

INVESTING TODAY WITH TOMORROW IN MIND - ESG INVESTING FOR FAMILY OFFICE

Recently, the Wealth Management Institute (WMI) organised its Masterclass on Applied Environmental and Social Governance (ESG) Investing for Family Offices. The session showcased the Global-Asia Family Office Circle's expertise and commitment to making strategic sense of ESG investing for family offices. The Masterclass session drew insights from academics, regulators and global advisers as esteemed speakers shared their experiences on how family offices capitalised on latest ESG developments in making sustainable investing work for family offices.



Lead Faculty:



Prof Satyajit Bose

Lead Faculty for ESG and Sustainable Investing, WMI and Professor of Practice, Columbia University, Earth Institute

Guest Speakers:



En Lee

Managing Director,
Head of Sustainable
and Impact
Investments Asia, LGT



Eric Martineau-Fortin

Founder and Managing
Partner, White Star
Capital



Herry Cho

Managing Director,
Head of Sustainability
and Sustainable
Finance, SGX



Manish Tibrewal

CEO, Maitri Asset
Management and
family office of the
Tolaram Group



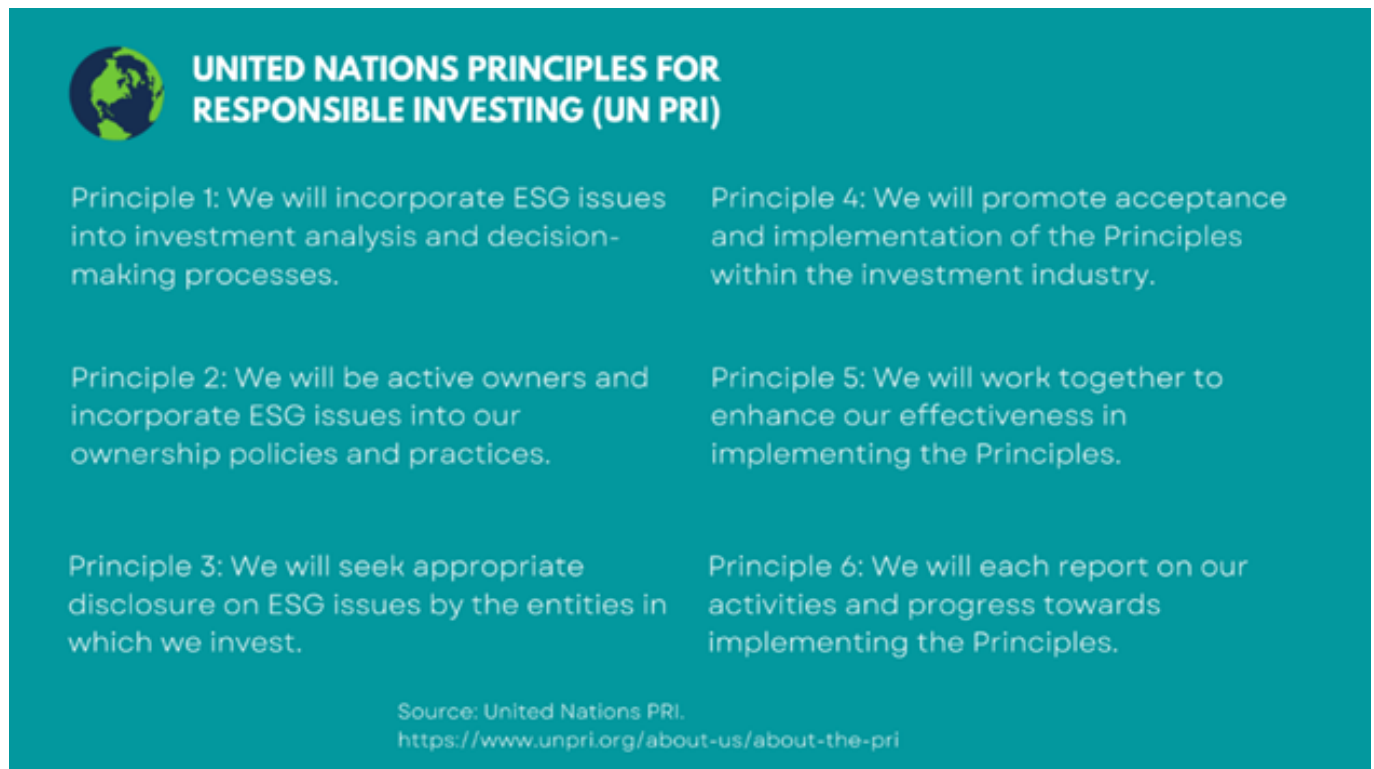
Mervyn Tang


Head of
Sustainability
Strategy APAC,
Schroders

The discussions centred on five key themes:

