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Financing the green and digital transitions and social component of sustainability, the point of view of private investors

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Talking points:

- Brief overview of Amundi:
    - Asset manager in all kinds of assets (listed equity, listed bonds, private equity, private debt, real assets) and across geographies
        - Important to note because investment objectives, investment constraints, types of clients on whose behalf the money is managed, and types of companies & activities financed varies widely
    - ESG as a core founding pillar: integrate extra-financial analysis in our decision making process
        - Very quick overview of our ESG methodology

- Three main points:
    - 1) Prior to the covid crisis, already had seen growing investor mobilization on green, digital and social issues, significantly influencing the valuation of financial assets in both equity and debt markets
    - 2) Significant obstacles remain to “green” and “social” investing, but many of those are being lifted or could be in the aftermath of Covid
    - 3) What is Amundi doing to lift these points? Where do we go from here?

- The rise of sustainable investing, a recent trend that has been accelerated by the Covid crisis
    - A break in 2014:
        - ESG investing tended to penalize both passive and active ESG investors between 2010 and 2013
        - Contrastingly, ESG investing was a source of outperformance from 2014 to 2017 in Europe and North America
    - Since 2018, and prior to the covid crisis, some interesting developments:
        - Growing gap between Europe and the US, with ESG investing in Europe catching steam while it has slowed down in the US
            - Indeed, sustainable investing is at the crossroad of investing and policymaking. Investors affect the supply and demand of securities when they act on their views, but governments can gear financial outcomes by regulating ESG-related fields. Thus, the U.S. withdrawal from the Paris Climate Agreement might have influenced regional asset pricing on the Environmental pillar.
        - Social theme picking up traction, whereas it had been lagging previously compared to environmental and governance concerns
            - While it is speculative to state why Social is the winning pillar, we believe it was helped by developments in Social narratives and by sustainable investors exploring ESG’s latest frontiers.

        - Growing complexity in ESG investing, with investors adopting a more dynamic approach, and betting on future ESG “winners” instead of current best practitioners
    - Inclusiveness, the “Just Transition” are thus gaining momentum, especially in Europe
        - Amundi launched the first listed equity fund seeking to fight inequality (CPR Social Impact)

- Obstacles remain to social, green and inclusive finance
    - In a very stylized manner, three stages to the inclusion of a new theme by investors:
        - Consensus: there needs to be a broad consensus on the issues at hand
        - Methodology: from this consensus, stems investment frameworks and methodologies that are incorporated by asset managers, banks and the like
        - Implementation and data: these methodologies, to be effective, need to be implemented in the right manner, and increasingly, with the right data
    - Again, very schematically, most of the issues at hand (climate change, social inclusiveness) are not fully mature yet
        - The environment is probably the most advanced: scientific consensus on its impact, increasingly methodologies to take it into account (physical risks, transition risks etc.), and although data is often lacking, it is getting better (one can mention temperature methodologies for instance)
            - Although still differences across countries, across investors (on nuclear power for instance)
        - Social issues however, we’re barely at stage 1: consensus
            - Inequality for example: vast disparities between what is considered fair or economically desirable between say, Continental Europe and the US
        - So, from that, hard to get at methodologies, especially where the vast majority of investment is: listed markets
        - Data of course is lacking
            - Other example: the Just Transition = how to define it, how do we measure it

- Recent Covid episode has the potential to change this
    - First of all, ESG funds have been extremely resistant: cumulative flows have continued to increase through the crisis period. Possible reasons:
        - Investors view ESG funds as “pandemic proof”, since they are usually overweight sectors that have weathered the crisis better (healthcare, tech)
        - ESG investors have a more long-term perspective, or are more “loyal” to ESG funds
    - In the Environmental sphere: growing momentum for a green recovery, which will require massive financing
        - Some financial innovations are necessary to accompany such a large-scale ‘program’, such as green securitization in Europe
    - In the social sphere, the huge pressure on social systems and the calls for a “new social contract” across the world is making the “consensus” issue less difficult than before
        - Inequality, the need for inclusiveness: these are increasing everywhere

        - In the US, the S pillar has outperformed during the crisis, showing that investors are potentially taking matters into their own hands
    - Growing number of methodologies
        - Amundi has launched an inequality investment framework
        - Also have a Just transition framework
- We need consensus (meaning we also need clarity from policymakers), we need methodologies, and we need data