

ASIA'S HNW AND UHNW INVESTORS AND THE GROWING IMPORTANCE OF ESG, IMPACT & SUSTAINABILITY



IN ASSOCIATION WITH EXCLUSIVE PARTNER



INTRODUCTION

On October 29 last year, Reuters reported that total assets of funds focussed on environmental, social and governance (ESG) related issues had climbed to USD3.9 trillion by the end of September 2021, according to data from Morningstar. The equivalent figure two years earlier was around USD1 trillion.

The article noted that a key driver for the dramatic growth was the number of funds meeting Morningstar's 'sustainability criteria' based on the introduction of the European Union's Sustainable Finance Disclosure Regulation (SFDR), which helped catapult the number of funds by more than 50% in Q3 2021 alone.

There is no doubt whatsoever that investors across the globe are paying increasing attention to ESG criteria and scores, especially those most highly accountable investors such as sovereign wealth funds, major corporate pension funds, and multi-billion asset family foundations, amongst many others.

To take the temperature of the upper echelons of the Asian wealth market in terms of high-net-worth (HNW) and ultra-HNW (UHNW) clients and their relationship to ESG and, more broadly, investing for impact and sustainability, Hubbis conducted a survey of 112 wealth management leaders and decision-makers in Asia.

The findings and key observations are set out in detail below but can be summarised in one sentence.

ESG-driven investing in Asia is engaging more and more advocates and supporters, but for private client investors to take the next step, there must be greater global standardisation, more regulatory support, greater understanding amongst those private investors, and more evidence that this will genuinely help their portfolios outperform as well as mitigate risks.



The basics

Environmental, social and governance (ESG) criteria aim to help socially conscious investors screen potential investments.

Environmental criteria aim to define how a company performs from an environmental impact perspective, which has truly moved centre stage in recent years.

Social criteria define how a company manages relationships with employees, suppliers and customers, how they manage diversity, and also how they work with communities in which it operates.

And governance deals with a company's corporate culture, its leadership, executive and broader compensation, audits, internal controls, and shareholder rights.

ESG's star on the rise

Today, these ESG criteria are being used increasingly to help investors identify companies with corporate values and practices that they feel comfortable with and, therefore, that meet their ESG investment requirements.

Most professional investors today rely on third-party sourced ESG data and ratings or scores, and there is no doubt that the collective influence of the providers of such data and scores is set to grow.

ESG data and metrics

A key concern is that the raw information relied upon so heavily to arrive at the ESG metrics is sourced from the companies themselves, thus far with no consistent external regulatory requirement or pressure to prove that the data is correct. Nevertheless, even though far from standardised or mature, ESG criteria and scores are increasingly driving the decisions of fund managers, from sovereign wealth funds through to the world's largest pension funds.

The private wealth investor community has also significantly increased its ESG participation, albeit from a low base.

The upper echelons of private wealth – the HNW and UHNW investors – [have thus far become more active in ESG than retail or mass affluent investors]. This is largely because ESG, while simple to grasp in concept, is difficult to understand in terms of how scores are allocated and in terms of the impact on returns and overall risk management. In general, the adoption of ESG investment principles and practices is lagging in Asia compared with Europe.

More evidence is required, but the trends are clear

Moreover, this is as yet more by choice than driven by affirmed long-term data, as there is as yet not a sufficient body of evidence to prove financial returns will definitively improve the more ESG-centric that portfolios become. Yet there are more and more proponents of ESG who believe it can reduce portfolio risk and help investors generate competitive investment returns.

The keener ESG investors accept this and believe that by supporting sustainable companies, they can make a positive difference whilst harvesting competitive financial returns.

Regulators and policymakers, increasingly concerned by sustainability-linked risks within the financial system, are driving a shift to greater availability and standardisation of ESG data. This should make for better pricing of risk and return over time, allowing for a more accurate understanding of performance to emerge.

Wealth provides choice

And the HNW and UHNW wealth management and investor communities (including single-family offices) that are the subjects of this

survey simply have more choices. They are under less short-term financial pressure and therefore have more latitude to align their values with their capital. Allocation of a portion of their portfolios to self-directed ESG investments, or to ideas derived from their private banks, or towards ESG-centric discretionary portfolio management (DPM) are therefore all on the rise in Asia.

Indeed, the wealthier the clients, the more latitude they have in looking at the returns on their investments from a bigger perspective than through a purely financial lens. There is considerable and growing evidence that investment portfolios that do not adequately consider ESG are not properly assessing the inherent E, S and G risks that might at any time suddenly arrive to surprise and shock them and other investors.

Think of the past and potential environmental disasters, consider the VW emissions scandals or the geopolitical risks of conducting business with rogue or unstable states. Consider perhaps the dangers of any company nowadays being out of step with the younger generations' passionately held social mores and consequently the immense risks of negative social media campaigns. Or potentially the litigation that might hit any company whose activities and governance are challenged in the courts.

A virtuous circle and the ESG glass half-full

There is, to some extent, therefore, a self-fulfilling element to this ESG evolution, a new virtuous circle evolving to help investors navigate all types of risks and to more effectively align investment decisions, not only with financial returns but also with societal values and with a broader mission to help achieve a better world ahead.

In short, there is a growing appreciation of the notion that

ESG factors should be recognised as financially material. Many argue that empirical and academic evidence increasingly demonstrates that incorporating ESG issues is a source of investment value. ESG analysis assists investors in identifying value-relevant issues. The theory goes that neglecting ESG analysis may cause the mispricing of risk and poor asset allocation decisions and is therefore a failure of fiduciary duty, in the case of a Trustee, for instance.

Indeed, as ESG-driven investment selection rises across the globe, the allocation of capital to those listed and indeed private companies, funds or other vehicles exhibiting better ESG credentials will increase.

That, in theory, also means that their cost of capital will fall, and as more investors seek them out, their valuations should rise. So far, this is more theory than reality, but it is a concept that is widely acknowledged as more likely to prove the case than not over time.

Indeed, this glass half-full view is corroborated in a February 2020 article by MSCI. The author noted that companies with high ESG scores, on average, experienced lower costs of capital compared to companies with poor ESG scores in both developed and emerging markets during a four-year study period. The cost of equity and debt followed the same relationship.

The indication is that companies with lower ESG scores exhibited a stronger relationship to a lower cost of capital than did those with higher ESG scores. And MSCI reported that in developed markets, companies with lower ESG scores, upon later improving their MSCI ESG Rating, experienced a resultant reduced cost of capital.

The MSCI report's author stated: "Over the past few years, integrating environmental, social and governance criteria into portfolios has shifted from an exercise involving a relative handful of investors to a mainstream focus."

The ESG 'carrot' and the ESG 'stick'

There is a growing realisation, especially for companies and the professional asset management community, that there are both strong positive reasons to adopt ESG but also powerful negative implications of not embracing ESG.

This was underscored in a four-year research project launched in January 2016 by Principles for Responsible Investment (PRI), a United Nations-supported international network of investors working together to implement its six aspirational principles, often referenced as the 'Principles'. The mission of the research was to clarify investor obligations and duties in relation to the integration of ESG issues in investment practice and decision making.

It found that there was a great deal of development in the past few years, far more in fact in a fairly short time than in the preceding 15 plus years.

The PRI report described how the integration of ESG issues into investment practices and decision-making is an increasingly standard part of the regulatory and legal requirements for institutional investors, along with requirements to consider the sustainability-related preferences of their clients and beneficiaries.

