



The Rise of the Millennials

and the impact on values-based investing

Standard Life
Investments

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The Rise of the Millennials

The financial industry and the products it supplies have always evolved to meet market challenges and opportunities. Today is no different. One of the key factors that will drive the industry over the coming years is the rise in prominence of the so-called Millennials (also known as Generation Y). This is the generation born between the early 1980s and 2000. The expectations and values of this tech-savvy group differ from those that have gone before them, most notably when it comes to social, economic and environmental issues.



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The investment management and pension industries must adapt to capture this next generation of investors. This will include creating products that reflect the Millennials' attitudes and beliefs, as well as reappraising the nature of investments and how returns are generated. The role technology plays – and the democratisation of information – will also be of prime importance. The rise of the Millennials will also have far-reaching implications for the wider corporate world. We are already seeing the wide-scale disruption of traditional business models.

In this paper, we will seek to explore the potential impact the Millennials will have on traditional financial management, as well as the many opportunities they create for the industry, including impact investing. We will also look at the wider implications the preferences of this generation will have for the economy, the business community and society as a whole.

Who are the Millennials?

Millennials are those individuals between the ages of mid-teens to early 30s. According to the US Chamber of Congress, there are over 80 million Millennials in the US (they also account for nearly a quarter of the population in the EU). This means they outnumber the Baby Boomer generation for the first time (60 million). Millennials are also set to become the most educated generation in history.¹

They have grown up in a period of rapid change, including huge technological leaps (the internet, smartphones, etc.), globalisation (shared experiences and norms across cultures and countries), climate change and economic upheaval (the global financial crisis and the Great Recession). The events of 9/11 and subsequent conflicts have also shaped the Millennials' world views.

The nature of how they consume and share information is also markedly different from previous generations. Thanks to the internet and mobile phones, information can be viewed quickly, at all times and from most locations.

The source of this information is also more peer-based or from non-traditional-media outlets, such as social network sites and blogs.

This has earned Millennials the title “the first digital natives.” These factors have given them markedly different values, priorities and expectations from their predecessors. It has also shaped the way they view money and how they invest. And money they will have: over the next several decades around **\$30 trillion in financial and non-financial assets** will be passed from Baby Boomers to Millennials in the US alone.²



What are their values and motivations?

Several studies have been conducted to ascertain what motivates the Millennials and how their values compare with those that have gone before them.

For example, Millennials' beliefs on climate change – and whether or not it is man-made – differ from previous generations. As a study conducted by Statista in March 2014 showed:

“When asked if they believed that climate change was real and that humans were to blame for most of it, 50% of Millennials (13-36) answered yes,

whereas only 37 % of Matures (68+) agreed. Baby Boomers (49-67) and Gen Xers (37/48) were more neutral, answering 43 % and 47 % respectively.”

Of course, the Millennials aren't the first generation to embrace environmental and social issues. Think the anti-war, civil rights, second-wave feminism, and Greenpeace movements of the '60s and early '70s. Nonetheless, their commitment appears broader and more likely to shape decisions on a host of different areas of life.

Value and Motivation

There has been a raft of additional surveys to ascertain what motivates Millennials.¹



50% of Millennials consider themselves politically unaffiliated

29% Millennials consider themselves religiously unaffiliated

they have the highest average number of Facebook friends, with an average of **250** friends vs. Generations X's 200

they send a median of **50** texts a day.

Further research has been conducted to assess Millennials' environmental and social views.



81% have donated money, goods or services to charity. [Walden University and Harris Interactive]

75% see themselves as 'authentic' and are not willing to compromise their family and personal values. [Bentley University's Centre For Women And Business]

61% of Millennials are worried about the state of the world and feel personally responsible for making a difference. [Huffington Post]

65% of Millennials say losing their phone or computer would have a greater negative impact on their daily routine than losing their car. [Zipcar]

45% They are more tolerant of races and groups than older generations (47% vs. 19%), with 45% agreeing with preferential treatment to improve the position of minorities. [US Chamber of Commerce]

The importance for business

Why is that important for the business community?

