

SUSTAINABLE INVESTMENT – SUPPORTING YOU BETTER

[REGULATORY OVERVIEW]

We have produced this regulatory overview to help you navigate the world of sustainable investing.

Here you will find the key principles you need to know about sustainable investment.

This type of investment encompasses different practices and methodologies intended to offer investors an approach more in line with their values and concerns, including:

- ESG (Environmental, Social and Governance) criteria;
- The European Green Deal.

[A NEW APPROACH TO INVESTING: ESG]

ESG criteria

Responsible approach means taking environmental, social and governance (ESG) factors into account when making investment decisions. The aim is to encourage companies to adopt more responsible ESG practices by excluding them from portfolios, establishing regular dialogue with them and voting at shareholders' meetings.

Financial criteria alone are no longer enough to assess a company. ESG criteria are the three pillars of non-financial company analysis.

They provide a framework for assessing how a company or investment incorporates each factor into its strategy, operations and decision-making processes.

- **Environmental**

Waste management, the reduction of greenhouse gas emissions, environmental risk prevention, etc.

- **Social**

Accident prevention, staff training, respect for employee rights, the subcontracting chain, social dialogue, etc.

- **Governance**

Independence of members of the board of directors, the management structure, the existence of an audit committee, etc.

The aim of integrating ESG criteria is to promote a responsible and sustainable approach to investment, consistent with a long-term vision and careful risk management.



[THE EUROPEAN REGULATORY FRAMEWORK]

The European Green Deal

The European Green Deal is the European Union's comprehensive strategy aimed at thoroughly transforming its economic model to make it more sustainable, resilient and environmentally friendly.

Its key ambition is to enable the European Union to achieve climate neutrality by 2050, whilst supporting balanced and socially inclusive economic growth.

This Pact sets out the key political and economic guidelines for the ecological transition and serves as the framework against which several European regulations on sustainable finance have been developed.

In particular, it aims to channel financial flows towards activities that contribute to the environmental transition and to enhance the coherence of public and private policies on sustainability.

It provides the overarching policy framework underpinning several European regulations on sustainable finance, in particular the Sustainable Finance Disclosure Regulation (SFDR) and the EU Taxonomy.

What Europe is doing

Taking an interest in the sustainability of a financial investment means paying attention to its environmental and social impacts, respect for human rights, and anti-corruption measures.

In order to provide a framework for all of these concepts, a number of European initiatives have been launched, including the following, which have a direct impact on the investment process.

SUSTAINABLE FINANCE DISCLOSURE REGULATION (SFDR) – EU REGULATION ON SUSTAINABILITY-RELATED DISCLOSURES

What is the SFDR?

The SFDR is a European regulation designed to improve the transparency and comparability of financial products in relation to sustainability. The aim is to enable clients to better understand the nature of the financial products on offer and to make informed choices based on their sustainability preferences.

The SFDR therefore requires financial institutions to provide clear information on how sustainability risks are integrated into investment decisions and on the potential impacts of investments on environmental and social factors.

To this end, it provides a classification system for financial products (investment funds and discretionary portfolios) in order to enable clients to better understand each product's sustainability profile and compare them more transparently.

In particular, this classification identifies:

- Financial products that do not promote specific environmental or social characteristics (Article 6 of the SFDR);
- Financial products that promote environmental and/or social characteristics, provided that the companies in which they invest apply good governance practices (Article 8 of the SFDR);
- Financial products that pursue a substantial sustainable investment objective, such as a measurable environmental or social objective, whilst adhering to the principle of doing no significant harm to other sustainability objectives (Article 9 of the SFDR).



Furthermore, these regulations define sustainable investment as “an investment in an economic activity that contributes to an environmental objective [...] or an investment in an economic activity that contributes to a social objective, [...] provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices”.

Note

Whilst the aim of comparing regulations is clear and commendable, the implementation of this aim – left to the discretion of individual financial institutions – has not made it possible to establish a meaningful basis for comparing sustainable investments.

In fact, each financial player is free to choose their own methodology and data provider, with analyses and standards that may be diametrically opposed.

As a result, there is significant deviation between financial institutions when it comes to what investments meet the definition of sustainable investment.

THE EU TAXONOMY

What is the EU Taxonomy?

The EU Taxonomy is a common classification system established by the European Union to identify economic activities that can be considered environmentally sustainable (a social taxonomy is currently only at the consultation stage).

An activity is considered sustainable if it makes a significant contribution to at least one environmental objective, such as combatting climate change or protecting ecosystems, without causing significant harm to other environmental objectives.

The six environmental objectives of the EU Taxonomy are:

- Climate change mitigation;
- Climate change adaption;
- Sustainable use and protection of water and marine resources;
- Transition to a circular economy;
- Pollution prevention and control;
- Protection and restoration of biodiversity and ecosystems.

To be considered sustainable, the activity must also meet minimum social standards, particularly with regard to human rights and working conditions.

The EU Taxonomy thus serves as a reference tool designed to steer investment towards activities that contribute to the green transition and to enhance the consistency and credibility of sustainable finance initiatives.

Note

Alignment with the Taxonomy – the framework used to assess companies’ contributions to environmental sustainability goals – is subject to precise and rigorous criteria. Moreover, the regulations apply only to a limited number of companies, depending on their size and location, with only European companies being taken into account.

Information on this subject therefore remains extremely limited at present.



PRINCIPAL ADVERSE IMPACTS (PAI)

What is PAIs?

Principal adverse impacts, or PAIs, are the negative effects that certain investment decisions may have on the environment, society or corporate governance.

These impacts may relate, for example, to greenhouse gas emissions, damage to biodiversity, human rights violations, or certain controversial social or governance practices.

European regulations require the identification and publication of indicators to measure these adverse impacts. Below is a list of the PAI covered by the regulations:

	Indicators taken into account for this issue
Group 1 Greenhouse gas emissions	<ul style="list-style-type: none"> • Total GHG emissions • Carbon footprint • GHG intensity of investee companies • Share of non-renewable energy consumption and production • Exposure to companies active in the fossil fuel sector • Energy consumption intensity per high impact climate sector • Sovereign assets – GHG intensity • Real estate assets (exposure to fossil fuels through real estate assets) • Real estate assets (exposure to energy-inefficient real estate assets)
Group 2 Biodiversity	Activities negatively affecting biodiversity-sensitive areas
Group 3 Water management	Emissions to water
Group 4 Waste management	Hazardous waste and radioactive waste ratio
Group 5 Social and employee matters	<ul style="list-style-type: none"> • Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises¹ • Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact Principles and OECD Guidelines for Multinational Enterprises • Unadjusted gender pay gap • Board gender diversity • Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons) • Investee countries subject to social violations

¹ This applies to companies involved in breaches of these fundamental principles, particularly in relation to human rights, labour standards, the environment and anti-corruption measures. Investments in such companies are considered risky and may result in their exclusion from the portfolio.



Taking PAIs into account is part of a responsible approach aimed at gaining a better understanding of the impacts of investments and, where possible, mitigating their negative effects on sustainability factors.

Note

Some of the above indicators are still not widely reported by companies in the market, making it impossible to draw clear conclusions about certain adverse impacts.

