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Why betting on ethics is a winning strategy

We talk to Massimiliano Cagliero, founder of Banor SIM, to understand why doing business today is tied to “higher” issues such as environmental sustainability and social responsibility

by Sergio Luciano

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MANY FINANCIAL SCANDALS WOULD HAVE BEEN AVOIDED IF THE MANAGERS HAD MADE MORE ETHICAL CHOICES AND HAD FOCUSED LESS ON MERE PROFIT.



Massimiliano Cagliero,
Banor SIM's founder and CEO

This is confirmed by some still “top secret” research carried out by Politecnico di Milano’s School of Management together with Banor SIM. The message from the research findings is that investing in stocks and shares with a high Environmental, Social & Governance (ESG) rating (i.e. in companies that pay attention to these issues) is proving to be rewarding in terms of stock market performance and, ultimately, in terms of the profitability of the investments themselves.

“The search for principles, ethical values and guidelines as to how best to behave is today strong in the financial world, especially on the part of those managers... who are not so young”, comments Banor SIM’s founder and CEO, Massimiliano Cagliero, with a smile. “Personally I have felt this need for many years, but I see that now many share my point of view. And data from numerous economics and finance observers confirm that following ethical principles when selecting shares to invest in, is advantageous to us because their cumulative performance improves”.

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So the market self-regulates?

Not necessarily. But I can see that if an important executive like Larry Fink, head of the largest investment fund asset management group, BlackRock, predicts ESG investments will grow in importance, then a profound change has taken place”.

Some examples?

One of many: if Pfizer has stopped producing lethal serums for executions under the death penalty, it is because that small part of its business led to its shares being excluded from ESG-ratings. In the past however, paying attention to social responsibility and the environment seemed more like window-dressing. It was hypocritical really. Even today there are companies that exploit these issues purely for marketing reasons. But now the markets are really taking these questions seriously.

Generally, has management changed its beliefs?

Let’s say that many of the recent financial scandals could have been avoided if the management teams had behaved differently, more ethically.

In your opinion does this new ethical environment clash with the short-term approach of many managers?

No, I can see that short-termism is still very widespread, the three-month horizon still predominates where results are concerned. We have to show quarterly yields to our investors, so we in turn have to ask companies for them.

You as well!

Less than others, but yes, us as well, although we have created a new vehicle locked in for five years. It is going better than any of our other managed investments. After all, Warren Buffett, the legend of global asset management, has managed to do what he has done so far because he is one of those people we call permanent capital investors, that is, someone who invests in the long and the very long term. That’s the top for a manager. You can make investments thinking in terms of the next ten years...

Although you have always made ethical investments

Somehow it just came naturally to us, to some extent because of our customer base, which is partly made up of religious institutions who asked us to exclude certain sectors when stock-picking. For almost 15 years we’ve had investment mandates that have brought us to the forefront as regards social responsibility, leading us to choose companies with distinct ethical values. And this has helped us. Today we can still say we are satisfied with our company’s performance. We’re in a positive position among the competition, with good economic results, while many comparable competitors have been taken over by the various giants of the sector.