# Framing Impact: Exploring Frames and Framing in UK Retail Impact Investment Advice

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# Framing Impact: Exploring Frames and Framing in UK Retail Impact Investment Advice

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## Declaration

I declare that no material contained in this thesis has been used in any other submission for another academic award, this includes any published material submitted by any other student of Manchester Metropolitan University or any other institution.

Alan Whittle, August 2024

## Abstract

**Framing Impact: Exploring Frames and Framing in UK Retail Impact Investment Advice**

Responsible Investments (RI) are no longer considered the “lunatic fringe” of the investment world. Impact Investing, as part of this panoply, seeks to achieve measurable non-financial returns alongside financial return. With two dimensions of return, decision-making may differ from that of other forms of RI. Drawing on the work of Kahneman and Tversky (1979) in respect of reference-points and cognitive frames and their applicability to financial planning (Pompian, 2012a), this research seeks to understand the involvement of these factors in decisions pertaining to the non-financial dimensions of advised Impact Investing.

Approaching this abductively and within the framework of a relativist-constructionist phenomenology, the research utilises Interpretive Phenomenological Analysis (Smith, Flowers and Larkin, 2009) in developing an understanding of the complex experiences of participants. The evidence presented, rich in metaphorical language and wide-ranging interpretations of what Impact Investing really is, suggests non-financial reference-points exist and are capable of creating decision-impacting frames. Investor participants appear to be loss-averse in respect of these reference-points, in that they do not want to see things get worse than they already perceive them to be. As frames also exist for advisers, these can result in paternalistic framing (Sunstein, 2014) of Impact both as a means to address climate change or to change the world.

The descriptive Theory of Advised Retail Impact Investing developed shows how these elements come together to explain what makes investors choose to invest in Impact and the resulting type of Impact they invest in. The theory also shows how the use of language, both in understanding advice relationships and for the framing of mental accounts, has wider implications for both financial planning theory and practice.

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## List of Abbreviations

| Abbreviation | Definition |
|---|---|
| IC | Impact Capacity |
| TA | Thematic Analysis |
| BPT-MA | Multiple-mental-account interpretation of behavioural portfolio theory |
| Bridges | Bridges Find Management Ltd |
| BSI | British Standards Institution |
| CFA | Chartered Financial Analyst |
| CFAUK | CFA Society of the UK |
| CII | Chartered Insurance Institute |
| DCMS | Department for (Digital) Culture Media and Sport |
| ECB | European Central Bank |
| ESG | Environmental, Social and Governance |
| EUT | Expected Utility Theory |
| FCA | Financial Conduct Authority |
| FPSB | Financial Planning Standards Board |
| FSMA | Financial Services and Markets Act |
| GBWM | Goals-Based Wealth Management |
| GIIN | Global Impact Investing Network |
| HNWI | High Net Worth Individual / Investor |
| IA | The Investment Association |
| IPA | Interpretive Phenomenological Analysis |
| IPCC | Intergovernmental Panel on Climate Change |
| IMP | Impact Management Project |
| MMA | Multiple Mental Accounts |
| PFS | Personal Finance Society |
| PI | Professional Indemnity |
| RI | Responsible Investment |
| RIAAT | Retirement Income Advice Assessment Tool |
| RRI | Regulated Retail Impact Investment |
| SDG(s) | Sustainable Development Goal(s) |
| SDR | Sustainability Disclosure Requirements |
| SI | Sustainable Investment |
| SROI | Social Return on Investment |
| UNHWI | Ultra-High Net-Worth Individual / Investor |
| TA | Thematic Analysis |
| TOC | Theory of Change |
| UKSIF | UK Sustainable Investment and Finance Association |
| VC | Venture Capital |
| WTP | Willingness to Pay |

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*For Charlotte and Alex*

# Chapter 1: Introduction

## 1.1 Introduction

Finance has the potential to provide social benefits (Shiller, 2012). Whilst responsible investments[1] (RI) were once considered the "lunatic fringe" of the investment world (Sparkes and Cowton, 2004), there has been a gradual warming towards values-based investment strategies, in line with increased investor awareness of relevant issues such as climate change and social justice. Impact Investing[2] sits within an overall framework of RI and sustainable investing[3] (SI) and aims to achieve measurable non-financial returns[4], alongside a degree of financial return (O'Donohoe et al., 2010; Daggers and Nicholls, 2017; Busch et al. 2021; Caseau and Grolleau, 2020). Growth in the number of retail investors expressing preference for such investments (Hand et al., 2020) highlights the need to understand choices to help navigate behavioural biases which might affect participation and professional advice[5] (Caseau and Grolleau, 2020). The desire for measurable Impact may differentiate Impact Investors from others, even those investing in other forms of SI (Newton, 2019).

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[1] "Responsible investments in this case would include ethical, values-based, sustainable and Impact approaches to investing.

[2] For stylistic reasons and to aid in reading, references in the text to Impact Investing, referring to the activity of investing in Impact Investments, and Impact Investment(s) will be capitalised in the text. The capitalisation of Impact in "Impact investors" is used to highlight that these are investors in Impact but they are not capitalised in full, reflecting that whilst they may all be investors in Impact, they are far from homogenous. Impact, where referring to the investment type, will be capitalised throughout in order to differentiate this from the verb "to impact".

[3] "Sustainable" is hereafter considered to include both the ecological and social sense, a *societal* definition of sustainability, in line with the UN Sustainable Development Goals (SDGs) and the Financial Conduct Authority (FCA) Sustainable Disclosure Requirements (SDR) and in keeping with the open definition of the UN Report of the World Commission on Environment and Development: Our Common Future (UN, 1987).

[4] I have intentionally not used the term "ESG" or Environmental, Social and Governance investing here as I have considered such measures as intrinsic to good investment management or primarily as a risk management tool. It is not the ESG characteristics of companies which concern us but the measurable impact they might have on people and planet.

[5] The term financial advice and financial planning will be used interchangeably. Whilst many of my peers would advocate for the use of the latter, in many respects this is an analysis of the process of giving and receiving professional advice and as such the former is more often appropriate: Financial Planners give financial advice.

Modern interpretations of Emerson's spectrum of capital (Emerson, 2003; Bridges, 2015; OECD, 2015; Spiess-Knafl and Sheck, 2017; DCMS, 2017; EQ, 2023), extending from conventional investing, solely for financial return, through to philanthropy, place Impact Investments at the philanthropic extreme of an imagined continuum of investment styles (see ***Figure 1.i***). The Impact Management Project (IMP) (2019) and Global Impact Investing Network (GIIN) (Hand et al. 2020; Hand and Gilbert, 2023) have attempted to define Impact Investments as those with the intention to create change, having identifiable outcomes and a measurable contribution, sometimes tested against counterfactuals (IMP, 2019). Yet although high-level principles may be understood from the literature, practical applications vary considerably. The lack of firm agreement about what should be considered an Impact Investment, highlighted by Brest and Born (2013a; 2013b) and more recently by Busch et al. (2021), and seen in the evolution of UK Financial Conduct Authority (FCA) sustainability definitions, remains.

***Figure 1.i: The Spectrum of Capital (Adapted from Emerson (2003))***

Conventionally, financial return is the normative goal of investing (Aspara et al, 2015). In most forms of investment, non-financial returns other than hedonic experience might be negligible or incidental (Statman, 2008; Cornell and Damodaran, 2020); secondary to the normative financial return. The normative goal of Impact Investing may differ from other forms of investment as it may be the measurable non-financial return, the financial return or both (Caseau and Grolleau, 2020), while there remains the added potential for hedonic experiential returns. Thus, the potential for a material non-financial return from Impact Investments presents an additional dimension on which decisions must be made.

In understanding decision-making, Expected Utility Theory (EUT) still prevails in some areas of financial planning practice. This theory suggests optimal choices might be expressible as rational preference for maximum expected utility, understood in terms of value to the decision-maker of potential outcomes and their probability (Bernoulli, 1793, Von Neumann and Morgenstern, 1944). Whilst this may be the case for theoretical investors, actions of real investors may be far from optimal. Statman (2005) suggests investors are “normal” rather than rational; they may be better represented by concepts such as bounded rationality (Simon, 1990). Decisions might be consistent with beliefs (Bradley, 2017), but are made without information necessary to decide which option will maximise utility. Even when information is available, decisions may be swayed by behavioural biases (Kahneman and Tversky, 1984; Redhead, 2008; Kahneman, 2011; Pompian, 2012a, 2012b).

Whilst EUT may well provide an indication of how investors should act, it does not adequately explain how they do act. The work of Kahneman and Tversky (Kahneman and Tversky, 1979, 1984; Tversky and Kahneman, 1981, 1986), along with Thaler (1980) and others, challenged prevailing normative theories of economic choice. Descriptive theories, such as Prospect Theory (Kahneman and Tversky, 1979) and its heirs provide a conceptual landscape for developing deeper understanding of how investors really behave (Slovic et al., 1977). Through the lens of individual behavioural finance (Pompian, 2012a), there is potential to improve understanding of retail investors’ decision-making. The concepts on which these theories apply might be applied to the behaviour of Impact investors.

Reference-dependence and loss-aversion are core aspects of Prospect Theory, combined with the cognitive frames which relate to them (Kahneman and Tversky, 1984) and the act of framing investment decisions in light of reference-points (Thaler and Sunstein, 2008), provide a conceptual framework (see ***Figure 1.i***) for developing a more complete understanding of advised investor decision-making concerning Impact Investments.

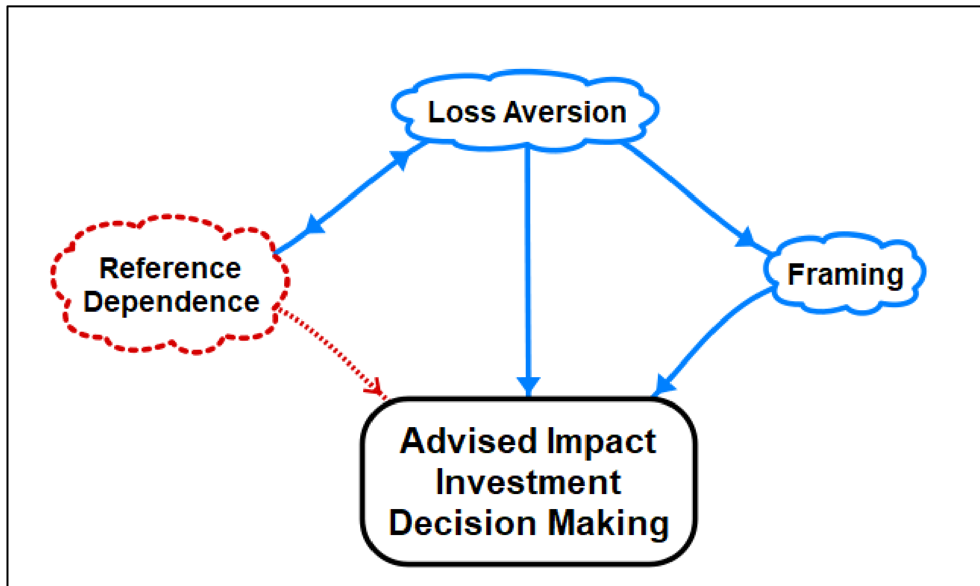


***Figure 1.ii: An Initial Conceptual Framework for Understanding Advised Impact Investment Decision-making***

Given expressed desire for measurable non-financial returns, Impact Investing decisions may incorporate reference-points from which investors seek to see measurable improvement. Decision-making with respect to these reference-points, in terms of avoidance of further losses or achieving positive non-financial returns, may impact choices. As mediation by an intermediary may change the nature of choice (Engelmann et al., 2009; Diouf et al., 2016; Bachman, 2020), how these choices are presented and the content of the recommendation, their framing, may affect decision-making (Pompian, 2012a).

### 1.2 Knowledge Gap and Research Questions

Extant literature, discussed in Chapter 2, demonstrates substantial progress in the application of behavioural finance theory to advisory relationships (Thaler and Benartzi 2004; Pompian, 2012a; Baker and Ricciardi, 2015). Yet, while concepts are well established, their applicability to decision-making in the context of advised retail Impact Investing is unknown. Where considered, this has been largely theoretical (Caseau and Grolleau, 2020) rather than empirical. Exploring the experiences of retail Impact investors and their advisers is necessary in order to develop an understanding of decision making in context.

In consideration of the above, this research will seek to answer the following questions:

1. How do retail Impact investors experience frames and framing when making advised investment decisions?

   and

2. How do their advisers experience giving advice in this context?

In developing this understanding, a distinction should be made at the outset regarding the subject of our investigation, specifically Impact Investing for retail investors. The stress on investing here is important as this focuses on the act of investing, either as a retail investor or as one who advises retail investors. This work is not an analysis of the experienced decision-making of those who structure the investments available to retail investors, or of the investments themselves, though these will be discussed in their relationship to the act of investing in them by retail investors. Likewise, it is not an exploration of the decision-making of non-retail investors in Impact. Whilst there may be reference made to institutional investors such as pension funds in the course of this research, the needs and information available, outcomes sought, and advice needs of these groups are different to that covered. Nor will this be an examination of the needs of High Net-Worth (HNWI) and Ultra-High Net Worth (UHNWI) investors[6], for whom decisions to allocate capital to Impact Investments may be worlds away from the retail investors considered here.

## 1.3 The Structure of UK Financial Services

The retail investors whose decisions are the focus of this study, might be termed "normal" investors (Statman, 2005). They are members of the public, saving for retirement, or investing surplus income from employment. At this level there is information asymmetry between

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[6] For discussion of the amount of assets considered for an investor to be classified as "High Net Worth" please see Appendix 5. Working definitions of what constitutes a HNWI or UHNWI investor will vary by firm but would tend to be those with liquid assets in excess of £1m.

those who manage money and those whose money is being managed, one which can be exploited by unscrupulous actors. In order to address the potential for harm, financial services in the UK are controlled and regulated, with the FSMA[7] 2000 and subsequent legislation, preventing those who are not authorised and regulated to give advice from doing so.

The primary regulator is the Financial Conduct Authority (FCA). Whilst larger banks and financial institutions are prudentially regulated by the Prudential Regulatory Authority, conduct in all financial services firms is regulated by the FCA. They are also responsible for the solo regulation of the majority of financial advice providers and the regulation of the products sold by investment managers, as such their influence and interventions are particularly relevant to this study.

A substantial proportion of the UK financial services market for retail investors is intermediated, requiring the services of a professional financial adviser. The most recent FCA Financial Lives Survey identified that 6.1% of the adult UK population had used a financial adviser in 2022 (FCA, 2023c). Whilst there is some indication that the professional control of the UK financial services market might be diminishing through information proliferation (Susskind and Susskind, 2017), a position somewhat supported by the FCA's market review statistics, there remains an active community of financial advice professionals in the UK.

Financial advisers in the UK must also achieve minimum qualification levels, though at present these provide limited coverage of Impact investments, or RI in general. Despite this there is an established community of advisers who include Impact Investment advice in their recommendations, one which is growing with public interest and awareness, and changes in regulation.

[7] Financial Services and Markets Act

## 1.4 My Professional Experience

My personal motivation for this research, and my interpretation of the evidence, is grounded in my professional experience as a member of the UK financial planning community. I am a Chartered Financial Planner and Fellow of the Personal Financial Society (PFS). My professional experience has included roles as both a technical specialist and Compliance Officer prior to establishing a consultancy practice to support financial planning firms, including those who specialise in SI and ethical investment advice.

My approach to financial planning has been influenced by two tumultuous decades in the UK financial services market, which also provided me with opportunities to work for the Scottish Government on Rural Communities policy, and for a private welfare-to-work provider, supporting those with long-term health conditions and experiences of addiction to find employment. I have also had the privilege to work on a voluntary basis with a UK debt management charity and with my professional bodies, in particular the PFS and Chartered Insurance Institute (CII). This research is closely aligned to my current work on the PFS Sustainability Panel.

The challenge of understanding the relationship between financial advice and Impact Investing was initially posed to me by two Scottish pioneers in the field, almost 15 years ago. Whilst it has taken a long time to reach the conclusions presented in this thesis, their value remains as important as when the issue was first raised. I hope that this study will contribute to a better understanding of advised Impact Investing in the UK and will help advisers and investors better understand what influences their decisions.

As will be discussed in Chapter 3, I cannot separate myself from my personal history. My professional experience is present in both the design of the research and interpretation of the data. Nevertheless, every effort has been made to ensure that the approach which I have taken is robust and that the interpretation is supported by the evidence.

### 1.5 Contribution to Knowledge

The research aims to develop understanding of the experience of advised retail investor decision-making in Impact Investments, providing grounding for future research and improved financial advice for those who have expressed a desire for material non-financial returns from their investments. It comes at a pivotal time in the development of retail Impact Investing in UK financial services. At the time the research was being conducted, the FCA was consulting on and preparing its first set of rules concerning Impact Investing, the Sustainability Disclosure Requirements (SDR), published in November 2023. It remains to be seen whether the implementation of these rules creates a greater coalescence around a single approach to Impact Investing. Given the flexibility of the definition adopted (see Chapter 2.2.4, Table 2.2) the lack of clarity may well persist. Whilst the primary focus is an exploration of Impact Investment decision-making in an advised context, some discussion of the interpretations of Impact Investing among participants and their advisers, and what this means for the process of financial advice, is necessary and relevant.

The examination which follows draws on concepts from behavioural economics, employed to help understand the world of retail financial advice. Likewise, the development of an understanding of the metaphors used by financial advisers and investors serves to help understand advice through the language used by those who have direct experience of these relationships. I make no claim to be an expert in either behavioural economics or cognitive linguistics, rather I have benefitted from research in each of these fields in seeking to understand the world of financial planning.

It is my intention, where possible, to adopt a conversational tone in this work. In stylistic terms you will note that this is written from a personal perspective. Whilst there is support for imposing academic neutrality (Sword, 2012), this research was conducted from an interpretive perspective. No matter how much we may seek to separate the observer from the observed, the interpretation, analysis and explorations of the concepts in this research are intertwined with my

experience as researcher, as is the intention to conduct the research. As reader, you will encounter me in this research. Rather than attempting to mask the personal nature of the interpretation behind a false veil of impersonal anonymity (Sword, 2012) I have chosen to reflect that this is my interpretation and draw attention to this where appropriate.

Whilst its primary intention is to serve an academic purpose, in our development as researchers we are encouraged to consider the dissemination and impact of our work. I do not anticipate that the readership will extend far beyond those for whom there is a professional need to read this work in detail in this format, nevertheless it is by a member of the financial planning community as much as it is the fulfilment of the research process. Therefore, whilst it should be considered for its contribution to the literature on financial planning and retail Impact Investing, I hope it is approachable enough to be of interest to professionals for whom a deeper understanding of Impact Investing advice will be of practical benefit[8].

### 1.6 Structure of the Thesis

Following this introduction, Chapter 2 will consider the literature on the phenomena of Impact Investing and Investments, before considering that of reference-points, frames and framing. As the work is abductive (Tavory and Timmermans, 2014), the literature review has been iterative and incorporates literature on Metaphors and Multiple Mental Accounts to provide of what was uncovered in the empirical data.

The research was conducted from the perspective of a relativist-constructionist phenomenology. This draws on a Heideggerian interpretation of phenomenology (Moran, 2000) reflecting that the life-world cannot be separated from a person's history. In this vein, bracketing existing knowledge of reference-points, frames and framing or financial advice would result in just a general discussion of Impact

[8] To any such professional readers, if it turns out that this work is of commercial benefit then please do let me know and, if you're feeling charitable, feel free to buy me a cup of coffee.

Investing, with limited potential to develop theory. The philosophical position, discussed in Chapter 3, allows for the flexibility of interpretation required to understand participants' varied interpretations of the world.

Drawing on the philosophical base, the research utilises Interpretive Phenomenological Analysis (IPA) (Smith et al., 2009) in developing an understanding of the complex experiences of participants. Primary data consisted of a series of 34 semi-structured interviews with 17 participants, drawn from the retail investor and adviser community engaged in Impact Investing, conducted between November 2022 and July 2023. The analysis of this data required comprehensive ideographic summaries which were then developed into a cross-case analysis. Through this perspective the need to understand the extensive use of metaphor by participants became apparent, leading to the development of a secondary thematic analysis of the metaphors used (Chapter 6).

The empirical evidence, presented in Chapters 5-8, suggests that reference-points exist in a non-financial domain and that these are capable of creating frames which can influence investor and adviser decision-making. However, the reference-points are vague. For investors it is unclear whether they create the specific loss or gain frames seen in a financial domain. Investor participants are loss-averse in a non-financial domain, they don't want to see things get worse than they already perceive them to be, but they are not necessarily willing to take additional risk to revert to a state aligned to their reference-point.

Frames are also present for advisers, with some suggesting loss-frames in a non-financial domain. Paternalistic framing (Sunstein, 2014) is evident in aspects of the approach to Impact Investing advice, whether as a means to address climate change or to enable investors align investments with their values. This framing may influence how investors perceive Impact. However, framing used by the adviser can be overridden by the investor; they do not necessarily agree with their adviser's interpretation of the world.

The evidence has uncovered an approach to Impact Investing which circumvents a current gap in the advice process. Whilst advisers can recommend portfolios which are Impact-aligned (Busch et al., 2021) they are unwilling and unable to give advice on individually impactful direct Impact Investments. However, the desire to achieve this kind of Impact persists with investors. As some investors have the capacity to invest in direct Impact, advisers and investors have taken to framing these investments as outside of the advice process through the use of Multiple Mental Account (MMA) thinking (Shefrin and Statman, 2000). Investments are not considered as part of the investment portfolio and the capital allocated is written off. This suggests a potential failure in the existing market.

# Chapter 2: The Literature

## 2.1 Introduction

Developing a picture of the decision-making experience of advised retail investors around Impact Investments necessitates understanding this type of investment and how behaviour in this context may intersect with that of other investment choices. Having understood the position of Impact Investing within the wider RI landscape, and confirmed the validity of investigating Impact Investing, this chapter will undertake a comprehensive review of extant literature to determine the literature gap with respect to Impact Investing, reference-points, cognitive frames and framing. The review is not systematic and therefore may be open to bias in selection (Booth et al., 2022) though every effort has been taken to achieve a balanced presentation.

Much research reviewed by financial planning practitioners isn't research into financial planning. The denizens and adherents of different investment management schools extoll their approaches being backed by more academic evidence, often without reading the evidence itself (Gray and Vogel, 2016). As such grey literature should be viewed cautiously given the potential conflict of interest which exists. This can even extend into peer-reviewed sources where investment managers or financial services firms pay for academic research into particular areas where research supports the conclusions they want it to reach. Despite this, there is a growing body of literature concerning the application of behavioural finance to the world of financial planning, some of which is written independently by practitioners (Budd, 2023; Pompian, 2012a, 2012b). Behavioural financial planning and Impact Investing lie at the intersection of many fields and as such the literature reviewed includes sources which look beyond just these subjects to other areas such as cognitive linguistics (Lakoff and Johnson, 1980; Lakoff, 1987, 2008) political theory (Druckman, 2001; Daggers, 2019) and psychology (Diefenbach, 2008).

A growing body of literature considers Impact Investing and Impact Investments in general (Bugg-Levine and Emerson 2011; Cohen, 2020; Elkington, 2021) as well as looking at specific issues around definitions and measurement[9]. A detailed review was undertaken by Daggers and Nicholls (2017), though this represents the early body of knowledge rather than a current state-of-the-art, given continued development since publication[10]. However, there remains limited evidence of academic research into Impact Investing where retail investors are concerned. Much literature relates to the mechanics of measurement of the Impact which might be achieved, a matter which is of limited relevance in the exploration of experience of retail Impact investors and their advisers, though one which gains importance when we consider what that Impact might be. If what Impact Investing means to participants of this research, and how they make decisions in light of this, is to be better understood, it is important to explore the context surrounding Impact Investing and the potential influence this may have on investor perspectives.

This chapter reflects the abductive method of research which necessitated returning to the literature during the process of analysis to explore relevant concepts further. The fast-developing regulatory landscape resulted in extension of the initial review of literature in Impact Investing, while the wider review was also extended during the analysis process to include mental accounting and metaphors[11]. Because of the importance of understanding Impact Investing to the

[9] The review of the literature undertaken here is also subject to the challenge presented by the use of the common verb "impact", which results in a significant number of false positives when developing search criteria. Queries of relevant literature databases such as Scopus or Business Source Premier for 'Impact Invest*' reference sources where 'impact' is used in verb form. Whilst this is less common where the specific "impact investing" is used, "impact investment" results in a considerable number of false positives, too numerous to list here. By way of example, the abstract of the following article on decision-making in hierarchies refers to "…*impact investment decisions for high- and low-status partners during a Trust Game."* Kutoba, J., Venezia, S., Guatam, R., Wilhelm, A., Mattan, B., Cloutier, J., (2023) 'Distrust as a form of inequality', Scientific Reports, 13(9901), https://doi-org.mmu.idm.oclc.org/10.1038/s41598-023-36948-x

[10] Analysis from Scopus shows that in 2014 there were less than 10 articles per year with the words "impact investing" in the Title, Abstract or Keywords, rising to 84 in 2022 and 92 by November 2023.

[11] The difference between these has been highlighted in **Figure 2.i** by connecting these using dotted rather than solid lines.

thesis which follows (***see Figure 2.i***), this review will look first at this literature in some detail. Following this, I will explore literature on the phenomena of reference-points, cognitive frames, framing, mental accounts and metaphor before concluding.

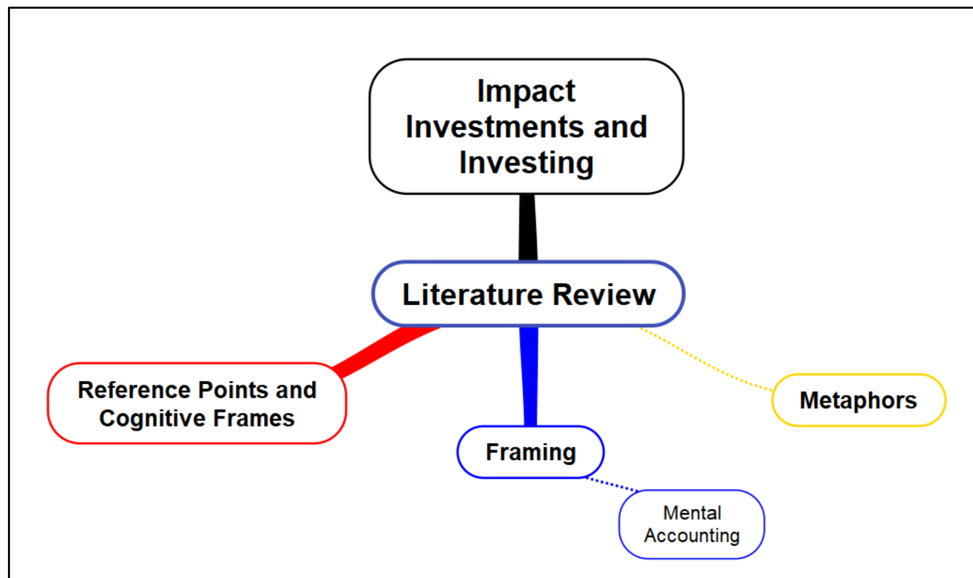


***Figure 2.i: The structure of the review of literature***

### 2.2 Impact Investing and Investments

#### 2.2.1 A fledgeling investment approach?

Daggers and Nicholls (2017) conducted a detailed review of the literature relating to Impact Investing, though even in the short time since this was published this is no longer a state of the art but the encapsulation of the first 10 years of Impact Investments as a concept. Impact Investing goes by different names in different contexts. The umbrella term Impact Investing also includes Social Impact Investing, Social Investing, Social Impact Bonds (SIBs) and Environmental Impact Bonds (Daggers and Nichols, 2016, 2017) but might also include Development Finance and Development Impact Bonds. In Daggers' critical evaluation (Daggers, 2019), she tends to use Social Investment rather than Impact Investing, despite the term's inclusion in the title of her work, reflecting that this is an evaluation of the political theory rather than the investments themselves. Just as Impact Investing is part of the wider constellation of SI, it too can be seen as a collection of phenomena.

Indeed, the same variety can be seen in Impact investors and Hummels (2016) warns against considering this as a homogenous group; it might be more appropriate to think of them collectively as all viewing Impact Investing and Investments through different lenses. Investors approach Impact to deliver different financial goals, based on individual aspirations and constraints. Institutional investors, such as a pension funds, will have a different perspective from that of a charity engaging in mission-aligned investing. Similarly, the perspectives of ultra and high-net-worth individuals (UHNWIs/HNWIs) with assets of over £1m, may be very different from those of retail investors, which may be far from homogenous.

Many articles and chapters are still at the stage of developing an understanding of what Impact Investing is, or what Impact Investments are. An abundance of sources (Vecchi et al.; 2015; Berry, 2016; Grabenwarter, 2016; He et al., 2017; Cohen, 2020; Calipha and Venezia, 2021; Gutterman, 2021; WHEB, 2021; Gifford and Tagger, 2023; Dordi et al., 2024) trace it to the Rockefeller Foundation conference in 2007[12]. So much so that the exact phrase *"coined by the Rockefeller Foundation in 2007"* alone has 46 individual entries in Google Scholar at the time of writing[13], a number which will no doubt increase as the years and impact of generative AI progress. Yet it seems disingenuous to attribute the birth of Impact Investing to a single Rockefeller Foundation conference, given that Emerson (2003) was talking about investing for social impact and its measurement in development of his 'Blended Value Proposition':

> *'…types of impact documentation all being advanced as alternative frameworks for tracking performance…We need to understand how different practitioners and investors are assessing the impact of their work and capital.' (Emerson, 2003, p39-40)*

In context, Emerson is discussing the measurement of the non-financial impact of different forms of capital, many of which can now be seen to form part of what are termed 'Impact Investments'. The

[12] Godeke and Briaud (2020), writing for Rockefeller Philanthropy Advisors, give the year as 2006.
[13] July 2024

Rockefeller conference may well have popularised the term, but it should not be credited with coming up with the idea of investing for both financial and non-financial return.

Despite Impact Investing still being *“in nappies”* (Hummels, 2016:3) and a relatively new concept (Cohen, 2020), it is not a new phenomenon. Investing in a way which produces a measurable social or environmental impact, has been around in different guises for years, particularly in development finance. It might even be linked through O’Donohoe et al. (2010) to the Quakers. Yet while Impact Investing may owe its existence to this legacy, it is not clear that these are commensurate activities; not all development finance might be classed as Impact Investing in the sense that it is employing private capital for the purpose of financial and measurable non-financial return.

Development finance might include government or supra-national investment with no connection at all to private capital. Indeed, Hummels (2016) argues that there remains a need for formal distinction between the two. Doing so requires clear understanding of how they are to be differentiated; if development finance is structured to include potential for financial return *and* utilises private capital rather than that of a government, then it might well be considered Impact Investing. Indeed, a retail investor might even be able to invest in vehicles which could be development finance if these are engaged in activities alongside international providers such as the UK Government Foreign, Commonwealth and Development Office[14].

Part of the challenge lies in defining what Impact Investing is and what Impact Investments are, given that it has brought together various types of investing which look for non-financial outcomes. While Hummels (2016) considers Impact Investments to contain any of the wide spectrum of investments which exist to create shared value, this does not mean that it should be confused with other forms of SI.

[14] https://www.gov.uk/international-development-funding

Impact Investing in its raw form might differ at a philosophical level from other forms of SI as the purest form of stakeholder (Freeman, 1984, Schaefer, 2008,) rather than shareholder value maximisation[15] (Friedman, 1970). If conventional, solely profit-driven investment is considered fundamentally egoistic, SI might be considered more utilitarian. Brodback et al. (2019) considered that SI in general might have nonpecuniary motivation and subsequently demonstrated that SI investors in Germany are more altruistic than egoist in their decision-making. Yet SI investors may also be driven by expressive motivations (Statman 2008; Glac, 2009), and it may be wrong to think of SI as purely altruistic; expressive motivation might still be primarily egoistic. Although Impact Investments differ from other forms of SI in their measurement of the non-financial return and some Impact Investors might be altruistic, it may be idealistic to see all as conforming to this standard.

Impact Investing might also be considered as the intersection of public goods[16] and private finance (Shiller, 2012; Katz et al., 2018; Cornell and Damodaran, 2020). Some Impact Investments, particularly SIBs, may exist principally for the delivery of what would otherwise be considered public goods, or the transfer of risk away from the public sector to the investor (Olson et al., 2024). Such investments can be controversial if one supports a position in which public goods should be funded from the public purse (Godeke and Briaud, 2020) and this is particularly acute where opponents believe that the use of private finance to deliver public goods promotes focus on financial outcomes (Katz et al., 2018). Yet Impact Investments do not necessarily engage in the delivery of public goods but rather may preserve them for future generations, such as through ensuring cleaner air or the preservation of forests and wetlands. However, in some cases the link with public goods is tenuous at best, with some more liquid Impact Investment strategies focusing on engagement with companies (Wagemans et al., 2012) to improve their social or environmental credentials in line with

[15] Sometimes known as the Friedman Doctrine.
[16] A public "good" in this context being things such as clean air, fresh water, or common grazing.

a theory of change (TOC). Such forms of investor additionality have little to do with providing capital to transformative projects and enterprises, those which actively create positive change in the world[17]. Some, such as Abt (2022), see the connection to public goods as fundamentally incorrect, seeing Impact Investing through Friedman's (1970) lens of shareholder value.

Balbo (2016) suggested that Impact Investments might divert resources which would otherwise be allocated to the same activities through philanthropy. This might well be the case with certain mission-aligned investments made by charitable trusts, who might seek to fund an Impact Investment rather than give away capital. However, Berry (2016) noted that investment may have both positive and negative effects: it can force focus on social return on investment, but this may mean projects which would otherwise have been funded do not receive capital, despite a clear need.

It could also be the case that Impact Investments draw in capital which would otherwise be invested in conventional investments and not gifted. Indeed, not only does Impact Investing represent an opportunity to increase available capital, Cohen (2020) argues that outputs from delivery via public-private structures may be greater than via philanthropic donations or grants. This might be the case where Impact is targeted at areas where public finance providers are unwilling to take risk, or to explore new models of delivery or methods of intervention, such as was the case in Peterborough (Ford and White, 2020). However, Godeke and Briaud (2020) warn that those organisations which might be best placed to deliver change are not necessarily the best investments.

Potential focus on financial over Impact outcomes, which might result in Impact Investments engaging only in low-risk high-return interventions, led Balbo (2016) to consider that those delivering Impact

[17] Examples would include amongst other things, the financing of small-scale local solar projects used to power schools and community centres, or the use of private capital to invest in the futures of young people with the potential for capital return on positive outcomes from the public purse.

have very little voice in the market due to the proliferation of intermediaries (Berry, 2016). Whilst this may be the case with some investments, particularly SIBs, it is not necessarily the case with all Impact Investments. Investment in start-up enterprises might bring Impact-focussed private equity partners on to their board but they would have the same opportunity to raise capital as any other fledgeling enterprise.

### 2.2.2 Why invest in Impact?

Part of the drive for Impact Investing may stem from a desire for increased diversification to maintain positive returns across all market conditions. Whilst the need for diversification has seen some seek returns from PE and absolute-return strategies over more conventional portfolios of equities and fixed income (Stanford 2016, 2021), other investors have sought Impact as a diversifier. If institutional investors consider proceeding this way, the same might be the case for some retail investors.

Balbo (2016) notes JP Morgan considered Impact Investments a new asset class. Such thinking is contested by Godeke and Briaud (2020) who specifically discount this assessment of Impact Investments, seeing them as a cross-cutting approach across all asset classes. However, Impact Investments aligned with financial additionality (Brest and Born, 2013a, 2013b), such as PE and private debt, might have different characteristics to other investments and might well be seen as a diversifiers, if not an asset class on their own.

Hummels (2016) notes that investing in Impact creates the possibility of conflict with fiduciary duty. If Impact Investing causes a reduction in portfolio financial returns this might well be the case, however Thomas and Starr (2020) demonstrate that variable willingness to pay (WTP) means financial returns from Impact Investments do not need to be below market-rate for some investors. Fiduciary duty could require an investment to achieve a market rate of return, but is dependent on how the investor approaches Impact. A SIB, with the potential for direct measurable change at a small scale, will have a very different return

profile to a diversified portfolio of collective investments; the choice of investment might be linked to investor WTP for non-financial returns.

Rangan et al. (2012) suggest that investors might be Impact-First, investing for below market rates of return, or Finance-First. These terms have not become commonplace and vary in their use and intent. The potential for Impact-First investors suggests that for some the normative goal of investing (financial return) becomes an additive goal and the non-financial return becomes normative. This might be the case for investors coming to Impact Investing from philanthropy, where any form of financial return would be additive. Godeke and Briaud (2020), in their guidance for practitioners, raise the issue of *'impact utility'* (Godeke and Briaud, 2020:27) and propose that utility to each investor varies depending on the impact of the investment. Yet Lewin (2013) believes that it is important the Impact element of each investment should not compromise the financial success of the investment, a position which is somewhat contradictory with the idea of Impact-First investors and more bound to the idea of fiduciary duty.

A Finance-First approach, such as that suggested for retail investors by Caseau and Groleau (2020) in order to remove the dual-goal conflict, implies non-financial return is additive; it is something which is nice to have but not essential. However, when making recommendations to individual investors this may not be the case if the investor's objective is the achievement of non-financial over financial return, similar to mission-aligned investments by charities. Such reprioritisation of goals may be connected to their overall wealth and perceived comfort levels in line with Maslow (1948), and their tendency to either egoism or altruism in their investment decisions (Broadback et al. 2019). To an extent it may come down to a philosophical positioning of 'investment' itself; whether Impact Investments are made for financial gain or for the potential for a more positive future for people and planet.

Godeke and Briaud (2020) also consider Impact to be additive in portfolio construction, however their interpretation is one where it is not something which can be optimized or traded-off against investment

risk or return. To them, Impact should not be another dimension of portfolio optimisation as Bilbao-Terol et al. (2015) suggested in terms of risk, return and ethicality. To Godeke and Briaud (2020), Impact should be more cross-cutting; there is no three-dimensional efficient frontier of Impact-investment-risk. Indeed, their suggestion that investments will have both variable intensity and risk supports the idea of an independent Impact dimension of decision-making for investors.

### 2.2.3 Shades of Impact Investing

Much academic Impact Investing literature is dominated by a focus on theoretical definitions, a debate which is carried over into grey literature and developing retail investment regulation. Despite continued work since the development of the term, definitions still lack certainty and interpretation can be very fluid. This may be due the field being 'pre-paradigm' with academic interest only 'exploratory' (Agrawal and Hockerts, 2021). Busch et al. (2021) provide a recent, and arguably the most complete, definition to date, though it has yet to be seen whether their proposed interpretation achieves widespread assent.

In line with Ormiston et al. (2015), we can say that Impact Investing is not Philanthropy as it must have the potential for financial return, yet this does not prevent some industry participants from conflating the two[18]. This is a distinction not made by Olsen et al. (2024) who describe potential Impact Investors as charitable or philanthropic. Bishop and Green (2008), in their discussion of 'Philanthrocapitalism', unintentionally demonstrate why new-wave philanthropy among the super-rich differs from Impact Investing. Whilst Impact Investments and philanthropic donations may have some aims in common, there are aspects of philanthropy far removed from what we are discussing here. The establishment of endowments for making gifts to individuals in recognition of their contributions to society, such as those of Nobel or the XPRIZE foundation, may benefit society but do not necessarily

[18] This can be seen in the iteration of the Spectrum of Capital shared by Bridges Fund Management (Bridges, 2015) which places "Impact Only" as an option which "cannot generate a financial return for investors" (Bridges, 2015:3) the example given being a gift to the Bridges Charitable Trust.

contribute to measurable change. In an extreme example, they note the Feynman XPRIZE for micro-engine design was awarded despite the winning entry having no practical application. This may be philanthropic activity, but it has little to do with the creation of measurable non-financial returns.

The challenge of whether Impact Investing is a form of philanthropy may well be a question of interpretation. Adopting a narrow interpretation of philanthropy as requiring giving (Hayes, 2022) helps to differentiate this from forms of investing. Yet Piscitelli (2022), echoing the definitions of Bugg-Levine and Emerson (2011), suggests that Impact is closer to philanthropy as people are prepared to accept less than market-rate returns in exchange for a positive return to society. By this interpretation the gift is one of potential return. For the sake of clarity, I will draw the distinction between Impact Investing and philanthropy as being the gifting of capital. Impact Investing is philanthropic in its intent, in that it wants to create something positive for society, but it is not philanthropy in that the capital invested remains attributable to the investor and they may choose to withdraw, sell or otherwise dispose of the investment.

There are unanswered questions about what constitutes Impact (Daggers, 2020; Busch et al., 2021), particularly in secondary market investments (Brest and Born, 2013a, 2013b). Most definitions include some form of intentionality (Caseau and Grolleau, 2020; FCA, 2021), the intention to make change, and sometimes additionality, a measurable contribution to change directly attributable to capital provided (Brest and Born, 2013b). Interpretations of additionality include both investor additionality, where the actions of the investor create change, and financial additionality where the capital provided is used to create change (FCA, 2021).

Gutterman (2021) seems unclear as to what Impact Investing is, despite relying heavily on Godeke and Briaud (2020), describing it as investing with the aim of solving a particular problem. Yet he notes that strategies available at a public equity level are more likely to be in the form of ESG-integration or thematic investing, neither of which are

specifically Impact strategies and may not deliver the problem-solving element he suggests defines Impact Investing. In a marked variation from other grey sources, Godeke and Briaud (2020) refer to an investment's 'contribution', marking them as more *additionalist* by Balbo's (2016) standards. Godeke and Briaud (2020) compare public and private markets for Impact Investments and, in their opinion, not only is the contribution unclear in public markets but also the intentionality. Indeed, Balbo notes that Mary et al[19]. (2013) believe that the extension of Impact Investment to listed equity risks promoting quantity over quality.

Balbo (2016) supports an additionality definition, seeing its presence as a key difference, suggesting the decision to invest in late-stage investments which have only intentionality, and which would not qualify from a financial additionality perspective, would be taken primarily from a financial rather than an Impact case. Balbo goes further than others by questioning whether such investors belong in Impact Investing at all.

Busch et al. (2021) are more open, proposing the segregation of Impact Investment into two categories: *Impact-aligned* and *Impact-generating*, conforming more-or-less to the intentionality and additionality definitions respectively: Impact-generating investments must have a causal link with the capital invested. Although there may be measurement of Impact generated by investee companies in portfolios of publicly traded investments, the Impact achieved is not dependent on the capital of the investor, they are impact-aligned. Such investments may achieve higher rates of financial return but less-clear Impact.

Yet intentionality can be very weak in the market. Morgan Stanley, in an article aimed at US retail investors[20] suggested that intentionality in Impact could be *"reducing exposure to companies you find*

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[19] Balbo's original source as referenced is no longer available and no alternative version could be found.
[20] The investment minimum given is $5,000, well within what might be described as retail investing in the UK.

*objectionable"* (Thomas, 2023) as well as seeking out companies generating positive social or environmental impact. They suggest investors might reduce or avoid exposure to companies with poor diversity and equality records and highlight their ability to align investments with faith-based investment criteria. Such a broad definition of Impact, directly targeted at retail investors in the USA, goes way beyond the scope of the definitions given by GIIN and others (***Table 2.1***). An intentionality definition which allows something to be considered an Impact Investment where this only *"reduces exposure"* to certain companies, not even eliminated, would seem to have limited potential to effect positive change through the investment of capital. Indeed, Balbo (2016) indicated their fears regarding the future of Impact Investing if definitions are too relaxed, suggesting it might become diluted and meaningless, turning it into a form of investing about feeling good rather than doing good, in line with Freirich and Fulton (2019).

Other interpretations are just as unclear. Cohen (2020) presents the B-corp (Benefit Corporation[21]) as a paragon of what an Impact business is, yet fails to define what differentiates these companies from others, making no reference to why a B-corp might achieve change. B Lab confirm that a B-Corp must meet three specific standards regarding *"high social and environmental performance"* (B-lab, no date, a), making a legal commitment and demonstrating transparency, as well as undertaking an impact assessment. Whilst the b-Impact assessment might be a way of ensuring a company meets the B Lab standards, a significant proportion of the assessment criteria focus on governance, ownership and community representation within the management team. The final element requires a way of verifying the business' product improves the impact of client organisations. Whilst this could warrant the inclusion of such companies in an Impact Investment portfolio, it is not always clear what Impact is generated. Investing in such companies might still be done from a purely profit-driven perspective.

[21] https://www.bcorporation.net/en-us/

### 2.2.4 Working Definitions

The lack of clarity has not been helped by regulators. In developing the FCA SDR, regulators flip-flopped between intentionality and additionality while the European Standards and Markets Authority (ESMA) adopted a vague requirement that 'Impact' can only be used when there is *intention* (ESMA, 2022). Both definitions use intentionality, despite this not being accepted by all market participants (Miller, 2020), nor is it suitably clear (Busch et al., 2020).

Hummels (2016) notes that a problem with trying to create a definition of Impact Investing is that doing so tries to impose a single definition on different types of investments. The Investment Association (IA) in their work with the Wisdom Council (IA, 2022) supported clarity and consistency, echoed in the FCA's SDR Policy Statement[22] (FCA, 2023a) which called for firms to refer to *"existing frameworks and guidance for impact investing"* (FCA, 2023a:107). The following table (***Table 2.1***) indicates that there is some convergence on an intentionalist (Bilbao, 2016) definition among industry bodies, based on the GIIN's 2020 interpretation.

[22] Hereafter PS23/16

| Paper | Definition |
| --- | --- |
| Impact Management Project (2019[23]) | *"…taking into account the positive and negative impacts of the underlying enterprises/assets, as well as the investor's own contribution."* |
| GIIN 2020 (Hand et al., 2020:74) | *"…investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return."* (Endorsed by the Investment Association (IA 2019)). |
| BSI pas-7341 (2020:2) | *"…investments are made with the intention to generate positive, measurable social and environmental impact alongside a financial return."* |
| GIIN 2023 (GIIN 2023:2) and CFA UK (CFA ,2023:4) | *"Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return."* |
| GIIN 2023 (Hand and Gilbert, 2023:5) | *"…impact intent, normally expressed in an overarching, articulated theory of change to arrive at quantitative impact objectives."* *"…investors' inputs, such as capital, engagement terms and investment terms … reliably and deliberately contribute to investment outcomes."* *"…investors measure investment outcomes, both during and after investment…"* |

***Table 2.1: Select Industry Impact Definitions***

In considering the literature on Impact Investing in the UK market from a financial planning perspective it is important to consider the regulatory position which has been adopted. When this research was first envisaged there was no definition of Impact Investing in UK Financial Services regulation, yet during the last 3 years the FCA has undertaken a significant programme of regulatory change concerning SI in general, including an attempt to define Impact Investments. The FCA went through no less than 3 interpretations (***Table 2.2***) when attempting to define the characteristics of its 'Sustainability Impact' label.

[23] This source is no longer available, a link to an archive version has been provided.

| Paper | Definition |
| --- | --- |
| DP21/4 (FCA, 2021:17) | *"Products with the objective of delivering net positive social and/or environmental impact alongside a financial return."* *"Minimum Criteria: Intentionality, theoretical ability to deliver and measure additionality through investment decision-making and investor stewardship, impact measurement and verification."* |
| CP22/20 (FCA, 2022a:28) | *"…contribution to a positive environmental and/or social sustainability outcome through financial as well as other types of investor additionality."* |
| PS23/16 (FCA, 2023a:107) | "*…a sustainability objective consistent with an aim to achieve a pre-defined positive, measurable, impact in relation to an environmental and/or social outcome…"* |

***Table 2.2: FCA Changing Impact Definitions***

Having published their own framework in 2019, which advocated for the GIIN definition of Impact, the IA was supportive yet critical of the FCA's initial approach, believing this was unclear (IA, 2019). Yet like the IA, the FCA's 2021 definition holds intentionality as essential to Impact Investing. They point out that if additionality were a requirement, fewer products would meet the necessary criteria. This aligns with Toxopeus et al. (2016), who contend that the goal of Impact Investors is maximising the amount rather than the quality of impact, in clear contrast with Balbo's reporting of Mary et al. (2013). Toxopeus et al. (2016) go so far as to suggest that Impact Investments might include those which create more impact than a benchmark investment, a definition which seems to lack even intentionality, and which would appear to fail tests they have themselves developed.

Unlike the FCA's 2022 definition, which required firms to provide some form of financial additionality, the 2023 iteration sees Impact as being achievable through a more diverse approach, a reversion to the 2021 definition:

*"…such investment activities as engagement with the product's assets, investing in initial public offerings [IPOs], participating in new rounds of capital raising, or directing new capital to projects and activities that offer solutions to environmental or social problems."*
*(FCA, 2023a:107)*

Many of these might be impactful in the sense that they could provide some form of financial additionality, yet are in direct contrast with the opening idea of engagement with the product's assets. Engagement as a driver of Impact does not direct new capital, nor does it necessarily offer solutions to environmental or social problems. Rather it is a form of Impact which could be seen as reliant on the investment manager helping investee companies achieve outcomes, an interpretation Busch et al. (2021) consider to be at best Impact-aligned rather than Impact-generating.

In the FCA's 2022 interpretation they referred to "*investor additionality"* (FCA, 2022:28). This type of additionality would be achievable where the investor's actions are in addition to something other than just capital, such as a PE investor taking a seat on the board of an organisation and helping to providing expertise in growing an impactful business. Such engagement differs considerably from engagement with companies whose shares are purchased in the secondary market.

The FCA removed any explicit need for financial additionality in PS23/16, recognising the "*role that the product's assets may have in contributing to positive impact alongside the investor's contribution"* (FCA, 2023a:42). Gone is any mention of a counter-factual [sic.] and where the earlier definition required investment to be in underserved markets this again was removed.

Not only does additionality no longer feature but intentionality has become something necessary for an investment to achieve any of the four sustainability labels. Investments must conform to a specific statement to invest *"…with the aim of directly or indirectly improving or pursuing positive environmental and/or social outcomes…"* (FCA, 2023a:93). Indeed, the FCA definition of Sustainable or Sustainability Impact has become so far removed from earlier interpretations that in the 2022 consultation they asked respondents whether it should be relabelled "Solutions" rather than "Impact" (FCA 2022:102), though this was ultimately rejected, perhaps highlighting the perceptual value of the term itself (Davis et al., 2016). The loose definition of "Sustainability Impact" adopted by the FCA may well be far removed

from the academic idealism of Brest and Born (2013b), Hummels (2016), and Busch et al. (2021) however it may reflect the reality of Impact Investing for UK retail investors and is closely aligned with GIIN's definition from 2023. It suggests that the academic interpretation of the phenomenon of Impact Investing is different from that of practitioners, to a significant degree.

The FCA's final definition (FCA, 2023a) requires investment products to have not only a sustainability objective but also to demonstrate an appropriate Theory of Change (TOC) which demonstrates how the investments will contribute to making a positive Impact, and a robust method for measurement in terms of their activities as an investor and the assets in which they invest. The introduction of the requirement for TOC by both the FCA and GIIN can be seen as an attempt to demonstrate the rigour of approaches not based on financial additionality, a move which may help reassure those who see additionality as an essential criteria.

Reinholz and Andrews (2020) consider different interpretations of TOC but note that a commonality among them is the need for a clear expression of the process by which change is to be achieved specifically*:"…how and why the planned activities are likely to lead to the desired outcomes…and how change occurs."* (Reinholz and Andrews, 2020:2). The FCA rule is aligned with this, however Reinholz and Andrews go considerably further than the FCA approach appears to require. To them, a credible TOC requires *"backwards mapping"* from the end result one seeks to achieve, describing how the actions required will achieve the results. The FCA interpretation allows for greater flexibility of application, at either product or asset level. To Reinholz and Andrews, if the intervention comes first and is then mapped to outcomes it is not an implementation of TOC.

The inclusion of TOC to Impact definitions is not going to satisfy all parties. In particular, Vun (2021) is scathing on the application of TOC to Impact Investing, suggesting it has drifted so far as to render it meaningless, as it does not integrate the needs and expectations of all stakeholders. However, Vun's challenge is to those Impact

Investments which require funding from development bodies, not those considering the application of TOC to the secondary equity market where investor additionality might be achieved through engagement. If TOC is to be credible in an Impact Investment context it needs to incorporate more than just the needs of the investment manager, investor and investee company but must also look at the wider stakeholder group and ensure that it maps backwards from the outcomes to be achieved to the potential investment universe. Whilst the requirement for some form of TOC brings the FCA approach to Sustainability Impact closer to the GIIN (2023) definition, it may still be blurring the lines between both Impact-generating and Impact-aligned investments in the same category.

Regulatory developments will influence understanding of what constitutes Impact Investments, to both advisers and investors; the variety of interpretations does not seem to be diminishing despite continued scrutiny from the academic community and industry. Despite the FCA's own commissioned research suggesting the 'Sustainability Impact' label had the most positive response from consumers (Nicholls et al., 2023) it is perhaps not surprising the IA found Impact as a category of investment was the most likely to be considered meaningless by investors when surveyed about potential fund labels (IA, 2022). This may reflect Hummels' (2016) assertion that we are trying to impose a single definition on a range of different approaches.

### 2.2.5 Impact and Retail Investors

Although the literature on Impact Investing has been growing, there has been limited reference to retail investors, and even less to those who are advised. Cohen (2020), although an instigator of Impact Investing in its current form, appears to ignore retail investors as a component of his "Impact Revolution" (Cohen, 2020:11) despite writing for a non-specialist audience. Philips and Johnson (2018) note the limited availability of Impact Investments to retail investors, and interpret Impact as only being available to companies and nonprofits. Some studies such as Barber et al. (2020) and Caseau and Grolleau

(2020) have included individual investors in their examinations of the subject. Notably, Caseau and Grolleau explore advised retail Impact Investing, including some consideration of behavioural bias, however their aim is theoretical synthesis rather than exploration in practice.

Where individual investors are considered in the literature, it is those who have the most money who are given prominence. Thus Hummels (2016) and Carroux et al. (2022) consider decisions by private individuals but focus on the decisions made by HNWIs. Godeke and Briaud (2020) consider individual investors as well as institutions, however their exemplar is an UHNWI. Under UK financial legislation (FCA, 2018a, 2023b) such individuals might well be considered Professional Clients and would be approached by asset managers and advisers on the same terms as they might approach a pension fund or another financial institution. These are not retail investors and their needs vary markedly.

Retail investors may have difficulty accessing investments with demonstratable financial additionality, such as private equity and SIBs, due to their risk-reward profile and complexity (FCA, 2021). Although Barber et al. (2020) included direct investments by individuals in their research on the venture capital (VC) market, retail investors are unlikely to be direct investors in VC, unless through tax efficient vehicles. Whilst some retail investors may engage in direct investments through platforms[24], these are unlikely to be advised: Financial advisers may not have the tools to assess individual projects in terms of their risk, financial or impact return. More accessible collective investments, containing publicly traded equities and bonds, may not have direct impact (Brest and Born, 2013a, 2013b). Instead, these rely on intentionality or investor additionality, presenting a more watered-down version of Impact Investing, with a clear risk of Impact-washing (Busch et al., 2021).

At an operational level, retail impact products often connect investing with the UN Sustainable Development Goals (SDGs). The SDGs were

[24] See Appendix 5

not intended as an investment framework, though they have been adopted as such by various providers. UK investment managers providing access to Impact Investments for advised retail investors, frequently tie Impact Investing to the SDGs in a form of reverse-TOC mapping. The SDGs do not appear in any of the definitions of Impact Investing, yet the linking of investment portfolios to them may place their approach in the sphere of Impact-aligned rather than Impact-generating investments. Even if the companies within these portfolios can generate positive Impact through their activities it is likely to be at a late stage. As suggested by Godeke and Briaud (2020), any additionality, and perhaps even intentionality, will be unclear.

There is no clear narrative of Impact Investing and it risks becoming diluted by those who seek to explore this lack of clarity for commercial purposes. Whilst regulatory initiatives will help, it is clear that how investors understand Impact will be important in any exploration of how they make decisions in this environment.

## 2.3 Behavioural Financial Planning and its relationship to Impact Investing

Having considered the literature on Impact Investing, I will now provide a brief summary of that relating to the key concepts concerning investor behaviour which will be considered in the interpretation of their experiences in subsequent chapters.

### 2.3.1 Reference-points and Cognitive Frames

Literature concerning the development of decision-relevant reference-points and their associated cognitive frames is a concept central to the Prospect Theory (Kahneman and Tversky, 1979), a descriptive decision theory which posits choices are made by evaluating potential outcomes as either gains or losses from a reference-point. The applicability of this theory in a financial planning context is demonstrated by Pompian (2012a) but is primarily focussed on individuals' sensitivity to financial gains and losses. Indeed, the focus of literature in behavioural financial planning is on financial gains, stemming from an interpretation of the role of the financial adviser being to improve returns (Cruciani, 2017) or make money, rather than supporting the retail investor in achieving the outcomes they seek.

Similar to anchoring, where behaviour can be influenced by exposure to an associated number, a reference-point may impact perception of investment performance (Baker and Ricciardi, 2015). Investors perceive values as losses or gains with respect to this reference-point, the value to them being *dependent* on their reference-point (reference-dependence) which might be the point of investment, review, or some point in between (Pompian 2012a). Reference-points might be measurable and definable (Werner and Zank, 2018) differ among investors as they are subjective (Redhead, 2008). Redhead (2008) considers the possibility of multiple reference-points, suggesting their periodic updating by investors. However, Karlsson et al. (2009) suggest that the updating of reference-points may be inconsistent, and investors might not be relied upon to change their reference-points to reflect newly available information.

Lin et al. (2006) also consider multiple reference-points, with one being the outcome of no investment, however their work considers the potential for multiple reference-points relating to different outcomes, based on alternatives to choices made. An alternative would be to consider the status quo as the reference-point (Pompian, 2012a; Hon et al., 2021), yet this posits the status quo as maintainable, and Koszegi and Rabin (2006) note reference-points exist in domains where the status quo is not suitable. Thus, rather than thinking of reference-points as being achieved states of wealth or value, it might be more appropriate to think of them as expectations. In a non-financial dimension, reference-points could be an experienced or expected situation relating to environmental or social sustainability issues.

Reference-points are also considered tangentially by both Lakoff (2008) and Budd (2023) in terms of how we see ourselves with reference to others. Indeed, Budd's examination of this in terms of financial planning and wellbeing may have some bearing on investors' willingness to pay for non-financial outcomes.

Cognitive frames, derived from these reference-points, are central to Prospect Theory: Individuals can be considered to be loss or gain framed in their perception of the current state relative to the reference-point. Individuals also exhibit greater sensitivity to losses of value than to gains of a similar magnitude and diminishing sensitivity to both gains and losses further from the reference-point (Kahneman and Tversky, 1979; Redhead, 2008). The idea of losses looming larger than gains can be traced through Markowitz (1952) to Bernoulli (1793), though there are differences in the shape of the value-function in Kahneman and Tversky's interpretation (Charles-Cadogan, 2018). Regardless of its origins, an important aspect of a Kahneman and Tversky's interpretation of our perception of reference-points is that the increased sensitivity to losses encourages risk-taking (Redhead, 2008), or "get-evenitis" (Shefrin, 2000:24). Where an investor has made gains from their reference-point, the decreased sensitivity to additional gains means they will be less inclined to take more risk to

achieve further gains. This is also related to the 'endowment effect' (Thaler, 1980) in that once we have something we require more to part with it than we might have been prepared to pay to acquire it: We do not want to lose what we have gained. Perception of being in a 'loss-state' with respect to a reference-point encourages people to take risks to prevent further losses, demonstrated by Kahneman and Tversky (1984). It is also related to the 'disposition effect' (Shefrin and Statman, 1985) where investors are inclined to retain poorly performing investments, accepting the risk they will fall further in the hope they recover, while selling those which perform well. Hon et al., (2021) interpret this as a willingness to gamble on losses, though note that the disposition effect is less common in professional than individual investors. However, Hsu (2022) identified that advice-seekers are those who are loss-averse, seeking to protect what they have, rather than achieve gains, something which might have influence in both financial and non-financial dimensions.

The applicability of reference-points and cognitive frames to domains where value is measured in non-financial terms is demonstrated in the literature (Collie and Gislason, 2001). In an environmental context, which may have relevance to Impact decisions, this has been explored by Homar and Cvelbar (2021) in their systematic review. However, the applicability of loss-aversion to Impact Investments is not guaranteed. Wilson et al. (2008) found that it might not hold where losses are experienced by someone other than the decision-maker, suggesting applicability of cognitive frames and loss-aversion in a non-financial dimension may depend on whether the investor perceives themselves as being in a loss-state, which could be the case if the change in an environmental or social sustainability measure is relevant to them on an individual level.

Impact Investing decisions might be considered in different dimensions, with both financial and non-financial values considered separately. This is in keeping with a multi-attribute interpretation of Prospect Theory where each decision factor is considered in isolation, rather than collectively (Bleichrodt et al., 2009). This may align with the

interpretation of Caseau and Grolleau (2020) and their consideration of the goal-dilution effect. However, rather than the non-financial return just being something which is a nice-to-have, risk-seeking behaviour to address perceived losses in a non-financial domain might be expressed as willingness to take more financial risk to recover from a non-financial loss.

Some sources link loss-aversion with Regulatory Focus Theory (Higgins, 1997; Tong et al., 2013), which may have some relevance to Impact Investing. Higgins (1997) associates loss-aversion with concepts of promotion and prevention: Investors in a loss-state approach decisions from a prevention focus, acting to prevent further deterioration in their position. Tong et al. (2013) take this further; those with a prevention focus are more likely to make choices focussing on utility rather than hedonic alternatives. Although this research will not be conducted through the lens of Regulatory Focus Theory, the implications of this research for Impact Investing are apparent: An Impact Investment may represent a utility outcome in a choice of investments if non-Impact options focusing only on financial return are perceived as hedonic.

