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How to diversify a 200k portfolio to achieve long-term returns and impact

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Finance is key to making our world a better place. Every investment has an impact. Whether you know it or not, your money – even if it is only in your bank account – finances someone and something. From funding drilling expeditions in the Arctic to solar panel construction all the way to space travel, your money makes a difference: where the capital goes today determines how we will live tomorrow.

Want to know how to diversify your portfolio while creating real impact? Keep reading to find out what diversification is and why it matters, how you can combine building long-term wealth with real impact and ensure your 200k portfolio is well diversified – all while creating real impact.

What is diversification
and why does it matter?

What is diversification?

Diversification is an investing strategy used to manage risk. Rather than concentrating your money in a single company, industry, sector or asset class, you diversify your investments across a range of different companies, industries and asset classes. This way, the returns don't depend on any single factor – thereby limiting risk.

When you divide your funds across companies large and small, at home and abroad, in both stocks and bonds, you avoid the risk of having all of your eggs in one basket.

Why is diversification so important?

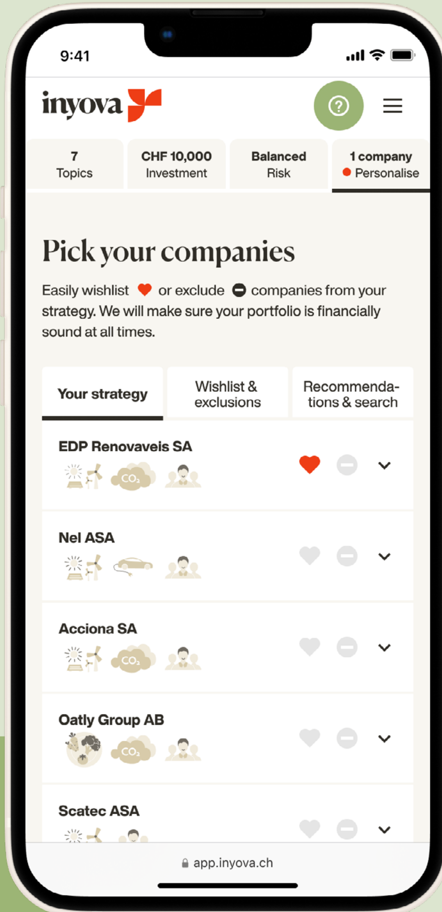
Diversification is the key to successful investments – it can significantly reduce the overall risk of investing and will, on average, also yield higher long-term returns, based on historical data.

Statistically, it's more sensible to diversify your stock portfolio in terms of risk because losses of individual stocks can potentially be offset by gains of other stocks. Since the future is highly uncertain and markets are always changing, it's crucial to diversify investments among different companies and assets that are not exposed to the same risks.

Although some crises are felt across the worldwide economy, it's more often concentrated on a particular industry or region. Imagine if 100% of your investment was in technology companies right before the Dot Com Bubble burst at the beginning of the millennium, or 100% in the Brazilian stocks before it entered its recession in 2008. What followed was a crash and you would have lost most of your money in a short time.

Historically speaking, if used correctly, diversification can help prevent your investment from being wiped out by these downturns.

Please note: Diversification is not a guarantee for above-average performance and can't eliminate the risk of loss either. Any investment is always associated with risks that cannot be completely eliminated.



How does Inyova diversify portfolios?

Inyova, as your asset manager, takes care of diversification for you.

In order to spread your risk, we distribute your assets in the equity section across large and small companies as well as different countries, sectors, and currencies. This means that you are less exposed to risks that affect individual assets or markets. At the same time, this ensures that your portfolio develops in line with the overall market.

For this purpose, your investment amount is evenly distributed among 30 to 40 companies in the equity part. Thus, each company forms about 2 - 3% of a portfolio.

Depending on your risk profile, you likely invest in shares as well as green bonds in your portfolio. This additional type of investment creates further diversification.

We constantly monitor the weighting of the various positions for you and carry out regular rebalancing to restore the initial balance of your strategy.

Read more here.

How you can combine building long-term wealth with real impact: Important basics

Do you want to know how you can invest money so it will grow and multiply in the future while generating real-world impact? Here are 7 basics to keep in mind!

