Wealth
Management

# Finding purpose in family business

Forward-looking
for generations

**Cover image**
Johann Jakob Schmidt, detail from "View of Vaduz from the Swiss bank of the river Rhine", 1833.


# Contents

# Introduction:
# a watershed moment

The world is facing major environmental, societal, political and technical challenges that make our social and corporate responsibility more important than ever before. The COVID-19 pandemic acted as a turning point. It gave us all the chance to pause, take stock and to address the untenable and unsustainable nature of our daily lives.

This watershed moment has prompted many of our entrepreneurial family clients to address various key objectives in relation to family values, wealth accumulation and wealth preservation, whilst also making a positive impact on the world around them. LGT Wealth Management enables entrepreneurial families to manage wealth built up outside the family business, in a way that complements the structure and values of their family enterprise.

In this briefing note, we focus specifically on the increasing importance of Environmental, Social and Governance (ESG) factors. ESG covers a wide range of issues from climate change and natural resources (Environmental), to human rights, and privacy and data security (Social), to diversity and inclusion, and transparency and corporate governance (Governance). Before, embracing ESG within business practices was treated as an aspiration rather than a reality. Increasingly however, it is becoming an imperative for businesses that wish to remain competitive, as customers, shareholders, employees, governments and society at large put pressure on businesses to strengthen their ESG practices.



A 2022 survey by PWC[1] indicated that family owned businesses have been slower at embracing ESG practices within their businesses. However, engagement in social responsibility is in the DNA of family businesses with over 82% of respondents in the survey indicating they engage in activities of social responsibility, and 42% are actively involved in philanthropy. As entrepreneurial families continue to recover from the global pandemic and look to improve the robustness of their family enterprises against future challenges, diversification of family wealth from the main business whilst looking at sustainable investment solutions provides a unique opportunity to address varying objectives.

[1] www.esginvestor.net/climate-tops-esg-priorities-for-us-institutional-investors/

Sustainable investing can provide entrepreneurial families with a multitude of benefits to grow, preserve and transition family wealth in accordance with the family's values and vision of itself.

In its 2022 report, US SIF Foundation recorded a halving in the overall amount of US assets managed sustainably – USD 8.4 trillion versus USD 17.1 trillion in 2020 – due to a change in methodology and an impending tightening of regulation.[2]

## What do we mean by entrepreneurial families?

A family business is where the members of the same family, or related family branches, hold a majority interest, or where the owning family has a transgenerational interest and exerts a dominant influence on the strategic direction through ownership, governance, management and vision.[3]

A business family is a group of legally (through birth, marriage or adoption), historically and/emotionally connected individuals whose identity, income and/or wealth are connected through ownership and/or common objectives and purpose.[3]

[2] www.ussif.org//Files/Trends/2022/Trends%202022%20Executive%20Summary.pdf
[3] STEP Family Business Governance



# Sustainable investing for family business

Many of the most successful family businesses are those committed to more than just profitability. A family business' long-term perspective, gathered as the business passes through the generations, makes them well-suited to embrace ESG investing. Additional qualities, such as their agility, resilience, sense of purpose and inherent entrepreneurial spirit, are similarly suited to this different way of thinking. It is often the case that these businesses already exhibit strong ESG qualities.

Society, which crucially includes the next generation of family business leaders, is increasingly aware of the importance of sustainability. As the next generation begins to inherit family businesses, the focus will increasingly follow the societal shift to aligning investments with personal values. For these families, maintaining a balance sheet which provides alternative resources away from the main family business, could also represent an appropriate means of cultivating family capital, thereby protecting family wealth for both current and future generations.

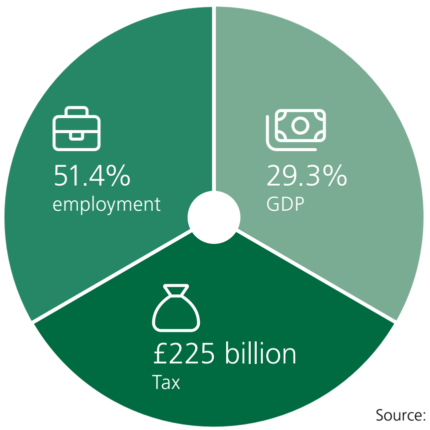
Entrepreneurial families can be known to dedicate their lives, both physically and emotionally, to building a successful business, which provides a sense of purpose, accomplishment and enables the family to maintain their lifestyle. Whilst we continue to determine the long-term impact of the COVID-19 pandemic on the UK family business sector, what is not in doubt is that many have experienced a significant drop in output.

