Amundi ASSET MANAGEMENT | ETF

Focus

The climate emergency: beyond the tipping point

The planet is undeniably getting hotter, and wetter. The past five years have been the hottest recorded since 1850 and this, according to the 2021 study from the Intergovernmental Panel on Climate Change, is down to human activity[1]. As we all seek solutions to the climate emergency the investment industry has real potential to be a force for positive change, offering opportunities to investors who are committed to a more sustainable future.

Change is possible

Whilst we are acutely aware of the myriad threats from climate change, there is growing momentum for change globally and increasingly the financial sector is being pinpointed for its potential to contribute towards positive climate impact.

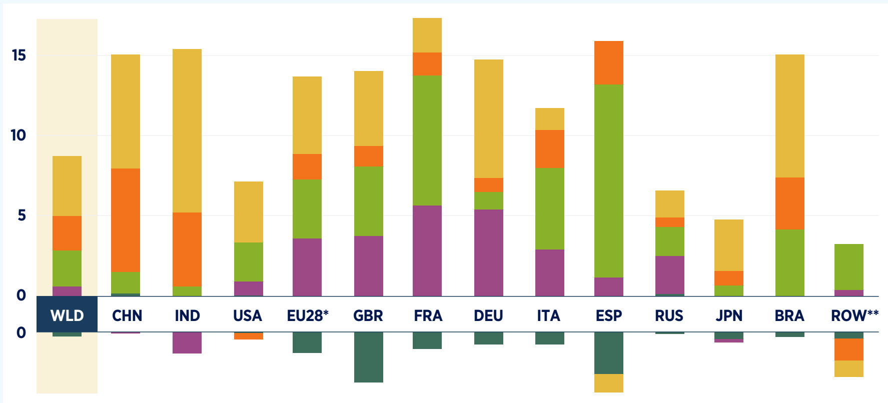
The Covid-19 crisis had a devastating effect on society and global economies. Conversely, it has had a positive impact on carbon emissions and has shown us all that it is possible to reduce our carbon emissions drastically with global carbon dioxide emissions falling by 6.4% or 2.3 billion tonnes during 2020[2]. However, the level of global CO_2 emissions has rebounded as economic activity has begun to recover.

Clearly, governments cannot solve the problem on their own. So how can the investment industry play its part?

The asset management industry proved resilient to the challenges of 2020, with asset growth on a global level rising 11% to end the year on $103 trillion[3]. Assets managed in passive strategies totalled $22 trillion in 2020[4], more than the GDP of the US. With such large volumes of assets to invest there is a real and growing opportunity for asset managers alongside asset owners to drive sustainable change around the world.

CO_2 Emissions Variation (%)

January 1st → May 31st, 2021 vs January 1st → May 31, 2020



World emissions

January 1st → May 31st, 2021 vs January 1st → May 31, 2020

All sectors	**+8.4%**		(+1105.2 $MtCO_2$)
Power	**+3.8%**	**9.7%**	(+494.5 $MtCO_2$)
Industry	**+2.1%**	**7.1%**	(+271.7 $MtCO_2$)
Ground Transport	**+2.2%**	**12.7%**	(+285.4 $MtCO_2$)
Residential	**+0.6%**	**4.5%**	(+79.8 $MtCO_2$)
Domestic Aviation	**+0.1%**	**16.7%**	(+17.0 $MtCO_2$)
International Aviation	**-0.3%**	**-29.5%**	(-43.1 $MtCO_2$)

Source: https://carbonmonitor.org/

**The colours in the bar chart above correspond to the colours for each sector shown in the second graphic. The percentage for each sector shows the contribution of this sector to the total change in emissions. The percentages in blue boxes show the sector change in 2020 vs. 2019.*

1 Source: IPCC, Climate Change 2021: the Physical Science Basis, 9 August 2021
2 Source: Carbon Monitor programme/Nature analysis, January 2021
3 Source: BCG, Global Asset Management 2021: The $100 Trillion Machine, July 2021
4 Source: BCG, Global Asset Management 2021: The $100 Trillion Machine, July 2021

Growing appetite for sustainability

The year of 2020 is also widely regarded as the period when environmental, social and governance (ESG) investing became truly mainstream. According to analysis by Bloomberg[5] global ESG assets are on track to reach $53 trillion by 2025. Zoning in on passive investments, the future also looks bright; ESG represented 51% of all ETF flows in 2020[6] and in Europe alone accounted for ETF assets of €90.4 billion in 2020 (approx. $107 billion), a 137% increase on the €38 billion ETF assets in 2019[7] (approx. $45 billion).

