Australian Ethical

AUSTRALIAN ETHICAL X COREDATA

Opportunity next

Capturing the great generational wealth transfer

November 2023

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Contents

About this report

01

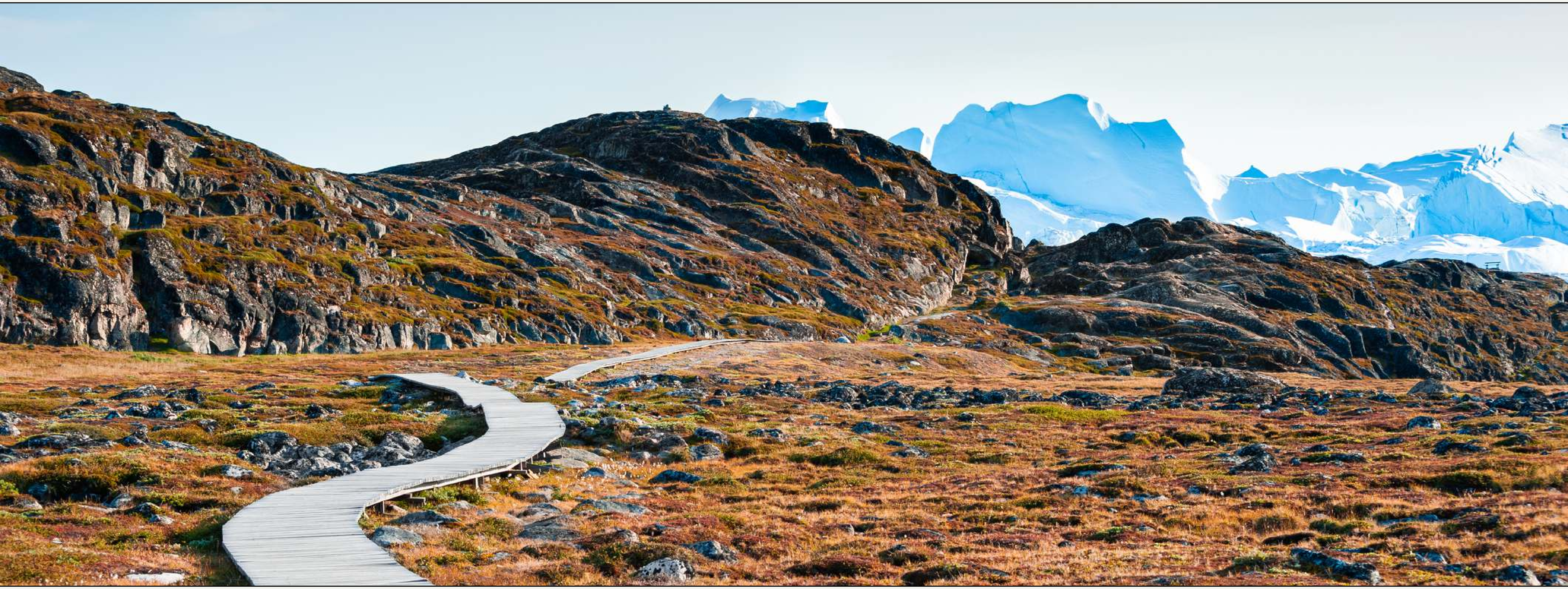
About this report

Opportunity next: Capturing the great generational wealth transfer is a report published by Australian Ethical Investment Ltd (Australian Ethical). It is based on research of the Australian financial advice industry undertaken by CoreData Research, in collaboration with Australian Ethical, investigating the expected effects of the transfer of an estimated $3.5 trillion in wealth from its current custodians to a new generation of investors over the next two decades. The report highlights:

- the role financial advisers will play in shaping the course of this generational wealth transfer;
- the steps savvy advisers are taking now to address the opportunity and to protect and grow the future value of their businesses; and
- the role of responsible investing as a cornerstone of their intergenerational wealth strategy.

Research methodology

Unless stated otherwise, the research was designed and produced by CoreData Research (CoreData) in collaboration with Australian Ethical. The survey was conducted from 29 September 2023 to 19 October 2023 and responses were gathered via an online quantitative survey. Overall, n = 300 completes were captured in the survey. The survey covered topics such as advisers' perceptions of intergenerational wealth transfer and their approaches to addressing it in their practices, and the growing demand for responsible investing products among both advisers and their clients. Information from CoreData's syndicated studies, the Adviser Pulse Check and Investor Sentiment Index, were also used in this report to provide further background and context.



About this report

About Australian Ethical

Responsible investing isn't just a part of what we do – it's everything we do. And while we've evolved in many ways since starting in 1986, we have always stayed true to this. Now, we manage $9.20 billion for more than 129,000 customers (managed fund investors and funded superannuation members) as at 30 September 2023.

While we do believe a small group of people can change the world, the opportunity is far bigger than that. The more people that invest ethically, the more significant the positive change we will create. Imagine the impact of all that money invested for good. There's never been a better time to take control of your own financial wellbeing and the wellbeing of families, communities and the planet.

About CoreData

CoreData is a global specialist financial services research and strategy consultancy, founded in 2002 and headquartered in Australia, with operations in Sydney, Perth, London, Boston and Manila.

CoreData provides clients with bespoke and syndicated research services through a variety of data collection strategies and methodologies, along with consulting and research, database hosting and outsourcing services.

CoreData provides both business-to-business and business to-consumer research, while the group's offering includes market intelligence, guidance on strategic positioning, methods for developing new business, advice on operational marketing and other consulting services.

Australia's great generational wealth transfer is underway

02

A transformative shift

A transformative shift is occurring in the Australian financial landscape as Baby Boomers transition from accumulating assets into decumulation. In doing so, an estimated $3.5 trillion is expected to change hands to a new generation of investors over the next two decades[1]. The transfer of assets has already begun, as many look to share their wealth with the next generation while they are still alive.

Savvy financial advisers are leaning into this opportunity today in a bid to strengthen relationships with their clients' children and beneficiaries, retain their clients, and protect and grow the future value of their businesses.

$3.5 trillion

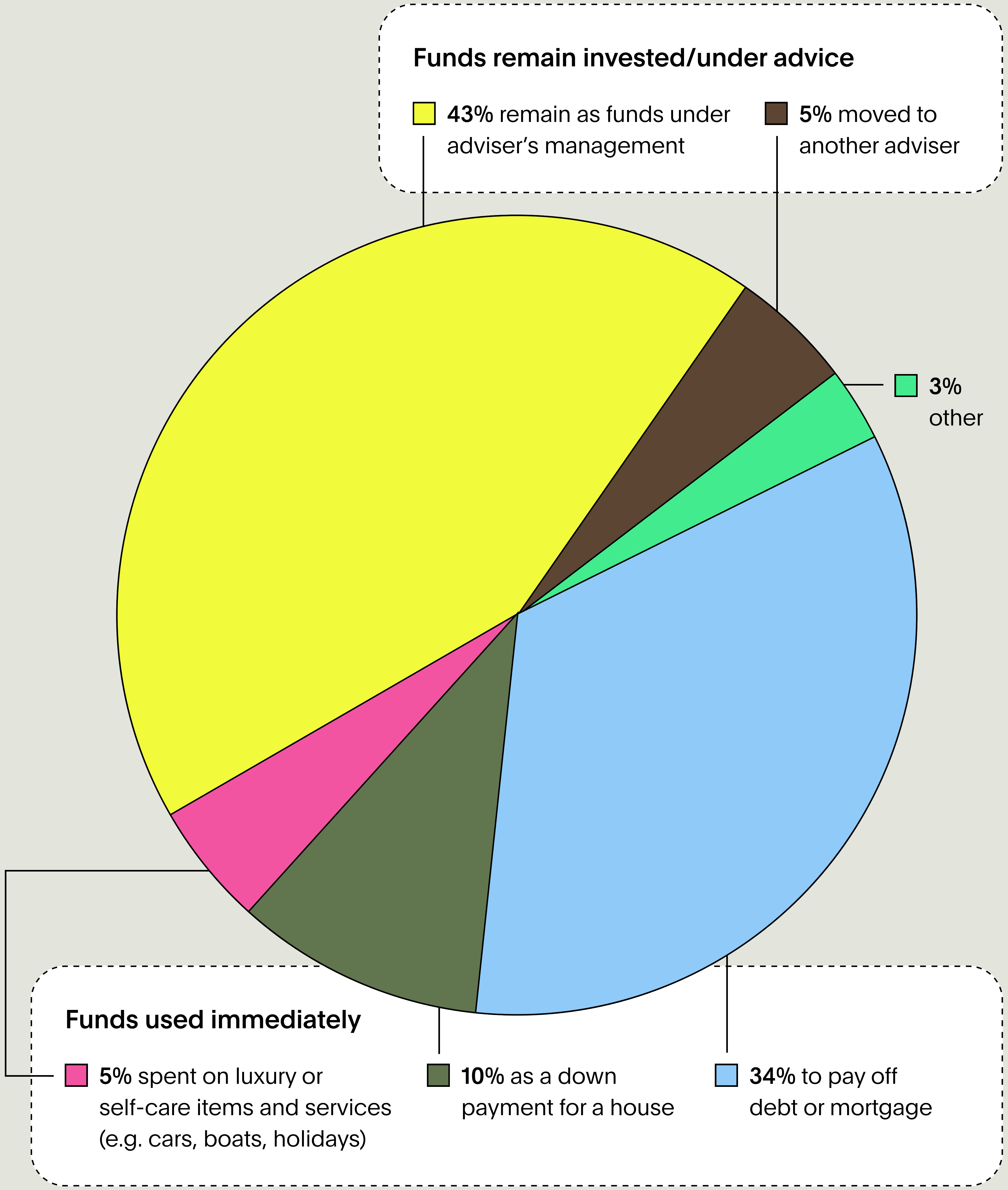
in wealth is anticipated to change hands from Baby Boomers to a new generation of investors over the next two decades[1].

