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Case Study

"Ethics doesn't apply for everybody"

MARCO FROJO, Milan

Angelo Meda, Head of Equity at Banor, explains why he focuses on selecting securities in-house using a defensive approach.

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Head of Equity at Banor SIM.

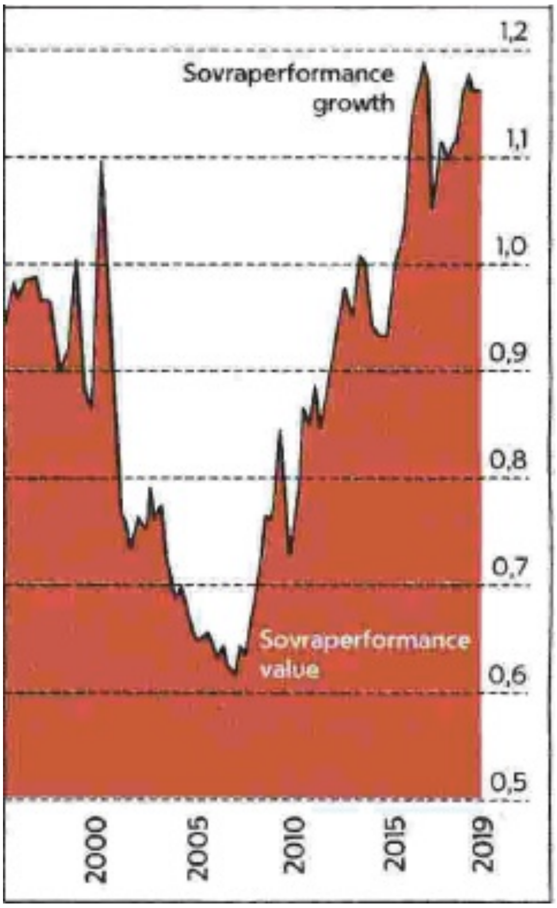
It's easy enough to say "ethical investments" but things are much more complicated than they seem. Since it's only at its very early stages, the environmental, social and governance (ESG) finance sector hasn't yet adopted common standards, which means that a company can have a good rating with one data provider and a very low rating with another. This happens not because one judgement is right and the other wrong, but simply because the two analysis firms adopt different criteria.

Then there's the problem of adapting the analyses to different sectors. The oil sector, for example, has virtuous companies that are trying to reduce their emissions but they clearly can't be compared with companies operating in the renewable energy sector, because their CO2 footprint with always be bigger, regardless. In the same way, it wouldn't make sense to judge the banking sector on the basis of its carbon emissions. In this case, the level of customer disputes is a much better indicator. Asset management firms that want to offer their clients ESG products are faced with the not always easy choice of ethical index provider, a choice that will have a notable influence on their investment strategies.

But there’s an alternative: selecting your own securities. This is the path followed by Banor, which since it was first set up has followed a “value” approach and so is entirely at ease analysing individual companies’ numbers.

“Nowadays we have a great deal more quantitative data available than in the past, so it’s possible to conduct very rigorous analyses”, explains Angelo Meda, Head of Equity at Banor SIM. “But that doesn’t mean that we’re the ones who decide which criteria to adopt to make those evaluations. The road we’ve chosen to follow is to apply the standards produced by SASB, one of the most widely followed non-profit bodies, and to conduct our own analyses. However, we didn’t stop there. Given that companies only issue their ESG data once a year, when they publish their annual financial statements, we’ve created a platform that uses artificial intelligence to sound all the news published by the media and so update our evaluations in real time”.

The numbers
MSCI Europe
VALUE VERSUS GROWTH:
A COMPARISON



Another significant advantage in Banor’s approach is that in future the analysis can be extended to financial instruments not yet covered by index providers. “At present they’re all focused on equity”, continues Banor SIM’s expert. “But applying ESG criteria could be extended to other types of instruments. Our approach is to try to understand how the ESG part can create value. We never forget that investors want, first and foremost, to achieve a return on their capital”.

Luckily, ESG strategies are not incompatible with creating value. In fact, they foster it. To support this idea, Meda cites two studies, one by Harvard and the other by the Politecnico di Milano. They both show, with the figures to prove it, that the shares of the most virtuous companies perform better than those companies that pay less attention to social responsibility, and that ESG investments combine well with the value strategy that is Banor’s hallmark.

“Integrating ESG principles in asset allocation could potentially improve the quality of value-based analyses”, to quote the Politecnico’s study. “Understanding the link between competitive advantage, profitability and good practice in the environmental, social and governance field is therefore useful both for companies, which could communicate better with all of their stakeholders and increase their investments in good ESG practices, and for investors, who are becoming increasingly selective in their stock-picking”.

And in times like these, value strategies could be the ace in the pack. During economic slowdowns, investors look for more solid companies that can provide good dividends. “Since the 1990s, in only three other occasions has the MSCI Europe Value index been so discounted with respect to MSCI Europe Growth”, concludes Meda. “The conditions for a recovery are all in place”.