



| 2008

High Net Worth Individuals & Sustainable Investment

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FOREWORD FROM EUROSIF

Effectively addressing 'Sustainability' is one of the most pressing challenges worldwide today. Humanity's footprint first outgrew global biocapacity in the 1980s, and at the current rate, it takes at least fifteen months for the Earth to produce the ecological resources used in a single calendar year.¹ Investors have an important role to play in reducing this footprint by combining sustainability issues with an investment rationale for win-win results.

Since its foundation, Eurosif has focused on specific aspects of the EU financial markets to illustrate ways in which investors can and do play a meaningful role in addressing sustainability issues – this has ranged from attention to public equities to venture capital. This new study focuses on the rapidly growing **High Net Worth Individual (HNWI)** category, a diverse group that nevertheless is collectively combining social responsibility with substantive financial returns.

There are a number of different studies looking into the HNWI market, but this is the first-ever study to specifically address the **European HNWI sustainable investment market**. You will find in this survey current investment trends, strategies, opportunities and obstacles that HNWIs face today. We have included pertinent quotations that we found through our interviews as well as examples of current practices of private banks and family offices around sustainable investment. Eurosif expects this work to be a helpful tool for their efforts to better understand and meet the growing demand for products and services in this exciting market. Over time, we expect sustainable products and services to be developed for the HNWI market that address a range of wealth management needs, beyond just investment solutions. Eurosif looks forward to tracking these trends in future studies.

Whether you are an HNWI, a private bank or an interested sustainable investment actor, we believe the **High Net Worth Individuals & Sustainable Investment** study will better clarify this dynamic space and may even inspire you to enter this area.

Sincerely,

Matt Christensen
Executive Director
 Eurosif

Robin Edme
President
 Eurosif

¹ The Ecological Footprint measures humanity's demand on the biosphere in terms of the area of biologically productive land and sea required to provide the resources we use and to absorb our waste. Source: WWF "Living Planet Report 2006"

FOREWORDS FROM OUR SPONSORS

BANK SARASIN & CO. LTD

On 1 November 1986, a chemical warehouse at Schweizerhalle near Basel was destroyed by a fire. Due to the inflow of toxic, red-coloured fire fighting water, aquatic life in the Rhine River suffered severe damage all the way to the North Sea. This shock came on top of the meltdown of the Chernobyl nuclear power plant in April of this annus horribilis. Those incidents – with one being right on our doorstep – led the people living in Basel, which is a city interspersed with large chemical and pharmaceutical plants, to change their perception.

As one consequence, the financial analysts of Bank Sarasin began to pay attention to the risks and opportunities for companies from an environmental perspective. But who would be willing to listen to them? It was a number of individuals among our private banking clients who took a keen interest in applying this new investment philosophy from its very beginnings. The subsequent dialogue with them led to further innovations in the years to follow. Today, the approximately €5 billion we are currently managing according to sustainability criteria originate from all segments: retail, institutional and of course private clients.

When Eurosif asked us to support a study specifically addressing the European HNWI sustainable investment market there was no hesitation. As High Net Worth Individuals are our partners from the very beginning we wanted to know more about their current thinking and future needs. The results of the study clearly show that wealthy investors are at the very heart of sustainable investment. Additionally, this study clears up the distorted picture that large private capital owners are responsible for most ecological and social problems of today. The investment strategy of High Net Worth Individuals is NOT part of the problem – but part of the solution!

Sincerely,

Andreas Knörzer
Executive Director



KPMG

KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. We have over 123,000 outstanding professionals working together to deliver value in 145 countries. We are especially proud to be among the world's leading Financial Services advisors – employing over 20,000 professional staff providing focused services to the banking, insurance, investment and wealth management sectors.

This experience allows us to understand how sustainability factors are increasingly shaping international capital markets and what product development and broader service opportunities will be available to financial institutions and other key stakeholders. It also enables us to identify what business practice re-engineering is required to capitalize on such opportunities and to help mitigate risks in a rapidly changing global environment.

We are delighted to be working with Eurosif in tracking what we believe will be seismic shifts in the institutional, high net worth (HNW) and retail wealth management markets. In particular, as a global industry segment forecast to grow dramatically by 2012 (Eurosif), the HNW market can be seen as a natural base for the extension of sustainability trends incubated in institutional investment markets and a key influencer of broader consumer demand.

Ultimately, the international HNW market may also provide a significant source of private sector capital to complement public sector funding of sustainability focused industries, products, services and business practices. Its potential relevance therefore to financial institutions, governments and regulators as both a source for sustainable business growth and contributor to the success of global emission reduction strategies should be noted.

Sincerely,

Tom Brown
Partner
Head of Investment Management in Europe



EXECUTIVE SUMMARY

HNWI & SUSTAINABLE INVESTMENT

The role of High Net Worth Individuals (HNWIs) is increasingly becoming relevant to investors that are seeking returns while engaging on sustainability issues. This inaugural study on the EU HNWI and sustainable investment market finds that there is indeed significant interest in this space, and it is growing quickly.

There are three drivers in the intersection of HNWIs and sustainable investing which will result in a shaping and growing of the overall SRI market in the coming years:

- The amount of wealth available for investing by this group is at an all time high and projected to expand further.
- The demand for 'sustainability criteria' as an offering within this sector is growing largely due to a generational shift in thinking about capital growth and preservation as well as financial out-performance prospects.
- The HNWI market traditionally acts as an early signal of investing appetite for future asset allocations of more mainstream institutions.

Although fairly recent, the Eurosif survey shows that the interest in the field is now significant. The market is in an early, high growth phase with 72% of respondents seeing an increase in HNWI interest for sustainable investment in the last 12 months, principally driven by market demand. In spite of the recent market turmoil, 87% of respondents think the interest for sustainable investments will grow in the next three years. Moreover, 75% of surveyed family offices think that sustainable investment will increase in the generational transfer of their family's wealth.

Eurosif estimates that sustainable investments represent approximately 8% of European HNWIs' portfolios as of December 31, 2007 and predicts that by 2012 the share will have increased to 12%, surpassing the €1 trillion mark. The sustainable investment strategy most often employed among HNWIs is thematic investment, with clean energy and water as their preferred sustainable themes.

The study shows that HNWIs are open to new and alternative sustainable investments. Eurosif believes that servicing the HNWI segment offers great opportunities for product innovation which could eventually prove useful for other investor segments such as institutional investors. About a third of sustainable products are currently bespoke sustainable investments, which are vital to product development.

At the present time, HNWIs often rely on a close circle to find the right sustainable investment opportunities that respond to their specific needs; this is partly due to a lack of appropriate product offerings but also equally due to wariness of wealth manager motives. In order to service this market effectively, it requires wealth managers to gain a comprehensive understanding of HNWIs' goals – both financial and sustainable. The main drivers of demand for sustainable investment are responsibility, the search for sustainable return and financial opportunity.

To effectively service this quickly growing market, Eurosif believes the following are essential:

- A clear understanding of HNWI investors' motives around sustainable investment, in order to develop or find the proper financial products that share and reflect their concerns.
- Demonstrable examples of market rate performance to convince HNWI clients that sustainable investment can perform as well as other traditional investments.
- Improved information and education on sustainable investment for the HNWI and wealth manager communities.

We hope this study is a first step towards better understanding and meeting the growing demand for products and services in this dynamic market. Based on the findings of this survey, Eurosif is convinced that the growth of HNWI interest in sustainable investment will steadily correlate towards a greater openness to integrate these issues into other levers of society.

BACKGROUND I.

WHAT IS SUSTAINABLE INVESTMENT?

Eurosif defines Sustainable Investment² 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 up to 15% of the European institutional financial markets, 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.

Examples of sustainable investment used by HNWIs include **negative screening** (excluding sectors such as weapons, tobacco, etc. from a fund); **positive screening** (investing in companies with a commitment to responsible business practices or that produce positive products); **thematic investing** based on sustainable issues (clean energy, water, climate change, lifestyle, etc.); and **community investing** (underprivileged economic and geographic areas). Sustainable investment is now applicable to any type of financial product (stocks, bonds, public debt, private equity, property, etc.) even though it was originally mostly applied to publicly listed companies.

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 policies to be the key input while others will point to the company's human rights practices as the critical issue. It is this sort of complexity that makes sustainable investment a dynamic field where ESG considerations, properly integrated, can lead to financial out-performance.

WHY RESEARCH HIGH NET WORTH INDIVIDUALS & SUSTAINABLE INVESTMENT?