### 2.3.2 Decision Framing

The framing of information in the context of economic decision-making can be linked to Kahneman and Tversky (Kahneman and Tversky, 1984; Tversky and Kahneman, 1981, 1986) who demonstrated that the manner in which a choice is presented can impact decision-making and its outcomes. Specifically, choice problems can be framed in such a way to contradict *Invariance*, an axiom in normative theories of choice, which holds that alternative presentations of choices should not change preferences (Tversky and Kahneman, 1986). By demonstrating decisions might vary depending on the way in which choices are presented, Kahneman and Tversky raised further questions about rationality in individual economic decision-making. Although Guzman et al. (2019) suggest only experimental decisions are subject to the framing-effect, while those made by consumers are rational and analytical, their method leaves participants open to

unconscious biases. In line with Lakoff (2008), asking someone if they act rationally when making decisions does not constitute evidence of rationality in decision-making.

Framing applies to more than theoretical economic situations (Johnson et al., 1993; Druckman, 2001; Thaler and Sunstein, 2008). A 'frame' in this context is both the way in which information is *presented* and the way in which it is perceived (Kahneman, 2000). Perspective is important: If a decision is framed preferring the present-self, the outcome may be different from that which would be the case if the decision were framed in terms of the future-self (Tversky and Kahneman, 1981; Thaler and Benartzi, 2004). Glac (2009) considered the effect of decision frames in understanding WTP for socially responsible investing, contrasting expressive (Statman, 2008) and financial frames. However, this research focussed on 121 undergraduate students rather than advised investors and specifically looked at the investment of retirement contributions, which may have had an impact on the WTP identified.

Thaler and Sunstein (2008) take the idea of framing beyond representation of choice, through the development of the 'nudge'. Whilst framing might be unintentional, a nudge might be considered framing with intent to create change. Those who have the power to create frames, to nudge, are 'choice architects' (Thaler and Sunstein, 2008:12). Sunstein (2014) considered the ethicality of nudging, whether it is inherently paternalistic, and if it undermines autonomy. Yet in the context of advice, paternalistic nudging might be employed to positive effect where a client's economic welfare is concerned (Sunstein, 2014, 2016). Druckman (2001) considers who has the 'power' to frame. Although his work focuses on implications of political framing, it highlights the power and control choice architects have, particularly if it is accepted that decision-makers do not seek alternative frames but accept the frames in which information is first presented (Kahneman and Tversky, 2000). Different frames might well be employed to manipulate behaviour, for good or ill.

Given the importance of financial advisers as mediators (Cruciani, 2017), framing in an Impact dimension may be significant. In advice, framing has been seen to impact pension planning (Thaler and Benartzi, 2004; Thaler and Sunstein, 2008; Pavia and Grima, 2019; Roux and de Villiers, 2020) and risk tolerance (Lee, 2011; Pompian, 2012; Vlaev et al. 2015). Grey literature in financial planning has demonstrated understanding of the potential relevance of framing in practice (Pompian, 2008, 2012a; Guyton, 2011; Baker and Ricciardi, 2015; Cheng, 2020). Baker and Ricciardi (2015) provide a broad overview of behavioural concepts in financial planning but consider framing only in the context of self-control, the tendency to focus on present gratification at the expense of the future self. Their statement that planners should *'reframe the issue'* (Baker and Ricciardi, 2015:25) suggests an obligation to assist investors in changing the frame through which they perceive the decision to save for retirement, in line with Guyton (2011).

Guyton (2011) considers how past experience creates subjective frames through which people see the world. Bringing a practitioner's experience to framing, he considers how to address clients' different frames, demonstrating how they can impact perception and how effective planning might be used. A more comprehensive approach is taken by Pompian (2012a), who draws on research and theory in developing an interpretation of behavioural finance which is directly relevant to financial planners. Although primarily reproducing concepts and theories for a practitioner audience, he extends this to consider practical application of theory, exploring framing in the context of advice in four main areas: Narrow framing, Framing and Loss Aversion, unintended choices based on incorrectly framed questions, and positive and negative frames. These classifications are not necessarily exclusive, as has been demonstrated by Chong and Druckman (2007): Questions can be proposed with both a positive or negative frame, resulting in different outcomes, and negative framing in some contexts may be linked to loss-aversion (Tversky and Kahneman, 1981; Thaler and Sunstein, 2008). Despite this, Pompian's

(2012a) analysis of the benefits and potential drawbacks of framing appears well considered.

Given the potential for advice to impact behavioural biases it is vital for advisers to be extremely careful about framing; advised investors' brains are more focussed on assessing trust than on the content of recommendations (Engelmann, 2009). Therefore, there are potential implications in developing frames when presenting options, choices or recommendations to clients (Farrow et al., 2018; Vlaev et al., 2015; Harvey et al., 2022). The subtlety of this was explored by Sunstein; a nudge intended to inform may also provide information which is not beneficial (Sunstein, 2014).

Framing in a financial planning context might have negative consequences (Cheng, 2020). Although it is not necessarily wrong or unethical, context is important; an issue which Pompian is aware of in the framing of questions (Pompian 2012a). Lee (2011), notes advisers at Morgan Stanley conduct experiments to identify which frames work better with clients, an approach which might be considered manipulative. Pompian (2012a) considers how biases may be formed when options are presented in particular ways: Advice might be framed positively or negatively to persuade investors to take a particular course of action. Pompian suggests advisers should make their presentations neutral, yet even neutral framing has consequences if it enables behavioural biases which result in a detrimental course of action. In Sunstein's view, framing a decision neutrally is still an implementation of choice architecture (Sunstein, 2014).

Similar approaches to framing can be seen in the evaluation of framing in advice on SI and Impact Investments. The development of choice-framing in the context of SI advice has more recently been explored by Strauß (2021). Her consideration of the literature is extensive, however the approach demonstrates an attitude toward framing which could be criticised for consciously persuading investors to participate in SI. Her work focuses on the perceived benefits of increasing the availability of information and the use of positive and negative framing to elicit *'attitudinal or behavioral change'* (Strauß, 2021:10), using

framing to drive emotional responses. Through this choice of language her presentation does not appear to be objective as it seeks to engage financial advisers as change-agents for SI. Caseau and Grolleau (2020) raise framing in the context of advisors' interactions with Impact Investors: Advisers might '*harness the power of loss aversion'* (2021:48) in framing choices around Impact Investments, proposing framing as a tool for altering client perceptions. Although their approach is more neutral, adapting messaging to investor preferences, in line with Pompian (2012a) and Sunstein (2014), while not actively manipulating preferences this may still bias an investor. Framing might influence the selection of reference-points and resulting expectations. Harvey et al. (2022) considered the specific impact of different frames on Impact Investment choices. Whilst they were able to confirm that framing may influence choices and risk, their work relies on non-investing students in South Africa as a proxy, which may not be representative of the actions of retail Impact investors.

### 2.3.3 Mental Accounting

Mental accounting allows us to see investments and investment decisions separately rather than in aggregate (Thaler, 1985). In simple terms we might consider money earned as different from money which has been gifted to us, exemplified in Statman's (2011) anecdote regarding the difference between an inheritance and a legacy. An individual who has received a gift of £100 may experience decisions concerning spending this money differently to £100 earned. There is no real difference between the two amounts, they may even be sitting in the same bank account, but they are perceived differently.

The origins of this concept can be traced to Kahneman and Tversky's (1981) reference to psychological accounts, which they then developed into mental accounts in 1984 (Kahneman & Tversky, 1984). Whilst acknowledging the importance of this in his own work (Thaler, 1999), the credit for the development of mental accounting is sometimes given to Thaler's (1985) discussion of hedonic framing. This suggests that gains should be viewed separately as in Thaler's experiment: The perceived happiness of someone who wins $25 and

$50 in two lottery draws is higher than the person who wins $75 in one. By the same token, losses should be considered as part of overall portfolio performance, with small losses viewed alongside larger gains, yet smaller gains should be viewed separately from larger losses as the value of a small gain seen on its own will be greater than seeing it as a reduction of a larger loss.

Mental accounting is a concept with which the financial planning world is very familiar, even if practitioners are not familiar with the terminology, theory or psychological implications. The use of mental accounting by financial planners in the financial domain aligns with Thaler's interpretation (Thaler, 1985) where investors are encouraged to consider investments depending on context and the response the financial planner or investment manager hopes to elicit from the individual. The use of mental accounting, or viewing investments separately or in the aggregate depending on the circumstances (Baker and Ricciardi, 2015), corresponds to a form of framing; more specifically it might conform to paternalistic nudging (Sunstein, 2014). The active implementation of mental accounting strategies might therefore be considered a form of active framing.

In another variation, Statman separates mental accounts into capital and income (Statman, 2011). We can see the prevalence of this approach in the development of contemporary financial planning regulation. In the FCA's guidance for their Retirement Income Advice Assessment Tool (RIAAT) (FCA, 2024a) they make reference to a "multiple pots" strategy for retirement income. The typical strategy noted by the FCA is one which sees a proportion of an individual's capital held in cash or cash-like assets for the purpose of providing short-term income needs, whilst remaining capital is invested in assets with greater risk. This is no different to the 'emergency fund' mental account in financial planning; setting aside between 3 and 6 months regular expenditure in cash before considering long-term investment (FPSB, 2023). Both the multi-pot retirement income strategy and the concept of emergency funds are helpful because they encourage people to see their capital separately rather than in aggregate. If an

individual has £100,000, of which £20,000 is held in cash and £80,000 is invested, they still have £100,000 in total. They could even choose to draw their income from the £80,000 rather than the £20,000, however the designation of part as their ‘income pot’ provides a degree of comfort that there is enough income for the short term, even if the value of the invested assets were to fluctuate during that period.

Yet mental accounting is not always seen positively; Pompian (2012a) discusses how mental accounting is a cognitive bias which can be defeated by education and that investors should be encouraged to think about total returns, rather than individual assets or the return from capital growth or income alone, something he considers “excessive” mental accounting (Pompian, 2012a:131). This aligns with the suggestion made by Baker et al. (2023) that mental accounting can result in irrational decision-making. Yet mental accounting might be beneficial for investors in the developing a goals-based approach to financial planning (Pompian, 2012; Baker and Ricciardi, 2015; Baker et al. 2023). Redhead (2008) discussed the use of mental accounts in goals-based portfolio construction, similar to Shefrin and Statman’s development of a multiple-mental-account interpretation of behavioural portfolio theory (BPT-MA) (Shefrin and Statman, 2000). Redhead’s approach suggests that in a goal-based planning scenario accounts can be designated for different purposes; at its simplest level this would consist of the designation of an account for basic needs and one for aspirational spending.

Outside of the academic community, mental accounting is also a feature of contemporary discussions in financial planning. Budd (2023) refers to this as a way in which people separate their finances to help achieve different objectives or goals. This understanding of mental accounting is one where mental accounts become physical accounts. Whilst based on the same principles as Kahneman and Tversky or Thaler’s original concepts, it has gone a step beyond just how losses and gains are perceived or the difference in perception of money earned against gifted money. As Thaler (1999) suggests, the reason for segregating money into multiple accounts rather than just mental

accounts is that in many cases mental accounts are not fungible. Mental accounting “matters” (Thaler, 1999:88) because if we overspend on our entertainment or luxuries budget we cannot forgo eating for the rest of the month.

Despite the development of mental accounting in behavioural finance by Kahneman, Tversky, Thaler, Shefrin, Statman and others, we can see similar roots in Roy’s (1952, 1956) concept of Safety First. Roy’s evaluation was that, unlike people in economic models, real people don’t know the probability of the actions they take before they take them. As such, his theory suggests a proportion of capital should be committed to a safe investment whilst the excess is committed toward something which has potential to achieve much greater returns, but which has greater potential for loss. The example given is the amount of acreage an individual might commit to basic crops from which they can feed their family, and the amount which should be given to growing luxury crops which might be highly lucrative but for which prospects are uncertain.

The application of mental accounting theory to SI and Impact Investing appears to be limited, however the BPT-MA approach of Shefrin and Statman (2000) and the development of the ethical portfolio optimisation model Bilbao-Terol et al. (2015) may be helpful in understanding how mental accounting might be used where investors do not want to allocate all of their resources towards the achievement of material non-financial outcomes, preferring to think of their own financial safety first.

**2.4 Metaphors**

*"…metaphors allow us to understand one domain of experience in terms of another.” (Lakoff and Johnson, 1980:187)*

Metaphors allow us to glimpse phenomena, to interpret them through things which we can understand and can comprehend. Smith et al. (2009) demonstrate how metaphor can be used within the IPA method (Chapter 4) to understand the perspective of those whose experiences we are trying to interpret, seeing this as a *“…powerful component of*

*the analysis"* (Smith et al., 2009:88). As metaphor helps create shared language for communication, exploring the wider themes in metaphor usage will be helpful in grounding the subsequent analysis in the language of participants. This will be particularly important in understanding how participants interpret Impact Investing. Lakoff and Johnson (1980) suggest that we use things we can understand when trying to understand vague concepts: We have already seen that Impact Investing is somewhat nebulous. Understanding the metaphors used by participants may help us better understand the perspectives from which they construct their own interpretations of Impact Investing and the uniqueness of their worlds.

Spooren (2018) notes that whilst metaphor is often considered a figure of speech it might be considered as much more than this; in line with Lakoff and Johnson (1980), Gibbs et al. (1997) and others it is much more deeply engrained in our understanding of and experiencing of the world. We are unable to see clearly those things of which we speak and as such we use metaphor to try and describe things, to tell a story about them, to communicate with someone who may also have an obscured view. Gibbs (2006) takes this idea further, suggesting conceptual metaphors are forms of embodied simulation. Unlike Lakoff (1987), who sees metaphor as primarily providing the building-blocks of a mental model of narrative, Gibbs suggests that when we encounter a metaphor we create an embodied simulation, in real time, of what the metaphor represents: We make the metaphor come to life in our minds. However, in Gibbs et al. (1997) whilst it was demonstrated that under certain conditions conceptual metaphors might be accessed by participants when comprehending idioms, they showed that accessing the underlying metaphor is not universal. Some metaphors are accessed others are not. In the research by Gibbs et al. it might be that the failure to access some metaphors is related to

the choice of idioms in their study, one of which seems to be only tangentially related to the proposed underlying metaphor[25].

The use of metaphor in the context of financial planning has been somewhat overlooked so far in the development of theory[26]. McCloskey (1998) describes economists as poets, unaware of the metaphors which they use and the same might be said of financial planners. McQuarrie and Statman (2016) explore the use of metaphor in the marketing of financial products, and Malik (2023) discusses the use of metaphor in the explanation of financial concepts in financial education but, as yet, none appear to have focussed on the use of metaphor in financial planning. This lack of attention in the literature is disappointing given McQuarrie and Statman see metaphor and analogy as two ways in which customers make sense of the financial world (McQuarrie and Statman, 2016).

Whilst McQuarrie and Statman consider financial theorists as seeing metaphor as a trap for the unwary, it may create the means of communication between adviser and client, making the intangible tangible. This does not mean that metaphor is not used to direct an investor's thinking in a particular way. Metaphor and metaphorical language might be used to create frames, paternalistically nudging the client in a particular direction (Sunstein, 2014). Indeed, McQuarrie and Statman note that after the dot-com crash, advertising imagery focussed on the potential for losses. When turbulence reappeared in the wake of the financial crisis, again the language changed, perhaps

[25] The idiom "jump down your throat" is used as a representation of ANGER IS ANIMAL BEHAVIOUR. In this case, as the representation in the idiom is not something which can be directly tied to the underlying metaphor. It is not unreasonable that the two might not create an immediate link. This contrasts with ANGER IS HEAT being the underlying metaphor for the idiom "blow your stack", where we might see an immediate connection between the two if aware that a "stack" in this context is a chimney, something which might be lost over time.

[26] A SCOPUS search of ( TITLE-ABS-KEY ( metaphor* ) AND TITLE-ABS-KEY ( "financial plan*" OR "financial advice" ) ) produces no results at all. Expanding the search to where financial planning or advice occur in the body of the document rather than just the Title, Abstract and Keywords provides 15 potential sources, of which 7 could be identified from the subject matter as having some relevance to the use of metaphor in financial planning. A broader search of relevant Titles, Abstracts and Keywords, removing the reference to plan* or advice gives a much greater body of relevant literature. (TITLE-ABS-KEY ( metaphor* ) AND TITLE-ABS-KEY ( financ* ) ) This produced 855 documents of varying degrees of relevance and with such variety in subject matter and disciplines as to make a manual investigation inefficient.

nudging investors to more defensive assets. Whilst valuable in understanding the use of metaphor, the focus of McQuarrie and Statman's research is on the use of these tools in advertising rather than in discourse between practitioner and client. Yet the use of metaphors might help create the frames in which decisions are made. This can be seen in the use of the Climate Stripes (Hawkins, 2018), a visual metaphor which may also help to create a non-financial reference-point for global temperature changes. It is possible that such metaphors might be used by advisers in the framing of financial advice, prompting clients to think in certain ways (Chapter 6).

We interpret the world around us through a lens which is shaped by our interactions with others (Strong et al., 2008) and, in line with Ferrando (2019), we create our own metaphors to help us understand what is being discussed. If metaphor is used to effectively communicate ideas between advisers and investors, we might see a shared language emerge.

### 2.5 Conclusions

The literature on Impact Investing is extensive, despite its short history in the financial lexicon. It remains complex, if not necessarily ill-defined, with two dominant theoretical interpretations around whether and what type of additionality is required for something to be considered an Impact Investment, yet what this means for investors and their advisers in practice is unclear; it is not necessarily how we define Impact Investing which is important, but how it is interpreted. Behavioural finance concepts of reference-points, cognitive frames, loss-aversion, framing and mental accounts can help us understand the world in which Impact Investing exists. These concepts, combined with an understanding of the metaphors used to make sense of the world, will aid us in understanding how advisers and investors interact with one another in relation to Impact Investing decisions. We will now turn to the philosophical underpinning of the research to help establish the lens through which this understanding will be developed.

# Chapter 3 - Philosophical Foundations

## 3.1 Introduction

As stated in Chapter 1, the purpose of this research is to develop a deeper understanding of the experiences of advised Impact investors and their advisers, to explore the influences in their decision-making through their words. In the context of behavioural finance, *'stories are illustrative'* (Shefrin, 2000:10). This chapter will demonstrate how a considered and coherent philosophical approach to this research was developed.

## 3.2 What is Real?

In determining the appropriate philosophical position, it was necessary to consider *what is real* and *what can be known* about the phenomena we are exploring. In the microcosm of Financial Services, differences between regulatory definitions and practical usage are present throughout. It will be beneficial to consider this lack of clarity through some examples.

There are many things which might be considered a pension. From a regulatory perspective, there will be a set of things which share similar characteristics as vehicles for providing income in retirement, to which specific tax rules apply. Therefore, certain investment vehicles can be classified as pensions, regardless of the intent of the participant. However, the intent of users might differ: one person may use a pension as a convenient tax-efficient savings vehicle, investing capital with the intention of benefitting from the tax treatment, while another may invest in the same product for the purpose of providing retirement income. This perspective does not account for those people investing outside of the regulated pensions landscape in classic cars or portfolios of buy-to-let property for the purpose of providing a retirement income, whether or not suitable. Whilst the regulatory perspective has legal authority, it only regulates what can be sold as a pension[27], it does not mean that one investment is less entitled to be

[27] Personal Pension, Self Invested Personal Pension, Occupational Money Purchase Pension, Defined Benefit Pension, Group Personal Pension and so on.

called a pension by an investor than another. What constitutes a pension appears to be subjective.

Similarly, what constitutes an investment and what is mere speculation on price is also unclear. Arthur et al. describe speculation as *"…shorter term, higher risk, and with a primary focus on making a monetary profit…"* (Arthur et al. 2016:580). Whilst their definition is well thought out, it would not include "investing" in wine, whisky or fine art (Lewis, 2023), which are all high-risk speculations for the purpose of monetary profit, but over a longer term. Whilst these are not financial instruments and outside of a regulatory definition of investment (Financial Services Act, 2012:93), repeated attempts to create regulated investment opportunities for such assets[28] suggest they would be considered investments by some. Again, what is investment and what is mere speculation appears to be subjective.

The set of things which constitutes a pension or investment will be dependent on the perspective of the individual, with greater flexibility afforded to the non-regulated investor than a regulated Financial Planner acting in their professional capacity. We have seen in the literature that myriad definitions of Impact Investing lack clarity and coherence, despite attempts from the FCA, GIIN and others to try and pin down what it is. The retail investment market is limited by such things as the definition of "Sustainability Impact" imposed by the FCA in PS23/16 (FCA, 2023a), but this definition does not account for shares in individually impactful investments in unregulated companies, trusts or projects. Even if a definition of Impact Investing were to be enforced by regulators this does not mean that it would be accepted by all market participants, in the same way as not everyone will agree on what is a pension or an investment.

We have also seen that the definition of Impact Investing has moved over time, with few financial market participants now calling for financial additionality to be present while some continue to see this as

[28] I had initially included an example investment here, however in the 6 months between writing this chapter and the final version, the investment is no longer available and the company has ceased trading.

being a differentiating factor. At this stage in the development of Impact Investing the things which might be considered Impact Investments could be considered a fuzzy set (Zimmerman, 2010). As we will see in subsequent chapters, it may be difficult to say for certain that Impact Investing exists at all. We should consider that rather than different *definitions* of Impact Investing there are rather different *interpretations* constructed by each participant based on what is real to them.

It is from this understanding of the world that this research is situated and the philosophical position established. Constrained as we are by a linear format, the subsequent sections of this chapter are interwoven with one another; the discussion of research paradigms, phenomenology and the ontological and epistemological foundations (respectively what is, and what can be known) should be considered holistically.

**3.3 Research Paradigms**

We might be cautious of using the term “paradigm” to describe the overall philosophical framework on which this research is based, as this implies a coherent body of scientific knowledge resting on particular theoretical premises (Khun, 1962; Bird, 2002). Whilst we have seen how the concepts of framing, loss-aversion and reference-dependence are very much established, much is still unknown about Impact Investing and whether these concepts can be said to exist in that world.

In the context of social research there is a different interpretation of paradigm. Creswell (1994) talks of qualitative and quantitative paradigms, Mackenzie and Knipe (2006) of Positivist, Interpretivist, Transformative and Pragmatic paradigms. Both interpretations muddy the water: to be Qualitative or Quantitative is to determine a methodological approach and may be overly simplistic in discounting mixed-methods research. Positivism and Interpretivism could be considered different ontological and epistemological theories, as much as they are overall systems of thinking. Crotty (1998) ignores paradigms altogether, preferring the *“theoretical perspective*” in the

development of his framework for social research. Easterby-Smith, Thorpe and Jackson don't ignore the idea of a research paradigm but realign to Khun with a definition of a *“consensual pattern of how scientists understand and enquire into the world”* (Easterby-Smith et al., 2012:344). Whilst I have remained acutely aware of my position *within* this research and the influence which this has on the structure, conduct and analysis, it is not necessarily the case that the research paradigm is representative of the world in which I want to live (Kivunja and Kuyini, 2017), though it is certainly the case that it represents the world as I experience it.

Cresswell (1994) notes that the ontological and epistemological position of the research should be consistent with the paradigm adopted. In determining the paradigm of this research this will be considered more in terms of Crotty's (1984) perspective of an overall theoretical perspective rather than a simple choice between a Qualitative or Quantitative approach, or confusing this with ontology and epistemology. In the sections which follow, we will consider the research paradigm in this case to be the overall cohesion of the different philosophical parts. The paradigm adopted is a relativist and constructionist phenomenology which feeds directly into the method (Chapter 4). It is, by extension, interpretivist rather than positivist, and qualitative rather than quantitative.

Gummesson (2006) argues it is only through qualitative research the nature of a phenomenon is sought, and Capra (2002) that it is only through experience of the world anything can be truly considered known. A more complete qualitative understanding of the experience of retail Impact Investment decisions will help advisers understand the potential influence of framing on their advice in this context, enabling the development of improvements to practice. We will now examine these philosophical positions, demonstrating how they contribute to a coherent overall framework for developing understanding.

### 3.4 Phenomenology

In Chapter 4 we will consider the importance of phenomenology as method, at this point we should consider phenomenology as a philosophical approach and how this stands relative to ontology and epistemology. It is not my intention to provide a deep exploration of the historical development of phenomenology, yet it is important that aspects of the groundwork of phenomenology are addressed.

Phenomenology seeks to explore, describe, and interpret what it is to experience (Finlay, 2012). With the intention of this research being the exploration of what it is to experience making decisions as an Impact investor or adviser, the phenomenological approach seems well suited, but this will be dependent on which interpretation of phenomenology is adopted.

Phenomenology is somewhat cross-cutting in terms of ontology and epistemology. In ontology it might be considered to be realist if interpreted from Husserl's perspective, or more open to relativism if interpreted from Heidegger. Indeed, Husserl was very critical of Heidegger's approach tending toward relativism (Moran, 2000). Husserl's intention was to use phenomenology to get closer to an objective truth (Crotty, 1998) and saw relativism as a form of anthropologism. Yet with its wide variety of interpretations of even the simplest of concepts the landscape of financial services does not lend itself to a realist interpretation of the word. Heidegger takes a more constructionist view of knowledge, more aligned with a relativist ontology (Carr, 1984; Crotty, 1998). Heidegger's *dasein*, a concept which encapsulates both human *being* and *being-in-the-world*, places the perceiver firmly in the world rather than observing it from outside. Zuckerman (2015) suggests that what *dasein* is will always be ambiguous; in this case I am interpreting it as encapsulating the idea that the world and our experience of the world are inseparable.

A key differential between Husserl and Heidegger is the importance of the individual experience in interpreting what is. Husserl believed that existing knowledge of the world must be "bracketed" or set aside in

trying to establish what is (Finlay, 2012). Whilst this might seem similar to the expression of Cartesian doubt it is more a methodological approach than an attempt to construct everything from a priori reasoning. On this basis existing understanding of what it is to be reference-dependent, loss-averse, or subject to framing must be set aside, to truly grasp the true experience of participants. In distinct contrast to Husserl, Heidegger sees an individual as inseparable from their history; any attempt to set aside preexisting knowledge would seem contrary to this.

A further distinguishing feature of phenomenology is the importance of intentionality: consciousness is *consciousness of* something. For Husserl this would be an intention towards some external and immutable truth. Sokolowski suggests that phenomenological intentionality makes the mind a *"public thing"* (Sokolowski, 2012:12); if consciousness is consciousness of something then there is no separation between an internal and external world, unlike in Descartes (Moran, 2000). This appears to align with Heidegger's idea of being-in-the-world: our consciousness of the world cannot be separated from it: Our consciousness of the world and what the world is are inseparable, they are one and the same.

The life-world, the world of lived-experience which we inhabit, is a Husserlian concept. Whilst Husserl saw this as glimpsing something external and immutable, Heidegger's approach sees the human experience of the life-world bound up in its interpretation. It is an interpretation of the world which is more akin to a relativism and constructionism than the realism which is suggested by Husserl's phenomenology. The interpretation of phenomenology used is therefore dependent on our understanding of what is and how we can know. Through a phenomenological approach to this research I will seek to uncover from the participants of the research what it is that makes up their life-world; what can be said to be in each case and what they can know in their interpretation of advised Impact Investing.

### 3.5 What is?

The challenges of what philosophical position should be adopted for any piece of research are exacerbated by the different interpretations of philosophical positions present within the discussion of research philosophy in the literature. Crotty (1998) ignores ontology altogether in the structure of his framework for social research, though does consider it in more detail in connection with epistemology, suggesting the two as intrinsically connected. Husserl considered that phenomenology supersedes ontology as it treats entities as *"…fully formed, fixed identities…"* while the phenomenological approach to understanding entities belongs to a *"…totally different transcendental world…"* (Moran, 2000:166). Despite this, an examination of the ontological foundations of this research remains important in determining the overall coherence of the paradigm.

The literature and earlier discussion concerning the lack of coherence around Impact Investing will have a strong influence over the epistemological position. However, we might employ a similar technique with a less flexible concept to help confirm a relativist phenomenology as relevant for this research. This concept can be explained through an example. The phenomenon of value, something which underpins the ideas of investing, reference-points, loss-aversion and blended value, can be said to exist in some form as a social concept. From a realist perspective, value exists and is something which is independent of the observer and therefore should be able to be revealed. From a financial perspective we should distinguish this from price, whether or not that price is fair or determinable via the efficient market hypothesis (Fama, 1970; Malkiel, 2003). However, if we are to consider value as seen through the eyes of behavioural finance, its existence is subjective. In Kahneman, Knetsch and Thaler's (1991) experiments, the value of a mug is dependent on the perspective of the individual and particularly whether or not they are in possession of it when assessing its value. What has value in my world may not have value in yours.

If a realist ontology were to be accepted for this research, in line with Husserl's phenomenology, this might imply that there are different values, one defined by possession, the other by desire. In this case value as a phenomenon still applies and is immutable, it can be discovered. It might be possible to define Impact Investing as others have done (Daggers, 2017; Hummels, 2016), but this would risk excluding interpretations which do not align with this definition. In terms of value, for an Impact investor value might exist in both financial and non-financial dimensions, as components of blended value (Emerson, 2003). Yet non-financial value might not exist for someone who ascribes to Friedman's (1970) doctrine of shareholder value maximisation: For the purely financial investor there is only one dimension of value. If we are to adopt a realist view of the world, this means either that for the purely financial investor the non-financial value exists but is valued at nil, or that the Impact investor is deluded and there is no non-financial value.

A realist phenomenology might still be argued for on the grounds that reference-points, loss-aversion and framing can be evidenced from experiments such as those undertaken by Kahneman and Tversky (1979, 1981). Yet whilst reference-points might be discoverable and quantifiable for conventional investors (Werner and Zank, 2018), whether they exist at all in a non-financial dimension for investments, or for blended value, is not known. This is particularly true when we consider that a reference-point is not necessarily a state which an investor has attained but could also be an expectation of, or preference for, a particular state (Koszegi and Rabin, 2006).

There is a case for recognising what Easterby-Smith et al. (2012) call the *real*, something which relates to social power relationships which cannot be detected or measured but which has social consequences. When we consider the importance of the adviser in the understanding of investment decision-making and their potential power to frame (Druckman, 2001), their power might be considered "real" in this sense, but this does not mean that the reality of this is independent of the interaction between investor and adviser.

Less rigid interpretations of realism, which Easterby-Smith et al. (2012) call "Internal Realism" present a reality which we approach through understanding, but which exists outside of the self. This appears to be not unlike Husserl's position as interpreted by Moran (2000) and would align with the use of hermeneutics to get progressively closer to what is real, though never achieving a complete understanding. Whilst internal realism might be reasonable in the development of some research, the diverse interpretations of Impact Investing suggest that this is something which is true severally, for each individual who invests in Impact. Like value, it is fundamentally different for each experiencer. The realist ontology, even if interpreted in the weaker form, is incompatible with Impact Investing being unique to each investor and adviser, just as it is incompatible with blended value not existing for some investors.

Paying due regard to the lack of cohesion around a definition of Impact Investing outlined above, relativism provides a more amenable approach to *what is*. In the case of relativism, there is not one but many independent states of reality, each of which is dependent on the viewpoint of the observer (Easterby-Smith et al. 2012). Within this philosophy, concepts are less rigid and have greater flexibility, allowing for different interpretations. This does not mean that these interpretations of what is are entirely distinct from one another. They might have at least some degree of convergence, such as has been seen in the case of pensions and investments in general, yet there may still be substantial differences in perspective which mean that what is true for one person is not true for someone else. Lakoff (1987) suggests different forms of relativism, ranging from total-difference relativism, in which no concepts are shared between individuals, to any-difference relativism, were even one difference in concepts is demonstrative of relativism. Whilst some theorists, particularly in moral philosophy, might consider relativism to be self-defeating, I am not taking an absolutist's interpretation of relativism in this work. The interpretations of Impact Investing seen in the literature suggest there are some shared components but that these are not necessary or

sufficient for something to be an Impact Investment to all market participants, regardless of regulatory diktat.

Relativism provides the flexibility to accept, at least from a social perspective, that *what is* changes with perspective. There is not one immutable concept of Impact Investing or Investment which is discoverable or approachable through Husserlian hermeneutics (Moran, 2000). Impact Investing doesn't just *mean* something different for each person, it *is* something different to each person: Its *is-ness* is subject-dependent.

Rassokha's (2022) conception of relativism as being interaction-dependent provides a solution to the challenge of different types of value existing for different forms of investor. If an investor has only ever invested for financial return then the idea of non-financial return might not exist for them to the same degree that it would exist for an investor in Impact. It also allows for the existence of the power relationships between adviser and client. To Rassokha:

> *"…all the claims on possessing "an absolute truth" or "cognition of the true essence" of any subjects and phenomena look like a childish and funny pride: we can cognize the essence of anything* ***only in its relation to us-here-and-now***[29]*." (Rassokha, 2022:1435)*

Husserl saw relativism as a form of scepticism about the world although he accepted the idea of a plurality of life-worlds linked by a transcendental real world, what Moran calls the *"…universal science of the life world…"* (Moran, 2019:95). This seems very similar to Bhaskar's foundations for critical realism (Bhaskar, 1975). Despite Husserl's critique of relativism as the enemy of science it gained substantial support in the fields of particle physics (Rassohka, 2022). With physicists accepting that certain properties of the physical world are dependent on the observer we might also accept that social phenomena are also relative.

If there is no independent reality which we are able to approach through this research it may be difficult to categorically define

[29] Emphasis in the original.

phenomena in an Impact Investing context. However, this lack of certainty provides an opportunity for discovery and a chance to gain deeper contextual understanding. Identifying that investors or advisers engaged in Impact Investing express themselves in a way which might be interpreted as loss-averse, or have cognitive frames, may help us to understand what it is to experience these states of being in each case.

The interpretation of relativism expounded by Rassohka (2022) also gives strong grounds for a constructionist epistemology. For Rassohka, existence is dependent on communication: *“Not to be connected means not to exist for each other.”* (Rassohka, 2022:1436). It also provides a strong grounding for any understanding of the influence of framing in the advice relationship. Framing exists only in the case of an interaction between the individual doing the framing and the recipient of the frame: Its existence is predicated on the interaction between the participants.

The positioning of this research within a relativist phenomenology does not go as far as the extremes of ontological nominalism (Easterby-Smith et al., 2012), which rejects the idea of an objective reality existing independently of the description of it: It is description which gives something reality (Simonelli, 2021). Adopting such a philosophical grounding would raise significant challenges in the current research. If an investor was asked to describe their experience of making a decision, it would be their description of a frame which gives that frame reality. Until such time as the frame is described it would not have existence. Whilst it might be reasonable to consider that we would not have knowledge of that frame prior to the act of description, it is difficult to say that until that act takes place it did not exist, as its influence on the decision-making process could not be based on ex-post description.

The goal of the research is to converge on a closer approximation and understanding of what is for each of those whose experiences of Impact Investing are being examined. This research adopts a relativist perspective; truth, in this context, is contextual. The goal of the

research is to converge on a closer approximation of what is true for those whose experiences are being examined, to gain a greater understanding of what can be said to *be*. This has bearing on method, which will be discussed in Chapter 4. In reflecting the relativist ontology the research will also accept that the interaction between each participant and interviewer will simultaneously create the necessary conditions for connection. To borrow from Moran (2000), each participants' own world and that of the interviewer come together to create a shared reality, though this shared world has a very narrow focus on the area of discussion. This echoes the empathy which Ghaemi ascribes to Binswanger in his approach to psychoanalysis; each person's world is seen as a collection of *"modes of being-together"* (Ghaemi, 2001:57) with the subject. In addition to the intersection of the world of each participant with the interviewer, there may also be intersection between those of participants, where there is a relationship existing independently of the research discussions. Whilst such relationships will not be disclosed in the analysis of the data, they still exist.

### 3.6 What can be known?

The epistemological position of this research, *how we know about what is*, must be fully aligned with the ontological position discussed. Having identified a relativist ontology this does not mean that the research must adopt a specific epistemology. Yet in line with Crotty (1998) we should see ontology and epistemology as being closely interrelated. Indeed, they might be so interconnected as to be seen to be indistinguishable from one another; *"What is, is just how we make sense of it"* (Crotty, 1998:64). Taylor (2018) appears to take a similar approach, seeing social constructivism and social constructionism as systems of thought rather than individual epistemological theories. On this basis, social constructionism would rely on ontological relativism and constructivism on nominalism. Whilst such integrated theories of thought might be convenient, particularly in positioning research, there is still the need to examine why this research should be considered as having a socially constructed (constructionist) understanding of

knowledge, despite having already established that it will adopt a relativist phenomenology.

In the first instance, we should make a clear distinction between interpretations of constructivism and constructionism. In social c*onstructivism*, individuals actively create meaning in the world (Crotty, 1998). This approach to knowledge evokes Lewis Carrol's Humpty-Dumpty[30]. As we will see in subsequent chapters, the interpretation of Impact Investment by some participants is not far removed from this, however as a general view of how knowledge is formed it is somewhat extreme.

Social constructionism on the other hand proposes that people are born into a world constructed of meanings. These meanings shape our understanding of the world around us; when we know something, we know it through a lens of existing meaning. This epistemological position sees knowledge as both socially constructed *and* real, in that it forms part of an individual's understanding of the world; how they make sense of it (Crotty, 1998). Whilst Crotty suggests that constructionism might be both realist and relativist, the constructionist approach to knowledge aligns with the *shared being* of relativism; our construction of meaning is not isolated but dependent on our interaction with others.

People are sense-making in the world. They will be doing so individually, in the development of a priori knowledge, but against a pre-existing construction from which meaning is drawn (Laverty, 2003). They will do so collectively, through their interactions with each other, with shared life-worlds known through shared meanings developed through the same interactions by which these shared life-worlds come into being.

A constructionist view is not just important to our understanding of what the research uncovers; the same lens needs to be turned on the research itself. The interaction between researcher and participant is

[30] "*When I use a word," Humpty Dumpty said in rather a scornful tone, "it means just what I choose it to mean — neither more nor less.*" (Carrol, 1871, ch. IV)

in itself an opportunity to create new meanings and new knowledge. Therefore, we must accept that through the gathering and interpretation of data, knowledge is constructed through the interaction between participant and researcher. In each case this is knowledge which is subject to our own social context. These different layers of knowledge creation should not move us further away from understanding what is, because they are part of creating it.

The socially-interactive nature of constructionism raises the issue of the social context of knowledge. This has additional significance as we consider the importance of a subject's history to Heidegger's *being in the world* (Moran, 2000).

### 3.7 The History of Being

Heidegger's interpretation of phenomenology is one which requires us to accept that we cannot be separated from our history; our *history of being* (Zuckerman, 2015). In choosing a phenomenological approach to the research, one which draws on Heidegger's approach in particular, it is worth considering whether it is possible to separate ideas from the people who create them. While Husserl provided the foundations of phenomenology, Heidegger's approach seems more open to a world constructed of our own interpretation of what is.

Heidegger has long been accused of antisemitism and Nazi collaboration (Moran 2000). Wolin (2023) sees Heidegger as remaining committed to Germanocentricism and, from this perspective, the idea of not being able to separate individuals from their history takes on an unsavoury dimension, where collective experiences of one group might be seen as superior to another.

Despite these challenges, Rothman (2014) argues that Heidegger's contribution to philosophy is too great to ignore; we should acknowledge the controversy and accept that whilst his philosophy is not irreparably harmed, though our relationship with Heidegger as an individual is forever changed. Wolin (2023) does not suggest that we reject Heidegger's work outright either, but rather that we acknowledge

this ideological dimension as always present. On this basis we should accept this information as contributing to an interpretation of Heidegger's own work, warts and all.

My interpretation of the ideas of an individual's *history of being* and *being in the world* will be different to those of Heidegger; I have a different life-world. Taking the ontological and epistemological positions outlined above, we can say that our history of interactions with others creates the world as we perceive it, and our knowledge of that world is inseparable from our own experiences. My interpretation of an individual's inseparability from their history in their approach to the phenomena of Impact Investing is part of my own life-world. Acknowledging Heidegger's contribution to the development of phenomenology and his failings both contribute to the experience which creates that world.

### 3.8 Revisiting the paradigm

Having explored in detail the reasoning for a relativist ontology, constructionist epistemology and an approach to phenomenology which reflects the idea of *being in the world*, if we are to embrace the idea of a paradigm in the sense proposed by Crotty (1998), it is worth briefly examining the idea of quantitative / positivist and qualitative / interpretative research as they contribute to the overall philosophical position.

Given the volume of finance research which rests on a positivist approach, we could examine Impact Investor decisions through a quantitative paradigm (Creswell, 1994). However, this would bring us no nearer to understanding what the experiences are of advisers and investors. In addition, there remain challenges around whether human behaviour in experimental studies is truly representative. Whilst Kahneman & Tversky (1986) go some way to address this, experimental decisions are rarely made with real risk. In accepting that there may be uncertainties about the validity of experiments individually, we should not go as far as to dismiss such methods out of hand. It would be more appropriate to consider that the individual life

experience of an investor or adviser might not be something which is easily tested for. An experimental approach would require defining Impact Investing, and doing so would ignore what has already been said about the challenges of social reality being defined by the perspective of the individual. Such an approach might provide valuable insight into decision-making process (Banergee et al., 2017) but it would seem that prior to developing an experimental test it would be beneficial to explore in more depth the experiences of participants, to help direct future studies. Experimentation is not the only quantitative approach which might be taken, however the nuance of understanding might be lost if a survey containing closed-ended questions or Likert scales was used to measure the extent to which someone feels they align with a particular perspective.

The philosophical position outlined is embedded in Cresswell's (1994) qualitative paradigm and would align with Mackenzie and Knipe's (2006) Interpretivist paradigm. To attempt to approach this in any way other than through qualitative methods would be inconsistent with the philosophical foundations which have been established.

### 3.9 Conclusion

Within this chapter I have examined the philosophical grounding of this research, which sits at the intersection demonstrated by ***Figure 3.i***. I have identified how a Heidegerrian phenomenological approach, underpinned by a relativist ontology and constructionist epistemology, is consistent with the subject matter and objectives of the research.

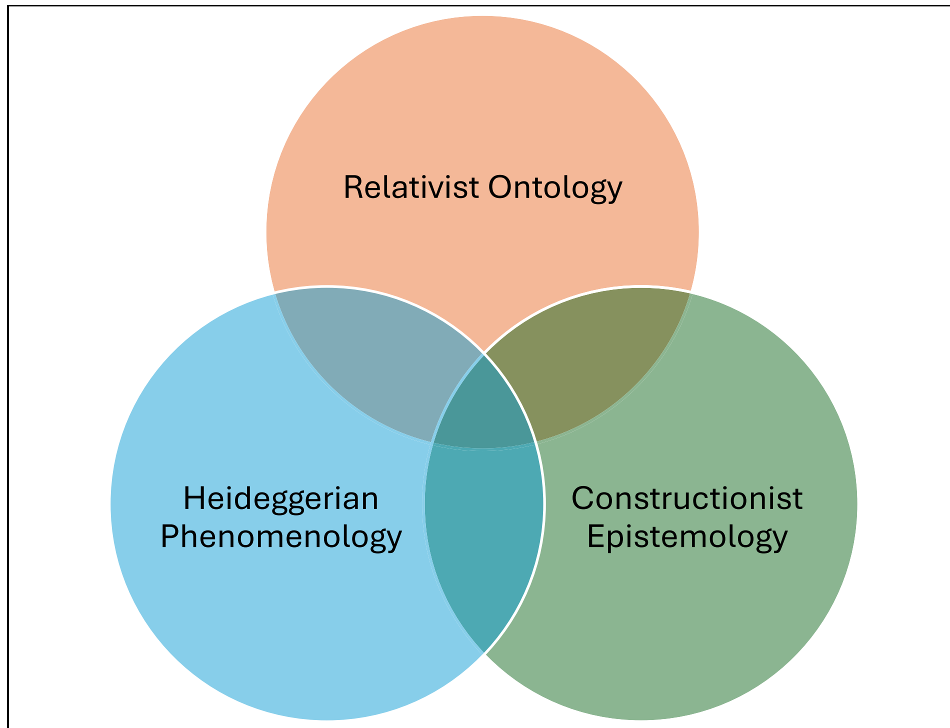


***Figure 3.i: The Research Paradigm***

Drawing from the evaluation of the philosophical position, what is known about concepts is bracketed to the extent that I will not be specifically seeking to prove or disprove the existence of concepts in the Impact Investing context. Rather I will explore openly what it is to experience making decisions. Concepts will not be ignored completely, nor will I deem them invalid unless spontaneously revealed by participants. Rather, by contrasting the structure of experience with theoretical understanding developed from literature (see ***Figure 3.ii***) it might be possible to arrive at a more complete understanding of how decisions are made in advised Impact Investing by exploring how these concepts are revealed in the experiences of participants.

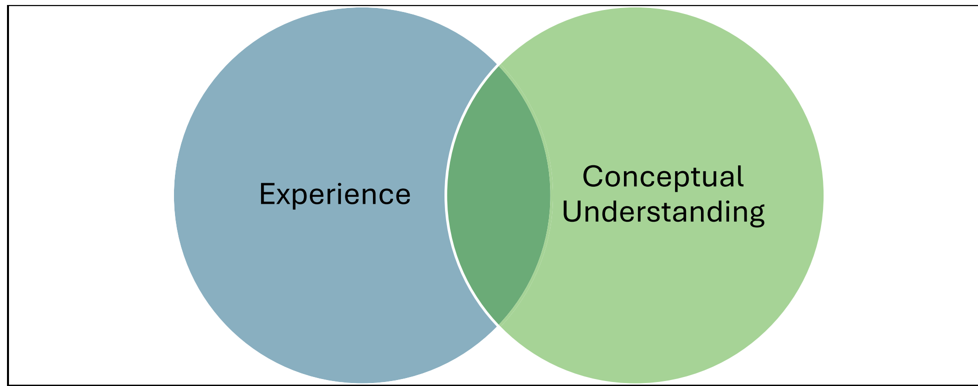


***Figure 3.ii: Intersection of Experience with Conceptual Understanding***

Rather than attempting to provide a definition of Impact Investing and testing for different frames in this context, this research takes a more exploratory approach to the phenomena. It seeks to demonstrate how the life-world of each participant influences their interpretation. how this impacts the frames experienced and the framing of financial advice. From this, the intention is to arrive at a more complete understanding of how decisions are made in advised Impact Investing.

# Chapter 4 – Method and Process of Analysis

## 4.1 Introduction

Having established the philosophical position from which this research is established, the current chapter will elaborate on the method by which the research was conducted. The research method chosen should be appropriate for the specific research questions being asked (Smith et al., 2009), as well as being consistent with the philosophical position of the research (Easterby-Smith et al. 2012). Having considered existing research in the fields of Impact Investing and behavioural finance, as well as relevant research in other fields which have contributed to the development of relevant methodologies, IPA was chosen as an appropriate research method (Smith et al., 2009). Data gathered in semi-structured interviews was analysed using this method, though additional analysis of the metaphors used by participants was also developed to help understand how they communicate.

As with all interpretive analysis it is important to ensure that the research and analysis process is both robust and credible, as such this chapter also includes critical self-reflection on the research process before introducing some key elements of the writing up of the analysis and guidance for the reader in the chapters which follow.

## 4.2 Choosing a Method

Rather than seeking to prove or disprove theory (deduction) or seeking to develop a general rule from the data (induction), this study proceeded from an abductive perspective, moving back and forth between data and theory and rethinking reference-dependent frames and framing from the perspective of non-financial returns in advised retail Impact Investing. This differs from existing research into these concepts from the perspective of financial return (Kennedy, 2018), focusing on the dual objectives of Impact Investments (Caseau and Grolleau, 2020).

Given the predominance of experimentation within literature on behavioural finance, careful consideration was given to this approach. Indeed, were the current study to explore potential WTP, or quantifiable Impact reference-points around which investors exhibit loss-aversion, this might be the best approach. However, experimental approaches would not address experience of decision-making, just decisions themselves. Some experimental studies have used investors' historical choices, such as that of Lin et al. (2006). Their work provides an innovative examination of the experience of multiple options and how people can feel about regret over those discounted, but deals only with how they feel about outcomes relative to what they might have done, rather than how existing reference-points might impact choices. Whilst their approach may be more illuminating than asking someone how they would feel, were certain outcomes to manifest in a hypothetical scenario, and tells us about how people might experience regret, it is unclear as to how such data could be accessed for advised investors where choices are made as a result of a personal recommendation.

A mixed-methods approach would be possible, drawing together experimental or quantitative data about decisions and qualitative data about experiences of decision-making. However, whilst a mixed-methods approach could broaden the study to include further data, given the constraints under which this study was undertaken it could risk missing the opportunity to comprehensively explore the experiences of advisers and investors in giving and receiving advice in this context. Mindful of the risks of scope-creep, and in consideration of feedback received in development of the research design, I elected to focus on a purely qualitative approach on the basis that the field is currently in a pre-paradigm state (Agrawal and Hockertz, 2021).

Whilst future research may explore the phenomena uncovered from a quantitative perspective[31], at this stage a qualitative approach is more appropriate and reflective of the research aims (Easterby-Smith et al,

[31] See Chapter 11

2012). This can be used to develop understanding of phenomena through comprehensive interpretation of participants' experiences.

Whilst embedded ethnography was considered, this would have delivered insights regarding the approach of only a single firm which, while valuable in itself, might not help in the development of an appropriately transferrable contribution to theory or practice for the wider financial planning community (Ladik and Stewart, 2008). Allowing for participation by a diverse group of advisers and investors provided a rich tapestry of experience.

Having considered closely the benefits of alternative qualitative methodologies, this research adopts an IPA approach (Smith et al., 2009), drawing on additional contributions of other practitioners (Adams and van Manen, 2017; Giorgi and Giorgi, 2008). This is congruent with the research questions and reflects sensitivity to the context of the research (Yardley, 2000). IPA is also in keeping with the philosophical positions of relativism and constructionism; seeking to uncover phenomena through the experiences of participants and how they contribute to the evolving nature of concepts.

Phenomenology seeks to understand 'experience as lived' (Adams and van Manen, 2017) or 'lived experience' (Mills, 2014) and aims to illuminate phenomena through close attention to evidence presented by the data (Moran, 2000). However, phenomenological methodology comes in different flavours, a 'fuzzy set' (Smith et al., 2009:200). Different forms of phenomenological research share commonalities but are nevertheless distinguishable. IPA draws on aspects of operationalisation of earlier theorists but is less rigid. It is primarily concerned with exploring the individual experiences of each participant by developing rich idiographic discourse on the data (Andrews, 2017). This contrasts with Husserlian approaches (Giorgi, 1997; Christensen et al., 2017; Parker, 2022) which focus on solely descriptive accounts of phenomena.

IPA also differs from Husserlian phenomenology in its treatment of bracketing. A Husserlian approach would require setting aside

personal experiences (Asad et al., 2022) as well as any preconceived ideas regarding the phenomena being explored. IPA approaches this in a more flexible way, drawing on Heidegger's belief that the 'fore-structure' will always be there. It is only through interpretation of new data that we can understand our preconceptions regarding the subject of enquiry (Smith et al., 2009). Whilst phenomenological researchers should initially put aside reflection on existing theory and intellectual contributions when engaging with data (Adams and van Manen, 2017) in IPA the researcher is encouraged to look on new data with wonder (Heidegger, 1927). This should be seen in the interpretation and description of the data, in keeping with the need for contextual sensitivity (Yardley, 2000).

Taking into account the ideographic nature of IPA, each participant is considered as an individual case (Smith et al., 2009); the focus of analysis is on individual rather than overall experience (Easterby-Smith et al. 2012) in the first instance. The subsequent cross-case analysis enables broader conclusions to be drawn.

### 4.3 Data Collection

Primary data generation utilised semi-structured interviews of both advisers and investors. While written submissions might have provided the opportunity for detailed analysis, as people focus more on written rather than oral communication (Easterby-Smith et al. 2012), like structured interviews, their static nature could have limited the depth of information obtainable. Conversely, unstructured interviews might not have yielded sufficient data regarding the phenomena being explored to enable the research questions to be answered.

With interviews, particularly where semi-structured or unstructured, researchers have the potential to influence participant contributions. Josselson (2013) suggests that prior to commencement, the interviewer should themselves undertake to be interviewed to ensure they are focused on establishing the participants' stories, not uncovering their own. Yet as Diefenbach (2008) suggests, it is only

when we know what we are looking for that we are able to ask the right questions. Bearing in mind the importance of bracketing to phenomenology, while accepting that complete bracketing of existing knowledge is impossible, and not wanting to allow my personal expectations to influence the outcome of the research, I reflected on the questions (Silverman, 2017) to ensure that these were not leading participants. Whilst I did consider Josselson's suggestion of being interviewed myself, as I do not meet the necessary criteria for inclusion of either participant group I opted for a pilot interview with an adviser participant to test both questions and interview technique.

The overall process of primary data collection can be seen here (***Figure 4.i***):

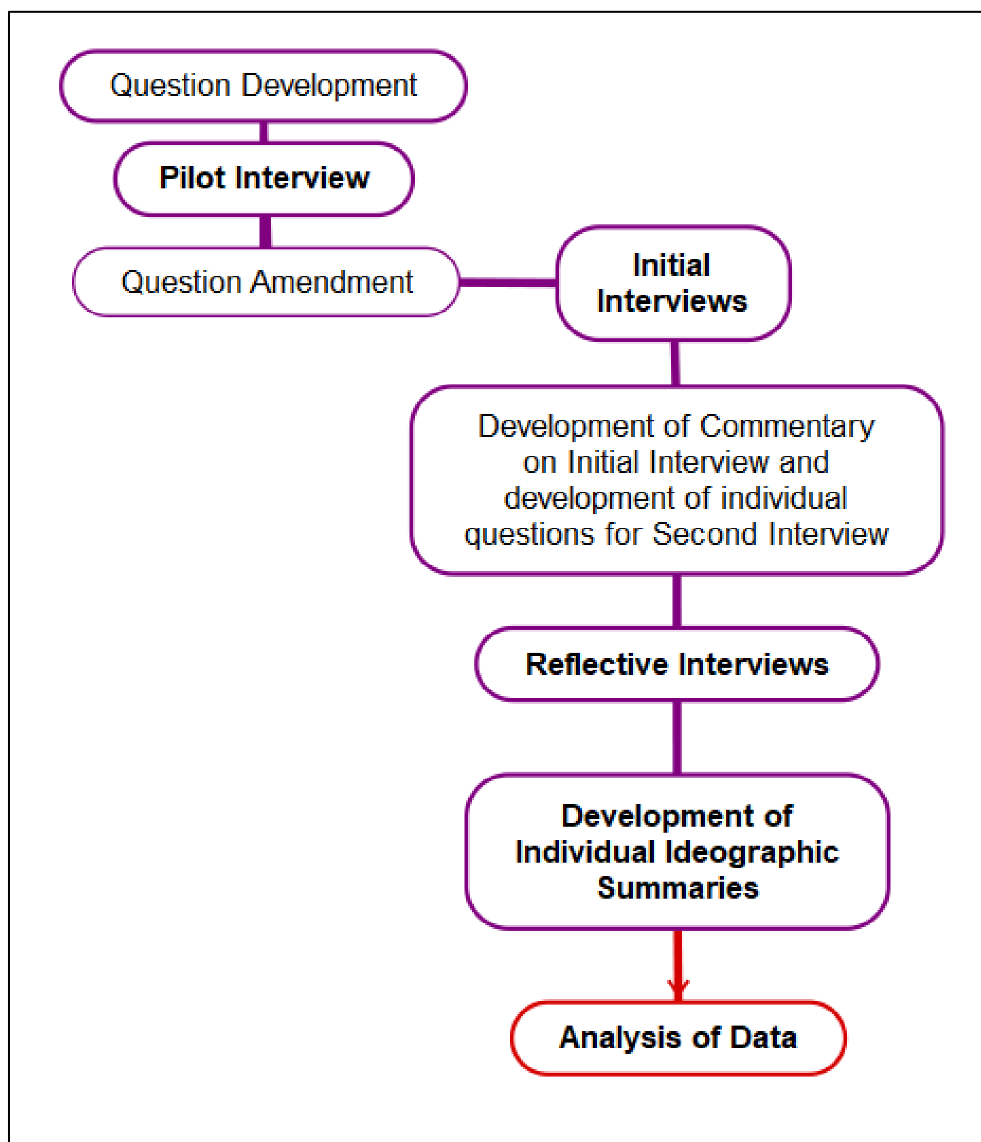


***Figure 4.i: Data Generation***

The questions asked of participants (see Appendices 1, 2 and 3) reflect the phenomenological approach. The use of subtly different questions for each class of participants focusses on experiential differences between giving and receiving advice and advisers' power to create frames (Druckman, 2001). Drawing on Smith et al. (2009) questions were reviewed to ensure they focus on 'personal meaning and sense-making' (Smith et al., 2009:45). The questions were structured so that they presented an opportunity for participants to delve deeper into their experience of making decisions, progressing from their understanding of Impact Investing through to what they were looking to achieve through their investments, other than a financial return, before finally prompting consideration of alternatively framed investments.

The ideas of non-financial reference-points, cognitive frames and framing were not discussed with participants during the initial interview, with the intention of allowing them to discuss their experiences without direct reference to these ideas. Similarly, whilst the subject of the research and some background information was available to participants in advance of the interviews, the questions were not shared in advance. In line with Silverman (2017) this was in order to prevent participants pre-preparing answers to the questions.

Following the pilot interview, questions were slightly revised to request advisers recall specific examples, in line with Adams and van Manen (2017). The change in process was not significant and the data from the pilot interview was included in the final analysis so that the valuable contribution made by this participant was not lost.

Taking into account the hermeneutic nature of IPA, participants were asked to return for a second (reflective) interview (see Appendices 3 and 4). This provided an opportunity to review with each participant their initial responses and my reflections on these. This multi-layered exploration of participant experiences enables closer approximation of truth (Crotty, 1998). Even if 'what is' is relative and subject-dependent, the hermeneutic approach adopted should ensure that what is presented, and the interpretation of it, is more accurate. This process

also contributes to transparency (Yardley, 2000) as it allowed participants to consider how their responses to the initial interview were interpreted.

### 4.3.1 Participants

Given the intended depth of interviews and in keeping with the idiographic nature of IPA (Balan, 2021), a small cohort of at least 5 participants of each class was sought, with the number influenced by Dworkin, (2012). In total, 9 Advisers (including the Pilot interviewee), 7 Investors and 1 "Crossover" participant were included in the research. The latter is an ex-adviser and current investor whose contribution has been included with the adviser data as his contribution relates to his experience of giving advice rather than as an investor.

Participants were drawn from across the Impact Investing and financial planning community. The opportunity to participate was communicated through my professional network via LinkedIn. A copy of the call for participants was shared by RI compliance firm ESG Accord in their December 2022 newsletter, with the call also sent to the UK Sustainable Investment and Finance Association (UKSIF)[32] to be shared with member firms. Regional marketing representatives of two investment management firms were also kind enough to share the call, both internally and externally. This ensured the pool of potential participants would not be confined to people known to me.

Financial planner participants were varied and included those either currently or previously working for small independent financial planning firms (7), as advisers for larger firms with discretionary investment management permissions (2) and one adviser initially working for a national firm with a restricted product choice. Two of the advisers changed employers during the research process, one moving from one small firm to another while the other moved from the national restricted firm to a large regional independent financial planning firm. Of these, at least six could be considered as specialists, providing only

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[32] https://uksif.org/

advice on SI or Ethical Investing, two of whom sit alongside me on the PFS Sustainability Panel. Three of the firms participating are members of UKSIF. No two advisers were from the same firm. One of the advisers was based in Scotland, one in Wales, with the rest operating in England, including London and Manchester. Three advisers who expressed an interest did not respond to further communications. Given the wealth of perspectives captured, and the slight overweight towards adviser perspectives, this was not problematic.

Investor participants were drawn from 3 firms and their advisers all participated in the research. No personal information other than names and email addresses was collected from the investor participants in order to preserve confidentiality. As such, investor participants were not asked to disclose their asset position, age or other identifying characteristics. Investors were both male and female and all were in some way investors in Impact Investments. They ranged in their experience of investing and, it would seem, in their interpretation of their relative wealth. None of the investor participants had any experience as investment managers or financial professionals, though one had tangential experience in financial services and is a public figure in the Impact Investment community. One investor participant was an accountant, but not in a financial services or private client context, and one had worked in International Development.

If we compare participant numbers to those which might be sought for a quantitative study, a total of 17 participants might seem insignificant. However, with an ideographic research process such as IPA a single voice would still represent a valuable contribution to understanding the experiences of that individual. In considering the number of participants my intention was to keep the sample size small and focus on depth rather than breadth of opinion. Despite this, I recognised that multiple perspectives would be valuable in order to consider possible contrasts and differences to advisers' approaches. Listening to a range of voices would provide additional information to help expand understanding. Restricting participants to only those who have participated in advised Impact Investing limited the potential for

outside voices to be heard (Crotty, 1998), yet as the research focuses on lived experiences of advised decision-making this limitation is valid and necessary.

### 4.3.2 Interviews

Given the geographic dispersion of participants across the UK, all interviews were conducted online via video conference. Whilst there were occasional technological problems, with some interviewees losing their internet connection mid-interview or having to run off to find a charger for their laptop, in general the process worked well. One interviewee was unable to use MS Teams, so Zoom was used instead. Since the onset of the COVID pandemic, conducting interviews in this way has become more commonplace and it is a format many are familiar with. Despite this it is worth reflecting on the potential for this medium of communication to interfere with the research process. Frueh et al. (2007) suggest that building rapport is possible via an online interview and indeed I found the ability to do so straightforward. In the case of investor participants this might have related to a transference of trust from their advisers supporting the rapport development, even though their advisers were not present (Wang et al., 2021).

Initial interviews were held between November 2022 and March 2023, with all participants from the initial interviews returning for the second (reflective) interview between March and July 2023.

## 4.4 Process of Analysis

Consideration was given to analysis of data via alternative interpretive analysis methods. Discourse analysis (Potter and Wetherall, 1987; Gee, 1999; Fairclough, 2000) and Conversation Analysis (Atkinson and Heritage, 1985) both provide valuable opportunities to engage with the data, however they were rejected in favour of IPA due to the flexible nature of the latter. IPA draws on similar roots to engage with the specific language used by participants in exploring experiences, whilst widening the analysis to include aspects other methods might overlook.

IPA should not be seen as prescriptive, rather it is a toolkit of common processes (Smith et al., 2009): Exploration of the data involves reading and re-reading interview transcriptions, adding descriptive comments (Balan, 2021), paying particular attention to language usage, in particular the use of metaphor and simile (Laurent et al., 2021). The intended endpoint for this iterative interpretive process is the development of a complex narrative, illustrated with examples from the experience of participants and commentary, to illuminate participants' experiences of decision-making in this context (Smith et al. 2009).