Mitigating many obvious and numerous hidden risks

These views are also supported by many reports from the legal

community. For example, the global law firm Simmons & Simmons LLP issued a report in February 2021 on the rise of litigation around ESG issues. The authors said they expected 2021 to "bring a significant re-set of ESG expectations on businesses, to include a wider range of ESG targets, a greater focus on managing climate change impacts and more scrutiny over corporate purpose".

They said that for those that adapt to this challenge, there are likely to be significant benefits and warned that for those that do not, there is a greater prospect of civil litigation and increased regulatory and conduct risks.

"Consequently," the Simmons & Simmons report stated, "all businesses need to identify and manage their ESG risk. Aside from ensuring compliance with legal obligations, commercial pressures and reputational risk may mean that changes to corporate behaviour are needed."

And the report highlighted some of those key risks, including climate change risk, or ESG liability risk such as misleading sales pitches and greenwashing.

They also pointed to companies' and directors' liabilities, the authors noting that the directors have fiduciary duties to pursue a long-term increase in financial value for the company and that as ESG factors directly impact both the financial bottom line and a company's reputation, the decision-makers should ensure they take ESG factors into account.

"The importance of assessing and managing your exposure to risks across all three limbs of ESG cannot be overstated," the report concluded. They added that "the nature of many ESG risks means that, if not managed, they

bring the potential for regulatory enforcement, civil claims and criminal sanctions, potentially all at once.”

ESG's role in long-term value creation and the alignment of 'values'

And there is plentiful and growing evidence to support these views. As any company's ability to deliver long-term value is also increasingly tied to its reputation and ability to meet the social license set by the communities in which they operate, corporate scandals will potentially erode more value more rapidly and more sustainably than ever before.

In fact, analysis cited by Bank of America showed that in 2019 alone, ESG indiscretions and what the bank called “quarrels” involving environmental, social and governance issues had wiped more than USD500bn off the value of large US companies over the preceding five years.

And amongst the key findings in a Q3 2021 UBS Investor Sentiment report, UBS highlighted how investors see Sustainable Investing (SI) as an important part of their portfolio strategy, the authors noting that 75% of the replies they received from investors highlighted maximising investment returns as their top priority.

But the UBS report also noted that between 61% and 62% of replies also indicated that their mission with SI was to invest in companies that further the support of causes considered important to the investor, to maximise impact and also to avoid companies that did not align with the investors' views on SI.

In Nordea's 2021 ESG Survey on the preparedness of advisors for the MiFID and ESG challenges ahead, the Nordic financial group highlighted several key findings gleaned from 1,200 European individual investors on ESG and

sustainable investing via an online survey conducted for them by CoreData Research between July and August 2021.

Amongst the key findings, they saw that clients now recognise sustainability as a significant financial risk, with 89% considering sustainability a challenging issue for society and 77% believing their investment decision could make a difference in creating a more sustainable society. The study reported that ESG clients are hungry for more - in fact, they noted that 76% had increased their ESG investment in the past 12 months and that 71% planned to increase their ESG allocation over the next 12 months

Wealth management leaders ride the wave

Faced with all this evidence and the rising tide of ESG-centricity around the globe, it is very clear that ESG-driven investing is becoming far more than simply a nice 'bonus' element in investment considerations.

Accordingly, for private wealth management leaders today, in their dealings with wealthier private clients, it is essentially imperative to incorporate ESG into their daily activities to retain clients and to stay relevant and competitive. And with growing support for their decisions, the wealthy private clients that have the larger portfolios and the greater choice, ESG-driven investing is most certainly on the rise.

However, let's not get carried away. Impact investing – for example, buying a special purpose bond to boost sanitation and water quality in Africa, or for emerging world vaccination programmes – is a whole lot easier to understand and more immediate in effect than investing based on ESG scores that are so far not consistent or universally recognised.

More knowledge and education required

Indeed, ESG-driven investing is more complex, has more moving parts, and crucially, globally defined standards and regulations covering the data, or the scores/ratings are either in their infancy or still under development. Moreover, as stated, there is thus far no long-term evidence that this is yet boosting financial returns for investors or indeed will do in the future.

ESG-centric investing rises in Asia's wealth markets

What we can say, and this and other assertions above are very clear from the survey results, is that there is considerable and rising optimism around ESG-driven investing in the private wealth market in Asia.

When asked what percentage of equity portfolios for HNW and UHNW portfolios is likely to be selected based on ESG criteria, our survey respondents said that while 61% of HNW/UHNW equity portfolios are today less than 25% skewed towards ESG, that will drop dramatically to just 15% within 10 years. In other words, there will be a dramatic increase in allocation driven by ESG factors.

In fact, they think that within a decade, an impressive 85% of equity allocations for such investors will be driven by ESG metrics or considerations for at least 25% or more of all portfolios. Moreover, 22% of replies indicated that ESG would come to dominate more than 75% of such equity portfolio allocations within that time frame.

Additionally, more and more believe ESG metrics and investment principles will become better understood. Rapidly rising numbers believe that a more widely accepted taxonomy will emerge, that more products will come through and that the snowball effect will result in proven enhanced returns and reduced risks for investors.

SECTION 1: THE MARKET & THE OPPORTUNITY

80%

80% of replies from leading wealth managers in Asia said that ESG-driven investing is taking off, with 66% saying it is a major driver of future business but still in its infancy, while 14% stated it is already a source of significant activity. Nevertheless, 20% said it is tough to gain traction with their wealthy private clients on these issues, with some indicating they fear it might be somewhat of a fad.

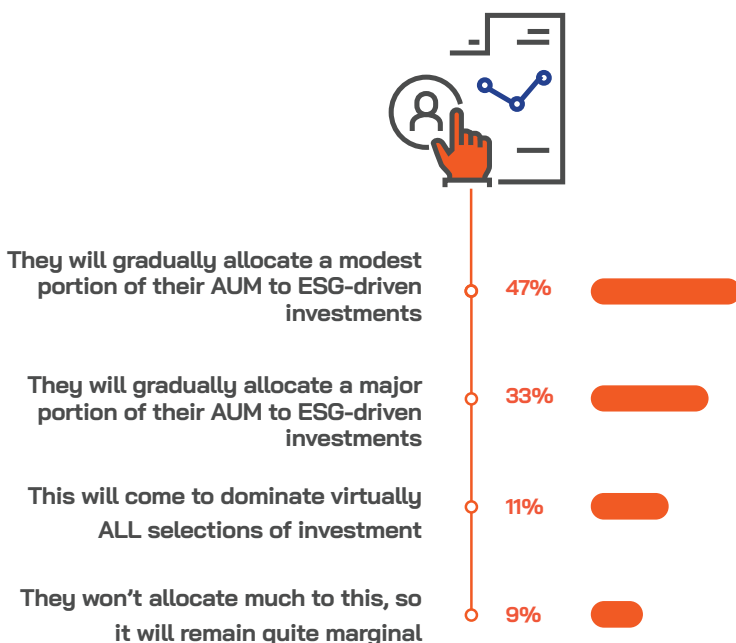
Which of the following statements best describes your perception of and/or approach to ESG-driven investing?



Which of these statements best reflects your overall expectations for ESG-driven investing in the next 10 years from the viewpoint of private HNW and UHNW clients in this region?

