

Measuring Corporate Conscience

Asset4's monitoring of non-financial factors catches on with investors.

Timing is everything, a lesson European serial entrepreneur Peter Ohnemus, who prides himself on spotting trends early, learned the hard way.

In 1996, he co-founded Fantastic, a Zug, Switzerland-based "broadband multimedia distribution company" which made software to streamline the creation, transmission, and viewing of broadband content

Some of Europe's most powerful phone companies, including British Telecom, France Telecom, and Telecom Italia, along with chip maker Intel, telecom equipment maker Lucent, and media groups Reuters, Kirch Group, and Singapore Press Holdings, invested \$120 million.

Asian carriers such as Singapore Telecom and Japan's NTT signed up as customers. Lucent began reselling Fantastic's software to U.S. carriers and upstart telecom companies. Fantastic even helped Germany's BMW build a prototype car that could download broadband broadcasts. And it made headlines at Telecom 99, a big United Nations trade show in Geneva, by featuring a "broadband bicycle" that would entertain you with Hollywood fare while you peddled away.

"Fantastic was doing an incredible job both from a client and technology perspective, beating major U.S.-funded startups on large telco deals," says Mr. Ohnemus, now 41.

Then came the telecom crash of 2000.



We intend to be the Bloomberg of extra-financial data.

PETER OHNEMUS,
FOUNDER, ASSET4

Phone companies retrenched, and focused more on cutting their debt load than on dazzling consumers with entertainment services.

Deutsche Telekom, for example, which had signed a \$50-million contract with Fantastic to upgrade its cable network, decided to sell its assets instead. The Swiss upstart, which went public on the Frankfurt Exchange in 1999 and reached a peak valuation of over \$6 billion soon after, lost over 95 percent of its value in early 2004, having never turned a profit.

In hindsight, Fantastic was too early: Broadband was in its infancy, set-top boxes were not ready, and digital rights management was not in place, says Mr. Ohnemus, whose first entrepreneurial venture, a database company with branches in Denmark and Switzerland called SQL, was acquired by Sybase in 1993.

Mr. Ohnemus, who was born in Denmark, grew up in Germany, and now lives in Switzerland, has since moved on to his fourth venture, Zug-based Asset4. This time his

timing appears to be right on the money.

Asset4 aims to help institutional investors and hedge funds predict the performance of companies based on factors other than pure financials. Only 16 percent of a company's performance is linked to financials, the other 84 percent are tied to environmental policy, and social and governance issues (ESG), claims Mr. Ohnemus. He and his team have been working for three years to quantify these non-financial factors by creating a database and software based on 250 specific economic ESGs, with the help of experts from statistical algorithm specialists GOE (Gesellschaft für Organisation & Entscheidung), the Swiss Federal Institute of Technology, the International Institute for Management Development, and the Copenhagen Business School. The proprietary system that was developed is protected by a number of global patent applications.

The idea for Asset4 came while Mr. Ohnemus and Henrik Steffensen were running



The Nitty-Gritty

Asset4 looks beyond financial information to evaluate companies.

CRITERION	WHAT IT MEASURES	BOTTOM-LINE IMPACT
Eco-friendly Product Innovation	How effectively a company is researching and developing eco-efficient products or services.	Increased revenues and profitability plus boost to branding from being perceived as an environmental leader.
Emission Reduction	Efforts to reduce environmental emission in the production and operational processes.	As with CO2 emissions today, emissions of other (ozone-depleting) substances will become a cost factor for companies.
Community Relations	Reputation as a good citizen, protecting public health and respecting business ethics.	Helps investors and companies understand how a company is perceived by the outside world.
Board Structure	Commitment to best-practice corporate governance principles. Reflects capacity to ensure critical exchange of ideas and independent decision-making process.	This category impacts how a company is strategically managed.

Source: Red Herring research

the United Nation's Principles of Responsible Investing initiative, a commitment from the world's pension funds, mutual funds, and asset managers to integrate ESG aspects in their investment research and investment decision-making processes.

