



Gateways to Impact

Industry Survey of Financial Advisors on Sustainable and Impact Investing

www.gatewaystoimpact.org

June 2012



Investment Research Team

Supporters

The Rockefeller Foundation

Deutsche Bank

Envestnet

Metanoia Fund

Veris Wealth Partners

Project Managers

Justin Conway, Calvert Foundation

Art Stevens, Calvert Foundation

Research Team

Joe McKee, Hope Consulting

Hope Neighbor, Hope Consulting

Greg Ulrich, Hope Consulting, Lead Analyst

Executive Council

Marion Asnes, Envestnet

Margot Brandenburg, The Rockefeller Foundation

Anders Ferguson, Veris Wealth Partners

Bruce Kahn, Ph.D. and Mark Fulton, DB Climate Change Advisors, Deutsche Asset Management

Ralph Taylor, Metanoia Fund

Contributors

This research also benefitted from the contributions of Amit Bouri at the Global Impact Investing Network, Tina Browne, Gabe DiClerico, Lisa Hall, Carrie Hutchison, Margot Kane, and Noelle St.Clair at Calvert Foundation, Rosalie Cates at the CDFI Community Investment Initiative, David Chen at Equilibrium Capital Group, Ron Cordes at ImpactAssets, Rob Densen and Jim Marren at Tiller, Lori Hardwick at Envestnet, Bob Kendell at Deutsche Bank, Peter Knight at Generation Investment Management, Linda Postorivo at The Beringer Group, Leola Ross at Russell Investments, Michael Van Patten at Mission Markets, Eileen Wilhem at Pinnacle Philanthropy Partners, and Lisa Woll at US SIF.

Table of Contents

SECTION ONE: Executive Summary	1
SECTION TWO: Survey and Sustainable Investing Overview.....	3
SECTION THREE: Findings.....	4
SECTION FOUR: Implications	10
APPENDIX A: Research Methodology	12
APPENDIX B: Descriptions of Products Tested.....	14

List of Figures

Figure 1: Characteristics of interested advisors.....	4
Figure 2: Drivers of advisor interest, by segment.....	5
Figure 3: Advisor interest in eight sustainable investment products	6
Figure 4: Advisor interest in eight sustainable investment products, by advisor segment .	6
Figure 5: Factors that would motivate advisors to recommend sustainable investments...	7
Figure 6: Popularity of terms for sustainable investing, overall and by advisor segment ..	8
Figure 7: Calculation of market potential	9

SECTION ONE: Executive Summary

The market for sustainable investing is significant and growing, and financial advisors increasingly see the need to understand this market better in order to effectively serve and attract clients. Though investors are interested in this market, they often report that their financial advisors are not equipped to advise on sustainable investments.¹ This report gauges financial advisors' interest and needs related to sustainable investing, and ultimately finds strong interest, with a near-term market potential of \$650 billion in the U.S.

Sustainable investing: an investment discipline that seeks to generate both a financial return and to proactively create environmental and social benefits. Investments range from publicly traded funds, stocks, and bonds with best-in-class environmental, social, and governance practices, to investments in private enterprises working on issues such as access to clean water, poverty alleviation, and renewable energy.²

Report Overview

This report is based on a nationwide survey of 1,065 financial advisors currently managing client money. The report provides financial services firms with key insights into the demand among financial advisors for sustainable investment information and products. It offers an overview of financial advisors' readiness to advise their clients on sustainable investments and recommends how wealth management and financial services firms can better support their advisors and clients. It also provides insights into how field builders can contribute to financial advisors' understanding and engagement with sustainable investments.

The report covers four topics:

1. Financial advisors' **interest** in sustainable investing
2. The **barriers** that advisors see to recommending sustainable investments and their preferred **solutions**
3. Financial advisors' preferred **positioning** of sustainable investments
4. The **market potential** for sustainable investments to be incorporated into client portfolios

Interest

- 38% of financial advisors expressed strong interest (8+ on a scale of 1-10) in recommending sustainable investments to their clients; 72% expressed some interest (6+ on a scale of 1-10).
- Advisor interest in eight sustainable investment products was tested. The highest levels of interest were in more traditional products that are already familiar to advisors – U.S. Large Cap Equity Fund with ESG focus (61% of advisors indicated this was appropriate for many or all of their clients; ESG means environmental, social, and governance considerations are factored into company analysis), U.S. Corporate Bond Fund with ESG focus (53%), and Global Equity Fund with Sustainability Focus (51%). There was also a significant view (23%) that the more “impact focused” private debt and equity options tested were appropriate for many or all of their clients.
- The advisors who expressed strongest interest in advising their clients on sustainable investment strategies tended to be female, to have advanced certifications (CFA/CFP/CIMA), to be affiliated with national registered investment advisor (RIA) firms, to have average client assets under management (AUM) from \$1 million to \$10 million, and to have less than 10 years of tenure as advisors.
- Five segments of advisors were derived: **Engaged** advisors (21% of advisors), who exhibit the highest levels of interest and engagement; **Clearly Interested** advisors (16%), who are very interested and relatively engaged; **Curious** advisors (25%), who are somewhat interested but not significantly engaged; **Doubtful** advisors (25%), who show low interest and engagement; and **Uninterested** advisors (13%), who show very little interest.

¹ Market size: Social Investment Forum Foundation. 2011. *2010 Report on Socially Responsible Investing Trends in the United States*. Accessed at ussif.org/resources/pubs/trends/

Investor interest: Hope Consulting. 2010. *Money for Good: The US Market Opportunity for Impact Investments and Charitable Gifts from Individual Donors and Investors*. Accessed at www.hopeconsulting.us/money-for-good

² A more complete definition is found in SECTION TWO.