91%

An impressive 91% of replies indicated that HNW and UHNW private clients in Asia will allocate all, most or at least some of their portfolios to ESG-driven investments over the next decade. Meanwhile, a mere 9% think ESG will remain marginal to investment decisions over the years ahead, implying that ESG will continue to move very much further into the average investor psyche.



Selected Comments & Views from the Market

THE MORE POSITIVE REPLIES:

- » Interest is certainly picking up in Asia, albeit progress is still well behind the US and especially in Europe, where the European Union is trying to take the lead. With regulatory support and emphasis from the governments worldwide and, of course, also in Asia, the relevance will become clearer, and uptake will evolve. That said, investment objectives and preferences differ amongst the wealthy clientele, and this remains more of an individual choice than an imperative at this stage.
- » There is a growing body of evidence that companies and their securities with high ESG credentials achieve better returns. We [a major international private bank] have models and data that show that has been the case since 2014; predominantly from evidence in North America and Europe, we can see that returns are enhanced. Today, we maintain an active education series on this, first for our relationship managers, then directly and indirectly for clients. We work with our bankers on ESG scorecards to help them discuss portfolios with clients, and we are really boosting our internal education and training. There is much more to do out here in Asia; we are still behind Europe, but we are catching up.
- » To ensure that one behaves like a responsible world citizen, promoting and participating in investments that have a higher environmental and social responsibility and good governance characteristics seems to be appropriate. As to the investment logic, there is also a growing sense that these investments will do better over time as more investment capital will be directed their way, at the expense of those with weaker ESG credentials, although we need more independent evidence to support that.
- » ESG investing represents a shift towards supporting companies that consider long-term sustainability and good community and social governance as part of their operations. This also helps to acknowledge the risks of unintended outcomes that could occur if an organisation were to fail to take ESG factors into account. Our clients in Asia are also inclined towards more sustainability combined with social responsibility in their investment decisions, but not yet as a core driver of portfolio allocation.
- » The whole thesis around sustainability, impact and particularly ESG is slowly gaining ground. We think the regulators will be pressured into passing laws to ensure businesses and companies will provide correct ESG data and fulfil ESG requirements/considerations and, more generally, ensure their businesses are sustainable.
- » For those companies that avoid these ESG issues, there is increasing public pressure from social media. For example, if companies do not demonstrate the appropriate environmental, social or governance attributes, they could be called out or possibly hauled over the coals in public. This will deter investors who will focus on higher ESG rated investments. And that, in turn, will contribute to more of a virtuous circle of capital allocated to those that are further along the ESG highway and further up the ESG scoring hierarchy. Hence, Asian clients should increasingly have both ESG and sustainability considerations embedded in their family businesses and investment portfolios.
- » I don't think this is a fad; in fact, far from it. In terms of oversight and regulation, we're only at the very beginning, with more progress taking place in Europe but admittedly considerably less in Asia. In short, we are seeing far greater interest everywhere, and here in Asia, it has started, but there is much progress needed.
- » As the future needs to be self-sustaining for positive change, it is highly relevant for HNW/UHNW clients to make more careful ESG-supported investment selections in their portfolios. There are more and more opportunities for them to invest in innovative products focused on ESG investment themes, such as sustainable healthcare, climate change and decarbonisation, so there are plenty of profitable thematic ideas underlying the ESG initiatives.
- » There used to be a major emphasis on Socially Responsible Investing, or SRI, but today it has evolved into a more data-centric ESG model. It is perhaps easiest to devolve the ESG conversation to the 'E'

portion primarily, as the environment is the real newsmaker these days. But the 'S' and 'G' components are equally important and arguably, in our view, are longer-term drivers of the ESG story. The 'S' and 'G' elements have also been around for longer in the professional investor psyche, perhaps especially the 'G' element, focusing attention on companies with more support for employees, those that have more diverse boards, which have better governance structures, and so forth. In short, we all focus heavily on 'E' today, but 'S' and 'G' will also drive ESG scoring and concomitant investment returns in the future.

- » ESG will certainly be a key focus from fund managers' and fund management companies' perspectives, and we see that happening especially across the developed economies. For our wealth industry, it is a necessary marketing tool nowadays, as wealthier private clients, in particular, have a rising appetite for allocations with a greater ESG focus. The mass affluent and retail markets will follow as more information and understanding spreads.
- » Ignoring ESG investing can potentially make managers liable for negligence, especially those asset managers who owe a duty of care towards the public or perhaps trust beneficiaries. It is important to educate the clients on such topics; ignorance is not an option anymore.

SOME OF THE LESS POSITIVE REPLIES:

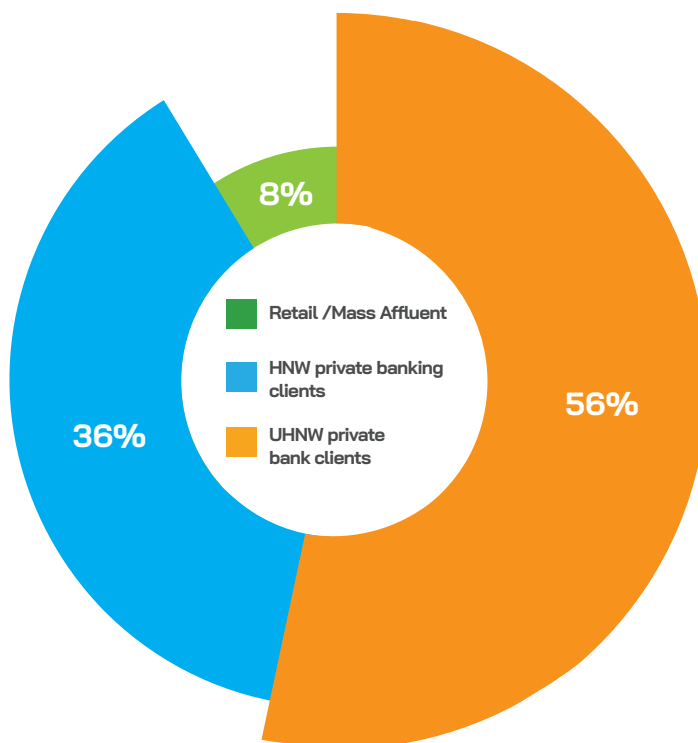
- » There is not so much interest amongst our clients in Asia really. At present, I think it is more of a buzzword more at the grassroots level, driven strongly by a lot of groups with a vested interest in pushing the ESG agenda.
- » While it seems to make sense from various angles, we have not yet seen much client interest in ESG investing. We are taking the wait and see approach right now.
- » It is very easy to speak with the older clients about impact investments which are more immediate and responsible investments, but it is very difficult to convince them to invest for tomorrow along ESG lines. They want to see the results today or at least be convinced that this will boost returns and/or reduce risks.
- » Honestly, our clients are mildly disinterested. To them, it all seems logical and fine, but so far, they see no compelling reason why they should place much emphasis on this.
- » The regulators are at the start of this journey, and so too the governments, and this means our clients still need to really see and understand where this is all going. In short, we agree this is going to be a topic for many years to come, but it will take considerable time before becoming widely accepted or a hygiene factor for investment allocation, in my view.
- » My clients talk about it but when it actually comes to putting money to back ESG, they shy away.
- » We see some relevance, but we need to see it driving returns from a fundamental level and not just because of momentum that as we see it borders in some instances on mania.
- » It's a topic wealthy clients address and express an interest in, but so far, they don't seem to be willing to give up performance for it.
- » Clients indeed are more focused on returns instead of extra attention to ESG. I see the relevance is only related to climate change.
- » The ESG theme is a young phenomenon and does not have precise definitions, clear norms or guidelines. The younger generation is very good with the theory and can talk about ESG, but their practical investment experience is largely missing. We are talking about a long-term process, so right now, interest amongst our investors is modest to low.

