



## The 'Net Zero' Target

The Paris Agreement set out a clear target, that of limiting global warming. A plethora of sometimes complex concepts and terminology emerged, the interpretation of which seems to fluctuate between institutions and, ultimately, for investors. Here is a closer look at some of the key ideas.

### COP21 and the Paris Agreement

In 2015, when the Paris Agreement was signed at the end of COP21, the planet was already overheating. This ambitious plan, which came into force in 2016, nevertheless sets the target of limiting global warming to less than 2°C by 2100, compared to the pre-industrial era. To achieve this, major structural changes must be undertaken under the impetus of the States, in particular, disinvestment in fossil fuels and compliance with the 'Net-Zero' emissions by 2050.

### Net Zero?

'Net Zero' is a target arising from the Paris Agreement which involves reducing anthropogenic greenhouse gas emissions with the aim of approaching a theoretical zero. This threshold implies that carbon emissions do not exceed the absorption capacity of the planet's ecosystem, allowing a form of self-regulation. However, 'Net-Zero' does not imply zero emissions, and it would be nonsense to try to achieve this. The real objective of 'Net Zero' is to drastically and effectively reduce emissions to allow the ecosystem to absorb residual emissions. To achieve this, the first step is to cap emissions, then reduce them as much as possible, and then offset the remaining emissions through various mechanisms that are both natural (carbon sinks) and technological (capture and storage).

### Net Zero vs. Carbon Neutrality

Often considered as synonyms, these two terminologies cover two distinct principles. Carbon neutrality can be reduced to a simple equation: produce "x" and offset "y" to achieve neutrality. It is therefore only based on the notion of compensation, which only one of the components of the 'Net-Zero' target. This second concept is in fact much more restrictive and implies reducing carbon emissions through a structural transformation of economic models and a change in behaviour. Offsetting is only the final step in neutralising unavoidable emissions.

### Objective 2050 or 2100?

Frequently identified as the reference year for the Paris Agreement, 2050 corresponds to the pivotal stage for achieving the objectives set for 2100: the Net-Zero stage. According to IPCC projections<sup>(1)</sup>, all carbon emissions will have to be significantly reduced by 2050 to keep the temperature increase below 2°C by 2100. Once this initial level has been reached, the next 50 years will have to allow the residual CO<sub>2</sub> to be absorbed to achieve a balance between emissions and absorption. The year 2050 is therefore often used as a reference point for setting environmental targets, and the European Union has pledged to become climate neutral by this date.

(1) Intergovernmental Panel on Climate Change.



## 'Net Zero' in practice

In line with our long-term vision and in response to investors' ever-growing quest for meaning and impact, we are developing investment products that integrate 'Net-Zero' principles into their management strategy. This translates into clearly defined objectives to reduce the carbon intensity of the securities in the portfolio, which are monitored through precise indicators which are reported on a regular basis. More generally, almost all of our funds include ESG criteria<sup>(2)</sup>, as we consider them to be as important as financial criteria. Indeed, ESG issues are part of the valuation of companies, just as the financial dimension gives credibility to the companies' commitment. These two aspects are therefore intrinsically linked and form an integral part of our analysis and stock selection process.

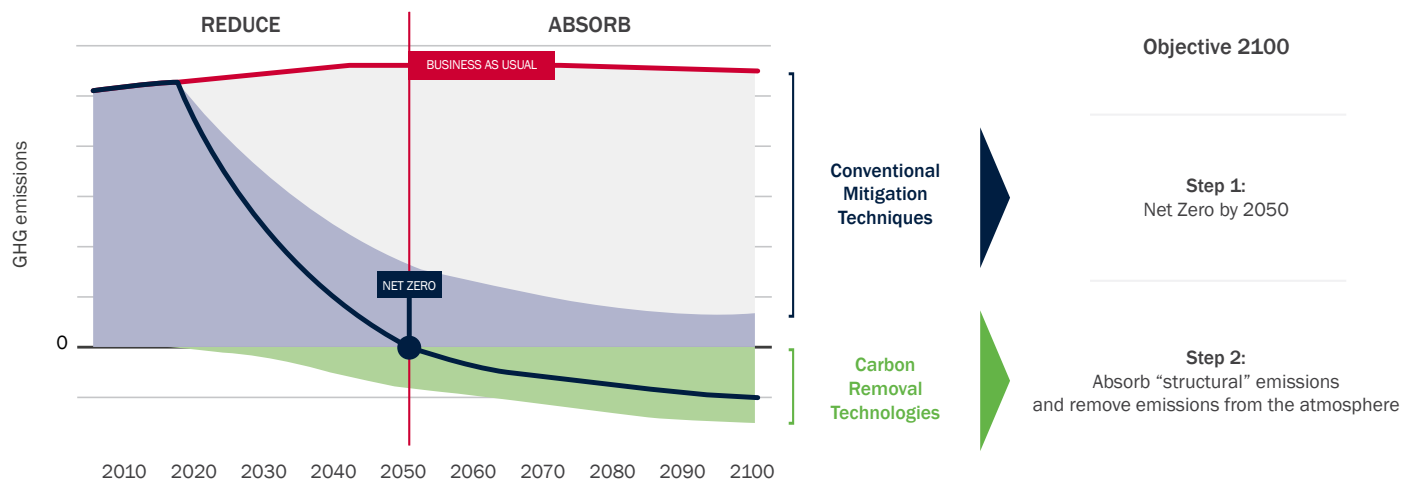
(2) Environmental, social and governance.

(3) Source: IEA, Net Zero by 2050 - A Roadmap for the Global Energy Sector, May 2021.

## Acting in favour of a just transition

To meet the targets set by the Paris Agreement, we place the trajectory at the heart of our strategy by seeking to include the most polluting players, which are essential links in the fight against global warming. For example, the energy sector is responsible for 90% of the world's CO<sub>2</sub> emissions and is 80% dependent on fossil fuels<sup>(3)</sup>. Supporting these players in a transition process rather than sidelining them seems essential to us. It is by encouraging the largest emitters to reduce their emissions that we will achieve a lasting positive effect. In this logic of inclusion and because a coherent and sustainable ecological transition can only be achieved by taking into consideration the social dimension, we have also joined "Investors for a Just Transition": the first global engagement Coalition for a Just Transition through the Finance for Tomorrow initiative, to promote a socially acceptable transition.

## Key steps towards the 'Net Zero' target



Sources: IPCC, World Resource Institute, 2018.

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