

POINTS OF VIEW

1 question, 3 experts

COP 26 : HOW TO ADAPT TO THE IMPACTS OF GLOBAL WARMING?



Philippe Waechter
Head of Economic Research

CARBON TAX AND INNOVATION

Compliance with the Paris Agreement goals requires awareness of the efforts to be made and the changes needed to achieve the target trajectory. Following the GIEC report, a greater sense of urgency may have led to a perceivable change in mindset.

Although this first stage of awareness is necessary, it is not enough on its own. Concrete measures are also required which incite change but which also create opportunities to adopt the right profile.

The first measure will be to implement a more punitive carbon tax in Europe from 2025 onwards. Greenhouse gas emitters must be made to pay according to their level of emissions. This incentive will oblige emitters to change their energy supply to emission-free sources, or at least switch to renewables. The question is whether this tax will trigger the required breakthrough to adopt a trajectory compatible with carbon neutrality.

Further steps are also required. Innovation will cut the cost of renewable energies further and also reduce emissions from existing processes. Innovation must go even further however and target carbon capture. In order to respect the Paris Agreement goals, the energy mix has to change radically, combined with carbon absorption. Efforts are required to develop industrial tools which boost capture procedures beyond the realm of forests and oceans. For this reason, massive resources must be mobilized, capitalizing on very low interest rates.



Alice Val
ESG Strategy

INTEGRATING BIODIVERSITY AND HUMAN RIGHTS ISSUES INTO ASSET MANAGEMENT

Climate change is jeopardizing communities and natural habitats. It is our responsibility as asset managers to support and prioritize companies which adapt their strategies, particularly with regard to human rights and biodiversity issues. At Ostrum, we have put several schemes in place integrating these issues into our investment management process, based on key indicators, issuer analysis, dialogue with companies and exclusion when required.

Human rights and biodiversity factors are systematically included in our qualitative issuer analysis. These issues are also covered by the indicators composing the ESG rating model used by Ostrum. They are also integrated into the indicators required under the Sustainable Finance Disclosure Regulation to justify that the main negative impacts on investments have been taken into consideration.

We maintain constant dialogue with issuers. We have identified the ESG engagement themes common to equity and bond investments. We regularly examine those key themes with companies in order to encourage best practices: among others, we discuss how they guarantee the respect of human rights within their supply chains and also how they preserve health and biodiversity.

If engagement proves insufficient, we apply our exclusion policy. We have undertaken to exclude from our investments any issuers that have proven to contravene the main principles of internationally established standards as regards business ethics, human rights, environmental protection and biodiversity.



Olivier Vietti
Senior Fixed Income Portfolio Manager

BEYOND CLIMATE RISK...

Climate change incurs certain long-term risks for the planet and for all economic agents. A sustainability rating is a key factor in portfolio construction, which must now integrate the goal of investing in-line with a world at +1.5 degrees. We therefore now take the carbon footprint of our portfolios into consideration, which enables us to gauge their decarbonization efforts and climate trajectory alignment.

To go one step further and maximize our efforts to adapt, we integrate a territorial analysis into our fixed income investment process, chiefly based on natural capital preservation and human capital considerations. Asset class allocation helps finance renewable energies through exposure to certain sectors. Measuring factors which may lead to a loss of biodiversity at the portfolio level is more complex than assessing the carbon footprint.

Despite this, we nonetheless identify investment niches, which are certainly still too few in number. For example, we select bond issues funding projects aiming to protect and restore ecosystems, preserve agricultural soils for sustainable agriculture, and protect forests. Lastly, we select companies providing impact solutions to energy transition, for example by managing human capital. We are convinced that the integration of a social and territorial dimension in our investments has a decisive role in achieving a just transition.

ADDITIONAL NOTES

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