



2010

# High Net Worth Individuals & Sustainable Investment

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## → Acknowledgments

We extend our thanks to Bank Sarasin and Highland Good Steward Management, LLC for sponsoring this second edition of Eurosif's study of the European High Net Worth Individual (HNWI) Sustainable Investment Market. We are also grateful to our distribution partners who helped disseminate the questionnaire across the EU. Our substantial base of Member Affiliates and the National Sustainable Investment Forums (SIFs) provided input into this study and continue to offer significant support of Eurosif's mission to develop sustainability through European financial markets. Finally, we wish to emphasise our appreciation to the number of individuals from private banks and family offices who responded to our questionnaire without which this study would not have been possible.

## → Distribution Partners

The Private Banking Group of ABBL (the Luxembourg Bankers' Association)

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# Foreword from Eurosif

It has been oft-repeated that the financial services sector is the root cause for the ongoing global crisis. Professionals in the sector like to speak of their search for uncorrelated assets but this crisis has revealed that when the core functioning role of credit is disrupted, almost all industrial segments and geographic markets act in a highly correlated manner – most economies are simply too interconnected now to be left unscathed by a severe financial shock. At the same time, global macroeconomic factors driving food shortages, water scarcity and infrastructure overload have only further highlighted the need for an effective and robust global financial services sector. Access to capital and effective uses of capital remain vital and necessary nutrients to develop and sustain economic growth while alleviating challenges ranging from climate change to poverty.

Against this setting, Eurosif's study addressing the European High Net Worth Individuals (HNWIs) Sustainable Investment Market shows that HNWIs are effectively navigating the crisis due to their focus on the incorporation of environmental, social and governance (ESG) issues. The 'smart money' has increasingly grown to embrace aspects of sustainable investing as a means to preserve capital and opportunistically earn above average returns. Since Eurosif's inaugural review in 2008, the HNWI Sustainability Market has grown and from the findings in this report, some of that growth is a specific reaction to the financial crisis. It would be schadenfreude for Eurosif to suggest that the sustainable investment industry needs financial crises in order to flourish; rather, it is more the case that the true merits of sustainable investing become even clearer when such a phenomenon occurs.

There are a number of interesting HNWI Sustainability trends you will find in this report ranging from drivers behind the interest in this type of investment, strategies employed by HNWIs and the migration from satellite to a core sustainable investment approach over time. Eurosif would like to thank the many HNWIs who agreed to meet with us to discuss their investments in this field as well as the wealth managers who answered our survey and provided us with assistance to understand their product and service offerings. In closing, this study would not be possible without the aid of our sponsors and for that, we are particularly grateful to Bank Sarasin and Highland Group Steward Management for their support of our efforts as Member Affiliates and Sponsors of the HNWI & Sustainable Investment Study.

Happy reading and many sustainable returns,

**Matt Christensen**  
Executive Director  
Eurosif

**Giuseppe van der Helm**  
President  
Eurosif

# Forewords from our Sponsors

## BANK SARASIN & CO. LTD

We live in an age in which urbanisation, population growth and economic development are posing an unprecedented challenge to the provision of basic resources such as infrastructure, electricity, water and healthcare. Supply shortages have become a dominant issue in today's world, as has the realisation that the achievement of true success in any industry depends increasingly on the sustainable management of limited economic, natural and social resources.

If there was ever any doubt about the existence of these trends, then it was certainly dispelled by the most recent financial crisis, when sustainable investments not only prevented many clients from incurring greater losses, but even enabled them to achieve real added value during this turbulent period. It is not without reason that the winner of the Nobel Prize in Economics, Joseph Stiglitz, recently commented that "sustainable investing is probably the most important and successful development in modern asset management." As market leader in the field of sustainable asset management, we at Bank Sarasin can only agree with this assessment. Our commitment as well as performance in both good and challenging times has convinced our clients of the merits of our investment approach: during the last five years, the volume of assets under sustainability management has quadrupled to over EUR 9.4 billion.

Sustainable asset management is no longer a specialist discipline that is only of interest to a small group of investors. Today, more and more investors view it as the basis for a forward looking investment strategy that incorporates a focus on value preservation. Against this backdrop, this study offers us an invaluable insight into the financial needs of European high net worth individuals (HNWIs) and their motives for selecting sustainable investments, thus providing the basis for further discussions about this important trend and its long-term impact on the finance industry.

**Dr. Burkhard P. Varnholt**  
*Chief Investment Officer and  
 Member of the Executive Committee of Bank Sarasin*



## Highland Good Steward Management, LLC

Since 2004, Highland Good Steward Management, LLC (HGSM) has been developing and promoting investment products for the benefit of responsible investors. Our philosophy and guiding belief is that capital should be allocated to companies who create value for the shareholders in their business affairs and promote environmental protection, social good, and corporate governance excellence as part of their value proposition. In this continuing effort, we have always relied upon Eurosif to help us keep our bearings.

For this reason, HGSM is very proud to be a sponsor of Eurosif's study of the European High Net Worth Individual Sustainable Investment Market. Like the 2008 study, we find the current version to be an excellent source of up-to-date information.

Perhaps just as importantly, its findings confirm some of the strategic decisions we have made in our own company. An example of this is the reference to the "...growing consensus that integration of ESG issues is an enhanced financial discipline rather than a style or an asset class of its own." At HGSM, we also believe ESG integration is a financial discipline and not a standalone product. Fortified in this belief, we work with the best asset managers we can find to fully integrate our ESG policies across a multitude of asset classes, strategies, and products.

I will close by referencing a second quote from the study: "An overwhelming majority of respondents believe that the crisis will have a positive impact on sustainable investment." As a sponsor of this study, we are honored to have an opportunity to actively promote this hopeful prospect. We are comforted that, as we continue to make these points in our business, we are supported in this belief by Matt Christensen, Eurosif, and all of our member affiliate colleagues in the Eurosif organisation.

**William T. Mills III**  
*Managing Partner  
 Highland Good Steward Management*



# Executive Summary

High Net Worth Individuals (HNWIs) increasingly look towards sustainable investment in order to combine financial aspirations with sustainability interests. This second study on the European HNWI and sustainable investment market shows that the share of sustainable investments in HNWIs' portfolios has increased since the beginning of the current financial crisis even as overall HNWI wealth has slightly contracted in the same time period.

The survey shows that 94% of wealth managers and 75% of HNWIs think the financial crisis has had a positive impact on the performance of their sustainable investments. This suggests that **sustainability represents a good investment opportunity in times of crisis.**

Eurosif approached approximately 420 organisations for this survey, expanding beyond the initial group surveyed in 2008. Compared to the earlier study, family offices were more willing to discuss their sustainable investing strategies; conversely, wealth managers were slightly more hesitant to disclose information to Eurosif as private banks appear to be restructuring their internal processes and product offerings as an outcome of the crisis.

A key finding from the study is that sustainable investment is now largely perceived by the European HNWI population as a financial discipline rather than an investment style, with specific knowledge of ESG (environmental, social and corporate governance) issues necessary in order to be successful. This growing perception of sustainable investing as a financial discipline may help explain why the market is growing even during a difficult period in the financial markets. Eurosif estimates the 2010 European HNWI sustainable investment market to be approximately €729 billion, representing approximately 11% of European HNWIs' portfolios as of December 31, 2009. This is a growth rate of 35% over the two-year period since the data was previously collected.

A behavioural trend that this study confirms is that HNWI investors tend to move from a satellite to core approach

over time in the adoption of sustainable investment in their portfolios. Since the previous study, 'toe-dippers', with only marginal sustainable investments (<1%) as a part of their portfolios, have migrated into 'shallow water swimmers' (1%-20%), now approaching 60% of the surveyed respondents. Eventually, some of this group will migrate still further upstream to become core sustainable investors; currently, over 10% of the HNWI respondents can be classified as 'pure sustainable players' – or core – with more than 50% of their portfolios invested in sustainable products across all asset classes.

The motivating factors behind HNWI interests in sustainability as an investment focus vary in relation to the origin of their wealth. Our research indicates that the inclination towards sustainable investment from inherited wealth stems from a wider sense of responsibility towards society, while the entrepreneurial wealth band seeks sustainable investments as a means to foster and develop a green economy. Both wealth bands share a belief that this form of investment does not sacrifice financial returns. In fact, the survey points out that sustainable investment is clearly no longer seen as an alternative to philanthropy with less than 10% of HNWIs stating they are filling a philanthropic need when investing sustainably.

Significantly, the findings from the research show that wealth managers will benefit from understanding these motivations and aspirations in order to refine their sustainable investments offerings for their HNWI clients. **The onus is now on retaining existing clients who are asking for more variety and depth in sustainable investment options from their managers.** Confirming our 2008 finding, 78% of family offices and HNWIs say that sustainable investment will increase with the generational transfer in the family office.

Eurosif hopes that this study will further contribute to a better understanding of the trends in sustainable investment from HNWIs and help to make sense of a market that will undoubtedly contribute to shape our financial future.