Tip 1: Invest money regularly

By investing money regularly, you are mitigating market volatility. Investing regularly allows you to benefit from the concept of “buying the dips.” During market downturns, when prices are lower, your regular investments can purchase more shares or units. Over time, this can result in a lower average cost per share, potentially boosting your overall returns when markets recover.

Tip 2: Define your investment horizon

One of the most tried-and-true principles of investing money is also the most simple: the longer you can tie your money to an investment, the better.

Each investment depends on three crucial factors: liquidity, return, and security. While return and security play a major role in the choice of investment, liquidity must be taken into account when it comes to defining the time horizon.

Every investment is affected by fluctuations in the price of the stock or financial instrument, which means that your rate of return varies daily. It’s important to keep in mind that having to take out money during a dip in the stock market could lead to a loss.

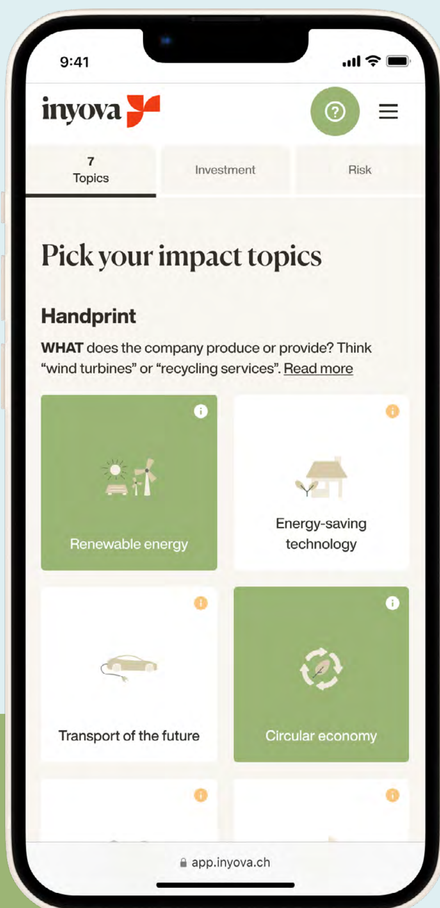
A long investment horizon goes some way to compensate for these market fluctuations and reduces the risk of losing money. Based on historic data, it’s usually smart to invest your money for a minimum time period of five years. This way, you can usually “ride out” any dips in the market. Historically, every downturn has been followed by an upswing – and the best way to profit is to stay calm and invested. However, it is important to know that the past performance of financial markets and instruments is no guarantee of future performance.

Tip 3: Be aware of hidden fees

It can be difficult to tell what an investment will actually cost. Nothing is more annoying than finding out you signed a contract but missed the hidden fees in the fine print.

Investments can incur many costs, such as transaction expenses or fees for the fund manager. As a result, it may cost you dearly if you skim the fine print or fail to inform yourself sufficiently in advance.

We want you to know how much you're going to end up paying for your investment. This is why we are transparent about our all Inclusive fee.



Tip 4: Make sure your overall portfolio is aligned with your values

Nowadays, a lot of investors want to invest money with a clear conscience. And if you are reading this, you are likely one of them.

If you care about leading a sustainable lifestyle and taking social responsibility, then your investment should reflect these values, too.

But this is more difficult than it sounds. Even if you invest in a sustainability fund, you may inadvertently invest in companies that have little to do with sustainability, such as Nestle, McDonald's or Total SA.

If you want to learn more about how this can happen, please have a look at our article: "Why Alibaba may be found in a sustainability fund". You'll see that many funds are structured in a way that makes it difficult to tell which companies you're investing money into.

Inyova's approach is to ensure that your investment is in line with your values. If you are avoiding plastic or eating less meat in your everyday life, you probably don't want your investments to support companies with little concern for the climate crisis.

Our online investment tool lets you choose the topics that are important to you so that your investment strategy is completely personalised to your wishes. You can add companies to your portfolio and exclude others. You can also see which companies you are currently invested in at any time.

Tip 5: Be careful with investment trends

It is always tempting to follow a recent craze and invest your money in trending companies or cryptocurrencies. But keep in mind that these kinds of investments are very risky and unpredictable as there is a lack of historical experience with them.

Therefore, Inyova's universe of companies, from which your portfolio is created, consists of companies that have already proven their worth. If you have enough historical data, it is possible to forecast an approximate return and calculate the risk for the investment.

Please note: The past performance of financial markets and instruments is never an indicator of future performance.