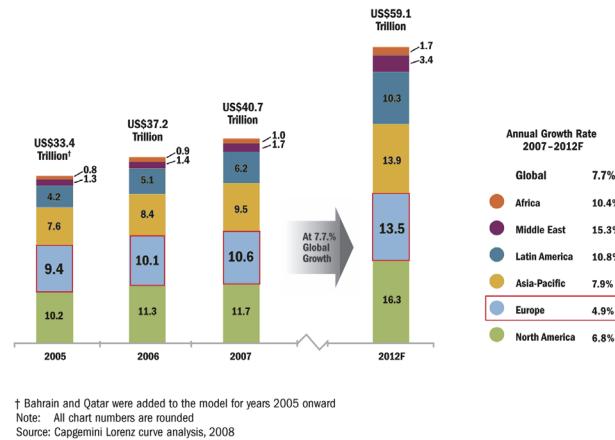
The High Net Worth Individual (HNWI)³ market has been growing at an increasing clip over the past decade. The importance of this market is only now becoming clear to practitioners who traditionally service the SRI institutional and retail SRI market. Eurosif believes there are a number of trends that will result in a closer connection between HNWI and sustainable investing in the years to come,

yielding positive effects for the entire market:

First, the amount of wealth available for investing by this group is at an all time high and projected to expand further with the coming retirement of the baby boomer generation. In Europe, the HNWI population was estimated to be 3.1 million in 2007, with a total wealth of \$10.6 trillion (€6.75 trillion), an increase of 5% since 2006.⁴ This amount is forecast to reach \$13.5 trillion in 2012 as illustrated in Figure 1. Globally, HNWI wealth is forecast to grow to US\$59.1 trillion by 2012. This vast pool of funds will offer liquid, international product development opportunities for sustainability aware providers, which European HNWI can be expected to continue to tap into.

FIGURE 1

HNWI Financial Wealth Forecast 2005 – 2012 (By regions) \$US Trillions



Second, the demand for 'sustainability criteria' as an offering within this sector is growing largely due to a generational shift in thinking about capital growth and preservation (as evidenced later in the report) as well as financial out-performance prospects. Global fund managers and asset allocation consultants are increasingly highlighting the link between ESG performance, corporate performance and the delivery of shareholder value on a medium to long term basis – which typically corresponds with HNWI investment timeframes and wealth management horizons.

An illustration of this shifting perspective manifested itself in the 2007 World Wealth Report, a mainstream publication by Capgemini & Merrill Lynch; for the first time ever, a section of the study was devoted to the growing demand for socially responsible investments. In their financial advisors survey, respondents were asked

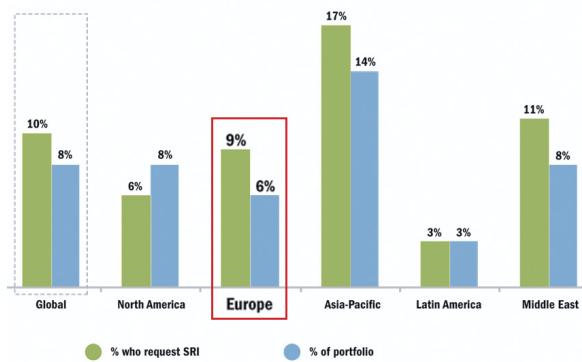
² also called Socially Responsible Investment (SRI) or Responsible Investment (RI). In the context of the HNWI market, we think the term "Sustainable Investment" is more appropriate and it will be used throughout the report, although some mentions of SRI will occasionally be cited. A glossary is available at the end of the report.

³ HNWIs are defined as individuals with more than \$1 million in financial assets, excluding primary residence. In this report, our references to HNWI include both High Net Worth Individuals and family offices. Please see glossary.

⁴ "2008 World Wealth Report" Capgemini & Merrill Lynch. Exchange rate from USD to Euro as of June 9, 2008.

how often their clients requested SRI screens and how much of their current portfolios were dedicated to this strategy. As illustrated in Figure 2, in Europe it was estimated that 6% of the overall HNWI funds were in SRI.

FIGURE 2
HNWIs' Interest in Socially Responsible Investments, 2006 (%) (by regions)



Source: Capgemini / Merrill Lynch Financial Advisor Survey, March 2007

Further, as sustainability reporting, emission trading schemes, carbon markets and international government commitments to emission reduction targets continue to evolve, so too will **emerging industry opportunities on a global basis**. Such developments, complemented by appropriate regulatory frameworks and public funding will provide the mechanism for directing private sector capital (including HNW investment) towards sustainably focused companies and industry sectors. By way of example, it is forecast that investment in sustainable energy sectors will need to treble to \$450 billion a year by 2012 in order to meet stated global emission targets. Global carbon markets grew to \$64 billion in 2007, an increase of 123% over 2006 (the EU ETS also saw a doubling of both the value and number of allowances transacted to the tune of €37 billion).

Lastly, the HNWI market traditionally acts as an early signal of investing appetite for future asset allocations of more mainstream institutions. The current HNWI interest in this space should lead mainstream investors to augment their asset allocations towards more sustainable investments over time. As an example, HNWIs were early adopters of mainstream venture capital and hedge fund products, which today have now found their way into the greater mainstream portfolios of pension funds and other institutional investors. Similarly, HNWIs are currently at the forefront of the present trend to invest in venture

capital that is also integrating sustainability criteria (VC4S).⁵ In Eurosif's recent study "VC4S - Venture Capital for Sustainability 2007", one of the findings was that the most prominent investors allocating capital into VC4S funds were HNWIs/family offices (32%). This asset class has now crossed into the institutional market with mandates for sustainable private equity steadily appearing throughout much of the EU.

Eurosif strongly believes that these trends impacting the HNWI segment will yield benefits to the greater sustainable investing community. SRI practitioners will have a greater opportunity to penetrate an area that has still largely been untapped and represents great potential. A case in point is that wealth management divisions of financial institutions have not traditionally developed close ties with their SRI colleagues, but we found evidence that they are now seeking understanding and solutions for a growing client demand. Finally, the cross-over between the HNWI segment and decision makers who sit on Boards, influence public policy and act as stewards for communities should not be underestimated – Eurosif considers that the growth of HNWI interest in sustainable investment will steadily correlate towards a greater openness to integrate these issues into other levers of society.

GOAL OF THE STUDY:

Eurosif recognises and applauds the initiatives that have examined this area, some as by-products of specific studies on HNWIs as well as more focused publications on sustainable investment. Information previously available includes the earlier mentioned studies by Capgemini & Merrill Lynch, an UKSIF survey on HNWI demand in the UK, and a study released in January 2007 by the UNEP FI Asset Management working group on the scope of Environmental, Social and Governance (ESG) issues in the Swiss private banking sector.⁶ Eurosif's aim is to build on the earlier works by canvassing a European-wide net and adding more depth to what is currently available.

This is the first comprehensive, European-wide study on questions regarding the sustainable investment strategies used by HNWIs in their asset allocations and to what extent they integrate ESG issues into their investment decision-making and ownership practices. The aim of this European-focused study is to:

- Provide a better picture of the overall European market,
- Unveil any discrepancies that may exist between

⁵ VC4S is a fast-growing, new segment within venture capital where profit objectives are supplemented by a mission which has direct impacts on sustainability.

⁶ UNEP Finance Initiative "Unlocking Value: the scope for ESG issues in private banking".

- intermediaries and final clients in their discussions and perceptions about sustainable investment,
- Identify innovative ways to respond to the growing demand,

- Discuss obstacles and challenges for HNWIs and wealth managers and,
- Foreshadow future market developments.



II. METHODOLOGY AND SCOPE OF RESEARCH

SURVEY

Eurosif surveyed two different segments of this market: wealth managers (supply side) and HNWIs and family offices (demand side)⁷ in Europe. By surveying both sides, Eurosif was able to assess the understanding of sustainability between the two camps and gauge if there was a latent demand for sustainable investments by HNWIs untapped by wealth managers.

In this first attempt to examine the European market for HNWIs and sustainable investment, it was important to limit the scope of our study. For example, HNWIs often use philanthropy and increasingly, venture philanthropy, as a means to better society. This study does not include that segment as sustainable investors expect market rate returns while it may not be the case for philanthropic investors.

Whilst this study is limited to investment activities focusing on market rate returns, Eurosif recognises the importance of broader asset and liability management issues to the generation and preservation of HNWI wealth. In this regard, Eurosif expects sustainability aware products and services addressing these broader issues to become a feature of private bank and family office service offerings to the HNWI market and expects to track such trends in future studies.

Another factor that Eurosif considered was the capacity to reach a significant number of EU HNWIs and wealth managers within a limited time frame. Eurosif approached close to 400 organisations for the survey. The assistance of various distribution partners (associations of private banks, networks of family offices, etc.) was also essential in disseminating Eurosif's survey to organisations or individuals that usually shy away from exposure. This approach, while not allowing for a reach of the entire European wealth manager and HNWI community, was deemed more time and cost effective and believed to cover an important portion of the existing European HNWI and sustainable investment market.