# Background



## → Sustainable Investment – A Definition

Eurosif defines Sustainable Investment<sup>1</sup> as an investment philosophy that combines investors' financial objectives with their concerns about Environmental, Social, and Governance (ESG) issues. Sustainable investors expect market rate returns over the medium to long term time horizon, and ESG issues are increasingly important factors in determining long term investment performance. Representing an increasingly significant share of the European institutional financial market, sustainable investment has attracted the attention of mainstream players that range from large public and private investors, policy makers, multinational companies and the greater public. Sustainable investment is applied increasingly to all asset classes (stocks, bonds, public debt, private equity, etc.) even though it was originally focused mostly on publicly listed companies.

Examples of sustainable investment strategies implemented by High Net Worth Individuals (HNWIs) that will be discussed in greater detail within this survey include:

- **thematic investing** based on sustainable issues (clean energy, water, climate change, lifestyle, etc.);
- **community investing** in underprivileged economic and geographic areas;
- **screening** of the portfolio with *positive screening* based on investing in companies with a commitment to responsible business practices and *negative screening* focused on the exclusion of sectors such as weapons, tobacco, etc.

Sustainable investment will continue to evolve in various ways, and under various names. For example, the term **impact investing** has been recently coined in an attempt to define this growing market (see case study below). Once again, this Eurosif study on HNWIs and sustainable investing includes all forms of its evolution provided that they embrace market rate returns.

### CASE STUDY

#### Impact Investing, Another Perspective on Sustainable Investment<sup>2</sup>

Impact Investing is defined as "actively placing capital in businesses and funds that generate social and/or environmental good and a range of returns, from principle to above market, to the investor" (*Investing for Social and Environmental Impact*, The Monitor Institute, 2009). Impact investments are only considered to be so when the social and environmental benefits that result are intentional.

The main actors in impact investing are high-net-worth individuals, institutional investors, and corporations or foundations. Impact investments range across all asset classes with the majority of investors seeking market returns. Nevertheless, depending on asset class and degree of emphasis on social and environmental performance metrics, they can be divided into two general categories:

1. **Financial First Investors:** This group seeks to optimise financial returns with an impact floor. They are not willing to accept lower than market returns as a cost to optimising social or environmental goods, although they still make a positive impact. Examples: Triodos Renewables Europe Fund and J.P. Morgan Urban Renaissance Property Fund.
2. **Impact First Investors:** This group seeks to optimise social impact with a financial floor. They are willing to accept the cost of a lower than market return if it results in a greater social or environmental gain. Examples: Charity Bank and Ignia.

Impact Investing has attracted significant interest from family offices and HNWIs, and due to the nascent nature of the impact investing market as well as specific constraints faced by family offices, a number of challenges exist to a broader involvement of family offices in this area.

Eurosif is currently supporting a global research project conducted by Dr. Julia Balandina-Jaquier in partnership with Bank Sarasin, SIFEM and Kaiser Ritter Partner. It aims to identify these challenges and develop a range of solutions covering both the structuring of impact investing activity by family offices as well as the structuring of the impact investment products to match the objectives and limitations of family offices and HNWIs. This research will help develop an efficient impact investing market and increase flow of capital towards investment strategies that provide solutions to social and environmental issues by using market-based mechanisms. To learn more about this piece of research, visit [www.eurosif.org](http://www.eurosif.org)

<sup>1</sup> Also called Socially Responsible Investment (SRI) or Responsible Investment (RI). In the context of the HNWI market, we think the term "Sustainable Investment" is more appropriate and it will be used throughout the report, although some mentions of SRI will occasionally be cited. A glossary is available at the end of the report.

<sup>2</sup> Material for this case study was derived from Eurosif research and "Investing for Impact: Case Studies Across Asset Classes", Bridges Ventures and The Parthenon Group, March 2010.

A key challenge for sustainable investors is in investing for the long term while facing short-term pressures. There is rarely a simple answer to the complicated puzzle of combining money-making with 'sustainability' criteria. For example, in evaluating a company's ESG issues, some investors will find the environmental performance to be the key input while others will point to the company's labour practices as the critical issue. **As you will read in this study, it is this sort of complexity that makes sustainable investment a dynamic field where ESG considerations, properly integrated, can lead to financial outperformance.**

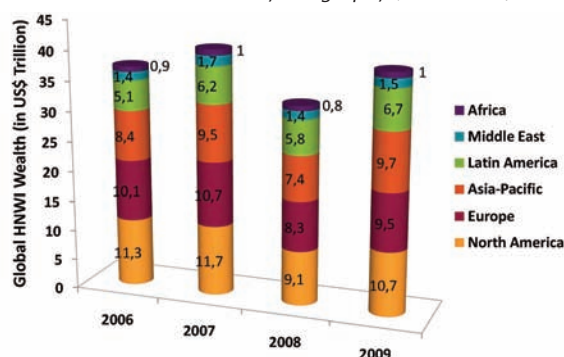
### ➔ Impact of the Financial Crisis on High Net Worth Individuals (HNWIs)

Prior to discussing the data, it may be worth providing some context to new readers of this study. The first Eurosif report on HNWIs & Sustainable Investments, published in the autumn of 2008, showed that HNWIs were increasingly open to sustainable investments. At the time, Eurosif estimated that sustainable investments represented approximately 8% of European HNWIs' portfolios as of December 2007, and predicted that this share would increase to 12% by 2012, surpassing the €1 trillion mark.

Eurosif did not predict that the world's worst financial crisis in decades would result in a wealth peak of the High Net Worth Individual (HNWI) market in 2007, the same year as the data collected from the first Eurosif HNWI study; the European population of HNWIs alone was reported to have dropped by almost 15% in 2008. However, 2009 saw a small recovery in both size and wealth of HNWIs as highlighted by the World Wealth Report 2010, published by Merrill Lynch and CapGemini. The European HNWI population is now estimated to be 2.9 million in 2009, with a total wealth of \$9.5 trillion (€6.6 trillion). This represents a net decrease of 11% since 2007 when Eurosif first reviewed this market.

**FIGURE 1**

*HNWI Wealth Distribution by Geography (2006-2009)*



Source: 2010 World Wealth Report, Capgemini & Merrill Lynch.

While Europe and North America are the historically established HNWI markets, Figure 1 shows that the areas of future growth for the HNWI segment are emerging economies in the Asia Pacific region, Middle East and Latin America. Asia Pacific HNWI wealth surpassed European HNWI wealth in 2009, with \$9.7 trillion (€6.7 trillion) in assets, and is on track to become the leading region of HNWI capital within two to three years. Nevertheless, the European HNWI segment is still considered a vanguard for many trends, and sustainable investing is one of these. Europe has led other geographic regions in the development of innovative strategies around sustainable investing as outlined in Eurosif's inaugural study, and in that sense, it is likely that trends in HNWI and Sustainable Investing will eventually spread to emerging markets as well.

### ➔ HNWIs & Sustainable Investment: Goals of Study

With the gradual recovery of the financial markets, Eurosif was eager to observe HNWIs' current perspective on sustainable investments. Would European HNWIs consider the crisis as an opportunity to invest more sustainably? Or would they want to revert to more traditional forms of investment? How has the market penetration level of sustainable investments changed since the crisis? What of Eurosif's projected growth for the market?

Eurosif's aim is to complement its earlier study and add more depth to information currently available in the market on European HNWI and sustainable investing trends. Eurosif recognises and applauds the growing number of initiatives examining this segment, some as by-products of specific studies on HNWIs, while others through the lens of sustainable investment. Information available includes studies by Capgemini & Merrill Lynch, Boston Consulting Group,<sup>3</sup> Booz & Company,<sup>4</sup> and the Network for Sustainable Financial Markets.<sup>5</sup>

This is the **second comprehensive, European-wide study** to examine the sustainable investment strategies used by HNWIs in their asset allocations and the extent to which they integrate ESG issues into their investment decision-making and ownership practices. The goals of this European-focused report are to:

- Provide an updated picture of the overall European HNWI sustainable investment market,
- Compare and contrast findings between 2008 and 2010,
- Unveil any discrepancies that may exist between intermediaries and final clients in their discussions and perceptions about sustainable investment,
- Identify innovative ways to respond to the growing demand and,
- Discuss obstacles and challenges for HNWIs and wealth managers.

<sup>3</sup> The Boston Consulting Group, "Global Wealth 2009 – Delivering on the Client Promise", 2009.

<sup>4</sup> Booz & Company, "Private Banking After the Perfect Storm", 2010.

<sup>5</sup> Network for Sustainable Financial Markets, "Wealth management in a Post-GFC World", May 2010.

# 2. Methodology and Scope of Research

Eurosif surveyed two different segments of this market: wealth managers (supply side) and HNWI (demand side) in Europe. By surveying both segments, Eurosif was able to assess the current understanding of 'sustainability' between the two camps and gauge if there was a latent demand for sustainable investments by HNWI untapped by wealth managers.

## → Methodology

Eurosif distributed a survey<sup>6</sup> of approximately 30 questions<sup>7</sup> by email between April and June 2010. A series of follow up phone interviews was conducted for clarification and research for case studies. The answers in this study reflect the self-selection inherent among those who chose to respond; respondents to the survey tended to be either involved in sustainable investing or interested by the topic. Nevertheless, a number of wealth managers surveyed did not offer sustainable investments offerings, while some family offices declared they did not yet ask for such products - they were interested in answering the survey because they view sustainable investment as a future area of growth.