Tip 6: Benefit from the rate of return

As you've likely heard before, one of the most important principles in investing is compound interest.

Every investment aims to earn a return after a determined investment period, for example, 5-6% per year. Compound interest works by reinvesting the return from your initial investment into the same portfolio over and over again, growing both the investment amount and the return.

You can use this online compound interest calculator to figure out your possible returns from compound interest!

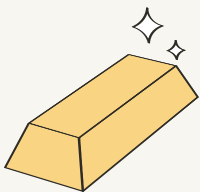
Tip 7: Be patient!

You've definitely heard this before: It takes time to see results from your long-term investment. Successful investors don't see investing in the stock market as a 100-meter sprint but rather as a marathon that has to be run slowly but steadily.

It is likely that daily fluctuations will make your money grow or shrink by little amounts whereas the expected return will come over a longer period of time. As the course of events can anyway not be altered, it's generally good advice to relax and invest passively.

How you can ensure your **200k portfolio is well diversified**

With so many different options to choose from, it's important to know what the sustainability impacts of those different options are. We've covered all investment options below and listed the pros and cons including the sustainability implications of each option to help you make an informed decision.



Invest your money in

Gold and Silver

Pros:

- **Longevity:** Gold and silver have held an underlying value throughout history.

Cons:

- **Impact on people and the planet:** Mining gold and silver often takes place under conditions that are harmful and not sustainable.
- **Cost:** Safe storage and insurance costs need to be considered.
- **No real return:** Precious metals don't create anything new or better. Their return hinges simply on speculation that the price will increase.

Invest your money in

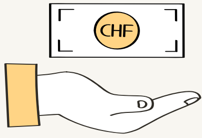
Investment Funds

Pros:

- **Diversification:** Investment risk is spread across a pool of individual investments, which minimises the risk of losing money.
- **Liquidity:** You can sell your stocks and generally have the money in your account within seven business days.

Cons:

- **Hidden fees:** Due to their complex and layered structures, funds are notoriously known for hidden fees. Recent investigations uncovered that funds can cost up to four times higher than what you initially thought.
- **Questionable sustainability:** When investing in funds, you cannot completely control what exactly you are investing in. Instead, you delegate your buy/sell decisions to the fund manager. And even "sustainable" funds are often quite not-so-sustainable at a closer look.
- **Returns:** As Warren Buffett famously illustrated, passively managed funds, like ETFs, can outperform actively managed funds, like traditional investment funds.



Invest your money in

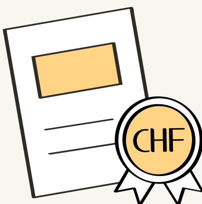
Stocks

Pros:

- **Returns:** Historically, the stock market has offered an average return of around 6%. There are also years with negative performance, which is why a long-term investment horizon is important.
- **Liquidity:** You can sell your stocks and have the money in your account within a few days.
- **Simplicity:** Unlike derivatives and funds, there are no complex layers between you and your investment. When you buy stock, you own a part of that company.
- **Full transparency & control:** You invest in each individual company and can, therefore, control exactly which companies you support with your money.
- **Sustainability:** Due to this control, you can exclude companies or topics that you do not wish to support (e.g. weapons or climate change).

Cons:

- **Volatility:** Stock value moves up and down on a daily basis. Therefore, it is important to have a big variety of different stocks in your portfolio to minimise the risk of your investment.
- **Risk of losses with short-term investments:** Due to fluctuations in prices, stocks can lead to short-term losses. Therefore, a longer investment horizon is a good idea. Historically, an investment period of five to ten years was typically long enough to make profits in the stock market. However, you could still lose money when investing in stocks.
- **Manual work & stress:** It can be a lot of unexpected work and complexity to purchase and manage various stocks by yourself. On top of that, it can be stressful, to always keep an eye on the developments of the shares and to have to react to developments at short notice!



Invest your money in

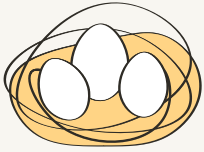
Bonds

Pros:

- **Volatility:** Historically, bonds are rather steady and have fewer 'up and down' movements than other investments.
- **Sustainability:** Not all bonds are considered sustainable. Green bonds, however, help raise funds needed to kick-start climate change solutions. These range from emission reduction projects to pollution prevention to renewable energy programmes to developing innovations that make buildings and cities greener.

