The role of advisers guiding investors who want to make the world a better place

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For most investors, the best possible return on investment is a high priority when agreeing an investment strategy, but a growing number of wealthy individuals and families are taking a more philanthropic approach to investment matters.

Social, ethical and sustainable investing is becoming increasingly important for those investors whose conscience, integrity and values may lead to sacrificing some short-term gain in order to create a more sustainable world for generations to come.

This emerging trend is requiring those who advise and work with the very wealthy, including fiduciaries and single family offices, to become *au fait* with the credible options available in what is, thus far, a largely unstructured new sector of the wealth management industry.

Some years hence this will certainly be an established investment class with its own terminology and metrics but, for now, there is much work to be done to identify the genuine opportunities and avoid the superficial and opportunistic products that have been developed to cash in on the new approach.

An 'impact first' methodology might mean that return on investment is not the most important part of the investment decision; rather the capital might be lent at virtually no cost in the short term to deliver a more long-term, sustainable result. Achieving a balance can be difficult and subjective, and even agreeing a metric to measure social benefit is difficult.

It is important to spend time evaluating each opportunity in advance, considering the objectives of the client and ensuring the balance of return and benefit is appropriate. The biggest issue is currently the inconsistency within this area of investment, in particular there being little commonality in the metrics and measurement used for each opportunity.

Measuring impact is difficult for private investors and possibly even more so for charities, where there is a need to demonstrate what difference is being made.

For example, one client trust structure has invested in a company that is renovating property in run-down locations, then renting it out at below-market rate to achieve urban regeneration through creating centres of commerce. This type of investment sacrifices financial

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return and can be volatile and highly illiquid. While it undoubtedly provides a significant social impact, determining whether this is at an appropriate level for the loss of return is hard to quantify.

What is clear is that for most impact investments, making a significant social impact does mean that the investor accepts as a key factor that greater volatility, less liquidity and ultimately a higher degree of risk to capital are almost certain.

With no established process in place, some charities and fiduciaries will be creating substance around social, ethical and sustainable investment from an almost blank sheet of paper. As with all investments there is a requirement to blend risk, return on investment, volatility and social or environmental impact to achieve a commonly-agreed balanced position. It is necessary to create a new investment vocabulary, by stating and agreeing common descriptions that everybody understands, to reduce the chance of disappointment and dispute later on. The approach must match the investor's objectives and governance and arrive at an appropriate investment strategy.

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Of some help here is the benchmarking work done by The United Nations in developing some entry level principles for responsible investment. Their optional governance framework recognises that environmental, social and corporate governance issues can affect the performance of investment portfolios. The principles seek to ensure that these issues are incorporated into investment analysis and decision-making, and ownership policies and practices. Also, these issues should be disclosed by entities seeking investment, and accepted and implemented within the investment industry.

Among other developments, the Charity Commission recognises the concept of 'mixed motive investment', allowing for mission- and programme-related strategies from foundations.

Traditionally, an investment is doing well when return on investment is at a maximum and risk is at a minimum. But by including the variable 'impact', we introduce a third measure of investment – reporting performance. In practical terms, impact is a measure of a host of variables such as sustainable living, education, skills, health, the low-carbon environment and responsible corporate governance, to name a few. Most traditional managers pay little attention to the impact their investments make because their objective is to maximise risk-adjusted returns – as directed by their clients. When the investment objective also includes impact then a whole new set of revised performance measures and standards are required. This can only be achieved by a careful due diligence process leading to the selection of investment managers with a proven track record for measuring the positive social impact of their investments.

Measurement of the performance of social, ethical and sustainable investments, including the monitoring of non-tangible returns needs to be developed. This is, in essence, monitoring the amount of good that has been achieved – for which standard metrics don't yet exist, although systems are now appearing. Good impact measurement must provide clear and concise data in an appropriate range of tangible areas, for example, the reduction of a negative event, as a direct and demonstrable outcome of the investment.

At Saffery Champness we have developed a benchmarking process where potential investment advisers have to pass various hurdles towards being a good corporate citizen. This has involved creating plain English criteria and avoiding the use of jargon or acronyms normally associated with the investment community.

