Interview: Annie Chen, RS Group, Hong Kong

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Annie Chen, Chair of RS Group, Hong Kong

At the forefront of the fast-developing social investment sector in Asia are organisations like RS Group. Neither a typical investment house, nor a typical philanthropic institution, yet it makes both grants and investments. At the recent AVPN Conference in Singapore, *Alliance* associate editor, Andrew Milner sat down with RS Group Founder and Chair, Annie Chen, and Tze-Wei Ng of Sustainable Finance Initiative, a new platform incubated by RS Group, to discuss their approach to putting wealth to work.

What is RS Group and what does it do?
RS Group is a midsized Hong Kong based family office. Ten years ago, there was a disaggregation of the family's money and RS Group came from my share of the I decided to invest sustainably and I built up a small team to help me do that. In a way, it's not that different from what a lot of other family offices do – we manage our investments and we make some grants.

We actually have a separate foundation structure but it's only used to make grants. It's not endowed and the portfolio is managed as a whole through RS Group because our belief is that all capital should be deployed with purpose and we are trying to demonstrate that. We talk about how capital is on a spectrum and that putting the investment activity on one side and grantmaking on the other is an artificial division Instead, we believe that 100 per cent of capital, be it investment or grant, should be invested according to our mission, generating various levels of financial return and a range of social and environmental impacts.

So you don't see any real distinction between investments and philanthropy?
It's not that there's no distinction. With grantmaking, it goes out of the door and you never see it again.

Jed Emerson's Blended Value concept is a more accurate way of understanding how one deploys money. There are a number of consequences that flow from that, whether it's an investment or a grant. With investments, although people might ignore everything except the financial return, it doesn't mean that when your money goes into a fund or a company, it doesn't have any other consequences. It could be there to support a responsible business, or it could be there to support a tobacco business or a company that causes water pollution. So what we're saying is that we want to deploy our investments consciously, and that we have a choice to do so.

> *'There is eroding trust in the community, in government.'*

Many see investments as a way to preserve or increase their capital. What's your attitude to maintaining the corpus of your assets?

RS Group invest in companies where positive social and environmental value creation is fundamental to their business models. Photo credit: RS Group

That's a very direct question! When I first got my share of the family inheritance, I'd spent 10 years working with my siblings in our family office and experiencing that, even though everyone was well-intentioned, making decisions over money and its management could cause a lot of friction. My original thinking was that maybe I would give most of my money away and it was in the course of looking for some way to do that responsibly that my then family office head Bonny Landers said, 'You're not going to do that in one day. In the meantime, you still have to manage it somehow.' She was the one who actually introduced me to the concept of sustainable investment – back then it was called socially responsible investment – and so I spent a good year or maybe two learning about things, going to conferences, mostly philanthropy conferences. I don't consider myself to be an investment expert. At the time, I was thinking of it as a temporary thing to do with the assets and it made sense to me not to be investing in anything bad and to choose responsible investments.

I wasn't finding good advice from banks. In Asia, people tend to go to banks, they don't go to financial advisers and banks tend to be pushing their own products. That was how I ended up with a financial adviser from Europe who's been with us for almost a decade. In a way, the process that he led was very mainstream, what any portfolio manager would do – what are your concerns? What is your attitude to risk? How long-term do you think? What's your family situation? What's your current asset allocation? And so we started off investing mostly through funds.

> *'Shouldn't all businesses think of themselves as having a social purpose?'*

At the same time, I was beginning to explore the philanthropic side. It was in the very early stages – at least in Hong Kong – when people were beginning to talk about social entrepreneurship, which was also right after the financial crisis. I heard Stephan Chambers from Oxford talking about how all enterprises should be social enterprises. Like a lot of people, I used to think that social enterprises are a very social impact-type of thing but he really closed the loop for me –shouldn't all businesses think of themselves as having a social purpose, balancing financial sustainability with other things that you're producing?

Around the same time, I came across some writings by Jed Emerson which made a lot of sense. I met him in New York and subsequently invited him to Hong Kong and asked him to be our adviser. The family office head was helping me part-time. I eventually hired one full-time staff person and two other advisers besides Jed.

So your view is essentially that all enterprises should be social enterprises?
I think all enterprises exist for a purpose, whether it's to make shirts or mobile phones, or to provide services, or whatever.

