



Hong Kong's New Future Fund Creates Opportunities to Build "Brand Hong Kong" and Secure its Position as an International Financial Centre

Last year, the Hong Kong government established two sovereign funds, the Future Fund investing in private equity and properties outside Hong Kong and the Innovation and Technology Venture Fund to stimulate private investments and increase deal flow in local Hong Kong technology start-ups. Given the intense competition for good opportunities, high quality assets and the great responsibility that these funds hold in their hands, this article explores what could be considered as best practice for sovereign funds in how they build their reputation, develop trust and communicate effectively with all of their stakeholders.

Why are Communications Important — What can They Achieve if Done Well and What are the Consequences of Failing to Create a Clear Engagement Plan?

Looking at it from the professional investor point of view, why would communications be important to them? Surely the GP is in the driving seat when it comes to deploying capital? However, as the current situation stands, with so much money looking for superior returns, looking for a home essentially, it's not as simple as that. The onus is on the investor to prove that it is the right partner – responsible, professional, able to add value, etc. If you get these things right then experience suggests that the good opportunities will find you.

Sovereigns have one of the most complex stakeholder groups of any fund. Their main stakeholder group is the people whose money it is, to whom the investment outcome really matters — the general public. This group of people have high expectations when it comes to holding those in charge to account. They are

highly motivated and the speed at which they can gather and express their disapproval using the social media tools available to them, for example, has changed the way in which we, as professional communicators, think about this, forever.

As sovereign funds look more closely at the role they play in society, aligning their investment strategy to what's important to their stakeholders, they too need to demonstrate they are doing the right thing whether that is socially responsible investing or supporting the economic development of their home market, amongst many other considerations.

So, as a sovereign fund, how do you demonstrate you are doing the right thing? Is a glossy annual report covered in green leaves, for example, sufficient? I exaggerate here as I think visuals have a part to play, even if you have the luxury of being around for many years and have enormous scale and size. But even these mega state funds which receive such a huge amount of attention every time they may be bidding for an asset or making an investment typically have a very carefully considered communications plan in place. The stakes of not communicating correctly are so much

higher when you start to think about cross border transactions and government involvement in decision making. If something goes wrong, it's on a world stage and can impact the reputation of the country, not just a loss on the bottom line. So, in this age of global, speedy communications, while a basic tool, an annual progress report isn't really sufficient. There needs to be greater transparency surrounding the investment goals and decisions the fund makes.

There is an added incentive for Hong Kong here when you look at the race between a number of countries, especially in Asia, which want to position themselves as the regional hub for financial services and especially as centres for fund management and fintech.

As outlined above, communications has a role to play in protecting a sovereign's aims and with proper thought should be able to powerfully underpin them with tangible results.

Who is Doing It Well and What are They Doing?

Which sovereign funds have built a trusted brand for themselves and how did they do it? I think different things come into focus depending on the size of the fund. Let's take Singapore's Temasek and the CPPIB, for example. Both are of a significant size and because of their size and track record, they receive a lot of attention already and don't necessarily need to court attention in perhaps the same way others do. It's more important that they protect the reputation they have built, pick the right partners to associate with, demonstrate they have a clear plan and communicate the success of their investment decisions.

If you look at Temasek's communications collateral you can clearly identify the positioning they are striving for. They are talking about stewardship, trust and the concept of investing over generations across every communication. They are using social media channels in a way which talks directly to their stakeholders. As an example, their Instagram page asks "At Temasek, our eyes are on tomorrow. How do you think the world tomorrow will look like?" On the YouTube site, there is one video which particularly stands out using the conceit of a Singaporean drama to describe a tale of family hardship and how it's important to look towards the future.

CPPIB, the Canadian pension fund has charted a course which closely aligns how it invests with the interests of the Canadian people putting sustainable investing at the heart based on the belief that organisations which manage Environmental, Social and Governance (so-called 'ESG') factors effectively are more likely to endure and create sustainable value over the long term.

At some point the organisation also decided that it had a responsibility to look much further and beyond its own walls. They have joined forces with other sovereigns and created a number of platforms to promote long-term investing. One example is a stock index that identifies companies with strong balance sheets, good governance etc. There are other examples of forums which they have created in which to teach and exchange ideas about the principles of sustainable investing. These efforts are

communicated extensively across all stakeholder groups using a number of different channels.

