



SRI-IMPACT INVESTING | BANOR | ESG

## ESG and EU stock, for Banor SIM it is the “E” that prevails

19 NOVEMBER 2019 RITA ANNUNZIATA

- In 2018 and 2019 shares with a better ESG rating over-performed, but there are about half as many with respect to the 2012-2017 period
- The automotive and energy sectors present important valuations independently of ESG considerations
- “There is a European project for uniforming the terms and methodologies related to the “green” part, but it will not be concluded before 2022”, Angelo Meda declared

**In 2019 shares with a better ESG rating over-performed. But how have the three variables - Environment, Social, and Governance - influenced performance? Interview with Angelo Meda, Head of Equities at Banor SIM**

“While we have seen that governance is what makes the difference on the bond market - explained Meda - for the stock market the three factors are intertwined, having roughly the same impact. At the global index level there is no prevalence of one letter over the others. Today the Environmental issue is relevant, and there is much discussion about CO2, high tides in Venice, but also about Greta Thunberg who is on her way back from the UN conference. Consequently, a little more attention emerges for the letter E, but in the end all three variables count in terms of performance. We must consider sector by sector.

### **How was 2019 in terms of performance and what can we expect from the beginning of next year?**

“In the context of ESG, in 2018 and 2019 we saw a continuation of the trend: shares with a better ESG rating over-performed, but there are about half as many with respect to the 2012-2017 period. This is probably because there is greater investor awareness and consequently a reduction of the possibility to achieve performance uniquely thanks to ESG rating. There is also a sector-based issue. In the last five or six years the sectors that did better were those of renewable energy, the “green” ones, which reached somewhat extreme valuations”.



Angelo Meda, Head of Equities and manager in charge of the Banor SIM research project

<b>WE-WEALTH.COM</b>	Date	19-11-2019
	Page	
	Sheet	2 / 3

### **Which are the sectors to focus on in 2020?**

“Regardless of ESG, we think that the valuation gap in some sectors with respect to others has reached extreme levels. The automotive or the energy sector present significant valuations, but ESG does not substitute traditional financial analysis. The latter tells us that **technology, renewable energy, consumers**, have reached very high valuation levels, while energy, automotive, industrials, slightly more cyclical stocks, have attractive valuations. The big question mark is banks. We prefer to continue to invest in the large American banks and in two or three international European banks, avoiding the smaller ones or those that are exposed to fintech problems or competition”.

### **How is Italy positioned?**

“The Italian index is not representative of the Italian economy. The problem is that we have 1/3 of banks, 1/3 of energy, while the rest is scattered. It is difficult to find a value for banks. For energy, we prefer ENI to ENEL as a matter of valuation. For the rest we have very expensive shares that belong to the beverage sector and the consumer sector that have benefited from low interest rates and the fact that in Italy there are only a few such companies; finally we have the Industrials. The problem is that in Italy you either invest in shares that are not related to the performance of the domestic economy, but that have very high valuations, or you take a cyclic risk which however is currently well paid”.

Today there is a greater demand for transparency from regulatory bodies on social, environmental and governance themes. The problem is that there are many rating agencies, but we lack a global level standard.

### **How can the problem be solved?**

“There is a European *taxonomy* project for uniforming the terms and methodologies related to the “green” part, but it will not be concluded before 2022”. We are in a law of the jungle phase where anybody can say anything they like. The problem with external ratings is that there can be cases in which a company has a good ESG rating for one data provider but a very bad rating for another. We bypassed the problem by retrieving the raw data and selecting those that, for us, sector by sector, are important indicators. From all the data that a company gives us on sustainability, we take into consideration between 10% and 20%. Which indicators to are to be taken into consideration? The answer comes from the experience of the analysts of an American company, SASB (Sustainable Accounting Standard Board), whose business is to **define sector by sector which indicators are the most important**. We are more than in favour of defining a “rubber stamp”, a certified mark. The problem is that it does not exist yet and it does not seem to me that there is any will to create it, because many asset managers now use the three letters to sell standard products that have no ESG value behind them”.

### **In other words, for greenwashing.**

“Exactly. We are now in a transition phase that will last two or three years, during which time there will be a proliferation of ratings and marketing material. Let us hope that this *taxonomy* becomes a reality, but in the meantime we are still in the jungle. In our opinion, those who do things properly will win the challenge of the future.