NATIXIS INVESTMENT MANAGERS

MANAGER POINT OF VIEW

Clear opportunities

Will 2019 be the year of thematic investing? When you consider the long-term investment opportunities of water, for example, it's easy to see why thematics is dominating the industry lexicon. Water is a limited resource with growing demands placed upon its provision to sustain demographic and economic growth. And we can't live without it. The ever-growing water service and technology industry therefore represents a large, diversified and differentiated investment opportunity within the thematic investment universe.

Simon Gottelier, co-manager for Thematics Water strategy, explains why the portfolio companies selected in his thematic fund are helping to address the global imbalance in supply and demand in the water market.

How did you get into thematics?

I was previously an investment banker, which gave me the financial experience. Then I worked for one of the world's largest water companies, Veolia.

Incidentally, Arnaud Bisschop, the co-manager of the Water fund, worked for Suez, so we both have uncannily similar backgrounds in that we both worked for two of France's largest concessions businesses.

After Veolia, I moved to Impax Asset Management, which is an environmental and thematic investment manager based in the UK, and that effectively drew the finance and the environmental thematic strands of my career together. It was during my time at Impax that I got an opportunity to launch and manage the Impax Water strategy, which included one of the prestige products in that market.

Where are your key areas of focus within the Thematics AM team?

Arnaud and I manage the Water strategy. We are an experienced, complete and settled team. We then have Karen Kharmandarian who is lead manager of the AI & Robotics (AI&R) strategy with our digital and tech expert, Nolan Hoffmeyer.

Nolan is also currently managing our Safety strategy with lead manager Frederic Dupraz. We will shortly be adding new, permanent Portfolio Managers to the AI&R and Safety strategies, which will also free up Nolan to launch his own new strategy in Q3 of 2019 – a strategy that does not currently exist in the market and about which we are extremely excited.

So, we currently have five focused portfolio managers as well as Mohammed Amor, who heads up business development and client service.

At the heart of everything we do is the identification of long-term themes, underpinned by secular growth drivers that create the potential for thematic equity funds. The difference between a sector fund and a thematic equity fund is an investible universe that offers diversification, balance and the ability to be exposed to both economically sensitive businesses and defensive businesses.

By reputation in the market, Arnaud and I manage products with a profile that people tend to associate with being relatively defensive, or as we like to call it, 'sleep-at-night money'. As active managers, we certainly aim to find and exploit short-term valuation opportunities in some of the more cyclical companies in our value chain to capture market upside, but equally, we have plenty of defensive opportunities to act as a 'counter-weight' when there's a market drawdown.

THEMATICS asset management

Simon Gottelier

Co-founder and owner

Thematics Asset Management, and co-manager

Thematics Water strategy

"The difference between a sector fund and a thematic equity fund is an investible universe that offers diversification, balance and the ability to be exposed to both economically sensitive businesses and defensive businesses."

What's the main advantage with water as a thematic investment opportunity?

A key reason why water is such a great investment opportunity is that it has perhaps the longest-term secular growth themes underpinning it. Each of these long-term secular growth drivers are, by their very nature, fifty to a hundred-year narratives.

One of our biggest opportunities is based around changing demographics in emerging economies. Somewhere in the region of 350 million people in China are expected to move from rural to urban areas in the next 30 years. That clearly places a huge amount of strain on existing infrastructure and drives the need, at the government level, to invest in new infrastructure. In the US, on the other hand, there's something like a trillion dollars of refurbishment spending required in water infrastructure.

The whole water opportunity is driven essentially by imbalances in supply and demand, so governments are spending more money on the oversight of water quality – whether that's for drinking water utilities or industrial water. And that also tends to be mandated spend, very predictable. Furthermore, there is a 100% correlation between water availability and a country's ability to grow its GDP. Without water, there can be no economic activity – none whatsoever.

Moreover, governments and the private sector are also waking up to the fact that there is a need to invest to mitigate against the effects of climate change. When you witness the clear and obvious changes in global weather patterns that we are experiencing today, it is clear that the water is falling where it didn't fall previously, and droughts are becoming longer and more severe. There's simply more intense rainfall in different areas relative to previous decades – devastating floods caused by the recent cyclone in Mozambique, as well as the recent floods in Nebraska, and the five-year drought suffered by California.

Naturally, this puts pressure on governments, the agricultural sector and the private sector to invest to mitigate against the negative and sometimes devastating impacts of these changing weather patterns.

Thematics is beginning to take over investment management parlance in the same way that ESG (environmental, societal and governance) did in 2018. What's your approach to ESG?

I think it's very easy to pay lip service to ESG. And there are certainly plenty of products out there that do that – likewise, you can spot those companies just trying to 'green' their credentials. What we want to do is fully integrate ESG into our process, so that it's ingrained in our risk management methodology.

We do that by integrating ESG in three key phases of our investment process. In the initial phase, which is where we identify our investible universe, we use a parent company negative screen. We're effectively screening out controversial weapons, and so on. This screen looks quite similar to the UN PRI-type negative screen.

We're also working in partnership with Mirova, one of the acknowledged European market leaders in ESG investing, to get good quality ESG data on specific companies and the portfolio as a whole. Directionally, we would also like to provide our clients with an analysis of the impact of the portfolio relative to the UN Sustainable Development Goals (SDGs).

Why was it necessary to work with partners in this space?

Well, as a six-man team, we know we can't do all of this on our own. Mirova gives us company-specific and portfolio-specific information, so that when we're in the stock selection part of our investment process, we have the data that can help us make informed decisions about the ESG qualities of those businesses.

Equally, with impact-related information about the portfolios, we think we can put a powerful message to the market about some of the extra financial qualities of our portfolio. I should add that we also have access to data from ISS and Sustainalytics, so there are a number of different sources we can use.

Finally, in the active ownership parts of the process, we are using the ESG data to make decisions about whether we should be potentially capping position sizes of certain companies in the portfolio. We are also being disciplined about voting and engaging with companies where appropriate. Both of these things are often easier when you have more than ten years' experience of speaking with the same individuals in many of the companies in which we invest.

So there is a direct link between poor ESG performance and position sizing?

Yes, it's one of the ways that we look at risk management in the portfolio and, equally, it's how we aim to be good stewards of our portfolio. As I say, we have the benefit of long-term relationships with a number of the management teams of the companies in the value chain, and we are engaging with them on relevant issues – using our proxy voting and meeting the management teams every year. We recognise that, for some, ESG risk management is a tick-box process. For us, it's far more important than that.

How do you think different markets will take to thematic equity investing?

The institutional market tends to be quite consultant-led, and I think it's fair to say that the consultants are somewhat behind the curve in terms of adopting thematic strategies, and how thematic strategies can fit into a traditional asset allocation model. But I think the Dutch market, which is largely wealth management firms and retail clients, is much more enlightened about thematic investing than, say, the US market.

What does the road map look like for the team over the next 3 years?

We're looking to build on our past experience, constantly improve our process and use the flexibility and access that being part of the Natixis federation affords us – to evolve the next generation of active thematic investments. We're really excited for what the future holds and are passionate about our areas of expertise.

What's more, followers of our strategies can expect to be part of the narrative, as we hope to share insights on our strategies and the major milestones for our team along the way.

This interview took place in March 2019 and was updated in September 2019.

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