

LEADERSHIP



INTERVIEW WITH GILBERT VAN HASSEL

'We really have to act now'

In October 2018, Robeco CEO Gilbert Van Hassel was named Sustainable CEO of the Year at the Pan-European Global Invest Forum in Paris. In this interview he talks about leadership in sustainable investing, business opportunities, the lack of regulation and clear definitions, SDGs and the challenge of staying ahead of the pack.

In mid-2018, you said that conversations with clients always turn to the subject of sustainability within a few minutes. Does that still happen?

Is it an advantage for Robeco that clients know more? Does that make it easier to explain how our approach compares to that of our peers?

Is that integration the most important element? Do clients understand exactly what that entails?

ON CREATING WEALTH AND WELL-BEING

"It still always comes up quite quickly. Sustainability is a key aspect of almost all RfPs and it's often even a requirement. Our clients are also a lot more knowledgeable on the subject, and are becoming more demanding. Just using an ESG filter isn't going to cut it."

"Yes, definitely. Sustainability is important for everyone these days, but only a few asset managers can say that it's been part of their core business for more than 20 years. We launched our first sustainability product in 1999, RobecoSAM has very long data series and together, we have around 65 specialists. At Robeco, it's not something we just do on the side: it's part of the company's DNA and fully integrated in all our investment processes."

"I think so. We've noticed that a great many of our competitors have a small engagement team, they work with several sustainability filters. But we incorporate relevant ESG factors into our investment decision-making. For each investment, we assess whether these factors will contribute to long-term value creation or actually detract from it. This analysis plays an integral part in every investment decision – whether it's to buy, sell or hold. And that's not all that hard to explain. Putting it into practice, however, is."



In 2018, Robeco changed its mission statement to include ‘creating wealth and well-being’ as one of its goals. Does that resonate with clients? Or is there still a sense that sustainability and return objectives are at odds with each other?

“There’s no one response to that question. In the Netherlands, and northern Europe, we are ahead of the game. Here, it is already part of pension funds’ fiduciary duty to incorporate sustainability. So the two are perfectly compatible. But even in Scandinavia, which is actually a leader in this area, the degree to which it is integrated varies a lot. Norway and Sweden are quite far along, but people in Denmark still question whether you can reconcile the two and how pursuing well-being will impact the creation of wealth. More and more academic work gives proof that there is a link between sustainability and long-term value creation. Especially on the G component of ESG this starts to be conclusive. However more academic work is needed to establish the full link between the two.”

“But in the US, most pension funds are subject to ERISA, an act drafted by the Department of Labor that states that their fiduciary responsibilities include maximizing returns on behalf of participants. As long as there is no fully proven causal relationship between sustainability and wealth creation, those funds will be unable to implement sustainability on any appreciable scale. There’s just not enough scientific evidence yet, the data series are too limited and the track record of funds is too short to give them academic weight. Until the fiduciary responsibilities are reformulated, their participation will be marginal at best. Their hands are tied.”

Investors often speak of ‘risk-adjusted returns’. Do you think ESG integration mostly tends to reduce risk, or boost returns?

“I think it’s about 50-50. If risk increases over time, then clearly returns will follow. If you take a really simplistic look at what will happen in the long term – if we don’t change the way we treat the climate, with CO₂ emissions – then it’s obvious we are eventually going to hit a wall. The global economy will stop growing and start contracting, and large amounts of value will be wiped out. So basically, risk and return are two sides of the same coin for me.”

ON THE ROLE OF THE FINANCIAL INDUSTRY

Over the last few years, you've made a point of putting sustainability very firmly on the map at Robeco. As CEO, is your pursuit of sustainability driven purely by business opportunities or do you have personal motivations?

"As a CEO, your responsibility extends beyond the company's bottom line and shareholder interests. You are also accountable to your employees, and, as a company, to society as a whole. That's why you have to care about well-being, in which wealth plays a part, but it isn't the only factor and may not even be the most important one. From that perspective, it's only natural that we are involved in sustainability and hold the ideological belief that we really must do something. The fact that large groups of young people in many of our neighboring countries, and now here, too, are taking to the streets in protest, is a clear signal that some things are going seriously wrong."

Would you say that the financial services industry is going through a period of soul-searching right now?