SECTION 2: THE INVESTORS & THE GENERATION GAME

92%

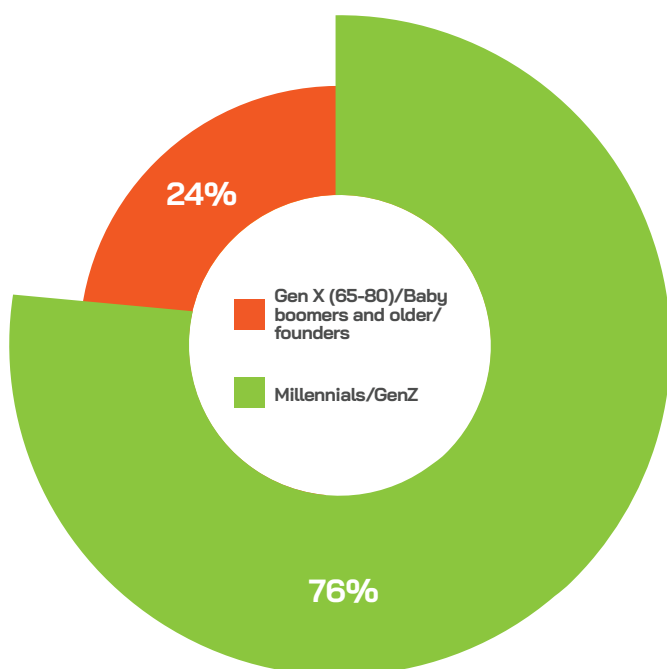
Respondents indicated that so far, 92% of the interest in ESG-driven investing is coming from HNW and UHNW clients. They indicated that 56% of the interest and/or active demand is coming from the UHNW segment. Naturally, the wealthier the clients, the greater the flexibility they must focus on the longer-term and bigger issues than investors with far less wealth and in greater need of more immediate returns.

Which types of individual investor clients in Asia are so far the most interested in and active in ESG-driven investing?



Which generations of private clients are now or are likely to be the most interested or active in adopting ESG investment approaches?

76%



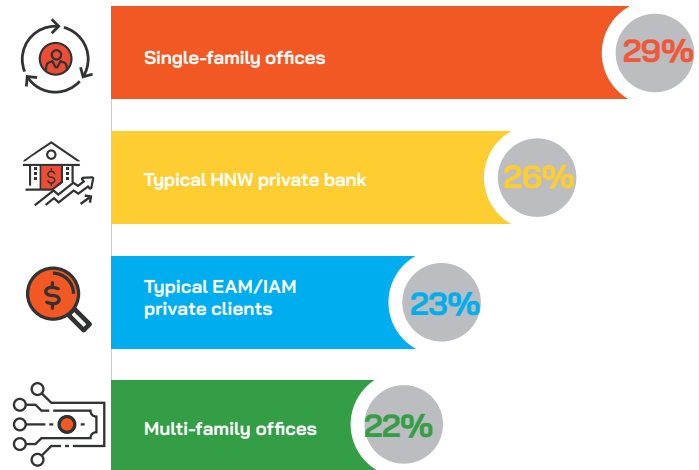
Some 76% of replies said Millennials and even GenZ are most engaged in ESG investing, or perhaps will be when they control more of the wealth. The implications are very clear – this is a major theme for the future, and those born from the early 1980s onwards will increasingly consider ESG and sustainability criteria at the core of their investment approach. As Asia's older generations are set to transition literally trillions of dollars equivalent of wealth to these younger generations in the next decade or two, it is evident that the wealth management industry needs to focus more energy, resources and expertise on ESG.

29%

Respondents evidently see

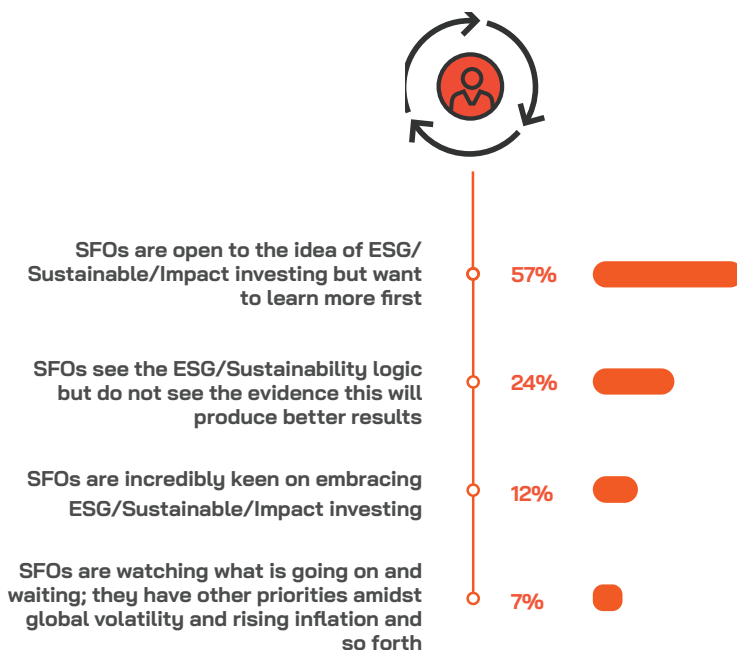
ESG pervading all categories of HNW and UHNW investors. It is noteworthy that the UHNW segment, significantly represented within the single-family office (SFO) category, appears to be leading the way, a trend highlighted in a good number of the insights we received.

Rank which types of wealthier private clients are now or are likely to be the most active in ESG-centric investing?



Looking specifically at Single-Family Offices, select one of these statements as closest to what you consider the reality today:

81%

**Nevertheless, ESG-driven**

investing in Asia, as our respondents told us time and again throughout many of their replies, is in its infancy; hence they report that only 12% of the SFOs are thus far really driving through with such investment decisions. Meanwhile, a significant 81% of SFOs are either receptive to the concept but want to learn more or are awaiting evidence that investment along ESG principles does indeed produce better results. These findings gel with the overall tone of the replies, namely that the journey has only just started in Asia. There is very clearly a generally robust inclination to continue this ESG journey, but for now at least, only at a modest pace until the signposts are much clearer.

