ASSESSING THE IMPACT INVESTING CAPABILITIES OF YOUR WEALTH MANAGER

A TOOL FOR CLIENTS

THE IMPACT

University of Zurich[UZH]

CSP Center for Sustainable Finance & Private Wealth

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The ImPact is a global membership community of families committed to impact investing. The mission of The ImPact is to help families make more impact investments more effectively.

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The Center for Sustainable Finance and Private Wealth (CSP), University of Zurich, is based on the expertise of the "Impact Investing for the Next Generation" research and training program at the Initiative for Responsible Investment at the Harvard Kennedy School. CSP runs research and training programs to help advance private wealth towards sustainable finance, at scale, as a substantial driver for sustainable development. See www.csp.uzh.ch

INTRODUCTION

This tool is designed to help you better understand the impact investing capabilities of a wealth management firm. You can use this tool to assess the capabilities of a firm for which you are currently a client, or to support your assessment of prospective firms.

Interest in impact investing has risen steadily in the last decade. Wealth owners are inspired by the opportunity to align their investments with their values, use investment as a tool to address social and environmental challenges, and mitigate risks posed to their investments by climate change and other megatrends.

But, as you may have already discovered, whether and how you actually *make* impact investments is largely determined by the policies, practices, and philosophies of your wealth management firm. Private banks, family offices, and investment advisory firms shape the landscape of impact investment opportunities available to families.

In order to achieve your impact goals, you must assess whether your wealth manager is equipped to develop and implement your desired impact investment strategy. That's what this tool is for.

The tool is divided into five sections. The first four sections address specific steps in the process of developing and implementing an impact investment strategy. The final section addresses the broader alignment of a firm's business activities with impact investment principles.

This tool is intended to support dialogue between you and the individual or team responsible for the management of your wealth. Each section contains a series of questions that you can pose to your wealth manager along with a simple summary of "best practices" to which you can compare their answers. Each section also includes a short checklist that you can use to quickly assess the firm's practices from your own perspective as a client.

This tool can be used by any individual or family who is a client of a private bank, family office, or independent investment advisor. The questions are written in simple and straightforward language; we encourage you to adapt the questions as may be appropriate to your particular relationship with your relationship manager or advisor.

The tool enables a comprehensive assessment of a firm's impact investment capabilities, but certain sections or questions will be more relevant to you at particular stages of your own process of developing and implementing an impact investment vision. Navigate through the tool accordingly!

STEP 1 | LISTENING

Does your wealth manager understand, respect, and listen to your interests in impact investing?

Whether a firm can hear, understand, and respect the impact investment interests of a client and translate those into an impact investment strategy—or incorporate those meaningfully into a general investment strategy—is the foundation of a firm's impact investment capabilities.

QUESTIONS

Offering Process: How does the firm talk to its clients about impact investing?

- Is discussion of impact investing an integral component of client onboarding and ongoing client service?
- Does the firm have tools to help clients identify their personal or family values and desired social and environmental impact?
- Does the firm have a standard process for translating client values and impact goals into investment policy?

Wealth Manager Education: Does your relationship manager have a background or training related to impact investing?

- What internal or external training on impact investing did your relationship manager receive?
- Does the firm provide your relationship manager with ongoing training (voluntary or mandatory) related to impact investing?

Client Education: Does the firm support its clients in learning about impact investing?

- Does the firm offer client workshops related to impact investing?
- Does the firm regularly share publications or other educational resources related to impact investing?

CHECKLIST

☐ The discussion of impact investing is an integral component of client onboarding and ongoing client service.

☐ The firm has tools to help me identify my personal or family values and desired social and environmental impact.

☐ The firm's client services clarify my thinking about impact and generate new ideas.

☐ The firm has a standard process for translating my values and impact goals into investment policy and investment recommendations.

BEST PRACTICE

- Your relationship manager has received formal training to facilitate impact investing and has 5+ years experience supporting clients' impact investment interests.
- The firm organizes in-depth educational offerings on impact investing.
- The firm proactively shares educational resources such as workshops or publications on impact investing as part of general client education support.

STEP 2 | OFFERING

Does the firm's impact investment offering match your needs and interests?

