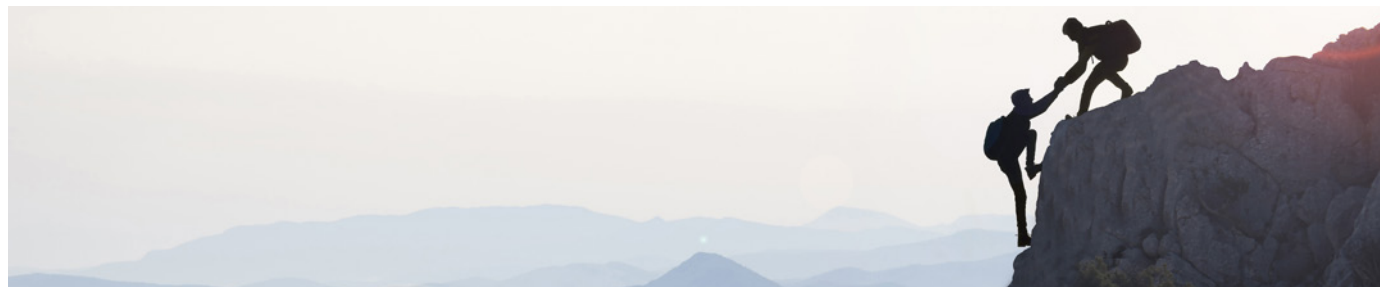




Shifting from ambitions to actions in responsible investment



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As responsible investment has rapidly become core to our business, Ludivine de Quincerot and Andréa Sekularac review the major projects carried out within our asset management division.

What have been your latest major advances in ESG integration?

Responsible investment is not new to us. Our commitment dates back to 2011 as we signed the United Nations Principles for Responsible Investment and implemented a responsible voting policy. Our approach has been pragmatic and has accelerated since 2017 with the creation of a Responsible Investment team and participation to group initiatives. At Rothschild & Co group level, we actively contributed to the Carbon Disclosure Project⁽¹⁾, while at the investment management company level, we take part in the Climate Action 100+⁽²⁾ group of investors. This year, most of the efforts were focused on integrating AMF⁽³⁾ and SFDR regulations into all of our products

However, the considerable amount of work involved has enabled us to affirm our commitment to sustainability. We have positioned ourselves as one of the most ambitious players on the market, with 96% of our open-ended funds classified as article 8 or 9 according to SFDR regulations and 86% as category 1 and 2 according to AMF doctrine. For comparison, in Europe, an average of 25% of the assets under management of companies are in Article 8 or 9. A wide distinction can be noted between certain French and Northern European players at the top of the league, and the Anglo-Saxons lagging behind.

The SFDR regulation, a new European standard

The European Sustainable Finance Disclosure Regulation (SFDR) aims to improve transparency requirements related to the sustainability risks of investments. This regulation is intended to create new transparency obligations for market participants and financial advisors. In particular, management companies are required to commit to classifying their funds in one of the following three product categories:

- Products that aim at sustainable investment, i.e. investment in economic activities that contribute to an environmental or social objective, so-called “Article 9” products
- Products that promote environmental or social features as part of their overall investment strategy, so-called “Article 8” products
- Products that either take ESG risks into account as part of their investment process or are explicitly declared to be unsustainable, so-called “Article 6” products

(1) Organisation that communicates on the environmental impact of large companies.

(2) The Climate Action 100+ initiative aims to engage the world's largest emitters of greenhouse gases to reduce their emissions.

(3) French stock market regulator.

Our peer group is therefore divided into two distinct camps. On one hand, investment companies with strong ambitions, which are willing to adjust the means to achieve their objectives (the category we aim to fit into), and on the other hand, a large part of the market waiting to see how the market and client demand evolve before positioning themselves.

How did you get there?

We managed to reach these objectives quite naturally, mainly driven by ambition, but also thanks to an ESG integration process that had already been in place for several years. Our business consists of managing risks, identifying trends and anticipating change to build convictions that guide our decisions.

As a result, we do not consider ESG criteria as extra-financial, but rather that it is essential to integrate them into our investment decisions alongside financial criteria to create value in the medium term. This is why we merged our ESG and financial analysis teams.

Consequently, we maintain a close relationship with the investment team, both in monitoring existing funds and in creating new investment solutions. Our expertise is mobilised across the entire value chain, from the analysis of a topic to the study of the competitive environment, the definition of a product's characteristics, the choice of the regulatory framework or targeted label, right up to reporting... By proceeding in this way, this process drives the integration of these dimensions into the investment style of each team. It also allows us to work in accordance with our expertises, without distorting them.

In the end, getting up to speed on this new regulatory framework was not experienced as a constraint but rather as an opportunity, both in the formalisation of our processes and in our positioning *vis-à-vis* the market on sustainable issues with a concrete and objective reference. This step pushed us to get all teams on board, work together on an objective and for everyone to fine tune their skills.