METHODOLOGY

A survey⁸ of about 30 questions was distributed by email between March and June 2008. A series of follow up phone interviews was conducted for clarification and research for case studies. The return rate on the questionnaire was over 20%. The answers in this study reflect the self-selection inherent among those who chose to respond. Readers should keep in mind that those who responded are either already involved in sustainable investing or interested by the topic.

Additionally, many of the graphs in the study clearly delineate responses from HNWIs and private banks so that readers can tease out some of the differences and similarities between demand and supply side within the sector. Unless specified otherwise, the figures and averages discussed in the report refer to the whole sample of respondents (HNWIs and wealth managers combined).

⁷ When analysing the results of our survey, the term "HNWIs" refers to the demand side segment, including both HNWIs and family offices.

⁸ See full questionnaire in the appendix.

MARKET RECEIPTIVITY

III.

A NEW FRONTIER

"In 2007 we defined SRI as one of the most interesting asset classes of the future and thus as part of our core business. In the long term we recommend every one of our clients to invest 10% in SRI products. The share of (private) clients asking actively for SRI products is small – but when informed about SRI by the bank the response is enormous: thus the development of the SRI market will depend heavily on supply strategies of financial institutions." Wealth Manager

For the most part, HNWIs and wealth managers were reticent in tackling sustainability issues through their investing until recently. As seen in the quotation above, part of that reticence may have been due to the lack of effective proactive marketing and sales efforts. Today, the interest in the field is significant. Eurosif uncovered three stages to the evolution in the growth of the sector as illustrated in Figure 3:

Stage one: From 1988 – 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.

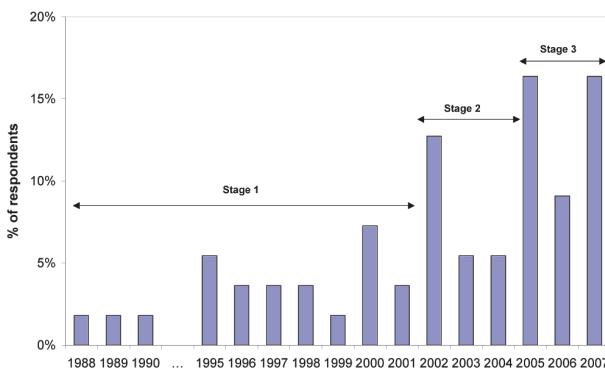
Stage two: Following the 2001/2002 dotcom crash and series of scandals (Enron, Parmalat, Tyco) and through 2004, sustainable service offerings increasingly became institutionalised. In particular, there was an increase in demand for investments taking into consideration issues such as corporate governance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

Stage three: Since 2005, there has been a significant interest in thematic investing, through both public and private equity, bringing newcomers into this field, sometimes from large mainstream banks. (⊕ see case study on BNP Paribas) The year 2007 has seen the most new entrants in this area so far and Eurosif found that new offerings are being planned going forward, in spite of and because of the recent market turbulences.

In addition to thematic trends and increasing allocations to SRI products on an "alternative asset class" basis (see quotation above), Eurosif also expects to see greater ESG integration in HNWI core portfolios going forward, particularly as reporting, research analytics, regulatory and product development initiatives evolve. As noted, these moves are expected to be complemented by the development of sustainable products and services across a range of other disciplines also relevant to the management of HNWI wealth.

FIGURE 3

Date of First Sustainable Services Offering



Source: Eurosif HNWI & Sustainable Investment Survey, 2008

RESPONDENTS' CULTURE

The responding organisations were split between those who have 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. Nevertheless, a finding that impressed Eurosif was that 30% of those surveyed consider sustainable investing as part of their core portfolio. In discussions with family offices and private banks, we established that where there is a culture of support for sustainable investing within the family office or wealth management institution, integrating ESG criteria becomes an important part of fund management. One family office explained "sustainability is behind much of our family office's investment strategy with specific allocations that utilise best-in-class or focused thematic investing."

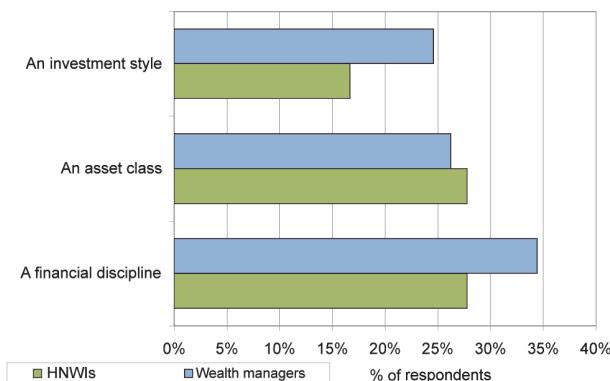
Given such moves and increasing research highlighting the positive links between ESG performance, corporate performance and shareholder value, Eurosif expects that views of sustainable investing as "counterintuitive" from a portfolio diversification and risk management perspective will be strongly challenged. A carbon constrained global economy, relevance of governance issues (for example) to the current sub-prime crisis, rising cost of non-renewable energy sources and commodities etc. increasingly support the characterisation of sustainability focused investing as a prudent, risk minimisation strategy, providing the opportunity for both capital preservation and alpha generation.

PERCEPTION OF SUSTAINABLE INVESTMENT

Consistent with our finding that HNWI sustainable investment is a new and growing area, our survey showed that a third of the respondents consider sustainable investment to be a financial discipline as shown in Figure 4. This means that a majority of respondents believe that specific knowledge is required to invest in a sustainable manner, applicable to all asset classes. Nevertheless, a quarter of respondents still consider sustainable investment as an asset class in itself and 23% as an investment style (along with active / passive, growth / value, etc. styles). The findings reflect the evolving nature of the market. In the future, Eurosif believes that the 'financial discipline' perception will gain greater credence as many respondents in follow-up phone discussions indicated that better information in the marketplace was increasingly allowing them to integrate ESG information into their overall funds management approach.

FIGURE 4

A Majority of Respondents See Sustainable Investment as a Financial Discipline



Source: Eurosif HNWI & Sustainable Investment Survey, 2008

TYPOLOGY OF INVESTORS

For those who love to segment or even 'micro-segment' pools of data, the HNWI market proves an interesting challenge. In this first survey of the EU HNWI sustainable investing population, Eurosif found that by many criteria, there is not a "typical" sustainable HNWI investor. Respondents were asked whether there is a difference in HNWIs' interest for sustainable investment according to their age, gender, wealth origin and wealth bands. The one common thread was that the younger generation of wealth owners are more inclined to invest sustainably:

"Younger HNWIs tend to demonstrate more appetite for social entrepreneurship"

"The younger family members are more attuned with that investment class"

"We see a stronger focus for those under forty years old"

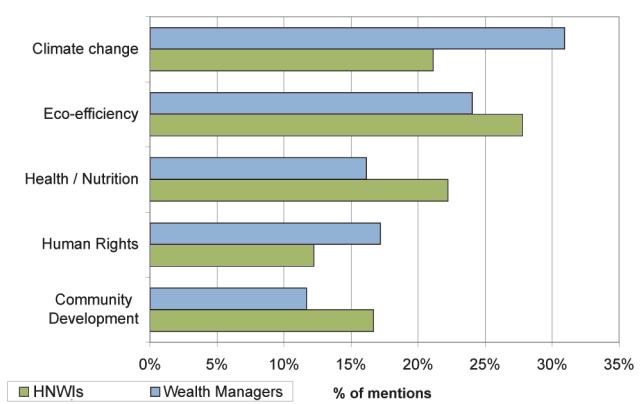
Additionally, it appeared that women showed a keener interest in sustainable investment; this has also been evidenced in a special report looking at private client attitudes towards sustainable investment in the UK market.⁹

The implications of these findings for HNWI client acquisition and retention (and ongoing sustainability service and product design) are significant, particularly given forecast intergenerational transfer of wealth and continuing trends towards the provision of family inclusive services in private banking.

SUSTAINABLE ISSUES

In assessing market receptivity, the most important sustainable issues for all respondents are climate change, eco-efficiency¹⁰, and health & nutrition as shown in Figure 5. Other issues mentioned by respondents include pollution, renewable energy, agriculture and social standards.

FIGURE 5



Importance of Sustainable Issues

Source: Eurosif HNWI & Sustainable Investment Survey, 2008

⁹ Eiris / Tru-Est. 2008.

¹⁰ The climate change issue has a wider remit than eco-efficiency as it also includes finding solutions to alleviate the consequences of global warming.

CASE STUDY

BNP Paribas Private Banking

A mainstream player developing a sustainable investment offer

BNP Paribas Private Banking started to offer sustainable investment as a distinct and structured offering in 2006, due to clients' demand and conviction of the now head of Responsible Investments and Philanthropy Coordination.

