STRATEGY & SUSTAINABILITY

NEWSLETTER

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TOGETHER, LET'S TAKE CARE OF MOTHER EARTH

This was the title of our new year message for 2019.

While European students, spurred on by Greta Thunberg, have been protesting against climate change, Brazil's new President has other priorities, citing "budget restrictions "for withdrawing the country's candidacy to host the COP25 in 2019.

And while, following the threat of a rise in fuel tax, the gilets jaunes have been demonstrating against their falling purchasing power, the Affaire du Siècle petition has gathered more than 2 million signatures – a record!

The entire world is torn between wanting the benefits of a flourishing economy and consumption growth on the one hand, and the need to save the planet and preserve its natural resources on the other. But what if these two aspirations were not irreconcilable? And what if environmental and economic performance could be related?

As a responsible asset manager, we believe that finance has a role to play in the environmental and energy transition, and in the fight against climate change. Sustainable development is in everyone's interests from both an ethical and a financial standpoint. We now have clear evidence of the long-term impact of responsible and sustainable investment on portfolio performance. For more than 10 years, the Group has sought to develop its expertise in responsible investment, in addition to stating its convictions. We are passionate about sharing our commitments through our publications and our actions.

To start the year with a strong statement and an invitation to our clients to join us in benefiting society, we decided to replace our traditional new year gifts with donations to charities and environmental initiatives. And so, on 18 February, La Française Group presented a cheque for €11,935 to SOS SAHEL, donated €7,098 to Green Cross France & Territoires and planted 5,200 trees with Reforest'Action. In so doing, we hope to make a difference to the environment and to society.

Planting 5,000 trees
= 780 tonnes of CO2 stored,
1,733 years of oxygen and 743 work days created

But our 2019 initiatives will not stop there: we continue to play an active part in various working groups and collaborative projects. For example, La Française has contributed to the creation of an SRI label for the real estate sector as part of a working group set up by ASPIM. This new label is set to be formalised in the near future. In addition, AFG has given us responsibility for a working group on measuring the carbon footprint of management company portfolios, which we also chair.

As we enter a new year, we are also delighted to announce that three of our funds have been awarded an SRI label.

Lastly, we can now reveal that La Française has made a commitment to sponsor this year's annual PRI (Principles for Responsible Investment) conference, which will be held in Paris in September. We will also hold another "Mix" event on the subject of impact investing.

And La Française has plenty of other excellent projects for 2019 that will help us along our journey to sustainability…

LA FRANÇAISE
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INTERVIEW WITH PHILIPPE CHARLEZ*

At the last Zero Carbon Club event, which was attended by investors in our Carbon Impact Global fund, we were delighted to interview Philippe Charlez, an energy expert at the Institut Sapiens with some striking opinions on the links between growth, energy and the climate. We took the opportunity of his visit to interview him, and you will find his main comments below.

Watch the video

"L'invité de La Française"

Last December's COP24 in Katowice was considered a failure. Three years after the enthusiasm of COP21, progress seems to have stalled.
Why so much reticence and difficulty?

I would call it "Flop 24" rather than COP24 given that nothing was decided. I would even say that we've taken a step back since Brazil has taken the decision not to host the COP25 next year. There are two reasons for this. Firstly, COP21 may be compared to a framework agreement without an annex. It is a catalogue of good intentions but without a precise programme. The second big problem is the wrangle between rich and poor countries. The greatest need for an energy transition is in poor countries, which consume most of the world's coal and 60% of its oil, while the rich countries have the resources. Will the rich countries agree to fund the poor countries? I doubt it, and this is clearly a major obstacle.

The energy transition is not only about electricity. What other sectors do you think are essential to reducing greenhouse gas emissions?

Naturally, when we talk about energy transition, we think of it in terms of electricity and the transition to renewables, whereas there are many other crucial factors. At the top of that list, I would put transport, where 92% of the energy used is oil. Next would come homes, which consume considerable amounts of energy. Renovating homes to stop them leaking energy like a sieve could save vast amounts of energy.

What do you think will be the main issues concerning energy in next May's European elections?

Behind energy, I would say that nationalism will be one of the biggest issues in the European elections. As for the energy transition, there are three key areas: energy security, the environment and the whole economic side of things. In terms of these three key areas, nationalism will only be interested in the economic aspects and energy security, at the climate's expense. Nationalism can therefore be considered a major threat to the energy transition. To my mind, the more the election results favour nationalism, the less progress we will see in the energy transition in Europe.

* Philippe Charlez is an energy expert at Institut Sapiens. His latest book is called "*Croissance, énergie, climat: Dépasser la quadrature du siècle*".

COMING SOON: A GREEN TAXONOMY FROM THE EUROPEAN COMMISSION

The European commission is currently working on a green taxonomy with the aim of facilitating the investment necessary to achieve Europe's climate targets, the transition to a low carbon economy and a sustainable development model. However, in order to respect its energy and climate targets for 2030, the European Union will require additional annual investment of €150-177 billion until 2030.

"A classification to **help select investments**"

As such, the finance sector has a major role to play in channelling investment flows towards activities compatible with the climate scenario of the Paris Agreement. But no agreement has yet been reached on what constitutes a "compatible" activity, which is hampering the flow of capital into such activities. An EU taxonomy would provide a remedy by giving investors, financial institutions, businesses and issuers clear and transparent information on environmental sustainability, thereby enabling informed decision-making. It could be used to define economic activities, and therefore products, rather than relating to sectors.