- Many financial advisors already provide advice on sustainable investments to their clients. Nearly half (47%) of advisors have clients currently engaged in sustainable investing, and almost one-quarter (24%) of advisors have recommended a sustainable investment product in the last three years.

Barriers and Solutions

- Advisors saw three categories of barriers to making sustainable investments: (1) perceptions of insufficient track records (50% of advisors) and weak financial performance (47%); (2) perception of insufficient client demand (45%); and (3) lack of access to quality research and information and lack of comfort advising clients on sustainable investments (both 42%).
- The factors that will enable advisors to increase their sustainable investment advisory are similar to the barriers that advisors observed: evidence of financial performance (54% of advisors cited as a need), client demand (44%), and longer track records (39%).
- Deeper analysis of advisor preferences showed that 82% of advisors who ranked higher-quality research as their #1 issue also reported that data on financial performance is most important to them.
- Data on social and environmental impact is especially important to the two advisor segments that are most engaged with sustainable investing, the "Engaged" and "Clearly Interested" segments. Among advisors for whom social/environmental data is a key need, 73% cited independent third-party ratings and 57% identified audited social/environmental performance data as being very useful.

Positioning

- Advisor opinion is divided on whether these investments are a new asset class (41%) or a filter to be applied across the portfolio (44%).
- Advisors do not consistently consider sustainable investments to be a given type of product or part of a portfolio; they were divided in seeing them as alternatives (27%), fixed income (24%), or equities (23%).
- Terms to describe sustainable investing that included "responsible" scored the highest, with "responsible investing," "socially responsible investing," and "sustainable investing" the three most popular.

Market Potential

- 69% of advisors saw sustainable investments as an opportunity to grow their practice.
- Advisors would recommend sustainable investments to roughly one-third of their clients and would allocate 10%-20% of those portfolios to these products.
- This means that U.S. advisors are on average willing to place 2.5% of their total AUM in sustainable investments, for a market potential of \$650 billion.

Implications

- Financial advisors show significant interest in sustainable investing, and for many advisors that interest is rooted in building their practice by staying ahead of the curve, differentiating themselves from their competition, and better meeting the needs of their clients. However, most do not sufficiently understand the market to recommend these products to their clients. Advisors need more education, especially around financial performance, client demand, and where to find quality information, to become more comfortable.
- Financial services firms can help their advisors grow their ability to serve more clients by providing advisors with guidance on how to build their expertise in sustainable investing and information on the products available at their firm.
- Financial advisors can talk with their clients to understand their interest in sustainable investing, become more knowledgeable on the field and available products, and look for business development opportunities.
- Field builders can educate advisors and financial services firms about existing sustainable investment products and services and the opportunity they represent to develop their client base.

SECTION TWO: Survey and Sustainable Investing Overview

Survey Overview

This report represents the findings of 1,065 financial advisors who are currently managing client assets and in possession of a relevant current license. Participating advisors came from all 50 states, from different types of firms, and advise a range of clients: 143 of the respondents advise clients with, on average, <\$100,000 in AUM, while 44 advise clients with, on average, over \$10M in AUM. The 41-question survey was run in November 2011 and was administered online. In order to not bias the respondents and responses, the survey did not identify itself as being about sustainable investing and did not ask a question on the topic until question 10. A review of existing research and interviews with 24 financial advisors preceded and informed the survey. Please see Appendix A for more information on the financial advisors surveyed.

Sustainable Investing Defined

Sustainable investing is an investment discipline that seeks to generate both a financial return and to proactively create environmental and social benefits. The investment discipline is broad, as it includes investors with many different motivations – from those seeking to achieve better risk-adjusted financial returns by evaluating corporate risks and opportunities, to those using it primarily to address social and environmental challenges through innovative investment structures, and multiple combinations thereof. As the motivations and strategies of those who make sustainable investments are very diverse, so too is the language that is used. The terms “socially responsible investing” and “ESG (environmental, social, and governance) investing” are generally used to describe investments in publicly traded funds, stocks, and bonds, whereas terms such as “community investing” and “impact investing” are generally used to describe direct investments in community development, microfinance, and other social enterprises that usually take the form of private debt or equity. Some consider these investment approaches as being under a single tent, while others consider them distinct strategies. What can be agreed upon is that there is no universal term that is consistently used by investors, advisors, and those in the industries that sustainable investing encompasses. The research team acknowledges that the language used in the investment discipline presents a challenge to its broad adoption, and there are currently many views on how best to move forward. This research report is focused on learning from advisors, not on coming to consensus on language.

The survey itself did not use the term “sustainable investing,” only a broad frame that was used as context for several survey questions:

“Investments or investment strategies that seek to generate a financial return and positive environmental and social benefits. These range from investments in corporations with best-in-class environmental, social, or corporate governance practices, to investments in companies that work on social or environmental issues, such as access to clean water, poverty alleviation, renewable energy, and others.”

The survey then described example products that met this definition. Based on the qualitative research, the research team felt that specific product examples were necessary to give advisors a clear understanding of this market. Each advisor reacted to products that were on the “best in class, publicly traded ESG,” and the “impact-focused private debt and equity” ends of the spectrum. None of the products tested were negative-screened investments, which avoid investment in alcohol, tobacco, firearms, gambling, and/or other industries.

Throughout this report, the term “sustainable investing” is used for brevity, and because it is a broader term that can be used to describe and incorporate all the investment products referenced in the survey. The use of the term is not connected with the language preference results from the survey.

