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Unlocking the black box of private impact investors

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Abstract

Purpose – This paper aims to empirically describe the general characteristics and the investment behavior of high-net-worth individuals (HNWIs) who pursue impact investing.

Design/methodology/approach – Data was collected from members of a global impact investor network, using an online questionnaire, a portfolio-data collection tool and semi-structured interviews.

Findings – Wealthy private impact investors are largely similar in terms of their general characteristics and investment behavior, but they diverge in their interest in specific Sustainable Development Goals (SDGs). They tend to be strongly values-driven and to adopt an investment time horizon of 7+ years for their impact investments, which they expect to yield financial returns that are no different from those of traditional investments. Interestingly, these investors perceive the well-established sustainable investing strategies of exclusion, environmental, social and governance (ESG) integration and best-in-class as not having high impact-generating potential.

Practical implications – Suggestions are provided about how wealthy private investors could use the findings to improve their impact investment decisions. Advice is offered to investment professionals on how to optimize impact investment products and services for this economically and societally highly relevant target group.

Originality/value – To the best of the authors' knowledge, this is the first scientific study to investigate the general characteristics and investment behavior of HNWIs who pursue impact investing. HNWIs have great relevance for financial markets yet they are out of reach for most researchers. As a result, they are poorly understood, and apparently also often misunderstood, which has substantial economic and social implications that this paper helps mitigate.

Keywords Survey, Interviews, Sustainable finance, Impact investing, Private investors

Paper type Research paper

1. Introduction

In recent years, as total governmental aid has plateaued and developmental funding by heavyweights of humanitarian aid has been cut, the private sector's role in advancing the Sustainable Development Goals (SDGs) has grown substantially in importance. The United

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Nations estimates that an annual gap of US$2.5tn in investment capital must be filled to achieve the SDGs (Wilson, 2016). High-net-worth individuals (HNWIs), who are individuals with at least US$1m in total investable wealth (Paetzold and Busch, 2014) and collectively own 45% of global household wealth (Eurosif, 2012; Shorrocks *et al.*, 2018), are considered a potential provider of that capital – presuming they can be motivated to consider ethical aspects and seek to achieve an impact through their investments (Pineiro *et al.*, 2018). Impact investing refers to "investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return" (Global Impact Investing Network, 2020). A review of the extant literature on HNWIs and impact investment decisions performed by the authors shows that much remains unknown about this economically highly relevant investor segment and their ethical motivations, attitudes and expectations. This paper aims to unlock this black box by empirically describing the general characteristics and investment behavior of 71 members of the 100% Network (T100), a group of impact-minded, wealthy private investors, to gain insight into who they are and how they practice impact investing. To meet the objectives of this phenomenological study, the authors applied a mixed-method approach comprised of an online questionnaire, a portfolio-data collection tool and semi-structured interviews.

The main contributions of this paper are twofold. First, this paper contributes to the academic literature on sustainable finance by fostering a better understanding of the general characteristics and investment behavior of HNWIs who pursue impact investing. The findings show that wealthy private impact investors share similar characteristics and investment behaviors. For instance, they tend to be strongly values-driven and adopt an investment time horizon of 7+ years for their impact investments, which they expect to yield financial returns that are no different from those of traditional investments. Second, this study offers a series of implications for practitioners in the impact investing industry. Concerning financial products and services, it could be beneficial for fund managers to launch (more) thematic funds. Our results illustrate that financial advisors could focus on providing products that are better aligned with the values of their impact-minded clients. Finally, this study provides a better understanding of the investment behavior of wealthy private impact investors, which, in turn, could inspire them to reassess their own investing activities.

2. Literature review

A growing body of scholarly work has emerged in recent decades that examines financial decision-making from a behavioral and cognitive perspective. This research has taken many different angles. For instance, Erkut *et al.* (2018) investigate how neuroplasticity affects financial decision-making. Srivastava *et al.* (2019) study the relationship between neurological processes and economic behavior. Jain *et al.* (2019) review the extant literature on the economics of happiness, which combines behavioral economics with various other disciplines, including psychology and sociology. Srivastava *et al.* (2020) perform a systematic literature review to extract the current understanding of neuroeconomics and neurofinance. Their study explains the explicit relationship between economics, finance and neuroscience and highlights avenues for future research. The future research avenues proposed by the authors target the identification of neurobiological factors linked with financial decision-making. For instance, studying the influential role of neurotransmitters, such as dopamine and cortisol, or emotions on financial decision-making. In parallel, a substantive body of related studies has emerged from the field of sustainable finance. For example, Glac (2009) examines how cognitive frames affect the decision to invest in socially responsible investments (SRIs). Dorfleitner and Utz (2014) investigate the key motives that drive decisions about SRIs. While individual investment behavior related to sustainable investments (SIs) has received considerable

scholarly attention, the investment behavior of HNWIs related to such investments has rarely been explored. Of the 213 scholarly articles examined by Talan and Sharma (2019), only Paetzold and Busch (2014) investigate the investment behavior of HNWIs related to SIs. Using qualitative interviews, the authors identify three key barriers that prevent HNWIs from actual engagement in sustainable investment (SI):

(1) risk perception of sustainable investments combined with a short investment time horizon;
(2) recent financial losses; and
(3) investment advisors withholding required information.

Focusing on the impact investing literature, Agrawal and Hockerts (2019) find that only Apostolakis *et al.* (2016) examine impact investing at the individual level, although that study also does not assess HNWIs. Apostolakis *et al.* (2016) find that the willingness of pension beneficiaries to accept a lower pension as a result of investing in a portfolio with both SRI and impact investment characteristics is influenced positively by attitudes toward positive SRI screenings and product involvement.

