



OUTLOOK 2022

« *A silver lining* »

19.11.2021



SUSTAINABLE OUTLOOK

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Responsible Investment Strategist DPAM



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ESG OUTLOOK



SUSTAINABLE INVESTMENTS: WHAT AN **AMAZING DECADE!**



- **Confluence** of actions by policymakers, companies and individuals
- Increase in **regulatory intensity and zeal** over the last 2-3 years
 - A **game changer** for sustainability
 - **SFDR** sets a higher bar (disclosure and requirements) across sustainable investment frameworks and approaches
- Main focus on **climate** change BUT
 - **S**: minimum social safeguards today; Social Taxonomy tomorrow
 - **G**: good corporate governance today; Sustainability as priority agenda point across the main corporate governance bodies tomorrow

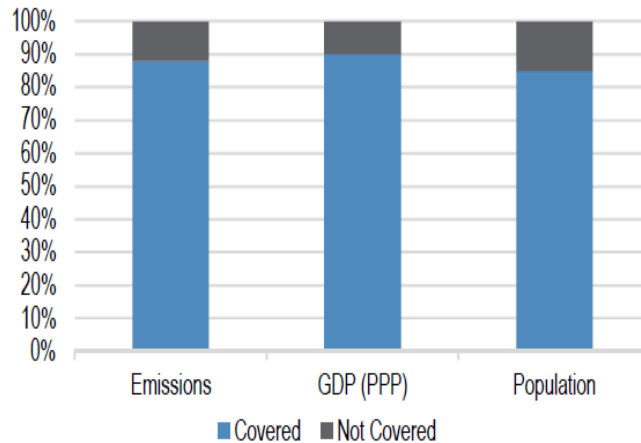


FOCUS CLIMATE CHANGE

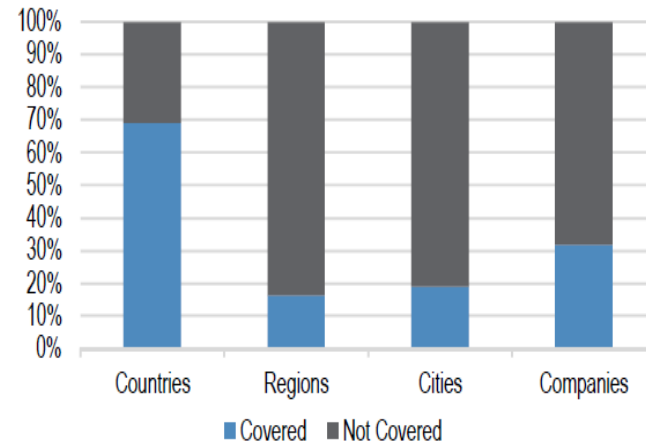
- What is **Net Zero**? Striking the correct balance between reducing and removing emissions representing a pivot point in international climate negotiations
- Macro economic impact? End of fossil fuel investments and aggressive decarbonization process

