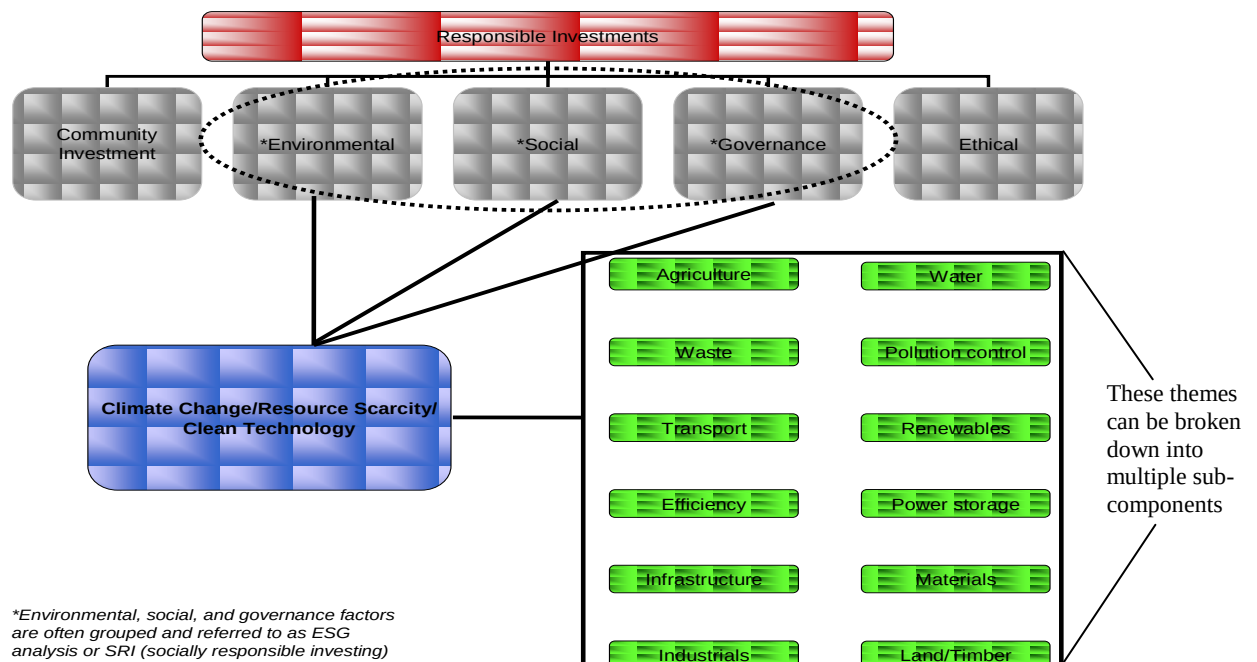


Objective: To analyse the commercial viability of “responsible investments” product (with a specific focus on climate change) and the practical steps for capitalising on investor demand for such product.

Defining “responsible investments:” Those investment processes considering the social and environmental impacts and opportunities of an entity through strategies such as positive and negative screening, stakeholder engagement, and corporate governance within the context of rigorous financial analysis.

The most immediately relevant segment for HSBC Global Asset Management revolves around the positive screening of equities that derive appreciable revenues from addressing the issue of climate change. The climate theme is often considered synonymous with the provision of “clean technology,” or those goods, services, and processes that create economic value by increasing resource efficiency and/or decreasing an ecological impact.



The commercial opportunity: The “responsible investments” universe is projected to account for 15%-20% of global AUM by 2015. A core driver is the expanding market capitalisation of companies engaged in clean technologies. According to HSBC Global Research, global revenues for the sector amounted to USD530 billion for 2009. By 2020, Global Research predicts those revenues will exceed USD2 trillion.

Who is successful in the marketplace: Successful product providers and wealth managers understand the various nuances inherent in the “responsible investments” universe. As a result, they are able to (a) accurately segment the different concepts and strategies, (b) grasp the underlying and relevant catalysts, and (c) recognise and exploit the evolution taking place in the different customer bases. This knowledge in turn breeds conviction and creates the perception of strength. For example, Deutsche Wealth Solutions is enjoying strong asset inflows on the back of its USD7 billion AUM in clean technology funds and climate research capabilities. Blackrock has publicly set a target to increase responsible investments from 9 percent of its total AUM to 15 percent by 2011 and is launching a variety of portfolios to facilitate that target.

However, the most informative approach takes place at Pictet. Pictet has been systematic in launching funds around very specific segments of the “responsible investments” universe. A

key to success has been its ability to highlight the resource implications of climate change and evolving demographics. As inflows have materialised and demand has been confirmed, Pictet has branched into more broad-based themes.

Water	USD3400 million
Clean Energy	USD648 million
Global Megatrends	USD421 million
Agriculture	USD143 million
Generic Pharmaceuticals	USD135 million
European Sustainable Equities	USD105 million
Timber	USD76.9 million
Environmental Megatrends	Launched on Sept 10, 2010

“Responsible investments” as a part of a wealth proposition: High-net worth individuals (HNWIs) are demanding exposure to “responsible investments,” especially to clean technologies. The CapGemini World’s Wealth Report estimated that 12% of global HNWIs were allocating some portion of their portfolio to cleantech in 2008.¹ A 2010 study projected that demand from European HNWI for responsible investments, with a focus on cleantech, would grow 60% by 2013. This would equate to **EUR1.2 trillion**, or 15% of total European HNWI assets.²

However, the most interesting data relates to the growing awareness and large prospective demand of emerging market HNWIs. Eighty-four percent of Latin American HNWIs and seventy-six percent of HNWIs in Hong Kong stated that “they are increasingly concerned by climate change.”³ Asian demand for responsible investments is surging, albeit from a low base, by an estimated 150% per annum and is projected to hit **USD2.8 trillion** by 2015.⁴

Despite the literature and increasing data points, many wealth managers and asset managers confuse the underlying catalysts. Specifically, there is an entrenched belief that social responsibility is the core motivation behind allocations to responsible investments. Whilst this may have been true ten years ago, the data no longer supports such a conclusion. For example, in a detailed and recent survey of European HNWIs, the most frequently mentioned motivations behind “responsible investments” were: (1) financial return, (2) the prospect of a sustainable return, and (3) risk management.

¹ World’s Wealth Report, CapGemini, 2008

² HNWI and Sustainable Investment, Eurosif, 2010

³ Barclays Wealth Insights, 2010

⁴ Responsible Investing: A Paradigm Shift. Robeco, Booz & Company, 2009