The IPA process of analysis used has been summarised below in Figure 4.ii:

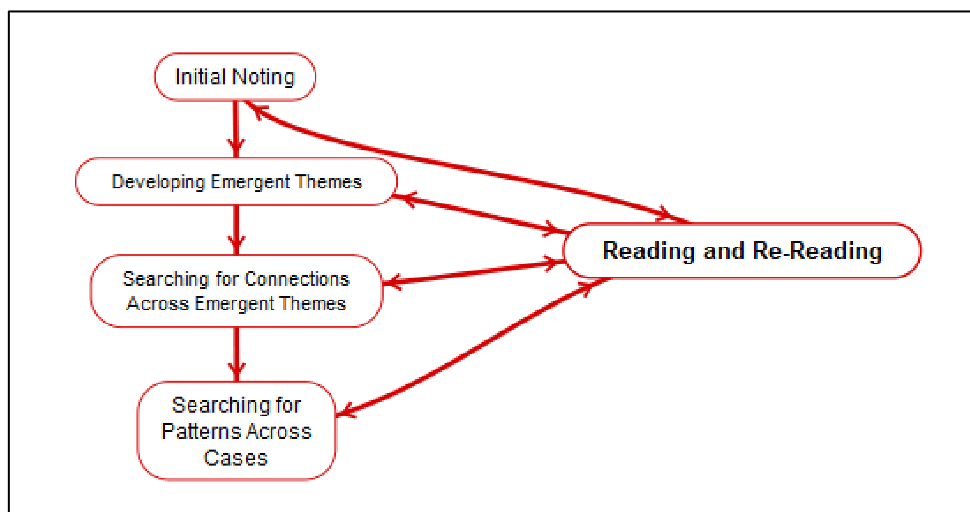


***Figure 4.ii: IPA Analysis Process***

The approach taken remains that of IPA as conceived by Smith et al. (2009), however a further thematic analysis (TA) process was also conducted to look at metaphors participants used in their discussions. This was deemed necessary to understand the complexity and depth of the metaphors used. In undertaking this analysis, extensive use was made of the TA techniques of Braun and Clarke (2006, 2013 and 2022).

The influence of Braun and Clarke's work on TA extends beyond the metaphors chapter as IPA encourages the consideration of emergent themes and connections between them (see ***Figure 4.ii***), a process which can be seen to have a close relationship with TA. As in TA, in IPA we are looking beyond the semantic understanding of what has

been said to what underlies what has been said, the latent meaning of the communication (Maguire and Delahunt, 2017). IPA is not TA, and differs in the development of the researcher's responses to the data as being an integral part of the research process, something which is a core element of this research. Despite this, Braun and Clarke's (2006) 6 stage process of TA is apparent in the development of cross-case themes from the ideographic summaries of the data in this study.

#### 4.4.1 Initial Interview Analysis

Following the initial interviews I read and re-read each of the transcripts. This was aided in part as the process of transcription required manual editing, with an automatic digital transcript being edited while listening to the interviews. This process allowed for immersion in the data.

Initially I undertook *in vivo*[33] coding of the initial interviews to identify relevant points to explore with participants in the second interview. The interviews of two adviser participants were coded in this manner. Whilst this generated connections between statements made by the participants, as well as highlighting the difference between the reporting of their own and investor experience, both individually and in general, the coding did not present an appropriate body of interpretive data which could be effectively discussed with the participants in the reflective interview. Discarding this coding was a painful but necessary step in understanding the IPA process, however it helped to highlight the importance in adviser interviews of their tendency to report conversations with their clients[34].

As the research adopts a hermeneutic approach, using the second interview to re-evaluate initial interview responses and their interpretation, a different approach was needed. Returning to the work of Smith et al. (2009), I decided to read through interview transcripts again, this time providing commentary on the interviews themselves. This interpretation, rough as it might be, would give the impression of

[33] Without a structured code-book

[34] Reflected in the text which follow as [Voicing Client].

my immediate thoughts on the data in this form and would then serve as a secondary source of data for subsequent analysis, reflecting the hermeneutic approach of IPA.

For each participant the initial analysis, conducted between the first and second interviews, focussed on what they were saying, whether about Impact or framing, their choices or which they experienced their clients making. These initial commentaries (an example of which is included in Appendix 2) were used to help develop both a deeper understanding of each participant's perspective and provide structure for notes and potential second interview questions (***see Figure 4.iii***).

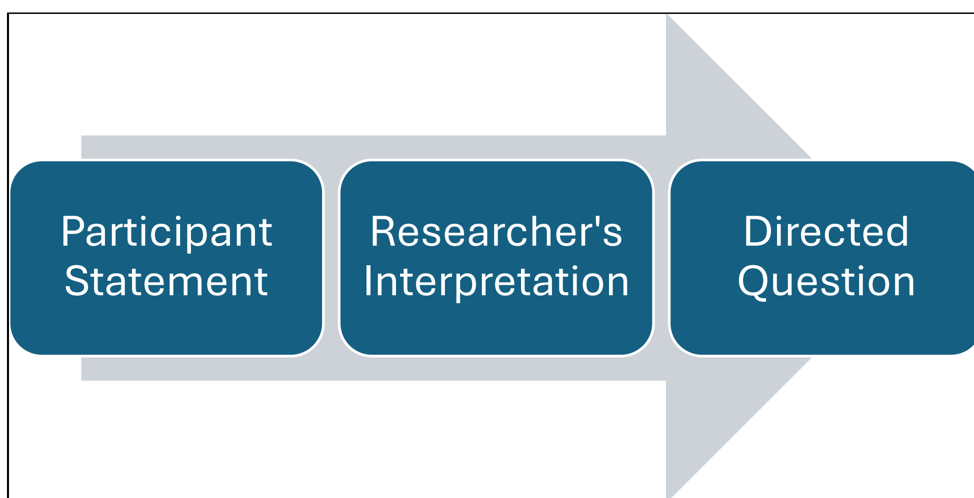


***Figure 4.iii: Development of Second Interviews***

Within the data there was evidence of conflicting personal and professional opinions. In some cases clarification was necessary in the reflective interview to ensure the interpretation was correct[35]. Developing a personal interpretation of the data in this manner is in keeping with the IPA approach. The experience is interpreted and then the interpretation is discussed with the participant to see if they agree with what is being said or to see whether this sheds new light on their own experience.

In developing the interpretation of the initial interviews, part of the process involved consideration of whether loss or gain framing could

[35] A key instance being the interpretation of "better choices" by Nikki, and whether this was meant in terms of a better financial planning or moral choice, a subjective opinion.

be inferred from the statements of the participants. As will be shown in following chapters, evidence of specific cognitive frames was rarely clear. None of the investors responded particularly strongly to the difference in framing of the final question , however the intention was not to test participant responses but rather to provide data for further discussion.

### 4.4.2 Second Interviews

Because of the ideographic approach to reviewing information from the first interview it was soon clear that reflective interviews would be diverse, with each interview focussing on the initial responses and what these suggested. However, as initial interviews did not explain reference-points or cognitive frames to the participants, I decided that the second interview should contain a description of these concepts. A supplementary question which allowed participants to reflect on the concept was introduced. This in itself might have influenced the participants' responses in the second interview, however I deemed this necessary in order to provide clarification of the analysis and commentary. The introduction of reference-points and cognitive frames during the second interview would also allow for a comparison of pre and post-concept data. The review of previous statements and their interpretation in light of previously undisclosed information would then enable participants to consider the validity of the interpretation and whether they agreed with their initial exploration of their experience.

Recordings of the second interviews were edited to remove my reading the script (see Appendix 3). As transcription of these interviews was undertaken with the support of my University's research budget, it was considered inappropriate to ask the service to transcribe the same information 17 times. The use of a professional produced a more aesthetically pleasing transcript than initial interviews yet whilst considerably less labour intensive, it was nevertheless important to ensure my separation from the process of transcription did not result in a loss of connection. Reading these transcripts through repeatedly allowed me to immerse myself in the data once again,

whilst allowing the opportunity to anonymise information where necessary.

In general, there was limited variation in perspective between initial and second interviews, demonstrating consistency. There was evidence from one participant that the initial interview impacted her thinking. However, even if the interview process did make participants reflect on their actions, there was no indication that such reflections created significant or widespread changes in interpretation or behaviour. Indeed, whilst some participants suggested that they might think on some of the themes raised, particularly the final question, there was limited evidence that they dwelt on this.

### 4.5 Analysis

Following the second interviews, both sets of data, including my reflections on the initial interview, were reviewed. I compiled an ideographic summary for each participant, including data from both initial and second interviews and the reflection on the initial interview, drawing on the hermeneutic principle. The analysis thus integrates all primary data sources.

Consideration was given to the development of a code book (Braun and Clarke, 2022) to help analysis, consisting of the following: *Metaphor, Good vs Evil, Systems Change, Lacking Definition, Positive Change, Fix / Broken / Failing*. However, following reflection it became apparent that whilst these might capture some data they would not reflect the rich variety of interpretations and experiences shared by participants. Rather than imposing a particular world-view on the data (Braun and Clarke, 2022), to reflect this richness and ensure that analysis discovered what the data contained, in vivo coding was adopted. Given the nature of this method, a plethora of codes were developed, some of which appeared only occasionally or with one participant. Whilst this may increase complexity, the open process of coding preserves the voice of the participants (Elliott, 2018) rather than trying to make their experiences align to a preconceived idea of what they were trying to communicate. In keeping with the ideographic

nature of IPA, it is the experiences of the participants which is of primary importance in this research.

***Figure 4.iv: Codes***

The codes noted above (***Figure 4.iv***) exclude those which specifically relate to the metaphors used by participants. As metaphor codes relate to how participants communicate experiences as much as they communicate the experiences themselves, these were analysed separately. The TA process employed is contained in Chapter 6.

*In vivo*[36] coding of such a large volume of data could result in an overwhelming number of codes. To keep these to a manageable level, they were kept fairly broad. For example, "Active Framing" was used to relate to instances where participants were using a specific framing to communicate something. The coding is representative of the close relationship between the researcher and the data in an IPA study: I have used codes which reflect my own interpretation of the data in order to develop my own understanding. Where I have used "Satisficing", someone unfamiliar with Simon's (1956) concept might have chosen "Compromise", though "Willingness to Compromise" is also present in the coding.

The coding also highlighted some data which has received limited attention in the analysis as I have focussed attention on those areas which relate to relevant experiences of the Impact Investing advice process. Nevertheless, the data gathered may be useful for further study regarding public and internal perception of financial services.

Following the development of initial codes, these were then grouped to help understand the experiences of the participants (see ***Figure 4.v***). For example, "Marketing Material" has been linked to "Misleading", both of which are brought under "Interpretation". This linkage was chosen as participants discussed glossy presentations and marketing material, the presentation of pictures which aim to show people the changes which their capital can be linked to, which some participants found to be misleading. I interpreted this to be an aspect of "Interpretation": Whether such publications are misleading may hinge on whether one adopts a particular interpretation of Impact.

[36] Without a structured code-book

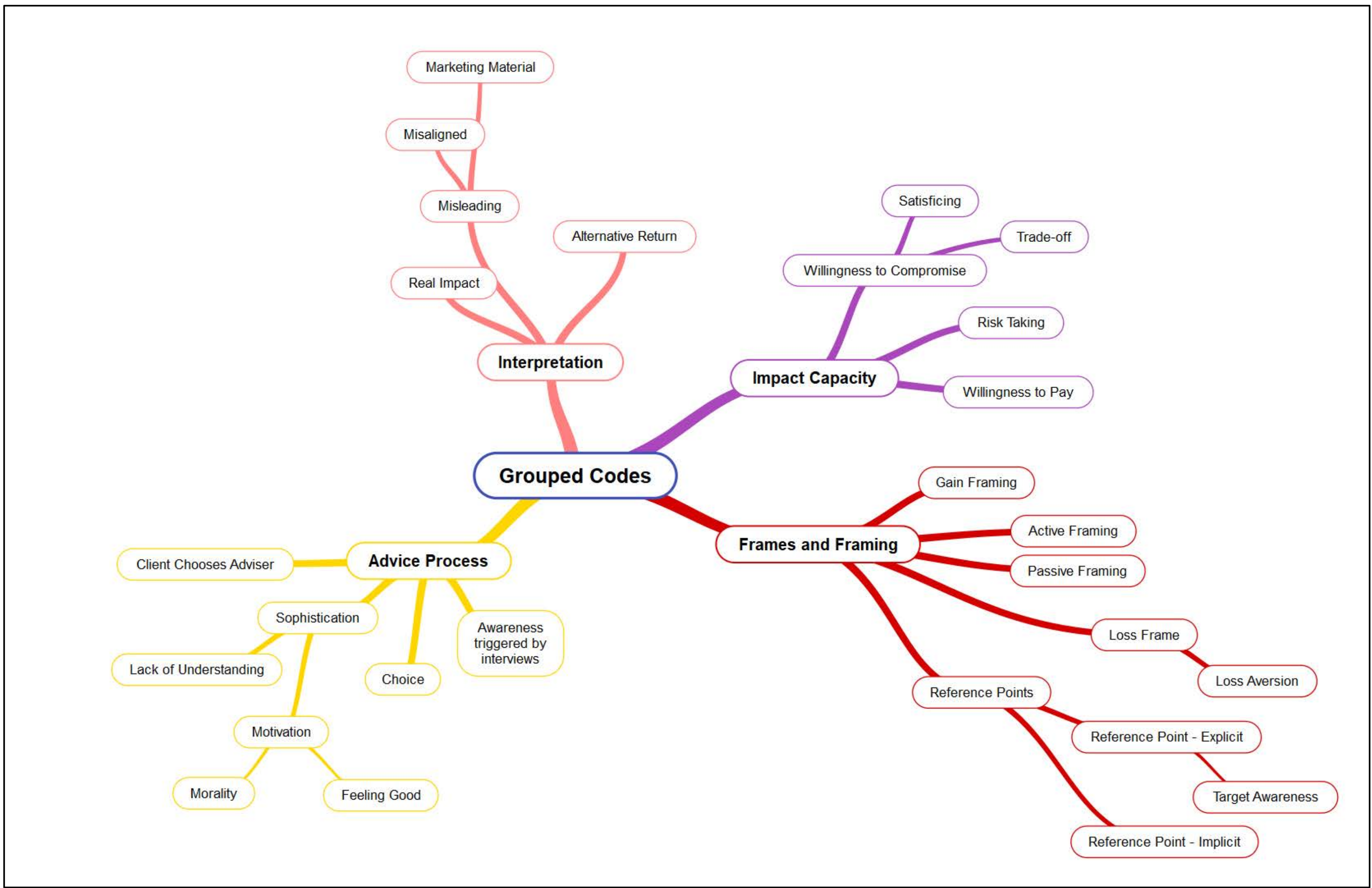


***Figure 4.v: Grouped Codes***

These groupings were then considered as the basis for the development of the empirical chapters which follow, with the exception of the “Advice Process” code group. Whist the process of advice is significant in terms of developing understanding of participant experiences, it is cross-cutting with the other themes present. For example, it is important that we are aware that the hermeneutic interview process resulted in evidence of “Awareness triggered by interviews” but it does not follow that this is necessarily something which will help us understand experiences of retail advice.

This left 3 main themes which will be explored in the chapters which follow (***Figure 4.vi***).

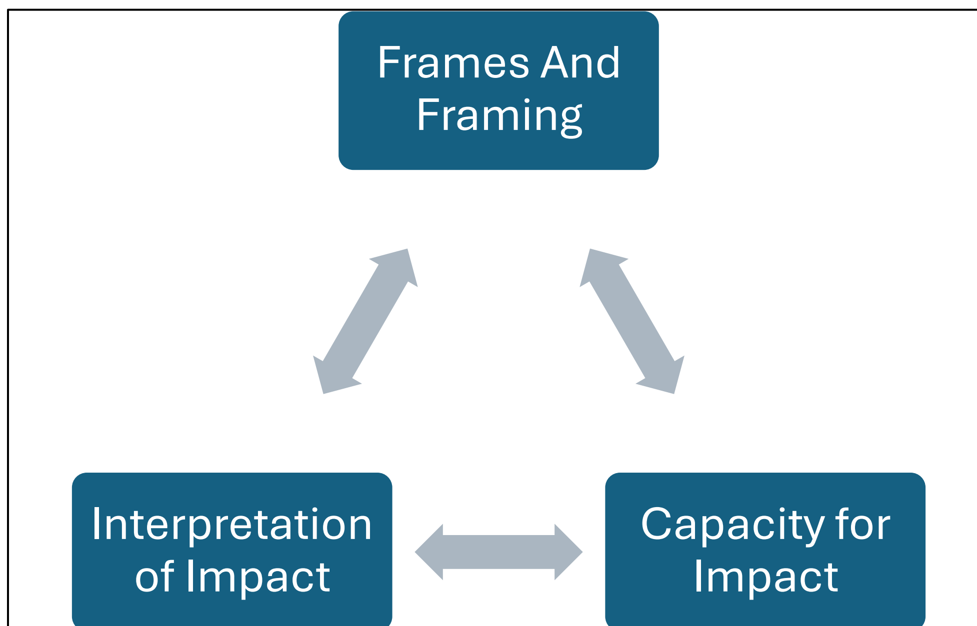


***Figure 4.vi: Cross-Case Themes***

These cross-case themes were then explored (Laurent et al., 2021) with the intention of developing a *gestalt* or frame (Smith et al., 2009) which shows the relationships between themes, which can be seen in Chapter 9.

#### 4.5.1 Metaphor Analysis

In developing an understanding of the IPA methodology, as developed by Smith et al. (2009), I became aware of the importance of understanding the metaphorical language used by participants in the

study. Whilst use of metaphor is a widely recognised sales technique (Miller, 2012), it was not limited to adviser participants. Conducting a separate analysis of metaphors used allowed me to *"get a feel for the use of particular words"* (Smith et al., 2009:90). This analysis, which is presented in Chapter 6, is adapted from Braun and Clark's (2006) process of TA. Whilst some consideration was given to the mapping analysis techniques pioneered by Lakoff and Johnson (1980) and developed in Lakoff (1987), such an approach seemed more appropriate for a study which focuses specifically on the metaphors used in financial planning, a subject not yet developed in the literature. In the fullness of time, such a comprehensive analysis would indeed seem necessary. However, in this instance, as the focus is on developing an understanding of how participants communicated their experiences of Impact Investing as part of the wider IPA approach, a thematic approach was suitable.

### 4.5.2 Selection of Ideographic Content

Whist Smith et al. (2009) suggest a representative text for an example in the analysis might be one which is rich with metaphor, I have been careful in ensuring that this is not the only reason for the selection of the examples given in subsequent chapters. As noted in Chapter 6, some participants were less likely to use metaphor in their interviews, yet their contribution to the research, their voice, is no less valuable. In selecting the ideographic content I have tried to draw out specific words and phrases which illustrate participants' interpretation of phenomena. Reflecting the ideographic nature of IPA, these will often be presented to demonstrate how one participant interprets the world, followed by the experience of another participant whose interpretation can be contrasted with or which differs from that of the previous participant in some way. Where there is evidence of convergence I have tried to demonstrate this effectively through the selective use of the participants' words rather than presenting a catalogue of similar responses.

### 4.6 Robustness

It is important that the validity of the research is taken seriously (Smith et al., 2009). Given that IPA is a highly interpretive method, the validity of the process followed in analysis and the conclusions drawn might be called into question if these are not presented in a way which is suitably robust.

This chapter has endeavoured to demonstrate a robust method, yet a vital component of the demonstration of the validity of IPA is an exposition of the reflection and interpretation which takes place throughout the analysis process. For this reason, additional appendixes have been provided which provide examples of the thoughts following the initial interviews (Appendix 2), as well as the ideograph following the second interview (Appendix 4). In order to demonstrate the development of thought which took place between the first and second interviews, as well as the refinement between the preparation of the ideographs and the presentation of the data in the empirical chapters which follow, Appendix 2 and 4 are presented without having been edited. This presentation of the analysis process in its raw form is intended to support the reader in seeing the development of understanding, rather than demonstrating a clinical version of what transpired. The initial interview analysis and ideographs have been retained in full and will form part of the archive record of this research, along with the transcripts of all interviews.

As with all research of this nature, lived experience is only an indicator of the intention of the participants. In the chapters which follow I am examining both the reported experience, what people say has happened, but also how they choose to report this. I might say that my decision to do something was influenced by something when this is a post-hoc reflection on what I now think would be important when making such a decision. As noted in the conclusions presented in Chapter 10, we should be careful when generalising from the evidence; the analysis presented here is one interpretation of the reported experiences of a select group. It is conceivable that had a different set of participants been interviewed a single approach to

Impact Investing might have been found. Nevertheless, it is still helpful in understanding the experiences of this group, in a way which will support the development of future research and provide opportunities for improved practice among the professional community (Chapter 11).

### 4.6.1 Critical Self-reflection

Whilst I have made every effort to ensure that the analysis of the evidence presented is robust, fully explaining the process, there is always the possibility that I might have interpreted the responses of the participants differently to how another would have interpreted them. Arguably that is the value of this interpretation: Whilst it is impartial, it is not impersonal. The interpretation draws on my own interactions each participant and their responses draw on and relate to my interpretation of their initial interviews. The subsequent analysis reflects what they have communicated to me. Whilst the study does not strive for the same level of self-awareness as autoethnography (Romero, 2024), it is still appropriate that I question what it is I am looking at.

When I started this research, I was aware that advisers struggle to recommend direct Impact Investments to retail investors, but I didn’t know what this meant for the profession in general. Similarly, I had no notion of another major theme which it was possible to derive from the data; the Preference and Paradigm approaches to advice (Chapter 7.2.3). Nor was I aware of the prevalence of metaphors in financial planning: Having opened this door of awareness, it can no longer be closed.

If I had stated at the outset what I had been expecting to write about, it would have been how people’s participation in Impact is in some way related to their perception of the world around them, their implicit or explicit reference-points. I expected to see a stronger connection to feelings of loss than was apparent in the data. To an extent this is still the case. What was not expected was the wide variation in interpretations of what Impact Investing is, despite the regulatory convergence on a weak form of intentionality. The idea of Impact

Capacity, discussed in Chapters 8, 9 and 11 is novel and represents a distinctly ‘financial planning’ take on the idea of Impact Investments as part of a client’s portfolio. To my knowledge it is not something which has been discussed elsewhere.

Unbeknownst to me at the research development stage, this project could have been carried out using only advisers and it would still have developed worthwhile and valuable insight into the retail Impact Investing world. However, by including individual investors I have been able to carry out a degree of sense-checking about what advisers are saying. This has been used as a structural technique in the chapters which follow; introducing the adviser position and then cross-referencing this with investors.

### 4.7 Writing Up

The choices I have made in interpretation also extend to the way in which I have written up the analysis of the data collected.

In the following chapters certain conventions have been applied to help the reader navigate the text. Where an adviser is voicing a hypothetical client, or recalling the words of a client, statements will be preceded with [Voicing Client]. As two interviews were conducted with each participant, distinction will be made between each of these interviews. When quoting participants this will be referenced as (NAME:#), with # corresponding to the particular interview in which the statement was made. The purpose of this clarification is to provide additional context for when in the data-gathering process the statement was made.

The most challenging decisions made related to the need to maintain participant confidentiality. This required careful management, particularly as some research participants were known to one another, whether due to an existing adviser-client relationship or because they knew other participants who had discussed their involvement. I remain aware of the professional relationships between participants, something which investor participants were quite open to discussing

in their interviews. This information was redacted from transcripts and has not been carried through into the analysis. Throughout the interviews, investor participants would refer to their advisers by name, reflecting the close relationships they hold. Some investors also referred to the investment management firms they use, though this was less likely to be something which could be used to identify them. The process followed limits the potential for participants to be identifiable individually or to each other.

Adviser participants have been anonymised for the purpose of allowing greater freedom of expression, should their clients, employer or regulator disagree with their expressed position. Whilst investors were happy to tell me who their advisers were, advisers did not disclose information regarding their clients, reflecting their professional need to maintain confidentiality.

Despite the anonymous nature of participation being made clear at the outset of the research, some participants appeared quite happy to share their participation. Some mentioned talking to their friends about it and, as was the case with one participant, identifying their involvement via social media during the research process. Yet whilst participants should be free to identify themselves, I have no right to disclose their participation, whether intentionally or via jigsaw identification, when confirmation of anonymity has been made.

In order to preserve this anonymity, considerable thought was given to the appropriateness of using pseudonyms for participants in the research. As noted by Heaton (2022), there are potential issues with the researcher choosing a pseudonym for research participants. Careful consideration was given to the issues of readability and gender in the choice of pseudonym, for example, a participant might object to the researcher choosing a pseudonym typically used by individuals of one gender if this is not the gender with which they identify. The use of genderless codes allows for the data to be discussed without gendering issues. Whilst a neutral code, such as Adviser 1 or Investor 19, paired with gender neutral pronouns (they / them) would be out of place for a discussion of motherhood and fatherhood and its influence

on aspects of financial decision-making from a generic experience of "parenthood", this is not the subject of this research.

Working codes for each participant were used in the analysis, however when presented in the empirical chapters which follow this felt very clinical and didn't reflect the personal nature of the discussions. Given the ideographic nature of IPA, rather than assigning mechanical codes, such as in Paetzold and Bush (2014), a more personal approach was felt to be appropriate, as in Statman (2008).

In selecting pseudonyms for participants[37] I applied a convention used by fiction authors: No two begin with the same letter. The pseudonyms (see Table 4.1) have also been selected with knowledge of the given names of the participants and I have been careful to avoid using them as pseudonyms for other participants. Finally, I have used the diminutive forms to refer to advisers while investor pseudonyms are used in full.

| Advisers | Investors |
|---|---|
| Bill | Angela |
| Joe | Dorothy |
| Frank | Margaret |
| Pam | Thomas |
| Rosie | Oliver |
| Nikki | Simon |
| Greg | Jonathan |
| Ken | |
| Val | |
| Larry | |

***Table 4.1: Adviser and Investor Pseudonyms***

Despite the use of diminutives for adviser participants, the use of pseudonyms over codes makes it slightly more difficult to establish at a glance whether a participant is an investor or adviser. An innovative solution to this problem was needed to support readability whilst preserving the personality of the participants. In order to help the reader see effectively to which group the participant belongs,

[37] As these names were selected late in the writing process they were not discussed with the participants to whom they refer. If I have inadvertently caused any offence to any participant in this research through my selection of pseudonyms, I offer my sincere apologies. I hope that the explanation given here goes some way to explain the reasons for their selection.

references to and quotes from interviews have been colour-coded: Advisers in *blue* and investors in *green*[38].

Certain key phrases used by some advisers have not been attributed in the chapters which follow. These phrases are valuable for understanding how advisers frame Impact Investing and I felt it necessary to preserve their inclusion, however they are so distinctive and unique that their attribution would immediately identify participants in the study. Whilst investor participants were aware that their advisers were participating, as they were often the source of the investor's awareness, in order to allow adviser participants to speak freely, anonymity is important. Therefore, where a phrase is so unique as to act as a keystone in any attempt to connect the anonymised data with participants these have not been attributed to any one individual.

Where drawing attention to metaphors present in the text these are included in square brackets and capitalised, for example: [JOURNEY], a convention adapted from Lakoff and Johnson (1980).

### 4.7.1 Structure of the Empirical Chapters

Chapters 5-8 form the empirical data on which this thesis rests. As the thesis was developed abductively there was a need to return to the literature at various points to help develop a better understanding of what was uncovered, as discussed in Chapters 1 and 2. The nature of the findings is interpretive and as such these chapters present the basis for the later discussion and conclusions in Chapters 9 and 10, with considerations for future research and professional practice discussed in Chapter 11.

[38] This distinction may not be apparent from some screen-reading software. Whilst this presents an accessibility issue it is not so significant as to render the text meaningless and should not impact on the understanding of the core text.

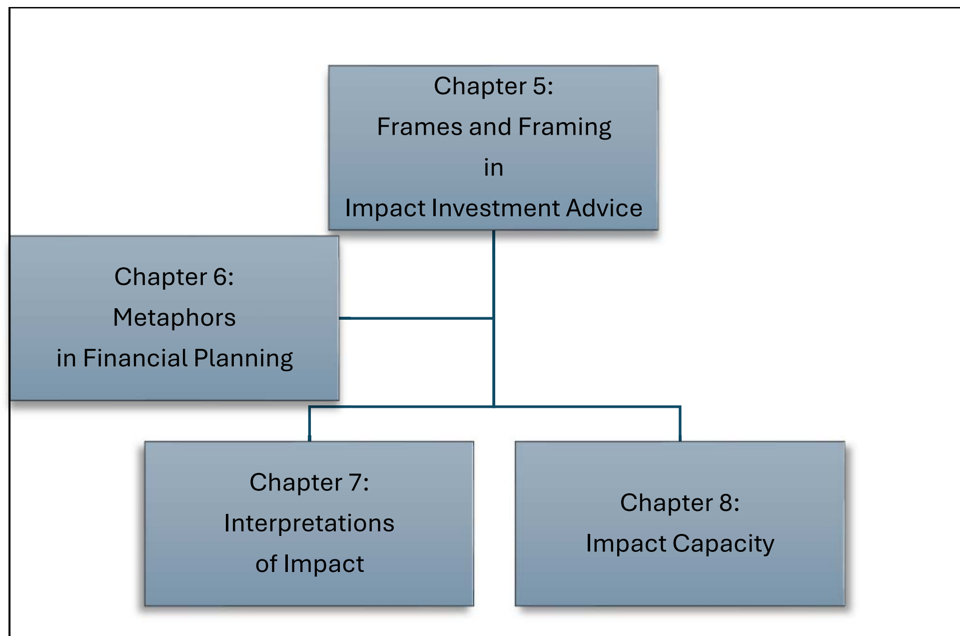


***Figure 4.vii: Structure of the Empirical Chapters***

Reference-points, Cognitive Frames and Framing are perhaps the most important factors in the development of this thesis and as such Chapter 5 is longer than the others. Chapter 6, Metaphors in Financial Planning, is shown as a call-out in the above (***Figure 4.vii***) as it is important in understanding what is discussed subsequent chapters, yet it stands alone in the analysis, with the additional TA process used contained within the chapter. Chapter 8, Risk Taking and Capacity for Impact, is developed from Chapters 5, 6 and 7 and while shorter than the others, forms a key part of that which will be presented in the conclusions and recommendations for professional practice.

Rather than presenting extracts from the interviews in tables as suggested by Smith et al. (2009) they have been included throughout to help illustrate the analysis and, in some cases, to allow for a more complete understanding of the interpretation I have offered.

# Chapter 5: Frames and Framing in Impact Investment Advice (Birdsong, Ladybirds and Hedgehogs)

*"…People think about what they experienced when they were growing up. The number of ladybirds and the amount of birdsong and stuff like that, should have been like it was in the 1960s…"*
*(Dorothy:2)*

## 5.1 Introduction

The phenomena of reference points and cognitive frames (Kahneman and Tversky, 1979, 1984; Tversky and Kahneman, 1981, 1986) developed in the financial planning literature (Redhead, 2008; Pompian, 2012a; Baker et al., 2023), are a potential factor in financial decision-making and advice. The same phenomena might help us interpret decisions in Impact Investing where decisions may be made with reference to a non-financial return investors value. Frames can be based on reference-points; they are reference-dependent. If these reference-points exist for participants, this might help us in the interpretation of their experiences of Impact investment decision-making.

A simple interpretation of reference-points and frames may help in understanding the interpretation which follows, as illustrated through ***Figure 5.i***. If a participant has a reference-point at **R** and their perception of their current state is at **L**, their perception of their situation is 'below' the reference-point **R** and they might experience a loss-frame as they value this state of affairs less than they would being at **R**. An individual who perceives their current situation as **G**, could experience a gain-frame, their perception of the current situation is above the reference-point **R** and they value this state more than they would being at **R** (or **L**).

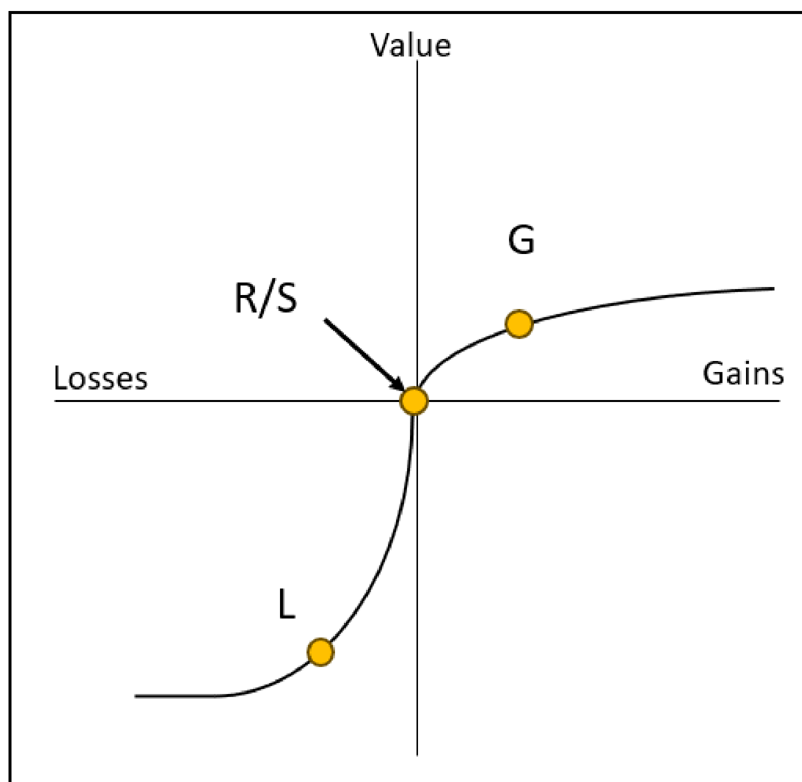


***Figure 5.i: A Hypothetical Value-function (Adapted from Kahneman, D and Tversky, A. (1979)[39])***

The work of Kahneman and Tversky (1979), discussed by Pompian (2012a) and others demonstrates that decision-makers' willingness to take risk is associated with the perception of their position relative to their reference-point. Within the value function shown in ***Figure 5.i***, an individual who perceives themselves at point **G** may be willing to take less risk to achieve further gains due to the law of diminishing returns (Kahneman & Tversky, 1979). They do not wish to risk what they have already gained, as they value their position relative to their reference-point. An individual who perceives the world from **L** may be more willing to take additional risk as being at **R** would have a greater value to them. In a financial planning context, the willingness or otherwise to take risk is seen regularly when an individual chooses to move

[39] Adapted from Kahneman, D and Tversky, A. (1979) 'Prospect Theory: An Analysis of Decision under Risk', Econometrica, 47(2), pp. 263-91, Reprinted in Kahneman, D and Tversky, A. (eds.) (2000) Choices, Values, and Frames., Cambridge: Cambridge University Press. This is not meant to be an accurate representation of a value-function but merely an illustration to help in understanding interpretation. The loss curve has been steepened and exaggerated beyond L to reflect the idea that there is a point at which losses become meaningless. In keeping with the words of more than one participant, in climate change in particular there is a point where the situation is so bad that we simply aren't around to care.

invested assets to cash when they have performed well, “locking in” their gains, though such a strategy prevents them from achieving further growth. Their behaviour is loss-averse as they fear losing what they have gained.

The concepts of reference-points and their potential influence in decision-making is well developed in the economic literature; the presence of this behaviour in a financial domain is well established. However, as noted in Chapter 1, where the return on an investment might be either financial or non-financial it is possible that a reference-point in a non-financial domain could also influence choices in the same way as in a financial domain. There is no certainty that these concepts apply in this context. Reference-points and frames are merely tools which allow us to explore the experiences of participants in a particular way.

From the literature we know that there are both ‘frames’, the mental states which might apply to someone’s decision-making, and ‘framing’, how they might actively use frames, whether consciously or otherwise, in their discussion of a particular subject (Kahneman & Tversky, 1979). We might employ framing to induce a particular frame in the listener (Sunstein, 2014), or because we are experiencing a particular frame (Kahneman & Tversky, 1979). The frames and framing which are present in the Impact Investment advice process might be available to us through the language used by participants in their descriptions of their interactions.

This chapter will follow a logical progression, exploring the responses of participants around the sub-themes shown in ***Figure 5.ii***.

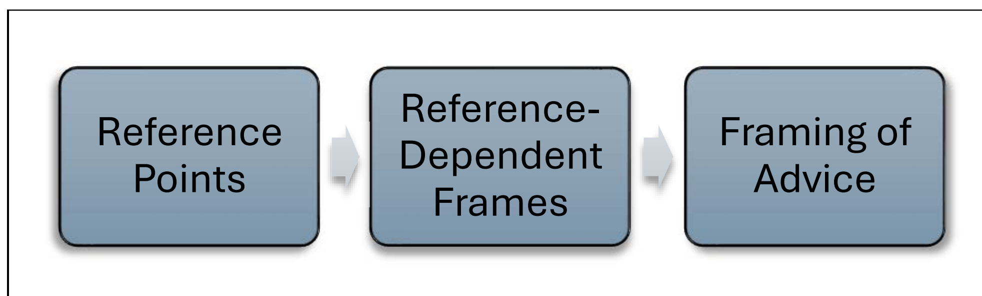


***Figure 5.ii: Chapter Progression (Source: Author)***

### 5.2 Non-Financial Reference-Points

Evidence presented by both advisers and investors suggests that reference-points can be explicit or implicit. For example, keeping global temperature rises to 1.5°C above pre-industrial levels[40] is a clear and explicit reference-point, referred to by multiple participants (Greg, Ken, Dorothy, Simon). This was stated frequently by Greg, as his portfolio construction and overall advice process is centred on it.

*"…when researching portfolios, we want a portfolio that is OK on charges, decent performance available on platforms and, as far as we can tell, aligned to a 1.5°C warming scenario…" (Greg:1)*

References to 1.5°C can be viewed as a non-financial reference-point; temperature rises above this would be disastrous for humanity and the natural environment (IPCC, 2023). As it considers temperature *rises* from a reference-point rather than falls, it might therefore be an inversion of ***Figure 5.i***. An increase in global temperatures is not going to be seen as a positive gain[41].

Some reference-points were similarly explicit but much more personal:

"[Voicing Client] *'We don't see any hedgehogs anymore.'*

*And we don't, because we killed them all with slug pellets." (Ken:2)*

Indeed, it seems that the presence or otherwise of hedgehogs is a particularly prickly metaphor for a vague historical environmental reference-point:

*"I remember back to being a child, cycling around my village, and there were squashed hedgehogs everywhere. Squashed hedgehogs is surely a bad thing, but it meant there are hedgehogs there to be squashed.…I cannot remember the last time I saw a squashed hedgehog, because the hedgehogs are not there to be squashed." (Greg:2)*

Whilst the presence of hedgehogs is being used by Greg as a metaphor for the wider damage to the ecosystem he perceives, it is expressed in the form of a reference-point: There is a historical reference-point, for both Greg personally and for Ken's clients, of

[40] Hereafter I will shorten this to 1.5°C.

[41] In most cases there is a corresponding positive which could be substituted.

‘more hedgehogs’. Despite these instances, explicit reference-points were rare, with the evidence suggesting that they can be both flexible and implicit.

A reference-point like 1.5°C might be unifying, yet one of the key challenges which would exist in testing for non-financial reference-points was apparent to advisers: reference-points are very personal. In his second interview, Larry suggested that reference-points would be linked to individual motivation, while Bill highlighted that what is acceptable to one person is not necessarily going to be the case for all investors. Similarly, Joe noted that non-financial reference-points would be *“considerably more varied, if not infinite*” (Joe:2). Although Pam suggested that environmental reference-points were more common in her experience than those relating to social issues, again this is a matter of perspective; for Joe the examples chosen related primarily to social issues, particularly equality. Economic or financial reference-points are also variable, in that each person’s reference-point might be different, yet where these relate to non-financial issues what is an important reference-point for one participant might not exist for another.

To Joe the concerns of investors reflect the *“issues of the day”* (Joe:1), with media helping to establish reference-points and potentially influencing what they are. This might explain 1.5°C as a commonality among participants, aligning with Bill who noted in his second interview that peoples’ perceptions of what is acceptable changes. This is reflective of the idea that reference-points will be *received* in the nonfinancial domain as much as they are in a financial domain: They are influenced by external factors and not consciously created.

Greg considered that non-financial reference-points could be the status quo (**S** in ***Figure 5.i***) and, in his second interview, whether clients have the same fixation on specific reference-points as he does with 1.5°C:

*"…I think the anchor[42] for the environment is probably:*

[Voicing Client] *'Well, it's not so bad now, so let's not let it get worse.'*

*Rather than going back and saying:*

[Voicing Client] *'We should have it as good as it was 200 years ago.'" (Greg:2)*

Therefore, his perception is that the climate-related reference-point is the status quo (not so bad now), suggesting that the reference-point has been updated to the present situation. This could be because there has been no need for there to be a reference-point until now: The reference-point comes into being at the point at which it is considered as something to compare other states of being to. This would align with some financial reference-points such as an initial investment amount becoming a financial reference-point for an investor: Until the point of investment there is no reference-point. It could also be that investors are updating their non-financial reference-points to reflect the state of the world as it is, yet this is not the case for all investors.

Advisers identified that clients with professional or personal involvement in particular subjects would have a stronger understanding and a greater desire to create change. This knowledge might result in greater awareness of potential aspirational reference-points: They know that things can be different to how they are.

*"…a lot of these clients are visionaries…They can see the kind of world that they would like to be living in one day." (Rosie:1)*

Here we can see evidence of a potential aspirational reference-point, the "kind of world" they are seeking, though it is somewhat vague. In contrast, an individual who has little or no knowledge of the area in question would not have the necessary inputs to establish a reference-point other than that of the status quo:

[42] In this instance the term "anchor" has been interpreted in terms of a reference point and not as an anchor value which exists in the case of the heuristic of *anchoring* where one value subconsciously influences the estimation of another. Whilst anchoring and reference-points might be related concepts, they are not the same thing.

*"…For less well-informed people it's more of a* [Voicing client] *'Oh, that's a nice direction to go in.'…" (Larry:2)*

These implicit reference-points can clearly be very general. They are not just present in the advisers' perception of what clients want to achieve, but their own implicit reference-points:

*"…the world, it's deteriorating. So I suppose everything we're doing…is trying to stop that." (Val:1)*

If the world is deteriorating, it implies awareness of a reference-point in a non-financial domain from which that deterioration is taking place. If the purpose of Impact Investing, or SI in general, is to stop that deterioration, then this would imply a desire to avoid further negative movement away from the reference-point. The statement is also suggestive of how they see the purpose of investment: Stopping things from deteriorating might simply preserve the status quo, it would not necessarily make things better. Likewise, whilst clients want to "*make the world a better place"* (Pam:1), suggesting a reference-point from which they wish to see some form of improvement, this might be the status quo perceived by Greg or that they perceive the world as deteriorating, in line with Val. In either case, we can interpret some form of implicit reference-point.

### 5.3 Investor Reference-points

We have seen evidence from adviser participants that reference-points exist in a non-financial domain. These reference-points can be both explicit or implicit and, in each case, might be unique to the participant and influenced by the degree of understanding that the investor has of a particular situation.

Evidence from one investor did support Larry's suggestion that there is less emphasis on a reference-point where these have not been developed; investors will be comfortable with their money going in a "nice direction".

*"I really don't feel strongly about my money going in any particular direction, as long as it's not doing harm." (Angela:2)*

Jonathan, Dorothy and Thomas all talked about how awareness shaped their understanding of how they want to invest, with Dorothy expressing that this is not a recent development but a lifelong awareness manifesting itself in the way she chooses to invest:

*"…I suppose I've always just been really aware what a really unequal world we live in…" (Dorothy:1)*

These important issues are not always fixed. The perception that what is important changes based on developing understanding is supported by evidence from Thomas: *"…my concerns over the last couple of years have become more and more focused on climate action"* (Thomas:1). He credits this to an increased awareness from the investments he has made, and time contributed to solar and wind energy, both in the UK and Africa. This evidence tends to support the idea that development of reference-points might be linked to awareness of relevant issues and that they may be updated or come into being at some point.

Non-financial reference-points expressed by investors were rarely explicit. Simon referenced particular awareness of 1.5°C, driven in part by discussions with his adviser. Whilst Dorothy demonstrated an awareness of 1.5°C, this was not a major factor in her discussion. For Oliver however, there was clear evidence of an explicit reference-point of the global population level in the year of his birth. This was different from other reference-points as investing in a way which seeks measurable change relating to this would be impossible. Indeed, Oliver was not suggesting the global population needed to be reduced but rather that the domain in which his reference-point exists impacts associated factors, climate in particular.

Implicit reference-points expressed by investors were more common. These centred around issues of climate and inequality in its various forms. Jonathan saw his primary interests in inequality and environmental regeneration, both of which have implicit reference-points: Society is not equal and the environment needs regenerating. These two implicit reference-points differ not only with respect to the non-financial factor they represent but also in nature of that reference-

point. In the case of environmental regeneration this would suggest a reference-point based on a previously existing situation he would like to move back towards. The desire to achieve equality on the other hand, relates to what may be an aspirational reference-point which has yet to be achieved.

Notably, Jonathan was explicit about not wanting to invest in adaptation, learning to live better with the current situation. This is something he saw as more easily associated with climate issues. His primary focus is to improve the situation, to mitigate and prevent things from worsening, rather than getting comfortable with where we are. Jonathan was not alone in having a developed understanding of relevant issues but still having an implicit reference-point. Thomas demonstrated this in relation to climate change, whilst also providing evidence of his perception of the world as it is now in relation to that reference-point:

*"…back towards a possibly survivable future…" (Thomas:1)*

The reference-point is a survivable future. His position relative to this is that we have fallen below that reference-point, something that he is seeking to get back to through his actions and investments.

For Dorothy, the existence of different reference-points was a clear driver for action and was developed across both interviews. In line with both Oliver and Thomas, there was evidence of awareness of issues surrounding unconstrained growth and survivability:

*"We can't carry on growing on a finite planet. We can't keep on using resources." (Dorothy:1)*

This has an implicit reference-point (finite planet) and is firm in the idea that we have to stop growth and the use of resources. In her second interview she explored this in more detail, immediately considering how people might think in terms of reference-points which are personal to them:

*"…People think about what they experienced when they were growing up. The number of ladybirds and the amount of birdsong and stuff like that, should have been like it was in the 1960s…" (Dorothy:2)*

Whilst Dorothy is not saying that this reference-point (birdsong and ladybirds) is one she is fixated on herself, she has identified this behaviour in others, though not necessarily in connection with investing. Birdsong and ladybirds could be considered a metaphor for a more abundant state of nature. Dorothy returned to this later in her interview, considering that we should not just be looking to get back to a point which we feel more comfortable with, but be looking to achieve more than this, echoing the aspirational reference-point expressed by Jonathan:

*"…impact investing could, if the relationships between those with money and those that seek to be recipients of that funding, could be changed in a whole different kind of way, that I think opens up the opportunity not just to look backwards, to restore something to a time when there was more birdsong and more ladybirds, but actually a whole different relationship between humans…" (Dorothy:2)*

This suggests two kinds of reference-points, one which is a reversion in relation to climate action and an aspirational social reference-point. Although there is a degree of mixing reference-points in an environmental context (birdsong and ladybirds) with a social context (relationships between humans), for Dorothy these factors are intrinsically linked. In her experience, until we see the connection between environmental and social issues and the challenges to taking action on climate which inequality presents we will not achieve the changes required to meet her aspirational reference-points.

The evidence demonstrates the existence of reference-points in a non-financial domain, with that of investors supporting the interpretation of their advisers to some extent. There is limited evidence of status-quo reference-points, however this may be down to the nature of those who chose to participate in the research. Investor participants might well represent those whom Rosie saw as "visionaries"; people who can see the possibility of a world which is different from the one in which they live and are willing to take action to see this materialise.

### 5.4 Reference-dependent Frames

We have seen evidence of the phenomena of reference-points as being aspirational, status-quo and relating to historical situations. In each case the reference-point might result in different frames in the mind of the individual. In line with existing economic interpretations of reference-points we might consider that for some individuals the reference-point is the status quo (the **S** of **R/S**) in ***Figure 5.i***.

An investor who sees the status quo as their non-financial reference-point (**S**) may not wish to see the situation deteriorate below that reference-point, but may not have a particularly strong desire to achieve a positive return in that non-financial dimension; steady growth or no growth is ok, as long as it doesn't get any worse. The individual might be loss-averse: They fear losses which would result in a perception of their position as below their reference-point. However, they are not loss-framed as they do not perceive the current position as below the reference-point. Such a situation might apply to Angela.

The same cannot be said where the reference-point is based on a historic position which has been lost, as was particularly evident with Thomas in his reference to climate change and a survivable future. Thomas appears to see the current state of the world from **L**, perceiving a reference-point at **R** he feels we have fallen from and need to take action to move back toward. This aligns with Greg's perception of a *"decline of nature and the change of the environment"* (Greg:2).

If Impact investors were only experiencing historic reference-points, understanding their frames in relation to their non-financial reference-points might be considerably easier, yet this is not the case. Reference-points do not have to be based on historic data and a perception that we have fallen below where we should be; we have also seen how they might be aspirational.

From a financial perspective, an investor might have a desire for a greater level of capital but be satisfied with the level of capital they

currently have. Thus, an investor on the first day of investing might hope that their investment will grow from £100,000 to £110,000 over the coming 24 months, but would be happy with any amount greater than or equal to £100,000. They would not necessarily perceive themselves as being below a reference-point at £110,000 unless they have a particular need for £110,000 in month 24, a goal-driven aspirational reference-point. Another investor might have a reference-point for a particular level of income in retirement, against which the purchasing power of their current fund is always being assessed. Such an investor might have multiple reference-points, an aspirational reference-point in relation to their future income purchasing power and a historical reference-point in relation to their current fund level. With non-financial reference-points this may be even less straightforward, particularly in the case of inequality, an issue which is evidently a common cause for investing in Impact among participants.

If an individual perceives inequality in the world and expresses a desire to eliminate that inequality, this does not mean that they are necessarily operating in a loss-frame. They might also perceive society as having achieved a greater degree of equality than a comparator, such as the situation in another country or a historic level of inequality, which becomes the reference-point. In this case they may still want to achieve a greater degree of equality, knowing things could be worse than they are, but still wanting them to be improved. In such a situation the individual might perceive the current situation as being at **G** in ***Figure 5.i***: Things could be worse; we have made progress and can make more progress. A loss of equality from that which has been achieved would not be acceptable, beyond a certain point, suggesting that they are gain-framed in respect of the reference-point at **R**.

In this context, a status quo reference-point (**S** in ***Figure 5.i***) would imply that someone who wants a more equal society can be satisfied with the current level of inequality but doesn't want it to fall. Whilst this position would seem to be inconsistent with their perception that society can or should be more equal than it is, it could be that this is an updated reference-point based on a changing situation which has

already improved; anything less than the status quo would be a loss, anything more would be a gain.

Finally, an aspirational reference-point around inequality might mean that the individual is loss-framed, perceiving the world from **L** in respect of that reference-point: they do not perceive full equality (**R**) to have been achieved and are seeking to achieve this.

Whilst there is evidence that such implicit reference-points can be seen in the data, determining how they should be interpreted is particularly challenging. Interpretation of such reference-points along the economic lines of loss or gain-frames around that reference-point needs more information if advisers are going to take this into account when making recommendations.

Returning to the adviser data, we can see from Rosie's second interview, where she talks about clients' desires for a world with *"less exploitation"* in terms of people and planet, that there are implied reference-points around different forms of exploitation which investors might measure success against. Yet the reference-points for both might involve different frames. Exploitation in a planetary sense could involve less in the way of mineral and natural resource extraction, whilst in terms of human capital it might be about paying fairer wages. In both cases it is clear that whilst there is a desire to create change, the investor's frame in relation to that reference-point is impossible to determine from this data alone.

Joe felt that investors are looking for, *"if not redistribution of wealth, certainly redirection of capital to areas globally that require that support"* (Joe:1). This was further developed in the second interview where he considered an explicit reference-point which might exist in such a situation and how clients do not want to invest in companies which they perceive to have poor labour standards:

*"…because they used to know a different scenario. People worked in shops and had equal hours." (Joe:2)*

This highlights a historic reference-point (equal hours) in respect of a social issue, and that the current situation is below that reference-

point. Joe continues by suggesting that his clients express implicit reference-points around the issues of labour rights and women's rights, perceiving they are diminishing.

*"…[Voicing client] 'Well there are issues here in…we need to reduce the diminishing status, the present representation of either labour rights or of women's rights and such like in the workplace and I would be interested in that coming through.'*

*So those would be areas that would be there, but it's mostly in that slightly negative positioning of avoidance." (Joe:1)*

The presence of more information exposing the frame does not necessarily mean that the investor is looking to invest in a way which will *improve* labour standards, though this appears to be implied. For the majority they simply do not want to be complicit in the worsening of labour standards. Despite this, Joe expressed the belief that people investing in Impact are *"ultimately seeking change" (Joe:1),* and that change would generally be expressed as a form of improvement. This is similar to the position of Val, who felt that clients assume everything they invest in is *"trying to make an improvement" (Val:1)*. In her mind everything which happens in the ethical or SI space is about trying to stop things from getting worse than they currently are. Yet in her second interview, Val reconsidered the idea of reference-points in a non-financial dimension and the impact that these could have on how investors feel:

*"…I think that clients generally feel concerned, and our clients feel concerned and worried, and they want to fix something that they feel is broken." (Val:2)*

Whilst Val might feel that this is the case, the evidence from investors is inconclusive.

Frank didn't feel he had encountered clients whom he felt were looking to rectify problems through the use of their capital, suggesting the majority of the firm's Impact Investors might be gain-framed and looking for incremental improvements. The examples Frank shared were around developing positives such as *"more green energy"*, yet he did not perceive that clients who *"would like to see the CO2 emissions improve" (Frank:1)* might be speaking from a perspective of

perceiving emissions to be worse than they felt they should be. His interpretation is that, for the majority of investors, the intention is about not making things worse, rather than making them better. He describes the investors' approach to Impact as *"soft"*. Most are looking to exclude things they disagree with and consider that to be a positive Impact, rather than a feeling of *"it's got to do this"*, which might be limited to 10% of clients. Similarly, Nikki also felt that investors are primarily uncomfortable with their capital going to companies whose practices they disagree with, rather than looking for specific improvements.

The evidence suggests that advisers perceive the predominant aim among investors is to avoid investing in things which are not going to contribute negatively towards the issues around which they have formed reference-points and potential frames. In this there is a chance that they are talking about a wider range of sustainable and responsible investors, not just those that invest in Impact. However, this approach was evident amongst investor participants:

*"I genuinely feel quite indifferent to whether my money stops things deteriorating, or whether it fixes it back to normal... I feel both are clearly important." (Angela:2)*

Despite the framing of the question asked[43], Angela has not necessarily formed specific frames which are influencing her investment choices.

This is not uniform. Whilst some investors had formed reference-points which might influence their investment decisions, evidence of these creating distinct loss or gain frames is less apparent. Margaret demonstrated implicit reference-points concerning (in)equality and gave a response which suggested her awareness was connected with a desire for improvement rather than fixing a shortfall from a specific point:

*"…I suppose you hope to achieve that your money is improving life chances, the future." (Margaret:1)*

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[43] See Appendix 1 – Question 5I

This statement, whilst demonstrating her intent to use her financial capacity to help others and improve equality, might be interpreted as either loss or gain-framed.

We have seen that there do appear to be reference-points present in this non-financial domain and that these phenomena might, to a greater or lesser extent, influence how investors see the world. There is limited evidence of these reference-points creating loss or gain-frames around specific issues. Where investors appear to have developed loss-frames these appear to be around more measurable factors such as climate change, such as Thomas's desire to return to a survivable future. More implicit reference-points, such as that suggested by the desire to address inequality, do not seem to form explicit frames. This might be because the reference-point is constantly being updated to reflect the current level of inequality. The presence of loss or gain-frames is less certain in the non-financial domain than it is in the financial domain, yet there is still evidence that investors want to use their money to help create change in some way. Rather than wanting to see a specific non-financial return which will help revert a situation to a particular level, the desire among retail investors appears to be more generalised and less specific, even to the point of indifference as to whether this is about preventing further deterioration or implementing a solution to fix a problem.

Although there was limited evidence of explicit cognitive frames, the presence of reference-points and the evidence from both advisers and investors appears to show that investors are expressing themselves in a way which is loss-averse in respect of their non-financial reference-points. This is more evident in the advisers' perception of the investors' position than it is from the investors themselves. In the main, it appears that investors don't want to be involved in things getting worse than they already are. They experience non-financial factors in a way which corresponds to a value-function (see ***Figure 5.i***).

### 5.5 Framing of Advice

In line with the idea that reference-points might be developed by investors with a greater knowledge and experience of particular issues, we might consider that advisers themselves are going to be subject to the same influences. If Impact or SI in general is their focus, their own reference-points might well be influenced by exposure to relevant information.

Advisers are aware of problems such as climate change and inequality, things which might be addressed through the use of investors' capital. As was suggested by the following contribution from Pam, they might think about these in the financial domain:

> *"…It's something that has somehow gone wrong. …money is something that has caused the harm. Therefore, money should be used to undo the harm." (Pam:2)*

> *"…we might think in terms of, like money becoming this big band aid that we put over the face of the broken earth" (Pam:2)*

Putting aside implicit reference-points around harm and a broken earth, we can see how wider world issues are connected to finance: Metaphorically, money becomes something which can help heal the injuries which have been inflicted on the world. Systematic issues are being framed as something money can solve [AGENCY][44].

Pam hinted at her own reference-points when taking about retirement: "*assuming there's still a planet we can all live on" (Pam:1)*, aligning with the implicit reference-point of a survivable future expressed by Thomas. Similarly, Greg appears to be aware of his own frames:

> *"I do worry intensely about the future for myself, for my children, and I don't know whether we're going to be successful or not, but I want to at least have contributed towards some solutions." (Greg:2)*

Here the idea that he wants to have contributed towards *solutions* which would help address an issue, a problem to be solved, suggests he may be loss-framed.

[44] See Chapter 6 for discussion of this and other metaphors in more detail.

The concerns of advisers could manifest in a variety of ways; investing client money responsibly might make them feel better. It might also help them address problems they are more aware of because of their exposure to awareness-forming information.

*"…I know clients want it, and I know the world needs it…" (Val:2)*

That Val sees the world as *needing* this investment implies that there is a need to be fulfilled, suggesting her own frame. This is also implied by her transforming the response to question 5[45] from "deteriorating" to "disintegrating".

For Ken this is extended to how he manages investors' capital:

*"…the ludicrous idea that you would contribute to the destruction of humanity as part of your saving strategy…" (Ken:1)*

If advisers are seeing the world as broken, or humanity as in danger of being destroyed, this might have an impact on how they give advice and the language they use. Whilst they might not employ precisely the same language with clients as in these interviews, there is evidence this is not far removed from how decisions are framed.

One adviser led his client discussions with a particularly acute phrase:

*"Do you want to kill people for money?" (Adviser[46])*

However, they noted in their second interview that they had been exploring different wordings with their clients following the initial interview, as they recognised how this could be influencing the way clients perceived the investment choice. The power of this phrase was highlighted by their recollection that one client wanted to ensure their investments were not used to fund terrorism. Whilst such a preference is likely to apply to all investors, not to mention that funding terrorism is illegal, the initial question *creates a frame* in which they consider how their money might be used to kill people. The client's response is

[45] Appendix 1 – Q5A

[46] As noted in Chapter 4, certain phrases have been considered "keystone" phrases which might be used to identify certain adviser participants in the research. As such these are included but without attribution in order to preserve anonymity for their other responses. In each case the adviser was contacted and their permission sought to use the identifying phrases in the completed analysis.

far from the adviser's intention to encourage investing responsibly, in line with Strauß (2021).

Other advisers don't go quite as far, though the language they use still creates frames which might influence how investors see the relationship between their money and non-financial returns.

*"…we invite our clients to 'green it up or grubby it down'… (Adviser)*

The choice of words carries a couple of metaphors widely used in finance and sustainability. The metaphor GOOD IS UP (Lakoff and Johnson, 1980) is commonly used in financial discussions because of the connection to rises in share prices or indexes. So "Greening up" means to make it greener, or perhaps less not-green, to improve the overall environmental characteristics of the investment. This is subtly different to the title of the landmark HM Government paper "Greening Finance" (HM Treasury, 2021). The use of "up" implies that making the portfolio greener is better (GOOD IS UP) than the alternative. When contrasted with "grubby down" the image is complete; a green portfolio is clean, the alternative is dirty. In this case the use of the language is intentional; if a client does not embrace this way of thinking then they might not be the right fit for the firm, something which is common to other adviser participants.

*"Make your money change your world." (Adviser)*

This phrase was used to describe how they see the advice they give to clients, and is so important to their way of thinking that they made it their business strapline. The double meaning is quite clear; not only can the client's money have an impact on them financially, it can change the world [AGENCY][47]. Whilst this might not have quite the same intent as the previous phrases discussed, the belief that money can change the world, and that it might need to be changed, might be created in the mind of the investor.

We have seen that there are difficulties in establishing the reference-dependent frames which exist for investors, however the activities of

[47] See Chapter 6 for discussion of this and other metaphors in more detail.

advisers might still make those frames more apparent in their discussion of Impact Investing. A generally climate-aware investor might not have a strong connection to a reference-point, however if their adviser highlights a particular frame this could have implications on their decision-making. As Nikki stated:

*"…you almost start pushing them into that frame of starting to think;*

[Voicing Client] *'Is that an issue? How do I feel about that in general? How do I feel about the environment, about the climate, about the social issues, about… what are my thoughts on it?'…" (Nikki:2)*

Advisers do not necessarily impose a frame on a client, but through asking specific questions they can encourage thinking in a particular way. Whilst this might not be as forceful as the idea of killing people for money, it still has an impact on the way clients think about investing.

The framing of the term *"Zeitgeist risk" (Adviser)* is a further example of this. Here the suggestion is that the investor who does not invest sustainably risks being on the wrong side of history. Yet whilst this might be seen as influencing a client, the clients themselves are creating similar frames:

*"A sense of wanting to be on the side of the future, not on the side of the ones that are stacking up their money…" (Dorothy:2)*

Being on the right side of history is also reference dependent: It posits a paradigm shift after which living and investing in a particular way become the norm.