The authors of this current study conducted a systematic literature review based on a keyword search (i.e. *impact invest**) in May 2018 and again in February 2020 (for completeness purposes) via top-tier databases, including *Science Direct*, *EBSCO Business Source Complete* and *Web of Science*. Of the 132 articles deemed as relevant, the authors identified 2 more articles in addition to Apostolakis *et al.* (2016) that investigate individual investor behavior related to impact investments. Scheck *et al.* (2016) find that a substantial share of individual investors demonstrates a willingness to invest in impact investments, and that small-scale, interest-free impact investments are promising vehicles for mobilizing private capital towards solving societal issues. Roundy *et al.* (2017) discover that while impact investors have different motives and criteria for impact investments, they commonly focus on generating both financial and social returns.

The authors' review of the extant literature reveals that:

- only very few scholarly articles investigate impact investing at the individual level;
- the general characteristics and investment behaviors of individual impact investors are scientifically under-researched; and
- no academic study currently exists that studies HNWIs who pursue impact investing.

Therefore, this study aims to fill these observed gaps in the literature by examining the general characteristics and investment behavior of HNWIs engaged in impact investing (Table 1).

3. Methods

3.1 Research design

To meet this phenomenological study's objectives, the authors opted for a mixed-method approach as it allows for an in-depth examination of impact investor behavior by eliciting data from individuals with first-hand knowledge. The chosen mixed-method approach consisted of an online questionnaire and a portfolio-data collection tool, triangulated with semi-structured interviews. The qualitative interviews were conducted to generate possible explanations for quantitative findings and to explore the investment behavior of wealthy private impact investors in greater depth. Combining quantitative and qualitative research methods enabled the authors to discover and dive deeper into complex phenomena that may have otherwise gone unnoticed, and to increase the overall validity of the collected data (Tracy, 2013).

Author(s) (year)	Title	Research questions and findings	Research method/ data
Apostolakis *et al.* (2016)	Examining pension beneficiaries' willingness to pay for a socially responsible and impact investment portfolio: A case study in the Dutch healthcare sector	Pension beneficiaries' attitudes toward different investment criteria and levels of involvement. Neither pension nor social concerns influence the willingness to pay	Surveys, interviews and questionnaires
Scheck *et al.* (2016)	Making money at the expense of the poor? An investigation of individuals' preferences to impact invest versus donate	Comparing the willingness to invest in impact investments at different financial return levels and amounts to the willingness to donate. The participants were significantly more likely to invest in impact investments at all financial return levels than to make a charitable donation. Impact investing does not appear to encounter broad disapproval. Besides, they have no concerns over foregoing warm glow or prestige	Experimental set-up
Roundy *et al.* (2017)	Finance or philanthropy? Exploring the motivations and criteria of impact investors	What are the defining characteristics and motivations of impact investing? Do impact investors differ from "traditional" investors, and if so, how? What criteria do impact investors use when evaluating potential investments? Impact investors represent a unique investor segment with a wide range of motivations that differ from socially responsible investors and other types of for-profit investors	Semi-structured interviews

Table 1.
Overview of relevant scholarly articles on individual impact investor behavior

3.2 Sample selection

The authors gained access to HNWIs who pursue impact investing through a research partnership launched in January 2018 between Toniic and the researcher team. Toniic is a global investor network headquartered in San Francisco, California, whose membership consists of HNWI, family office and foundation asset owners who aim to generate a positive net impact through their investments (Toniic, 2020). Through this research partnership, which was aimed at facilitating the study of the investment behavior and motivations of private impact investors, the authors gained access to members of a subset of Toniic known as the T100. The T100 is comprised of private impact investors with current investable wealth ranging from single-digit to triple-digit US$ millions, "who have intentionally committed to moving 100% of the assets in at least one investment portfolio into investments across all asset classes that create varying degrees of positive social and/or environmental impact" (Toniic, 2018). Given the still-nascent market for impact investing and the exclusivity of this typically very private, protected and under-researched group of very wealthy individuals, the authors deem

the collected data to be unique and useful for academic research. It is noteworthy that the research partnership with Toniic did not limit the authors' research independence; they could include the survey questions they considered relevant, and Toniic was not involved in the authors' data analysis.

3.3 Data collection

In September 2017, the online questionnaire and portfolio-data collection tool were issued to the entire T100 network, which had around 125 members. For the T100 members, participating in the online survey and providing input for the portfolio-data collection tool was voluntary. The survey response rate equals 53.6% (67 responses), while the portfolio-tool response rate equals 56.8% (71 responses). A total of 51 investors completed both the survey and the portfolio-data collection tool. The survey response rate is above the 50% benchmark that Baruch and Holtom (2008) identify for surveys conducted at the individual level. Thus, both achieved response rates were deemed sufficient for this study's purpose and objectives (Fowler, 2002; Swanson and Holton, 2005).

The portfolio tool focused on collecting financial data and information corresponding with the Toniic SDGs Impact Theme Framework. More specifically, the portfolio data relates to the portfolios of 71 T100 members, and consists of lists identifying the securities in each portfolio and the relative weight of that security in the portfolio, as well as the SDGs that the T100 member associates with that security, if any. Conversely, the online questionnaire consisted of standard questions set by Toniic and research-relevant questions chosen by the authors.