All generations have an influence on the world around them – understanding the nature of these views is therefore important.

The ‘sharing economy’

For one thing, Millennials’ views on corporations and the nature of commerce appear to be different from previous generations. Unsurprisingly, this has largely been driven by the internet. The idea of ownership – be it a home, car, music, etc. – is no longer as prevalent. Rather, they tend to access services and providers that offer products without the necessity of ownership. This so-called ‘sharing economy’ has given rise to numerous successful businesses, such as music-streaming service Spotify and car-sharing business Zipcar. Both of these businesses – and many others like them – have disrupted traditional business models.

Socially aware

As we have seen, Millennials place social justice and equality high in their expectations. As such, they tend not to support institutions or businesses that they see in conflict with social and economic equality. Peer review via technology again plays an important role in this regard. Some 33% of Millennials consult blogs before making a purchase.³

“All generations have an influence on the world around them - understanding the nature of these views is therefore important.”

This extends to the type of products they purchase, with brand no longer as important as the impact these products have on our wider society and the environment. Indeed, according to Forbes, “75% have said that it’s important or very important that a company gives back to society instead of just making a profit.” With an estimated £200 billion in annual buying power, Millennials’ opinions matter. In addition, companies can no longer distance themselves from their activities. What they do, the products they make, the impact their business operations have on the environment and local communities, are all now readily available through the internet and social media. As such, companies are being held to account more than ever – a new reality to which many will have to adapt.

Upside for corporations that act

Of course, acting in an environmentally and socially responsible manner can also be beneficial to corporations. This includes companies gaining a competitive advantage by managing resource-use effectively and developing environmental solutions to problems. For example, energy efficiency can translate into lower fuel costs, which in turn makes a company less sensitive to fluctuating prices.

Some corporations have integrated sustainable natural resource management into their business strategies. Take products and business models that are designed to deliver to the circular economy, such as product-for-services and recycled packaging. These not only reduce waste, but also promote product longevity and reuse. Such product innovation can also provide raw material savings, reduced supply chain risks and improved brand value for customers. There are also opportunities (cost savings, enhanced reputation, etc.) when it comes to waste management, air pollution and water management.

The rise of megatrends

Then there is the rise of megatrends, as highlighted by extensive work from KPMG ⁴. It believes the prevalence of these megatrends will change the nature of the financial world – creating challenges and opportunities in equal measures.

One key aspect they identify is ‘demographics’, with ageing populations, low birth rates and low savings rates (among other factors) creating a potential retirement time-bomb – the burden of which will fall on the next generations, notably the Millennials.

1



Demographics

Demographic trends will not only magnify the need for effective investment management, but over time, they will radically change the nature of the challenge and an investment manager’s potential client base.

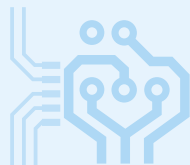
2



Environment

Resource insecurities are changing the nature of investment opportunities and demand for risk protection, as well as increasing the importance of socially responsible corporate behaviours and investment strategies.

3



Technology

Technological developments continue to act as major drivers of social, economic and environmental change, creating new opportunities and disrupting existing business models.

4



Social values, behaviour and ethics

Technology and the internet have combined to revolutionise how a large proportion of the world’s population interacts, communicates and behaves.

Source: KPMG, 2014, Standard Life Investments

Implications for the investment industry

What does this mean for the investment industry?

In the investment world, Millennials also engage with money in quite a different way than Baby Boomers, or even Generation X. Financial returns are still important, though. According to a survey by Blackrock, 45% of Millennials are more interested in investing today than they were five years ago. However, the nature of this investing has changed in many ways. As we have already alluded to, the demand for transparency and accountability has taken on significant importance. As with consumer products, many are increasingly looking for investments that reflect their social and environmental concerns.

Meanwhile, their full-scale adoption of technology has democratised information, which is no longer the preserve of those in the financial industry. Millennials are also increasingly distrustful of traditional financial institutions, with many preferring to take and share advice with peers online.

