



# HIGH NET WORTH 2012 & INDIVIDUALS SUSTAINABLE INVESTMENT

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## SPONSOR FOREWORD



**Andreas Knörzer**

One of the basic theses of this study (and its two predecessors) is that high net worth individuals are at the forefront of innovation as they have the freedom and the means to invest in new ideas. This is clearly supported by our own observations. When Bank Sarasin started to offer sustainable investments twenty-two years ago it was exactly these investors who were the first willing to accept the new rationale: environmental, social and governance issues are – at least in the long-term – material if not decisive for financial performance.

It is therefore only natural to take a closer look at what HNWI's are interested in and how this has developed over time. The first study back in 2008 came on the eve of the subprime crisis with the bankruptcy of Lehman Brothers as its first peak. Until then sustainable investment had – as a niche – an image as a “fair-weather” investment style. Although there was some convincing amount of academic research available at that time most market participants focussed on the link between sustainability and (equity) performance – neglecting the issue of risk.

It was only natural to take a closer look in 2010 how HNWI's have positioned themselves as risk has re-entered the consciousness of financial markets on a large scale. Not surprisingly for us at Bank Sarasin but unexpected for many people in the wealth management industry, sustainable investing has seen a major advancement in the perception of high net worth individuals. Many “innovative” approaches have failed to fulfil their promises while sustainability was able to rely on its basic idea of filtering for long-term quality.

As the financial crisis has continued to spread out it in the past two years and seems to be going into extra time it became almost mandatory to take another look at HNWI's. This time our expectations were mildly confident as one of the most obvious achievements of (consistently) applying an environmental, social and governance filter was that “sustainable investors” were able to completely avoid the turmoil in certain European government bonds.

This third study about European high net worth individuals and sustainable investment, again, offers very valuable insights into the perceptions, experiences and needs of a group of innovators that will have a strong impact on the financial industry. As sponsors we are honoured to support Eurosif in conducting this study and hope that it will find a wide audience.

**Andreas Knörzer**

Managing Director  
Head of Asset Management  
Bank Sarasin & Co. Ltd



## EUROSIF FOREWORD



**François Passant**  
Executive Director Eurosif

**Giuseppe van der Helm**  
President Eurosif

In an era when the financial industry and its beneficiaries are being vilified by society at large, it is easy to forget that private investors are a crucial component for financing the sustainable growth needed to escape the negative consequences of unsustainable fiscal policies. European high net worth individuals especially are, through their value generation and investment allocation, part of the solution to rekindle growth and drive prosperity.

As long-term investors focused on capital preservation first, while being on the lookout for innovative investment opportunities, European high net worth individuals have added to their wealth even in highly volatile markets. They remain cautious and conservative in Europe but more alert to opportunities in frontier markets and alternate asset classes.

It is therefore encouraging to see, through this study, that more and more European high net worth individuals are recognising the long-term value proposition of evaluating environmental, social and governance considerations alongside financial criteria in investment decisions. Further, this behaviour is most commonly driven by a motivation to contribute to sustainable development. Clearly, European high net worth individuals want to be part of the solution to growth by allocating capital to long-term sustainable investment projects.

Beyond mere financial returns, European high net worth individuals are also supporting more projects that primarily seek a measurable environmental and/or social impact. Sometimes this is viewed as a more entrepreneurial approach to philanthropy; sometimes it is viewed as applying business acumen to addressing societal challenges.

This report, now in its third edition, is unique in its focus on European high net worth individuals and sustainable investing. The trends and motivations it demonstrates are important, not only for high net worth individuals and their advisors, but for the wider investment industry because this market is home to the pioneers and the innovators who develop sustainable investments that in time are picked up by institutional investors and the retail market. Eurosif would like to thank everyone who contributed to this report, and we are particularly grateful to Bank Sarasin for their continued sponsorship.

**Happy reading and many sustainable returns,**

**François Passant**  
Executive Director Eurosif

**Giuseppe van der Helm**  
President Eurosif

## EXECUTIVE SUMMARY

This third edition of the Eurosif study of European high net worth individuals (HNWIs) and sustainable investment shows that the market is continuing its steady growth, despite (or maybe because of) HNWIs generally being more cautious in their asset allocation. Growth is especially evident among HNWIs who have in the past tested the concept of considering environmental, social and governance (ESG) issues alongside financial issues in their investments. Many are now convinced of the merits of sustainable investments, with the proportion of respondents placing more than half of their assets in sustainable investment doubling in two years from 12% to 25%. This commitment is also confirmed with the result that 51% of respondents now view sustainable investment as a financial discipline, compared to 37% and 33% in 2009 and 2007 respectively.

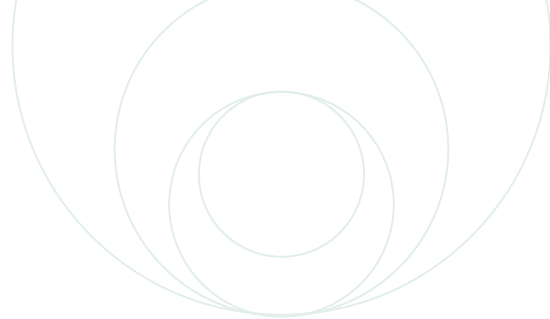
The study is based on a survey of both segments of the wealth market, with family offices and HNWIs on one hand, and wealth managers and private banks on the other. The study also, for the first time, specifically covers impact investment including microfinance, social businesses and community investments. This is a fast-growing market in the HNWI segment due to its focus on merging entrepreneurial flair with measurable social and/or environmental impact.

According to the survey, European HNWI's allocation to sustainable investment has increased by 58% over the last two years, rising to € 1.15 trillion from € 729 billion. This compares to an 18% increase in overall European HNWI wealth over the same period, as reported in the 2012 World Wealth Report. There has also been an increase in the use of all the sustainable investment strategies. The most noticeable increase is for the negative screening strategies (norms-based screening and exclusions), but positive screening strategies (best-in-class) and sustainability themed investments have also increased. In fact, sustainability themed investments are still the most favoured sustainable investment tool, and continue to be the most frequently used sustainable investment strategy by HNWIs. The most popular themes are clean energy, water and green technology. Impact investing has doubled since previous years, and is frequently mentioned as the strategy most poised for future growth.

The most important motivation for sustainable investments among both HNWIs and wealth managers is contributing to sustainable development. However, this is where the similarity ends. HNWIs are more likely to seek sustainable investments motivated by preservation of inter-generational wealth and because it is seen as a financial opportunity. For wealth managers, the motivation is responsibility to clients and to provide an alternative to philanthropy. Turning to the barriers, wealth managers will often mention performance and risk concerns, whereas these are the least important barriers to HNWIs.

Looking to the future, respondents do not predict a dramatic change in the growth of demand for sustainable investments among European HNWIs. Most (50%) predict a slow increase in demand, whereas some (37%) expect a sharp increase. This is substantially unchanged from the previous two studies, and indicates that the market will continue its steady growth in the future. This fits well with the cautious nature of many HNWIs, and the fact that many who try out sustainable investments become over time increasingly convinced of its merits in long-term asset protection and growth.

Eurosif hopes that this study will further contribute to a better understanding of the trends in the appetite for sustainable investments of HNWIs.



# 1/ BACKGROUND

## INTRODUCTION TO SUSTAINABLE INVESTMENT

Sustainable and Responsible Investment (SRI) is an investment style or financial discipline that combines investors' financial objectives with their concerns about Environmental, Social and Governance (ESG) issues. Undoubtedly, many readers will have heard the term sustainable investment and formed their own opinion on what it is. This opinion reflects their values and judgements, norms and behaviour. History, culture, beliefs and motivation have a large impact on what an asset manager or asset owner will call SRI. The terms employed also vary with time, place and fashion. They include, but are not limited to: 'ethical', 'social', 'green', 'responsible', 'sustainable', 'societal', 'impact' and 'clean'.

While sustainable investment originates in the realm of ethics and morality (avoidance of certain products or practices), it has now evolved to encompass investments that aim to meet the needs of the present without compromising the ability of future generations to meet their own needs<sup>1</sup>. Within these confines a wide range of strategies exist. Some investors will seek to avoid certain products, whereas some will evaluate companies against a minimum standard. Some are motivated to incorporate ESG criteria by risk aversion, whereas some seek investments aimed at outperforming the market by capitalising on the demand for sustainable products and solutions. Some investors seek environmental and/or social impact; some look for long-term (even intergenerational) stability of financial returns. Common to all is the consideration of environmental, social and governance concerns in the investment process.

This wide range of approaches to sustainable investment is reflected in the survey responses, with one noting that *"there is great confusion over sustainability as a topic and investments in this area can be as different as chalk and cheese. There is much idealism in the space; those who take a very practical approach and those whose commitment is skin deep. Nuclear power is an example of how difficult it is to establish what is sustainable with many 'sustainable' investors excluding this approach, while others [...] see it as the only real solution to our energy crisis."*

A more detailed discussion of SRI classifications and their evolution over time can be found in Eurosif's European SRI Study 2012, which is available on the Eurosif website.

## WHY HIGH NET WORTH INDIVIDUALS AND SUSTAINABLE INVESTMENT?

The sustainable investment practices of high net worth individuals (HNWIs) and family offices are particularly interesting to study because these investors, more so than others, are innovators. Wealth often provides the freedom to manage risk and return in creative ways by investing in new ideas and technology, and in alternative assets that provide low correlation with traditional markets. Many will have amassed wealth from entrepreneurial endeavours, so supporting other entrepreneurs through early-stage seed capital and venture capital (VC) comes naturally. Eurosif documented in the 2007 study "Venture Capital for Sustainability<sup>2</sup>" that 32% of sustainable VC funding comes from HNWIs.

HNWIs also have access to investments that are normally closed to smaller retail investors, and the freedom to move funds quickly without having to perform the extensive due diligence required by institutional investors or foundations. Further, many wealthy individuals have a history of giving back to communities and society through charity. Some of the innovations in impact investing in recent years come from a desire by HNWIs to do good in a more financially sustainable manner. By applying business principles to addressing social and environmental challenges, HNWIs can support initiatives that aim to be self-financing as a complement to the more traditional philanthropy through charitable donations.

Finally, HNWIs are typically long-term investors whose aim is to preserve capital for the next generations to come. This requires a very long-term perspective on investment that incorporates sustainability considerations, because sustainability issues affect portfolio risk and return in the long-term more than from quarter to quarter.

<sup>1</sup> The 1987 report of the World Commission on Environment and Development, entitled Our Common Future, defined sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

<sup>2</sup> Eurosif (2007), Venture Capital for Sustainability.

