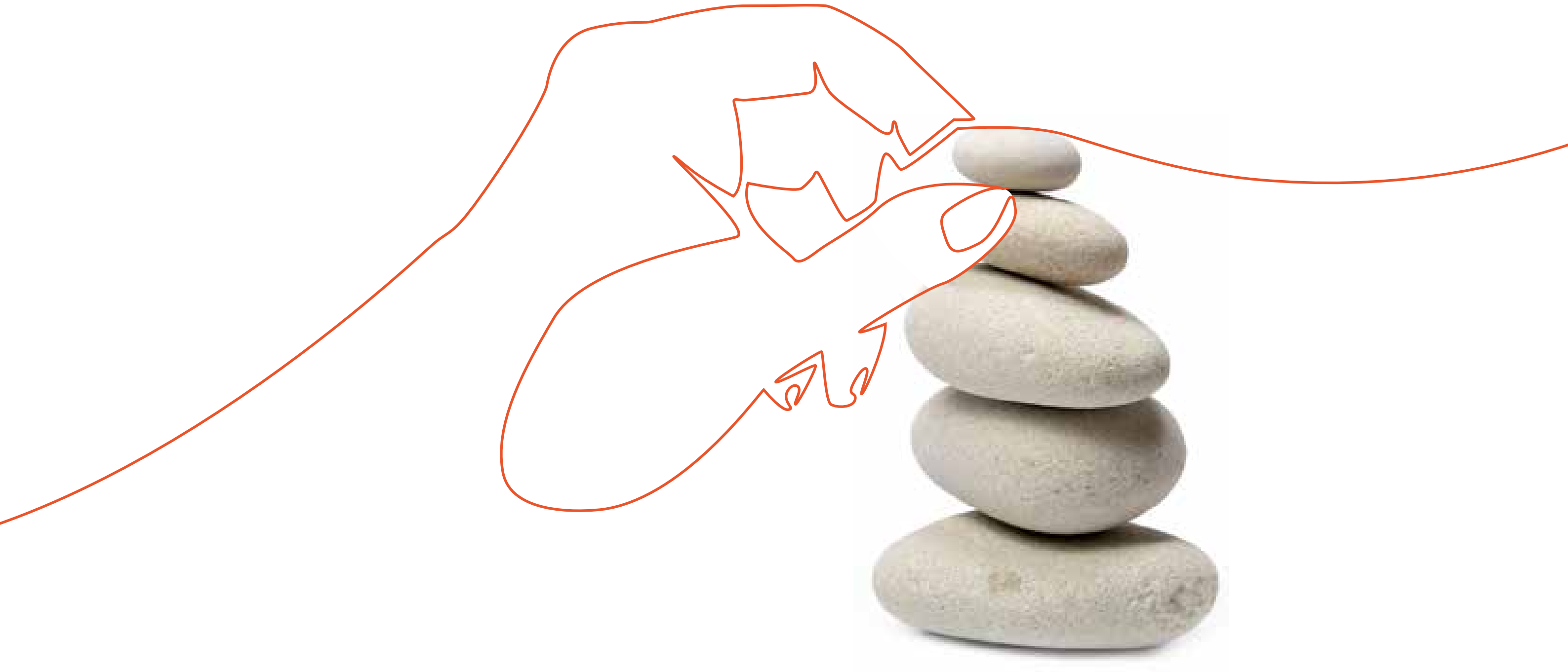
PHILANTHROPY: A GIFT OR INVESTMENT?

How young, socially-conscious investors are balancing approaches to philanthropy



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CAF Charities Aid Foundation

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FOREWORD

Is socially-conscious investment a threat to traditional giving? How will it transform what we know as philanthropy today?

In the years following the 2008 financial crisis, one shift has become clear. Handing money to charitable organisations is no longer sufficient for many philanthropists. Now they want more options, including making investments in organisations, projects or funds which offer measurable impact. They want more 'bang for their buck'.

An investment-minded approach has the potential to be a fundamental change in the way philanthropists think about giving and the way they choose to support their chosen causes. Can we transform the enthusiasm for 'ethical investments', which screen out undesirables, into an enthusiasm for investing in projects which achieve a positive social impact, to actively make the world a better place?

To help answer this question, we commissioned research into the philanthropic habits of the UK's wealthy donors. The research polled 1,005* individuals with an average wealth level of £7.5 million. It explored their approach and what proportion of their capital is placed in investments which aim to balance social impact and financial returns. The aim was to get a snapshot of the mentality and activity of those with sufficient disposable income to make strategic decisions about how they deploy their philanthropic capital.