“The future belongs to people who see possibilities before they become obvious”

Source: John Sculley, Business Executive

Indeed, the way Millennials invest is markedly different from their predecessors. These “digital natives” have wholeheartedly embraced social media, financial websites and apps to inform and make their investment choices. Broker information and other financial insights are readily available – and stock purchases and sales are but a few clicks away. Tracking tools also mean Millennials can mimic strategies of successful investors. Pooled knowledge on various blog forums has seen the rise of collective investing.

There are other differences. According to Blackrock, Millennials also spend seven hours a month checking on their investments, compared to two hours per month of older generations. Given their wholesale adoption of technology, this is also done entirely online, rather than waiting for mailed quarterly reports.

But this creates challenges

There are, of course, pitfalls to such investment activities. ‘Follow the herd trading’ is a danger with communal information sharing. The immediacy of the trading platform can also see individuals chase losses, resulting in even steeper financial damages. There is a sizeable – and quite important caveat – to Millennials’ investment habits. While Millennials are more willing to invest, a survey by Bankrate.com in the US found that 39% of Millennials actually prefer cash-like investments to meet long-term goals. Instead of going for riskier higher returns, many prefer the safety of cash, despite ultra-low rates. This is no doubt a hangover from the financial crisis. However, it could have implications when it comes to retirement planning. Without taking a modicum of risk, many could find their pension pots insufficient.

Your friendly neighbourhood adviser

For those that do use financial advisers, the nature of the interaction has also changed. According to the Kalvert Foundation: “Many Millennials want to work collaboratively with their advisers to create both a trusting relationship and an investment approach that is tailored to meet their specific needs and interests.”

Changing financial models

All of these factors could pose a challenge to traditional fund management models. Asset managers will have to articulate what value they add to the investment process. As for financing models, we have seen the increasing rise of peer-to-peer lending, crowd-funding and many more. Again, this reflects a growing distrust of traditional financial institutions. Crowd sourcing – whereby projects are funded by raising small amounts of money from a large body of people, usually online – has seeped into every aspect of business. Names to highlight are Kickstarter, Kiva and Indiegogo.

True, this has primarily been in the entertainment industry; however, money has also been raised for other projects, including Elio Motors (low-cost, high mileage vehicle), Pebble Time (smart watch) and the Micro (3D printer). The Elio fundraiser alone has collected over \$21 million to date. The Millennials have been particular proponents of this type of investment, happy to make small investments for projects that have the potential to be huge successes.

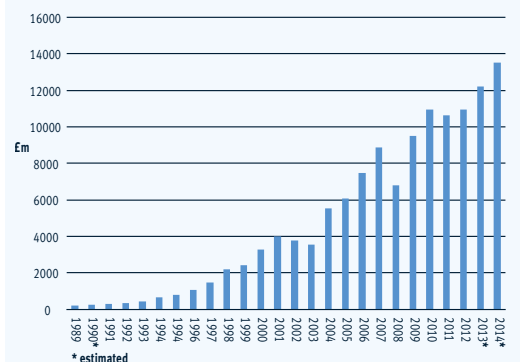
Green shoots

Additional forms of lending, this time with a more environmental slant, have also emerged. Take the Green Investment Bank, which was started by the UK Government in 2012 with £3.6 billion of public funds and the first of its kind. Here, the actual notion of profit has been reframed under the so-called “double bottom-line”. This means their investments must be “profitable and green.” As such, the bank invests in offshore wind, waste and bioenergy, energy efficiency and community-scale renewables. The bank reached profitability two-and-a-half years after its launch.

How will their views affect their financial choices?

Unsurprisingly, the growth in environmental and social concerns throughout the decades has resulted in an increase in socially responsible investment strategies. These are designed to cater for ethical and values-based concerns, while still making a positive financial return. According to the US SIF Foundation, overall SRI assets in the US in 2012 totalled \$3.74 trillion. In the UK, the long-established ethical investment research provider, EIRIS, estimates that there was over £13.5 billion invested in green or ethical retail funds, at the end of June 2015.

