

# Sustainable secrets revealed

Demand for ESG products is soaring so where are selectors finding a good supply of compliant strategies and which areas are proving less fruitful? Can you name an outstanding ESG manager or strategy and what would you say is the one thing investors need to know when it comes to sustainability?



## Citywire Verdict

Margaryta Kirakosian  
European Correspondent

Despite the hype around ESG solutions, the choice on offer varies markedly between investment sectors. Fund selectors we spoke to said it is much easier to find strategies that meet their sustainability criteria in broad equity thematic sectors.

However, the alternative Ucits sector seems to be behind the curve in this market. Fund analysts said a lot of the strategies in this space trade within short periods of time, which prevents them from adopting a long-term horizon – a prerequisite for making an impact where sustainability is concerned.

Geography also makes a difference and the US in particular appears to have slim pickings for ESG-hungry investors. This sentiment is echoed in our editorial

office in New York where staff confirmed the lack of interest in sustainable investments in the country. The most recent global studies from LGT Capital and UBS have also demonstrated that American investors are less interested in sustainable solutions than their European counterparts.

Europe certainly seems to be leading the charge on sustainable investment strategies. In addition there seems to be a consensus among fund selectors that a sustainable investment approach results in better returns and if you hop on the wagon now, you are likely to be a long-term winner when it comes to performance.

Read on to find out where a panel of experts are finding the best ESG opportunities and where they feel more could be done. You'll also find specific fund recommendations and the lowdown on how investors should approach this fast-growing, slow-burning market.



## BUYERS' VERDICTS



### Tommy Piemonte

 **Bank für Kirche und Caritas**  
Germany

Today, nearly every asset manager has an ESG product or claims to integrate ESG factors or other SRI strategies into their investment process. Generally, we welcome this development as a sign that a growing number of mainstream fund managers realise the positive impact of ESG factors on portfolio risk return profiles and are contributing to a more sustainable world. However, the large supply of ESG-branded products makes it increasingly difficult to distinguish between greenwashing and truly sustainable strategies.


As a Catholic Church bank, it is essential for us that ESG products comply with our strict sustainable investment guidelines. Saying that, it is easier for us to identify acceptable strategies within the broad equity space – other asset classes or niche equity markets are more challenging in that regard.

Our sustainable investment guidelines consist of three components which are also an integral part of our own investment funds: strict exclusion criteria, a positive and negative criteria filter (including best-in-class and worst-in-universe), as well as engagement activities which comprise material ESG issues and purely ethical matters.

One strategy we favour which measures up to our standards is the **Ökoworld Growing Markets 2.0** fund.



### Edmond Schaff

 **Sanso Investment Solutions**  
France

Global, thematic and eurozone equities are three market segments where you find a variety of ESG-compliant strategies, some of which offer attractive risk-return profiles and convincing SRI processes. The number of emerging market and credit ESG strategies has

also increased substantially over the last few years. Conversely, if you look at US or Japanese equities or high yield, you will have few options to choose from. Absolute return is also a market segment in which the offer is quite limited but, even though there may be technical limitations to the integration of ESG in these strategies, we note a growing interest from some managers in these areas.

The **WHEB Sustainability** fund, a global, sustainability theme-oriented equity strategy, managed by an SRI-dedicated British investment boutique, is one of our favourite SRI strategies. Their SRI approach is deep-rooted and demanding. Year-to-date they have managed to outperform the MSCI World index without holding Apple, Amazon or any other FAANG stock, which is no easy task. We also recently invested in the **Wellington Global Impact** fund and the **DPAM Equity NewGems Sustainable** fund. We were positively surprised by the authenticity of the SRI approach of the first

## BUYERS' VERDICTS

one and convinced by the manager's ability to find 'gems' for the second one.

All investors should keep two points in mind when selecting an ESG manager. First the ESG / SRI policy can vary substantially from one manager to another so make sure you fully understand the implemented process. Last but not least, investors should check the selected manager appreciates the value-added of ESG and does not see these criteria as a constraint or burden, otherwise it may be detrimental to performance.



**Pierre DeGagne**



**DBS**  
**Singapore**

We believe a properly structured

ESG portfolio allows investors to align their investments with their values while also searching for profitable companies that can outperform the broader market benchmark. We've seen some evidence that companies with high ESG ratings tend to show higher profitability, higher dividend yield and lower idiosyncratic tail risks – they also tend to show less systematic volatility, lower values for beta and higher valuations.