This type of paradigm shift is central to the way in which some advisers conceive of Impact Investing. Rather than being part of a values-based decision-making process where the investor expresses a preference for investing in Impact, it is part of a standard investment portfolio. For Ken and Greg in particular, the "new normal" for investing is one in which addressing climate change as a core component of the investment strategy.

*"…something which I call 'traditional investing', which takes no account of sustainability and then impact or sustainable investing is presented as a moral outlier choice.*

*‘Well’, we said, ‘hang on a minute, if the Paris Accord says we must try and limit global warming to 1.5°C or we're in big trouble, and if something like 196 countries around the world have got together and agreed that that is the stated aim of the future of the global economy, then surely that is the default way of investing?’ ” (Greg:1)*

Flipping the traditional framing, which places a non-SI approach as the default and which places clients with social, ethical or environmental concerns as outliers requiring special treatment, may change the perception of SI. It becomes the core of the proposition. Both Ken and Greg use this framing and position the decision to invest in Impact as a component of an integrated SI strategy. Impact is not something which is selected by those who have a preference but something deselected by those who do not, people who are unlikely to become clients of their firms.

Indeed, Greg felt that in general clients aren’t thinking that deeply about it and are not particularly interested in sustainability or the impact of their investments; they just want their adviser to provide them with the best advice. They *“outsource that decision”* to the adviser because they trust them, something which aligns closely with the work of Engelmann (2009).

*“That's where I'm going to put them for good investment reasons as much as good ethical reasons…I don’t care if you’re a petrol head, I think it is in your financial best interest to be invested that way”*

*“…Clients aren’t deliberately opting into sustainability. That’s just what they get as a default.” (Greg:1)*

Whilst not all SIs are Impact Investments, in Greg’s case they are interconnected. Like Ken, his investment process is one which blends forms of SI together, including Impact. All clients of the firm are therefore investors in Impact, to some degree. Over time, he believes that this will produce better returns both financially and for the planet. It is not just about doing good, it is also the right financial decision to make.

Whilst these changes in framing place clients who want to invest in Impact, or just sustainably, at the heart of the advice process, some aspects of this reframing might be considered putting pressure on

clients to conform to a particular perspective, regardless of whether it is in their best interests to do so. In line with Sunstein (2014), nudging should be used responsibly. Not all advisers see investing in Impact in such an integrated way.

If an adviser assumes a sustainable default and asks whether the investor has any anti-social, unethical, irresponsible or unsustainable views which should be taken into account in portfolio design, such a change in framing might result in higher participation in SI than a traditional unsustainable default. This is corroborated by Greg who noted that in excess of 80% of clients stick with the sustainable solution proposed.

*"…very few people particularly want to do things irresponsibly…"*
*(Greg:1)*

This aligns with Thaler and Benartzi (2004) and Strauß (2021): If you point out to people that a course of action is in some way irresponsible, they are unlikely to pursue it, given an alternative. This is more than paternalistic nudging (Sunstein, 2014).

Whether this is a direct result of the change in framing though is not clear. By being open about the firm's approach it may be that clients are self-selecting at a firm level because they share a similar view on climate, or they may be convinced by the economic argument that their future financial security is improved through SI. Indeed, Greg noted that clients who want to follow a particular oil company are unlikely to remain clients of the firm.

In this they are not alone. For Rosie, Impact, or SI in general, must be something which people believe in. If they don't agree:

*"…I don't think you're going to come round to this way of thinking. And so therefore… I don't think I'm the best advisor for you."*
*(Rosie:1)*

To Rosie, Impact investors are people who indicate this is how they would like to invest as part of the initial discussion, something they *"had in mind when they came" (Rosie:1)*. This is not always the case

and there is evidence of framing of the advice here too. Rosie is aware that conversations relate to her own perspective:

*"…I'd always talk to him about my experiences, my views, my offering" (Rosie:1)*

Rosie is aware that her own views influence the discussion, at least to a certain extent. This is something she finds rewarding:

*"I also really enjoy it when I open up a whole new world to people who are amenable to that way of thinking" (Rosie:1)*

Care should be taken not to read into this a framing which is not present; the opening up of this *"whole new world"* might be demonstration that this type of investing is possible. Nevertheless, this relates to people who have *"…already got it in them that they want to do good…" (Rosie:1)*.

Rosie acknowledges that there are people who aren't ready for this type of investing, something which might be related to experience. People need to be familiar with investing before they can be expected to understand the idea of investing for, or with, a component of non-financial return. This process of developing understanding takes time:

*"…Sometimes they're a nice person despite the fact they don't give a damn about people or the planet. And I still think that I can help them and I can still work with them and I and I think perhaps there's hope down the line that they can make a better choice.…" (Rosie:1).*

Whilst Rosie hopes to open-up the investor to a particular way of thinking, there is no pressure to adopt a particular approach.

These examples all demonstrate the extent to which the relationship between adviser and client is important. Not only do advisers acknowledge they bring their own perspective to the advice process but also if there is no chance of the investor aligning with that perspective they won't work with them. People want advice *"that they're prepared to follow" (Greg:1)*.

For Frank it appears that the investments having a *"positive impact"* is something which is set by the clients themselves. Frank sees the frame as set by the client, not received from the adviser. The tendency

is for clients to express a preference in the form of something they would like, rather than something more definite.

The desire for Impact expressed to Frank is vague rather than specific. He discussed how he uses an Impact "calculator" from an investment management firm which shows what a portfolio invested through them "does" in relation to the SDGs. The result is a foregone conclusion; the investor's response is [Voicing Client] *"Oh yeah, that's what I want." (Frank:2)*. Whether intentionally or otherwise, the extent of the potential Impact has been shaped by the adviser's choice of tool and presentation of information. Indeed, it is worth pointing out at this stage this is not being described as a formal recommendation for an investment suitable for the client's particular needs and objectives, but rather the objectives might be shaped by the adviser's presentation. The investor knows they want to *"do something good"* but they don't know what. They are *"hoping we're going to give them the answer" (Frank:2)*.

Frank also provides further evidence of the need for compatibility between client and adviser; the client chooses the adviser rather than individual investments. Clients demonstrate that it is an adviser who aligns with their personal preferences which is important to them. The company makes its philanthropic activities part of its marketing and this could well set the frame before the client has even stepped foot in the door. This is not supposition: Frank highlighted that clients have approached the firm because of their community work. This too could set the frame that an adviser's responsibility extends further than just making money for the client, a stakeholder approach to capitalism (Schaefer, 2008) made manifest; something which might influence what prospective clients feel compelled to discuss when considering their objectives.

Joe sees a *"…trend toward the positivity of money…" (Joe:1)* which, in context, suggests a growth in the ability of money to create change rather than people being happy about money, or having it. For Joe the role of the adviser can be as much about coaching people to understand what can and can't be done. Clients present with the

intention or desire to achieve systemic change, something which Joe has seen become progressively more common over the last 10 years: Clients have a *“hunger”* for money to *“actually do something” (Joe:1).*

In Joe’s experience, clients will speak in generic terms about things they want to support but he does not see them being specific about organisations or outcomes they want to focus on. Rather, it is about broader issues; *“things that they perceive as good” (Joe:1)*. This can be contrasted with their opinions when it comes to things they don’t want to invest in, which tend to be more specific. This appears to be connected to how investing makes them feel:

> *“There are still many clients who just still want to shield themselves from involvement in things which cause them trauma.” (Joe:2)*

This was corroborated with investor participant responses where there were expressions of discomfort around having money, exploitation of investor values by the investment management industry and a negative impression of multinational corporations. Whether this should be described as trauma is open to interpretation, however these issues are clearly of importance.

The investment management industry manipulating investors was something Joe perceived and returned to throughout his interviews. Contrasting with Frank’s use of the Impact calculator, Joe noted that people don’t frame things in terms of the SDGs; this is framing of non-financial outcomes driven entirely by industry. A client’s aims might be aligned, but in the same way that Frank notes they aren’t going to come in asking for Impact, Joe feels they aren’t looking for links to the SDGs. Rather than the vague desire for Impact seen by Frank, Joe sees clients raising specifics. Whilst this may be as a result of differences in their clientele, it might equally be about framing. Asking a client *“What are your concerns?” (Joe:2)* might suggest that there are things about which they should be concerned.

### 5.6 Investor Responses to Framing

We have seen how advisers perceive clients and their reference-points and how they may be framing the decision to invest in Impact, not

always intentionally. Investors might be aware of this framing; they are seeking someone they can trust to guide them [JOURNEY][48].

The development of the FCA Sustainability Labels (FCA, 2023a) is likely to increase the use of "Impact" as a concept in the retail investment market, through the implementation of the "Sustainability Impact" label, yet even where people are investing in Impact this is not the language they report advisers using:

*"I don't think anybody has ever used the language of are you interested in Impact Investing" (Dorothy:1)*

At present there is no express statement around whether someone wants to invest in Impact but rather some other mechanism is needed to establish this. This could be the framing of Bill, gently steering a client in a particular direction, or of Greg and Ken establishing a particular frame in which Impact is part of a wider SI strategy. Either way, it is not an explicit choice to invest in Impact Investments, but to invest in a way which delivers the outcomes that the client seeks, financial and non-financial.

For investors though, investing in Impact is just something which forms part of the wider integration of their investments with their personal values:

*"…repairing stuff came natural to me from a child. …so investing was just another stream: 'Let's do that as well.'" (Oliver:1)*

Rather than specifically seeking Impact, Oliver sees this as being something which aligns with other aspects of who he is. It is not necessarily seen as being the right thing to do financially, morally or ethically.

Investors were also aware that they might receive frames from their advisers. In Thomas's case he was very open about how he might willingly accept such a frame which if offered:

[48] See Chapter 6 for discussion of this and other metaphors in more detail.

*“…if I’m not given any information or any such reference-point, I will probably form a concept of one. Yeah, if one is suggested implicitly or explicitly to me, then I will probably use that.” (Thomas:2)*

We know that people will operate with the frames given to them (Kahneman and Tversky, 1979; Lakoff, 2004; Sunstein, 2014). As with many adviser-client relationships, trust is an important factor (Engelmann, 2009; Elkington, 2024). We have already seen evidence investors are selecting the adviser rather than the investments, and in some cases the adviser is actively choosing to work with people willing to accept their approach. The closeness of this relationship is expressed by Oliver in how he and his adviser see this as a joint endeavour:

*“…I’m certain that both of our intentions are to improve things...” (Oliver:1)*

This suggests a case of ‘your frame is my frame’ in some advisory relationships. The investor is not necessarily forming their own opinion; they are relying on the adviser to guide them through this process and, to a certain extent, make the decisions for them [JOURNEY]. Indeed, clients are, to a greater or lesser extent, reliant on their advisers to do the work for them, and are aware of this: It is what the adviser is being paid for.

*“…I haven't gone out searching for Impact Investment opportunities because having a financial advisor. That's his job, basically.” (Margaret:1)*

The importance of the adviser is vital, yet we will see in Chapter 7 that investors regularly go outside of this relationship to access some types of Impact Investment. However, Margaret readily admits there is no *“great logical background”* (Margaret:1) to how she has chosen to explore the market. This flies in the face of the training which financial planners receive: All parts of the portfolio should have a job to do and be the right thing to do that job. If this is not how investing is being carried out, we need to understand why.

### 5.7 Conclusions

Advisers are keen to work with clients who understand them and the way they work. They might encourage clients to self-select, setting out clear parameters as to the type of work they do and who they work with, making it clear about the type of people they want to advise, a clear Target Market, in line with regulation (FCA, 2018c). They could also be more open to working with others whom they feel have the potential to align with their values over time, encouraging people to find new ways of thinking about how their investments might be more sustainable. Indeed, Impact Investing can be seen as both something which aligns with a more generalised SI strategy, but it is also something which can be used to help clients make changes in areas which are important to them.

The evidence from advisers suggests that there are two fundamental ways of looking at advised investing in Impact: Preference and Paradigm. These two framings can have a significant impact on how people see their investments and the approach used by advisers in discussing Impact. Advisers who see this as relating to a new paradigm see Impact as part of a wider SI strategy, whilst other advisers might see this as a way of allowing investors to explore and implement a strategy more closely aligned with their preferences. These framings are not exclusive. An investor might be able to explore a more preference-based approach through an adviser with whom Impact Investing is part of the new paradigm. These alternative framings may have an influence on the different Interpretations of Impact, which we will explore in Chapter 7.

Advisers have the power to frame (Druckman, 2001; Sunstein, 2014). The evidence presented demonstrates how certain questions, and how advisers market or describe their business, might trigger frames in clients regarding the way they approach the connection of their financial affairs to wider social or environmental issues. The use of framing can have different effects, it might encourage people to think more openly about the climate or social issues and how these relate to their investments, yet it could also raise awareness. This might be

a good thing if people are to be encouraged to take action (Strauβ, 2021), yet risks being paternalistic (Sunstein, 2014). As was seen with the clients who wanted to avoid investing in terrorism, framing can have unexpected consequences advisers need to consider. The framing of issues, particularly climate change, as not only socio-environmental problems but ones which might impact personal financial wellbeing is not incorrect but might encourage feelings of trauma and discomfort which need to be manged.

Frames and framing used by advisers are particularly important when we consider that investors do not necessarily know what they want from their investments by way of non-financial returns. Whilst some investors will have strong opinions, resulting in specific non-financial reference-points, which driving a desire to make a difference, such explicit reference-points are rare. Explicit reference-points might be driven by external influences, such as the 1.5°C of the Paris Climate Agreement (UN, 2015b), yet the investments investors are able to access may not have any power to deliver relevant change. Reference-points in a non-financial domain are much more likely to be implicit and relate to climate change in general or broad social issues such as inequality or homelessness.

Implicit reference-points appear more likely to manifest in a generalised feeling that the individual wants to do something positive with their money, or a discomfort about having money. This does not mean that investors do not have cognitive frames in a non-financial dimension, but rather that they appear to be less defined than they might be when we consider them in economic or financial terms. Reference-points might represent an expectation of where an investor believes the world or society *should* be, based on a higher degree of understanding of a subject, a stronger opinion, or even just a general malaise regarding the state of the world. There is a greater degree of discomfort and dissatisfaction because they *feel* that they are not at their reference-point. The implication is that those who are in a position to have a loss frame are loss-framed, they feel that they need to fix something, those who have no idea are gain-framed, they want to see

some form of improvement. Regardless of whether they are loss or gain framed they are loss-averse, they don't want things to become worse than they believe they already are.

It is clear investors need advice, particularly advice which understands different frames and loss-aversion in a non-financial dimension. Advice can help people understand that this type of investing exists or, for those who are already aware, to identify what it is they want to direct their capital towards. As we will see in Chapters 6-8, if investors are unable to achieve what they want through their advised investments they will look elsewhere. Advisers need the tools to help people achieve the non-financial outcomes they are looking for.

# Chapter 6: Metaphors in Advised Impact Investing

## 6.1 Introduction

In developing an understanding of financial advice on Impact Investing, exploring the metaphors[49] used by participants is valuable in enabling us to see how they are constructing meaning within phenomena (Smith et al., 2009).

We have already seen how metaphors were used by participants to express frames and how they might be used in framing information concerning Impact Investments in terms of reference-points, whether implicit or explicit. In the process of analysis however it was clear that there were diverse metaphors used by participants in interviews. These metaphors did not necessarily demonstrate frames but were nevertheless instrumental in understanding participants' experiences of Impact Investment advice.

In keeping with the abductive approach, examination of these metaphors required further exploration of the literature, detailed in Chapter 2.4, as these metaphors demonstrated different framing from that which has already been discussed. This chapter, drawing on the work of Lakoff and Johnson (1980), will provide some additional clarity around the framing which participants use in relation to advised Impact Investing.

Reflecting the process of discovery, the analysis of metaphor presented here is set apart from the wider analysis of the interview data and examined thematically in line with the TA process of Braun and Clarke (2006, 2013 and 2022). This is partly because of the volume of codes the examination of metaphors created. Despite this, the analysis should not be considered as inconsequential or superfluous when we consider the other themes which have been uncovered in the wider analysis. Metaphors examined here contribute

[49] In the context of this analysis, idiom has been included.

significantly to the wider understanding of Impact investor decision-making.

## 6.2 Identifying metaphors

In order to maximise the opportunity to identify which metaphors were engaged by participants, coding was carried out without a specific code book and codes were allowed to develop naturally. Whilst this approach enables flexibility, it is dependent on a single interpretation of the language used by each participant. Whilst metaphor enables us to convey meaning, the meaning constructed by the interpreter will be unique and based on their own world view. Thus, the idiom *"…the writing's on the wall…" (Bill:1)* is something I interpret through reference to Daniel 5:5-29. To me, the idiom evokes an idea of divine judgment. The same passage interpreted by another may not have the same meaning[50].

Initial coding produced a total of 56 different codes, shown below in ***Figure 6.i***. These codes were recorded in 548 different instances across all interviews. Some participants were much more elaborate in their use of metaphor than others: Greg had by far the highest number of codes recorded, whilst Angela barely used metaphor.

[50] The phrase is used in a song by British singer Sam Smith though he appears unaware of any religious connection, the phrase having become part of the common idiom of the English language.

***Figure 6.i: Ungrouped Metaphor***

To understand the wide variety of metaphors and metaphorical expressions used, these were collected in groups (***Figure 6.ii***). In some cases, these were based on natural associations; ‘Money has Form’ naturally associates with ‘Investments are Built’, in that the process of building implies some form of substance. Similarly, though less easily aligned, is the metaphor that money has ‘direction’. Once again, this has been linked to the idea of money having ‘form’, though could also be associated with the idea of ‘Advice is a Journey’. Both the idea of investments being built and them having form and structure were associated with the idea that money itself has a form of ‘agency’, that it is capable of doing things in the world. Similar connections were made between other metaphors, as can be seen in ***Figure 6.ii***.

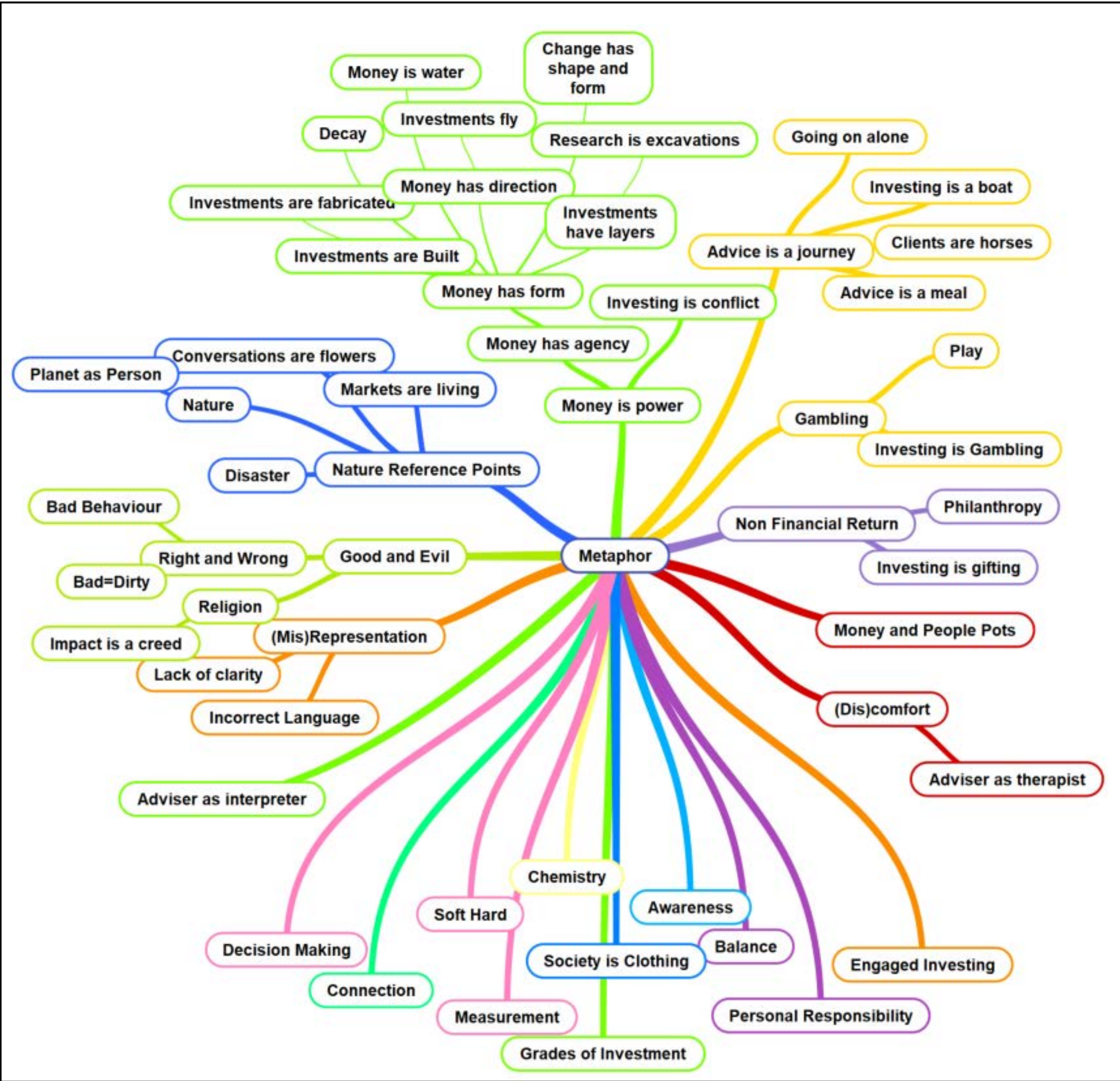


*Figure 6.ii: Metaphor Groupings*

From the groupings, it was evident that there were metaphorical themes present in the data (***Figure 6.iii***). Whilst these encapsulated a substantial part of the overall metaphorical content, not all appeared to fit within the broader themes identified. In some cases this was due to a stray metaphor wandering into the conversation. Where there were insufficient references to enable meaningful cross-case analysis these were set aside in developing themes, though some unique metaphors have been used elsewhere in the wider analysis, such as the opening quote in Chapter 5.

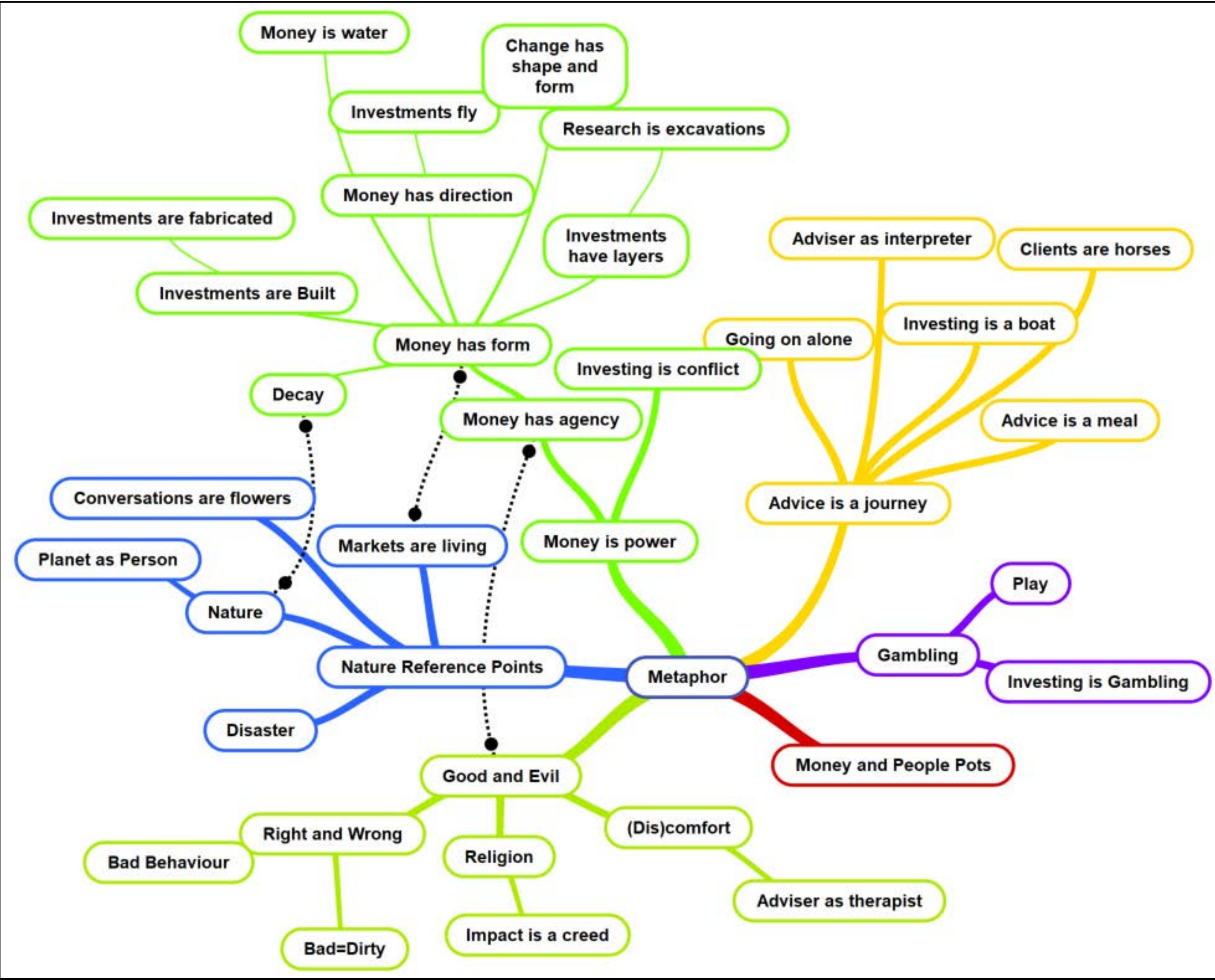


*Figure 6.iii: Metaphor Theme Identification*

Having grouped together the metaphors it became apparent that some of these themes were strong enough to merit analysis, to demonstrate their coherence in the understanding of participants interpretations.

The metaphor ‘Money has Agency’ has been selected over ‘Money is Power’ as this is the dominant metaphor of the two in the data with 30 references across 19 interviews; Money is Power is present only twice. Within this theme are also grouped those metaphors relating to money having some sense of form or flow, though these aspects of money appear less helpful in understanding the advice process and more illustrative of participants ascribing particular characteristics to money.

‘Good and Evil’ encapsulates the issues of Good and Evil, Right and Wrong but also the idea of a conflict between ideals, incorporating aspects of moral and religious metaphors. It is the binary nature of the language used which suggests the metaphor here; participants are describing a conflict expressed using these terms. After much consideration I felt that ‘Investing is Conflict’ would be the most appropriate label for this theme.

There is a clear connection between money having agency and the references to conflict in the data, which will be borne out in the analysis. I have not taken this to mean that one is a sub-theme of the other. For someone to see their finances as being part of a conflict they do not necessarily need to see money as having agency in itself, they might see money as a tool, or something which is given to companies engaged in that conflict. However, the more time I spent with the data the more I saw a deeper connection between the idea of a conflict and the idea of money having agency coming to the fore.

The other themes identified, those of ‘Advice is a Journey’ and ‘Gambling’ were strongly represented in the data. Both of which show influence over the approach to Impact Investing. The final themes are shown in ***Figure 6.iv***.

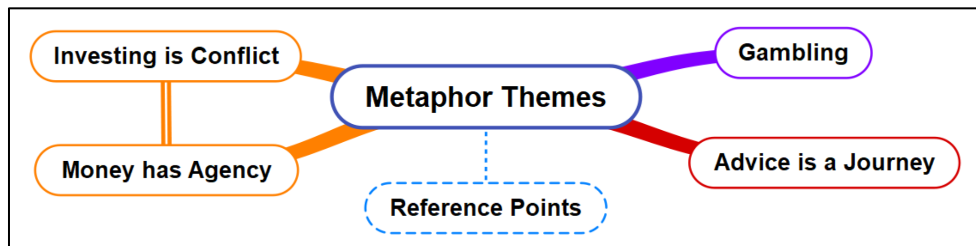


***Figure 6.iv: Metaphor Themes***

For simplicity, reading clockwise from the top right in ***Figure 6.iv*** (excluding 'Reference Points'), these are referred to as GAMBLING, JOURNEY, AGENCY and CONFLICT in the sections which follow[51]. Borrowing a convention established by Lakoff and Johnson (1980) these are capitalised in the text to help identification. In the following sections, relevant words relating to each metaphor will be shown in bold in participant quotes to assist the reader, this does not indicate emphasis in the original speech.

In the analysis I have attempted to follow the guidance of Smith et al. (2009) in the presentation of the data. Not all instances of each metaphor are given, and I have attempted to present the data in such a way as to present a coherent impression without overquoting the participants while giving voice to each. I have also reflected that not all instances of language usage necessarily represent metaphor. Whilst the origin of a word might be connected to a particular usage there is a need to question whether or not its use in a given context has the necessary intent to make it an expression of metaphor. For example, not all language which uses the language of gambling is necessarily evoking a gambling metaphor:

*"…I could see the **coin flipping**…" (Larry:2)*

This isn't a gambling metaphor, but a potentially confusing use of imagery to describe a change in perspective.

[51] Some references to these have also been noted in Chapter 5.

### 6.3 Advice is a JOURNEY

Lakoff and Johnson (1980) discuss the use of the JOURNEY metaphor extensively, seeing the application of this metaphor in a wide range of settings, the most notable being their assertion that LOVE IS A JOURNEY. They note that JOURNEY has *"…no single consistent image…"* (Lakoff and Johnson, 1980:45). In the data we can see that the expression of JOURNEY comes in many different forms but is characterised by repeated references to *leading* and *following*.

The use of JOURNEY is relevant to the deeper understanding of financial advice in general and it could be considered part of the common idiom of financial advice. Advisers provide a *route* to markets, they are *gatekeepers*, they lead, and where the adviser *leads* the investor will *follow*. In the context of financial advice for Impact Investing this shared JOURNEY may take on additional significance, the adviser is both *navigator* and *expedition leader*:

*"…people will just **go along with**…" (Greg:1)*

*"…**led** by us…" (Frank:2)*

*"…**open up a whole new world** to people…" (Rosie:1)*

JOURNEY is not confined to advisers, with shared language being used by investors in the description of their own experiences of the advice relationship.

*"…People that help **guide** our investments…" (Dorothy:1)*

*"…I haven't **gone out searching** for Impact Investment opportunities…" (Margaret:1)*

Where this metaphor becomes more meaningful in the context of Impact Investing is the evidence of a metaphorical point at which advisers can go no further. This is particularly evident in the words of Joe, Pam and Val, all of whom have previously advised on direct Impact Investments but who feel unable to do so due to regulatory or insurance pressures.

*“…it’s not easy to **flag a route** for them…” (Joe:1)*

*“…we should be doing more of **a signposting role**.” (Val:1)*

The role of the adviser switches from being the leader, taking an active role in the journey, to someone who is reduced to the passive role of “signposting” where they previously led the client. This change of role is highlighted by a use of the idea of the adviser as gatekeeper by Val. Whilst the use of *gatekeeper* is common parlance to refer to advisers as being intermediaries between clients and the market, this is consistent with JOURNEY; the investor is seeking to pass through a gate the adviser controls. With some forms of Impact Investments, the adviser is not opening the gate but may be holding it shut, or allowing the client to pass through only on their own, without a guide. Reflecting on the changes in the profession, Val noted that even signposting has become less of a priority, with the adviser even further removed from those investments which are directly impactful:

*“…we're having to do less **signposting** because it's shifted now towards people understanding that they kind of have to do that themselves…” (Val:1)*

For investors to understand they must do this themselves, there is need for advisers to have told them this is the case. Whilst they might *now* be aware that the adviser can only signpost them to available and potentially appropriate platforms or portals as Val suggests, this is not something which can be known a priori.

Pam sees barriers on the JOURNEY, however she interprets these as something there to aid consumer protection. These are barriers *to the client* rather than a barrier which prevents the adviser going in that direction. The move away from directly impactful investments to those with improved liquidity or risk characteristics is a way of breaking down those barriers:

*“…making it more **accessible**…” (Pam:1)*

The imagery evoked by Pam and Val is that barriers exist, clients might be willing to break through them if they want to, but this is territory where the adviser cannot, or is unwilling to go. Despite this reluctance

to be drawn in to giving advice on direct Impact Investments, the perception of the investor remains that of being advised, even if it is not in a formal capacity:

*"…**steering me** towards those things…" (Thomas:1)*

The language used by Thomas is reflective of the signposting described by Val, though he still sees the adviser as having guided him, *steering* him in a particular direction. It suggests the adviser is somewhat removed from the process of selecting the investment, in contrast to where they are *leading* the process. With direct Impact Investments the client is taking point:

*"…I'm more **at the front** of the process…" (Thomas:2)*

In the case of his self-directed Impact portfolio, Thomas is the leader on this JOURNEY. He cannot trust someone else to lead him in the right direction. This contrasts with his wider portfolio in which he takes very little direct interest as he trusts his adviser will be doing their job properly. He acknowledges that the investments contained in his wider portfolio are not things he would be interested in, nor could he comprehend the complexity involved. This contrasts with his use of *"gut instinct"* where his Impact Investments are concerned.

*"…one at some level chooses to give one's trust to trusting the gut instinct…" (Thomas:2)*

This raises some significant implications regarding the barriers placed in the investor's way. If they do not have the interest or comprehension to understand more accessible investments, they are relying on a much less analytical approach to deciding on how to invest the more impactful, and arguably more complex, part of their portfolio.

In line with Lakoff and Johnson (1980) the advice JOURNEY is not necessarily one on land: Nautical metaphors appeared in more than one interview. Whilst these might have been expected from one keen sailor, others demonstrate both the pervasive nature of nautical metaphors in the English language (OUP, 2014) but also the similarity of applicable lenses.

*"…found a **safe haven**…" (Joe:1)*

This *"safe haven"* suggests that other investments might be unsafe in some way, given that this metaphor might stem from the concept of a safe port in a storm. In context, the lack of safety (risk) is not primarily a financial risk, but risk that the investment will not achieve his non-financial objectives. It shares a striking similarity with the advert for Metropolitan Life referenced by McQuarrie and Statman (2016), despite the alternative perspective.

The JOURNEY does not only apply to the process of advice or choosing investments but is seen as symbolic of life in general, in line with Lakoff and Johnson (1980). JOURNEY appears to be commonplace in Impact Investing advice and may be part of the common language of financial advice. This would benefit from wider investigation, though it is outside the scope of this study. Within the remit of this investigation however, we have seen how the language of JOURNEY helps shape interpretation of giving and receiving advice on Impact Investments, by practitioners and investors alike. The idea that the adviser leads the client on the JOURNEY but that there are places where the client must venture alone is of considerable importance.

### 6.4 GAMBLING

GAMBLING metaphors are part of common usage, with Lakoff and Johnson referring to "LIFE IS A GAMBLING GAME" (Lakoff and Johnson, 1980:51), though the key metaphors identified here do not form part of their example lexicon. GAMBLING is by no means universal for participants though, with 16 references across 10 interviews. Despite this, the importance of this metaphor in understanding the approach taken by some clients and their advisers will become more apparent in the wider analysis of risk-taking in Chapter 8.

Use of GAMBLING was particularly prevalent for Val, with corroboration from Joe, Rosie, Greg and Larry, though not everyone was willing to use this language when discussing this type of investing.

*“…They're already taking a little bit of a… **not a gamble, a risk**, on the type of investing.” (Rosie:1)*

In context, it can be seen that Rosie is choosing her words carefully; she might have been about to use gambling as her description of risk, but stopped herself from doing so. Indeed, this might be due to a perception of gambling as something socially unacceptable, at least in the context of making financial decisions. Reflecting Heidegger, McQuarrie and Statman (2016) see the interpretation of concepts as being situated in their history:

*…the meaning of investing, or any consumer good, may change. For example, Humphreys (2010) showed how gambling changed its meaning in the latter half of the 20th century to become more positive. (McQuarrie and Statman, 2016:244)*

Humphreys’ work shows that the language of gambling can be framed as something positive, associated with the opportunity for wealth generation (Humphreys, 2010). Whilst gambling may have positive associations in US news-media for its revenue-raising power and scope for bringing wealth to impoverished communities, it would seem it is not seen in the same light when considering financial planning decisions in the UK.

One metaphor which appeared across multiple interviews was that of the *buy in*. Given the context of investing this might be considered in terms of buying in to a business, such as buying shares. However, the *“buy in”* is also used to describe the stake which gamblers make to join a game.

*“…**buy in** to our philosophy…” (Greg:1)*

In each case the adviser could have said ‘believe’, yet they have chosen a metaphor to communicate something more than this. Through the use of *buy in* we can see the investor believes in the philosophy or concept sufficiently strongly to join the game. We are fortunate that Dorothy used the same terminology in her interview. Oliver didn’t use precisely the same words, though his use of *chip in* has similar meaning.

*“…if enough of us* ***chip in*** *our financial investing, away from these companies…” (Oliver:2)*

*Chip in* relates to poker and the casting in of poker chips to be part of the pot. Although it does not seem that he sought to draw attention to the idea of gambling, the image created is everyone betting *against* companies who are doing things they don’t like. In the context of Impact Investing this demonstrates that his interpretation is one where Impact is not only measurable Impact in a positive direction but also action against those having a negative Impact. Given that to buy or chip in is part of common speech, the use of this language by participants is not a particularly strong reflection of Impact Investing as a form of gamble, and may be the weakest of all the gambling metaphors used by participants.

The use of the term *“punt”* in this context has a much stronger association and there is a real sense from participants that they see certain investments as a form of gambling.

*“…Retail clients are willing sometimes to just* ***take a punt on*** *something…” (Val:1)*

In this case, Val was discussing how retail investors, unlike their institutional counterparts, are often willing to risk their capital for a social outcome. When this was discussed in the second interview, Val used language which is less overt, yet which still maintains the metaphor.

*[Voicing client] “…willing to* ***risk my money on*** *that…” (Val:2)*

She sees investors as saying they are prepared to risk their money “*on”* rather than *in* something: We invest *in* something, we gamble or bet *on* an outcome. Although use of *“take a punt”* was only present for Val in the adviser set, it was shared by two investors, Dorothy and Thomas; their language use is similar to that suggested by Val.

Dorothy might be prepared to put her money into something and risk all of it in the hope that this would achieve the non-financial outcomes she is looking for. Not only might she “*take a punt”*, it is *worth* risking her money. Her usage was clarified in the second interview, where she

stepped back from the use of *“punt”*. This may reflect the perceived unacceptability of using GAMBLING noted in Rosie. Dorothy agreed with a suggested interpretation that her willingness to take the risk might be because she is close to the investments: The knowledge that the money is being used to help make a difference makes the risk worthwhile.

Likewise for Thomas, he clarified that his risk-taking behaviour is not because he wants to make significant *financial* gains from these investments, he does not think that they are going to make “*a load*” of money, or that it will be the “*next big thing*”. Rather he expressed a hope that he will get his money back and that it will be successful *“for society”.* The gamble, if it pays off, does not necessarily have a financial reward.

We can also see the extension of GAMBLING in the idea that investors might put aside a certain amount of money which can be used as *“play money”*.

*“…you can afford to give these chunks to your children, or to charity, or this* ***play-money pot****…” (Val:2)*

The use of the term *“pot”* should not be considered as being used to refer that of a poker game, rather this appears to be a more straightforward pot, imaginary though it may be. The use of ‘pots’ is a commonplace term in financial planning, yet it is still a metaphorical pot, a container. This suggests Val is encouraging the client to think in terms of Multiple Mental Accounts (MMA) (Shefrin and Statman, 2000), which we will consider in Chapter 8. Whilst Greg also discussed pots, it is the idea that one of these pots is for *“play money”* which suggests inclusion in the GAMBLING metaphor. The use of *“play money”* is not restricted to Val, with Thomas also using this language, yet it is important to note that this isn’t suggesting that the money invested into these projects is not real or that it has no meaning.

The use of GAMBLING might help both adviser and client express the level of risk which is inherent in certain forms of Impact Investment. This is not the positive interpretation of gambling seen in Humphreys

(2010), it is something risky and dangerous. Where the client is seeking direct Impact, the use of language which frames this as a wager may help the adviser manage the client's behaviour appropriately, preventing them from wandering into dangerous territory.

### 6.5 Money has AGENCY

The idea that money has AGENCY appears to be a combination of personification and metonymy. Money is personified as it is *doing*. This is similar to Lakoff and Johnson's use of the phrase *"Inflation is eating up our profits"* (Lakoff & Johnson, 1980:33.) However, to some extent it is also a form of metonymy, where one thing is referred to in place of another: Money is being referred to in place of the whole, the company in which it is invested. An investor's money is doing the work, rather than companies or enterprises. Seeing money as having AGENCY may reflect that investors do not have deep relationships with the organisations in which they invest, they are something removed from them, of which they have no experience. As they do not know the mechanisms by which change takes place it is their money which creates change.

Whilst distance from the subject might explain the use of personification for investors, advisers might be framing discussion of investments in these terms, creating that personification. Participants used metaphors which demonstrated they interpret money as having agency. This agency extends beyond the idea that money is simply a tool to be employed by the agent in achieving their goals but that money itself has the power to create change.

[Voicing client] *"…**what is my money going to do**…" (Larry:1)*

*"…make sure that **money's…not doing** too much harm…" (Val:1)*

Joe expressed this idea of money having agency directly, he interprets investors as seeing money as being more than just passive:

*"…the hunger…for **money to be that agency of change**…" (Joe:1)*

This is metaphorical, in the sense that money doesn't 'work' it doesn't 'do' anything. Phrases like 'Make your money work for you' are fairly commonplace in the financial advice community[52], yet in this case it has a different meaning: making it work 'in the world' rather than for the individual's financial benefit.

Although the idea of money having agency is present across adviser participants, it is also present in the minds of investors.

*"…the **money is doing something**…" (Simon:1)*

It is summed up in the classic expression of giving money form and agency, again from Simon[53]:

*"**Money talks**…" (Simon:2).*

Agency is not something which is just a function of money, but of invested money. Jonathan suggested that investments could have three directions, those which seek to improve a situation, those that stand still (prevent deterioration) and those which do harm. Yet, investments themselves don't necessarily do harm, it's the companies and programmes the money is invested in which might do harm in some way.

The idea of money or investments having agency means that they have the power to effect change, what Joe called the *"cause and effect aspect of money" (Joe:1)*. The investor *wields* this power, something expressed by both Dorothy and Bill. This appears to be both a recognition of the investor's position of power relative to others by virtue of having money but also that in having this power they must wield it responsibly.

By granting personification to money, and in turn to investments, both practitioners and investors both saw money as having AGENCY. In the case of advisers this appears to have been primarily through their recollection and interpretation of what their clients sought, though it

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[52] For an example, see Keefe, 2024

[53] The term apparently has its origin in an Italian phrase in existence before 1666, showing particular longevity given the popularity of AC/DC's (1990) 'moneytalks'.

seems that they too see invested money as having AGENCY in some way. Money is a tool which can be used to create change, it is something to be wielded and which has power *in itself.* Given this interpretation, it is not surprising that participants are aware of the positionality of that power in the world.

### 6.5.1 Investing is CONFLICT

Developing from the idea that money has AGENCY, many participants shared in some form of expression of wanting to do good or avoid doing harm. This is presented as binary, which suggests that is might be connected to a CONFLICT metaphor. This type of metaphor is similar to the ideas which Lakoff and Johnson considered when they framed the conceptual metaphor ARGUMENT IS WAR (Lakoff and Johnson, 1980). In the case of Impact Investing there appears to be the case for INVESTING IS CONFLICT, more specifically Impact Investing is part of a CONFLICT between opposing good and bad forces. If money can do something, then investors want to know that it is doing *good*.

[Voicing client] *"…'Yeah, **I'd like to do good**. Whatever the position is now, **I want to be doing good**.' …" (Larry:2)*

Although Larry is voicing a client rather than his own perspective, his experience is that investors are looking to *"do good"*, though he is not necessarily aligning with the idea of money having agency and the money itself doing good.

[Voicing client] *"…'I like the idea of **steering my money towards good**'…" (Larry:2)*

Again, we see the use of JOURNEY but the direction in which he perceives the client wants the money to go is *towards good*, which suggests that there is both a good direction for money and a bad direction. Good, in this sense is a direction.

*"…they're very interested to know that that that their money could have impact. **Is good**." (Ken:1)*

For Ken it is the money which has Impact, and *is* good, drawing on both the idea that it has agency in itself, and that it can *be good*. Money

has *goodness* which could be an extension of the same act of personification which results in it having AGENCY.

This goodness is not always absolute, and it is important to some participants that this is seen in terms of a spectrum. Rosie talked about it not being *"black and white"*, drawing on GOOD IS WHITE (Lakoff and Johnson, 1980), and suggested that something which is good in some ways may not be good in others. The same spectrum was apparent to Jonathan:

*"…**everything's shades of grey** isn't it…" (Jonathan:2)*

Continuing from a previous statement where he could see investments as having positive, negative and neutral Impact, here we see this re-framed using language of morality. Yet whilst Jonathan sees degrees of variation in what is good and what is bad, this is not universal. Some participants saw a much clearer distinction:

*"…when it comes to climate change, you've got very **clearly defined goodies and baddies**." (Pam:2)*

Both Pam and Bill saw this in the form of a drama, with good guys and bad guys playing their parts, whether they be companies, investment managers or investors. Bill used *"bad guys"* in multiple contexts, in one case to refer to companies not investing in renewables and acting to suppress the voice of climate activists. Bill was not suggesting that these are the same as those whom people feel it is necessary to stop by force of arms, as he had earlier, yet the use of the same language draws a parallel between the two. This is a CONFLICT between warring parties. The use of the same phrase to describe both suggests he see these companies as more than just unethical in their business practices.

Conflict is not always seen in such extreme terms. Sometimes the language used suggested that they were merely naughty:

*"…that company is still **misbehaving**…" (Joe:2)*

Here Joe is likening companies to the behaviour of a naughty child. As I was conducting the initial interpretation of this interview the word

which came to mind was *méchant*[54], yet this seems to downplay the seriousness of the actions of companies in the eyes of participants. They don't just seek to invest in that which is positive but also to chastise those who have transgressed:

*"…there's all kinds of ways to* ***punish*** *them." (Pam:1)*

This idea of punishing companies may not be straightforward, and realistically only a government or regulator would be able to do so; any punishment is therefore indirect.

It is not only the companies which might be straying from the path. Jonathan noted that *"…we didn't want to* ***get away with*** *stuff.." (Jonathan:1)*, suggesting that this is a matter of conscience. This is a sentiment corroborated by Simon who wanted to be able to look himself in the mirror. The most extreme interpretation was given by Angela:

*"…I can't be out there taking action and saying don't invest in fossil fuels and things and then doing it myself, I mean* ***I couldn't live with myself****." (Angela:1)*

In each case, their conscience has provoked them to invest on the side of what they consider to be *good* in this conflict. Indeed, the language of good and bad participants in the market is present in the words of investors as it was with some advisers, with different parties labelled as good or bad:

*"…one has to be aware that* ***not everybody*** [laughs] ***is a good guy*** *ethically, you're out there competing with the sharks*[55]*…" (Thomas:2)*

*"…It's quite easy to get disillusioned by* ***so many bad companies and bad people****…" (Simon:1)*

Simon voiced the challenges of this apparent conflict, suggesting that there is a component of capitalism which is determined to *crush* the opposition.

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[54] From the French: Naughty or spiteful, some translations also suggest wicked.
[55] This is an interesting metaphor in itself.

*"…There's a **nasty part of capitalism**, not all capitalism, is you've got to crush the opposition, you've got to crush anything like that…" (Simon:2)*

Whilst this is an aspect which they clearly did not agree with, it is also apparent that he is taking a side in this conflict.

The use of CONFLICT metaphors is more striking when we consider that many participants spoke of cooperation and the need to work together to create a better future. Whilst they may be looking for collaboration, it is in opposition to a common enemy. Their language use suggests that they see this as conflict; between political ideals, government and 3rd sector, have and have not. Impact Investing could provide the means to deliver the real-world outcomes of such socio-political aims.

## 6.6 Further discussion and conclusions

If we interpret metaphors as *"embodied simulations"* in line with Gibbs (2006), the JOURNEY, GAMBLING and CONFLICT metaphors seen in these interviews take on additional significance. Investors feel they are on a JOURNEY with their adviser, they experience the thrill of GAMBLING to achieve non-financial goals and are bodily engaged in a form of CONFLICT, though the embodiment of such metaphors would require understanding at some level of the metaphors being used.

It is clear that in some cases, participants are conscious of the metaphors they are using, such as the use of *punt* in GAMBLING, navigational metaphors in JOURNEY or dark and light in CONFLICT. The same might be said of idioms used, such as Bill's use of *"the writing's on the wall"*. Given the widespread use of idiom in the descriptive language used by practitioners and investors we should be cautious of whether they might be in a position to access the underlying metaphors of the idioms used in speech. Some may be too obscure for the underlying metaphor to be accessed, this could include the *buy in* to Impact Investing as a GAMBLING metaphor or *sacrificing* returns relating to CONFLICT. If the participant is not able to access

the underlying metaphor it might not create the same embodied connection of the more intentional metaphors.

The analysis has drawn heavily on the work of Lakoff and Johnson (1980), yet the intention has not been to create a metaphorical construct through which to examine metaphorical coherence in a systematic way (Lakoff, 1987). Rather, the thematic presentation of the metaphors identified has been conducted with the intention of helping understand the perspective of participants. We have seen how both advisers and investors have used metaphor to help them understand the vague landscape of Impact Investing. The themes identified have helped to demonstrate shared language used by participants in their interpretation of advice in this context but also that interpretations are not universally applicable.

The language of financial advice, and of advisers, is replete with metaphor; most notably, advice is a JOURNEY on which advisers lead their clients. This is pervasive and it is apparent that it is applicable in a wider financial advice context. Yet we have seen how the JOURNEY for Impact Investment may be different from that of other forms of investment. The role of the adviser as a *leader* on that journey may be less clear. The potential for Impact investors to see their participation in this market as a form of GAMBLING will be explored further as we consider the idea of whether this is something which is only available to those of certain means, but is also applicable in our consideration of the approach taken by some advisers when integrating Impact Investments into broader SI portfolios in Chapter 7.

The idea that Money has AGENCY, whilst less explicit in the words of advisers and investors, appears to be key to their understanding of the value of Impact Investing. Where they see the need for change, they see money and by extension investments, as being able to create change. However, the type of change they seek might be dependent on their interpretation of what an Impact Investment is, which we will explore in Chapter 7. Furthermore, if participants believe that this AGENCY is instrumental in a form of CONFLICT this may also help explain how participants can see it as having power to address

perceived imbalances in the world. This may relate to improvement in relation to non-financial reference-points and may help us understand in more detail their responses to the frames and framing they experience, which we began to explore in Chapter 5.

The use of metaphors in framing financial advice should not be dismissed lightly. The use of ‘appetite’ when discussing risk in financial planning is a clear use of framing: There is a distinct difference between the description of risk as something which clients want to consume (up to a point) and expressing it as a ‘tolerance’ of something.

The development of this understanding of metaphor has been a cause for self-reflection. Prior to developing this analysis I used some of the same shared language of participants, particularly ‘investing for good’ and ‘sacrificing’[56] returns for non-financial outcomes, yet I had not conceived of the metaphorical tapestry these represent. The analysis has made me aware of my own metaphor usage, particularly JOURNEY, but also how it can be used to help illustrate the understanding and interpretations of others.

Developing an understanding of the metaphors used has highlighted the need for greater understanding of this in financial advice in general. This is beyond the scope of this study. However, we should not overplay the use of metaphor as demonstrating a coherent language for either Impact Investing or financial advice. Not all participants used the same metaphors and their meanings were evidently highly individual, they demonstrate the distinctly personal interpretations of what it is to invest in Impact and what it means to be an Impact investor.

[56] I noted in coding that I used this term almost as frequently as P1.

# Chapter 7: Interpretations of Advised Impact Investing

*"It* [Impact Investing] *kind of suggests something, but…linguistic turn and technical definitions are two very different subjects." (Bill:1)*

## 7.1 Introduction

For each of the participants in this research there is, to a greater or lesser extent, an individual understanding of what Impact Investing is. In the development of the post-interview coding this was initially assigned to '*Impact Definition*'. Whilst the name of the code was retained in the analysis to maintain integrity, it would be more appropriate to describe these as each person's own *interpretation* of the phenomena.

The variety of interpretations considered here is analogous to the discussion in Chapter 3 of the different interpretations of a pension: What is seen as a pension by regulators or finance professionals is not necessarily what an investor will consider to be *their pension.* This issue is further complicated in that it may be the cognitive frame in which we perceive an Impact Investment which determines what it is (Lakoff, 2014). Lakoff discusses how a pension could be considered deferred income from an employer, rather than a retirement savings scheme. Whilst this is clouded by modern pension schemes which are based largely on member contributions from salary, it is nonetheless valuable in considering how frames may influence perception of Impact Investing. If the frame adopted is one in which Impact is added value it will be different to what it is for someone who sees it as an integral part of a sustainable approach to investing and delivering future financial value (Elwell, 2023). Similarly, it will differ from what it means to someone who sees it as a tool in a conflict between opposing forces.

We have seen in Chapter 5 how language used by advisers in framing the decision to invest in Impact might influence an investor's frames,

to an extent. The interpretation of Impact Investing by an adviser might therefore have a similar potential to influence the behaviour of investors. This chapter will explore the variety of interpretations of Impact Investing which have been expressed by participants.

I will begin with advisers' awareness of the interpretation of phenomena and how evidence suggests situational adaptability. I will then explore the areas of convergence and divergence among participants; whether the evidence suggests different forms of Impact Investing. This leads to evidence of two distinct advice frames which can be seen to apply; Preference and Paradigm, already mentioned briefly in Chapter 5. Finally, I will contrast the evidence from adviser participants with those of investors.

### 7.2 Adviser Interpretations of Impact Investing

Adviser participants demonstrated awareness of differences in interpretation and the implications which these might have on investor understanding.

*"… It's an interesting part of the conversation. You know, what does Impact mean?... (Pam:1)*

Like Pam, Bill hints at a particular problem with Impact Investing which we have already seen to a certain extent in Chapter 2 and which we can see developing further throughout this chapter: What we perceive as Impact Investing its associated technical definitions might not be aligned. Conflict between interpretations, whether at firm or individual level, might lead to the imposition of a particular perspective.

*"…there's a lot of people trying to put their own interpretation onto what Impact means…" (Rosie:1)*

This conflict can be seen in the development of the FCA's progress towards "Sustainability Impact" in PS23/16; with competing perspectives for and against the need for Impact Investments to have some form of additionality. Not only might actors in this market be attempting to put their own interpretation forward but, for both Rosie and Bill, no-one really understands it. This lack of understanding is not confined to investors.

*"…I don't think anyone's quite got their head around that [Impact investing] yet…" (Rosie:1)*

*"…people don't really understand what it is?... You know what? I find it quite difficult. Maybe it's 'cause I haven't quite found the language yet…" (Bill:1)*

Whilst Bill is aware of alternative interpretations and the *"bit of debate"* about what Impact Investing is, he has settled on an interpretation which he is comfortable with. Bill explained that people might have a general idea of what Impact means but not *"how it works" (Bill:1).* This lack of clarity makes it more difficult for the adviser to do the job of identifying investments which will achieve the investor's non-financial objectives.

*"…people have different definitions of Impact and Impactful… But it can make it very difficult if you're advising clients and it certainly makes it very difficult for people to access the type of investment that they want…" (Pam:1)*

Understanding what people want is a core part of the financial planner's job. A client might present a desire for their money to do good [AGENCY], as we saw in Chapter 6, but what this means in terms of investment choices is dependent on advisers' understanding of the options available, and ability to recommend suitable products to align with client needs. It is incumbent on the adviser to explain to the client the different investment options available and make an appropriate recommendation based on their personal circumstances and objectives (FCA, 2018b). It would seem impossible for an adviser to adequately explain the potential features of Impact Investments to clients if what they are remains unclear.

In developing their understating of financial services concepts, even in the UK's outcomes-based regulatory environment, people still appear to depend on rules and definitions. Nikki suggested that part of the reason the collective wisdom of the financial services community is unable to come up with *"proper definitions" (Nikki:1)* of Impact is because many issues which it seeks to address are polarising, reflecting the continued debate over the wider fields of RI, SI and ethical investing. Whilst this might be the case, it could also reflect a

conflict within Impact Investing, with rival interpretations each seeking primacy.

Whilst the UK market might now have a definition of “Sustainability Impact” through PS23/16, the interpretation of Impact Investing encapsulated in this rule suggests there are now both ‘Impact Investments’ and ‘Impact investments in a regulated environment suitable for retail investors’. Whilst this might be a better approximation of what is happening in the market, it is likely that ‘Impact Investing’ will remain the terminology of choice for both groups. As Larry notes, people want ‘Impact Investing’ because it sounds good. This is the case even if ‘Impact’ is the wrong term, as it suggests something unidirectional rather than a complex process. Alliteration, mentioned specifically by Val, makes ‘Impact Investing’ more appealing (Davis et al., 2016) than RI, SI or ethical investing. Indeed, it may be the desire to be associated with something catchy which has influenced investment managers to engage with this market, contributing to the proliferation of interpretations.

Some interpretations of Impact Investing by adviser participants appear to be situationally dependent: An adviser might have a personal interpretation which contrasts with the professional one they use with their clients, a position suggested by Larry, Pam, Joe and Val.

Pam separated her understanding of Impact into two areas: *“retail friendly, liquid solutions”* and *“actual Impact Investing”* which she sees as restricted to small scale projects. Lakoff (2014) refers to those with the ability to use multiple context dependent frames as ‘bicognitive’, a term usually used in educational psychology to refer to those whose cognitive approaches can be adapted to different situations (Ramirez, 1989). If advisers are holding simultaneous situationally-dependent interpretations of Impact Investing these might conflict with one another, creating cognitive dissonance (Festinger, 1957).

Despite the lack of clarity around what Impact Investing is, and the conflicting interpretations which various market participants might wish

to impose, there is some evidence of convergence around some areas in adviser participant interpretations.

### 7.2.1 Convergence

Whilst interpretations of the spectrum of capital might have Impact Investing and philanthropy next to one another (Bridges, 2015; EQ, 2023), there was general agreement amongst those who discussed it that Impact Investing is not philanthropy. Bill made an astute assessment of the difference:

> *"…it's* [philanthropy] *a consumption choice, it's a choice as to where I get rid of the money that I've got…it's not a capital allocation. I think if you identify money in terms of income, then that's income and expenditure that happens in a year, but then capital, which is long term and that's for the future, it's not a capital allocation, it's an expenditure allocation." (Bill:2)*

In this interpretation, Impact Investing is a capital allocation, philanthropy is an expenditure allocation. In terms of a retail investor, whose charitable donations might be relatively small sums gifted out of surplus income each month, this is clear. When the philanthropic donation is a lump-sum it would be a capital *disposal*. Philanthropy is therefore distinct from Impact Investing in that the former requires a disposal of some sort. It is a consumption decision; the individual is buying a service from the recipient of the philanthropic donation. Impact Investing by contrast is not an explicit disposal. We will see in Chapter 8 that for some investors, whilst they do not see Impact Investing as a capital disposal, the desire for non-financial return might well be Impact-First in line with Rangan et al. (2012), for at least a proportion of their capital. They do not see this as having been a disposal, yet it is also not considered to have the same framing as other investments.

Rosie also considered the differences between Impact Investments and philanthropy. Whilst there is a functional difference with the potential for financial return from Impact Investing, they also see Impact as having a different purpose. Rather than trying to alleviate the symptoms of a problem, Impact Investing is about fixing the root cause:

*"…it's fixing it at a deeper level…getting to the root cause rather than just putting the sticking plaster over the top…" (Rosie:2)*

Although clients who invest in Impact may also give money to charity, it is considered separate from their investments, from which they expect at least the potential for a financial return.

A further difference suggested by Rosie is that philanthropy might have an alternative use in the advice process where a client needs to assuage their conscience regarding their investments *not being impactful enough*. If it has been necessary to scale back their portfolio from specific non-financial objective the adviser might suggest philanthropy to address the issue.

Philanthropy might achieve some of the same psychological needs as Impact Investing, having similar experiential return (Statman 2004), but it does not have the same purpose. Enterprise, whether social or for-profit, should be self-sustaining; charities are dependent on grants and donations and will have to compete for distributions of capital[57]. Rosie's interpretation might be more in line with Emerson's, which suggests that as one moves from conventional investing toward philanthropy there is a trade-off between financial and non-financial return. A capital disposal seeks no financial return. Placing Impact Investing, or any form of SI or RI, as being part of a graduated scale which includes philanthropy, overlooks the distinction between giving away money and choosing how to allocate capital one maintains ownership of.

As was suggested in Chapters 5 and 6, there is a coalescence around the idea of Impact making the world a better place. Whilst advisers don't necessarily believe clients fully understand this, Bill summed it up as follows:

*"…having an impact… we're making money, but also we're making the world a better place at the same time." (Bill:1)*

[57] A situation highlighted by Dorothy.

There is a general agreement that Impact Investments should deliver some form of improvement, in line with the various definitions which were discussed in Chapter 2.

*"…not just about not doing harm, it's also about doing good." (Val:1)*

*"…measurable outcome that goes way beyond investment performance…" (Frank:1).*

*"making a change for the better" (Rosie:1)*

*"…investing in a company whose product or service makes a meaningful difference in terms of improving environmental or social outcomes…" (Pam:1)*

Impact must have some form of (measurable) non-financial return as well as the potential for financial return. However, what that non-financial return is, and how it should be delivered, lacks clarity. This may be due to the variety of material non-financial outcomes which might be derived.

### 7.2.2 Divergence

Although there is convergence on the need for Impact Investing to do good [AGENCY / CONFLICT] it is the mechanisms through which this is achieved, and the intent of those who participate, where divergence appears to be most clearly identifiable.

During Frank's second interview, the idea of distinct 'soft' and 'hard' Impact Investments was discussed. This was partly due to his own linguistic tendencies and the idea that people have 'soft' goals; things which they would like to achieve but which are not a measure of success. The terms 'soft' and 'hard' are common in the financial planning community, providing a convenient contrast. Client data is frequently classified as 'hard' (income, expenditure and assets) and soft (family, social and personal). Goals might be 'hard', referring to quantifiable factors such as levels of income, or 'soft', relating to lifestyle. It is not surprising then that this might lend itself to the description of Impact Investments. Using Frank's interpretation, 'hard' Impact would have some form of quantifiable additionality, whilst soft Impact is less distinct.

