Sustainable Investing in Europe, Latest Trends & Initiatives

11th Transatlantic Conference, The Sagamore Resort, Wednesday June 19th

Kristof Woutters, Global Head of Pension & Insurance Relations, Candriam
ESG / SRI : RAPIDLY EVOLVING FROM NICHE TO MAINSTREAM

A great multitude of initiatives and developments worldwide

- **General initiatives**
  - UN Global Compact (2000)
  - UN Principles for Responsible Investment (2006)
  - UN Sustainable Development Goals (2015)
  - UN Climate Change Conferences → **COP21 Paris** (2015), ‘The Paris Agreement’
  - EU High-Level Expert Group on Sustainable Finance (2016 → 2018)
  - EU Action Plan on Sustainable Finance & Legislative Proposals (2018)
    - TAXONOMY → EU classification system of sustainable economic activities
    - DISCLOSURE → for investee companies as well as for institutional investors
    - BENCHMARKS → new category of carbon footprint benchmarks
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**Disclosure initiatives**

- **Task Force on Climate-related Financial Disclosures**
  - 2015 initiative of the G20 FSB
  - Final Report: TCFD Recommendations (June 2017)

- **Global Reporting Initiative**

- **Sustainability Accounting Standards Board**

- **Carbon Disclosure Project**
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- **Regulatory initiatives for institutional investors**
  - **The Netherlands**: art.135 lid 4 Pension Law (2014): ESG Policy
    - Integration of ESG factors within investment policy (SIP)
    - Integration of ESG risks (climate change, stranded assets, etc.) in risk management framework

- **Evolutions in risk management**
  - **Financial Risk** → mispricing the risk related to climate change (stranded assets, etc.)
  - **Reputational Risk**

*Revealed: MSPs' pension fund invests £3m in weapons, tobacco and dirty fuel*

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**S&P 500 Market Value**

<table>
<thead>
<tr>
<th>Year</th>
<th>Tangible Assets</th>
<th>Intangible Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015*</td>
<td></td>
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Source: Ocean TOMO, LLC
*January 1, 2015*
ESG / SRI: RAPIDLY EVOLVING FROM NICHE TO MAINSTREAM

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ESG regulations are picking up substantially

Source: UN PRI

Cumulative number of policy interventions, recorded by the UN PRI (counting individual revisions separately)

- Europe
- Asia
- Lat-Am
- North America
- Oceania
- Africa

Source: UN PRI
ESG / SRI: RAPIDLY EVOLVING FROM NICHE TO MAINSTREAM

A great multitude of initiatives and developments worldwide

Regional degree of responsible investment regulation

Source: UN PRI
CLIMATE RELATED RISKS AT THE FOREFRONT

Climate change becoming ever more economically material

WORLD ECONOMIC FORUM

‘GLOBAL RISKS REPORT 2018’
ESG / SRI: GETTING THE DEFINITIONS RIGHT

From “Responsible Investing” over “Sustainable Investing” to “Impact Investing”

**NEGATIVE SCREENING / EXCLUSIONS:**
- Norms-based (UN Global Compact)
- Controversial Activities (Weapons, Tobacco, Alcohol, Coal, Gambling, …)

**POSITIVE SCREENING / ESG INTEGRATION:**
- ESG Best-in-Class
- Selective ESG Integration

Engagement & Proxy Voting / Stewardship
ESG / SRI: IMPACT OF VARIOUS APPROACHES
Pros and cons of the various SRI approaches

- **BIC Loading (15%)**
- **BIC Advanced (15%)**
- **BIC Runners Up (5%)**
- **BIC In line (15%)**
- **BIC Below average (20%)**
- **BIC High Risk (30%)**

**Sustainability Themed**

- **POSITIVE SCREENING / BEST-IN-CLASS (BIC)**
- **NEGATIVE SCREENING / EXCLUSION**

**Impact Investing** (Green Bonds, Micro-Finance, etc)

- **UN Global Compact**
- **Other controversial Activities**
- **Controversial weapons**

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CANDRIAM’S CORPORATE ESG ANALYSIS

A unique approach

ESG Best-In-Class Approach

MACRO

Business Activity Exposure

Climate Change
Resource Depletion
Developing Economies
Demographic Evolutions
Health & Wellness
Interconnectivity

Investors
Customers
Employees
Suppliers
Society
Environment

MICRO

Management of Stakeholders

1

2

3

NORMS-BASED Exclusions

- Human Rights
- Labor Rights
- Environment
- Corruption

4

CONTROVERSIAL ACTIVITIES Exclusions

- Tobacco
- Weapons
- ...

5

ESG Universe

6

Proxy Voting

Engagement - Dialogue

SECTOR STUDY

COMPANY ANALYSIS
PERFORMANCES – EUROPEAN EQUITY
MSCI SRI versus MSCI ESG leaders versus traditional MSCI

<table>
<thead>
<tr>
<th>Performance EUR (13/06/2019)</th>
<th>Annualised Returns</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>1 Yr</td>
</tr>
<tr>
<td>MSCI Europe SRI (25/75)</td>
<td>4.54%</td>
</tr>
<tr>
<td>MSCI Europe ESG Leaders (50/50)</td>
<td>2.26%</td>
</tr>
<tr>
<td>MSCI Europe traditional</td>
<td>1.05%</td>
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Performance MSCI Europe (EUR)

- MSCI Europe NR
- MSCI Europe ESG Leaders NR
- MSCI Europe SRI NR
PERFORMANCES – US EQUITY
MSCI SRI versus MSCI ESG leaders versus traditional MSCI

<table>
<thead>
<tr>
<th>Performance USD (13/06/2019)</th>
<th>Annualised Returns</th>
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</thead>
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<tr>
<td></td>
<td>1 Yr</td>
</tr>
<tr>
<td>MSCI US SRI (25/75)</td>
<td>7.93%</td>
</tr>
<tr>
<td>MSCI US ESG Leaders (50/50)</td>
<td>7.38%</td>
</tr>
<tr>
<td>MSCI US (Traditional)</td>
<td>5.56%</td>
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PERFORMANCES – EMERGING EQUITY
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Performance USD (13/06/2019)

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<tr>
<td></td>
<td>1 Yr</td>
</tr>
<tr>
<td>MSCI EM SRI (25/75)</td>
<td>-0.30%</td>
</tr>
<tr>
<td>MSCI EM ESG Leaders (50/50)</td>
<td>-6.27%</td>
</tr>
<tr>
<td>MSCI EM (Traditional)</td>
<td>-7.65%</td>
</tr>
</tbody>
</table>
# Assessing Various ESG Approaches / Portfolios Through ESG Impact Indicators

## ESG Impact Indicators

### Environment
- Carbon Footprint
- Analysis 2 Degrees
- Water Footprint

### Governance
- Board Independence
- Significant vote against Pay Practice
- Auditor Independence

### Social
- Targets to improve Health & Safety Performance
- Collective Labour Agreement

### Human Rights
- Female Directors

### UN Global Compact Compliance
- Companies fully compliant with the UN GC

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CONCLUSION

“NOT EVERYTHING THAT CAN BE COUNTED, COUNTS;

NOT EVERYTHING THAT COUNTS, CAN BE COUNTED.”

Albert Einstein, Physics
William Cameron, Sociology