PASSION INSIDE

INTERVIEW WITH MASJA ZANDBERGEN

'We must not misrepresent sustainability as a one-dimensional issue'

Masja Zandbergen is head of ESG integration at Robeco. In this interview she talks about the dilemmas investors face when embracing sustainability, the progress made over the past years and the conviction that it takes real commitment to be among the winners in this area.

You're head of ESG integration at Robeco – and that's no coincidence. Where does your passion for sustainability come from?

"I studied econometrics, so I'm sort of the odd one out. I started at Robeco in 1997 as an equities portfolio manager. In the early years, I followed the performance of a lot of European IT companies and witnessed the IT boom in 1999 as an analyst. Those were wonderful years! Later I started doing financials. I vividly remember sitting in a room full of men in dark, gray suits listening to banks and insurance companies all presenting on the same topic: return on equity and capital. All very important, of course, but I thought, 'There's got to be more than this. Surely there's a lot more to a company than just these figures?' The figures are the result of what a company does. I thought: 'What am I doing here?' A team was being set up for our one and only sustainable fund. I asked to join it."

In those days, people weren't really talking about sustainability. Asset managers had maybe one or two sustainable funds, but no more than that...

"Then we set up voting and engagement programs. The social aspect, in other words, the moral duty of companies to treat people with respect, was always very important to me. But so was the environment, which is of course increasingly important these days. Back then, I was mainly interested in working conditions and human rights. Also, even in those days, incorporating these issues into the investment policy was really important to me. In that respect, I was years ahead of my time. At that time, I set up a corporate governance database with data from a provider and rolled it out for the investment teams, so they could use it in their processes. That wasn't very successful at the time (...)."

"We figured that the most successful approach was to let the portfolio managers do their thing, while we focused on voting and engagement. Then we could give shape to sustainability without bothering them."

So that was an era of two different worlds: the investors on the one hand and voting and engagement on the other?

"Yes, but we did have two clients (Rabo Pensioenfonds and Achmea) who thought this topic was very important, so that got us started. They paid us a fee to do it."

But investors still had a sense that this was not part of their job?

"Corporate governance has always been an issue; the EM team also put together a corporate governance questionnaire at the time. But the investors weren't really ready for it. Needless to say, therefore, my first engagement case wasn't a huge success, either. It was like banging your head against a brick wall. For a time, I was head of equities at Achmea, where I was in a position to say: sustainability has to be part of our investment policy. It's really nice when you can change the system from the inside out."

Was there a specific turning point, or did sustainable investing evolve gradually at Robeco?

"Both, actually. It did evolve, starting off with a few people. Now everyone's involved and job applicants are judged on it – it is part of an assessment, at any rate. And I even think it's a reason why people want to work at Robeco – because it's such a big theme here. But over the last two years, it's really gained traction. That's partly due to the market, regulations, climate issues, problems with litter – you can't ignore it anymore. And these issues are important to the new generation, whose opinions matter more and more. Many different forces are converging right now. As a society, we have to live more sustainably, otherwise, we just won't make it."

To what extent are investors prepared to pay higher fees for sustainable solutions? Can you charge them for sustainability?

"There are many pension funds that aren't willing to pay a lot more for it. But they won't have a choice – someone has to foot the bill for the research. That's why it's good if demand is high, because the burden can be shouldered by many more investors. Recently, a pension fund asked its members for their thoughts on this and was willing to incorporate the results into its investment policy. So it wasn't just hypothetical. They actually asked them what they wanted. As it turns out, the members were truly willing to invest more sustainably, in spite of the consequences. Pension funds are still too quick to hide behind their fiduciary duty; in other words, that they have to focus on maximizing returns above all else. That's nonsense, of course."

Because... what's to say they don't?

"Whether implicitly or explicitly, you make so many choices: to keep cash on hand as a buffer, to avoid investing in certain countries or sectors, to steer clear of products that are too expensive or not transparent enough. There are so many choices, and this is just one of them. And you can't ever maximize your profits, because you always have certain restrictions to contend with. At Robeco, we also have a fiduciary duty to achieve the highest possible returns for our clients within the applicable restrictions, but we also have a responsibility to our clients to be a good steward of their assets. And we have the same accountability towards the companies we invest in. We used to say 'we vote with our feet', but now we choose to engage with companies instead. There are companies which we will always have in our portfolios – because their benchmark weight is so high. I believe we've held shares in Shell or Unilever since 1929. Then you can't say you vote with your feet – as a shareholder, you have obligations."

Are we now in an era of real change? The recent engagement success with Shell[1] might be evidence of this. Are people mentally ready for big changes? Do they realize that it's not only about returns, but also the future of our planet and of our children?

"I find that difficult to answer – maybe because I am too closely involved. I only end up talking to clients who are already on the same wavelength. In all honesty, I think we still have a long way to go, even though you can already see things changing. Companies have to be willing to make investments that won't pay off for a very long time. That's still a dilemma."

The eternal conflict between short-term gains and a long-term perspective.

"Yes, and between financial and environmental and social values. Common goods don't have a price, but they ought to. We are all willing to pay lip service to sustainability being a win-win, but oftentimes you have to pay the costs before you can reap the benefits. You have to be honest about that. Yes, you want to achieve returns, but you also want social values and the environment to be factored into investment decisions. You have to put a price on that. In that respect, this is the start of a very long road and the question is whether we still have enough time (...)."

