ESG OUTLOOK

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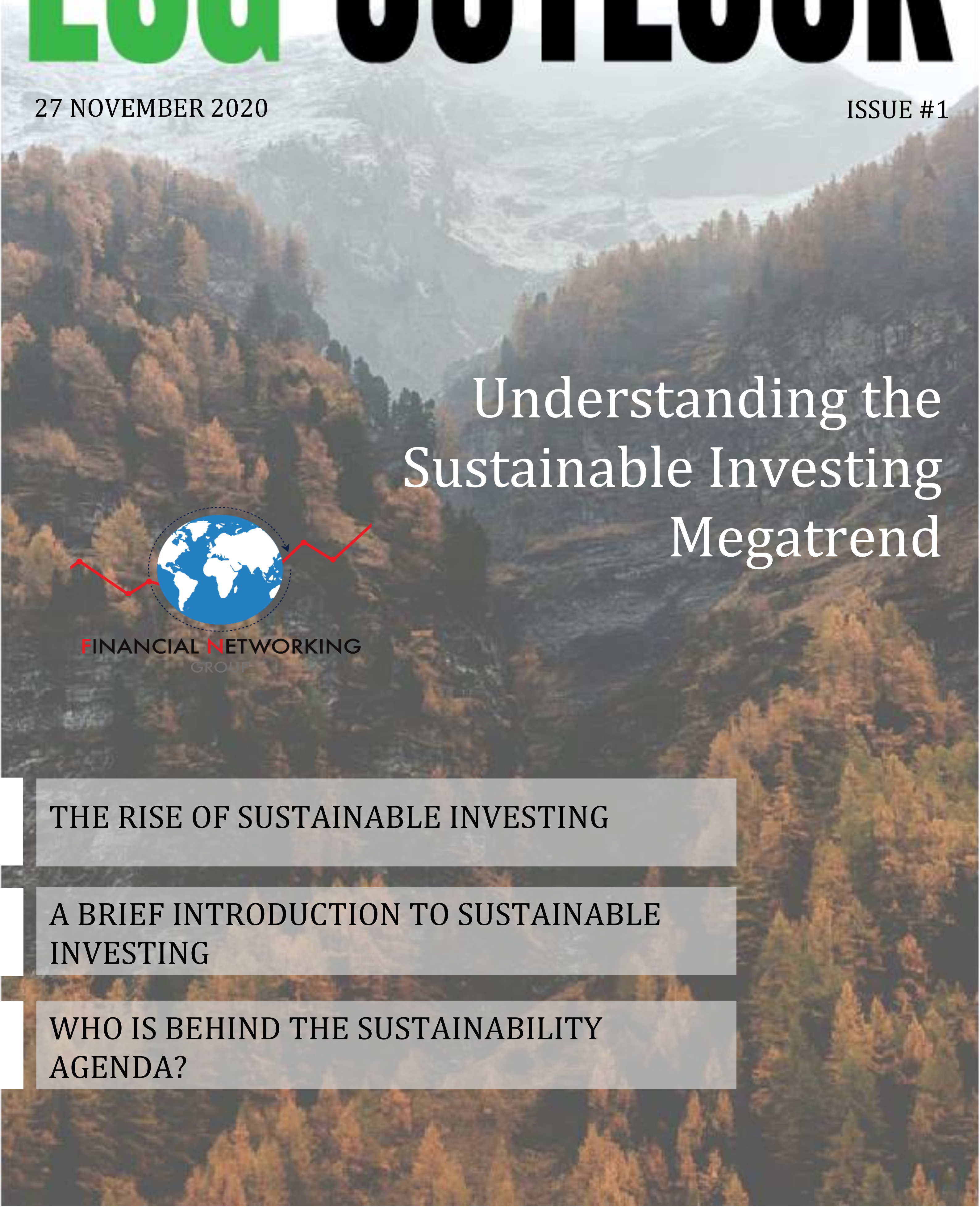