The online questionnaire covered six major themes. The first part covered typical sociodemographic and investor-related questions, including age, gender and current investable wealth, and was followed by a set of questions aimed at identifying how actors in an investor's ecosystem, including financial advisors and spouse, might influence the investor's impact investment behavior. The third set of questions focused on motives and values, and were inspired by Roundy *et al.* (2017) and derived from Shalom H. Schwartz's theory of basic human values (Schwartz, 1992, 1994). Roundy *et al.* (2017) find that impact investors have a complex array of financial and social motives. Concerning values, Roundy *et al.* (2017) discovered that impact investors seek out investments that are aligned with their values, typically values that emphasize societal change and collective welfare. Following Roundy *et al.* (2017), the authors included Likert-scale questions that reference Schwartz (1992, 1994) and were specifically designed to capture the extent to which an investor's impact investment behavior is driven by specific motives and guided by specific values. The mean of the agreement level ranged from 1 ("strongly disagree") to 5 ("strongly agree").

The questions that followed, on investor preferences and strategies, were inspired by Dorfleitner and Utz (2014), who find that risk–return–liquidity preferences and the SRI time horizon are significant influential factors in SRI portfolio choices and the willingness to sacrifice financial returns. They also find that the expectation of higher financial performance compared to conventional investments is a key motivation for investing in SRIs (Dorfleitner and Utz, 2014). Given that impact investments and SRIs are related concepts (Höchstädter and Scheck, 2015), the authors inferred that risk–return preferences and a belief in higher financial performance could be drivers for impact investing. Moreover, Paetzold and Busch (2014) discover that the likelihood of actual SI engagement is higher among HNWIs with a longer investment time horizon. Hence, questions were included to elicit an investor's risk and return expectations in both the short term and the long term compared to traditional investments. According to Louche *et al.* (2012), applying ESG criteria does not lead to investments that generate direct positive social and environmental impact. This finding suggests that ESG integration has reduced impact-generating

potential. Hence, to capture how impact investors perceive the impact-generating potential of ESG integration and other investing strategies, the authors included a question asking the respondents to rate specific investing strategies in terms of impact per deployed dollar.

The fifth section focused on the investor's perceptions and behaviors with respect to impact measurement. Questions on this topic are critical and necessary because impact measurement is a vital attribute of this investment approach (Bugg-Levine and Emerson, 2011; Jackson, 2013), and, therefore, an important element of impact investor behavior. The remaining questions were included by the T100 management team, based on their deep experience with impact investing, and focused on critical hurdles and accomplishments. For instance, the respondents had to rate the extent to which overcoming myths and misconceptions about impact investments' financial performance, including the misconception that impact investments only generate below-market returns, is a significant impact-industry challenge.

Following purposive sampling, 14 interviewees were selected based on 3 selection criteria set by the authors: they are a HNWI; have 1+ year(s) of impact investing experience; and are a member of Toniic (Table 2).

Three interview candidates declined to partake because of scheduling issues, resulting in a sample of 11 interviewees. The authors considered this relatively small sample size sufficient to gather additional qualitative data for supplementing and illustrating quantitative findings. Moreover, the sample size is considered suitable, given the difficulty of accessing the target respondents and the fact that samples of a similar size were used in previous studies on investor behavior (Tijjani *et al.*, 2009; Ayedh and Echchabi, 2015; Jaiyeoba and Haron, 2016).

A PhD researcher on the authors' team led the interviews remotely via the online-based communication tools Skype or Zoom. The interviews lasted between 30 mins and 1 h. At the start of each interview, the interviewees received a project summary, as well as a guarantee of confidentiality and anonymity for their statements. The authors opted for semi-structured interviews, which require a less structured interview guide comprised of open-ended questions and probes designed to elicit elaborate discussion on broad themes. Without the strict limits of scripted questions, semi-structured interviews have the potential to unlock essential and hidden facets of human behavior (Tracy, 2013). The questions in the authors' interview guide covered the same six major themes as the questionnaire and:

- solicited sociodemographic information about the respondents;
- asked about their values and the motives driving their impact investing decisions;
- sought their opinions on the organizing activities of global impact investor networks;
- identified conflicts and barriers they have faced on their impact investing journey; and

Interviewee	Age range	Gender	Country of residence	Educational background
1	26–35	Male	USA	MBA
2	26–35	Female	Germany	PhD
3	26–35	Male	UK	Masters
4	46–55	Female	USA	Bachelors
5	36–40	Male	Germany	Bachelors
6	26–35	Female	UK	MBA
7	26–35	Male	Germany	Masters
8	45–60	Female	USA	Bachelor
9	36–45	Female	UK	Masters
10	46–55	Male	USA	Bachelors
11	26–35	Female	USA	Masters

Table 2. Interviewees' background information

- inquired about their investing interests and strategies.

With the interviewees' permission, the interviews were audio recorded and transcribed verbatim.

3.4 Data analysis

Mainly univariate descriptive statistics were applied to analyze the collected survey and portfolio data. The (mostly) categorical data was summarized using frequencies, i.e. absolute frequency/relative frequency distribution tables and charts. Cross-tabulations were used to compare and contrast results. Specifically, using cross tabs, the relationships between various variables related to HNWIs who pursue impact investing were examined either on the investor level, the portfolio level or on both, depending on the variables in question.

The interview transcripts were labeled and systematized using *in vivo*-coding. *In vivo* codes use the interviewees' language and jargon and are deemed particularly useful when studying a specific community, as was the case in this study (Tracy, 2013). The transcripts were coded using MAXQDA, a software program designed for computer-assisted qualitative and mixed-method data analysis, to identify emergent themes. Two researchers were involved in this process to reduce the likelihood of generating findings that reflect an idiosyncratic or too selective interpretation of the data. Illustrative quotes were chosen to support the quantitative results presented below.

