Natural capital preservation and loan investment: financing positive impact, supporting sustainability

Natural capital preservation can only be achieved through better use of water, waste and energy. Effective management of each of these areas is needed to preserve a world with biological diversity and a stable climate. They are the core pillars of the health and sustainability of our planet.[1]

If current production and consumption trends continue, the natural wealth of terrestrial ecosystems could be lost. Global food security, global water supplies and livelihoods could all be jeopardised, while our ability to combat disease or to cope with extreme weather events could be reduced, adding further fuel to social tensions and geopolitical conflict.

Scientists and political leaders are now putting the preservation of natural capital at the heart of all major decisions for future generations. As current European regulation stresses, resources must be preserved. To achieve this, three topics are key:

- freshwater preservation
- waste reduction
- access to affordable and clean energy.

If managed effectively, these three factors – water, waste and energy footprints – can together provide a substantial benefit to the environment. And investors – both asset owners and stewards of investment capital – have a responsibility to help.

Investment supported by regulation

Many current European regulations are designed to preserve natural capital. A key focus of the European Union's 2018 action plan to finance sustainable growth[2] is to reorient capital flows towards a more sustainable economy, and thus to transform Europe's economy into a greener, more resilient and circular system. The objective is twofold: to reduce Europe's environmental footprint and address existing inequalities, but also to increase competitiveness by improving the efficiency of production processes and reducing the costs associated with access and resource management.

What a blessing for investors who seek not just to 'do good' with their assets, but also to financially benefit from 'producing or consuming better'.

Quantifying these efforts has been slower off the mark. Building on 2020's European green taxonomy, in 2021 the Sustainable Finance Disclosure Regulation (SFDR) provided the industry with a framework to integrate environmental, social and governance factors. While not the panacea that many had heralded, this did provide a universal standard for the publication of information on financial sustainability, facilitating comparability for investors.

Indeed, under the SFDR, 14 Principal Adverse Impacts (PAI)[3] are shared with investors, who are then asked to monitor them. Of these PAIs, nine are dedicated to environmental issues and are mostly structured around four key themes:

- greenhouse gas emissions and, more specifically, energy metrics
- biodiversity metrics
- water metrics
- waste metrics.

From this foundation, investors have a clear framework against which to measure, monitor and perform. This translates into investment opportunity, with the weight of regulation, innovation and investor intent directing financial investment towards positive environmental contribution projects.

We increasingly see this opportunity in institutional new loan issuance: we believe companies should be directly incentivised to behave more thoughtfully regarding scarce resources, through tangible actions and quantifiable results.

Acknowledging these environmental issues, SCOR Investment Partners has designed a corporate loan strategy that specifically targets positive environmental impact, based on a company's intention to improve its environmental performance. We aim at financing issuers that have clear and ambitious objectives in terms of water, waste and energy management.

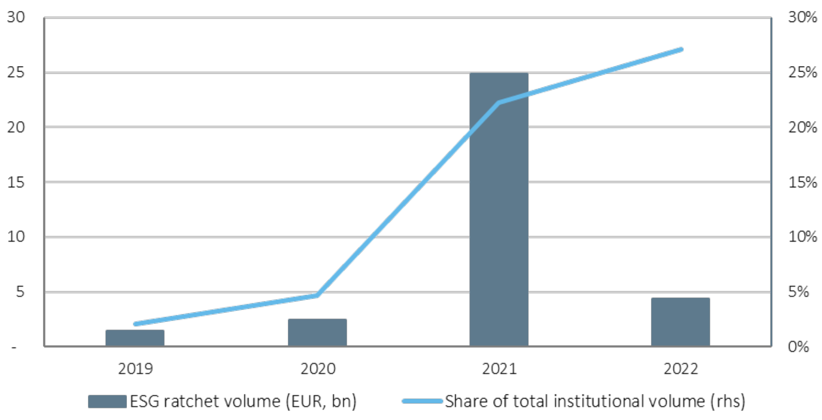
Additionally, we screen issuers to ensure that every investment has minimum environmental, social and governance safeguards.

An approach founded on the principals of additionality, measurability, and intentionality

We source sustainability-linked loans with embedded sustainability indicators, which are linked to the cost of financing over the life of the facility. Targeted performance indicators may be linked to at least one of the following:

- reduction of water consumption
- reduction of waste production
- decrease in energy consumption
- improvement of environmental KPIs.

European institutional term loans with ESG margin ratchet



Source: S&P Leveraged Commentary & Data (LCD), data to 31.03.2022. ESG margin ratchet is a mechanism by which an initial loan margin is reduced, or increased, if certain pre-defined ESG targets are met by the issuer.

Financing sustainable impact

Although the investment imperative and shared taxonomy was initially driven by regulation and public policy, the baton is now held by investors. Indeed, We marry opportunity with purpose, using proprietary research that leads to formal rating and draws on the SASB (Sustainability Accounting Standards Board) framework, incorporating commonly accepted scientific targets. This is integrated into the investment objectives and approach of the strategy.

By systematically linking capital investment and financing to the achievement of Sustainability Performance Targets (SPTs), we directly link an issuer's cost of capital to the management of water, waste, energy or natural resources. This allows investors to reward companies that achieve their SPTs, and aligns their financial and non-financial objectives.

SCOR Investment Partners

Our Euro Loans Natural Capital strategy directs investment towards financing positive environmental impact. The strategy supports measurable impact, with an emphasis on sustainable production and consumption in terms of energy and water use, and waste reduction.

Leveraging the experience of a team of dedicated European Loan managers, who have been investing on behalf of our clients for over a decade, we aim to be pioneers in the development of targeted sustainable strategies for institutional loan investors, offering diversification and income while mitigating downside risk.

Transparency is a part of our commitment to clients; we measure and report on both the current state and the actual environmental impact of the strategy.

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SCOR Investment Partners:
financing the sustainable development of societies, together.

FOOTNOTES

1 Convention on Biological Diversity, Kunming Declaration on ecological civilisation: building a shared future for all life on Earth, October 13th, 2021

2 European Commission, Communication on the Action Plan: financing sustainable growth, March 8th, 2018.

3 European Commission, Annex to the Commission delegated regulation supplementing regulation (EU) 2019/2088, April 6th, 2022

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