

TRANSCRIPT: EPISODE 25

8 October 2019 (pre-recorded 27 September 2019)

Below is a transcript of the episode, modified for your reading pleasure. Please check the corresponding audio before quoting in print, as it may contain small errors. Please remember we've been discussing individual companies to bring investing to life for you. It's not a recommendation to buy or sell. The fund may or may not still hold these companies at your time of listening. For more information on the people and ideas in the episode, see the links at the bottom of the post.

[INTRODUCTION]

James Yardley (JY): Hello and welcome to the Investing on the go podcast brought to you by FundCalibre, I'm James Yardley and today I'm joined by Luciano Diana Elite Rated manager of the Pictet Global Environmental Opportunities fund. Luciano thank you very much for joining us.

Luciano Diana (LD): Thank you for having me.

[INTERVIEW]

[0:18]

JY: Now Luciano, one of the key differentiators of this fund is its use of the Planetary Boundaries Framework, can you explain to us what that is?

LD: Sure, the Planetary Boundaries Framework is a scientific framework developed by the Stockholm Resilience Centre - it was first published in 2009 in the Nature magazine. It tells us there's nine dimensions that are really important for the environment and the planet. Climate change is one of these nine dimensions but there's other very important ones like biodiversity, water cycle, the chemical pollution, nitrogen cycle and each other of these dimensions has a boundary that the ecosystem should not cross if we want to avoid non-linear and unpredictable change.

JY: Why did you choose to use it as part of the investment process for this fund, how does it fit in exactly?

LD: We launched the strategy roughly five years ago and we wanted to have an investment universe that really captured all the dimensions of the environmental challenges that we have and this framework was the perfect one. We used it to identify around 400 companies around the world that then constitutes our investment universe and then we pick to create the portfolio. So really it's the centrepiece of our investment process.

TRANSCRIPT: EPISODE 25

[1:46]

JY: And I think one thing that's quite interesting about your fund is it's not all about climate change, it's much bigger than that - which one of these nine environmental challenges do you personally feel the most passionate about?

LD: I started my career on the sale side covering clean energy, roughly 15 years ago, so I've focused a lot on climate change over the years. But these days I would say I feel very passionate about biodiversity because I feel that there's a lot more here that we have to do on the science front to understand the link between the loss of biodiversity, which we are experiencing, and the economy. And I'm passionate because it really touches my life - everyone's life - I just came back from some holiday in Corsica over the summer and you know I was swimming and for an entire week I think I saw three fish. So you know the environment around us is changing a lot and I think it's really important for investors and the public to be much more aware about biodiversity compared to a few years ago.

JY: Yes, I see your chart here in your presentation [see page 5] which our listeners can't see but in terms of biodiversity we've smashed through the planetary boundary limit for that so is it already too late or can we actually do something about this?

LD: I think if we are not careful there are some areas of the planet, like the Amazon, where we could reach some tipping points and then it will be too late. But by and large I'm optimistic and I think that we have the technology tools to address some of these issues, but the problems are serious and we shouldn't underestimate how serious they are.

[3:50]

JY: Many people think that in order to have principles you have to sacrifice some of your investment returns, is that the case?

LD: Well, our strategy has outperformed the global equity markets for the five years of its existence and clearly also had a positive environmental impact so no, in our view there is no trade-off. In fact, investing in an environmental theme is a good way to invest in global equities, it's just selecting companies that are benefiting from tailwinds in term of policy, in terms of demand and at the same time avoiding companies that will suffer from headwinds. So it's just a very reasonable and smart way to invest.

TRANSCRIPT: EPISODE 25

[4:38]

JY: And your fund, it's not just about looking for companies that are not just behaving well but are actively helping to solve environmental challenges. Can you give us a couple of examples of companies that are doing this?

LD: Developing environmental solutions is really the focus of the fund, it's not enough to be a good citizen, and so to adopt technology we look for technology providers, so a couple of good examples which may not immediately come to mind when we think about the environment could be software companies that are involved in virtualisation. So one is Ansys. It's a US based company, and their software helps to simulate physical processes and by simulating processes, a manufacturer can design and manufacture and test a product very efficiency - saving a lot of raw materials. That's for us an example of an environmental technology which helps the resource efficiency of the economy as a whole.

JY: Yes that's something that you don't really think about but actually it's very important.

LD: Yes absolutely so technology based is very important. Another example, also US based, could be Ecolab. Ecolab is a company that provides solutions for industrial clients as well as hotels and restaurants to manage their water properly. They help the recycling of the water, the processing and more and more this will be crucial. When we think about hotels in Las Vegas in 20, 30, 40 years time they will all have to be self-sufficient from water perspective because there's not going to be much water in Las Vegas. A company like Ecolab is going to give the technology to do that.

[6:31]

JY: Now as you mentioned earlier you previously headed a sell side clean energy team, a team of people whose job it was to sell clean energy investment ideas to fund managers. How has the clean energy business changed and evolved over the years and where do you see it going in the future?