4. Findings

4.1 General sociodemographic information

Almost two-thirds of the surveyed HNWIs are men, while about one-third are women. Their age typically lies between 41 and 60 years, meaning that they range in age from young baby boomers to generations X and Y. Most investors surveyed hold a postgraduate degree, and their current investable wealth tends to range between US$5m and US$30m, which places them in the HNWI category (Table 3).

4.2 Personal values and motives for impact investing

The findings on personal values suggest that wealthy private impact investors care about more than just the risk and expected returns of their impact investments. The top five values exhibited by the investors surveyed are universalism (mean 4.76 out of 5.00), security (mean 4.60 out of 5.00), hedonism (mean 4.48 out of 5.00), benevolence (mean 4.42 out of 5.00) and conformity (mean 4.37 out of 5.00) [as defined by Schwartz (1994)].

The values of universalism and benevolence are very similar but differ in scope. Both values emphasize a concern for the welfare of all people; however, universalism also embodies a concern for the natural environment, while benevolence does not. Instead, benevolence places importance on the welfare of personal contacts (Schwartz, 1992). Several interview responses reflect these two values. One interviewee revealed that he wants his actions to benefit humanity and therefore engages in impact investing to help advance sustainability:

> I think about what kind of an impact [. . .] can I leave on humanity as it is. So reducing our global greenhouse gas emissions is huge. I think that that's probably the first place that I approach it from, is sustainability first. (Interviewee No. 1)

Another interviewee, when discussing his values, highlighted the importance of empathy for society and the natural environment:

Variable	Total sample N = 67 (%)
Gender	
Male	55.2
Female	35.8
Both	6.0
N/A	3.0
Age (years)	
<21	0.0
21–30	10.4
31–40	16.4
41–50	25.4
51–60	31.3
61–70	11.9
71–80	4.5
81–90	0.0
90+	0.0
Education	
High school graduate	3.0
College graduate	29.9
Post graduate	67.2
Investor domicile	
Africa	1.6
Asia and Oceania	6.0
Europe	28.4
Latin America	1.5
Middle East	3.0
USA and Canada	59.7
Impact investing experience (years)	
<1	6.0
1–2	1.5
2–3	6.0
3–4	7.5
4–5	14.9
5–10	25.4
10–15	19.4
15–20	11.9
20+	7.5
Current total investable wealth (US$)	
<$1m	3.0
$1m < $3m	4.5
$3m < $5m	11.9
$5m < $10m	23.9
$10m < $30m	29.9
$30m < $50m	3.0
$50m < $100m	16.4
$100m < $300m	6.0
$300m < $500m	1.5
$500m < $1bn	0.0
$1bn+	0.0
Current total investable wealth committed to impact (%)	
0%–20%	9.0
20%–40%	10.4
40%–60%	10.4
60%–80%	9.0
80%–100%	56.7
N/A	4.5

Table 3. General sociodemographic information

> Empathy, really making sure that you have a connection to the whole world and ecosystem of course from an environmental point of view, but also the social systems. Empathy for all the people that are involved in the supply chain. That is the really big one. (Interviewee No. 3)

Conversely, one interviewee disclosed that she is concerned for her family's welfare and, through impact investing, aims to help ensure that present and future generations do not have to compromise their ability to meet their needs by mitigating the damage done by past generations:

> [. . .] because of having a child that I would hope would have children of her own, and see generations [of] my descendants be able to have a choice in the kind of world that they live in. And I'm not forced to [live] a life that is a result of the damage that we have done. (Interviewee No. 4)

These findings indicate that wealthy private impact investors are concerned for the welfare of society and the natural environment, as well as for their close contacts and family members.

The surveyed investors also strongly exhibit the values of conformity and security. Conformity focuses on the individual and their ability to practice self-restraint in social interactions. Similarly, security emphasizes the basic human need for safety, harmony and stability on both the collective and individual levels (Schwartz, 1992). This finding shows that the surveyed investors perceive social stability and safety as being crucial and want to help maintain them by not engaging in any behavior that could harm others or be socially disruptive. The following quote illustrates this inference:

> My value is just to do as little harm as possible with the assets. [. . .] If maximizing your profit is the only thing, and for a short term – if that's your goal then you're going to destroy this world. (Interviewee No. 2)

Of the top five values exhibited by the surveyed investors, hedonism is the only wholly self-centered value. This value emphasizes pleasure and the gratification experienced when personal needs are satisfied (Schwartz, 1992). The fact that the surveyed investors exhibit this value to a high degree suggests that they strive for personal satisfaction and a life filled with pleasure and enjoyment.

Schwartz (1994) finds that some values harmonize well together, while others do not. Of the top five values exhibited by the surveyed investors, hedonism and conformity are not compatible with each other, as they have opposing motivations. Schwartz (1994) does not state whether having conflicting values is a significant issue nor does he offer solutions. This finding suggests that not all investments pursued by the surveyed investors are necessarily aligned with each of their core values; in some cases, a tradeoff between the values of hedonism and conformity may be necessary.

In essence, the findings on values show that advancing societal and personal welfare is of utmost importance to wealthy private impact investors. The respondents express these values to similarly high levels, suggesting that they are strongly values-driven and tend to have a similar set of core values. As one interviewee said:

> It's very much values driven [. . .]. (Interviewee No. 5)

The exhibited core values imply that these investors are guided by a combination of what Schwartz (1994) refers to as "self-transcendent" (selfless) and "self-enhancement" (self-centered) values. These values are aligned with impact investing, which is generally driven by self-centered and selfless interests, i.e. generating both financial return and having positive social impact.