Sourcing process

The private banking arm uses an open architecture; therefore its relationship with the responsible investment department of the whole group is similar to a client – supplier relationship. Once a specific HNWI client need is identified, BNP Paribas Private Banking will source the best sustainable product, either internally or externally. If a specific product cannot be found on the market, the team will develop bespoke products preferably with internal resources or externally if expertise has been identified outside the group. The sourcing process is as formalised as with any other traditional product, involving due diligence, a validation committee, risk and legal departments, etc.

Sustainable Investment Offering

BNP Paribas Private Banking offers sustainable investments across all asset classes. The private bank has identified specific responsible investment themes for which one or more investment products have been selected or created. This is particularly the case for the following themes:

- Water treatment and waste management
- Access to credit for everyone
- Climate change
- Social entrepreneurship

Challenges

Maintaining a balance between financial and extra-financial aspects of a product is an evolving process. There is a chance of overlooking the extra-financial aspect of a product that is interesting financially, or conversely, neglecting the financial risk and return profile of a product by focusing too much on its ESG outline.

IV. MARKET SIZE AND GROWTH

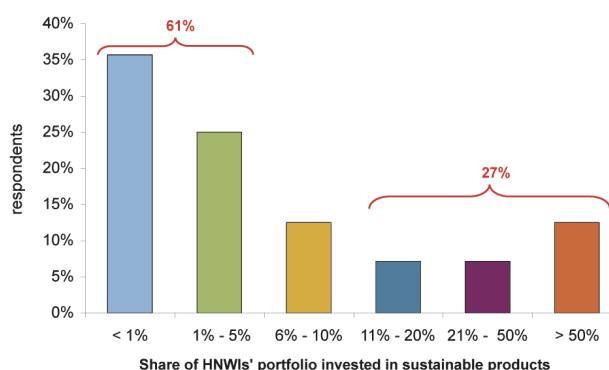
RESPONDENTS' STAKE IN SUSTAINABLE INVESTMENT

Sustainable investing is now a widespread topic among our respondents. Only a small minority of respondents (18%) do not offer sustainable services, nor ask for them as of yet.

Among those active in sustainable investing, 13% of the respondents can be classified as "pure sustainable players" with more than 50% of the HNWIs' portfolio invested in sustainable products, as illustrated in Figure 6. For over a quarter of respondents (27%), sustainable investments represent more than 10% of their assets, demonstrating the growth of this area. This growth is still in its early phase however, with sustainable investment assets representing less than 5% of the total HNWIs' portfolio for 61% of respondents.

FIGURE 6

Share of Sustainable Investments in Total HNWI Clients' Portfolio



Source: Eurosif HNWI & Sustainable Investment Survey, 2008

Figure 6 above focused on the depth of sustainable investing as a percentage of total investment assets, but another important area Eurosif investigated was breadth across the client base – one could envision a wealth manager with a high amount of sustainable investments but only due to a few deep-pocket clients. In fact, Eurosif found that the base of clients interested in sustainable investment is well distributed: for a large majority of responding wealth managers (65%), the largest sustainable HNWI client represents less than 5% of their institution's total sustainable investments. The pattern that emerged is that wealth managers start to develop a sustainable investment offering to meet one of their HNWI clients' demand and once the offering is institutionalised, sustainable products are successfully rolled out to other clients.

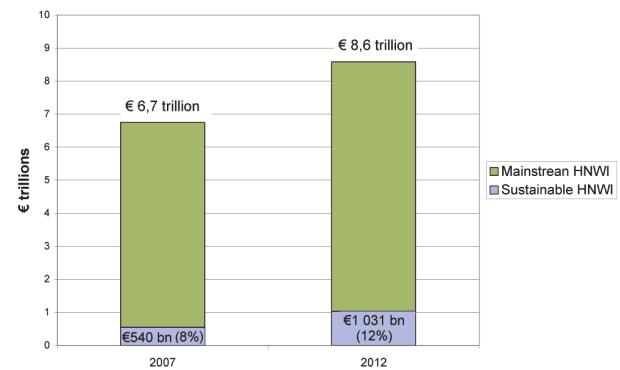
HNWI SUSTAINABLE INVESTMENT ASSETS

A number of respondents chose not to disclose the amount of their sustainable investment assets, but not always for reasons of confidentiality. In many cases, it was because their reporting system did not allow them to quantify this type of investment, evidence that this is a new area that wealth managers are not necessarily yet well equipped to manage.

Based on findings from our survey, market research and previous studies,¹¹ Eurosif estimates that sustainable investments represent approximately 8% of European HNWIs' portfolios as of December 31, 2007. In 2007, the overall European HNWI financial wealth was estimated at €6.7 trillion,¹² which translates into an EU HNWI sustainable investment market of €540 billion. For context into the significance of this size, the HNWI sustainable investment segment corresponds to between 20 to 30% of the European institutional SRI market.¹³ This financial clout is all the more impressive knowing that the HNWI sustainable investment market has only just begun. Based on Eurosif growth trends in the market, we predict that by 2012 the share of sustainable investments in HNWIs' portfolios will have increased to 12%. Extrapolating on projected wealth of European HNWIs (€8.6 trillion¹⁴), this means that the European HNWI sustainable investment market will have doubled, surpassing the €1 trillion mark in 2012.

FIGURE 7

European Sustainable HNWI Forecast 2007 – 2012 (€ trillions)



Source: Eurosif research, Capgemini/Merrill Lynch "World Wealth report 2008". Exchange rate as of June 9, 2008.

¹¹ One example of previous work is the Capgemini/Merrill Lynch "World Wealth Report 2007" which estimated that 6% of the overall funds was in SRI.

¹² Capgemini/Merrill Lynch "World Wealth report 2008"

¹³ The most recent study available, Eurosif's "European SRI Study 2006" estimated the broad European SRI market at €1 trillion. The market has grown significantly since that study with the HNWI percentage reflecting this.

A SIGNIFICANT INCREASE IN 2007...

This market is in an early, high growth phase. 72% of respondents saw an increase in HNWI interest for sustainable investment in the last 12 months.¹⁵ On average, respondents estimate that the growth for this period was 50%, which is substantial. Through phone interviews, Eurosif was able to confirm that respondents see this increase as a real trend and not a fad. While some acknowledge that the market could slow due to overheating in pockets (thematic investing segments such as renewable energy were cited), no one believed that there would be an extensive risk for a market bubble.

... MOSTLY DRIVEN BY MARKET DEMAND

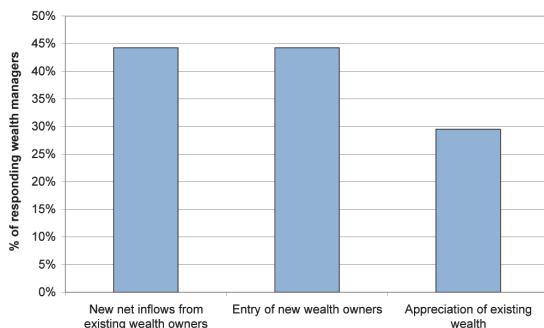
This significant growth is principally driven by market demand rather than suppliers' push. Indeed, demand from active and convinced HNWI clients has often been the initial starter for wealth managers to develop a sustainable services offering. Eurosif found that private banks tend to pursue passive 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 "Know your Customer" questionnaire); the products are 'on the shelf' in case there is a client request. This is changing as some respondents indicate that they are in the process of refining their sustainable investment offering to actively promote it with their clients following training of their relationship managers.

INTEREST FROM NEW WEALTH OWNERS

As illustrated in Figure 8, the increase of sustainable investment assets held by wealth managers is primarily due to the entry of new wealth owners (44% of responding wealth managers) and new net inflows from existing HNWI clients (44%). **"Successful entrepreneurs of today are not the industrialists of yesterday – they are younger and more interested in sustainable investments"** indicated one wealth manager in the survey. Offering sustainable investments in a wealth manager's portfolio is therefore not only a useful way to retain existing clients but also a means to capture new ones.