Val saw this distinction as a process of evolution. Impact Investing was once investing in early-stage companies and projects, things which were high-risk but which had the potential for social or environmental benefits. It *"morphed"* into something which aimed at providing more liquidity whilst still having Impact.

> *"…I'm not surprised that it got sort of taken up and changed. Not necessarily for nefarious reasons, but I think there's a place for the Impact Investing that we have today that is more liquid, that is more in line with conventional markets and how markets at the moment have to operate. But it's not as innovative as the…really high-risk stuff." (Val:1)*

Both interpretations appear to be in keeping with the distinction made by Busch et al (2021) between Impact-Aligned (soft) and Impact-Generating (hard) investments. Yet whether we consider Impact Investing to have both a soft and hard form, or an old or new form, all might be considered suggestive frames. Labelling something as 'soft' Impact could imply investments adopting this approach are less impactful. Similarly, 'new' Impact suggests evolution from an 'old' approach. Such framing is evident in the language of market participants with WHEB (2021) describing Impact Investments which require additionality as *"traditionalistic"* and:

> *"…necessarily restricted to philanthropic activity or at best to situations where new capital is invested in markets with very poor liquidity." (WHEB, 2021).*

This demonstrates a contrasting framing in which to position their own approach. In their view an interpretation which allows investing in publicly-listed equity is more 'holistic'. Notwithstanding the conflict with Bill's interpretation of philanthropy, this is a far cry from Joe who refers to investments with additionality as *"real"* Impact. However, Joe is careful not to introduce a contrasting term to describe Impact without additionality, though it might be implied.

Whilst contrasting framings are convenient in differentiating between Impact investments in publicly traded equities (soft/new/holistic) from those which do not (hard/old/traditionalistic/real) a binary distinction does not capture the full variety of interpretations presented by adviser

participants (see ***Figure 7.i***). In their accounts we can see some of the differences highlighted by Busch et al. (2021).

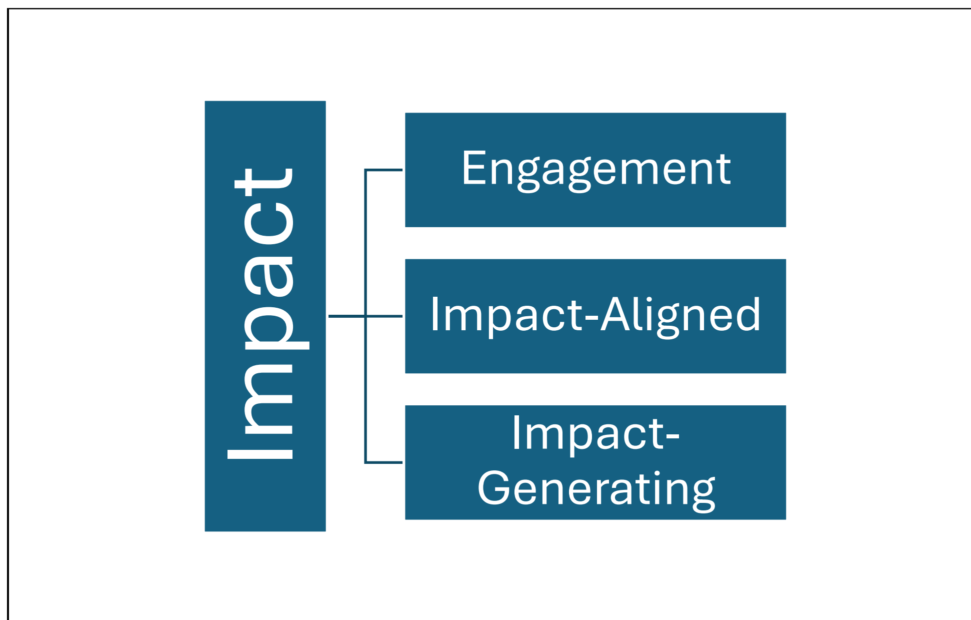


***Figure 7.i: Potential Components of Impact Investing***

For Bill, Impact Investing lies with the manager rather than the client. It is not the client's money which is making the difference [AGENCY] but in engaging with companies to improve what they do.

> *"…it means fund managers, getting stuck in with companies… to change the way they're practising to have an impact on … sustainability, SDGs." (Bill:1)*

On this basis it is not the client's money which is creating or contributing to Impact in any way; the engagement would be taking place regardless of that client having invested. There is no additionality on the part of the investor, though there is the potential for the investment manager to impact investee companies.

This interpretation is more akin to stewardship (CCLA, 2023) than Impact Investing. Yet whilst this form of engagement-Impact might seem like a weak form of Impact Investing, Bill suggests that this is about companies bringing in investment managers who understand how they can transition their business to something more sustainable. Where this differs from other definitions of Impact Investing is that they see it as *excluding* businesses who are already doing the right thing:

*"…It's not just about filtering and making sure you're finding companies are doing the right thing now. It's about looking for companies that are misbehaving and making them behave through essentially shareholder activism." (Bill:1)*

This would mean a company which is impactful by virtue of the products it creates or the services it offers is excluded under this interpretation, one they know is not shared unanimously:

*"…I know that some people don't think the shareholder activism thing can apply to Impact Investing. It's more about the outcomes achieved by the businesses rather than by the involvement of the Fund manager." (Bill:1)*

Investing in companies whose products and services are in some way impactful would align with the investment approach of managers such as WHEB (2021) and Montanaro (2024), who see measurement of the Impact generated by the companies in which they invest as key to their strategies. An engagement-only interpretation, would exclude companies who might have some form of Impact through the products and services they offer. It would also enable any investment manager who has an effective engagement strategy to say they are investing in Impact. This definition would not meet the FCA 2022 "Sustainable Impact" standard, or the FCA 2023 "Sustainability Impact" rule, though might conceivably align with the FCA "Sustainability Improvers" rule (FCA, 2023a).

Some of Bill's interpretation appears to be shared by Val, who sees the move to more liquid, less high-risk, less-impactful investments as meaning Impact is reduced to engagement and lobbying. The investment manager might *"seek to influence what goes on"* but by their own admission *"it certainly isn't the Impact I was familiar with" (Val:1)*.

Larry expressed a particular concern at the idea of engagement, where it focusses on changing a company's behaviour:

*"BAE Systems becomes BAE Supermarkets… at that point you've achieved your objective. Do you know what the fund managers will do? They will sell the shares." (Larry:1)*

His position is that a company might be changed too far from what it is good at and into something it is not good at, making it uninvestable. This raises questions about engagement as a form of Impact: If a manager is focussed on engagement, such as encouraging oil companies to transition away from fossil fuel extraction and towards renewable energy, they are effectively encouraging the company to become a different company. Larry saw this as a misinterpretation of Impact:

*"…They're not in an Impact fund, they're in a transition fund full of oil and gas, but in their head:*

[Voicing client] *'The impact that my money is having is moving those companies to be better than they currently are.'*

*It's a word that you can drop absolutely anywhere." (Larry:2)*

Yet for Rosie, not engaging with companies who are not already doing something positive equates to a *lack* of impact:

[In an imaginary client conversation] *"…if you completely exclude that sector, you're not going to have any impact on that on that sector."" (Rosie:1)*

Whilst she sees Impact as primarily investing in companies who *"make those improvements in the way that we live and the way the world operates" (Rosie:1)* it must also include some form of engagement with those companies who need to improve.

For Pam, an Impactful solution is not dependent on engagement as much as it is on what the investee company makes, its outputs rather than its general behaviour. This aligns with the interpretations of 'new' Impact present in the investment management industry (WHEB, 2021, Montanaro, 2024). This is not a definition which relies on financial additionality. Investments might profit from businesses which are doing something which has Impact, perhaps one measurable against an SDG, but it does not require investor's intention. Nor is the Impact one which is necessarily tested against any type of counterfactual (IMP, 2019). Pam is aware of additionality, and it is not something she ignored in her thinking, but rather it is difficult for retail investors to achieve because assets which have financial additionality lack the

liquidity necessary to make them suitable. Pam's belief is that this approach is *"taking that extra step towards additionality" (Pam:1)*. This is also how she presents Impact Investing to her clients. When queried whether this definition was shared by her clients, she joked *"Yes, because that's what I tell them." (Pam:1)*.

Not all advisers were happy to accept an approach which rested on either engagement or investing in companies delivering products or services which aim to achieve something positive and measurable. Val clearly sees some managers attempting to take advantage of a relaxation of what it means to invest in Impact:

*"…you look at some of these funds you're like 'Oh come on'…" (Val:1)*

Val's interview gives an impression of deep regret that Impact Investing has become something less than what it was, though she seems to have accepted this change, however reluctantly:

*"…you can't change the world overnight can you, without engaging with the structures that already exist." (Val:1)*

To Val, there is an understanding that what was called Impact Investing, the *"innovative stuff",* was niche and arguably needs its own classification, particularly due to the nature of it being unregulated. She contrasts this with the current iteration of Impact Investments:

*"…maybe there should have been a new name for this 'new impact'." (Val:1)*

This distinction remains challenging, not least because retail investors find it so difficult to access investments which have any form of additionality through an adviser. As discussed in Chapters 6 and 8, increased regulation and a tight insurance market represent barriers to advising clients to invest directly in companies or projects which may generate Impact. These barriers, noted by Joe, Pam and Val are seen as impediments to the client going in that direction, yet they are also barriers to the adviser.

Larry also suggested an interpretation in line with the idea of Impact-generating investments in Busch et al. (2021).

*"…'This extra thing has happened because I channelled capital.' It's quite different to, 'The threat of removing capital in itself created an impact by companies encouraging change within South Africa to avoid being a target of a disinvestment campaign.'…" (Larry:2)*

Larry was not the only participant to reference South African divestment (Sullivan, 1978; Larson, 2020), yet whilst he saw it as helpful in creating a distinction between what deprivation of capital might achieve compared to its provision, this was not always appreciated by investors. Larry also makes a distinction between investments which achieve Impact and those in companies which themselves have Impact. Referencing the FCA's then proposed regulations, he suggested how labels might help differentiate between investments.

*"… 'Are you investing for Impact or are you looking for Impact from your strategy?' They're two different things." (Larry:2)*

However, these interviews were conducted prior to publication of the final definitions in PS23/16 (FCA, 2023a). At the time of interview, the FCA required investments aligned to the Sustainable Impact label to have additionality. This is no longer as strongly framed and the clarity which Larry thought the FCA's 2022 labels offered may now have been lost.

Like Larry, Joe also sees a distinction along the lines of Busch et al. (2021). Throughout his dialogue he gives money power and agency in the world [AGENCY]; Impact is a manifestation of this. Joe sees *additionality* as key to Impact Investing, an approach which would align more with Brest & Born (2013b).

*"…the investment money is bringing something new to the table…"*

*"…and that it is making a quantum of change…" (Joe:1)*

The use of a weak gambling metaphor is likely unintentional; the intent appears to be the suggestion that money (albeit representing a stake in a game of chance) is doing something positive, it is making a positive contribution. As noted earlier, for Joe Impact with additionality is *"real"* Impact, contrasting with the *"grey area"* of Impact Investing in regulated markets.

*"…It's pretty pictures and charts … investing in companies that are positive and well run. But they're not materially of themselves moving the dial significantly." (Joe:1)*

Like Val, he sees *"real"* Impact as facing challenges in the retail market due to regulatory pressures, risk and structure. This means that the adviser's role is to look at both what the market is offering and what the client means by Impact, establishing whether someone wants to *"just do something positive"* or whether they are looking for *"material change" (Joe:1)*.

Despite what appears to be open cynicism about the credibility of claims made by investment managers about Impact-aligned investments, Joe acknowledges that some people gain value from these investments. However, he sees this as having only a small scale and incremental Impact on the way business and society operates.

### 7.2.3 Preference or Paradigm

Within the diverging interpretations of Impact Investing among adviser participants the evidence suggests a variation in approach which goes beyond just the interpretation of what Impact Investing is, to what its *purpose* is. From adviser participant interpretations we can see differing perspectives between those who integrate impact investments within a wider SI proposition (Bill, Pam, Frank, Nikki but particularly Ken and Greg) as part of a new Paradigm of investing, and those who see Impact as something driven by unique investor preferences (Joe, Rosie, Val). As noted in Chapter 5, these can be seen as two different framings.

A Preference-based approach to investing focuses on investors' unique values, whilst a Paradigm approach is captured in the following words from Greg:

*"Come to us, we are going to invest you this way because we think it's in your best interests, do you agree?" (Greg:2)*

This represents a change to the established Paradigm of investing, going beyond the persisting conflict already present between a focus on shareholder value maximisation (Friedman, 1970) and stakeholder

capitalism (Freeman, 1984, Schaefer, 2008). For Ken and Greg this is fundamentally about the need to address the need for a systemic response to climate change:

*"…it's a way of reducing physical and transition risks, particularly transition risks within your portfolio…" (Greg:1)*

For Nikki it is clear that this is about collective action: *"…one person cannot change anything…" (Nikki:2)*. Yet she feels that change is possible when people come together:

*"…We kind of bargain with our conscience to make sure that we're comfortable, we can proceed with what we're doing and not have a mental breakdown..." (Nikki:2)*

This suggests her approach is not just about meeting the clients' needs, but about her own personal frame: Integrating Impact into a SI approach for all clients could be about assuaging an adviser's conscience. As noted in Chapter 5, this might be considered paternalistic framing (Sunstein, 2014): Integrating SIs, including Impact, in all portfolios could undermine the autonomy of the investor. Yet whether Preference or Paradigm based, it is the responsibility of the adviser to educate their clients about investing, whether sustainable, Impact or conventional. Just as Pam felt her interpretation of Impact would be shared by her clients because it is how she explains it to them, so it is for Greg:

*"…sustainable investing certainly does, because I explained it to them that way." (Greg:1)*

Given his expressed belief that this type of investing is in the client's best interest, it is unlikely that he could conscionably allow a client to invest any other way. As was discussed in Chapter 5, it is unlikely that a client who disagrees with this approach will remain with this adviser, or firm.

Paradigm-based advisers might also allow for the selection of additional investments to *"green up"* or increase the Impact of a portfolio, suggesting that the Preference/Paradigm distinction is not absolute. A Paradigm approach can still incorporate investor

preferences for Impact, it is integration in the baseline approach which creates the distinction.

Advisers adopting a Paradigm approach appeared to be more open to the Impact-Aligned interpretation of Busch et al. (2021), whilst those adopting a Preference approach were more flexible. This should not come as a surprise when we consider that the Paradigm approach requires the adviser to integrate Impact into every portfolio they manage, to a greater or lesser extent. Liquidity and ease of access will be key; alongside a need for a reasonably streamlined process for undertaking due diligence on investments in the company's investment proposition. Clients of Paradigm advisors might be invested in something which is more generally impactful, driven by the framing which the adviser has adopted in the overall portfolio construction.

The Preference-based approach is *"underpinned by a value position that's held by the client" (Joe:1)*. Focussing on the individual investor's values, the Preference-based approach may make use of discretionary investment management services, evidenced by both Joe and Val. This may also have a bearing on the type of client that a Preference approach is suitable for; such investments are only likely to be available to retail investors with substantial personal wealth[58].

The use of discretionary investment managers as one option in Preference approach[59] might enable investors to target individual issues they see as important. However, it will still be constrained by the manager's ability and willingness to access investments which are more impactful and aligned with an Impact-Generating approach. This is evident from Val who suggests investment managers are more cautious than she would like them to be and are unlikely to take *"illiquid risks with things" (Val:1)* when there is a chance the client will want to access their capital. It should not be assumed then that a Preference

[58] Typical minimum investment amounts are upwards of £250,000 in investable capital, with some firms requiring more than £1m for a bespoke impact investment portfolio.
[59] Not all preference-based investments will be in portfolios managed on a discretionary basis, this will be discussed in Chapter 8.

approach will include more advice for investments which are individually Impact-Generating than one based on a new paradigm of SI.

Joe does not believe choosing the type of Impact Investment is something investors can or should do on their own. Even if they have strong personal preferences, they still need the support of their adviser in understanding what is available and how this aligns with the change they want to achieve:

*“…people need to have their hands held.” (Joe:1)*

Paraphrasing Joe, advice is like going for a portrait; you can have a cartoon, a photograph or a Frances Bacon painting, all might be considered a portrait, but all are different. If you want one and get the other, you’re not going to be happy. Because people don’t know these options are available it’s about helping them realise the difference and holding their hand.

The importance of educating the investor about the options available, whether soft/new/holistic or hard/old/traditionalistic/real, based on their values or as part of a new Paradigm of SI, and what the potential benefits and drawbacks of each might be, is an integral part of the advice process. It might be the case that investors’ interpretations of what it means to invest in Impact will be influenced by their advisers’ framing of this information.

### 7.3 Investor perspectives

*“…there's a spectrum of behaviours, some people call some of them Impact Investing and some people call other ones Impact Investing…” (Jonathan:1)*

If interpretations are a spectrum, Impact Investing might be less straightforward than just being differentiable through either weaker or stronger forms where investors are concerned. Investors’ opinions appear to differ by degrees, from those who see Impact as being driven primarily by not investing in companies having a negative impact, to those who see it as being something which can only be

achieved with financial additionality, far beyond the requirements of the FCA's "Sustainability Impact" label.

Here we will consider the rich variety of interpretations among investor participants and evidence of the spectrum of behaviours envisaged by Jonathan. There are three clear themes (***Figure 7:ii***); first do no harm (*premum non nocere*[60]), the role of information, and the desire to create change. Rather than explore each of these separately, they will each appear interwoven throughout the investors' interpretations in the coming pages.

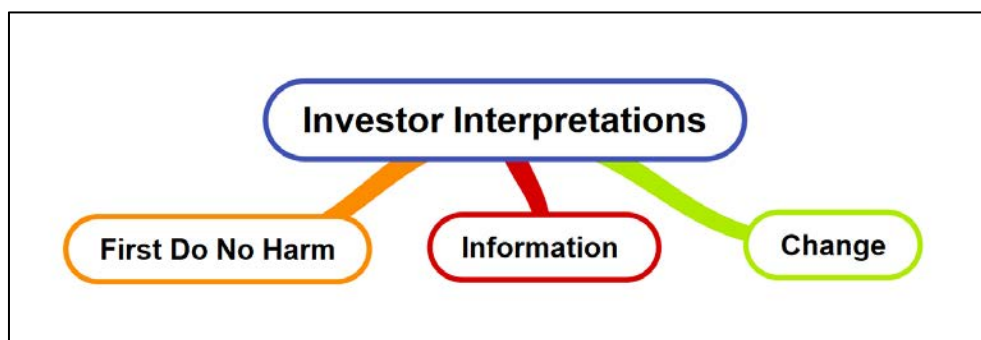


***Figure 7.ii: Investor Interpretation Themes***

The least restrictive interpretation was that of Oliver, who asked me to provide my own definition, attempting to side-step the question, before giving an answer:

> *"…investing in organisations, companies, funds that support the sustainability agenda" (Oliver:1)*

Whilst Oliver acknowledges that this is *"…impact with a very small 'i'…" (Oliver:1)* it demonstrates that investors might see investments, disinvestments or divestment as having Impact even if they would not be classed as Impact Investments by any measure under the GIIN or FCA frameworks. Impact Investing is to Oliver something which is part of a wider SI approach and might well have been influenced by his adviser's own framing. His investments might be in companies which

[60] Whilst it might appear somewhat pretentious to use the Latin translation of this phrase, its association with the oath of healthcare professionals seems apt in discussion of the intentions of investors who seek in some way to heal the ills in the world around them and it immediately came to mind when reviewing the transcripts.

are impactful and which have positive sustainability characteristics but do not measure their Impact or have any notion of TOC. To Oliver, engaging with Impact, and SI more generally, is a way of *"showing you're all supporting the interest you have" (Oliver:1)*. His investment approach aligns with other aspects of his life, particularly his engagement with the community, but is less about delivering change through that investment portfolio than it is about not creating harm.

*"…Using it to influence behaviours of organisations, trying not to reward organisations that aren't doing the right thing. It fits with… they're different flavours of the same scheme, same idea really." (Oliver:2)*

Impact Investing is not something which delivers change, as other investors might see it, rather it is about influencing the behaviours of organisations to do less harm and rewarding those who do good. This approach could be seen as an extension of Rosie's idea that an Impact Investment approach should be *"…screening out before you screen in…" (Rosie:1)*.

Oliver's approach shares some similarities with Angela who describes herself as primarily an "ethical" investor. Her principal concern is to ensure that she is not investing in things she does not support. For Angela, not doing harm is her *"definition of doing good" (Angela:2)*. Impact, expressed in terms of renewable energy and social housing, appears to be an additive component of the overall return. It is something she is *"happy to invest in"*, rather than the focus of her investments. She also states that Impact is about doing good, though she felt that everyone's interpretation will be different in some way. This is not necessarily a Finance-First interpretation (Rangan et al., 2012), as there is no immediate suggestion that financial return is more important than the Impact achieved. Her approach appears to be in line with what Larry felt is important for investors. It is:

*"…less about what I'm actively doing and more about what I'm avoiding and making sure I don't do." (Angela:1)*

Whilst this acknowledges the potential for investments to have both a positive and negative Impact, the focus of investing is firmly on not

participating in things which are in some way ‘bad’. She did express a desire for change, but sees her primary power coming from political lobbying rather than the capital she is able to commit to a cause. Like other participants, Angela sees a substantial part of her capacity as being extra-financial, through activism and awareness raising rather than funding companies, something which she is outsourcing to her adviser and investment manager.

*“…I'm not gonna have the time to keep up with what's being invested in by a fund manager, I'm not certainly not gonna have the time to think, ‘Hey, I want to do this that and the other.’…” (Angela:1)*

Angela also highlighted whether the amount of capital she is able to contribute has the potential to make any real difference, noting that renewable energy in particular is not really *“screaming out for investment” (Angela:1)*. This raises some important questions about investor additionality and intentionality. If companies are not dependent on the capital from Impact investors to be successful, investors might merely be capitalising on their inevitable success. This is not unique as Jonathan raised similar concerns. Despite this, Angela is *“willing to experiment with things that look interesting” (Angela:1)*. Whilst her primary concern is not doing harm with her advised portfolio, she invests in things which might have a potential for greater direct Impact, independent of her adviser’s involvement.

Simon shares a similar interpretation to Oliver and Angela: Not investing in companies which have a negative Impact is of considerable importance, though in this case it is also about how this might create change in those companies. Once again there is reference to South African divestment, in line with Larry.

*“…I’m looking at that from a point of view because money talks, it’s worked before in divestment from South Africa, that was a model when they had apartheid South Africa. So that can really help and it gives businesses longer term to say here’s money coming into research, we want you to go and take it out of fossil fuels now.” (Simon:2)*

Whilst *“it makes you feel you’re doing something” (Simon:1)*, what these investments achieve is unclear. Simon considers that taking

money away from fossil fuel companies will result in putting more money toward companies who are doing something positive, though the investment might just as easily go towards something neutral.

Simon is also aware of the need to measure as being a key component of Impact Investing, yet he sees this as being about measuring the activities of corporations rather than a measurement of how much of a difference the companies are making. This may be because he sees the entire system as problematic, a common theme among investors. Simon sees see the primary responsibility for change and the need for innovation as needing to come from corporations. Consumers will still consume, therefore Impact is not just about investing in solutions but about educating people about their responsibilities:

*"Impactful investment is about spreading more information and education there." (Simon:1)*

Whilst other investors were just as keen on engagement and creating change, whether through their investments, on the ground or in engaging with companies or government, the importance of spreading information being an integral component of Impact Investing is unique to Simon. It is unclear whether this is something which should be the responsibility of the investee company, investment manager, adviser or investor.

For some investors, it is primarily through their investment portfolio that they seek to deliver change. Margaret considered Impact Investing as progression, a sentiment also expressed by Oliver, yet she sees investing ethically and positively as distinctly different, demonstrating an interpretation of Impact Investing which is more exacting than that of Oliver, Angela or Simon.

*"…it means using one's money to progress positive causes, issues, and to…I suppose, forward the causes in which one's interested." (Margaret:1)*

Yet it is not entirely clear what comes first. In line with what Larry noted about Impact investors in Chapter 5; the more information they have, the more they want to do.

*"I am taking more interest because I have more information about it." (Margaret:2)*

However, whilst Margaret links her understanding of investment to particular causes, and her interest is increased by the amount of information she has, her advised investments are not always things which she would have chosen herself. Indeed, when considering her advised investments with one provider Margaret noted that they were:

*"…quite interesting-looking community projects, and they're probably not all ones that I would have had a particular interest in, but on the other hand, they… none of them were things that I thought, yuck, I don't want to be putting my money into that." (Margaret:1)*

Once again, Margaret's statement highlights the importance of avoidance to investors, even when considering potential Impact Investments.

Participating in an advised investment containing things she would not necessarily have chosen herself does not disprove Larry's suggestion that Impact investors are more stimulated to invest in things they are already knowledgeable about, though it does suggest there is some flexibility within which an adviser might operate. It is not exclusively those things which the investor is passionate about that they will invest in. This would lend some support to the Paradigm approach to investing, whilst also giving leeway for aligning investments when adopting a Preference approach.

Margaret's statement may also provide some indication of why investors are going on alone [JOURNEY] when they are investing in companies or projects which are individually impactful. Advised investments might not be perfectly aligned with the things most important to investors; where they are not, they might access these directly. In order to ensure her advised portfolio is put to good use, Margaret is prepared to compromise because she feels that money should be:

*"…put to use in the interest of…good things, broadly speaking…" (Margaret:1)* [AGENCY]

The requirement to satisfice (Simon, 1956), accepting a less than perfect alignment in order to achieve some form of Impact, is not unique to Margaret. We can see this becoming more important as the desire for Impact strengthens.

For Dorothy, Impact Investing is the least-worst option within the framework available.

*"…if I'm stuck within what capitalism offers me and the kind of return-on-investment model, Impact Investing seems to be the least bad of the options that are available." (Dorothy:2)*

Dorothy's involvement with Impact Investing is one of the most extensive; she invests directly with her time and capital in small scale local Impact projects. Despite this, she shares characteristics with other participants; the need to know that she is not investing in things which are contrary to her values is still of significant importance. In Dorothy's case however, this has become less about avoiding companies and more about avoiding negative impacts.

*"…to avoid the most egregious impacts of conventional investing, right? It's more a negative avoidance thing than it is positive in many ways…" (Dorothy:1)*

Again, as with Margaret, Oliver and others, there is a desire to understand more:

*"…until I started looking at it a little bit harder, I wasn't even really particularly sure what impact investing was as opposed to ethical investing. You know, a certain orientation about SDG's and sustainability and that kind of thing…" (Dorothy:1)*

For Dorothy, Impact needs to be carried out in a way which does more than just deliver a singular output. An example given was a small-scale crowdfunded community energy company, which hopes to provide low-cost energy to the community in which it operates but also make a profit to feed back into other local projects. This is a very different approach to someone who is invested with the aim of just limiting the negative Impact of their investments: Dorothy is looking to achieve systemic change. Indeed, she expressed her doubts about whether an investment manager, who has a need to look at things like financial

returns on investment, would be able to invest in a way which delivers any meaningful systemic change.

*"…I think a lot of investors would want you to believe that there's never enough and you need to keep investing and keep securing it.*

*It's not unrelated to their need to take their cut of that as well." (Dorothy:2)*

If you are reliant on a system for your own wellbeing it is difficult to see how you would act in a way which would seek to replace it, a theme which we will explore further in Chapter 8.

The same distrust of the financial system in general was present with Jonathan, who showed a nuanced understanding of the difference between forms of Impact Investing available. Not only does he see Impact as being separate from investing in *"asset price speculation"* he also differentiates between the forms of investment available from his adviser and those which are *"non-extractive" (Jonathan:1)*. For example, he considers high-interest lending to disadvantaged communities or underserved markets, something which might be considered Impact Investing by some, to be extractive and therefore not impactful.

Dorothy also raised concerns about how investors might believe they are engaged in Impact Investing but are instead using their wealth to make money out of people who might be financially vulnerable but which makes them feel better. Both see advised portfolios of Impact Investments as imperfect.

*"…what they normally try to do, which is construct portfolio where there's some stuff that lives your values and some stuff that doesn't betray it." (Jonathan:1)*

Jonathan went as far as to say that his advised portfolio, which his adviser considers to be an Impact Investment, does not meet his own standards.

*"We made them create something bespoke that was 100% aligned with our values, but I wouldn't call it Impact Investing…" (Jonathan:1)*

Additionality is clearly of some importance as Jonathan is not interested in investing in things which would be successful without his capital. Indeed, to Jonathan it is not his advised portfolio which makes him an Impact investor, but the capital committed as an Angel Investor into things which are making a difference and *"doing something good for the world" (Jonathan:1)*. These investments, carried out through a syndicate of like-minded investors, are unlikely to be available to all retail investors. However, despite having the financial experience to make such decisions and the capacity to act as an Angel Investor, Jonathan still considers himself to be a retail investor.

Based on his perception that there would be a spectrum of interpretations, his is the strongest and most restrictive of all, aligning closest to that of Brest & Born (2013b) in the need for additionality.

*"…I disagree with those people who think that they're Impact Investing because they're in a ESG fund or even if they're in positively screened portfolio…*

*…for me it has to involve money going into the real economy…*

*otherwise you're just asset price speculation which isn't really investing at all…" (Jonathan:1)*

Not only does he see investment in secondary-market equities as non-impactful, but he also objects to the idea of Impact being derived from divestment. This is a strong counterpoint to those investors who feel that they are doing good by not investing in companies who are not supporting a green transition.

*"I'm sure, if you actually did depth interviews with a ton of retail investors, they would imagine that their support…hurting BP by leaving it and supporting Tesla by investing in it so that they can build more factories for more cars and more marketing and be more successful, which of course is nonsense." (Jonathan:2)*

For Jonathan this is not the fault of the investor but of financial services in general. Investment managers are more interested in selling retail investors a solution which will be *"a lie or a mistruth or a complete failure" (Jonathan:2)* but will allow people to feel good about themselves and what they are doing.

### 7.4 Conclusions

It is evident that the interpretation of Impact Investing from some participants sits outside of what would be described as such by GIIN, FCA and others (see Chapter 2). The myriad interpretations of Impact Investing, from those who require financial additionality to those which do not meet the FCA Sustainability Impact definition appears to suggest a 'radical difference' form of relativism (Lakoff, 1987). Whilst a spectrum has been used to describe the variety of interpretations of the phenomenon of Impact Investing, particularly in the case of investors, this was inspired by Jonathan's reference, despite the obvious parallels to Emerson's original spectrum of capital (Emerson, 2003). However, Jonathan is not alone in this description, the term is also used by CFA in their interpretation of Impact Investing (CFA, 2023). The variety of investor and adviser interpretations raises the question of whether we can, or should, try to impose a rigid structure on such a nebulous concept.

Before generating any kind of positive Impact, investors see their primary focus as avoiding participation in things they perceive are causing harm. This way of interpreting Impact is very much aligned with their frames as discussed in Chapter 5; they are loss-averse in a non-financial dimension and do not wish to see things become worse than they perceive that they are.

Investor participants may have both Impact-generating and Impact-aligned assets. Their Impact-aligned assets, those which conform to a 'new' interpretation of Impact Investing, are likely to be those selected by their adviser. Investors further along the spectrum of interpretations (Jonathan, Dorothy) might not consider their Impact-aligned assets impactful. Impact-generating assets might be advised, but this was only present in one case (Margaret) and are more often things people have chosen to invest in themselves. The evidence suggests Impact Investing is interpreted by some investor participants in line with an additionalist, Impact-generating, view. Yet what they consider to be capable of Impact-generating is far from uniform. Rare are words like additionality or intentionality, rather discussion is about how

investments might create change. Investors do not necessarily see Impact-aligned or even Impact-generating assets as their primary mechanism for achieving change, which may be activism or awareness-raising. The further along the spectrum of interpretations, the more sceptical investors were of the intentions of investment managers and the financial system in general. These views may be due to a bias in the type of investor who was prepared to participate in the research.

The perspectives of investors might be derived from education by the adviser, however this conclusion cannot be effectively drawn from participants' accounts. Investor participants came from advisers with both Preference and Paradigm approaches to Impact advice and perspectives were not always shared. Whilst disclosing the relationships between investors and their advisers might make possible the jigsaw identification of participants, these relationships were known to me as their responses were interpreted and analysed. It is possible to say, without inappropriate disclosure, that Jonathan's definition of Impact did not align with that of his adviser, nor did those of Oliver and Angela with theirs. Yet the adviser's role in framing the decision to invest in Impact is still important, particularly for those who do not have the backgrounds of more experienced investors such as Dorothy and Jonathan.

Information may play an important role in developing interpretations of Impact Investing; with more information about Impact and about finance in general the interpretation of Impact may harden. This might also apply to advisers and may explain why there is a need for some to take a bi-cognitive approach. Where they are working with investors who are less experienced, a more flexible interpretation of Impact is adopted, even if this is not their personal interpretation. It is possible that each investor will have a different interpretation, initially based on how their adviser has chosen to frame this to them. Despite this, the variety of interpretations and frames an adviser might be prepared to use could be restricted by their own framing. An adviser adopting a Paradigm approach to the inclusion of 'new' Impact Investments in

portfolios for clients may only use a single interpretation when giving advice, even if this is not interpretation which they hold personally, as this aligns with their firm's position. Advisers taking a Preference-based approach may find that they are reinterpreting Impact on a case-by-case basis for each client they meet.

The alternative Preference and Paradigm approaches, first hinted at in Chapter 5 and discussed further here, appear to be as a result of different intentions. The framing by some practitioners of the capacity of Impact Investments and other forms of SI as a way to deliver financial returns over the long term is very different from a framing of Impact Investing as something for which the primary purpose is the achievement of a values-driven non-financial outcome with the potential for a degree of financial return. Although advisers of both groups might be able to meet some of the need for non-financial outcomes through Impact-aligned and discretionary portfolios, it is not quite scratching the itch for investors who want to create change. Reflecting the JOURNEY metaphor, advisers remain limited to signposting the investor to something 'out there' when it comes to individually impactful investments, rather than making a recommendation for something which might be appropriate. We shall explore this further in Chapter 8.

# Chapter 8: Risk Taking and the Capacity for Impact

*"…I suppose the financial return has never been, has probably never been the most important thing. I mean, I guess, it's nice if it's not going downwards, but the amount it's going upwards has never been the biggest consideration, I would say." (Margaret:1)*

## 8.1 Introduction

Having explored the phenomena of Impact Investing, the interpretations of this, and having seen the relevance of reference-points in a non-financial domain to the framing of decisions to invest in Impact, in this chapter we will consider the idea of variable willingness to take risk to achieve measurable non-financial returns, and the capacity investors have to take such risks.

The idea of a WTP for non-financial returns is not new and has been considered in the literature concerning SI and ethical investing (Nicholls, 2010), it is particularly prevalent in the Impact Investment literature. (Rangan et al., 2012; Thomas and Starr, 2020). Whilst participants demonstrated that there was a WTP for non-financial returns, the evidence presented in this chapter suggests something more complex for different types of Impact Investment.

When developing a financial plan, we consider the investor's knowledge and experience, their willingness to take risk, often known as their Attitude to Risk (ATR) and their capacity to take risk, sometimes considered as their Capacity for Loss[61] (CFL). Together these components come together to create an individual's Risk Profile (***Figure 8.i***).

[61] It is not the intention to debate here the potential difference between an investor's capacity to take risk and the capacity for loss. Whilst the two terms are often used interchangeably, there are also grounds for considering that they may be different and should be expressed differently (Davies, 2024).

***Figure 8.i – Investor Risk Profile[62]***

We have seen how an investor's knowledge and experience can influence their approach to Impact Investing, with a stronger knowledge of non-financial factors creating a demonstrable shift in their desire to achieve greater or more specific non-financial outcomes. Knowledge and experience can influence risk-taking behaviour in Impact Investing, though what that knowledge is of may be of some importance. Increased financial knowledge might encourage investors to take less risk (Bachman et al., 2024), yet increased knowledge and awareness of non-financial factors may increase the risk they are willing to take, due to their awareness of non-financial reference-points and associated loss-frames.

The evidence presented here demonstrates that investors appear to have more than just a WTP but also a Willingness to Take Risk, combined with what I have coded as their Capacity for Impact.

### 8.2 Willingness to Take Risk

Adviser participants noted that their clients were willing to take risks with their capital, with the intention of creating some form of non-financial Impact. The most extreme type of risk-taking behaviour present in the community of those who seek change, particularly with

[62] This is a simplified interpretation of the process of risk profiling included for illustrative purposes only.

respect to climate change, is the willingness to be arrested, highlighted by both Pam and Simon. Whilst this is an extreme form of risk-taking to effect change, we might see this as connected to an individual's position relative to their reference-point, as discussed in Chapter 5. Where an individual perceives the world as substantially below the reference-point, where there is nothing left to lose, they might see extreme actions as a valid means of achieving the non-financial returns required to raise the state of the world towards their reference-point.

The strongest evidence for willingness to take risk came from those advisers who were operating from a Preference perspective. This does not mean that those who see investing in Impact from a Paradigm perspective will not consider willingness to take risk but, as might be expected, they see this in a different way.

Pam provided a vivid example of an investor for whom the idea of risk-taking and Impact are intrinsically linked:

> "[Voicing Client] *'If I take more risk, will I create a better outcome? … If I take more risk, will I create more Impact?'" (Pam:1)*

Pam felt that the role of the adviser in such situations might be to *"rein them in a little bit" (Pam:1)*; to ensure clients meet their financial outcomes as well as their non-financial goals. In her second interview Pam did not feel that there was a relationship between an investor's desire to achieve Impact and the amount of risk they were willing to take. Yet she appeared to contradict this later, reiterating the same statement from the initial interview, highlighting that there are clients who would risk their entire pension fund *"if they thought it would make a difference" (Pam:2)*. Once again this highlighted her responsibility to protect clients from themselves:

> *"…I know that it really won't make that much difference. So they should probably take care of themselves first…" (Pam:2)*

The result is a compromise 'new' Impact portfolio which invests for incremental gains, product by product, company by company, which Pam hopes will balance a client's desire for Impact with the opportunity

for a secure retirement. This suggests a 'new' Impact portfolio might not *do* much good, but it will make the client *feel* good. The client's willingness to take risk to achieve non-financial returns must be tempered in some way.

Val noted that her clients have invested in early-stage projects and *"many of them have lost money"* but clients understood, were patient and still liked them because even if the investment lost money it still benefitted society.

*"…I think lots of our clients are ready for something a bit more radical I suppose. But we are stuck with the conventionality and our Investment Team are not going to take illiquid risks…" (Val:1)*

Whilst she sees a desire to engage with a more radical approach, clients are constrained, not by their own lack of willingness to take risk, but by the investment manager's willingness to take the necessary liquidity risk. This assumes the only way to achieve the radical change clients are seeking is to invest in things which are illiquid. Not only are her investment team not prepared to take the liquidity risk, but Val felt that they *"are more cautious…than me",* suggesting a personal desire to achieve a more radical Impact not shared by others in her firm. Val clarified that as her investment team have responsibility for the firm's investments, she can understand their caution.

Where other participants might be trying to manage client expectations, here the challenge is with the investment manager not being prepared to take the risk necessary to achieve the kind of radical change clients (and perhaps Val herself) are hoping to see. This theme is continued in her discussion of the challenges faced by clients who want to invest to make a difference, not just give their money away:

*"…retail investors will put their money where their mouth is and take risks that institutional investors just won't because it's not their money." (Val:1)*

*"…retail clients are willing sometimes to just take a punt on something…"* [GAMBLING] *(Val:1)*

This resonates with the continued discussions around fiduciary duty (Hummels, 2016) which have permeated SI more widely, not just

Impact Investing. The contrast between individual and institutional investors was also highlighted in her second interview:

*"…a commercial firm, an institutional investor, won't have that passion, a personal passion. So, yeah, the fiduciary duty is probably why they wouldn't do it, but also will they have that passion to be innovative if it's a less personal journey? Because they're there to do a job, ultimately. So, they don't have the entrepreneurial nature, necessarily, I would have thought, that an individual can and will with their own money." (Val:2)*

This passion to be innovative also influences the investor's approach to this type of investing.

*"…there were more innovative investments available that we could put in front of them. We've presented things to those clients and then they've said:* [Voicing Client] *'That interests me. I'm willing to risk my money on that.'…" (Val:2)*

The idea that clients would be willing to risk their money *on* [GAMBLING] an innovative Impact Investment continues the idea that this is something which is less of an investment and more of a gamble on the potential to achieve a non-financial outcome. The language of risking their money *on* this form of investment rather than *in* it is not language which is usually seen in terms of investments. It suggests an enhanced willingness to risk capital, to achieve a non-financial return. Although Val has stressed that this is how clients present their willingness to take risk with these investments, the use of GAMBLING language may also betray her own feelings about the risk-reward relationship of these investments.

In clarifying the use of GAMBLING, Val noted that investors do *"hope to get their money back" (Val:2)* from innovative Impact Investments, but they accept that there is a limited chance of making a significant financial return, a conventional idea of WTP. It is the willingness of individual investors to take the necessary risk to fund these investments at an early stage that makes the case for their later inclusion in regulated 'new' Impact portfolios when their models, either of investment or of the businesses invested in, have become more stable.

Frank demonstrated a perceived connection between investors' knowledge and experience and their risk tolerance, with those who have more experience *"naturally have a better risk tolerance"* than those who have not accrued understanding through experience. This is not something which he thought unique to Impact investors but to all investors. He does note however, that the level of risk people take does appear to relate to how "green" they are. This further supports the idea that loss-frames in a non-financial dimension may cause risk-taking behaviour.

*"…I would be fairly sure in my experience in dealing with those clients that you could quite easily map there how green they were and match it quite nicely to how much risk they're happy to take on." (Frank:2)*

This remains associated with the level of knowledge clients have. Not only are they more experienced investors, but we have also seen they are seeking out new sources of information other investors might not be interested in or take the time to access. In Frank's words, they have *"...done their own research…" (Frank:1)*.

For Joe, his awareness of the risk involved in genuinely transformative investments is ameliorated by limiting the amount of capital invested.

*"…I know because I'm an investor as well…I don't put a huge amount of money on it because I'm an adviser and I'm cognizant of personal risk…" (Joe:1)*

Here too we can see the use of "on" rather than in, continuing the GAMBLING metaphor, suggesting this is a risky bet on a non-financial outcome. Joe's awareness of risk and professional experience means he invests less money, highlighting a problem with the advice-gap where direct Impact Investments are concerned: Investors without advice might be prepared to risk more money, with potentially damaging consequences.

Not all advisors saw this as a risk-based decision however. For Bill the decision to take risk, the willingness to do so, is not the client's willingness, rather it is his decision as an adviser.

*“…it’s not that I’m not prepared to take risk with client’s money to achieve Impact, I don’t think there is any additional risk associated with that. I don’t think that’s in the literature, I don’t think you have to take more risk to make the world a better place or stop it getting worse or whatever. I don’t think that’s a risk… I think it’s a cost and choice conversation, but I don’t think it’s a risk/reward conversation, or it’s not a risk/reward calculation really.” (Bill:2)*

This is a challenging statement, given that there are forms of direct Impact Investment which are high risk, whether because they are investing in untested projects which may not achieve commercial success or because they are illiquid. However, if the definition of Impact is such that we consider *only* investment via listed companies in ‘new’ Impact portfolios, the answer given by Bill would be justified. On this basis then, whether or not one agrees with the idea or risk-taking for the purpose of achieving a non-financial return would depend on the definition of Impact. An investment into a listed equity fund would not differ in risk and return characteristics from another SI fund.

**8.3 Investors and Risk**

Whilst advisers are familiar with the concepts of risk and may think in terms of risk when interpreting how investors approach Impact, investors themselves were less open to discussing this in the same terms. Investors use language which suggests risk-taking behaviour, such as was discussed in Chapter 6 with taking a “punt” on an Impact Investment [GAMBLING]. However, their discussions demonstrated less awareness of risk-taking with an intent to achieve a non-financial outcome. To investors the focus of evidence was on risk to their personal situation in line with Hogan (2012). This type of risk might be associated with a different form of reference-point.

Investors have personal wellbeing reference-points (Budd, 2023) which might have profound influence on how they make decisions. These were discussed in the second interview with Greg. In Greg’s mind, investors currently perceive the state of the economic system as acceptable because they have done well out of it, it has met their expectations. It is the threat to financial security from non-financial

factors which they feel needs to be addressed as it *"…could upset their safety and security." (Greg:2)*. The reference-point is implicit and non-financial; it is their own current state of safety and financial security. For Greg, the client's intention when investing in Impact as part of a wider SI approach, is to prevent any loss of that safety and security. Clients are loss-averse in respect of their own financial security:

> "[Voicing Client] *'We shouldn't let things deteriorate from here because it will start to affect me.'…." (Greg:2)*

The idea that people are loss-averse concerning their own financial situation is not new, yet to see it in this context is something which merits further investigation. It aligns with Ken, who pointed out that whilst people might be aware of reference-points in a non-financial sense, when discussing their investments they focus on financial reference-points such as inflation and financial return. Connecting this to Greg's position; non-financial reference-points might be re-framed to clients as a source of risk to their financial security.

However, investors' wellbeing reference-points are not necessarily seen in terms of preservation. In some cases, they relate to how they perceive the wellbeing of others relative to their own wellbeing and how they might do something to address that.

> *"…rather than seeing it as trying to raise them up to my position I would just talk about it in terms of equalising our positions. Although I've yet to actively let go of anything very significant* [laughs] *in my position, but on the other hand if equalising meant lowering me in order to raise others then that's a good thing as far as I'm concerned." (Thomas:2)*

This suggests an implicit financial wellbeing reference-point he perceives himself to be above, and others below. Thomas would be prepared to see losses in respect of his own financial wellbeing to raise the wellbeing of others to an acceptable level. A wellbeing reference-point could impact an investor's WTP for non-financial returns. Whilst this is an intriguing idea, it would seem to go against much of what we have been led to believe about investors' relationships with reference-points. If my perceived level of wellbeing is above a reference-point

then in theory I should be seeking to preserve this rather than putting it at risk for the benefit of others.

### 8.4 Capacity for Impact

The presence of financial wellbeing reference-points and a tendency to be loss-averse in respect of these may mean that investors have varying degrees of Capacity for Impact. We can posit this as follows: people may want to invest in Impact, with the intention of achieving a measurable non-financial return, however they may limit their investment to preserve their own financial wellbeing. Furthermore, advisers may need to restrain the enthusiasm of retail investors to ensure that they are considering their personal financial wellbeing. The evidence suggests that both advisers and investors are aware of some degree of Capacity for Impact which needs to be taken into account in investment decision-making.

Despite Thomas's suggestion that he would be happy to see some of his own financial security sacrificed to see a more equal society, Bill did not see this as a position which would be held widely.

*"…the vast majority they wouldn't sacrifice their own financial security or wellbeing for some exogenous cause…" (Bill:2)*

This opinion appears to align with the work of Broadback et al. (2019). Indeed, he sees Impact Investing as something which one is able to consider when other, more personal, needs are met, along the lines of Maslow's theory of human motivation (Maslow, 1943).

*"…generally, people are focused on themselves first and then the more of that hierarchy of needs gets filled out, the more altruistic they become and the more they look at other things. It's kind of like the self-actualisation stage isn't it…" (Bill:2)*

This appears to be in line with the ideas of Kinder (2019) who sees advisers as having to address clients' needs in line with Maslow's theory.

Whilst not explicitly drawing on Maslow, Frank creates a distinction between younger investors he sees as more interested in screening (not necessarily supported by the investor data in Chapter 7), and

more experienced investors with greater capital, seeking real Impact. However, the portfolio size described for these sums, of over £250,000 in investible assets, is the minimum level for more than 10% of wealth managers (Esnerova, 2019)[63]. Frank highlights that for some Impact investors there is only the need to know what the companies they are investing in are doing, and that they aren't overly concerned with the accuracy of that information. This suggests that there is a class of investor who is more concerned about how Impact makes them feel rather than the amount achieved:

*"They want a nice graph showing…8 or 12 different areas in which they've had a positive Impact." (Frank:1)*

He contrasts this with investors who come to an adviser with a mandate for change, who tend to be those with greater financial resources; investors who have *"certainly got the capacity" (Frank:1)*. Although Frank suggests a dividing-line on a level of *"sophistication"*, there is no suggestion that those seeking more impactful investments are Sophisticated Investors by regulatory definition (FCA, 2023b).

It is apparent that Frank does not feel he is able to do this kind of investing on his own, it is something which requires external support from a discretionary manager. Yet, as we have seen from Val, investment managers may also shy away from direct Impact Investments, meaning any mandate is for more focussed portfolios of 'new' Impact Investments rather than directly in projects and programmes.

The importance of liquidity and resulting use of 'new' Impact strategies appears to be linked to the purpose of the capital invested. For Nikki there is a need to ensure that her clients prioritise what they want to use their capital for. She sees Impact as being only part of a wider investment strategy and doesn't *"…know anyone who is only 100% in that space…" (Nikki:2)*. Whilst we might see this as a problem which only affects retail investors, it is also the case for institutional investors who, like JP Morgan (Bilbao 2016) may see Impact purely as another

[63] The average is a minimum of £115,000.

asset class and form of diversification. Yet Nikki's statement may also reflect the types of client she is familiar with. In line with Frank and Bill, if Nikki's clients are predominantly those who invest capital they are reliant on to achieve personal goals, there may be limited capacity to risk that capital for non-financial returns.

Investors may also be unaware of the risks they are taking. Nikki notes that part of the adviser's role is to *"…stop people from making mistakes…" (Nikki:1)*. Whilst the adviser's role might be to protect their clients, this becomes increasingly challenging when we consider direct Impact Investments, yet Nikki suggested that these are something investors can do themselves if they have any understanding. An investor with some understanding might be able to identify investment options, but this does not mean that these will be appropriate for their personal circumstances. If advisers are abandoning clients to make these decisions (see Chapter 6), and if clients have the appetite, they may take risks they would otherwise not take.

Like Nikki, Rosie identified that she might need to temper investors' desire for non-financial outcomes due to the impact this might have on their financial lives. Rosie sees the understanding of each investor's capacity, and balancing of their non-financial and financial objectives, as fundamental to the job of the adviser. *"I wouldn't be doing my job if I didn't take that into account for them"* (Rosie:2). She gave a particularly salient example of this in her second interview:

"[Voicing Client] *'I really want to fix the world's water problem in the developing world.'*

*I'll be: 'Great. I really, really want to do that, too, but I suggest we don't put all your pension money into doing that, just that. We need to spread it a bit.'" (Rosie:2)*

This brings a new dimension to the idea of diversification; that investors should diversify the non-financial outcomes they seek as well as financially.

In line with Bill and Frank, Rosie is aware that her clients need to have the necessary financial capacity:

*“…somebody once said to me: ‘Ah, you’re looking for clients who can afford to have a conscience.’ I hated that, but, unfortunately, there is a little bit of that...*

*You need to know you’re alright, to know that you can afford to invest in a way that's not just about return.” (Rosie:2)*

Rosie accepts that affordability is an element of the decision-making process where non-financial returns are concerned, despite the framing of the reported statement suggesting that having a conscience is optional. This highlights the difference between WTP for non-financial returns and capacity to pay, but just as equally could highlight Rosie’s own framing; that in order to invest in something which is truly impactful it is necessary to sacrifice financial return.

For Pam, like Frank, the issue is not just around the investor’s Capacity for Impact, but the level of sophistication required for what they consider to be genuinely Impactful investments. Something which is illiquid might not be suitable for retail investors.

*“…there were too many barriers to getting clients invested and quite rightly. The barriers were for their own protection…” (Pam:1)*

*“…just too risky for retail investors…” (Pam:1)*

These are problems which she sees as needing to be addressed at an institutional rather than an individual level and her firm, like that of Val, chose to implement what she considers to be *“retail friendly”* portfolios with greater liquidity and which can be used within retail tax wrappers. These investments *“support positive change” (Pam:1)*. This may be a subtle but important distinction between the direct Impact Investments clients had been accessing before and those incorporated into the liquid portfolios; they support rather than create change.

Pam noted that she discusses with clients how comfortable they are with the difference in potential risk they might experience when investing for Impact rather than financial return, stressing the need for balance. She outlined how she uses cashflow analysis to determine the amount of capital the client *“can’t afford to lose”* which they will be *“sensible”* with. Where there is capacity above the need they will be able to allocate this to activities which might be more directly impactful.

Here again we can see how paternalistic framing might influence a client. Pam's use of *"sensible"* to describe investments they will continue to manage, those which the client needs to maintain their own lifestyle, frames the more impactful investments as not-'sensible'.

A similar framing can be seen with Val, though the framing is not hers but that of one of her clients:

> *"…she has what she considers her play money… she also does philanthropy, but the stuff that she doesn't give away is this esoteric bit of money that she knows she might lose, but she has such capacity for loss, and such willingness to take those sorts of risks, we can say:*
>
> *'Well, yes, for this part of your money, say 10% of your overall assets, you're happy to have in a high risk. So, you're a medium-risk investor, as long as your needs are met for the bulk of it, but then you can have a separate pot that is high risk.'…" (Val:2)*

Framing this capital as *"play money"* [GAMBLING] makes it less serious. Yet any losses incurred are not "play" losses, they are real. The framing might be received from Val because of the risk she identifies in direct Impact Investments and subsequently conveys to her clients:

> *"…it's kind of trained clients only invest money you can afford to lose. All bets are off. Anything could happen…" (Val:1)*

The GAMBLING metaphor used here helps to highlight the risky nature of investments in direct Impact.

Val noted that her approach has changed over time. In the past she would have given investors the opportunity to invest for something with a *"very strong social environmental impact"* but which might not give a financial return. If the client wanted this then there was a clear barrier to over-investment, *"no more than 10%"*. This position is aligned with the restrictions suggested by direct-to-investor platforms (see ***Appendix 5***). Val compared the potential investment amounts to her own fees: most clients could afford £500 into something of this nature, *"they can't afford our fees if they can't afford that" (Val:1)*. Such recommendations became a *"rod for our own backs" (Val:1)* but also gave clients a false sense of security because they were receiving

financial advice. Taking a *“signposting role” (Val:1)* [JOURNEY] felt more appropriate. However, this transfers the risk in the decision-making process from someone who has the skill to make an educated assessment of the potential risks to the investor. Whilst companies such as Ethex and Abundance, both referred to by Val, are clear that they only allow investment from certain classes of investors, accessing this type of investment is not particularly hard to achieve.

As Val is no longer offering recommendations to what she feels are more innovative Impact Investments, she is reduced to answering questions raised by clients. This effectively changes the burden of responsibility for raising the existence of such investments from adviser to client: If the client doesn’t know about them, it is unclear how they would find out. On this basis, if the client wants to invest in something which is more impactful than a ’new’ Impact portfolio, not only will they have to self-select the investment but to find out more they need to be the one who raises the matter.

The conversation here felt tinged with emotion and a sense of disappointment, not only that these investments are less likely to receive as much funding, but also because as an adviser she is reduced to talking in vague terms about something she cares about.

*“…sometimes we pass comment…in a noncommittal way” (Val:1)*

The capacity to invest in Impact is highlighted in her reflection on her clients in general: As with Rosie’s clients *“…they can afford to be liberal…” (Val:1).* This affordability allows them the flexibility to think about people less well-off than them, something they would not have if they did not have financial security. However, philanthropy doesn’t achieve the investors’ objectives to be part of the change.

*“…a lot of them do want to do, not just do philanthropy or charitable donations, but actually invest in interesting projects that can help, if they are successful, can help change the world….” (Val:1)*

Clients now need to *“buy in”* [GAMBLING] to firm’s ‘new’ Impact approach. Whilst this might align better with each client’s attitude to

financial risk and need for financial security, not all clients have been happy with this change.

*"…some clients being disappointed that we don't really do the innovative stuff anymore, but not when I've explained that it's not because we don't care anymore…" (Val:1)*

The blame for this shift, one which she clearly feels uncomfortable about, is laid firmly at the feet of the regulator and, to a lesser extent, the providers of indemnity insurance.

Val was not alone in trying to find ways to help investors access investments which are individually Impactful, without making specific recommendations for individual investments. To Joe, the mindset and capacity of the client is important: If they approach their adviser with a clear idea of what they want to achieve, the interpretation will be towards direct Impact. The resulting approach will be to see if he can find a way to help the client invest that way, something which is not always possible: *"…it's not easy to flag a route for them …" (Joe:1)* [JOURNEY]. Where it is not possible to find a way to help the client participate in investments which are directly Impactful then the conversation turns to negotiation. The client must put aside their desire to engage and, like Val's clients, must *"buy in"* [GAMBLING] to the concept of a potentially less impactful secondary-market approach, in the hope of *"…satisfying themselves that they've done something positive." (Joe:1)* In this case, the GAMBLING metaphor appears to have switched to a risk that the investment will not create change.

Joe sees clients as being upfront about their willingness to *"forgo financial return to achieve an impact" (Joe:1)*. This is connected to what he calls their "ranking priority"; they want their money to do specific things and they recognise that sometimes this means lower financial return. As such, Joe sees willingness to engage with Impact as dependent on the client and their circumstances; how the money will be used and their *"relative degree of wealth"*.

For Joe there is an additional factor, which appears to be unique among adviser participants, that of stewardship. Whilst other adviser

participants have used this term in reference to stewardship of the planet, Joe also sees it as a differentiator in the willingness to invest for Impact. Where an individual has inherited wealth, something they are holding for future generations, it is not their money. This might influence where it is invested, in line with Statman (2011). However, the limited evidence presented is not sufficient to draw clear conclusions. Inheriting capital may enable risk-taking for financial and non-financial return, but may also encourage inheritors to consider investing with a longer time horizon, with a resulting focus on longer-term social and environmental issues.

The discussion of inheritance and legacy may reflect a difference between the client profile of those seeking advice from Joe and that of other participants. However, it is not present with all of Joe's clients, and he also incorporates a pragmatic offset regarding the amount of capital investors are allowed to put into direct Impact investments.

*"…if you've got enough money, you can take 10% of it out and put it into this. Because we've decided that actually doesn't matter if you lose it trying to make an impact. Whereas the rest of this will go into what we decided is regulated and therefore none of us will lose our shirts or our jobs as a result of doing it." (Joe:1)*

This sums up the risk-reward conversations; by limiting the amount allocated to direct Impact the client is not going to be left destitute if the investment fails. It also encapsulates the fear raised by Val: Failing direct Impact Investments recommended by an adviser might cost them their job, or their business.

We have seen that there is a general notion of a capacity for Impact amongst advisers. How much someone can invest in Impact, particularly direct Impact, is dependent on whether the client requires the capital to maintain their own financial wellbeing. It is also restricted by the amount of risk the adviser is willing to let them take to their standard of living, something which might be addressed formally through a cashflow model. For direct Impact, it is also limited by advisers being unwilling or unable to make recommendations for these investments. A client may have the capacity to invest in direct Impact,

but their advisers are not part of the decision-making process, other than letting them know how much they feel they can safely invest.

### 8.4.1 An alternative perspective

Before considering investor evidence, it is worth noting the perspective on the Capacity for Impact expressed by Greg and Ken. This is not a reference to direct Impact Investments, but rather the types of investment which would form a 'new' Impact portfolio.

Unlike Preference-based approaches to Impact Investing, Greg sees the investor as having zero capacity *not* to invest in Impact, at least to some degree. There is no issue of WTP or willingness to take financial risk for alternative returns. For Greg this is as much about the financial return as it is about sustainability aspects: People are persuaded by the idea that it will increase or preserve financial returns over the longer term, rather than by a desire to give up money, return or take additional risk for a non-financial outcome.

> *"…You're not investing in practically or sustainably out of altruism. There's very visibly a direct impact and immediate impact on your personal financial plan.*
>
> *…this isn't a values-based decision." (Greg:1)*

If a client has only their pension, or this is majority of their assets, needed to provide their own retirement income, their capacity to engage in investing for predominantly non-financial return is extremely limited, unless that non-financial return fundamentally influences financial return.

A similar approach is shared by Ken. Whilst he incorporates 'new' Impact into his investment portfolios, he stresses that this has to be about a financial decision:

> *"…we have to be very careful that what we're doing makes financial sense." (Ken:1)*

For Ken, Impact is part of managing financial risk, therefore an investor who requires financial return in order to achieve their target financial

outcomes has no capacity *not* to invest in Impact, albeit this is likely to be in some form of 'new' Impact.

### 8.5 Investor Evidence – Capacity for Impact

Amongst investors there was a clear demonstration of an awareness that investment in Impact might be something they have to balance with their own need for financial safety and security. Whilst investing in direct Impact might be a form of self-actualisation in line with Maslow (1943) and Bill, it can also be seen as satisficing; it is the least worst option for people who do not want to engage with the financial system.

Considering that for Oliver Impact is only a component of SI, achieving a measurable non-financial return is not his primary purpose for investing. As such, whilst he might have some degree of capacity, he aligns more with Rangan et al.'s (2012) idea of investors who are Finance-first.

*"…It's secondary. A reasonable, a comfortable and financial independence, reasonable financial state is probably more important. But I want to achieve that by using sustainable investments[64]. That isn't the primary aim, I'm not going to compromise my family and my financial position too much by focusing too much on the environmental aspects…" (Oliver:2)*

There is awareness of a clear need to balance personal financial security and the ability to invest for change.

Simon is also reliant on the capital he has invested. He feels he has more and so should be doing more, but because he is reliant on his investments for income there is only a limited amount he can do.

*"…I haven't put myself in that position of getting arrested, but I've been on marches and so on.*

*…I mean I'm not going to go out and smash windows and so on, that's not the point…*

*…So there's a very real sense of losing something … you may have to be prepared to lose something." (Simon:2)*

[64] As in previous chapters it should be noted that Oliver's interpretation of Impact is one which sees this and other forms of SI as one and the same.