Net Zero pledges: 137 countries – 88% of worldwide emissions covered

Global Net Zero Coverage



Net Zero Numbers



Source: JP Morgan (2021) – ESG long-term view



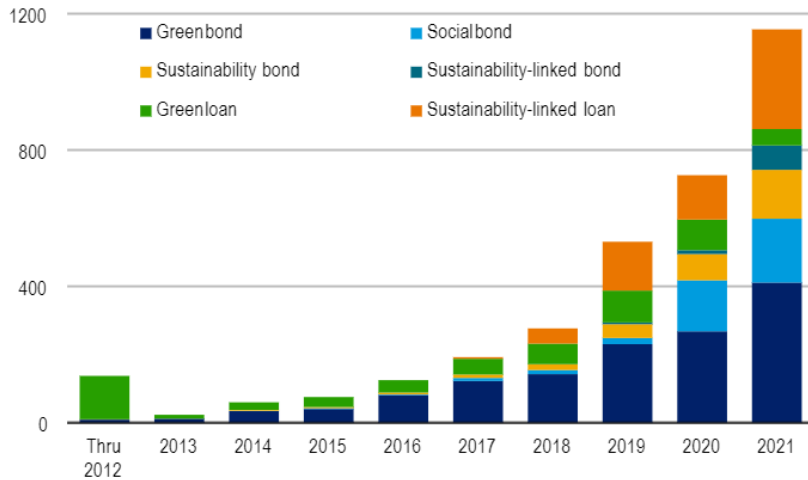
NET ZERO RACE – PRACTICAL MEANING

- Energy transition to a net zero GHG economy by 2050 = **expensive** exercise, costing as much as the entire US tax base every year over the next 30 years (source: BofA)
- **How to finance** this? Likely a combination of:
 - corporate **bond** issuance (**green** or sustainability-linked issuance),
 - **Increased commercial bank balance sheet capacity**,
 - **government debt (green and regular)** and
 - **imposition of carbon taxes** that incentivize actors to achieve full decarbonization; estimates range around \$150/tCO₂ on average.
- **Will the above transition increase inflation risk? How will central banks behave?** The Network for Greening the Financial System (NGFS) launched at the Paris *One Planet* Summit in 2017 started with 8 central banks (BoE, Banque de France, Dutch central bank...) but comprises 75 members today including FED and PBoC.

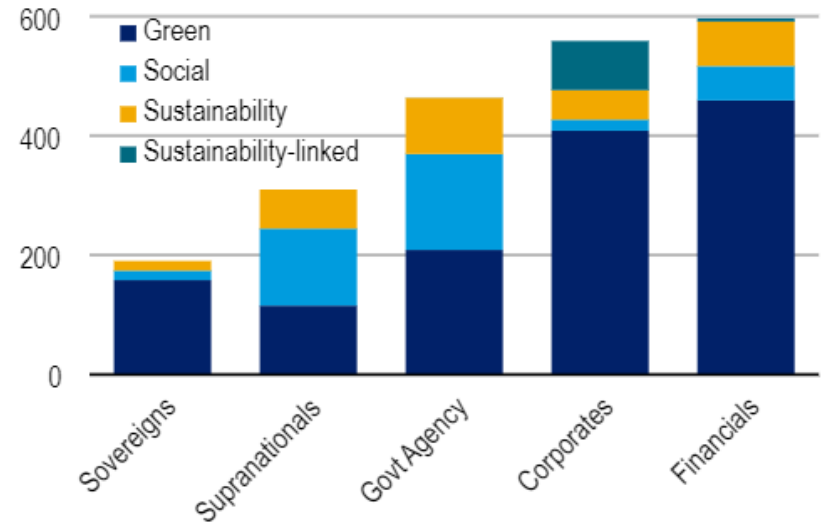


GREEN BOND MARKET: WILL NEED TO GROW BY MULTIPLES OF CURRENT VOLUME

To meet the \$5 tr of spending by 2030 in annual investment to decarbonize



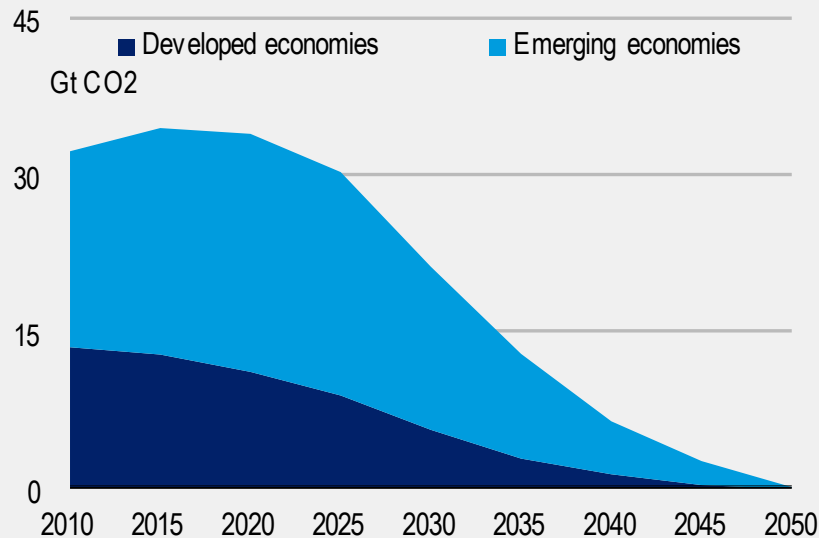
Source: BofA Global Research (2021)



Source: BofA Global Research (2021)