## DEFINITIONS AND METHODOLOGY

This study uses the Eurosif classifications and definitions of sustainable and responsible investment introduced in the European SRI Study 2012<sup>3</sup>:

- ▮ Sustainability themed investment
- ▮ Best-in-Class and other positive screens
- ▮ Norms-based screening
- ▮ Exclusions
- ▮ Integration
- ▮ Engagement and voting
- ▮ Impact investing

However, in line with the two previous editions of this study, the focus is on strategies where the investor has a high degree of input to the strategy. Integration, engagement and voting are strategies that typically are applied and implemented by the asset manager or delegated to a third party by the asset manager. While an investor may, for example, choose to apply engagement to a bespoke mandate, the investor may have little input on the target, frequency or subject of engagement.

In addition, the framework has been simplified in certain areas in order to ease the reporting burden on respondents, and to allow Eurosif to focus on certain strategies that are more common to HNWLs and used in more innovative manners when compared to for example institutional investors. Therefore, the strategies of norms-based screening and exclusions have been merged, in order for Eurosif to provide more detail on sustainability themed investments and impact investing. For these reasons, Eurosif refers to sustainable investing in this study, rather than the more commonly used sustainable and responsible investing.

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

ers. As with the two previous studies on HNWLs published in 2008 and 2010 many of the graphs in this report separate answers from HNWLs 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 (HNWLs and wealth managers combined).

Eurosif distributed a survey made available in various formats including an online version to potential respondents by email between April and June 2012. Eurosif approached over 500 wealth managers, private banks, family offices and HNWLs directly for the survey. In addition, the assistance of various distribution partners (study sponsor, associations of private banks, networks of family offices, etc.) was also critical in disseminating Eurosif's survey. 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 respondents were not involved in sustainable investments and were interested in answering the survey because they view sustainable investment as a future area of potential growth.

For the impact investing data, the information provided by the above survey sample was complemented by a separate survey distributed to 74 organisations identified by Eurosif as part of the impact investing market. Where respondents are able to distinguish between sources of funding, the proportion of HNWLs invested in their organisations' offerings ranges from 5% to 100%.

The response rate for private banks and wealth managers was higher than in previous years, partly helped by new entrants to the field. Family offices and HNWLs were more reluctant to divulge sensitive information about their investments, a reflection of the increased desire among the wealthy to protect their anonymity.

<sup>3</sup> Definitions of these strategies are available in the glossary, and more information about the strategies with examples and explanations can be found in the European SRI Study 2012.



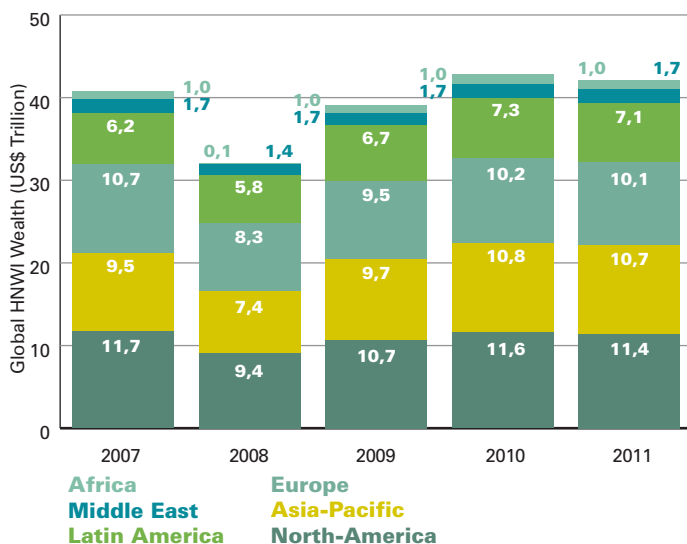
## 2/ THE HNWI MARKET AND INVESTOR CHARACTERISTICS

The 2012 World Wealth Report<sup>4</sup> (WWR) shows that the total investible assets of European HNWI<sup>5</sup> at the end of 2011 at € 7.8 trillion (US\$ 10.1 trillion)<sup>6</sup>, up from € 6.6 trillion (US\$ 9.5 trillion) at the end of 2009, the date of the last Eurosif study. Figure 1 shows the growth and distribution of global HNWI assets by region.

According to the WWR, the single biggest worry for HNWI is the Eurozone debt crisis, but other concerns such as unrest in the Middle East, the US economy and slowing growth in Asia all contributed to investors taking steps to protect their wealth.

Further, while HNWI's trust in advisors is slowly being restored after having been undermined by the financial crisis and its effects, confidence in regulatory bodies and institutions remain shaken, according to the report. This is certainly the case in Europe, as politicians in debt-ridden countries look to tax the wealthy in order to cover their national deficits.

**FIGURE 1** HNWI Wealth Distribution 2007-11 (by Region)



Source: Capgemini Lorenz Curve Analysis, 2012

This focus on capital preservation and long-term growth in volatile markets, along with the overall increase in assets since 2009, should continue to benefit the market for sustainable investments in Europe.

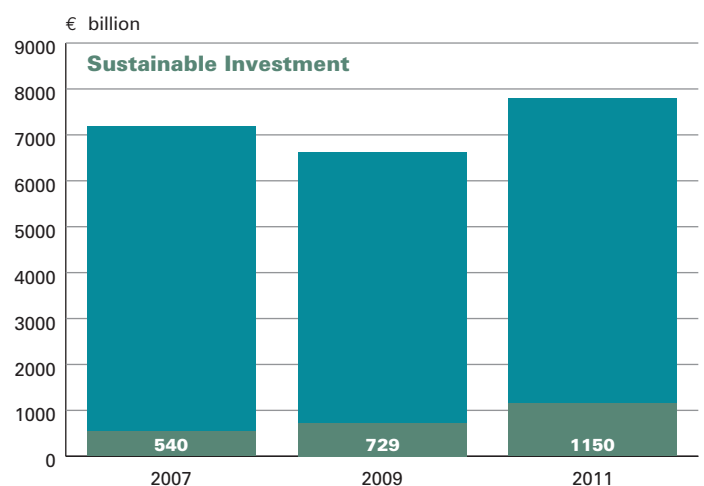
## 3/ SUSTAINABLE INVESTMENTS OF HNWI

### EUROPEAN HNWI MARKET FOR SUSTAINABLE INVESTMENT

According to a survey of financial advisors reported in the 2007 World Wealth Report<sup>7</sup>, nine percent of European HNWI requested SRI and six percent of the HNWI portfolio was dedicated to SRI. As the European HNWI market was measured at € 7.7 trillion (US\$ 10.1 trillion) at the end of 2006, this means that approximately € 460 billion was invested in SRI.

Using this as a base figure, and combining this information with the survey responses, Eurosif estimated the amount invested in SRI by European HNWI in 2007 to be € 540 billion and in 2009 to € 729 billion. For 2011, using the same methodology, Eurosif estimates the amount invested by European HNWI to be € 1,150 billion. The reader should note, however, that the definition of SRI is not static. This is the case for Eurosif<sup>8</sup> and will be the case for respondents. In addition, as noted in the methodologies section, certain SRI strategies are not part of the survey.

**FIGURE 2** European HNWI Sustainable Investment Market in Relation to Total Wealth



Source: Eurosif, 2012

Despite these caveats, it is certainly encouraging to see that growth of sustainable investments is continuing, both in relative and absolute terms. Indeed, the survey shows that 73% of respondents have experienced increased interest in sustainable investment in the last 12 months, while 47% of respondents have experienced increase in actual investments with an average increase in the amount invested of 25%.

<sup>4</sup> RBC Wealth Management and Capgemini (2012), 2012 World Wealth Report.

<sup>5</sup> Investible assets exclude personal assets such as primary residence.

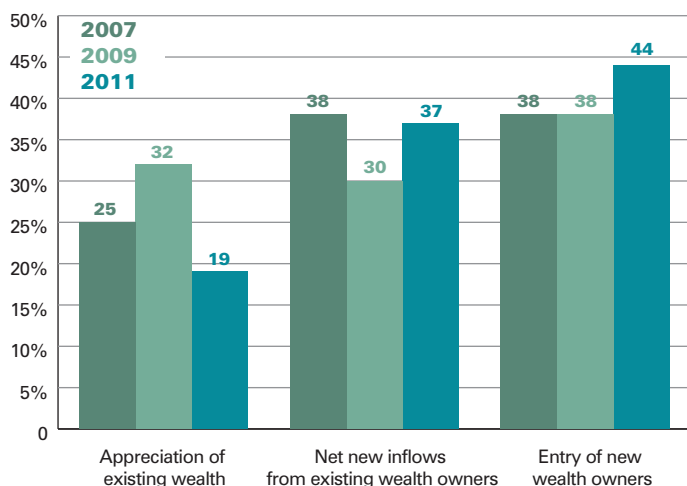
<sup>6</sup> All exchange rates calculated at 31 December of the relevant year.

<sup>7</sup> Merrill Lynch and Capgemini (2007), 2007 World Wealth Report

<sup>8</sup> See the European SRI Study 2012 for a discussion.

Turning to the source of the growth, the survey shows that in comparison to previous years, much less of the growth of sustainable investment is from appreciation of existing wealth, having dropped from 32% of responses to 19%. The growth is increasingly from existing clients putting more money into sustainable investments and from new clients.

**FIGURE 3** Sources of Growth of Sustainable Investment<sup>9</sup>



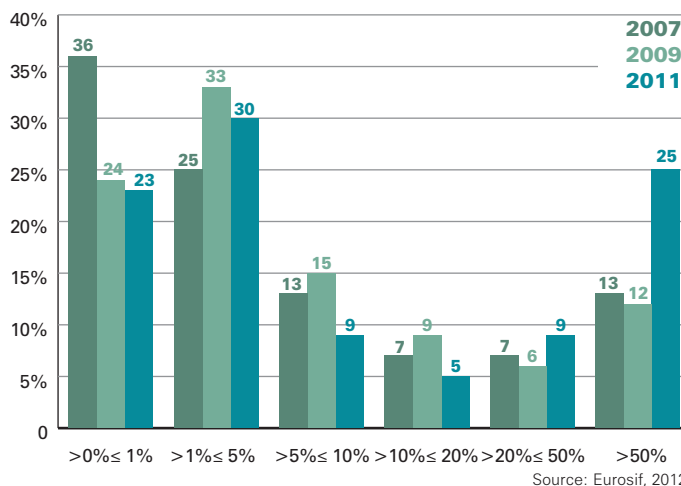
Source: Eurosif, 2012

This is certainly a positive development, as existing clients show that they have confidence in the sustainable investments of their wealth managers, and wealth managers are able to convert new clients to sustainable investments. One respondent notes that “many HNWI are feeling insecure due to the continuing market turmoil. The ones already invested sustainably do feel comfortable but the ones discovering the topic somewhat prefer to wait and see.”

## SHARE OF SUSTAINABLE INVESTMENT IN TOTAL PORTFOLIO

As mentioned above, the survey this year included some new entrants to the market while at the same time provided evidence that existing sustainable investors are adding new assets to sustainable investment strategies. With this in mind, and turning to what proportion of the HNWI portfolio is allocated to sustainable investments, we see that the shift of assets to more sustainable investments continues. Previous Eurosif studies have shown that HNWI tend to test the waters first with a small proportion of the portfolio before wading into deeper commitment as they become comfortable with the strategies. Figure 4 clearly shows this trend continuing.