As with Eurosif's first study on HNWI published in 2008, many of the graphs in this report separate answers from HNWI and private banks so that readers can tease out some of the differences and similarities between demand and supply side within the sector. Unless otherwise specified, the figures and averages discussed in the report refer to the whole sample of respondents (HNWI and wealth managers combined). Additionally, and where appropriate, readers will find illustrations that compare the 2008 and 2010 data.

## → Scope

The scope and reach of target market remain important factors for the clarity and credibility of this research. In this second survey, Eurosif retained a similar scope in its research on the HNWI segment. For example, venture philanthropy is *not included* because sustainable investors expect market rate returns, while this may not be the case for philanthropic investors. Reaching a significant number of European HNWI and wealth managers within a limited time frame is also a key factor. Eurosif approached approximately 420 organisations for the survey, expanding beyond the organisations surveyed in 2008, reaching out to more individuals, family offices and wealth managers. The assistance of various distribution partners (study

sponsors, associations of private banks, networks of family offices, etc.) was also critical in disseminating Eurosif's survey to organisations or individuals that usually shy away from exposure. This approach has helped Eurosif to cover an important portion of the existing European HNWI & sustainable investment market.

Interestingly, family offices were more willing to speak with Eurosif about their growing interest in sustainability than in the previous survey. Conversely, wealth managers were more hesitant to discuss their ESG offerings with Eurosif this time around. Some wealth managers mentioned that it was their company policy not to participate in surveys, which in most cases, was a new policy developed post-crisis. Further discussions revealed that many wealth managers are currently reformulating their ESG offerings due to an increased demand for more transparent and easily understandable products.

It is clear from this year's survey that the financial crisis has created significant repercussions on the structures and business models of wealth managers. As a result, they are still adapting internally to the need for new processes and products to meet the changed market environment. Eurosif anticipates that our next survey will show wealth managers in a different light as they will have enhanced their service offerings in order to better meet family offices' demand and the requirements of sustainability related criteria.

<sup>6</sup> See full questionnaire in the appendix.

<sup>7</sup> The 2008 set of questions were reviewed and updated in order to better account for the latest market trends. This was done very carefully in order to make this year's findings comparable to the ones from 2008.



# Market Receptivity

## ➔ New and Growing Interest Post-Crisis

The HNWI sustainability market growth occurs in cycles. Eurosif analysis identifies four stages of this growth. The previous study mentioned three of those stages, and this survey found that the financial crisis has resulted in a fourth stage.

**Stage one:** From 1988 to 2001, European players started to offer sustainable services sporadically and primarily due to bespoke client demand. In some cases, these early pioneers became sustainable investment specialists and built track records, refining and enhancing their offering along the way.

**Stage two:** Following the 2001/2002 dotcom crash and series of scandals (Enron, Parmalat, Tyco) and through 2004, sustainable service offerings increasingly became institutionalised. In particular, there was an increase in demand for investments taking into consideration issues such as corporate governance or environmental impacts.

**Stage three:** From 2005 to 2008, thematic investing, through both public and private equity, expanded the number of product offerings as well as augmenting the definition of sustainable investing by bringing newcomers into this field, sometimes from large mainstream banks. The year 2007 was a peak year for the thematic investment trend but this area has remained popular in spite of the recent market turbulences.

### -----2008 FINANCIAL CRISIS-----

**Stage four:** The global financial crisis and the recent BP oil spill in the Gulf have made ESG issues an important factor of fund management for many HNWI across their portfolios. No longer is sustainable investing about publicly listed companies or thematic investing, but the current stage concerns integration of ESG in all asset classes. On the demand side, HNWI are cautiously returning to the financial market, and sustainable offerings can now be seen as a solution to past, sometimes irresponsible types of investment. On the supply side, the private banking sector is undergoing major structural changes and preparing for tougher government regulations (for instance, the revised EU Markets in Financial Instruments Directive in Europe).

## ➔ Respondents' Organisational Culture

The responding organisations were split between those with a culture of 'full and long time support' for sustainable investment and those who have 'mixed feelings' about this type of investment. The former often held the view that sustainable investing should be a 'core' part of a portfolio while the latter were increasingly of the belief that good fund management should naturally integrate the most important ESG risks. In discussions with family offices and private banks, Eurosif established that where there is a culture of support for sustainable investing within the organisation, integrating ESG criteria becomes an important part of fund management. In fact, 30% of the respondents identified themselves as long-time supporters.

Some family offices, expressed a strong interest in sustainable investment opportunities even if they were new to the subject matter. They were eager to engage in our survey, either by e-mail or phone, but had limited data to provide as they were yet to set up sustainable investment strategies within their organisations. These **knowledge seekers** represent the newest group to immerse themselves in a sustainable investing culture as a direct result of the financial crisis and are now in a capacity-building phase, gathering information and aggressively seeking innovative means to develop the next generation of ESG strategies.

## ➔ Perceptions of Sustainable Investment

In our previous study, demand (HNWI) and supply (wealth managers) differed in their perceptions of sustainable investing, but according to the latest survey, this 'perception gap' has only widened in 2010. The majority of HNWI perceive sustainable investment as a financial discipline with specific knowledge of ESG issues necessary in order to be successful. Wealth managers favour sustainable investment as an investment style (along with active/passive, growth/value and other styles). More revealingly, 26% of wealth managers still consider sustainable investment as an asset class in itself, while it is not an asset class for any of the surveyed HNWI. These findings reflect the evolving nature of the market. The emphasis on 'investment style' as

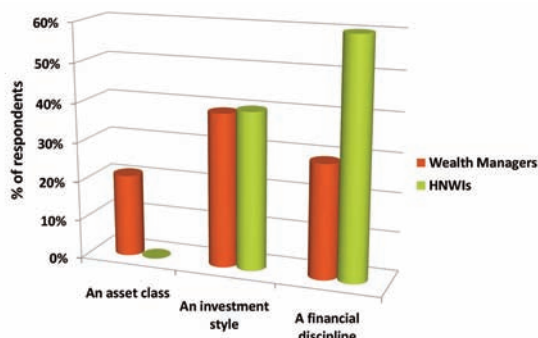
**'Sustainable offerings can now be seen as a solution to past, sometimes irresponsible types of investment'**

## 'The majority of HNWI's perceive sustainable investment as a financial discipline'

an answer is directly related to the rapid growth in thematic investing during the past five years. Wealth managers have embraced thematic investing and developed a number of products to cater to this demand, as it is perhaps the easiest form of ESG consideration to service. The HNWI response reflects a growing consensus that integration of ESG issues is an enhanced financial discipline rather than a style or an asset class of its own.

**FIGURE 2**

*Divided Perceptions Between HNWI's and Wealth Managers*



### → Typology of Investors

For those interested in data mining, the HNWI market proves an interesting challenge. While there is not a 'typical' sustainable HNWI investor, there are some trends that the 2008 and 2010 surveys confirm. Respondents were asked whether there is a difference in HNWI's interest for sustainable investment according to their age, gender, wealth origin and wealth bands.

The younger generation of wealth owners are more inclined to invest sustainably. One wealth manager claimed that "younger clients seem to be more open and see it more as an opportunity." One family office representative provided an interesting view on sustainable investors of the future:

**"The children of recent generations seem to have much more awareness of the world surrounding them. At twenty-five years of age, they have already travelled extensively and often develop an interest in combining their travel with some sort of**

**positive impact or contribution. So, for example, they might want to travel to South America and play a role in the preservation of the rainforest. In that sense a seed is planted early on in their experience that shapes their life perspective. Later, when they become stewards of family wealth, this perspective is naturally incorporated and integrated into a sustainable investing approach as a follow-up to their earlier, more emotionally-led activism."**

As such investors arrive on the market in the next 10 to 15 years, Eurosif predicts that behaviour with regards to sustainable investment will be significantly different from today. Sustainable investment will represent the logical incarnation of a set of values, and offer a more appropriate combination between families' wealth imperatives and sustainability aspirations. It is for this reason that even elder HNWI's are also increasingly coming to sustainable investments, feeling a "sense of responsibility towards younger generations", a surveyed wealth manager states.

The origin of wealth also plays a defining factor for all respondents, with varying rationales for sustainable investments. As one wealth manager summarises,

**"for the inherited wealth band, sustainable investments flow from a wider responsibility towards society; for the entrepreneurial wealth band, sustainable investments offer opportunities for a green industrial revolution."**

Again, the typology plays an important role in understanding how to tailor products and services to the different motivations of these segments.

Previously, it appeared that women showed a keener interest in sustainable investment. In order to gain further insight into the gender factor, Eurosif subsequently introduced a question about the final decision-maker of sustainable investments for family offices in the 2010 survey. Most family office respondents believe that on the topic of sustainable investing, women are key decision-makers, illustrating the substantive role that they play in both introducing and supporting sustainable investing. This finding further resonates with a report compiled by the

## 'Sustainable investment will represent the logical incarnation of a set of values, and offer a more appropriate combination between families' wealth imperatives and sustainability aspirations'

Wilmington Trust and Campden Research, looking at women and their wealth: "this generation of women are actively engaged in the oversight of and choices about their assets."<sup>8</sup> There is clearly a correlation between women and sustainability; further research would be interesting in this space.