FIGURE 8

Increase of sustainable investment assets due to:



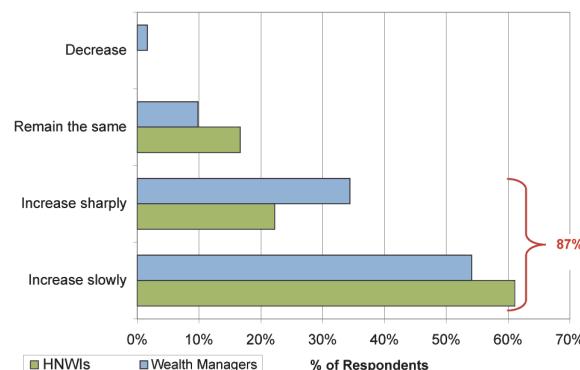
Source: Eurosif HNWI & Sustainable Investment Survey, 2008

A PROMISING FUTURE

In spite of the recent market turmoil, respondents remain bullish on the growing demand for sustainable investments in the next three years. Less than 5% thought it would decrease. A large majority (87%) think the market will increase, divided between those (56%) who think it will increase slowly, and those who believe it will increase sharply (32%). The wealth managers predict to some extent a faster growth than the family offices and HNWIs, as illustrated in Figure 9.

FIGURE 9

In the next three years, interest for sustainable investment will:



Source: Eurosif HNWI & Sustainable Investment Survey, 2008

One of the most significant findings from the survey is that 75% of family offices and HNWIs say that sustainable investments will increase with the generational transfer of their family's wealth and no one thought it would decrease. This was confirmed in telephone interviews – HNWIs said that sustainability issues now form a part of the discussion with the newer generations around family wealth management.

¹⁴ Capgemini/Merrill Lynch "World Wealth report 2008"

¹⁵ Respondents were surveyed from March to June 2008.

V. SUSTAINABLE INVESTMENT PRODUCTS

STRATEGIES USED

There are a number of different strategies available to interested sustainable investment practitioners, which are not necessarily exclusive from one another. They include:¹⁶

1. Negative screening
2. Positive screening
3. Thematic investing
4. Community investing

Microfinance is on the cusp of becoming a strategy or asset class for HNWIs but it was not included in this survey as 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 10.

Negative Screening

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.

Positive Screening

Positive screening is the selection, within a given investment universe, 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 companies 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.

Thematic investing

A new generation of SRI funds is emerging, driven by investors' focus on certain themes in the market where they see strong growth, often driven by sustainability trends. 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.¹⁷ Funds focusing on themes such as water, climate change, renewable energy, eco-efficiency or health and nutrition have multiplied since 2006.

( See next section for more details on this growing trend)

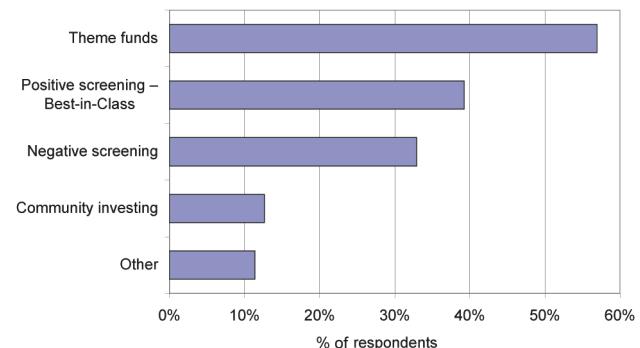
Community investing

We define community investing as 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 possess- while often 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 10 shows the different strategies utilised for HNWI sustainable investments. Thematic investment is the strategy most often employed by respondents that practice sustainable investing, with 57% of respondents using it.

FIGURE 10

Sustainable Investment Strategies Used (multiple answers possible)



Source: Eurosif HNWI & Sustainable Investment Survey, 2008

Note: the "other" category includes Microfinance Funds and Engagement

¹⁶A fifth 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.

¹⁷Henderson Global Investors, Thematic Investing article. September 2007.

A GROWING ENTHUSIASM FOR THEMATIC INVESTMENTS

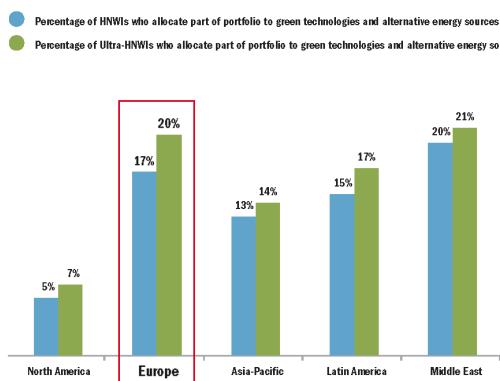
Thematic funds may focus on sectors or issues such as the transition to sustainable development and a low carbon economy. Thematic investing has experienced tremendous growth in the last three years – new funds investing in water, energy efficiency, renewable energy and more recently, climate change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

In fact, thematic investing has become big business among HNWIs. A recent survey on the Swiss sustainable theme investments assessed that the overall total assets under management for three themes (climate change, renewable energy / energy efficiency and sustainable water) amounts to 21.67 billion CHF (€13.3 billion).¹⁸ Eighty percent of these investments come from retail / private banking clients. The Swiss study also shows that investors in sustainable themes are driven by a combination of financial and altruistic motives. Most of them expect an above or strongly above average growth rate, especially for renewable energy / energy efficiency.

The fact that thematic investment is of particular interest for HNWIs was emphasised in the latest World Wealth Report 2008. The report devoted a special section to "Green Investing" as an area of growth. Interestingly, and as illustrated in Figure 11, the most environmentally attuned HNWI populations, as measured by the percentage of affluent investors allocating part of their investment portfolios to green technologies and alternative energy sources, were found in Europe (17%) and the Middle East (20%).¹⁹ The report also indicated that among all HNWIs worldwide, approximately half pointed to financial returns as the primary reason for their allocations to green investing.

FIGURE 11

HNWIs' Interest in Green Investing, 2007 (by regions)

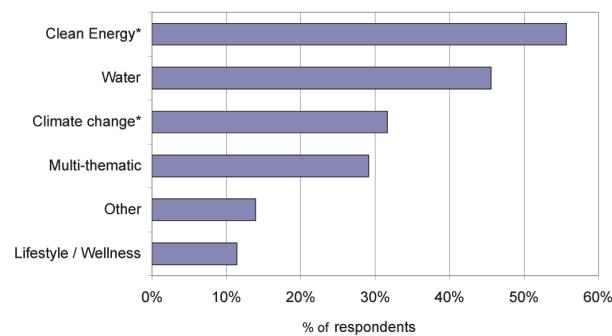


Source: Capgemini / Merrill Lynch Financial Advisor Survey, April 2008

In terms of actual themes, Figure 12 details those most favoured by our surveyed populations, 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 12

Breakdown of Themes Used (multiple answers possible)



Source: Eurosif HNWI & Sustainable Investment Survey, 2008

*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.

The success of theme funds with private investors is also partly due to their relative straightforwardness. One interviewed wealth manager argued **"It is easier for HNWIs to apprehend the sustainable logic of a theme fund than that of a best-in-class fund, which could include in its portfolio sectors not necessarily perceived as sustainable (such as oil for instance). Thematic investing can clearly echo the HNWI investor's own values."**

As discussed previously, some players acknowledge the existence of a bubble risk linked to certain themes, although they are moderately concerned. Another risk associated with thematic investments is that investors might have exaggerated expectations with regards to risk-adjusted returns.

Theme investing and sustainability

Some sustainable investment players might also claim that a theme fund is not necessarily sustainable; that to be sustainable, a theme fund needs an additional screening taking into account Environmental, Social and Governance (ESG) issues.²⁰ In this inaugural survey on the EU HNWI sustainable investment segment, Eurosif chose not to

¹⁸ OnValues "Sustainable investments in Switzerland". March 2008.

¹⁹ 2008 Capgemini / Merrill Lynch Financial Advisor Survey, April 2008.

²⁰ Novethic "The new frontiers of SRI: the Green Investments claiming to be SRI". October 2007.

include that argument in the questionnaire itself but did address it in follow-up phone interviews. When asked whether thematic investing is sustainable investing, the interviewed respondents provided mixed responses, reflecting the large spectre of opinions on this matter. One interviewed family office was suspicious about the development of sustainable investments by some “opportunistic” providers which may delude HNWIs: “Many banks and financial institutions recognise the fee potential to sell sustainable and green investments but if you analyse those investments, there is nothing ethical about them. There is a

risk of deep disappointment for some investors.”

Another interviewed wealth manager responded: “Our theme funds are based on sustainable ideas but we do not have social criteria in place for these funds...You might not call it sustainable investment in the strictest sense...HNWI clients are mostly interested in new emerging fields, new markets and are not yet ready to have an additional ESG screen added to the theme fund.”

( See case study on Sarasin)

CASE STUDY

Bank Sarasin & Co. Ltd, a pioneer in sustainability

Background

Established in 1841, Sarasin is one of the largest providers of sustainable investments; its volume of sustainably managed assets has increased by over 1,000 % since 1998 to currently more than EUR 5 billion. A pioneer in sustainability, Sarasin is at the origin of the “best in class” approach and its underlying eco-efficiency concept.

