Impact investing: Choice precedes fate

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The temporary lockdown of half of the world's population has yielded some remarkable imagery. You may have seen satellite pictures showing a significant reduction in nitrogen dioxide emissions in the atmosphere. Natural environments appear to be enjoying some respite.

Human activity has suddenly had to be restrained largely because the world was caught wholly unprepared for the COVID-19 epidemic, perhaps unwittingly heralding a radical solution for dealing with our planet's environmental crisis. Except that our environmental crisis is by no means being ignored. The Paris climate agreements reflect a determination to take universal action against global warming and governments are setting ESG (environmental, social and governance) targets today so that humanity will not be forced to face its fate tomorrow. The main challenges of the future are all interlinked and include access to healthcare and education, and efforts to tackle hunger, poverty, inequality and environmental damage. Such themes form the basis of the 17 SDGs (Sustainable Development Goals) defined by the United Nations so that we can live in a sustainable world.

The financial industry has a role to play in supporting the transition by steering investments depending on the sensitivities and requirements of each individual investor. Our purpose today is not merely to argue in favour of factoring ESG criteria into portfolio management, but to inform investors about the action being taken to meet these sustainable development goals. This is the value that lies behind impact investing: investors can generate a positive and measurable social and environmental impact, as well as a financial return.

A need for quantifiable and comparable data on a company's impact

Concrete, quantifiable, reliable and comparable indicators are needed to measure a company's impact, be it positive or negative. Unfortunately, such social and/or environmental indicators are not always available for companies.

The Amundi group is very attentive to the work of the European Financial Reporting Advisory Group (EFRAG) with the aim of promoting the standardisation of non-financial indicators published by companies and pushing for positive impact regulations. Member states of the European Union are also in favour of establishing an objective and transparent impact taxonomy. In France, for instance, one of the priorities set by the AMF (Financial Markets Authority) for 2020 is to help define a more robust framework governing the quality and comparability of non-financial information.

Fortunately, a number of impact measurement standards are already available. In no particular order, we could mention the work carried out by the Task Force on Climate-related Financial Disclosures (TFCD) on climate reporting; or by the Harvard Business School's Impact-Weighted Accounts Initiative Project, or by the Cambridge Institute for Sustainability Leadership's Investment Leaders Group (ILG).

Goals towards which companies can strive

If a company's impact is to be assessed accurately, it is first of all necessary to transpose any targets set at a macroeconomic level to the microeconomic level. For instance, how can we assess a company's action in favour of eradicating hunger in the world (one of the SDGs)? *"This can only be assessed in light of the specific business sector in which the company operates. It is necessary to factor in the company's intentionality and resolve"*, explains Catherine Crozat, head of ESG projects at CPR AM. *"Companies should begin by establishing which of the sustainable development goals they are able to get involved in and report on. They must make sure they adopt a methodology that is both transparent and comparable with those of other companies in their sector. Otherwise, it will be difficult to aggregate the data at portfolio level as part of an impact investing strategy"*.

A company can take up positions in the impact investing universe in various ways. *"It can assess the positive impact generated by its activities. It can also diminish the negative impact generated by its activities, for example by improving its energy efficiency, by auditing its supply chain in order to limit its carbon footprint upstream or by working on its production chain"*, points out Catherine Crozat. A company can gain generally good ESG credentials by treating its employees and suppliers well and by maintaining good relations with its local communities. *"Impact fund managers are interested in the positive social impact that a company generates for all stakeholders"*.

Irrespective of the impact under consideration, the metric must refer to the beneficiaries concerned. *"It is necessary to realise that a commitment might impact on several stakeholders, and this will require several different indicators. Moreover, measurements need to be monitored over time and compared with the indicator's overall trend in recent years in order to be able to assess the progress made towards reaching the final target"*, notes Catherine Crozat.

Impact as part of the climate change theme

It is increasingly common for companies to report on their impact indicators, enabling investors to position themselves more precisely on the ESG themes they prioritise and are most sensitive to; at the same time, it gives them a precise overview of the impact their investment is having towards creating a more sustainable world.

CPR AM launched an international equity fund in December 2018 called CPR Invest-Climate Action, which encourages companies that are most effective at managing climate risk. This approach has since been extended to the credit universe with the launch of Climate Bond strategies, but in each case the approach is multi-sector and diversified in order to support the transition towards an economy that is generally compatible with the targets set out in the Paris Agreement. *"We believe each sector has a role to pay, even though we are more demanding when it comes to sectors that emit large amounts of carbon such as the energy and utilities sectors"*, explains Catherine Crozat.

CPR Invest - Climate Action and Climate Bonds make use of a transparent methodology that was developed in a partnership with the CDP (formerly the Carbon Disclosure Project), a pioneering non-governmental organisation specialising in the disclosure of carbon data worldwide. *"CDP scores encourage companies to become more transparent about their adjustment to climate change. Scoring is based on the climate policies published by companies rather than on econometric sector models"*.

CPR AM's climate investment universe includes companies that have received the best scores from the CDP, as well as companies whose carbon emissions are consistent with the target to limit global warming to 2 degrees as per the Paris Agreement. The initiative responsible for these appraisals is referred to as the SBT (Science-Based Targets) and is the result of pooled expertise from the World Wildlife Fund (WWF), the World Resources Institute (WRI), the CDP and the UN Global Compact.

CPR AM's fund managers use various different indicators to ensure that companies generate a positive environmental impact, including the company's exposure to green business sectors, any changes to its CDP score, its carbon emission volumes, etc. *"The fund manager also looks at the company's engagement with its value chain with respect to climate issues, and the extent to which the company innovates in order to generate a positive environmental impact, for example by switching towards more efficient models or technologies or by carrying out research and development"*.

CPR AM's approaches can be adapted to a dedicated format, for instance to adhere to a specific ESG investment charter, to comply with financial regulations restricting the eligible investment universe or with a given regulatory capital requirement (SCR), or in the case of bond solutions to match a duration structure suited to the investor's liabilities (ALM).

Whether the format is open-end or dedicated, the transparency we demand from companies with respect to their ESG risk management also applies to our own reporting standards. CPR AM publishes very detailed monthly non-financial reports on ESG and climate data. For instance, the carbon emissions of the CPR Invest – Climate Action portfolio at end-February stood at 113 million tonnes per million euros of revenue versus 138 million tonnes for the MSCI World All Countries index. Its green exposure came to 9.1% versus 5.7% for the index.

Besides making an effort to reduce carbon footprints, CPR AM proposes setting up a carbon footprint offset mechanism for scope 1 and 2 emissions and for scope 3 "upstream emissions" from tier 1 suppliers by providing financial support for projects involved primarily in protecting forests or developing renewable energies.

"We are also working towards being able to report on the portfolio's 2°C trajectory (corresponding to the upper end of the global warming range that the Paris Agreement recommends not exceeding) relative to its benchmark index. The temperature of all of CPR AM's portfolios will be available by the end of 2020", concludes Catherine Crozat.

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