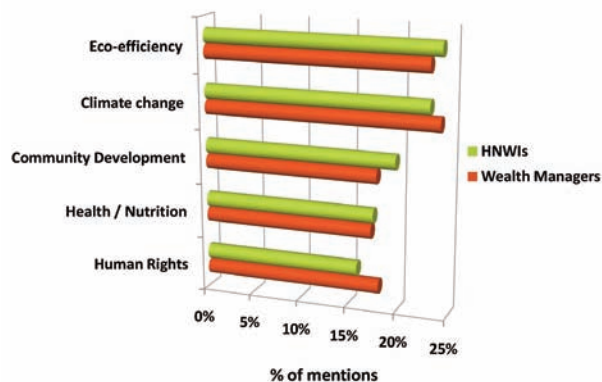
### → Sustainable Issues

When assessing market receptivity in 2008, the most important sustainable issues for all respondents were climate change and eco-efficiency<sup>9</sup>, followed by health & nutrition. Moreover, HNWI's and wealth managers' top priorities were diverging. For instance, eco-efficiency, health & nutrition and community development were more important for HNWI's than for wealth managers. On the other hand, wealth managers saw climate change and human rights as being the top concerns for HNWI's.

In 2010, the picture has evolved: climate change and eco-efficiency still dominate the sustainability agenda for both HNWI's and wealth managers, with community development, health & nutrition and human rights issues gaining momentum across the board. Overall, the perception of sustainable issues now looks more aligned than in 2008. This is not to say that HNWI's and wealth managers now see eye-to-eye on sustainability. Rather, it seems that some wealth managers have played it safe by systematically mentioning all these issues as of interest to HNWI's.

**FIGURE 3**

*Importance of Sustainable Issues*



<sup>8</sup> Wilmington Trust/Campden Research, "The New Wealth Paradigm – How Affluent Women Are Taking Control of Their Futures", Women & Wealth Research, p. 9, 2009.

<sup>9</sup> The climate change issue has a wider remit than eco-efficiency as it also includes finding solutions to alleviate the consequences of global warming.

# Market Size and Growth

## → Sustainable Investment in the Portfolio: Core vs. Satellite

One surprising finding in the 2008 survey was the trend for investors over time to move from a satellite to core approach in the adoption of sustainable investment in their portfolios. Eurosif has subsequently dubbed the satellite investors in this field as 'toe-dippers' as they often dabble in sustainable investment. Over time they may wade further into the water and eventually become core sustainability investors as they become more comfortable with an investment approach of integrating ESG issues across all their asset classes.

Post-crisis, as Figure 4 shows, this trend has strengthened. The 'toe-dippers', with only marginal sustainable investments (<1%) as a part of their portfolios, now represent slightly less than a quarter of the respondents. Overall, the share of sustainable investment is being redistributed to the 'shallow water' segment (1%-20%) that now approaches 60% of the surveyed respondents. Among those active in sustainable investing, over 10% of the respondents can be classified as "pure sustainable players" – or core – with more than 50% of the HNWI's portfolio invested in sustainable products.

**FIGURE 4**  
Share of Sustainable Investments in Total HNWI Clients' Portfolios: 2009 vs. 2007

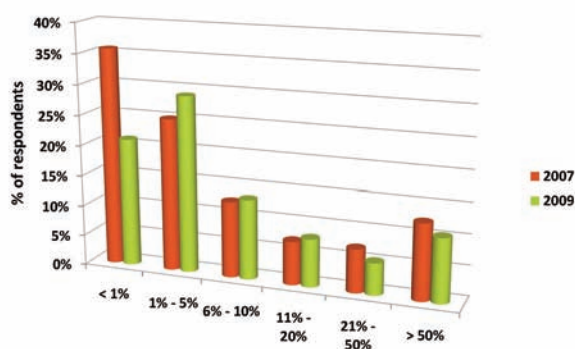


Figure 4 focuses on the depth of sustainable investing as a percentage of total investment assets, but another important area Eurosif investigated again was breadth across the client base. One may assume a wealth manager with a high amount of sustainable investments but only due to a few deep-pocketed clients. However, this is still not the case, as sustainable investments emanate from a wide HNWI population base. For 55% of responding managers (65% in 2008), the largest sustainable HNWI client represents less than 5% of their institution's total sustainable investments.

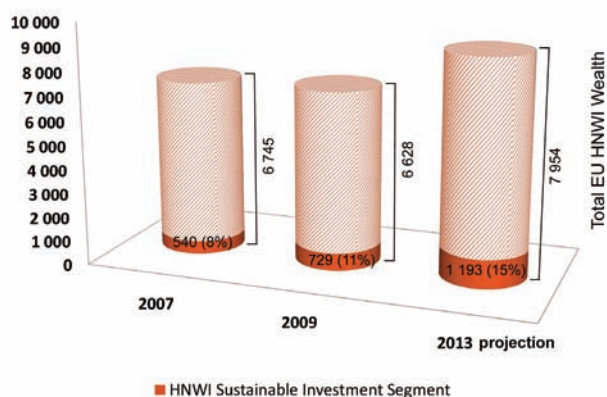
## → HNWI Sustainable Investment Assets

In 2008, some respondents did not disclose the amount of their sustainable investment assets. In many cases, this was because their reporting system did not allow them to quantify this type of investment. Interestingly, in a post-crisis environment, the 2010 survey respondents who chose not to disclose this information cited confidentiality reasons rather than reporting system factors. Eurosif research suggests that in the wake of the financial crisis, with major structural changes occurring in the sector, wealth managers in particular are less transparent about their assets in general, and sustainable assets specifically.

Nevertheless, many respondents still discussed their sustainable investment portfolios and assets under management with Eurosif. Based on the findings from our second survey, market research and previous studies, Eurosif estimates the **2010 European HNWI sustainable investment market to be approximately €729 billion (€540 billion in 2008)**. Notably, the sustainable investment penetration rate of 11% is higher than previously anticipated, even though total European HNWI financial wealth decreased from 2007 to €6.6 trillion.<sup>10</sup>

Based on Eurosif growth trends in the market and forecast adjustments following the financial crisis, we predict that by 2013, the share of sustainable investments in HNWI's portfolios will have increased to 15%. Extrapolating on projected wealth of European HNWI's (€8 trillion),<sup>11</sup> this means that the European HNWI sustainable investment market will be just below the €1.2 trillion mark in 2013.

**FIGURE 5**  
European HNWI Sustainable Investment Market – (€billions)



Source: Eurosif research, Capgemini/Merrill Lynch World Wealth report 2009 and 2010

<sup>10</sup> Capgemini & Merrill Lynch, "World Wealth Report 2010", 2010.

<sup>11</sup> With constant exchange rate as of December 31st, Capgemini/Merrill Lynch, "World Wealth Report, 2009".

## Eurosif estimates that sustainable investments represent approximately 11% of European HNWI's portfolio as of December 31st, 2009

### → A Moderate Increase in 2009...

73% of respondents saw an increase in HNWI interest for sustainable investment in the last 12 months.<sup>12</sup> On average, respondents estimated that the growth for this period was 23%, which is less than in 2007 (estimated 50% growth). Through phone interviews, Eurosif was able to confirm that respondents see this growth slowdown as the effect of the financial crisis. It may also be that wealth managers and HNWIs are more cautious with their forecasts as well as their external communication practices.

### → .. Mostly Driven by Market Demand

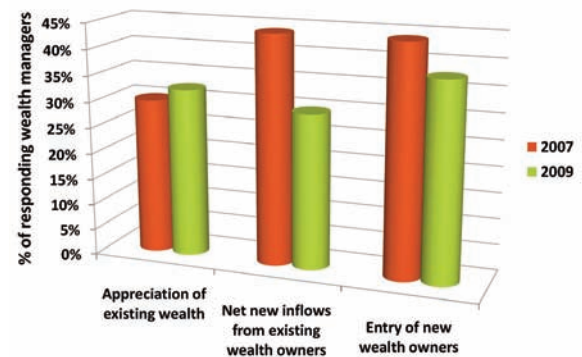
This growth is still principally driven by market demand rather than suppliers' push. This survey confirmed that **demand from active and convinced HNWI clients has often been the initial starter for wealth managers to develop a sustainable services offering.** Eurosif found that private banks tend to pursue passive rather than pro-active strategies around sustainable investing. A large majority of respondents do not yet offer these products systematically to their HNWI clients (for example, few include sustainable investment questions in their "KYC - Know your Customer" questionnaire); the products are 'on the shelf' in case there is a client request. This is changing as some wealth manager respondents indicated that they are in the process of refining their sustainable investment offering, as HNWI clients are increasingly asking for it.

### → Catering for New and Existing Wealth Owners

As illustrated in Figure 6, the increase of sustainable investment assets held by wealth managers is still primarily due to the entry of new wealth owners (38% of responding wealth managers). The interest from existing wealth owners is slightly increasing: from 30% to 32%. Eurosif stated in 2008 that offering sustainable investments in a wealth manager's portfolio was a means to capture new clients; the priority may now shift to retaining existing clients who are asking for more sustainable investment options from their managers. As a result, wealth origin becomes less of an issue in terms of identifying target audiences for sustainable investments as these will cut across wealth origins. In that sense, wealth managers are still reactive and slow to move.

