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ACTIVELY CONNECTING SUSTAINABILITY TO OPPORTUNITY

Climate Change, Gender Equality and Proven Profits to Actively Connect Sustainability to Opportunity

Environmental, Social and Governance (ESG) investment initially developed as a series of makeshift responses to global warming, social upheaval and corporate corruption, and up until about a decade ago remained a niche business for asset managers and investors.

Key figures from the Investment Managers 26-company network told investors and asset managers gathered in Tokyo recently that this niche is going mainstream and can actively connect sustainability with business opportunity.

Kinji Kato
Head of Japan and North Asia
Natixis Investment Managers

"Today, there is greater awareness and appreciation for ESG issues," says Kinji Kato, Head of Japan and North East Asia, Natixis Investment Managers.

This clearly includes doing good, while making good on investments. "According to a 2016 survey, some 78% of US defined contribution plan participants say it's important to make the world a better place while growing their personal assets," Kinji Kato says.

Investment Managers has been a trail blazer in applying ESG principles to investment opportunities.

Fabrice Chemouny
Head of APAC
Natixis Investment Managers

"We were the first to create a dedicated subsidiary to inform investors regarding ESG, and 89% of assets under management managed by our affiliates have clear investment policy statements regarding ESG," says Fabrice Chemouny, Head of Asia Pacific.

Philippe Zaouati, Chief Executive Officer of Mirova, a Investment Managers affiliate dedicated to socially responsible investing, served on a high-level expert group established by the European Union in the wake of COP 21 in 2016, and was instrumental in making recommendations on how to integrate sustainability over the whole spectrum of financial regulation in Europe.

ENGAGE FROM A BRAND NEW POINT OF VIEW

At Natixis Investment Managers, we practice Active Thinking.℠ It's our insight-driven approach to active management. It balances diverse opinions, deep data, and detailed analysis to uncover new opportunities and deliver unconventional perspectives to help support your strategy.

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NATIXIS INVESTMENT MANAGERS

Philipp Zaouati
Chief Executive Officer
Mirova

"All life insurance firms are now required to offer their clients insurance contracts that include at least one green or sustainable product," he says. "In other words, they are putting this product on the shelf, and this is important, because when you put the product on the shelf, you get feedback from the public."

Mirova helped expand ESG-driven investment opportunities by creating one of the first Green Bonds in 2015, and in early 2018 drew up a Green Incentive – a green supportive factor, providing an incentive for investment bankers to make loans or invest in Green Assets.

Philippe Zaouati forecasts 160 billion euros in new Green issuance in 2018, and sees the deepening of the market leading to more business opportunities for asset managers and investors.

Globally the opportunities are even bigger, according to David Rolley, CFA, Vice President, Senior Portfolio Manager, and Co-head Global Fixed Income at Loomis Sayles.

G20 and the OECD estimate that in order to meet sustainable climate goals by 2050, it will be necessary to spend USD 100 trillion with current technology.

"That's 3.5 trillion per year – that's trillion with a T! That is a lot of Green Bonds," David Rolley says.

Gender Issues

In Japan, interest in ESG-based investment soared after the Government Pension Investment Fund – reputed to hold the largest pool of retirement savings in the world – selected three ESG indices for Japanese equities in 2017.

Still, despite these funds including a thematic index aimed at empowering women, Japan continues to lag the pack in gender equality – an important ESG area.

While almost 18% of Fortune 1000 companies in the US include women on their board of directors, figures for 2015 suggest the equivalent Japanese figure may be as low as 3.5%.

Gender issues are important for the average company, and David Rolley, CFA, Vice President, Senior Portfolio Manager, and Co-head Global Fixed Income at Loomis Sayles says, "It reflects the permanent value of companies, and all this has to be reflected in how you think about this corporation when you go to lend them money."

David Rolley
VP, Porfolio Manager
Loomis Sayles & Company

Philippe Zaouati and Mirova view gender diversity as being extremely important, and they aim to create business opportunities by launching investments connected to women in companies. "We are trying to invest in companies that promote women and are also well managed," Philippe Zaouati says.