SECTION THREE: Findings

This section describes financial advisors' interest in sustainable investments, the barriers advisors face to providing more sustainable investment advisory, advisors' preferred positioning of sustainable investments, and the market potential for sustainable investments to be incorporated into client portfolios.

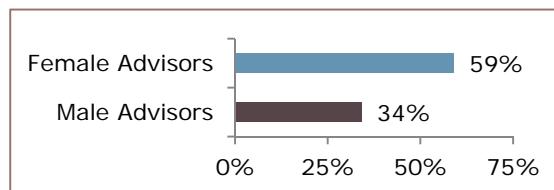
Levels of Interest and Characteristics of Most-Interested Advisors

38% of financial advisors expressed strong interest (8+ on a scale of 1-10) in recommending sustainable investments to their clients; 72% expressed some interest (6+ on a scale of 1-10). As Figure 1 illustrates, the advisors who expressed strong interest in advising their clients on sustainable investment strategies tended to be female, to have advanced certifications (CFA/CFP/CIMA), to be affiliated with national registered investment advisor (RIA) firms, to have average client assets under management (AUM) from \$1 million to \$10 million, and to have less than 10 years of tenure as advisors.

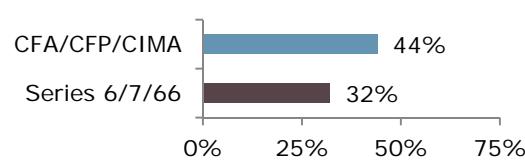
Figure 1: Characteristics of interested advisors

(% of respondents scoring 8+ on a 1-10 scale to the question "How interested are you in recommending investments that seek to provide financial returns and environmental and social benefits to your clients?")

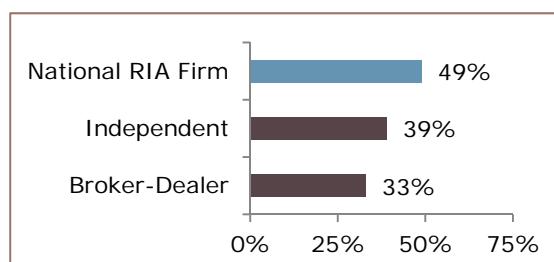
1. Female advisors more interested than their male peers



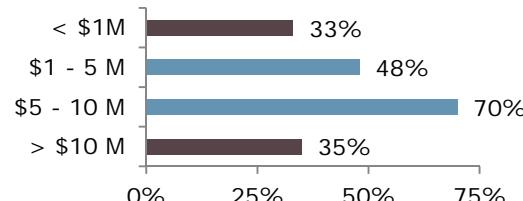
2. Advisors with advanced certifications more interested



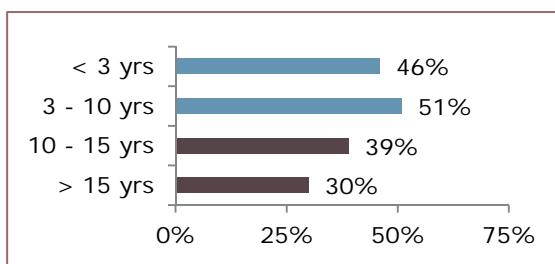
3. National RIA-firm advisors more interested than broker-dealers



4. Advisors with average AUM per client of \$1M-\$10M more interested



5. Advisors with less than 10 years of tenure more interested than those with more than 15



Current Activity Levels and Motivations

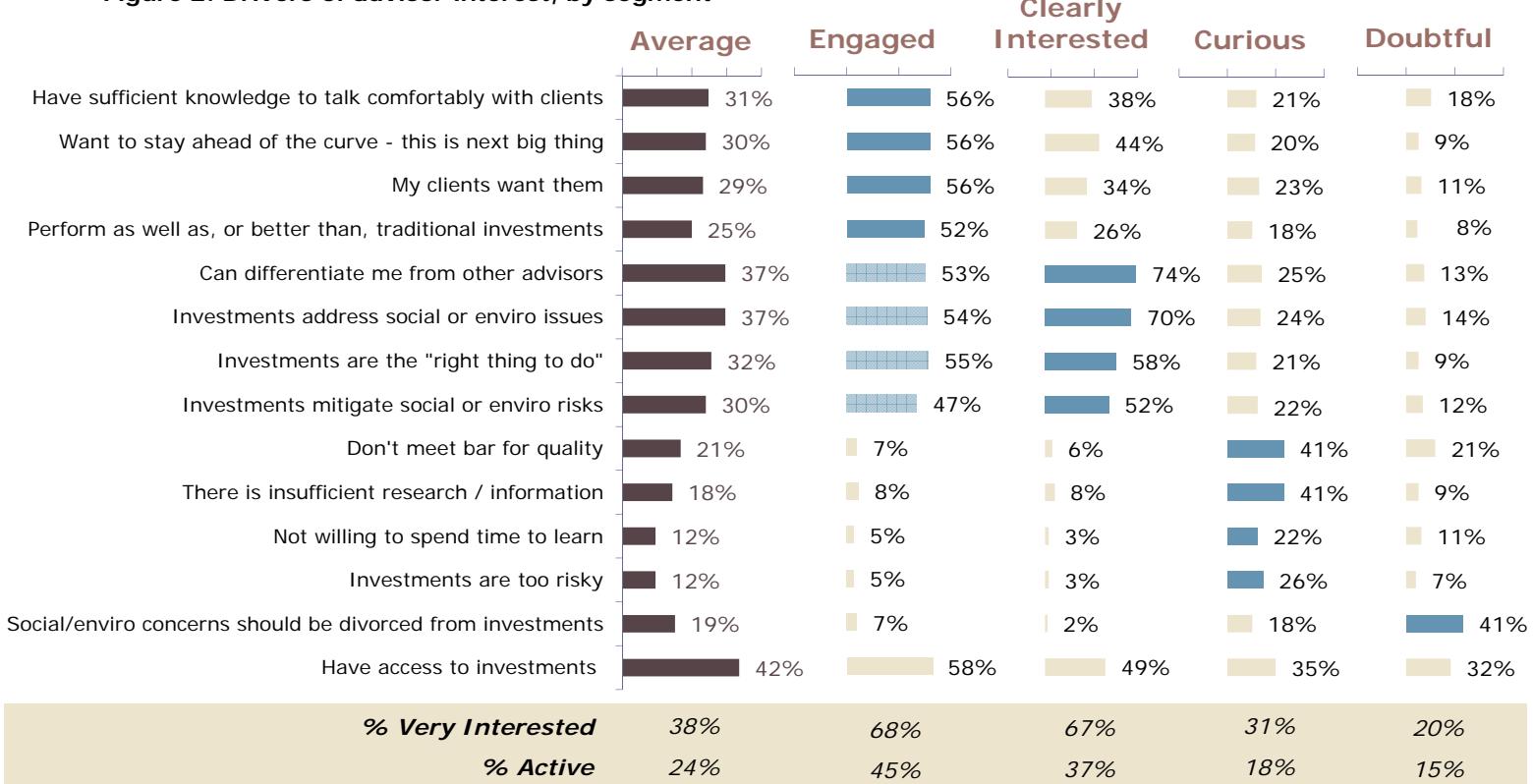
Many financial advisors have already helped a client find a sustainable investment option. Nearly half (47%) of advisors have clients currently engaged in sustainable investing, and almost one-quarter (24%) of advisors report that they have recommended a sustainable investment product to clients within the last three years.

