Make your investments sustainable

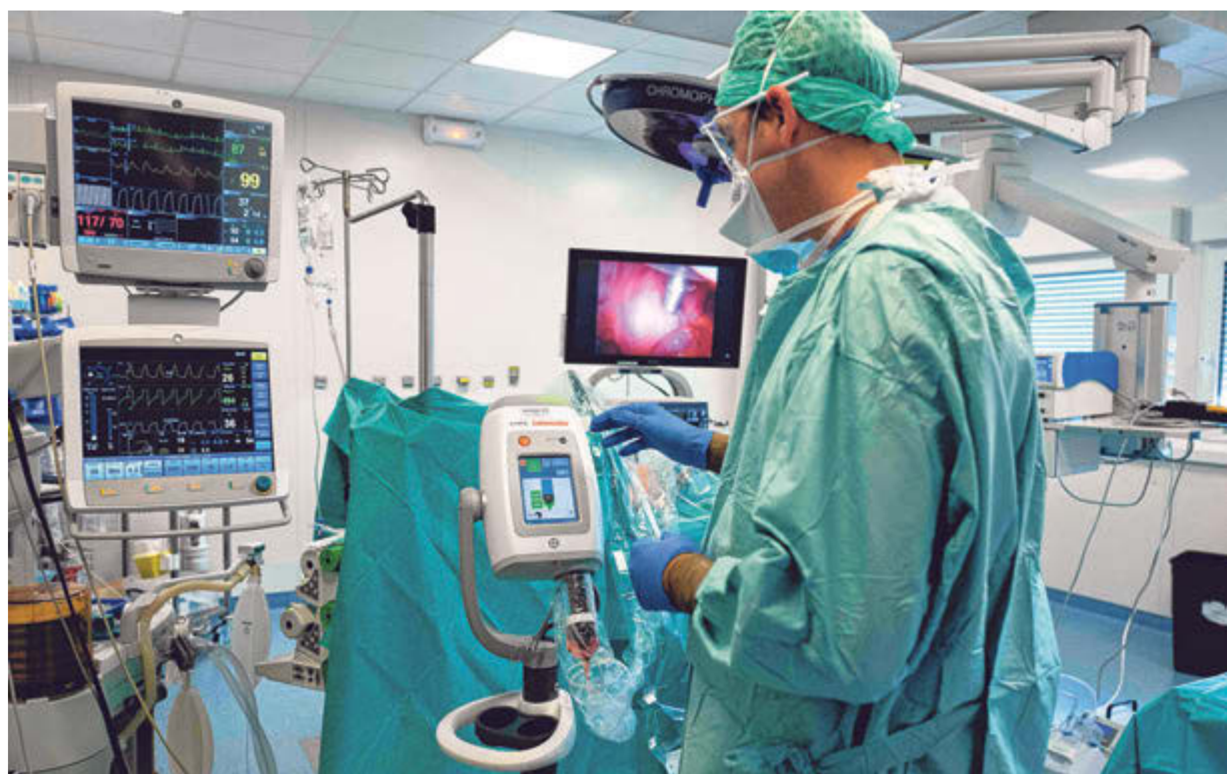
Globally, out of US$80 trillion assets under management in the capital markets, over US$30 trillion are sustainable assets. BY JOOST BILKES AND JOYCE CHEE

SUSTAINABLE investing is an investment approach. This approach takes into account environmental, social and governance factors in addition to traditional financial criteria in portfolio selection and management. Today the question has evolved from "Why should I?" to "How do I?".

Globally, out of US$80 trillion assets under management in the capital markets, over US$30 trillion are sustainable assets. The amount of assets managed with sustainable considerations have increased rapidly by more than 200 per cent since 2010, and by 35 per cent in two years from 2016.

Three in four US asset managers say that their firms now offer sustainable investing strategies, up from 65 per cent in 2016. And 93 per cent of the world's 250 largest companies by revenue based on the Fortune 500 ranking of 2016 report provide corporate responsibility reporting.

So, how do I start?



Specialised healthcare investment managers can help investors get access to operators across the healthcare subsectors and access to innovative medical technology and medicine. PHOTO: AFP

THREE STEPS TO SUSTAINABLE INVESTING

The first step in sustainable investing is to define your values and objectives.

You can start by asking some questions. What are the areas in life that inspire you? What do you aspire for the next generation when you consider the world that they would live in? What are the areas that contradict with your values?

Next, define your objectives. As an organisation, what is the firm's core mission and purpose? For example, a university might have a mission to develop future generations of global citizens, and a family in the private hospital business might aspire to enable everyone to lead healthy lives regardless of income levels.

The next step is to take these values and translate them into actionable decisions:

■ **Exclude:** This is typically known as a "negative screen". You can decide to omit companies from your portfolio if they are involved in activities that contradict your values and objectives. You can exclude companies involved in controversial activities, or reduce exposure to such companies

For example, a family in the healthcare business may choose not to invest in companies that have exposure to tobacco or thermal coal.