**FIGURE 4** Share of Sustainable Investments in Total HNWI Portfolio



As shown in Figure 4, the number of respondents stating that sustainable investments represent a significant portion of the portfolio (more than 20%) has increased, with the proportion allocating more than 50% of the portfolio doubling to 25%. This is a remarkable result, showing that more and more HNWI really embrace sustainable investing and put most of their investments in one or more of the strategies. However, it is also worth noting that the figures are not weighted by assets, and that it is generally the smaller, more specialised wealth managers whose clients are heavily invested in sustainable investments. Among the large, global wealth managers, the proportions are also rising, but still remain small.

## SUSTAINABLE INVESTMENT STRATEGIES EMPLOYED

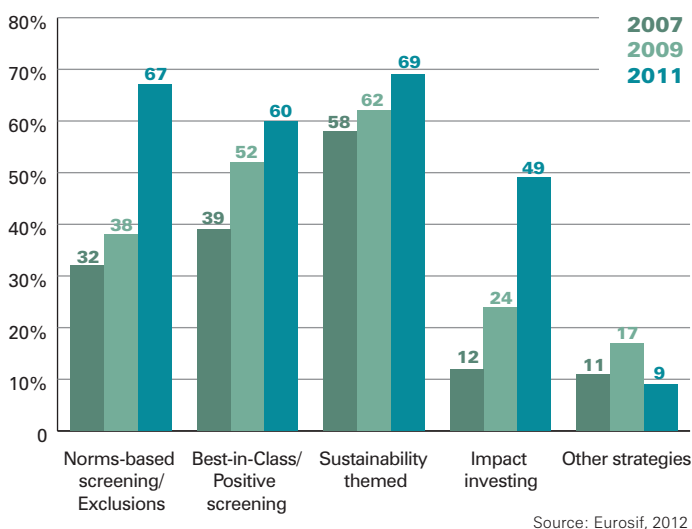
Turning to individual strategies employed by HNWI, it was noted in the methodologies section that the study concentrates on the four strategies of sustainability themed, best-in-class and positive screening, norms-based screening and exclusions, and impact investing.

Impact investing has traditionally not been part of the Eurosif classifications because the return expected by investors is not necessarily market based (it can range from positive to market based). However, it was added to the Eurosif classification in 2012 because it has become another prominent tool in the SRI toolbox. In previous HNWI studies, Eurosif included community investing in the questionnaire, but for this edition impact investing includes microfinance, community investing and social businesses. For this reason the 2007 and 2009 figures for impact investing are not directly comparable to the 2011 figures. See the impact investing section for more detail.

<sup>9</sup> Multiple answers were possible. Note that 2007 data has been restated for better comparability.

Figure 5 shows the sustainable investment strategies used by respondents. In order to preserve comparability over years, responses from pure impact investors is not included. It is interesting to note the substantial rise of norms-based screening and exclusions (sometimes referred to as negative screening). While 38% of respondents used this strategy in 2009, it has now risen to 67%. This increase mirrors the results found in the European SRI Study, where norms-based screening and exclusions are the fastest growing strategies. Sustainability themed investments are still the most frequently used strategy, but its dominance is now being challenged by the growth of negative and positive screening strategies.

**FIGURE 5** Sustainable Investment Strategies Used



Another key finding in the survey is that, mirroring the finding in the European SRI Study 2012 that institutional investors are increasingly combining strategies, HNWI will increasingly employ multiple strategies in their sustainable investing. Under the category other strategies, respondents mention that they use engagement and integration.

Finally, one can see that impact investing has doubled since previous years. However, the 2007-09 surveys only surveyed community investing in the spectrum of impact investing strategies whereas this survey also includes microfinance and social business investments. Therefore, this growth is likely overestimated. Nevertheless, impact investing is the most frequently mentioned growth area for HNWI even though already half of respondents use one of the impact investing strategies.

The result that more HNWI are invested in sustainability themed funds than any other strategy does not, however mean that they allocate the most assets to this strategy. In most cases, norms-based screening (negative screening) and best-in-class selection (positive screening) constitutes the core of the sustainable investment portfolio. Allocation of the total sustainable investment portfolio to these

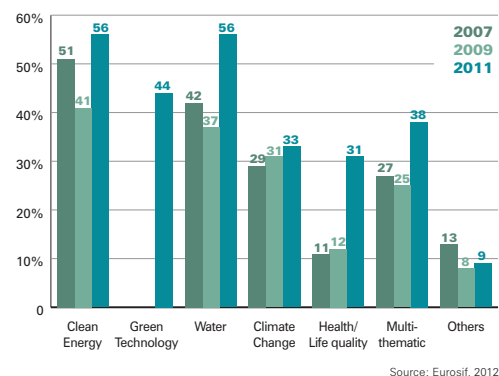
core strategies represents typically 60-70% of the total, but ranges from 10% to 100%. Sustainability themed investments are often seen as a satellite investment, the total of which is spread across several themes within this class of investments. The allocation of total sustainable investment to these satellite strategies represents typically 15-20% of the total, but ranges from 0% to 40%. Impact investing, finally is often seen as an alternative part of the portfolio, allocation to which is typically 1-5% of the total invested in sustainable investments, but can be as much as 20%.

Comparing this allocation to the same numbers for the overall market for sustainable investments in Europe as reported in the European SRI Study 2012, which is mostly institutional investors, we see that HNWI are proportionally much more heavily invested in sustainability themed funds and impact investing.

## SUSTAINABILITY THEMED INVESTMENT

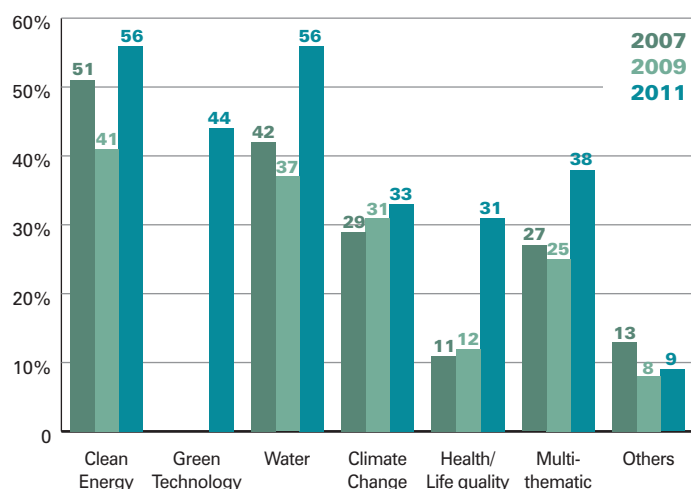
As in previous years, sustainability themed investment is the most commonly used strategy by HNWI. However, within sustainability themed assets a wide range of different focus exists. Figure 6 shows the most commonly mentioned themes by respondents. The category other includes agriculture, infrastructure, commodities and forestry.

**FIGURE 6** Sustainability Themes Used



As shown, thematic investments tend to be focused on environmental issues such as energy and climate. While health or life quality funds exist, they are less frequently mentioned by respondents, perhaps indicating that the preferred strategy to effect social change by HNWI is though impact investing.

In Figure 7, the percentage of respondents invested in each of the themes is shown for 2007-11. Note that the data for previous years has been proportionally adjusted to accommodate the addition of green technology to the available answers.

**FIGURE 7** Breakdown of Sustainability Themes Used

Source: Eurosif, 2012

The most notable change from previous years is that all the themes are experiencing growth, especially the ones that come from a lower base in previous years such as health/life quality and multi-thematic. This indicates that HNWI are increasingly open to supporting a range of themes, not just the traditional ones such as clean energy and sustainable water investments.

There is not much difference between the responses from HNWI and family offices compared to private banks and wealth managers. The responses show that clean energy and green technology themes are more commonly used by HNWI than by wealth managers, indicating that HNWI are sourcing such investments outside of the banking and advisory infrastructure. This may be through direct investments or other means.

## IMPACT INVESTMENT

Impact investment is an umbrella term covering a number of distinct but related developments in the funding of social and environmental projects and organisations<sup>10</sup>. The spectrum of revenue models range from social return only with little or no profit, through blended models to the socially motivated businesses with market-based financial returns. Impact investments are investments made with the intention to generate social and environmental impact alongside a financial return<sup>11</sup>.

Eurosif has traditionally treated impact investment separately from sustainable investment because SRI strategies were considered to be limited to profit maximising approaches that incorporate ESG considerations. This distinction is blurring, first because many of the investors in sustainable investing and impact investing are the same, and often motivated by similar aims. Second, impact investments range from positive to market based returns, meaning that at the margin they are profit maximising. Impact investing is, however, not philanthropy or charitable donations as the aim is to invest in a financially sustainable business.

The differentiation between the different capital market processes (or strategies), which is adapted from a framework developed by Bridges Ventures<sup>12</sup>. While not all market actors will agree with this framework, it nevertheless provides an informative view of impact investment in relation to other strategies referred to in this study.

**FIGURE 8** Illustrative Map of Capital Market Strategies<sup>13</sup>

				Impact Investment		
		Traditional	Responsible	Sustainable	Thematic	Philanthropy
	Competitive returns				Impact-first	
	ESG risk management					
	ESG opportunities					
	High-impact solutions					
Focus	Finance Only	The New Paradigm				Impact only
	Limited or no focus on ESG factors of underlying investments	Focus on ESG risks ranging from a wide consideration of ESG factors to negative screening of harmful products	Focus on ESG opportunities, through investment selection, portfolio management and shareholder advocacy	Focus on one or a cluster of issue areas where social or environmental need creates a commercial growth opportunity for market-rate or market-beating returns	Focus on one or a cluster of issue areas where social or environmental need requires some financial trade-off	Focus on one or a cluster of issue areas where social or environmental need requires 100% financial trade-off
Examples		<ul style="list-style-type: none"> <li>PE firm integrating ESG risks into investment analysis</li> <li>Ethically screened investment fund</li> </ul>	<ul style="list-style-type: none"> <li>"Best-in-class" SRI fund</li> <li>Long-only public equity fund using deep integration of ESG to create additional value</li> </ul>	<ul style="list-style-type: none"> <li>Clean energy mutual fund</li> <li>Emerging markets healthcare fund</li> <li>Microfinance structured debt fund</li> </ul>	<ul style="list-style-type: none"> <li>Fund providing debt or equity to social enterprises and/or trading charities</li> </ul>	

<sup>10</sup> For more information on impact investing in Europe see Eurosif's European SRI Study 2012.

<sup>11</sup> See for example Credit Suisse (2012), Investing for Impact.

