

New era for sustainable investing

News Analysis

Rich lead the way for investments to enter mainstream, says Sophia Grene

Rich people increasingly want to invest their money without harming the environment, possibly heralding the mainstream take-up of such investment principles.

“Even those who aren’t actually doing it are talking about it,” said Matt Christensen, executive director of the European Social Investment Forum, which has surveyed both rich individuals and the wealth managers who look after their money about the topic of sustainability.

Nearly three-quarters of respondents have seen an increase in interest in sustainable investing in the last 12 months, according to the Eurosif survey, which also forecasts more than €1,000bn (£805bn, \$1,473bn) of rich people’s money will be in sustainable investments by 2012. This represents a near doubling of the absolute levels in 2007, and a proportionate increase from 8 per cent to 12 per cent of rich people’s wealth.

New money, either from people who have recently become wealthy, or new flows from established investors, is driving the flows into sustainable investment strategies or instruments.

“Successful entrepreneurs of today are not the industrialists of yesterday,” said one survey respondent. “They are younger and more interested in sustainable investments.”

Historically, rich people

have led the way in investment trends, taking up hedge funds and private equity before these asset classes became generally popular.

“When the high-net-worth individuals first started to get into hedge funds, it was the same time as the quiet endowments, like the Yale Endowment Fund, were getting into them,” said Mr Christensen.

“Now every one is looking at them.” He reckons sustainable investing will follow a similar pattern.

Although the rich were not the only asset owners considering how to invest without causing harm, this trend was likely to act as a catalyst to make the concept mainstream, according to Mr Christensen.

“This is not to discredit the fantastic work some major institutional investors are doing,” he said, referring to funds such as Calpers, the Californian state pension fund, “but it’s going to help unlock future institutional investments.”

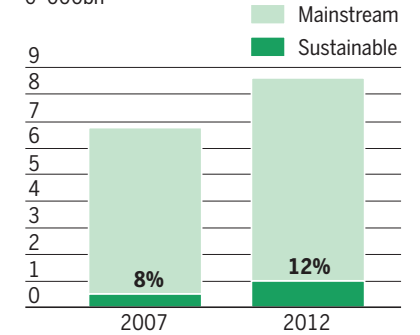
This is because the rich people now considering sustainable investment tend to be well connected.

While pension fund trustees worry about socially responsible investing, charitable foundations may look for ethical options and investors who just want to make more money focus on extra financial issues, rich people are considering how to make the way their money works more sustainable.

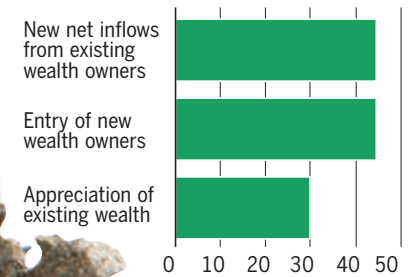
The term is somewhat ill-defined, as is most of the terminology in this area, but it covers concerns about environmental, social and governance issues. According to



European sustainable high net worth individuals’ forecast
€ '000bn



Where the money will come from
% of responding wealth managers



Source: Eurosif Photo: Alamy FT Graphic

Mr Christensen, one reason for emphasising sustainability is that it distinguishes the investment principle from philanthropy.

Although one wealth manager claimed its clients “choose sustainable investments with their heart, because they think it is the responsible thing to do”, there were other motivations.

“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 versus the goals set,” said one multi-family office based in the UK. “Every-

thing else in our view is hot air.”

Just as investors have diverse reasons for wanting to invest sustainably, there are various ways they can do so. The most popular, was the thematic approach.

Thematic funds focus either on sectors or issues such as energy efficiency or climate change.

This means they do not necessarily fit what most commentators would think of as sustainable criteria, but for investors they may be more attractive than funds based on negative screening or ‘best-in-class’ policies.

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