While our ESG offerings are relatively new, they have so far attracted strong interest from investors. We will also be running programmes to raise greater awareness of ESG investing benefits among our clients. There are three funds we particularly favour in this area. The **RHB SRI KEHATI Index** fund is suitable for investors who wish to invest in a local companies portfolio based on the principles of responsible investment. Meanwhile, the **Wellington Global Impact** fund is a global equity strategy that seeks long-term total returns by investing in innovative companies around the world, whose core businesses address the world's major social and environmental challenges. Finally, the **Parvest Global Environment** fund is largely an industrial technology fund focused on environmental themes such as water waste, alternative energy, waste management and technology, and sustainable food.

In addition to offering these funds to our clients, DBS played an active role in launching the Women's Livelihood Bond last year – the world's first social sustainability bond to be listed on a stock exchange. The \$8 million bond provided micro loans to over 385,000 women in Southeast Asia. Investors benefited from a coupon of 5.65%, with first loss and pro-rata guarantees in place.



**Antonio González**



**Renta 4 Banco**  
**Spain**

We appreciate that ESG

managers are developing more efficient and objective processes to gather the most suitable investment opportunities. However, there are no universal criteria for ESG and this makes it difficult to compare asset managers.

Within our analysis, we value companies that use external data from an independent specialist in this field and we also like to have a transparent view of investment methodology in order to identify true ESG leaders, as well as laggards.

In our due diligence we require detailed information about the ESG team, how they interact with the fund manager and how they have been involved in the latest investment decisions. We also look for different information depending on the asset class. For example, in emerging market debt, we would expect the management team to be more sensitive to countries' politics, which includes the quality of the country's democracy, social policies, human rights and legal system.

An example of a good investment fund in this area is the **DPAM L Bond Emerging Market Sustainable** strategy. The management team divides countries into three groups (free, partially free and not free) according to the NGO's Freedom House ranking. Any 'not free' country that is also considered as 'authoritarian' in The Economist's Democracy index will be excluded.

Elsewhere, in the market for fixed income green bonds we like the **Parvest Green Bond** fund, where the investment managers get involved in following the project to make sure it is dedicated to reducing or mitigating climate change.

Our conclusion is that an ESG approach is key to any investment in the future. This is not a guarantee of better short-term results but it often brings rewards in the long-term, apart from the personal satisfaction of contributing to a better world.



**Ismael García**



**Mapfre Inversión**  
**Spain**

Winning sustainable investment strategies have ESG analysis integrated into the decision-making process. Most fund managers have shifted their stock-picking approach away from negative screening towards the inclusion

of companies scoring well on ESG issues. As a consequence, a wide range of equity funds is available for investors who believe that ESG analysis leads to a better risk/return profile.

In this market we favour asset managers with a wide range of ESG strategies such as La Financière Responsable, a French boutique that has won awards for the proprietary SRI methodology it implements across all of its funds.

Fixed income, on the other hand, still has a long way to go, although interesting strategies are emerging, such as green bonds.

Elsewhere, there has been a rapid growth of thematic sustainable funds in the last few years as investors have become more aware of the challenges we are likely to face in coming decades such as climate change, the ageing population, and rising inequality. The Sustainable Development Goals set by the United Nations are gaining ground among asset managers and impact investing is also taking off, but there aren't many reliable strategies to choose from in this area yet.

One thing is clear: ESG is here to stay.

Statistical evidence is growing in support of ESG integration in terms of performance over the long term. Therefore, as selectors, we try to identify the best ESG managers, while avoiding more doubtful or underdeveloped strategies.



**Ricardo Líbano**



**Grupo CIMD - Gestão de Activos**  
**Portugal**

Demand for ESG products is

becoming more apparent in Southern Europe. The theme is set to become a growing trend in fund management for years to come and fund selectors can't ignore the fact that many outperforming managers are embracing ESG in their investment processes.

The long-only fund management space offers plenty of ESG-compliant strategies but this is much more common in equity markets than fixed income.

Standout fund houses in this field include Robeco, Candriam and Sycomore, which have all cemented their position over the years as promoters of ESG-compliant strategies.

Every investor needs to grasp that ESG is not an obstacle to investment, but is instead a complementary framework which will help our industry evolve and meet the challenges we face.

