

Asia's Wealthy Private Clients and their Approach to Sustainability and ESG-Driven Investing

Sustainability and impact are key criteria in the global investment community these days, driven by worldwide trends, rising client demand from all quarters, and also to some extent by regulations, which increasingly demand higher standards of the world's largest investors. And ESG-driven investing fits quite tidily within these broad and dynamic trends. By some estimates, the managers of over USD30 trillion of professionally run assets globally now use ESG data to drive some or all of their investment decisions. And far more than that – an estimated 75% of them today – pay some degree of attention to ESG criteria. But ESG and sustainability for Asia's wealthy families can and indeed should extend well beyond investments. They can, and many argue, should be embedded into everything a wealthy family does in terms of their family businesses and governance, their wealth/estate planning & structuring and the legacies they organise for their younger generations, the future guardians not only of the family wealth but of planet earth. To analyse the state of play for sustainability and ESG amongst Asia's wealthy private clients and families, Hubbis assembled a panel of wealth management leaders in what proved to be a highly informative Digital Dialogue on February 10.

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THESE ARE SOME OF THE QUESTIONS ADDRESSED AT THE DISCUSSION:

- » How do Asian private clients and families think about the topic of sustainability and ESG?
- » What are clients doing in terms of how they structure their investments in sustainability?
- » Is there any difference in the thinking and priorities of the different generations in pushing this agenda?
- » How robustly are Asia's wealthy private clients and families embracing sustainability and ESG in their approach to building and preserving their wealth?
- » Why has ESG-driven investing in particular evolved so rapidly worldwide, and how is it impacting Asia's wealth management community?
- » What importance should sustainability and ESG have in terms of their approach to estate & legacy planning & structuring?
- » How can these clients measure their involvement in sustainability and ESG so that they can track their progress and prove their commitment and responsibility?
- » Is the wealth management industry in Asia sufficiently informed and appropriately committed to these issues to properly make a difference with their clients?
- » What is the Asian WM community doing to adapt their products, services and expertise to the evolution of the ESG investment market today and for the future?
- » How can wealth managers better promote sustainability and ESG?
- » Is the growth in green investments sustainable? Hype or bubble? Does ESG investing only really serve to soothe the investor's conscience, or does ESG improve investment returns as well?
- » How do investors stay vigilant to avoid the still-widespread greenwashing?
- » How will private capital help in tackling climate change?
- » Do clients feel they are sufficiently well supported by their bankers on these topics?
- » How do wealth managers choose investments positive for the planet?

Setting the Scene

Sustainability is a lens through which to see the world and approach the world. Environmental, social and governance (ESG) criteria are part of the sustainability scenery, and aim to help socially conscious investors to screen potential investments. But they will increasingly also extend deep into the wealthy family's psychology and behaviour.

Environmental criteria aim to define how a company performs from an environmental impact perspective and of course those values must also inform the family-controlled businesses.

Social criteria define how a company manages relationships with employees, suppliers, customers, and the communities in which it operates, and again these issues directly impact the future of family corporate wealth.

And governance deals with a company's corporate culture, its leadership, executive and broader compensation, audits, internal controls, and shareholder rights, and of course governance is increasingly central to everything wealthy families do, in terms of their active business investments and their more hands-off financial investments.

The panel was tasked to survey these major trends towards sustainability and ESG from the widest possible angles. They considered how private clients can plant the roots of sustainability and ESG within their approaches to the family businesses, to their employees, their family members, their financial investments, their estate and wealth and legacy planning & structuring, in fact to their entire approach to individual and family wealth and longevity.

They also considered how these topics can or should be raised with such clients by the banks and other advisors, and how best to educate team members and clients on the value and importance of these issues.

There is rising awareness of the issues and concepts, but less understanding of how to apply this to investment portfolios

A guest opened proceedings by remarking that most of the wealthy families that the bank works with are increasingly aware of and educated on the topic of sustainability, but that at the same time, they still struggle to effectively adapt their investments. "There is a proliferation of appropriate ESG and sustainability-driven investments and products in recent years, but there remains some confusion in relation to what makes an investment or a company's business model sustainable," she explained. "That is somewhat holding clients back from deploying more capital, even though we see a fairly healthy interest in sustainable investments."