Time for what?

"Time as a planet. To fix everything."

Is that something you lose sleep over?

"Well, let's just say sometimes I'm sent research by colleagues and specialists that's quite depressing. Research about the prospects with regard to climate change, and the consequences. But I am optimistic. If we work hard now, then hopefully we can still make it."

‘We are all willing to pay lip service to sustainability being a win-win, but oftentimes you have to pay the costs before you can reap the benefits’

Sometimes it seems like people are programmed to go back to ‘business as usual’ after hearing and reading about it, even those who have kids that are going to inherit the Earth from us.

“Bizarre, isn’t it. I think that if all the countries and industries join hands, we can prevent a lot of damage from being done. It’s a miracle that we have the Paris Agreement, though it’s a shame that many countries are behind schedule on their commitments and some are even backpedaling. All too often, our thinking about regulations or a CO_2 tax is based on fear. I prefer to focus on the opportunities; ultimately, we will stop using certain raw materials. From that perspective, you’re better off being ahead of the game by innovating and creating new, sustainable industries. We have to encourage that.”

“When we had our house built two years ago, we decided to invest in thermal storage and solar panels. As a result, the indoor climate is very comfortable and our energy costs are low. But there are others in our complex who didn’t. They now have much higher bills. So again: you have to pay the costs before you can reap the benefits. You have to be willing to invest first and that’s easily done – you can even get a subsidy for the thermal storage. You recoup the extra investment quite quickly.”

Is a world in which big multinationals are required to invest some of their profits in the working conditions at the start of the production chain akin to utopia?

“I don’t think that’s a very good solution, because it still wouldn’t form an integral part of business practices. I would approach it differently. More economic models should be developed that include those external costs in the profit and value calculations. How much does a shoe actually cost if you factor in a fair salary for all the employees – at minimum living wages – and take the cost of certain environmental measures into account? How much margin would the company have left? And are consumers willing to pay a premium? A lot of the stuff we have now is actually much too cheap.”

It’s that same dilemma again. We know things have to change, but if that requires us to contribute – financially or otherwise – we look the other way?

“Yes, and that’s why I think we’re only at the start of a very long process of internalizing those external costs. There aren’t any generally accepted models for it yet. Universities are not yet including it in their financial curricula.”

Is education the solution?

“It’s certainly part of the solution. That’s why we are working with Erasmus University. They have also outlined a preliminary framework to incorporate sustainability into financial analysis.”

Change also starts with awareness. The new generation is growing up with a greater awareness of the challenges of sustainability.

"That's definitely true for my kids. We often talk about it at home – how certain items of clothing are made, for instance. It happens automatically because it is part of both my and my husband's work. Everyone has their own work-related preoccupations, so that's probably why we talk about it at home more often than other people do. Our children have it instilled in them regularly. Avoiding or eating less meat, or just doing things more sustainably – it's much more a matter of course for the new generation than for us."

But the solution to our problems is quite a bit more complicated than that, isn't it?

"Of course. We must not misrepresent sustainability as a one-dimensional issue. It's more complex than it seems. An electric car may seem sustainable, but if the American owner of that car charges it with electricity generated from coal, then the car won't be any more sustainable over its entire service life than a gas-powered one. Or if a multinational constructs a building with a high energy-efficiency rating right next to a freeway, making it inaccessible by public transportation. That's why you have to approach sustainability holistically, otherwise you're just flying blind and you might even end up having a negative impact. The worst that can happen is that we look back in ten years and realize we haven't achieved anything sustainability-wise and that we've also failed financially. That's why research and integrative thinking are so crucial."

SDGs are the next big thing. Robeco was one of the first to offer SDG products. Is that an example of market leadership and innovation?

"That's definitely an example, but I think we are also a leader when it comes to integration. Many clients are quite advanced in sustainability, but the actual integration is hard for them. You need good research and your portfolio managers and analysts have to accept that companies need to be viewed in a different way. Since we have that expertise, it's easier for us to innovate in other ways, too. That creates a multiplier effect. It starts with the specialists, but eventually everyone goes that extra mile, leading to a lot more innovation."

"We now have around 60 clients with specific sustainability requirements, compared to last year's figure of about 15. Demand is increasing, but so is our ability to provide solutions. The SDGs are a good example of this: RobecoSAM had both the idea and the expertise to develop a framework enabling analysts to assess companies based on SDG criteria. Ultimately, the SDGs are also part of ESG integration. That takes time and can't simply be copied. Buying some sustainability data and applying it to your portfolio is not the same as ESG integration."

These days, almost all asset managers claim that ESG is part of their DNA. Do you ever feel like it's nothing more than a marketing pitch?

"Quite often, yes. There are also asset managers who do it well. We really do a lot – just look at how many stewardship codes we've signed and initiatives we participate in and how often we take the lead in engagement and vote at shareholder meetings. While many parties are only just getting started. It's great to see that other asset managers are now also getting involved. We'll have a bigger impact if everyone contributes. But you still want to stand out from the competition. The asset managers who really believe in sustainability will be the winners, because they will be in it for the right reasons. And, in the end, that will make all the difference."

1. See the 'showcase' box on page 51.