Buy side

The search for sustainable winners

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Robeco is one of Europe's largest asset managers with more than $200 bn in assets under management. Founded in 1929, just weeks after the Wall Street Crash, by seven Rotterdam businessmen who formed a syndicate to invest people's savings and manage money collectively, it was called the Rotterdamsch Beleggings Consortium, later shortened to Robeco.

The multinational firm is a research-driven active manager, renowned for its sustainability investing. In the US, it owns Harbor Capital Advisors and Boston Partners Asset Management, and acquired Sustainable Asset Management in Zurich in the 2000s. Robeco's 'investment engineers' routinely integrate sustainability factors into their entire range of equity and fixed-income strategies and their investment style is bottom-up stock selection with top-down checks.

The Robeco Sustainable Global Stars Equities Fund has been investing worldwide since 1929, making it the oldest existing fund in the Netherlands. Today it has $5 bn in assets under management and both a 5-Star and 5-Globe ESG Morningstar rating. Oliver Attwater joined Robeco in September 2021 and works alongside five other portfolio managers on the Sustainable Global Stars Equities Fund.

Oliver Attwater, Robeco

How do you work and confer with the other teams at Robeco in Rotterdam, Zurich and elsewhere?
We share meetings across the equity teams at Robeco so all interested parties can participate and share questions with management teams. We also have a mix of meetings between those led by the portfolio managers and those led by our in-house engagement teams. This approach allows us to raise important ESG discussions with companies and fully integrate sustainability into our fundamental investment process.

The way we integrate ESG in the Sustainable Global Stars Equities Fund is at the very start of the analysis process: when we are looking at a new name or updating our investment thesis, we will work closely with the people in Zurich and Rotterdam who are focused on sustainability and integrate that into our fundamental research process.

So if I'm looking at a new name, I'll work in parallel with Robeco's sustainable investment team, ask it for information and further discuss it from an ESG standpoint. That's how we make sure we fully integrate ESG. It is not just downloading a third-party report to copy and paste. It's very much bottom-up sustainability research.

The fund has five portfolio managers. Do you split geographies and sectors?
Michiel Plakman is the head portfolio manager for the fund, but each sector portfolio manager has leadership responsibility for his/her sector. Michiel has been an expert for many years in technology so he's an excellent person for me to work with and use as a sounding board when I'm working on individual names.

As well as technology, my focus is on consumer discretionary and communication services. Other sectors are primarily covered by my colleagues.

> “We avoid investing in stocks that don’t have a comfortable level of liquidity”

You tend to target medium and large companies – do you have a minimum market cap?
Liquidity is a very important consideration for us. We are a high-conviction portfolio and like to have approximately 40 holdings. We avoid investing in stocks that don’t have a comfortable level of liquidity or we’d be forced to hold small positions and lose the high-conviction discipline.

Any sectors you exclude?
We don’t exclude any sectors, but we are an Article 8 Fund and there are certain companies and industries we exclude. On a day-to-day basis the key for us is the discipline in following our investment philosophy. By targeting high-quality companies with positive ESG profiles that are trading at reasonable valuations, we ensure the portfolio consists of companies we believe can outperform over the long run.

What’s your investment objective?
The fund aims to offer asset growth in the long term while at the same time aiming for a better sustainability profile compared with the MSCI World Index by promoting certain ESG characteristics and integrating sustainability risks into the investment process. It also aims for an improved environmental footprint compared with the MSCI World Index.

What is your investment process?
Throughout my career, I have focused on identifying quality companies trading at a reasonable price. Often the market chooses to focus on short-term concerns, which I believe can present opportunities to own long-term winners at an attractive entry point.

I try to be broadly balanced in other metrics so, for example, I wouldn’t want to tilt too far toward value or growth, and I seek to own stocks that can perform well through economic cycles.

I screen for the type of characteristics I define as ‘quality’ – companies that generate high ROI and have healthy free cash flow generation and yield, low balance sheet leverage levels and attractive ESG profiles.

