A new set of eyes

Interview with Michael Baldinger, Head of Sustainable and Impact Investing
Meeting the need for transparent, sustainable investing

What is driving the recent increased interest in sustainable investing?
When we talk about sustainable investing, we generally mean the use of material, non-financial data in the investment analysis process. Today, this is most commonly defined in terms of a set of ESG—or environmental, social and governance—criteria.

Recent years have seen an increase in the amount and type of ESG-related data. A critical development is the global effort to reduce carbon emissions in order to slow global warming, which has led to new corporate reporting and carbon data estimates by specialists. Investors controlling over USD 62 trillion in assets have signed pledges such as the UN-backed Principles for Responsible Investment, promising not only to reduce the carbon footprint of their own portfolios but also to measure the impact of their portfolios on environmental and social goals.

These investors are looking for better ways to use available data to meet these commitments within the context of widely diversified portfolios and

Michael Baldinger is Head of Sustainable and Impact Investing at UBS Asset Management. He joined the firm in November 2016 and in this newly created role is responsible for establishing a world-class Sustainable and Impact Investing business across asset classes. Prior to joining UBS Asset Management, Michael served as CEO and Chairman of the Executive Committee at RobecoSAM from 2011 to 2016. He joined RobecoSAM in 2009. Before that, Michael was a Managing Director at Credit Suisse Asset Management, where he was Head of Distribution for the Americas from 2005 to 2008. Michael has 29 years of investment industry experience.
established return and risk targets. We at UBS Asset Management have been at the forefront of developing new frameworks for managing new sources of ESG data that not only look at corporate performance, but at their global environmental and social impact—and to provide transparent and forward-looking answers.

We are basically talking about a completely new set of investment analysis metrics. I like to call it a “new set of eyes” for investors. I really believe this is a game changer for our industry.

Why is transparency so important?
Investment analysis has always been about transparency, about understanding the businesses we invest in. But there are other factors that affect performance as well. These are what ESG addresses. This is material investment information. Companies that care about sustainable use of resources will be less exposed to shortages. Companies with superior labor practices will have more productive workforces, and be less prone to labor strife. Companies that follow governance best practice will likely be better and more sustainably managed, less prone to corruption. The list goes on. And there is something deeper at work here, too. We are living in a society of increased transparency on all fronts. The customers of the companies we invest in will also get information—both positive and negative—of the kind that ESG tracks. This may well affect how they buy, and thus will impact corporate performance over time. Thus, ESG issues not only affect public perception but performance as well. Investors can’t afford to ignore this information.

Why is UBS Asset Management investing so heavily in this area?
First of all, it is the right thing to do, for UBS, our clients and all our stakeholders. And our clients feel the same way. After all, sustainable investing is the fastest growing segment in the investment world. Between 2012 and 2016, sustainable assets under management almost doubled, from USD 14 trillion to USD 22 trillion, according to a 2016 report by the Global Sustainable Investment Alliance. Institutional investors consistently rank ESG criteria to be the one of their top few issues when choosing an asset manager.

What does UBS offer in terms of sustainable investing?
Our goal at UBS is to be the world’s leading sustainable investing asset manager; to be ahead of the curve and play a material role in the mainstreaming of this important new approach.

We are integrating ESG into our investment research across UBS Asset Management, adding to our sustainable investment related engagement efforts, and rolling out new products. We are also helping clients with our expertise. Due to the Paris agreement, investors are setting explicit targets for reducing the carbon footprint of their entire portfolios, and looking for ways to measure the impact of their investments. But they want to be smart about it, and capture the upside of investing in companies that are leading their industries in adjusting to these changes.

Using the breadth of UBS Asset Management skills and resources, including indexing, quantitative and sustainability research, we responded to a client request to construct a passive, rules-based strategy that applies both positive and negative tilts related to climate change, while aiming to deliver returns broadly in line with an underlying global equity index.

At the request of another client we began developing a science-based framework for measuring the impact of an investment portfolio and engaging with companies to help maximize their positive impacts.

And this is just the beginning. At UBS Asset Management, we are developing a comprehensive sustainable investing toolbox that can be used to create powerful, tailored solutions that fully address client needs while offering the transparency their stakeholders demand.
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