- 1 Sustainable investing as the new normal
- 2 Singapore as hub of ESG investments in Asia
- 3 Making Sustainable Investing Work
- 4 Making sense of Sustainable Investment for Family Offices
- 5 Succeeding in the ESG Ecosystem

One central framework the speakers focused on was the United Nations Principles for Responsible Investing, which outlined six major considerations in incorporating ESG into firms' investment decisions (see below).



 **UNITED NATIONS PRINCIPLES FOR RESPONSIBLE INVESTING (UN PRI)**

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.	Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.	Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.	Principle 6: We will each report on our activities and progress towards implementing the Principles.

Source: United Nations PRI.
<https://www.unpri.org/about-us/about-the-pri>

The speakers also showcased an insider's view of family offices in sustainable investing. Manish Tibrewal of Maitri Asset Management, which evolved from the single-family office of the Tolaram Group, recounted the philanthropic and community-centred roots of Tolaram which facilitated a natural transition into ESG.

Manish Tibrewal: Giving back to society has always been in the (Tolaram) family's DNA, and when we restructured in 2015, we decided that sustainability has to be in the core of whatever we do.

Meanwhile, Eric Martineau-Fortin shared how White Star Capital grew from a single-family office into a global multi-stage investor, and that their entry into the ESG scene was motivated primarily by growing interests and expectations.

Eric Martineau-Fortin: White Star Capital initially separated charity and investments. ESG only became a consideration much later. But when you start adding capital from other clients, the expectations become more mixed, and you need to start having other criteria added beyond financial performance.

Both journeys highlighted that no two family offices' journeys are the same. It also shows how ESG investing is no longer simply a niche part of asset management, as family offices with different value drivers converge into the sustainable investing landscape to align their principles of doing well with doing good.

KEY TAKEAWAYS

1. Sustainable Investing as the New Normal

A common point shared is the urgency for family office adviser and professionals to make sustainable investing a core part of their investment strategies. With the expansion of sustainable investing offerings, the massive inter-generational transfer of wealth and the growing demands by shareholders, regulators and stakeholders to align with ESG objectives, these have led to major shifts in investing philosophies. For Prof Satyajit Bose, this is best encapsulated by emerging preferences for ESG among private equity clients.

Prof Satyajit Bose: It is very important to understand our private clients' position towards ESG. They do not just want to follow the way that the financial market has chosen particular winners. They want to gather information, understand what is aligned with their views and their purpose, and what they feel is right for the future they want, and invest in that way. And they are willing to walk away from investments that do not fit.

Herry Cho from the Singapore Exchange (SGX) shared how global shifts in the regulatory environment towards ESG is inevitable.

Herry Cho: If there was one major global trend I could highlight, it would be that ESG regulations are becoming mandatory instead of voluntary over time. This will impact how a firm will approach governance, strategy, risk management, scenario planning and target setting.

Eric Martineau-Fortin, Founder & Managing Partner of White Star Capital also emphasised on the strategic importance of swiftly aligning their philanthropic and investment directions more closely with new regulatory requirements for new competitive advantages.

Eric Martineau-Fortin: We have evolved, in part thanks to the pressures of the institutions around us. This has been transformational for us because we are doing even better investments with better returns and more impact.

2. Singapore as a hub of ESG investments in Asia

Singapore is rapidly emerging as a significant location for ESG investments in Asia. With total local assets under management (AUM) hitting \$4.7 trillion and over 400 family offices, there has also been a substantial growth in ESG investing. Singapore's rise in the ESG landscape can be attributed to four key factors:

- A sound, nurturing and forward-looking regulatory financing framework that incorporates the latest developments in global ESG standards, alongside robust political stability and business-friendly environment.
- A strong and vibrant local venture eco-system, with over 55,000 start-ups in the community, along with a host of world-class finance, data, legal, tax and governance support functions.