Firms that seek to grow their sustainable investment advisory practice might target advisors who are already strongly interested in advising clients on sustainability. Statistical analyses were performed on the nationwide survey data to derive five segments of advisors based on the different reasons for advisors' interest in sustainable investing:

- **Engaged** advisors (21% of advisors) exhibit significant interest and engagement, believe in the social as well as the financial benefits of sustainable investing, and believe that it offers them a competitive advantage.
- **Clearly Interested** advisors (16% of advisors) are also very interested and relatively engaged, but do not yet feel they have sufficient knowledge to talk comfortably with their clients about sustainable investing. They are primarily motivated by the social and environmental benefits of these investments, but compared to "Engaged" advisors, they are more skeptical of the financial performance and the strength of client demand.
- **Curious** advisors (25% of advisors) are somewhat interested but not significantly engaged. This segment may become more active when the market matures and their concerns about performance are addressed.
- **Doubtful** advisors (25% of advisors) show low interest and engagement. Most advisors in this group reject the principle of sustainable investment, believing that social and financial concerns should be kept separate.
- **Uninterested** advisors (13% of advisors) are not interested in sustainable investments at this time.

Figure 2 illustrates the primary drivers of each segment's interest in sustainable investing. "Engaged" and "Clearly Interested" segments, which comprise over one-third of all advisors surveyed, demonstrate more interest and activity in sustainable investing, by a 2:1 ratio relative to the other segments. "Engaged" advisors believe in the financial performance of these investments and see them as an opportunity to stay ahead of the advisory curve. "Clearly Interested" advisors see sustainable investments as an opportunity to differentiate themselves as advisors.

Figure 2: Drivers of advisor interest, by segment



Percentages refer to number of respondents who scored an 8, 9 or 10 on a scale of 1-10. "Uninterested" advisors did not get these questions. Dark blue shaded bars indicate the attributes that differentiate each segment from others. Light blue shaded bars, under the "Engaged" segment, denote additional attributes that are important to this segment but not differentiating. "% Very Interested" refers to advisors' interest levels; "% Active" refers to those who have recommended a sustainable investment to clients within the last three years.

Advisor Interest in Specific Products

The sustainable investment market includes a range of investment opportunities, from large cap equity funds employing ESG strategies to private investment opportunities open only to accredited investors.

To understand the type of products that advisors would be willing to sell, advisor interest in eight products was tested (Figure 3). The highest levels of interest were in U.S. Large Cap Equity ESG (61%), U.S. Corporate Bond ESG (53%), and Global Equity with Sustainability Focus (51%) funds. Of the products tested, these investments were the most similar to traditional products familiar to many advisors and generated much greater interest than alternative products with a stronger focus on social impact. It is also worth noting that 23% of advisors indicated that the more "impact focused" private debt and equity options were appropriate for many or all of their clients.

Figure 3: Advisor interest in eight sustainable investment products

Products Tested	% Appropriate for Many / All Clients
• U.S. Large Cap Equity Fund employing ESG strategies, market returns	61%
• U.S. Corporate Bond Fund with ESG focus, Aaa/Aa+, market returns	53%
• Global Equities Fund with sustainability focus, market returns	51%
• U.S. Clean Tech Equity Fund, market returns	40%
• International Microfinance Fund for qualified investors, market returns	27%
• U.S. Community Development Bond, below market returns	23%
• Global Debt Fund focused on social issues, below market returns	22%
• Social Venture Capital Fund with Asia focus, new fund	21%

Product interest was similar when analyzed by advisor segment: Publicly traded market-rate products generated the most interest across each of the first four segments of advisors. Interest in the eight products across the five segments of advisors is detailed in Figure 4 below.