The research found that all the respondents were active givers with average lifetime-to-date donations of over £140,000.

Nearly two-thirds of the people surveyed (63%) appear to be active, socially-conscious investors. Strikingly, that figure rose to 79% of those under the age of 40. The results suggest that this younger, wealthy demographic are widely engaged in a range of investment approaches that fit their ethical outlook or aim to generate a positive social return. Are they the pioneers who will help this emerging sector of the UK to break through to become mainstream in both philanthropy and investment?

In this paper, we discuss our experiences at Charities Aid Foundation (CAF) working with many wealthy private clients and the results of this research into socially-conscious investment – what motivates people, what are their aims and what is the future of this investment? Will people increasingly think of investing in causes where they can see some form of return? Or will they still consider philanthropy mainly as a gift to others in need?

David Stead
Executive Director,
Philanthropy and Development

* The research was carried out in September 2013 by Scorpio Partnership via an online survey. In total 1,005 wealthy respondents took part in the study.

THE SHOCK OF THE NEW

One of the most frequent questions philanthropists ask is, 'How can I make the biggest difference?'

Wealthy supporters of charitable causes have a massive opportunity to mould their chosen causes for the better. They have the means and they have the business acumen and experience.

People often have a very clear idea of the causes they want to support. The question for them is, how? Others have a clear idea of the process they would like to follow and the impact they would like to achieve, but are very open to ideas about which cause would benefit best from their resources.

Appetite for impact

What is increasingly apparent, particularly in the recent years of austerity, is that there is an appetite to make the biggest impact possible. There is great interest in the idea of recycling philanthropic capital – making money go further. And there is a growing appetite to use investments for good.

There is a growing appetite to make a measurable impact and to use investments for good

In practice, that has meant interest in 'ethical investment' focused on the social good or ill of the commercial sectors in which people invest, as well as 'social investment', which looks to balance social returns and financial gains. In this report, we combine these under the wider category of 'socially-conscious investment'.

Balancing financial and social returns

At their simplest, socially-conscious investments are mechanisms by which investors can choose both social and financial returns. For some, this simply means making investment choices that are in line with their ethical views. However, it is increasingly possible for individuals to find opportunities to invest in organisations that deliberately aim to produce a social return, and to balance this against their expectations of financial return.

The flexibility of social investment allows it to address a range of complex issues

Some socially-conscious investments are better suited to tackling bold, high-risk approaches to solving social issues. Others are more suited to funding well-tested projects which need capital investment to pay for their implementation. In both spheres, an increasing amount of choice is available.

New approaches to philanthropy

Younger people are beginning to make deliberate decisions to invest in these new approaches. They are showing a growing interest in putting together a portfolio of philanthropic investments – just as they would a portfolio of for-profit investments – marrying a balance of risks with a balance of potential social returns. Can they blend traditional donations with social investments? The latter might not always be repaid, but may instil greater focus and discipline on the recipient through measurable social returns.

SOCIALLY-CONSCIOUS CAPITAL

Our research highlighted a generation gap between the under 40s and over 40s on a number of key issues relating to philanthropy

Perhaps most telling was the different generational attitude to social investment. Of the 1,005 wealthy people surveyed, 285 were under the age of 40. Of this group, 79% held socially-conscious investments – defined as either ethically screened investments or those intended to create a social return (and not necessarily a financial one).

Four out of five wealthy donors under 40 years old hold socially-conscious investments

The next largest group of socially-active investors were those in the age range 40-49, among whom 62% had actively made socially-conscious investments **(Figure 1.1)**.

Indeed, with a 22 percentage point difference between the under 40s and over 40s when it comes to active social investment, this was clearly no blip.

Moreover, the acute social conscience of this younger age group was also shown by their wider giving patterns. On average, the under 40s surveyed had already given £170,800 to good causes – a lifetime giving amount already on a par with the over 60s surveyed – despite their relative youth.

