The changing face of philanthropy

Making money at the expense of the environment and other stakeholders is no longer sustainable. Business for good is the new way of doing business. BY LEE WOON SHIU

PHILANTHROPY as we know it is changing. The traditional practice of cheque-giving is making way for the likes of impact investing and venture philanthropy as the wealthy seek newer, more collaborative ways to give back to society – a trend that's especially prevalent amongst the next-gen, who tend to pursue purpose in their endeavours.

Amidst this shift, we view the rise of social enterprises in both Asia and the rest of the world as a core element in philanthropy's next chapter. These social enterprises – for-profit businesses with a social mission – are determined to address societal problems, and could potentially spark significant positive impact if provided with the necessary guidance and resources.

This was the central theme of DBS Private Bank's recent "Windows of Philanthropy" session for clients, a quarterly series of talks around pertinent philanthropy topics, which brought together a panel of industry experts (Jayesh Parekh, Senior Adviser of Jungle Ventures; Lam Nguyen-Phuong, formerly Cofounder and Senior Managing Partner of the Private Markets division of Capital Group; Bjorn Low, Founder of Edible Garden City; and Noor Quek, Founder of NQ International).

Mr Low, in particular, is an example of how the younger generation, with their desire to tackle entrenched problems in society, are driving change.

Edible Garden City is a social enterprise that builds and maintains food gardens in unused spaces across Singapore, helping our city become more self-sufficient while finding solutions to waste management challenges. In the seven years since they started, they have completed 200 food gardens in locations such as Marina Bay Sands, Resort World Sentosa, and the Raffles City Rooftop.

Here are some key takeaways I've personally found instructive:

WHAT ARE SOCIAL ENTERPRISES?

Mr Lam shared a quote by Bill Drayton of Ashoka, who coined the term 'social enterprise' in the 1980s – "Social entrepreneurs are the essential corrective force. And from deep within they, and therefore their work, are committed to the good of all."

The dynamism of Asian economies has improved the lives of millions over the past decades, greatly contributing to the prosperity of generations.

Yet challenges such as widening income disparities, ageing populations and gender inequality, among others, continue to remain. There are opportunities for social enterprises to help address such issues but achieving the twin goals of profitability and social impact is no mean feat.

For one, these businesses may attract investors that do not share the same values, especially at the start-up phase when they are desperate for financing. This is a situation that Mr Lam has often seen playing out, which he warned could lead to disastrous consequences.

Should these funds or investors be under pressure to generate higher returns, it could lead to conflicting agendas between the investor and the social enterprise at some point, which could end with the latter having to forgo their original objectives until they reach a certain level of profitability.

Another key success factor is mentorship. It is important for social enterprises to have advisors on board to help them navigate the complicated path towards profitability and social impact.

Not only do these businesses need to tackle the usual issues of cashflow, talent management, and operations, they also have the added challenge of achieving their social mission. Advice from an experienced business person on how to deal with such problems, as well as how best to structure the business and access suitable financing sources, could prove invaluable.

A WIN-WIN SITUATION

There are potential synergies to be gained by bridging social enterprises and our wealth clients, many of whom are experienced entrepreneurs themselves and are well-positioned to co-invest with or mentor these social enterprises.

Bound by the common desire for both financial and societal returns, both parties can be reassured that values and objectives are aligned, ultimately creating a win-win scenario whilst also generating greater good for society.

Though many wealthy families already take part in philanthropic and other social impact initiatives, these are often not done in a formalised manner. From the perspective of wealth and legacy planning, properly integrating such investments can also be a means of ensuring the family's values are shared and retained across generations.

As Mrs Quek shared, bringing family members together to work on social impact projects could hone their awareness of societal issues, help the younger ones appreciate their privileged situation more keenly, while enabling the older generation to be closely involved with their projects so they can witness for themselves the positive impact of their investments.

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DO AWAY WITH DOUBLE STANDARDS

A common question posed by clients when first exposed to the idea of investing in social enterprises is: "But what if they fail?"

Whether the startup is focused on technology, agriculture or social impact, they go through similar processes – from identifying the big problem to solve, building the business concept and model, to bringing it to fruition – and none can promise to deliver.

As Mr Parekh rightly put it: there is no difference between the types of entrepreneurs, so to single out social enterprises as "riskier" investments wouldn't be accurate.

Instead, investors should seek to understand where they're putting their money and how it's being used. As with any other investment, make the effort to assess the founders or managers behind it, ask the right questions, speak to other investors and if possible, spend time with the social enterprise to understand the fabric of the company and its motivations – then make your judgment based on all the data and information collected.

THE MOVEMENT IS HAPPENING

Many traditional businesses are starting to realise that making money at the expense of the environment and other stakeholders is not sustainable. In today's commercial world, business for good is the new way of doing business.

