for this at 26%.

Furthermore, qualifying the nature of their new investment journey, 19% of those in the study were prompted to seek advice by a desire to move into ethical or sustainable investing; individuals who will now need professional guidance from advisers on the growing number and types of screened and impact fund options.

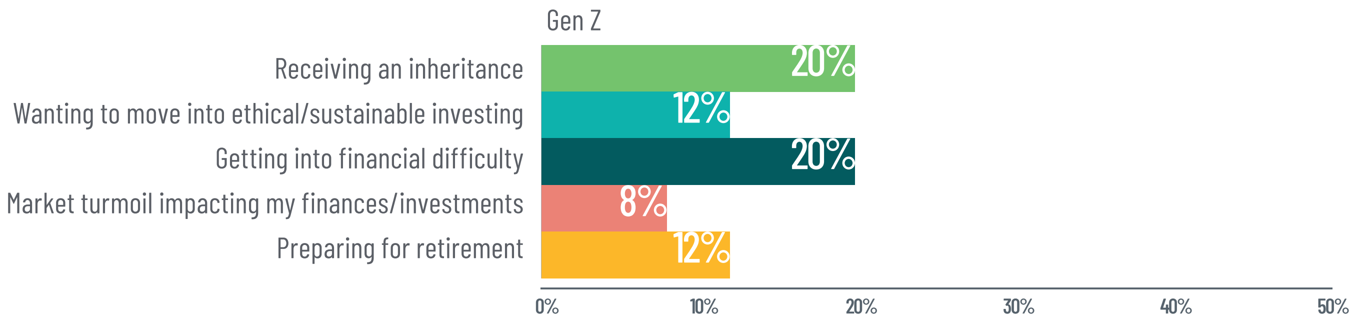
The research shows how the COVID-19 crisis has undoubtedly prompted the need for advice, across all generations. 1 in 2 (53%) of those interviewed said that had either already sought advice – or were planning to as a result of the pandemic. In fact, only 23% weren't now planning to.

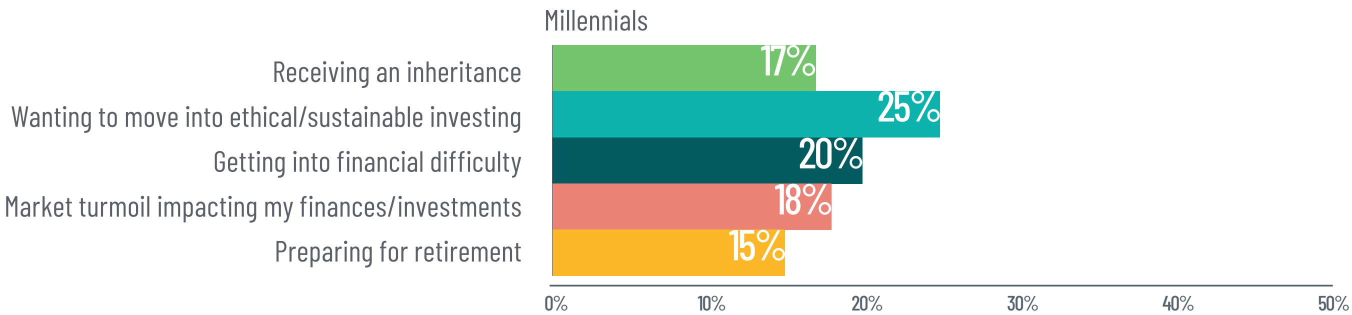
53%

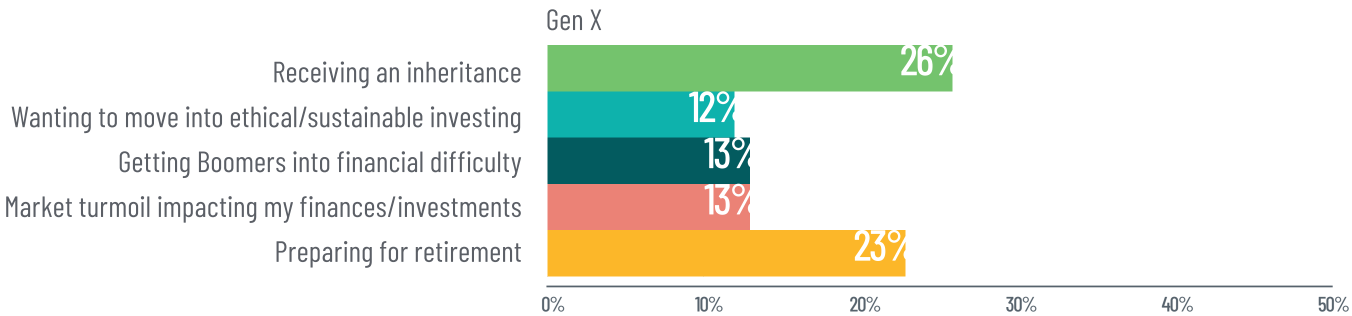
of people said the crisis had prompted them to seek financial advice