Cons:

- **Difficulty:** Usually bonds have long holding periods and large minimum investments. You can get around the 'difficulty' point by buying stocks in a bond ETF, which bundles many bonds together into a fund.
- **Returns:** Bonds tend to yield much lower returns than stocks, for example.



Invest your money in

ETFs (Exchange Traded Funds)

Pros:

- **Diversification:** Many ETFs are built to have a comparatively high level of diversification.
- **Cost:** As they are passively managed, ETFs are much cheaper than traditional funds.

Cons:

- **Complexity:** Sometimes fund managers buy 'warrants' and 'equity swaps' instead of the stocks. This is called a 'synthetic replication' and can turn an ETF into a highly complex structure with risks that are difficult to assess.
- **Ownership:** You own a stock in a financial structure, not the company's stocks themselves. This also means you have no shareholder rights.
- **Sustainability:** Unfortunately, this is the same story as mentioned earlier with funds. When investing in ETFs, you cannot include or exclude specific companies in your portfolio. Be aware that sustainable ETFs are often a lot less sustainable than they claim.

Invest your money in

Real Estate

Pros:

- **Low volatility:** Historically, housing prices are generally stable in Switzerland, although they have risen over the last couple of years.

Cons:

- **High costs:** Property is expensive in Switzerland (average is CHF 7,486 per square metre) and a large deposit is required. Don't forget the agent's commission, marketing costs and real estate transfer tax, too.
- **Taxes:** Depending on your form of financing, real estate investment in Switzerland can be a tax hassle due to the taxation of the imputed rental value ("Eigenmietwert" in Switzerland).
- **High risk due to leverage:** If you finance a real estate investment with 20% of your own money and the real estate value goes down by 20%, your money is gone. But, you still need to repay the bank at a higher price. This can happen, as numerous real estate crises have shown in the past.
- **Lack of diversification:** Buying a house will require a majority of your money. Therefore, you won't get the chance to buy other investments that could help you survive a real estate crisis.
- **Hassle-factor:** If you are planning on renting the real estate out, you will have to take care of property maintenance and managing tenants. Don't underestimate the amount of time and money it takes to look after a house.
- **Low returns:** Swiss real estate became so expensive in the early 2020s that the relationship between purchasing price and imputed rental value is often below 5%. Considering the risk involved, that's not all too high.
- **Liquidity:** If you want to sell your investment, you will need to find a buyer. This can take months or years, in extreme cases.

Invest your money in

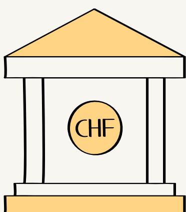
Cryptocurrencies

Pros:

- **Easy:** Transactions are easy and fast, especially because there are few regulatory constraints around them.
- **Cool technology:** Decentralised networks are an interesting alternative to traditional banking models, as it increases security.
- **Instability:** Historically, while social, economic and political instability can harm the stock market, the opposite seems to be true for cryptocurrency.

Cons:

- **High volatility:** Historically, the overall cryptocurrency market can be very unpredictable.
- **No real return:** Like precious metals, cryptocurrencies don't have a real return but are only a bet on price increases.
- **Questionable sustainability:** Currently the environmental implications of cryptocurrencies are still heavily debated, to put it mildly. According to a report by the US Government, cryptocurrency mining accounts for 140 million metric tons of CO_2 per year released into the atmosphere, or 0.3% of all global greenhouse gas emissions.



Invest your money in

A Bank Savings Account

Pros:

- **Guarantees:** If your bank is part of the Swiss banking compensation scheme (Swiss deposit insurance) and goes bankrupt, you are covered for up to CHF 100,000.
- **Access:** If you need your money in the next year or two, keeping it in the bank account is a great idea.

Cons:

- **Negative returns:** Typically, a Swiss bank pays 0.4% interest on average. Prices in the real world grow a lot quicker, which means that you end up losing wealth.
- **Hidden costs:** Unfortunately, savings accounts often include many hidden costs. So, make sure you know how much you're paying for your bank's savings account.
- **Sustainability:** Banks can invest your savings without your knowledge and consent. This means your savings account could be funding deforestation or supporting oil companies.

How impact investing can help you **diversify & create real impact**

Is it possible to invest ethically and generate a solid financial return at the same time? Does socially responsible investing make financial sense?