While there is no certainty around how inheritors of this wealth will use or manage it, our research shows that nearly half of the wealth transferred to children and beneficiaries is consumed almost immediately - going towards personal debt, mortgages, and luxury or self-care items to support their current lifestyles.

The remaining half, however, has the potential to be reinvested. Advisers should be prepared to prove themselves to a new generation of prospective clients and protect the future value of their businesses.

1. Productivity Commission 2021, Wealth transfers and their economic effects, Research paper, Canberra; pc.gov.au/research/completed/wealth-transfers

Destination of funds for clients who have transferred wealth to their children or beneficiaries



Positive momentum

Today, nearly two-thirds of advisers' clients belong to the Baby Boomer generation or beyond. Advisers who have focused their attention on the needs of this category-defining generation – through their 'DINKs' (double income no kids) and 'Yuppie' (fashionable middle-class high-income earners) phases, and into their 'Tree Change' and 'Sea Change' retirements – now need to learn the language and ways of Gen X and Millennials, who stand to be the main beneficiaries of the great wealth transfer. Failing to do so could create significant risks for their businesses.

Positively, a notable shift is underway, and over 3 in 5 advisers have clients who have finished or are in the process of transferring wealth to their children or beneficiaries. This trend signifies a positive momentum in the industry, showcasing a growing awareness of the importance of supporting clients through this transition. However, the remaining 39% might be at risk of lagging behind in a field where continual evolution is key. Advisers at the forefront of intergenerational planning are not only gaining valuable experience but also positioning themselves as indispensable guides in the journey of securing and preserving family wealth.

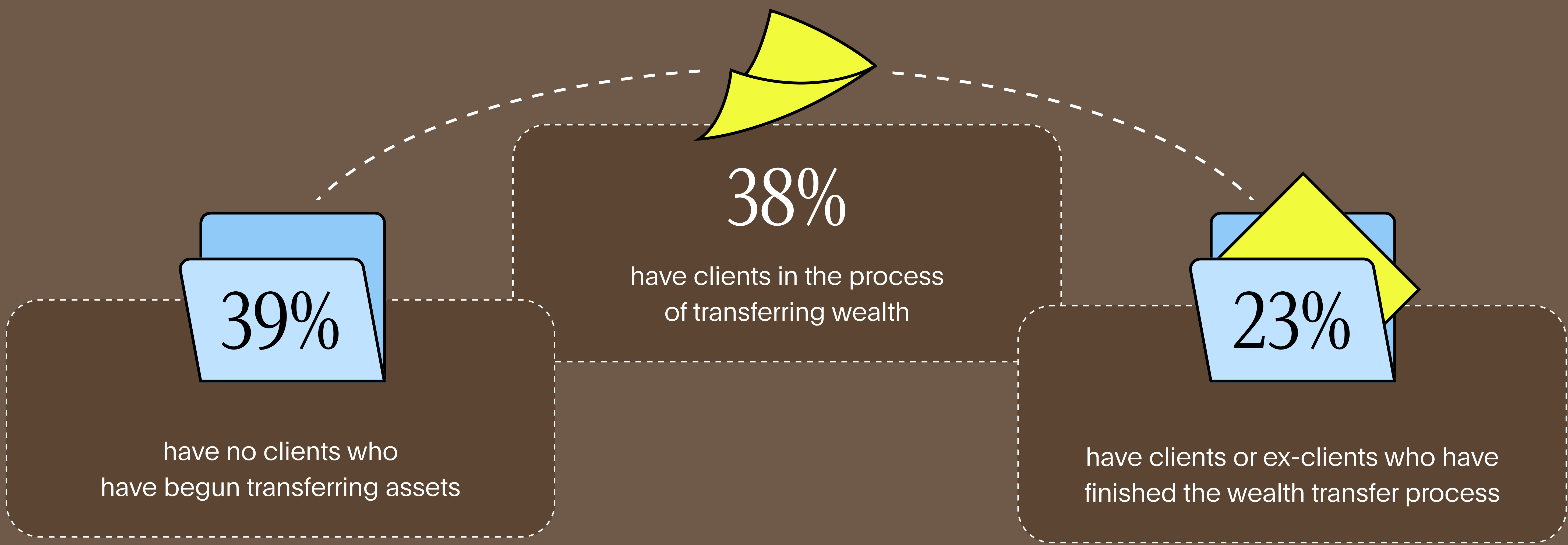
Nearly 2 in 3

financial advice clients are Baby Boomers or older.

61%

of advisers have worked with their clients on wealth transfer, leaving nearly 2 in 5 advisers yet to do so.

Proportion of clients who have initiated or finished transferring wealth to their children or beneficiaries

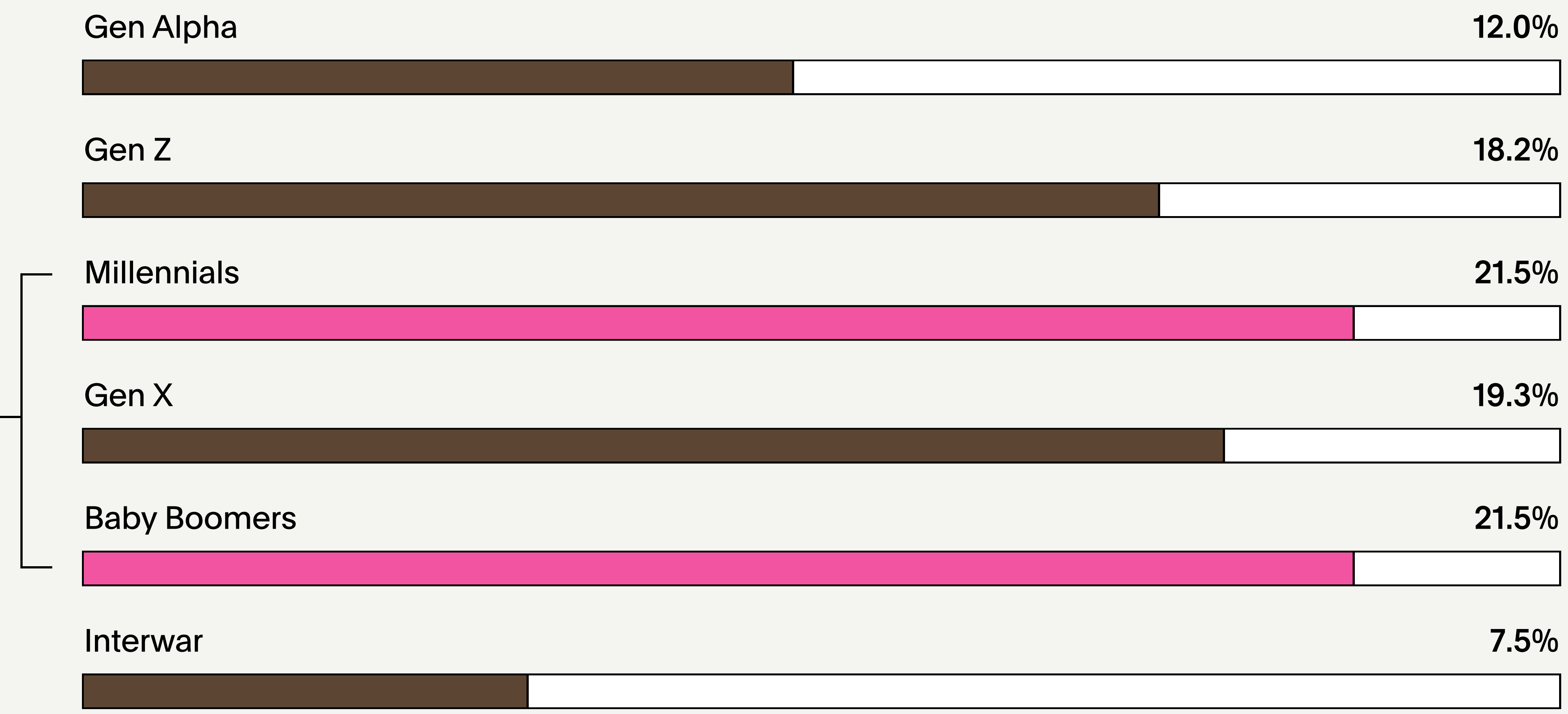


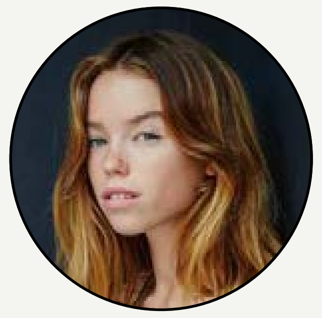
Australia's generation shift

In the mid-1960s, nearly two in every five Australians were Baby Boomers.

Baby Boomers and **Millennials** now each account for 21.5% of the nation's 25.5 million residents.[2]

Millennials are now the largest generational group of Australians, taking over from Baby Boomers in the latest 2021 census data.[2]





Gen Z

Born 1996–2009

The next generation of earners and consumers have recently started entering the workforce.

Gen Z is coming of age at a time of economic and climate transition when governments are predicting economic growth to be slower than in the past 40 years, driven by lower projected population growth and reduced participation, along with an assumption of slower long-term productivity growth[3].

Millennials (Gen Y)

Born 1981–1995

The oldest in this group became adults around the turn of the millennium. Professionalising and in the prime of their accumulation phase; building businesses and taking senior roles in companies including CEOs.

