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The ESG equity champion

Top ranked equity ecology fund manager Daniel Brühwiler breaks down the strategies of the future.

BY **SARAH PRAETORIUS**



The troposphere is only 12 km thick, explains [Daniel Brühwiler](#), the CEO of Global Strategic Capital.

Sitting in Zurich, he describes the crucial layer of atmosphere that contains the air we breathe as he explains the urgency of the climate catastrophe.

A few days after our interview, Earth records its hottest day in history.

The issue was brought into sharp focus when Brühwiler, a former head of portfolio management at Credit Suisse and a former head of investment management at Vontobel, was conducting research for his new company, which hosts a range of green strategies that have attracted more than CHF 100m since their launch.

He noticed something contrarian to the common investment rhetoric. AI, in spite of being hailed as the ticket to a bright future, poses a very real threat to our environment, he concluded.

'Data centres are going to grow threefold until 2050. Data in our world is going to double every two years. This is not linear development; this will be exponential,' said the + rated Brühwiler, referencing a course he took at the Massachusetts Institute of Technology in 2023.

Data science, data engineering, data analytics and data management will also experience enormous growth. The energy connotations of this are huge.

Google, alone, admitted in July that its greenhouse gas emissions have surged nearly 50% in the past five years due largely to its energy-hungry data centres powering its AI products.

Engaging efficiency

To tackle energy inefficiency, Brühwiler created the [Green Tech ESG Equity](#) fund, which invests in technology firms focused on making data centres more sustainable.



Daniel Brühwiler, Global Strategic Capital

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The fund has returned an impressive 20.8% over three years to the end of August, ranking first out of 68 in Citywire's Equity - Ecology sector. The average return in the sector was -16%.

Brühwiler's fund also tops the sector for maximum drawdown, which he puts down to the consequent risk management approach applied. The strategy uses a multi-factor model, which is 40% based on momentum, 40% on value and 20% on quality. Momentum investing based on revenue growth above 20% is key to successful green strategies, Brühwiler believes.

The portfolio selects 25 stocks from the 'green tech' investment universe, which comprises about 300 companies. The firms are rebalanced at the beginning of May and November.

One of the companies in the portfolio currently is Sweden's Munters Group, which offers evaporative cooling systems to cool data centres. Brühwiler believes that firms that invest in energy-efficient solutions also save costs.

There are more than eight billion people on the planet, with a 25% increase expected by 2060, Brühwiler said.

'The per capita consumption will also increase, especially in non-OECD countries,' he explained. 'We need intelligent green technological solutions to solve these problems.'

The upside of AI

While AI has its downsides, Brühwiler recognises its benefits and has invested in it via Global Strategic Capital's NextGenTec Portfolio, which is available as an AMC.

'The high energy consumption of AI is certainly a negative aspect,' he said. 'On the other hand, AI is also part of the solution when it comes to analysing complex relationships in the field of climate.'



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While AI's carbon emissions are enormously damaging to the environment, Brühwiler and the University of Cambridge (which uses the AI supercomputer Dawn to assist its climate research) believe it could provide important climate simulations.

'Understanding the climate is very data-intensive,' Brühwiler said.

The NextGenTec portfolio, whose holdings include semiconductor and energy efficiency firms, uses a momentum investing approach. It only buys companies with more than 20% revenue growth.

This strategy has delivered 7.4% in CHF since its launch late last year, as per the September factsheet. In the same time frame, the MSCI ACWI IT has returned 27% in CHF.

Hydrogen

Brühwiler also believes hydrogen will be fundamental to the energy transition. His own Hydrogen Portfolio AMC invests in three subsectors: green hydrogen production, solution providers, and 7% pure plays.

He pointed out that hydrogen can produce electricity consistently – unlike wind and solar technologies, which are weather-dependent – and that pumped hydrogen has the potential to store electricity. Others, though, remain sceptical about hydrogen's potential to decarbonise the economy.

Debates have sprung up about its usefulness since it is both expensive and lacking in infrastructure.

The September factsheet of the Hydrogen Portfolio AMC shows losses of 39.7% in CHF over three years and hydrogen indices have also struggled of late.

In response to these concerns, Brühwiler pointed to the US National Clean Hydrogen Strategy and Roadmap published in June 2023. This initiative, supported by the US Department of Energy, the US Department of Defense and NASA, could be a good indicator of hydrogen's future role, he believes. As both the largest producer and consumer of oil worldwide, a US shift towards hydrogen could have significant consequences.

By 2026, Formula 1 will run on e-fuels created by extracting hydrogen from water via electrolysis and combining it with captured carbon or nitrogen.

Hydrogen's recent poor performance is due partly to the US Federal Reserve's policy tightening in January 2022, which Brühwiler said put all growth stocks, particularly those not yet profitable, under pressure.

'Compared with three years [ago], ESG is for the time being not in favour any more,' he said. 'The whole sector is still under pressure, which is also reflected in the iShares Clean Energy.'



'ESG is for the time being not in favour any more'

The future in our hands

Brühwiler believes that the financial industry should be more transparent about its holdings to help combat climate change.

'Global Strategic Capital shows all of its holdings and is 100% transparent,' he said.

If other financial institutions were fully transparent, investors would have a better picture of the stocks in their portfolios.

Before indulging in the AI investment euphoria, it may be worth asking what kind of AI is necessary and what its true cost is.

Top climate researchers and the UN have stated that if the Earth's temperature rises to 1.5C above pre-industrial levels, we face natural disasters, famine, climate genocide and mass migration.

In April, UN climate chief Simon Stiell warned that the next two years are 'essential in saving our planet'.