"On the other hand, we have the shareholder to answer to, and they in turn have their own stakeholders. So, no, it's not only about gains and operating results, but of course we can't lose sight of those, either. That's why I focus on the opportunities and to me, it's very clear that sustainability is a big one. And that we are good at it."

"Absolutely. And it's not just a passing phase. Of course, a lot of people see this as a window of opportunity and are therefore jumping on the ESG bandwagon. But I'm convinced that sustainability will become standard before we know it. Right now, it's fashionable, but in three or four years from now, sustainable investing will be standard practice. And it's essential that that happens. If you read scientific reports about climate change and CO₂ emissions, you realize that we really have to act now. More and more people are realizing it."

"As things stand now, we're heading straight for that wall. People are becoming more and more anxious. I think that both governments and businesses – and every one of us as individuals – must take responsibility. The long-term survival of society depends on it. And it's going to require a huge effort from the entire planet. The question is whether we can afford to do it from an economic standpoint. Then again, can we afford not to? What would the world look like then?"

"One of the key challenges is deciding how to define sustainability. It seems like the number of things that are considered sustainable grows with each passing year. If you expand the definition to include not only the climate but also diversity, income equality and poverty, then it's painfully clear that things have to change."



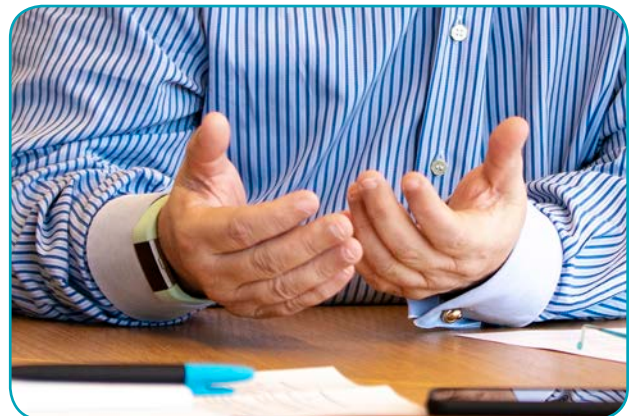
'It can be hard to make headway if you yourself don't have any skin in the game'

In order to accomplish those changes, should investors be more activist if companies do not have their affairs in order?

"Activist has kind of a negative connotation. I prefer the term 'active'. Should we exclude more companies? The way I see it, certain activities are just wrong and you can't justify being part of them. The production of nuclear weapons or cluster bombs are examples. These days, almost everyone feels the same way about tobacco, because the evidence of the dangers of smoking and passive smoking is overwhelming. That is the kind of industry you exclude."

"But often it can be hard to make headway if you yourself don't have any skin in the game. If we have a share in a company where multiple things are going wrong, then as a shareholder, we have a good chance of making ourselves heard. We've had a joint Voting & Engagement team at Robeco and RobecoSAM for over 15 years. Every year we select five engagement themes that we give our full attention, for a period of three years. If you don't make progress with engagement, then you eventually start excluding certain companies in that sector. Palm oil is one example of an industry that we put a lot of effort into, and where we've started excluding companies that aren't open to improving things."

"We have many engagement success stories. In the case of Shell, we joined hands with the Church of England to convince them to include climate objectives in their KPIs. That received a lot of media attention. And it was a kind of a litmus test, which made us realize that even at really big companies in difficult sectors, it's possible to make tangible progress."





ON RULES AND REGULATIONS (AND, WELL, RETURNS)

Back to the definition. SDGs provide a clear framework and go a step further than just the climate. Is that a big leap forwards?

“I think that the SDGs offer a really good framework, because they enable us to better define what sustainability means. But that’s not enough. The next step is being able to measure and report on sustainability. And a lot of work needs to be done before we’re in a position to do that. It’s of the utmost importance that we develop a framework for this with the help of the European regulators.”

Different sources report different amounts in sustainable investments. And many asset managers overuse the label ‘sustainability’ in their marketing. Does that proliferation bother you?