Understanding the Sustainable Investing Megatrend

FINANCIAL NETWORKING GROUP

THE RISE OF SUSTAINABLE INVESTING

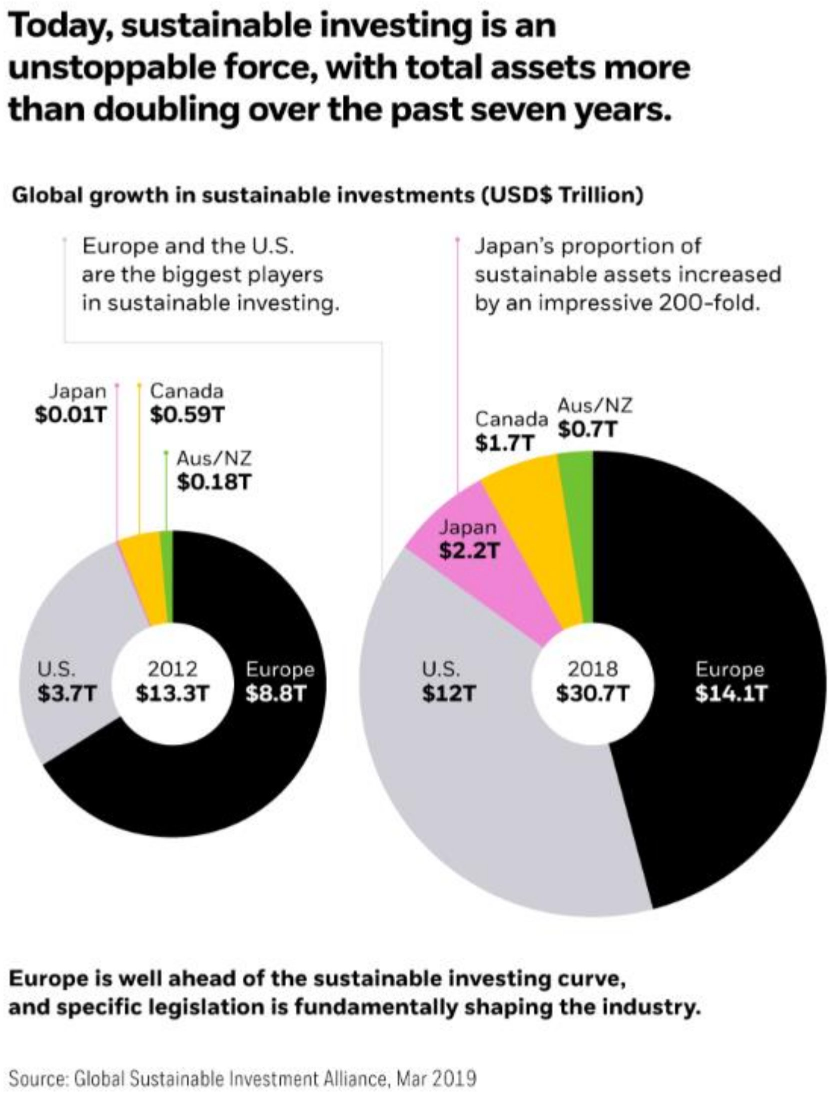
A BRIEF INTRODUCTION TO SUSTAINABLE INVESTING

WHO IS BEHIND THE SUSTAINABILITY AGENDA?

THE RISE OF SUSTAINABLE INVESTING

ESG is booming. Once considered a niche strategy, integrating **Environmental, Social, and Governance (ESG)** criteria into investment decisions has quickly become a **frame of mind with a trillion-dollar potential.** Driven by united demand from regulators, investors, and customers, the rise of sustainable investing is a **global phenomenon.**

According to Mckinsey, "More than one-quarter of assets under management globally are now being invested according to the premise that environmental, social, and governance (ESG) **factors can materially affect a company's performance and market value."**



The investor's community is paying high attention to ESG issues. The Principles for Responsible Investing (PRI), an UN-supported network of investors, now has 1600 members representing assets worth over $70 trillion and **ESG integration is seen as a part of fiduciary duty. This means that asset managers are more and more required to incorporate ESG criteria into the investment process.**

A BRIEF INTRODUCTION TO SUSTAINABLE INVESTING

What does sustainable investing stand for exactly? **There is a lot of debate over what "sustainable" investing means, and because there is no real consensus, you will find a rich terminology** : ESG, SRI, Impact investing are some of them... Good news is, investors have a broad range of options and can choose the approach that best suits their investment strategy and their client's needs.

Sustainable investing has come a long way. **Socially Responsible Investing** (SRI) was originally developed to allow investors to avoid companies they disliked for ethical reasons, think tobacco manufactures or companies in the gambling industry for instance. This original form of SRI is now called "exclusions" or "negative-screen" investing and has had a reputation of leading to below-market returns.