This project was a shared effort between investment teams, support teams, along top management who were particularly involved. We have formed working groups, and organised committees on technical, strategic and positioning issues. Once the course of action was set, the teams became massively involved and moved from awareness to action. Today, sustainability factors have become transversal and ESG is integrated into everyone's work.

“As a conviction asset manager, our long-term vision allows us to take a transition approach...”

How do you prove your commitment beyond investment management?

As a conviction asset manager, our long-term vision allows us to take a transition approach.

We are committed to our business, to our sector, as well as to the companies in which we invest. We will not necessarily be leaders on all issues, but do not want to be laggards. We aim to have our own ways by joining initiatives that are aligned with our own sustainable investment themes to specific projects. For instance, we have been a member of the Climate 100+ initiative for over two years, seeking to encourage the most emitting companies to reduce their greenhouse gas emissions. We are also a partner of the DUO for a JOB association, which contributes to professional integration and which we finance through share classes in our R-co 4Change Human Values fund. Finally, we became a sponsor of the Polar Pod expedition led by Jean-Louis Etienne, which is a scientific mission to the Southern Ocean, an area that has been little explored because of its danger, but which is essential for climate equilibrium.

Moreover, we aim to contribute to discussions as much as we can, as opposed to trailing behind developments and interpreting sensitive, if not controversial subjects. With this in mind, we have participated in the AFG⁽⁴⁾ Responsible Investment Committee for several years. Nevertheless, we know that polluting sectors face the strongest headwinds in terms of sustainability issues. We therefore believe that excluding them is counterproductive, and prefer to accompany them in their transition process. We therefore wish to go further in our contributions on these subjects which we consider essential.

(4) French Association of Financial Management.

For example, we participate in the fossil fuel working group of the AFG and, through the French Banking Federation's Climate and Impacts Commission, we are a member of the taxonomy, coal and fossil fuel working groups. We were also considering new initiatives beyond our sector, on topics such as corporate social responsibility and biodiversity.

Historically, our initiatives were mainly focused on environmental aspects, which is undoubtedly the predominant aspect of responsible investment. Major international initiatives have often focused their attention on this. While it is not a bad thing in itself, it is essential not to neglect the other pillars, especially since these issues are all interconnected: ecological imbalances generate social imbalances and *vice versa*.

Also, the Covid-19 crisis has undoubtedly contributed to a collective awareness of the importance of the social dimension. It is a trend we observe but which has been exacerbated by the situation. We are therefore trying to refocus our attention on all of these aspects, which is the direction of our latest positioning.

What else is on your agenda for 2021?

The second major project of the year relates to our engagement policy. We aim to further structure it with questionnaires targeting certain topics, which will help establish a constant and constructive dialogue with companies. These themes include climate change for our Climate funds, the Sustainable Development Goals for R-co 4Change Moderate Allocation and social issues for R-co 4Change Human Values. We have defined a perimeter of "core" companies, which represent major positions in our portfolios, are involved in capital transactions, or are in controversial sectors with strong transitional issues. We believe that that an engagement policy makes most sense in these instances. We have tried to build a framework around three themes: the environment through CO₂ emissions and water consumption, gender equality and data protection for social issues, as well as human rights issues and "business ethics" for the governance aspect. We are also strengthening our voting policy to cover all positions in our equity portfolios.

This year, we also focused on our multi-management division with the launch of two sustainable funds of funds and an ever stronger integration of ESG criteria, targeting 100% of labelled funds in two major institutional clients' mandates. In addition, more than 50% of the questions in the due diligence questionnaires now relate to sustainability. The team consistently monitors the latter and is able to grasp developments. Our multi-management team has effectively become a lever to encourage other investment companies to develop sustainable investment products in which we could invest, thus promoting best practices.

Our final topic is data processing. We have been producing optimised reports for labelled funds for a period of time now, but seek to be transparent across all our products on ESG indicators. This project should be finalized by the end of the first half of 2021. Each client, regardless of the fund, will thus have a complete transparency on key ESG indicators. From a more general point of view, we will capitalise on our expertise and continue to strengthen existing processes, work on sustainable issues and integrate best practices. We are only at the beginning of an ever-evolving process.

We intend to extend our 4Change range, which is the product of our ESG integration know-how, and to continue labelling funds (six applications submitted this year alone). Labels guarantee a certain credibility and validate our expertise, even if regulations provide a common framework.

What are the emerging trends in sustainable investment?

Europe is well ahead in the integration of sustainable issues, but we believe that other regions will have to catch. Joe Biden's arrival in the White House should accelerate this trend in the United States. China also set a very ambitious target for carbon neutrality by 2060 and a green infrastructure plan. We may therefore see attractive opportunities emerge, specialising on these themes within these regions, or discover innovations from which we should draw inspiration. ■

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