<sup>12</sup> For more information about Bridges Ventures see [www.bridgesventures.com](http://www.bridgesventures.com)

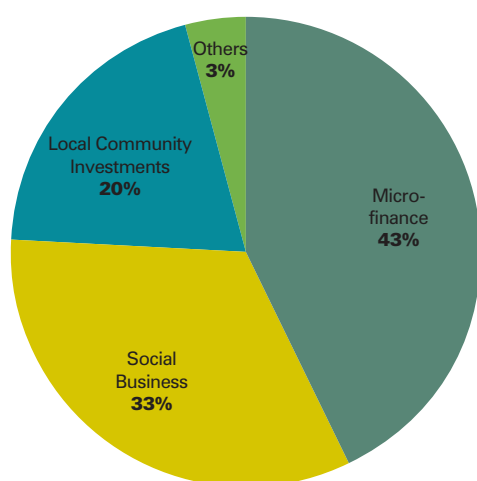
<sup>13</sup> Source: Bridges Ventures (2012), Bridges Ventures & Impact Investing: An Overview, p. 3.



Eurosif covers three types of impact investing in the survey: microfinance, community investing and social businesses. Microfinance generates a social value by improving access to financial services mostly in emerging and developing economies, although it is not limited to this. Commonly, investments into microfinance are channelled through investment vehicles, which are independent investment funds that allow private and public capital to flow to microfinance institutions. Social business investments are made directly or through a fund into social businesses, which have the intention to generate a social and environmental impact alongside a financial return. Community investments are made into local or other communities either directly or through channels such as local community development banks, credit unions, and loan funds. They focus on affordable housing, small business creation, the development of community facilities, job creation and the empowerment of minority groups.

Figure 9 shows the most frequently mentioned impact investments used by respondents. The category other includes for example property development.

**FIGURE 9** Impact Investing Strategies Used



Source: Eurosif, 2012

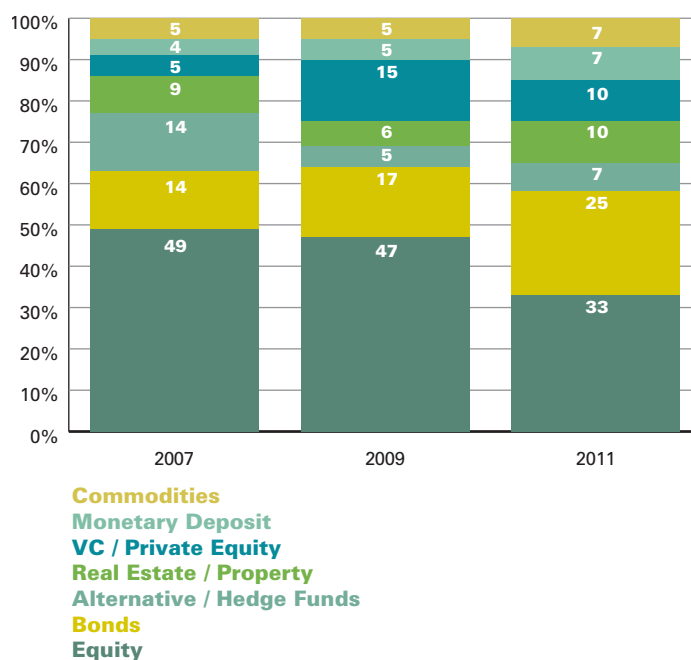
It is interesting to note that microfinance, the most developed and accessible type of impact investing asset is not as dominant as one might expect. In comparison, the European SRI Study 2012 found that 55% of impact investing by institutional and retail investors is into microfinance (although the figures are not directly comparable since the SRI Study measures invested assets).

Interestingly, a relatively higher proportion of HNWI's are invested in social businesses rather than community development projects. This interest in social business or entrepreneur funds bodes well for the new European Social Entrepreneurship Funds framework (EuSEF) proposed by the European Commission to drive investments into social businesses. Under the proposed framework, which is still subject to change, the new funds will only be available to professional investors and a small group of traditional investors in social enterprise (high net worth individuals, family offices, angel investors and philanthropists) who can commit a minimum of € 100,000. See the European SRI Study 2012 for more details on EuSEF.

## OUT OF EQUITIES; OUT OF EUROPE

Turning to asset allocation, measured as the weighted interest in each asset class rather than the allocation of funds, we see that interest in equities have suffered a sharp decline from 2009-11, replaced by an increased interest in bonds. The venture capital and private equity markets, having grown strongly from 2009-11, have fallen out of favour, while the real estate market has improved. The hedge funds/alternates market is stable and has not recovered from its highs in 2007. This strategic reallocation to historically less risky asset classes is a reflection of the market sentiment felt. HNWI's and family offices are still cautious in their asset class allocation.

**FIGURE 10** Asset Allocation 2007-11 (respondents' interest in class, weighted)<sup>14</sup>

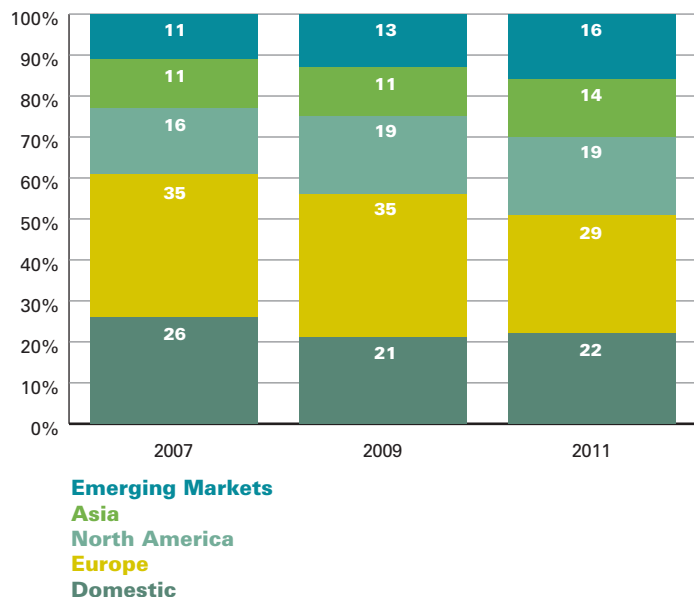


Source: Eurosif, 2012

<sup>14</sup> Note that microfinance, which was part of asset allocation in the 2008 and 2010 studies has been removed from the asset classes.

This caution does not appear to be matched on geographic allocation, as respondents are increasing interest in Emerging markets and Asia. An alternate explanation is that frontier markets are seen as offering a better risk/return profile than Europe over the long-term.

**FIGURE 11** Geographic Allocation 2007-11 (respondents' interest, weighted)



Source: Eurosif, 2012

## CASE STUDY 1

### SUSTAINABLE INVESTMENTS IN AFRICA

European HNWIs and family offices are always looking for new and interesting investment opportunities, and are increasingly looking outside of Europe for superior risk adjusted returns. However, identifying and accessing sustainable investments in frontier markets can be a challenge and frequently requires investors to use small specialist asset managers.

Sustainable Capital\* is an independent responsible investment asset manager that specialises in African equities outside of South Africa, offering HNWIs access to markets that are not traditionally covered by other sustainable investment managers. They run three equity funds: the Africa Sustainability Fund, the Africa Alpha Fund and a Nigeria Fund.

The investment approach is based on the thesis that the sustainability performance of countries and companies is fundamentally linked to long-term investment returns, yet inefficiently priced by African financial markets. The aim of investments is therefore to outperform the market through sustainability research, engagement and traditional financial analysis. There are numerous challenges to this approach, chief among which is access to information. As no brokers or rating agencies supply sustainability information on African equities, Sustainable Capital have developed proprietary methods of collecting and analysing information. Further, having a focused portfolio enables fund managers to spend 30% of their time on the ground in Africa with company management to understand their approach to sustainability and doing site visits. Admittedly, many African companies are not used to meeting investors in person and can be sceptical initially, but Sustainable Capital finds that they are often able to build a productive working relationship with company management.

According to Sustainable Capital, the advantages to investors of an African equity portfolio include diversification benefits due to very low market correlation (0.25) with European and global markets, and attractive valuation levels with high dividend yields. In addition, there are many companies that can have a competitive advantage based on sustainability, but this is often not recognised in their market valuation. The value of this approach has been recognised by the many European HNWIs who invest in the funds, most of whom originate from the Netherlands, Switzerland, the UK and Scandinavia.

\* See: [www.sustainablecapital.mu](http://www.sustainablecapital.mu)

## 4/ SUSTAINABLE INVESTMENT SELECTION

High net worth individuals and family offices have the widest range of choice of sustainable investments, when compared with other investors such as retail investors or institutional investors. This advantage stems from an ability to commit more funds to long-term investments with limited liquidity and the freedom to be less restrained by investment policy or rules and regulations compared to institutional investors.

If one develops a sustainable investment product sourcing life cycle based on the responses to the survey, it would look like Figure 12, below.

Most (60%) HNWI and family office responses state that they source information on products using their own research. This includes taking advantage of the close-knit community of family offices and HNWIs. Already in the 2008 survey one family office stated that they count on a close circle to find the right sustainable investment opportunities, including other family offices, their clients or managers and entrepreneurs they invest in. Today, much of the communication happens through social media such as private groups on networking sites.

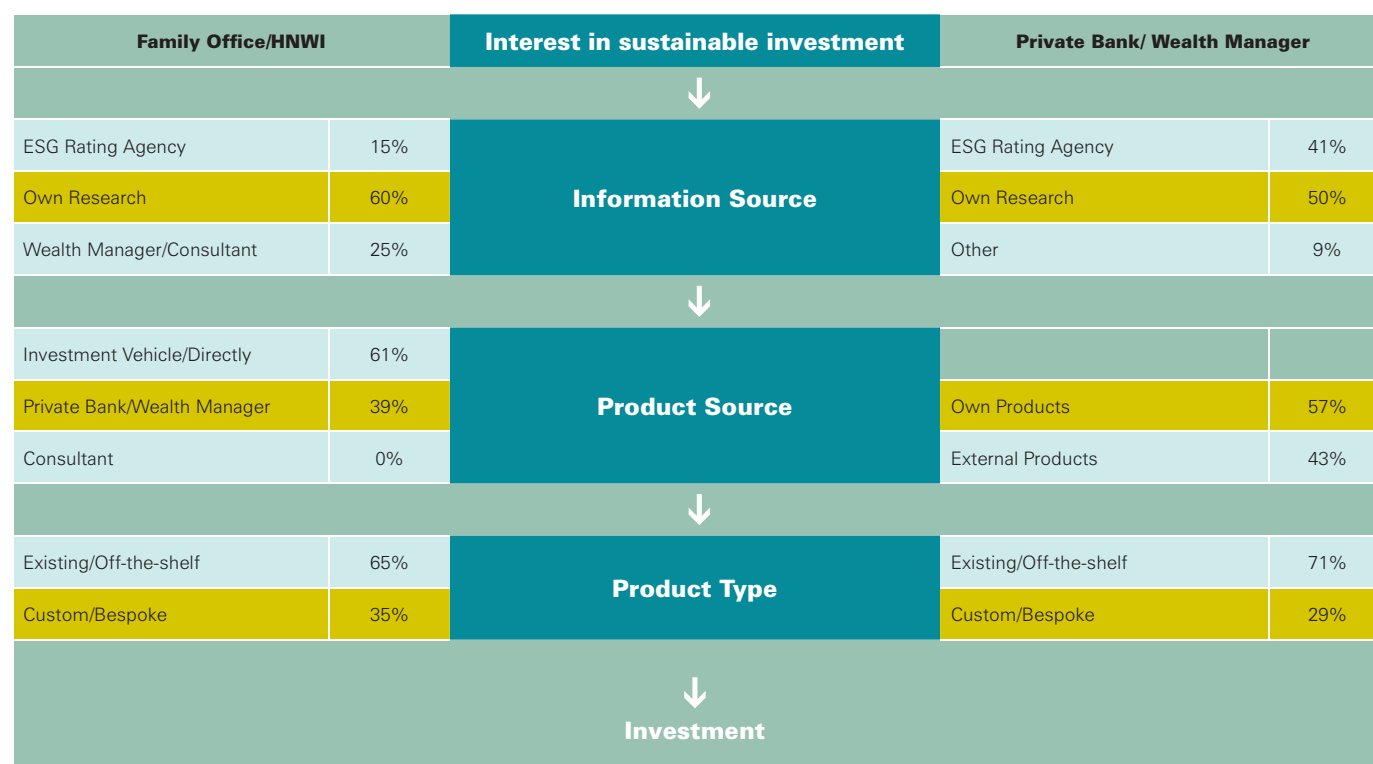
When sourcing information on investments wealth managers use both their own research and ESG rating agencies.

