Long Term Value and the role of Wealth Managers to generate a positive impact

March 19th 2019

TIBE



The landscape is broad and evolving, Wealth Managers will need to adopt a mix of strategies to meet client expectations

Meeting market expectations - the 'Leading' or 'Advanced' players will require a broader range and mix of products across the spectrum of capital.

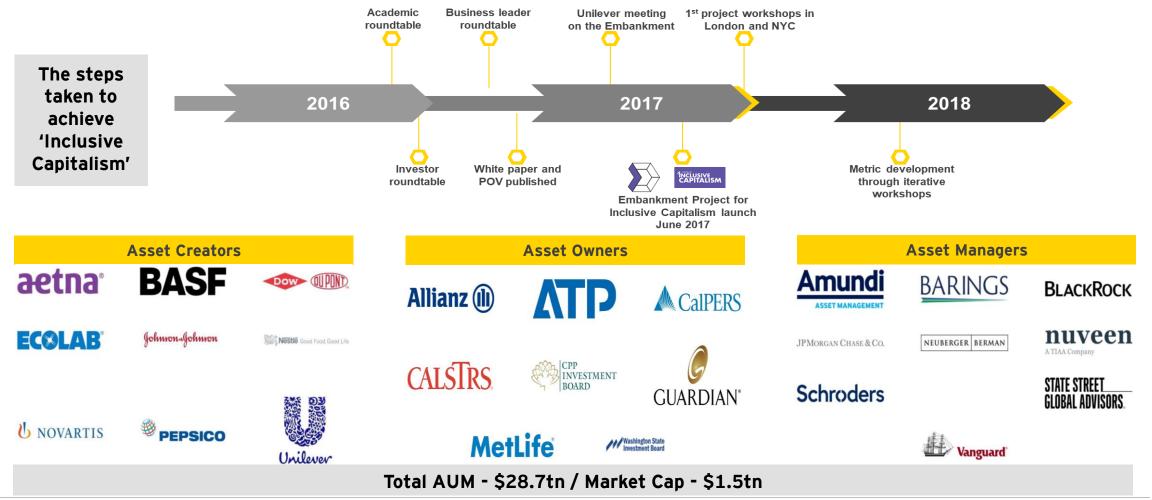
Philanthropy perspective - a coherent story about creating positive change whilst also providing flexibility in applying the most appropriate ESG strategy within different parts of your portfolio.

		Sp	pectrum of capital			
Approach	Traditional	Responsible	Sustainable	Thematic**	Impact- driven***	Philanthropy
	Æ	22				
	Limited or no regard for ESG practices or societal impact	Refers to ESG integration primarily to mitigate risky ESG practices	Describes ESG solutions that may / are expected to enhance value	Address specific societal challenges that generate competitive returns such as climate change, SDGs or gender	Describes investments made with a goal of financial return and measureable social or environmental impacts	Targets positive social and environmental impact with no return
Financial goals	Target competitive	risk-adjusted financial returns				
Impact goals			Benefit all stakeholders			
				Contribute to environme	ntal and social solutions	



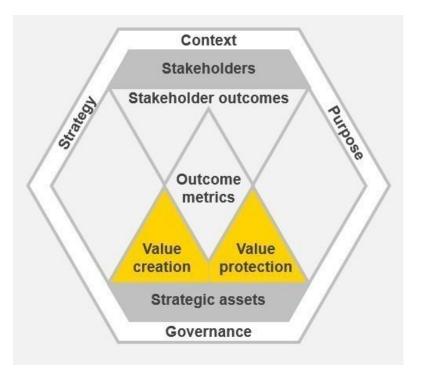
The Embankment Project for Inclusive Capitalism - Insights and key participants

EPIC was launched in 2017, bringing together a mix of 31 asset owners, creators and managers to identify new metrics to measure and articulate LTV to investors and other stakeholders. Key participants are detailed below.



Embankment Project: Focus on Long Term Value creation

Long Term Value Framework



Value requires more than financial indicators

- Only 25% of Investors believe that financial reporting clearly conveys how a company can create future value through reinvestment¹
- On average, 52% of a company's market value is based on intangibles²

Dimensions of Long Term Value Creation

		Value creatior	1				
Value protection							
	Financial value	Consumer value	Human value	Societal value			
Definition	Traditional yardstick to measure an organisation's performance	The value an organisation creates through the utilisation of goods and services to meet customer needs, including innovation	The value an organization creates through the utilisation of the skills, behaviours and engagement of its people	The value created through the relationships between an organisation and al other external stakeholders			
Examples	 Revenue Margin Cash flow conversion Capital structure 	 Functional Comparative Brand 	 Leadership Workforce alignment Workforce performance Engagement 	 Environmental Social Economic 			



Long Term Value (LTV) - Key players & perspectives

LTV Perspectives

PSSE

Owners

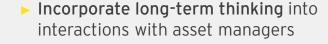
Asset Creators

Wealth

Managers ASSET

Managers

- Support consideration of LTV creation as an integrated element of the investment process
- Emphasise the benefits of ESG factors as a risk management tool contributing to LTV creation
- Help articulate a wider concept of value to clients beyond purely financial
- **Enhance and protect** the value of investments
- Integration sustainable considerations across the breadth of the investment processes
- Governance and reporting focused on long term value generation



- Setting clear, long term and sustainable objectives
- Evaluating and making active decisions on sustainability risk in a similar way to which they treat financial risk

Demonstrate the value of long-term investments

- **Test and validate** the logic within organisation
- Identify stakeholder outcomes most valued
- Identify metrics that reflect total value (financial plus consumer, employee and social)



Regulatory Drivers– will Europe be the first to introduce specific ESG regulations?



We are starting to see increased interest from regulators in ESG factors with the EU acting as first mover with the EU Action Plan on Sustainable Finance

EU Action Plan on Sustainable Finance (starting 2019 incl update AIFMD)

- ✓ The role of finance in facilitating the transition to a sustainable economy (risks and opportunities)
- ✓ Putting ESG factors at the heart of EU financial decision-making and establishing an EU sustainable taxonomy
- Embed ESG risks in risk management and disclosures



Directive for Institutions for Occupational Retirement Provision (IORP II)-2019:

✓ ESG criteria is to be considered in investment decisions and their practical implementation should

The Corporate Governance Code 2018:

- ✓ Firms must demonstrate a clear focus on LTV creation and assess how they preserve value over the long-term
- Establish a clear corporate purpose and ensure it's linked to strategy, culture and values
- Create a culture which aligns with the company's purpose, strategy and values and to assess and monitor this culture

PRA / FCA Consultation on Climate Change (UK):

The Discussion Paper sets our how the impacts of climate change are relevant to the FCA's statutory objectives or protecting consumers, protecting market integrity and promoting competition

Article 173 (France):

 Requires asset owners to disclose information on how their investment decision-making process takes ESG criteria into consideration

FCA's Asset Management Market Study (UK):

- The FCA has clarified Authorised Fund Managers duties to act in the best interest of fund investors and explicitly assess and report on Value
- The FCA has introduced greater independence to governance bodies of Authorised Fund Managers (ACD Boards) to increase the robustness of scrutiny







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ED None

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