The trend will only accelerate as consciousness around sustainability issues continues to grow. Increasingly, traditional businesses are expected to embed social impact principles into the core of their operations as they recognise the changing world that we're in – one sign of this movement is the rising number of companies that have joined the global B Corp community.

B Corp certification measures a company's social and environmental performance and currently has over 2,600 certified companies across 150 industries in 60 countries, including Singapore.

I quote Mr Low, who closed the session with a thought-provoking reminder: "Time is running out and change needs to come fast. Social enterprises will be a key frontier in pushing for that and driving society forward."

We are optimistic that more individuals like Mr Low will step up to the challenge of seeking profit with purpose. Together with DBS Foundation, which supports and nurtures social enterprises across Asia, DBS Private Bank is well-placed to identify and connect clients with opportunities to give back to society, to catalyse the social enterprise ecosystem and ultimately spark change for good together.

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Why borrowing makes sense as a financial strategy

It can be used as a tool to provide flexibility, allow investors to diversify and use leverage to boost returns. BY MIN LAN TAN

THE global tilt towards dovish monetary policies, alongside easing China-US trade tensions, has been positive for risk assets. It has also increased the allure of borrowing.

For many investors, taking on debt carries with it negative connotations. With a few exceptions, notably buying a home, borrowing is viewed as a sign of living beyond one's means. Debt comes with the price of interest payments, and the risk of amplified losses in a falling market.

While the downsides of borrowing are well known, the potential benefits of smart leverage are often neglected. So under what circumstances is borrowing a useful tool not just for the average person but especially for wealthy investors? And which are the common pitfalls to avoid?

TOOL TO SECURE LIQUIDITY, DIVERSIFICATION AND RETURNS

Firstly, borrowing can be used as a tool to provide flexibility, helping investors to avoid having to sell prized assets to meet a temporary need for funds. In certain jurisdictions, borrowing strategies can also help avoid realising taxable capital gains while conferring tax advantages in estate planning.

Secondly, borrowing allows some investors to diversify, resulting in a portfolio with superior risk-reward characteristics. For many entrepreneurs and key executives, their personal net worth is often highly concentrated and tied to a single business or restricted company stocks.

In these instances, borrowing against these holdings can help fund a diversified portfolio, with investments that are less correlated to their net worth. Using leverage in this way helps improve risk-adjusted returns when done carefully.

> Borrowing as an investment strategy has been overlooked by many investors. It is a useful tool when carefully managed and incorporated into a broader long-term financial strategy. Debt can actually reduce risk, provided it is used to diversify a portfolio, and avert the risk to sell assets at the wrong time.

Thirdly, investors can use leverage to boost returns. For instance, Lombard loans incur lower interest rates and involve borrowing against a portfolio of marketable securities in order to magnify returns.

Compared to securing liquidity and enhancing diversification, this is essentially a riskier approach to using leverage. The rationale is that for longer-term investments, returns on risk assets can often exceed the cost of borrowing.

For investors who can stomach higher risk and volatility, this can be a beneficial strategy, but only if they avoid a trio of common pitfalls.

PITFALLS TO AVOID

■ **Avoid portfolio concentration:** Debt should be used to diversify and build resilience. Hence, one should leverage only well-diversified portfolios for returns. Default events in concentrated portfolios amplify the risk of underperformance, where the downside could get heavily magnified with leverage.

■ **Avoid excessive leverage:** Do not leverage to the limit; instead, maintain a comfortable leverage headroom. In periods of market distress, investors who maximise leverage may be subjected to margin calls and fire-sale selling, leading to hefty losses. As a result, risks should be carefully monitored with investors keeping a sufficient buffer to protect against such bouts of market turbulence. Even without a margin call, a highly levered portfolio can cause anguish during periods of market stress.

■ **Avoid too much duration risk:** While interest rates may be cheap currently by historical standards, Lombard loans make sense only when the portfolio is expected to generate income that exceeds the cost of borrowing. For fixed income investors, this means earning that income by carefully combining credit and duration risks.

Of the two risks, we believe taking on credit risk to boost yields is a relatively safer option. Using leverage on portfolios of longer-duration securities is more likely to amplify the impact of unexpected yield curve movement than that of a simple carry. In addition, always minimise the mismatch between the duration of assets and liabilities.

MANAGE LIABILITIES PROACTIVELY

Borrowing as an investment strategy has been overlooked by many investors. It is a useful tool when carefully managed and incorporated into a broader long-term financial strategy.

Debt can actually reduce risk, provided it is used to diversify a portfolio, and avert the risk to sell assets at the wrong time. And for bolder investors, Lombard loans can be helpful in boosting returns.

All told, aligning the degree of borrowing with one's risk profile is key given that debt will amplify a portfolio's swings both on the upside and the downside.

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