The large role of in-house assessments on both sides is quite surprising bearing in mind that it is time consuming and challenging to source, select, perform due diligence and monitor assets according to their ESG performance. However, one respondent stated, “*ESG Rating Agencies ask sometimes high prices and the information is less clear than Financial Rating Agencies.*” This indicates that not only price, but also lack of clarity and standardisation of sustainability indicators may be barriers to wider adoption of ESG rating agencies in this market.

Family offices source their sustainable investments first from investment vehicles itself (61%) followed by private wealth managers, while none of the respondents in 2012 make use of consultants or advisors. As in the previous years the majority of respondents use existing sustainable investment vehicles, while the minority use bespoke<sup>15</sup> sustainable investments.

It will be interesting to see if this preference for own research will be maintained if family offices and HNWIs expand into emerging markets, which often requires specialist expertise. This is also the case with the use of more exotic long-term investments such as infrastructure, real investments (for example buying tracts of land for forest), and impact investing.

**FIGURE 12** The demand/supply-chain of SRI



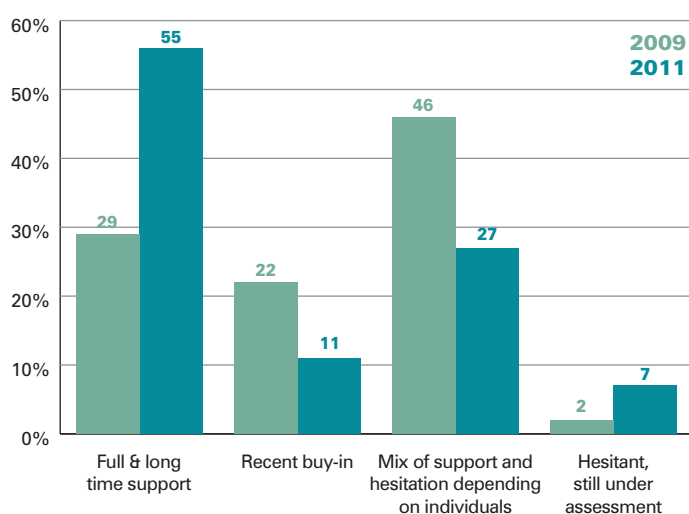
<sup>15</sup> Custom-made investment vehicles specific to individuals' requirements.

## 5/ CHARACTERISTICS OF INVESTORS AND THEIR ADVISORS

### RESPONDENTS' ORGANISATIONAL CULTURE

Remarkably, more than half of respondents (55%) in 2011 have a culture of full and long time support towards sustainable investment, compared to 29% in 2009. This clearly shows a shift from the recent buy in and mix of support and hesitation categories to full support.

**FIGURE 13** Attitudes to Sustainable Investment



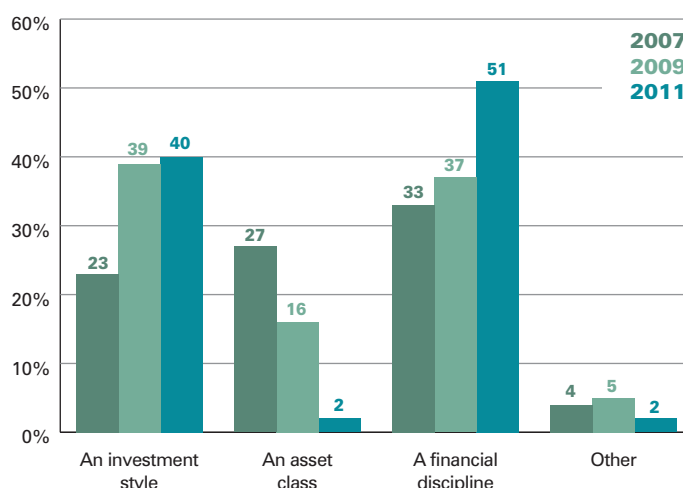
Source: Eurosif, 2012

However, full support does not mean that all assets are placed in sustainable investments. Therefore, while the battle to win the hearts and minds may be over as more and more investors and organisations see the need for considering sustainability in financial investments, the battle for the wallet has not yet concluded. The increase in the category hesitant reflects a number of new respondents to the survey, who were interested but not yet convinced of the merits of sustainable investments or uncertain how to approach it.

### PERCEPTION OF SUSTAINABLE INVESTMENT

It can be difficult sometimes to agree on what sustainable investment is in financial terminology. In the 2008 study Eurosif stated that the perception of sustainable investment as a financial discipline will gain greater credence, based on discussions with respondents indicating that better information in the marketplace will increasingly allow them to integrate ESG information into their overall funds management approach. The results in Figure 14 indicate that this forecast turned out to be accurate, as the view of sustainable investment as a financial discipline has overtaken the view that it is an investment style.

**FIGURE 14** Perceptions of Sustainable Investment



Source: Eurosif, 2012

51% of the respondents in 2011 view sustainable investment as a financial discipline compared to 37% and 33% in 2009 and 2007, respectively. Only 2% now define sustainable investment as an asset class showing a strong decrease from previous years (27% in 2007, 16% in 2009), and essentially burying that perception.

One respondent comments: "Sustainability is not an investment style which serves as a diversifier within a traditional portfolio. It is rather an investment and research concept which requires integration into all asset classes. When designing sustainable investment portfolios it is important to consider traditional criteria such as small/large cap biases, value/growth biases, momentum, diversification, Beta exposures, etc. Moreover, a sustainable portfolio needs as much dynamic management and alignment to the financial market environment (asset allocation management) as traditionally managed portfolios."



## TYPOLGY OF INVESTORS

The investors most interested in sustainable investment, according to the respondents from private banks and wealth managers are women, entrepreneurs, the ultra-wealthy and the younger generation. Does this mean that the dream client for a private bank specialising in sustainability investments is an ultra-wealthy young female entrepreneur? Perhaps, but the reality is more nuanced.

As in previous years' surveys, the only consensus is around interest in sustainability investments from women. None of the respondents state that men are more interested than women. As one respondent puts it: *"Female clients are more interested, they are more looking for personal values being reflected in investments."*

In the age bands, more respondents say that the younger generation is relatively more interested, but some also say that older HNWI are more interested. For the younger investors this does not necessarily coincide with either entrepreneurial wealth or inherited wealth, as both appear to have an interest in sustainability investments. For the older investors, the interest mostly stems from an interest in using sustainable investments to enhance long-term (intergenerational) risk management.

Finally the countries where most of the HNWI in the survey sample originate from are Switzerland, France, Germany, UK, Belgium, Scandinavia and the Netherlands.

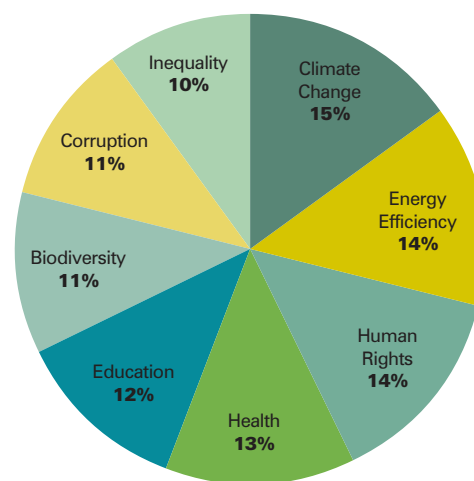
## SUSTAINABILITY ISSUES

The strong interest on environmental and social aspects in the investment process is also reflected in the sustainable issues in which HNWI are interested. Using a weighted scoring model calculating the proportion of all responses, 38% weight is given to environmental concerns and 35% to social issues. Governance, the third part of the ESG assessment is of importance for 27% of respondents, perhaps a reflection that most sustainability themed assets are focused on environmental and/or social issues.

In Figure 15, we see that environmental issues (climate change and energy efficiency) followed by social issues (Human Rights, Health and Education) are more important though the difference to governance issues (Inequality and Corruption) is very minor. This is a change from previous years, where environmental issues were of higher concern, whereas this year everything is important. This could reflect a case of increased awareness of multiple issues in sustainability, but also signals a shift from focusing on sustainability

issues in order to outperform the market by focusing on new technologies associated with sustainability product demand to a more holistic sustainability risk assessment. If more aspects of sustainability are becoming important, then that is an indication that sustainability indicators that may have more of a downside risk than an upside opportunity, such as corruption and human rights are becoming more integrated into the investment selection. It is also worth noting that there is almost no difference between family offices and wealth managers on this point.

**FIGURE 15** Relative Importance of Sustainability Issues



Source: Eurosif, 2012

However, not everyone shares this sentiment. For example, one respondent believes that the concentration on the environmental aspects will even face a stronger increase, while social and governance issues will be less covered: *"Sustainability issues in the narrow sense (e.g. climate change related investment, water, energy) will increasingly integrate with the mainstream. Areas such as human rights and ethics will remain less broadly adopted."*

## CASE STUDY 2

### FEMALE HNWIS

The very first HNWI client at Bank Sarasin who was interested in a discretionary mandate with a special emphasis on environmental issues was a woman. That was back in 1990. Later, when the Bank offered “purely” sustainable discretionary mandates on a standardised basis the product specialist accompanying the relationship managers realised that they had more contact with women than could be expected based on the gender structure of the bank’s overall client basis.