Similar to the findings on personal values, the results on the motives for impact investing show that the surveyed investors' impact investment decisions are driven by more than just financial reasons. The top five motives exhibited by the surveyed investors are: to pursue investments that are aligned with personal values (mean 4.82 out of 5.00); to make investments that benefit others (mean 4.73 out of 5.00); to signal prosocial activity (mean 4.18 out of 5.00); to align the investment portfolio with the personal risk profile (mean 4.10 out of 5.00); and to make a profit (mean 4.06 out of 5.00). These motives also were reflected in the interview data. Concerning her reasons for impact investing, one interviewee said:

> I believe I'm in impact investing to move capital, to bridge abundance and scarcity so that the 1.3 billion people living below the poverty line actually are not below the poverty line by 2030. (Interviewee No. 8)

Another interviewee echoed these sentiments. When describing the motives that drive her impact investing pursuits, Interviewee No. 9 stated that her mission is "to tackle issues and problems that affect the most vulnerable communities in the world." Of all the motives for impact investing included in the survey, the sampled investors expressed a marginally higher agreement level with non-financial motives than financial ones, which suggests that, generally, for wealthy private impact investors, non-financial motives surpass financial ones, but only by a small margin. Interview responses reiterate this point. One interviewee stated that his key reasons for impact investing are pursuing investments aligned with his values and increasing his wealth sustainably:

> The main motivation is to ensure that my family investments are aligned with our values. And, more opportunistically, probably the other main motivation is to make sure that capital has been conserved and hopefully increases in a sustainable way. (Interviewee No. 3)

Another interviewee said that her impact investing pursuits are driven by her belief in the flawed nature of today's financial system and a desire to prove the underlying premise of impact investing by doing well while doing good:

> My main motivation is I feel that the capital markets that exist today are just completely flawed [. . .] I want to prove that you can take not just risk and return into account, but risk, return, and impact, and have very viable, even thriving, portfolio investments that not only have a financial return but also benefit society and the environment in measurable ways. (Interviewee No. 6)

The interview data, in particular, highlights the significance of social signaling. Social signaling is the tendency to talk to others about your investments or to use impact investing to signal prosocial activity. Previous research reveals that investors support their impact investing activities by talking to others about their impact investments. Ormiston *et al.* (2015) find that impact investing success requires strong relationships with other impact investors and that impact investing networks represent this kind of relationship, and enable learning, sharing and collaborating. As Toniic members, the sampled investors have many opportunities to talk about their impact investments and to learn from their peers, which, in turn, seems to positively affect their impact investment behavior. The interview data underscores the value of peer-to-peer support in a network setting and that of having a trusted community, which enables an open dialogue on investing strategies and past investing mistakes:

> [. . .] the most important thing for me is meeting with peers and understanding how they do it, especially learning from their mistakes [. . .] especially, in the U.S., openness to sharing mission strategy and especially failures is very helpful. (Interviewee No. 7)

> I do not feel weird, or [like] an outcast [. . .] There is such a thing as community, particularly for a young person like myself, where it's nice to be recognized for the efforts that I am bringing. [. . .] It is very nice to be welcomed by a group that says, "If you want us to support you on your impact journey, then we're here." (Interviewee No. 1)

4.3 Investor preferences and interests

Two-thirds of the surveyed investors (67.2%) expect impact investments to generate commercial returns (risk-adjusted market-rate returns). Slightly over 50% (52.2%) of the surveyed investors report that their impact investments met their return expectations in 2017, while around a quarter (25%) of the respondents assert that their impact portfolio's financial performance exceeded their expectations for the same fiscal year. This finding implies that the typical HNWI who pursues impact investing does not experience any adverse effects on financial performance.

However, when considering investment time horizons, a slightly different picture emerges. Some wealthy private impact investors expect to encounter some adverse effects on financial performance, at least in the short term. When focusing on short-term returns (1–3 years), most respondents expect the financial performance of impact investments to be either lower (41.8%) or the same (52.2%) as that of traditional investments. Only 6% of the respondents expect a higher return in the short-term. In contrast, when extending the investment time horizon (>7 years), most surveyed investors expect the financial performance of impact investments to be either higher (55.2%) or the same (38.8%) as that of traditional investments in the long term. Only 4.5% expect a lower return on long-term impact investments compared to traditional investments. This result suggests that in the absence of higher expected financial risk and return in the short term, impact investments yield non-financial utility for HNWIs, similarly to ethical investments for ethical investors or SRIs for socially responsible investors (Wins and Zwergel, 2015). In other words, it seems that the typical HNWI who pursues impact investing derives "psychic return" or what Statman (2014, p. 66) calls "expressive benefits" from their investments. These expressive benefits might compensate for lower expected returns in the short term, which, in turn, might explain why some sampled investors appear to be willing to accept potentially lower returns in the short term. Another possible explanation for this behavioral trait is that the sampled investors, similarly to the general population of private investors, are influenced by the belief that, compared to traditional investments, impact investments yield higher financial returns in the long term (Jansson and Biel, 2011). As one interviewee (No. 10) stated, "I believe wholeheartedly these investments are going to perform better than traditional investments." The interview data also offers another possible explanation for this behavioral trait. It suggests that the sampled investors invest for the long term because they believe that the creation of impact requires a longer investment time horizon:

> There's a much longer time horizon with [impact investing] because the problems that I think most of us are trying to solve are not simple fixes. (Interviewee No. 6)

Concerning risk perception, the findings reveal that roughly 42% of the surveyed investors perceive impact investments to be as risky as traditional investments. Almost one-third of them perceive impact investments as being less risky than traditional investments (32.8%). In comparison, over 20% of the survey respondents perceive impact investments as being riskier than traditional investments (23.9%). In other words, most surveyed investors perceive impact investments as being either as risky as or less risky than traditional investments (41.8% and 32.8%, respectively). This result implies that impact investing is not generally associated with higher risk.