An integrated research team

Sarasin initiated sustainable research for companies as early as 1989 and has now a team of nine sustainability analysts. The integration of its research team into the portfolio management process allows the private bank to identify and exploit the reciprocal effects of environmental, social and financial factors, and advise its clients accordingly.

Examples of sustainable investment offering

The Sarasin New Power Fund is investing in companies that have a far-sighted and innovative approach to the use of energy and whose commitment to sustainability also takes into consideration environmental and social aspects. Special attention is paid to companies that are

active in renewable energies (wind, water, biomass, solar and geothermal power) and efficiency (power sector efficiency, electricity end-use efficiency, etc.).

Sarasin OekoSar Equity - Global is a diversified equity fund with investment focus on sustainable small / mid-cap leaders. The investments are concentrated in selected themes deemed crucial for a sustainable future: clean energy, health, water, sustainable consumption and sustainable mobility.

Challenges

Are sustainability theme investments totally unproblematic? For instance, are biofuels all that sustainable? What are the environmental and social implications of an “uncontrolled” growth of biofuel production? In order to make an investment really sustainable it is essential to always look at opportunities (in the biofuels example, reduced dependency on fossil fuels, reduction of greenhouse gas emissions, etc.) and risks (environmental impact of vast tracts of monoculture, crops in competition with the food and animal feed industry, etc.).

ALLOCATIONS

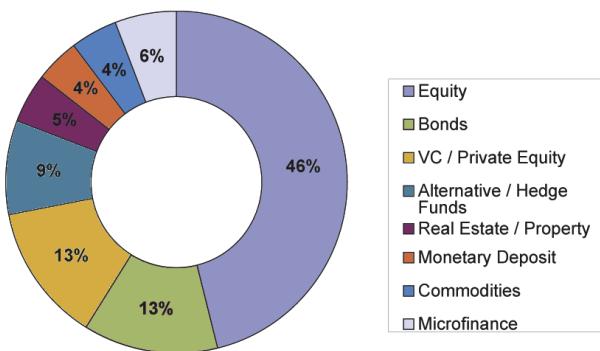
VI.

ASSET ALLOCATION

In terms of asset allocations, not surprisingly, equities are the most often employed asset class by respondents as illustrated in Figure 13. Noteworthy is the relative weight of the private equity class as well as the alternative / hedge fund one. HNWI's interest for Venture Capital was already apparent in Eurosif's study "VC4S - Venture Capital for Sustainability 2007", which showed that the most prominent investors allocating capital into VC4S funds were family offices (19%) and HNWIs (13%).²¹

FIGURE 13

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



Source: Eurosif HNWI & Sustainable Investment Survey, 2008

This is one of the areas where HNWI's behaviour differs greatly from that of institutional investors! **Generally speaking, HNWIs are more open to new and alternative investments.** One interviewed wealth manager indicated for instance that there is a need to develop

hedge funds with a sustainable component as there is great client demand for it. Therefore servicing this specific segment offers great opportunities for product innovation which could eventually prove useful for other investor segments such as institutional investors which are less inclined to test things out and more tied by their fiduciary duties. (See case study for a typical innovative process)

GEOGRAPHIC ALLOCATION

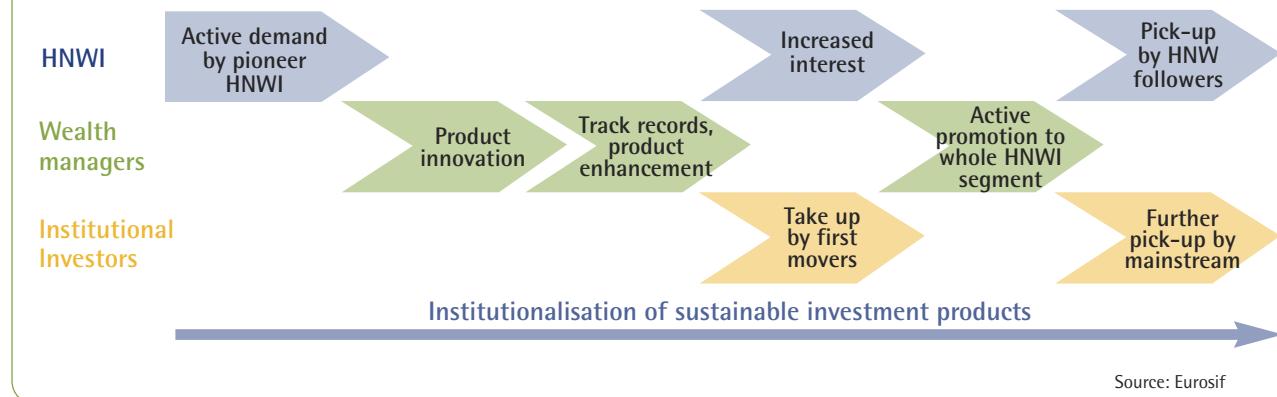
With regards to geographic allocation (referring to equity investments only), Europe and the specific domestic market of the respondents have the largest exposure (35% and 26% respectively). Exposure to North America, Asia and emerging markets is however quite significant. We would expect that the current emerging markets' share (11%) will 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.

CAP SIZE ALLOCATION

While HNWI sustainable investors invest mainly in large caps, the share of small and medium caps is quite significant (45% on average). This is another area where this segment differs from institutional investors. HNWIs interested in sustainable investment cited small/medium cap exposure as critical in participating in new "sustainable" 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.

CASE STUDY

A typical innovative process



²¹ VC4S is a fast-growing, new segment within venture capital where profit objectives are supplemented by a mission which has direct impacts on sustainability.

VII. PRODUCTS' ORIGIN

EXISTING AND BESPOKE INVESTMENTS

On average, 67% of respondents' sustainable products come from existing sustainable investment vehicles while 33% is bespoke²² sustainable investment. Bespoke investments include tailor-made exclusions, discretionary mandates based on ESG criteria set up with the HNWI client. The bespoke investments are vital 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.

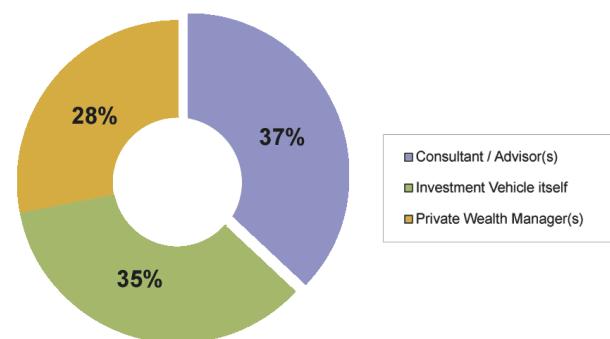
PRODUCT SOURCING

Responding wealth managers source 59% of their sustainable investments internally while 41% of investments come from external providers, either for very specific products or because wealth managers do not have sustainable competence and expertise internally. It seems that wealth managers do not always have a clear process for selecting sustainable investment providers and assessing their sustainability expertise. All practice the traditional financial due diligence process but seldom apply a specific review on sustainable criteria and returns. Assessing sustainability expertise is however possible; one responding wealth manager indicates “we screen fund managers that offer sustainable investments on their SRI qualities based on 8 themes: Environment, Employees, Community, Clients & Competitors, Corporate Governance, Contractors, Business Ethics and Controversial Activities.”

As for the HNWIs side, because sustainable investments that respond to specific needs are hard to come by, and also partly due to mistrust with wealth managers, family offices often count on a close circle to find the right sustainable investment opportunities at the present time. As shown in Figure 14, respondents source their sustainable investments first from a consultant or advisor²³ (37% on average), closely followed by the investment vehicle itself (35%) such as a venture capitalist for instance, and lastly from private wealth managers (28%).

FIGURE 14

Sources of Sustainable Products for Family Offices & HNWIs



Source: Eurosif HNWI & Sustainable Investment Survey, 2008

Phone interviews with family offices confirmed that informal networking with other family offices, HNWI and sustainable experts is essential for them to find investment ideas, products and opportunities to co-invest together. One family office indicated for instance: “**We do not use any consultant to source products (although we do for conventional investment), we analyse these opportunities ourselves. Our main source is networking. We receive a lot of information from our clients, from other family offices and from the managers and entrepreneurs we invest in. It is very seldom that we choose the typical offer of private banks or other financial institutions – their fees are too expensive.**”

(See case study on a family office)

²² Custom-made, specific to individuals' values.

²³ Often individuals coming from the family officer's informal network.

CASE STUDY

An HNWI Family Office

Informal networking among HNWIs to source sustainable investment products

Context

Members of a family office in the UK have increasingly become interested in sustainable investments as the younger generation has taken over the financial leadership. Two challenges that they face is effectively gathering information on the many different sustainable investment trends and sourcing new products for potential investments.