In 2008, Sarasin decided to take a (first) closer look into this phenomenon. The study conducted in that year provided not only a confirmation of this impression, but brought additional insight – some of it rather surprising.

While it may appear trivial, it is important to emphasise that female HNWIs are not a homogeneous group of investors, and are in this respect no different from their male counterparts. One concrete example is the perception by clients of events especially designed for women: A majority enjoy these, but there is also a significant group that explicitly does not wish to be “treated differently”.

Nevertheless, there are on average some differences in expectations and behaviour between the two groups that appear to arise from differences in factors such as knowledge, (sources of) fortune, and the experience as a mother, which implies personal interest in social issues, including the needs of the next generation.

Women are generally more risk-averse than men. This is mirrored in their risk appetite when defining investment strategies for their portfolio. When asked about what is important to them they quite often express their wish for “sensible” and “non-damaging” investments resulting in three outcomes:

- 1) A majority would accept a lower return in exchange for the certainty that their fortune is indeed invested into something “sensible”.
- 2) Women are highly concerned about the risk of green-washing and thus are looking for transparent processes and analyses.
- 3) The sustainability of the asset manager itself is important because it is perceived as a strong proxy for credibility (“walking the talk”). Not surprisingly, we can discern a tilt towards “small is beautiful” from the fact that large banks were heavily suspected of short-termism.



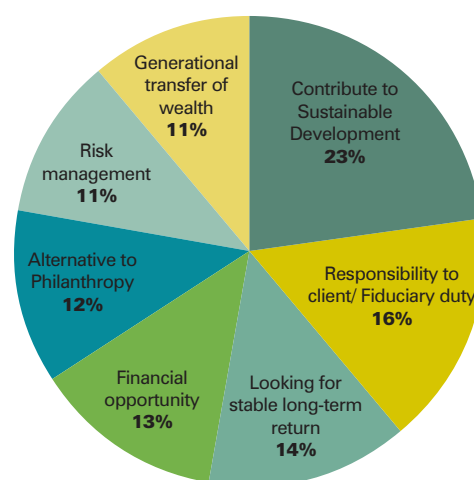
## 6/ MOTIVATIONS AND BARRIERS

The last part of this report concerns motivations and barriers to sustainable investments. This is particularly important to assess the future growth prospects of sustainable investments in institutional and retail markets because family offices and HNWI's tend to be ahead of the curve compared to other investors.

### DRIVERS OF DEMAND FOR SUSTAINABLE INVESTMENT

For the 2012 survey Eurosif made some changes to the categories of this section to get a more detailed picture of the demand. Where we compare answers with previous years' data this has been adapted to ensure comparability. As shown in Figure 16, the most important driver of demand for sustainable investment is contribution to sustainable development. This category has been added for the first time in 2012. Eurosif generally uses the Brundtland Report definition of sustainable development (see footnote 1), stating "Sustainable Development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs." This implies that environmental, social and economic objectives are incorporated in the development process to meet present and future needs. This indicates that HNWI's invest in sustainable products with the motivation to value environmental, social and economic aspects in their investments, and that sustainable investments are not generally seen as having to make a trade-off between societal and financial interest but rather pursuing the value proposition of both.

**FIGURE 16** Motivations for Sustainable Investment 2011



Source: Eurosif, 2012

Looking at the differences between wealth managers and family offices in this question in the ranking of the most important motivations in Figure 17, it is interesting to note that contribution to sustainable development is the top answer for both segments. The main differences are that for wealth managers, using sustainable investment as an alternative to philanthropy is more of a motivation for wealth managers, whereas generational transfer of wealth is more important to family offices. Undoubtedly there is a lesson here for wealth managers, and findings by Bauert and Smeets show wealthy investors in social banks in the Netherlands are significantly less likely to be extreme value-driven but more likely to be financially-driven<sup>16</sup>.

**FIGURE 17** Relative Ranking of Motivations (high to low)

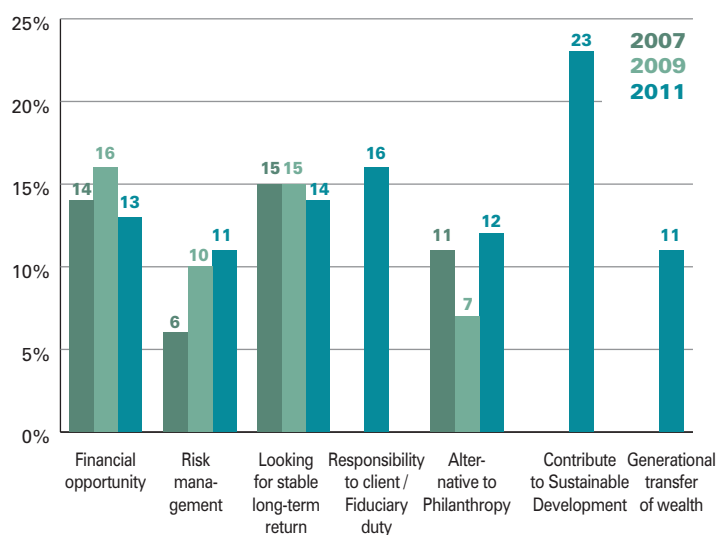
		Family Offices/HNWIs	Wealth Managers/Private Banks
Motivations Ranked by Importance	1	Contribute to Sustainable Development	Contribute to Sustainable Development
	2	Generational Transfer of Wealth	Responsibility to Client
	3	Financial Opportunity	Looking for Stable Return
	4	Looking for Stable Return	Alternative to Philanthropy
	5	Risk Management	Financial Opportunity
	6	Responsibility to Client	Risk Management
	7	Alternative to Philanthropy	Generational Transfer of Wealth

<sup>16</sup> Bauer R. and Smeets P., Some Men Invest Like Women, The Influence of Social Values on Investment Decisions and Investor Loyalty, 2010

Before looking at the differences over time, it is important to note that in 2012 the category responsibility has been renamed to responsibility to client/ fiduciary duty. This has been done in order to eliminate the previous confusion of the term responsibility, which may have different meanings for wealth managers and family offices. While wealth managers might see it as the responsibility towards their clients, family offices might understand it as responsibility towards the environment and society. Figure 18 shows that 16% of the respondents recognise that to completely fulfil their fiduciary duty they need to offer products with both a good financial and ESG performance to their clients. Indeed, one respondent notes that: *"For all SRI products, especially impact investments, you must conduct thorough financial due diligence after the 'social' due diligence. If either 'financial' or 'social' tests do not pass yours or your clients criteria, the investment is not a suitable one."*

Risk management has continued to increase as a motivation and is now as important as stable long-term returns and the financial opportunity as drivers for sustainable investment products. Various academic research results show a negative correlation between high rated ESG companies and risk exposure. Deutsche Bank reviewed around 100 academic studies with the majority of results showing that firms with high ratings for CSR and ESG factors have a lower risk measured by the cost of equity and/or debt (both loans and bonds) in the short run and a financial outperformance<sup>17</sup>.

FIGURE 18 Motivations for Sustainable Investments 2007-11



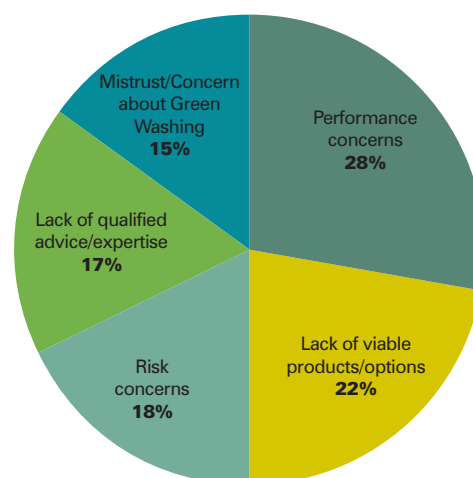
Source: Eurosif, 2012

Surprisingly, sustainable investments are to a larger extent seen as an alternative to philanthropy compared to previous years. However, this is driven by wealth managers, whereas for family offices it has decreased. There is perhaps confusion among some wealth managers about how to approach the growing interest in impact investing, as will be elaborated upon later.

## BARRIERS TO DEMAND FOR SUSTAINABLE INVESTMENT

As in previous years performance concerns are cited as the principal barrier to sustainable investment. At the current stage of development it is still a challenge to cover the interplay between short term and long term financial and societal outcomes. For example responsible investors may invest in a company or industry believing that it has a strong positive societal or environmental performance in the long run, although it is difficult to quantify how these long-term benefits will translate into financial returns in the short run. In addition as long-term performance may depend on unpredictable events it is difficult to quantify the societal and environmental concerns in financial terms<sup>18</sup>.

FIGURE 19 Barriers to Sustainable Investment Demand



Source: Eurosif, 2012

Second to performance concerns the most mentioned barrier is lack of viable products (in terms of liquidity, redemption, etc.). This reflects the pioneer nature of HNWIs, and their extensive use of own research, as existing products may not be suitable for all their demands.

<sup>17</sup> DB Climate Change Advisors, Sustainable Investing - Establishing Long-Term Value and Performance, 2012

<sup>18</sup> Louche C. and Lydenberg S., Dilemmas in Responsible Investment, 2011



As sustainable investment performance is linked to the quality of assessment of sustainable investments products as well as the fund manager advising the client on the best ESG investment products, it is interesting to see that lack of qualified advice and concerns about green washing is less of an issue. One belief is that quality will improve as the market evolves and specialised providers will separate themselves from the rest by incorporating high quality standards and expertise. One of the respondents states that green washers will exit the market due to increased transparency: *"More specialized providers and exit of green washers due to increased transparency. Increasing demands on high quality advice on holistic asset allocation."* In 2012, 15% of answers state concerns about green washing compared to 20% in 2010, which may be an indication that an improvement of transparency in the sector has already taken place.

Finally, looking at risk concerns, there is a perception among some that sustainable investment worsens portfolio diversification, because it may limit the available investment universe. Recent research challenges this belief as for example Hoepner argues that the adaption of a best-in-class responsible investment strategy can improve portfolio diversification through a lower firm specific risk of firm's with strong ESG ratings. Compared to best-in-class, negative-exclusion ESG screening strategies may lead to an increase of correlation amongst stocks, thereby putting a penalty on diversification<sup>19</sup>.

