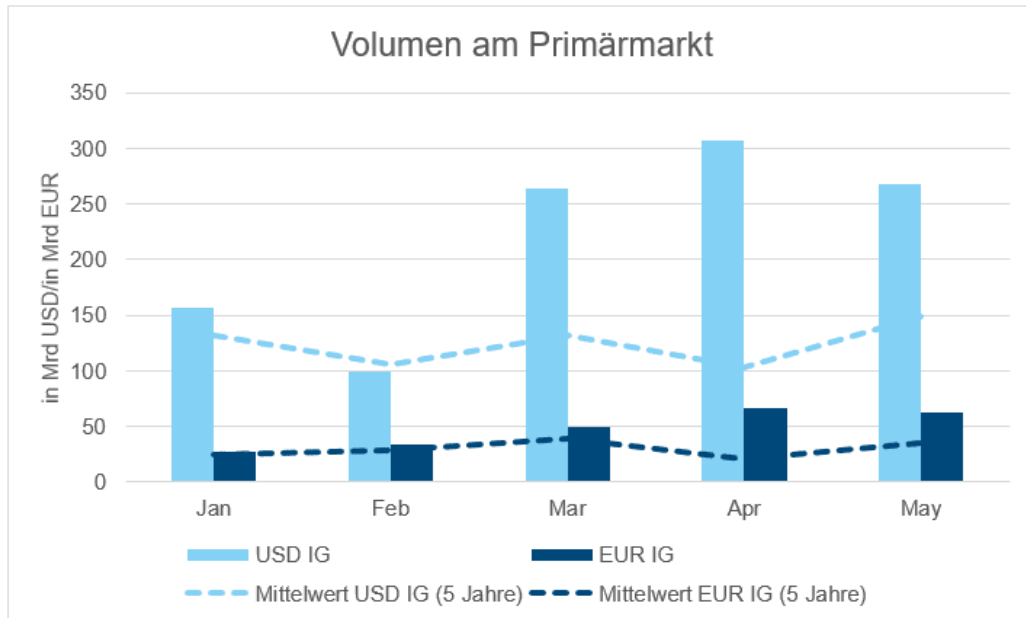


<https://blog.en.erste-am.com/interview-with-walter-hatak-head-of-investment-erste-am/>

Interview with WALTER HATAK, Head of Investment Erste AM

Walter Hatak



According to the latest report from Forum for Sustainable Investments, the investments in sustainable funds/mandates (i.e. institutional clients) increased by 39% in 2019. What do you think is the reason for the drastic increase of this asset class?

What has become clear during this crisis is that people are ready for big changes within short periods of time and even drive them if it is clear what for. And it has to be clear that climate change is something that, much like corona, affects all of us, regardless of wealth, region, or age.

In contrast to corona, however, from a certain point onwards (global warming above 2 degrees) there is no return to what we now call normality because the damage done causes too much secondary damage.

Has corona changed your assessment of the attractiveness of certain technologies within the environmental sector? What sectors command the biggest weightings in your flagship fund, WWF Stock Environment?

Covid-19 has changed nothing about our positive assessment of environmental technologies. While we will hopefully overcome corona in due course, climate change and other environmental problems remain in place. The solar segment in particular continues to provide an interesting outlook due to falling costs and rising effectivity, despite the drastic increase over recent years. In many parts of the world, solar power is already among the cheapest forms of electricity production, which means that subsidies are no longer necessary.

This means that in the foreseeable future, solar and wind power plus its storage will constitute the cheapest form of power generation, which will inevitably cause demand to speed up further. Other areas of the fund such as recycling – be it plastic or water – have become more prominently lodged within people's (and politicians') minds and should thus produce above-average growth rates for years.

According to MSCI, sustainable companies perform better than companies with conventional approach during crises. How can you explain that?

The data we have support the fact that companies with positive sustainability ratings have navigated the crisis better so far – at least in the developed markets. The gap between leader and laggard was biggest in the USA. This still seems to be different in the emerging markets, which may also be due to the fact that there are not that many emerging markets ESG funds around yet. The challenge in the emerging markets is mainly to obtain reliable company information. But the reliability of the data in the emerging markets is improving as we speak, which at least in some countries is due to increasingly stricter reporting requirements from companies.

Generally speaking, companies with have outperformed the overall markets over an extended period of time. This suggests that ESG factors have to be taken into account when evaluation companies.

Is this the right time to invest on the stock exchange anyway?

Ultimately, the performance of sustainable equity funds will of course depend strongly on the development of the international equity markets.

Despite the current situation, one should not forget that the fund invests in themes that will produce above-average rates of return for years to come.

Sustainable investment goes beyond selecting sustainable companies and includes, for example, the exercise of voting rights, the dialogue with companies, and taking into account ILO conventions. How do you handle this impact aspect of sustainability?

The targeted dialogue with companies (i.e. so-called engagement) and the exercise of voting rights at AGMs holds a lot of potential for bringing about sustainable change.

We attach great importance not only to the integration of sustainable standards in investment decisions, but also to engagement and voting activities. In Austria alone, assets under management that rely on engagement processes increased by 44% to EUR 12.52bn in 2018, according to Forum Nachhaltige Geldanlagen. Eurosif (European Sustainable Investment Forum) estimates the volume of these assets across Europe at as much as EUR 4,850bn (2017).

The biggest success can only be achieved when the dialogue is maintained over several years and investors and companies touch base frequently. We have therefore engaged with several companies especially in our domestic market of Austria for a while in order to integrate a stronger focus on climate and other environmental topics in our strategies. We addressed ESG topics at 80 different occasions of engagement in 2019.

Overall, Erste AM had exercised 3.7bn voting rights as of October 2019 at about 400 AGMs. This volume is more than the average market capitalisation of an ATX company.

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