

**Beta Can Be Smart and Responsible**



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Stockholm (NordSIP) – During a recent visit to Stockholm, Yves Choueifaty, CEO of the French smart-beta asset manager TOBAM, described the motivations behind the firm’s sustainable investment policy. He explained how the choice to follow sustainability constraints was obvious from the start, but also what the limitations are for a firm that does not base its strategy on acquiring insights – and how it compensates for that.

For TOBAM, which stands for “Think Out of the Box Asset Management”, sustainability has been part of the project from inception, in 2005. TOBAM’s strategy relies on a superior diversification of the market portfolio relative to its market-cap weighted benchmark. Given its quantitative aspects, its focus on risk and its aim to outperform market benchmarks, the fund’s obvious first target clients were large institutional investors such as sovereign wealth funds or state pension funds. Since these are long-term investors – in fact, extremely long-term investors, as Choueifaty emphasised – they are often interested in the sustainability dimension of their investment decisions. The first step for TOBAM was therefore to align itself with the requirements of its largest investors. The firm adopted the same exclusion list as the Norwegian Sovereign Wealth fund, Norges Bank and later on, excluded the companies black-listed by the Swedish AP buffer pension funds.

In parallel, however, Choueifaty explains that investors express an explicit view on a company or sector when excluding it from its investment universe. Oddly enough, not having insights and not making any financial forecasts is something TOBAM prides itself on. Going beyond some aforementioned basic exclusions was therefore not desirable from an investment strategy perspective, even if the firm wanted to take a step further in acting more responsibly towards the environment. As a result, the decision was made in 2011 to calculate the carbon emissions generated by the firm’s activities (travels, employees’ transportation, water & energy consumption), and to offset them at 150%, a commitment upheld ever since. A similar decision was made when the firm launched its Emerging Markets fund in order to offset its human rights impact. “Investing in Emerging Markets obviously favours the local economies and population, but it also implicitly supports governments that are not always blameless when it comes to human rights,” Choueifaty [**proposes**](http://www.tobam.fr/sustainable-way/). TOBAM therefore chose to support Amnesty International, an organization whose sole objective is to promote human rights in the world.

TOBAM may never become a real impact investor, but given its investment strategy which by design cannot integrate strong biases, it is interesting to see how a firm can commit to a sustainable path by using parallel compensation methods. Perhaps this could be the proof that beta (which ironically, in French is also a synonym for “moron”) can actually be both smart and responsible.