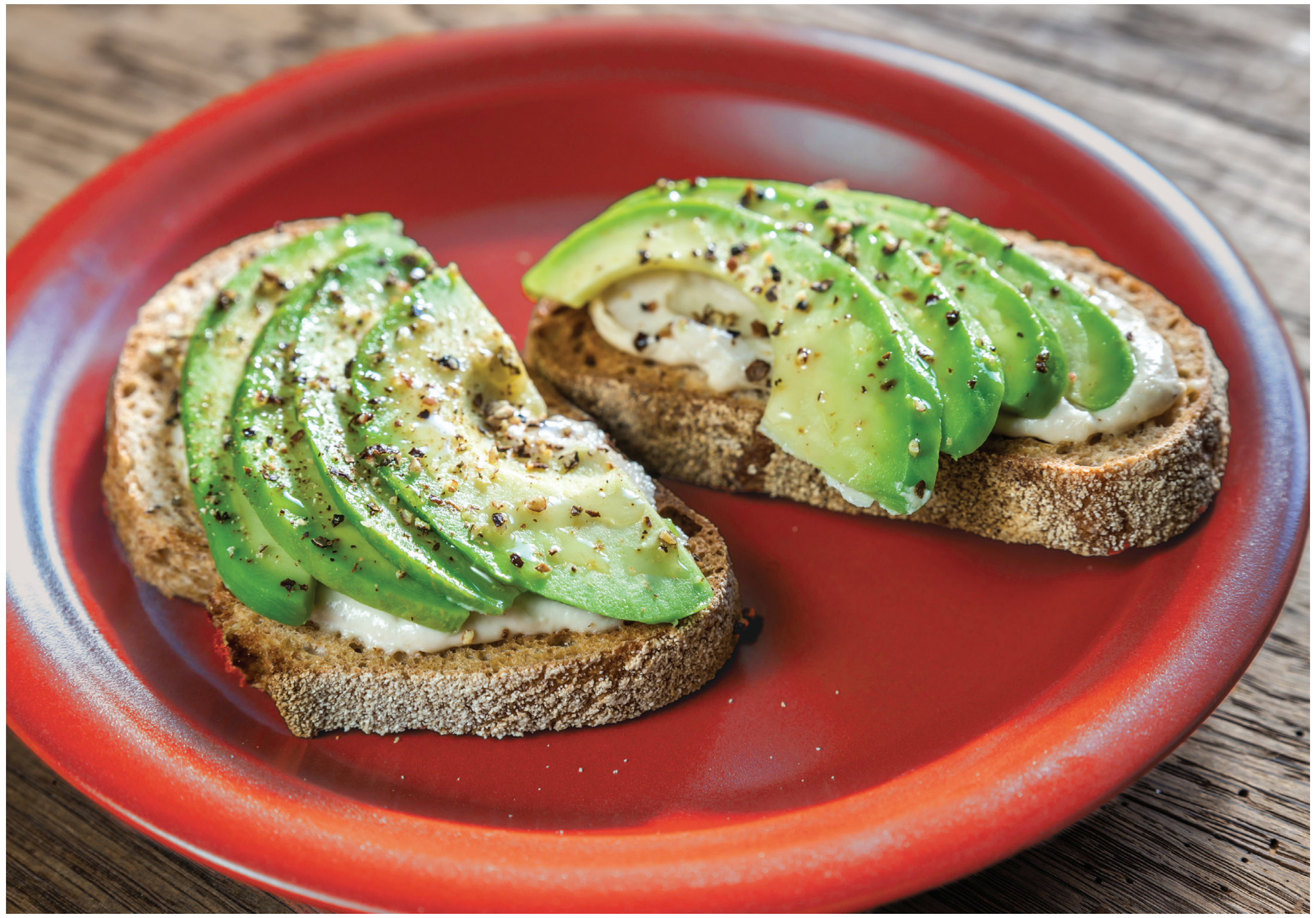
For they shall inherit the earth



Forget talk of avocado toast and endless selfies, writes **Will Oulton**, asset managers and advisers need to wake up to the fact millennials will look to responsible investing as ethics drive their financial choices

How do asset managers think of the so-called 'millennial' generation – generally now agreed as comprising those who were born between the early 1980s and 2000? Avocado toast, perhaps? Endless selfies? Generation rent? Or the world's most powerful consumers, poised to inherit the earth?