NET ZERO RACE – ALL TOGETHER



Source: BofA Global Research (2021)

- Need for a **global effort** from developed and emerging economies
- An important **geopolitical challenge** with strategic competition for climate leadership between China and US but need for 193 countries embarking on the net zero journey (India finally committed to carbon neutrality by 2070 as they travelled to Glasgow)



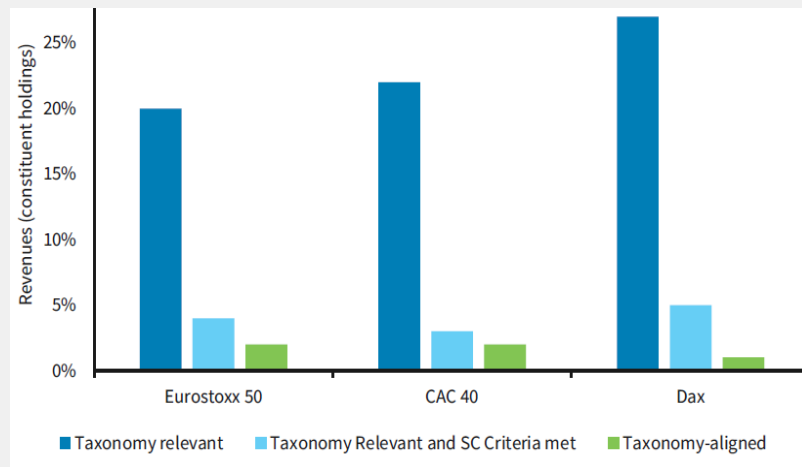
NET ZERO RACE – COSTS AND **OPPORTUNITIES**

- **Costs:** USD 150 tr USD required over 30 years! This could boost long-term productivity but cause short-term capacity constraints and lift geopolitical risks
- **Opportunities:** the green energy transition can add 0.30 to 0.50% per annum to global GDP growth (source: BofA)
- **Reminder:** the cost of inaction will be much higher than the cost of action as physical direct costs and transitional opportunity costs will increase



CLIMATE FOCUS – EU TAXONOMY CHALLENGES

Taxonomy potential for European indices



Source: Barclays (2021)

- **Aim:** re-allocating capital towards green economic activities and contributing to climate change mitigation and adaptation
- Short-term, the “Green-assets” universe is **limited** and holds high **sectorial biases**
 - **Power Utilities** represent the most obvious exposure, followed by Construction, Water Utilities, Auto and Building Materials.
 - Markets push investors into corporate revenues that are cleared by EU taxonomy. Investors should aim for proper sector allocation diversification next to universe extensions.
- **Data uncertainty:** potential gap between pledges and reality. **Credible review process on over- or underdelivery versus objectives is required**



FOCUS SOCIAL

- **Today focus on human rights** and supply chain
 - SFDR “alignment with the OECD Guidelines for Multinational Enterprises and the UN guiding Principles on Business and Human Rights”
 - **Limited impact on valuation**
 - **Increasing scrutiny of controversies** faced by companies
 - Challenge: to anticipate (forward looking) the risks of social issues
- **Tomorrow: Social Taxonomy - aligned with the SDG’s Agenda 2030**
 - What constitutes a substantial social contribution (vertical dimension)
 - How to not do significant harm (horizontal dimension)
 - What activities are harmful?



FOCUS GOVERNANCE

- **Corporate governance** practices are highly scrutinized
 - SFDR “policy to assess good governance practices”
- **ESG** at the heart of the **company’s strategy and mission**
- **Sustainability risks** integrated at top level
- Stakeholders (instead of shareholders) and mission – from shareholders governance to **stakeholders' governance**
- **Governance has a central role in DPAM’s fundamental research process**
 - DPAM Voting Policy
 - DPAM Engagement Policy