The survey and portfolio data also indicates that the primary impact vehicles used by the surveyed investors are direct investing (51.8%) and (actively managed) fund investing (31.4%). The preferred asset classes are public equity (37.6%), fixed income (23.6%) or

private equity (22.0%). The preferred sub-asset classes are large-cap investments (26.1%), angel/venture capital investments (early and growth stage – 13.9%), public debt and bonds (12.7%) and private debt (10.8%). These preferences are reflected in the interview data:

> I've done three direct investments, one through loan, another in convertible debt, and the third in equity. (Interviewee No. 7)

> In large cap growth, I might focus on Unilever, companies that are pushing the envelope to transform how we do business in the developing and emerging economies. (Interviewee No. 8)

It is possible that the sampled investors opt for these particular vehicles and asset classes not only because they perceive them as being effective means of achieving their financial and impact objectives, but also because they have experience with these asset classes and there are sufficient available opportunities for these kinds of investments. In other words, they tend to invest in asset classes that are readily available and familiar to them. This point is echoed in the following interview response:

> [. . .] up until now we've always had a massive allocation to private equity. We've been very comfortable with that. (Interviewee No. 6)

The familiarity principle of attraction (Le, 2009) is also reflected in the survey data on impact geographies. The findings reveal that most sampled investors who live in the USA or Canada invest predominantly in the USA and Canada (69.4%). By mainly investing locally, the sampled investors exhibit an "investor home bias." According to Nicholls *et al.* (2015), impact investors tend to have this bias because there are often significant regional differences that demand local expertise and a physical presence on site. Most interviewees also exhibited this bias, demonstrating that they are attracted to the familiar when impact investing:

> The US right now just because it's what we know and my team only speaks English. That's kind of like our constraint in that capacity. (Interviewee No. 1)

> The expertise, the familiarity weighs heavy. (Interviewee No. 4)

Another possible explanation for the apparent investor home bias is that an ample supply of quality impact investments with proven track records can be found in the USA and Canada, as compared to other impact geographies (Nicholls *et al.*, 2015). According to the J.P. Morgan/GIIN report (2013), the most robust impact investment pipelines are located in the USA and Canada, Southeast Asia, Latin America and the Caribbean (Saltuk *et al.*, 2013). As can be expected from investors, the authors generally find that wealthy private impact investors tend to require a good track record from their impact investments:

> We'll usually invest in second, third time funds. We want to make sure that the management team has a good track record that we can follow. (Interviewee No. 1)

> A lot of my decision is based on the entrepreneur and the entrepreneur's experience and reputation. (Interviewee No. 4)

4.4 Investing strategies

In the survey, the respondents were asked to assign a level of expected impact per deployed dollar to the investing strategies exclusion, thematic investing, best-in-class, ESG integration, engagement and proxy voting (henceforth, engagement) and catalytic

philanthropy. Based on the perceptions of the surveyed investors, these investing strategies rank in terms of their impact-generating potential as follows:

(1) catalytic philanthropy;
(2) thematic investing;
(3) engagement;
(4) ESG integration;
(5) best-in-class; and
(6) exclusion (Figure 1).

These findings reveal that HNWIs who pursue impact investing perceive catalytic philanthropy and thematic investing to be the investing strategies with the highest impact-generating potential. Catalytic philanthropy refers to charitable contributions with the sole intention of generating social or environmental impact – thus, it is not an impact investing strategy *per se*. Thematic investing focuses on tackling specific social and ecological challenges; thereby, generating both a positive impact and a financial return. The surveyed investors perceive engagement to be an investing strategy with medium-to-high impact-generating potential. In comparison, ESG integration and best-in-class investing strategies are perceived as having only modest impact-generating potential, while the exclusion strategy is perceived as having low impact-generating potential. These results are interesting considering that both the exclusion and ESG integration strategies are currently among the most prominent investing strategies offered by the sustainable investing industry (Global Sustainable Investment Alliance, 2018). Interestingly, several interviewees disclosed that they had applied exclusion and ESG integration nevertheless:

> I would say I am definitely trying to minimize negative impact. Right now, all my portfolio, I would say, over 80% of it at the very least is ESG deployed. (Interviewee No. 3)

> Basically, I do not invest in oil stocks, in fossil fuel stocks and bonds. Banks, car industry, and then I have excluded some countries also. (Interviewee No. 7)

This finding suggests that even though these strategies' impact-generating potential is perceived as being lower, they are still considered appropriate strategies for impact investing, perhaps because they are readily available or yield the expected financial returns.