Figure 4: Advisor interest in eight sustainable investment products, by advisor segment

% Appropriate for Many / All Clients	Average Across Products	U.S. Large Cap ESG	U.S. Corp Bond ESG	Global Equity Sust Focus	U.S. Clean Tech Equity	Int'l Micro finance	U.S. Comm Dev Bond	Global Debt Social Focus	Asia Social VC
Engaged	43%	65%	52%	58%	47%	37%	31%	27%	26%
Clearly Interested	41%	68%	68%	59%	51%	22%	14%	21%	21%
Curious	40%	66%	53%	45%	45%	28%	30%	29%	22%
Doubtful	32%	51%	49%	51%	27%	25%	17%	16%	18%
Uninterested	18%	37%	30%	27%	13%	18%	9%	8%	4%

The research also showed that advisors who have previously invested client assets in sustainable investments or private placements (private equity, venture capital, or hedge funds) are markedly more interested than other advisors in recommending the less-traditional products aimed at creating specific social and environmental impacts. Many would term these products as more pure "community" or "impact" investments. Specifically, these advisors were more interested in recommending the International Microfinance Fund, U.S. Community Development Bond, Global Debt Social Focus, and Asia Social Venture Capital products. While 23% of advisors overall felt that these products would be appropriate for many or all of their clients, 27% of advisors who had already invested client money in sustainable investments indicated these products were appropriate (a 17% increase), and 31% of advisors who had already invested client money in private placements indicated these products were appropriate (a 35% increase).

Top Barriers

Many financial advisors do not fully engage in sustainable investing even if they are interested in sustainable investing and are already active in the market. Advisors are consistent in their reasons for not recommending sustainable investments. The top barriers that hold financial advisors back from recommending sustainable investments are (% of advisors citing barrier):

1. Belief that sustainable investments have insufficient track records (50%) and weak financial performance (47%)
2. Perception that there is insufficient client demand for sustainable investment products (45%)
3. Lack of access to the quality research and information, and lack of comfort advising their clients on sustainable investments (both 42%)

On client demand, 40% of advisors think that at least a fifth of their clients are interested in sustainable investing. However, they have little real information on clients' interest, and on average have talked about sustainable investing with only 15% of their clients.

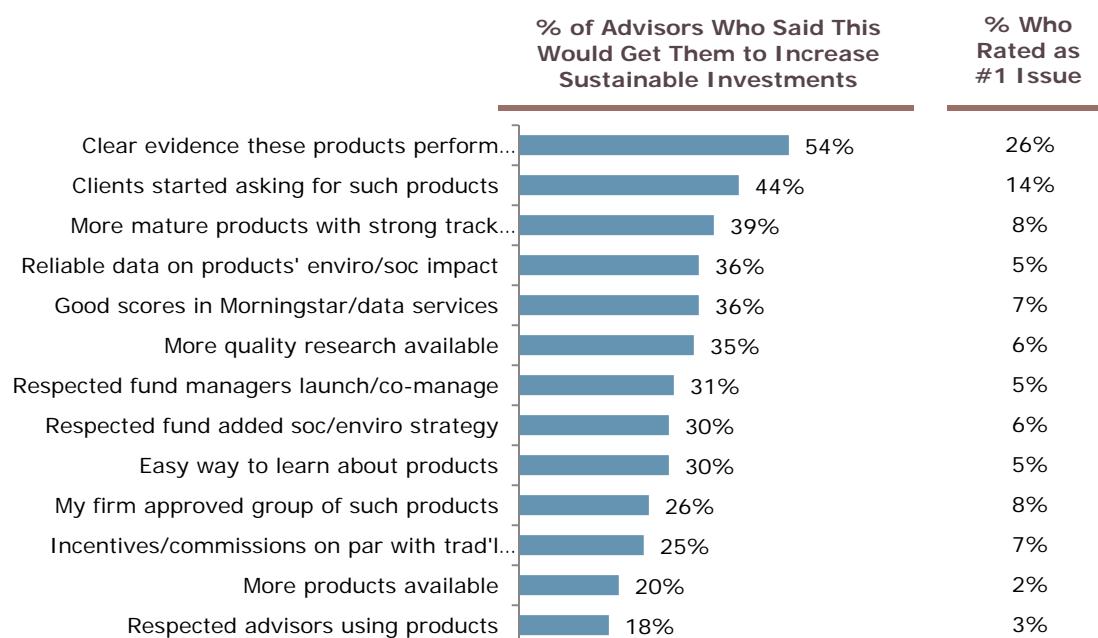
Preferred Solutions

The factors that advisors report will enable them to increase their advising on sustainable investment are similar to the barriers that advisors observe. The top factors that will drive advisors to recommend sustainable investments are evidence of financial performance (54% of advisors cite as a need), client demand (44%), and longer track records (39%). All solutions or remedies tested are provided in Figure 5.

Based on the solutions chosen, advisors were asked to provide more detail. Of the advisors ranking higher-quality research as their #1 issue, 82% want better data on financial performance, 53% want more information on the investment strategy and managers, and 45% want better social and environmental impact reporting.³

Data on social and environmental impact is especially important to the two advisor segments that are most engaged with sustainable investing, the "Engaged" and "Clearly Interested" segments. 22% of "Engaged" advisors and 30% of "Clearly Interested" advisors rate social and environmental impact data as one of their top three needs, versus 20% for advisors overall. Among advisors for whom social/environmental data is a key need, 73% cited independent third-party ratings as being very useful, 57% identified audited social/environmental performance data, and 40% want a clear explanation of how the investment makes an impact.

