GO GREEN AND PROSPER

For a small but determined band of Hong Kong venture capitalists, socially responsible investing makes good sense – financially, for the planet, and for the soul.

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David Yeung chooses his investments based on their potential for financial return, like most. But a crucial aspect of his filtering process strays from the conventional; he also considers whether a founder's values align with his own, what kind of non-monetary support he can offer them, and – perhaps most importantly – what kind of measurable positive impact the company will have.

Yeung is part of a new wave of early-stage investors who believe that "doing good and doing well can happen simultaneously". Buttressed by millennials and their consumer ideals, these investors want a stake in something more than straight-up profit, and are placing the planet's wellbeing at the forefront in their portfolio choices.

The concept isn't new. Known interchangeably as green, sustainable, triple-bottom-line, or socially responsible investing (SRI), the strategy typically involves examining environmental, social and corporate governance (ESG) criteria.

There are historical examples of socially driven investments aimed at specific outcomes. Most notably, in the 1970s, financial pressure from strategic divestment ultimately led South African businesses to call for an end to apartheid. These days, SRI has become a well-recognised tool to promote environmentally and socially sustainable development, and a globally accepted investment strategy. According to the Global Sustainable Investment Alliance (GSIA), in 2016 more than one out of every five dollars under professional management in the United States – over US$8.72 trillion – was invested according to SRI principles.

Impact investing, a term coined around ten years ago, takes the notion a step further, considering social and environmental impact as critical measures of a company's success. Impact investing still represents a very small part of the global market: a survey of 158 impact investors around the world by Global Impact Investing Network (GIIN) found respondents had committed US$15.2 billion through 7,551 deals in 2015. By comparison, the global equity market is worth US$61 trillion. Meanwhile, the world of venture capital has largely been playing catch-up, or not playing at all; a GIIN and JP Morgan survey the same year estimated that over 90 per cent of impact-driven capital was invested in companies in the post-venture stage.

That said, there are numerous venture capital investors in Europe and the US whose aim is to find winners in cleantech, clean energy and smart solutions that reduce energy consumption, and therefore emissions. Venture funding allocated to green start-ups can also have an outsized impact, with game-changing investments in renewable energy and other areas. Companies like Tesla, SolarCity, and Enphase Energy, all of which have since held IPOs, had their initial growth supported by venture firms.

Impact VC is a small sector, but interest in the possibilities is growing. Breakthrough Energy Ventures, a billion-dollar fund backed by some of the world's most successful business brains and focused exclusively on alternative energy solutions, was unveiled last year and shows that big names are placing big bets on green innovation.

While impact VC funds are often lumped in with the broader world of impact investment – which can include investors willing to net lower returns in favour of positive impact – they are, in fact, generally beholden to asset owners with expectations of high financial returns on their investments. Yet, despite being ideally positioned to create substantial impact while pocketing substantial returns, until recently VC investors in Asia have been slow to embrace the green movement.

GOOD BUSINESS

David Yeung was no newcomer to the idea of 'business for good' when he founded Green Monday Ventures in Hong Kong. Both his Green Monday food movement, which encourages businesses and individuals to embrace

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–David Yeung, Green Monday

plant-based dietary choices, and Green Common, his mindful-living retail concept, were built on this very principle. Yeung's belief is that economic force is integral to driving social change, and ultimately to creating a more sustainable future. "If you look at China in the last 20 years, it has undergone an incredible revolution. Millions of people have come out of poverty into a more comfortable lifestyle. And the major reason for that is not because some donor donates billions of dollars and feeds them, but rather, it's because of economic reform. That's the key."

According to Yeung, the food industry is going through a revolution, and offers huge opportunity for impact. "Millennials are driving the change. Only one out of five millennials in the US has ever had a Big Mac. One out of five! It's a very different consumer market than, say, 20 or 30 years ago. Look at Amazon acquiring Whole Foods. That says a lot, right? Organic food, natural food, healthy food is becoming a mainstream thing. It's no longer a niche. Now, this shift is still mainly happening in the US and in Europe, but with 60 per cent of the world's population living in Asia, all of them needing nourishing food, how could there not be room for disruption? And given our strategic location in Hong Kong, we want to champion that change in this part of the world."