It is important to assess whether the firm has the range of services and offerings to match your impact investment needs and interests. Wealth management offerings take the form of either *discretionary mandates* or *advisory mandates*.*

QUESTIONS

Discretionary Mandate: Does the firm offer a discretionary impact investing mandate?

· How is the mandate designed and constructed? Does it contain impact investments across multiple asset classes?

· What is the minimum investment to access the mandate?

· Can the firm customize the discretionary mandate to match your values and impact interests? If so, what is the minimum investment to access customization?

Advisory Mandate: Does the firm offer an advisory impact investing mandate?

· What is the background and expertise of the advisory team?

· Does the firm's advisory services also cover philanthropic investment?

· What is the minimum investment to access the advisory mandate?

Investment Funds: What is the range of third-party impact investment funds that are available to clients (i.e. funds not created by the firm itself)?

· In what asset classes does the firm enable clients to make third-party impact investments—public equity, fixed income, private equity/debt, real assets (e.g., real estate, infrastructure)?

· How deep and diverse (by geography and impact theme) are the firm's investment offerings in each asset class?

CHECKLIST

☐ The offering of the firm—discretionary or advisory—matches my financial means and needs.

☐ Discretionary mandate: the mandate matches my values and desired impact and offers room for customization.

☐ Advisory mandate: the mandate covers all investment areas I would like to be advised on.

☐ The firm's range of investment offering is diverse enough to match my financial needs, values and desired impact.

BEST PRACTICE

- The firm offers a discretionary impact investing mandate that can be customized to your values and desired impact.
- The customization focuses on your desired impact and thematic interest, and not merely exclusions. This may include investments across several asset classes (including private funds), impact sectors, and geographies.
- The firm offers an advisory mandate with a team that has training and expertise in impact investing.
- The firm enables "impact-first" investments in addition to impact investments that prioritize commercial rates of financial return.
- The firm's mandates cover a broad range of asset classes that are appropriate for your investor profile—for sophisticated and risk-taking investors, the firm should be able to offer private equity and debt and real assets investments.
- The range of investment funds offered by the firm is diversified by sector and geography.

* *Terms are defined on page 9.*

STEP 3 | BUILDING

How does the firm build its impact investment offering for clients?

It is important to assess the processes the firm employs to design and construct its impact investment offering. What policies, standards, and processes does the firm employ to create its offerings or select funds to recommend to clients?

QUESTIONS

Exclusions: How does the firm approach exclusionary investment strategies (also known as "negative screens" or "ethical investments")?

· What are the firm's exclusion policies in terms of sectors, products, and practices?

· Does the firm allow you to have your own exclusionary criteria for your investments?

· How does the firm make sure that the exclusionary criteria is enforced?

ESG Integration & Screening: How does the firm integrate Environmental, Social, and Governance factors (ESG) into its investment decisions?

· What are the firm's ESG policies and guidelines?

· What ESG data sources does the firm use?

· Does the firm analyze ESG data related to risks as well as positive impact?

· How does the firm integrate ESG data into the investment decision-making process? Can the firm give an example?

· Is there a team or analyst dedicated to ESG research within the firm?

Impact Funds: How does the firm select impact investment funds?

· How does the firm source impact investment fund opportunities?

· What is the firm's due diligence process for impact investment funds?

· Does the firm's due diligence process differ for impact investment funds versus conventional funds?

CHECKLIST

☐ The firm can explain clearly how it approaches impact investing in a systematic way (e.g. presentations, printed material).

☐ The firm demonstrates rigor in its integration of ESG into their investment decisions; for example, they can point to companies they have not invested in for ESG reasons.

☐ The firm's research and fund selection processes match my impact investing needs.

BEST PRACTICE

- The firm has baseline exclusionary policies on certain sectors, products, and practices that the firm applies uniformly across its offerings.
- The firm has readily available exclusionary categories for specific client interests.
- The firm has a governance system in place to ensure excluded investment will not be in your portfolio.
- The firm integrates ESG in all investment analyses.
- The firm understands the different methodologies of ESG data providers and uses multiple sources to construct its own ESG analysis.
- The firm's ESG analysis is not simply used to identify investment risk, but also to surface investment opportunities and positive impact.
- The firm can provide clear examples of how some investments were eliminated or included after integrating ESG analysis into the investment process.
- The firm has a dedicated team that creates in-house ESG research.
- The firm has the network and expertise to source quality impact investment funds, even when these are new to the market.
- The firm includes ESG integration in its fund due diligence process and only selects those with rigorous practices.
- The firm has the capability and expertise to evaluate and compare diverse ESG integration practices among fund managers.