- Established networks and partnerships built on trust, growth and a common prosperity in the rest of the Asia-Pacific, bringing together the best of global capital and regional opportunities to drive impact.
- Singapore has implemented wide-ranging policies to attract global talent and cultivate the local workforce with the right skillsets and mindsets to meet the demands of a sustainable future, and stay the lead in the race for human capital.

3. Making Sustainable Investing Work

To make sustainable investing work, family offices must pay attention to potential pitfalls and cut out the noise to create positive ESG outcomes through their investments.

Mervyn Tang, Head of Sustainability Strategy APAC at Schrodgers, highlighted the problem of greenwashing, urging advisers and professionals to avoid it by designing transparency and accountability into their ESG approaches.

Mervyn Tang: I think about greenwashing in two ways. The first is what do asset managers and fund managers say they are doing? Secondly, are they doing what they say they are doing? That is where transparency and reporting come in. What indicators are you tracking to justify and formalise your ESG approach? It is important for advisers to understand what their ESG narratives are, and how they fit with their clients' needs.

En Lee, Managing Director and Head of Sustainable and Impact Investments in Asia at LGT, also shared sustainable investments that go beyond ESG integration towards what is referred to as "impact investments".

En Lee: There are some sustainable investment funds which have incorporated ESG considerations, which are typically risk or operations based and input-output oriented. While these funds may perform well from an ESG perspective, it does not necessary mean they have contributed to creating long-term outcomes and solutions the way impact investors or venture philanthropists do. This is the difference. Impact funds go one step further to track the intentional positive social and/or environmental outcomes of their investments alongside financial returns.

Other speakers also shared advice to craft the right strategy in curating a holistic approach to ESG investment.

Herry Cho: There are many ways to approach sustainable investing, and each of these approaches is not mutually exclusive. The best strategies by firms often combine different approaches to how they implement sustainability in their strategic direction.

Eric Martineau-Fortin: One thing people often get confused by is that they see commitment to sustainability as a cost or tax to doing business, but it is actually an investment. It is a critical function in most organisations that you need to have in order to improve your processes, governance and business.

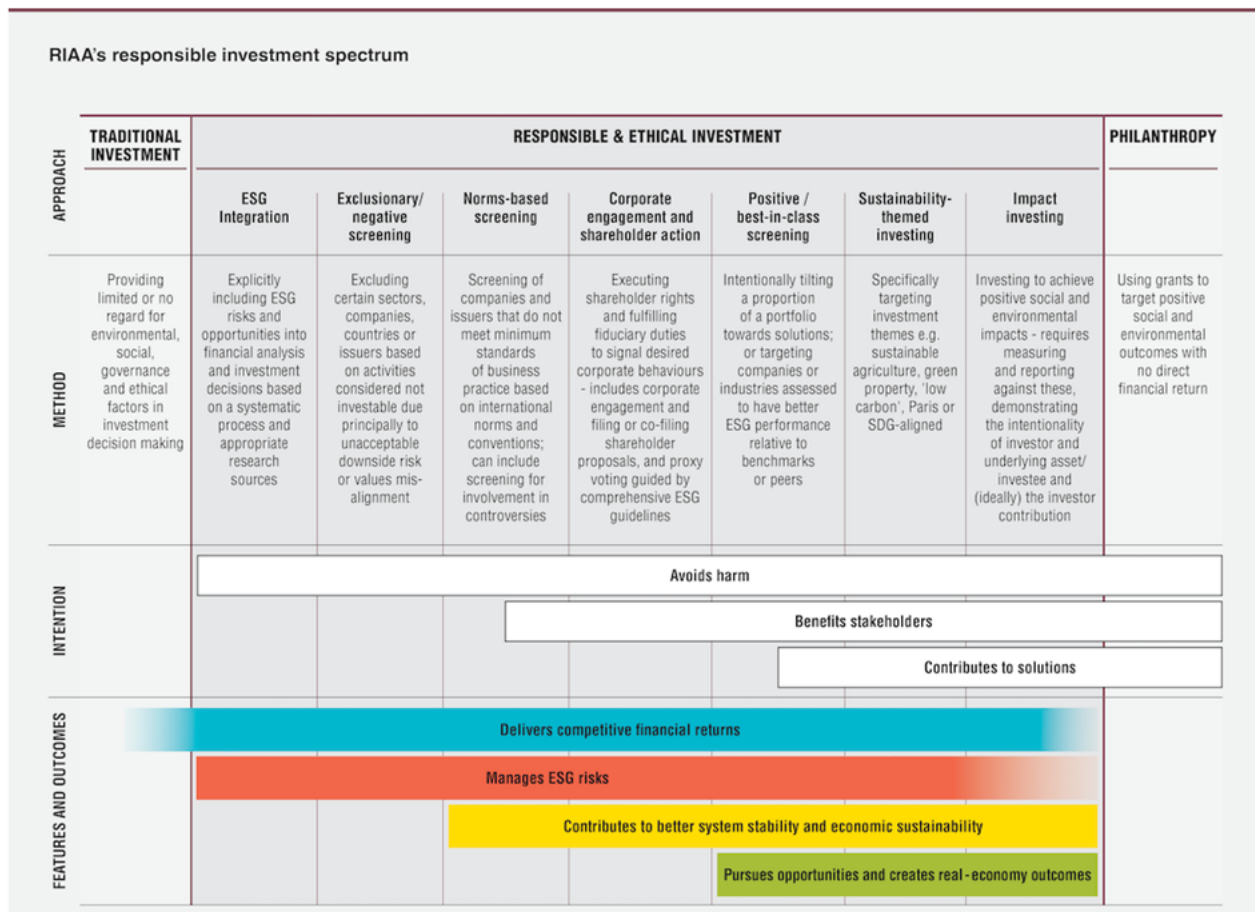
4. Making sense of Sustainable Investment for Family Offices