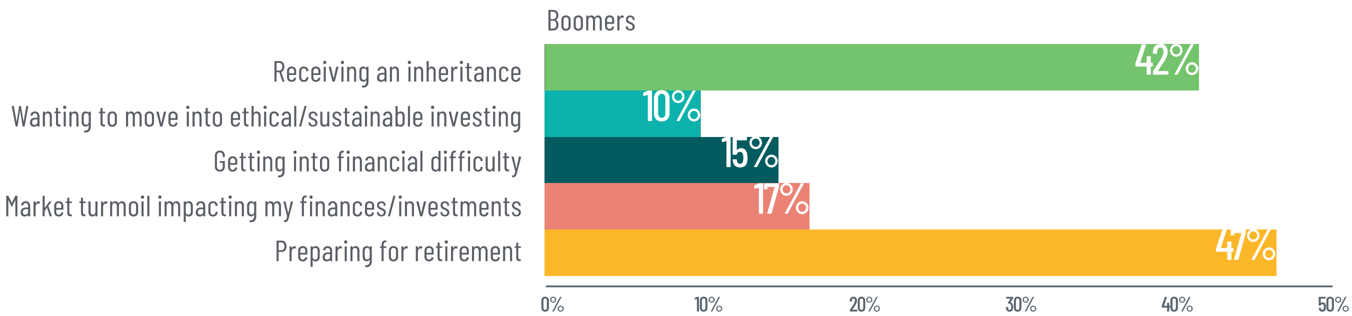
* Farewill, Year In Wills Report 2020

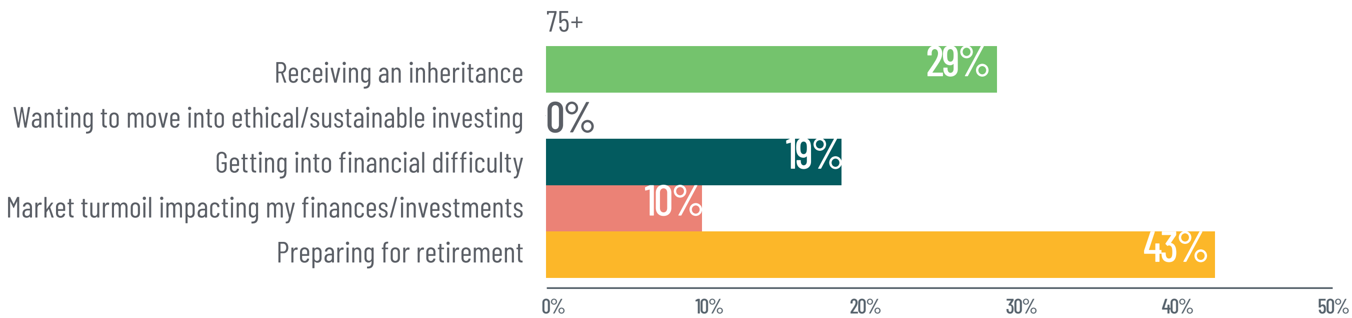
Which, if any, of the following are most likely to prompt you to seek advice from a professional financial adviser?











The pandemic has further stimulated the appetite for responsible investing

People's perceptions of the world they live in has undoubtedly been affected by the crisis. 61% of all those surveyed in our research confirmed they now care more about the environment, sustainability and our planet than before the pandemic.

And this is translating through to investing. 60% of Millennials, 44% of Gen X and 35% of Boomers confirmed that the pandemic has increased their appetite for sustainable investments.