2 DPAM 20Y EXPERIENCE TO ANTICIPATE



DPAM: YOUR ACTIVELY SUSTAINABLE PARTNER



Deep research and analysis of profiles, controversies, key challenges

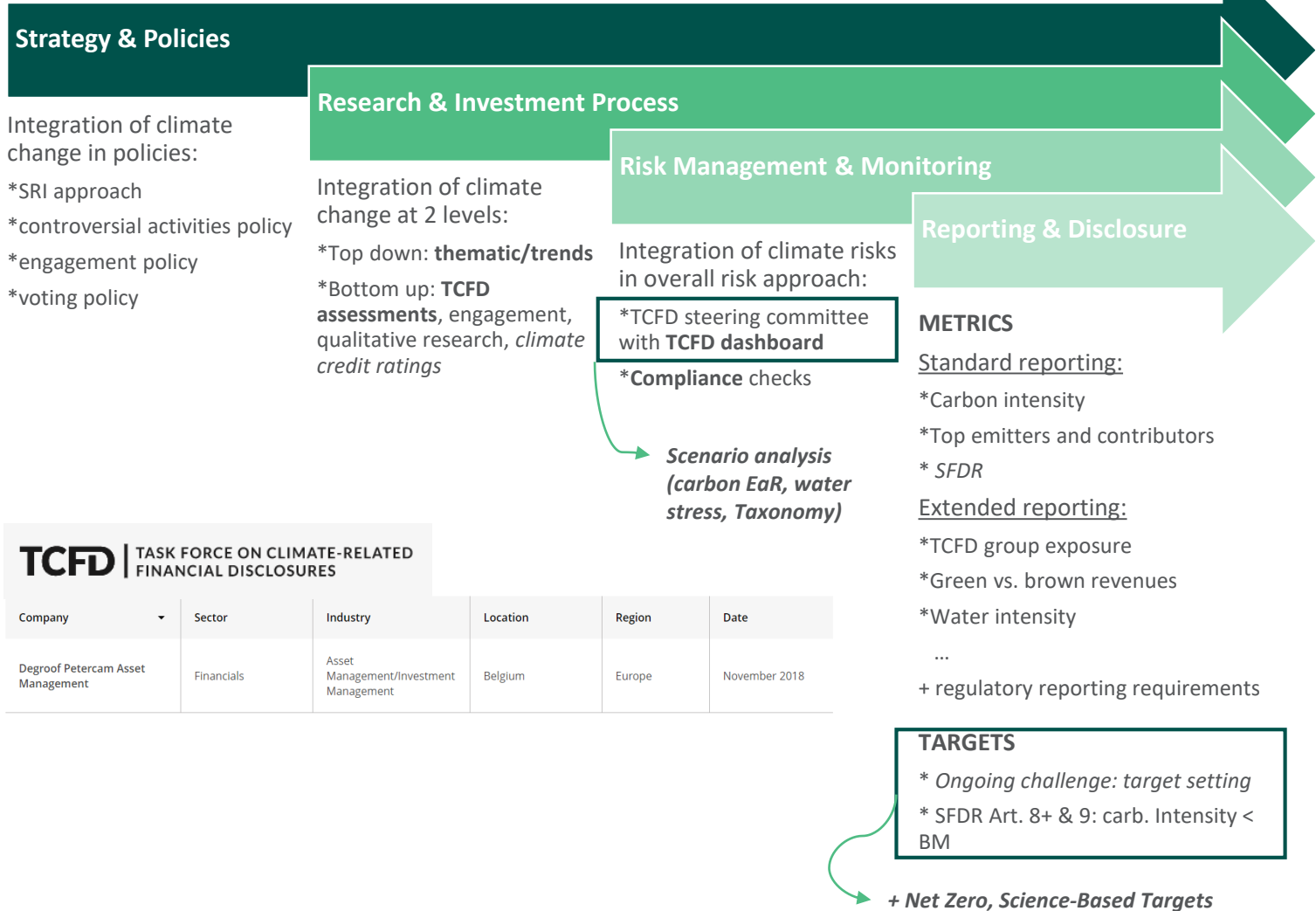
ESG factors are relevant information in decision-making process when **material** and specific to investment **themes**

