Jersey Finance

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Audience Q&A's - Spotlight Private Wealth ESG and NextGen

9 March 2021

Moderator: David Stearn, Chief Executive, Affinity

Panellists:

- James Hay, Investment Associate, Mainstreet Partners
- Paul Hunter, Group Head of Family Office Services, Crestbridge
- Jennifer Le Chevalier, Head of Private Wealth, IQ-EQ
- Mona Shah, Director, Stonehage Fleming Investment Management

How would you as experts in your field simplify ESG to the older generation who sometimes just see it as 'green'?

Paul Hunter: That's a difficult one. I think that the people who are better able to explain that are the later generation, certainly when it comes to talking to the older generation.
It needs a number of conversations. It is not just a one-off conversation that you can have with a patriarch or matriarch around this. On the longer-term impact on society and the environment - everyone is aware of this now, even those older generations. Talking them through that and the impact that it will have on their grandchildren in the long-term is powerful.

Having somebody who is perhaps an expert in the field with you, sat with you, to explain how that works is key.

Jennifer Le Chevalier: I think the governance point of this is very important as well. This resonated with me very much when I was learning and educating myself on ESG, so that I can have informed dialogue with the NextGen.

When investing it is not about being "green". It is about the connection between strong corporate governance and the correlation with value creation and risk mitigation, avoiding fraud and risk events that ultimately damage value. Good governance encourages sustainability. And therefore, it is a risk averse strategy for social impact and sustainability. That, for me, makes it a little bit simpler to understand.

Paul Hunter: Jennifer you are spot on there. Absolutely. That is a great way of explaining it to the older generation; that we are preserving your capital by investing in companies that have strong governance practices.

What activities of an environmental nature should be added to the sound business practice policy?

Mona Shah: Firstly, I would make an overarching comment that when you measure things, things get done. And so, I would want to see clear measurement criteria peppered throughout that policy. And then the other thing that is particularly relevant to Jersey, and something that I discuss with my Jersey colleagues often, is the difficulty of manifesting a circular economy at Jersey, where my understanding is that some of the recycling facilities are less adequate. I think that is a great place to start.

What should we/Jersey do in response to the EU Sustainability Finance Disclosure Regulation (SFDR), i.e., in terms of regulation, what do you think Jersey are doing or should be doing in response to SFDR?

James Hay: I think there are perhaps two angles to that. In terms of Jersey's regulator, having a flexible approach is useful, but enabling the ecosystem to evolve should be their top priority.

In terms of Jersey firms and their response to the SFDR, I think they need to appreciate that the shift is happening– that SFDR is causing European firms to take this very holistic approach.

If you try to 'dip your toes in the water', it may not be sufficient to be able to distinguish yourself from European firms that have been advancing in this direction. That is why I think it [SFDR] impacts on the competitive environment.

So, the impetus is for Jersey not merely to replicate that new regime, but to understand what it means for sustainable investment practice, to take those lessons to heart and then understand how to create that sustainability offering, to engage with clients on sustainability and to keep ahead of the curve to the best extent possible.

Regarding companies that currently rate highly from an ESG perspective, versus those that still have a way to go. How do you balance your portfolio? What balance do you try to pitch?

Mona Shah: Great question. Particularly because there has been so much interest and this wall of assets flowing towards the whole ESG space, that we do sometimes have concerns about valuations for particular companies– particularly those that score highest or the most impactful.

This links to another question about engagement. This is where the power of engagement can come in. Because, if you can find managers that have been doing this for a long time, have worked hard over years and have the patience to have long, productive conversations with company management teams – maybe to get them to sign up to some UN SDGs, disclose on particular impact metrics, maybe look across their sector and adopt some technology that helps them reduce their use of water or reduce their carbon footprint.

If you are able to do that, and you can invest in companies that are average from an ESG perspective, maybe even a little bit rubbish, and by helping them become mediocre or above average, then the overall direction of travel for your portfolio should be rewarded from a share price perspective and an impact perspective.

Do the panel feel it is also vital that not to only look at sustainable investments, but also to get your own house in order to ensure you are doing what you preach.

Paul Hunter: Absolutely. That is where it has to start. Mona and James were both talking about this before we went live. It is about looking at yourself in the mirror when you're talking about this, and when you're talking to clients as well because clients will ask you that question: *'what are you doing? this is what we're looking to do, but what are you doing as a firm?'*.

If you are in their shoes, would you want to be working with a firm that does not take this seriously and doesn't have a policy? There has to be a direction of travel. You at least have to show that you are moving in that direction.

Like many in our industry, we are very committed to this and we want to have those conversations with clients as well. We encourage them. We've had quite a few new clients come to us recently and ask *'what do you do? We need to understand what you're doing in this area'*. And it is becoming a very common ask.

David Stearn: Mona, what are Stonehage Fleming doing as an organisation to change and adapt?