This group is in a consumption phase of life but take a different view of the world from their parents, with a greater focus on sustainability, climate change, work life balance and renewable energy.

Gen X

Born 1965–1980

Born after Baby Boomers during a period when birth rates were lower. Now mature in their careers, wedged in between the less technologically-savvy Baby Boomers (pre-internet) and digital native Millennials.

Gen X benefited from the tail-end of booming property prices that began in the mid-1990s, experienced first-hand boom and bust cycles as adults, including the early 2000s tech boom and the 2008 Global Financial Crisis and recovery.

Baby Boomer

Born 1946–1964

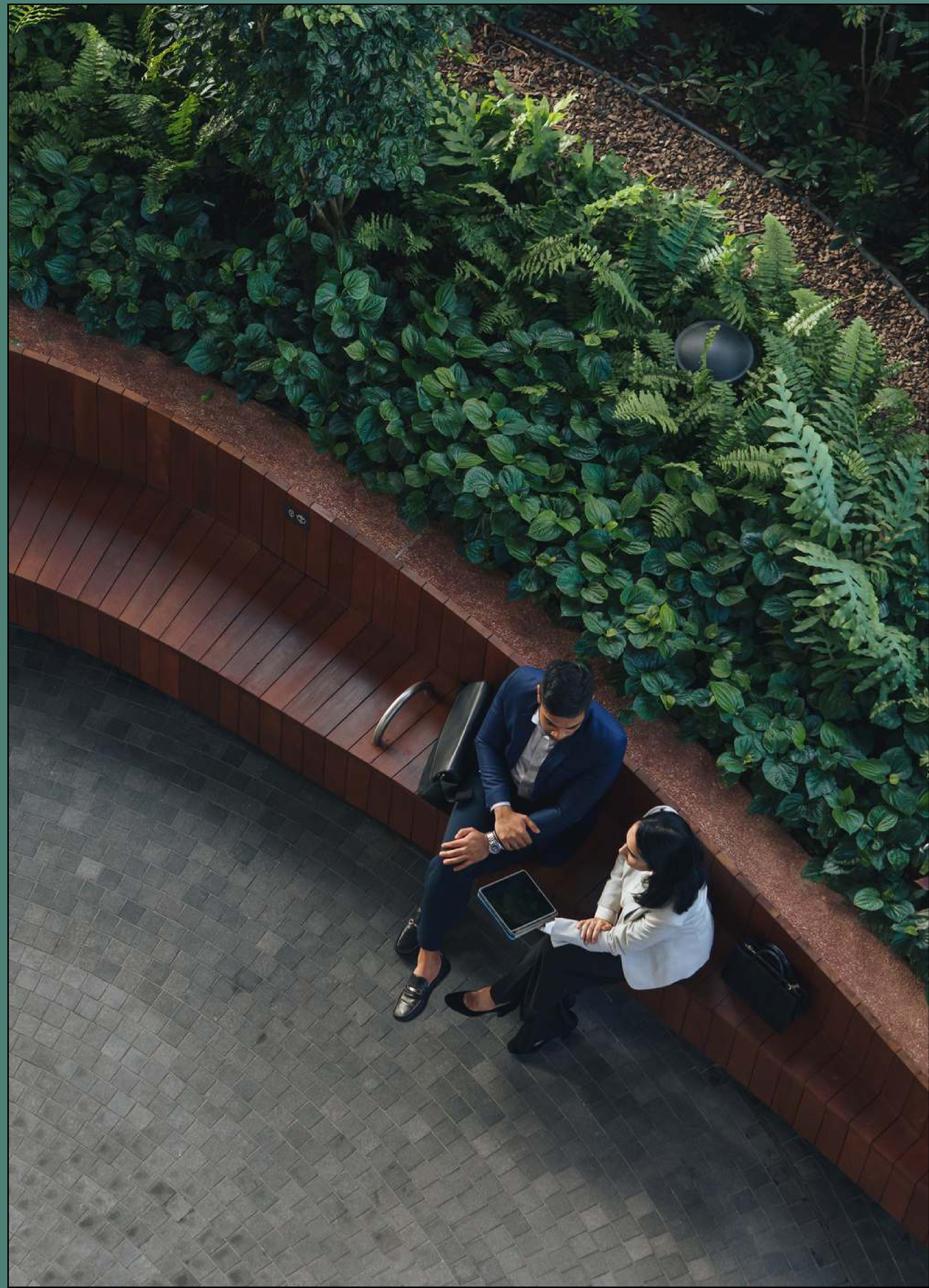
Born after the World War II during a period with a surge in birth rates. Started moving into retirement in 2011; expected to move through retirement by the end of the 2020s.

Quite rebellious in their teenage years (60s), have shaped society during each stage of the cycle. This generation continues to influence societal trends, including now as aged care becomes a focus for governments and industries.

2. Australian Bureau of Statistics, Population: Census 2021; abs.gov.au/statistics/people/population/population-census/2021
3. Commonwealth of Australia, Intergenerational Report 2023; treasury.gov.au/publication/2023-intergenerational-report

Savvy advisers are leaning into this opportunity and realising the benefits

03



A unique opportunity

Rather than mourn the fragmentation and loss of current assets under management, the intergenerational transfer of wealth between generations creates a unique opportunity for financial advisers to retain and secure funds under their advice. As wealth is passed down from one generation to the next, it provides a natural inflection point for inheritors to reassess their financial goals and investment options.

Future-focused advisers are leveraging the trust of their clients by proactively engaging their children and beneficiaries in wealth transfer planning in a bid to strengthen relationships, retain their clients, and protect and grow the future value of their businesses.

Strategies advisers are employing

The most popular way advisers plan to address the wealth transfer opportunity is by facilitating conversations with clients and their families (47%), closely followed engaging directly with current clients (40%). However, thousands of Australian advisers are at risk of falling behind, with nearly 1 in 5 reporting no current plan for generational wealth transfer in their business.

Adding further incentive to getting more proactive with intergenerational wealth transfers is the strong likelihood of clients recommending their own adviser to their children (a net promoter score of sorts for the financial advice industry).

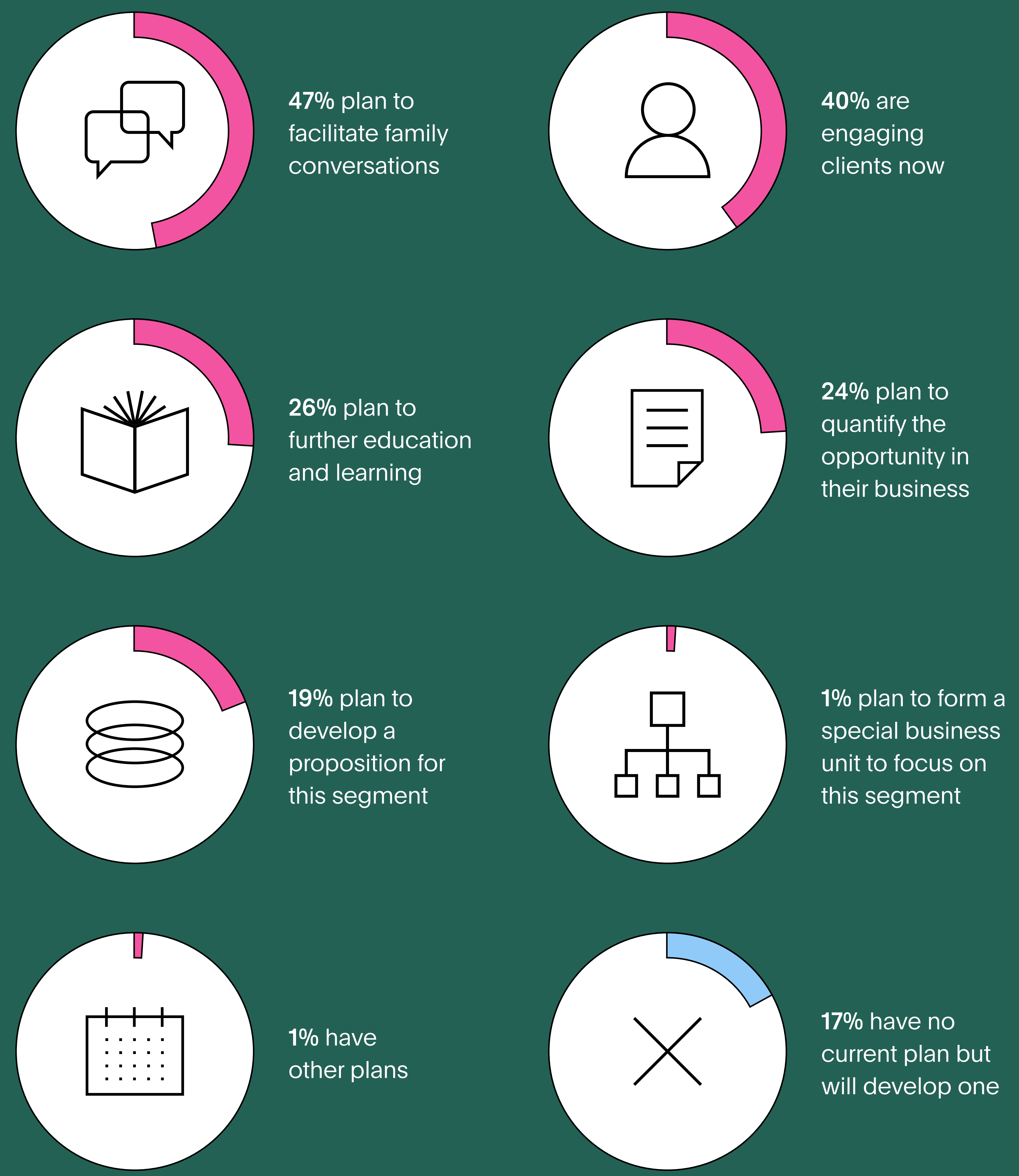
In what is a prized reflection of the trusted relationships advisers have with their clients:

High net worth clients, defined as those with over $1 million in investable assets, would almost **unanimously (97%) recommend their adviser to their children** in the future.