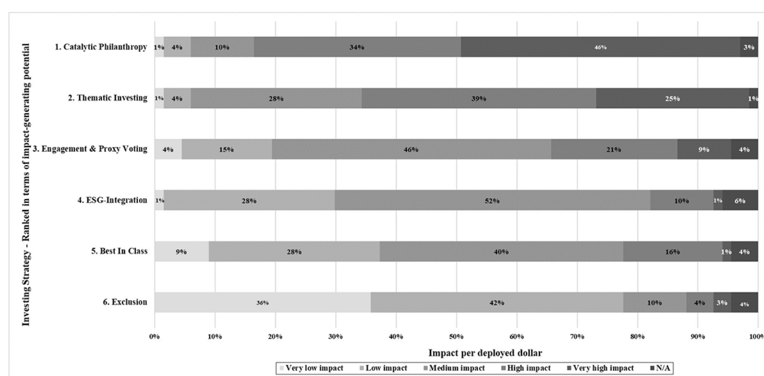

Figure 1.
Impact-generating potential of specific investing strategies (ranked by impact per deployed dollar)

One possible reason why ESG integration might be perceived by the surveyed investors as having only modest impact-generating potential, compared to catalytic philanthropy and thematic investing, is that ESG metrics are not always reliable measures of impact. ESG metrics only measure ESG-related aspects of the companies, but not the impact that investors have on these companies (Kölbel *et al.*, 2020). Therefore, the true impact generated through ESG integration is not always accurately measured, which results in instances of a lower impact being reported than what is actually achieved. A possible explanation for why the surveyed investors also perceive best-in-class as having only modest impact-generating potential, compared to catalytic philanthropy and thematic investing, is provided by Dawkins (2018, p. 467), who writes:

> Investors employing the best-of-class screening strategy attempt to influence firms by building a portfolio that favors stocks of firms with good ESG records, but does not spurn the stock of any particular firm or industry, even the worst ESG performers.

The exclusion strategy is perceived as having the lowest impact-generating potential of all six investing strategies included in the survey, possibly because it is typically applied to minimize negative impact (Clarkin and Cangioni, 2016). In other words, it is not used to generate a positive, measurable impact, and thus the level of expected impact per deployed dollar is lower than that of the other strategies.

As for the strategy of engagement, by referencing five empirical studies analyzing the success rates of shareholder requests (Barko *et al.*, 2018; Dimson *et al.*, 2015; Dimson *et al.*, 2018; Hoepner *et al.*, 2016; Dyck *et al.*, 2019), Kölbel *et al.* (2020, p. 560) conclude that "[. . .] shareholder engagement is an effective mechanism through which investors can trigger reforms that improve the quality of company activities." Explicitly, engagement can have high effectiveness, for instance, in steering companies in a specific (more socially responsible) direction, assuming that the right topics are raised by the majority of shareholders (Sjöström, 2008). There are several possible explanations for why wealthy private impact investors perceive the engagement strategy as having lower impact-generating potential than catalytic philanthropy and thematic investing. One explanation is that engagement tends to be very resource-intensive and, thus, is less often pursued (Glac, 2009). A second explanation is that, given that the dominant logic of value creation guides most publicly traded companies, it can sometimes be challenging to garner support from the majority of shareholders for sustainability-related issues and, consequently, the impact-generating potential of engagement is not always realized (Brest and Born, 2013; Sjöström, 2008). Some interviewees explained that they do not currently engage in active ownership or are considering it, while other interviewees, who claim to do engagement, do so via proxy voting:

> [. . .] definitely considering shareholder engagement, but not there yet unfortunately. But I think activism is something that I will probably move towards to create greater leverage with my assets. (Interviewee No. 2)

> [. . .] for the engagement, it's a bit complicated [. . .] Right now I don't do anything myself. [. . .] the fund managers, they are also not very active on the engagement side. It's more proxy voting and ESG. (Interviewee No. 7)

Interestingly, even though the studied HNWIs perceive thematic investing as having high impact-generating potential, it is currently the investing strategy with the smallest total volume in assets under management in the SI market (Global Sustainable Investment Alliance, 2018).

4.5 Sustainable Development Goals and impact measurement

Of the 17 SDGs associated with the United Nations' 2030 Agenda for Sustainable Development, SDG11 (sustainable cities and communities) and SDG07 (affordable and clean energy) are the 2 SDGs with which the highest percentages of surveyed investors align their portfolios (8.4% and 6.9%, respectively). The fact that these SDGs are the top two with such a small percentage shows that the interest in SDGs is highly idiosyncratic, i.e. heterogeneous, among investors. The interview data also highlights the fact that the surveyed investors diverge in their interests for specific SDGs:

> And from a thematic perspective, the two key areas that I care about are life on land [SDG15] and life below water [SDG14]. I use the SDGs. (Interviewee No. 6)

> I am currently very excited about an entrepreneur here in the Bay Area that [. . .] in the theme of food security and sustainable agriculture [SDG02] has put together an incubator that she's referring to as the next food system. (Interviewee No. 4)

The varied interests in SDGs among the surveyed investors may result from their financial expectations of impact investments. Specifically, most surveyed investors expect non-concessionary returns from their impact investments, resulting in investments undertaken in impact sectors/themes that are likely to meet this expectation. The interview data provides other possible explanations for this phenomenon. First, the sampled investors are interested in a broad range of topics and do not have a specific theme/sector that they target to promote:

> I'm kind of a generalist, and find meaning and passion in almost anything, including improving the human condition or reducing the degradation of the planet. (Interviewee No. 4)

> [. . .] I don't have a focus in impact investments. (Interviewee No. 7)

Second, the SDGs are used as a means of tracking impact performance, as shown by the following interview responses:

> I think the availability of products in the impact space are dominating my decision. So, finding products that are, as I said, not green washed, but actually have a positive impact no matter what, therefore dominates what I choose. And then in retrospect I say, that is SDG XYZ. Let's track that now. (Interviewee No. 2)