Figure 5: Factors that would motivate advisors to recommend sustainable investments



³ Percentages add up to greater than 100%, as respondents were able to choose as many types of research as they wanted.

Positioning

Advisors' opinions about whether sustainable investing is an asset class and which terms they prefer for sustainable investing can inform how sustainable investing is positioned to advisors. Of course, given advisors' stated need to become more comfortable with sustainable investing, the research team did not make significant inferences from these findings.

Advisor opinion is split on whether these investments are a new asset class (41%) or a filter to be applied across the portfolio (44%). Advisors do not consistently consider sustainable investments to be a given part of the portfolio, as they are divided in seeing them as most suitable for alternatives (27%), fixed income (24%), or equities (23%).

Among terms for sustainable investing, those that included "responsible" scored the highest, with "responsible investing," "socially responsible investing," and "sustainable investing" the three most popular. The terms that less than 50% of advisors liked were "mission related investing," "double bottom-line investing," "triple bottom-line investing," and "negative screen investing." Figure 6, below, details advisor responses to the descriptors. Most surprising is that all segments of advisors ranked the terms in similar order.

Figure 6: Popularity of terms for sustainable investing, overall and by advisor segment

Descriptions Advisors "Like" (% who "like" each term)	Overall	Engaged	Clearly Interested	Curious	Doubtful
Responsible Investing	77%	90%	88%	74%	72%
Socially Responsible Investing	73%	88%	87%	74%	68%
Sustainable Investing	67%	83%	80%	64%	64%
Positive Change Investing	64%	82%	75%	61%	59%
Green Investing	61%	78%	80%	57%	54%
Community Development Investing	60%	79%	72%	59%	49%
Positive Screen Investing	55%	73%	59%	53%	49%
Impact Investing	53%	65%	64%	55%	46%
Active Change Investing	50%	67%	57%	50%	42%
Mission Related Investing	46%	63%	49%	52%	37%
Double Bottom-Line Investing	39%	55%	38%	40%	30%
Triple Bottom-Line Investing	34%	41%	34%	38%	29%
Negative Screen Investing	28%	43%	25%	32%	19%

Market Potential

69% of all advisors believe that sustainable investments offer an opportunity to grow their practice should the barriers they see today be addressed. 27% believe they could both win new clients and increase the AUM of current clients, 22% believe they could win new clients, and 20% believe they could increase the AUM of current clients.

On average, advisors would recommend sustainable investments to roughly one-third of their clients and would allocate 10% to 18% of those portfolios to these products. In the aggregate, this means that U.S. advisors are willing to place 2.5% of their total AUM into sustainable investments, or roughly \$650 billion (Figure 7).⁴ This can be considered the total market potential, or maximum amount that financial advisors would want to place in sustainable investments today, if the barriers that they see to investing are addressed. While the percentages are lower, even "Doubtful" and "Uninterested" advisors think sustainable investments are appropriate for some clients.

Figure 7: Calculation of market potential

Segment	% Clients Appropriate For	% of Those Clients' Assets	Certainty ⁵	Total Potential (% of Client AUM)
Engaged	37%	18%	64%	4.3%
Clearly Interested	39%	16%	60%	3.7%
Curious	29%	15%	51%	2.1%
Doubtful	29%	12%	44%	1.5%
Uninterested	18%	10%	41%	0.7%
AVERAGE	31%	x	14%	x
			52%	=
				2.5%

⁴ \$650 billion is derived by multiplying 2.5% by the \$26 trillion investment management industry in the U.S., according to the U.S. Securities and Exchange Commission. Accessed at <http://www.sec.gov/about/whatwedo.shtml>

⁵ Advisors were asked, "How certain are you that you would make that allocation?" The research team calibrated findings based on responses to this question.

SECTION FOUR: Implications

A significant share of advisors expressed interest in sustainable investing. For many advisors, that interest is rooted in building their practice by staying ahead of the curve, differentiating themselves from their competitors, and better meeting their clients' needs. This suggests a bright future for the sustainable investing industry.

However, advisors need to be more comfortable with this market before they will recommend sustainable investments to their clients at greater scale. Even the most engaged advisors still need more evidence of financial performance. Education on the market and its opportunities will enable advisors to be comfortable advising clients to make sustainable investments and is key to growing this market.

Financial advisory and wealth management firms that are interested in expanding their sustainable investment business or deepening their expertise can do so by providing more support to advisors and wealth managers who are interested in sustainable investing. Field builders can contribute to research initiatives and help shed light on the financial and social returns of sustainable investments.

Recommendations for Financial Advisory Firms

The following recommendations suggest specific steps that advisory and wealth management firms can take:

- 1. Target advisors with high levels of interest or current activity in sustainable investing.** Advisory firms, especially large firms with a diverse advisor base, can help provide interested advisors more information on and access to sustainable investments.
 - The most interested advisors tend to be female, highly credentialed, and relatively early in their careers (less than 10 years' experience), with \$1 million to \$10 million in average AUM per client, experience with private investment vehicles, and affiliation with a national RIA firm.
 - Advisors who already advise on sustainable investing are 17% more interested in the private impact-focused products, and advisors who already make private placements are 35% more interested in impact-focused products than the average.