> The leading companies of the future will be able to successfully combine purpose and profit. They will be efficient, transparent and well governed and will be well positioned to make a lasting difference.

■ **Promote:** A more positive approach comes next. You can actively favour investments in companies that are best-in-class in areas such as labour standards, carbon emissions or governance practices versus their peers.

For example, a university endowment might specify in its investment policy that it commits to investing in companies that do not compromise the ability of future generations to meet their needs, by responsibly considering their environmental and social impacts.

Investors can choose to hold or add more of these firms to their portfolio. Institutional investors may also decide to engage directly with the management of companies that perform worst in terms of sustainability criteria and to call for improvements. If no progress is achieved by the firms in question, divestment is an option.

■ **Contribute:** In addition to including companies that perform well in terms of sustainability, investors can choose to invest in companies that actively contribute to a better world. These firms are intentional in seeking to generate a measurable social or environmental impact alongside financial returns. This could be in areas ranging from access to finance, healthcare or education to sustainable agriculture and conservation.

Before taking the step to implement the above, it would be helpful to analyse your current portfolio, to perform a "health check" via the use of data analytics based on information from specialised sustainable data providers. Analytics help to drill down to the level of individual securities in order to understand which parts of your portfolio are already aligned with your sustainability criteria and to identify any discrepancies.

The framework for constructing a sustainable portfolio described above is just the starting point.

Sustainable portfolios are brought to life by including actual investment products across different asset classes, with weightings determined by the investor's own target financial return as well as the investor's view on how these various asset classes might perform.

The asset classes available to apply this approach span the very same asset classes of traditional investing. To achieve deeper positive impact, there are currently more opportunities in private asset classes. This will continue to evolve as the market further develops.

ASSET CLASSES INVESTORS CAN CONSIDER

■ **Listed equities:** There are two subsets of publicly listed equities that investors can consider: those ranked highly based on environmental, social and governance (ESG) metrics, and those that actively seek to address social or environmental challenges.

Looking beyond individual securities, investors can also access this asset class through actively managed funds that can be considered after a careful due diligence process or passive low cost strategies that automatically track an index of equities designed to sustainably address topics such as climate crisis.

For example, there are asset managers such as WHEB who manage a multi-sector portfolio of global equities that take steps beyond not only integrates ESG factors but also actively invests in companies that generate positive ESG impact by identifying structural growth themes.

■ **Fixed income:** There are two subsets of opportunities in fixed income: those that comprise of issuers that rank highly in terms of ESG metrics, and impact fixed income, i.e. green bonds, social bonds or sustainable bonds, where the proceeds of bond issues are designated for environmentally or socially sustainable initiatives.

Some financial regulators offer tax incentives, credit enhancements or grants to incentivise sustainable fixed income investing.

■ **Green real estate:** The real estate industry offers property investors a range of green labels and sustainability certificates. Investors can also consider investing in real estate that has been upgraded with a view to reducing carbon emissions and energy consumption.

In Asia last year, the climate-neutral real estate fund managed by Credit Suisse Asset Management, which derives value from energy efficiencies and environmental standards, raised 100 million euros from our clients.

■ **Private equity:** Private equity is at the core of impact investing because investors can achieve a deeper impact. Since the investee companies are not publicly listed – and because there is a smaller group of investors – the latter can contribute to shaping a company's strategy and work directly with it to help achieve the intended impact.

This asset class is generally illiquid and is suitable for investors with a time horizon of at least five to 10 years. The investee companies may be in the start-up phase or in a more mature phase of growth. There are a lot of opportunities in the private equity sector that investors can leverage, such as healthcare.

Countries in South and South-east Asia account for around 31 per cent of the world's population and almost 45 per cent of the world's disease burden. The healthcare sector in Asia is set for robust growth at over 12 per cent per annum over the coming decade.

Specialised healthcare investment managers such as Quadria Capital, has built a healthcare ecosystem for value creation for its portfolio companies, which enables them to get access to operators across the healthcare subsectors and access to innovative medical technology and medicine.

They believe that by harnessing these market forces, there is a compelling opportunity for the private sector to create superior investment returns while bringing efficiency to healthcare provision, delivering high quality, affordable healthcare through scalable solutions.

Sustainable and impact investing is today experiencing very rapid growth, driven by demand from institutional investors, charitable foundations and wealthy individuals – especially the younger generation.

This trend is set to continue and intensify in the coming years. The leading companies of the future will be able to successfully combine purpose and profit. They will be efficient, transparent and well governed and will be well positioned to make a lasting difference.

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The new and promising landscape of wealth management in Asia

Singapore and Hong Kong are leading global centres for financial regulators, which gives the investing public peace of mind. BY ARJAN DE BOER

FOR the Asian wealth management industry, the first half of 2019 was dominated by geo-political events and a constant news cycle of trade related policies, with client activity only picking up markedly in the second quarter.