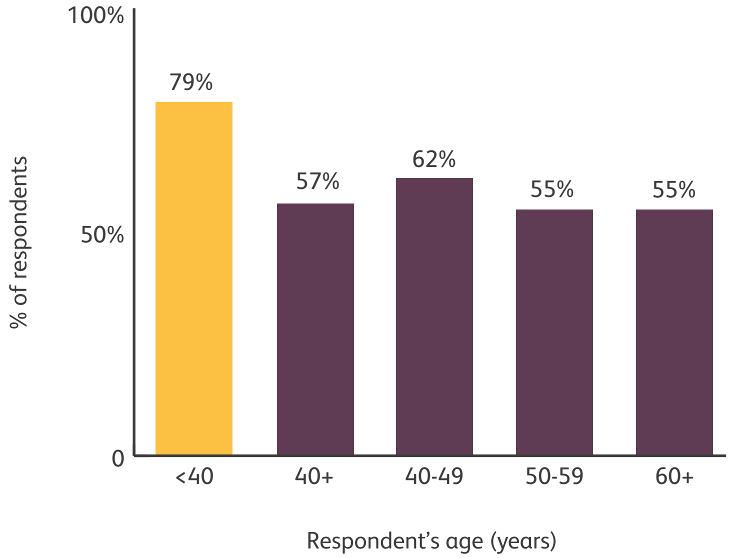
Balancing traditional and new

It is important to bear in mind that the under 40s respondents were not representative of the UK's wider population in that age group. Their average wealth was £6.3 million, compared to the average wealth of £8.0 million among the over 40s in the research; they are therefore disproportionately wealthy relative to their life-stage. However, the research does highlight that young, wealthy individuals in the UK – who have the means, the motivation and the opportunity to put their capital to work for social good – are choosing to balance both traditional philanthropy and new investment strategies to achieve their social goals.

Recycling philanthropic capital

These raw statistics bear out what we, at Charities Aid Foundation, learn from our discussions with wealthy donors from a range of backgrounds. Increasingly we are seeing people wanting to maximise the impact of any gift or social investment. There is real interest in recycling money through loans, so a gift can be used many times over.

Figure 1.1 Percentage of respondents who socially invest, by age



This chart illustrates the percentage of respondents who indicated they have an element of their total portfolio allocated to socially-conscious investments

Source: Charities Aid Foundation and Scorpio Partnership, UK major donor segmentation study, 2013 - n = 1,005

SOCIALLY-CONSCIOUS CAPITAL

More people want to maximise the impact of their donations and social investments

Entrepreneurs who calculate risks and returns every day in their businesses, are keen to apply their knowledge and skills to changing the world – taking risks on potentially game-changing initiatives, rather than simply donating to an existing institution or programme.

However, these trends are far from simple. Many people feel an acute responsibility not to 'lose' their philanthropic money – they are understandably anxious that any failed investment would be lost to charitable causes which they may have wished to support in the future. Others are restrained by the desire to find highly rigorous measurements of the impact of their philanthropy – a notoriously difficult area.

While the results show a significant commitment to socially-conscious investment among the under 40s, this should not overshadow the fact that over half of those over 40 are also active social investors, based on our broad definition of the term (see page 5).

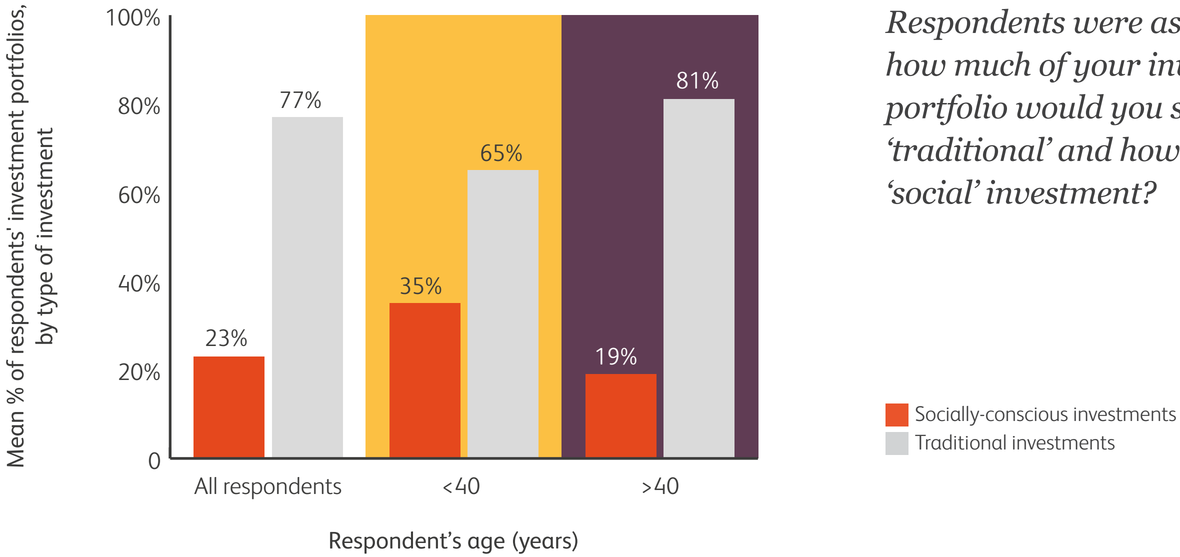
Indeed, across the survey sample as a whole, the respondents indicated that, on average, 23% of their total investment portfolio was invested in ways that were consistent with this broad definition of social investment. Yet, once again we find that the under 40s are more actively engaged, with 35% of their investment portfolios, on average, committed to such strategies **(Figure 1.2)**.

