MANAGER POINT OF VIEW

Serious about sustainability

It is likely that the composition of tomorrows stock market indices will look very different than they do today. In the years to come, there'll be less demand for fossil fuels, continued demographic change and ever more scrutiny of environmental, social and governance-related responsibilities. Companies will need to adapt their business models and practices if they are to stay competitive. And some are already making great strides in the right direction.

Jens Peers, CEO & CIO of Mirova US and manager of the Mirova Global Sustainable Equity Strategy, reveals how nearly two decades of thematic and environmental investing have helped hone his skills in identifying the companies that are transitioning towards the future.

Jens Peers
CEO, CIO & Portfolio Manager
Mirova US

You're the CEO of Mirova US and living in Boston. Where did it all start for you?

I was working for a Belgian bank, KBC, at the beginning of my career, which also had an asset management business. They hired me as a financial analyst.

We were working together with an Irish team and, at the time, there were a number of common projects. Ultimately, KBC asked me to move to Dublin to further develop their thematic strategies from Dublin.

Towards the end of the 90s there was a lot of talk about technology and the 'next generation'. In contrast, there was also growing awareness of demographic changes in the developed world and KBC had launched a fund focused on investments related to an ageing population. In addition, there were also strategies related to water and alternative energy, as well as financial themes like IPOs and buybacks.

Although the strategies proved very successful, a lot of the growth came through performance rather than inflows. I witnessed competitors emerge and raise millions and sometimes billions with a shorter or less compelling track record than ours.

In the mid-2000s, I went with a business plan to my senior management at the time which effectively said, 'Listen guys, if you're serious about becoming a world leader in thematic investing, we need to build a dedicated team around that'.

So we built out a thematic team which very quickly began to focus purely on the environmental side of those themes. We launched an agricultural strategy, as well as a climate change strategy and a multi-environmental strategy.

Fast forward 10 years and, one day, I received a call from Philippe Zaouati [CEO of Mirova France], who I had met on several occasions. He asked me whether I'd be interested in joining the new sustainability branch of Natixis, which a few months later was renamed Mirova. I accepted and moved to Paris.

What interested you about Mirova?

For me, it was an opportunity to broaden out from pure environmental investing, especially given I had past experience managing demographic strategies as well.

The way I saw it, there were so many opportunities to bring a range of themes together in a single portfolio fund. Instead of being a satellite allocation, I felt that such an investment strategy could have its place in the core of an investor's portfolio.

However, for this to work it would require the support of a large team of analysts and portfolio managers covering a wide range of areas beyond just environmental equities. This was exactly what Mirova had to offer in addition to the global reach of the Natixis organization as a whole.

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You launched Mirova's Global Sustainable Equity Strategy in 2013. How do you go about identifying suitable investment candidates for the strategy?

We do a lot of research. We talk to people, we talk to companies. We make sure we're surrounded by good people in our own company as well. We're one of the few houses to have a dedicated ESG team that's been together for so long.

What we're looking for is the speed at which various companies are transitioning their businesses toward the future. We see a world where the demand for fossil fuels will be in decline.

It's a world undergoing continued demographic change, be it population growth or urbanisation. And it's a world where corporate governance and corporate social responsibility come under increased scrutiny.

We try to find companies that have identified trends such as these early, and that are among the first movers within their peer group. Then we then try to identify the laggards.

And finally we connect the dots. There's no magic formula to it, unfortunately.

Can you provide examples of companies that have been successful at doing this in the past?

An example of a company getting this right is Danish Oil and Natural Gas, or DONG as it used to be referred to. A decade or so ago, DONG decided that climate change could seriously threaten its business model over time.

It embarked upon a radical repositioning, moving away from coal and divesting its upstream oil and gas businesses. During this transformation, it discovered that the skills and methods required to build offshore oil rigs could also be put to use in the development of offshore wind farms.

Fast forward to today and it is now the world leader in offshore wind farm development. DONG transformed itself so significantly that it is no longer active in oil or natural gas and therefore changed its name in 2017. It's now called Ørsted – after Danish physicist and chemist Hans Christian Ørsted who discovered electromagnetism in 1777.

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There's somewhat of a transition taking place in the asset management industry, as more and more firms explicitly adopt ESG practices and launch ESG-related funds. How is Mirova adapting?

As a company whose 'raison d'etre' is about creating a positive impact, we've been forced to ask ourselves whether the rise of more mainstream managers positioning themselves on the topic of ESG is a good or a bad thing.

I think on the one hand it's positive because it helps raise awareness for companies like ours. Even though many of these companies may have much deeper marketing pockets than we might.

But just like the water strategy I was managing back in the 2000s, at the time it probably would not have grown as much as it did if it wasn't for some big competitors spending a lot of Euros bringing attention to water as an investment opportunity.

That said, there's a big risk of 'greenwashing', even though I very much dislike the term. It is important to make sure that people understand what the different degrees or different approaches are to ESG so that they can compare apples to apples. And that's something I feel is still missing in the market.

Do we need to evolve our business model as a result? The way I see it, historically 5-10% of investors wanted to be more sustainable than the average. As the rest of the market begins to move in their direction, they may feel the need to become increasingly more extreme.

For those clients we have a range of solutions, from Amazon rainforest preservation strategies, ocean clean-up strategies or land degradation strategies.

We're continuing to develop new, innovative opportunities that push the boundaries in this area. But we also have strategies for investors that simply want to become more sustainable and impactful in their existing equity or fixed income allocations. And we have strategies in areas that sit somewhere in between such as green bonds.

So, while we don't need to pivot our business model in the way DONG did, we're certainly focussed on remaining a leader, not a laggard.

Written in December 2019

To learn more:
Visit: im.natixis.com/sg

Additional Notes

The Mirova Global Sustainable Equity Fund (The 'Fund') is a sub-fund of the Luxembourg SICAV Mirova Funds, authorized by CSSF. Mirova US has been appointed as Delegated Investment Manager of the Sub-Fund pursuant to an investment management delegation agreement entered into with the Management Company, with certain employees of Mirova providing services to Mirova US according to an agreement in place with Mirova.

RISKS: The specific risks of investing in the Sub-Fund are linked to : - Capital loss - Equity securities - Global Investing - Exchange rates - Changes in laws and/or tax regimes - Portfolio concentration - Small and Mid and Large Capitalization Companies - Emerging markets

The Global Risk Exposure of the Sub-Fund is managed through the use of the "Commitment Approach" method described under "Use of derivatives, Special Investment and Hedging Techniques" - "Global Risk Exposure". For a complete description of these risks, please refer to the Product Highlights Sheet and to the chapter entitled "Principal Risks" in the prospectus. This same chapter also describes the other risks linked to an investment into the Sub-Fund.

The Fund has been recognized under the Securities and Futures Act, Chapter 289 of Singapore, and Ostrum Asset Management Asia Limited is appointed as its Singapore Representative and agent for service of process.

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