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STEP 4 | MANAGEMENT & REPORTING

How well does the firm manage and report on impact investments?

An investment may be branded as an "impact investment", but is the impact measured, managed, and reported to investors? The best impact investors are active owners; they participate in shareholder engagements and work with their investees to secure consistent and detailed impact reporting. A wealth management firm's approach to monitoring and reporting on the impact of client investments is a good measure of the seriousness of their approach to impact investment.

QUESTIONS

Active Ownership: How does the firm approach shareholder engagement?

· Does the firm enable the clients to cast proxy votes for companies in which the clients are shareholders?

· Does the firm assess funds' shareholder engagement policies as part of its due diligence process?

Impact measurement: What standards for impact measurement and reporting does the firm maintain for funds it recommends or invests in on behalf of clients?

· Does the firm require all impact investment funds to report on their impact?

· What kind of impact data does the firm collect?

CHECKLIST

☐ I receive reporting on how funds I am invested in participated in shareholder votes or engaged with investee companies.

☐ My wealth manager receives impact reports from funds I am invested in and makes those available to me.

☐ I receive reporting of my investments regularly and collectively on a portfolio level.

BEST PRACTICE

- The firm enables you to vote your shares for stocks you own directly.
- All impact investing funds in your portfolio have a voting and engagement policy.
- The firm proactively collects impact data from its investees.
- The firm provides both quantitative (numeric metrics) and qualitative (case studies) impact reporting to clients.
- The report states transparently how the ESG and impact data have been collected and how it influenced firm investment decisions.

STEP 5 | ALIGNMENT

Does the firm practice what it preaches?

Sometimes, a firm will offer great impact investments to its clients but not follow the same values for its other business lines or internal operations. Looking into how seriously the firm takes sustainability and impact is helpful to determine how aligned its activities are with your values.

QUESTIONS

Policy Alignment: How aligned are other activities of the firm with impact investing principles?

· Does the firm maintain ESG integration or exclusionary policies (sector, product and practices) across its business lines?

· Does the firm lend to businesses or projects that might contradict your values?

· Does the firm actively support regulatory changes conducive to sustainable, long-term behavior by all market actors?

Operation: Are the firm's own operations aligned with sustainable principles and practices?

· How diverse is the firm's senior leadership?

· Are the firm's compensation policies fair and do they incentivize long-term behavior by bank employees and executives?

· How are incentives paid out to firm employees who are responsible for client investments? On what investment time horizon do firm employees receive perfomance-based compensation?

CHECKLIST

☐ Impact investing and sustainability are mentioned in the firm's annual letters to clients and shareholders.

☐ There is a senior-level body for establishing impact investing policies within the firm.

☐ Senior executives of the firm have publicly committed to increasing its impact investment activities.

BEST PRACTICE

Questions section

- The firm has a consistent ESG integration and exclusionary policies across its business lines (e.g. asset management, investment banking).
- The firm does not lend to businesses or projects that might contradict your values.
- The firm supports and proactively engages in establishing sustainable, long-term behavior for all market actors.
- The firm has a diverse senior leadership.
- The firm has a fair compensation policy that fosters long-term behavior by all members of the bank.
- Relationship and portfolio managers are incentivized not only on financial but also impact performance, over long-term and not just short-term performance.

TERMS

What is a discretionary mandate?

A discretionary mandate will allow you to delegate the active management of your assets to the firm. The investment decisions are made at the investment professional's discretion—hence the name. Clients may elect for a discretionary mandate if they do not have the time or experience to actively manage their portfolio, or if the terms of a personal or family trust require it. In many cases, a firm's discretionary mandates are based on pre-built diversified investment portfolios designed to match a particular risk and return profile.

What is an advisory mandate?

An advisory mandate will allow you to consult with an individual or an independent team of investment professionals within the firm for investment decisions. The advice is tailored to your needs specifically and you will retain full control over your investment decisions. The role of the advisor is primarily to provide you with an informed opinion.

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