FIGURE 6

Increase of Sustainable Investment Assets Due to: (multiple answers possible)

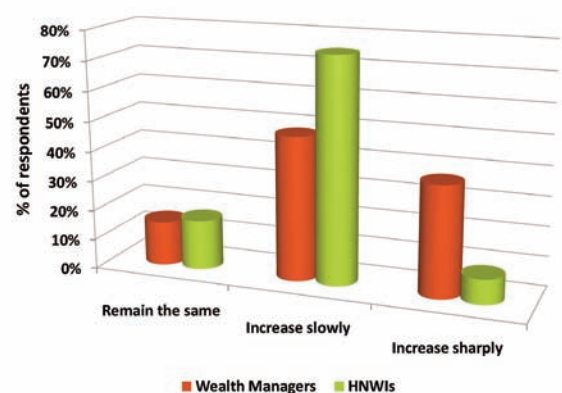


### → A Promising Future

In 2008, a majority of respondents thought the market would increase, divided between those who thought it would increase slowly (56%), and those who believed it would increase sharply (32%). In 2010, the growth forecasts are very similar: 54% of respondents think the market will increase slowly and 30% think it will increase sharply. No respondent estimated that the market would decrease, and 16% (up from 10% in 2008) thought it would remain the same.

FIGURE 7

In the Next Three Years, Interest for Sustainable Investment will:



Confirming a finding from the earlier study, 78% of family offices and HNWIs say that sustainable investments will increase with the generational transfer of the family office and no one thought it would decrease.

<sup>12</sup> Respondents were surveyed from March to June 2008.

# 5 Sustainable Investment Products

## → Strategies Used

There are a number of different strategies available to interested sustainable investment practitioners, which are not necessarily exclusive to one another. They include:<sup>13</sup>

1. Thematic investing
2. Screening
3. Community Investing

Microfinance is also becoming a strategy for HNWI's but it was not included in this survey because traditionally it did not meet the market return requirement of our sustainable investment definition. This is changing and where explicitly mentioned by respondents in our survey as part of their sustainable investment strategy, it has been included as 'Other' in Figure 8.

### Thematic investing

A new generation of SRI funds continues to emerge, driven by investors' focus on certain sustainability themes in the market where they see strong growth. Stimulation of technological improvements, the creation of new markets through government regulations that reward sustainable practices (such as carbon markets) and an increased spending on health, quality of living and education from both governments and consumers all present investment opportunities.<sup>14</sup> Funds focusing on themes such as water, climate change, renewable energy, eco-efficiency or health and nutrition have multiplied since 2008.

### Screening

**Positive screening** is the selection, within a given investment universe, of stocks of companies that perform best against a defined set of sustainability or ESG criteria. The most popular form of positive screening is called 'Best in Class,' where stocks are selected within each sector of a given index, thereby retaining sector balance within the investment universe. For example, a Best in Class fund might contain criteria which enables it to invest in the oil and gas sector, but will only invest in those oil companies

which are 'best in their class' as they have a better record on the environmental and social issues than others in their sector.

**Negative screening** (also called exclusion) consists of barring investment into certain companies, economic sectors, or even countries for ESG related reasons. The 'norms-based screening' approach, often grouped together with negative screening, involves monitoring corporate complicity with internationally accepted norms, such as the UN's Global Compact, Millennium Development Goals, ILO Core Conventions and OECD Guidelines for Multinational Enterprises.

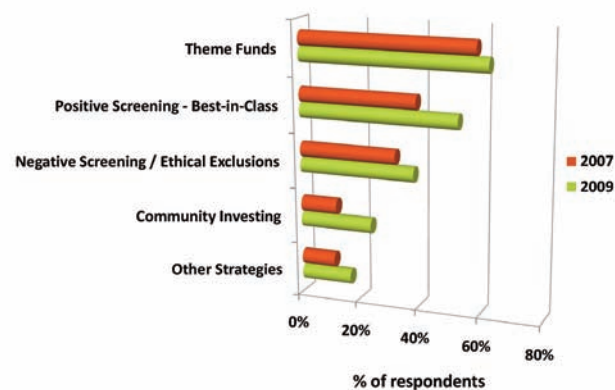
### Community Investing

We define community investing as capital from investors that is directed to communities under-served by traditional financial services. It provides access to credit, equity, capital, and basic banking products that these communities would otherwise not possess, while matching market rate return expectations. A typical example would be a venture capital fund whose investments reflect its mission to harness the entrepreneurial spirit in under-invested communities to stimulate economic growth and job creation.

Figure 8 shows the different strategies utilised for HNWI sustainable investments. **Thematic investment remains the strategy most often employed** by respondents that do practice sustainable investing.

FIGURE 8

*Sustainable Investment Strategies Used (multiple answers possible)*



Note: The "other" category includes Microfinance Funds and Engagement.

**'78% of family offices and HNWI's say that sustainable investments will increase with the generational transfer of the family office'**

<sup>13</sup> Another SRI strategy, engagement, was not included in our questionnaire as this is a practice mainly used by institutional investors although a couple of respondents mentioned it in the survey.

<sup>14</sup> Henderson Global Investors, *Thematic Investing* article, September 2007.

## 'Community investing is the fastest growing strategy since 2008'

As shown in Figure 8, thematic investment is still the strategy most often employed by respondents with 62% of respondents with sustainable investment assets saying they practise this type of investment (compared to 58% in 2008). Over 20% of respondents mentioned community investing, making it the fastest growing strategy since 2008 (50% growth).

### → A Sustained Enthusiasm for Thematic Investments

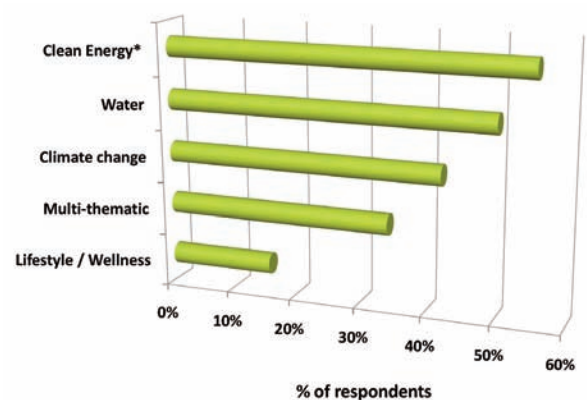
Thematic funds may focus on sectors or issues such as the transition to sustainable development and a low carbon economy. Thematic investing has experienced tremendous growth in the last five years – new funds investing in water, energy efficiency, renewable energy and more recently, climate change, were launched and in some cases, have often delivered, financial out-performance for investors.

In fact, thematic investing has continued to attract business among HNWI's despite the financial crisis. A recent report on climate change investing by DB Climate Change Advisors confirmed that both HNWI's and Ultra-HNWI's strongly allocate to green investments, mostly clean and alternative energy sectors,<sup>15</sup> across all geographies. This study also shows that HNWI's in Europe can allocate as much as 20% of their portfolios to green investments. In terms of actual themes, Figure 9 details those most favoured by our surveyed HNWI investors, with clean energy and water being at the forefront. Given the

significant importance of the 'multi-thematic' choice, we believe that this area is going to grow.

**FIGURE 9**

*Breakdown of Themes Used (multiple answers possible)*



*\*Theme definitions*

*Clean energy: companies whose new technologies and services help ensure the most efficient and environmentally-friendly use of energy.*

*Climate change: companies offering products and services that reduce or delay climate change, or help to alleviate the consequences of global warming.*

### CASE STUDY

#### Subsidies for the 'Green Sectors,' the Example of Solar Power <sup>16</sup>

As mentioned in a McKinsey sector study, government subsidies have played a prominent role in the growth of solar power. For instance, producers of renewable energy in the United States received tax credits and Germany requires electricity distributors to pay above-market rates for electricity generated from renewable sources. Government subsidies have their role to play in the uptake of the green sectors. The current financial context bodes well for government intervention in this segment and the choice of economic instruments (tax on 'dirty' sectors and/or subsidies for 'green' sectors) will favour the shift towards a more sustainable development model. It will further boost the segment following signs of deflation around the early excitement for thematic investment. Even though there is concern from the market about the role of subsidies, and more generally about regulatory intervention, Eurosif believes that feed-in tariffs and subsidies will be a means to bring economies of scale to these new sectors, as subsidies have also enabled traditional sectors like oil and gas, utilities, aviation and telecommunications to prosper.

<sup>15</sup> DB Climate Change Advisors, "Investing in Climate Change", 2010.

<sup>16</sup> The McKinsey Quarterly, "The Economics of Solar Power", June 2008.

