

Sustainable investments for sustainable returns

Topic of the month July 2019

by *Pietro Leone, NEUE BANK AG*

For many investors it is no longer sufficient for their assets to be managed exclusively within the framework of an investment strategy that takes into account return and risk indicators. Socially responsible investments are becoming more and more popular.

An increasing number of investors want to know and participate in deciding which products are manufactured with their capital, but above all which are not. The triangle consisting of the economic criteria of return, risk and liquidity is supplemented by a fourth component of sustainability. For ethical and moral reasons, investments in certain sectors, such as energy companies (nuclear and coal-fired power plants), armament companies or even values from the mining, tobacco and gambling sectors, are not made.

A widespread approach that providers of sustainable investments use is the exclusion criteria to exclude representatives from sensitive sectors from the universe of possible investments. In addition, other approaches are usually used. Rating and research agencies evaluate the remaining companies on the basis of positive criteria. Environment Social Governance (ESG) is an established term in the industry. In addition to ecological aspects, social aspects and the type of corporate management are also evaluated. This means that the companies remaining in the universe do not have to be exclusively "eco-companies". The idea is to invest in responsible companies that, measured against the ESG criteria, are highly sustainable.

The majority of sustainable investments are now held by institutional investors (pension funds, insurance companies, etc.). The rising demand is due from outside pressure, such as non-governmental organisations (NGOs), the media and trade unions. But private individuals are now also becoming more interested in ensuring that their pension contributions are invested in accordance with sustainable criteria. Boards of trustees of charitable foundations are also increasingly confronted with the question of how the assets of these foundations should be managed in future.

Charitable foundations often have the task of making a lasting impact with their funding. Thus, it is only consistent that no criteria that would conflict with the purpose of the foundation is applied in the investment of assets. A sustainable investment policy can avoid contradictions and reputational risks. If, for example, the cancer league were to pursue a conventional investment strategy, it would be very likely that bonds or shares of tobacco companies would be in the portfolio. If such incompatibilities became known, this could pose a threat to the inflow of donations. The already positive growth trend of sustainable investments in recent years has been accentuated once again. Despite the strong growth, sustainable investments are still often associated with weak returns. Many investors are still skeptical, although various studies prove the opposite. A scientific study commissioned by NEUE BANK AG also clearly confirms the connection between economic success in the form of a higher return than a global share index and sustainability.



NEUE BANK AG has been offering its PRIMUS-ETHIK asset management strategy since 2009. With PRIMUS-ETHIK, investors have the opportunity to include environmental and social considerations in their investment decisions in addition to financial aspects. They make their capital available specifically to those companies that play a pioneering role with regard to sustainability. Which does not have to do with performance: From 1.1.2009 to 30.06.2019, the mandate achieved a cumulative return in USD of 203.30% or 11.15% per annum. This means more than a tripling of fixed assets in just over 10 years. Compared to the benchmark (Dow Jones Sustainability World Index, cumulative return 130.63%, per year 8.28%), an additional return of 72.67% was achieved. The peer group (cumulative return 131.03%, per year 8.30%) - consisting of the best-known sustainable global equity funds from Liechtenstein and Switzerland - was outperformed by PRIMUS-ETHIK by 72.27%.

Despite the obvious advantages of sustainable investments, it should be noted that not all asset classes are available as part of the asset allocation. Hedge funds or commodity investments have long been used for diversification, especially by institutional investors. While there are only a few providers of hedge funds that follow ESG criteria, the use of commodity investments can be classified as tricky. Commodity extraction often takes place under critical working conditions. For this reason, sustainable mandates are often designed more simply than standard solutions. Independent providers without their own products, such as NEUE BANK AG, tend to use funds in doses, especially for larger mandates, which benefits cost transparency and thus performance. In this sense, the asset management strategy PRIMUS-ETHIK is not only interesting for investors who wish to have their assets managed according to the criteria mentioned, but also represents an extremely sensible alternative for all other investors due to the positive characteristics already mentioned.



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About NEUE BANK AG

NEUE BANK AG started operations on 1 July 1992 as the fourth financial institution in the Principality of Liechtenstein. As a classic private bank, we refrain from developing our own products and concentrate entirely on the interests and needs of our clients. We offer them a comprehensive individual service in asset consulting and management, geared to high quality standards. In addition to the advantages of Liechtenstein as a financial center, our clients can also benefit from the Bank's experience and future-oriented orientation. Sustainability and a sense of responsibility characterize our actions in this respect, as does the personal character of our dealings with our clients. With around 70 employees, we are in a position to act very flexibly and design individual solutions. As the fourth-largest bank, we are now a permanent fixture in the Liechtenstein banking center and also established abroad as a renowned private bank.

Further information can be found at www.nachhaltiginvestieren.li