She pointed to a survey the bank had conducted of 620 HNW clients in APAC in 2021 and that 63% of them said that they took sustainability into consideration when they make investment decisions, and 59% indicated that sustainability will generate superior returns, while 40% had actually increased sustainability factors in their investment portfolios. For the other 60% who had not yet ventured in, some 59% said they intend to in the future.

"From a broader perspective, we also see clients rethinking their own family business operations, and supply chains, and considering how they can apply certain sustainability principles," she said. "It all starts with the client's intent and value system, so we need to help improve their education on these issues, so they

deploy more decisions and more capital in this direction."

Just because there is a lot of hype around these topics does not detract from their importance, in fact quite the opposite

Another guest pondered to what extent this whole topic has been the subject of rather too much hype in recent times. "Yes, there is a lot of marketing push around this, and it is somewhat of a bandwagon for people to jump on, but that does not detract, or should not, from the value of sustainability itself," she stated emphatically.

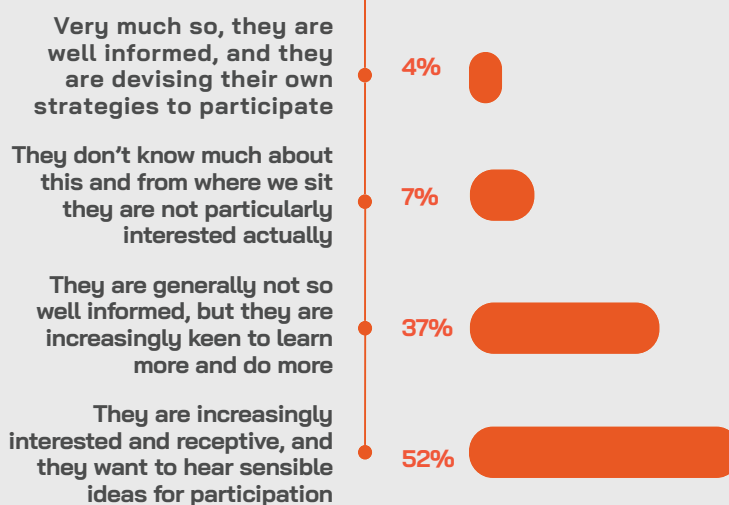
"We look at sustainability as fundamental to investing well

in the future," she stated. "It is fashionable, but not a fad; it is core to what we consider the right approach, and not just for a few years ahead. Governments worldwide are embracing sustainability, many regulatory changes are emerging especially for institutional investors, the next generations are increasingly passionate and want to lead the way, and broadly, ESG is becoming increasingly central to the way institutions and clients invest."

At her bank, she reported, they aim to embed sustainability into the entire wealth platform, and to also spend time and money educating teams and clients. "We also work closely with clients to help define their objectives, identify their

The Hubbis Post-Event Survey

DO YOU THINK PRIVATE CLIENTS IN THIS REGION ARE WELL INFORMED AND UNDERSTAND WHAT ESG-BASED INVESTING IS ABOUT?



ambitions in terms of sustainability and then create the right strategies and approaches," she said. "And we recognise that these are early days, that there can be plenty of misunderstandings, or worse, such as greenwashing or unclear disclosures. That is why education is the starting point in this journey."

The direction of travel is clear, the speed of travel and the exact route are all less clear... for now

Another expert observed that this is only the beginning of a journey, and the definition of what is sustainable is far from clear. But the main objective around sustainability and, therefore, ESG is the future and doing. He explained that his own firm has embraced carbon emission reductions and offsets and had been hiring more women and generating more diversity across the company, including at senior decision-making and board levels, for example, hiring a new female director into Asia and creating a main board director for ESG.

