

Green venture capital lures wealthy clients

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ZURICH, April 16 (Reuters) - Millionaires are piling seed capital into young firms developing green technologies, seeking better control over what happens to money they invest to help improve the environment.

Green venture capital -- a nascent corner of the growing market for socially responsible investments -- is flowing from multimillionaires rather than from strictly controlled institutional investors. "Wealthy private clients face different rules. They can ask themselves: 'What is it that I really want to change in the world with the help of my money?'," said Wolfgang Hafenmayer at Munich-based BonVenture Management.

The tiny fund manager is exclusively financed by individual investors, putting their money into companies in German-speaking countries that help protect the environment or support socially weaker groups.

Often, the start-up companies it selects involve BonVenture's clients in their decisions, benefiting from the fact many of them are entrepreneurs. In Europe, some 1.25 billion euros (\$1.69 billion) was raised for socially responsible venture capital as of 2006, benefiting areas such as pesticide-free insect control, hybrid cars and special schools for children. The number -- though rising -- is a fraction of the 72 billion euros that was raised by mainstream venture capital and buy-out companies a year earlier, a recent report by European Union lobby group Eurosif said. "A key factor still restraining growth...is the lack of capital being allocated from institutional investors," Eurosif said in a report, adding the sector was "often led by investors such as family offices or high net-worth individuals."

The overall European market for socially responsible investment was estimated to be some 1 trillion euros (\$1,345 billion) last year, another Eurosif study showed. Global wealth, held by those with more than \$1 million in liquid assets, was estimated at \$33.3 trillion at the end of 2005, with a 6 percent annual growth rate seen until 2010, making the sector one of the fastest growing in the financial industry.

GREEN SELLS

With alarming news on climate change hitting newspaper headlines, virtually any retail bank these days offers green investment products, with theme-based funds around clean water, energy and global warming thriving. Such off-the-shelf products -- though providing much less control than private equity investments -- are also selling well among individual investors, banks say.

"You can talk about the efficient frontier and about asset allocation, but you can really gain a private banking client's interest with a topic he or she can relate to," said Maria Lamas, head of financial products and investment advisory at Credit Suisse's <CSGN.VX> private bank.

A small company involving investors in its daily decisions may provide a more hands-on approach, but increasing transparency of more standardized products should make clients confident their money is ending up in the right place. Switzerland's Sustainable Asset Management (SAM) -- owned by Dutch cooperative bank Rabobank [RABN.UL] -- employs engineers and other non-financial staff to screen companies on their environmental impact, creating funds that it sells through other banks and wealth managers.

The group -- whose first goal remains searching for yield -- uses questionnaires to screen some 1,400 companies, selecting best-of-class performers in each sector, while also providing equity performance indices.

Sustainable stocks often perform roughly in line with markets, and the Dow Jones Stoxx sustainability index for Europe <.SUTP> is up 20 percent since the start of 2006, trailing a 22.5 percent rise in the FTSEurofirst 300 <.FTEU3> index of top European shares.

And France's Vigeo audits and benchmarks companies on socially responsibility criteria, providing a handle for investors in much the same way as a credit rating agency does for a firm's financial reliability.