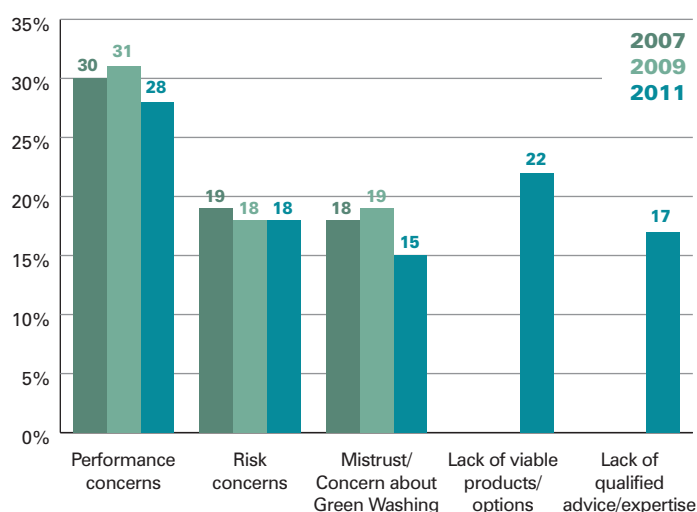
Having said this, there is a notable difference in perception of barriers between family offices and wealth managers. As seen in Figure 20, there is consensus around the lack of viable products, but family offices are more likely to be concerned about green washing and lack of qualified expertise/advice than performance concerns or risk concerns compared to wealth managers.

**FIGURE 20** Relative Ranking of Barriers (high to low)

		Family Offices/HNWIs	Wealth Managers/Private Banks
Barriers Ranked by Importance	1	Lack of viable products	Performance Concerns
	2	Mistrust/Green washing	Lack of viable products
	3	Lack of Qualified Advice	Risk Concerns
	4	Performance Concerns	Lack of Qualified Advice
	5	Risk Concerns	Mistrust/Green washing

Looking at the evolution of barriers over time, there is remarkable stability of factors despite two new factors being added to the survey.

**FIGURE 21** Barriers to Sustainable Investment 2007-11



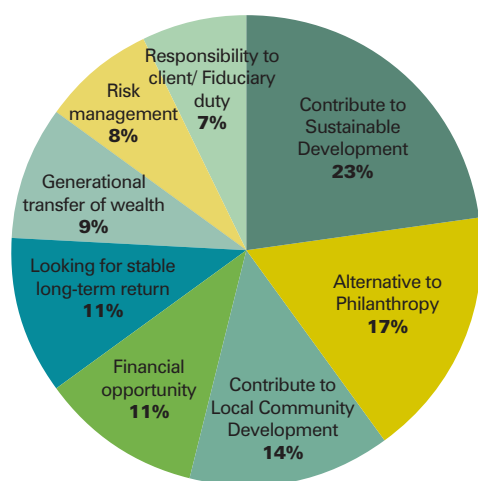
Source: Eurosif, 2012

<sup>19</sup> Hoepner A.G.F., 2010, Portfolio Diversification and Environmental, Social or Governance Criteria - Must Responsible Investments really be poorly diversified?, 2010

## MOTIVATIONS FOR IMPACT INVESTING

The results of the study show an impressive increase of interest in impact investments by HNWLs. The enthusiasm for impact investment comes from a motivation to contribute to sustainable and local community development and it is seen as an alternative to philanthropy.

**FIGURE 22** Motivations for Impact Investing

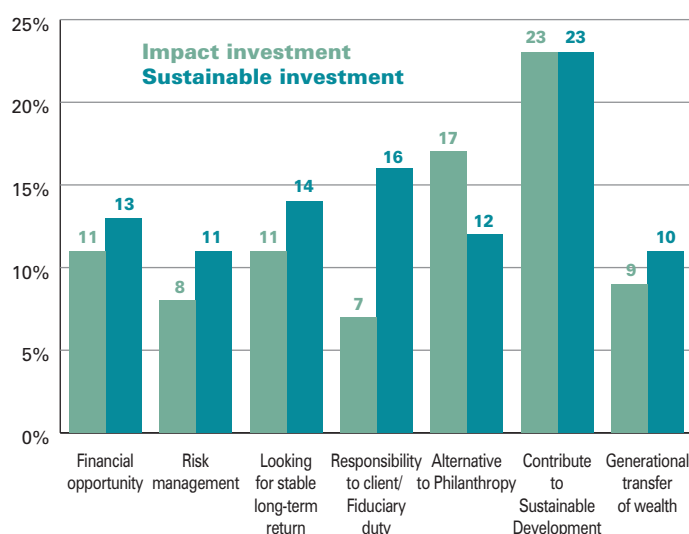


Source: Eurosif, 2012

Frequently HNWLs see impact investment as a more business-like approach to philanthropy. The greatest value of a business family, respectively the founding generation owners is the “entrepreneurial spirit”, with impact investment this spirit can be involved in philanthropic activities as well<sup>20</sup>. A business-like approach focuses on measuring the positive societal outcome thereby reducing the long-standing concerns by HNWLs about the effectiveness of some charitable organisations. It allows them to ensure that their money is really addressing and solving pressing societal challenges. This focus on accountability and their stronger involvement in chosen projects has been intensified by the recession<sup>21</sup>. According to results from a Nesta study, engagement with the Social Enterprise/Charity is the strongest motivator for UK social investors with an “active interest”. Further motivators for HNWLs in the Nesta research include the interest of being an early adopter of a new concept, the possibility to recycle social investment returns, the evidence of social outcomes, to provide an alternative to the decreasing government funding, to encourage business-like behaviour and to benefit from tax incentives<sup>22</sup>. Also in the microfinance sector supporting entrepreneurship and alleviate poverty is more important than financial inclusion, empowerment of women, good risk/return and social impact<sup>23</sup>.

Comparing and contrasting impact investment motivations with sustainable investment shows that the former is seen slightly more as an alternative to philanthropy compared to the latter as shown in Figure 23. Contribution to sustainable development is a motivation for both sectors, while HNWLs see investments into the sustainable investment sector more as a way to manage their risk, to have stable returns, as a fiduciary duty and a generational transfer of wealth. Interestingly, both sustainable and impact investing are motivated by financial interest. This means that Impact Investment is seen by HNWLs more as a financial opportunity than a grant-giving sector.

**FIGURE 23** Comparing Motivations for Impact and Sustainability



Source: Eurosif, 2012

## BARRIERS TO IMPACT INVESTMENT

The lack of viable products/options is the largest barrier for HNWLs to invest in the impact investment sector, followed by risk concerns and lack of qualified advice/expertise. As stated earlier the impact investment sector offers various different options, impact objectives and investment structures, and navigating these approaches and philosophies can be difficult for HNWLs. Understanding the sector better and finding value-aligned impact investment advisors and capable partners is a challenge for many HNWLs. Often this encompasses time consuming research and high due diligence costs due to a lack of comparable data and the small deal sizes<sup>24</sup>.

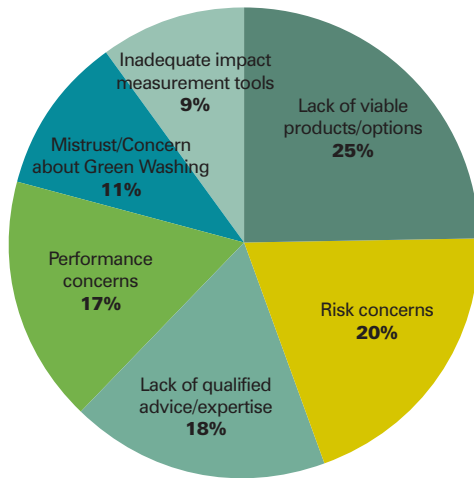
<sup>20</sup> Family Office Management Consulting, 2012, Investment Theme « Impact Investment »

<sup>21</sup> The Economist Intelligence Unit, The new world of wealth - seven key trends for investing giving and spending among the very rich, 2010

<sup>22</sup> Nesta, The Fairbanking Foundation and Ipsos Mori, Investing for the Good of Society - Why and How Wealthy Individuals Respond, 2011

<sup>23</sup> Credit Suisse, Taking Stock of Microfinance: Perception Survey among Wealth Holders and their Advisers in the US, Europe and Asia.

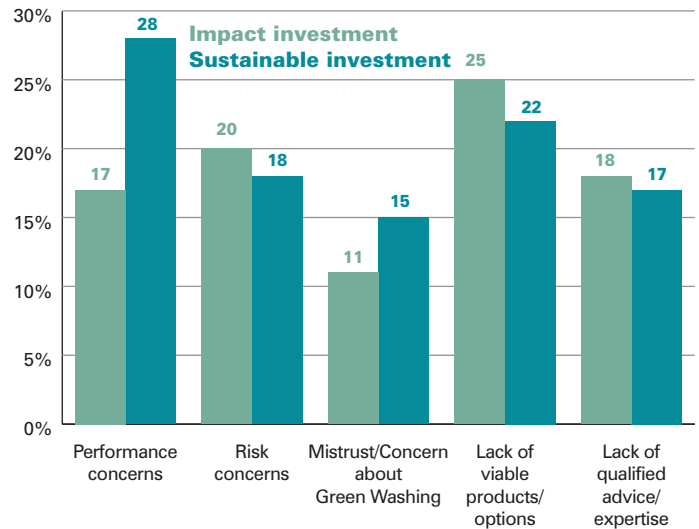
<sup>24</sup> Julia Balandina Jaquier, Guide to Impact Investing for Family Offices and HNWLs, 2011

**FIGURE 24** Barriers to Impact Investing 2011

Source: Eurosif, 2012

Interestingly, only 9% of respondents have a concern about impact investment measurement tools. There is an on going debate in the industry about how to measure the environmental and social impact of these investments, but this does not appear to be a significant concern for HNWI's. In fact the impact investors responding to the survey took care to explain their impact measurement process, one respondent stating that: "For the duration of our holding period, the positive impacts of our investments are safeguarded in our legal documentation and our involvement on the boards of the companies. We use a customised impact scorecard approach to track a handful of meaningful impact and ESG indicators that are tailored to each investment." In addition, several respondents refer to the Impact Reporting and Investment Standards (IRIS), so the result in the survey may be the effect of industry efforts already taking place.

Thus, comparing social impact barriers and financial performance barriers, financial performance is a stronger barrier to invest in impact investment products. It may be that it is still a challenge to provide adequate products with both a good financial and social performance, and it seems that impact investment is seen as a product creating a social value but at the same time having a higher risk exposure when compared to sustainable investment. This is also reflected in Figure 25, which compares barriers for the two types of investment.

**FIGURE 25** Comparing Barriers to Impact and Sustainability

Source: Eurosif, 2012

Finally, several respondents mention the risk related to exit strategies for impact investing, for example: "In the case of equity capital, there are several exit strategies. There can be a sale of the shares to a third-party investor, the social entrepreneur can buy back equity from the investor, or the parties can pursue an initial public offering on a social stock exchange or liquidate the ownership. The buy-back arrangement implies that the social entrepreneur has sufficient funds to buy back the share of the investor." In the case of debt capital, social entrepreneurs can either repay the loan or refinance the loan. If the social entrepreneur pursues refinancing, the same or another social investor must be willing to finance the social entrepreneur for the next few years. If the social enterprise defaults, it can liquidate, make a debt to equity swap or extend the period of the repayment schedule<sup>25</sup>. Adequate exit strategies are therefore important to potential impact investors.

<sup>25</sup> Social Investment Task Force (2011), Social Investment Manual.

