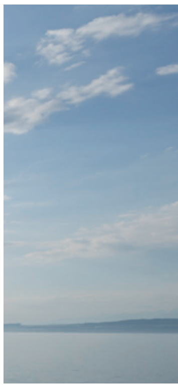
BANQUIERS DEPUIS 1815

Analyse
June 2019

Impact investing: the logical next step



Valentin Girard
Portfolio Manager
vgirard@bonhote.ch

Bonhôte Group news

PROMOTIONS AND NEW HIRES

After more than 15 years with the Bonhôte group, Julien Stähli, aged 43, has been promoted to Deputy Director and is now Head of Discretionary Asset Management. He will lead the team in charge of managing funds and portfolios under asset management mandates.

In Biel, Daniel Schärer has joined our branch as private client manager. Aged 46, Mr Schärer is a seasoned wealth management professional, holds a Swiss federal diploma and is a qualified bank economist.

BONHÔTE-IMMOBILIER

Marketing has begun for 15 apartments with a beautiful view on the lake of Neuchâtel, featuring Minergie® environmental accreditation, following the completion of structural works, close to all amenities and ideally located at 119 rue des Saars in the eastern part of Neuchâtel.

The flats and are now available to buy. Future owners will enjoy generous accommodation, with three or four bedrooms and floor areas ranging between 155 m2 and 160 m2, and will be able to move in from spring 2020.

People are becoming more and more aware of the extent of the environmental and social issues the world is facing. As a result, investors are showing increasing interest in socially responsible investments. Impact investing, which covers traditional asset classes such as bonds and equities as well as segments such as microfinance, ranks highly in terms of sustainability and its popularity is growing rapidly.

Monday 20 August 2018 was the day Swedish children went back to school after the summer holidays. But one girl went on strike and staged a protest outside Sweden's parliament, the Riksdag, instead. Her aim was to end the government's inaction in tackling CO2 emissions produced by human activity. Her message: "We will never stop fighting for the planet, for ourselves and for the future of our children and grandchildren." Her story and her name are now known all over the world. Greta Thunberg, aged 15, now speaks at high-profile events such as COP24 and the WEF in Davos.

People around the world are now becoming aware of the extent of the challenges we face, and environmental and social issues are all around us. More and more people are living their lives in a socially responsible way by trying to limit their carbon footprint. Reducing air travel, sharing car journeys, recycling waste and being careful not to waste water are changes that people are trying to make in their everyday lives, mainly in order to live more sustainably. Many investors want to take such initiatives further and apply the same discipline to their investment portfolios.

Promoting sustainability

Socially responsible investing is therefore of increasing interest to investors. Initially, the only distinction between sustainable and traditional portfolios was that the former excluded sensitive sectors such as arms, tobacco and alcohol, using a "negative screening" approach. Next, companies were rated on the basis of environmental, social and corporate governance (ESG) criteria, allowing investors to focus on stocks with the highest ratings ("positive screening").

Today, impact investing ranks even more highly on the sustainability scale, and is a logical next step (Fig. 1). The aim

IMPACT INVESTING: THE LOGICAL NEXT STEP

is to generate positive environmental and social impact. This fits perfectly with the Sustainable Development Goals (SDGs) adopted by the United Nations in 2015 as part of COP21 in Paris. The 17 SDGs aim to eradicate poverty, protect the planet and achieve better living conditions for all. However, to qualify as an "impact" investment, an investment must have a quantifiable effect. However, because the available data is not standardised, the investment process involves a large degree of qualitative analysis.

Impact investing can cover traditional asset classes such as bonds and equities as well as segments such as microfinance. Unlisted equities and private debt offer more targeted impact, but lower liquidity.

Example: green bonds

Green bonds are a good example of a high-impact, liquid investment. They have exactly the same characteristics as traditional bonds: they pay a periodic coupon, have a defined lifetime and repay the principal on maturity. The difference is that the money raised through issuing green bonds must be allocated to projects that have a positive impact, such as financing solar or wind farms. An annual report is produced to provide information on the progress of those projects. The green bond market is growing (Fig. 2) and now offers greater diversity in terms of issuer types.

Microfinance ticks many boxes for investors who want their money to have a positive impact. Microfinance institutions (MFIs) grant loans to directly to the end users of the funds, mainly in emerging-market countries.

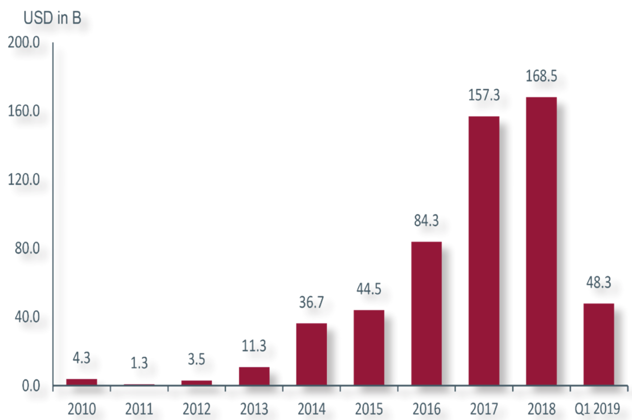
Growing interest in impact investing is leading to an increasing number of investment vehicles. However, it is vital to sort the wheat from the chaff and avoid "greenwashing", i.e. investment projects or vehicles that are misleadingly labelled as green or socially responsible.

While a traditional portfolio is usually put together in order to achieve an optimal risk/return profile, sustainable finance adds another dimension, taking into account the portfolio's social and environmental impact. Empirical studies show that returns from sustainable investments are entirely comparable with those of investments that are not managed with sustainability as a key objective.

Fig. 1. Sustainability scale

Source: Banque Bonhôte & Cie SA

Fig. 2. Green bond issuance (USD bn)



Source: Climate Bonds Initiative

"INDUSTRIE 4.0 - THE SHAPERS"

AWARDS CEREMONY

WEDNESDAY, 12 JUNE 2019 - GRAND HÔTEL SUISSE MAJESTIC - MONTREUX

Photos : Thierry Parel