What internal shifts need to occur for a family office to embrace sustainable investing?

by **Cecile Biccari and Rodrigo Tavares,** 15th May 2019

Family offices can offer a much higher level of customization and a greater alignment of interest than private banks or wealth management firms. They are also showing a growing appetite for the myriad of investment approaches under the "sustainable finance" umbrella. In this context, the following questions often surface:

Which approaches to sustainability investing are most aligned with the family office's investment philosophy?

Should the family office prioritize an approach that seeks to mitigate environmental risks across all portfolios or one that purposely allocates capital to investment opportunities that are driving positive changes in the world?

What is the most appropriate set up for a family office to deliver on its financial objectives in line with its sustainability principles?

Does the adoption of sustainability principles demand changes in internal culture, structure and human resources?

There are no ready-made design blueprints and each family office should mirror the family's interests and values. Family offices may also vary wildly between single to multi and virtual offices, each with their own idiosyncrasies.

But some practices may be common and desirable in all types of organizations:

Values

A family office's sustainability investing approach needs to be built around its core family values, long-term objectives and investment preferences. As we wrote earlier, sustainable finance enables values to be aligned with asset management – in many cases for the first time. It also equips family members with new tools to discuss priorities and trade-offs, and provides new options for the family to fulfil its social responsibility mission.

Education

A shift in mindset is more important than a change in the family office set up. For a single family office, this often means building an internal understanding of the pros and cons of different approaches to sustainability investing and selecting an investment style that corresponds to its core investment beliefs (be it divestment, engagement, integration of ESG analysis in all investment decisions, impact investment, or a combination of the above).

Because some of the assets may not be managed internally, it also means assessing whether external asset managers are applying the desired investment style effectively.

In the context of multi-family offices, a process to educate clients, understand their preferences and apply it across the total wealth management approach is also needed. This can be more complex as the diversity of views and preferences increases, requiring more engagement with clients to build consensus around some common approaches to implementing sustainable investing.

To address this challenge, ISGAM AG, a Swiss-based multi-family office, adopted a dual approach consisting of “tailoring” and “mainstreaming”. It offers its clients sustainable versions of their equities and fixed income portfolios, whilst incrementally incorporating sustainability considerations across all aspects of its investment services, including external asset managers’ selection.

Investments

With proper training or assistance, the family office’s investment team will be able to develop its sustainability investing guidelines and implement these in its investment strategy, asset allocation plan and individual investment decisions. They will also be able to integrate strategically significant ESG issues into their asset management and philanthropic activities, tap into blended finance opportunities and improve their reporting to clients and beneficiaries.

At the Swiss family office Oyat AG, for instance, sustainability considerations are integral to the analysis of financial performance and long-term competitiveness. It guides sector allocation and stock selection by shedding some light on which companies are positioned and managed to succeed in the short-run and the long-run.

Avoidance of silos

Some family offices may wish to create sustainability committees or boards, develop alternative sustainability investment strategies and hire sustainability analysts. This could be useful at the beginning of the journey to support the change management process internally. But ultimately it leads to unnecessary duplication and higher costs.

The goal should always be to embed ESG principles and practices into traditional ones rather than facilitating segregation. Ideally, a family office should first develop a common vision of what sustainability investing means them, and then let investment teams and clients advisors take ownership of the implementation process.

In reality, however, this visioning exercise is often an iterative process as there is no black or white answer to the question of what is and what is not sustainable. A common understanding will be built over time through ongoing internal discussions in the investment committee or another governance body.

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