His sourcing strategy is simple. "When you're looking for that triple bottom line of environmental, social and financial returns, of course the bar becomes higher. But if you can find companies that align all three, then you're looking at the best scenario possible! So as an investor, why would I not aim for that?"

So far, Yeung's instincts have led him to the food industry. One of the main sources of greenhouse gas emissions is animal farming and animal-based food production. As demand rises for everything from dairy to steaks, especially from emerging markets, the need for meat-free substitutes makes long-term sense.

Yeung's first investment was Beyond Meat, a Los Angeles company that produces plant-based meat substitutes. Offering consumers realistic, protein-rich vegan 'meat' products, Beyond Meat was named one of 2014's most innovative businesses by *Fast Company* magazine. The product is now available in over 11,000 stores in the US, and since rolling out in Hong Kong has been selling, according to Yeung, "like crazy". Beyond Meat has also enjoyed investments from Kleiner Perkins Caulfield (their first food venture), Morgan Creek Capital and Bill Gates.

Green Monday Ventures next staked a claim in Perfect Day, a synthetic biology start-up with a focus on animal-free dairy products. "Perfect Day looked at the inhumane practices and massive environmental impacts of industrial dairy production, and they saw an opportunity. The founders asked: What happens in a cow's body to make that protein that people crave so much? Can we reverse engineer a glass of milk to produce the same results? And, to everyone's enlightenment, it was doable."

Yeung immediately recognised the scale of disruption possible. "To me, this is game-changing. If we can create animal-free dairy products that are just as good, then why wouldn't we? It costs so much, environmentally and economically, to raise cows – about 1.5 billion of them on the planet right now – just so they can feed us. It's outrageous."

ABOVE Green Monday Founder David Yeung.

OPPOSITE Aera VC's Co-Founder Keenan Kwok believes there's growing demand for impact investment opportunities.

"YOU LOOK AT THE OLDER GENERATION, HOW THEY CHOOSE TO GIVE BACK, AND TYPICALLY IT'S THROUGH FOUNDATIONS. BUT FOUNDATION INVESTING IS DONATION. YOU DONATE AWAY AND IT'S GONE. THE NEW MODEL IS SOCIAL IMPACT INVESTING"

–Keenan Kwok, Aera VC

Both Beyond Meat and Perfect Day, along with Green Monday's other portfolio interests, meet the sourcing criteria identified by Yeung and shared by many of his peers. "We look at how much impact they can create, and the synergy between the resources they need and what we can offer. Of course we also look at things like valuation, and at who else is investing. But above all else, the number one thing is mission alignment, value alignment."

Keenan Kwok, a founding partner of Aera VC and active member of the growing impact investment community in Asia, is familiar with this line of thought. The "Aera Terms" for founders is a supplement to the traditional financial term sheet, under which a company's social or environmental mission and impact metrics must be clearly defined alongside its financials in order to be considered for investment.

Aera was established by Derek Handley, author and founding CEO of global non-profit The B Team, as a vehicle for Handley and a pool of like-minded co-investors to invest in early stage ventures that are – according to the company's promotional materials – "defined by both purpose and profit, believing that these two elements are not only equally important, but propel each other forward."

Kwok's role is to engage interested asset owners in Asia. "We are creating a vital link. We find the resources to accelerate entrepreneurs that are solving big problems. Meanwhile, we're connecting an ever-growing network of family offices with causes that are relevant and meaningful to them."

There is, he says, plenty of appetite.

"You look at the older generation, how they choose to give back, and typically it's through foundations. But foundation investing is donation. You donate away and it's gone. So the new model is social impact investing, and that's our sweet spot. It's sourcing deals and founders who are trying to disrupt the market, and who, if they get it right, can have incredible, measurable impact."

Kwok notes that people with wealth in their 50s and 60s are keen to make investments that support founders of green enterprises, with the aim of maximising impact and returns. "We help channel the right family offices' money and resources into the right projects, and everybody wins."

