



IMPACT INVESTING: SHIFTING GEARS

The global macro environment has shifted. Societal challenges are now on the agenda of the world's political leaders. The United States' return to the Paris Agreement on climate change comes with federal spending to address longstanding social and economic challenges in a way not seen in a half-century. President Biden's \$2 trillion plan to overhaul and upgrade the nation's infrastructure, would also accelerate the fight against climate change by hastening the shift to new, cleaner energy sources, and would help promote racial equality in the economy.

One more example of the transition towards a sustainable development model, the Federal Reserve rewrote in 2020 its approach to inflation set four decades ago. In the revised statement of its long-term goals and monetary policy strategy, the Federal Reserve now shares a degree of tolerance for inflation. More interestingly, the policymaker acknowledges that the FOMC should take into account the substantial differences in labor market outcomes across communities, when thinking about full employment. This shift to a more inclusive employment mandate for the Fed sparks a combat against inequality. Will future policies favour educational opportunities that boost long-term earnings prospects?

While the Federal Reserve was reviewing its goals, eighty-nine other central banks reaffirmed their priority to curb global warming this past year. Central bankers agree that climate change is, at the very least, a concern for financial stability, if not an existential threat, a Green Swan.



By **Frédéric Samama**,
Chief Responsible Investment Officer - CPRAM

The alarming conclusions of the new IPCC report published at the beginning of August reminded us of the urgency to act and the scale of the challenge.

This is a new "environment" in which businesses and investors are operating, much like globalisation or the internet revolution of recent decades.

MATERIALITY ASSESSMENT

At the dawn of the industrial age, financial capital was a scarce resource, and this situation prompted companies to report on its use. In today's economy, financial capital is a commodity. Conversely, natural capital and human capital, once considered abundant, have become key.

Several prominent reporting standards and frameworks help companies produce high-quality sustainability reports and disclosures on environmental, social and governance (ESG) issues. The European Commission guidelines on non-financial reporting integrate the recommendations of the Financial Stability board's taskforce on climate-related financial disclosures (TCFD), which have become the benchmark on climate-reporting. The non-binding recommendations of the European Commission also take account of the

forthcoming taxonomy on sustainable activities that is under development. Companies can also apply other extra-financial reporting standards, such as those developed by the Global Reporting Initiative, the Sustainability Accounting Standards Board or the Climate Disclosure Standards Board. Many efforts are being made to achieve the convergence between these standards.

CHANNELING INVESTOR MONEY

Investors can take part in the construction of a profitable economy that preserves public goods. Through taxonomy, codes of conduct and labelling, public authorities channel institutional investments according to their understanding of sustainable capitalism.

The European Union has proposed a taxonomy of sustainable activities to mobilise and redirect financial investments towards the green economy. The financing needs to meet Europe's climate goals alone are estimated at between €175 and €290 billion per year by 2050. The taxonomy focuses on environmental objectives, including climate change mitigation and adaptation of different economic sectors. Gradually, this benchmark will address the sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention control, and protection and restoration of biodiversity and ecosystems... With the taxonomy, the European Union now has a methodology to reach its goal of carbon neutrality by 2050.

The "stewardship codes", which have been drawn up by the UK public authorities and are now adopted by 27 countries worldwide, also illustrate a desire to channel investors' practices with regard to the disruptions that affect them, in particular the climate risk. A last trend is the development of labels. In France, asset managers must now comply with a more demanding socially responsible investment (SRI) label, which also evaluates their ability to improve their consideration of ESG criteria.

BUILDING SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

As an independent branch of Amundi Group, CPR Asset Management has been committed to building a 100% responsible investment offer for the past three years. As end of June 2021, our team managed more than €43 billion in funds with a sustainable approach, including article 8 and 9 products under the EU Sustainable Finance Disclosure Regulation (SFDR).

ESG integration is carried out within our investment solutions according to a risk-based qualification. When we analyse a company, we review its relationships with its suppliers and its employees, as well as its governance. We examine whether the way it operates is sustainable or whether there are indicators that highlight weaknesses. We consider that there are long-term risks associated with poor ESG practices (e.g., reputational risk) that are not fully priced in the market, but which can be costly in terms of performance. Reducing these ESG risks generates higher risk-adjusted returns over the long term.

Our responsible investment approach is best reflected in thematic investing, where megatrends and positive impact share the same long-term vision. CPR AM has developed a range of solutions that aim to have a concrete and measurable impact, be it social or environmental, for our investors. Our latest thematic funds address the energy transition, education and the reduction of inequalities, and the nutritional challenge. In the interests of transparency and in order to make investment more concrete, we publish an annual impact report for each of these funds.

At CPR AM, we are deeply convinced that finance can contribute to the foundation of a responsible society. By designing solutions that combine returns, profitability and a positive impact on society, we are committed to helping every investor do their part and act to shape a more sustainable, responsible and inclusive way of life for mankind.