Selected Comments & Views from the Market

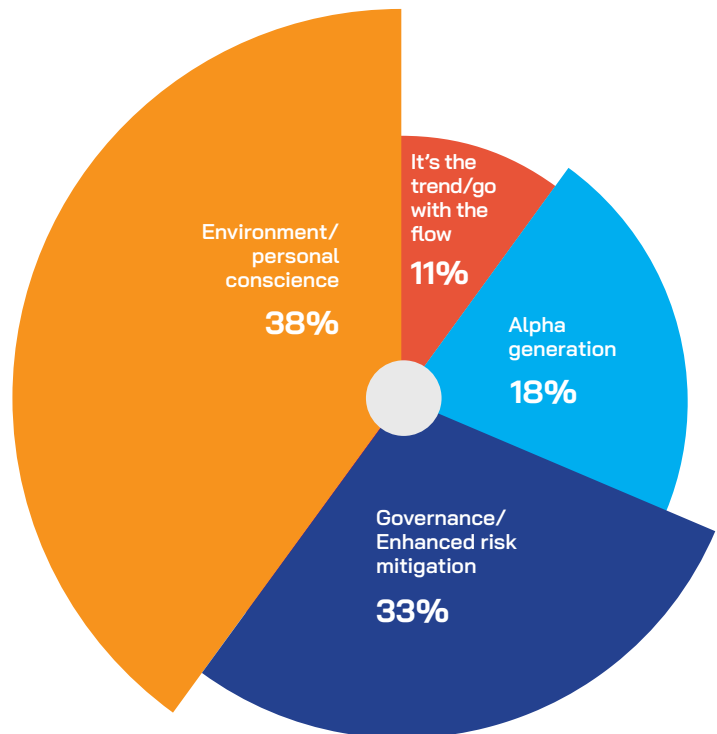
- » It is very clear that interest [in ESG and sustainability] rises with younger age groups – the world is their future. But many of our private client decision-makers today are still trying to wrap their heads around this. There are family offices that are clearly starting to make ESG a mainstay in their investment processes, sometimes driven by their younger family members who are closely involved. There are also plenty of wealthy individuals who are interested, but maybe not to the extent of making it a central focus in their investment strategy. In short, as we see this, the more the Millennials take control of Asia's private portfolios and decisions, the more activity we will see in the region.
- » The older generations have lived through so many scares that have not materialised, such as nuclear conflagration or meltdown, and through so many market crashes and recoveries, and weathered them all. However, even they are now gradually coming to realise that environmental issues, in particular, are likely to destroy or compromise humanity's security and quality of life in the future, and that means their children and grandchildren and so forth. Accordingly, these issues around the 'E' of ESG are gaining ground. Perhaps the social and governance issues are less dramatic or immediate in their impact, but people will perhaps gradually understand that good social and community responsibility and good governance are increasingly prerequisites for good environmental behaviour.
- » There is more awareness amongst the younger generations, but in general, there is greater interest in cryptocurrencies and digital assets right now. However, the more we can educate and communicate on these issues, the better. The key is that this is not all seen as some sort of abstract exercise but a genuinely practical medium for enhancing the longevity of companies as they improve their ESG footprints.
- » I think it is fair to say that there will be buy-in from the younger crowd of investors who are more receptive to thinking about climate change threats. ESG has become more significant for the bank and financial industry for survival, and therefore more resources are focused into this area in education and awareness for clients and positioning oneself into this significant opportunity.
- » We are reasonably sure that the wealth industry will be able to offer some good advice on ESG, but it is early days, and advances need to be driven by governments and regulators to take an active role in promoting ESG and striving towards more universal standards and ratings. Within Asia, there is growing understanding and expertise, but it is from a low base and driven thus far largely by pressure from or activity amongst the Millennials and younger generations. However, they do not yet hold much of the trillions of dollars of private wealth in Asia. Nevertheless, we most definitely see the increasing interest in this matter amongst private clients of all ages, especially given the transition of wealth and control to the younger generations in the decade ahead and beyond. Any bank or advisor who ignores this is likely to become marginalised.

SECTION 3: ESG AND THE PRIVATE INVESTOR PORTFOLIO

82%

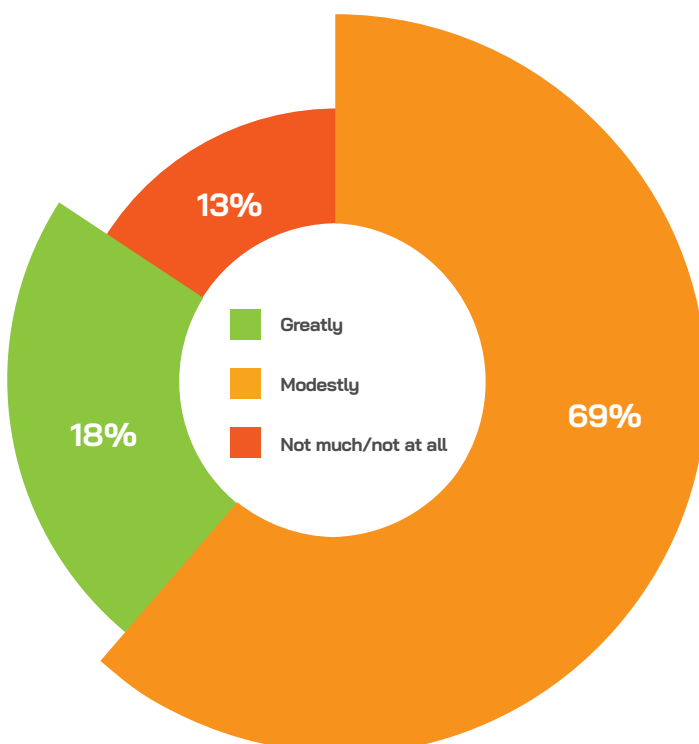
82% of replies indicated that it is the principles inherent in ESG that tend to drive interest amongst private clients, whereas only 18% see ESG investment inclusion as a means of generating alpha. From the comments and insights that we obtained, perhaps this 18% figure is somewhat exaggerated because, at least thus far, there is only a general impression but no clear evidence that ESG drives better financial performance.

Amongst Asia's private clients, rank the key drivers for the adoption of ESG investing?



To what extent do you think adopting ESG investment criteria will enhance your clients' portfolio financial performance?

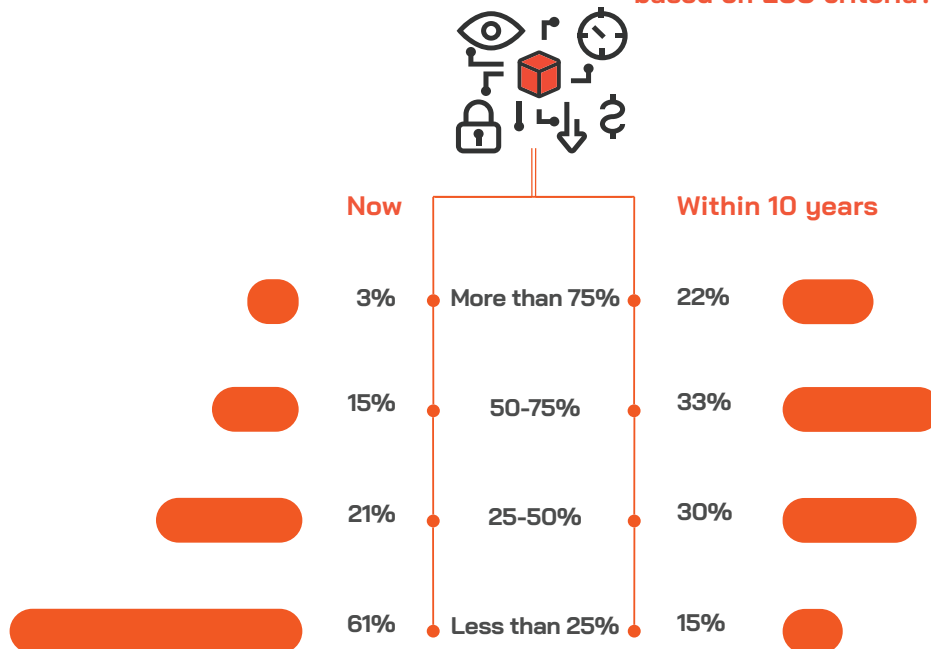
87%



These findings gel with the findings above. The encouraging figure is that 87% of replies stated they think ESG investing will either significantly or more modestly improve the financial performance of their clients' portfolios. Time will tell, but what will certainly happen more immediately is that ESG investing is also increasingly driven by investors wanting to align their own principles and values with companies that have a more robust ESG footprint. And this is not only nowadays the previously very dominant 'E' factor, but increasingly the social and governance aspects of those companies' activities and outlooks.

