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Ratings in search of standards but analysts are ahead of the agencies

In Italy there is perhaps some confusion between ethical investment and investments that comply with environmental, social and governance (ESG) criteria. "It's not the same thing. Sustainable investments have a broader scope with respect to the perimeter of investments labelled as ethical. ESG ratings have become an essential component in assessing a company, like credit ratings", claims Angelo Meda, Head of Equity at Banor SIM. In short, analysing ESG factors is essential, but not sufficient in itself as a guide for investors. The most stable and sound companies aren't always the ones offering the best performance. "An investment manager's job isn't to follow the rating agencies' opinion, but to anticipate it. That applies to ESG analyses too", adds Francesco Castelli, Head of Fixed Income at Banor Capital.

VALUE INVESTORS

Banor SIM provides ad hoc ESG analyses, without tying itself to a specific methodology but acting as "value" investors. They investigate the available raw data, in the knowledge that the sources of those data are always, by their very nature, old. Whether the source is the annual sustainability report or periodic questionnaires, the need remains to view the data from a relative perspective: sector by sector, company by company. Fund managers need to ask their investment clients one initial question: "Are you interested in following a specific rating to guide your investment, or you willing to give your fund manager the responsibility to make the choices that are most consistent with your investment goals?". The question comes from Matteo Bonaventura, an analyst at Banor SIM. Data integration is a key element in guiding these choices. "And the essential data must necessarily include ESG filters. The way forward is clear, but from an integrated perspective", continues Angelo Meda. The role of the analyst and manager – as witnessed by Banor's case histories – is even stronger in the fixed income sector, where investors are often dealing with non-listed companies that have to be evaluated purely on a bottom up basis.

FOR BANOR, IT'S ALWAYS USEFUL TO IDENTIFY UNIFORM EVALUATION CRITERIA BUT IT'S THE ADVISOR THAT MAKES THE DIFFERENCE

The development of the sustainable finance market will be followed by the development of a standard. "We'll welcome that. We've been taking part in all the discussions on this, but we'll never restrict ourselves to just one

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methodology. Analysis will always be the winning strategy”, comments Meda.

GEOGRAPHICAL VARIABLES

Are there geographical variables in sustainability decisions? “Our founder has always recommended that we look to what’s happening in the US financial market. Sooner or later, that’s what will happen here too. And that has also been the case with our awareness of ESG factors. The Italian average is still some way from the average for the more advanced markets, even though we have outstanding companies that perform a lot better than many of their international competitors”, notes Francesco Castelli. Enlightened exceptions that can help our country bridge the gap, including on the investment front. Short-termism, the speculative approach and the lack of financial education still mean that capital is impatient to move. But ESG criteria are showing us a horizon that by its very nature is more lasting and more stable. More sustainable, in fact.

Mario Baroni