Over 3 in 4 core and mass affluent clients are likely to recommend their adviser to their children in the future.[$]

$ **Core affluent investors** have between $500,000 and $1m in investments (not including super or the home they live in), OR a household income over $300,000 pa, OR a personal income over $150,000 pa. **Mass affluent investors** have a household income of between $150,000 and $300,000 pa, OR a personal income of between $100,000 and $150,000 pa.

How advisers plan to address the intergenerational wealth transfer opportunity in their business



Multiple responses permitted.

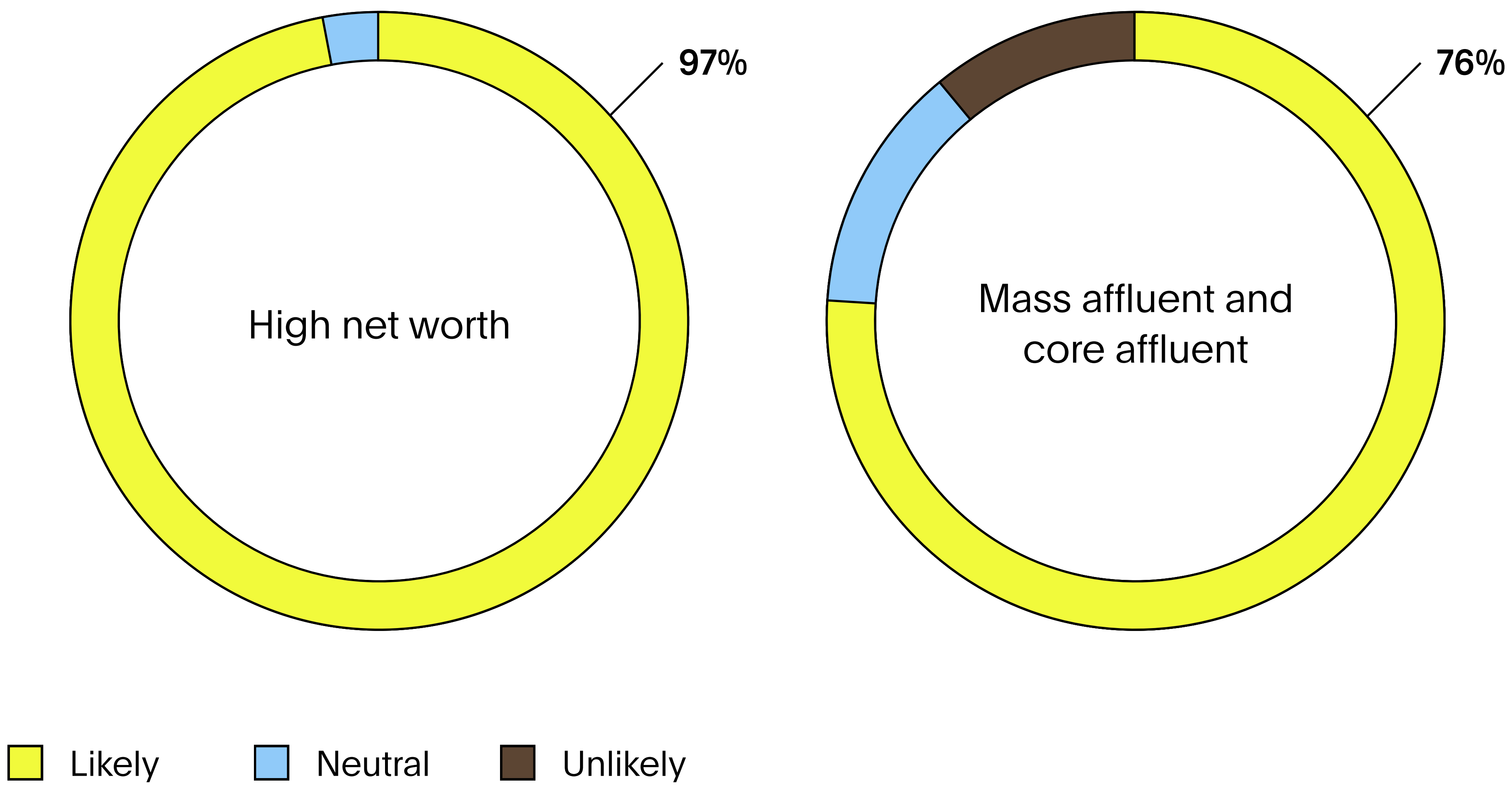
Taking the lead

There is much to be gained by taking the lead and actively encouraging clients to involve their children as early as possible in wealth transfer discussions. Advisers who actively encourage clients to do so report greater success in retaining the next generation of clients post-transfer than those who only reactively respond to this opportunity.

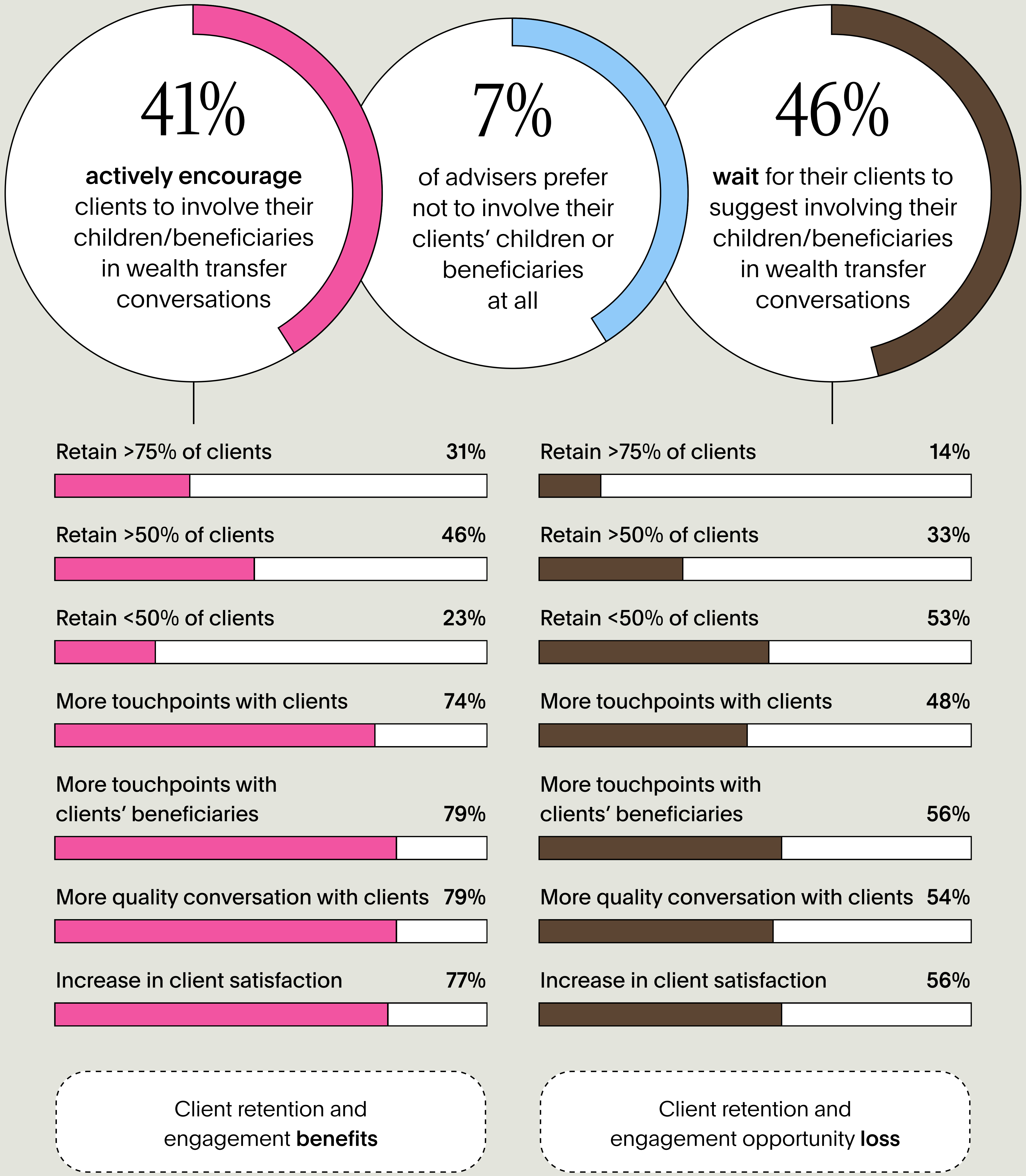
Taking a proactive approach also results in stronger client engagement outcomes, increasing the number of client touchpoints across both the current- and future- generations, and driving higher client satisfaction.

Conversely, those waiting for clients to initiate family conversations report some but lower client engagement outcomes, signalling a missed opportunity to lock in the business benefits experienced by more proactive advisers.

Likelihood of clients recommending their own adviser to their children



Adviser approaches to intergenerational wealth transfer advice and their outcomes



Understanding the needs of next-gen clients

04

Engaging a new generation

While Baby Boomers are focused on the preservation and orderly transfer of the wealth they've built over their working lives, their children and beneficiaries will inherit these assets with new objectives and be guided by a distinctly different set of values. The way they invest and structure their wealth won't necessarily resemble that of their parents.