Simon's interpretation of this need for different levels of involvement leans into the idea of different Capacity for Impact. If someone feels strongly about something but doesn't have financial resources they can commit, there might be other steps that they are prepared to take. In the same way there are different sources of income, we might consider there to be different sources of measurable change for non-financial returns. This contradicts the idea that was reported by Rosie that people who invest in Impact are those who can afford to have a conscience. In Simons case, he might not feel as well off as some of the other participants, he doesn't feel able to contribute to solutions financially, so he does so in other ways.

Dorothy also raised concerns regarding the limited resources of her personal financial situation. For her this related to fears about future wellbeing and not wanting to place an unnecessary burden on her children.

*"To the extent that I need to protect my old age, I want the least bad option within that." (Dorothy:1)*

Investing is necessary, but she wants to take the least-worst option. Whilst a less-worst option would be any form of SI, she pursues Impact Investing because she does not feel able to give her money away to achieve the changes she seeks. Investing is necessary because the state will not provide; she must put herself first, at least to some degree. The desire for impact, for change, must be balanced against the need for self-preservation. Dorothy's position might be considered in terms of how much risk to her personal financial situation she is prepared to take to see change. This is something she negotiates with her husband as they both have different approaches to risk and WTP for non-financial outcomes.

*"…I've got enough in the pension pot that I don't need to have to keep growing the pension pot…" (Dorothy:2)*

Whilst she might consider that she is comfortable, her husband may have a different wellbeing reference-point. Her position could be seen in light of the comments reported to Rosie; Dorothy might be someone who feels she can afford to have a conscience.

Like Dorothy, Angela is reliant on the capital she has invested, both now and in the future, as part of her retirement income strategy. She has a degree of WTP, however this has to be balanced with her own need for financial security.

*"…so it's a balance, I think, because I do need to keep some value, I need to live off that now…" (Angela:1)*

A component raised by Angela, but less present for other participants is the potential additional cost of investing in Impact.

*"…I think it's probably more expensive than non-Impact Investing.*

*…I guess because people have to do more work…" (Angela:1)*

Angela reminds us that any consideration of WTP must also include any additional cost of investing this way. For Angela the portfolio which is her primary concern, the one in which she is interested in performance and charges, is the one on which she relies for her retirement income; a 'new' Impact portfolio. There are no such concerns about her direct Impact Investment, an *"experiment"* with an investment manager whom she thinks does *"great work"*. However, highlighting the earlier consideration of risk transfer, this is not evidenced and Angela acknowledges she has undertaken limited evaluation.

Were it not for a small amount of inherited capital it seems unlikely Angela would have invested in direct Impact at all, as she would not have had the capacity. Again, this highlights the psychological difference represented by different sources of capital (Thaler, 1990; Statman, 2011). Angela has invested her inherited money in something which might have a wider impact than just increasing her income in retirement.

In a manner similar to Angela, Margaret sees her capacity to invest as an extension of her personal responsibility not to be a burden on others.

*"…there's the guilt element and thinking: 'Why should I have all this money? Why don't I just give it all away?'*

*…provided I have enough money for my care in the future … then in theory I could dispose of money. But not knowing how long that will be needed for or what the cost will be, and having just had close experience of that through my mother, I'm very mindful of it…*

*…it's trying to achieve some sort of balance between retaining money to make sure that the rest of one's life… and not a burden to anyone else." (Margaret:1)*

Margaret's evidence demonstrates a clear understanding that despite her concerns for her financial future, she is more fortunate than others. She goes on to discuss her charitable contributions, a natural progression from the idea of giving her money away, but ends with the consideration that she can't give it all away because money is *necessary*.

Margaret discussed how she does not spend a lot of money on holidays or *"stuff"* and whilst she thinks there should be *"plenty left"* there is still the worry that she doesn't know what old age will bring. When coupled with a *"series of governments who are quite incapable of looking at social care" (Margaret:1)*. and no guarantee that the state will provide, she sees the necessity to protect herself.

*"I feel I need to look after myself. …to have my money sorted in such a way that other people…don't have to be involved." (Margaret:1)*

When discussing her investments, Margaret was focussed on direct Impact rather than her advised portfolio, despite seeing the identification of investment opportunities as her adviser's responsibility[65]. Her direct investments have been made without the intervention of her adviser, into what she describes as *"little, local things"* (Margaret:1). These projects have developed over time but continue to attract money from local people *"…however much you want, but smallish amounts of money"* (Margaret:1). She has one arrangement which represents a *"reasonable"* sum but sees this differently as it is not direct but through a sustainable finance provider.

This suggests that the adviser's involvement impacts the size and scale of investment, as well as the availability of information. Margaret

[65] See Chapter 5.6

is not aware of investments which are outside of her local community. She would be interested in other opportunities, but someone needs to bring these to her attention. If advisers aren't allowing themselves to participate in this market and investors see this as the adviser's responsibility there appears to be a disconnection in the way the market for direct Impact currently operates.

For Thomas, there was clear evidence that his capacity to invest in Impact was connected to the amount he could afford to lose.

*"…it's money that, you know, I have to accept that I can afford to lose." (Thomas:1)*

It is apparent that he has considered this in terms of the risk of the investments he makes. It is because they are potentially riskier that he will only invest capital he is prepared to lose. This might mean that he is one of those who can 'afford to have a conscience' yet this only relates to those investments in direct Impact. Most of Thomas' capital is invested in consultation with his adviser in assets which have a different profile, potentially allowing him to take the kinds of risks he takes with his direct Impact portfolio. To do otherwise would have a negative impact on his personal wellbeing and that of his family.

Thomas also acknowledges that the additional risk he can take with the capital invested in direct Impact is connected to his overall level of wealth.

*"…I do feel that my financial position allows me to take a degree… yeah, I mean it's whether you can think about the risk overall in my total worldly net worth, whatever, or the risk in an individual investment.*

*…my social Impact investing, my Impact investing, dabbling, is in a sense I could say that it's kind of written off already…*

*If it gives me a return at all then that's a good thing because in doing so then I also sought to do something good but if it all goes tits up- and none of it generates… if it all just disappears, then I still didn't take much risk in the big picture, so my world hasn't come crashing down around my ears." (Thomas:2)*

Viewing his 'dabbling' in direct Impact Investments as separate from his wider investment portfolio allows him to take the risk he wants to

take for the non-financial outcomes he wants to achieve. By viewing these investments in this way, performance considerations are null and void. The money has already been *"written off"*; it is no longer considered as part of his investment portfolio.

Thomas's evidence also raises some questions regarding the need for comprehensive due diligence.

*"…One of the reasons that I keep my Impact Investing down to a relatively low level is because I'm not really, in my opinion, that interested enough to take a close enough interest either in doing really proper due diligence or then wanting to be involved."*
*(Thomas:2)*

This passage suggests that if there were external due diligence he might be interested in investing more. This is the amount of money he can risk without doing so.

This does not mean that he does nothing. In his second interview Thomas admits to investigating the people involved, looking at what they have done in the past. However, he feels that this is insignificant compared to what is undertaken by investment managers in relation to the rest of his portfolio, where he wouldn't even comprehend the analysis used or have access to the same sources of information. Thomas also acknowledges he is not doing his "homework" properly and should be evaluating the effectiveness of his decisions.

Whilst Thomas might be happier if the firm appears to have a stronger management team, this does not appear to be necessary. This was evident from his discussion of investment via Impact platforms where he might make an investment into something which simply sounds good. Thomas considers that he might be too trusting of Impact Investment platforms and is trusting his "gut" more than any detailed research.

Thomas also noted that despite being an early-stage investor in some companies as part of his direct Impact portfolio, he does not want the kind of participation that an Angel Investor might want. This is clearly situationally dependent, as he is closely involved a local solar project.

*“..I don’t want to have control… I’m particularly happy if I feel that it looks to me that the company has good management or good background history or good connections or good… but yeah, it’s kind of, ‘Light the blue touch paper and retire.’” (Thomas:2)*

This explosive metaphor may betray how Thomas sees the process of investing in direct Impact; it is exciting yet also dangerous, just like setting off a firework.

Capacity for Impact is, in this case, a willingness to take financial risk for the chance of a non-financial outcome. The amount directly invested, over which Thomas has control, feels bigger than it is because he is unable to give responsibility to the adviser to handle this for him.

*“…in my mind the size of the part of my investments that are under my control or under my choice, is probably… seems a lot bigger than it really is as a proportion of the total amount of money invested.” (Thomas:2)*

This results in a further psychological burden on an investor who is required to do these things for himself: *“the amount of attention it gets is greater that would be warranted by the proportion of the money”* (Thomas:2). Yet despite this, it is a level of attention Thomas seems happy to give these investments.

*“…rather than worrying on the ethics or what’s going on in the fund manager’s world which is working with the majority of my money, I can put my attention and allow my attention to be taken up by the stuff that I chose and therefore it’s my little… more my game, more my control.” (Thomas:2)*

For Thomas, the financial world is full of sharks, he is letting his adviser handle the sharks so he can do something which is more enjoyable. The idea of this being a game [GAMBLING], reinforces the idea that this is *“play money” (Thomas:1)*, but not everyone sees it so lightly.

Jonathan felt that most of his capital is not invested Impactfully, as it is in a ‘new’ Impact portfolio. In this he disagrees with his adviser’s perspective. While his adviser sees Impact as something which can be generated through liquid secondary markets this does not fit with Jonathan’s understanding at all. Nevertheless, he accepts that there needs to be a trade-off between being impactful and managing his

financial affairs in a way which protects his financial future. Like Thomas, Dorothy, Margaret and Angela, his direct Impact portfolio is capital he can afford to invest without risking his and his family's wellbeing.

Jonathan has extensive knowledge of the sector, how investing works, and meets the necessary capital levels to be a Professional Investor, yet states categorically that he does not classify himself as such. This might be because he is aware of the lack of protection afforded to them. Yet someone who is less experienced, who might have more capital and a similar willingness to invest, could fall into the trap of thinking they fall into this group because they meet the minimum criteria, putting themselves at unnecessary risk. In a market where advisers find it difficult to engage with progressive direct Impact investments like the ones preferred by Jonathan, there is significant scope for client detriment.

### 8.6 Conclusions

The evidence presented demonstrates that advisers are aware of the relationship between Impact Investing and their clients' willingness to take risk. Advisers demonstrated a perception of increased risk where direct Impact is concerned, due to the small scale of companies involved and the illiquidity of potential investments. Investors were less likely to think in terms of risk in an investment context, rather they demonstrated awareness of financial wellbeing reference-points. Evidence from both advisers and investors suggested they might be loss-averse in this dimension. The willingness to take risk to achieve non-financial outcomes appears to be connected to how investors see their investment in Impact. If their approach to Impact Investing is one which integrates this across their investment portfolio the willingness to take risk for a non-financial outcome might be tempered by the desire to preserve their state of financial wellbeing.

We might consider the willingness to take risk as another form of WTP, where the cost is not necessarily a loss of financial return but a loss of liquidity or certainty. Where there is evidence of increased risk, such

as in illiquid direct Impact Investments, these might be below-market-rate investments where there must also be financial WTP. Where investment is in 'new' Impact portfolios, investing in listed equities, there is limited need to consider WTP or willingness to take risk beyond that which would occur for any other finance-focussed investment; these are liquid market-rate investments.

Many participants had both market-rate 'new' Impact portfolios and direct Impact investments, with the former managed by their adviser and the latter something they generally manage themselves. Whilst it might be convenient for advisers to ignore direct Impact Investments, we have seen that there is a demand for these among investor participants. Whilst they might have 'new' Impact portfolios they may still want to achieve greater non-financial returns from their capital.

The desire for greater Impact than is achieved by 'new' Impact portfolios suggests there needs to be consideration of the capacity each investor has to invest when they express a preference for investing in direct Impact. Just as investors have both variable willingness and capacity to take risk in a financial sense (Pompian, 2012), there is a need for consideration of a capacity to invest in direct Impact, linked to financial wellbeing reference-points (Budd, 2023). Advisers will allow their clients, or Investors will allow themselves, to invest an amount of capital in direct Impact, the loss of which would not result in a change to the individual's financial wellbeing. They are operating what appears to be a modified interpretation of a safety-first strategy (Roy, 1952) where the amount committed to the risky asset is not for financial but non-financial gain.

The evidence presented by both advisers and investors appears to demonstrate an approach to allocating capital to direct Impact which aligns with the concept of mental accounting. Framing investment in direct Impact as a separate mental account disconnects it from investors' wider investment portfolios, with implications for both investors and advisers. We shall turn to this in the chapters which follow. This approach to mental accounting, further evidenced by the use of the GAMBLING metaphor, provides the flexibility for financial

advisers to step back from participating in the direct Impact investment selection process and their responsibility for making recommendations.

Investors in direct Impact appear to be accessing these investments through portals, such as those noted in **Appendix 5**, though some are also accessing more locally-focussed investments through other means. Although investors are engaged with these investments and in some cases have expert information on which they can rely, there is limited evidence of comprehensive due diligence. Information gaps exist, even for relatively sophisticated investors.

Attempting to limit direct Impact Investments to sophisticated, HNWIs or those who are only prepared to invest only 10% of their net assets does not equip investors to do the necessary due diligence from either a financial or non-financial perspective. There are also questions about whether investors such as Thomas, Dorothy and Jonathan would be investing more if their advisers, or other suitably qualified professionals, were conducting appropriate due diligence and felt able to support them further on this part of the journey.

The ease at which a prospective investor can access direct Impact platforms (see Appendix 5), and the relative simplicity they bring to investing in potentially high-risk companies and projects, may be creating potential for financial detriment. Where investors do not have an adviser who is helping them understand their capacity, they may risk more than they are able to afford, placing their own financial wellbeing in jeopardy.

# Chapter 9: Discussion

## 9.1 Introduction

The evidence presented in Chapters 5 to 8 has highlighted the importance of non-financial and wellbeing reference points, frames and framing in advised Impact Investment decision-making. This chapter will progress through and draw together the analysis presented in these chapters before proceeding to the substantiated conclusions in Chapter 10.

Before proceeding, it is worth reiterating the initial questions raised in Chapter 1 this research sought to explore:

1. How do retail Impact investors experience frames and framing when making advised investment decisions?

   and

2. How do advisers experience giving advice in this context?

Whilst it might be convenient to simply ask investors and advisers to answer these questions, it is unlikely this would have produced viable data. As was demonstrated in their answers, participants were not necessarily familiar with reference points, frames or framing, and their reporting of how they make decisions is unlikely to reflect how they actually make them. Asking someone how they think does not yield credible results because they don't know (Lakoff, 2008). As such, I have explored these issues with participants indirectly; through a detailed exploration of what investing in Impact means to them or their clients, their recollection of making decisions and what they wanted to achieve, and through presenting the idea of investments with different frames.

This chapter will begin with a presentation of the conceptual framework I have developed to answer these questions. It will then proceed with a discussion of the experiences of retail Impact investors, their reference-points, cognitive frames and loss-aversion and how these influence their decision-making in this context. I will then

examine the framing used by advisers and the interpretations of Impact Investing and the importance of mental accounting. The metaphors used by participants, which help in understanding their individual perspectives, are interwoven throughout.

### 9.1.1 Developing a Conceptual Framework for a Theory of Advised Retail Impact Investing through an Experiential Lens

The conceptual framework initially posited (see ***Figure 1.i***) rested upon reference-points, loss-aversion, frames and framing. I have shown through evidence presented in Chapters 5 to 8 that this conceptual framework, whilst helpful in developing the questions asked and providing the context in which analysis could take place, did not fully explain the experiences uncovered through this research.

The interpretive process employed has been abductive, a fitting process for the IPA method, creating a dialogue between theory and evidence. As such, in an attempt to answer the above questions, I have needed to draw on wider theory to develop a more complete picture. The research uncovered a novel use of mental accounting, one closely related to the vagaries of the Impact Investing journey. The relevance of Metaphor in understanding the advice relationship and interpretations of the world also became apparent through the analysis process. This has resulted in the more complex framework shown here (***Figure 9.i***).

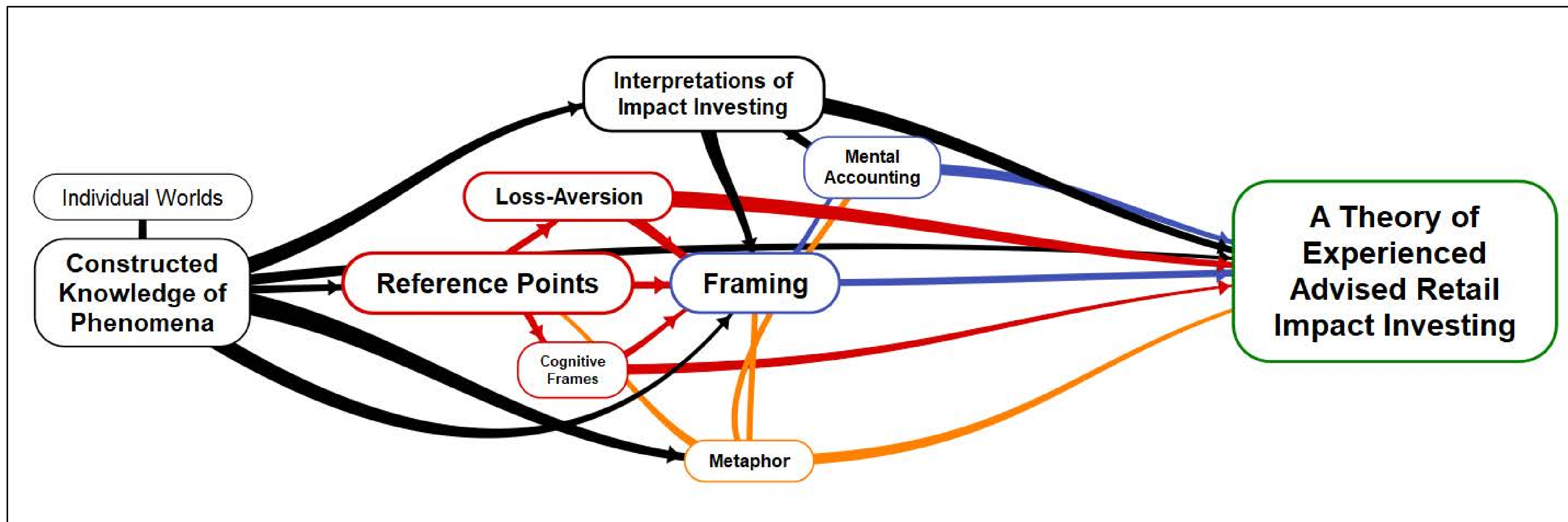


*Figure 9.i – A Conceptual Framework for a Theory of Advised Retail Impact Investing through an Experiential Lens*

I have used colour to help differentiate different components of the theoretical framework which I am proposing. Black indicates the **Constructed Interpretation of the World** through a constructionist lens and how it can be seen to influence interpretations of Impact Investing, the reference-points of investors and advisers, the metaphors they use, and its contribution to framing and mental accounting. Red denotes the components which are connected to investors' **Reference-points**, shaped by their knowledge of the world and sometimes communicated through metaphors. Blue indicates the activity of **Framing**, how this is influenced by reference-points, cognitive frames and loss-aversion and the interpretations of Impact Investing. Orange shows the language of **Metaphors** which aid in communicating the constructed knowledge of the world, and how they contribute to our understanding of reference-points, mental accounting and framing in this context.

Whilst there are many interconnected elements, this chapter will help demonstrate how these connections draw on one another to paint a coherent picture of advised Impact Investing. Once again, I will maintain a differentiation between experienced (received) cognitive 'frames', which may be established relative to reference-points, and 'framing' as an action. Cognitive frames and loss-aversion, both of which relate to some form of reference-point, are a key component of how people understand their decisions to invest in Impact and how they give advice.

Experience of the world shapes constructed knowledge of phenomena and use of metaphor allows for the creation of shared meaning (Lakoff and Johnson, 1980). These metaphors help advisers and investors communicate yet can also help us understand their perspectives. Central to the understanding of Impact is the expressed desire of individuals to affect change in the world through their personal finances [AGENCY]. Yet whilst investors may want to create change, they may also be limited in their ability to do so by the constraints of their own financial situation, relying on the guidance of advisers [JOURNEY]. The use of mental accounts is particularly evident in the

use of the GAMBLING metaphor, with mental accounting a form framing which helps investors manage financial and non-financial loss-aversion and risk.

Having pulled apart threads of enquiry developed and presented in Chapters 5-8 to examine them more closely, I will now begin to weave them back together to demonstrate a coherent theory of Advised Impact Investing. As the chapter progresses, ***Figure 9.i*** will be repeated in four variations (a,b,c and d), each highlighting the areas of the conceptual framework covered in the subsequent chapter section[66]. I will begin with an examination of how the conceptual framework helps us to answer the first question, how retail Impact investors experience frames and framing when making advised investment decisions.

## 9.2 How do retail Impact investors experience frames and framing when making advised investment decisions?

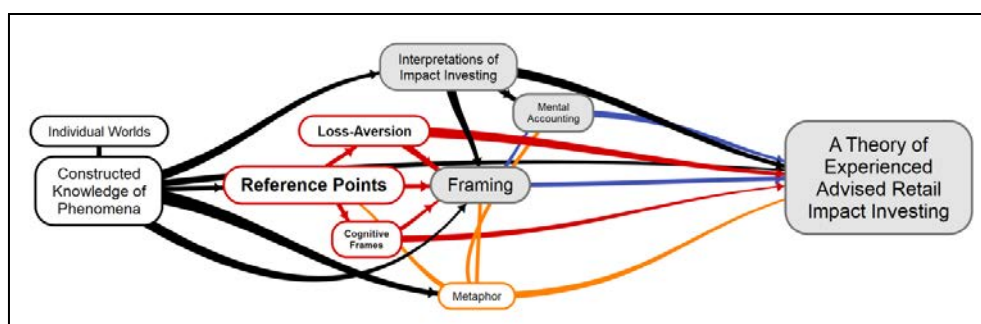


***Figure 9.i(a) – A Conceptual Framework for a Theory of Advised Retail Impact Investing through an Experiential Lens***

In this section we will consider the components of the conceptual framework relating to Reference-points, Cognitive Frames and Loss-Aversion. Whilst this will focus primarily on the investor experience, it will also draw on evidence presented by advisers.

[66] Areas which will not be covered in the section following each diagram have been "greyed out" with the intention of highlighting the sections which are to be covered.

### 9.2.1 A Plethora of Reference-Points

The evidence presented in Chapter 5 demonstrated that reference-points do appear to exist for participants in a non-financial (Impact) dimension. However, unlike a financial reference-point which might be easily quantifiable, the non-financial reference-points experienced by investors, and evident in their responses, appeared to be implicit and dynamic. Whilst some investors did have defined non-financial reference-points, these were rarely explicit. Oliver's population reference-point is an example of a fixed explicit reference-point, and may influence decision-making concerning his investments, yet it is not something his investments can change.

Implicit reference-points, such as 'equality' and 'a liveable planet', were identified in both social and environmental non-financial subdomains (see ***Figure 9.ii***). The evidence showed that these reference-points are personal, with the knowledge and experience of the individual influencing the importance of the reference-point in their thinking, their life-world. Whilst the extent to which these non-financial reference-points influence decisions is not something we can determine from the evidence presented, we can see that they play a role in investors' understanding of the world and their relationship to it.

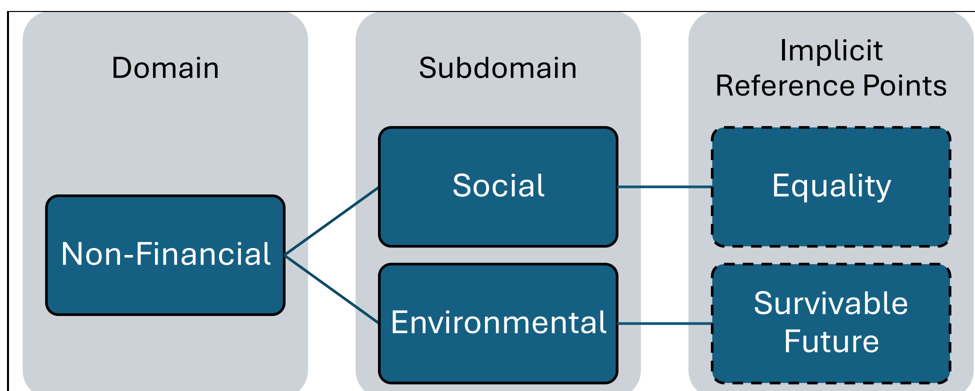


***Figure 9.ii: Social and Ecological Subdomains of Non-financial Return***

The evidence presented by advisers also suggested that similar reference-points to those which exist for investors might influence their own thinking. This was particularly evident in the cases of Ken and

Greg where there was strong evidence that non-financial reference-points in the environmental subdomain influenced a change to their overall advice process. Here their perception of climate change has resulted in making SI the core of their offering, integrating Impact Investing into this approach for all investors, at least to some extent.

That reference-points may be implicit rather than explicit may be the result of not asking either investors or advisers what an acceptable level of equality or environmental protection would look like. Yet as these subjects are multifaceted, it may be that they would not be able to make a definitive statement. While Greg and others made reference to the 1.5°C temperature rise of the Paris Climate Agreement (UN, 2015b) this is a reference-point which is regularly referred to in media and relevant publications concerning climate change. As such it may be easy to create a reference-point around this figure, rather than coming up with something more personal and relevant.

The metaphorical reference-points of birdsong and ladybirds (Dorothy), and hedgehogs (Ken and Greg) are a different way of expressing an environmental reference-point in a way individuals can understand. Such metaphors are not unique to this research. Lakoff (2008) refers to 'frogs and butterflies' in considering the impacts of climate change. Whilst these metaphorical reference-points might be powerful in influencing investors' perceptions of phenomena, they are not something we can immediately quantify in investment terms. No investment manager is currently offering an Impact portfolio which outperforms in terms of hedgehogs.

Indeed, discussion of things which can be measured was limited, despite a majority of participants (10/17) referring to carbon or carbon-offsetting at some point[67]. Investors are aware of the importance of carbon emissions with respect to their environmental reference-points, but carbon isn't necessarily something which means something to them personally.

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[67] Bill, Joe, Rosie, Pam, Frank, Nikki, Greg, Jonathan, Dorothy, Simon,

Simon expressed what needs to change in terms of individual or collective wellbeing. Whilst we might be able to measure this in some way, it is difficult to do so objectively without reference to either the wellbeing of someone else or to ourselves at a different point in time (Lakoff, 2008; Budd, 2023). We might think of investors as having ‘collective wellbeing’ reference-points which could influence their decision-making. This goes beyond the idea of general personal wellbeing expressed as utility (Sunstein, 2005) and suggests something more inclusive.

Whilst it is evident from Chapter 5 that reference-points are highly individual and based on the information each person has available, we should consider the possibility that reference-points in a non-financial domain may not exist until such time as an investor has the necessary information to establish that reference-point. Heidegger’s conception of the world of each person as being inseparable from their history may help explain this; individually their world and their knowledge of the world is shaped by their experience. For Dorothy, her experience working overseas created access to information necessary for her to build reference-points concerning equality, while for Oliver his reference-point is directly linked to a book he read when he was a student. For Simon the information source for his reference-point is less clear as it appears to have been shaped by his experience as an investor in renewable energy. There must have been some form of reference-point before this, however it is possible that this has been overridden with new information obtained as an investor. In each case their historical interaction with the world has helped to create their world as they perceive it today. As such, there is no guarantee that every individual has a non-financial reference-point on which they might make investment decisions; they might not have the necessary information to have developed such a reference-point.

Whilst reference-points might be derived from experience, we should consider that they might be introduced by external sources; they are not necessarily formed a priori. In an investment context this is equivalent to the establishment of a reference-point by an adviser

when they calculate the amount of capital required for an investor to achieve a particular level of income in retirement. The amount may become fixed in the investor's mind, regardless of whether it is correct or should have been updated (Karlsson et al. 2009). Non-financial reference-points might also be introduced in a similar manner. A world aligned to 1.5°C is not the best possible outcome, it is a reference-point which has been introduced by its presence in the Paris Agreement.

Evidence from Val also suggests that investors have reference-points for the degree of non-financial return delivered by their investments. A generalised non-financial reference-point would align with an interpretation of utility which extends beyond the self. Whilst this might be considered in line with Statman's idea of experienced utility, the psychic return which comes from doing good for others, the evidence presented suggests that this is about more than just how investing for Impact makes people feel. Investors appear to have a genuine desire to change the world in some respect. Yet the psychological value of Impact Investing, and how this forms part of the overall value of investing, should not be ignored. Investors clearly obtain some psychological comfort from doing what they believe is right [CONFLICT] and see their investments as being instrumental in achieving this [AGENCY].

### 9.2.2 Complex Cognitive Reference-Dependent Frames

The existence of non-financial reference-points suggested the possibility of cognitive frames (Kahneman and Tversky, 1979) around these reference-points: Individuals might be loss-framed in relation to their reference-points, seeing the present state of affairs from a position below a reference-point, or gain-framed, where the current position is above or equal to the reference-point. As can be seen from Appendix 2, this was something considered in initial interview interpretations but the evidence of specific cognitive loss and gain frames was unclear.

The evidence presented in Chapter 5 suggests that investors and advisers can be loss-framed in respect of a non-financial reference-point in the environmental subdomain. Thomas's mention of returning to a *"possibly survivable future"* is a good example of this. The reference-point is a state where humanity is able to survive, implying he perceives the present state as one in which this is not the case. Evidence from Greg also suggested a loss frame in an environmental subdomain which prompted him to make changes in his overall approach to giving advice. Perceiving the world to have fallen below an acceptable point relative to 1.5°C may have encouraged him to take risk: Changing his investment approach and business model might have resulted in the loss of clients and revenue. Yet this could also be loss-averse behaviour: Transitioning clients to integrated SI could be risk-averse in the non-financial domain in that it is taking action to prevent further non-financial detriment, even if risky in the financial (business) domain.

Whilst this may be evidence of cognitive loss frames in a non-financial dimension for both investors and advisers it is less clear that cognitive frames can be widely identified from the data. This might be due to an inability to effectively measure change from a non-financial reference-point. Unlike a financial reference-point, where movement away from the reference-point might be readily identifiable, with non-financial reference-points, change may be less apparent. For a moment I will put aside 1.5°C, and take one of the other important issues identified by investors: Equality.

There is no universal measurement of equality; it might be thought of in a wide variety of contexts, with both race and gender cited by participants. Gender equality is targeted in the UN SDGs in Goal 5 *"Achieve gender equality and empower all women and girls"* while equality in general is the focus of Goal 10 *"Reduce inequalities within and among countries"* (UN, 2015a). Whilst the latter Goal is wide-ranging, it contains specific targets, with Target 10.2 including both sex and race as characteristics.

Impact Investments should in some way involve measurable change regarding a non-financial outcome. A 'new' Impact portfolio might track progress against the underlying targets of Goals 5 and 10, while a direct Impact Investment might be measured by the number women of colour who have been supported in establishing entrepreneurial businesses[68]. Both are measurable non-financial outcomes relating to equality.

For a financial reference-point, a change in the price of an investment might have an immediate impact on perception of the current state being above or below an established reference-point. With an implicit non-financial reference-point such as equality, even a significant non-financial outcome might not result in a change in perception of the state of the world relative to that reference-point.

A simple example of reference-point updating would be where the price of an asset changes between times $\mathbf{t_1}$ and $\mathbf{t_2}$ in ***Figure 9.iii***. If the investor views the portfolio at $\mathbf{t_2}$, the initial reference-point ($\mathbf{P_1}$) may be updated, with $\mathbf{P_2}$ becoming a new reference-point against which future changes are measured. Where the portfolio is viewed at $\mathbf{t_2}$ and the asset price has changed to $\mathbf{P_3}$, the reference-point may remain at $\mathbf{P_1}$**:** the individual becomes loss-framed in respect of the persisting reference-point.

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[68] Jonathan noted this particular example.

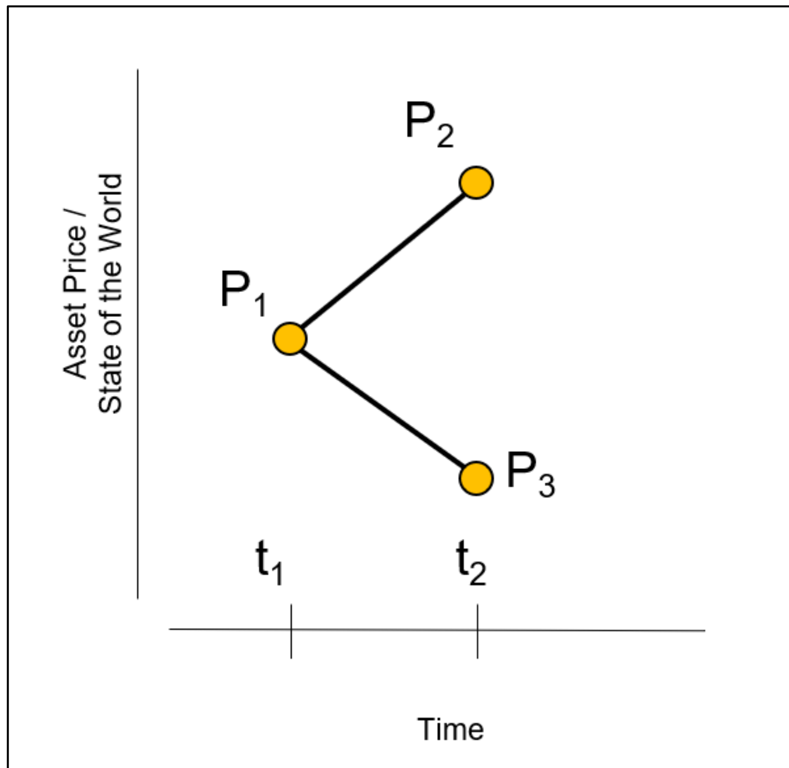


***Figure 9.iii: Movements away from the reference-point[69].***

Financial reference-points may be continually updated, though not all are regularly updated, or with the same speed and regularity (Karlsson et al., 2009).

With a financial reference-point, we should expect that a change in state from a reference-point has some positive or negative value for the investor (see ***Figure 9.iv***), with the negative value of losses experienced to a greater degree than the positive value of an equivalent gain (Kahneman & Tversky, 1979). We might even be able to determine what the reference-point is, depending on how people perceive their satisfaction with a proposed range of outcomes (Werner and Zank, 2019).

[69] In the financial domain the y axis would be read in terms of the asset price while in the non-financial domain this would relate to the individual's perception of the state of the world.

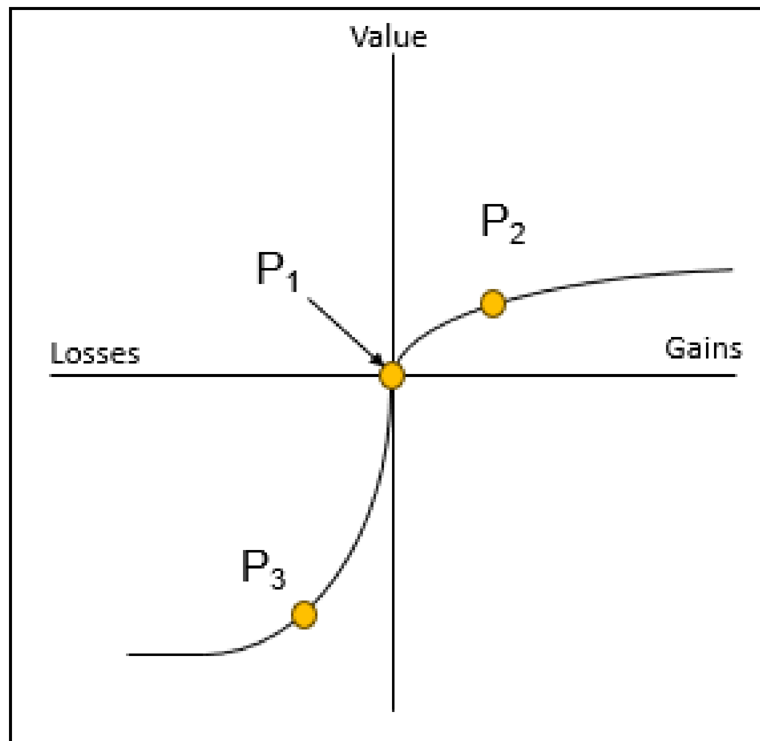


***Figure 9.iv: The same changes as in Figure 9.iii, expressed in terms of the value-function (Adapted from Kahneman and Tversky (1979))***

The price increase from **$P_1$** to **$P_2$** in ***Figure 9.iii*** might be perceived as a gain (**$P_2$** in ***Figure 9.iv***) if the reference-point is not updated to the status quo.

Bringing this back to the non-financial domain, a measurable non-financial return achieved by an Impact Investment might be a marginal change to the overall situation as perceived by the investor. Their perception of the world relative to the reference-point might not change, despite the achievement of a positive non-financial outcome. In a financial context consider the value of a gain or loss from a change of ±1p on a portfolio of £1m. The change is insignificant relative to the overall value of the portfolio in the same way that some investors felt that there was limited power for their investments alone to create meaningful change.

This does not mean that we should consider a change which does not move the reference-point in a non-financial dimension to have no

value; maintaining the status quo might still be important to the investor. From the evidence, non-financial returns are important, they have value. Indeed, the actions of investors suggests they may have multiple reference-points relating to the same non-financial issues. An investor might have both a local and more general reference-point on the same subject.

Where the investor is engaged with something transformative at a local level, there might be potential for them to see the difference that their intervention, their capital, has made to that community. This could result in a gain in the non-financial domain, resulting in an updated reference-point. The ability to see how change might impact local communities may go some way to explain investors' involvement with local projects when engaging with direct Impact Investments. When doing so, they can see the change relative to their reference-point. Indeed, the desire to create change at a local level, particularly that which was expressed by Jonathan and Dorothy, may be driven by the information they have available: their knowledge and experience of relevant local issues. We can contrast this with the experience of an investor in a 'new' Impact portfolio where any material non-financial return might be national or global, with limited visibility. Again, we can turn to the issue of equality to help demonstrate this.

An investor who seeks improved equality may do so in both general terms and at a local level. From a local perspective they may be able to evaluate individuals' personal wellbeing relative to their own and might engage in a project which enables them to see that wellbeing improved. In general terms, their local intervention is not going to do much to achieve the outcomes of SDGs 5 and 10, but it will make a meaningful difference they can see in the world at a local level. Such an investment might move their reference-point from $\mathbf{P_1}$ to $\mathbf{P_2}$ on a local level in ***Figure 9.iii***. In contrast, an investment into an organisation which is helping to improve equality through improved education or access to services worldwide may help more people, but is not a change the investor can see. This kind of investment may not result in an updated reference-point at either a local level or generally, as they

are unable to perceive change from their reference-point; widespread inequality remains. The outcomes achieved by such investments may have no Impact other than maintaining the status quo.

We could also surmise that Impact investors are all gain-framed and looking for incremental improvement from a status quo-reference-point. However, reference-points may also be aspirational. The different approaches to non-financial reference-points may be due to the difference between those which are aspirational and vague (equality) and those which are experienced, defined by the perception of the world having moved away from the reference-point (1.5°C).

Climate change reference-points might then be considered experienced rather than aspirational reference-points: Focus on 1.5°C as a reference-point is not aspirational because we are at that point, or thereabouts. Investors do not want to see the world deteriorate to a point below this and therefore their attention is focussed on not falling below it. While 1.5°C is a reference-point below the status quo, a “survivable future” (Thomas) is an aspirational reference-point. As such, 1.5°C evokes loss-aversion: We don’t want things to get as bad as this[70] thus there is a desire to act to prevent the situation from worsening. A challenge for advisers aligned to Strauβ (2021), framing investment in terms of the 1.5°C boundary, is that if we have not yet crossed this, whilst it does evoke loss-aversion in the mind of an investor it may not create a loss-frame.

The lack of clear cognitive frames may also be determined by the lack of measurability of aspirational reference-points; we can measure the direction the world is taking around 1.5°C but it is difficult to measure equality overall. Any change which impacts the object of the aspirational reference-point might be considered to move the reference-point upwards but these reference-points are nebulous. Equality for all is aspirational and just, but each action taken to achieve

[70] Though they may already be. IPCC estimates temperature rises are currently at 1.1°C but, as the Paris Agreement is measured in decades, the breach of 1.5°C from February 2023 to January 2024 does not yet count as having breached the threshold in the Agreement.

equality through an investment doesn't necessarily move the world itself forward in this respect, though it might help achieve equality in a particular context.

Even though they perceive the world to be below where they would like it to be, investors are not expressing the risk-taking behaviour which Kahneman and Tversky (1979) suggested would apply to those who are loss-framed and which we can see in a financial dimension (Redhead, 2008). We could consider this means cognitive loss and gain frames do not apply in a non-financial dimension, but this would appear to be incorrect. Rather it seems that the framings are less clear, perhaps again due to the lack of measurability around aspirational reference-points. There is still the suggestion that they exist, with the metaphors of hedgehogs and ladybirds providing a good example.

Investors are not necessarily looking to achieve gains from their aspirational reference-point but also from the status quo. This could suggest there are two types of reference-points in the non-financial domain, a status-quo (experienced) reference-point and an aspirational reference-point. Both can influence an investor's decision-making in different ways.

The idea of dual reference-points, one aspirational and one based on the status quo, both of which can have some kind of influence on an investor's behaviour, is something which may be unique to the non-financial domain. Yet it might also be applicable in the financial domain; an investor may not want their pension fund to fall below the current value but may have an aspirational reference-point which they hope their fund will grow to over time, based on the income needed to maintain their lifestyle in retirement, similar to Koszegi and Rabin's idea that reference-points might be expectations (Koszegi and Rabin, 2006).

The difference here would seem to be that the aspirational reference-point in a financial domain represents things as they *could* be, rather than things as they *should* be. A better example would be wellbeing reference-point such as a relative's salary (Budd, 2023): We do not

want our salary to be less than it currently is, we feel that it should be equivalent to (or higher than) what our relative is being paid. Reference-point updating might occur, meaning that investors are always seeking gains in the non-financial dimension (see Chapter 5) but any positive updating which takes place, whether a salary increase or an increase in global equality, moves the status-quo reference-point but not the aspirational reference-point. This might explain the lack of clear cognitive loss and gain frames in the non-financial dimension.

The difference between experienced (local) and aspirational (general) reference-points may go some way to explaining the lack of clear evidence for cognitive frames connected to investors' apparent reference-points, despite their expressed desire to see a situation improve. Where investors have a strong desire to create change, they may do so at a local level (an experienced reference-point), with their approach shaped by a need to improve the wellbeing of others. In general, investors demonstrated that they want to know the things they are investing in are not having a negative Impact on what is important to them. The idea of 'first do no harm' was very important and they do not want to be complicit in the world moving away from their reference-point (either experienced or aspirational) in a negative direction. This would appear to align the findings with Higgins (1997) that the tendency of investors in a loss-frame is to approach investments from a prevention focus, with the intent of acting to prevent further losses.

#### 9.2.3 Not Loss-framed but Loss-averse

Whilst there is limited evidence of investors exhibiting specific cognitive loss or gain frames in a non-financial dimension, the evidence suggests reference-points do influence their decision-making. The behaviour of both investors and advisers indicates they are willing to take some form of risk to avoid future non-financial losses, even if they are not necessarily taking risk with the intention of recovering from a perceived loss. Evidence from investors strongly suggests they are loss-averse in a non-financial domain. This would mean that they are loss-averse in respect of issues which do not necessarily affect them, a behaviour which does not reflect the findings

of Wilson et al (2008) that individuals are not loss-averse in respect of losses experienced by someone other than the decision-maker. This might be because in the non-financial domain the investor sees a loss to society as their own loss.

The evidence presented by Angela in her second interview is an excellent example of this. It is not the direction in which her money takes she is particularly worried about, but rather that it does no harm. The same appears to be true of other investors. Whilst they may have stronger views about the direction their money takes, there is an overriding concern that it does not do harm.

We could consider this from a moral perspective, investors may be concerned about the ethicality of investing in something which they perceive to be immoral. Indeed, if we consider evidence for the CONFLICT metaphor in Chapter 6, there is a strong indication that, for some investors, investing in Impact is linked to their wider perception of right and wrong. This also aligns with the idea of 'Zeitgeist Risk', the risk of being on the wrong side of history.

As Sunstein (2005) notes, loss-aversion also plays a role in moral decisions; investors may be concerned about the loss of the state of being morally responsible. For institutional investors there might be the fear of reputational factors (Zigan and Le Grys, 2018), though this is less likely to be the case for individuals whose investments are not public knowledge. However, it might be considered in terms of social acceptance. Whilst this might be the case, the evidence presented suggests investor participants are engaging in Impact because they want to see a better future for their children or grandchildren, or for society in general, rather than reputation preservation. Whilst there may be a moral component to the choice to invest in Impact, going beyond just divestment does not suggest loss-aversion in a solely moral dimension is a primary driver in decision-making. However, the importance of exclusion to investors, their need to ensure that they are not participating in anything which is having a negative Impact, should not be overlooked. Indeed, it is a key factor in PS23/16 (FCA, 2023a) and managers of labelled funds must disclose whether their

investments might result in negative environmental or social outcomes.

Evidence of the importance of avoidance might be considered as something determined by investor participants having approached Impact Investing from a predominantly moral perspective. However, the value of exclusion was also shared by Oliver, for whom investing in Impact is as much as financial concern as it is a moral one. If Impact is framed as having the potential to achieve better financial returns over the long term, a perspective which might be attributable to Ken and Greg, then investing in something which could have a negative Impact would be counterproductive. Exclusion or avoidance of negative Impacts should not be seen as a solely moral decision.

Investors are framing decisions to invest in Impact as a means to avoid losses in the non-financial domain, despite their expressed desire to achieve measurable gains. Not investing in something which causes harm can be a moral decision, but investing with the intention to create positive change is not *more* moral. The desire to be complicit in the creation of measurable change goes beyond a moral binary of right and wrong. Whilst there might be an experiential component to the value derived from investing in Impact (Statman, 2008), this appears to be only one factor in a more complex decision-making process which involves a trinity of financial, experiential and material non-financial returns, all of which have different levels of importance to investors.

### 9.2.4 Investor Experience of Non-financial Reference-points

We have seen that investors (and advisers) have reference-points in a non-financial dimension. These reference-points may be vague and even multi-dimensional, with both aspirational and experienced reference-points relating to the same subdomain. These reference-points are formed based on constructed knowledge of the world and are therefore closely linked to experience. Whilst perception of reference-points may elicit specific loss and gain frames among investors in the non-financial domain, the evidence is seldom clear. It

is apparent is that investors are primarily loss-averse relative to these reference-points, particularly experienced reference-points. Investors do not want to be complicit in making things worse than they perceive them to be. This is based on their experience of money as having agency in the world and being capable of making change as part of a wider conflict, evidenced in the metaphors they use.

Advisers may be intuitively aware of these reference-points, even if they do not perceive their importance in understanding how they might impact the suitability of the advice they are giving. We will now consider the framework of advice, looking first at the framing which advisers employ and how this relates to their interpretation of Impact Investing. We will then consider how mental accounting is employed in some cases to help address the challenges of a nascent retail Impact Investment market.

### 9.3 How do advisers experience giving advice in this context?

Having seen the importance of reference-points in shaping decisions, we will now consider the importance of framing the investment decision in the context of those reference-points by advisers.

#### 9.3.1 Adviser Framing Matters

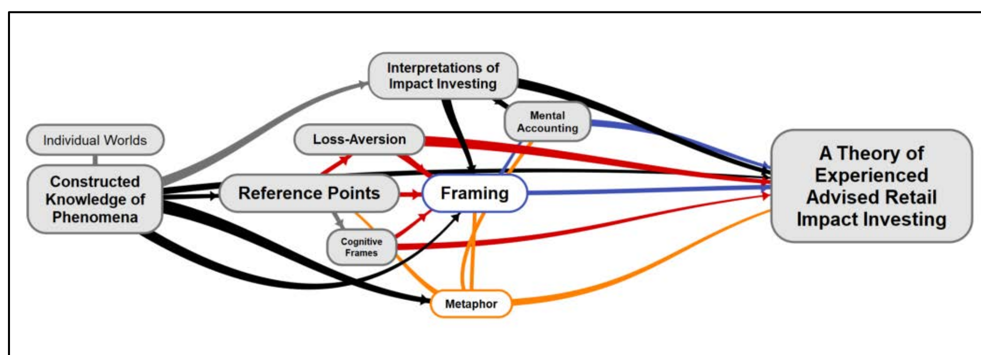


***Figure 9.i(b): A Conceptual Framework for a Theory of Advised Impact Investing through an Experiential Lens***

Framing used by advisers in presenting Impact Investing to their clients is important. Caseau and Grolleau (2020) considered the non-financial return from Impact in their assessment of the application of behavioural concepts to Impact Investing. Their approach to framing

Impact as a *"way to avoid an environmental or social loss"* (Caseau and Grolleau, 2020:48) is consistent with the way in which some investors have perceived their investments in Impact, yet their suggestion that Impact might be considered a side-effect and not the primary goal of investing for some investors highlights an interpretation of investors as being Finance-First or Impact-First, which may not be the case. The approach to framing they suggest is similar to that of those marketing tax-efficient investments which can share a similar asset-pool to Impact portfolios in renewables or forestry. The presentation of non-financial return as a bonus does not align with that employed by advisers in this study, or the objectives of investors. The Impact of an investment is not just a nice-to-have, it is something which is of central importance to participants. Whilst Caseau and Grolleau may consider that the dual goal of Impact Investments risks weakening their perception as financial products, the evidence presented suggests this is not the case for participants in this study.

Chapter 7 introduced two primary framing approaches to Impact by advisers, which I have referred to as 'Preference' and 'Paradigm'. In each of these cases the framing of the non-financial return from Impact as a bonus return is absent. For those where the primary purpose of Impact is framed as part of a new paradigm of SI, the non-financial return is instrumental in delivering a sustainable future. For those who see this as preference-based or values-driven it is a fundamental component in delivering the non-financial outcomes the client is seeking. In both cases the measurable non-financial return is a key outcome of investing, necessary to achieve either the sustainable future or personal values-driven non-financial goals. Impact is not a bonus.

The choice by Greg and Ken to implement a primarily SI approach for their clients, which seems to have been based on their own non-financial reference-points, could be classified as paternalistic framing (Sunstein, 2014). In this context the investor's choice to invest in Impact is linked to their participation in an investment solution which has a wider sustainability objective. They do not necessarily choose to

invest in Impact specifically, rather they choose an adviser who adopts a sustainable approach which includes Impact. Investing sustainably, and incorporating Impact in this to some degree, is a framing which might align with Strauβ (2021). It may also be demonstrative of the findings of Tong et al. (2013) that individuals who are in a loss-state make decisions from a utilitarian rather than a hedonic position. If the perception of the world in respect of environmental reference-points has resulted in advisers seeing the world in a loss-state and are adopting a prevention focus, encouraging investment with a broad utilitarian focus over maximising short term financial gains would seem logical.

Among UK-based financial planners the Paradigm approach may well be limited to participants in this study, yet it is no less important in understanding the different approaches which exist to framing Impact Investing. It demonstrates that the investor's perspective is not the only factor in determining the investment choice. Advisers themselves might be seeking systemic change and framing investment as a means to achieve this change. If this desire for change aligns with the preferences of the adviser's target market (FCA, 2018c) then it might be considered a single-issue subset of the Preference approach, though this might be reaching.

The sustainable approach operated by Ken and Greg means investors who choose them as advisers are agreeing to follow a particular investment path [JOURNEY] rather than expressing a preference for Impact, though they might still have the option to increase the capital allocated to Impact. To a lesser extent this can also be seen with Bill, Frank, Pam and Nikki. Even Val can be seen to operate in this way to some degree, with her discussion of how investors buy in [GAMBLING] to her firm's way of doing things. The same cannot be said of Rosie who allows her investors a choice of solutions, suggesting this approach is more preference-based, similar to that of Joe.

Framing investing as inseparable from the investor's values might also be considered paternalistic. If an investor is provided a list of things from which they can select those they do or do not want to invest in, it

might be possible to present different framings of potential options. If a list of potentially negative issues is provided, with positive or sustainable components listed separately, the framing changes between lists: One list is bad, one good [CONFLICT]. As such the investor may wish to conform to a social expectation and select appropriately (Breakwell, 1978; Whittle, 2020). Indeed, we should consider that the loss-averse behaviour of investor participants may relate to the way in which advisers are framing the issue of investing in Impact, making the decision around what not to invest in rather than allowing investors greater flexibility to consider what it is that they want to invest in.

Godeke and Briaud (2020) propose a series of "framing questions" which could be used by advisers and asset managers to help identify the extent to which an individual wishes to incorporate Impact in their portfolio. From the phrasing we can see that this is directed at institutional and UHNWIs rather than retail investors. With some careful reconstruction these could be adapted to the retail market, and one bears some similarity to the evidence which has been examined here:

*"Do you want to use your assets to drive specific system changes, or do you want to have your values and mission reflected in how your assets are deployed? Or do you want both?" (Godeke and Briaud 2020:40)*

Whilst Godeke and Briaud seek to understand the investor's perspective, their question is framed in such a way as to presuppose the client seeks either systemic change, alignment with values, or both. This is a paternalistic framing of the issue in that it omits the possibility an investor may not have a preference for either. Retail investor participants in this research may not have a 'mission', they are not charities or trusts. Yet they do have values and non-financial objectives they would like to achieve, just as institutional investors do, objectives linked to their non-financial reference-points and corresponding loss-aversion. From the evidence, investors of advisers operating a Preference approach want their values reflected in their investment choices, yet they also seek specific system changes

relative to their reference-points; they want both. Where advisers operate a Paradigm approach, investors may have less of a values-focus, seeing their investments as part of a wider programme of achieving systemic change. Once again this may be as a result of the adviser's own framing.

Both Ken and Greg consider that SIs, including Impact, have potential for improved future financial returns, a position which appears to be supported by a developing body of evidence (Atz et al., 2022). This does not mean that the same opinion is not shared by other participants, even if not given the same emphasis. This does not conflict with the idea that an investment approach based on a new Paradigm is a subset-of the Preference approach, it is one which is linked to the adviser's own values and derived target market.

Participant advisers appeared united in the framing of Impact Investing as having the power to change the world [AGENCY]. The world, such as it is, needs to be changed in some way; whether to improve it in line with the investor's own values, to achieve systemic change, or to create a sustainable future. In all cases there is the potential for this framing to be paternalistic. Framing by advisers clearly matters.

The type of framing employed by advisers works in tandem with their interpretation of Impact Investing. To fully understand how these interact it is necessary to see how these different interpretations of Impact Investing influence the advice process.

### 9.3.2 Myriad Interpretations of Impact Investing

A key factor in understanding the different approaches to Impact Investing, from both advisers and investors, is their interpretation of Impact Investments. In this section we will consider how these interpretations influence the overall experience of advised decision-making.

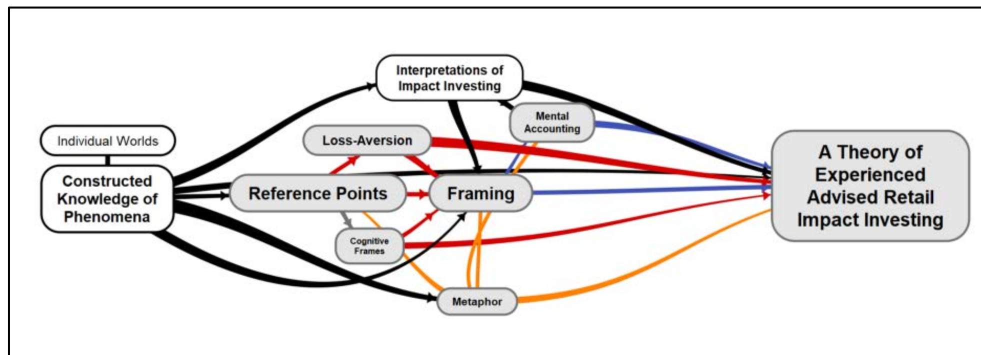


***Figure 9.i(c): A Conceptual Framework for a Theory of Advised Retail Impact Investing through an Experiential Lens***

We have seen how non-financial reference-points might influence decision-making in terms of an investor's desire for their money to do good [AGENCY/CONFLICT], driving change in the non-financial dimension. We have also seen that advisers need to manage the choice between financial and non-financial return, particularly given that in an advised relationship the investor is devolving substantial control over the decision-making process to the adviser through a relationship of trust (Ennew and Sekhon, 2007; Engelmann et al., 2009; Statman, 2011; Elkington, 2024).

Although my intention is not to discuss the motivations of participants for investing in Impact, it is clear that people may do so for individual reasons. We might consider these to be both values-driven but also from a wider sustainability perspective. Sustainability takes on different forms amongst participants, it can be both the 'right' thing to do from a moral perspective and from a financial perspective. This suggests a slightly different approach than is implied by the idea of Impact-First and Finance-First investors (Rangan et al., 2012). An investor might be primarily interested in Impact for non-financial reasons, suggesting they are Impact-First, yet they are also aware of their own need for financial return. Investors may also see Impact as being the right thing to do from a financial perspective, reflecting the idea that companies who are already sustainable may have fewer mitigation and transition risks to manage.

Investor participants did not conveniently align themselves to a particular interpretation of Impact Investing: Their responses demonstrated a broad range of interpretations. However, within these interpretations there are dominant themes. The desire to avoid things which are negative spans from just avoiding bad companies through to avoiding negative Impacts. Whilst 'first do no harm' would seem to be the guiding principle across all investment approaches, what constitutes harm is less clear. Likewise, the desire for change ranges from wanting to invest in companies positively aligned on specific issues to investing in organisations which are trying to engage in systemic change, and a need for additionality.

In Chapter 7 these interpretations of Impact Investing were described as a spectrum, after Jonathan's use of this term, and in line with Emerson and others (Emerson, 2003; Bridges, 2015; DCMS, 2017; EQ, 2023). An example of this has been shown in ***Figure 9.v***.

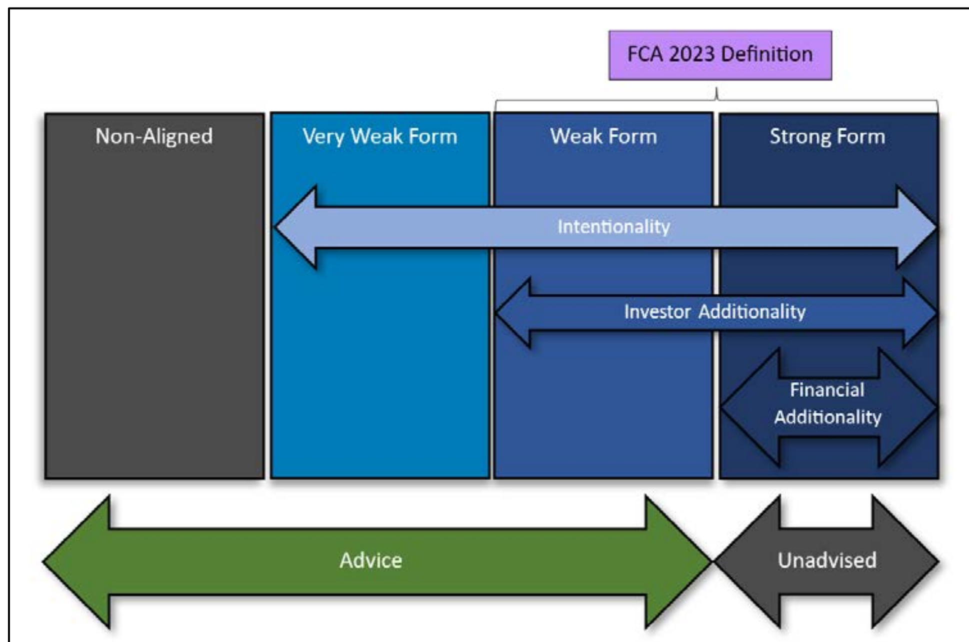


***Figure 9.v: A Spectrum of Impact Investing***

This construct was developed with the intention of demonstrating the differences between investors and advisers and whether or not they were aligned with three different interpretations of Impact: Very Weak, Weak and Strong. It draws on the evidence provided by both investors and advisers, as well as the definitions of regulators (FCA, 2021, 2022a, 2023a), industry bodies (Hand et al., 2020; GIIN, 2023; Hand and Gilbert, 2023), the academy (Brest and Born, 2013b; Busch et al., 2021) and others (Godeke and Briaud, 2020). However, attempting to classify participants in this manner seems overly simplistic and I am cautious about using the 'spectrum' metaphor to describe interpretations of Impact.

The 'spectrum of capital' is a heuristic which can be employed in demonstrating the difference between forms of sustainable, ethical, responsible and Impact Investing. In versions of Emerson's spectrum developed after 2007, philanthropy would sit to the right of Impact or in this case the 'Strong Form'. It suggests that there is a point at which Impact Investing becomes philanthropy. Although some theorists might see Impact Investing as the intersection of public policy, investment and philanthropy (Shiller, 2012; Godeke and Briaud, 2020) this may only be the case in a restricted range of vehicles, such as SIBs.

SIs in general would fall somewhere in the “Very Weak Form” in ***Figure 9.v***, in that they might seek to avoid negative outcomes while investing with the intention of creating positive change. They may even have many of the characteristics of Impact yet fail to achieve the status of Impact Investments, as their non-financial returns are not measurable or lack a credible TOC.

A further reason for questioning the spectrum metaphor is the accounts of participants themselves. Jonathan vigorously defended a ‘Strong Form’ interpretation of Impact and makes direct investments in transformative projects through a network of angel investors. He felt his adviser’s definition of Impact aligned with a weaker form than his own, though he accepts the portfolio constructed on his behalf is the least-worst option where some of his assets are concerned. Jonathan has accepted the need to satisfice (Simon, 1956), to accept less Impact in exchange for greater financial security, though this was clearly something which caused some discomfort. Dorothy also supports a ‘Strong Form’, investing directly in local community projects. Yet she also has investments which would align with a Weak interpretation. Angela has investments which align with both the Weak and Strong forms, yet her interpretation might be somewhere in in the region of Very Weak to Weak as she is primarily concerned about not having a negative Impact.

We might consider that the interpretation of Impact applied by investors is issue-dependent. An investor might be happy to adopt a Weak form of Impact on certain issues, whilst those which are of greatest importance to them require them to adopt a Strong form. There is some evidence to suggest this from participants, particularly from Jonathan and Dorothy. However, there is also evidence from Simon which suggests some Strong-form investments may be more haphazard and less focussed on issues of specific importance. The desire to engage in Strong-form investments not specifically linked to outcomes that the investor wants to achieve may mean in some cases it is simply sufficient to invest in something which is improving collective wellbeing. This is a much broader scope than wanting to see

an improvement in the lives of a specific group of people or in relation to a specific issue.