Investors need practical support in helping them to filter the right investment and other 'sustainability' decisions

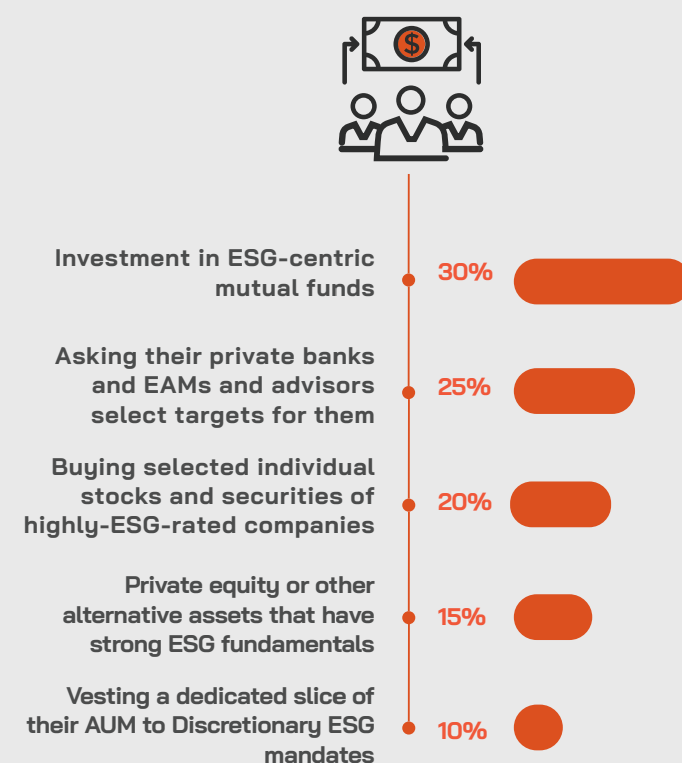
The same expert explained that data needs to improve, as does education, and hopefully proper, perhaps standardised guidelines will evolve for better informed choices. He reported that his firm was promoting the 'right' investments through an Impact app, which helps customers measure their portfolios.

Their Impact dashboard has 13 different values. These fit

into the E, S and G buckets, and were inspired by the United Nations Sustainable Development Goals, and also by the non-profit Sustainability Accounting Standards Board (SASB). Amongst these categories are, for example, clean air, pure water, LGBTQ inclusion, consumer safety, ethical leadership, gender equality, racial equality, LGBT inclusion, company transparency, and so forth.

"The clients select which elements are of most importance to them, and the first filter emerges, and the firm also provide off-the-shelf portfolios for each of those 13 values," he elucidated.

FOR THOSE PRIVATE CLIENTS THAT ARE ALREADY PARTICIPATING IN ESG-DRIVEN INVESTING IN THIS REGION, RANK HOW THEY ARE GOING ABOUT THEIR PARTICIPATION?



There is then a second filter centred on exclusions, with 10 categories listed, from animal testing to greenhouse emissions, amongst others. After the two filters cut in, there is a selection of ESG-acceptable stocks or securities. And finally, the entire portfolio will then be given a letter grade from 'A' to 'F', and it will quantify how closely aligned the investors are with their values, with 'A' meaning they are right on target.

"The idea is that this is just a guideline at this point," he explained, "because there's still not enough data out there. But over time, this is going to evolve, and investors can do their own research on top of that."

In short, there are numerous great companies doing great things, but the information needs to flow, and better reference points need to be established to determine which are simply virtue signalling and which are genuinely improving themselves, their activities and helping sustain the future.