What's the result of this type of communication and sharing of information? I would say that globally today, CPPIB is seen as an authority for sovereign funds on sustainable investing. This must have a measurably positive impact on them benefitting from the pick of investment opportunities; there is a definite halo effect of partnering with them and being invested into by them.

The CPPIB website states: "...we are an organization that is trusted around the world for our integrity and dedication to the highest standards of quality and professionalism." To me, that positioning is some way away from how traditional private equity businesses are often viewed by the media and yet they have very similar end financial objectives.

These two examples of large, established funds ably illustrate the power of a carefully considered communications strategy and are still very much applicable to what smaller, newly established funds need to consider.

Best Practice in Communications for Sovereign Funds

Building brand reputation and credibility takes careful crafting over time but can be destroyed very quickly. Under consideration for newer funds is that it takes time before investments can generate meaningful long term returns and even then, not all of them will achieve desired outcomes.

So, what could be considered best practice for making a brand stand out in the right way? Is it important to create more impact than the others? What if it is a smaller sovereign fund, how does it make sure it gets in on the 'good' deals and opportunities? Should it be getting involved in the local community in which it operates? How does it become appealing, an attractive partner for asset sellers?

There has certainly been a big movement towards transparency in the sovereign fund world as their growing influence in capital markets steps up. Also, by becoming more involved in the communities they operate in as a way of demonstrating that they care about the potential for impact – positive or negative. Explaining what they are doing and why, in a clear and transparent way, has moved to the fore.

With the above examples and considerations in mind, below is an outline of a five stage approach to establishing a clear communications framework.

Stage One: Identifying stakeholders and appropriate channels

The first step is to really think holistically about who your stakeholders are. When you look at sovereign funds, this typically means groups of people whose interests aren't necessarily completely aligned e.g. the investors, the investment community such as bankers, lawyers, co-investors; also the asset sellers and foreign governments, etc. The greater detail into which you can

segment your audience, the better understanding you will have on what's important to them, how to tailor your message, create content and decide which channels to use to disseminate your information. Think about how to best use social media to engage with a broader group of stakeholders on track record, etc.

Stage Two: Crafting the message

What do you stand for and what do you want to be known for? Brand Hong Kong, for example, has already looked at this in some detail and there is some fantastic language around Hong Kong's competitive strengths that could be applied to the Future Fund's communications – dynamic, entrepreneurial, strategically located, global connectivity, security and rich diversity, etc. In alignment with the competitive strengths, you then need to decide on a tone of voice, a look and feel.

Stage Three: Meaningful content

Then you need to look at the collateral you have available to you, identify any gaps, think about what you might need to create and how best to package everything in order to convey the message and achieve your desired positioning. Prioritisation and identifying risk are important components of this stage and testing the robustness of what you are planning in a safe forum.

Stage Four: Crisis preparedness

When you engage publicly it comes with risk and so it's important to be prepared to handle any eventualities. Most organisations will have a plan in place and will look at what the external and internal risks are to the fund and how they would manage an issue.

Stage Five: Measurement and evaluation

Outlining what you want communications to achieve and then making sure you are on track to deliver, with the facility to fine tune or change direction as you go through is integral to any communications plan. There are many tools out there that enable you to benchmark and demonstrate tangible results.

What can Hong Kong Look Forward to? Drawing Some Conclusions

There is no doubt that we are seeing greater transparency and recognition for more overt accountability and governance and this has led to a change in how many of these funds communicate.

You can't simply rely on an annual report or review anymore. You have to set out your stall, creating a clear rationale. You have to be seen to be active and present. Whether that's at a high level of sophistication and engagement in terms of communicating investment rationale, the role the fund plays in society or the position it holds in this environment of tremendous competition for assets or all three together.

As we've established, though it's not just about transparency, it's about securing good investment opportunities, being seen as a trusted partner. Sovereign funds are experiencing increasing levels of scrutiny, they aren't operating as traditional private equity when they invest internationally and they are often seen as the face of a country, a national symbol of success if you will.

The way to enhance and protect the 'brand' is to make sure there is a clear engagement policy in place that enables it to communicate objectives, deal with any issues and conflicts and ensure there is buy-in to its existence.

Overall, I believe that good communications plays a key role in securing their success over the long term. When it comes to Hong Kong, so much is in its favour, it is an established international financial centre, strategically located and globally connected, with a dynamic economy and an environment that fosters entrepreneurialism. Any newly launched fund has the opportunity to use communications as a very powerful tool to get across their purpose and proposition to their various stakeholder groups.

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