The same problems of aligning interpretations with a particular form manifest with advisers. Both Joe and Val hold a personal interpretation of Impact which aligns with a Strong form, yet both use a combination of Weak and Strong forms in discussions with their clients. This bi-cognitive approach (Lakoff, 2008) appears to be necessary to help manage investor expectations. Where an investor wants to achieve change through their investments [AGENCY] but is limited in their financial experience, risk tolerance or capacity, it may be appropriate for the adviser to suggest an Impact portfolio which would not meet the Strong form. Such an investment might be Impact-Aligned (Busch et al., 2021), suitable for the investor's personal financial circumstances and maintaining the necessary connection to Impact, even if it does not have the same transformative capacity as another investment.

The definitions of Impact-Aligned and Impact-Generating (Busch et al., 2021) might be considered as substitutes for the Weak and Strong forms suggested here, depending on our interpretation of what is Impact-Generating. The potential for investments to create change through engagement and similar strategies is presented in ***Figure 9.v*** as Investor Additionality. This differs from Financial Additionality advocated by Brest and Born (2012), in that the non-financial return is not derived directly from the capital invested. Given investors and advisers rarely talk about intentionality or additionality, it is easy to forget that these concepts are relevant to the discussion of Impact Investing in this context, yet they remain important in trying to understand the experience of investors and the advice they receive.

If Impact generation is exclusively linked to capital invested, then we would have to accept positive outcomes derived from engagement or other associated activities are not impactful. If a company changes the way in which it operates, improving its environmental footprint or social sustainability characteristics, then this might be seen as having some form of positive impact on the world (CFA, 2023). In the extreme, a company might improve its operations to such an extent that it is a net

positive rather than net negative contributor. As was noted by Larry, this might result in the company becoming uninvestable from a financial perspective.

For Impact Investment managers to be able to take credit for changes derived from engagement this must be attributable to their actions, something which may be hard to prove (CFA, 2023). This supports the FCA requirement for a defined and credible TOC and appropriate measurement (FCA, 2023a). If managers can demonstrate they have been instrumental in creating intentional positive change it would be difficult not to accept the investment has some form of impact.

The development of portfolios which seek to deliver Impact from publicly traded equities, using theories such as the GIIN's 'Impact Lens' methodology (Hand and Gilbert, 2023) or which align with the FCA "Sustainability Impact" label (FCA, 2023a) may see their additionality and even intentionality questioned (Godeke and Briaud, 2020), yet it highlights a need for distinguishing types of Impact Investment in a different way.

The type of investment I have referred to as 'new' Impact, discussed in Chapter 7, is more liquid and therefore more accessible to the retail investor, yet the depth of Impact achieved (CFA, 2023) may be less than might be achieved from something which creates Impact through financial additionality. The use of 'new' is an intentional framing of this type of investment drawn from Val in response to the idea that investments with financial additionality are 'old' (Val), and the framing by WHEB of Impact with financial additionality as 'traditionalistic' (WHEB, 2021). This is a developing narrative which suggests an evolution of Impact Investing from one form to the other. The same could be said for labelling Impact with additionality as 'hard' (Frank), as this implies other forms of Impact are 'soft' and therefore less effective at creating change.

Rather than perpetuating this narrative, it might be more constructive to think of these as 'Impact Investing' (Old) and 'Impact in Regulated Retail Investments' (New), though even this is not a perfect distinction.

Whilst the UK regulated financial services community has embraced the latter, it is an adaptation of the former to liquid markets. Making a distinction of this nature may go some way to address the concerns of Brest and Born (2012b) and Godeke and Briaud (2020) and is even reflective of the current market, to an extent.

In this vein, the FCA has chosen to set out what it believes to be "Sustainability Impact" (FCA, 2023a). This applies only to regulated retail investments which apply for a specific label and those which might emulate it. The approach taken in PS23/16 is very much one of 'new' Impact, reflecting the liquidity and risk challenges which face investments with financial additionality. There are restrictions on the ability to use Impact in the naming of an investment, primarily to prevent anyone and everyone from badging something up as 'Impact' without actively engaging in an investment approach which might create measurable change in line with a credible TOC. Yet whilst this ensures some form of Impact is available to retail investors, it does not address the problem of investors wanting more than this form of Impact Investing offers. As we have seen, not all investors are satisfied with liquid 'new' Impact portfolios.

Whilst the concept of Finance-First and Impact-First investors might not be the preferred terms of practitioners or the academy (Godeke and Briaud, 2020; Busch et al., 2021), in the context of retail investments they might be considered to have some explanatory value. Dorothy may have an overall desire to achieve Impact with her investments, but due to her personal financial constraints she is required to be 'Finance-First' *for the majority of her assets*. Only a small proportion of her overall capital is applied to 'Impact-First' investments. Yet, thinking of Dorothy as primarily Finance-First or Impact-First as an investor would be incorrect. However, if we conceive of the investments themselves as having these characteristics, not investors, this will help us understand how advisers are using different forms of Impact Investment. Forms of Impact Investment might be both 'Impact-First and Impact-Generating',

'Finance-First and Impact-Aligned'[71] and potentially 'Finance-First and Impact-Generating'[72].

Investors may require both Impact-First and Finance-First investments to achieve different non-financial objectives driven by their non-financial reference-points, but doing so requires the adviser to manage their expectations and approach to capital allocation in a creative way, through multiple mental accounts.

### 9.3.3 Multiple Mental Accounts

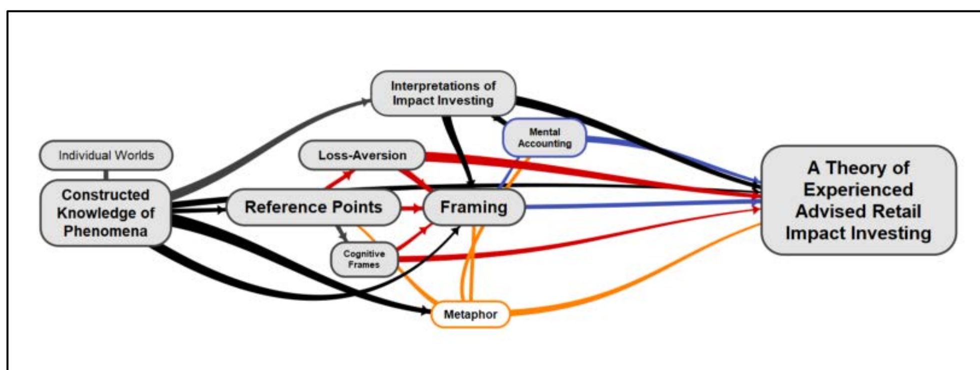


***Figure 9.i(d): A Conceptual Framework for a Theory of Advised Retail Impact Investing through an Experiential Lens***

We have seen direct Impact Investments, which tend to have financial additionality and which align with the 'Strong' form, employed by investors such as Jonathan, Dorothy, Margaret and Simon, as well as Joe in respect of his personal finances. These are less liquid and may present a significant risk to investors' capital. Such investments are unlikely to represent an investor's entire capital allocation to Impact, and the evidence suggests advisers may opt for a mix of 'new' and direct Impact in certain circumstances. Where there is sufficient knowledge and experience of investing, and of relevant issues necessary for reference-points to be formed, as well as sufficient financial risk tolerance and appetite and a sufficient appetite for non-

[71] An investment which is Impact-First and Impact-Aligned would be a contradiction.
[72] The type of Impact generated by such an investment would be different from that which would be created by an 'Impact-First and Impact-Generating' investment, potentially relying on investor rather than financial additionality.

financial returns, the adviser might consider the use of direct Impact, but there remain barriers to doing so.

As noted by both Joe and Val, advisers are unwilling to make specific recommendations for direct Impact Investments. This can be due to a variety of reasons: A lack of risk appetite within their firm, lack of insurability and the potential risk of such investments going wrong costing the adviser their livelihood, all play their part in limiting involvement. There is a resigned reluctance to engage directly with this type of investing. Although both Joe and Val have engaged with these in the past, and may be invested personally, this is territory where they fear to tread: The investor is left to go on alone [JOURNEY].

The use of the JOURNEY metaphor here was so abundant (particularly with Joe and Val) that it has taken on a life of its own. JOURNEY is a common metaphor across the financial planning world, yet it is especially poignant when we consider these advisers perceive unnecessary obstacles to providing clients with advice suitable for their circumstances. Clients want to invest in transformative Impact Investments and are relying on their adviser to guide them on a suitable path: Their advisers are unable to help.

We should not forget that investors also use the JOURNEY metaphor when talking about their advisers; they see themselves as on this road together, usually with the adviser as the guide. Where direct Impact is concerned, suddenly they are the ones leading, and they may not know the best way to proceed.

Whilst advisers might employ a variety of workarounds, such as investing in Impact Investment Trusts, or in tax-efficient investments which do not measure their Impact (and are therefore not Impact Investments) the evidence suggests this is insufficient. Therefore, advisers working with these clients have resorted to a specific set of framings to help clients manage their unguided journey into direct Impact: GAMBLING metaphors and MMA. Both techniques are used

with the intention of helping the client understand and manage the risks they face in investing.

The use of the GAMBLING metaphor was commonplace in the language of investors and advisers alike when referring to direct Impact Investments. By framing investments in this way, they are highlighting the potential to lose the entirety of capital invested and not framing it as a form of investing with a predictable financial return. In doing so, advisers effectively create mental accounts for their clients (see ***Figure 9.vi***). This is seen in the references to "play money" by Val and Thomas. By framing the investments as high risk and separate from the rest of their finances, which the adviser will continue to manage on their behalf, the investor can participate while knowing that a loss of the capital committed to direct Impact Investments is not going to have an adverse impact on their personal financial situation.

***Figure 9.vi: Mental Accounts for Direct Impact***

This framing allows for the safety which investor participants demonstrated they need in Chapter 8. Whilst they are keen to change the world, they are also cognisant of the need to manage their financial situation, whether for their own benefit or that of their families. From the adviser's perspective this allows them to continue to manage the remaining assets in a way which considers the investor's personal financial needs, in line with their obligations to these retail investors and in line with regulation.

Whilst not directly reflecting the ideas of safety developed by Roy (1952), the influence of this thinking might still be present here. The safety-first approach to direct Impact Investing is a protection of

personal wellbeing, but not at the expense of the wellbeing of others. The safety account must continue to be managed in a way which does not cause harm, and perhaps does some good. It would not be sufficient, for example, for the safety portfolio to be invested in a portfolio of conventional assets or which are just screened for ESG risks.

The use of mental accounts is therefore reference-dependent. If the client is simply loss-averse they can invest in a 'new' Impact portfolio and this is likely to meet the entirety of their non-financial objectives. However, if they are seeking measurable non-financial returns in a specific subdomain they may feel the need to achieve more direct outcomes than a 'new' Impact portfolio can offer. Here the MMA approach might be helpful.

As noted previously, investors were not uniform in their approach to MMA. Thomas noted that he sometimes has resorted to selecting things at the last minute to throw money into. In his case this is because the MMA approach had already been established and he felt compelled to invest the capital allocated for direct Impact to this type of investment, even if this wasn't necessarily connected to a specific issue around which he was seeking measurable non-financial returns.

Another distinction between this form of strategy and that of Roy (1952) and of Shefrin and Statman (2000) is the lack of a financial objective for the 'Direct Impact' mental account. This is not investment for potential financial outperformance but Impact outperformance. We could conceivably see this as an application of Roy's theory in a non-financial dimension. Likewise, the use of MMA in this way would not be in keeping with a goals-based mental accounting strategy (Shefrin and Statman, 2000), as the investment capital is excluded from any form of financial goal. It might be considered that for an Impact investor, there might be an alternative goals-based wealth management (GBWM) approach which incorporates non-financial goals in the same way that GBWM focuses on the financial goals. Indeed, Godeke and Briaud (2020) and Bachmann et al. (2024), whilst not specifically considering retail clients, have proposed the idea that

investors might have Impact goals. An MMA approach to GBWM which incorporates this form of goal might be valuable. An advised Impact investor might adopt a variable multi-portfolio strategy which incorporates personal welfare preservation and Impact maximisation via multiple sub-accounts for the achievement of financial and non-financial objectives.

As it stands, the evidence suggests an MMA approach is being implemented without specific reference to theories of GBWM and mental accounting. Instead, it has been arrived at naturally by investors and advisers as a means of achieving the investor's non-financial objectives. I considered this lack of formality in the illustration of these different mental accounts in ***Figure 9.vi***; the boundaries lack hard edges because they are, as yet, ill-defined.

Under the current MMA approach the investor is still going on alone, leading their own investment journey in respect of their Direct Impact Accounts. This approach allows them the flexibility to maintain financial security through the advised safety account whilst providing the potential to advance the non-financial outcomes they want to achieve through the Direct Impact Accounts. Without this framing, the investor may not have the mental flexibility to see their direct Impact Investments as separate from the main account and thus would react to them in the same way they might in the event of financial losses from the main account. However, if advisers are going to use this form of framing with investors it will be important for them to establish the investor's capacity to engage in this kind of investing, an issue which I will address in Chapter 11.

### 9.4 How investors and advisers experience frames and framings in Impact Investment advice

Building on the evidence discussed in this chapter we can now present a clearer understanding of how Framing is experienced by investors and advisers, as shown in ***Figure 9.vii***[73].

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[73] This is a reiteration of Figure 9.i.

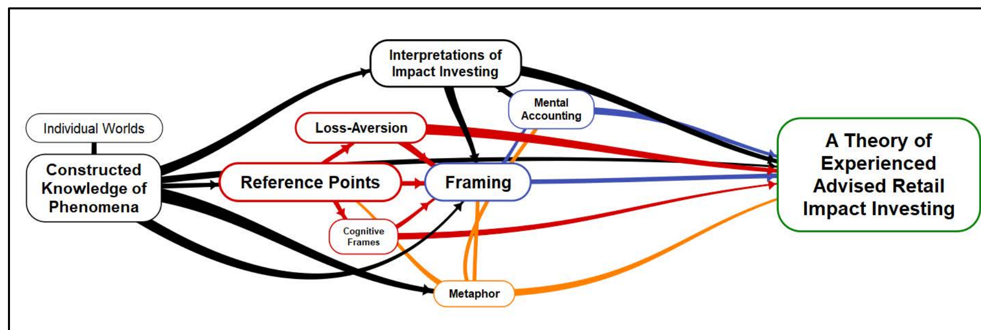


***Figure 9.vii: A Conceptual Framework for a Theory of Advised Retail Impact Investing through an Experiential Lens***

Investors and advisers approach Impact Investing through their constructed knowledge of phenomena. Their experience is illustrated with metaphor, which allows them to communicate. Their reference-points create frames, including loss-aversion, which may influence how they want to invest and the way in which they advise. The way in which they perceive Impact Investing might be influenced by the framing employed by others. Different framings may be used in different circumstances to reflect the needs of the individual. Specific frames (mental accounts) and metaphors may be engaged in order to make the investment journey easier to understand and to live with when the adviser is unable to guide the investor in the way that they normally would. Frames and the act of framing are central to the interface between adviser, investor and investments.

# Chapter 10 – Conclusions

## 10.1 Introduction

Having considered and discussed the evidence from Chapters 5-8 in Chapter 9, I will now consider the conclusions which may be drawn regarding the key questions this research sought to answer:

1. How do retail Impact investors experience frames and framing when making advised investment decisions?

   and

2. How do their advisers experience giving advice in this context?

With such exploratory questions in a developing area of theory and practice it is not surprising that the evidence presented shows a complex interconnected web of phenomena, through which we can understand the world in which advice takes place. Yet despite this complexity we have been able to establish that there is a way of explaining this behaviour. In Chapter 9 I laid out a theory of experienced advised retail Impact Investing. This descriptive theory sets out how the constructed knowledge of phenomena influences decision-making in advised retail Impact Investing. It demonstrates how reference-points, born from lived experience, can lead to loss-aversion in a non-financial dimension and in some cases to cognitive loss and gain frames, depending on the nature of the reference-point. When seen in the light of individual interpretations of Impact Investing this results in forms of framing, including mental accounting, which influence the way in which people interact with Impact Investments, both as investors and advisers. These elements are often expressed via a shared language which incorporates metaphor to facilitate communication.

I have approached this research and the development of this theory through a relativist, constructionist phenomenology, accessing the data through aid of the IPA method of Smith et al. (2009). The

philosophical underpinnings of the research, based on a Heideggerian phenomenology, allowed for the acceptance of the sometimes-contrasting worlds of investors and advisers. Understanding that the world of each investor and adviser is unique and inseparable from their history means that when an investor and adviser have interpretations which differ fundamentally from each other this does not mean that either is necessarily wrong; the world is different for each. While the concept of Impact Investing remains in flux, if not in nappies (Hummels, 2016), a relativistic foundation seems an appropriate way to approach these phenomena as each person's interpretation of the world is constructed through their own experiential lens.

The theory is drawn from a significant body of data, consisting of 34 recorded interviews with 7 investors and 10 advisers across an 8-month period from December 2022 to July 2023, which generated over 200,000 lines of text in transcription. Although the cohort of participants would not be considered statistically significant if this was a quantitative study, we have seen a wide variety of interpretations of Impact Investing from both investors and advisers. These views are still valid regardless of their statistical significance; they represent the experiences of people actively involved in investing for material non-financial returns, people for whom investments in Impact matter or whose clients are active in this market.

The interviews were hermeneutic in nature, with the second interview of each participant acting as a reflection on the first. These were used to develop rough ideographic summaries of the worlds of each participant, from which it was possible to build a framework of understanding regarding how investors and advisers interact with Impact Investments in an advised environment.

With participants' worlds reflecting their own experiences, both in the interaction between investors and advisers and in their interaction with me as a researcher, it is necessary to find ways in which communication of complex ideas can take place. In operating the IPA method it was evident that metaphor was a significant factor in the development of this shared framework of communication. Drawing on

the work of Lakoff and Johnson (1980) and Lakoff (1987, 2004, 2008, 2014) it was possible to see how metaphors are used to create shared meaning between investors and advisers. These metaphors are an intrinsic component of how investors and advisers understand the world of advised Impact Investing. Their use of AGENCY (CONFLICT), JOURNEY and GAMBLING metaphors has helped to illustrate the ways in which they interpret the world.

Due to the interpretive method used we should be careful not to draw any unwarranted or unsubstantiated conclusions. In considering those presented here, it is important to be mindful that the experiences of investors and advisers sought and explored through this research may not provide a prototypical model of Impact investors or their advisers, either in the UK or worldwide. As such, the conclusions presented do not attempt to say that any particular characteristic is true of all Impact investors, or that all advisers experience giving advice on Impact in a particular way. Indeed, whilst we have seen that we might be able to link certain aspects of data thematically, and from this consider the implications for investors and advisers, the data has demonstrated each participant is operating from a unique perspective. In some aspects, each individual interpretation might exemplify a particular perspective, whilst other evidence might be less clear or even contradictory. It has even been shown that the interpretation of Impact Investing differs between investors and their advisers.

These different interpretations do not represent mere anomalies in the data but demonstrate the richness of experience and interpretation present in the worlds of participants; such is the nature of qualitative enquiry. As with all interpretative analysis there is the potential for alternative interpretations to have been formed from the data, though every attempt has been made to account for the manner in which interpretation of the evidence has been developed. In line with Heidegger (Moran, 2000), our worlds are shaped by our own history, therefore it is possible that another interpretation might be derived from the same data if it were developed by someone operating from a different perspective. The interpretation presented here is itself

constructing new meaning, thus any subsequent analysis would likely be conducted with knowledge of, and perhaps in an attempt to challenge or confirm, this interpretation.

Despite these considerations, in this chapter we will see that it is possible to draw effective conclusions regarding how participants in this research experience frames and framing when making advised Impact Investment decisions and how some advisers experience giving advice in this context. The data presented in Chapters 5-8 and discussed in Chapter 9 allows us to make conclusions on the basis of observation. We will address these empiric conclusions first, before discussing those of a more theoretical nature.

**10.2 Investor experiences of frames and framing**

In order to understand the frames which exist for investors, their loss-aversion and cognitive loss and gain frames, as well as how framing influences their decisions, it is necessary to understand the reference-points against which all of these pivot. The decision to invest in Impact is connected with the desire to do good [CONFLICT]. It is part of a connected series of actions relating to the individual's wider perception of the world. At the retail level, Impact Investing might be combined with activism, lobbying and volunteering of time, expertise and experience. For retail investors the issues connected to their investments clearly matter to them on a deeply personal level.

Existing literature on reference-points in financial advice relates primarily to the financial dimension of return (Redhead, 2008; Pompian, 2012a; Baker and Ricciardi, 2015). As such it is dominated by quantitative and experimental studies which help understand that reference-points exist (Kahneman and Tversky, 1979) or how they can be determined when unknown (Werner and Zank, 2019). Reference-points and reference dependence are not a solely financial concept; Kahneman and Tversky's initial experiment involved the alternative frames which exist around medical decision-making (Kahneman and Tversky, 1979). We know then that reference-points are not solely in the financial domain. They might exist for fish stocks (Collie and

Gislason, 2001), acreage of tree cover, or hedgehogs (Ken and Greg), just as much as they might represent the value of an investment. Yet the context in which reference-points would be most readily understood in financial planning has hitherto been confined to the financial domain.

The literature shows that in the financial domain a reference-point can influence investor behaviour in particular ways. Investors are loss-averse and may be loss or gain framed in their interpretation of the world relative to their reference-point (Kahneman and Tversky, 1979). They may update their reference-points based on new information (Karlsson et al., 2009; Werner and Zank, 2019), and may demonstrate risk-taking behaviour to recover from perceived losses (Redhead, 2008).

In the exploration of the experiences of investors and advisers in the Impact Investing world this study is unique. It presents an interpretation of the world derived from the experiences of those actively participating in this market. I have used the concept of reference-points to help explore the decision-making of investors and advisers in the non-financial domain, in a context where the non-financial value of investing is of particular importance. Through the words of investors and advisers I have shown what it is like to experience reference-points in a non-financial domain (Chapter 5) when they have an influence over how capital is invested with the intention of achieving material non-financial returns.

Investors seek change in a non-financial dimension, something which can be seen to be linked to their non-financial reference-points. Reference-points exist in a non-financial domain; however they appear to be both experienced and aspirational. Experienced reference-points are shaped by individuals' experience of the world and may be derived from, and updated by, a wide variety of sources, whether that is the media (1.5°C), their past (Oliver, Dorothy) or present (Thomas) interactions. The investor's perception of their world is something which clearly influences their reference-points; without experience of related information the reference-point cannot be formed. We have

also seen how these reference-points might be metaphorical, in the Birdsong and Ladybirds of Dorothy. Aspirational reference-points, such as ‘equality’, are also prevalent among investors. These might not represent a state of the world they have experienced but how they feel the world should be. Whilst easily articulated they are vague in terms of their connection to the non-financial return of investments and may be difficult to measure progress against.

Investors also appear to experience cognitive frames with respect to their non-financial reference-points but evidence of these was unclear. The clearest example of a loss frame in a non-financial dimension is that of Oliver and his perception of global population levels at his birth, yet ironically it is not something that his investment in Impact can address, though it might be able to alleviate the symptoms. Other examples of loss-framing were more opaque. The concept of moving to a survivable future (Thomas) suggests a loss frame: The current state of the world is perceived to have fallen below an acceptable survivability threshold. Similar loss framing was also seen in the words of advisers, reminding us that, whilst they are acting in a professional capacity, they are still human and subject to the same behavioural responses to their own non-financial reference-points.

The lack of clear loss or gain framing around non-financial reference-points appears to be connected to their vague nature. Whilst impact Investments regularly measure the amount of carbon emissions reduced, or the number of litres of water saved, they don’t necessarily report on the things around which reference-points have been formed. Where a reference-point, either experienced or aspirational, lacks the clarity of specific measurement, any change around the reference-point might not elicit the necessary response from an investor to be considered sufficient to change their perception of the current state. We might assume that this means they are all loss-framed, yet investors did not display the behaviour which would be expected if this were the case. In some instances, investors were happy to accept incremental improvements of a more general nature (gain framing) rather than taking risks to try and put things back to how they feel they

should be, the behaviour which we might expect in the case of loss-framing.

One aspect which is clear from the evidence is that investors are loss-averse in respect of their non-financial reference-points. Where investors have non-financial reference-points of any form, their primary concern is that they are not complicit in any way in causing things to get worse than they currently are. In Chapter 9 I considered the possibility that this might be due to moral reference-points (Sunstein, 2005), yet the approach taken is not specifically a moral one, even though the decision to invest in Impact is often linked to an individual's values.

The investor behaviour examined shows that there is a strong link between how they see the world and the formation of reference-points in a non-financial dimension. This phenomena only exists for those who have the necessary information to form a reference-point. Thus, until someone is aware that their investments can have some influence on the world in a non-financial dimension, they may have no reference-point from which they might experience cognitive frames or loss-aversion. Because of this, the influence of an adviser on the formation of reference-points is significant.

### 10.3 Adviser Experiences

Based on the evidence presented I have detailed two primary approaches to advising on Impact Investments which I have classified as either Preference or Paradigm. The Preference approach sees investing in Impact as something which may be important to individual investors based on their values or investment preferences whilst the Paradigm approach considers Impact as part of an overall sustainable approach to investing. Such framings are important as they provide an insight into potential influences on investor choices.

Paradigm investing focuses on sustainability characteristics for all investments, for financial, material non-financial and experiential reasons. The evidence suggests that this framing might be derived

from the advisers' own reference-points. If they perceive the state of the world to have fallen below their experienced reference-point on a particular measure, or to be at risk of falling below that reference-point (loss-aversion), then the adoption of an investment process which normalises sustainability is a rational way of supporting investors to manage their affairs in a way which potentially minimises the downside of future losses from that reference-point.

Framing of choices is not unique to Paradigm advisers. The framing used by those adopting a Preference approach can also be seen to influence the way in which clients act. The idea that investments can change the world is more neutral, it doesn't quite suggest that the world needs to be changed, but could be taken in this way and nudge the client in a particular direction (Thaler and Sunstein, 2008). It evokes the metaphor that money has AGENCY and that it is capable of making change. Presenting a client with a list of ostensibly good and bad options, things to include or exclude in their investment approach, might influence what they try to include by framing some things as bad. The same applies to the idea of 'greening up' or 'grubbying down'; by evoking the metaphor GOOD IS UP (Lakoff and Johnson, 1980), the adviser is prompting the client to act in a particular way. The adviser's approach might be well-intentioned, however the framing may be paternalistic (Sunstein, 2014), it is prompting the investor to see one option as more socially acceptable. This would be in keeping with the suggestions made by Strauβ (2021) concerning the elicitation of behavioural change.

Whilst there may be suggestive or paternalistic framings involved in the advice process, investors have a choice over which adviser they use. The evidence indicates that they will only continue to work with those they connect with. If the framings presented by the adviser resulted in a mis-framing when compared to the investor's personal interpretation of the world, or it was not an interpretation they were open to, they might well reject the relationship. Indeed, the evidence showed that advisers would also reject continuing a professional relationship with those whom they did not align. Whilst an adviser

might be able to highlight particular framings in the way they present choices to investors, the literature suggests that the world of the investor must be suitably aligned to start with for the framing to work (Lakoff, 2008).

The evidence has shown that the purpose of investing in Impact ranges from simply not doing harm (Oliver), an interpretation which would fail to meet the FCA Sustainability Impact definition even in its loosest form, to achieving transformative change (Jonathan, Dorothy, Joe and others). This demonstrates that investor participants have a desire to do more than just make money from their investments, reinforcing the contrast between the experiences of these investors and the framing proposed by Caseau and Grolleau (2020) that the dual objective of Impact Investments weakens their perception as financial solutions.

Given this research specifically sought the experiences of investors with existing Impact Investments and their advisers, that investors seek more than just financial returns should not come as a surprise. The evidence demonstrates that Impact is not being used as a diversifier or as an alternative asset class but as a method of deriving non-financial returns from investments. Whilst Paradigm advisers are recommending investments in Impact as part of wider SI approaches, something which can be connected to potential future financial returns, they are not doing so solely for the purposes of diversification. This supports the interpretation of Godeke and Briaud (2020) for whom the non-financial return of Impact Investments is not additive but intrinsic. This is key to understanding the intentionality of Impact investors. Financial return is important to them, but it is not the only important factor in investing. If advisers were to frame the non-financial return of Impact Investments as a bonus this could result in a misframing (Lakoff, 1996) in the minds of investors. The same would apply if an investment were framed to have the potential to fix something the investor doesn’t think needs to be fixed. For participants in this research the non-financial return might well be as important, and

sometimes more important, than the financial return, but it must be a non-financial return which they value.

It is evident that investors experience the framing employed by their advisers. This framing is part of the overall tapestry of communication which includes the metaphors used. The use of AGENCY/CONFLICT metaphors can help advisers and clients communicate with one another about what it is that investors want their investments to do. Investments need to be seen to have agency for them to be able to effect change in the world; changes which can be linked to what they see as right and wrong.

The idea of life as a JOURNEY extends far beyond the bounds of advised Impact Investing as can be seen from the work of Lakoff and Johnson (1980). In the context of financial planning, it takes on new meaning; the adviser is a guide for the investor on this journey. The challenges faced by advisers and investors in accessing direct Impact Investments resulted in the poignant metaphorical references to 'going on alone' without the adviser as guide. This metaphor is of vital importance in developing our understanding of the Impact Investing landscape. Where an investor is usually guided, with the adviser taking the lead, there are areas of the market where they fear to tread, where doing so could cost them their livelihood. They are able to show investors that this path exists, but are unable to accompany them on this part of the journey. This links to the employment of GAMBLING metaphors, used to frame the way investors see direct Impact investments. Understanding this will be important in considering recommendations for practice in Chapter 11.

The GAMBLING metaphor helps to create mental accounts, used by advisers as a way of framing higher risk direct Impact Investments to allow investors achieve both the financial and non-financial outcomes they seek. Whilst this was not used by all advisers and for all investors, that this was used in different circumstances demonstrates its importance in providing the mental flexibility to invest in some forms of Impact Investment. With advisers unable to support these investments directly, this mental flexibility is necessary to allow investors the

opportunity to access those things which create the positive change they want to see, in specific areas where they have a desire to make a substantive difference, such as were they are loss-framed in respect of a non-financial reference-point.

### 10.4 Summary of Empirical Conclusions

In line with the work of Pompian (2012b), Kahneman and Tversky (1979) and others, the theory I have presented from the evidence is descriptive. It seeks to explore the phenomena of advised retail Impact Investing from the perspectives of those investors and advisers who chose to participate in this research; participants already active in this space. I have not presented either investors or advisers in some idealised form but how they are. I make no claims for the universality of the conclusions presented, yet we can still learn from the experiences of these investors and advisers, in the same way we might learn from the early adopters of new technologies.

The evidence has shown that retail Impact Investors have reference-points in a non-financial dimension, around which they experience cognitive frames and loss-aversion. The latter is particularly important in their interactions with Impact Investments as it relates to their desire to avoid harm as well as doing good. This is a novel framing of the approach taken by investors; rather than focusing on the moral aspect of the decisions it is possible to see how these can relate to responses to non-financial reference-points. Investors appear to be concerned firstly with not being complicit in doing harm, they don't want things to be worse than they already perceive them to be. Whilst this suggests that they may also be loss-framed in the non-financial dimension, the evidence was unclear in this respect; some investors did show evidence of loss frames, but due to the qualitative nature of this enquiry it has not been possible to test for this empirically. Investors are also keen to make positive incremental gains and may also be gain-framed, rather than loss-framed risk-takers looking to revert the world to a state they believe it should be in. However, there is evidence of risk-taking behaviour which suggests that loss frames exist, typified by the use of the GAMBLING metaphor. The lack of clarity may stem

from investors having both experienced and aspirational reference-points, something which merits further investigation.

Advisers' own loss-aversion and cognitive frames, based on their own non-financial reference-points, appear to influence how they give advice and their choice to engage with investors seeking non-financial returns from their investments. Investors may accept these framings on the basis that they are already partly or fully aligned with them, but the possibility of non-alignment exists. Where investors and advisers do not align in their interpretations of the world, they do not form strong professional bonds; shared communication is key. The metaphors used by both investors and advisers help create a shared space for them to communicate their individual perspectives with each other, providing greater understanding of the shared experience of giving and receiving advice. These metaphors demonstrate more than just a desire to do good, but that money must be seen to have agency and be a route to solving some of the problems perceived in the world. The type of investments accessed may have a bearing on this too, a matter which we shall turn to in the theoretical conclusions.

### 10.5 Theoretical conclusions

It was not the intention of this study to challenge or endorse the prevailing definitions of Impact Investing and Investments (Brest and Born, 2013; Balbo, 2016; Hummels, 2016; Cohen, 2021; GIIN, 2023), yet it has been necessary to once again reinterpret the world in this fast-developing market. During the course of this research[74] the UK has seen the introduction of a new regulatory approach to Impact Investing, yet at the time of writing this has failed to deliver clarity and is still in the throes of implementation. As this is still at an early stage it should be expected that it will continue to evolve, just as Impact Investments will.

The changing narrative of financial markets (Shiller, 2019) has seen increasing interest in SI. Whilst Impact Investments should rightly be

[74] 2021-2024

considered as part of a wider sustainable approach to investing, I have attempted to highlight throughout this study the difference between investing for Impact, a material measurable non-financial return, and investing for the purpose of a purely psychic return (Statman, 2017), a non-material non-financial return. Traditional ethical investments, focussing on the exclusion of investing in companies, sectors or industries in which the investor has a moral objection to participating, differ from SIs in that there is not necessarily any intention to create change. Depending on the approach taken, an SI is likely to focus on maintaining or improving sustainability. Thus, an investment might be made with the aim of improving the sustainability characteristics of the investee company through engagement (Wagemans et al., 2012; FCA 2023a), or it might be made with the intention of aligning oneself with the actions of that company and its mission. The level of positive change delivered by such investments is not necessarily measured, and there is no counterfactual against which progress is tested (IMP, 2019) to see what would have happened had the investment not been made. Such investments might even be into the same companies and enterprises adopted by Impact Investment portfolios, though they will differ in their intention. For non-Impact SI the purpose is not to create or measure positive change, merely to invest in these companies for what they do, or with the intention of improving their behaviour. Where SI might seek to invest for financial return without delivering unsustainable negative outcomes for future generations, Impact Investing requires something more: A measurable non-financial return which must be real, tangible and derived in some way from the investment.

Because these investments often share similar, and sometimes overlapping characteristics, and even holdings, there has been a tendency to lump them all together as RI. Yet as the FCA's latest regulatory approach demonstrates (FCA, 2023a), there is a difference between an ethical investment and a SI, and for SI to be considered Impact Investment it has to go further than just investing in companies which are sustainable, it must create measurable change. The

intention of Impact Investments to create measurable change results in a dual objective (Caseau and Grolleau, 2020).

With the development of the term ‘Impact Investing’ dating only to this century, we might be mistaken in considering that challenges around interpretation are the growing pains of a new form of investment (Hummels, 2016), but the literature shows this is not the case. Investors who seek measurable material non-financial returns from their investments are not new (Emerson, 2003; Daggers, 2019). Classifying them as Impact Investors may be helpful in trying to bring clarity to the market and differentiate them from those who also seek non-financial returns, but for whom the materiality and measurement of those non-financial returns is less important. The FCA appears to have sought to do this through the development of the ‘Sustainability Focus’ and ‘Sustainability Improvers’ labels for retail investment products with sustainability characteristics but which lack the same focus on measurable non-financial returns required for Impact Investments under the ‘Sustainability Impact’ label. Yet the evidence has demonstrated that those who see themselves as Impact Investors are not homogenous. Among participants there are different interpretations of Impact Investing, and these can fundamentally change the way in which investors and advisers perceive the purpose and value of this approach.

The desire for both financial and non-financial returns might be considered ‘cakeist’: the desire to both have the cake and eat it too. If an investment is to deliver positive returns in both dimensions surely there should be some form of trade-off. This is not necessarily the case. An investor might achieve positive financial and non-financial returns from their investments, yet per degree of risk this may differ from other investments. Such risk might manifest in liquidity constraints, the size and financial strength of the enterprise invested in, geographic location, creditworthiness and so on. Efforts by investment managers to achieve both financial returns and Impact without taking on additional risk have resulted in the development of liquid-market strategies, however the Impact of such strategies has

been questioned in the literature (Brest and Born, 2013a,b; Busch et al. 2021) as well as by participants in this study. Whilst proponents of such strategies might maintain that these are as impactful, if not more so than other investments, there must in theory be some trade-off between the dimensions. If the potential for financial return increases, the degree of risk decreases and the degree of material non-financial return allegedly remains the same, this would suggest it is something else which changes. It would appear that it is the *specificity* of the change which continues to draw investors to direct Impact Investments, something which liquid Impact portfolios, particularly those invested in secondary-market equities, do not offer.

The range of interpretations of Impact Investing seen is not surprising when we consider that this is both a nebulous concept and participants will be interpreting it through their own world view. Yet it is also not helped by a lack of clarity and even infighting in the investment management community and what Impact Investing is (Abt, 2018). We might see both an investment made in the shares of listed companies with positive social or environmental characteristics in line with a theory of change, and a portfolio of investments in SIBs, both being considered Impact Investments. Indeed, both could be considered to meet the criteria of being called an Impact Investment, depending on which criteria we are adopting! Yet a direct investment in a community interest company, or making a loan to a company or local authority which is creating visible measurable change in the community, would also be Impact Investments.

As suggested in Chapters 9 and expounded in Chapter 11, financial planners might benefit from the creation of a more positive distinction between Impact investments and Regulated Retail Impact Investments (RRI). Both have an intention to create change (intentionality) but the characteristics of the investments and the ways in which change is created differ considerably. The former (Impact Investments) would include investments in such things as private equity, SIBs, shares in community interest companies or loans to local authorities for transformative projects. These investments, typically

illiquid, provide financial additionality and would correspond to a 'Strong' form interpretation of Impact Investing (***Figure 9.v* in 9.3.2**). They may or may not be concessionary in some respect but would have the potential to deliver change relating to a specific issue or to a local community. RRI investments would likely conform to the Weaker form interpretation. In line with the FCA 2023 definition of 'Sustainability Impact', they might deliver other forms of investor additionality, but financial additionality would not be a prerequisite, though they could still deliver this as part of their structure should they so wish. They would be less likely to be concessionary in a financial dimension, but the Impact generated would be less specific.

The FCA labels will not eliminate all forms of interpretation; they define only what it means to invest in a collective investment fund to which the 'Sustainability Impact' label applies. Creating a distinction between Impact and RRI in this way would satisfy the need for differentiation without resulting to the intentional framing of Impact Investing as old, hard or traditionalistic and RRI as new or soft. It would recognise that these different approaches may be based on different interpretations of what Impact Investing is, without trying to suggest that it has in some way changed from one approach to another. when both are clearly being used simultaneously. The presentation of these different approaches as Impact and RRI would help to create a necessary distinction, allowing market participants to get on with creating change via their chosen means of delivery without resorting to framing which attempts to denigrate participants who adopt a different approach.

Designating more liquid investments as RRI rather than Impact is not necessarily going to work for all market participants, as professional and institutional strategies also adopt a similar approach. Yet some form of differentiation would clearly be helpful. Whilst the FCA has introduced anti-greenwashing rules which prevent the use of 'Impact', this still allows for investments with limited specificity to adopt this terminology.

Retail investors are underrepresented in behavioural finance literature, with even less attention given to advised investors. Despite the

proliferation of Impact Investments among the retail investing public, the primary focus in the relevant literature is on (U)HNW individuals, if individual investors are considered at all. There has been some examination of Impact Investing in the financial planning literature, in the work of Caseau and Grolleau (2020) and Strauß (2021). Where retail investors seek measurable non-financial returns, this may be as important, if not more important, than the financial return; regardless of whether they are in an Impact or RRI strategy. Like Godeke and Briaud (2020) suggest for the institutional market, for retail investors Impact is not just another asset class to be invested in for the purpose of diversification.

Whilst it could be suggested that Impact Investing for retail investors is separate from the professional or institutional market, due to the level of sophistication and capital employed, this is not necessarily the case. While RRI portfolios access the market in a way which is liquid and lacks financial additionality, like their HMW and UHNW peers, retail investors also access direct Impact Investments. Making a distinction between Impact and RRI or even badging Impact as old or traditionalistic does not take away the desire of investors to engage in investments which they see as being transformative.

The evidence presented suggests that the interpretation of what Impact Investments are has a situational component to it. A primary interpretation might be one which aligns with an additionality-based definition, requiring both financial and investor additionality, and which is directly transformative, allowing investors to see the change they are seeking. For retail investors these tend to sit outside of their normal investment portfolios as they are outside of that which advisers feel comfortable advising on, or for which they have no regulatory permission to act. Consequently, retail investors might accept that a RRI definition is appropriate for their circumstances. They are prepared to satisfice (Simon, 1956) on specificity to achieve their wider objectives. From this the idea that retail investors form a continuum from conventional investing to Impact can be dispelled.

The metaphor of the ‘spectrum of capital’ is a convenient heuristic, but it does not demonstrate how investors are operating. This is important when we consider the pervasiveness of this in the literature and practice; it is key to understanding how we should consider advice on Impact. Investors might be comfortable with a sustainable or RRI approach to investing for a proportion of their assets, even where a more impactful approach is desired. They are not necessarily interested in the mechanics of the individual investments they enter into, or the details of the TOC employed by the investment manager, and in many cases are unlikely to understand the differences between forms of materiality. As with the assertion investors are Impact-First or Finance-First (Rangan et al., 2012), these concepts might be applied more appropriately to the investments themselves, not the investors. Unlike cats, people don’t fit comfortably into little boxes. Retail investors may operate on different parts of the spectrum at once, in order to satisfy different objectives. Investments are bound by the policies under which they are established, and the distinction may be more valid. Yet even in the case of investments it may not be a helpful metaphor: Portraying the spectrum of capital as a continuum is misleading as different investments will pick and choose from different points on the spectrum at any given time (IA, 2022).

Each individual investor has personal financial and non-financial objectives which they want to meet, objectives which have been shaped by their interaction with, and observation of, the world around them. Whilst they might have a strong desire to change the world, and might take significant steps to do so through their investments and their actions, they will also be mindful of their own personal financial security and wellbeing. As noted by Lakoff (1996), an individual may not wish to be so selfless in their actions as to have a detrimental impact on their own wellbeing, as this might have a detrimental effect on others. This was seen directly in the evidence presented by investor participants. Whilst they are not selfishly looking to maximise the financial gain, they recognise that they need to manage the balance between avoiding harm to their own wellbeing (potentially loss-averse

behaviour in a wellbeing dimension) and avoiding harm to or improving the wellbeing of others, or the planet.

It is important to recognise that both factors will be present for different retail investors. There will be those for whom income is guaranteed for life, whether through defined benefit pensions or purchased annuities, where the level of income vastly exceeds their needs, but these are likely to be few and far between. The size order of assets for many retail investors will be their home, followed by their pension, and then their investments. In many cases the only investable asset of any significant value will be the personal pension, derived from years of saving and on which they intend to rely in retirement.

If an individual does not have sufficient financial flexibility to invest in Impact there is the chance that the desire to achieve non-financial returns can only be met by the impact derived from a RRI portfolio, which is primarily a financial instrument. This suggests that in some instances, particularly where there are direct investments in Impact, the idea that Impact Investors are those who can afford to have a conscience is true. Yet from a financial planning perspective this is a case of prioritisation. The condescending anonymous adviser who suggested Rosie's clients are those who can afford to have a conscience failed to understand that the decision to invest in this way may be a case of balancing the wellbeing of others and investors' own financial wellbeing. They are not acting in a way which impairs their own financial wellbeing significantly, but rather than looking to increase their own financial wellbeing further they are using this as an opportunity to share the wealth.

As noted from the empirical conclusions, mental accounts are being used to help balance the need of retail investors who operate at multiple points on the spectrum of capital simultaneously, something which appears to have been arrived at instinctively in response to changes in regulation. It suggests that in some instances decisions are not made in the aggregate where material non-financial return is a factor. As will be demonstrated in Chapter 11, this might be systematised for the benefit of all involved.

## 10.6 Summary of Theoretical Conclusions

What Impact Investing is, and Impact Investments are, still isn't clear. It is interpreted based on personal experiences and changes from person to person. The intervention by the FCA in introducing the 'Sustainability Impact' label will have some impact on what can be considered an Impact Investment in the UK and may, in time, assist the education of investors and advisers. Yet in the same way there remain differences of opinion regarding what is a pension in the eye of the investor (Chapter 3.2), so too should we expect that what is an Impact Investment will remain flexible and subject to individual world-views. The introduction of the FCA labelling regime will not change that there will be Impact Investments which fall outside the scope of regulation, investments which retail investors will continue to be keen to access to deliver specific non-financial objectives. Some form of distinction between regulated (RRI) and non-regulated investments (Impact) would be helpful, particularly when retail investors remain able to access direct Impact Investments without advice.

## 10.7 In Conclusion

Careful consideration of the evidence presented by participants has shed new light on the phenomena of Impact Investing and the concepts of reference-points, cognitive frames and framing in a non-financial dimension. The experiences of retail Impact investors of frames and framing, and the experiences of their advisers in giving advice in this context, have been shown to be highly complex, reflecting the individuality of participants. Nevertheless, it has been possible to show that the following framework (***Figure 10.i***) can be used to help understand the world in which they exist.

***Figure 10.i: A Theory of Advised Retail Impact Investing through an Experiential Lens***

This study has demonstrated that retail Impact investors, and their advisers, develop non-financial reference-points based on their own history and interpretation of the world. These reference-points influence their investment choices due to associated loss-aversion in a non-financial dimension. There is also some evidence of cognitive loss and gain frames which merits further exploration. The cognitive frames are unclear, a situation which may relate to the differences between experienced and aspirational reference-points in the non-financial dimension, and the behaviour associated with each.

Creating shared landscapes for communication using metaphor is key to sharing ideas and explaining concepts. Without a specific awareness that investors have reference-points in a non-financial dimension, advisers know their clients want to do something good with their money [AGENCY/CONFLICT] and are attempting to guide them on this path [JOURNEY], yet at times they may run into significant obstacles unintentionally created by regulation and market forces.

The way in which advisers approach Impact Investing may be dependent on their own reference-points, with some responding to these by looking to create new ways of investing capital as part of a new sustainable Paradigm for financial planning. This approach is not widespread, with other advisers active in this area focussing on their clients' individual Preferences, though such matters are not ignored by those taking a fundamentally sustainable approach. Advisers can also

influence how investors see Impact Investments, with the use of GAMBLING metaphors highlighting the particularly risky nature of certain direct Impact Investments. In order to manage this risk, investors and advisers are intuitively creating mental accounts for certain assets, allowing investors to operate alone in areas where their advisers are unable to act.

As the experiences of investors and advisers are unique and relate to their own interpretation of the world around them this can result in conflicting interpretations of what Impact Investing is, with some investors and their advisers at odds over what is impactful. As this is a developing area of financial theory, the literature landscape is currently awash with different interpretations. This is not helped by substantial changes in practice and a body of grey literature which moves fast and seemingly without reference to the academy. The challenges of diverse interpretations have not helped the development of effective regulatory action. This situation may not go away, even with the implementation of the FCA's SDR, as the current regulatory landscape makes effective financial advice challenging if not impossible on individual investments investors are likely to continue to seek to access.

With any work of this size and scope, particularly of such an exploratory nature, the conclusions reached leave further questions to be asked which did not exist at the start of the research process. This study represents a first step into the exploration of non-financial refence points as an influence on the decision-making of advised retail Impact investors. As such, there are a number of key areas which have been identified for the development of financial planning practice and future research.

Current approaches to Impact Investment advice lack finesse, particularly where investors wish to access direct Impact Investments which achieve more specific outcomes than possible in RRI portfolios, but which sit outside of the scope of SDR. Rather than thinking of direct Impact Investments as simply written-off we could consider the value investing with an MMA lens could have for investors with specific non-

financial outcomes they want to achieve. Advisers could help shape and determine the mental accounts for which non-financial dimension has priority, using a robust Impact Capacity framework. This could protect consumers from taking too much risk while allowing the mental flexibility to take risk to achieve non-financial objectives.

Further research is required to ascertain whether the non-financial reference-points suggested by this research are quantifiable or testable in some way. Whilst this is unlikely to develop a universal scale of non-financial return on which reference-points might be sited and tested against, it is conceivable that an improved method for testing reference-points in a non-financial dimension might be arrived at, based on the theory established here. The exploration of metaphors in financial planning presented in this research is breaking new ground for the financial planning profession and is a subject which will benefit from further and more wide-ranging exploration, beyond the confines of Impact Investing advice. These areas for development will be considered briefly in Chapter 11.

# Chapter 11: Future Research Agenda and Contributions to Practice

## 11.1 Introduction

Whilst we have demonstrated that it is possible to use non-financial reference-points, cognitive frames and framing to help understand the decision-making process for advised retail Impact investors, the impact of this research lies in its power to help the financial planning community understand what has been uncovered and to consider the potential of this to support investors in the future. In consideration of this, approaches have been made to relevant professional bodies to disseminate the findings to a wide audience.

As the research is exploratory and is applying concepts to the phenomena of Impact Investing in new ways, it has also highlighted opportunities for future research which would benefit from further development. In this short chapter we will explore the potential implications for practice, paying particular attention to the idea of Mental Accounts and the concept of Impact Capacity, before reviewing two of the potential research areas which have been identified.

## 11.2 Impact Planning

We have seen in the evidence that financial planning community currently struggles with providing advice to potential investors who are looking for something more than an RRI investment may be able to offer. This is not because advisers have failed to grasp the complexities of this market, but rather that due to increased regulatory pressure on illiquid investments, restrictions around advising on unregulated investments, and the cost and availability of relevant insurance, it has become an area in which they fear to tread.

Part of the challenge may lie in the different types of retail clients which can be found in the market; an investor with a guaranteed income for life, well in excess of their expenditure, with £0.5m in investable assets would be a retail investor, as would someone making an investment of £1,000 in their first ISA. Neither should be afforded less protection,

therefore the regulator's approach requires that all are treated the same. However their needs and priorities, as well as their capacity to invest for the purpose of non-financial return, will be considerably different.

Advisers might enjoy discussing Impact opportunities with investors, after all these are often people who seem to share similar perspectives on the state of the world, but their ability to help them invest in a way which is Impact-Generating rather than Impact-Aligned is limited. The current approach to advice has left many who seek additionality in their investments 'going on alone'.

The reluctance of advisers to engage in direct Impact may be inadvertently causing detriment to retail investors. It is not difficult to establish an account with an online Impact platform[75] and make a small or even substantial investment, something which investors may do with a somewhat cavalier attitude, even with the guidance of an adviser to help prevent them investing too much. As Val noted, advisers may manage the expectations of investors, encouraging them to adopt RRI rather than Impact, as opposed to turning them away. Whilst framing non-RRI Impact investments with the GAMBLING metaphor may help investors working with an adviser employing this framing to understand the potential risks involved, this may not be the case with all investors. Those who are keen to invest in Impact may go on to invest in, or loan money to, companies or projects without realising the potential risks involved.

As these investments are made of the investor's own cognisance there are limited checks and balances in place to ensure that the investment they are entering into is suitable. Investment platforms may not provide sufficient information for even an experienced professional to undertake a comprehensive analysis and so investors are, like Simon, reduced to "going with their gut" rather than undertaking any comprehensive evaluation.

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[75] See Appendix 5

The evidence has established that those who perceive themselves to be better off in a financial domain may be willing to take a degree of additional risk with a proportion of their capital to achieve non-financial outcomes [GAMBLING]. Despite the protestations of Guzman et al. (2019), the broad consensus in the literature (Shefrin, 2000; Redhead, 2008; Kahneman, 2011; Statman, 2011; Pompian, 2012a) is that investors do not act rationally, even if they think they do. This raises a particularly challenging issue for the financial planning community and regulators. If an individual perceives their financial situation and the non-financial situation to both be loss-framed, they might be prepared to take inadvisable risks. Indeed, it might be similar to what Gaborit (2020) describes; the urgent need to take action to combat climate change may be sufficient for people to put even their legal freedom at risk. The potential for such behaviour is not confined to climate action alone, given that this relates to only one of the SDGs, which include historically fraught examples such as gender equality.

In a practical sense this could result in people who cannot afford to do so taking financial risks with the intention of improving non-financial outcomes. Individuals with limited financial security and a financial loss-frame might be drawn to high-risk investments designed to give higher returns in both a financial and non-financial domain. With advisers unwilling to give advice on individual direct Impact Investments, and an advice market which favours those who are already well-off, this could present a potential systemic risk; a situation of which regulators should take note.

There is a challenge as to whether one perceives the capital markets as being the right place to be able to achieve the outcomes which we want to see in a non-financial domain. If an individual does not see the financial markets as having agency and being able to do good, but as inherently bad, then participation in investments with a non-financial objective will be contrary to their framing and they will not participate. For participants in this research, it was seen as the least-worst option; they may already give to charity and do not wish to give up control, therefore investment in Impact was seen as a viable option. If an

individual wants to create change but does not have the risk tolerance to engage in the kind of behaviour Gaborit (2020) describes, they may see investing in Impact as a means to create the change they perceive is necessary. Without effective advice they risk making inappropriate investment decisions. This research has potential to support advisers in their delivery of advice and will be of interest to regulators in understanding the practical implications of the current regulatory landscape.

### 11.2.1 Impact Profiles and a variable Impact Capacity

As a member of the financial planning profession, it will not come as a surprise that the recommendation presented here is for a better integration of material non-financial returns and Impact Investment (both RRI and non-RRI) into the financial planning process.

As noted in Chapter 8, there is evidence that investors and their advisers must manage the approach to investing in non-RRI Impact with reference to an investor's capacity to do so. Current minimums suggested by Impact platforms, for those who do not qualify as sophisticated or HNWIs, are 10% of liquid assets. In financial planning terms this might not be advisable: Just because someone can invest 10% of their liquid assets in a direct Impact Investment, does not mean that they should.

The idea of Impact Capacity (IC) is derived from the established financial planning concept of a capacity for loss, or capacity to take risk, part of the overall risk profile of the investor (see ***Figure 8.i***). An individual's risk tolerance, the psychological degree of comfort they have with risk, is a subjective measure. As Pompian (2012a) notes, the process by which this is assessed rarely takes into account behavioural biases of the investor. We have seen how an investor's reference-points in a non-financial domain could make them susceptible to loss-framing and loss-aversion in a non-financial dimension, which might in turn encourage them to take more financial risk to achieve the non-financial outcomes they seek. Although the evidence presented has not demonstrated a strong link between a

non-financial reference-point and the existence of non-financial loss frames, the conclusion in Chapter 9 regarding the potential trade-off does suggest that a non-financial reference-point might create some form of behavioural bias which traditional forms of risk profiling are yet to account for[76]. From the evidence, we have identified that investor participants' desire to achieve measurable non-financial outcomes from their investments is affected by their knowledge and experience of relevant issues, noted in Chapter 5. The same might be said of their risk tolerance if they perceive the present state of the world to be below an aspirational non-financial reference-point.

The investor's capacity to take risk is less subjective than their risk tolerance. It should be established objectively by their adviser rather than being the interpretation of the investor's own subjective opinion of how much they can afford to lose (Pashley, 2023). Investors and advisers both demonstrated that there is also some form of IC which needs to be taken into account in the advice process, particularly for non-RRI Impact Investments. Bringing these together, we might consider investors to have an 'Impact profile', similar to their risk profile, which is shown here (***Figure 11.i***).

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[76] Some effort to address this appears to have been taken by UK-based consultancy Oxford Risk. Whilst risk-assessment providers have discussed the integration of sustainability preferences into the overall client profile, it is not clear whether they have effectively demonstrated that their tools account for any link between sustainability preferences and risk tolerance.

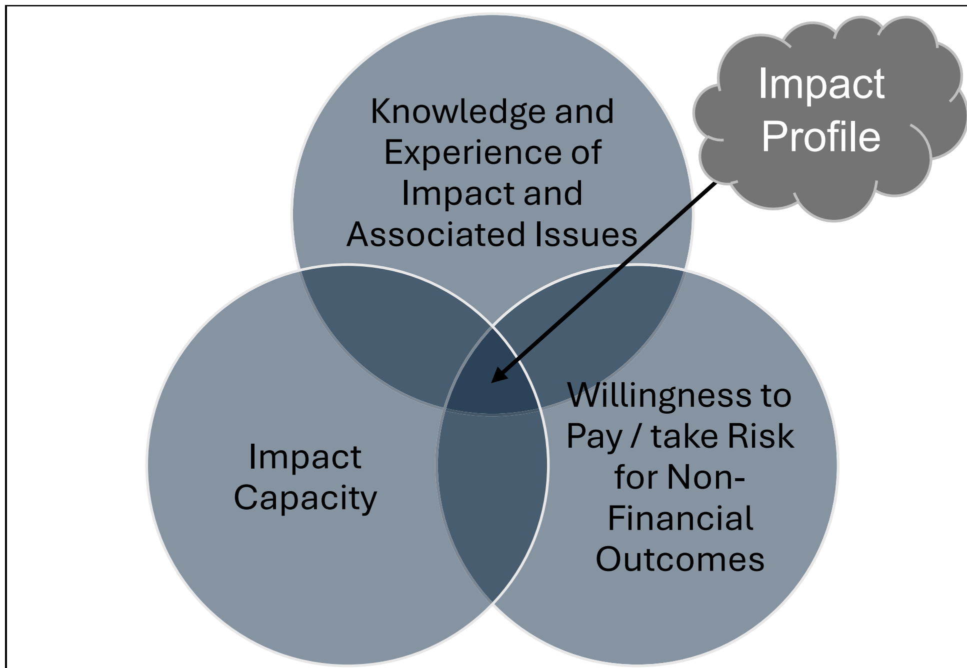


***Figure 11.i: The Impact Profile***

Where an investor has a high tolerance for risk and limited capacity for loss, advisers may need to help them manage their investments in such a way as to limit the potential for foreseeable harm, in line with the FCA Consumer Duty Outcomes (FCA, 2022b). An unconstrained high tolerance for risk with limited capacity for loss might easily result in detriment to the investor. Investors might be thought of as being in some way identifiable as fitting somewhere into the four quadrants shown here (***Figure 11.ii***).

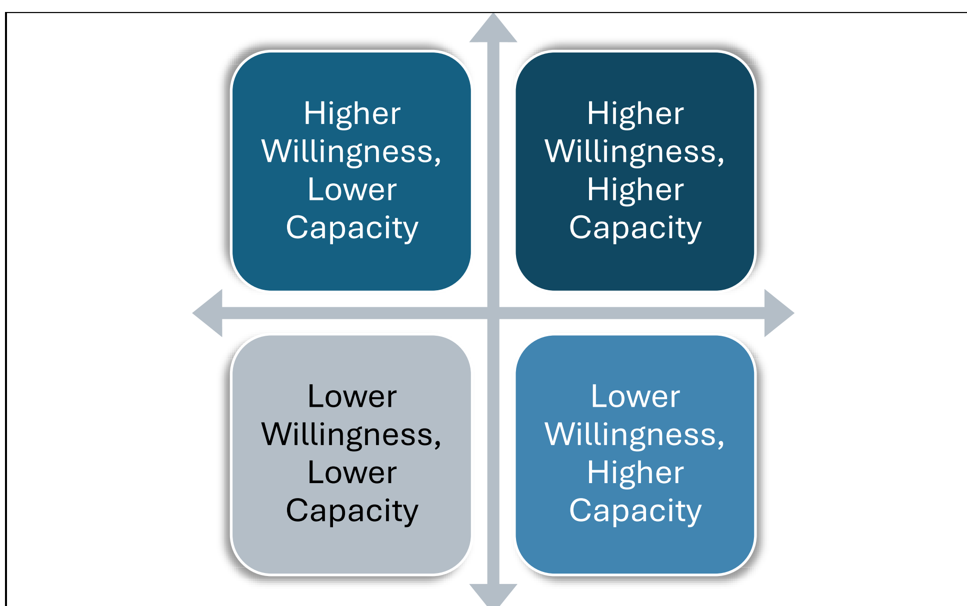


***Figure 11.ii: Tolerance and Capacity Quadrants***

Applying this to our Impact investors requires no re-writing of this construct, we simply reconceive the risk willingness and capacity in terms of their approach to Impact Investing. Thus, an investor might have somewhere between a high and low risk willingness, driven by their perception of their non-financial reference-point, and between a high and low IC. Realistic scenarios are not difficult to envisage. An investor who has an inflation-proofed guaranteed income for life, who also has capital invested for which they have no practical personal use might have a significant IC. Conversely, an investor reliant on their invested capital for income, such as someone entering retirement in good health, for whom the possibility of exhausting their investment capital during that period is a significant risk, might have limited IC.

Establishing an objective measure of IC for those with a high risk-willingness is less straightforward, as this will be dependent on how we approach investing in Impact and the interpretation adopted. This is different to the risk, return and ethicality optimisation model of Bilbao-Terol et al. (2015) and Roy's (1952) Safety First calculations, though it draws from both. We are looking for the proportion of capital an investor might consider applying to an investment which has a potential for substantial capital loss. The capital amount retained (the safety component) must be such that the investor has sufficient capacity to take risk that the allocation of capital to the Impact portfolio does not risk financial detriment.

In line with previous chapters, we can see the potential value of RRI investment strategies here; if both clients have a high willingness to achieve measurable non-financial returns form their investments, a client with a high IC might be able to consider illiquid investments with highly specific Impact (non-RRI), whilst the low IC client who is reliant on their investments for income might not be able to risk their capital in this way and would need to opt for the market-rate returns and risk of an RRI investment.

In the case of a Paradigm approach to Impact Investment advice (Ken and Greg), the IC is integrated into the overall SI approach. This does not mean that IC is not a consideration which is applied. Indeed, from

a Paradigm perspective it might be considered that the investor has an infinite IC for some form of RRI investment as this might be core component of their investment portfolio. However, advisers operating a Paradigm approach might offer the investor the opportunity to increase the specificity or sustainability of the investments, a move from Paradigm to a more Preference-based approach. Here the IC takes on increased significance. An adviser with a Preference- based process will have to contend with the additional factor of whether an investor can, or should, invest in an RRI investment portfolio or in assets which are directly transformative.