As a result, it is important that entrepreneurial families and their professional advisers work towards ensuring a diversified balance sheet, that ensures the long-term prosperity of both the family and the business.

## Family entrepreneurship in the UK

The UK has a tradition for promoting entrepreneurship. Small and medium sized enterprises (SMEs) have always been the bedrock of the economy; a significant proportion of these SMEs are family-owned and managed businesses spanning from household names, centuries-old institutions to those still controlled by the original founders. In fact, 90% of the UK private sector is made up of family-owned businesses, representing 4.8 million businesses in total.[4]

**Family businesses contribution to the UK economy**




Source: Family Business Research Foundation

[4] IFB Research Foundation State of the Nation report 2021 – 22



### Sustainable investing

An investment approach that incorporates ESG factors, looks beyond the financials when evaluating a business or investment process and analyses the impact it has on the planet and society.

> **"We want to pass our values on to the next generation.**
>
> H.S.H. Prince Max von and zu Liechtenstein, Chairman LGT

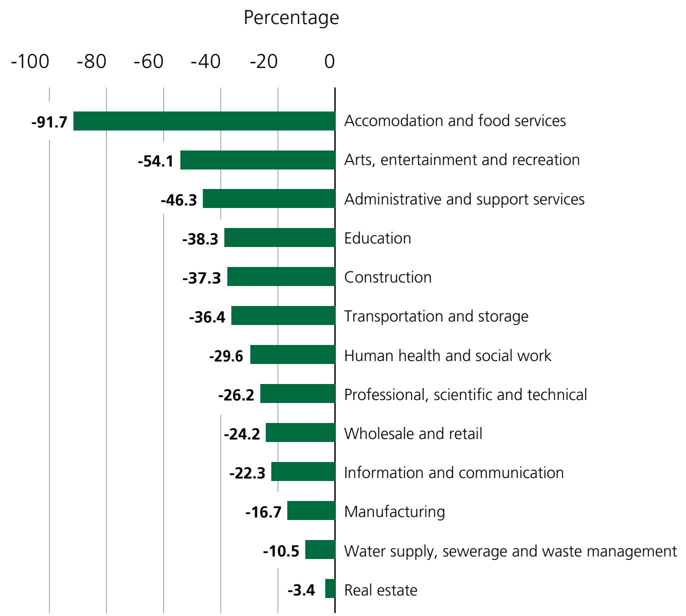
> **“Entrepreneurial families can be pioneers in investing family wealth to make a positive societal change**
>
> Ola Adeosun, Partner and Senior Wealth Planner

## Family-owned businesses impacted by the nationwide lockdowns in 2020

The global pandemic demonstrated that small and medium sized, well-managed businesses are vulnerable to external systemic shocks, which could have an adverse impact on revenues and profitability. Where the family's main asset and livelihood is concentrated entirely in the business, this represents a significant diversification risk. As the family grows and the number of members dependent on the financial success of the business increases, it becomes even more important to take the time to review their balance sheet and diversify family wealth.



**Decline of family businesses during lockdown**

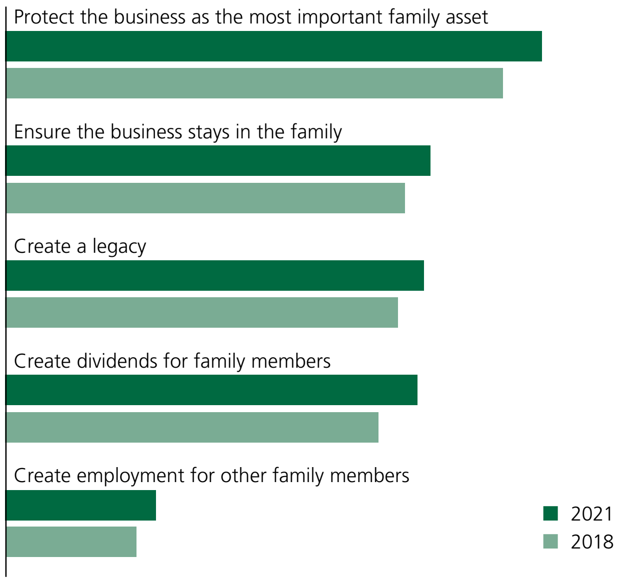



Source: ONS 2020; Oxford Economics

## Diversifying wealth

Maintaining a diversified balance sheet as a family is difficult due to a multitude of challenges, demands on time and financial resources. The ten domains of family wealth outline the various areas that an entrepreneurial family may look to address directly or seek professional expertise. This includes issues of family values and vision for the future, transitioning of wealth to the next generation, wealth management and philanthropy.