The links between investment policy and ESG can be traced to the Principles for Responsible Investment hammered out by the United Nations in 2006.

There are six principles in total, which include incorporating ESG issues into investment analysis and decision-making processes, and seeking appropriate disclosure on ESG issues from clients.

Loomis Sayles is responsive to PRI, with all six principles incorporated into day-to-day practice, David Rolley says.

"We consider ESG principles when we consider investments. When we talk to companies, we act like owners. We consider how we vote on issues that affect the future," he says. "We should always think about the world we want our children to live in. We should run our companies and design our regulation for them. Not for us!"

David Rolley is equally aware of the opportunity cost of not being involved in ESG-driven investment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTING:

Doing good while doing well

Millennials and pension funds drove a 37% increase in sustainable assets to $445 billion in 2017[1]

Around 90% of relevant studies demonstrate a non-negative correlation between ESG principles and stock price performance[2]

68% of global institutional investors believe active management is better suited to implementing ESG strategies[3]

84% of Asia Pacific investors are integrating ESG strategies into their investment decisions[4]

71% of individual investors believe it is important to know their investment is doing social good[5]

1 bloomberg.com/professional/blog/sustainableinvesting-grows-pensions-millennials/
2 tandfonline.com/doi/pdf/10.1080/20430795.2015.1118917
3 im.natixis.com/docs/302/730/Natixis%20Institutional%20Investor%20Survey_Outlook%20for%202018_Final,0.pdf
4 eco-business.com/news/asia-pacific-investorstake-the-lead-on-esg-integration/
5 From Natixis event slides (slide 29)

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"As an investor, we have always considered ESG issues when we have constructed portfolios. How could we not? Think about the tail risks that a mistake in any of these areas would involve, and think about the impact on cash flows and traditional credit ratings from serious governance mistakes."

Frederic Nadal
Chief Executive Officer
MV Credit

Rapid Reactions

In order to lock in opportunities as they arise, asset managers are also likely to be required to become increasingly nimble in the future.

Frederic G. Nadal is Chief Executive Officer for MV Credit, a private lender of more than €5 billion in almost 500 debt financing solutions over its 18 years of existence.

He highlights the need for increasingly speedy reactions to changing needs in the wake of the Panama Papers that detailed how offshore investments were being used to bypass tax requirements in numerous countries.

A major Norwegian pension fund contacted MV Credit soon after the scandal broke, and directed Frederic Nadal and his team to divest from all offshore investments.

"This decision came within 48 hours of the event. I believe people are going to react more rapidly in the future, and it is critical to anticipate those ESG needs," he says. "Scandal after scandal is putting pressure on government to produce new regulations, and while changes can take time, they can also happen overnight."

Minako Takaba
Vice President,
ESG Research
MSCI

Proven Profits

For potential investors the ultimate questions is, "Where is the profit in ESG investment?"

Over a period from early 2007 to early 2017, MSCI compared strategies that overweighted portfolios tilted to high-rated companies, while underweighting lowly rated companies – referred to as a tilt strategy – with those that overweighted firms where ESG rating had risen in the past year, and underweighting those that had fallen – referred to as a momentum strategy.

The results were striking! However, both of the strategies had positive active return.

Active returns for the tilt strategy were 1.06%, while those for the momentum strategy were more than double at 2.23%, showing that firms capable of improving their ESG rating were better investments.

"Momentum is a new key word as a signal," says Minako Takaba, Vice President of Research at MSCI.

Natixis Investment Managers and its multi-affiliate model:

A singular business model designed to serve our clients

We believe in active management. Built on a global platform of independent managers with a broad spectrum of capabilities, we offer more than 200 investment strategies. Bringing together diverse opinions and specialties helps us better address your needs and solve your unique challenges.

Three of our affiliates at the Natixis Investment Forum:

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