In Search of Nicolas Bourbaki

by Aline Reichenberg Gustafsson, CFA on October 4, 2018

Stockholm (NordSIP) – Known for its “anti-benchmark” approach, French asset manager TOBAM relies mostly on quantitative processes to determine its investment strategy. While ESG integration remains an issue for many systematic strategies, Yves Choueifaty, founder and CEO of TOBAM, believes that there are simpler and more effective ways to take E, S and G into account than embedding them in the investment process. We sat down with him to discuss imprecise measurements, carbon capture and the unsustainability of sovereign debt in western economies.

“The issue with sustainable development,” starts Choueifaty, “is that the terms are not all very well defined, and it is, therefore, difficult to measure. We did an experiment recently, and compared ESG data from two different providers, and found out that the change in ratings was negatively correlated. We recently had a debate with one of our clients, as the results of three different providers contradicted themselves. Sustainable investors need to and their Nicolas Bourbaki.” This French mathematician never existed, he explains but represented a group of mathematicians who published a series of books, starting in 1935, with the goal of re-writing mathematics, with definitions to serve everyone.

“Some have calculated that a Tesla and a Prius have the same carbon footprint as a Hummer if you consider the entire lifecycle of the vehicle,” he continues. “It all depends on how electricity is generated, and that, of course, depends on where the vehicle will run. Hence the measure is imprecise.” For Choueifaty, the problem is that scientists have not actively participated in solutions on a large scale, and the debate remains highly political. “Communication is critical in politics, but behind there is a lack of scientific rigour,” he adds.

The United Nations, however, stands out for its research, according to Choueifaty. “Their proposed approach is very clear: avoid, reduce and offset,” he says. “In our industry, we focus on the first two, but we often overlook the third step. Offsetting is, however, the most effective way to prevent climate change and not as difficult to implement. Planting trees is easy, not excessively costly, and very efficient. We also need to work harder on stopping deforestation.”

While the firm decided already from the start to exclude the same companies as those blacklisted by the Norwegian state pension fund, it has announced on September 17 that all its equity portfolios would now benefit from a 20% carbon footprint reduction compared to their respective benchmark. In addition, for each E, S, and G, Choueifaty explains, the firm has chosen specific points to address internally at its own corporate level. The firm offsets 150% of its carbon footprint, for example, contributing to reforestation projects in France, South America and Africa. “I am the only CEO in this industry who can claim that I am doing something good for the planet every time I travel,” jokes Choueifaty. “At TOBAM, we thought that it was hypocritical to have opinions about how companies deal with ESG issues, and not addressing those issues in-house in the first place.”

When the firm launched its first emerging market fund, managers came to realise that they couldn’t address social issues in those countries on their own, while they implicitly invested capital in countries where governments might not respect human rights. They decided to “offset” their human rights impact by allocating 6.5% of their emerging market funds’ fees to Amnesty International and other Human Rights NGO’s.

Regarding “G”, Choueifaty believes that the asset management industry is ridden with issues related to severe conflicts of interests. He thinks that the ownership model of TOBAM shows a way to resolve those conflicts. Employees own a majority of the firm’s equity, but Amundi who distributes TOBAM funds (about 20% of AUM) and Calpers, one of the firm’s largest investors (8% of AUM) are also equity holders.

Both asset managers and investors should dare to face difficult questions and take responsibility beyond matters of definitions, measurements and data imperfections. Most of society’s long-term assets, such as those held in pension funds are still invested in highly liquid sovereign debt that does not only generate very little income, but has a negligible sustainable impact, or perhaps even the opposite. “How can investors believe that it is sustainable to lend to our western governments?” Choueifaty asks. “Government debt should help states in development or those coming out of a war for instance. For a healthy ageing country like ours, how is it sustainable? When the governments have not managed to produce a surplus in more than 40 years, debt provides social wellbeing that should result from its people’s work, not on borrowing from future generations.”