



RI Interview: German sustainable boutique Ökoworld Asset Management

A look at the state of sustainable investment in Germany



by Jan Wagner | July 31st, 2012

Back in April, a study of 10 sustainable equity funds in Germany showed that Ökoworld's flagship Ökovation Classic fund was the only one not invested in some way in the arms industry and with the least exposure to oil and gas stocks. According to Luxembourg-based Ökoworld, the €322m fund has returned 18.2% since the start of the year and 11.2% since July 2011. RI spoke to Ökoworld managing director Ralph Prudent about the fund – and the state of sustainable investment in Germany. Ökoworld currently has around €500m in assets under management from private and institutional investors. **How do you account for Ökovation Classic's performance?** The fund's investment process, which includes an international bias and very selective stock picking, have lowered risks while generating sensible returns. Its most significant positions are in the following sectors: health care, residential sustainable transport, information technology as well as communications and consumer goods. **The perception is that sustainable equity funds underperform standard equity funds but you seem to contradict this.** Forgetting our fund for a minute, it's just wrong to say that sustainability means lower return. There have been numerous studies to the contrary, including a recent one from Mercer that shows that the inclusion of ESG (environmental, social and governance) criteria has a positive effect on the portfolio in the long term. Moreover, the companies themselves are making their business more sustainable for three key reasons: cost savings, added efficiency and greater employee/customer loyalty. Small wonder then that a 2009 survey by Aberdeen Asset Managers showed that despite the financial crisis, 71% of the 700 firms queried said they would continue to embrace sustainability. The diversification in investments prompted by climate change or declining access to water is also an important trend. One sees therefore that there is still an information gap. Market players have still not recognised or accepted that sustainability is not an isolated theme but a basic

economic principle!

What about the low take-up of sustainable investing in Germany?

The trouble is that sustainable investing in Germany is not state of the art yet. It's still treated as an orphan by fund managers and as such is not integrated into the investment strategy. There are basically two reasons for this: Sustainability is, as I mentioned, seen as an isolated theme – something that involves just renewables or clean technologies. Secondly, there is the unjustified fear that sustainability will limit your investment horizon, and in doing so, increase your risks while diminishing returns. Both assumptions are false, as the Mercer study shows. We are doing our best to educate fund distributors and investors about the truth behind sustainable investing. **How will you convince sceptical German institutional investors?** Most of the investment strategies for institutional clients are still based on quantitative considerations like past market correlations or value at risk. In other words, investors still try to identify risks by looking at patterns from the past in order to draw conclusions about what might happen in the future. This approach is not the best in today's world where new risks are emerging. It is therefore essential to identify these risks and adapt the investment strategy accordingly. Take climate change. While it is a slow process, climate change is already being felt by companies. Examples of this are changes in prices, market structures and regulation, all of which affect a company's balance sheet. The first step is therefore identifying which firms are already adapting. For those who do so now will have a significant competitive advantage over those who start too late. In addition, firms who offer solutions in the areas of greenhouse gas emissions or energy efficiency will become more valuable on capital markets. To find these opportunities, institutional investors face a choice of investing in their own research and/or re-structuring their portfolios or asking for help from a specialist.