

ACATIS FAIR VALUE SPECIAL

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Misconceptions in sustainable investing

Sustainable investing has become “mainstream” - at the very latest with the introduction of the regulatory requirement for European funds to be classified as non-sustainable (Article 6), ESG-integrated (Article 8) or sustainable (Article 9). Since 2021, over 50% of all funds have classified themselves in Article 8 or 9.

As with every innovation, sustainable investing also gives rise to misconceptions at the moment the innovation goes mainstream, is adopted by most players and thus leaves the sphere of experts and early adopters. Two important misconceptions can be observed in the media landscape. First: Impact and financial return are in harmony. That only happens sometimes, and it is important that an honest distinction is made in this context. In some business activities, the business and the achieved impact are perfectly in harmony. Such types of businesses are not very common and therefore are in high demand (also among investors). Accordingly, the impact that can still be achieved by investors in these cases is rather small (impact that would not have otherwise occurred). If the objective is to achieve as much impact as possible, investors face higher costs (among other things) for the search and selection of these otherwise undiscovered investments. And depending on the situation, they must also expect lower rates of return. Many investors are totally fine with that. It is important to make a distinction between these “finance first” and “impact first” investments in the market, and to take a conscious position as an investor and provider. Second: ESG is supposed to have impact as its

goal - and it usually fails in this regard. ESG data and ratings (i.e. measuring the company's environmental, social and management performance (governance)) were not developed to depict the impact of an investment, at least not at all providers of such ratings, and in particular not at market leader MSCI. Instead, ESG ratings mainly focus on depicting the financial risks that the company incurs with regard to the selected ESG aspects. For example, a rather non-sustainable oil company in a developing country may have a higher ESG score than a comparable clean company in a highly-developed industrial nation. This is okay for investors who want to use the ESG ratings to depict the risks and opportunities from a financial point of view. For many market players, that was always the purpose of this data. However, strategies involving active voting and the engagement with companies, or the provision of risk capital, are important for achieving an impact.

To solve these misconceptions, it is important that all players in the sustainable investment market closely examine how they position themselves with regard to the financial rate of return, as opposed to the desire to generate an actual impact - and then actively select the appropriate approaches.

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On behalf of ACATIS Investment KVG mbH

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