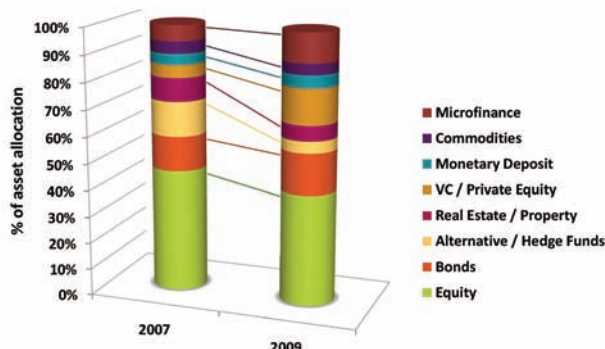


# Allocations

## → Asset Allocation

In terms of sustainable investment asset allocations, equity (stocks) is still the most often employed asset class by respondents as illustrated in Figure 10. Noteworthy is the allocation increase in the private equity class as well as the microfinance and bonds classes. As highlighted by DB Climate Change Advisors, venture capital and private equity flows into clean energy reaccelerated in the third quarter of 2009, posting a sequential increase after three consecutive quarters of decline.<sup>17</sup>

**FIGURE 10**  
Asset Allocation of Sustainable Investments  
(number of mentions, by weight of importance)



The current market environment would suggest that future products will focus on areas such as fixed income, timber (ie - FSC funds) and other alternatives. One wealth manager notes that

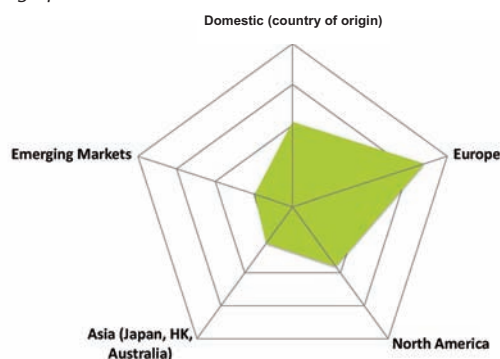
**"in times of financial and economic crisis, many customers have adopted a more defensive investment approach which favours bonds instead of equity. Nevertheless, the introduction of new offers like sustainable tangible assets<sup>18</sup> or sustainable mixed funds could - if well constructed and communicated - boost interest in and volume of sustainable investment in the next years."**

## → Geographic Allocation

With regards to geographic allocation (referring to equity investments only), unsurprisingly, Europe and North America have the largest exposure (34% and 21% respectively). Exposure to the specific domestic market of the respondents has decreased slightly from 2008 while exposure to Asian and Emerging Markets has increased. We expect that the current emerging markets' share (12%) will further increase over time as the combination of investment opportunities and the sustainable development challenges in emerging markets offer

potential for investment products with both sustainable impacts and superior financial prospects.

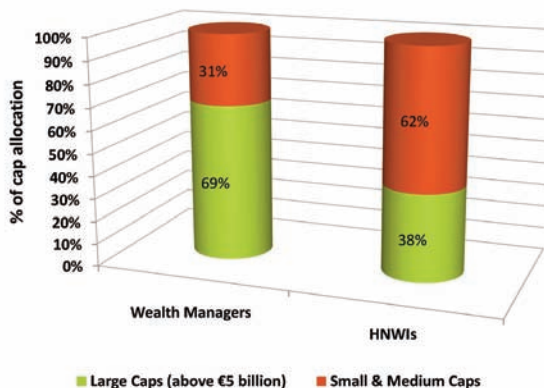
**FIGURE 11**  
Geographic Allocation of Sustainable Investments



## → Cap Size Allocation

Figure 12 shows that while HNWI sustainable investors invest mainly in large caps, the share of small and medium caps is quite significant (38% on average). This is an area where the HNWI segment differs significantly from those of institutional investors interested in sustainable investment. Small/medium cap exposure was cited as critical in participating in new companies that would either eventually be bought out by large cap companies or become the new companies of tomorrow that define and lead their respective industry segments. Also, cap size allocation varies significantly for HNWI and wealth managers; HNWI clearly favour small & medium capitalisations, whilst wealth managers largely invest in large market caps - this is understandable as wealth managers tend to favour large cap investing as many of their research resources are focused on that segment.

**FIGURE 12**  
Cap Size Allocation of Sustainable Investments



<sup>17</sup> DB Climate Change Advisors, "Investing in Climate Change", 2010.

<sup>18</sup> For this wealth manager, 'tangible assets' refer to assets with a real and substantial value (energy, real estate, forestry for example) as opposed to other open-ended funds.

# 7 Products' Origin

## ➔ Existing and Bespoke Investments

Bespoke investments include tailor-made exclusions and discretionary mandates based on ESG criteria set up with the HNWI client. The bespoke investments often contribute to product development and may be compared to an R&D department; this is where new innovative products can be developed as HNWI investors have sufficient assets to demand bespoke solutions and are less bound by fiduciary duties.

On average, 83% of respondents' sustainable products come from existing sustainable investment vehicles while 17% are bespoke<sup>19</sup> sustainable investments. In 2008, 33% of respondents said they had bespoke sustainable investment vehicles. This would suggest that existing sustainable investment vehicles are improved since 2008 and that yesterday's bespoke offerings may now be found in satisfactory packaged products. One could also argue that HNWIs are less inclined to engage in tailor-made offerings, as this service represents additional costs and resource dedication that HNWIs might want to avoid in hard financial times. As one family officer points out, "investing in emerging markets and sustainable social enterprise is expensive, and none of us from the outside are doing it very well."

## ➔ Product Sourcing

Product sourcing reveals some interesting differences between wealth managers and HNWIs/family offices. Responding **wealth managers** source 42% of their sustainable investments internally, while 58% of investments come from external providers, either for very specific products or because wealth managers do not have sustainable competence and expertise internally. In 2008, 67% of wealth managers sourced their sustainable investments products internally. The trend has reversed itself. SRI departments within private banks have generally suffered from the financial crisis lay-offs, hence diminishing the internal pool of resources for such investments.

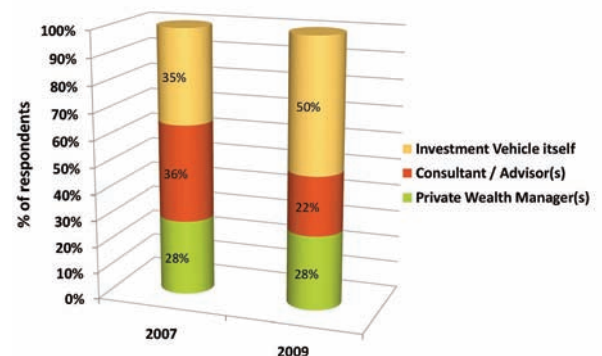
As for **family offices**, because sustainable investments that respond to specific needs are still scarce, and also partly due to mistrust with wealth managers, family offices often rely on a close circle to find the right sustainable investment opportunities. **The latest findings also show that HNWIs have started to internalise expertise on sustainable investments.** HNWIs have benefitted from greater media coverage of the sector and increased visibility of sustainable investments products. They are

increasingly gathering and interpreting the information themselves. As a result, HNWIs tend to have a more comprehensive view on the various sustainable investment options at their disposal, and are potentially less likely to engage in superfluous tailor-made services.

Figure 13 shows that HNWIs are still relying on wealth managers in a similar fashion today as they did in 2007, but that they are less reliant on consultants and advisors. Respondents now primarily source their sustainable investments directly from the investment vehicle itself (50% on average), followed by wealth managers (28%), and consultant/advisors (22%).

**FIGURE 13**

*Sources of Sustainable Products for Family Offices & HNWIs*



<sup>19</sup> Custom-made, specific to individuals' values.

# Opportunities and Obstacles

## → Drivers of Demand

According to our overall respondents, the main drivers of demand for sustainable investment are responsibility, financial opportunity and the search for sustainable return, as shown in Figure 14. It seems that sustainable investments now represent more of a financial opportunity than in 2008. As one wealth manager puts it, "the current market environment favours the shift towards sustainability."

Looking at the wealth managers and family offices separately reveals that the perceptions differ between the two segments. Financial opportunity is clearly the main driver for HNWIs and family offices, while a majority of wealth managers perceive that responsibility is the main motivation for HNWIs to partake in sustainable investment.

FIGURE 14

Drivers for Sustainable Investment Demand

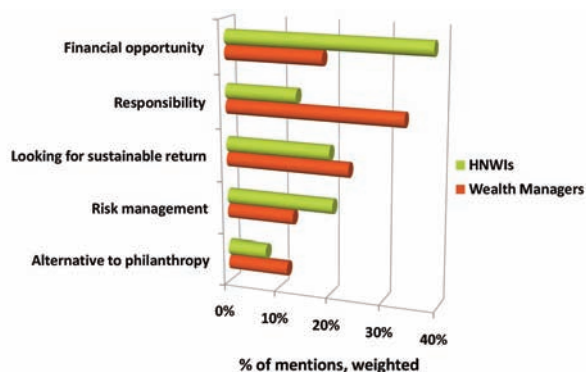


FIGURE 15

Drivers for Sustainable Investment Demand Over Time

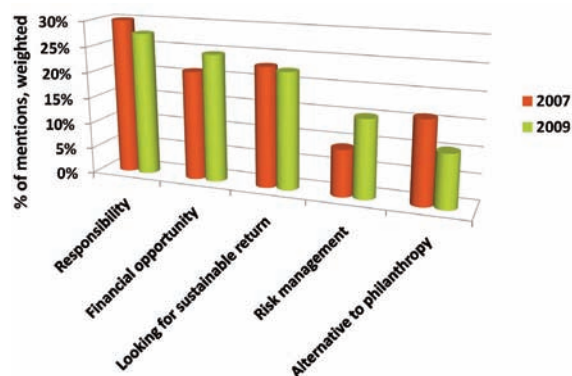


Figure 15 shows that sustainable investment is clearly no longer seen as an alternative to philanthropy. In 2008, over 20% of HNWIs were still motivated by philanthropic considerations when choosing sustainable investments. In 2010, less than 10% of HNWIs believe they are filling a philanthropic need when investing sustainably. There is a key difference between sustainable investment and philanthropy: sustainable investments do not compromise on financial return whereas it is definitely not the primary factor in philanthropy. Eurosif is pleased to see that HNWIs distinguish that 'values' and 'value' are not the same thing; therefore, HNWIs are now much less prone to see sustainable investments as an alternative to philanthropy, although it is worth noting that values can still be a motivating factor in deriving financial value.