Networking

Over time, the family has formed relationships with a few other families and currently, they meet one to two times a year for a weekend to discuss ideas. Participation is limited to a very select number of decision makers of leading families to create an atmosphere of trust and frankness. In these sessions, they share experiences and ideas among peers, with the conversation including:

- Balancing family wealth with entrepreneurial creativity,
- Techniques for sustainable investment and effective philanthropy,
- Leadership in society through public service.

The format integrates families and expertise. A family is charged with leading a discussion and an expert is invited to lend detailed knowledge. This approach ensures buy-in from the participants and tailored discussions around meaningful subject matter. Sustainable investment topics have included best-in-class screening, community investing and thematic investments.

The family has found that this networking approach has been

fruitful in generating ideas, discussions, and ultimately decisions.

Sustainable Investment Philosophy

When the younger members of the family began to look more closely at sustainable investing, the first decision agreed was to exclude companies engaged in weapons making.

The next phase has been to allocate funds to specific themes such as renewable energy, water, and most recently nutrition. These are split between private and publicly listed equities.

The most recent discussion centres around whether sustainable investing should be integrated into the overall fund management of the family's wealth. At the moment, weaponry is a screen for the entire portfolio; thematic funds are a specific allocation. A deeper discussion has been started about how to integrate best-in-class and ESG criteria into the work of some of the other funds that have been managed on a 'traditional' financial basis.

Sourcing from Wealth Managers

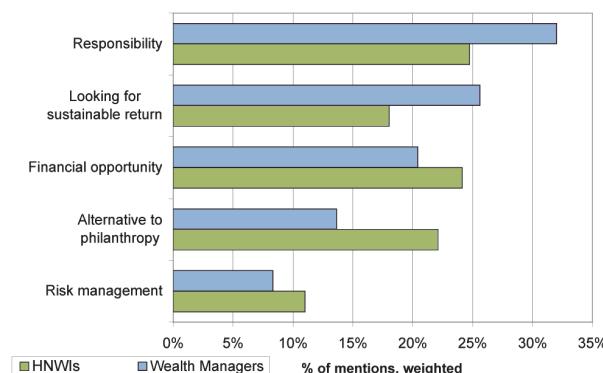
When sourcing sustainable investments from private banks, the family prefers to use the services of independent wealth managers with demonstrable expertise in sustainable investing. The family is wary of private banks practicing unfair fees and offering sustainable investment products as an add-on, without real depth in their investing process. Fortunately, the family has seen an improvement in wealth managers' offerings in the past 12-18 months, and they are presently engaging more seriously with them on these matters.

VIII. OPPORTUNITIES AND OBSTACLES

DRIVERS OF DEMAND

According to our overall respondents the main drivers of demand for sustainable investment are responsibility, the search for sustainable return and financial opportunity as shown in Figure 15. However, looking at the wealth managers and HNWIs separately reveals that the perceptions differ between the two segments.

FIGURE 15
Drivers for Sustainable investment Demand



Source: Eurosif HNWI & Sustainable Investment Survey, 2008

A combination of sustainable and financial returns

For HNWIs, financial opportunity is a leading driver for sustainable investment while this is only ranked third by wealth managers. Family offices are interested in sustainable investments because sustainable investing makes financial sense while allowing investors to be responsible. As pointed out earlier through the example of thematic investing, HNWIs are looking for a combination of sustainable and appropriate risk adjusted financial returns.

Again, individual motivations among HNWIs vary. A respondent indicated that HNWIs feel they have an important role in society and that they wish to act as public models regarding social responsibility. “**HNWIs choose sustainable investments with their heart, because they think it is a responsible thing to do**” added another wealth manager. At the same time, the evidence shows that financial gain is a part of the rationale. A multi-family office based in the UK went further: “**We take sustainable investments seriously where there is a client requirement. As with all investment, the emphasis is on clarity over all the key performance indicators (which**

may not be financial with such investing) and then clear measurement of achievement vs. the goals set. Everything else in our view is hot air.”

Clearly, wealth managers 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. There is also a need to present and promote sustainable investment products to HNWIs differently from institutional investors. The value-based and financial returns aspect of a sustainable investment product can and should be emphasised with HNWIs.

Sustainability vs. philanthropic investments

Philanthropy is certainly a driver for sustainable investment as was illustrated in Figure 15 by the relative importance of the “alternative to philanthropy” choice. Many HNWIs search for market return investments but with a motivation that is underpinned by a link to philanthropy. In fact, some wealth managers still include sustainable investing within the same department that covers philanthropy for this reason. Nevertheless, in phone interviews conducted by Eurosif, HNWIs stated that there is a key difference: sustainable investments do not compromise on financial return whereas in philanthropy, it is definitely not a main factor. One family office explains “**Philanthropy investment can take risk without reward whereas sustainable investment has risk and reward in alignment.**”

Interestingly, a wealth manager argued that some of its HNWI clients use both techniques to solve sustainable issues. The example shared was education in underprivileged areas which was being tackled both through sustainable investment (investing in an infrastructure fund or microcredit fund) and also through more concrete philanthropic projects (funding a specific school in a poor area for instance).

Overall, it is essential to understand HNWI motives as they can vary from one to the next as reminded by a wealth manager: “**Clients have different reasons for investing sustainably: ethical, financial, risk or a combination thereof. It is important that the relationship manager identifies the sometimes latent interest of the client. For the asset manager it is important to find the optimal balance between sustainable and financial criteria while keeping the risk in hand.”**

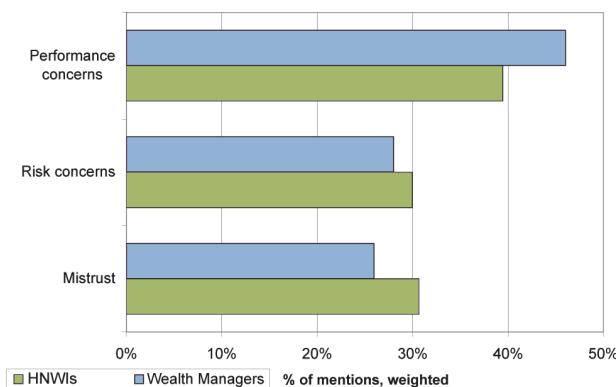
Over time, Eurosif also expects to see HNWI risk profiling and assessment techniques being aligned with ESG performance evaluation at a security and portfolio level. One initial tool to gauge HNW clients' interest and motives is to include sustainable investment questions in the "Know your Customer" questionnaire.

(⊕ see suggestions in appendix)

BARRIERS

Not surprisingly, performance concerns are cited as the principal barrier to sustainable investment, followed by risk concerns and mistrust as shown in Figure 16. Here again, HNWIs perception slightly differs from that of wealth managers'.

FIGURE 16
Reasons for Not Demanding Sustainable Investments



Source: Eurosif HNWI & Sustainable Investment Survey, 2008

Performance concern

Performance concern is the first hurdle that wealth managers need to overcome with their clients. HNWIs are interested in successful track records and good business cases. One respondent indicates **"We need proof that sustainable investment can be profitable, at least as much as any other type of investment"**.

(⊕ See examples of sustainable indices in appendix)

As with other type of investments, sustainable investment performance is also linked to the quality of the fund manager - hence the importance of a thorough assessment of sustainable investment providers and their processes, both financial and sustainable.

A recent report features influential academic studies and a diverse set of studies from renowned brokerage firms,

analysing responsible investment performance at both the company/stock and fund/portfolio level. Of the 20 academic studies reviewed in the report, there was evidence of a positive relationship between ESG factors and portfolio performance in half of these, with 7 reporting a neutral effect and 3 a negative association.²⁴

Risk concern

Linked to financial performance are risk concerns; as touched upon previously, there are some concerns about a bubble risk, particularly with regards to thematic investing and some specific sectors. Respondents mentioned for instance some aspects of clean tech or renewable energy where return expectations are high but investment opportunities could become scarce. A number of respondents said they were vigilant in this regard.

Mistrust

Mistrust is an obstacle that private banks are experiencing for all types of investment. Specifically for sustainable investment, HNWI clients might question the sincerity of the wealth managers' approach. One family officer explains **"private banks are not concerned with the real motives of sustainable investments; they only recognise the business opportunities...they are not concerned about the long term consequences of these investments"**.

Track record and experience with sustainable investment are needed to gain customers' trust. Some would argue that wealth managers need to be sustainable investment specialists in order to be trustworthy, but track records can be built over time and partnerships can be made with those who already have experience and competency.

(⊕ See case study on Triodos Private Banking)

Respondents are also concerned with unprofessional practices which could undermine the development of sustainable investment. A family office advisor mentioned for instance **"the carbon market space where some providers' methodology is suspicious at the least, all the more so as this area is unregulated."** When choosing their sustainable investment providers, HNWI clients should ask them specific questions to gauge their competence and experience related to sustainable investment.

