



Responsible attitudes



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François Pérol, Head of the Wealth & Asset Management division, explores how Rothschild & Co is responding to the growing call to address climate change.

Last year China pledged to be carbon neutral by 2060, President Biden said the US would rejoin the Paris Climate Agreement and the EU continued to implement its climate-neutral 2050 strategy. In light of these initiatives, what role can the financial sector play in the fight against climate change?

The ambition to fight climate change articulated by different governments around the world in 2020 is a key starting point. It helps to define a common course, provides clear leadership and puts many nations on the same page. It also supports local and supranational roadmaps, which in turn provide guidance on concrete steps to be taken by different sectors of the economy in combating climate change. An example of this is the EU's European Action Plan on Sustainable Finance for the financial sector.

At Rothschild & Co, we are convinced that the financial sector has a key role to play in the fight against climate change. It acts as the catalyst for funding innovation and can reallocate financial flows to sectors or players that are transitioning towards a low carbon economy.

Investors have two main courses of action:

1. Make ESG considerations part of their investment processes to drive capital flows towards companies committed to climate change transition.

2. Engage with companies regarding their business and environmental practices to persuade them to embrace a positive environmental trajectory.

The commitment of the financial sector to fight climate change started a few years ago. Over the last 24 months, we have seen this accelerate, as highlighted by the attractiveness of climate investment products and the growing influence of collaborative engagement initiatives against the backdrop of the global pandemic.

How are we at Rothschild & Co working to combat climate change as investors?

The way we invest our clients' wealth is key to playing a positive role in the fight against climate change. While most of our investment businesses have adopted environmental, social and governance (ESG) policies over the last few years, we decided to go one step further in 2019 by defining an ESG 2022 roadmap to provide a common structure for our activities across our Merchant Banking and Wealth & Asset Management services.

Our responsible investment strategy defines a set of common objectives across all business lines and ensures that there is a consistent and effective framework for ESG integration, engagement activities and product development. You can read more about our responsible investment roadmap in the upcoming annual report to be released in March 2021.



Geraldine Gouges
Head of Responsible
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Looking at practical examples of combating climate change, in 2020 all of our investment teams adopted investment principles for the thermal coal sector in line with the international coal phase-out schedule. In accordance with these principles, our investment teams will not invest in or lend to companies engaged in new and/or expansion projects for thermal coal mines or thermal coal-fired power plants, nor in companies with thermal exposure above certain thresholds, unless they implement a credible thermal coal exit strategy.

Another example, our R-co 4Change Climate Credit and Equity funds implement the management of carbon intensity as a stock selection tool.

Finally, another example is our support for collaborative engagement initiatives. All business lines are signatories to the UN's Principles of Responsible Investing and, on the specific topic of climate change, Rothschild & Co Asset Management Europe joined the Climate 100+ initiative in 2019 to encourage the world's largest corporate greenhouse gas emitters to take the necessary action on climate change. Across the business we also support the recommendations of the Task Force on Climate related Financial Disclosures (TCFD) and will progressively align our approach to climate risk with the TCFD's disclosure recommendations.

In 2021, Rothschild & Co Asset Management Europe published its first combined TCFD / article 173 report.

What steps are we taking to identify carbon emissions from operations and reduce our direct environmental footprint?

We have engaged in several initiatives to minimise our environmental impact as a business. One of our targets is to procure 100% renewable electricity for all our offices by 2025. By the end of 2019 we procured renewable electricity for 56% of electricity which we consume. As a further measure, we have set an internal carbon price (ICP), which places a monetary value on greenhouse gas (GHG) emissions and aims to influence employee behaviour to limit them (see figure 1 for an overview of our GHG emissions in previous years). The financial support stream generated from the ICP can be used to develop further small-scale carbon-reduction opportunities and sustainability projects.

In 2020 we also achieved our target to limit the negative environmental impact from the use of office materials by ensuring we procure all our paper from sustainable sources. This is in addition to our commitment to reduce unnecessary single-use plastic items in our offices. To date, 27 offices are free of unnecessary single-use plastic.

In a further effort to minimise risk and promote transparency, we annually submit a report to the CDP climate change disclosure process. In 2020 we achieved an 'A-' rating.

Looking ahead, does Rothschild & Co see an increase in demand for responsible investing and, if so, how is the business positioned to respond?

While the global economy has been hit hard by the COVID-19 crisis and investors have pulled out of more traditional funds, ESG funds have retained investor confidence throughout the pandemic.

In the coming years, we expect an increase in demand for responsible investing driven by clients' growing awareness of ESG issues and appetite for ESG-focused products, as well as the evolution of the regulatory environment, with a strong push from European policymakers to embrace a 'green recovery'.

The COVID-19 crisis has also played its part in accelerating this trend as it has highlighted the link between the pandemic and biodiversity loss caused by industrial farming practices. Responsible investing is a key business opportunity and challenge for Rothschild & Co as we look ahead to life after the pandemic.

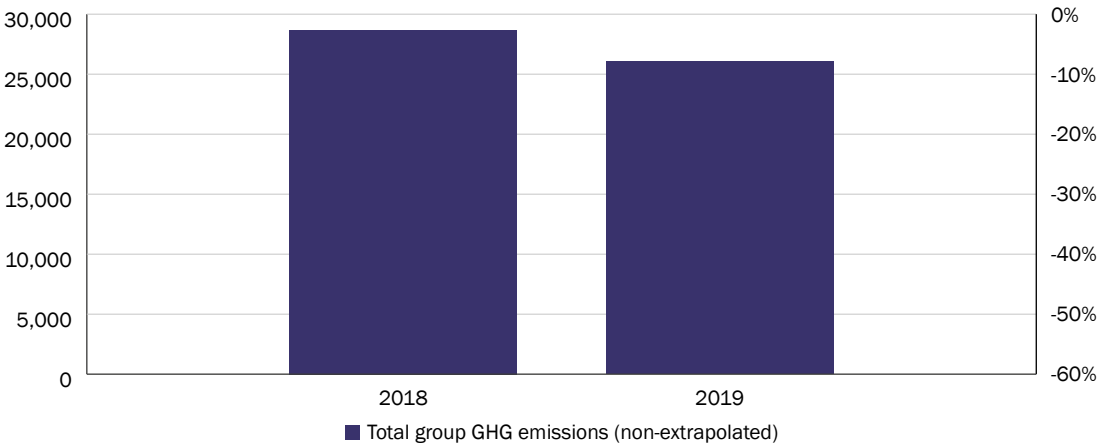


Find out more

To find out more about how our Wealth & Asset Management and Merchant Banking services are integrating our responsible investment strategy into products and services, please see our 2020 Annual Report to be released in March 2021.

Figure 1: We continue to reduce our greenhouse gas emissions

An overview of our progress towards cutting greenhouse gas (GHG) emissions. Given Covid-19 restrictions it is estimated that 2020 will see a 55% decrease in GHG emissions.



Source: Rothschild & Co, 31/12/2020.

Rothschild & Co has been awarded “climate neutral” label for 2018 and 2019 by reporting scope 1, 2 and 3 operational emissions, developing a GHG reduction plan, setting a GHG reduction target and compensating for unavoidable emission.

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As the specialised asset management division of the Rothschild & Co group, we offer personalised asset management services to a broad client base of institutional investors, financial intermediaries and distributors. Our development is focused on a range of open-ended funds, marketed under four strong brands: Conviction, Valor, Thematic and 4Change, and leveraging our long-term expertise in active management with conviction as well as in delegated management. Based in Paris and established in 10 European countries, we manage more than 21 billion euros and employ nearly 170 people. More information at: www.am.eu.rothschildandco.com



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