Drawing on the idea that Capacity for Loss must be an objective measure, we can posit that the IC, the amount which might be allocated to non-RRI investments, is a function of the capacity for loss (***Figure 11.iii***):

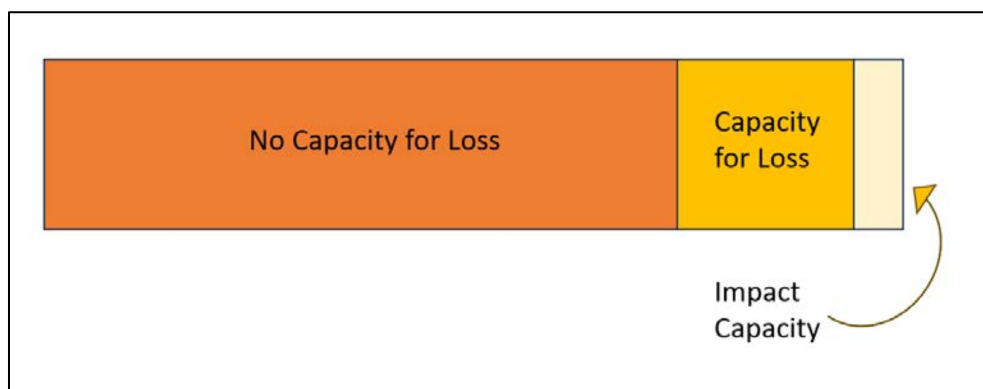


***Figure 11.iii: Impact Capacity***

Having identified this amount (which may have a zero value) there is then potential to consider whether direct Impact (non-RRI) is appropriate for this investor. The amount considered for illiquid and potentially higher risk investments which typify direct Impact, should not be considered for the totality of the amount of investor's capacity for loss, on the basis that this still provides a buffer for fluctuations in the value of their main investment portfolio.

As RRI strategies are potentially able to provide market rate returns, this could lead to a portfolio approach similar to that shown here (***Figure 11.iv***):

***Figure 11.iv: Capacity for Direct Impact***

The development of a simple methodology for identifying the amount of capital which can safely be allocated to direct Impact Investments does not diminish the potential value of RRI investment strategies, given their potential for providing liquid investments for those with limited IC, and potentially for the bulk of the overall investment portfolio for those with a higher willingness to engage in all forms of Impact Investing. Most importantly, there is no implication that all investors have the necessary willingness or capacity to invest in non-RRI investments.

Implementing this approach requires the use of mental accounting; it is effectively another form of multi-pot portfolio strategy, used to enable the investor to achieve their non-financial objectives. As the different pots have different risk characteristics, similar to the multi-pot income strategy noted by the FCA (FCA, 2024a), both investor and adviser need to understand how to view this in practice. This was considered briefly by Caseau and Grolleau (2020) though was not explored in significant detail. Although we have seen the use of the GAMBLING metaphor to help frame the mental accounts already used for investors in Impact, this framing may not be helpful if Impact is going to be seen as a credible form of investment. Yet using metaphors to frame the accounts in the minds of investors and advisers is potentially beneficial. New metaphors may be needed to create shared understanding of the risks involved, as well as the potential for creating change.

The development of an approach to IC and portfolio design using an MMA lens may help the financial planning profession in supporting those clients seeking to create change through their capital. Further investigation may be warranted into the potential for these mental accounts to reflect Maslow's (1948) hierarchy, in line with Kinder (2019). However, implementing this approach does not solve all the potential problems which have been identified. Whilst advisers could make use of a more objective approach to understanding and systematising their approach to IC, it does not alleviate the issue of investors having to go on alone for direct Impact components of the investment portfolio, which will require more comprehensive attention from regulators. Yet the implementation of a clearly defined process, identifying the amount to be invested for direct Impact is within a clearly defined tolerance, might make investing this way possible for firms who have the necessary risk appetite internally and whose insurers are amenable.

The issue remains that the process will not provide the flexibility for many advisers to carry out the necessary research to be able to recommend these investments with confidence. Such research capabilities do exist, particularly in those firms which have the necessary permissions to advise on individual securities. If the use of such investments is to become more widespread, there remains a need for impartial sources of investment analysis to support advisers in preventing foreseeable harm to investors.

## 11.3 Future Research Agenda: Developing a test for non-financial reference-points

The evidence shows that reference-points in a non-financial domain may influence Impact investor decision-making, however it cannot confirm whether this is prototypical behaviour. Further research is needed to help understand this phenomenon and its potential on decision-making in a broader context. We have seen in the literature that it is possible to test for reference-points in a financial domain. Such information might well be helpful in managing the expectations of financial planners if it could be operationalised in such a way as to

make it easily used, but implementing such a process for investors' non-financial reference-points might not be achievable in the same way.

Financial reference-points are quantifiable because they are measurable, something which is only possible because there are accepted units we can use. Like utility, there are no such units for the non-financial domain of Impact Investments. Whilst asset managers and Impact intermediaries, as well as investee companies and other organisations, measure the Impact of their actions and interventions using various measures, these are not always directly comparable. We might turn to Social Return on Investment (SROI) measures, however the number of trees planted in reforestation cannot be directly compared to the number of people who find work through an employability programme. In addition, measurement techniques such as SROI place the Impact return in the financial rather than non-financial domain, which may not be congruent with the domain of investors' reference points.

Approaches to Revealed Preference Theory (Samuelson, 1938) may provide a way of determining preference of options, however whilst sequences of binary pairs might eventually reveal a preference, similar to Werner and Zank's (2019) reference-point estimation method using probability mid-points, this would still require identification of the primary issues for which reference-points have developed. Given the discussion of how aspirational reference-points might also influence decision making, it may also be challenging to identify such reference-points without influencing the investor's perception of what is acceptable, due to the potential for anchoring (Tversky and Kahneman, 1974).

At this stage we have evidence to suggest from the literature, and from this study, that non-financial reference-points exist and that they do have some influence over investor decision making, whether directly or as framing determined by the reference-points of their advisers. Further research into the influence of non-financial reference-points would be beneficial for the financial planning profession, though a

more comprehensive understanding of non-financial reference-points in an advised investment context would also be helpful in understanding investor psychology. Rather than searching for generalised non-financial reference-points in the first instance, a suitable study could focus on a single issue, perhaps relating to a single SDG, testing for the reference-point and then for the influence on investment preference before widening this to look at reference-points in multiple subdomains.

### 11.4 Metaphors in Financial Planning

Whilst the development of an understanding of non-financial reference-points may be beneficial in improving advice to individuals for whom this is a relevant decision factor, the research has also highlighted areas of more general interest for the financial planning community. The evidence presented in Chapter 6 demonstrated how advisers and investors use metaphors extensively to communicate complex ideas. Whilst McQuarrie and Statman (2016) have demonstrated the use of visual metaphors in the financial services industry, this is clearly an area which would benefit from more detailed and wide-ranging examination.

Some metaphors form part of the standard lexicon of financial planning; portfolios and models are built or constructed, but they might also be created or developed, investors are in a constant battle with inflation, but only when they are on the losing side. Understanding these metaphors may help improve communication, particularly as much of the work of financial planners in understanding the objectives and desired outcomes of investors relies on the creation of shared meaning.

Whilst understanding this landscape of metaphor may have practical application with investors, there is potential for examination of the metaphors used to describe the financial planning and advice profession in general. Financial planning relationships are built on trust, something which can be quickly lost when expectations are not well managed (Statman, 2011). The reference by Thomas to

investment managers as “sharks” suggests a decidedly unfavourable impression. The evidence also shows that this distrust extends to how advisers see investment managers. Whilst they may not use the same language as Thomas with their clients, they may inadvertently be sharing their perception through the metaphors they engage, something which may have wider implications for public trust in the sector.

Understanding the metaphors which are used by and about investment managers, financial planners and advisers in general, whether involved in SI, Impact Investing or the wider market, might be beneficial to the profession in understanding both public perception and the profession’s self-image. Existing literature concerning the examination of metaphors in professions (Liljegren and Saks, 2017), illustrates how metaphors can help in understanding the position of professions in society. As public trust is a key area of focus for practitioners (Elkington, 2024), their professional bodies and the regulator, this research would seem to be of considerable value.

### 11.5 Conclusions

The outline of changes to professional practice and proposed research activities given here are but a fraction of the many areas for further investigation which could be developed from the evidence and theory presented. Whilst Impact Investing has moved from the fringe of the investment world to the mainstream, it is not appropriate for all investors. The research activities proposed, whilst based on research which focuses on Impact Investing, is based on the conceptual understanding developed here which may help all financial advisers understand better how their clients make decisions, and the influence the adviser’s own framing might have. As such they may have much broader implications for all avenues of financial planning decision-making and the profession itself.

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# Appendix 1 – Ethical Approval and Initial Interview Questions

## Ethical Approval

Ethical approval for this research was granted by the Manchester Metropolitan University Business and Law Ethics and Governance Committee on 11th October 2022, EthOS Reference Number: 43535

## Initial Interview Questions

### A1.1 Investor Initial Interview Questions

| | |
|---|---|
| Q1I | *"Please describe your experience of impact investing."* |
| Q2I | *"Please describe to me what impact investing means to you?"* |
| Q3I | *"Please can you describe and explain to me your experiences of the choices you made when deciding to invest in this way and anything you feel influenced your choice to make an investment."* |
| Q4I | *"Please tell me about what you wanted to achieve through your investment, other than a financial return?"* |
| Q5I | *"Taking into account what you wanted to achieve with your investment, please imagine that you were being presented with the opportunity for a new investment.<br>The purpose of this investment is also to achieve impact.<br>Assuming investment risk and return are no different, how would you feel about an investment which seeks to mitigate deterioration in an area which is important to you?<br><br>How would you feel if the same investment sought to improve that situation?"* |

### A1.2 Adviser Initial Interview Questions

| | |
|---|---|
| Q1A | *"Please describe your experience of advising retail clients about impact investments. SPECIFICALLY"* |
| Q2A | *"Please describe to me what impact investing means to you?"*<br><br>*Please use specific examples here if this will help.* |
| Q3A | *"Please describe and explain how investors express to you their choice to invest in impact investments."* |
| Q4A | *"Please tell me about how investors have expressed to you what is important to them when making choices about impact investments, beyond a financial return?"* |
| Q5A | *"In your experience, have investors expressed to you their understanding of the potential difference between investments which seek to make an improvement and those which seek to stop a situation from deteriorating?"* |

## Appendix 2 – Initial Interview Commentary (Anonymised but otherwise unedited)

**Female adviser**

| Extract | Gain / Loss / Unclear / N/A | Interpretation | Notes / Questions |
|---|---|---|---|
| *I find this fascinating and it's for me this process of working with people who have specific goals they want to achieve, who have motivation, you know, something other than that "just take my money and preserve the capital, beat inflation, give me some stable returns", you know, who have something else rather than just pure financial motivation* | | Specific goals. Though then goes on to say in later sections that most people who seek advice don't have specific goals. | |
| *If that question is not asked, I'm sure there are people who would not go into that area if not prompted.* | N/A | Prompted<br><br>Nudged?<br><br>This is in relation to sustainable investing in general and refers to how asking a client about their preferences can have an impact on the way in which they invest. It did not appear that the adviser was suggesting that the adviser is pushing this type of | Clarify – do they mean people won't go into impact discussions without prompting?<br><br>Or is this just some people. |

| | | | |
|---|---|---|---|
| | | advice or persuading people to go into it, but rather (as subsequent comments show) that she was saying they won't go into it if they aren't given the opportunity to do so (other than a select few). | |
| *Advising in general, I find is always evolving because you are influenced. I am influenced. I'm not saying that everyone else but everyone else is, but definitely speaking for myself, I'm influenced by things that I'm reading, things that I'm watching. It's always…you….I bring in a part of my own personality into the conversation and I think that financial advice is a two way street in that way. It's very hard to just be neutral all the time. So and that, and that's why it works better with some clients.* | | There is a lot going on in this statement.<br><br>They are aware that they are influenced and that they will have an impact on their clients in some way too. "bring in a part of my own personality". As this adviser notes that she has a higher proportion of sustainable clients than her peers this could mean that she is able to frame the conversations in such a way as to open clients up to the possibility of investing in this way but also that she is framing conversations in such a way as to influence investors to invest this way?<br><br>They have admitted that *"its very hard to be neutral all the time"* and this may be a reflection that they are allowing their own preferences to influence the conversations they have with clients? | Explore this further |
| *attracting the kind of people who wanted to talk more about it* | | Is it the case that she is attracting more people who are wanting to talk about it or is it that they are mirroring her enthusiasm to talk about the subject? | Explore if possible, |

| | | | |
|---|---|---|---|
| | | How does this sit with the idea of people not wanting to talk about it unless prompted? | |
| *there is always an element of assuming, say again, it's bringing in your own values and what you think is important. You almost superimpose it over other people's opinions.* | | This could be considered quite dangerous if incorrectly interpreted, yet the adviser is clearly talking about how what we bring to the table can influence the behaviour of others.<br><br>This deserves some clarification. | Can you elaborate on this? |
| *I had an impression that it was more important to people.*<br><br>*I think I was prejudiced in the way that I thought that that subject, you know, sustainability of the investments, I thought that was more important.*<br>*And after having in-depth conversations on the subject, one of the things I found out is that not everyone thinks that they're making a real difference. Not everyone shares the same degree of certainty.* | | A view shared by others (<CODE REMOVED> for example) where the client felt that they aren't really making much of a difference with their investments and that in order to make change they have to be activist as well.<br><br>Clear self-reflection on their own assumptions. | Do you feel that your reflection that it is NOT as important to others as you thought it would be has influenced the way you talk to clients about it and may have influenced how they respond to you? |
| *[Impact] if you're interested in that, it's something that we can discuss* | | Does this dismiss the possibility that they would want to talk about it more if they knew what was entailed and what could be achieved? | |

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| *I can't force them to have them and I can't force them to consider it* | | This almost feels like frustration on the part of the adviser. | |
| *I think it's almost my duty of care to bring this up so that it's something that they think of* | | "so that its something they think of"<br><br>This suggests that they are looking to influence the client to think about it and that they wouldn't think about it if they weren't prompted to do so.<br><br>Could this be taking things too far or is it just about identifying preferences which may not be uncovered yet? | |
| *impact investing for me is setting out with a clearer goal of what you want to achieve by your actions to having an idea of what kind of change do you want to make.* | Unclear | Goals. Change<br>No clear framing and quite neutral. | When you think about impact having goals, or making change, what does this feel like to you? |
| *Not just a "wake up, I want to do better with my money", but having a clearer goal in mind* | Unclear | Again, a goal could be loss or gain framed. | As above |
| *if we're talking about more sophisticated investors knowing what kind of impact that might be, you know, if it's a subject that's* | Unclear | Targets might have a framing. It could also be that the "target" is a reference point in an impact dimension but this seems unlikely, it seems to be more about | When you think about impact targets are you |

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| *particularly dear to them, personal reasons or something they've been involved with, then it's knowing that particular area they want to target.* | | directed attention rather than a point they want to reach? | thinking about targets in the sense of a targeted response or a target to be attained? |
| *I have a few clients will know exactly what they want. I think that's the problem with clients in general. ….it's not the problem, it's just by the nature of that they're not that interested.* | | Not wonderfully clear here, but it would appear that they are dividing clients into two groups<br>Have some form of target or goal in mind<br>Don't really know what they are looking for / aren't that interested? | Can you explain further? |
| *it's just the limitations of you know the knowledge that comes with the professional industry and that. It's hard to come by if you're not reading the same sources* | | Is this a knowledge issue or is there something else which is driving this?<br><br>The suggestion is that there are those who work in a particular space (whether in finance or in anything which is impacted by sustainability) and who want to know more and who have more information to make decisions, are trying to find out more so that they *can* make decisions. Yet is there something that underpinned that choice to move into that space in the first instance which is causing this rather than more knowledge bringing more desire for agency? | |

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| *…to see someone who knows exactly what they want to achieve. Who knows exactly.*<br><br>*…hard goals….*<br><br>*I think it's broader, that understanding is broader. So they might know broadly what they would like, but hardly ever particular things of what they want.* | | I think the main thrust of this was supposed to be that knowing precisely what they want is something which very few clients really present with to this adviser.<br><br>This is possibly a characteristic of their client bank given the opinions elsewhere.<br><br>This could have a substantial impact on loss/gain framing from the client's perspective. If they aren't coming with particular things in mind which are important to them or which they feel need to be addressed it is difficult to know if they are experiencing loss or gain framing.<br><br>The idea of "hard goals" is novel to this adviser, at least the terminology appears to be. Hard goals, soft goals. Most clients don't have hard goals in their opinion. | |
| *people who are focused on their local areas* | | Home bias noted in other research, not surprising that it is present here. | |
| *[Describing what impact means to clients – hard goals] It starts for example achieving impact in that, in the specific communities say targeting, maybe targeting specific problems* | Loss | Micro level?<br><br>Explaining hard goals prompted the introduction of two possibly loss framed areas: *deforestation* and carbon footprint. It is possible that in both cased the | Do you recall whether the deforestation and carbon footprint examples you used |

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| *that exist in the communities or that that's on the kind of macro level.*<br><br>*But if we're looking at the broader picture it's. Targeting specific problems like deforestation, like the carbon footprint, like you know, anything that is more definable that has a. That that you can probably measure. I think for me that would be the harder goal.* | | adviser believes that these are in a position they should not be or that they have encountered clients who feel this/express this.<br><br>This suggests possibly that there might be a classification of clients with hard goals who are looking for specific impact and a broader group of clients with "soft" goals who are looking for less defined impacts / interventions. | were things which were raised by clients themselves? |
| *The more restrictions you've got, the more specific requests you've got, the narrower the output. Say you're limited as in to what you can use and what you can offer. The broader the definition, the more freedom you've gotten, I definitely it's more convenient.* | | Given that they are aware that it is more convenient, does this suggest (possible comparison with A3) that the clients are being nudged towards a broader solution as this is easier to implement? | How do you handle clients with hard goals who don't want to compromise?<br><br>Do people want to compromise?<br><br>Is this about compromise?<br><br>Is the compromise related to financial risk return aspects? |

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| *For better or worse, I think it's more convenient.* | | | |
| *Is it for worse if they don't have any specific requirements that they want met, they have a generalised idea that they want to do good with their money or something along those lines.*<br><br>*Or they want to do something with their money and and if they don't have a specific hard goal, then that's OK if you can't achieve hard goals with investment.* | | "do good"<br><br>This is regularly stated by participants, the idea of "doing good" without really qualifying what it means. Theoretically it could mean something different to each one of them.<br><br>The first part of this statement certainly suggests that these clients aren't impact investors, they are not looking for specific measurable impact, they are investing for the purpose of feeling good about their investments? Yet there is still the idea of *doing* here, not just feeling. Still, the impact in this case is softer, less defined.<br><br>The suggestion in the latter part is that hard goals can't be met through investment.<br><br>This suggests that investors with hard goals need to have their expectations regarding their investments managed? | Is it correct to interpret hard goals as not being investable per se or is this not what was intended? |

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| *Investors who have very specific goals, harder goals that they want to achieve by investing money are more likely to do themselves.* | | Is this an assumption?<br><br>Will investors do it themselves because the adviser doesn't have the tools or capability? Are they (like with <CODE REMOVED>) being encouraged to do it themselves because the adviser can't make specific recommendations on small projects? | This would benefit from some clarification. Why are they more likely to do it themselves? |
| *I think that advisors in general have that filtering rule of almost processing the information for someone and then making it easier* | | If advisers are processing the information for clients and making it easier, which is definitely one interpretation of the adviser's role, is the adviser's role around helping the client to achieve satisficing across financial and non-financial goals?<br><br>Or do they mean that the filtering is in terms of the market and filtering out inappropriate solutions? | |
| *People who have very, very specific goals will find it easier to reach those goals by finding the investments themselves.*<br><br>*I find that it's people who have a broad understanding who will think…… "I don't understand enough of it, I don't want to research it, I don't want to spend time on it. I'll* | | In the first part, is this an assumption or do they come in already with these investments? What impact do these have on the wider advice? Do they self select all the time?<br><br>Is it right that these people don't get advice?<br><br>These others get advice because they don't know where they are going. | What kind of role do you feel an adviser has with clients who have hard targets? |

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| *need someone's help." And I don't know if that's true, but that would be my guess.* | | Whilst it is reasonable that a group of clients would have less need of product based advice, it does not necessarily follow that they would have less need for advice. | |
| *that raises a that raises a very interesting question around the advice gap. Because if they are, if those people who have specific goals that they want to achieve are not seeking advice* | | As above. | |
| *They choose to self direct, in respect of that part of their investment life, or indeed their entire investment life.*<br><br>*It does mean though that they are losing out on the professional expertise of the advisor in that area of their financial life and we all know that being an advisor is more than just selecting investments.* | | As above | |
| *it comes to the value of advice in general and whether it is recognised and it comes then, you know, even further reach out. I think it goes to financial education* | | As above | |
| *most people I know almost everyone and they will benefit from, from advice just to make their* | | This is challenging- how do we define what a "better choice" is? | What do you mean by better choices? |

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| *affairs more efficient just to make better choices.* | | | What is it that makes a choice objectively better? |
| *And why advice is not popular because people don't even know that it's an option. Because there is not enough financial education to even understand that there might be tax implications for your actions.* | | | |
| *I think people. With harder goals might think that they want you know might do it themselves is because again, if you've got any understanding then you can go and DIY it.* | | | Is this a failure of the advisory community to communicate to these client's the value of advice or is it that we aren't communicating with them because we can't sell them something? |
| *…with impact investing, with investing for any non financial goals as well as in general. It is. That's for me. I think it's that holistic approach to advice. Um, because you can't separate tax advice from uh? Just, you know, from knowing* | | IF the non-financial goal has primacy does any of this really matter to the client?<br><br>Is this what you mean by hard goals? | |

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| *you were just from knowing your wrappers, really, uh, from knowing the rules, the allowances, and then also from being able to advise people on the areas that they interested in to make sure that their preferences and they've all they achieved so preference is taken into account.* | | Is this only viable for clients with "soft goals" where there is a tradeoff between impact and financial considerations? | |
| *I think a big part of it is. Helping people from stopping people from making mistakes, you know, acting rationally, that would for me be, you know, better choices in the way that sometimes an action is the best action. Sometimes what you think is right, because it sounds great, is not.*<br><br>*…it might not be the best investment from the risk point of view, maybe way, way, way out of your risk appetite because of your circumstances.* | LOSS | Much as I would like to believe that the adviser means that acting rationally is a mistake, I don't think this is what they meant here.<br><br>The mistake then might be that investors (hard or soft) are potentially going to make mistakes if they don't have the adviser there to match them with the right strategy?<br><br>This suggests that the adviser is there in terms of objective risk capacity (not appetite) to stop the client from doing things they shouldn't be doing with their money. In the case of a hard target client then there might be a substantial appetite to take risk to achieve the hard target they are looking for but the adviser's job (if they actually came to the adviser) would be to assess whether this is a reasonable risk for them to take. | Could this also be a reason that these clients don't come for advice? Because they know its illogical but like <CODE REMOVED> they are prepared to take the risk to achieve the non financial outcome?<br><br>They don't mind losing the money. |

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| *going back to people knowing exactly what they want. I've got a few clients who knew exactly what they wanted so exactly and this is because they work in the industry, so they work on sustainable projects* | | Helps us understand who has hard goals.<br><br>How do these people invest? | |
| *So it's they are very much in that, you know, they're surrounded by that, and they know exactly what it is that they want.*<br><br>*They know what to look for, they know the terminology, and then they express themselves on that level.*<br><br>*So they know that you know, they know you know everyone knows what they're talking about.* | Unclear | Whilst these individuals know what they want it is not clear what the driver is in their decision making and whether this has any connection to loss averse behaviour.<br><br>There is no suggestion that they are trying to "do" anything specific with their investments. | Might benefit from unpacking further.l |
| *There might be an equal desire.*<br><br>*So achieve impact to invest in something that makes them feel good because I think at the end of the day for more people, you know, for majority, for like for a general investor, it is* | | The adviser has made a value judgement about investments which do not harm the environment being *better* choices. | |

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| *about knowing that what they're doing is right and they are not harming the environment, they're making the better choices.* | | But perhaps more importantly the discussion here is about how investing is about making them feel better rather than necessarily doing good.<br><br>Possible good vs evil / right vs wrong metaphor here too. | |
| *they're doing the right thing.* | | Again, this is a value judgement on the idea of right and wrong being expressed through the investments. | Do you see this as an issue of right and wrong? |
| *I think it's that. You know, personal, right? Yeah, motivator for most people. And then for them, their expression is a bit more muddled in that they it's harder for them to pin it down. They would be often keen to know what it is that you can offer, what it is that there is, because they might have that motivation, but they do not know the options. So they might be looking for you to offer them and explain them what kind of things there are.* | Unclear | Clients are presenting without a clear understanding of what their investments can achieve in terms of impact. They want to do something, but they do not know what it is they can do.<br><br>Any framing in terms of losses and gains is difficult to establish here as the idea of doing something is not necessarily L or G.<br><br>Clear understanding that this is a very personal and individual position. | |
| *So I think it's it's that divide between people who know exactly what they want and you know why they want it and from people who are very keen on it. But don't have that clear cut understanding* | Unclear | This is aligned with other advisers interpretation. Some clients are very clear about what they want, others keen but don't know exactly what is available and therefore what they want from their investments.<br><br>Any framing is not clear. | |

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| *I think it's [education] important and it's empowering. Informed consent really, isn't it.* | | The idea, perhaps that the more someone knows the more opportunity they have to explore the options available to them. | |
| *On the impact, investing and sustainable, sustainable finance. Definitely. Because there is not enough information about it. It's hard to come by. It's again, it's not very transparent and you don't always know. Reading the news, reading the kind of mainstream media you don't always know. What it is that you're reading, how true it is.* | | Information on investments not available or perhaps not so accessible to retail investors?<br><br>Lumping of impact and other forms of sustainable investing together again. | |
| *That younger people were holding off having families, specifically having children, you know, married, fine, having children because of the kind of future concerns.*<br><br>*… I can relate to that in a way.*<br><br>*So you know it's that that thought of what am I doing you know how am I bringing children to that to that world that's completely messed up.* | Loss | This whole paragraph suggests loss framing.<br>The world is "messed up" and this means that it could be un-messed in some way.<br><br>The point around not having children might be considered *not* taking risk in some way. Being risk averse. But a child isn't an asset. It does suggest though that there is a deep and personal feeling of being below the reference point expected.<br><br>This feeling of loss from the reference point exists for both the adviser and the investors they work with. | Do you feel that people want to fix the world first before having children? |

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| *this is a mix of conversations and theme that comes up in, in my research, you know, in, in, in the conversations there and also absolutely to an extent my view on this. Because I think that's. It is, you know, the climate situation is quite dire and and. Is it is enough being done? I don't think it is.* | Loss | "…situation is quite dire"<br><br>This again suggests a loss interpretation from the adviser themselves and also their work with others but it is not clea whom the others are. | Within your research whom have you been talking with – are these investors or other advisers? |
| *the situation is. Probably worse than my older family members think it is. And I do think that we are, as you know, as a younger, as a younger generation and as a. Group of people involved in it probably have more understanding of it.*<br><br>*Say, do I think it's messed up? Yeah, I think I. Uh, so I think it can be, Umm, messed up.* | Loss | Further evidence of being in a position of loss from the reference point.<br><br>Interesting thought that this is something which they feel is more of an issue to younger people (perhaps investors and advisers).<br><br>Is this because of reference points being gradually updated by older generations? Supposition. Needs exploring? If this is actually the case why are some of the investors interviewed (mostly older) experiencing the same loss aversion? | What makes you feel that there is a generational difference? |
| *I'm quite optimistic on the, you know, on that. I think that humans are incredibly adaptive and. Things tend to you know if if if push comes to* | Loss | This still seems to suggest a loss averse response. | |

| *shove things will you know get better. But it's not in a good place.* | | The positivity or optimism is about how they think things could be improved – improving relative to the reference point? | |
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| *I think the 1st and the easiest one is that you see is the negative profiling, you know the negative screening and people do not know it's called that. But it's very easy to see when you hear someone say I specifically do not want. To support tobacco, I'm very much against that, even if I smoke myself and this is something quite off the quite often come comes up with young people, right?* | N/A | This is more ethical than impactful.<br><br>Possible lack of distinction made by the adviser (integrator?) on impact as being distinct from other forms of SI. | |
| *starting from the negative screening. And that's the easiest for people to express because it's the one that they understand instinctively. It comes naturally.* | | Unclear why the idea of negative screening would come naturally but this is something that has come up elsewhere. It could be that they just don't want to touch something "bad"? | Do you believe people become more interested in some way, as if it is a progression from negative screening to impact? |
| *then you can go into people who specifically want to support some things. And again, this is broader. It's usually things like renewables, so renewables, energy that comes quite often* | Unclear | Supporting renewables etc could be impactful but it is not clear why they seek to invest in renewables.<br><br>Is this because it is available or because it addresses something they feel they need to see changed? | Why do people face this over other things that they can invest in? |

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| *because it's something that people face. All the time.* | | | |
| *then you can have people who have specific impacts in a social impact, environmental impact that they want to achieve, say targeting companies that actively reduce carbon footprints, you know, anything like that with a more defined impact called they have in mind and that depends on how. Sophisticated they are in that. In that area.* | Unclear | Actively reduce carbon impacts.<br><br>Appears to be soft impact.<br><br>Although these investors are looking for specific impact, the examples suggest a soft impact approach.<br><br>Reducing carbon impact might be considered as loss or gain. | What does this make you feel? |
| *Clients who have specific things they want to achieve. Um, I tend to have more of the environmental ones. I tend to see that more often. Say it's. Goals related to the environmental, you know it's a lot of carbon, a lot of carbon footprint, you know the conversations about offsetting and you know good, good and bad of it.* | Unclear | This could be about being in a place of loss yet it is not clear from this statement whether clients see impact in terms of carbon footprint reduction as a way of reverting things to the way they should be or as a general improvement. | Please explore this further. |
| *it's not that often in the social you know it's not yeah but in the environmental side of things then are there any specific things that they're talking about in terms of the environment that* | N/A | This needs further exploration around why social factors have less "push" towards action/?<br><br>Is this perhaps because they don't perceive these from a place of loss? | Why is this not so prevalent with social factors. |

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| *are? That they're saying I want to do this from an environmental perspective. It is.* | | | |
| *I think it's, it's a broader. Reducing, so reducing carbon footprint is a big one. You know the companies that to that or that help others do that. That's major. I think that's a major one.* | Unclear | Reducing carbon footprint is not necessarily making a positive difference, its just another way of not making things worse.<br><br>This would benefit from further exploration. | How do you feel about this?<br><br>Have your clients indicated how they feel? |
| *It is, I think, it's almost a simpler in…. In simpler terms, it's um…not wanting to support bad stuff. Or wanting to support good stuff, either.* | Gain, possibly unclear | This highlights what has been said above that investors are not looking to revert to a state that they feel the world should be in but that they are looking to stop things getting worse.<br><br>Once again the idea of things being "bad" the idea of good vs evil appears to be coming to the fore.<br><br>Good stuff – what is good stuff? Is this "stuff" that improves things or is it something that stops things from getting worse?<br>Aligns with the earlier point about exclusion being natural? | When you think about investments doing "Good" or "Bad" how do you feel and can you explore what your experience is of this with your clients? |
| *not wanting to support that stuff. It's quite simplistic, but I haven't had much nuance.* | | Not wanting to support that stuff here refers to things investors don't want, which suggests that they are not suggesting they want to fix the problems that they see, they just don't want to profit from making it worse. | Thinking about this interpretation, how do you feel about the idea that these |

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| | | This might well be contrasted with the adviser who suggestsed that this is the difference between sustainability and impact – these investors aren't interested in impact. In many respects they are not wanting to make any kind of impact, positive or negative? | investors aren't looking for impact? |

The idea of good vs evil comes to the fore with this adviser, though it doesn't seem to be from a particularly moralist or religious sense but from the perspective of doing good. Perhaps there is a deep utilitarian thread running through this.

Whilst there was what appeared to be some very clear evidence of loss-framing there seems to be less clear evidence of people being willing to take risk in order to put a situation back into the position in which it should be.

It was also interesting to hear their perspective on social issues – why might these be less important? Is it perhaps because of less media attention or is it because it feels less like something which is on a scale and from which they can measure how they feel? The idea that this is something which is more important to younger investors is also interesting. Are these people looking at a reference point they have no experience of? An idealised position?

Reviewing this data it raised the idea that there might be people out there whose impact measurement was on a completely different perspective to others. What if they saw an issue as being the inverse of someone else? The challenge of immigration perhaps or educational attainment?

## Appendix 3 – Second Interview Script and Fixed Interview Question

### Introduction

Before we go into any of the questions, I would like to give you some more information about the research which is being conducted. I didn't give you this information before your first interview because I didn't want to influence your responses to my initial questions. You may well be familiar with some of the concepts I am describing here, however I want to make sure that every person I interview has an equal understanding.

After I have given you this description, I would like to go ask you a further question, before we go through some of your responses from the initial interview and what this suggested to me.

### Explanation

Economists talk about "loss aversion".

Lets say you were to invest a sum of money, say £1,000. After a period of time you check your valuation and you realise that the sum of money has risen to £1,500. When you look next, your investment is worth £1,100. Rather than feeling that you have made a "Gain" of £100, you might feel that you have made a "Loss" of £400.

Your reaction depends on your reference point. The reference point could be the initial investment amount of £1000, but equally it could be that when you looked at the investment and it had risen to £1,500 and this might have become the point from which you mentally measure gains and losses from.

We say that when someone has a propensity to take higher risks in order to "get back to where they feel they should be". Their thinking is "loss-framed" and they are "loss-averse". This is opposed to someone who is "gain-framed" who may perceive that they are in a positive

position relative to their reference point, and who is less inclined to take risks because they want to avoid losing what they have.

This research has been considering “loss aversion” from a non-financial perspective, to see whether people experience similar feelings about losses in what we are calling the “impact dimension”. This phrasing was used because the scale on which people perceive these losses might be different from person to person: One person might experience a “loss” frame when they are thinking about the environment, for someone else it might be a social issue.

In a financial advice context we can also “frame” things. This can be used (whether intentionally or not) to influence someone’s behaviour. Whilst this uses the same word it has a different meaning. If I were to say “How ethical do you want to be?” this has a different *frame* to saying “How unethical do you want to be?”. Different framings can have different intentions.

In the context of impact investing this could be encountered by an adviser framing things in the following ways:

“Do you want to use your money to benefit the environment?”

or

“Do you want to use your money to help fix the environment?”

The second question presupposes that there is something about the environment which needs to be “fixed”. It could be considered as being framed in terms of losses from a reference point at which the environment is not “broken”.

When we met before, I asked you some questions about your experience of [advising retail clients about] impact investing.

The last question, about whether you would prefer an [experienced investors expressing a preference for] investment which stopped a situation from deteriorating or whether you [they] would prefer one

which sought to improve a situation, explicitly drew attention to different frames.

The aim was to explore how you [they] viewed the different frames proposed:

An investment which stops something deteriorating might be considered as not taking risk to *put a situation back to where it should be*, but seeking to preserve things as they are.

It could also be interpreted that this means you want to use your money to stop things *getting worse*.

An investment which seeks to *improve* something suggests that it is in need of improvement.

As the initial interview didn't include an experimental test of your preferences [or those of investors] there is a need to interpret from your responses whether you saw either, or both of these as 'loss-framed'.

The interim analysis of your initial interview has sought to establish whether the language you used can be interpreted to mean you [felt your clients] were focussed on preserving something or whether you [they] sought to improve things, taking them back to a point where you [they] felt things "should be", your [their] reference point.

**Questions**

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| 2I1 | Having heard the explanation of loss-aversion, how do you feel about the idea of a reference point from which someone might measure non-financial gains or losses? |

**Reviewing initial Interview**

Having heard the above explanation, I would now like to discuss some of your responses and my interpretation of them, from your initial interview. These won't necessarily be in the order that they appeared in the interview as some rely on the context given in subsequent answers.

- Read Quote, "You said"
- Read Analysis, "This made me think…."
- Ask question.

## Appendix 4 – Post Second Interview Rough Ideograph Example (Anonymised but otherwise unedited)

### Impact Interpretation

*"…until I started looking at it a little bit harder, I wasn't even really particularly sure what impact investing was as opposed to ethical investing. You know, a certain orientation about SDG's and and sustainability and that kind of thing…"* (<CODE REMOVED>:1)

For <CODE REMOVED> this is clearly an interpretation which has evolved, from not knowing what it was, at a period when arguably the term was not in common parlance, to an interpretation which is connected to the UN SDGs and wider sustainability agenda. Despite this they expressed a dissatisfaction with the SDG's in the field of international development.

They see impact investing as being defined by the metrics used to measure the impact rather than any other factor. Yet their interpretation of impact investing appears to rest on a very loose interpretation

They are clearly aware of the challenges of trade-off between objectives with a particular example being the challenge of rewilding and tree planting and the impact that this has on communities.

*"…opportunity to avoid the most egregious Impacts of conventional investing, right? It's more a negative avoidance thing than it is positive in many ways…"* (<CODE REMOVED>:1)

Impact then, for someone who has engaged with impact in the community sees the value in negative avoidance as much as in its generation of positive impacts. This is a reflection of the idea of all investments having impact with negative and positive aspects.

They expressed uncertainty around whether anything they are investing in might contribute *"meaningfully to the kinds of systemic change that might have any traction on the climate emergency"* (<CODE REMOVED>:1), suggesting that smaller businesses which

are making change but they are then bought up by bigger businesses, where their purpose is to greenwash the activities of the larger firm rather that contributing to meaningful change.

For <CODE REMOVED> real impact needs to be carried out in a way which does more than just deliver a singular output. An example given was a small scale crowdfunded community energy company, which not only hopes to provide low cost energy to the community in which it operates but also make a profit to feed back into other local community projects. She expressed concern about how markets make everything about competition

*"…it's quite a linear kind of delivery chain from the people with the money at the top through various intermediaries through to beneficiaries at the bottom and I get excited by things that challenge that… you can do stuff differently."* (<CODE REMOVED>:1)

This is a very different approach to someone who is invested with the aim of limiting the negative impact of their investments, rather <CODE REMOVED> is looking to achieve a fundamental system change through their actions.

*"…one of the things I've been talking with* [Adviser] *about is that I would really like to know much more about that kind of thing. And there are platforms like Ethex and others that I would like to be able to spend more time doing that kind of thing because ultimately I think it is more ethical than some of these big, big funds with all of their component parts."* (<CODE REMOVED>:1)

<CODE REMOVED> makes a clear connection between investing in impact and the ethicality of investing, this is not just a financial decision it is a moral decision. It also demonstrates that whether or not advisers are able to make recommendations, their clients want to talk to them about investing on these platforms. In the case of Ethex the company carries a warning that investors with any doubts about the liquidity or the lack of FSCS protection should speak to a financial adviser.

*“…*[Adviser] *says that he is constrained because he can't do a level of due diligence on all of these* [Ethex and others]*. So he couldn't, in all honesty, give anything a thumbs up or thumbs down. And I don't really know what to look for.”* (<CODE REMOVED>:1)

Massive advice gap. Ethex may have found a hole in the market which they have plugged (to a tune of over £100m invested) but at the same time they have created an advice gap with individuals wanting a better understanding of the suitability of such investments. This may be discouraging investment and also encouraging risk taking among investors as they are unable to get an adviser’s opinion even on whether a project is suitable for investment, they invest less than they might otherwise invest because they are only prepared to invest money that is already written off as lost. Whilst this might make sense in a financial sense it speaks volumes about how we see the projects and people in which platforms like Energise Africa and Ethex invest in; we don’t care if they succeed because the capital is already written off. As <CODE REMOVED> states *“I'm not worried about losing this money”* (<CODE REMOVED>:1)

<CODE REMOVED> is understanding of their adviser’s predicament:

*“…they would be very unwise to do that* [give advice] *and the extent of the advice is just. ‘Choose how much you might want to do on that basis, either annually or ever and go play’.”* (<CODE REMOVED>:1)

Whether the adviser’s exact words were to “go play” this is still the impression that the investor received. Investing in this way therefor lacks the seriousness that perhaps it deserves.

“…[Adviser] *did say he was putting together some kind of guidelines for what one might like to look for and I would be really interested by that kind of thing.”* (<CODE REMOVED>:1)

*“…especially investing overseas in emerging markets and that kind of thing. Some of it looks really good and some of it… things I've seen*

*that kind of thing going on in* [Country] *I wouldn't trust it…"* (<CODE REMOVED>:1)

"…you need to know what you're getting into and there's so much slick marketing around so many of these things.

*"…I should dig in more into platforms like* [Provider] *and decide what I'm doing with that kind of thing. Because I do think that that's where so much potential for community, local economic development, community empowerment, all of those kind of good things would lie."* (<CODE REMOVED>:1)

The need for advice in this area is important, but how would an adviser provide such guidance when they too may not know what to look for. This is particularly important when we consider that <CODE REMOVED>'s background is in international development:

*"..I feel like I know what community development looks like and the kinds of people I would trust around those initiatives. It's hard to identify them online."* (<CODE REMOVED>:1)

If an experienced professional isn't going to be able to do this effectively, what chance does anyone else have?

*When I meet people, I can be excited by their enthusiasm for what they're doing or kind of, you know, you want to be able to look people in the eye and think. This is worth the punt on it. If it works, it's great, and if it doesn't, you can be fairly sure somebody's not just putting money in their back pockets.* (<CODE REMOVED>:1)

In the case of their directly impactful investments at a local level, <CODE REMOVED> is able to undertake at least some form of due diligence, engaging with people on an individual level, something which is not possible through the investment platforms.

Not all investors see impact as something which can be achieved through the traded equity markets:

*“…*[Provider] *sends you an annual report that says all of the stuff that you've done, and it all comes with nice pie charts and diagrams and everything else. To be honest, I barely read it…I don't think of impact in that kind of a way…”* (<CODE REMOVED>:1)

They returned to this in their second interview:

*“…Whether they add up to more than the sum of the parts, I doubt.”* (<CODE REMOVED>:2)

They expressed their doubts about whether an investment manager, who has a fundamental need to look at things like (financial) returns on investment, would ever be able to invest in a way which delivers any meaningful systems change.

*“…I think a lot of investors would want you to believe that there’s never enough and you need to keep investing and keep securing it. It’s not unrelated to their need to take their cut off that as well.”* (<CODE REMOVED>:2)

If you are reliant on that system for your own wellbeing it is difficult to see how you would act in a way which would seek to replace it.

*Primum non nocere*[77] would seem to be the guiding principles in their investment approach.

*“Definitely I don't want to contribute to the negative side of things. People that help us guide our investments, actually we’re really difficult people to work with because there’s so many things we don’t want to do that it’s quite hard to find things that we do want to.”* (<CODE REMOVED>:2)

So it is of prionciple importance to them that they do not contribute to negative behaviour, things with make the situation worse in some way. There is clearly some sympathy for their adviser here and the

[77] First do no harm

challenge of finding things that they can invest in because there are so many things which they don’t want to be part of.

*“…if I'm stuck within what capitalism offers me and the kind of return-on-investment model, impact investing seems to be the least bad of the options that are available.”* (<CODE REMOVED>:2)

*it’s not really obvious to me how individual investors can connect with those kinds of initiatives that are trying to take us off in a different direction. We are being offered a model which to me is not really very positive. It’s just not as bad as the other stuff is.”* (<CODE REMOVED>:2)

They see housing associations, often considered to be “impactful” in that they are providing housing for people who are unable to afford to buy their own homes as part of the conventional investment world:

“Conventional investors, like housing associations often are, or the backers of housing associations go, ‘That’s really nice but we just do housing, that’s what we do. We can’t take on all the rest of these things, these wider social problems, that’s beyond us. We’ll just take care of the housing in this particular space’.” (<CODE REMOVED>:2)

In this they are not alone. See <CODE REMOVED>

**Framing and Reference Points**

*“I don't think anybody has ever used the language of are you interested in impact investing”*

This shows how the advice process is likely to change and how important the framing of the advice is; at present, and perhaps in the future, there is no express statement around doe you want to invest in impact / impact investing but rather some other mechanism that is needed to esatablish this. This could be the framing of <CODE REMOVED> which steers a client in a particular direction or that of <CODE REMOVED> which establishes a particular frame in which impact is seen as part of a wider sustainable investment strategy.

Either way, it is not an explicit choice to invest in impact investments as such but to invest in a way which delivers the outcomes that the client seeks, whether financial or non-financial.

*“We can’t carry on growing on a finite planet. We can’t keep on using resources.”*

This has an implicit reference point (finite planet) and a loss averse framing in terms of the resource use issue.

*“…I suppose I've always just been really aware what a really unequal world we live in…”* (<CODE REMOVED>:1)

Further evidence of an implicit reference point concerning inequality.

Impact itself is bad framing:

*“…’Impact’ is not helpful language to use because it's like car hitting a brick wall. It's one way.”* (<CODE REMOVED>:1)

*“…The real impact, if we are going to generate social and economic change, it's not a one way process, it's a two way process. So I need to change. We all need to change as much as those people who are on the receiving end of the investment. I'm not so confident about the receiving end of the investment. Maybe there is the donation, the contribution, the charity, but it should be a two way thing. So it's about relationship and when it's mediated through too many stages and too many people that have got their glitzy comms team into making things look really lovely it doesn't give me a sense of relationship. Whereas some of the work that I do when do going out and doing community meetings and stuff like that, I do feel ‘Yeah, this is working, this is not working’. And in a sense the money at that point is just another metric; it’s not the driver.”* (<CODE REMOVED>:1)

Inequality implies an implicit reference point:

*“…the root cause is the same. It's the root cause is the economic model that we're working with. You know, root cause capitalism causes a whole lot of rising levels of inequality.”* (<CODE REMOVED>:1)

To <CODE REMOVED> investments must address the root cause of the problems which they perceive, otherwise they are nothing but putting a sticking plaster over the issue and they might as well just give their money to charity. This suggests a fundamental difference between impact investing and philanthropy – one is aiming to alleviate the symptoms while the other is trying to solve the problem which causes them in the first place. This is explored in terms of the challenges of sustainability and community development. What they feel is necessary is to listen to the people in the community as they are the ones who know "what needs to be done to raise everybody's boat". This again suggests and implicit reference point connected to inequality.

*"…People think about what they experienced when they were growing up. The number of ladybirds and the amount of birdsong and stuff like that, should have been like it was in the 1960s…"* (<CODE REMOVED>:2)

Whilst <CODE REMOVED> is not saying that this is her personal reference point, it is clear that she has identified this behaviour in others.

She returns to this later in the interview, considering that we should not just be looking to get back to a point which we feel more comfortable with, but be looking to achieve far more than this.

*"…I mentioned to you work that I was doing on whole different funding ecosystem and how impact investing could if the relationships between those with money and those that seek to be recipients of that funding could be changed in a whole different kind of way, that I think opens up the opportunity not just to look backwards, to restore something to a time when there was more birdsong and more ladybirds, but actually a whole different relationship between humans, which is where some of the social problems fit in, but also helping money to find a better place in society."* (<CODE REMOVED>:2)

This suggests an aspirational reference point; whilst some are happy with the idea of a reversion to a reference point *which they have already experienced,* <CODE REMOVED> is looking to achieve a much higher level of social cohesion. Whilst this may mix reference points in an environmental context (birdsong and ladybirds) with a social context (relationship between humans) there is an expressed desire to see change, and that this change should aspire to achieve a greater degree of social cohesion than has hitherto been possible, whilst also making a fundamental change to money's place in society (AGENCY).

How this should be achieved is apparent from their next response:

*"…it feels like those that have got the money hold it. It doesn't flow, it doesn't find a useful level in society quite often…"* (<CODE REMOVED>:2)

Money needs to find a *level*. Given their previous discussion of community projects raising all boats, it is not hard to see this as being metaphorical, with money as water moving between the locks on a canal.

Whether this can be seen as particularly loss framed or gain framed though is a matter of interpretation. Someone who sees "birdsong and ladybirds" as a reference point to which they feel they need to get back to would be loss-framed, whilst someone looking for an aspirational level of social cohesion might be looking to make incremental gains from a present reference point might be gain-framed. They have a desire to see things improve yet they do not wish things to become worse than they currently are. They are loss-averse but not necessarily loss-framed.

Their focus on community regeneration across both interviews also suggests an implicit reference point in that a social situation which requires *re*generation has deteriorated from a position.

*A sense of wanting to be on the side of the future, not on the side of the ones that are stacking up their money in the City of London. Or the City of Edinburgh"* (<CODE REMOVED>:2)

This statement aligns very closely with the unattributed statement about Zeitgeist risk. Being on the right side of history is also reference dependent. It posits a paradigm shift after which living and investing in a particular way become the norm.

Excellent use of reference point perception:

*"The impact of inflation, the responses that are being made to inflation at the moment, it's all about steadying the ship, whilst some people are very comfortable in that ship and some people are up to there with the water."*

Also a cool metaphor.

They also use explicit climate related reference points – 1.5-2 degrees/

What is your theory of no change? How would you maintain the status quo?

*"Yes. In my work we often talk about a theory of change. The flip side of it is, what is your theory of no change. How would you maintain the status quo. In one sense it's just the classic liberal dilemma but how in the face of climate change in particular we've got this hard deadline, this train crash coming so it's not just a 'would be nice', there's something much harder potentially hitting us."* (<CODE REMOVED>:2)

**Capacity for Impact**

There is clear evidence of an awareness of the capacity for impact and satisficing.

*"To the extent that I need to protect my old age, I want the least bad option within that."* (<CODE REMOVED>:1)

Investing is necessary, but they want to take the least worst option. A *less* worst option would be to engage in any form of sustainable investment. This is very much an connects preference to

*“…if we had decent social care for older people and I knew that in my frail old age I would be taken care of, then I wouldn't worry about pensions and I wouldn't worry about investment…”*

*“…I would be very happy to have less money if I thought that I would be taken care of.”*

(<CODE REMOVED>:1)

Investing is necessary because the state can’t or won’t provide for us. There is therefore a necessity to put oneself first, at least to some degree. The desire for impact, for change, must be balanced against the need for self-preservation. <CODE REMOVED> considers this to be about levels of risk, about how much risk to her personal financial situation is she prepared to take in order to see to positive impacts that she wants to see in the world, something which needs to be negotiated between her and her husband as they both have different approaches to risk and willingness to pay for non-financial outcomes.

*“…I’ve got enough in the pension pot that I don't need to have to keep growing the pension pot, that I have got sufficient.” <CODE REMOVED>:2)*

Their capacity to invest in impact and to consider systems change is linked to their knowledge that they do not rely on the money which goes towards those things – this is tied up in the conventional financial system.

**Risk Taking**

We also have evidence with <CODE REMOVED> that it is possible to take risk in the impact dimension, investing in untested small scale local projects in the hope that these act as a game changer in the local community.

# Appendix 5 – UK Direct-to-Investor Impact Platforms

## A5.1 Introduction

This Appendix provides some brief information on Direct Impact Investment Platforms which may be useful for the reader.

The description of the process of applying for direct Impact investments through an adviser highlights the inherent advantage of systems like those which are examined here where there are limited barriers to participation. An investor can sign up in minutes and be making investments as soon as funds have cleared in their account. This is a very different process to that one participant experienced with their adviser when accessing a direct Impact Investment:

*"…it worked well. It was a bit of a cumbersome system. There was a lot of signing of different pieces of paper because each of the, I think, 6 projects they involved in. They were invested in one had to do the….signing up and documentation individually but I mean that's you know it wasn't a particularly big deal so it was a… it was a little bit clunky, the admin side of it, but it worked fine and I was very pleased to do it." (Margaret:1)*

This is not sludge, rather it represents the difference between an online trading system and the more complex tax-advantaged investments one participant was accessing. Yet it demonstrates an important difference between the investments available to the adviser which are slower and clunkier and those which would be available to an investor directly.

The following three platforms, Ethex, Energise Africa and Abundance were all mentioned by participants in the research. The following data is provided for information only and is not meant as a comprehensive analysis of the platforms or the investments they contain.

Ethex and Energise Africa provide direct access to investment. Ethex is a non-regulated charity, while Energise Africa is an FCA regulated join venture between Ethex and Dutch Impact Investment provider Lendahand.

Both Ethex and Energise Africa are keen to stress their investments are only for HNW and sophisticated investors, or should be restricted to no more than 10% of an investor's net assets.

Abundance is an FCA-authorised firm which offers direct access to climate-focussed Impact Investment in Local Authority projects in England and Company investments in UK-based bonds. In line with Ethex and EnergiseAfrica, Abundance stress their investments are high risk and only available to sophisticated investors or to those who will invest no more than 10% of their net assets.

**A5.2 Ethex**

Investment platform Ethex state that they have raised £100m from 20,000 clients across the Ethex (https://www.ethex.org.uk/) and their "sister platform" Energise Africa (https://www.energiseafrica.com/) platforms, suggesting a mean investment of around £5,000 per investor.

In the FAQ on their website (https://www.ethex.org.uk/help), Ethex makes it clear to prospective investors that they should not invest if they are not prepared to lose all the money they invest. They also highlight that the investments are illiquid, *"Even if the business you invest in is successful, it will likely take several years to get your money back."*

The site carries a banner risk warning at the bottom of the home screen which states:

*"Investments offered on the Ethex platform are not readily realisable, which means that they may be difficult to sell and you may get back less than you originally invested. Investments are not covered by the Financial Services Compensation Scheme (FSCS) and returns are not guaranteed. If you are in any doubt, you should contact an Independent Financial Adviser." Ethex.org.uk*

They also link through to the "Investment Risks" section of their website https://www.ethex.org.uk/risk which provides more information on the risks which are present in these investments.

This highlights some of the key risks which are present:

- Losing all of your investment
- No established market – lack of liquidity
- The need for diversification
- Other risks that could affect the value of your investment
- Tax reliefs and savings may not materialise

Every page of the website carries a banner which states *“Don’t invest unless you’re prepared to lose all the money you invest. This is a high-risk investment and you are unlikely to be protected if something goes wrong.”* The banner encourages clients to *“Take 2 minutes to learn more”.* The format of this banner is in line with FCA rules under COBS 4.12B.14 and brings up a pop-up window which contains the following key risk information:

- You could lose all the money you invest.
- You won’t get your money back easily.
- Don’t put all your eggs in one basket.
- The value of your investment can be reduced.
- You are unlikely to be protected if something goes wrong.

The popup also provides links to the FCA’s website consumer sections on investing and crowdfunding.

Ethex require that all investors undertake an *“Investor Appropriateness Test”*. This requires an investor to demonstrate *“knowledge and understanding of the key risks associated with unlisted and illiquid securities”.* A glance at the firm’s Trustpilot reviews[78] shows that the test does put off some investors, with those unable to complete the test seemingly quite unhappy with their failure.

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[78] https://uk.trustpilot.com/review/ethex.org.uk

The test consists of nine questions, the answers to which are all available on the company's website, and does not require any degree of financial expertise to answer[79].

Following the completion of the test the prospective investor then must categorise themselves as one of the following:

- High net worth investor
- Self-certified sophisticated investor
- Restricted investor

The latter category is somewhat more open, allowing an investor to contribute up to 10% of their net assets (not including property) in investments on the platform. The first two categories of investor are covered by the FCA rules, with the high net worth classification requiring individuals to have one of the following:

- An annual income of £100,000 or more
- Net assets of £250,000 or more (not including home and pension)

This classification is set out in FCA rules at COBS 4 Annex 2[80], however it is unlikely that an adviser would consider an investor with net assets of £250,000 to be high net worth, given that this is the minimum level of investable assets which many firms will consider, though they would normally include the potential client's pension assets in a calculation of a client's overall wealth.

Ethex is not required to be FCA regulated. As they state on their website, as a not-for-profit organisation they are exempt for regulation in that they only provide information on or provide deals in investments.

[79] One financial professional who was not interviewed as part of this study did confess in private that they too had failed the test.
[80] https://www.handbook.fca.org.uk/handbook/COBS/4/Annex2.html

### A5.2 Energise Africa

Energise Africa highlights its aim as being to bring clean energy to African families through cutting $CO_2$ emissions, achieve “Global Goals” and improving lives in Africa. Whilst this remains the focus of their website, the loans they provide access to are not necessarily connected with either clean energy or Africa. At the time of writing[81] the offers available include an investment into solar power in India and past investments have included access to agricultural supplies to farmers in Kenya.

Energise Africa (Lendahand Ethex Ltd) is a for profit enterprise and is therefore a regulated entity, though does so as an Appointed Representative of Share In Ltd, a directly authorised FCA firm. It is a joint venture between Ethex and Lendahand[82], a Dutch crowdfunding service provider. Unlike Ethex, which may include share capital in community interest companies, all investments in Energise Africa are carried out in the form of loans.

Their website carries the following disclaimer:

*Investing on energiseafrica.com involves risk, including the loss of all of your capital, illiquidity (the inability to sell assets quickly or without substantial loss in value), and it should be done only as part of a diversified portfolio.*

*Never invest more than you can afford to lose and never make investment with borrowed monies. Investment opportunities on this platform are targeted solely at investors who understand these risks and for whom such investments are suitable. Lendahand Ethex Ltd does not give investment advice or recommendations regarding investment opportunities, and any investment decision must be made only on the basis of all of the information provided by the issuer for that investment opportunity, including (without limitation) the relevant Investment Memorandum (IM) that is available to registered members of the platform. Please read the Risks section of our site to learn more about the risks associated with the products offered on this platform.”[83] Energise Africa.com*

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[81] March 2024

[82] https://www.lendahand.com/en-EU

[83] https://www.energiseafrica.com/

This statement raises issues about how it would be possible for an adviser to recommend investment on the platform, as investment decisions should be made only on the basis of the information provided by the issuer, not a 3rd party recommendation, should one be forthcoming. Similarly, how an investment can be deemed "suitable" when the provider knows only that the investor can pass a test and has confirmed that they are a sophisticated or restricted investor is unclear.

### A5.1 Abundance

Abundance is a direct-to-investor platform which focuses on Impact Investments which focus on climate change related investments, with their opportunities aligned to three themes:

- Build new green solutions
- Cut our carbon emissions today
- Support the green transition

Abundance offer investments: Councils or Companies, in Local Authority Securities and bonds. A secondary marketplace is also provided to enable investors to sell their investments to other investors. At the time of writing (March 2024) there were no new investments available in the Companies space and two investment opportunities available with Councils, both of which focussed on providing funding for a range of low-carbon energy-efficiency related projects such as LED street lighting and solar power, as well as low carbon transport infrastructure in the form of bike racks.

Abundance claims £150 million across 8000 investors, an average investment of £18,750 per investor. Unlike Ethex and Energise Africa, the process for registration requires no form of test, merely a declaration that the investor is a Self-Certified Sophisticated Investor or will invest no more than 10% of their net assets.

A general risk warning appears on every page of the site:

*"As with any investment, there are risks when investing on Abundance. Your capital is at risk and you could lose all the money you invest. The return on your investment depends on the ability of the company or council you have invested in to pay your returns. Investments on Abundance are generally long term and you should be prepared to hold them to maturity. The investments are illiquid and you may not be able to sell them if you need your money back earlier, and their value can rise or fall. Some investments may be secured, but this does not guarantee repayment or your return. Quoted returns are no guarantee of future returns and past performance is not a guide to future performance. Specific risks will apply in relation to each investment. Please consider all risks before investing and read all of the information available about each investment." Abundanceinvestment.com*

As Abundance offer two forms of investments there are different risk warnings in place for both.

For Council investments, Abundance warns investors that capital is at risk and that returns are not guaranteed. It highlights that the investments are for a fixed term and investors might not be able to get their money back early, as well as the possibility of losing money if the investor chooses to sell their investment on the Abundance Marketplace. They highlight the possibility of disruption if Abundance themselves fail, as well as the lack of FSCS protection.

However, if an investor registers for the site and accesses the available Council investments, they are also greeted with the following, before seeing information on the investments themselves:

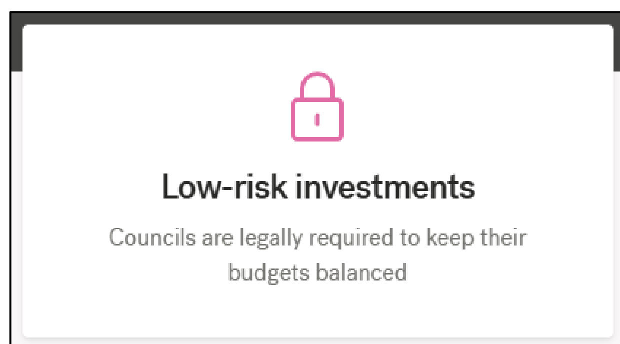


***Figure A5.i: Abundance Investment Screenshot (Source: Abundanceinvestment.com, 2024[84])***

[84] https://account.abundanceinvestment.com/invest/councils

One of the existing investments is in Warrington Local Authority, a council which is considered as having *"High levels of debt for its size"* (Kenyon and Clarke-Ezzidio, 2024), though none of the available or existing investments are with councils who had, at the time of writing[85], issued a Section 114 Notice.

For Company investments there is an additional warning provided:

*"Due to the potential for losses, the Financial Conduct Authority (FCA) considers our company investments to be high risk. It is important that you've read and understood the key risks involved before making an investment." (Abundance, 2024)*

In addition to the above, there are also warnings that capital is at risk and returns are not guaranteed, that there is no FSCS protection available, that investments are illiquid and that Abundance could fail.

The risk warnings also include a statement about diversification which is not included for the Council investments, which links to the FCA InvestSmart website[86]:

*"Putting all your money into a single business or type of investment for example, is risky. Spreading your money across different investments makes you less dependent on any one to do well.*

*A good rule of thumb is not to invest more than 10% of your money in high-risk investments. More information can be found here."*

*(Abundance, 2024)*

On reviewing the available investments in the marketplace (no new investments were available), one was in default and one in late payment, of the 21 opportunities available. The opportunity in default, Global Berry, raised £2.6 million from Abundance in 2021 before declaring insolvency and calling in receivers in 2023.

[85] March 2024
[86] https://www.fca.org.uk/investsmart/5-questions-ask-you-invest

-END-