Closer to home, the recent protests in Hong Kong surrounding the extradition bill have paved the way to industry whispers surrounding the potential movement of high net worth (HNW) money from Hong Kong to Singapore.

Singapore is similarly vulnerable with its two largest trading partners locking horns. Other headwinds that continue to be of concern are the high operating costs of wealth managers across Singapore and Hong Kong and the ongoing war for talent in this sector.

Regardless, Asia continues to shine as the fastest growing region for wealth creation, with a young population and strong valuation uplift keeping it relatively buoyed amidst the geo-political storm. We continue to remain confident that Singapore and Hong Kong will continue to lead the way as global wealth management hubs.

Over the past decade, Singapore and Hong Kong have both implemented a wave of new regulations. Providing clients with full transparency with regards to fees charged, ensuring products are suitable for clients, the protection of so-called "vulnerable clients" and ever stricter client onboarding rules are just some examples.

From a global perspective, Asia clearly has taken the lead in this area. Whilst at first sight implementing all these rules and regulations seems a tedious exercise, the result (and consensus) is that especially Singapore and Hong Kong are leading global centers when it comes to the financial regulators, providing peace of mind for the investing public.

As a result of this, both international and domestic wealth management firms with operations in these offshore banking hubs had to invest considerably in additional resources, such as technology to monitor transactions, additional staff in their legal, compliance and risk management teams and a lot more management time spent on these topics.

> The combined aggregate growth rate in the past five years saw double digit growth and this is forecast to continue, which means Hong Kong and Singapore are poised to attain the world's number one and two respectively as global offshore wealth management hubs.

That in turn was a major cause for consolidation in the industry, with roughly 15 banks deciding to call it a day and selling or closing their Singapore and Hong Kong offshore hubs. This in itself is a short-term pain, but also a long term gain as it means only the strongest and most committed firms remain.

This industry has also caught the eye of the respective governments of these two global hubs, which have both expressed strong support to make their jurisdictions global leaders in offshore wealth management.

A White Paper by KMPG reports that there are currently over ten thousand professionals working in this industry in each city , and if you look at the number of firms providing auxiliary products and services to this sector it's clear to see the enormous economic impact this has.

This in turn is also attracting venture capital firms, private equity companies, family offices, philanthropy service providers and financial consultancy providers to Asia, to name just a few. Singapore and Hong Kong have also well positioned themselves as hotbeds for tech startups for the financial industry, which is also referred to as the "Fintech" sector. Again, local authorities have been very supportive in this area and this further solidifies the industry.

Other factors that, coincidentally, have helped the growth in these two Asian offshore hubs is that the major competitors face a number of headwinds. Switzerland, currently still the largest hub for global offshore wealth, has actually seen its assets under management (AUM) decline, as has Luxembourg.

London, the world's second largest financial centre behind New York, is facing strong headwinds because of the impending Brexit, causing outflows of AUM and Singapore and Hong Kong are well positioned to capture most of these outflows.

Clients will automatically be drawn to Singapore for its deep talent pool and access to expertise. BT FILE PHOTO

As a result, the combined aggregate growth rate in the past five years saw double digit growth and this is forecast to continue, which means Hong Kong and Singapore are poised to attain the world's number one and two respectively as global offshore wealth management hubs.

This in turn means that clients, wherever they reside, will automatically be drawn to either one of these cities for their deep talent pool and access to expertise.

Here they will be able to source the best in class products and services, experience a high degree of innovation and enjoy the strong regulatory framework and supportive local institutions and administrations.

Other areas of expertise are around the need of advice with regards to wealth transfer, a hot topic in Asia with many entrepreneurs handing the baton over to the second generation.

So what does this mean if you are currently an active participant in this industry in Asia? What skill sets are needed to stay ahead? Who are likely to achieve success in this environment? One element where we see further need of development in grooming talent is a focus on soft skills.

Schools and universities in Asia have a strong focus on "IQ", less so on "EQ". If the pie of global assets is growing further, so is the share of global, non-Asian clients. Cultural sensitivity and strong social skills will be instrumental in achieving success.

Moreover, size matters but probably not the obvious way: the consolidation in the industry also means the average size of wealth managers has increased, in some cases creating mega firms.

Wealth management though is probably the only bastion left within the broader financial industry where strong interpersonal relationships play a defining role in success.

After all, this is about dealing with individuals, their families, their legacy, their successes yet also their struggles and often intimate issues. As such, smaller or boutique players, where there's still a strong human element in conducting business, are poised to thrive.

In short, the future of wealth management in Singapore and Hong Kong, especially as centers of expertise in offshore banking, continue to look bright. These hubs have positioned themselves well to cope with change and have strong local institutions that support its' ambitions. It is poised to capture the growth in wealth in the region and as global centers of excellence attract overseas assets and talent. If you are looking for a career in finance and are considering your options: look no further!

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