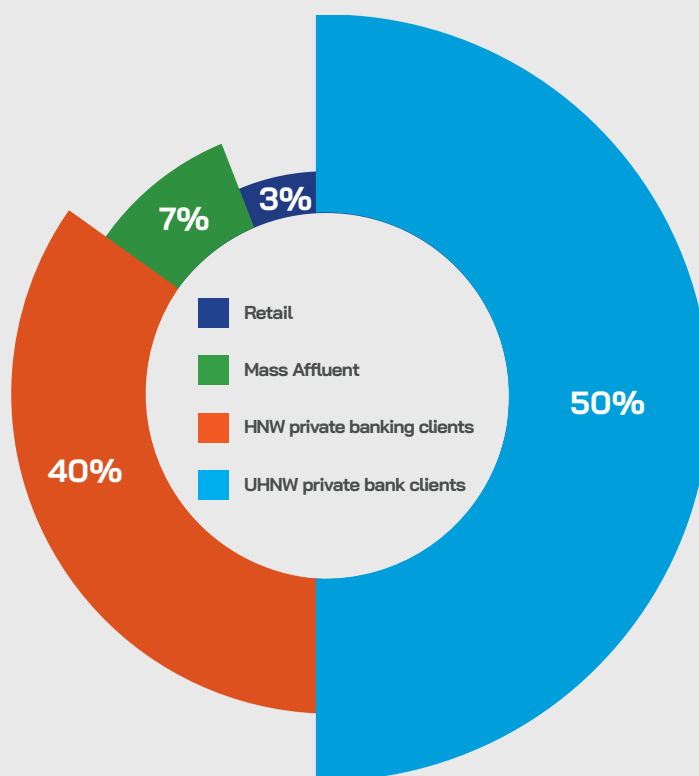
Taking things to the next levels requires a bold entrepreneurial vision, and the best route is to focus in on climate change and forward-looking data

A guest highlighted some of the many opportunities ahead and offered insights into the rationale for their climate technology venture. With a background in investment banking and hedge funds, as well as academia, this expert explained that while working as a finance professor and doing ESG training and impact investing, as well as executive training for asset managers and banks, they had learned a whole new field early on and saw the opportunities to plug many gaps and shortfalls.

She said that ESG is a new field for many people, and one can see progress but also still today – 10 to 15 years after it first emerged – there is plenty of greenwashing, misapplication, misperception, confusion, and other shortcomings. She indicated that the challenge is to demystify and make ESG more robust and credible.

“How can we turn it into something meaningful for all parties?” she pondered. “The answer is there’s no right or wrong, you just have to start and learn and filter all this information and improve along the way.”

WHICH TYPES OF INDIVIDUAL INVESTOR CLIENTS IN ASIA ARE SO FAR THE MOST INTERESTED IN AND ACTIVE IN ESG-DRIVEN INVESTING?



And that led her and colleagues to create a business focused on climate change data. The firm is a third-party data provider, and the premise is that ESG information is company driven data, most of it, at least 80% comes from the company, their carbon footprint, their water usage, their recycling, and so forth.

Detractors of ESG data and metrics report shortcomings in company-delivered, historical data

The same expert continued with a statement that in her view, ESG data is biased, because it derives from the companies themselves with

no oversight. “It is their company data,” she cautioned, “and it is also backward-looking data, it is not the forward-looking data.”

She said she still valued ESG, but more as a risk management tool from her point of view as a finance person. “From historical data you can extrapolate to trends, but only from backward looking data. And there is now a proliferation of data, with all the ESG providers, ESG scores, but they’re not going to match, the correlation is very, very small, most of the time it is just a cloud of ESG scores,” she observed.

And that, she explained, is why they focus on climate, because it is data-driven and model-driven,

determining the risks faced by a company or an asset manager investing in certain companies, for example because of exposure to climate events such as typhoon, flood, storm surge, and so forth.

And there is transition risk as well, areas such as carbon policy, the NDCs (national determined commitment) of a company's markets, potential carbon prices by 2030, 2050, regulatory evolution, policy change, and so forth. "These are exogenous risks, the information is not company driven, it is much more unbiased and objective, and much more reliable for building a risk framework," she stated.

This, she extrapolated, in turn means she sees climate as separate from ESG, but nevertheless also that ESG is complementary.

"Accordingly, if you want to assess a company's risk, you have to look at ESG, how they perform along these indicators, but also at the resilience and adaptation of these companies to climate effects," she commented. "Because we are looking at sustainability, we are looking at what a company needs to be sustainable as a business in the long term where they are located and where they operate. Then you look at a comprehensive risk picture there, both from ESG and climate."

ESG data should really be always reviewed by intermediaries for the private clients and by the managers for the larger investing institutions

Company financials are audited, and subject to scrutiny by the

authorities, regulators, the exchanges and so forth. But ESG data is not, at least not yet. An expert commented that ESG data, coming as it does from the companies themselves, therefore requires external due diligence, and back-testing.