The pandemic has increased the appetite for sustainable investments for

1 in 2

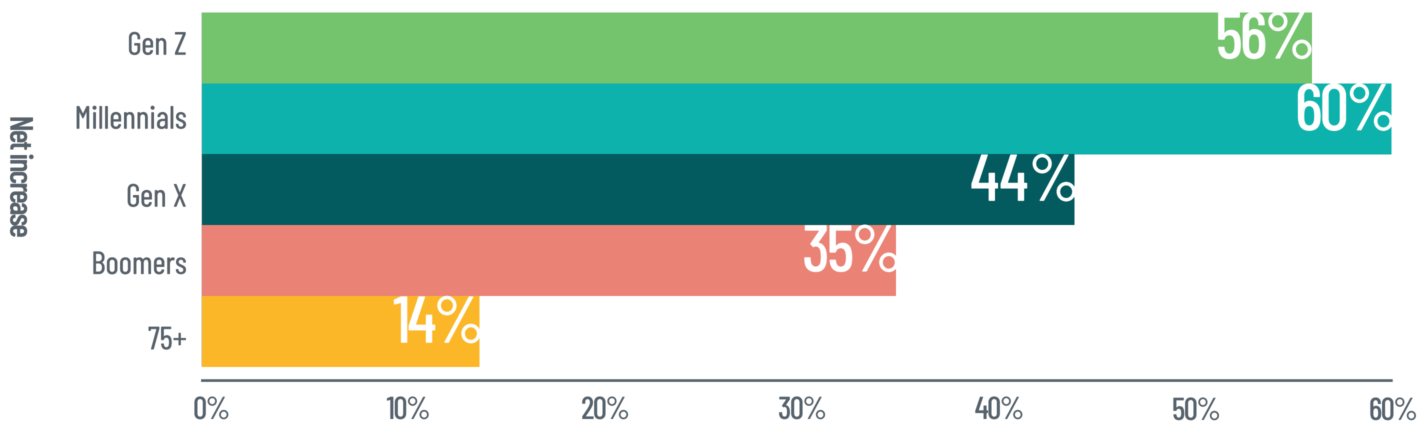
45%

of previously advised clients say that since the pandemic they now only want to invest in ethical companies and funds

Many investors go further still. 45% confirmed that since the pandemic they now only want to invest in ethical companies and funds, influenced perhaps by a rising tide of performance data from bodies such as FE Fund info showing that funds with an ESG approach have been outperforming their peers for much of the past five years.*

Past performance is not an indicator of future performance.

How much has the pandemic affected your concern for the environment and desire for sustainable investments?



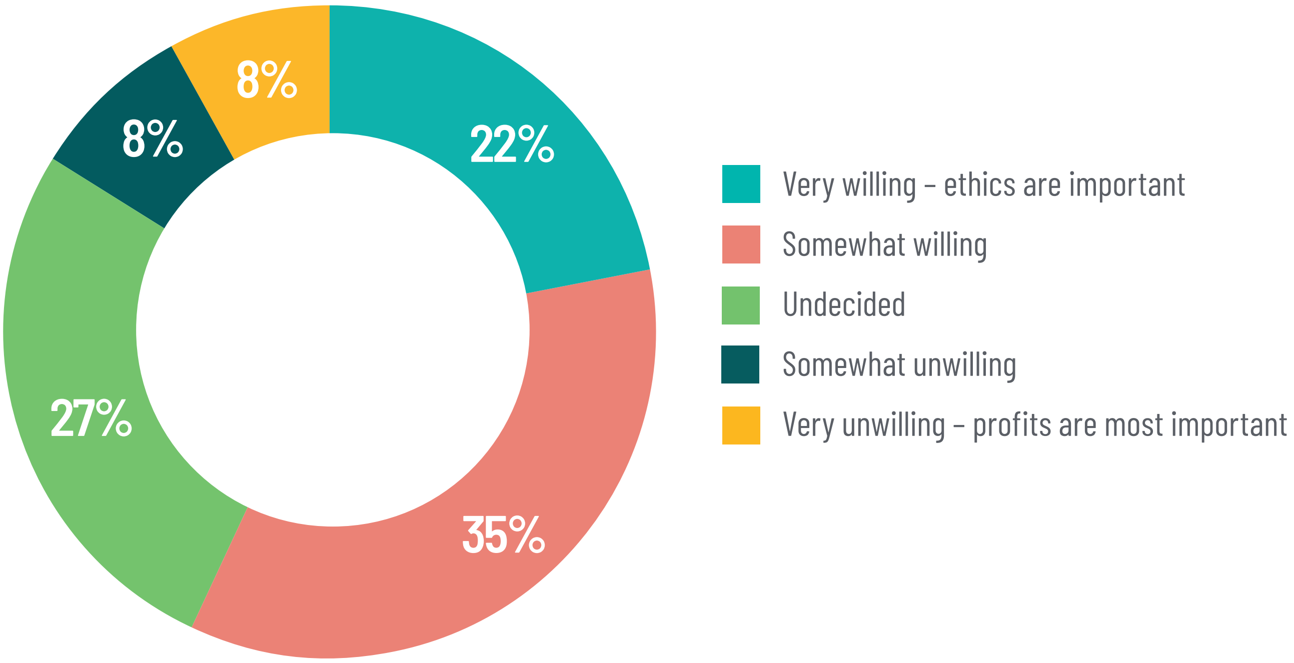
* "Performance of ESG and non-ESG funds by calendar year", from article "Responsible investment funds beating conventional peers over more than just 2020", Trustnet, October 2020.