- 2. Provide advisors with guidance on how to build their expertise in sustainable investing**
 - Communicate the strong individual investor demand for sustainable investments. Half of individual investors are already interested in sustainable investing, and nearly 90% are open to it.⁶
 - Encourage advisors to ask their clients about whether they are interested in sustainable investments. Advisors do not tend to ask their clients about sustainable investing, although clients are interested and prefer to learn about these investment opportunities through their advisors.⁷
 - Let your advisors know about the available and approved sustainable investment options at your firm so they can conveniently find them.
 - Provide access to education and materials on sustainable investing, including overviews of the industry and the investment opportunities, and the financial performance of these investments.

- 3. Position sustainable investments in ways advisors prefer**
 - Speak to the reasons for advisors' interest in sustainable investing, positioning expertise on the field as an opportunity to build one's practice.
 - Know that advisors currently tend to refer to the sustainable investing tested in this research as "responsible investing," "socially responsible investing," or "sustainable investing."

⁶ Hope Consulting. 2010. *Money for Good: The US Market Opportunity for Impact Investments and Charitable Gifts from Individual Donors and Investors*. Accessed at www.hopeconsulting.us/money-for-good

⁷ Ibid.

Recommendations for Financial Advisors

Financial advisors can build upon their and their client's interest in sustainable investing to develop their practice and more deeply engage their clients. In order to do so, advisors could:

1. **Talk with their clients.** Advisors can use sustainable investing to get to know their clients better and bring new ideas to them. To start, advisors can:
 - Ask clients about their interests, what they are passionate about, the legacy they would like to leave behind, and other engaging questions to know whether sustainable investing might be of interest.
 - Bring suitable sustainable investing ideas to their clients that might be of interest.
 - Look for and understand the business development opportunities to attract new clients with sustainable investing.
2. **Become more knowledgeable about the field.** Advisors who are not comfortable with the market might invest the time to better understand sustainable investment opportunities. First steps could be to:
 - Explore the available research and industry resources on sustainable investing to become knowledgeable about the field and available products.
 - Reach out to sustainable investing resources and product providers to more deeply understand the options and how these investments could fit into client portfolios.
3. **Know what is available through their firm.** Specifically, advisors could:
 - Let their firm know that they and some of their clients are interested in sustainable investments.
 - Become aware of the sustainable investment products that are conveniently available through their firm. Most of the times there is not a single firm resource for this, so it might take some effort to get a full picture, but knowing client interests will help focus their search. It is also a good idea to ask leading sustainable investing product providers (mutual fund and other sustainable investment companies) about the opportunities they have at a specific firm.
 - If there are products of interest that are not available at their firm, inquire with the product providers to understand why and whether there are any potential next steps to make them available on their platform.
 - Talk with other financial advisors at their firm to learn how they have done sustainable investing.

Recommendations for Field Builders

Field builders have an important role to play in educating financial advisors and financial services firms about existing sustainable investment products and services and the opportunity they represent to attract new clients and more deeply engage existing clients. Field builders should:

1. **Reach out to financial services companies.** Outreach should emphasize:
 - Strong individual investor interest in sustainable investing, advisors' key role in "unlocking" this interest, and the \$650 billion market potential associated with meeting their needs.
 - The opportunity to gain share in an increasingly competitive advisory market by helping their advisors to build their sustainable investment practice or expertise.
 - That meeting the demand for suitable investments, which can be done with existing products that can be integrated into clients' current portfolios, is not as difficult as some believe.
2. **Provide increasing levels of education on the market.** Advisors are not comfortable with the market and need better information and tools to better understand the opportunities. Specifically, they need:
 - Analysis of and data on sustainable investments' financial performance and track records.
 - Audited or third-party data on these investments' social and environmental performance.
 - More knowledge about the products available on their platform, how they differ, how they are likely to perform, and where to place them in a client portfolio.

APPENDIX A: Research Methodology

The research methodology used for this report included:

- **Review of existing research** on sustainable investing and financial advisor preferences
- **Qualitative research:** Interviews with 24 financial advisors, representing a range of interest levels in sustainable investing and types of advisors (RIA, broker dealers, and independents)
- **Quantitative research:** Analysis of a nationwide survey of 1,065 advisors, all currently managing client assets and in possession of a relevant current license

Survey sample

The survey sample was a national sample of financial advisors, roughly representative in terms of gender, geography, average client assets under management, and firm. The survey was fielded through a leading online survey provider and generated responses from advisors working for 27 national financial advisory firms and an "other" category. Ten or more respondents came from each of the following firms: Ameriprise Financial, Charles Schwab, Edward Jones, Fidelity, JP Morgan, LPL, Merrill Lynch/Bank of America, MetLife Securities, Morgan Stanley Smith Barney, Raymond James, UBS, and Wells Fargo.

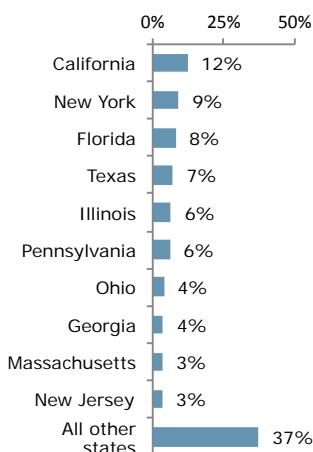
Only advisors who actively manage client assets were included in the survey. As a result, the survey is slightly under-represented on broker-dealers relative to industry norms, and slightly over-represented by those with advanced licenses. Neither of these effects had a major impact on key variables of interest, and no changes to survey data were made as a result of these effects.

The sample is over-represented on advisors with shorter tenures. Specifically, the panel is above industry norms on advisors with <5 years of tenure, and below norms on advisors with >15 years of tenure. The sample was re-calibrated to account for this where relevant, in particular when measuring overall interest in sustainable investments, and when calculating the size of various segments.