LD: When I started on the sell side roughly 15 years ago, the investment universe that we were looking at was relatively narrow. It was a lot about solar and wind technologies and, over the years, these technologies have definitely evolved and improved in terms of cost and effectiveness, but the main trend has been that the universe has diversified.

So the way that we approach environmental investing today is much broader than just renewables. Renewables is only one answer to one particular problem, which is the energy transition but then there's many more technologies that we can invest in today that we didn't really think about. So

TRANSCRIPT: EPISODE 25

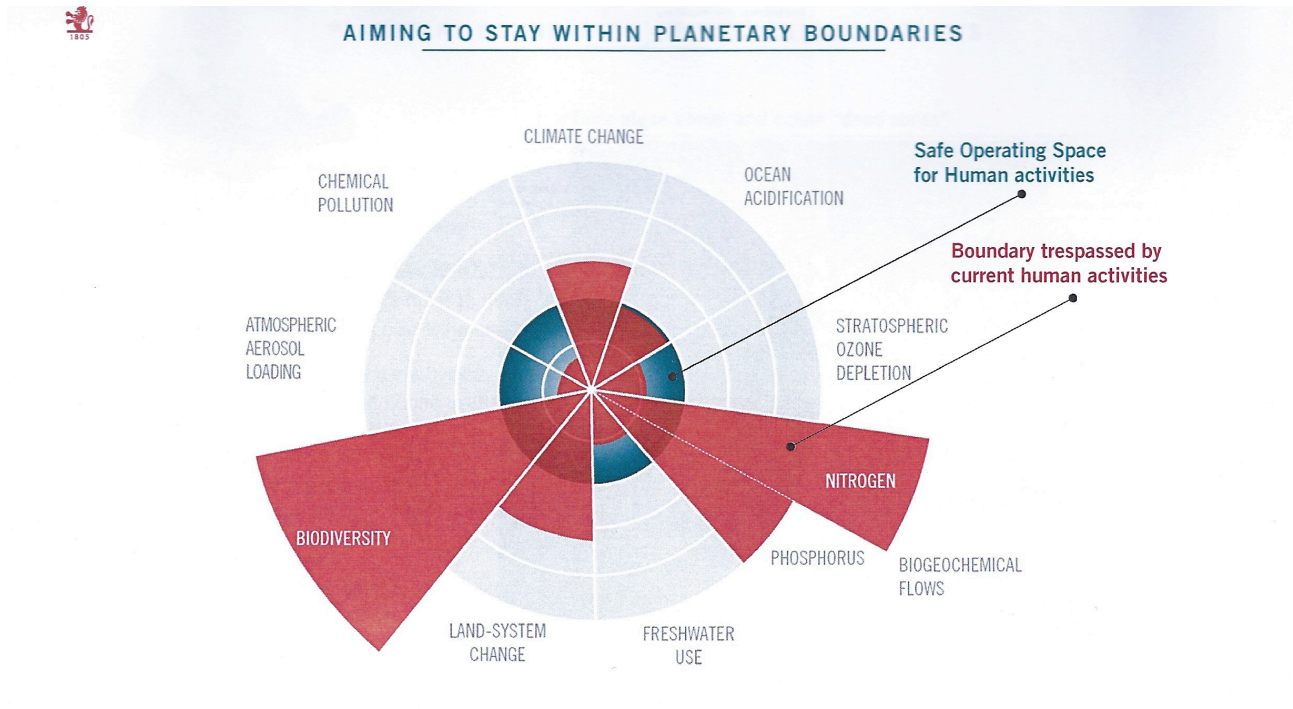
clean energy has evolved and become much more “mainstream” and we don’t necessary talk about energy, we talk about environmental technologies.

[7:44]

JY: And what made you change sides - so going from selling clean energy ideas to fund managers to actually being a fund manager yourself and does that give you extra insight into asking questions about potential investments?

LD: The move from sell side to buy side, being an analyst to being a portfolio manager is relatively a natural move. You go from making recommendations to someone, to actually taking the decision yourself, it was very natural for me. The additional edge personally is that I have seen quite a number of companies also fail, so I can say that I’m very conscience of in our world, the risk of being taken in by the hype of certain technologies, they may sound great but then they’re not ready for market. The number one priority is also to invest in a good business as opposed to investing in a business that sounds good but might not be ready, it might be too early. I think that’s an important edge to have.

JY: Luciano that was very interesting thank you very much for joining us. Thank you to our listeners for listening, I’m James Yardley and if you’d like to listen to more of our Investing on the go podcast, please subscribe to FundCalibre.



Source: "The trajectory of the Anthropocene: the great acceleration". Steffen et al. March 2015. Stockholm Resilience Centre, "Nature" September 2009

5 | Pictet - Global Environmental Opportunities
Pictet Asset Management
For professional investors only