## BUYERS' VERDICTS



Davide Alfano

Kaleidoscope Capital  
UK

The demand for ESG products is certainly soaring and this is a trend we have observed for a while. It is a positive development for the whole financial industry, and its benefits to the broader social and economic system are undeniable.

We have been exposed to the theme since our early days and supported clients particularly in the analysis of less liquid investment solutions and funds.

The key challenge when investing in the ESG space is to find a good trade-off between the decision to invest in a sustainable way and the need to provide a satisfactory performance for your clients. The aim is to select opportunities that are rewarding both from a performance and an ESG perspective.

We like impact investing and any sector/theme characterised by a positive social outcome, but also by a pattern of growth able to support a rewarding rate of returns.

Biotech and life science is a space where we are actively exposed which provides plenty of opportunities. This market has a defined growth pattern and there is a strong differentiation between winners and losers. Selecting the right fund manager and specialist is crucial and requires an open mind. You also need to be nimble enough to take advantage of investment opportunities when they occur. The **Rhenman Healthcare Equity L/S** fund is a good example of a fund we identified in the ESG space early on.



Natacha Guerdat

Conser Invest  
Switzerland

The number of ESG strategies is rising rapidly to meet the increasing demand. Currently our proprietary sustainability fund database classifies more than 1,400 funds across all asset classes meeting these criteria and there are at least a dozen new funds launched every quarter.

Despite this growing market there is a poor choice of conviction funds in the US, although there are some very interesting products in the small and mid-cap space.

We have been early investors in Sycomore Asset Management strategies, both within equities and bonds. This group is a good example of one that understands how ESG

adds value to an investment process. Every fund manager contributes to an ESG information pool which is then integrated into their fundamental views. This high level of in-house fundamental research fits perfectly with the company's mid-cap bias.

When selecting ESG strategies, the first and most important step is to define what you are looking for. Risk mitigation, positive impact or high conviction are a few examples of what is available when ESG is added to an investment philosophy. The assessment of these different strategies will vary in terms of process and what the final portfolio looks like. This understanding enhances our portfolio construction as it improves the diversification.



Silvia Ferrero

Sacmi Imola  
Italy

The increased demand for investments that meet ESG criteria is now a consolidated trend, so much that, according to a JP Morgan survey, 84% of institutional

investors pursue, or are considering pursuing, the integration of ESG strategies into the own investment process. The reasons are partly ethical, especially for the new generation of millennial investors who are more sensitive to social issues. However, the key to increasing the use of these instruments is a change of approach: they should not be considered only as a risk mitigation tool but as a way to build sustainability into the business model over time to create a profitable and lasting investment theme. When we talk about infrastructure, tech or energy efficiency, we cannot ignore ESG criteria. However, it

is necessary to provide investors with better tools to assess the link between ESG criteria and long-term investment performance, and often companies still lack transparent, standardised and good quality data. The financial industry needs to change its culture and raise standards but it also needs to help investors become more aware of ESG strategies and how they work. In my experience, Natix Investment Managers has proved to be a very important partner in helping us understand and develop these issues.



## SPOTLIGHT ON SELECTORS' PICKS



Hubert Aarts is Citywire + rated and runs several sustainable strategies at Impax Asset Management including: Parvest Global Environment Classic Cap, Impax Environmental Leaders, NEI Environmental Leaders Series, Pax Global Environmental Markets and BNP Paribas Environmental Equity Trust. Aarts joined the firm in 2007, although his longest-serving sustainable strategy, the Parvest Global Environment Classic Cap, was only launched in 2012. Aarts is co-head of listed equities and is also in charge of several water-focused funds.

## SELECTORS' FAVOURED FUNDS

FUND	MANAGER	CITYWIRE RATING
DPAM Equities NewGems Sustainable	Alexander Roose	n/a
DPAM L Bond Emerging Market Sustainable	Michael Vander Elst, Carl Vermassen	n/a
Ökoworld Growing Markets 2.0	Alexander Mozer, Felix Schnella, Alexander Funk	n/a
Parvest Global Environment	Hubert Aarts	citywire +
Parvest Green Bond	Arnaud-Guilhem Lamy	
RHB SRI KEHATI Index	Kong Qian Liew	
Rhenman Healthcare Equity L/S	Henrik Rhenman, Susanna Urdmark	n/a
Wellington Global Impact	Eric Rice, Patrick Kent	n/a
WHEB Sustainability	Ted Franks, Ty Lee	n/a