If Asset4 is right, that commitment is likely to pay off. Using an algorithm, Asset4 selected a group of large corporations which all got high ratings on corporate governance and then measured their performance over five years. These companies outperformed the market between 20 and 30 percent. A further study of the same companies from last year to July of this year showed that the rate that these companies are outperforming others keeps getting bigger, says Mr. Steffensen.

There is another reason why asset managers think ESG will give them an edge. There is \$47 trillion in global assets under management. The commissions and income of asset managers are under pressure because large institutional investors are increasingly turning to electronically traded funds rather than paying higher fees to asset managers or investment banks.


In the future, professional asset managers will have to use a lot more "quant"—quantifiable patterns in the marketplace based on analysis of the correlation of numbers with market trends—in their products to differentiate themselves from the electronically traded funds and justify higher commissions, says Mr. Ohnemus.

UBS has signed on as an Asset4 client. Other clients—all big asset managers—wish to remain anonymous, says Mr. Ohnemus.

Asset4 will not disclose how much it has raised from Goldman Sachs or other investors. Mr. Ohnemus and Mr. Steffensen have put in some of their own money. Alan Parker, one of the founders of duty free shops, now a big investor in different funds, has also invested, as have three billionaires that Asset4 will not name.

In addition to Zug, Asset4 has offices in New York City and London and plans to branch out into Asia next year.

The company aims to generate its "first millions" this year and break even by 2008, says Mr. Ohnemus.

Currently, there are no plans to distribute terminals globally like Bloomberg or to equip broadband bicycles with them. Asset4 offers a web-based system that Mr. Ohnemus hopes will grow virally as more big asset managers realize that the time has come to embrace ESG. 

e-firm, a Swiss family office and investment boutique started after Fantastic's demise. While investing in some 10 companies, the two men found that all too often the value of companies—both public and private—was not on the balance sheet so they started thinking about how they might develop a new type of data system for investors to use, says Mr. Steffensen, now vice president of marketing and business development at Asset4.

Like Bloomberg and Thomson Financial, Asset4 gives information and then lets investors drill down and create their own ratings and rankings, based on specific criteria.

The difference with Asset4 is that none of it is financial.

"We intend to be the Bloomberg of extra-financial data," says Mr. Ohnemus.

So far, 800 companies are in Asset4's database; by the end of next year, it plans to have 3,000 major companies—covering about 70 percent of the world's mainstream trading market.

Among the first to buy into Asset4's theory and technology was U.S. investment bank Goldman Sachs, which announced in June that it would not only participate in Asset4's first financial round, but would also incorporate Asset4's ESG data and framework into its own investment research, benchmarking, portfolio monitoring, and risk management processes. Goldman Sachs additionally committed to marketing the Asset4 system to its own global client base.

"We believe that the Asset4 product offering will have broad applicability across our global investor client base," Michael Sanders, managing director in the equities division of Goldman Sachs, said in a statement. "It appeals to a range of clients, from institutional investors with socially respon-

sible investment mandates to hedge funds."

Why Now?

There is a growing belief in the importance of the ESG issue in a "carbon-constrained world" from banks, assets managers, and pension funds, says Mr. Ohnemus. That is because carbon emissions now cost big companies big money.

"Our software lets you take the 10 largest oil companies and benchmark Co2 emissions per billions of revenue as an investor," says Mr. Ohnemus. "Investors care because the Kyoto Protocol says they will have to pay for Co2 certificates, which is a substantial cost to the bottom line."

To that end, Goldman Sachs will incorporate Asset4 ESG data into its upcoming reports on how the overall environmental performance of leading global corporations has a direct correlation to the share price.

"What we have seen in the asbestos industry we will see in the transportation and energy sectors—we are talking billions of dollars in potential legal claims against auto companies that don't keep emissions as low as possible," says Mr. Ohnemus. The most profitable hedge funds will see trading opportunities—they can go short in the shares if the companies are not being transparent or go long because they see that the company is prepared to deal with these emerging issues by taking precautions or coming out with new eco-friendly products, he adds.

Large pension funds, such as the ABP pension fund in Holland, have already announced that they will be integrating ESG issues into their investment decision processes. And, points out Mr. Ohnemus, investment funds handling over \$4 trillion are now supporting the six principles of