“We embraced SDGs early on. We were one of the first to launch an SDG Equities product and after that, we were the first to develop a model that allowed us to apply it to credits, too. That’s great, but ultimately, the SDGs will only have a really significant impact once the EU develops a solid framework and we have generally accepted definitions. Only then will we be able to really measure sustainability and see the impact on the SDGs. So yes, we can play a part in this, every asset manager can make a contribution. But ultimately, there needs to be a coordinated effort, driven by EU regulations, that allows the government to draw on the expertise of industries such as ours.”

“The lack of a clear definition means anyone can have his claim to fame, which causes a lot of confusion. In addition, the concept is constantly evolving. In itself, that’s no big deal, as long as everyone moves in the right direction. But if you really want to make progress, you need to define it. The fact that we lack scientific evidence of the ESG factors’ added value, doesn’t help, either.”

'I think the SDGs offer a really good framework, because they enable us to better define what sustainability means. But that's not enough'

Robeco is a pioneer in sustainable investing. But as a leader, you always have the so-called 'handicap of progress' to contend with. Competitors don't need to reinvent the wheel. How can Robeco maintain its competitive edge?

ON LEADERSHIP AND INNOVATION

"This is definitely something I lose sleep over, despite innovation being in the company's blood. We invest a lot of time and energy in it. With sustainability, it all started with an enthusiastic team in Zurich that began looking at companies out of a real passion for green solutions and embracing the ideology of sustainability. Since then, we've come a long way together. Sustainability has become an integral part of the financial analysis. I call that 'applied research' because it's used to analyze the value of assets and it plays a role in building portfolios and, ultimately, generates alpha. We are still making great strides, but we have a ways to go. And there are no limits on that, either."

"We need to maintain the right balance between research and engineering. Engineers tend to take an established concept and tinker with it to create a new and improved version. But that new version is very close to the old one. It's not all that innovative. So we not only have to continue developing company sustainability reports, but also think about the concept: how we can renew it to add fundamental value."

"It's extremely important for us to keep investing in both applied and fundamental research. RobecoSAM does 1,200 CSA interviews a year. We assess the sustainability of a total of 4,500 companies and in the future, that number must be significantly higher. The question is: can we do that alone or do we need to find partners to help us? And can it be done in the traditional way or will we need to use artificial intelligence (AI) and Big Data? Research is important and doing best-in-class research requires big investments."

Is the process moving fast enough?

"Only time will tell. But when I see what peers are doing... Then yes, you have the handicap of progress against you, but the process of building experience and expertise can't be rushed. It takes time, by definition. And we really do still have an edge on our peers. Our clients tell us so. It helps if you've been doing it for a really long time, and therefore had the opportunity to gain experience and keep getting better, and make improvements. Building up expertise takes time and many hours of practice. I think other parties can probably catch up a bit, but we will still be ahead of the pack."



And yet, it might not be so nice if something that sets you apart now were to become commonplace in the future.

“You think? I’m not so sure. Just look at sustainable investing compared to ‘regular’ investing in stocks or bonds. Anyone can access the data and information from those markets. But there are still asset managers who succeed in setting themselves apart. Sustainability data is still scarce, but in the medium term, it will become a commodity. Will that eliminate the first mover advantage? It’s not only about the availability of data. It’s also about understanding it. The ability to spot correlations, to get added value from the data. Data alone is not enough to give added value to a portfolio or product.”

“You have to ask yourself the same question as you would in any other domain: what sets you apart? The answer is simple: the quality of your research, the quality of your innovations, understanding what your clients need, how your teams relate to each other, perfecting your communication. We are also pioneers in factor investing and that’s gradually becoming mainstream. And after 30 years, we’re still a leader. Why? Because our people approach it very creatively, which means that we continue reinventing our understanding, constructions and products and are constantly gaining new insight.”

Does keeping that innovative spirit alive play a key part in that? And how do you go about it?

“One of the responsibilities of company leaders, I believe, is to make sure people don’t gradually become complacent. One of Robeco’s strengths is that we aren’t afraid to ask ourselves tough questions. An innovative spirit has nothing to do with age, but with culture and mentality. What I try to do is keep my inner child alive. In essence, that’s pure curiosity. What’s happening? Why is it happening? What will I find around the corner? I get bored really quickly; that’s not easy. The constant need to question things and to tinker with things consumes a lot of energy. But you have to find a balance between innovation and execution.”