New ways of engaging and addressing the investment needs of younger investors are essential for financial advisers. Understanding their investment priorities – and the values guiding these - is key to building trust through the wealth transfer process and retaining them as clients.

Unsurprisingly, investment preferences differ for younger generations. Alongside returns, there is a growing focus on responsible and ethical investing. A common rhetoric in the industry is that responsible investing is the domain of Millennials; yet savvy advisers realise that their Gen X clients, who are now at the peak of their careers and accumulation cycle, are also showing increasing interest in portfolios aligned with their values and capable of delivering ethical outcomes.

With Gen X and Millennials set to be the prime beneficiaries of the great wealth transfer, advisers should prepare themselves to offer options that appeal to a heightened sense of social and environmental responsibility.

83%

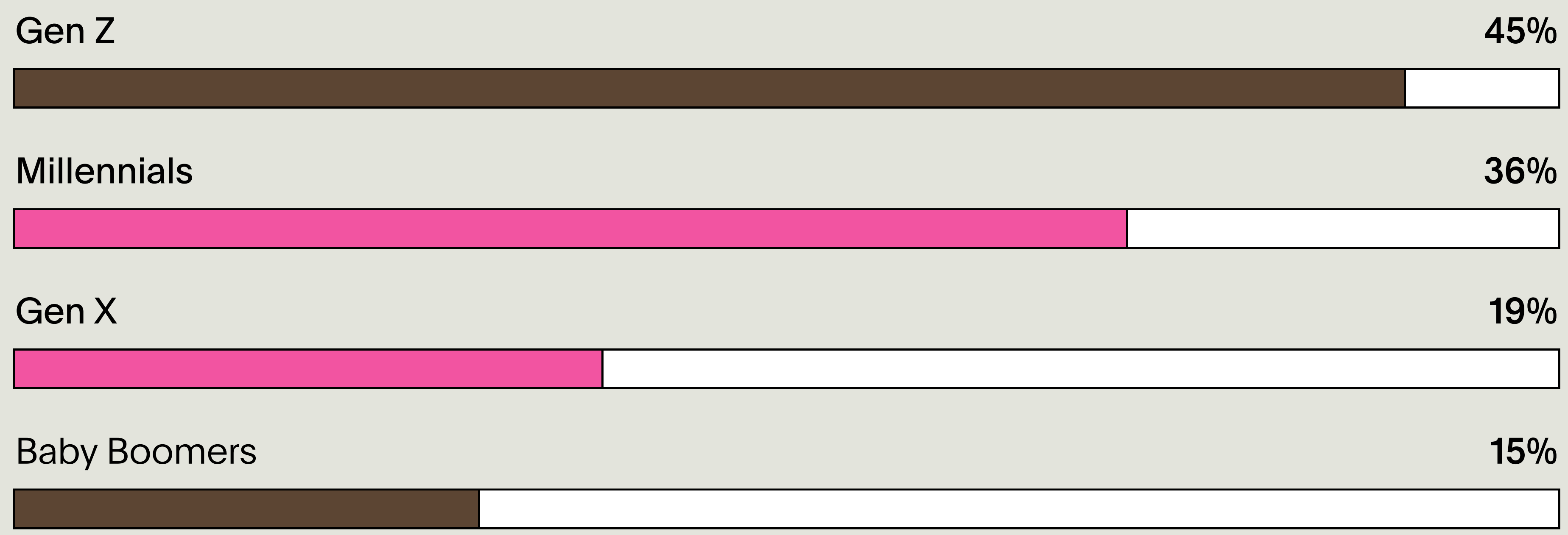
of Australians now expect their bank account and their super to be invested responsibly and ethically[4]

80%

expect their savings to have a positive impact on the world[4]

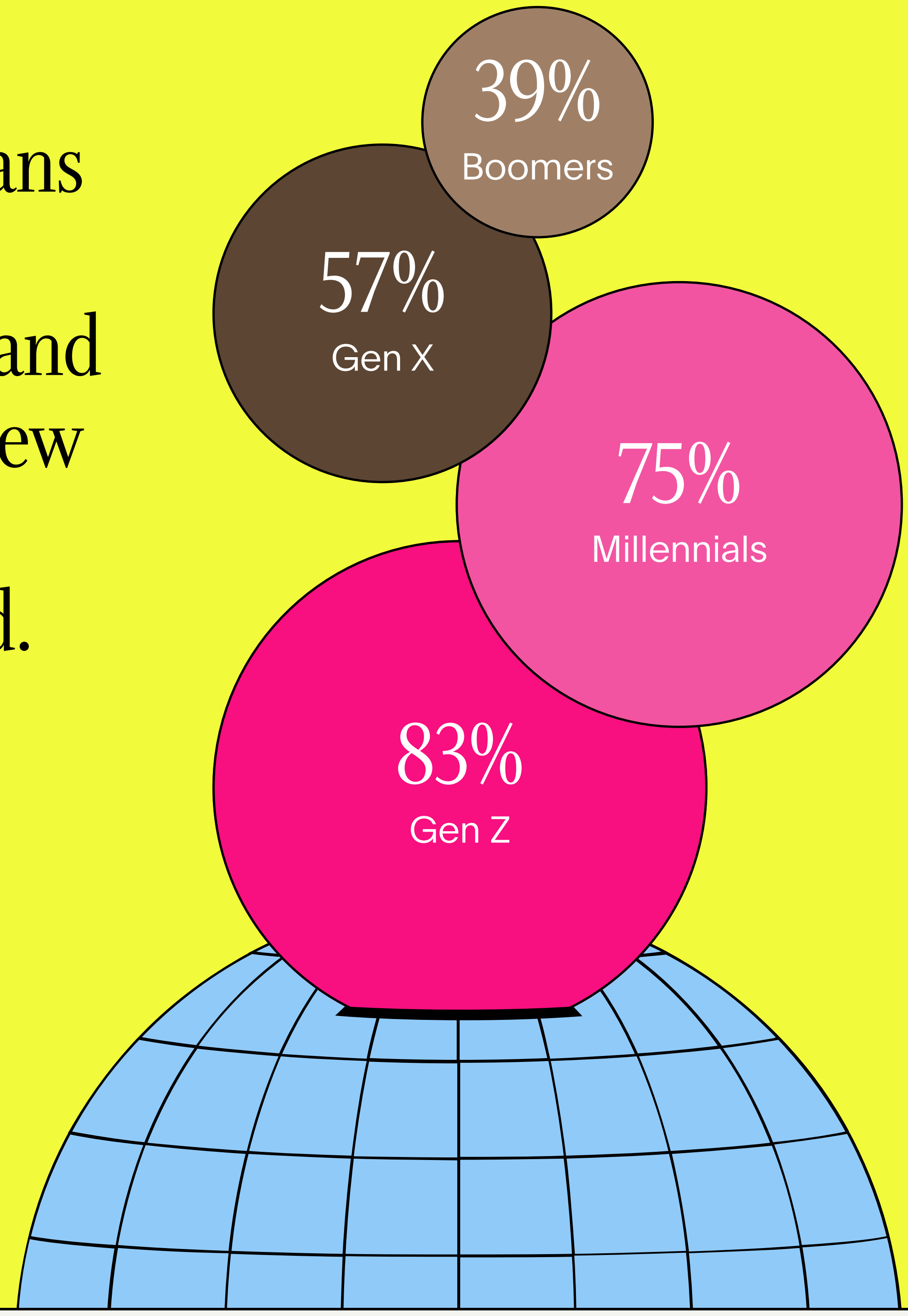
4. Responsible Investment Association of Australia, From Values to Riches 2022: Charting consumer demand for responsible investing in Australia; responsibleinvestment.org/aus-consumer-research

Proportion of Australians who plan to invest responsibly in the next 12 months[4]



Over 3 in 5 of Australians would be motivated to increase their savings and investments if they knew these made a positive difference in the world.

This trend is primarily driven by younger investors[4]:



Ahead of client needs

Staying ahead of client needs has always been a key driver of adviser success, and recognising the importance of responsible investments in portfolios for the next generations of investors is critical. This comes not only with the expectation that advisers are able to offer these options, and are able to demonstrate a strong understanding of the benefits that responsible and ethical investing brings to a professionally managed investment portfolio.