Roughly what percentage of any equity investment portfolio for Asian UHNW and HNW clients is today selected based on ESG criteria?

Within 10 years from now, roughly what percentage of any well-managed equities investment portfolio for Asian UHNW and HNW clients do you think will be selected based on ESG criteria?



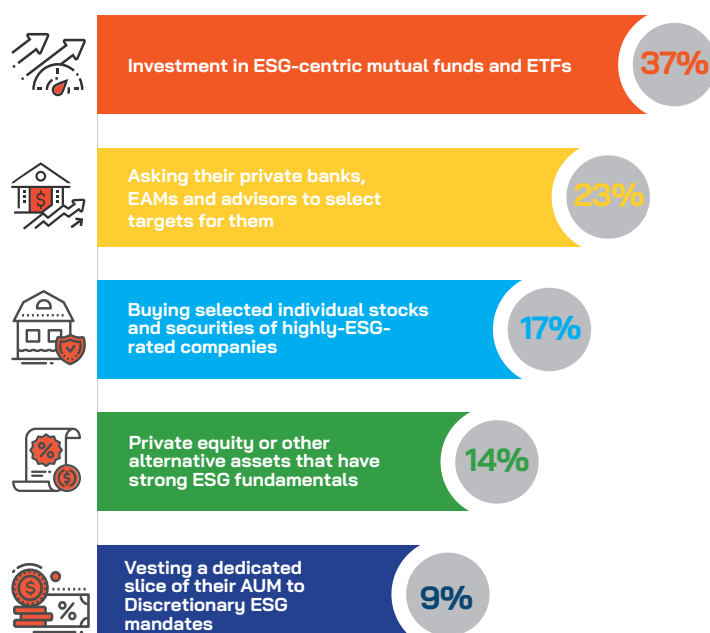
What a difference a decade will likely make! The respondents indicated that currently, 61% of HNW/UHNW equity portfolios are less than 25% skewed towards ESG but they expect this figure to drop dramatically to just 15% within 10 years. In other words, the ESG-driven allocations will surge dramatically.

In fact, they think that within a decade, an impressive 85% of equity allocations will be driven by ESG metrics or considerations for 25% or more of all portfolios. Moreover, 22% indicated that ESG would come to dominate more than 75% of such equity portfolio allocations within that time horizon.

37%

There is considerable diversity in the approach of those private wealth clients already investing aligned to ESG principles and metrics. Unsurprisingly, mutual funds and ETFs that curate highly-ESG-rated companies and securities stand at the top of the pile at 37%. But it is interesting to note two other elements in play. Firstly, clients are turning to their banks and EAMs for advice in selecting the right avenues, and they are allocating a portion of their AUM to DPM dedicated to credible ESG investments. Secondly, and like the allocation to DPM in tune with their wider perspective on their portfolios, they are buying into more ESG-worthy private assets.

For those private clients already participating in ESG-driven investing in this region, rank how they are going about their actual allocations towards ESG.



Selected Comments & Views from the Market

- » Our firm is very actively promoting ESG related investment to our clients globally and we really do see this as a huge opportunity in the years to come. We have implemented ESG strategies for our clients, including mutual funds, in-house managed funds and DPM mandates, and we offer ESG scores for any client's portfolio, all in order to gain higher visibility and higher ESG adoption from the clients. We are monitoring the performance of the ESG-approved investments to determine if clients will, over time, achieve both higher returns and lower risk from portfolios with the higher ESG scores.
- » Almost every week, there is a new ESG opportunity to introduce to clients. Banks and funds have already been jumping on the bandwagon and creating ESG themed investments.
- » Because everyone is talking about ESG and wants to invest along those lines, these investments tend to go up. But this is not because they are fundamentally more profitable, it is because there is a rising tide of demand. We must therefore be wary of a misconception that ESG investments benefit portfolios driven by the underlying financials of the constituent assets rather than by the weight of money following them.
- » The role of modern finance is to allocate capital efficiently and that process is increasingly taking environmental, social and governance factors into account. ESG-related expectations on issuers and institutional investors (in terms of their strategic direction and disclosures) have accelerated in recent years. ESG is no longer a nice to have notion. It is imperative for the investment industry to stay relevant and competitive and, to do so, must adopt a greater ESG focus.
- » ESG spans all asset classes and products and services and is most certainly here to stay. For example, we now trade so-called green structured products that have very specific characteristics and that we educate the RMs about, so they can clearly inform their clients. But we need continuous education from here onwards; we are all committed to that in our group.
- » In a few years from now, I can see more and more private banking clients shifting towards ESG-centric investing. Hence the banks should come up with strategies to deliver ideas and products and better education on this to clients. It is significant for us, and we have been transitioning funds to be 'Article 8' compliant as well as launching thematic ESG products.
- » In our US and European divisions, our firm is implementing ESG and impact portfolios for clients. Our firm is also ensuring all the underlying managers in our investment portfolios are ESG compliant in their approaches and selections.
- » ESG is a future core focus worldwide, as more investments are made with consideration of the environment and human wellbeing, as well as the financial considerations. This will attract more clients' interest, especially as they understand more about it and as the intermediaries become more knowledgeable. We are looking for more funds with a long-ESG focus and discipline.