## → A Combination of Sustainable and Financial Returns

To summarise, for HNWIs, financial opportunity is a leading driver for sustainable investment while this is ranked only third by wealth managers. HNWIs are interested in sustainable investing because it makes financial sense while improving their overall risk analysis through the incorporation of ESG factors. As pointed out earlier through the example of thematic investing, HNWIs are looking for a combination of sustainable and financial returns.

Wealth managers who are able to demonstrate the close connection between sustainability and financial returns will separate themselves from other providers at a quickening pace in the coming years. The value-based and financial returns aspect of a sustainable investment product can and should be emphasised to HNWIs.

'The main drivers of demand for sustainable investment are responsibility, financial opportunity and the search for sustainable investment return'

## CASE STUDY

## CSR, SRI and Financial Performance

The fields of Corporate Social Responsibility (CSR) and SRI (Sustainable and Responsible Investment) are closely interrelated. It is the corporate practices on ESG that provide the basis analysis for sustainable investment opportunities. SRI specialists use various forms of ESG methodologies and ratings (either in-house or from external research providers) in order to construct and manage sustainable investment offerings. But the management of ESG issues by corporations should also appeal to the wider financial community, not just the SRI market. Several research papers and reports have focused on demonstrating both qualitative and quantitative correlation between CSR practices and financial performance. A 2008 research paper compiled by Santa Clara University and Barclays Global Investors reviewed 15 years of stock returns of socially responsible companies, showing that "stocks of companies rated as very socially responsible yielded higher returns than stocks of companies that fare poorly on such measures."<sup>20</sup> The study stresses that sustainable companies have a lower risk profile and superior return opportunities. A recent report by Bank Sarasin highlights that sustainable companies in Emerging Markets are growth pearls with reduced risks and that giving consideration to environmental, social and corporate governance aspects when making investment decisions should continue to have a positive impact on the risk/return profile of a portfolio.<sup>21</sup>

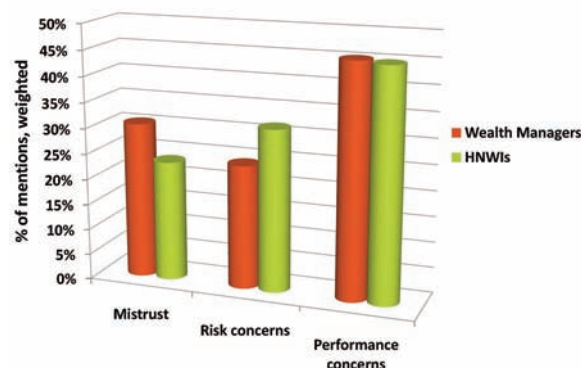
One initial tool to gauge HNW clients' interest and motives is to include sustainable investment questions in the "Know your Customer" questionnaire (see suggestions in appendix).

### → Barriers

Performance concerns remain the principal barrier to sustainable investment, followed by risk concerns and mistrust, as shown in Figure 16. Here again, HNWI's perception slightly differs from that of wealth managers.

FIGURE 16

Reasons for Not Demanding Sustainable Investments



### Performance concern

In any fund management offering, performance is always going to be a critical factor. In the Eurosif Survey, wealth managers highlighted performance as the first hurdle that they need to overcome with their clients. As with any other type of investment, sustainable investment performance is also linked to the quality of the fund management, hence the importance of a thorough assessment of sustainable investment providers and their processes, both financial and sustainable. Eurosif was particularly interested in the impact of the financial crisis on the performance of sustainable investments.

The survey shows that 94% of wealth managers and 75% of HNWIs think the financial crisis has had a positive impact on the performance of their sustainable investments (Figure 17). This suggests that sustainability represents a good investment opportunity in times of crisis. Eurosif has reviewed hundreds of studies over the years on the link between financial performance and sustainable investments and encourages further quantitative research in the area. At the same time, the conclusion from these academic studies is that some sustainable funds overperform benchmarks and others do not. Furthermore, there is no consistent data showing that one fund will outperform a benchmark consistently over time. This is the same conclusion drawn from other studies that have reviewed performance of growth, value and other types of mainstream funds over the long term – outperformance

**'Less than 10% of HNWIs believe they are filling a philanthropic need when investing sustainably'**

<sup>20</sup> Santa Clara University & Barclays Global Investors, "The Wages of Social Responsibility", 2008.

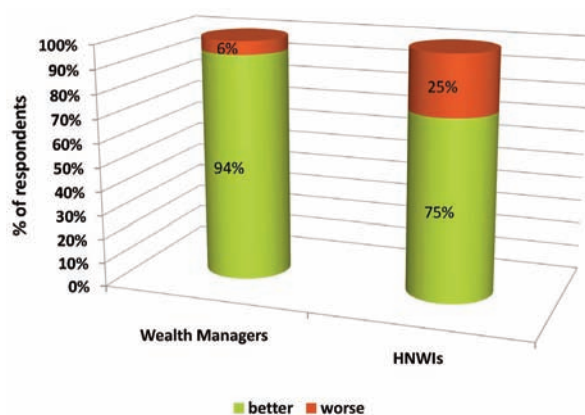
<sup>21</sup> Bank Sarasin, "Emerging Sustainability – Sustainability Analysis of Emerging Market Companies", May 2010.

## '94% of wealth managers and 75% of HNWI think the financial crisis has had a positive impact on the performance of their sustainable investments'

comes in waves and is not consistently predictable over a long term horizon.

### FIGURE 17

*Perception of the Financial Crisis on Sustainable Investment Performance*



When choosing a sustainable investment provider, HNWI clients should ask specific questions in order to gauge their competence and experience related to sustainable investment (see suggested questions in appendix).

### Risk Concern

Linked to financial performance are risk concerns; there are occasional concerns about a bubble risk, particularly with regards to thematic investing and some specific sectors. As mentioned earlier, investors are also weary of the dependency on potential government intervention and regulatory pressure, which could cause some sectors (such as clean tech or solar) to be subsidised by state or local authorities.

### Mistrust

Mistrust is an obstacle that private banks are currently experiencing for all types of investments, partly as a response to the financial crisis. Specifically for sustainable investment, HNWI clients might question the sincerity of the wealth managers' approach. The 2010 World Wealth Report notes that "post-crisis, most HNWI clients have yet to regain their trust in the institutions and regulatory bodies that are meant to protect investor interests and oversee markets."<sup>22</sup>

<sup>22</sup> Capgemini & Merrill Lynch, "World Wealth Report 2010", 2010.



# Conclusion: The Future of HNWI's and Sustainable Investment

The 2008 global financial crisis had a punishing impact on all segments of society, and HNWI investors saw their wealth dwindle with the slowdown in world economic growth. A modest recovery began in 2009 and has carried into 2010 despite the ongoing doubts and trepidations. Europe and North America are still the strongholds of global wealth, but it is gradually being redistributed towards the Middle East and the Asia-Pacific region, which have seen notable increases in their HNWI populations as well as assets under management.

This report reveals that the potential demand for sustainable investment from the HNWI segment is vast and even expanding beyond European boundaries. Almost 90% of the survey's respondents predict interest for sustainable investment will increase in the next year and 78% of family offices think that sustainable investment will increase in the generational transfer of their office's wealth. Additionally, the financial crisis is clearly seen as a chance to start anew on sounder investment bases, for which sustainable products are decisive. **An overwhelming majority of respondents believe that the crisis will have had a positive impact on sustainable investment.**

The future of HNWI's and sustainable investments is encouraging. HNWI's, family offices and wealth managers are gradually bridging the knowledge gap in terms of sustainable investment strategies and offerings. HNWI's are responding to the ongoing environmental and social problems and the sense of responsibility towards younger generations as drivers of increasing their sustainable investments within their portfolios.