64%

of consumers now expect financial advisers to be knowledgeable about responsible investment options[4]

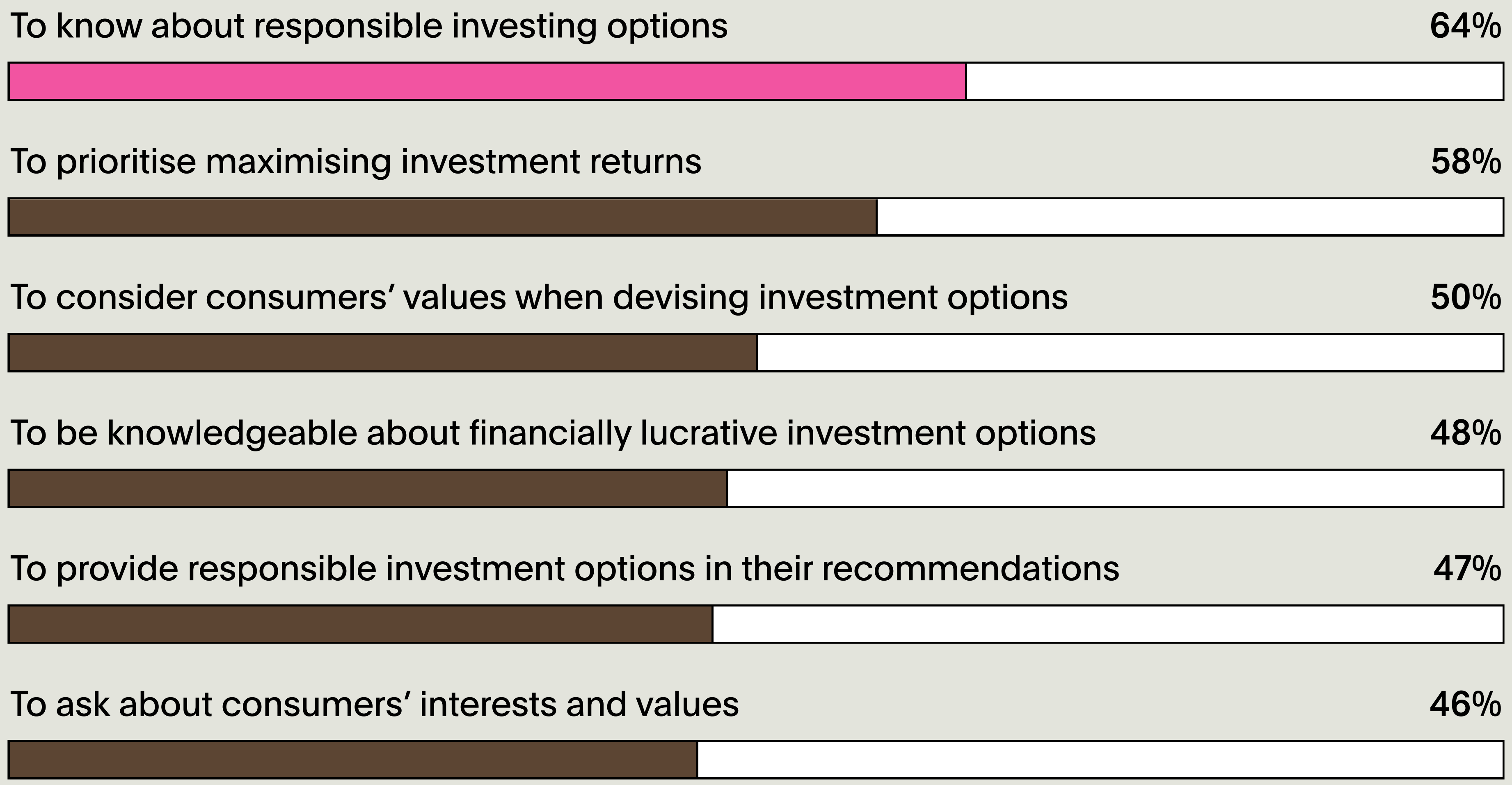
This is now the **#1 expectation** Australians place on financial advisers (ahead of prioritising the maximisation of investment returns)[4]

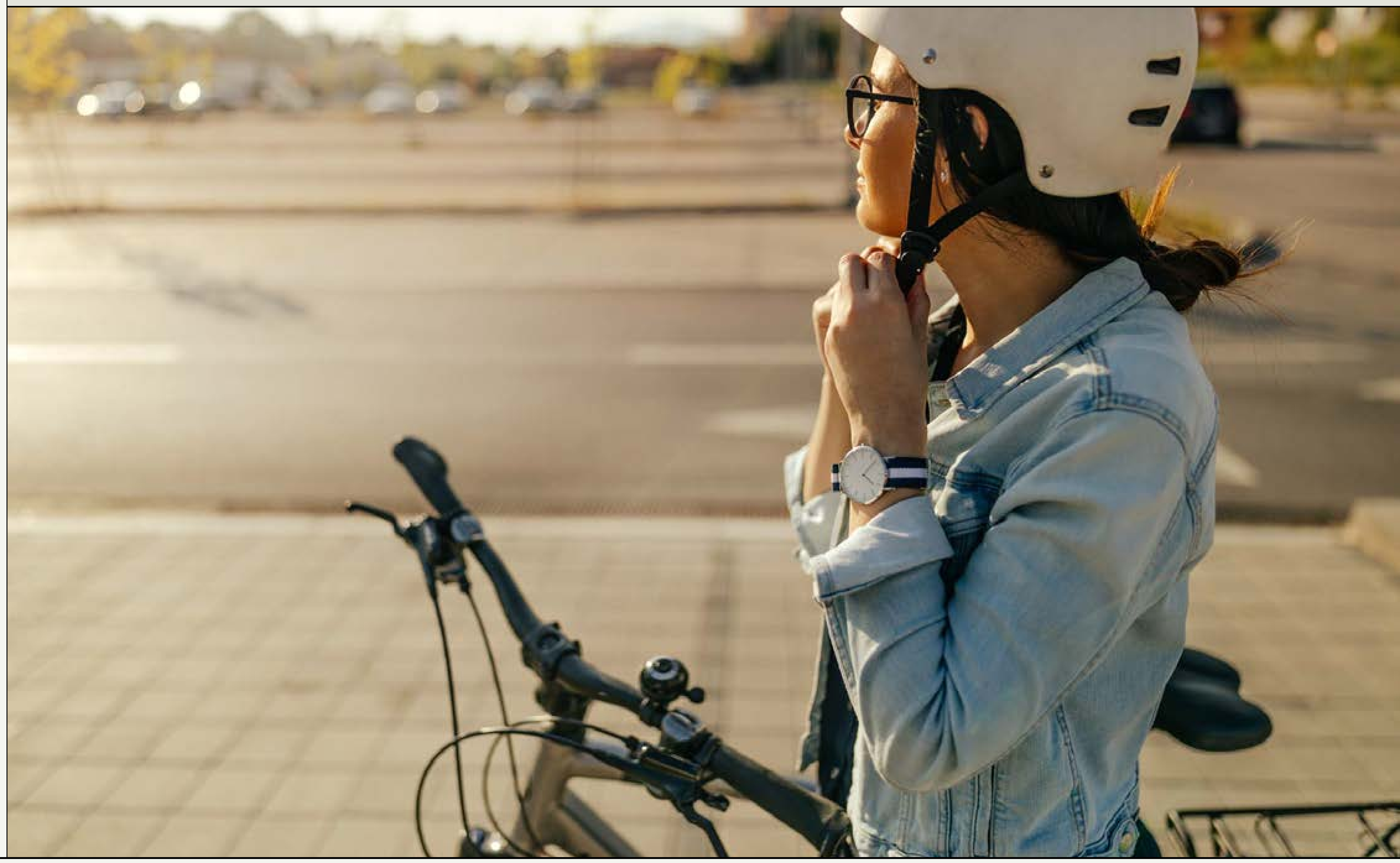
Over a quarter

of high net worth investors report that the ability to present responsible and ethical investment options is now an important factor when choosing an advice practice.

4. Responsible Investment Association of Australia, From Values to Riches 2022: Charting consumer demand for responsible investing in Australia; responsibleinvestment.org/aus-consumer-research

Top investor expectations of financial advisers[4]





Tapping into responsible investing to support your strategy

05

Investing for a better future

With younger generations growing more engaged in where their capital is invested, and an accelerating interest in investments that deliver ethical outcomes, forward-thinking advisers are tapping into responsible investing to strengthen their generational wealth transfer strategy.

Almost 1 in 2 advisers now incorporate responsible investing into their advice value proposition - driven by rising socially responsible behaviour and return expectations - while over 9 in 10 recommend responsible investments to their clients (either actively or in response to client demand). Only 9% of advisers reported that they do not recommend responsible investments.

Significantly, 46% of advisers believe responsible investing is an important factor when it comes to satisfying their Best Interest Duty to clients. This highlights the growing awareness advisers have for the role responsible investment products will play as the financial situations and needs of a new generation of ethically-aware clients come into focus.

47%

Nearly half of advisers have fully or partially incorporated responsible investing into their value proposition.

91%

Recommend responsible investments either actively or in response to client demand.

52%

Agree demonstrating a strong understanding of responsible investing can help attract more young clients.