20
YEARS

Sustained dedication



DPAM'S FOCUS ON CLIMATE CHANGE



TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

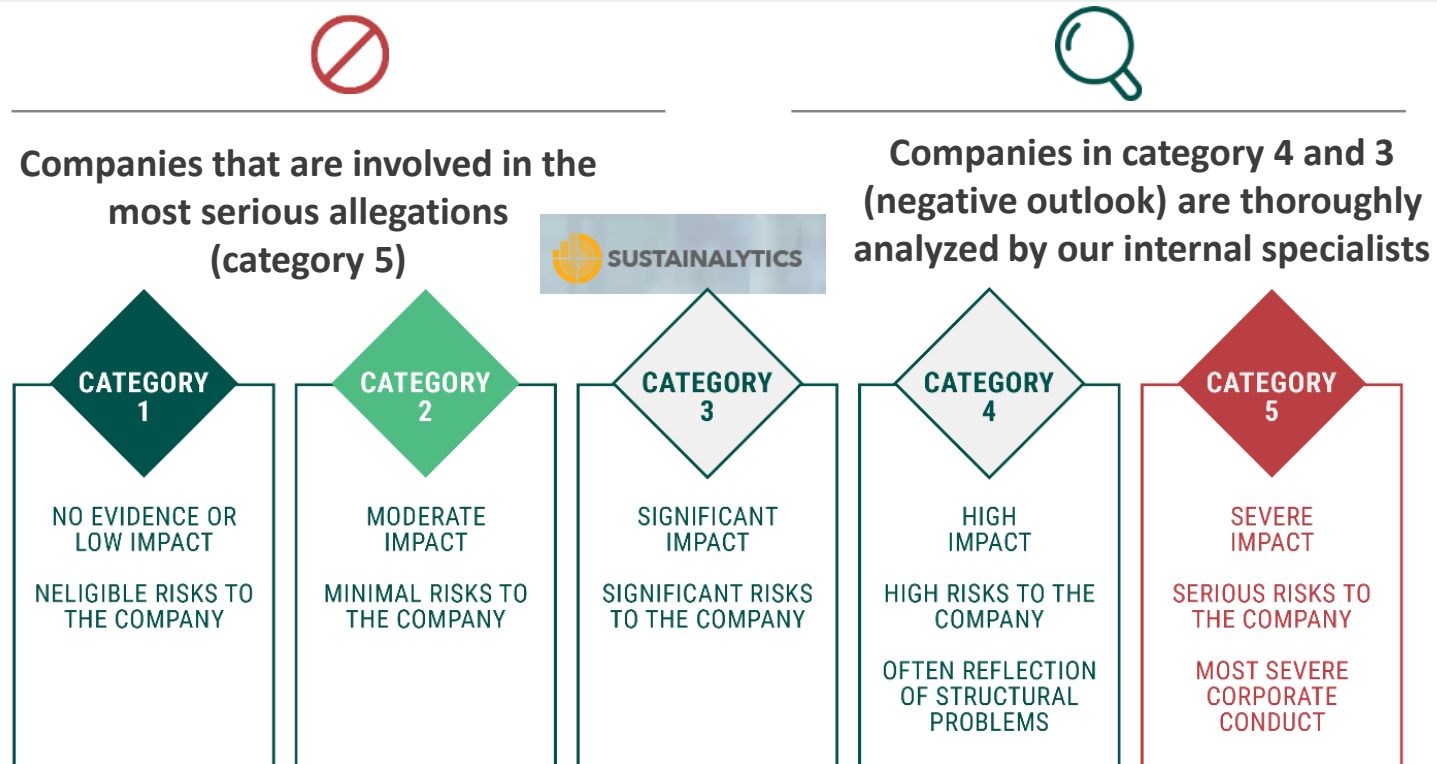
Company	Sector	Industry	Location	Region	Date
Degroof Petercam Asset Management	Financials	Asset Management/Investment Management	Belgium	Europe	November 2018



- Controversies review in the heart of the process -

DPAM'S FOCUS ON SOCIAL

- The exposure of a company to controversial events can serve as an indicator to test the effectiveness of the company's ESG policies
- Controversies are divided into **5 categories** by the well-known ESG research house Sustainalytics according to the **impact, the recurrence and the responsibility of the company**