In bridging that gap, Kwok says, Aera helps asset owners who want their resources allocated

in a way that serves all their aspirations. For many potential investors, it's hard to separate priorities – impact investors tend to want a green solution advanced, a respected legacy and to see a healthy return. Kwok is optimistic on the prospects: "there is no shortage of opportunities that fit. As long as the story can be articulated well, the momentum is there, the resources are there, and we can make great matches."

Kwok, who started out in investment banking and moved on to found several successful tech hardware companies before joining Aera, brims with enthusiasm about what he does these days. "I was doing this for profit, and now I get to do it for purpose as well. Chasing money is nothing new. Now we get to chase *meaning*!"

STRIKING THE BALANCE

The prospect of meaningful investments that generate good returns sounds idealistic, but for an increasing number of investors, it's not only possible, it actually makes good sense. Annie Chen, chair of RS Group, is one of them. Her Hong Kong-based family office has, since its inception, ensured that all its capital allocations support its mission of contributing to sustainable development.

When the 2008 global financial crisis hit, Chen reflected on her perceptions of wealth and income disparity, and it led to a shift in her economic views. "I realised that, even without intending to do harm, most of us continue to contribute to a system that is inherently inequitable and causing damage to people and the environment." She knew that she wanted her family's wealth to be used in a way that would create positive impact for as many people as possible – but also saw that conventional models for doing so weren't adequate.

"There is not enough philanthropic capital in the world to solve the world's gravest problems," Chen says. "The traditional practice of investing solely for financial gain and putting some of the profits towards good causes is no longer sufficient or appropriate to deliver a net positive outcome. In order to create change at scale, we need to harness the power of the capital markets. We need to create a 'systems change', so that some of the most powerful change engines the world has known – market forces and the capitalistic impulse – are harnessed to create good."

Like her peers, Chen is also a strong proponent of the business case behind her investment strategies. "The belief that impact-driven investment means giving up returns is a great misconception," she says. "Sustainability can drive outperformance, and this has been proven at both academic research level and at a practical level. Companies that lead in sustainability have better operational performance, and are less risky investments." Meanwhile, multiple studies have shown a rising importance placed on social and environmental costs of production, particularly among the millennial generation. "This, taken into consideration along with factors such as resource constraints and the need to counteract climate change, means that change in how capital is deployed is inevitable. Early adopters will be the first to benefit from this, while late movers might see losses. The trend is clear, and we believe this will be the future of investing."

RIGHT
Annie Chen, chair of RS Group, believes there's good reason to pool capital into supporting sustainable developments.

BELOW
Clean energy is one of the increasingly popular sectors where investors are looking to put money.