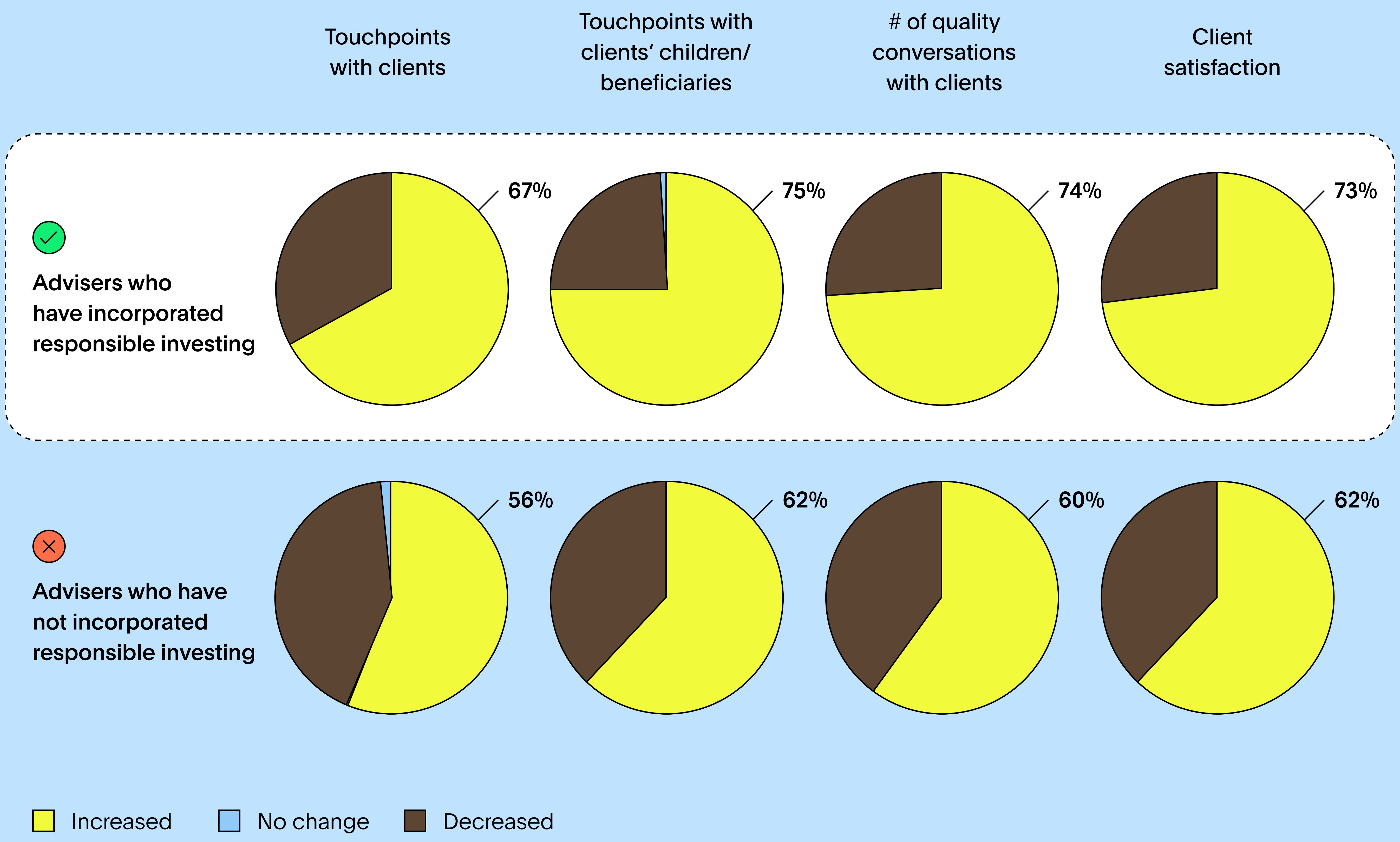
46%

Declare that responsible investing is an important factor in satisfying their Best Interest Duty to clients.

Driving client engagement

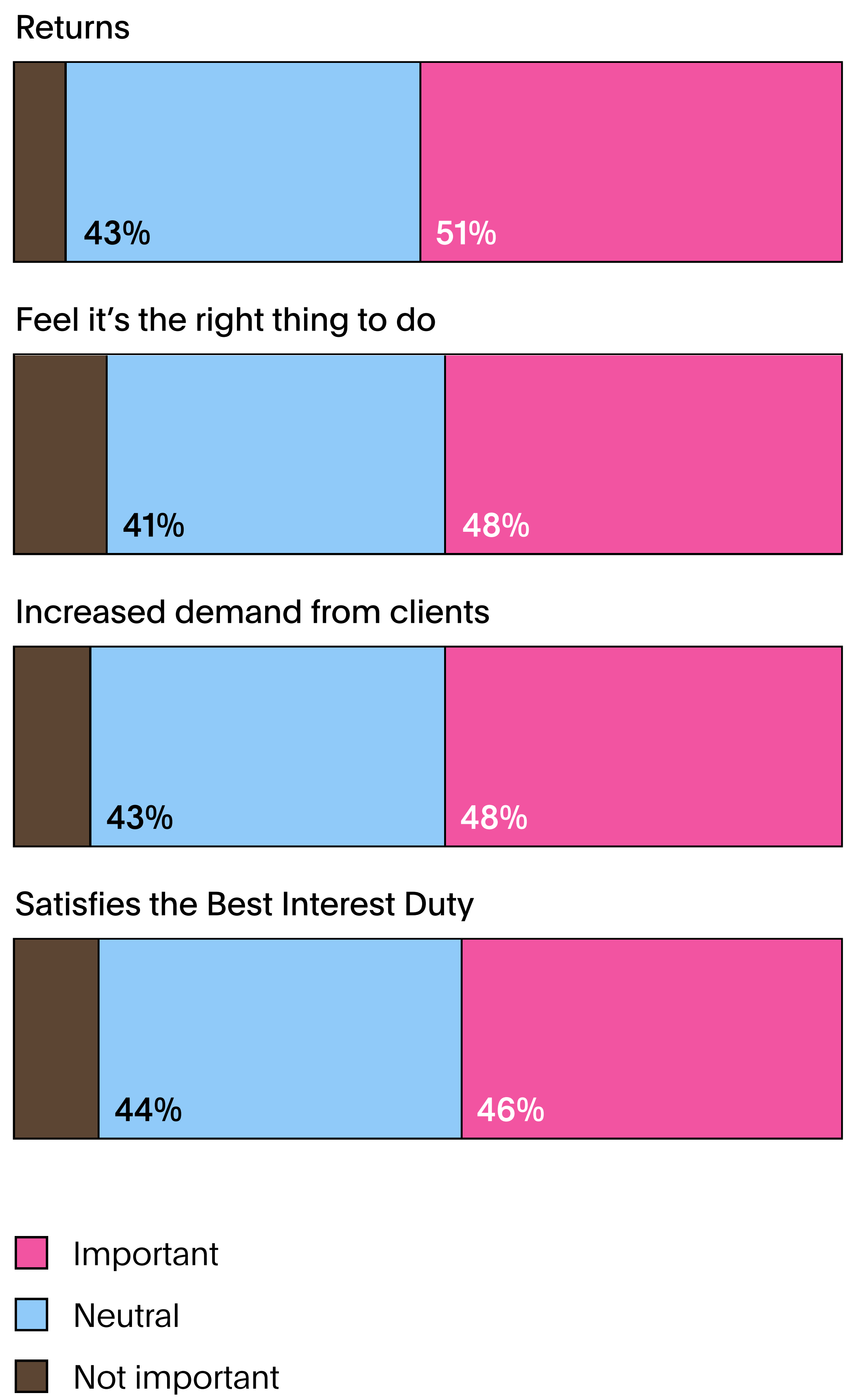
In the context of generational wealth transfer, practices who have adopted responsible investing into their advice proposition experience better client engagement outcomes than those who are yet to take this step.

Wealth transfer client engagement



The factors driving advisers' decision to incorporate responsible investing into their value proposition

Client demand and satisfying the Best Interest Duty to clients are among the most important factors for advisers who have incorporated responsible investing into their value proposition.



Conclusion: Seizing the great generational wealth transfer opportunity

06

The great transfer

The transfer of an estimated $3.5 trillion from Baby Boomers to the next generation over the next two decades marks a pivotal moment in the Australian financial landscape.

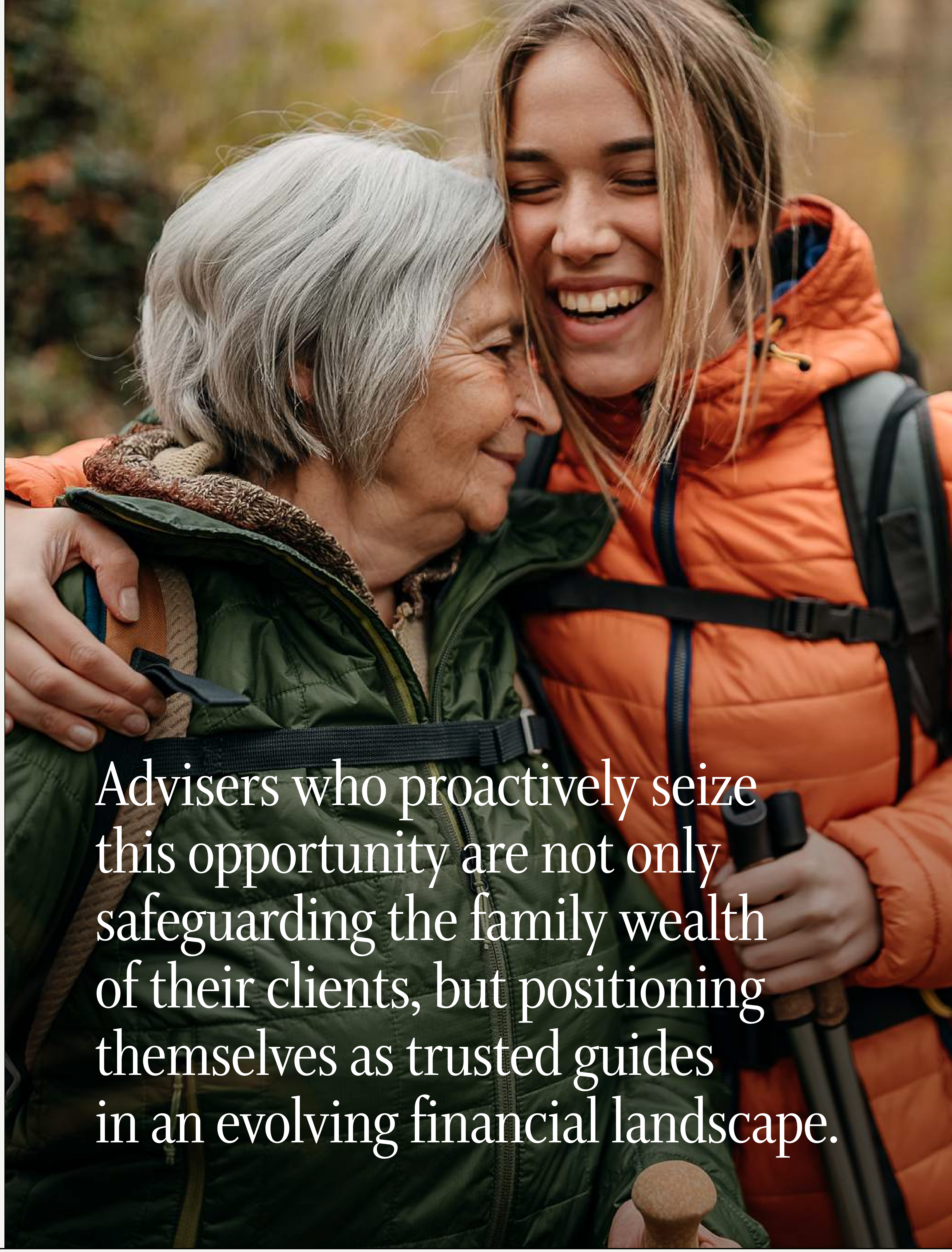
Savvy advisers are actively engaging their clients about wealth transfer now, recognising it as an opportunity to fortify relationships with their clients' children and beneficiaries and position themselves as valuable partners in the ongoing financial journey of their clients.