The results are in, and it's a resounding "yes!" according to the world's leading research institutions such as Harvard and the Wharton School at the University of Pennsylvania – as well as industry heavyweights including Morgan Stanley and the Royal Bank of Canada.

Before we dive into the details below, here are some key findings that set the scene:

- In the grand majority of cases, socially responsible investing (SRI) criteria have shown no negative impact on risk or return
- Responsible investments regularly outperformed conventional strategies, based on findings from the studies linked below.
- 91% of impact investors say they generated returns that met or exceeded expectations.

Socially responsible **investment performance**

One substantial review by the Royal Bank of Canada found that looking at more than 40 major studies, there was no evidence that socially responsible investing resulted in lower investment returns.

This sentiment was echoed by a GIIN's (Global Impact Investing Network) Survey, which canvased professional investors who manage impact investment strategies on behalf of clients. It found the majority of respondents achieved market-rate returns, and 91% were achieving financial returns that met or exceeded their professional expectations.

Researchers at the Wharton School at the University of Pennsylvania were also able to debunk the myth that market-rate returns are incompatible with socially responsible investing. This study is particularly interesting, as it examined the links between the success of the social impact and the financial success of an investment. In the end, the researchers found **no evidence that ethical investment leads to lesser financial returns**. In fact, the returns of the samples studied achieved returns at or near the overall market.

Harvard University is on board, too: This meta-study on SRI investment strategies also determined that applying socially responsible criteria to assess funds has no negative impact on the risk-return ratio. Why? Because such criteria can actually become internal business drivers in the long run. In turn, this can even help future-proof your investment.

There are countless other studies that prove the same thing: responsible returns aren't just about the cause they are supporting. Socially responsible investing makes financial sense.

And in upcoming years, the balance could tilt even more in favour of responsible investing.

Read more about this here: Lucrative and sustainable investment – is it possible?

The importance of **avoiding stranded assets**

This brings us to one of the most important points on sustainable investment strategies: the importance of avoiding stranded assets.

Sustainable investment strategies can ensure that assets do not become "stranded", which is when they completely lose their value due to new regulations, shifting environmental factors or more environmentally friendly preferences. Given that demand for environmentally friendly technologies and products is rising, sustainable investments are becoming increasingly profitable.

For instance, an oil company might have drilling rights for a large reservoir in the Arctic. These drilling rights are currently very valuable and therefore increase the company's stock price. However, they might constitute a stranded asset that's vulnerable to regulatory risk. It's not inconceivable that the Arctic becomes a protected zone where no drilling is allowed, or we see a drop in demand for oil over time as more governments legislate against the consumption of fossil fuels. In this scenario, the value of this asset is lost – and the stock price will plunge.

So, what should you do if you are worried your money might be tied up in stranded assets?

"Individuals concerned about stranded asset risk could talk to their pension funds or asset managers about reducing portfolio exposure to carbon-intensive assets, or increasing investment in low-carbon assets such as renewable energy."

That advice comes directly from The Grantham Research Institute on Climate Change and the Environment, which is part of the London School of Economics and Political Science.

Having examined the various aspects and benefits of sustainable investments, let's talk more specifically about impact investing.

What is Impact Investing?

At its base level: impact investing is about change. Specifically, it's investing with the intention to generate change in the real world. It's important to keep this in mind: if there's no change, there's no impact.

At Inyova, we go beyond 'sustainable' investing, using scientific methods to create traceable sustainability impact in the real world. We're not simply building investment portfolios based on ESG filters, which have limited real impact. Instead, we created investments that are both aligned with our investor's ethical values and create real change in the world.

Impact investments differ from ESG-related sustainable investments in that they are designed to have a measurable impact on the real world. While for an ESG investment, it's sufficient to consider what a company you invest in does (by applying pre-investment filters), for an impact investment it's crucial that the investment changes how that company interacts with the world – in other words, that the investment itself has an impact on the real world. You can see this clearly illustrated in the graphic below.

How is impact investing different?

	Pre-investing filters Example: ESG	Post-investment actions Example: shareholder voting	Additional capital Example: green bonds
Conventional Investing	✗	✗	✗
Sustainable Investing	✓	✗	✗
Impact Investing	✓	✓	✓

Note: Studies show that pre-investment filters don't create verifiable impact.