At the broad end of the ethical spectrum there are many investments in the responsible category that one would see in traditional portfolios; however, there may be some exclusions, such as tobacco. A holistic approach allows the ethical element to permeate the wider investment environment. At the narrow end, as more social, ethical and sustainable principles are applied, one can expect to forfeit return on investment.

Measurement of impact can be helpful for investors, but it can also help the investment itself to succeed. A vague set of lofty goals can mean that there is a lack of focus and that the investment can fail to provide targeted and meaningful impact. Agreed measurement criteria and a set of metrics can therefore benefit all concerned. It can also drive creativity and innovation, leading to a more successful long-term outcome.

Over-complicating measurement can, however, be counterproductive and, like all statistics, it is important that the measurement is helpful and meaningful. Proper reporting of impact can influence investors and funders to provide further investment, as they evaluate the benefits of each investment and allocate their capital accordingly. Ultimately this should lead to deployment of capital in a more beneficial manner.

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In the case of a family trust structure managed and advised by Saffery Champness, the following mission and objectives have been devised to accommodate the family's social and ethical investment aspirations:

- To work sustainably and ethically for a better world and to provide support where needed for the family through the generations.
- To apply monies to work with organisations that are operating sustainably and ethically and those that operate with social, health and environmental goals.
- To operate as a dynastic vehicle to provide support for family members where needed through the generations in a sustainable way so that each generation can meet the needs of the present without compromising the ability of future generations to meet their own needs.
- To make charitable donations that do not diminish the ability of future generations to meet their own needs in areas where it is felt that a positive contribution can be better made through a donation rather than, for example, through investment or loans.

This provides a clear framework around which investment portfolios can be constructed. The family are interested in return on investment and also measurement of impact. Regular reporting can be provided on both issues and the family can ensure that financial stability is achieved for both current and future generations, at the same time as utilising the family wealth to leave a better footprint behind.

Philip Radford *is responsible for a team that establishes, administers and manages a variety of offshore structures, working with clients from a wide range of jurisdictions at Saffery Champness Registered Fiduciaries, Guernsey. He also heads the firm's Investment Review Committee, which reviews the appointment and performance of managers of quoted investment portfolios within the various fiduciary teams.*

Philip sits on the board of several companies, involved in the acquisition, investment and development of both commercial and residential property interests. Most recently, Philip was included on the Trustees Prominent Figures list in the CityWealth Leaders List 2015 for another consecutive year.

Born and educated in Guernsey, Philip has worked in the trust industry since 1994. He joined Saffery Champness in 2010, having previously worked in leading bank-owned trust companies. Philip was joint author of an article published in Wealth Briefing in October 2013 – 'Mid wealthy feel the squeeze on luxury assets' – with fellow director Lisa Vizia.

Lisa Vizia *heads up the dedicated Family Office Team in Guernsey, which manages offshore structures for ultra-high-net-worth families, with a particular focus on the Middle East. She is involved in:*

- *Family office and private trust arrangements*
- *Complex trust structures for ultra-high-net-worth individuals and family trusts for UK resident non-domiciled individuals*
- *Executive remuneration schemes for listed and private companies.*

Lisa is responsible for business development for the firm's fiduciary business and leads the Guernsey office's Corporate Social Responsibility.

She is also a member of the Society of Trust and Estate Practitioners (STEP), the Institute of Directors (IoD) and the International Wealth Structuring Committee (IWSC) of the Family Office Advisers Forum.

Born in Guernsey, Lisa has worked in the trust industry for more than 25 years, having begun her fiduciary career in 1986. She joined Saffery Champness in 2010, having previously worked for a leading bank-owned international trust company.

Lisa is listed as one of The IFC Power Women Top 200, an A-Z list of influencers and professionals working around the financial services industry, in International Financial Centres. She has also previously been recognised on the honours list of the CityWealth Leaders List – Guernsey Trustee category –and is on the Top 20 Trustee list for 2015.