DPAM'S ACTIVE APPROACH: **CONTROVERSIES REVIEW**

CONTROVERSIAL BEHAVIOUR
RESPONSIBLE INVESTMENT STEERING GROUP IMPLICATION

**SUSTAINALYTICS
CONTROVERSY
LEVEL 3
(NEGATIVE
OUTLOOK) AND
LEVEL 4**

TEAMS

RICC
PM
Analysts

SOURCES

 SUSTAINALYTICS
 MSCI
Brokers
Companies

IN-HOUSE DETAILED ESG ASSESSMENT

PRESENTATION TO RISG

ELIGIBLE

ELIGIBLE WITH
ENGAGEMENT

NOT ELIGIBLE



- Shareholder responsibility in the heart of the process -

DPAM'S FOCUS ON GOVERNANCE

Voting

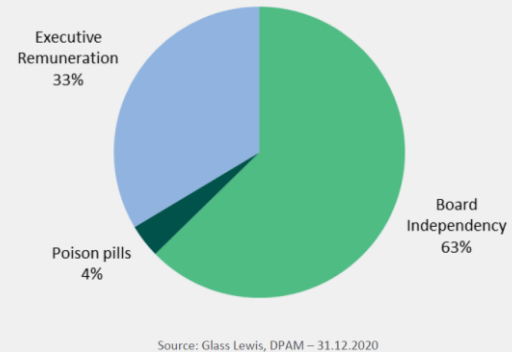
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SUSTAINABLE FINANCIAL MARKET MANAGEMENT



GLASS LEWIS

Engaging

Topics breakdown of the engaged dialogues with companies



Proxy voting

Active research driven analysis of “conflictual” agenda topics

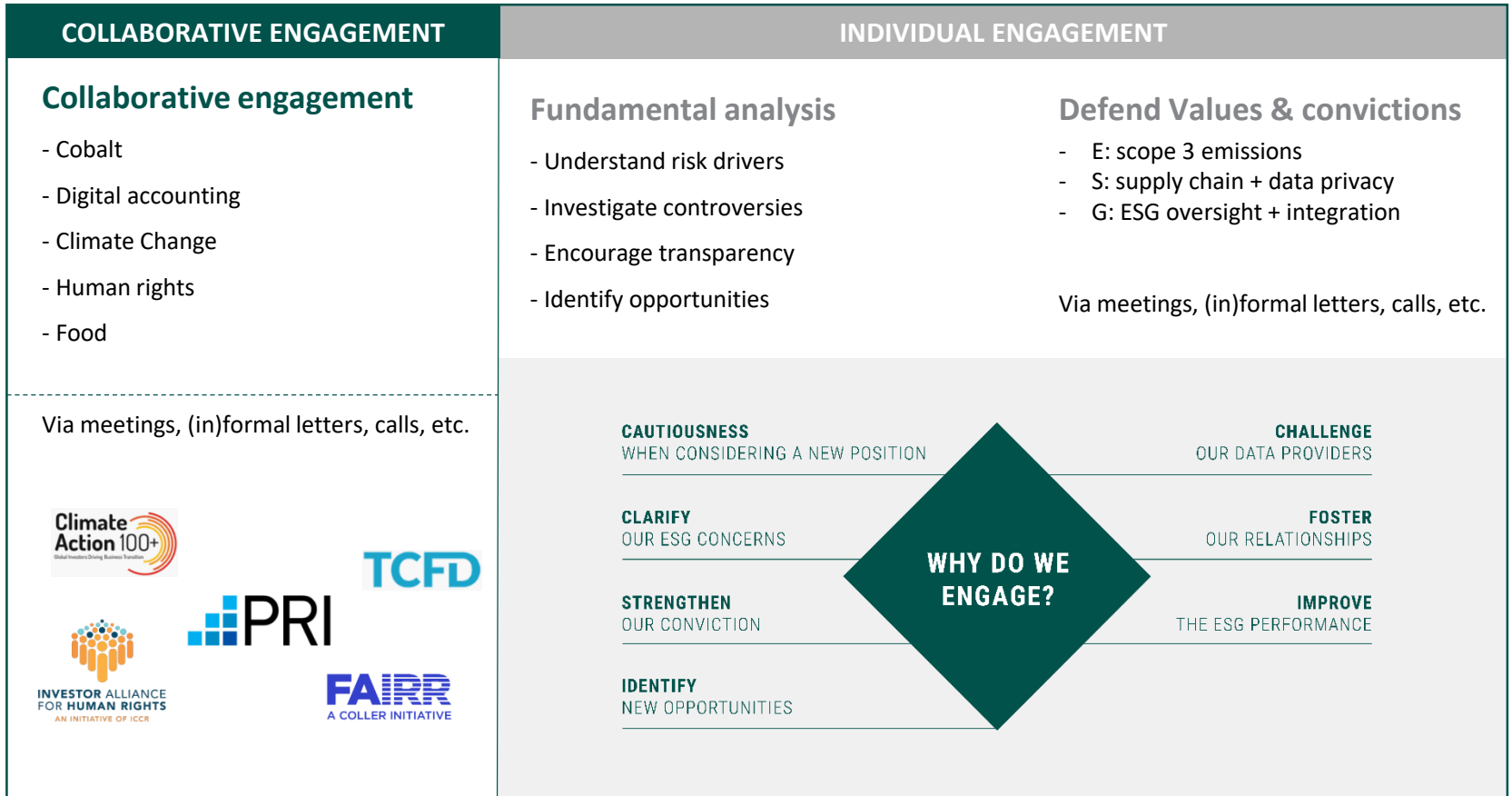
Engagement letters – 101 letters (20)