(⊕ see suggested questions in appendix)

²⁴ "Demystifying Responsible Investment Performance" jointly produced by UNEP FI Asset Management Group and Mercer. October 2007.

Transparency is another important aspect to consider in order to gain trust when sourcing sustainable investments. One respondent mentioned for instance that they rely on the European SRI Transparency Guidelines²⁵ to select external providers, along with their usual due diligence.

Relationship manager and operational factors including unfavourable pricing and incentive structures, a lack of familiarity with sustainable products and services, a lack of

awareness as to the implications of ESG issues (for global political, economic, industry and social development), scepticism and/or discomfort in embracing market change, lack of management understanding as to positive business benefits accruing from a sustainable focus, requirements to re-engineer business processes and human capital approaches to realise opportunities also constitute additional barriers to take up.

CASE STUDY

Triodos Private Banking

A sustainable investment specialist developing a private banking offer

Mission

Triodos Bank finances companies, institutions and projects that add cultural value and benefit people and the environment, with the support of depositors and investors who want to encourage corporate social responsibility and a sustainable society.

A specialist in sustainable investing

Triodos Bank started operating in the Netherlands in 1980 and in 1990 launched the first green fund in Europe, Biogrond Beleggingsfonds, followed by the Wind Fund and Green Investment Fund. In 2004, Triodos launched the Sustainable Real Estate Fund, the first real estate fund to invest exclusively in sustainable buildings. Triodos Bank now has offices in the Netherlands, Belgium, UK, Spain and Germany.

A recent private banking offer

Triodos has offered limited sustainable private banking services to customers in the Netherlands and Belgium since 1999. In 2005, this service was expanded further by launching a joint venture with FortisMeesPierson, one of the most experienced private banks in the Netherlands. FortisMeesPierson's broad asset management expertise has been combined with Triodos Bank's sustainable banking experience under the name Triodos MeesPierson Sustainable Investment Management.

Sourcing Process

Triodos Bank's research team selects the sustainable investment universe, based on best in class and exclusionary principles. The portfolios are then jointly managed by Triodos MeesPierson Sustainable Investment Management.

Example of a Sustainable Investment offering

Triodos Innovation Fund BV is a venture capital fund dedicated to invest in enterprises that are characterised by an environmentally friendly, socially responsible and/or innovative business approach. Triodos Bank, as a financial institution, has many years of experience in financing companies in sectors like renewable energy, the organic food chain, fair trade, clean technologies and in sectors like services, culture, care and wellness.

Triodos Innovation Fund geographically focuses on investments in the Netherlands, Belgium, United Kingdom and Spain. The Fund considers investments from €0.5 m to €4 m per investment. The Fund has a long term vision, aims to build a sustainable relationship with its investees and is not predominantly exit-driven.

Challenges

Change HNWI clients thinking towards a conscious use of their wealth, either through investments or consumption that can improve quality of life.

²⁵ The European SRI Transparency Guidelines aim to create more clarity on the principles and processes of SRI mutual funds. As of May 2008, there were 45 signatories, representing more than 140 SRI funds. For more information: www.eurosif.org/publications/european_sri_transparency_guidelines.

IDEAS GOING FORWARD

This report makes clear that the potential demand for sustainable investment from HNWI is vast. Close to 90% of the survey's respondents predict interest for sustainable investment will increase in the next year and 75% of HNWIs think that sustainable investment will increase in the generational transfer of their family's wealth.

However for this area to reach its full potential, Eurosif advocates the following:

- 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. One wealth manager mentioned in the questionnaire: "There is a large diversity of profiles and expectations, both in terms of ESG impact and financial returns: there is a necessity to build a broad offering in order to match the diversity of the HNWI demand for SRI products."
- 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. Appropriately measuring sustainable returns would also bring convincing facts to HNWI clients.
- Reporting methodologies, processes for the robust assessment and incorporation of ESG factors into investment analytics and global legislative regimes (covering reporting, disclosure, emission targets and trading schemes, financial products, etc.) must continue to evolve in a way that promotes transparency, comparability and support for sustainability driven investment markets.
- Information and education on sustainable investment should be provided to the wealth management community. Many respondents indicated that they were interested in this space but were lacking information. Also crucial is a thorough training of relationship managers so that they feel comfortable offering sustainable investment to their clients and discussing this area with them. This can be done through internal communication, presentations and concrete examples.

● A genuine backing from the top management of wealth management companies is also essential to give credibility to the concept, both internally and to HNWI clients.

● Examples of respected wealthy figures publicly endorsing sustainable investment or sustainable issues would be helpful.

CONCLUDING THOUGHTS

HNWIs are beginning to play a meaningful and substantive role in sustainable investment. With this study, Eurosif aims to clarify the European HNWI sustainable investment space. The findings from this work will provide comfort to HNWIs that sustainable investing can yield market rate returns while fulfilling many of their long term responsibility and stewardship concerns. So too, this document will assist wealth managers in better understanding the approaches to sustainability for their existing and future clientele.

The market is evolving quickly and future studies will be able to better elaborate on geographic differences as well as detail specific investment strategies. With this in mind, Eurosif will continue to monitor this space in the coming years and observe how it is evolving, in Europe and beyond.

GLOSSARY

Bespoke: Custom-made, specific to individuals' values

Clean Energy theme: Companies whose new technologies and services help 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, Governance.

Family office: A private company that manages investments and trusts for a single wealthy family, usually with assets in excess of \$100 million.

HNWI (High Net Worth Individual): Individual with more than \$1 million in financial assets, excluding primary residence.

Multi-family office: A private company that manages the financial affairs of more than one family; the asset requirement of a given family is considerably less than \$100 million.

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: Thematic funds may focus on sectors such as Water, Energy or issues such as the transition to sustainable development and a low carbon economy.

SRI: Socially 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 of Ethical, Environmental, Social and Governance criteria.

Sustainable investment: Combine investors' financial objectives with their concerns about Environmental, Social 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 HNWIs 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 financial 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? And 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 HNW client's screening criteria and ESG criteria into their investment processes?
- Does the wealth manager report about its own sustainable performance?
- Can the wealth manager demonstrate his / her 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			
Environmental Abuse			
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.eksif.org

APPENDIX 2 – PERFORMANCE – EXAMPLES OF SUSTAINABLE INVESTMENT INDICES²⁵

DS400 Cumulative Performance as of May 31, 2008



Source: Reproduced with the authorisation of KLD Research & Analytics, Inc.

Launched by KLD Research in May 1990, the DS400 was the first benchmark index constructed using environmental, social and governance (ESG) factors.

FTSE Environmental Opportunities All-Share Index 5-year performance (USD, Total Return)



Source: FTSE Group, data as at 30 May 2008

The FTSE Environmental Opportunities All-Share Index measures the performance of global companies that have significant involvement in environmental technologies (ET) and environmental business activities. Developed in collaboration with Impax Asset Management and aligned with the FTSE ET50 Index, the FTSE Environmental Opportunities All-Share Index provides investors with a broader benchmark index of over 450 constituents globally that have at least 20% of their business derived from environmental markets and technologies.

²⁵ This appendix was inspired by a BNP Paribas Private Banking brochure.

APPENDIX 3 – 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 HNWIs?
- 4) What amount of your current HNWI assets under management (AUMs) do you quantify as sustainable investments? (as 31/12/2007)

- 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 HNWIs
- A satellite part of HNWIs portfolio

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 HNWIs 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) How long has your family office been investing? (*family office only*)

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

20) 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*)

21) What motivates your clients 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*)

22) What prevents your clients from demanding sustainable investments? (*please rank by order of importance*)

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

IV. Market Demand

23) Has there been an increase in HNWIs' 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) Do you have comments to add? What lessons have you learned in relation to sustainable investments?

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P3 Ventures

UNEP Finance Initiative

List of responding Wealth Managers

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

ABN AMRO Private Banking

Alternative Bank ABS

Ariane Finance

Bank Sarasin & Co. Ltd

Bank Vontobel

Banque de Luxembourg

Banque LBLux S.A.

Capitalia Luxembourg

Morgan Stanley

Bankoa Crédit Agricole

BNP PARIBAS Private Banking

Caixa Penedes - Private Banking

Caixa Terrassa Banca Privada

Commerzbank International S.A.

DekaBank Deutsche Girozentrale Lux. S.A.

de Pury Pictet Turrettini & Cie S.A.

Dresdner Bank Luxembourg S.A.

DZ BANK International S.A.

Eurizon Capital

Hauck & Aufhäuser Banquiers Lux.S.A.

HypoVereinsbank Wealth Management

ING

Intesa Sanpaolo Private Banking

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