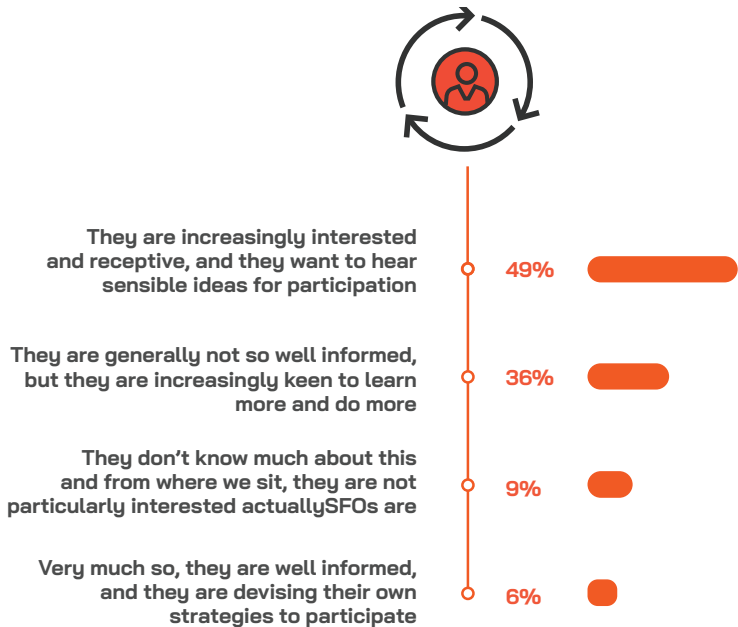


SECTION 4: HURDLES & SHORTCOMING

91%

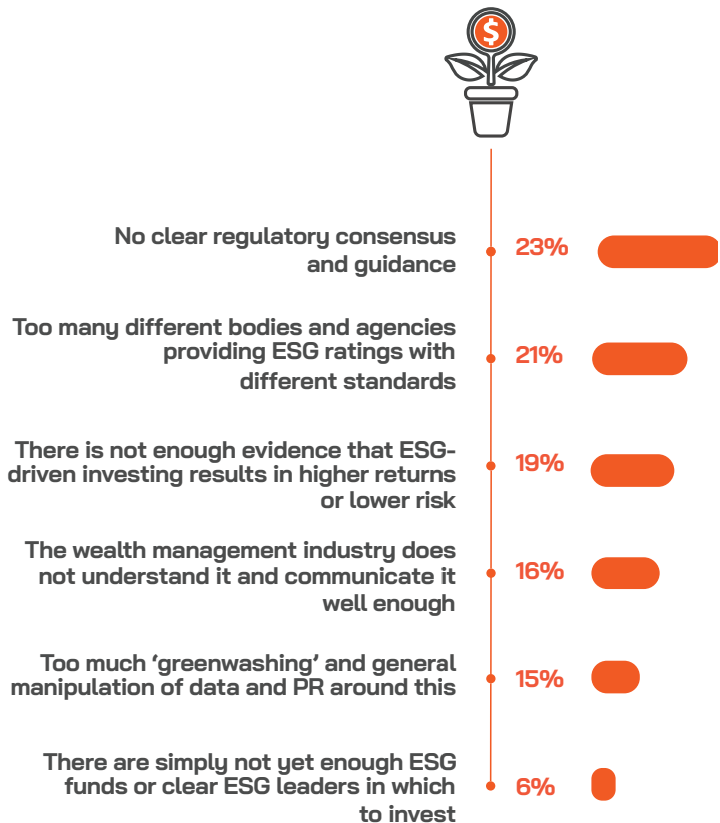
91% of respondents believe private clients are either ready for sensible ESG investment ideas from their banks and advisors or ready and willing to learn more and later do more. Moreover, 55% of replies indicated that their wealthy clients in Asia are either proactive in ESG investing or much more interested and eager to hear good ideas from their banks or other wealth advisory firms.

Do you think HNW and UHNW private clients in this region are well informed and understand what ESG-based investing is about?



Rank the main factors holding back greater adoption of ESG-driven investing in Asia

23%



The main comment to be made here is the reiteration the theme that runs through the survey results - the expanding ecosystem of ESG proponents and the rise of ESG-driven investing is nevertheless in its relative infancy. The implicit view in many of the more detailed replies received is that progress in all these areas above will surely be forthcoming. It seems logical to keep learning more and to gradually allocate a portion of the portfolio towards ESG, but there does not seem to be any immediate pressing need to rush in until more information, and greater clarity, are available.

Selected Comments & Views from the Market

- » Data that drives the ESG ratings is derived from the companies themselves, but so far there are no definitive standards, no clear templates, and there is no external verification or audit, certainly not from the regulators at least. The best that can be achieved is due diligence from the ESG ratings providers and then also from the intermediaries, asset managers and other investors, but frankly that is often really only cursory. The result is we see too much cloudiness and also greenwashing going on, although the latter is of course difficult to spot and quantify. The more it becomes clear, or even better proven, that ESG produces better returns, the more likely we will have defined, transparent standards, data and ESG scores to rely upon.
- » Right now, admittedly, there are not yet any generally accepted ESG ratings or metrics, but we gradually expect that this will become more likely, as we have seen with the widely used GAAP today. For us, for example, the ESG scores that we use in our clients' statements are actually based on our filtering of the ratings and assessments from eight different external parties. While I do agree this is all rather complex, we are however all moving in the right direction, and there is increasing alignment.
- » There is growing awareness of the issue of greenwashing and a growing focus amongst the regulators to curb excessive claims of ESG compliance. It is important for the wealth industry to be aware and safeguard clients on these issues. We have seen circulars from the Hong Kong SFC on what information is required and how funds should disclose if they want to be called ESG funds. This also gels with the widely increasing requirements for asset managers to properly disclose their sustainability policies and procedures. Asset managers, for so long the consumers of disclosures by listed companies, are now increasingly being asked to make disclosures themselves. This is especially the case with increasing demands such as in the European Union's SFDR, or the Sustainable Finance Disclosure Regulation. The SFDR is essentially imposing ESG disclosure obligations for asset managers and other financial markets participants working within the EU.
- » With all the greenwashing going on, one of the most important aspects of client education is helping them figure out how to sort the wheat from the chaff.
- » ESG investing sounds good, and we believe it is beneficial for the investment community, but until there is greater oversight from authorities and regulators, it means not a lot. Why? Because there is no monitoring as to if and how the companies are implementing ESG. Let's be realistic, electric vehicles are all the rage now, but are they genuinely better for the environment compared to fossil fuel vehicles? What about billions of batteries in coming years that are incredibly toxic and that the planet can never, ever destroy or break down. So too, some of the ESG reporting, actually we worry that some of that too could prove toxic in the future if relied upon too heavily without appropriate oversight.
- » When devising their preferred investment strategies, clients are increasingly interested in knowing more about ESG investing and its impact on their portfolios. But this is not a major wave of enthusiasm or activity yet, as there is too little clarity or standardisation of rating metrics, and there is too much deliberate obfuscation from those delivering the information, as well as perhaps too much unintentional misinformation.
- » Investors in Asia are not so inclined unless it becomes clearer that returns improve over time and risks diminish. We do not yet have that evidence. We need it.
- » ESG metrics are based on historical data, but we think that forward-looking metrics regarding company activities are much more important, given the huge challenge we have in terms of sustainability, which centres on the decarbonisation of the economy over the next 30 or so years. This is particularly crucial in Asia given the breakneck speed of development and the incredible speed of future transition over the next few years, as highlighted recently by the Chinese government in 2020 and 2021 with their very ambitious decarbonisation targets.
- » I think government emphasis and backing from the regulators (and possibly tax incentives) will help to boost knowledge and spread the acceptability of ESG-driven investing. But we need to see more consistent directives and more definitive regulatory action and encouragement before we can push our private clients harder in this direction. For now, we are more educating, encouraging and coaxing rather than really driving ESG forward to our clients.

SECTION 5: EDUCATION, KNOWLEDGE, COMMUNICATION AND WHO LEADS THE WAY TODAY

We asked those we surveyed if the wealth industry in Asia is yet able to offer private clients some genuinely good advice, insights and guidance on ESG-focused investing. We asked them what the wealth management industry needs to do to help ESG-based investing to really take off in Asia. And we questioned them on which institutions are the current flagbearers for ESG.