**Long-term priorities of family businesses**



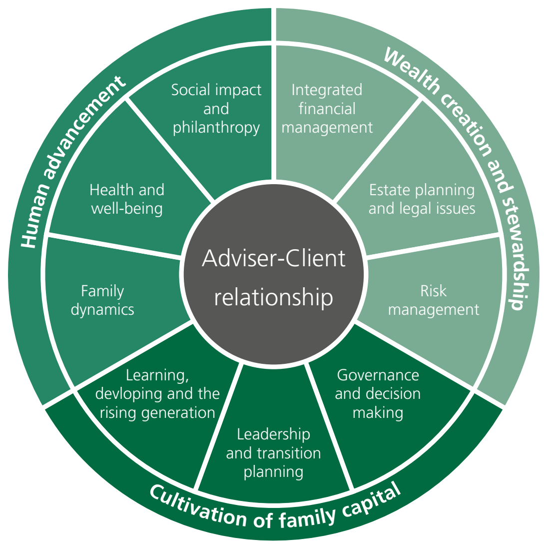

Source: PwC family business survey, 2021



Potential challenges families face when diversifying wealth:

- The family fails to obtain appropriate advice
- A lack of time or inclination to consider investments away from the family business
- Conviction and commitment by the family in the business model
- Inability to extract substantial capital out of the business
- Concerns of losing control and/or exposing the family's hard-earned wealth to the vagaries of financial markets
- The idea of building and diverting resources to other areas may contradict the family's values and vision

**The ten domains of family wealth**



# Changing perspectives

The problems highlighted by COVID-19 demonstrate some of the systemic issues within the fabric of our global ecosystem, both social and environmental. It is clear that, going forward, economic growth and progress needs to look and feel different. It needs to be more equitable, with more recognition of societal values and care for the environment. The pandemic has demonstrated the vulnerability of our global population, as well as the intrinsic link between our healthcare systems and the economy. These are challenges that need to be tackled at a national level, but equally the corporate sector and specifically financial markets play an integral part. Sustainable investment strategies offer investors the opportunity to allocate capital to companies that are focused on the long-term sustainability of our planet and its people.

## Why is sustainable investing important now?

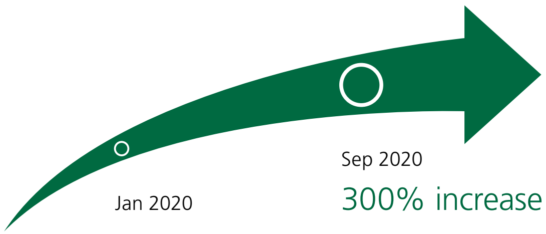
Using ESG analysis, alongside financial analysis, provides a holistic way of assessing risk and opportunities. The world faces a multitude of severe challenges including increased plastic pollution from the personal protective equipment produced in response to COVID-19 pandemic (around 75% of which will end up in landfills or the ocean), the decreasing availability of safe drinking water and rising malnutrition in many developing countries, and the tackling of racial injustice, to highlight just a few. These are not new issues, but the way that the global standpoint has shifted is.



Mark Carney, former Governor of the Bank of England and now United Nations Special Envoy for Climate Change and Finance, recently reported that USD 3.5 trillion needs to be invested everyyear for the next three decades in order to mitigate global warming risks to the worldwide population. As much as it is socially responsible, Mr Carney also declared that it is "an enormous investment opportunity". In recent months we have seen some extremely positive climate-related commitments from several of the world's superpowers. There has been a wave of countries, including China, committing to net-zero targets. Russia will cut 30% of their greenhouse gas emissions by 2030 and Joe Biden recommitted the US to the Paris Agreement. The new US President has also pledged that the US will be carbon neutral by 2050 and spend USD 2 trillion on infrastructure across sectors in order to meet this goal.