They might say that they we *do* fulfil a social purpose – we may make money, but we also make a useful or desirable product. Do you think that's not enough?
You still have a choice of how you actually make whatever it is you make. You can do it responsibly or irresponsibly. You can do it without paying attention to the so-called externalities because nobody's making you pay for them; you can believe in cutting costs, no matter what, so you don't give fair wages to your employees; you may be using cheaper but more polluting components, etc, etc.

But there's another side, too. Sustainable investment means not only negative screening, but also integrating positives and looking for what people call best-in-class investments. It's also a way of managing risk because we believe that companies that don't care about the environment, don't care about people at the end of the day won't survive. And if we look at listed companies, we can see that people *are* paying more attention – there's more negative publicity today when there's an oil spill or some other kind of reputational incident. People *do* care and with social media, it's out there before you even know it. So that's why sustainable investing seems to me a very sensible thing to do financially, as well as making sense ethically.

You're obviously different from the typical idea of an investment company, in that you're not just using money to make money. Are there are any other respects in which you see yourselves as different?
I think there are two things that make us different from other family offices. One, I knew what I didn't know so I was very happy to use advisers. These are all very dedicated, very knowledgeable people, so we didn't have to feel our way one baby-step at a time. Conceptually, we were able to make some leaps that have moved us further forward. People say we're pioneers – we're not, there are plenty of others doing it. The other thing that distinguishes us is that we talk about it and the reason we talk about it is that we want more people to jump on the bandwagon and make impact investments.

Coming back to your philanthropy, do you have a set notion of how much you'll spend on grants and how much you'll dedicate to investments, or is it all driven by what best serves the overall goals you're aiming at?
I'd say that, up to this point, it's still the former because when we set up the Group, our investment adviser suggested we take it a step at a time. The assumption in a family office is that you need to at least preserve your capital. That was our assumption until we figured out what we wanted to do. The way we think about it is, out of this capital base, what kind of returns do we need? We're not aiming for the highest capital yield, but we want a reasonable return that will help cover our own expenses of running a team, making grants and for my family needs.

But this is when we get to phase 2. We launched our Impact Report[1] in May 2016 as a way to demonstrate to other folks that you actually can integrate impact along the social and environmental dimensions and preserve your capital. That marked the end of a first phase for us. Last year, we started thinking that this may limit our work. If we really want to achieve deeper and more intentional impact, we may have to take more risks with our capital and modify our portfolio of investments and grants to better support those impacts. For example, there are certain impact areas that are better served by grants than investments and we will need to be flexible to cater for that.

Annie Chen with her colleagues at the AVPN Annual Conference 2018. Photo credit: RS Group

You talked yesterday [at the AVPN conference] about the Sustainable Finance Initiative. What will it add?

We worked very hard on the RS Group Impact Report, but we felt that while people were congratulating us, they weren't really embracing the idea. Also, around Hong Kong at least there's not much of an ecosystem for impact investing. Most banks don't offer the option to their clients. Clients don't know to ask for it and the emphasis is still very much on how to maximise profit. Even with international banks, with headquarters in the US and Europe, they may have sustainable investment products, but when it comes to their Asia operations, the people on the front line don't know about them. Also, Hong Kong doesn't have a really strong institutional voice unlike other financial centres. We used to have this group called ASRIA – the Association of Socially Responsible Investing in Asia which is now merged into the UN PRI, so there's really no independent voice locally now. So we decided to give it a try. We're not an industry association, we know there are many different stakeholders but we have I think a fairly unique approach to how we can help drive the movement forward.

Tze-Wei Ng: Our research also shows us that, while the ecosystem is lacking, the desire for it is there. We published a mapping exercise and a survey of asset owners, investors, academics, governments and regulators earlier this year. Ninety per cent of the [239] respondents thought Hong Kong was really behind other financial centres in sustainable finance and about 75 per cent thought that this was really crucial to Hong Kong's future as a financial centre. So what's holding people back? Some of the challenges we identified were low market awareness, lack of supportive government regulation and a misperception that sustainable investments would have an effect on returns. To address those gaps, we began working to create the SFI (www.sustainablefinance.hk), which will be a community building platform focussing on three key pillars: to educate, demonstrate and connect. We aim to curate content that will help share knowledge and spark the conversations necessary for private investors in Hong Kong to get active. We hope to demonstrate to private investors that one can do good and do well through a pilot Investor Circle and we will implement activities that bring together the private investor community, emphasising peer to peer learning and the forging of a collective "informed voice" on the growth of sustainable finance in Hong Kong.

