



Sustainability taking center stage

Exploring Alternative Investment (AI) opportunities in Sustainability

Topic of the month December 2012

Investors are facing stiff headwinds and fundamental challenges to their investment strategies. Governments seeking to keep their economies going despite huge budget deficits, increasing national debt and economic inequality are flooding markets with massive amounts of money. At times they are changing laws in ways that essentially challenge the principle of guaranteed ownership. As a result many perceive the financial system, a human creation, to be out of control.

At the same time, the physical challenges facing the world are increasingly apparent. The importance of safeguarding vital resources - from water and food, to energy and minerals - is at the center of the global agenda. As climate change accelerates and biodiversity is reduced, our planet's ecological equilibrium appears to be at stake. Addressing these challenges will create new industries, dislocate others, and involve enormous amounts of capital. Has Sustainability ever been more crucial to investors both as a risk management tool and as an investment opportunity?

Alternative assets have a lot to offer, but there are investment barriers

Sustainability has clearly become a decisive value driver in certain investment areas, especially those related to resource scarcity. Attractive opportunities with a theme focus particularly exist outside listed securities. Examples include energy efficiency and clean energy in private equity and infrastructure, or green real estate. Investors in agriculture or timberland recognize that biological growth is a key value driver that contributes to wealth preservation, inflation protection and portfolio diversification objectives.

While the opportunities in Sustainability investment are clearly large, they are also complex to evaluate. Some large pension institutions, sovereign wealth funds, and insurance groups have built special in-house sector expertise and execution capability. They are motivated by the fundamental attractiveness of these investment themes and the benefits of diversification and lower correlation, real asset exposure and (partial) inflation protection. The presence and approach of these leading investors carry an important message, namely that Sustainability AI themes form part of the solution to address the investor challenges mentioned above.

Outside this small group of leaders, a large number of institutional investors are either unable to access this opportunity, or do not have the skills and resources to evaluate them. Some recognize they do not have the specific expertise, experience and access to deal flow. Building an in-house team is often not a solution because it takes time, and qualified talent may be scarce and expensive. In addition, their Consultant may not possess the specific sector knowledge and typically requests long-term historical data that do not exist. Consequently, these investors decide to forego this opportunity. Others receive investment propositions that are being aggressively marketed, but which may or may not be most attractive or suitable. They may decide to make an opportunistic investment without rigorous due diligence. Neither approach is optimal.

'Sustainability has clearly become a decisive value driver in investment areas'



Implementation in practice

An investor is well advised to obtain a core understanding of the themes, their value chains, key value drivers and risks. In the absence of sufficient in-house capabilities or capacity, in-sourcing tailor-made services from an expert advisor may be an effective and efficient alternative, even for sub-portfolios below CHF 50 million. The mandate can be structured so that the client is involved in the investment decision making process. The fee discussion should be transparent, take into consideration portfolio scope, and depth and quality of the services provided.

A tailored investment strategy should be developed by the advisor in consultation with the client. At EBG Capital, we then seek to find the most qualified investment partners globally that will meet the investor's strategy requirements. We frequently recommend a diversified approach that invests in a number of funds, before considering co-investments, or direct investments. A prudent investment requires a thorough and well documented due diligence process that fully reviews the investment, legal considerations and operations and that is executed by a team of qualified experts. We urge clients to approach opportunistic investments cautiously. Our recommendation is to engage in a systematic, disciplined and well documented process to identify opportunities that are most attractive and suitable to their investment strategy.



'Environmental investments are innovative investment models where resource and environmental constraints drive economic returns'



Author:

*Ralph Kretschmer
Managing Partner,
EBG Capital AG, Zurich*



Free Trial & Webinars

yourSRI does offer a free trial access to its database, no obligations and no fine print - please register at yoursri.com and join now.

And in order to show the advantages and offerings of one of the leading databases in responsible investing worldwide, yourSRI is hosting a series of webinars. [Click here to register.](#)

If you are interested in further information, please feel free to contact us (info@yoursri.com).

yourSRI
fact sheet

yourSRI
Webinars

CSSP
Center for Social and
Sustainable Products AG

Herrengasse 11
9490 Vaduz
Liechtenstein

www.cssp-ag.com
www.yoursri.com