- Independence of the board of directors
- Transparency and equity of information
- Anti-takeover structures
- Unequal voting rights
- Executive remuneration policy & report



- Engagement in the heart of the process -

DPAM'S FOCUS ON GOVERNANCE



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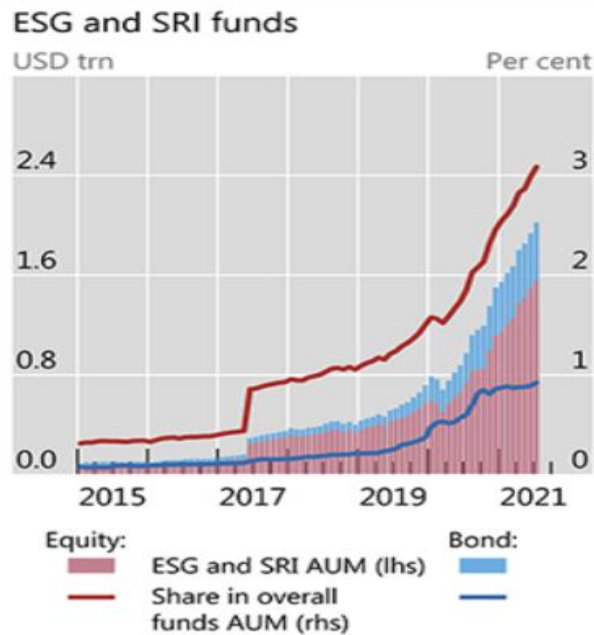
KEY MESSAGES

*However vast the
"However supply,"
we must*



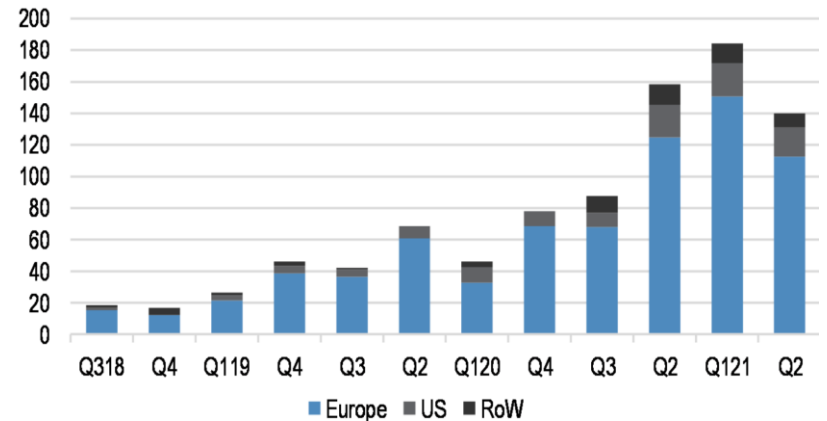
OUTLOOK 2022 – KEY MESSAGES

Fast growing ESG market – ESG is mainstream



Source: Barclays (2021)

Important flows into sustainable funds over last quarters – no reason to expect a sudden stop