The charts on the following page provide more detailed information on survey participants.

1,065 financial advisors from all 50 states, from different types of firms and holders of various investment licenses/certifications were surveyed

Geography¹



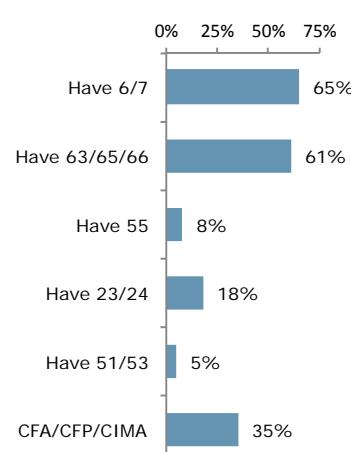
1. In line with industry norms

Firm Type²



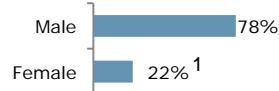
2. Slightly above industry norms

License³

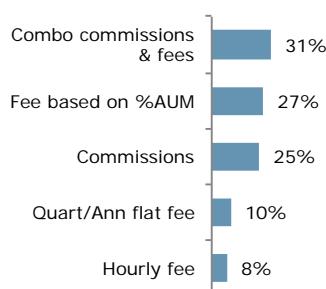


3. Above average advanced certifications

Gender

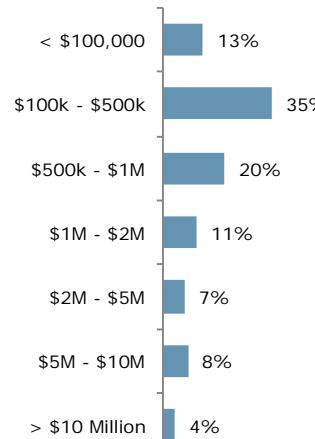


Income Model



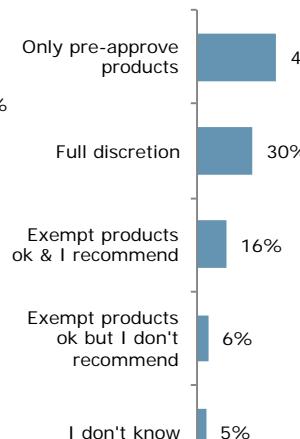
1. Above industry norms of ~ 15%

Typical Client AUM²

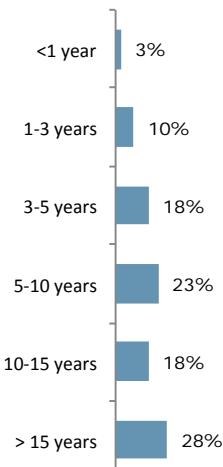


2. Account sizes align with industry norms

Authority



Tenure³



3. Above industry norms for advisors with < 5 years of experience, and below norms for advisors with > 15 years

APPENDIX B: Descriptions of Products Tested

The survey tested eight investment products that seek to generate financial returns and proactively create environmental and social benefits. While the products were hypothetical, they reflect similarities with existing products on the market.

Products

A: U.S. equities fund that invests in large-cap companies that score better than their peers on environmental and social issues. The fund has good managers, and the 7-year track record shows it bettering the S+P 500 index by 6 basis points on average.

B: U.S. corporate bond fund specializing in Aaa and Aa+ debt issues of large-cap companies that score better than their peers relative to environmental and social issues. The bond fund has a positive 7-year performance with a current yield average forecast on par with U.S. Aaa corporate debt index.

C: A U.S. community development bond product specializing in affordable housing and small business lending in urban centers. The bond offering has a 7-year track record and has not lost money, but it typically underperforms the Barclays' Bond Index by 1.25 percentage points. While the bond offering underperforms the index, investors receive excellent reporting data on the investments' accomplishments in local communities.

D: A debt fund with a 7-year track record that makes structured loans into difficult markets in order to solve specific problems, such as investing in companies that aim to reduce malaria in Africa by selling mosquito nets, or that seek to reduce water-borne illness by providing clean water infrastructure in rural Asia. The expected financial return is a few percentage points, but the historical loan repayment rates back to the fund have averaged over 90 percent. The fund also provides investors with excellent reporting data on the investments' environmental and social accomplishments.

E: A U.S.-focused equities fund with a 7-year track record that invests a minimum of 75% of assets into shares of high-growth companies that work on renewable energy generation and distribution, energy efficiency, or climate-related financial services. The fund has tracked on par with the clean-tech index.

F: An overseas for-profit fund that takes equity positions in microfinance institutions in emerging markets. The fund has good managers, a 7-year track record and has beaten the MSCI by two percentage points on average. This product is exempt and for qualified investors only.

G: A venture capital fund that invests in high-growth social enterprises serving low-income populations in Asia with services such as housing, healthcare, and education. The fund aims to create an attractive financial return for investors while achieving significant social impact in the communities it places investments. The fund has experienced managers that have done two other successful venture capital funds. The fund has a 7-year lock up, a basic capital-call structure, and has been open for a year.

H: A Global Equities fund with a 7-year track record, investing in assets that avoid the risks or build value from long-term demographic and resource constraint trends such as population growth, land and water scarcity, and natural resource depletion. The fund has good managers and has bettered the global equity index by an average of 12 basis points per year since inception.



Gateways to Impact

www.gatewaystoimpact.org

Project Managed by
Calvert Foundation
7315 Wisconsin Avenue, Suite 1100W
Bethesda, MD 20814

800-248-0337
advisors@calvertfoundation.org