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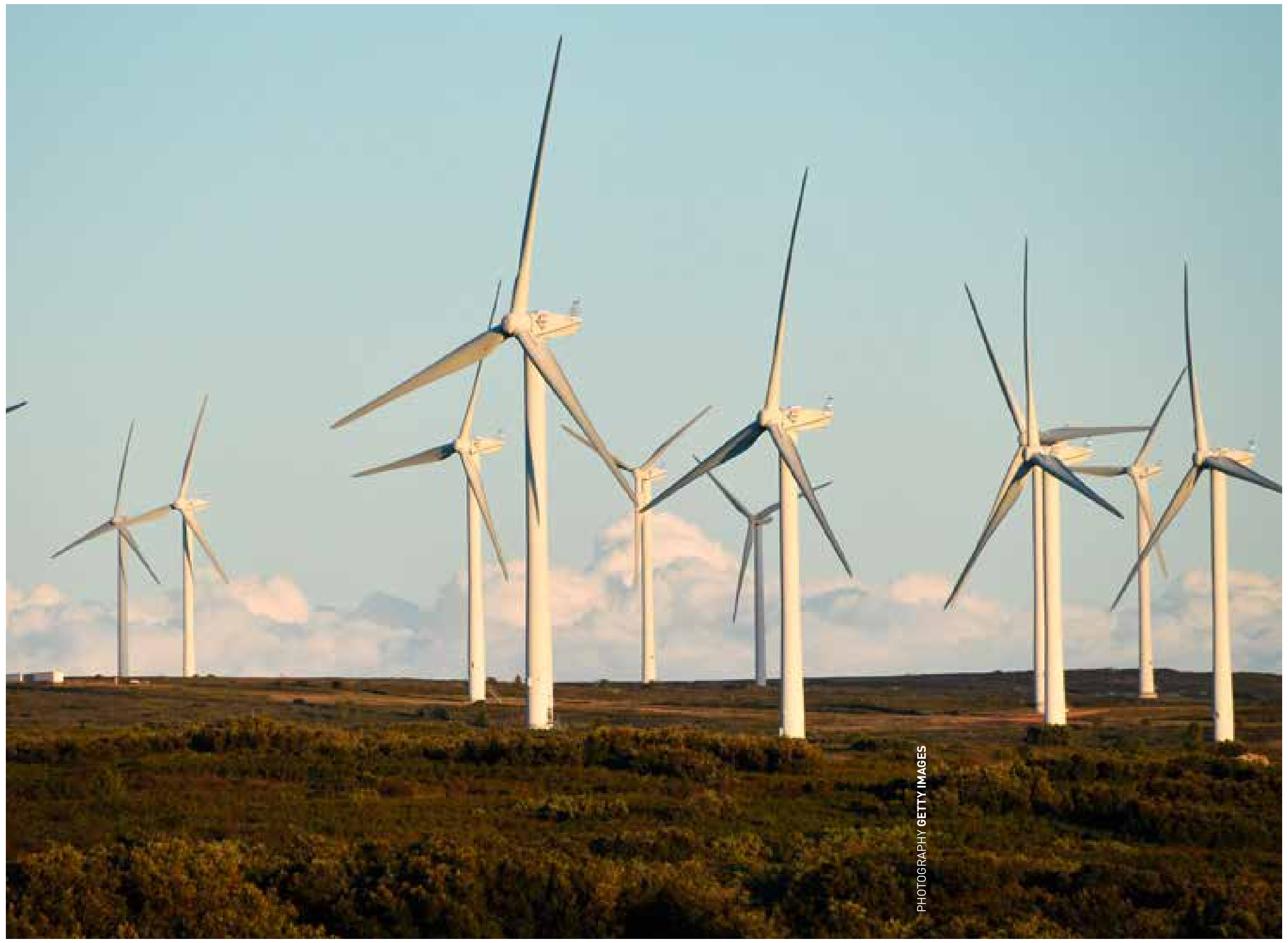

"THE BELIEF THAT IMPACT-DRIVEN INVESTMENT MEANS GIVING UP RETURNS IS A GREAT MISCONCEPTION. SUSTAINABILITY CAN DRIVE OUTPERFORMANCE"

–Annie Chen, RS Group

Chen believes it's time for the entire mainstream investment community to begin demanding significant environmental and social returns. She says that the financial system is "disconnected from the needs of the environment, society and economy." She continues to advocate for making sustainability a fundamental part of investment decisions, something she feels will ultimately create a more robust financial system.

But Chen also acknowledges that Hong Kong's sustainable investment scene is relatively small and poorly understood, despite rising interest. RS Group has tried to address this with the launch of a new Sustainable Finance Initiative (SFI) – a platform for discussing and developing a more robust sustainable finance community in Hong Kong. She is optimistic about what's possible. "Our own survey shows that 80 per cent of respondents would like to be participating in the sustainable finance economy in some way or other," she points out. "This is very encouraging to us."

Hong Kong may be behind the curve on the idea of green financing, but there are players in this field, and they are not going away. They see environmental problems that need solving, capital-based solutions, and the will of a younger generation keen to partake. They are also buoyed by studies showing healthy returns from impact investing of this kind.

For Chen, it is a matter of philosophy as well as returns. "We are all investors in some way. If we can all be more aware of how our money is spent, change will naturally take place."