Green and sustainable activities

The definition of a "sustainable activity" comes from a group of sustainable finance experts (HLEG) established by the European Commission, which published its conclusions in March 2018. These are based on four requirements:

- The activity must contribute substantially to one of the six EU environmental objectives:
  1 - climate change mitigation
  2 - climate change adaptation
  3 - sustainable use and protection of water and marine resources
  4 - transition to a circular economy, waste prevention and recycling
  5 - pollution prevention and control
  6 - protection of healthy ecosystems
- The activity must not do significant harm to any of the other five EU environmental objectives
- The activity must comply with minimum social safeguards
- The activity must comply with technical screening criteria (TSC)

The taxonomy

The taxonomy that the European Commission is seeking to establish will have to reflect the existing technologies and policies, and will need to be updated regularly.

It is not a standard, nor a mandatory list in which to invest. While the taxonomy will only include activities defined as green, this does not mean that other activities should systematically be considered brown (bad for the environment). Among these other activities, some may make a positive contribution to the environment that is very limited, while some are neutral, and others are "brown".

Lastly, the taxonomy will also include economic activities with a negative impact on the environment, where these activities have substantially reduced their negative impact. As the aim of the taxonomy is to promote the transition towards greener operating methods, and not only for activities already recognised as green, it makes sense to include sectors that need to improve their practices.

The first version of the taxonomy will be published in July 2019, and take the form of a list of activities. Investors will then be able to use it to evaluate their portfolios and/or their investments in line with the green taxonomy, while other parties will be able to use it to create labels. It's early days, but what we can say is that the taxonomy should serve as a basis for any number of tools yet to be devised.

ENVIRONMENTAL, SOCIAL and GOVERNANCE (ESG) TRENDS

IN THE REAL ESTATE SECTOR

The real estate sector has been proactive on issues of sustainable development for many years and has improved its overall sustainability performance, particularly with regard to carbon emissions and energy management.

However, it is time to look beyond climate and energy-related issues. The advent of the UN's Sustainable Development Goals (SDGs) and a series of global megatrends will require the real estate sector to think differently about how it approaches sustainability.

Investor pressure, risk reduction and reputation enhancement, together with a stricter regulatory environment and the need to cut costs, will continue to influence CSR practices in the sector. At the same time, new ESG factors are emerging alongside existing themes, which in our view will require more inclusive and flexible rating models that relate to the SDGs. Among these emerging themes, we have identified a number that we think are very important and which are systematically included in our assessment model:

ENVIRONMENTAL FACTORS

- **Certification and standards:** beyond the environmental assessment systems for buildings developed throughout the world (there are more than 600 variants on BREAM and LEED, including HQE in France), other types of certification are being introduced to meet new requirements. One of these is the WELL certification, which is aimed at advancing health and well-being in buildings. Similarly, the use of community ratings is a new phenomenon that is emerging as an option for public spaces such as squares, parks and streets, as well as buildings.
- **Energy demand and climate change:** with an average life of 50-100 years, new buildings will emit CO2 over very long periods. Urbanisation is rapidly increasing all over the world, for example, in China the energy consumption of buildings could rise by 40% over the next 15 years. According to the World Green Building Council, to stay below the 2° C target, we will have to step up our efforts considerably if we are to have zero-emission buildings by 2050.
- **Water use and waste management:** the United Nations World Water Development Report revealed that global demand for drinking water will exceed supply by 40% in 2030. Climate change, population growth and human action will make water shortages increasingly common in both urban and rural environments. As surprising as it may seem, major cities, such as Tokyo or London, face a real risk of suffering water shortages. In the absence of new resources, better water management will be required, with waste water from sources such as rooftop rainwater collection, cooling towers, showers and toilets being collected and treated. Waste is also an important issue, and regulatory pressure is mounting to ban construction and demolition waste from landfills and improve recycling rates.

SOCIAL FACTORS

- **Health and well-being of occupants:** in order to compete with today's state-of-the-art buildings, catering to both occupants and employers is crucial. Businesses that are dealing with skilled labour shortages may be able to attract talent partly by having inspiring workplaces.
- **Urban planning and resilience:** as a result of climate change, the number of extreme weather events has risen significantly in the last few years, and continues to grow. As such, resilience should become a priority in building design and construction. Cities will have to make better preparations for such risks and become more resilient in all aspects of the urban landscape - physically, economically and socially.

In a competitive housing market, we are seeing an arms race for new amenities. Well-equipped gyms and access to rooftops are becoming increasingly common, and developments now include cinemas, communal gardens and access to co-working spaces.

GOVERNANCE FACTORS

- **Management:** real estate will have to be redefined to include services and infrastructure. Users want more flexibility in order to be able to meet the changing needs of the residential and commercial sectors. This will require more intensive asset management and investment.
- **Innovation and technology:** technology disruption is a factor that has to be taken into account, although it is less common in the real estate world than in other sectors. However, reputation management on social media, for example, is essential. Adaptability and responsiveness to the new world order must be part of a company's ESG armoury.

In sum, we think a traditional approach to ESG factors - centred essentially on energy and climate change issues - will be insufficient for a proper understanding and analysis of the future performance of real estate companies and the expectations for sustainable buildings. Investors and analysts in the real estate sector will have to broaden their horizons when developing ESG metrics in order to fully capture these new challenges.

The full report by La Française Forum Securities (LFFS) and Global Property Research (GPR) is available online.

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