If we compare these figures with the total amount of financial wealth controlled by the UK's wealthy, these results suggest that as much as £233 billion[1] could already be invested in the UK with the objective of achieving both social and financial returns.

And, if the commitment to social investment shown by the wealthy under 40s is an indicator of a sustained demographic trend, then this figure is likely to rise higher as the younger generation consolidates its wealth.

1 Based on Scorpio Partnership's Wealth Distribution Model, and using a minimum individual wealth threshold of USD1million provides a UK total investable wealth pool, of which 23% equates to £233billion

Figure 1.2 Percentage of portfolios broken down by socially-conscious vs traditional investments



Respondents were asked: how much of your investment portfolio would you say is 'traditional' and how much is 'social' investment?

Source: Charities Aid Foundation and Scorpio Partnership, UK major donor segmentation study, 2013 - n = 1,005

INVESTMENT STRATEGIES

To some extent, of course, the level of socially-conscious investment depends on how the field is defined

Some investors simply apply their own ethical filters to the investment choices they make. For example, they may not invest in companies that have oil, arms, alcohol or tobacco interests; or they may only invest in companies with formal environmental, social and governance (ESG) policies. These investors argue that this approach enables them to choose from a wide investment field. Some rely on specialist fund managers to make the socially-responsible investment (SRI) choices for them.

Others take a more proactive stance of selecting companies that have a stated goal to make positive change – an 'active ethical' investment. Companies in renewable energy, healthcare or education are all good examples in this category. Microfinance also fits into this approach, where a traditional financial model is adapted for social purposes. Advocates here focus on the benefits of sustainable growth using traditional profit motives to get the biggest bang for their buck.

The difference between ethical and social investment is measurability

Where ethical and social investment meet

However, 'ethical investment' becomes true 'social investment' when the investment has an explicit social goal, and that goal is measurable. This is the hard core of social finance, where unsecured loans are made to charities or social enterprises that are working on stubborn social challenges, or where social impact bonds are offered, paying bondholders a portion of the savings made by society, subject to agreed performance parameters.

Here the rewards are less certain. Investors, such as the philanthropists who support CAF Venturesome's social investment funds, may be able to recycle their charitable capital, again and again, into other loans and other good causes. Or they may accept that their philanthropic funds are eroded over time as they back projects which may not ultimately be able to repay. Pioneering funds such as CAF Venturesome have a substantial track record of success growing new social enterprises. Within the investment market though, this is a relatively new field, where new risks are being quantified and new sources of value are being assessed.

Looking at the social investment preferences of the UK's wealthy, we find they are active right across this spectrum. Nevertheless, standard investments selected for ethical reasons, investments in companies with a sustainability focus and dedicated socially-responsible investment (SRI) funds stand out as by far the most popular.