The tremendous growth and inter-generational transfer of wealth within Asia in the last decade has also saw the rise of Asian families with the capital and desire to make a positive impact. The panel shared different ways families can drive value in ESG. Speakers shared examples such as blended financing and aligning investments and philanthropic outcomes.

Herry Cho: There is this term called “blended financing” that is gaining currency, and there is a big push especially in emerging markets, on how to better mobilise capital to combine different sources of public and private capital to drive impact.

En Lee: Many families have also started to realise that bifurcating their investments and philanthropy may no longer be sustainable, because this may create conflicting outcomes and result in a net negative impact on society and the environment. The goal therefore is to ensure the combined portfolio is values aligned and creates long-term sustainable value for all stakeholders.

En also shared that family offices can explore different forms of sustainable investments and the impact they have through a range of sustainable investing approaches simplified into the “ABCs”. This includes Avoiding harm, Benefitting stakeholders and Contributing to impactful and sustainable solutions.



Source: Responsible Investment Association Australasia (<https://responsibleinvestment.org/what-is-ri/ri-explained/>)

Communicating the value of sustainable investment for family offices is also essential. Mervyn offered a framework consisting of three objectives to evaluate risk-returns using ESG principles – (1) to find sustainable companies with growth and financials that do not decline in the long term, (2) to avoid companies with potential or actual downside or reputational risks, and (3) to turn underperforming companies that can produce tangible valuation improvements through measurable impact or sustainable solutions. Meanwhile using Maitri's experience as a case study, Manish reminded participants to align families' expectations in communicating sustainable investing.

Manish Tibrewal: No two families and their philosophies are the same. One critical aspect I wish to highlight is the qualitative factor when managing families. Some may look at intangible expectations while others may be more comfortable with data-backed evidence and statistics.

Case study: Maitri Asset Management

Maitri Asset Management (Maitri) began as the single-family office for the Tolaram Group and soon expanded into a multi-family office. To date, Maitri is headquartered in Singapore with over 16 staff members and a global investment presence.

Maitri has been a pioneer in the family office scene in adopting global and regional ESG standards. Apart from allocating twenty-five percent of its earnings to the Ishk Tolaram Foundation, the Tolaram family's philanthropy arm, Maitri is also the first multi-family office in Asia Pacific to be awarded the B Corporation (B Corp) certification since 2021. Maitri is also a signatory to the United Nations-supported Principles for Responsible Investment ("UNPRI"), and part of a Steering Committee Member of The Family Business Network's Family Office Community. It is also part of various global ESG initiatives such as the Climate Action 100+, Taskforce for Climate-related Financial Disclosures ("TCFD"), and the Asia Investor Group on Climate Change ("AIGCC").

Maitri attributes its commitment to responsible investment to the alignment of its long-term investment goals with the Tolaram family's DNA of wanting to do well by doing good. Maitri developed its proprietary non-financial indicators and processes to guide its financial analysis in picking investment opportunities that are aligned with its intent for positive social impact. These include screening for negative sectors such as alcohol, tobacco, gambling, and weapons industries, as well as translating investment impact into measurable ESG related data, and monitored on a weekly basis. The information is incorporated into the firm's investment performance review at the C-suite level.