Whatever the answer, an irrevocable truth remains: over the next 30 years, it is estimated that $30trn (£23trn) of assets will move into the hands of millennials – and around a third of that could be over the next decade. A fondness for avocado toast? Maybe, but 'driven', 'entrepreneurial', 'more educated' and 'far richer than any previous generation' are also qualities that define them.

This pattern of shifting wealth presents two challenges to fund houses. First of all, research indicates that around 70% to 80% of assets usually leave a firm when older generations pass, so businesses really do need to be thinking about how to retain their new, younger clients.

And second, considering that investors generally start becoming serious about investing between the ages of 45 and 55, the oldest millennial is now around 38, so investing behaviour will need bedding-in soon – especially as robo-advisers underpinned by passive exchange-traded funds (ETFs) become an increasingly appealing proposition to a first generation of digital natives.

Digging deeper

Given the creeping strategic importance of millennials clearly warranted a closer look, First State Investments decided to conduct some research to uncover what impact this generation's attitudes are having on the investment chain – polling hundreds of respondents from a millennially focused news aggregator, Mogul News.

An overwhelming majority, around 80%, professed themselves either interested or very interested in responsible investing – that is, the incorporation of environmental, social and governance (ESG) factors into stock selection. When compared with previous generations, they perceived themselves and their peers as the most interested in these sorts of issues – and thus seemingly aware of the differing values that define them as a segment.

The research also revealed a belief among millennials that decision-making was being hobbled by insufficient information and education on responsible investing. If financial services providers did offer help and provided a comprehensive set of literature, then, it could be a reason for choosing or switching to their business.

From an investment point of view, there was some confusion over potential investment outcomes, as around half of millennials thought that responsible investing sacrificed performance – a common misconception across investors, regardless of when they were born.

It was also found that millennial investors could be sensitive to controversies in underlying portfolio investments – more than two in a 12-month period and they would likely baulk. A 2019 report by the Defined Contribution Investment Forum, for example, has highlighted that people were surprised to discover they might be investing in schemes that did not consider ESG. These sorts of misconceptions need avoiding as negative surprises only serve further to erode a confidence in a financial system that has not exactly blossomed since the misgivings of the financial crisis in 2008/09.

What to do, what to do?

Starting with regulators, in general it seems there is a lacking in standardisation in how ESG performance is measured and displayed, and how training is structured and advised, which could be addressed. A greater understanding of millennials is also needed in the industry. One such idea is '30 under 50' – that is, constructing 30% of trustee boards with those under 50 years of age because, as one consultant put it: "Do a bunch of 50-plus year-olds really understand the needs and interests of millennials?"

Within the defined contribution schemes, meanwhile, committees, boards and consultants could potentially do with further training to understand responsible investing better, particularly as trust-based schemes become mandated this October by the Department for Work and Pensions to disclose ESG factors in the public statement of investment principles. Further to this, a framework for how ESG performance is displayed across fund houses will need agreeing.

For asset managers, meanwhile, millennials are set to serve as the investment managers of tomorrow and need attracting and retaining. It means promoting and expanding ESG-focused funds to become part of the mainstream selection. To encourage growth in this business, incentives could be tied to drive greater ESG incorporation into investment strategies.

Finally, when it comes to platforms, investors need further education to understand why responsible investing can produce better investment outcomes – perhaps, for example, a wider degree of thought for industry education in general. Technology could certainly be developed to provide ESG at a glance.

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Appealing to a generation

Millennials are passionately engaged with climate change concerns; they are outraged by social injustice and bad corporate actors; and, when looking for work, they find a firm's ethics essential in the decision-making process.

Investing, they realise, is a way to express their deep-seated beliefs regarding social, environmental and political values. For asset managers, sniffing that the naïve idealisms of youth will fade over time could be a wayward bet – millennials' ideals seem entrenched.

Sometimes dubbed the 'snowflake generation' on account of their perceived social sensitivity, when it comes to how asset managers should think about product development for millennials, the clue is perhaps in the label. Responsible investing will not just be an interesting product feature in the future, but a strategic – and essential – requirement.

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