Mona Shah: We are looking across the E S and G and trying to evolve our organization across all three counts. And we feel passionately that we have got to walk the walk and talk the talk, otherwise we are just not going to be believable. So, everything from pushing forward diversity policies to doing environmental audits of our office. We measure how much water is used in our printers every year – all manner of data points that I can give you that will probably bore you! But for me, I have to say, they do make me feel warm and fuzzy inside – that we care.

Jennifer Le Chevalier: IQ-EQ Is not only influenced by our clients, but also by our staff who are multigenerational and they demand that we, as an organisation, change and adapt to adopt an ESG philosophy is all that we do and deliver.

So again, water, recycling, building that ESG platform, looking to engage with our clients over the things that matter to them. So, living and breathing it is super important. And I think it has to be a testament to the way you conduct yourself and your philosophy when you are engaging in these engagements with clients.

David Stearn: Brilliant. Now, Mainstreet Partners seem to have got this sussed, James. I am sure that you are living and breathing this as a firm, as well as advising others?

James Hay: To answer that question, I would like to give you some historical context. When I joined MainStreet, we had four people working at the firm. They were all Italian, all white, all male, and they were all over six foot tall! So, it was not very diverse. And they have certainly made an effort to introduce more diversity. I was the first non-Italian hire and have since learned Italian as a result.

Diversity of input is so important, especially to this area, so we have tried to go out and find people from diverse backgrounds. While we have some people from a traditional investment banking background, we also have people who have always been in the sustainability space. We have people from NGOs and others from a legal background. We have tried to promote that diversity at the company to the best extent possible.

Although we are a small company, we can still engage with our building managers to identify water efficiency or energy efficiency measures, so that we can try to implement, to the best extent impossible, sustainability into our operations and to take active responsibility for our footprint.

As a very small company, you can see the immediate impact that you are having in terms of your output. It has been very exciting to grow with the company, to see it build on its diversity and also to start to implement those sustainability practices across our operations.

Other questions

With the recent launch of a 2030 Vision for sustainable finance in Jersey, what early measures would accelerate the journey towards raising Jersey's profile and stand out from its competitors?

Written response provided by James Hay:
There are a number of quick wins that Jersey can take to accelerate sustainable finance in the Island, but these short-term measures need to keep long-term goals in mind. In Europe, regulators have brought in a radical new regime with certain goals top of the agenda such as redirecting capital towards sustainability, eliminating greenwashing and harmonising rules across the bloc.

Jersey can stand out and build its profile for sustainable finance by focusing more on the client relationship benefits of improving disclosure and providing an enabling environment for financial professionals to become the trusted ESG advisors of their clients. Harmonised disclosure rules are very useful for product comparison and shining a light on adverse sustainability impacts, but they may distract from having meaningful conversations with clients about their sustainable investment preferences and integrating their values into portfolios in a clear and comprehensive way. If that's the end goal for advisors, then Jersey should prioritise the context in which its professional services sector operates.

What would be your advice for preparing the next generation to engage with philanthropy?

Written response provided by Paul Hunter:
It is clear that the next generation is increasingly motivated to engage with philanthropy. In our business, we continue to emphasise the importance of maintaining a dialogue across the generations in the families we work with. We encourage families to discuss their goals and priorities, including philanthropic matters which are important to them. The next generation is perhaps more vocal about wishing to engage in the ESG space; but it is not an area exclusive to that generation and by encouraging families to continue to speak about what is meaningful to them, the generations may find more areas of agreement than they may have first thought.

In addition to recommending families maintain a dialogue with each other, we would also recommend the next generation seek advice from experts about the philanthropic causes they are interested in. It is beneficial to receive advice from people who have knowledge about entities who carry out philanthropic work and who can provide important details about the entities' activities, governance and strategy so that the next generation invest in and connect with entities that best serve the philanthropic causes they wish to support.

In our team, we are increasingly educating ourselves so that we have meaningful conversations with our clients, including the next generation, and we act in a collaborative way with external advisors so that we are all well informed and engaged in this important sphere.

Which senior leaders oversee your ESG policy – the CEO? The portfolio managers? In other words, is ESG truly a priority for your firm?

Written response provided by David Stearn:
Within Affinity Private Wealth, ESG is dealt with at the most senior level of the organisation. It is a strategic priority dealt with at the top board level which, amongst other things, has resulted in a change to our articles to reflect our business is responsible to our stakeholders and not just the shareholders. The stakeholders include clients, staff, the environment, our community and of course, as a 'for profit' organisation, our shareholders.

What would be your advice for preparing the next generation to engage with philanthropy?

Written response provided by David Stearn:
When preparing the next generation to engage with philanthropy, the family should assess the causes and values important to all of them and include the next generation in this conversation. This will give a sense of involvement and responsibility allowing participation and giving a sense of purpose for those involved. This must also include measuring outcomes required for philanthropic giving to ensure the intended outcome is achieved by those in receipt of the donation.