Selected Comments & Views from the Market

- » ESG is a work in progress. Investment professionals evidently need to gain more knowledge about ESG data, investing, greenwashing, risk and return in order to be able to turn these ideas into language easier for clients to understand and then convince them of specific opportunities.
- » We do not possess any expertise within the Asia office to advise on ESG related topics. It needs to start with having a dedicated team in the Asia office to start marketing the importance of ESG and the right selection of ideas to clients.
- » We need to upskill the wealth managers, understand the latest performance of ESG investments and set up a more detailed process on how this should be part of the regular meetings agenda. The interest is growing certainly, but careful selection of managers that follow the right identification and protocols is key.
- » I think much more needs to be done in terms of education on ESG and sharing information. Currently I feel this is all more about buzzwords than hard information on which investors can really rely for informed decisions.
- » It should be noted that ESG-focused investing goes beyond meeting ESG criteria. To boost support for ESG, one must see evidence that ESG targets are actually achieving a sustainable strategy in practice and demonstrating a holistic approach. This means leveraging local expertise in this field, on-the-ground research, extensive company engagements and investment capabilities to help clients avoid ESG-related risks. Thereby, stakeholders will be further encouraged to embrace sustainability and best practices.
- » I am particularly proud of the resources, the processes, the conversations and education of staff and clients around ESG at our [international] bank. In short, this is a very significant opportunity, and we are doing our best to leverage our presence and activity with new products, support for ESG data and scores, and general support for the expanding ESG ecosystem.
- » A lot of information is already out there, but we just have to do our research and get up to date. ESG is permeating across the wealth industry, but we need more training, conferences, seminars, webinars, round table discussions, thought leadership and so forth. These are all important elements to help the growing numbers of clients interested in the topic. These are early days, but we believe momentum is really building.
- » Coverage has improved wherever specific experts have been developed in-house or perhaps hired to cover ESG. This is helping build interest internally and externally. But this is early in the process; it remains tough to define for many people, and it means different things to different people. The more information that can be properly trusted, and the better communication we offer, the more engagement will take place.
- » Education and training are ongoing as ESG is dynamic, not static. Moreover, there is new regulation coming in regularly. For example, Singapore is moving to new disclosure standards for ESG funds, and we will see more such moves elsewhere.
- » For now, it is not that easy to offer genuinely good advice, insights and guidance around ESG, as it is quite new to most people. We can offer generalisations, but not so much on specifics. We need more training around ESG data, ESG scores and ESG products, so we can effectively disseminate that amongst our clients.
- » There will be a whole class of new sustainability and ESG specialists coming on stream in the next decade or two, creating a whole new job category in itself. I can point, for example, to a major European

asset management business, where they now employ more than 30 ESG specialists and work with some 14 external parties on data and ratings.

- » To boost knowledge, we need to start to speak a simple language that everyone understands. Complicated theories and graphs create an enormous barrier between a client and advisers. It is important to break away from jargon and take a simple and understandable approach. I think we need to concentrate more on non-financial factors as part of the process and growth opportunities and provide more case studies.
- » Education around ESG is a big topic. Actually, it is clearly vital to strive towards better ESG data disclosure, which will bring greater clarity and transparency when presenting, identifying, comparing, or discussing products with ESG-related features. A key focus for us is really on how investors and asset managers are disclosing information and if they have access to the right information that will allow them to make the right decisions. In this day and age, corporate revenues, returns, reputations and risks are all interlinked.
- » The entire industry may have to work together and broadcast a collective, concerted voice for the importance of ESG. Then collectively, the clients of the wealth management industry can start to realise the existence and importance of their investments and the world.
- » To help ESG-based investing, one can engage with companies through value creation initiatives by engaging those that are outcome-oriented to support long-term returns and mitigate risks. At the same time, we also need to provide assistance through conducting due diligence by evaluating ESG factors to form better investment decisions and insights for these companies.
- » We need to spread the word. Talk more about this subject at every level, including small communities and big firms, schools and universities. The understanding of the large projects and big ideas starts amongst the smaller communities.

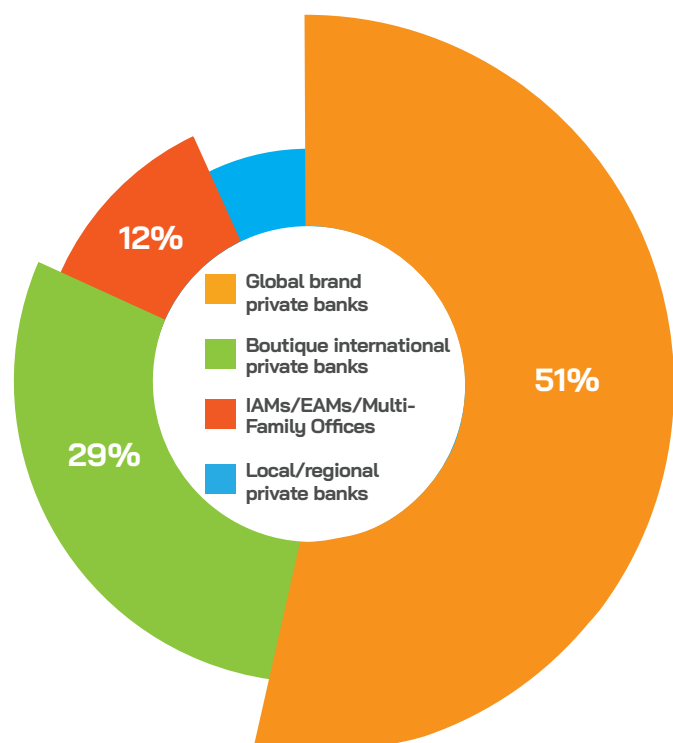
51%

The global banks have by far the most resources to allocate to ESG and to other key themes and trends for the future. There is plentiful anecdotal evidence that more and more of the major banks have been hiring ESG directors and teams and increasingly leveraging their global resources and reach to provide their own ESG scores and ratings for individual products and to help drive portfolio allocation advice for their clients.

Meanwhile, the boutique international private banks, such as a number of leading Swiss names, see ESG as a major business and even branding opportunity and are taking a highly proactive approach as well. As with their drive into private assets, they see this as a leading-edge point of differentiation.

The smaller EAMs and local private banks have far fewer resources to focus on this, with one or two notable Singapore-based exceptions, and are therefore followers, not leaders. Nevertheless, the survey replies indicate that they are increasingly embracing ESG as a core element of their conversations with clients. Indeed, they are actively helping those investors understand ESG and its potential impact on returns, risk management and the alignment of personal or even family values.

In the wealth management industry in Asia, which organisations do you think are leading the way in terms of communicating and promoting ESG-driven investing?



THE VERDICT:

All of the key trends and expectations around ESG-driven investment were expressed in the remarkably comprehensive, detailed and often quite passionate replies Hubbis received to the survey.

Tailoring the global ESG investment (re)volution specifically to the Asia wealth market, we found that from what is an admittedly low base, ESG-driven investing amongst the HNW and UHNW private client community in Asia is clearly on the rise.

It would seem that the private banks in particular and, to some extent, the independent wealth management community are the key proponents at this stage, perhaps more so than the private clients themselves. The younger generations appear to be the most inclined, but they are as yet less in control of Asia's vast private coffers.

However, Asia's private clients, as a generalisation, appear increasingly receptive to allocating a small but rising portion of their portfolios to investments that have the ESG stamp of approval.

Some of this shift is being expressed via self-directed ESG investing, but clients are still struggling somewhat to obtain and then fully understand ESG data and scores. Accordingly, they are relying more on the banks and intermediaries to help them direct an increased portion of their portfolios towards ESG. In this regard, the global private banks with the biggest reach and the greatest resources are, understandably, leading the way.

Better supervision around the provenance and veracity of core ESG information would certainly help, and in that regard, the multi-lateral bodies and regulators worldwide should improve their guidelines and supervision. This will help reduce the illusion of ESG-centricity or worse, the rather-too-widespread phenomenon of greenwashing.

More consistency and greater education around ESG metrics are also most certainly needed. And a more persuasive body of data is sought to demonstrate the financial and risk management logic of a great shift of private client portfolios towards ESG.

The truth is that the ESG movement (in its current form) is still relatively young. And the growing reality is that the momentum is most certainly rising. To convey this scientifically, ESG-centric investing globally, has both increasing velocity and increasing momentum. And very probably a long and fascinating journey ahead... ■