INVESTMENT STRATEGIES

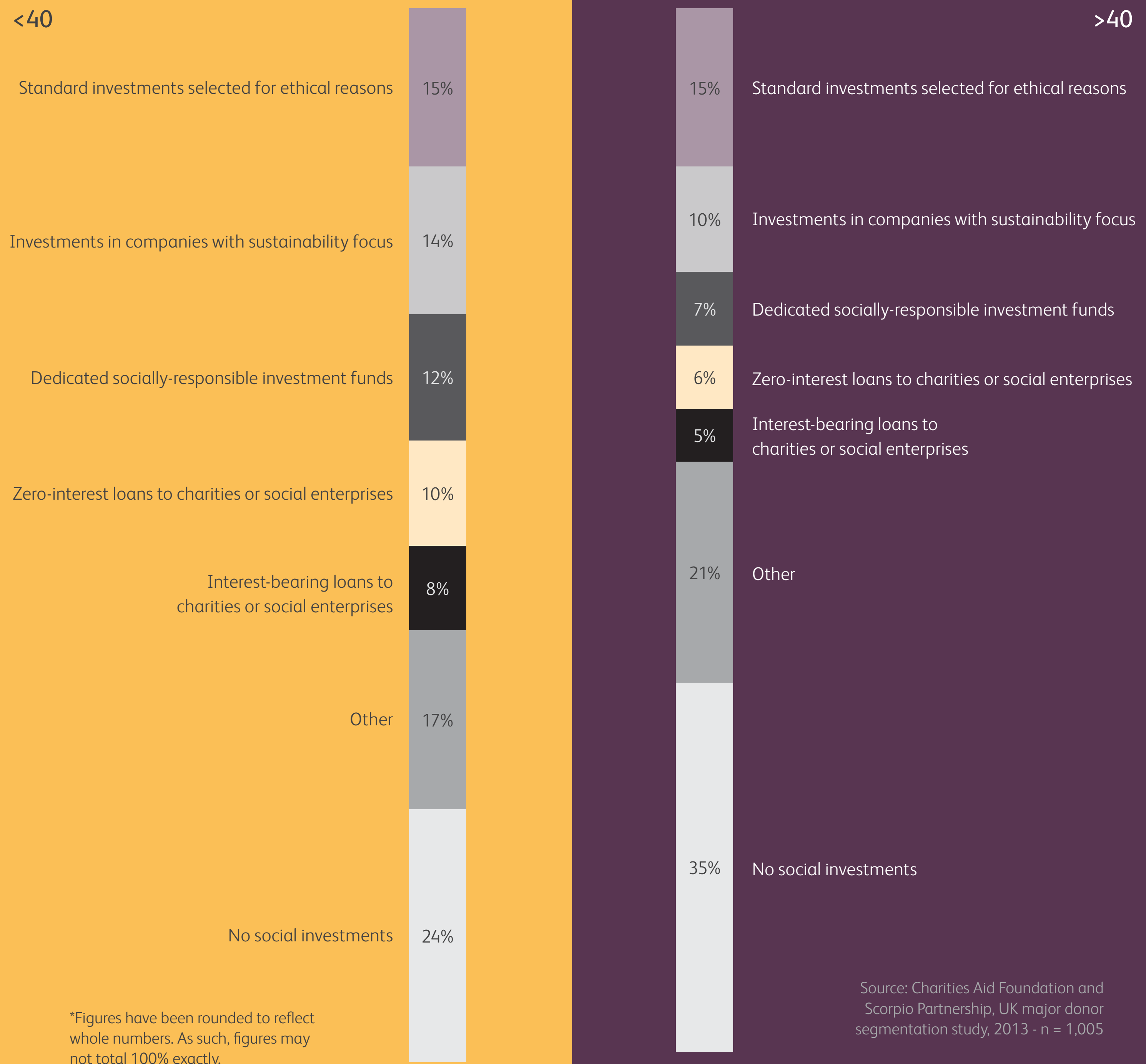
Generational differences

Among the over 40s population, these strategies account for 32% of their overall social investment portfolio. A further 11% is going into zero-interest or interest-bearing, payment-by-results models (Figure 1.3).

Once again, we find it is the under 40s who allocate a greater share into all social investment strategies than their wealthy and older peers. Notable variances between these age brackets appear across a number of investment strategies, particularly in dedicated SRI funds (12% for the under 40s, compared to 7% for the over 40s), zero-interest loans (10% compared to 6%) and investments in companies with a sustainability focus (14% compared to 10%).

Figure 1.3 Allocations within social investment portfolios

*Respondents were asked: what percentage of your social investments are in each of the following categories?**



*Figures have been rounded to reflect whole numbers. As such, figures may not total 100% exactly.

Source: Charities Aid Foundation and Scorpio Partnership, UK major donor segmentation study, 2013 - n = 1,005

INVESTMENT STRATEGIES

When asked to rate the attractiveness of different strategies, the under 40s were more positive about socially-conscious investments across the spectrum than were the over 40s. With the exception of interest-bearing loans to charities or social enterprises, around half of the under 40s found social investments attractive compared to between a fifth and one third of those over 40 (**Figure 1.4**).

