Impact Investing: Shifting gears

Frédéric Samama
Chief Responsible Investment Officer at CPR AM

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 last August 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.

Indeed, in the worst case scenario, half of our planet could become unlivеable by the end of the century, due to the combination of heat and humidity, threatening the lives of billions of people.

The carbon budget to stay below this catastrophic scenario, is rapidly eroding. We only have 7 years left at the current rate. In other words, our chances of meeting the Paris Agreement targets have fallen to a mere 5%. 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. 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 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 restoration of biodiversity. With the taxonomy, the European Union now has a methodology to reach its goal of carbon neutrality.

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. In 2020, our team managed €24 billion in ESG funds and impact investment solutions, including article 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 impact management, where megatrends and positive social impact share the same long-term vision. CPR AM has developed a range of solutions that aim to have a concrete and measurable impact for our investors. Our latest thematic funds address the energy transition, education and the reduction of inequalities, and the nutritional challenge.

Launched in 2018, in partnership with the Carbon Disclosure Project, the leading non-governmental organisation (NGO) in the environmental assessment of companies, CPR AM Invest - Climate Action fund supports the transition to a zero-carbon economy. This fund implements a rigorous climate-conscious approach to build a portfolio of companies with the best financial and climate profiles.

In support of the United Nations' 4th Sustainable Development Goal (SDG), CPR Invest-Education affirms its ambition to tackle the social dimension of responsible investment. A €100 million investment in CPR Invest-Education last year contributed to 2.65 million hours of education for 8,500 students.

Building a sustainable food chain to feed 9.7 billion humans by 2050 (source United Nations) is one of the challenges of our century. CPR Invest-Food for Generations is committed to the preservation of resources, respect of human rights and the promotion of healthier food. The fund invests in all food-related industries and proposes a food chain that reduces fresh water consumption by 50%.

A civic responsibility

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.