Advisers encouraging clients to involve their children or beneficiaries in the process report higher success in retaining the next generation. However, with nearly 39% of advisers yet to work with any of their clients on wealth transfer, a sense of urgency is mounting. Advisers with moderate-to-large numbers of Baby Boomer clients cannot afford to sit back and wait for the process to happen naturally - doing so could put at risk the future value of their businesses.

As Millennials surpass Baby Boomers in population, and Gen X reaches the peak of their careers and accumulation potential, advisers must adapt and prepare to prove their value to a new generation of clients. Proactive client engagement, family conversations, and understanding the distinct investment needs and priorities of next-gen clients are key success drivers.

Finally, advisers will need to identify the role responsible investing will play in their wealth transfer strategy early, to ensure they are satisfying the many factors that drive retention and overall client relationships.

Advisers who proactively seize this opportunity are not only safeguarding the family wealth of their clients, but positioning themselves as trusted guides in an evolving financial landscape.


Advisers who proactively seize this opportunity are not only safeguarding the family wealth of their clients, but positioning themselves as trusted guides in an evolving financial landscape.

Navigating wealth transfer: Key strategies

07

Key strategies for advisers

Financial advisers have a unique opportunity to position themselves as the trusted partners in guiding families through the complex process of wealth transfer. Preserving and securing family wealth across generations is a fast-growing advice need, driven by the ageing population of Baby Boomers who have historically been the biggest users of financial advice. Preparing for the opportunities arising from this transfer of wealth, however, requires a strategic and proactive approach.

Here are some steps you can take to prepare your businesses for this once-in-a-generation opportunity:

01

Understand the dynamics of wealth transfer

Wealth transfer starts with a plan. Before taking any action, the first step is to conduct a thorough analysis of the demographics, timelines, preferences, values, and financial goals of your clients and their children/beneficiaries. There is a growing range of technology, questionnaires and documents to support this. Understanding the unique needs of the younger generation is crucial to navigating conversations and building strategies with which they will engage.

02

Develop your approach to next-gen client engagement

The transfer of wealth is a growing risk for advisers, and can often result in the end of long-term client relationships. Building relationships with the next generation is crucial for long-term success – and leveraging the trust of your clients to facilitate family conversations about succession planning and wealth transfer is key to client retention. Engaging, educating and empowering your clients and their beneficiaries should be the primary objectives in a successful strategy.

Discovery meeting

Conduct a unique 'family' discovery meeting with clients and their children/beneficiaries to develop a shared understanding of what success will look like. Consider creating relationship management plans together, outlining the needs, values and objectives of all parties, and design an effective client experience approach that brings meaning and value to all generations.

Proactive succession planning

Encourage your Baby Boomer clients to engage in proactive succession planning. This involves not only addressing the distribution of financial assets but also imparting financial literacy to their children and beneficiaries through educational workshops, meetings or resources.

Tailored communication strategies

Recognising the diverse communication preferences across generations, advisers should tailor communication methods accordingly. Differentiating between traditional forms preferred by Baby Boomers and digital channels preferred by younger generations is key to bridging potential communication gaps.

Embracing technology and digital solutions is also paramount, considering the digital savvy nature of Millennials and Gen Z. Consider user-friendly financial planning apps, online account

03

Strategic implementation

Client segmentation review

Conduct a review of client segments within your business, including identifying a sub-group of Baby Boomer clients for an active relationship management approach to their children as part of your 'Next-gen proposition'.

Next-gen proposition development

Nominate an internal leader to develop your next-gen advice proposition, including a value statement, wealth strategy, impact identification, relationship management and reporting.

Work with your clients' other professional advisers

Given the complex nature of wealth transfer, it is important to work with your clients' other professional advisers in the implementation of your advice. This could include their accountant or taxation adviser, estate planner or solicitor, risk/insurance adviser, banking relationship manager and business adviser.

04

Professional development

The dynamic financial landscape requires advisers to stay abreast of industry trends, technological advancements, and evolving client expectations. Investing in ongoing professional development for you and your team, and doing so with a focus on engagement and future generations, ensures your business will be well-prepared to navigate the complexities of wealth transfer and provide optimal service to your clients.

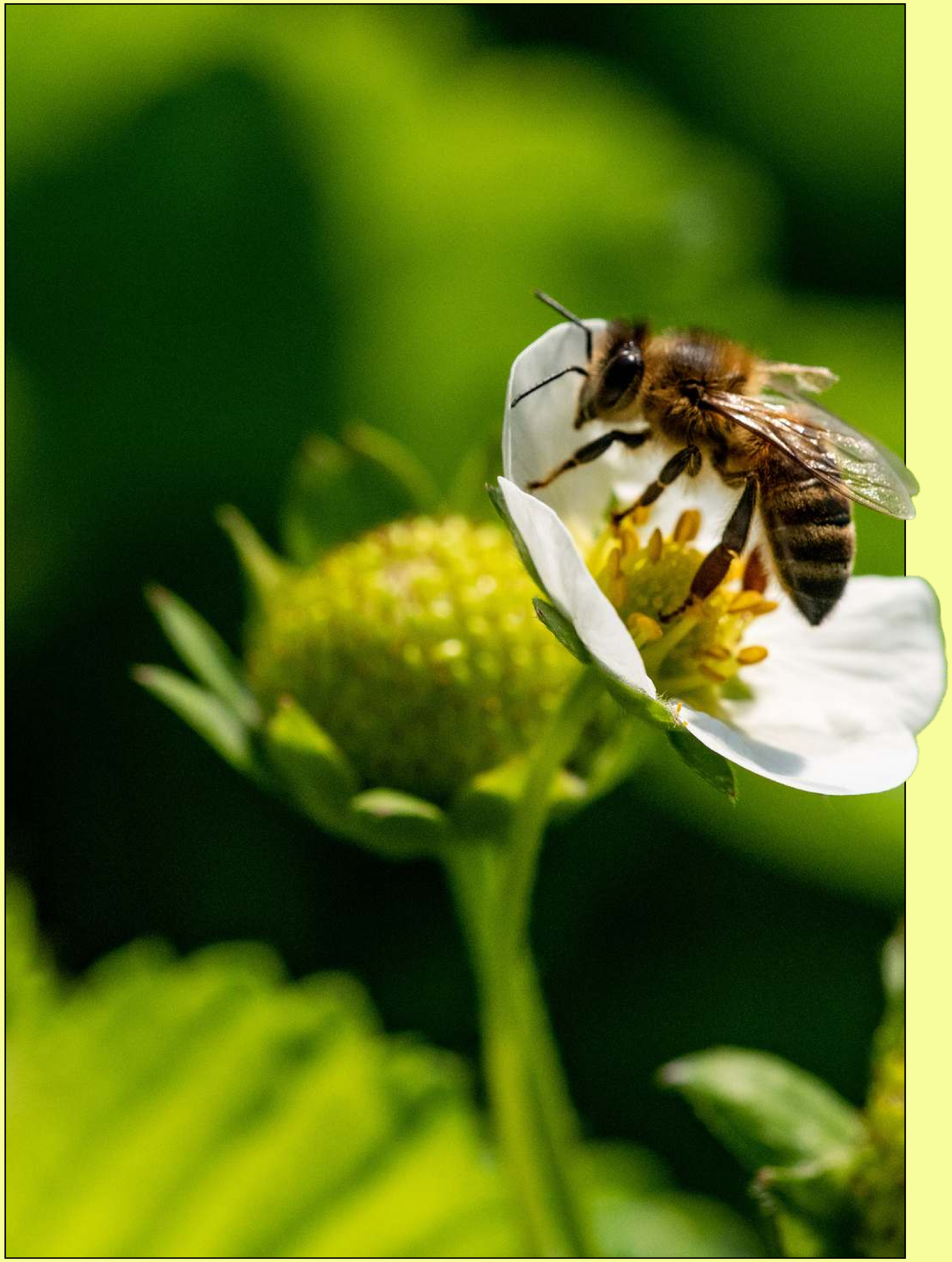
05

Incorporating responsible investing into your business

Recognising the growing role of values in guiding client objectives and investment decision-making among younger generations of investors, you should be prepared to discuss responsible investing in wealth transfer conversations. This not only aligns with the needs and preferences of younger investors, but can also help you position yourself as a trustworthy and indispensable guide in the journey of securing and preserving family wealth.

We’re here to support you

08



The Australian Ethical team

Australian Ethical has been investing ethically – and only ethically – since we began in 1986. We believe companies with a social and environmental purpose will thrive in a lower carbon, more equitable future.

Whether you're leading the way in responsible investing in your practice or just getting started, you can reach out to our experienced team to ask questions and for support on your responsible investing journey.

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