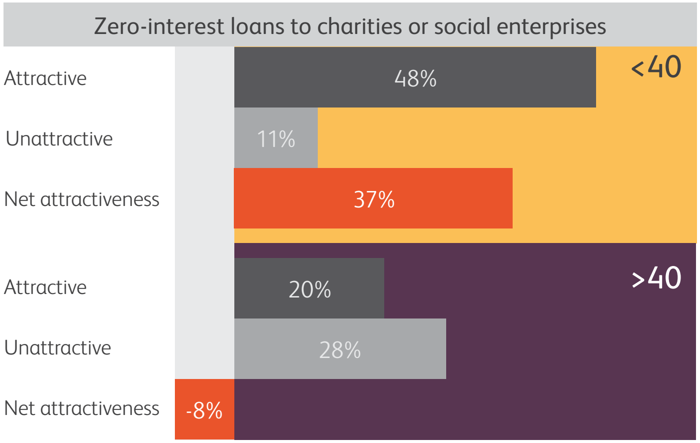
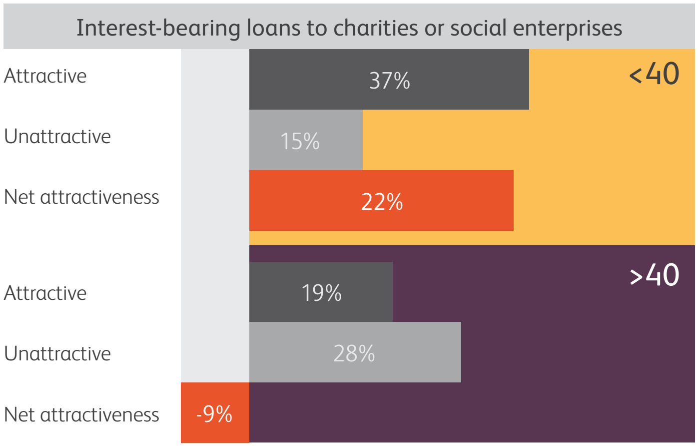


Figure 1.4 Areas of social investment interest

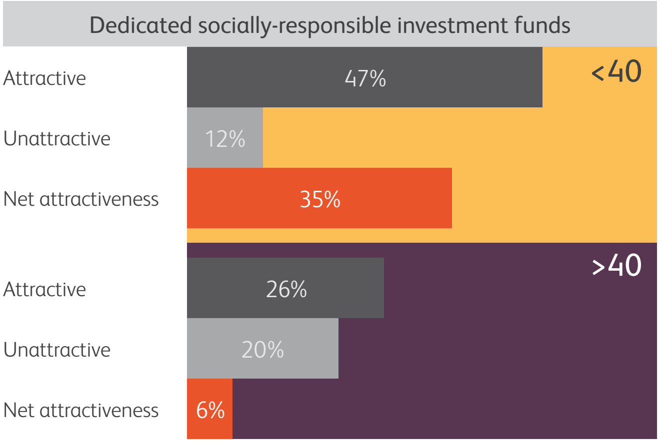
Respondents were asked: how attractive do you find these social investments as places to invest? (excludes 'don't know' responses)

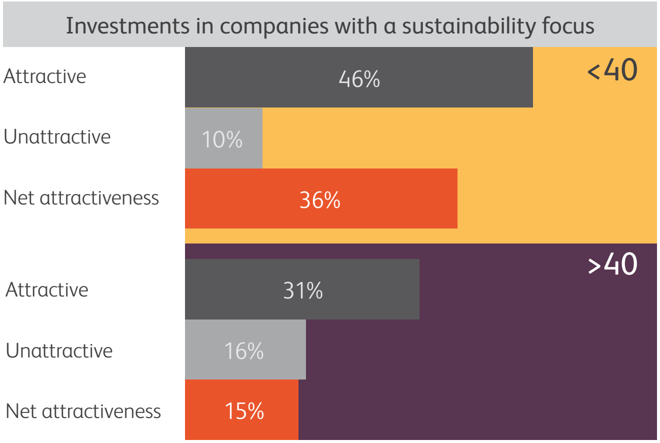


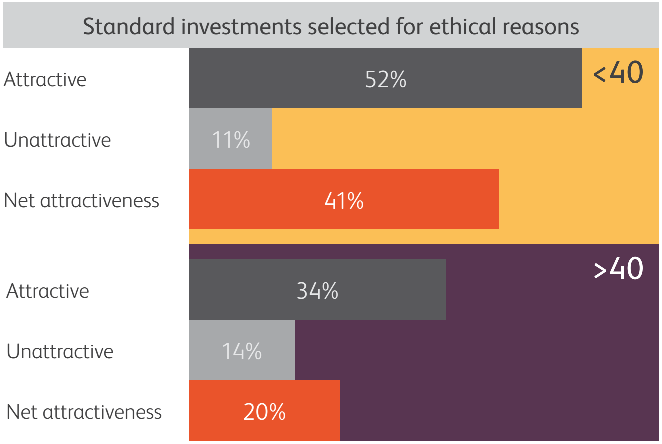
Attractive figures represent those who responded 'very attractive – I already invest in them' + 'attractive – I plan to invest in them'.

Responses exclude those who described the attractiveness of these investment opportunities as 'neutral'.

Net attractiveness figures represent the sum of the percentages of people who responded 'very attractive' or 'attractive', minus the percentage of those who responded 'unattractive'.







