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Essay by Hans Peter Schupp in Renditewerk
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Hans Peter Schupp, member of the board of Fidecum AG and Portfoliomanager of the Contrarian Value Euroland Fund, comments in Renditewerk on inconstistent sustainability criteria.

Sustainable investing: When only confusion prevails

The world of sustainable investing can be very confusing. Let's be honest and hand on heart: Do you know all the terms, institutions and initiatives behind the following abbreviations? ISSB, CSRD, CDSB, SFDR, SASB, TCFD, GRI and EFRAG? They range from "International Sustainability Standards Board" (ISSB) to "Sustainability Reporting Technical Expert Group Hybrid Meeting" of EFRAG (European Financial Reporting Advisory Group). The list could be continued indefinitely.

ESG: the classic

But let's stick to three terms that you can and should know: ESG, SRI and, more recently, Net Zero. ESG is clear, it stands for "Environmental, Social and Governance". These terms focus on evaluating companies based on their performance in these three areas. ESG investors look for companies that have strong environmental policies, are socially responsible, and have good corporate governance, such as transparency and accountability.

SRI: Focus on ethics and morals

SRI, or "Socially Responsible Investing," means that an investor puts his or her money into companies or funds that are in line with his or her personal, moral and ethical values. SRI aims to avoid investing in companies that have negative social or environmental impacts. The problem: There are no binding regulations for both SRI and ESG, although some countries are beginning to increasingly require companies to disclose information about their ESG practices. The European Union has introduced a Sustainable Disclosure Regulation that requires financial market participants to disclose how they incorporate ESG factors into their investment decisions. But the final interpretive authority on what exactly does and does not include E, S and G is still open.

It's important to remember, however, that SRI is more values-driven and focuses on selected issues, while ESG is predominantly data-driven and focuses on evaluating companies based on their overall performance in key areas.

Net Zero: Social and governance aspects are missing

But now let's move on to Net Zero. Behind it hides the latest development in sustainable investment. But it focuses only on a company's environmental impact and its efforts to reduce carbon emissions. Social and governance aspects of climate change mitigation, on the other hand, are ignored. Net zero investments are thus found in investment strategies that focus on investing in companies that commit to achieving net zero carbon emissions or reducing their carbon footprint to mitigate climate change risks. Although, again, there is no specific legal framework for these investments, various national and international agreements exist to promote the transition to a low-carbon economy and the reduction of greenhouse gas emissions.

Where are the binding criteria?

To all of this, it can be stated: Sustainable investment approaches face several criticisms. First, there is no clear consensus on what constitutes sustainable investing, as different organizations and investors have their own criteria. Second, some companies (and even fund companies) engage in so-called greenwashing by making unsubstantiated or misleading claims about the environmental benefits of their products or services. Third, sustainable investments can lead to limited financial returns, and the upfront costs of environmental and social initiatives can affect profitability. Finally, there is a lack of standardization in reporting and disclosure of sustainable investments, making it difficult for investors to assess the impact of their investments.

Our approach: a combination of ESG and SRI

Ultimately, it is up to the investor to decide which approach is right for them. For our Contrarian Value Euroland fund, we use a combination of ESG and SRI. In a first step, we create a portfolio without considering sustainable criteria. Then we use ESG ratings to check which companies perform poorly in this area and then decide whether this standardized ESG rating (SRI) can be justified from our point of view. If so, we change the portfolio composition.

It sounds complicated, but it's rather simple. One example: The Italian steel mill equipment supplier Danieli also produces steel itself. Like all family-owned companies, Danieli does not have a good governance rating. On the other hand, Danieli has invented a process that can produce steel in an almost CO2-neutral way. In this case, we find this more important than achieving a high governance score.

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Company Profile
Fidecum AG is a securities institution licensed by Bafin in 2008 and offers asset management concepts for professional investors. The owner-managed company operates completely independently and has been known in particular for the Contrarian Value approach for many years. In many professional years, the portfolio managers have proven themselves on the international stock markets, even in critical situations, and implement their strategies with a clear and comprehensible concept in a consistent and stylish manner. Fidecum - the fund manufactory®

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