5. Succeeding in the ESG Ecosystem

While family offices are poised to reap the immense opportunities and potential value to ESG investing, the financial analysis available in the sector is still nascent, with different signals owing to a diversity of views as global shifts are taking place. Many Asian family offices are still on the learning curve to get their analysis right. To effectively navigate the ESG investment space and transition to drive value and impact, the speakers shared a common set of recommendations:

- Advisers need to identify and measure impact by developing a data-driven perspective informed by their ventures' strategic advantages, business models, sectors and solutions. It has to also be appropriately mapped onto established ESG principles available such as the UN Sustainability Developmental Goals (SDGs).
- Choosing the right kinds of metrics to evaluate ESG impact cannot be a process of simply following indicators or adopting frameworks used by other family offices. Each investment portfolio needs to be weighed against its own curated set of metrics.
- Adapting to the ESG investment landscape requires a host of new skillsets and information drawn from other disciplines and industries. Advisers need to keep up with the latest relevant knowledge or expand their network of subject domain experts from other industries to help bridge the informational gap.
- Collaboration and communication with stakeholders are essential towards establishing a viable social license to co-create impact in the community. Internally, family offices need to align their ESG objectives and investments to develop consistent value drivers and brand identity. Externally, family offices need to connect with their local communities to understand the ground issues and match ventures with the right solutions.
- Each family has its own DNA, or unique qualities that define its philanthropic objectives and justification for investment. Advisers need to capitalise on these characteristics to bridge the world of ESG with families' DNAs to form sustainable and impactful ventures.

CONCLUSION

Family offices and ESG investments share a common principle – both are focused on investing today with tomorrow in mind. As different forms of ESG investments are incorporated into mainstream offerings, advisers with the following competencies will be in demand within the family office landscape:

- Ability to incorporate financial and non-financial indicators to make an informed analysis on investments' overall value, impact, risks and externalities.
- Knowledge in developing frameworks and monitoring tools to measure, keep track of and justify ESG impact across investment asset classes.
- Adept at keeping up with and translating latest developments in the ESG research landscape into new forms of environmental and social risks and opportunities.
- Developed a network of relevant subject-matter experts in related ESG industries.
- Ability to craft and communicate ESG narratives that align with family's values, identity and objectives with evidence-based outputs and measurements.

ABOUT WMI

Established in 2003, the Wealth Management Institute (WMI) is committed to building capabilities for investing in a better tomorrow. Founded by GIC and Temasek, our vision is to be Asia's Centre of Excellence for wealth and asset management education and research. WMI is appointed as Singapore's Lead Training Provider for Private Banking by the Institute of Banking and Finance Singapore (IBF) and supported by the Monetary Authority of Singapore (MAS). WMI also helms the Global-Asia Family Office Circle, a network platform that fosters a trusted environment to build capabilities and community in the family office sector.

WMI provides a comprehensive suite of practice-based certification and diploma programmes, and collaborates with leading universities for Masters qualifications. With over 18,000 annual enrolments, WMI provides training in asset management, wealth management, family office, compliance and risk management across more than 100 programmes.

ABOUT THE GLOBAL-ASIA FAMILY OFFICE CIRCLE

The Global-Asia Family Office Circle (GFO Circle) is a network platform that aims to be the leading voice and umbrella association for family offices in Singapore and Asia. It responds to a real and growing need for community building, collaboration and learning in the family office sector. By bringing together a community of family office principals, professionals and service partners, the GFO Circle will be a trusted environment for networking and knowledge sharing.

The GFO Circle will offer unparalleled access to cutting-edge insights from a wide range of sectors. Members will have access to curated networking events, world-class education programmes, research and thought leadership, as well as peer learning and cross-sector collaboration opportunities.

The GFO Circle leverages on the deep expertise in wealth and asset management education within WMI, as well as the partnership with the family office community across family principals, family office professionals and family advisors across the banking, asset management, MFO, trust services, legal, tax, accounting and IFA sectors. The GFO Circle is also supported by the Singapore Economic Development Board (EDB) and the Monetary Authority of Singapore (MAS). For more information, visit <https://wmi.edu.sg/gfo-circle>