Can we talk a bit about the community based philanthropy organisation you're interested in setting up in Hong Kong? As I understand it, it's less about getting resources together

for community projects and more a way of creating social capital, mitigating inequality and alienation.

Obviously part of my interest is informed by what Hong Kong has gone through particularly in the last five years or so politically speaking. There is eroding trust in the community, in government, especially after the Umbrella Movement[2]. At the same time, you do see more local, even individual initiatives, whether they're inspired by examples overseas or it's just what people want to do. For example, the sharing economy idea has ignited to some degree, whether it's motivated by leading a more environmentally-conscious life or just out of the philanthropic desire that we all have. The community philanthropy idea is also partly driven by the community foundation movement and the desire to explore whether, as a structure, they can be designed to address some of the gaps that we see in Hong Kong.

> *'Part of the motivation also comes from reflecting that philanthropy can be a very ego-driven thing. People don't tend to share a lot.'*

Some foundations can afford professional support for their grantmaking and could take a more strategic approach to addressing problems, but most of the foundations in Hong Kong can't. We have people writing cheques to the Community Chest or NGOs but not really understanding how the money is used; so can we think of a platform that may allow people who want to give to connect that giving with a bit more of an intellectual process? That was my original interest in the Community Foundation concept, but then it broadened out and I realised, 'oh, there's something called community philanthropy and what does that mean?' This is something that has been germinating for a while but has been on a back-burner with all the other things we are doing and I was just trying to take advantage of this conference to see if I could connect with some thought leaders in the space. We're still in the thinking part of the process.

Part of the motivation also comes from reflecting that philanthropy can be a very ego-driven thing. People don't tend to share a lot. Six, seven years ago, somebody had the idea of bringing a few Hong Kong foundations together which became the Hong Kong Foundation Exchange (HKFx), but even now, it's a very loose, informal group that says 'OK, we'll come together to do something about education or whatever'. I don't see any development towards any more formal thought leadership or a community of practice of people asking each other, 'are we doing things right, could we do things better and what does doing better mean?' Those conversations may be happening on an individual level, but there's certainly no recognisable sector or forum. Because I pay attention to what's happening elsewhere, I can see the gaps and I'm not saying that the western models are better, but I believe that if you want to improve, you can do it more quickly if you share rather than just trying to do it on your own. And in a world that changes so quickly, why wouldn't you want to learn from each other's experience?

How do you see what we might call the social finance sector developing over the next few years in Asia?

I don't know. At the closing plenary yesterday, the speaker from Germany [Felix Oldenburg, Association of German Foundations] was talking about how we ought to stop pitting impact investing against grantmaking and I absolutely agree with everything that he said. It's a false dichotomy and this is where if you actually understood the continuum [of capital], you would stop seeing the two things in those terms. It's all driven by intention.

> *'There's always going to be a need for philanthropy. Why wouldn't people use the same thoughtfulness that they use for their grantmaking for their investments?'*

So it's whatever works?

It's whatever works best. Some things lend themselves to using market engines – renewable energy, for instance, will never take off if it relies on grantmaking, but we need renewable energy to get us out of the hole we're in. The question is, how do we get people to think about markets as a way to propagate good stuff? In some way, it's about evolving to a higher consciousness so that's why there's all this talk now about conscious capital or responsible capital. I know some people might say capital is inherently bad. I'm not sure. I think capitalism is just a system and it depends on how you want to use that system. We need to reset the constraints around business, and the whole ESG movement is about doing that so that we minimise the bad consequences. It means there are more things to take into account and, yes, maybe it makes it a bit more challenging but as responsible citizens, that's what we ought to be doing. I want people to understand that intention matters. There's always going to be a need for philanthropy. Why wouldn't people use the same thoughtfulness that they use for their grantmaking for their investments? I think of it as being about how you connect with your investments. It's not something that just goes into a black hole and spits out a return. It has consequences, and it's our choice to maximise the good consequences and minimise the bad.

Footnotes

1. ^ http://report.rsgroup.asia/, RS Group Impact Report, 2016
2. ^ A political protest movement that arose during 2014 pro-democracy protests in Hong Kong, so-called because of the use of umbrellas as a means of peaceful resistance to the Hong Kong police's dispersal of the protests.

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