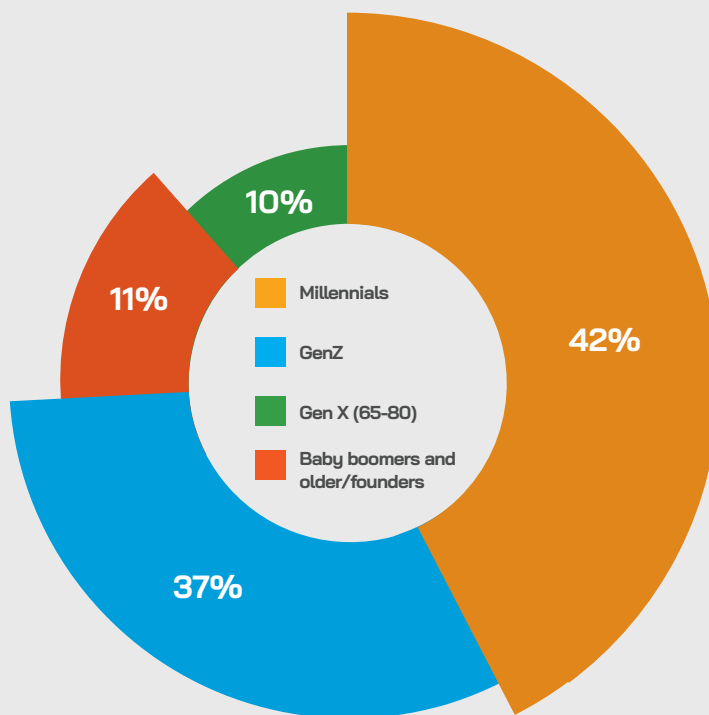
"There is generally a lot of data correction needed," they said, adding that asset managers themselves can apply elevated levels of ESG data scrutiny and then integration into their decisions. "And there are companies which have deeply integrated this philosophy, because especially if you're in the emerging markets, you need to have robust governance oversight

to understand whether you are impacting the community, and therefore what your risks are."

It is the younger generations who are inheriting planet earth, so it is they who have most to gain, or lose, around sustainability

A guest explained that their bank sees a strong correlation between age and interest in sustainability. "The whole topic of sustainability is deeply ingrained within the next generation, and yes, we see a lot more commitment from them than perhaps the current generations that hold most of the wealth and control," she reported.

WHICH GENERATIONS OF PRIVATE CLIENTS ARE NOW OR ARE LIKELY TO BE THE MOST ACTIVE IN ADOPTING ESG INVESTMENT APPROACHES?



She noted that their survey had highlighted the greatest conviction amongst the 18 to 34 age group, followed by the 35- to 50-year-olds. "The world is their future and that of their children and grandchildren, so it is natural they have a stronger conviction in the sustainability initiatives today that will bear fruit tomorrow," she added.

Another expert also pointed to the rising interest in and questioning from the younger generations around sustainability, ESG, impact. "But from our experience," she reported, "we also see the first and second generations responding quite enthusiastically to some of these initiatives; this is all very much in line with families thinking about long term value creation, thinking about how values bring the family together. And this ties in to where we see this conversation starting."

She referred to the spectrum of sustainable investing, which essentially refers to a range of different types of asset classes and investment approaches. Some investors want to use capital to make the world most environmentally sound and resilient, first and foremost. Others focus first on generating financial returns, but sustainably by looking for opportunities in companies that are likely to do well in a low-carbon economy, or by reducing exposure to climate change risks.

"And there is a whole wide spectrum in between," she explained, "where a family can think about how they integrate sustainability and ESG considerations. In private wealth conversations, we mostly see the philanthropy side and the impact side, with next generations thinking about how they can

give more strategically, more sustainably and extend into impact investing. But we are also increasingly seeing families looking at how they can integrate ESG into their own businesses, their tech investments, in their start-up investments, in their real estate investments. Lots of encouraging and very interesting developments around this."

Taking the scientific approach to sustainability can elevate the proposition well above pure ESG-driven decisions

This same expert also referred also to the bank being a founding

member of the Natural Capital Investment Alliance and having formed a partnership with Oxford University to sponsor the first endowed professorship in sustainable finance.