Over the course of 2020, there was also dramatic increase in the number of corporate commitments to net-zero goals. Interestingly, throughout the tumultuous past 12 months of the coronavirus pandemic, we have seen businesses with strong ESG credentials fare the storm much better than those without.

**Number of businesses with net zero goals**




Source: EnviroLab, New Climate Institute

**Holistic analysis through a vast range of sustainability metrics**


## A systemic shift in thinking and acting

Whilst some commentators are dismissing sustainable investing as the most recent fad, we believe that ESG is in fact a systemic shift in thinking and acting. If we have learned anything since the financial crisis in 2008, it is the understanding of how government and the political willingness has the propensity to shape markets. The governmental will and capital behind reducing carbon emissions as the climate crisis rages will provide extraordinary opportunities for investors for many years to come. We plan to be at the forefront of this green revolution, and invite our entrepreneurial family clients to be there too.

**Global GDP committed to net zero targets**


In 2020, less than **50%** of global GDP committed

In 2021, over **70%** of global GDP committed

Source: Lazard, Energy & Climate Intelligence Unit, World Bank

# Sustainable investment opportunities

Many of the world's most challenging problems require investment as a priority. They provide the opportunity for investors to back businesses tackling social and environmental issues to deliver positive impact over the long term. Two of the themes that we are most excited about from an investment and impact perspective are investments in healthcare and the green transition.

The vital nature of the healthcare sector to the global economy and society is undeniable, especially in a post-pandemic world. The opportunities for investors in healthcare are compelling if care is taken to select well-run companies that are able to manage their risks, and create long-term growth by develop\ing and implementing innovative solutions.

**Major healthcare themes in the portfolios**

**Diagnostics**

**Medical hardware**

**Plasma and blood distribution**


17%
invested in healthcare



For economies around the world to meet their net-zero targets, investment will be required across a huge range of industries and sectors. The visible beneficiaries of this transition will be the alternative energy vehicle manufacturers and wind and solar farms. Less obvious participants are the businesses involved at earlier stages of the lifecycle. For example, companies involved in enhancing energy efficiency, parts in electric batteries and grid storage.

**Major investable themes**

**Sustainable infrastructure**

**Renewable energy**

**Energy efficiency**


18%
invested in green transition

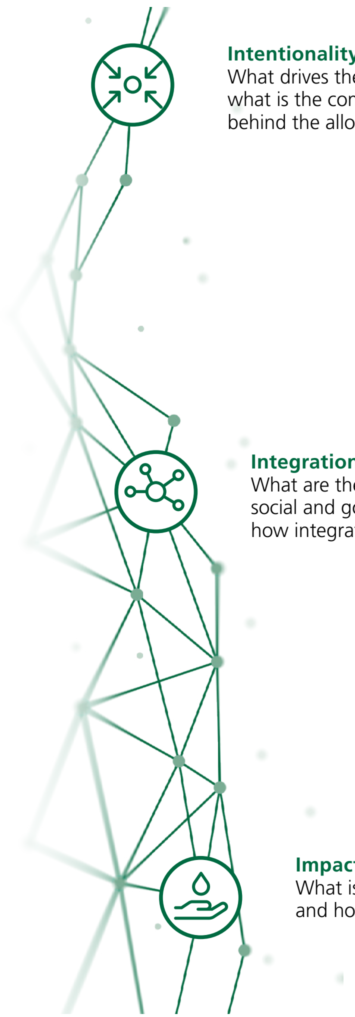
# Creating a legacy

When it comes to putting these principles into action, investors can benefit from taking a three pronged approach; responsible, sustainable and impact investing. Responsible investing excludes specific industries or sectors which contravene sustainable growth and development such as tobacco companies, or businesses involved in the manufacture of weapons. The incorporation of ESG analysis as explained earlier looks to understand both the operational sustainability of a company, as well as assess the positive contribution the business makes through the goods and services it produces. Lastly, an impact investment is an investment with the primary intention to deliver a measurable positive or environmental benefit, alongside a financial return. This differs from a sustainable investment as it is more targeted and includes companies that are directly involved with tackling the issues – such as those developing renewable energy technology - or businesses looking to enhance recycling capabilities.

In assessing investments as suitable for sustainable investors, we look to understand the intentionality of the investment, the level of integration and the impact generated.



