ifund fundmanager interview
with Laurent Nguyen, Pictet European Sustainable Equities

“Combining two complementary viewpoints, which provide a more complete picture of investment risks and opportunities”

Geneva, July 6th 2016

**ifund**: What is your fund all about and what differentiates it from your competitors?

**Laurent Nguyen**: Our philosophy is to select companies by applying a unified view of sustainability in both the financial AND extra-financial dimensions. We believe in blending the respective skills of judgmental, quantitative and ESG analysts to build defensive, diversified, albeit active, portfolios. Since our dual quantitative-ESG expertise dates back to the late 90s, we are convinced that the experience gained over those years coupled with our highly-skilled team members are our most precious assets.

Literally, the word “sustainable” denotes what is able to last or continue for a long time. In-line with this definition, we take a very candid approach to sustainability by investing in companies which, in our view, are more likely to still be there in the future. We are convinced that such companies should have two key features:

- Financial robustness, in order to generate attractive risk-adjusted returns and face economic downturns.
- Corporate responsibility, in order to make better long-term decisions.

Our investment objective is to deliver superior risk-adjusted returns by investing in companies that excel in both dimensions. By contrast, we seek to avoid companies that partially meet our investment criteria, for example by generating profits at the expense of society or the natural environment.

We achieve this by combining two complementary viewpoints (financial and extra-financial) which, taken together, provide a more complete picture of investment risks and opportunities.

**ifund**: How do you add value for your investors?

**Nguyen**: On the financial side, we apply a proprietary framework for assessing companies’ financial robustness. This is our Quality framework developed after the 2008 financial crisis and based on the observation that extra-financial analysis by itself was a necessary but not sufficient condition for generating attractive risk-adjusted returns over a full market cycle.

Our proprietary framework is based on what we call the 4 P’s of “quality”: Profitability, Prudence, Protection and Price.

- Profitable companies are less-likely to take short-term, potentially counter-productive, measures due to market pressures. The comfort of a wide economic moat should translate in better strategic, value-enhancing, decisions in the long-run.
- High financial leverage and aggressive M&A policies are double-edged swords. Prudent companies should be less vulnerable than their reckless peers during and after the unavoidable “hangover” phase.
- Companies having demonstrated their ability to better navigate the economic cycle tend to provide down-market protection which is in-line with our conviction that in the long-run, to gain more, you have to start by losing less.
- For a given stream of future cash-flows, the higher the price, the higher the riskiness (i.e. duration) of the asset. Moreover, stocks with high expectations embedded in the price are more likely to disappoint than others. Thus, attractively-priced companies are expected to outperform over the long-run.
Quality companies can hence be described as high and stable return businesses that are resilient to economic cycles and attractively priced. We analyze companies along those four axes by using financial indicators which capture the essence of each “P”.

Similar to our financial analysis, we apply a multi-dimensional approach on the ESG side. We articulate our ESG research framework around four key pillars (Governance, Operations, Products, Controversies). This framework provides us with a strong basis for gaining further insight in corporate responsibility, detecting green washing, and integrating innovative data sources as they become available to the marketplace.

- Governance is an important factor due to key role of board members in shaping a company’s long-term strategy and managing potential conflicts of interests between principals (shareholders) and agents (senior management). Our assessment includes conventional aspects of corporate governance (eg board composition, executive remuneration, auditing and shareholders rights) as well as unconventional aspects such as accounting integrity (which aims at detecting potential overstatements of revenues/assets and understatements of expenses/liabilities) and tax citizenship which measures the extent to which companies pay abnormally low corporate tax.

- Operations focus on measurable environmental and social impacts of a company’s activities, including but not limited to: greenhouse gas (GHG) emissions, energy efficiency, water intensive operations, process and occupational safety. These factors are deployed in sectors where they are most material.

- Products seek to identify companies that generate positive or negative externalities on society and/or the environment through their product mix. Products and services that we seek to gain exposure to include: zero and low carbon energy sources, energy efficiency solutions, pollution control, water & waste management, life & health insurance, healthy & organic food, healthcare equipment and services, and finance to SMEs. By contrast, products & services that we seek to avoid include: oil and coal, carbonated soft drinks, fast food, pesticides and insecticides, investment banking and high frequency trading. Hard exclusions apply to companies with at least 5% turnover in weapons, nuclear, tobacco, alcohol, gambling, pornography and GMOs.