Source: Charities Aid Foundation and Scorpio Partnership,
UK major donor segmentation study, 2013 - n = 1,005

PERCEIVED BARRIERS

Wealth managers need to take note. Our sample represents a very significant market for investments. The under 40 group surveyed – who already held an average worth of £6.3 million – are likely to accumulate more wealth as they get older, potentially boosting demand for socially-conscious investments of all types: ethical, active and social investments.

Figure 1.5, meanwhile, shows the barriers which stop the under 40 and over 40 groups investing further in social investment strategies. Their responses are ranked by which factor was the 'most important' barrier to investment. There are many barriers to the expansion of this market, but a large majority of investors, of all age brackets surveyed, reported concerns with the complexity of products available, lack of a proven track record, risk, a lack of understanding and, crucially, a lack of specialist advice.

The most cited barrier preventing further social investment is the perceived high-risk profile of investments

This suggests that while there is an appetite for socially-conscious investments, there is a key role to be played by those with experience and expertise of the social investment field. Those who know the risk profiles and the potential scale of the social gains to be made, can help untangle the field. They can help investors create philanthropic and for-profit portfolios which balance risks and support those areas where the potential to make a positive impact is huge.

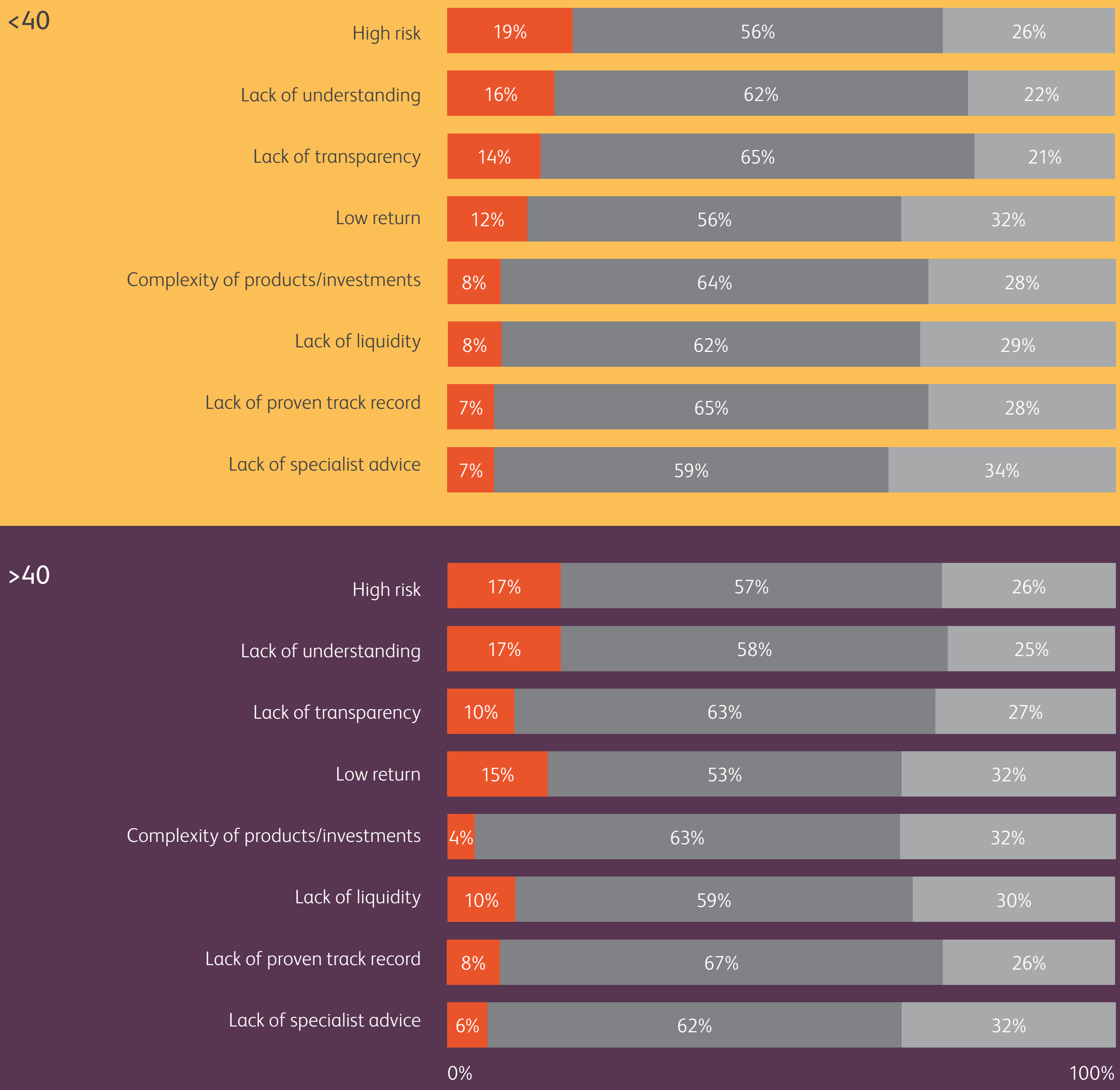
Figure 1.5 Barriers to social investment

Respondents were asked: what are the reasons that stop you investing more in social investment strategies?