Agents of positive change

With 2 out of 5 of all advised clients (39%) confirming they expect to increase the amount they invest in Sustainable, Impact, ESG and wider investments over the next 5 years, incorporating Sustainable, Impact, ESG and wider investments into recommendations will become increasingly critical in terms of meeting client, regulatory and business objectives.

The increased inclusion of Sustainable, Impact, ESG and wider funds into client portfolios means advisers are increasingly becoming agents of social change. In turn, investors benefit from the ability to influence fund managers and proxy voters, shaping 'good' corporate behaviours over time. Enabling investors to leave a wider legacy to the next generation beyond that of wealth alone.

Would you be willing to invest ethically, potentially at the expense of investment growth?



While client appetite for ethical investment is strong, some advisers have still to seize the opportunity. Our research shows that 43% of all previously advised clients admitted that their financial adviser had never raised the topic of ethical, SRI or ESG investments with them. This being true of 68% of Boomers, 54% of Gen X and 30% of Millennials. While reasons for this reticence will be diverse, advisers' lack of engagement in this area is no longer an option.

45%

of advised clients said their adviser had never raised the topic of ethical, SRI or ESG investments with them

MIFID II: the transformation of advised responsible investing

Proposed changes to MIFID II mean that as early as 2022 an accurate assessment of clients' ESG preferences becomes mandatory in assessing fund suitability. Though it is unknown yet when the UK will adopt similar 'MIFID suitability' requirements, it is likely that we will mirror most if not all of these requirements.

Client demand, however, has meant many advisers are already adopting these principles ahead of any regulatory requirements. For those wishing to advise different members of the same family, individuals' views on ESG investing may well further accelerate change.

57%

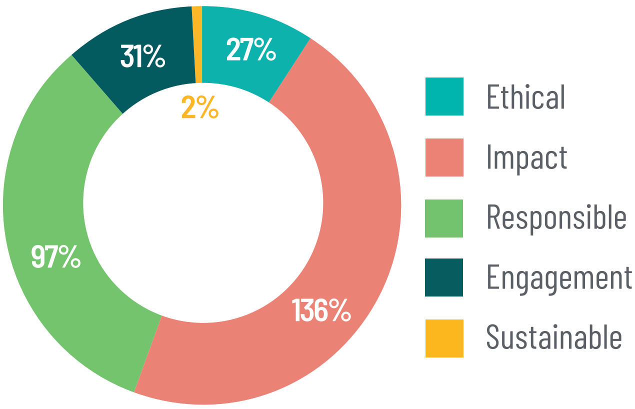
of clients would be willing to invest ethically, potentially at the expense of investment growth

Post MIFID II responsibilities for advisers could include:

- Obtaining and defining client preferences in relation to ESG as part of fund suitability assessment. Defining this accurately will be critical, as while risk profiling is standardised and runs from 1 to 10, no such ESG benchmarking system exists.
- Mapping these preferences accurately to funds, be that ethical, sustainable, Impact, SRI, climate, ESG or wider solutions.
- Monitoring that funds invested in stay valid to preferences over time – a real challenge for advisers in light of funds being repurposed. Clearly advisers must guard against the potential for 'greenwashing'.

Some investors though are proving single mindedly purist. 57% would be willing to invest ethically at the expense of investment growth. In fact, only 16% of previously advised clients said they were now unwilling to put growth first.

Fund Distribution by Approach* (No. of funds)



Approaches: **Ethical** – avoiding companies on the basis of pre-determined ethical criteria. **Responsible** – mitigating harmful impacts by supporting social and environmental best practice. **Sustainable** – focus on investment in environmental or social themes. **Impact** – must be intentional and measure the impact as well as investing in companies that make a positive impact. **Engagement** – effecting change through dialogue with management.

* Pie chart with 'Fund Distribution by Approach' from p.9 of Good Investment Review Square Mile Investment Consulting and Research and 3D Investing

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- The support of both your Account Manager and our technical team to support you on cases.
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