Impact investments come in two shades. **Impact-aligned** investments address social and environmental challenges and goals. They take deliberate action to influence the companies they invest in for the better, for instance through active ownership. Such measures are called post-investment actions, because they take place after the cash has gone into the investment and remain relevant for as long as it stays there.

Impact-generating investments go even further. They bring money to companies, projects or ideas that otherwise couldn't exist or grow. That's what we call additional capital. Additional capital becomes available, for instance, when you provide money for a specific project, e.g. for reforestation, or for the development of a new decarbonisation technology. Other prominent examples are startup investments or microfinance.

Both impact-aligned and impact-generating investments consistently monitor and measure their impact.

The importance of **active ownership**

Most importantly, impact investing is about taking back control. Active ownership means actively exercising one's rights as a shareholder. This includes, in particular, shareholder voting rights and engagement. Active ownership allows shareholders to publicly pressure and push climate compliance in existing companies and take back control through actively influencing the companies they are owners of.

Inyova impact investors directly own the company stocks in their portfolios and therefore can vote in major decisions and exercise other shareholder rights to create real change.

Here are some examples of the Inyova community's shareholder initiatives to date:

BMW

The Inyova community launched a successful engagement campaign with BMW in 2022, which raised awareness of the company's lack of e-mobility focus and diversity on its board. Following up on this campaign, Inyova's Head of Impact delivered another live speech during the company's last AGM on 11 May 2023. We were able to pose critical questions concerning the proportion of BMW's investments in combustion engines versus electric vehicles and will continue to push for more positive change at BMW.

Netflix

In addition to his role as CEO at Axel Springer, Mathias Döpfner is a member of the Board of Directors at Netflix. Between October 2021 and May 2023, Inyova attempted to engage with Netflix concerning allegations of inappropriate behaviour against board member Mathias Döpfner, related to a misconduct scandal at Bild, Axel Springer's largest media house. Despite repeated attempts to contact Netflix via formal letters, emails, and social media, Netflix failed to respond. Given Netflix's failure to engage, we filed an official voting recommendation at the company's AGM on 1 June 2023. Netflix's board has been criticised for its male dominance and lack of explicit policies on non-discrimination, harassment, and whistleblower protection. So, Inyova has filed a recommendation to vote against Döpfner as a board member of Netflix, citing concerns over his alleged behaviour and potential impact on Netflix's reputation. Although Döpfner was able to retain his board seat, we were able to increase the pressure on Netflix to respond through our public actions.

Publicis

Over 2,000 Inyova impact investors joined the Shareholder Impact Initiative calling on Publicis Groupe to stop working with fossil fuel clients. The Inyova community has been engaging with Publicis over the past 6 months regarding the climate impact of their advertising services, especially, when provided to high-carbon emitting clients such as fossil fuel companies. Having built an investor alliance with Greenpeace, Clean Creatives, InfluenceMap, Ecofi and Purpose Disruptors, we were able to raise the issue live at Publicis' AGM in May 2023.

What does this mean for your investment?

Ultimately, If you truly want an impactful 200k portfolio, it's crucial to take a close look at the impact and sustainability of all your existing investments. **If you find your current portfolio is not having any real impact, you can focus on adding new investments which you know will truly be impactful.**

We can only make real change happen if we get the business community to rethink. To achieve this, we need to take action and become responsible, active shareholders who exercise their voting rights and engage according to their values. We must stop leaving funds and their proxies to do whatever they want and get closer to the companies we own. Let's take responsibility for what our capital is doing. Inyova makes it easy. Join the mission. We're taking back control.

How you can become an **impact investor**

Are you eager to get your very own responsible returns and build a more impactful portfolio? We're happy to help! You can get your free impact investing strategy here. It will be aligned with your personal values and interests – and also designed to achieve market-rate returns. This is 100% obligation-free.

You can try it out before you decide to invest with us – it's completely your choice.

Have any questions or are unsure if Inyova is the right fit for you? Our Customer Success team is here to help! Simply email us at customers@inyova.ch

inyova

Imprint

Inyova AG
Limmatstrasse 123
CH-8005 Zürich
Schweiz

VAT-Number
CHE-138.068.018

Phone number
+41 44 271 50 00

Email
info@inyova.ch

Authorised representatives
Dr. Tillmann Lang, Erik Gloerfeld

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