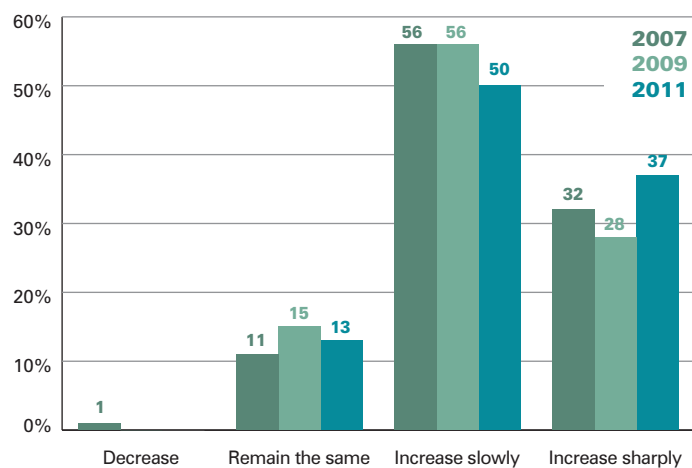
## 7/ CONCLUDING REMARKS AND PERCEPTIONS OF THE FUTURE

Asking respondents to predict the future is always an interesting task, as the diversity of responses to this section shows. The only certain thing, insofar that a consensus of responses provides certainty, is that the markets for both sustainable investment and impact investment will continue to grow.

In the last 12 months, 47% percent of respondents have experienced an increase in interest in sustainable investment, with an average increase in investment of about 25%. Some respondents (26%) have experienced an increase in interest without increase in investment. The remaining 27% have experienced no increase in interest for sustainable investment. In the last survey, 28% of respondents predicted that future (next three years) interest would increase sharply, while 56% said it would increase slowly.

Remarkably, the predicted growth in interest for sustainable investments has been stable over the last three surveys, as shown in Figure 26.

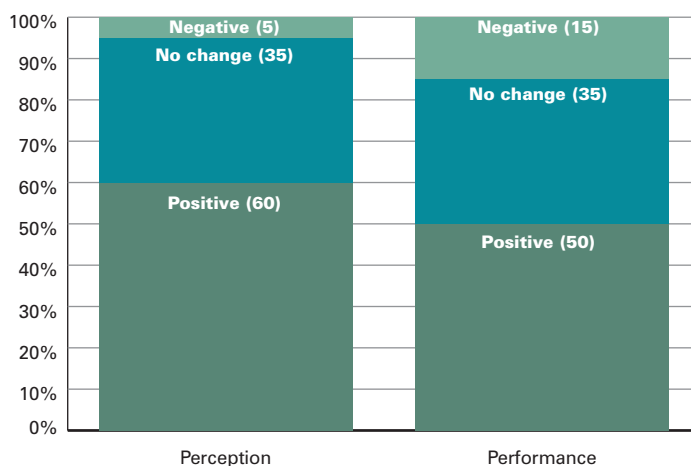
**FIGURE 26** Expected Change in Sustainable Investments by HNWI's



Source: Eurosif, 2012

Could it therefore be that those interested in sustainable investment are unperturbed by the extreme market turmoil in the period 2007-11? The answer to this is no. We see this in the answers to the effect of the crisis on perception of sustainable investments and performance of sustainable investment in Figure 27.

**FIGURE 27** The Effect of the Financial Crisis on Perception and Performance



Source: Eurosif, 2012

The responses show that indeed the perception of sustainable investment has been slightly better than its performance. Does this mean that HNWI's view the world with green-tinted glasses, ignoring the realities of the performance of their green investments? Again, the answer is no. We see that HNWI's do reposition themselves in light of market turmoil in terms of asset reallocation, and a greater focus on growth markets, but not in terms of long-term financial strategy incorporating ESG concerns. Perhaps HNWI's and family offices understand that short-term turbulence does not invalidate a solid financial strategy (after all, in an intergenerational perspective 2007-11 is short term).

Finally, rather than summarise the perceptions of individuals, we conclude with a selection of predictions from respondents to the question: What will sustainable investment look like in 10 years?



“AS MORE COMPANIES WILL ADOPT MORE INTEGRATED REPORTING CRITERIA THE TRUST WILL RETURN AND THEIR CAPITALIZATION WILL INCREASE. WE BELIEVE THAT IMPACT INVESTING IS NOT AN ASSET CLASS BUT A SET OF CRITERIA THAT SHOULD AND WILL BE APPLIED ACROSS ALL ASSET CLASSES. WE ALSO SEE MORE START UP COMPANIES THAT WILL BEGIN WITH AN INTEGRATIVE MINDSET. AS THE MINDSET OF INVESTORS CHANGES (AND BECOMES MORE KNOWLEDGEABLE ABOUT IMPACT INVESTING) THESE NEW START-UPS WILL BE ABLE TO ABSORB MORE IMPACT CAPITAL IN GENERAL NOT JUST CLEAN TECH OR BIO-TECH BUT ALSO HIGH-TECH, MOBILITY. IN 10 YEARS FROM NOW, NOBODY WILL BE TALKING ABOUT SRI INVESTING OR IMPACT INVESTING. THESE (INTEGRATIVE REPORTING) CRITERIA WILL BE SELF UNDERSTOOD AND APPLIED ACROSS THE BOARD.”

“

CERTAINLY BIGGER, BUT HARDLY A DRAMATIC SHIFT IN STRUCTURE: A (SMALLER) CORE OF SUSTAINABLE INVESTMENTS AND (STRONGLY) INCREASING IN NUMBER AND SIZE OF “FOLLOWERS” WHO ARE APPLYING ONLY CERTAIN ELEMENTS (E.G. INTEGRATION, ENGAGEMENT AND VOTING).”

“

NOT QUITE SURE WHY IT WOULD CHANGE. UNFORTUNATELY WE FEEL THERE ARE TOO FEW PEOPLE WHO TAKE INTEREST IN THE ONGOING SUSTAINABILITY OF OUR PLANET AND OUR CULTURE.”

“

ONLY VALID (LONG TERM) INVESTMENT ALTERNATIVE.”

“

THE MARKET WILL BE LARGER, BUT ALSO MORE DIFFICULT TO DEFINE, DUE TO THE MAINSTREAMING TREND.”

“

THE MOTIVATIONS FOR CLIENTS TO BUY SUSTAINABLE INVESTMENT PRODUCTS WILL STILL BE SAME IN TEN YEARS TIME. SUSTAINABLE INVESTMENTS WILL CONTINUE DEVELOP AND MATURE AND FIND EVEN MORE INTEREST, MAINLY AMONGST NOT FOR PROFIT ORGANIZATIONS. ON THE OTHER SIDE, SUSTAINABLE INVESTMENTS WILL NOT DETHRONE CLASSICAL INVESTMENTS IN TEN YEARS TIME. IT IS ALSO POSSIBLE THAT SUSTAINABLE CRITERIA WILL MORE AND MORE BE INTEGRATED BY CLASSICAL INVESTMENT FUNDS.”



## GLOSSARY

<b>Asset manager</b>	Organisation or individual managing investments on behalf of a client.
<b>Asset owner</b>	Owner of investments managed by asset manager.
<b>Best-in-Class</b>	Approach where leading or best-performing investments within a universe, category, or class are selected or weighted based on ESG criteria.
<b>Community investing</b>	Investments into local communities, either directly or through channels such as local community development banks, credit unions, and loan funds. They focus on affordable housing, small business creation, development of community facilities, and the empowerment of women and minorities.
<b>Engagement and voting</b>	Engagement activities and active ownership through voting of shares and engagement with companies on ESG matters. This is a long-term process, seeking to influence behaviour or increase disclosure.
<b>ESG</b>	Environmental, Social and Governance
<b>Exclusions</b>	An approach that excludes specific investments or classes of investment from the investible universe such as companies, sectors, or countries.
<b>High Net Worth Individuals</b>	Individual with more than US\$1 million in liquid financial assets.
<b>Impact investing</b>	Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances <sup>26</sup> .
<b>Institutional investor</b>	Large professional investors such as pension funds for instance. In this Study, Institutional investors may comprise asset managers and asset owners, to the extent the latter manage internally a part of their invested assets.
<b>Integration</b>	The explicit inclusion by asset managers of ESG risks and opportunities into traditional financial analysis and investment decisions based on a systematic process and appropriate research sources.
<b>Microfinance</b>	Microfinance generates a social value by improving access to financial services mostly in emerging and developing economies. Commonly investments into microfinance are channelled through microfinance investment vehicles, which are independent investment funds that allow private and public capital to flow to microfinance institutions.
<b>Norms-based screening</b>	Screening of investments according to their compliance with international standards and norms.
<b>Retail investor</b>	Non-professional investor.
<b>SIF</b>	Sustainable Investment Forum
<b>SRI</b>	Sustainable and Responsible Investment
<b>Social business</b>	Investments made directly or through a fund into social businesses, which have the intention to generate a social and environmental impact alongside a financial return.
<b>Sustainability themed</b>	Investment in themes or assets linked to the promotion of sustainability. Thematic funds focus on specific or multiple issues related to ESG.
<b>Ultra High Net Worth Individuals</b>	Individual with more than US\$30 million in liquid financial assets.

<sup>26</sup> Source : <http://www.thegiin.org/cgi-bin/iowa/investing/index.html>

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The Italian Private Banking Association (AIPB)

[www.worldwiseinvestor.com](http://www.worldwiseinvestor.com)

### List of respondents

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

ABN AMRO

Bank Degroof

Bank Sarasin

Bank Vontobel AG

Banque de Luxembourg

Banque LBLux S.A.

BNP Paribas Wealth Management

Bridges Ventures LLP

Cazenove Capital Management

Cheviot Asset Management

Crédit Agricole Suisse Private Banking

Credit Suisse AG

Dexia Asset Management

Globalance Bank AG

Hauck & Aufhaeuser Banquiers Luxembourg S.A.

Holden & Partners

Ibercaja Pensión, E.G.F.P., S.A.

ING Nederland Private Banking

LGT Venture Philanthropy Foundation

MAD Investing

Petercam SA

Quadia S.A. Impact Finance

Rabobank

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Sustainable Capital

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### ABOUT EUROSIF

EUROSIF, the European Sustainable Investment Forum, is the leading European membership association whose mission is to develop sustainability through European financial markets. It was founded in 2001 and works as a partnership of the national Sustainable Investment Forums (SIFs) and with the support and involvement of Member Affiliates. The eight national SIF members of Eurosif are based in France, Germany, Italy, the Netherlands, the UK, Belgium, Spain and Sweden. Eurosif's Member Affiliates include institutional investors, financial services providers, academic institutes and NGOs.

Membership of Eurosif is open to organisations with a commitment to SRI at a European level. A current list of Member Affiliates is published on [www.eurosif.org](http://www.eurosif.org).

The main activities of Eurosif are public policy, research and creating platforms for nurturing SRI best practices.

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