She remarked how there is a lot of data that is needed to effectively measure risks around sustainability. "We actually feel that ESG is somewhat backward looking, as it is based on historical data, and we believe we need a forward-looking matrix," she said. "How then can you as an asset manager who bears the fiduciary duty to help your clients to invest better, analyse the impact of sustainability transition on your clients' portfolio? Well, it requires a lot of science, that

WHICH OF THESE STATEMENTS BEST REFLECTS YOUR OVERALL EXPECTATIONS FOR ESG-DRIVEN INVESTING IN THE NEXT 10 YEARS FROM THE VIEWPOINT OF PRIVATE WEALTH CLIENTS IN THIS REGION?



They will gradually allocate a modest portion of their AUM to ESG-driven investments

43%

They will gradually allocate a major portion of their AUM to ESG-driven investments

38%

They won't allocate much to this, it will remain quite marginal

10%

This will come to dominate virtually ALL selections of investment

9%

requires a lot of commitment, and that is the background for the Oxford initiative, which puts more real science behind analysing these risks."

She added that because of that Oxford and other efforts, the bank had been able to develop two concepts to help with constructing more sustainable portfolios. "We have come up with what we call the climate value impact, where we are identifying better scientific data and protocols to measure the impact of climate risk, which then translates to being better able to measure how we quantify whether a company is positively or negatively exposed to climate transition issues from a financial point of view," she explained. "And that in turn allows us to be more positively selective."

She said as this is forward-looking, this might select companies which are on the right trajectory in relation to decarbonising and to find the right companies that may not be low emitting today but are on the right track, or those companies that are on rapid decarbonisation trajectories.

She referred to a methodology that the bank calls the Portfolio Temperature Alignment Methodology. "We use that to measure the future temperature trajectories of companies, analysing a remarkable 23,000 companies in 120 countries to see where their future temperature trajectory is and identify their alignment to the Paris Agreement," she elucidated. "As you might imagine we are putting a lot of money and time behind these efforts."

It is all about alignment - sustainability and ESG should connect to the value systems of the wealthy clients and families

To help families address these issues, a banker observed that the bank tries to engage them in considering their value system, to think about what defines their core principles and whether they are then aligned with those as best as possible.

"We help them focus on where sustainability sits in that value system, how it sits in relation to their businesses, their portfolios, their connection to the communities," she explained. "And then we see how we can help them align across different stakeholders, and how it translates to common objectives and a family code of conduct as part of their overall approach to governance."

She explained that if the family can agree the right governance and internal decision processes, then they are well positioned in theory to expedite sustainable investment policies and risk management protocols within the bigger picture of their totality as a family.

"Some younger generations might be more committed to sustainable investments, but they need to back that up with data to help garner support from other family stakeholders and make a compelling case," she added. "They need to put this in context and help convince others in the family of the value, the returns, and contextualise the risks of not following this path. It will take time, but that type of approach is very valuable."





The sustainability revolution requires well-informed brigades to convince and to conquer hearts, minds and wallets

A guest reported that their bank refers to all these developments as part of a “sustainability revolution” and is making significant and constant efforts at internal training, not only for the bankers, but for everyone who works there.

“We want to convey this is a way of life that we want to embrace,” she said, “so even if I pop to make a coffee there might be a poster on sustainability. This is part of who we are and what we are becoming.”

She extrapolated from this to the client-facing initiatives, explaining the more the mindset at the bank is focused on these areas, the better they will all be at carrying this banner to every single client conversation. “I am not on the investment side,” she noted, “so my approach is more driven by the estate and legacy matters to help these clients connect all this to a value system approach. Of course, that flows through to their world of investments, their own businesses, and their public market and private market assets.”

She said her approach is to help these clients connect the dots between their actions and the future of the total family enterprise. “It is about seeing a continuous story line of greater sustainability and moderated risks,” she explained.