Growth in UK ethical and SRI retail funds



Source: EIRIS

The fund industry offers a growing range of products to accommodate investors with environmental concerns.

These include:

- ▶ **ethical funds**, which exclude companies that might be involved in tobacco, arms, gambling, or poor sustainability practices
- ▶ **SRI (socially responsible investing) funds** may avoid companies with poor sustainability management practices, and certain sectors, such as controversial weapons
- ▶ **thematic funds**, which invest in specific sectors, such as renewables
- ▶ **Sharia funds**, whose investment choices are guided by the principles of Islam
- ▶ **impact investing**, which involves investing in companies whose activities have a meaningful positive impression on the environment and society as a whole (see below).

A recent Standard Life Investments YouGov poll on values-based investing showed a strong link between age and values. The younger group of investors surveyed (those between 18 and 24) had the strongest inclination towards investing in companies that achieve positive environmental and social outcomes. This trend decreases with age.⁵

Implications for the investment industry cont.

The investment world has also responded. Over the past decade, some 1,300 major global investment managers and asset owners signed the Principles of Responsible Investment designed to integrate environmental, social and governance (ESG) issues into the investment process. Investment banks are also increasingly showing the methodologies they use when choosing investee companies to ensure they meet ESG criteria.

Impact investing and Millennials go hand-in-hand

Impact investing involves making investments in assets (companies, funds, etc.) that aim to provide competitive financial returns, while at the same time delivering measurable environmental or social benefits through their products, services and various activities.

Impact investing has grown in prominence in recent years, driven primarily by Millennials looking for investment vehicles that ‘make a difference to the world.’ Indeed, a recent survey by Morgan Stanley found Millennials were twice as likely to invest in portfolio or individual companies that seek to have positive environmental or social impacts. These vehicles meet that need, while also aiming to provide a competitive financial return.

At present, impact investing remains on the fringes of the asset management world and mostly limited to private equity (currently about \$9 billion in the US, according to JP Morgan). However, all this looks set to change as an increasing number of Millennials start investing. JP Morgan puts the figure at \$1 trillion by 2020. There is therefore a huge potential market for asset managers that offer compelling impact investing solutions.

Saving for the future

There is also evidence that Millennials view saving for retirement through the lens of their social and environmental beliefs. As with the asset management world, there is widespread distrust among Millennials - rightly or wrongly - towards the traditional pensions industry. So much so, that many are actively shunning this route when considering saving for their retirement options. This could create opportunities for providers, but also result in sizeable problems for Millennials – and governments - further down the line.

“Impact investing could expand from \$9 billion to \$1 trillion by 2020.”

Source: JP Morgan

Conclusions

The evidence suggests that Millennials are already disrupting traditional financial, corporate and economic activities. Driven by the democratisation of the internet, this new generation of tech-savvy and connected investors want to do things differently from their predecessors. They are rejecting traditional banking and financing models and are creating new and innovative ways to save and invest their money. They are demanding greater corporate responsibility from the organisations from which they buy their goods and services. The democratisation of information, thanks to new technologies, has – and will increasingly – hold companies responsible for their actions.

As for the investment industry, the need to be as transparent and accessible as possible will be a key driver in building trust with Millennials. Products will also have to reflect their beliefs and priorities. As such, the investment industry will need to consider and develop innovative ways to invest that reflects these changing attitudes. Of course, returns will remain important. However, Millennials are increasingly demanding investment solutions that ensure their money also has a positive environmental and social impact.

These factors will create challenges – but also sizeable opportunities – for the investment management industry.

Sources:

- 1 - Pew Research – March 2014
- 2 - Accenture – CNBC.com July 2014
- 3 - Forbes Magazine – May 2014
- 4 - KPMG, 'Investing in the Future', 2014
- 5 - YouGov poll: Total sample size was 2057 adults. Fieldwork was undertaken between 28th - 29th September 2015. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+)

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