SOCIETE GENERALE
Private Banking

CIO VIEWS

Responsible investment, at the heart of a high-performance and sustainable investment strategy

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With the world economy at a standstill and half of the world's population confined, there are many areas of concern in this very special time. But while the horizon seems to have become much shorter, we must not lose sight of the fact that investment is taking a long-term perspective. In these times when visibility is lacking, it is important to continue to apply methodically the principles that have made great investors: not to compromise on quality, to stay invested, to know one's limits, especially in terms of risk tolerance. ESG (Environmental, Social and Governance) data can be used to establish a suitable analytical framework for this necessary perspective. Indeed, investment selection is then enriched with elements that make it possible to judge the sustainability of the companies' business model and its adequacy with environmental and societal issues.

The development of the ESG culture within financial institutions, the determined action of the United Nations, and the growing availability of data have made it possible to reach a certain degree of maturity in the analysis of these criteria today. There is a need for a doctrine on governance, in particular on the composition and mix of boards of directors and the growing role of independent directors. The ability to manage environmental risks is also being better analysed and standardised, allowing issuers to be compared, ranked and put into perspective. We also note that a growing number of companies are adopting ambitious targets for reducing their carbon footprints, in line with the Science-Based Targets initiative. The topics of gender parity and equal treatment are now much better defined and measurable. This progress in the production and availability of non-financial data makes it possible to deepen and consolidate the analysis of companies' ESG criteria.

To integrate ESG criteria, we have implemented a multi-stage investment process. The first step is to exclude from our investment universe companies that are subject to severe controversy or that do not comply with the ten principles of the United Nations Global Compact relating to respect for human rights, international labour standards, the environment and anti-corruption. We also exclude securities of companies that generate more than 15% of their turnover in controversial sectors and companies with significant activities in the coal sector. Following these exclusion steps, we implement a process of integrating ESG criteria into our fundamental analysis to select the issuers with the best performance on the three environmental, societal and governance criteria. This approach also seeks to measure the momentum of progress on these key criteria. We attach particular importance to climate issues by selecting companies that are developing solutions to limit global warming and are also working to reduce the company's carbon footprint. It is therefore a dual process of exclusion and selection based on extra-financial criteria that have been objectivized and standardized.

Our initiative was recently rewarded by the ESG LuxFlag label for our funds Moorea European Equity Quality Income and Moorea Euro Fixed Income. LuxFlag is a non-profit association whose objective is to provide investors with the assurance that funds that carry its label incorporate ESG criteria at every stage of their investment process.

Beyond the perspective and the benefit of a long-term approach, there is a positive contribution to the performance of listed investments. Several drivers are at work. The ESG approach has often been highlighted for its ability to mitigate risks for an investor: this is particularly the case in the case of severe governance, environmental or human rights issues. Such controversies durably affect the stock market performance of a company or even an entire sector of activity. This was the case with the Diesel Gate, which led to a profound change in the choices made by European consumers and the strengthening of anti-pollution standards. The consideration of the subject of global warming and the ambition to control greenhouse gas emissions also leads to questioning the value of so-called stranded assets, which affects the energy sector in particular.

For example, in 2019, while oil grew by more than 30%, the energy sector produced the worst sector performance among the 11 sectors that make up the MSCI World Index. In 2020, while the economic news is dominated by the effects of the Covid-19 crisis, ESG criteria also contribute positively to performance, notably by limiting volatility and offering additional visibility. Energy-intensive sectors are, it is true, more impacted by containment measures where the digital economy has demonstrated its resilience and ability to rapidly deploy teleworking solutions. Beyond the short-term effects of the health crisis, a change in consumption habits is underway and the consideration of climate and societal issues is only just beginning to assert itself, which should favour the leaders of the ESG.

Initially the prerogative of institutional management and sovereign wealth funds, ESG is becoming more widely accepted and meets a growing demand from investors who wish to give meaning to their investments while benefiting from the assurance of financial management that is in line with a long-term perspective of sustainable development.

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