- Controversies enable to identify serious and recurrent cases of bribery and corruption, market abuse, supply chain and labor issues, pollution incidents or product scandals. This factor provides a good proxy of company reputation and adherence to universal principles such as the UN Global Compact.

In order to maximize the potential to deliver superior risk-adjusted returns based on financial and extra-financial analysis, we implement a systematic, scalable portfolio construction process, which builds upon our fundamental and quantitative skills.

**ifund: How do you generate investment ideas?**

**Nguyen:** As managers blending quantitative and fundamental analysis, our process is bottom-up by design. Our positioning reflects our ESG and quality assessment. We do not visit companies.

**ifund: How is your team structured and who is responsible for the investment decisions?**

**Nguyen:** Our team is structured around three poles of research: quantitative, financial, ESG. Moreover, as systematic investors we rely on a robust IT infrastructure. The team comprises 7 people with a double-digit year average seniority.

**ifund: In which market environment does your investment style work best?**

**Nguyen:** Our multi-dimensional quality approach favors companies that tend to outperform the market over a full market cycle while being less risky than their peers. While tending to outperform over a full market cycle, our Fund works best in highly volatile, uncertain environments. It is fact based evidence that in a global economy stuck in a climate of low growth and low inflation, the companies that tend to do well are those with stronger balance sheets and greater pricing power. Such stocks are less volatile over the long run, and tend to deliver stronger returns in distressed periods. An equity portfolio composed of financially robust companies can spread risk far more effectively over the course of the economic cycle.

Beyond the cycle itself, the fund is also set to benefit from the gradual shift to a more sustainable economy driven by changing consumer preferences, technological advances, more stringent regulation and other measures that seek to protect public health and the environment.

**ifund: Where do you currently see the best potential and largest risks in the market?**

**Nguyen:** Especially after the Brexit vote, Europe is at a crossroad. Uncertainty will be high and markets will be even more dependent on policy responses. In that environment, we are confident that our natural defensive stance should deliver attractive risk-adjusted in the years to come. We consider that the biggest risk lies in the banking system.

**ifund: Which aspects of responsible investing do you consider in your investment process?**

**Nguyen:** Responsible investment is completely embedded in our stock selection criteria and ownership practices. We only invest in companies that are within the top 50% of our ESG assessment. We exercise
our voting rights systematically and do not lend our shares, which enables us to vote on 100% of shares held in the portfolio. Portfolio companies are closely monitored to provide an early warning in case an accident happens. If the issue is serious and is not properly addressed by management, we will sell off. We also publish the ESG characteristics and composition of the portfolio on a quarterly basis. For example at the end of March, we were invested in companies that are 33% less carbon intensive than the MSCI Europe.

The sustainable nature of the fund is recognized by the German Forum Nachhaltige Geldanlagen (FNG) which awarded two stars in 2015 (see http://nachhaltigkeitsprofil.forum-ng.org/pictet-european_sustainable_equities-fng_nachhaltigkeitsprofil.pdf).

**About Pictet**

Founded in Geneva in 1805, the Pictet Group is today one of Europe's leading independent wealth and asset managers, with CHF 424 billion in assets under management or custody at 31 March 2016. The Pictet Group is owned and managed by seven partners, with principles of ownership and succession that have remained unchanged since foundation.

The Group applies a prudent risk management policy. This policy is expressed in a high liquidity coverage ratio that reflects our conservative balance sheet policies. Furthermore, the Group's equity level is well in excess of the Swiss legal requirements, among the most stringent in the world.

The Pictet Group, headquartered in Geneva, employs more than 3,900 people. It is also present in Amsterdam, Barcelona, Basel, Brussels, Dubai, Florence, Frankfurt, Hong Kong, Lausanne, London, Luxembourg, Madrid, Milan, Montreal, Nassau, Osaka, Paris, Rome, Singapore, Taipei, Tel Aviv, Turin, Tokyo and Zurich.

**About ifund**

ifund provides fund research, manager selection and asset management based on liquid investment funds. Clients include banks, asset managers, family offices, pension funds and insurance companies in Europe. ifund has signed the UN Principles for Responsible Investment and integrates sustainability criteria in fund analysis. www.ifundservices.com, info@ifundservices.com, +41 44 286 8000

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