Screening and analysis frequently start off quantitative, but then move more into the qualitative areas of trying to understand the company, the business model, the industry it operates in and its competitive advantages, the management team, a full ESG analysis and finally building models to understand what the key drivers are for the company.

During my early days at the British Airways Pension Scheme, the manager at the time instilled a sell discipline in the team, which I have continued to follow throughout my career.

If a holding starts to deviate from my original investment thesis, I believe in acting quickly. Other reasons for considering reducing/removing a holding typically include technical breakdowns, strong performance leading to an extended valuation or just because I have found a better alternative to invest in.

What's your investment time horizon?
I am a long-term focused investor, but my investment time horizon can vary depending on the company and the industry. Peter Lynch, [the former Fidelity fund manager], famously talked about dividing the market up into six categories of stocks, which I believe can be a helpful framework to think about when analyzing companies and setting your investment timeframe.

Many of the technology companies I look at require a longer investment time horizon to fully appreciate their potential. But with more cyclical stocks, such as those in the semiconductor industry, you also have to increase your focus on what's happening over the next 12-18 months because if a company is nearing the peak of its cycle, the returns may well struggle even if you have a longer-term investment horizon. So it flexes by company and industry but on average I think of the portfolio as having a two to three-year time horizon.

> "If a holding starts to deviate from my original investment thesis, I believe in acting quickly"

What is your geographic allocation?
We're about 75 percent North America, 20 percent Europe and 2 percent each Middle East and Asia. But we don't target geographic allocation so the stocks we select are a function of bottom-up research.

Are you active owners? Do you vote your proxy?
We vote and actively communicate with management if we disagree with proposals it is supporting. We try hard to be good stewards of our capital.

What's your preferred method of meeting management?
In person and one-on-one but that's a trade-off between frequency versus quality so virtual adds a significant amount of frequency to the conversations you can have with management teams. We try to have one-on-one in-person meetings when we can but fill the gaps with virtual and group meetings.

Has Mifid II affected you?
It hit when I was at the British Airways Pension Scheme, and it definitely led me to use groups like Phoenix-IR a lot more for corporate access. It changed how we worked with the sell side from a corporate access standpoint, and it led me to become more active in reaching out to firms directly to get access, so it has definitely shifted things.

Any companies that stand out as particularly good at IR?
On the tech side, Nvidia and Microsoft – both are very good at engaging and making a big effort to have open access to a large number of investors via group calls. Both Nvidia and Microsoft set up a post-earnings Q&A session with investors so I join those calls and submit questions. The sell side chairs the meeting and, as an investor, you send questions to the analyst saying, 'Can you ask about this topic?' Nine times out of 10, my questions get asked.

> “If a company is nearing the peak of its cycle, the returns may well struggle even if you have a longer-term investment horizon”

How does life at Robeco compare with your previous job at an in-house pension fund in London?
The key difference is that there was no external marketing at British Airways. We still had to justify our existence every day to trustees and internal management but it was more internally focused, walking them through how our process and philosophy worked.

At Robeco, it's much more outward-facing with regular client meetings, and it's actually a very healthy and satisfying part of the job because it helps you to refine your process. In addition, it's satisfying meeting people who invest in your funds as well as working to listen and understand their primary requirements.

Crystal ball time: on a macro level, where are we headed?
It's going to be choppy! Ever since I started working on the US equity market one of the first things I learned was: don't fight the Fed. And at the moment the Fed is pretty keen on tightening monetary conditions.

In the short term, this is a headwind for both corporate profits and valuations. But after looking at US equities for a number of years, I tend to have an optimistic slant because, in the long run, the US tends to do pretty well. Outside of the US market, the headwinds are pretty strong but I still see long-term opportunities and some great firms trading at discounted valuations. I remain optimistic, but – in the short term – it will be choppy.

How's your Dutch?
Work in progress!

Gill Newton is a partner at Phoenix-IR, a Europe-based IR consulting firm that also operates Corporate Access Network