However, there are a few points to be addressed in order for sustainable investment to reach its next stage of growth:

- A clear understanding of HNWI investors' motives to demand sustainable investment, in order to develop or find the proper financial products that share and reflect their concerns;
- Wealth managers need to develop a track record and case examples of market rate performance to convince HNWI clients that sustainable investment can perform as well as other traditional investments;
- Information and education on sustainable investment should be provided to the wealth management community. There should be a thorough training of relationship managers so that they are comfortable offering sustainable investment to their clients and discussing this area with them. This can be done through internal communication, external training and concrete examples;
- A continued backing from the top management of wealth management companies and family offices is also essential to give credibility to the concept, both internally and to HNWI clients. Examples of respected wealthy figures publicly and explicitly endorsing sustainable investment or sustainable issues would be helpful to the sector.

## → Glossary

**Bespoke:** Custom-made, specific to individuals' values.

**Clean Energy theme:** Companies whose new technologies and services help to ensure the most efficient and environmentally-friendly use of energy.

**Climate Change theme:** Companies offering products and services that reduce or delay climate change, or help to alleviate the consequences of global warming.

**Community Investing:** Capital from investors that is directed to communities underserved by traditional financial services. It provides access to credit, equity, capital, and basic banking products that these communities would otherwise not have.

**ESG:** Environment, Social, (Corporate) Governance.

**HNWI (High Net Worth individual):** Individual with more than \$1 million in liquid financial assets.

**Negative screening/ethical exclusions:** An approach that excludes sectors or companies from a fund if involved in certain activities based on specific criteria, such as arms manufacturing, publication of pornography, tobacco, animal testing, human rights, etc.

**Positive screening / Best-in-Class:** Approach where the leading companies with regards to Environmental, Social & Governance (ESG) criteria from each individual sector or industry group are identified and included in the portfolio.

**Theme funds:** Funds may focus on sectors such as water, energy or issues such as the transition to sustainable development and a low carbon economy.

**SRI:** Sustainable and Responsible Investment, a generic term covering ethical investments, responsible investments, sustainable investments, and any other investment process that includes an explicit written policy to make use Ethical, Environmental, Social and Governance criteria.

**Sustainable investment:** Combining investors' financial objectives with their concerns about social, environmental and governance (ESG) issues. Examples include negative screening, positive screening, thematic investments, etc.

**Ultra HNWI:** Individual with more than \$30 million in liquid financial assets.

## → Appendix 1 Questions You Should Ask

### Demand-side – Questions HNWI and family offices should ask their sustainable investment providers:

- Does the wealth manager have a dedicated team (SRI/ESG) and what is the size of the staff?
- What resources are dedicated to sustainable investment management?
- What are the additional costs of implementing a sustainable investment strategy?
- What is the wealth manager's track record / history of sustainable investment involvement?
- What are the wealth managers' engagement and voting activities?
- What are the wealth manager's proposed screening processes and methodologies?
- Does the wealth manager collaborate with other interested parties such as rating agencies, NGOs and collaborative organisations? If so, how?
- What are the wealth manager's sustainability reporting practices in terms of frequency and quality?
- Does the wealth manager express a genuine interest and possess the ability to integrate the HNWI client's screening criteria and ESG criteria into their investment processes? Does the wealth manager report about their own sustainable performance?
- Can the wealth manager demonstrate their ability to successfully integrate their process through the construction of a model portfolio?

Source: Eurosif

### Supply-side – Questions relationship managers should ask HNWI clients to gauge their interest in sustainable investment

Concerning Positive Criteria

Which of the following company activities would you like to support?

A: Would like to support strongly

B: Would like to support if possible

C: Of no interest.

Company activities	A	B	C
Basic Necessities			
Community Involvement			
Environmental Conservation			
Environmental Technologies			
Equal Opportunities			
Healthcare & Safety			
Positive Labour Relations			
Training & Education			
Other			

Concerning Negative Criteria

Which of the following company activities would you like to avoid investing in?

A: Must avoid without exception

B: Avoid companies operating in this area, unless they have positive aspects to their activities which managers feel outweigh the negative

C: Not an area of concern.

Company activities	A	B	C
Alcohol			
Animal Intensive Farming			
Animal Testing			
Armaments			
Gambling			
Human Rights Abuse			
Nuclear			
Pornography			
Tobacco			
Other issues			

Concerning Engagement

Is it important to you whether a fund management group is involved in trying to encourage better business practices?

Source: Ethical Fact Find – Consumers & Advisers, [www.uksif.org](http://www.uksif.org).

## → Appendix 2 Eurosif Questionnaire

### I. General Information

- 1) What is the name of your organisation?
- 2) Country location of your organisation?
- 3) If applicable, what year did your company begin to propose sustainable services to HNWI's?
- 4) What amount of your current HNWI assets under management (AUMs) do you quantify as sustainable investments? (as of 31/12/2009)
- 5) What share of your total HNWI portfolios do your sustainable investments represent?
  - Less than 1%
  - Between 1% and 5%
  - Between 6% and 10%
  - Between 11% and 20%
  - Between 21% and 50%
  - More than 50%
- 6) Does your largest sustainable HNWI client represent (wealth managers only)?
  - Less than 5% of your total sustainable investments
  - Between 5% and 10% of your total sustainable investments
  - Between 10% and 30% of your total sustainable investments
  - More than 30% of your total sustainable investments

### II. Investments

- 7) What sustainable investment strategies do you use? (multiple strategies may apply)
  - Negative screening/ethical exclusions
  - Positive screening – Best-in-Class
  - Positive screening – Theme funds
 Please specify:
  - Clean Energy
  - Water
  - Climate change
  - Lifestyle / Wellness
  - Multi-thematic
  - Others
  - Community Investing
  - Other strategies (please specify)

8) Please rank by order of importance your sustainable investment asset allocation:

- Equity
- Bonds
- Alternative / Hedge Funds
- Real Estate / Property
- VC / Private Equity
- Monetary Deposit
- Commodities
- Microfinance

9) For your equity sustainable investments only, please rank by order of importance your geographic allocation:

- Domestic (country of origin of the fund manager)
- Europe
- North America
- Asia (Japan, HK, Australia)
- Emerging Markets

10) For your equity sustainable investments only, please indicate % of cap size allocation:

- Large Caps (above €5 billion)
- Small & Medium Caps

11) In which proportion do you offer: (please indicate %)

- Existing sustainable investment vehicles
- Bespoke sustainable investments (please detail the type of bespoke demand)

12) Where do you source your sustainable investments? (wealth managers only)

(please indicate %)

- Sustainable investment department within your organisation
- External provider(s)

(if possible, please tell us how you selected them)

13) Where do you source your sustainable investments? (family offices only)

- Private Wealth Manager(s)
- Consultant / Advisor(s)
- Investment Vehicle itself

(if possible, please tell us how you selected them)

14) Please provide examples of sustainable investments that you offer.

15) Do the sustainable investments concern:

- The core portfolio of HNWI's
- A satellite part of HNWI's portfolio
- An investment style
- An asset class
- A financial discipline
- Other (please specify)

16) Do you see sustainable investments as:

- An investment style
- An asset class
- A financial discipline
- Other (please specify)

### III. Clients Typology

17) Do you see a difference in HNWI's interest for sustainable investments depending on: (wealth managers only)

- Age bands (If so, please specify how)
- Gender (If so, please specify how)
- Wealth origin (entrepreneurial vs. inherited) (If so, please specify how)
- Wealth bands (If so, please specify how)

18) From which country do your sustainable HNWI clients originate (country name by order of importance)?

19) For each sustainable issue, assess the level of importance for your clients:

(indifferent / important / very important)

- Climate change
- Eco-efficiency
- Human Rights
- Community development
- Health / Nutrition
- Others (please specify)

20) What motivates your clients/family office to demand sustainable investments? (please rank by order of importance)

- Financial opportunity
- Risk management
- Looking for sustainable return
- Responsibility
- Alternative to philanthropy
- Other (please specify)

21) What prevents your clients/family office from demanding sustainable investments? (please rank by order of importance)

- Performance concerns
- Risk concerns
- Mistrust
- Other (please specify)

22) In your view, who is the final decision-maker for sustainable investments? (family offices only)

- A female
- A male
- A panel

If a panel, what is its composition (percentage men and women)?

### IV. Market Demand

23) Has there been an increase in HNWI's interest for sustainable investments in the last 12 months?

- Yes
- No

If so, please give us a growth estimate for the last year.

24) If there has been a growth, is it:

- driven by market demand
- driven by suppliers push

25) If your sustainable investments AuMs have increased, is it due to: (wealth managers only)

- Appreciation of existing wealth
- Net new inflows from existing wealth owners
- Entry of new wealth owners

26) Do you think that in the next three years this interest will:

- Decrease
- Remain the same
- Increase slowly
- Increase sharply

27) In the generational transfer of your family office's wealth, do you think sustainable investments will: (family offices only)

- Decrease
- Remain the same
- Increase

### V. General Comments and Lessons Learned

28) What is your organisational culture towards sustainable investments?

- Full & long time support
- Recent buy-in
- Mix of support / scepticism depending on individuals
- Scepticism

29) How has the financial crisis affected your perception of sustainable investments?


- Positively
- Negatively

30) If relevant, how do you perceive the overall performance of your sustainable investments in light of the financial crisis?

- Better
- Worse

31) Do you have comments to add? What lessons have you learned in relation to sustainable investments?

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### List of responding Wealth Managers

*(This list is not exhaustive as many respondents preferred not to have their organisation's name disclosed)*

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