> So far, I've just been trying to monitor through the Toniic tool, which SDG am I influencing by each of my investments. And making sure that I use that as a guideline to see where I am and where I'm going. I haven't set formal targets yet. (Interviewee No. 3)

Concerning impact measurement, the results show that HNWIs who measure their investments' impact tend to perform it internally or in combination with external consultants (50.0% and 31.3%, respectively). They tend to use similar impact measurement methods, i.e. The Global Impact Investing Ratings System [1] and Impact Reporting and Investing Standards [2], as well as similar impact management approaches, i.e. impact thesis, key performance indicators and qualitative methods, such as case studies and anecdotes. Thus, they also tend to capture the same impact effects, i.e. outputs and outcomes. The majority of the surveyed investors report measuring the impact of their impact investments (71.6%); however, the frequency at which they do so varies from one investor to the next. Only over a third of the surveyed investors, who measure impact, report measuring it often or always (16.4%). Moreover, a 2016 review of current impact measurement practices, which included those preferred by the surveyed investors, found

that these efforts focused more on monitoring than robustly assessing outcomes and impacts (Reisman and Olazabal, 2016). The interview data echoes the findings of Reisman and Olazabal (2016). One interviewee stated that her impact measurement practice consists of tracking the impact of investments and not measuring it:

> We keep track of most of our investments and what's happening with the company on the ground, but we have not done any formal evaluation of our impact. (Interviewee No. 4)

The interview data also suggests a lack of quality impact reporting:

> [. . .] there are very few data points. There is little transparency. The ratings you don't know what they're really measuring and how they're aggregating the data. (Interviewee No. 11)

Furthermore, over a quarter of the surveyed investors do not yet measure their impact (28.4%). The current complex nature of impact measurement, management and reporting is likely to blame for the suboptimal impact evaluations performed by most surveyed investors. The interview data highlights some ongoing impact measurement challenges. Specifically, the difficulty of collecting quality data and the complexity of current impact measurement methods, which result in unclear impact attributions:

> If I can get some ESG reporting too, or if I can get some impact reporting in the first place, great, fantastic. [. . .] Again, not necessarily getting it as much as I would like to. (Interviewee No. 1)

> [. . .] you will never find sophisticated measurement tools because in reality it's super complex. [. . .] Impact measurement is totally subjective. (Interviewee No. 7)

5. Conclusion

HNWIs who pursue impact investing are largely similar in terms of their characteristics and investment behavior. These investors – who are typically male, middle-aged and well-educated – exhibit investment behavior driven by both selfless and self-centered values and motives, with non-financial reasons preceding financial ones, but only by a small margin. Moreover, they exhibit a strong investor home bias. These investors tend to adopt an investment time horizon of 7+ years for their impact investments, which they perceive as no less risky and no less financially viable than traditional investments. Their impact measurement practices tend to lack robustness, and they use the SDGs to track impact performance. The surveyed investors perceive catalytic philanthropy and thematic investing as having high impact-generating potential in the real world. In contrast, engagement is perceived as having medium-to-high impact-generating potential, while the well-established sustainable investing strategies of ESG integration, best-in-class and exclusion are perceived as having modest-to-low impact-generating potential. This perspective could indicate a mismatch with the current investment product marketplace, where these approaches are highly prevalent.

This is the first scientific study to provide a rich understanding of wealthy private impact investors, who are typically difficult to access because of their private nature and powerful gatekeepers. The main contributions of this paper are twofold. First, this paper contributes to the academic literature on sustainable finance by fostering a better understanding of the general characteristics and investment behavior of HNWIs who pursue impact investing. Second, for practitioners in the impact investing industry, this paper offers a series of implications. Concerning financial products and services, this paper suggests that, for fund managers, it could be beneficial to launch (more) thematic funds. This study shows that wealthy private impact investors perceive thematic investing as an

investing strategy with high impact-generating potential. Furthermore, the finding that these investors are strongly values-driven implies that financial advisors could focus on providing products that are better aligned with the values of their impact-minded clients. Moreover, the results suggest that financial advisors need to rethink how they consult their clients interested in impact investing, starting with an adequate narrative. The insight that non-financial motives are key drivers of impact investments highlights that the typical content of an advisory service – focusing on financial aspects such as risk, return and liquidity of an investment – does not suffice for impact-minded clients. Instead, advisors should also address non-financial aspects, notably potential ways to advance specific SDGs or other impact goals. By offering a better understanding of the investment behavior of wealthy private impact investors, this study, in turn, could inspire these investors to reassess their own investing activities. For instance, knowing that ESG integration and exclusion are perceived to be investing strategies with lower impact-generating potential could act as an impetus for opting for other, more impactful investing strategies. Moreover, the finding that the applied impact measurement practices tend to lack robustness could inspire the entire impact community to review the rigor of existing impact measurement practices and start developing more sophisticated and holistic impact measurement tools.

Using the insights presented in this study as a precedent, future studies could work towards gathering a larger sample size, which remains a limitation of this study. A larger sample size would allow for more sound statistical analyses and increased generalizability. Furthermore, future research could investigate the investment behavior of wealthy private impact investors on an even more granular level to identify actual differences within this unique investor segment. For example, interesting variables to test in relation to impact investments include confidence, perceived consumer effectiveness and trust. Finally, future studies could examine how wealthy private investors measure the effectiveness of their impact investments and how they use the SDGs to monitor the impact performance of their assets over time.

Notes

1. For more information, please visit https://b-analytics.net/giirs-funds
2. For more information, please visit https://iris.thegiin.org/

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