



Climate change calculus: HNWIs and sustainable impact investing

Socially responsible investing give them tools to protect their interests – and to potentially reap financial rewards along the way

CLIMATE change is inescapable even for high-net-worth individuals (HNWIs). Its effects are forcing both short and long-term decisions on HNWIs and their family offices.

In the short term, the phenomenon is changing the calculus of where HNWIs choose to live, travel and do business. In the long term, it is making them question what the world will look like for their children, grandchildren and society as a whole.

Socially responsible and sustainable impact investing give HNWIs tools to protect their short and long-term interests – and to potentially reap financial rewards along the way.

How climate change is impacting HNWIs

Florida and California are two states in the US long favoured by HNWIs. But climate change may be changing that. Under perennial storm and hurricane threat, Florida is facing an exodus of insurance companies. Farmers Insurance, Bankers Insurance, and AIG subsidiary Lexington Insurance, among others, no longer offer home insurance in the state.

California suffers from a similar dilemma. After devas-

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tating wildfire seasons in the late 2010s and early 2020s, the state has recently endured atmospheric rivers and megastorms. Hurricane Hilary brought a year's worth of rain in a single day to some parts of the state and led to damages in the US\$7 billion to US\$9 billion range. Stung by repeated losses, insurers are pushing premiums ever higher or exiting the state altogether.

HNWIs may be able to take higher premiums in stride, but wholesale loss of coverage is another issue entirely. Will they stay in these states and risk substantial financial losses or relocate altogether? Leaving may solve the immediate problem, but the same existential question remains: What kind of world are they leaving for their heirs?

This is where socially responsible investing can help bridge the gap between doing well and doing good.

Sustainable impact investing: More than do-gooderism

Socially responsible and sustainable impact investing are not just forms of money-losing altruism. HNWIs and family offices – like all investors – expect to earn financial returns on their investments. Sustainable companies may have motivations beyond the bottom line, but they have to have a business model with a sustainable bottom line if they are to appeal to investors over the long term.

The growing influence of such investment strategies demonstrates their viability. They have achieved some important milestones, including:

■ Buy-in from global actors

Worldwide, socially responsible investing is accelerating. Saudi Arabia's sovereign wealth fund, the Public Investing Fund (PIF), has announced its goal of achieving net-zero emissions by 2050. Governments are getting behind impact investing.

■ More capital and customers

Environmental, social and governance (ESG) reporting is growing ever more important to investors' buy-and sell decisions. In the US, nearly half (48 per cent) have expressed an interest in sustainable investing, and 68 per cent say they would be willing to pay more for sustainable products.

From a personal perspective, investing in companies that mitigate climate change can not only safeguard the tangible assets that HNWIs enjoy but also help preserve those assets for their heirs. Climate change might not be solved in their lifetime – or in the next several generations' – but more and more consumers, investors, lenders and governments believe that concentrating their resources to counteract climate change can yield both financial and practical benefits.

There is no backup planet to build on or invest in, and HNWIs are beginning to align their capital allocations with that sentiment.

The writer is a partner at Ascend Venture Capital, a thematic venture capital firm in St Louis, US, that provides early-stage financial and operational support to data-centric transformational tech startups. He focuses on generating investment capital for the firm.