**Our sustainable investing philosophy**



**Intentionality**
What drives the organisation, what is the commitment and mission behind the allocation of capital?

**Integration**
What are the business' environmental, social and governance behaviours, and how integrated are they?

**Impact**
What is the impact generated, and how is it being measured?

# Aligning the family's goals with purpose

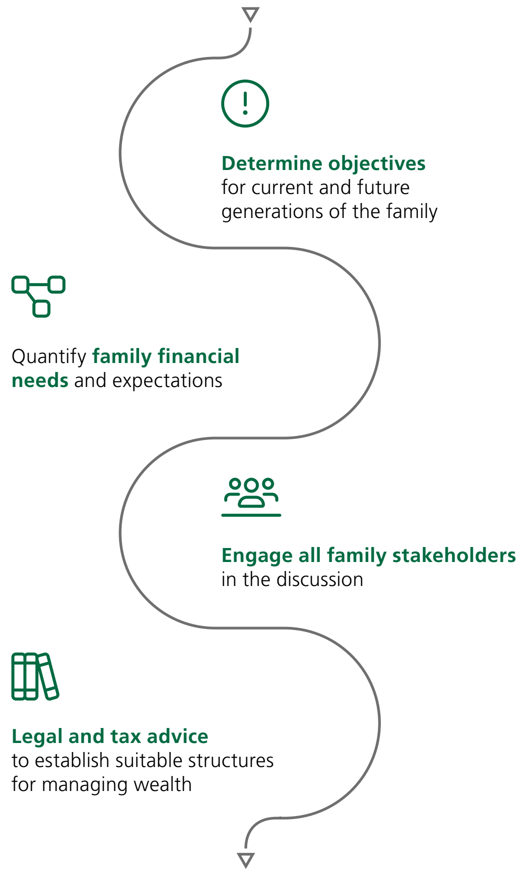
The world as we know it is changing at rapid speed and family-owned businesses, who have traditionally always taken a long-term view in decision making, are well equipped to rise to the challenges ahead. The pandemic has emphasised the need and importance for entrepreneurial SMEs to have a robust wealth planning and investment management in place, which may necessitate a balance sheet of wealth outside the main family business.

Investing family wealth in a sustainable way provides entrepreneurial families with a unique opportunity to align purpose with the potential for wealth creation and preservation. Sustainable investing could be an effective tool to engage the next generations in the family enterprise, and will provide an additional dimension to the family's shared purpose and vision.

> **"The world as we know it is changing at rapid speed and family-owned businesses, who have traditionally always taken a long-term view in decision making, are best equipped to rise to the challenges ahead.**
>
> Ola Adeosun,
> Regional Head of Wealth Planning and Family Governance



**Entrepreneurial family journey**




**Family wealth outcomes**
- Diversified wealth balance sheet
- Engagement of the next generation
- Social impact
- Greater family harmony

# Leading by example

The LGT Group is the largest global bank and asset management group owned by a single family. Through LGT, the Princely Family of Liechtenstein was early to commit to sustainability, building on the family's core characteristics of long-term thinking and actions. Over the years, our commitment to sustainability has consistently grown, encompassing all areas of our business. Ensuring that our activities make a positive contribution is a priority, both through the sustainable allocation of capital and through our operations. In order to deliver on our sustainable ambitions, our Sustainability Strategy sets out our company's binding goals to be reached by 2025, across all business areas. For more information: www.lgtwm.com/en/commitment/a-sustainable-future/

## Net-zero emissions

LGT aims to reduce net emissions from its operations and investments to zero by 2030. In order to eliminate its net emissions by 2030, LGT has set ambitious targets to reduce its operational emissions. By 2025, for example, it will reduce $CO_2$ emissions by 20 percent per full-time equivalent and its energy and paper consumption by 30 percent, both compared with 2017. In addition, LGT aims to source 100 percent renewable energy by 2025. LGT also aims to reduce net emissions from its own investments to zero by 2030. These goals are to be achieved by raising employee awareness, reducing consumption, increasing efficiency and introducing more environmentally friendly solutions.



**Sustainability targets by 2030**

100%
renewable electricity and renewable heating source
or district heating

90%
reduction of Scope 1 and 2 emissions
(baseline year 2019)

50%
reduction of flight emissions per FTE*
(baseline year 2019)

50%
reduction of paper consumption per FTE*
(baseline year 2019)

* Full time employee

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