

# Climate Change, hot topic in Euro Credit

CPR AM expands its range of climate solutions with a credit fund aligned with the Paris agreements. Julien Daire, head of fixed income, and Noémie Hadjadj-Gomes, head of research at CPR Asset Management, explain the main features of this new strategy.



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First, to set the scene, it is clear that large asset owners want to invest in strategies that are Climate-aware and they are asking managers for solutions that are more engaged. But pension funds and insurers do not simply want to mitigate Climate Change. They are responding to evolving regulation and the challenges it brings. Investors today have a clear role to play as financiers of corporations to limit Greenhouse Gas Emissions in a more responsible way. Our clients do not, however, want to sacrifice returns. And so, they are looking for strategies that try to be carbon-neutral while at the same time offering attractive performance, which is key in a very low return environment.

## CPR AM, at the forefront in climate change solutions

CPR AM today offers a wide range of solutions for all asset classes. In 2018, we set up an exclusive partnership with Carbon Disclosure Project (CDP) to analyse thousands of companies' climate policies and emissions at all levels, Scopes I, II and III and launched Climate Action, a broad equity fund based on CDP scorings. In 2020 we launched similar solutions on equity and multi-asset with an innovative mechanism of carbon offsetting.

And CPR AM accelerates in 2021! We are launching two new products in this beginning of year: a Euro equity version of our popular Climate Action strategy and a Euro Climate Bonds fund.

The Climate Bonds fund builds on our experience of creating investment products that will help humanity transition to a low-carbon economy and covers European Investment Grade with an interesting optionality to allocate up to 20% of capital to BB-rated issuers. We believe these will add value as Europe recovers from the pandemic.

## Include all sectors

CPR AM's firm wide philosophy is to include every sector of the index in our strategies. Unlike some of our competitors, we do not make a priori exclusions. Our reasoning is that the transition to a low-carbon economy requires all actors to play their part. Whatever their sector and actual carbon emissions, issuers making efforts to transition are noticed and rewarded. We use CDP's scoring from A to D, with the most engaged companies – regardless of sector. We are looking for those enterprises making substantial adaptation to new demands, whether it is by energy conservation, a greener transport fleet or electrification of industrial processes.

While our climate strategies initially includes only those issuers rated A or B; an issuer rated C by CDP can be accepted into the portfolio if its decarbonisation targets are strong enough according to Science-Based Targets initiative.

Our climate universes have two further safeguards. We filter out the worst scorers on ESG ratings (especially those in which the environment part suffers) and also disregard any companies involved in controversies. We believe that these ESG and controversies filters are complementary to our selection on climatic criteria, to manage the extra-financial risks of the universe, which can weigh on performance.

## The path to decarbonisation

If low carbon indices were a first answer, they are no longer sufficient. To limit global warming to 1.5° according to the IPCC, it is not enough to reduce emissions relative to the index, it is also necessary to reduce them over time.

We are committed not only to significantly reducing emissions relative to the index, but also over time. However, we are aware that the application of this constraint will depend on the behavior of companies. That's why we favor corporates that have validated Science-Based Targets, and we also consider companies temperatures as an interesting indicator of how they contribute to global warming. We will also publish temperature of our portfolios.

If index solutions reduce by 7% per year without asking any questions, the advantage of active management is to be able to offer the same reduction over the long-term, while being more flexible, in order to adapt the trajectory according to market opportunities.

The last stage of our climate solutions is to use offsets to achieve carbon-neutrality. We plan to invest through our partner, EcoAct, in various projects, including Amazonian diversity in northern Brazil and wind farms in India.

## A wider credit spectrum

The first question that always arises nowadays when an asset manager proposes a climate-aware fixed income solution is: Why not invest only in green bonds? The answer from CPR AM is that our goal is to find climate-aware opportunities within the whole traditional credit asset class, which requires every sector and every issuer contributions and not only the green bonds market.

Our multi-sectoral approach enables us to take advantage of all the sources of value of the credit asset class, which is crucial to be able to deliver performance in the current rate environment.

Here we come to a major interest of portfolio construction in sustainable credit. There is no statistical relevance today between standard credit ratings and non-financial data (ESG ratings, CDP score, carbon footprint, etc.). This is one of the reasons why we can achieve a reduction in carbon emissions whilst maintaining some similarities to the index. It also explains why we have the possibility to go to BB without violating our risk tolerance and adding a major source of performance.

In the medium-term, there is a topical advantage to accessing BB. Covid-19 and the subsequent suppression of the economy has forced approximately €50Bn of Investment Grade debt in Europe has been pushed into High Yield. Obviously, some may go even lower as companies fail under pressure. We expect a good chunk, however, to rerate and opportunities for spread compression present themselves ahead of the much-needed bounceback.

If you compare sector weightings, geographical breakdown of issuers and even maturity of holdings, Climate Bonds is never far away from the index. But when it comes to helping the planet, our solutions are invested in the best climate performers and have a lighter footprint and ambitious decarbonisation targets.

My Climate Partner

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