Much of this growth stems from investor demand and increasingly from the requirements of regulators around the world, whether local schemes or regional initiatives such as the 2018 EU Climate Action Plan. ■

What are the investment opportunities?

The increasing urgency of climate change has made it a key topic for everyone, investors included, for several reasons. On one hand, investors are seeing climate change as an investment risk because it is closely associated with asset-specific risks as well as reputational risks for companies not taking the crisis seriously. On the other hand, research and innovation in climate solutions could prove to offer opportunities over the long term. Not forgetting the growing desire of investors to reflect their values in their investment portfolios.

A further reason for climate to be an important consideration for investors is the evolving regulatory landscape. Climate action is at the heart of the European Green Deal, the package of measures designed to preserve Europe's natural environment. Most recently on 14 July 2021, the European Commission set out its intention to achieve climate neutrality in the EU by 2050 including the intermediate target of at least 55% net reduction in greenhouse gas emissions by 2030. To meet this target, as part of the goals of the 26th UN Climate Change Conference, 31 October - 12 November 2021, countries are expected to develop their own approach, incorporating the phase-out of coal, curtailing deforestation, accelerating the transition to electric vehicles, and encouraging investment in renewables. Developed countries and international financial institutions are expected to play a key role in mobilising and directing private and public finance to reach the net zero goal.

Local legislation and initiatives did take hold in some countries. For example, the French Energy Transition for Green Growth Act of 2015 required investors to be transparent about the climate impact of their investments, and the UK's Climate Financial Risk Forum published a guide to help the investment industry address climate-related risks. However, Europe as the region at the forefront of the ESG revolution, has naturally paved the way for sustainable finance policy.

Climate-associated risks

- **Transition risk** – assets e.g. coal mines at risk of being negatively impacted by incoming climate regulation or low carbon technologies
- **Physical risk** – assets at risk of being negatively impacted by the increasingly severe weather related events

The EC Action Plan of 2018[8] includes defining what can be considered environmentally sustainable, a new category of benchmarks, the disclosure of sustainable investment and sustainability risks, and a preference for sustainability within investments. These elements are aimed at driving capital towards positive change through the standardisation and transparency of disclosure around ESG and climate issues. ■

The practicalities of considering climate

Investors looking to incorporate climate into their portfolios historically focused on impact investing strategies or active investment solutions. The primary reason for this in the past was the inability of index approaches to stock-pick or under/overweight companies. While impact or active approaches are good for some investors for certain aspects of their investment strategy, they are not always the answer.

Index approaches to climate investing do exist, and have done for some time; in fact, Amundi was at the forefront of low carbon index innovation in co-developing the MSCI Low Carbon Leaders index series with pension funds, FRR and AP4 in 2014. The indices were a ground-breaking development when they were created. Today, improvements in data quality and availability have now opened the door to a new generation of climate indices, which consider indirect emissions and

5 Source: Bloomberg, ESG assets may hit $53 trillion by 2025, a third of global AUM, 21 February 2021
6 Source: Amundi/ Bloomberg, December 2020
7 Source: Morningstar Direct European ETF Asset Flows Update – Q4 2020, January 2021
8 Source: European Commission https://ec.europa.eu/info/publications/sustainable-finance-renewed-strategy_en, March 2018

forward-looking climate commitments alongside historical data. With the further addition of comprehensive climate index labels from the European Union, investors are able to use index investing to incorporate climate goals in their portfolios more effectively.