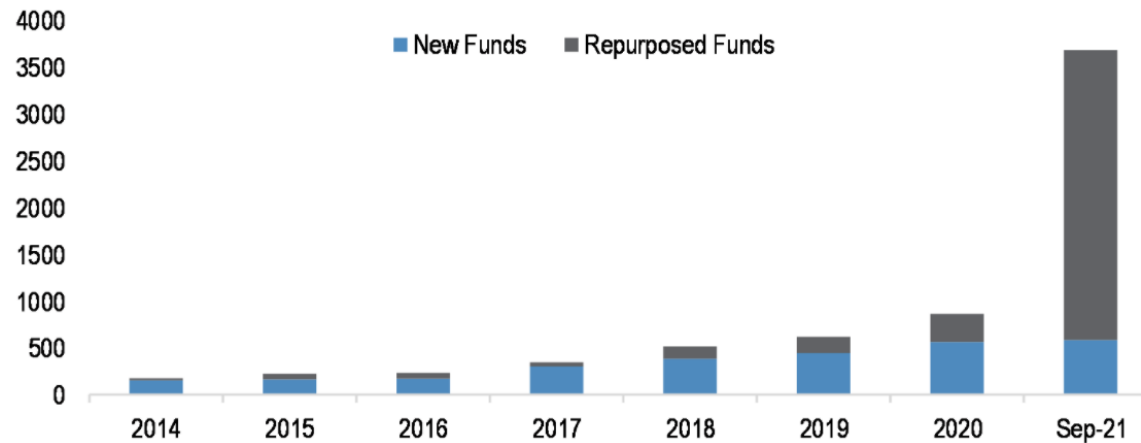
Source: JPMorgan (2021)



OUTLOOK 2022 – KEY MESSAGES

Investment assets are recycled into ESG investment solutions; increased regulation will tilt institutional interest in this direction

Figure 7: SFDR is a game changer for ESG investing with an unprecedented number of funds stating their ESG focus (number of funds launched or repurposed per year)



Source: J.P. Morgan based on Morningstar

Source: JP Morgan (2021)



OUTLOOK 2022 – KEY MESSAGES

- **Demand** and **regulatory** pressure are likely to **continue to foster** the development of ESG investment solutions
- Sustainable strategies become mainstream across corporates
- The EU's regulatory push incentivizes actors across society to transition towards a low carbon economy
- Share of investors that require ESG integration is growing rapidly.
- However, the universe of green assets remains relatively small hence **high valuation issues** and worries filter through.
- **Article 9, impact investment solutions** should attract issuers (corporates and governments alike) **that want to venture into green projects**. The universe needs to grow in order to avoid overcrowding investment risks across the current well-known suspects.



OUTLOOK 2022 – KEY MESSAGES

- Risk of high valuation and therefore a potential mispricing of “ESG assets” puts into question the performance of ESG investing.
- Are ESG and financial performance positively correlated?
 - Increasing evidence that shows little to no presence of opportunity costs, might reduce portfolio volatility, can generate alpha over medium and long-term investment horizons. At the company level it provides for cheaper financing options, can lead to improving accounting metrics, etc.
 - A recent meta-analysis from the NYU Stern Center for Sustainable Business and Rockefeller Asset Management found a positive and/or neutral correlation between ESG and financial performance across a majority of 1141 peer-reviewed papers and 27 meta reviews published between 2015 and 2020. **Market consensus builds that ESG can lead to outperformance**



OUTLOOK 2022 – KEY MESSAGES

- **SFDR & Taxonomy** are a **game changer** for ESG investing
- **Need for adequate metrics**
 - Adequate, reliable and forward-looking data
 - Integration into financial accounts – e.g., new approaches to measure social capital, human capital and cultural capital
 - A **consolidated global sustainability disclosure standard** is underway: International Sustainability Standards Board (ISSB) from the International Financial Reporting Standards (IFRS) Foundation.





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DEGROEF PETERCAM ASSET MANAGEMENT

20 YEARS

—
Sustained dedication



THANKS TO YOUR PARTICIPATION TO OUR OUTLOOK 2022: A SILVER LINING, DPAM WILL DONATE THEIR GOODIE-BUDGET TO “THE OCEAN CLEANUP”

The Ocean Cleanup, a non-profit organization, is developing advanced technologies to rid the world's oceans of plastic.



CLEAN UP what is already polluting our oceans



INTERCEPT plastic on its way to the ocean via rivers



SCIENTIFIC RESEARCH
to understand the problem and develop cleanup solutions










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