Newer strategies, such as ESG integration, typically put less emphasis on ethical concerns and are designed instead, to achieve a conventional investment aim: **maximizing risk-adjusted returns**. Other strategies see the opportunity of generating **long-term value creation by allocating their assets in sectors that contribute to the UN Sustainable Development Goals** (Good Health, Gender Equality, Affordable and Clean Energy…).

Impact Investing designates investments made with the objective of generating a **measurable and positive socio-environmental impact as well as a financial return.** It includes microfinance, community investment, and green bonds. All existing impact schemes provide capital to support solutions to the most urgent challenges in sectors such as sustainable agriculture, affordable housing, affordable and accessible healthcare, clean technologies and financial services.

WHO IS BEHIND THE SUSTAINABILITY AGENDA?

According to MSCI, there are now over 1500 ESG Indices. **How can we explain the increasing demand for ESG?**

U.S.A
1990

The first Socially Responsible Index was launched.

Domini Social 400 Index (now MSCI KLD 400 Social Index)

Rio Convention
1992

During the "Earth Summit" Nations agreed to support climate change activities and settled the United Nations Framework Convention on Climate Change (UNFCCC), which ultimate objective is to stabilize greenhouse concentrations.

Kyoto, Japan
1997

The Kyoto protocol was adopted to operationalize the UNFCCC, setting emission reduction targets to reduce the onset of global warming. It only binds developed countries

Cop 21, Paris
2015

The Paris Agreement charts a new course in the global climate effort and seeks to accelerate and intensify the actions and investments needed for a sustainable low carbon future.

Paris Agreement Main Objectives

-To pursue effort to limit the temperature increase below 2° by the end of the century.

-To make finance flow consistent with a low GHG emissions and climate-resilient pathway.

ESG boom since 2015

Since the PA, there have been many action plans to support energy and ecological transition, specially in terms of regulation, for instance, 2015 Law on Energy Transition for Green Growth or the Pacte law in France, "every insurance-life investment contract offers savers at least one green fund and one social impact fund"

Regulation can be a powerful force in driving sustainable practices amongst businesses. However, to date, there is no global agreement on sustainability reporting requirements. Regulation on its own does not explain such a high demand for ESG data. So, what does?

The most powerful force in initiating such reporting is due to pressure from stakeholders – whether that be investors, asset owners, employees, non-government organizations or the general public.

In order to respond to **stakeholder's pressure**, companies need to make public their sustainability commitments via reporting processes. ESG Indices allow investors to easily identify companies that are committed to achieving this **global shift towards sustainability.**

Some of the most relevant ESG indices are:

- **S&P Paris-Aligned Climate Index**
- **MSCI World Climate Paris Aligned Index**
- **MSCI World Women Leadership**
- **STOXX Global ESG Leaders**

SECTOR FOCUS --> ENERGY

In the Energy Sector there are two main trends:

Coal Divestment	New Strategies O&G Companies
Financial institutions are aware of the transition to phase out coal of the global energy and are taking steps to partially exclude carbon assets from their portfolios, some of the most notable facts: • BlackRock's divestment announcement from thermal coal in January 2020. • Amundi decided to leave issuers with more than 50% profits from coal mining. • Since 2016 JP Morgan have been partially cutting its financing of the coal sector. • Société Générale is committed to progressively reducing to zero its exposure to the Thermal Coal Sector in 2030 • Axa stopped underwriting and restricted insurance for new coal projects.	Oil and Gas big companies are also setting out business strategies aligned to the Paris Agreement Goals: • RD Shell released a joint statement committing to a range of industry leading climate commitments. • PetroChina developed a climate change strategy and signaled the company's intentions to regulate greenhouse emissions. • BP announced their commitment to achieve a zero-net growth in operational emissions and reduce investment in carbon activities.

Key Takeaways

Sustainable investing's total AUM has reached $30.7 trillion in 2018 and have more than doubled since 2012.

Sustainability-themed strategies see opportunity of generating long-term value creation while contributing to the UN Sustainable Development Goals. Impact Investing seeks to generate a measurable and positive socio-environmental impact as well as a financial return.

The most powerful force in driving sustainable practices among businesses is the pressure from stakeholders, and it has led to the creation of over 1500 ESG indices, labels, and the rise of ESG professionals.