The EU Climate Transition Benchmark (CTB) and Paris-Aligned Benchmark (PAB) are a part of the EU Climate Action Plan and the first pan European labels for sustainable investment indices. They offer investors two intensities of decarbonisation to enable alignment with their individual objectives. ■

Amundi's climate ETF range

Having been instrumental in developing the early low-carbon indices, and with a long-standing commitment to sustainability, Amundi was one of the first asset managers to launch ETFs aligned to the new EU climate indices. The range covers investors' core geographies including PAB and CTB labelled funds. Investors are thus empowered to incorporate climate at the heart of their portfolios simply, cost-effectively and in a way that matches their objectives.

The Amundi ETF climate solutions use indices that follow comprehensive positive- and negative-screening, reweighting and scoring methodologies to deliver on their carbon reduction objectives. Additionally, they use historical data on emissions Scope 1 (direct), Scope 2 (purchased electricity) and Scope 3 (all other indirect emissions) of greenhouse gas emissions to explicitly allocate to the most climate positive companies. This backwards-looking analysis is combined with forward-looking approaches that consider company strategy and the transition risks associated with carbon emissions. ■

EU Climate Benchmark Methodology

Driving impact with climate index investing

When selecting an index approach to climate investing, the first step for investors is to choose a suitable climate index, however, equally important is the selection of an asset manager. Identifying a manager who has a robust engagement and voting strategy aligned with the goals of the index can play a key role in achieving climate investment goals. For example, an asset manager who manages a climate ETF but votes against climate-related shareholder proposals or does nothing to discourage lobbying with negative environmental consequences would ultimately disappoint an investor seeking real climate impact.

Amundi has a comprehensive engagement strategy comprising continuous engagement, an active voting policy (which saw at least one Amundi vote against management in 71% of shareholder meetings in 2020[9]) and targeted impact engagement on core themes such as environmental strategy, energy use and biodiversity. It is with this foundation that Amundi launched the Euro iStoxx Climate Ambition ETF, consciously designed to encourage impact through engagement. By systematically overweighting securities with Science Based Targets, the index was designed to incentivise companies to commit to the Science Based Target initiative[10] and disclose their carbon footprint reduction emission plans.

Over recent years, asset manager engagement has resulted in tangible change across a range of sectors. Exclusions, divestment and engagement can all be achieved in passive investment strategies, and it is important to select a fund manager that "walks the talk" on engagement issues. ■

9 Source: Amundi Engagement Report 2020
10 Source: For more information visit sciencebasedtargets.org

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Focus The climate emergency: beyond the tipping point

Responsible investing at Amundi ETF, Indexing and Smart Beta

Amundi was established in 2010 with responsible investing as a core belief. One of the founding signatories of the UN Principles for Responsible Investment (PRI)[11], in 2020 Amundi was awarded an A+ across all categories in the PRI[12] assessment. Amundi offers a broad range of ESG investment solutions and has an extensive engagement and voting policy, applied equally across both active and index strategies. Amundi was awarded a BB rating and ranked 15th in the 2020 ShareAction UK report which analysed the world's largest asset managers on their approaches to responsible investing. This was the highest score awarded to an asset manager ranking in the top ten by AUM. ■

A wide range of ESG equity and fixed income ETFs

Cost-effective core building blocks designed to allow you to build a responsible investing solution to meet your needs.

ESG			Climate	
+	++	+++	++	+++
Broad market exposure with enhanced ESG score	Best-in-class approach with controlled tracking error	Best-in-class approach combined with strict negative screening	Transition towards a low carbon economy with broad market exposure	Accelerated transition towards a low carbon economy with GHG intensive activity screen
World - Europe - EMU Germany - US - EM	World - Europe - EMU US - EM	World - Europe - EMU - US Pacific Region - Japan - EM	World - Europe	World - Europe - EMU

For more information about using ETFs to make a positive climate impact, visit amundietf.com/responsibleinvesting or email us at info-etf@amundi.com

11 Source: The PRI was founded in 2005 with Credit Agricole Asset Management as a founding signatory. Amundi was borne of the merger of Crédit Agricole Asset Management with Société Générale Asset Management in 2010

12 Source: For more information visit unpri.org and view the 2020 transparency reports.

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