These are not important reasons
These are somewhat important reasons
This is the most important reason that stops me investing

Figures have been rounded to reflect whole numbers.
As such, figures may not total 100% exactly.

Source: Charities Aid Foundation and Scorpio Partnership, UK major donor segmentation study, 2013 - n = 1,005


<40
High risk
19%
56%
26%
Lack of understanding
16%
62%
22%
Lack of transparency
14%
65%
21%
Low return
12%
56%
32%
Complexity of products/investments
8%
64%
28%
Lack of liquidity
8%
62%
29%
Lack of proven track record
7%
65%
28%
Lack of specialist advice
7%
59%
34%
>40
High risk
17%
57%
26%
Lack of understanding
17%
58%
25%
Lack of transparency
10%
63%
27%
Low return
15%
53%
32%
Complexity of products/investments
4%
63%
32%
Lack of liquidity
10%
59%
30%
Lack of proven track record
8%
67%
26%
Lack of specialist advice
6%
62%
32%
0%
100%

CONCLUSION

In conclusion, we have seen that the under 40s cohort are spearheading the growth of interest in social investment

The under 40s hold more types of socially-conscious investments, whether they are investments held for ethical reasons, all the way through to dedicated social investment funds. Not only that, but they also find social investments more attractive than their elders.

Despite this, all age groups share anxiety about risk, understanding these investment opportunities and their lack of transparency.

'New philanthropy'

The research presented here underlines what we learn through our experience dealing with wealthy donors, of all ages, every day. It is clear that there is growing interest in using entrepreneurial investment techniques to create more sustainable organisations, which improve the way they address social need and deliver broader benefits to society, like training and job creation. This 'new philanthropy' is a blend of traditional giving and creative investments, and is working to a broader and more strategic agenda. The combination is more powerful than either form can deliver alone.

The potential benefits are evident: recycling donations several times means a given pot of philanthropic money can help many times over. Despite the risks, investing in high impact schemes can deliver results that make a longer-lasting difference to the world.

Barriers to change

But there are big barriers to overcome. The market is too complex, and impact too hard to define and measure. Moreover, the idea of risk investment, that comes easily to entrepreneurs in their normal business lives, can be successfully applied. But this often becomes a more difficult decision when complicated by the need to ensure that philanthropic capital is used to greatest effect.

This all points to the need for better advice, better information and better planning – to help people build a portfolio of philanthropic investments, that achieve their specific objectives in making the world a better place. Philanthropy is not dying. Quite the reverse. As social investments demonstrate, it is evolving to produce a sophisticated and powerful choice of funding solutions with potentially broader and more sustainable impact. These are exciting times for philanthropy, for the new generation of social investors and for advisors who are keen to create effective solutions in this area.

TALK TO US

If you would like to kick-start your own philanthropy journey, or make your giving more strategic and effective, then we can help you.

Call our Private Client team to talk about the best ways to support the causes that matter to you.

03000 123 028
Lines are open Monday to Friday, 9am to 5pm (excluding bank holidays).

If you would like more information on our research, email
philanthropy@cafonline.org

Or visit our website and explore the many different ways to give
www.cafonline.org/philanthropy

Charities Aid Foundation (CAF) is a leading international, not-for-profit organisation, originating in the UK 90 years ago, that works to make giving more effective and charities more successful.

Spanning six continents, with services provided by local experts in nine countries, we help donors – including individuals, major donors and companies – to create the greatest impact with their giving. Our pioneering arm, CAF Venturesome, was one of the first social investment funds established in the UK.

We work with over 7,000 companies and manage nearly £3 billion for donors and charities, supporting over 50,000 non-profit organisations and social enterprises in over 100 countries.

We are a charity striving to make giving more effective and charities more successful.

Across the world, our unique experience and expertise makes giving more beneficial for everyone.

Charities Aid Foundation
25 Kings Hill Avenue
Kings Hill, West Malling
Kent ME19 4TA

T: +44 (0)3000 123 028
E: philanthropy@cafonline.org
W: www.cafonline.org

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