As wealth increasingly shifts to the younger generations, so too capital will flow to those entities that demonstrate their commitment to the world of sustainability and ESG

A guest remarked how the young are more willing to take risks, and those who have created and hold wealth are more risk averse, and this shows up in investment portfolios. “There’s really no exact definition of ESG, but what we find is that the different generations have different focuses and different goals for what they call impact,” he commented. “We are learning all the time, and this whole area is evolving constantly, but it’s really important that the topic continues, and ultimately this is going to drive investment decisions as corporations increasingly realise they want to have good ESG and other sustainability scores, as more investor money flows to them and that’s what’s going to drive change.”

Nevertheless, the whole universe of ESG and sustainability is still somewhat of a smorgasbord of variable standards and benchmarks

Another expert observed, however, that a major drawback is how this universe is also an alphabet soup of standards and benchmarks and there is a lot of confusion. “Education is therefore central to this,” she remarked. “This is a learning journey that the asset owners and the service providers have to go on together. But essentially for wealthy families, this is not just a product, but definitely more like a philosophy, a refractive lens on how the family wants to help make change. And it

is a unique journey for each family, as well."

Private wealth, private families and private assets are aligning more sustainably

Turning to family offices, a panellist noted that increasing of investments to the private market space, and within that towards those opportunities that have more impact or represent better sustainable values, or greater impact.

She explained that they were seeing more focus on impact investments within the private markets, such as directly relating to the climate, for example technology for data collection, and many new innovations coming through.

"We look at this from a commercial perspective, as impact and purpose can and indeed should also be driven very much by financial returns as well as impact," she reported. "The right investments within the private market space will be impactful and bring robust financial returns. And that is what we strive to offer to clients, whether it is around climate change, agriculture technology, gene technology, EV, energy transition and transmission, renewables, the circular economy, and so forth."

And she commented that ESG is included within investing sustainably, but not the whole story, by any means. "ESG is just one part of the bigger picture around sustainability and responsible investing," she explained. "One must determine the preferred strategies, whether it is ethical investing, or impact with finance first, or impact with social issues first. Different approaches suit different families, so we work together with these families in what

is essentially an advisory sort of partnership to see what is genuinely important to them and then how they want to express those views through their investments."

Wealthy families can take a variety of approaches to sustainability and ESG

Some families, a guest reported, like to focus on more traditional methods of giving back to communities and to the world, such as philanthropy and charitable giving, or might want to focus heavily on direct and deep impact, social impact type investments.

She explained that the older generations tend to look at sustainable investing more within the construct of the core business, looking at how they can make their business sustainable, how they can achieve long term value creation, and expedite sensible business succession.

"At the end of the day with the family businesses, they will be inclined to sustainability because sustainability means continuity and being able to thrive, preserve wealth and ensure success for the future generations," she stated. "And that is the motivation of the older or founder or second generations. They bring sustainability into their own operations and at the same time focus more externally on philanthropy and charitable efforts. Meanwhile, the nextgens are seeing the alignment of profit and purpose."

She reiterated the trend for all generations of many (perhaps most) wealthy families to adopt sustainability as core to their value system. "Ultimately, this comes

down to continuity of the family, the businesses, the wealth, the generations and the togetherness in the future," she said. "Each different generation might have a different perspective, different lenses through which to view all this, and different ways and strategies, different risk appetites to achieve results. But all within the same value system."

The days of sustainability being simply a nice, quaint concept are long gone, this is for real now

A panel member summed up the urgency and momentum around all these issues by remarking that not that long ago, we thought we were saving the world by planting a tree.

"It all seemed rather quaint and there was little urgency around these issues," she said. "But today, people are experiencing disasters on their own doorsteps, even in the developed world, whether it is climate change, heat waves, droughts, floods, coastal erosion, pollution, the demise of wildlife, or maybe there is no snow when they go skiing, or it is really too hot to sunbathe, so on and so forth. It is across the planet and there are dramatic and intensifying climate related impacts that we all experience."

And with that, she reiterated the value of values and action, as wealthy investors can take a lead in driving their own capital towards change and towards a better world. Moreover, as this shift becomes more seismic, investment returns will increasingly flow to where there is less risk of all types, and that means to more sustainable companies, and to those that shine bright in the world of ESG ratings, even if those still have far to go to become standardised and universally recognised. ■