

POINTS OF VIEW

1 question, 3 experts

COP 26: HOW TO MOBILISE FINANCE AGAINST GLOBAL WARMING?



Philippe Waechter
Head of Economic Research

DEVELOPING COUNTRIES: THE FORGOTTEN CONTRIBUTORS TO CLIMATE CHANGE

Since the Copenhagen Summit in 2009, developed countries have undertaken to pay \$100 billion per year to developing countries, not only to facilitate the energy transition but also to guard against climate change. This commitment is also a critical component of the Paris Climate Agreement. Developed countries have failed to keep their word, however. Their actual payments totalled around \$80 billion in recent years, a far cry from the promised \$100 billion. Moreover, this insufficient aid is also poorly distributed, with Asia (43%) coming in significantly ahead of Africa (26%) and Latin America (17%).

Additional pressure born of urgency will come to bear on COP 26 in Glasgow. The planet needs to be quickly shifted onto the right path if we hope to avoid significantly exceeding the targets set by the Paris Agreement, with the dramatic consequences this would entail. We cannot afford for developing countries to fall behind. Their needs are substantial in light of the circumstances. A more balanced geographic allocation of aid in favour of Africa is also in order. Regarding the first point, emerging countries are significantly behind in restoring pre-crisis conditions, whereas developed countries will return to 2019 levels starting this year. Developing countries do not have the resources to fund the energy transition. They need help. The region experiencing the fastest demographic growth at present is Africa. This will also hold true in the future. The continent needs our help to overcome the climate-related hurdles in its path.

To meet the challenge of climate change, the only possible solution is a global solution. Solidarity among all stakeholders is a must in order to achieve the objectives of the Paris Agreement. The main goal at Glasgow will thus be to reduce greenhouse gas emissions and to create the conditions for effective investment by each country not only locally but also worldwide, in a bid to make up lost ground. Quite the herculean task!!!



Olivier Vietti
Senior Fixed Income
Portfolio Manager

GREEN BONDS: A TOOL PUT TO WORK FOR THE ECOLOGICAL TRANSITION

There is no mistaking the signs. Green bonds have become a must-have asset class for investors interested in putting low-carbon strategies into practice. 2021 has already proved to be a record year, with new sustainability-linked issues expected to hit nearly \$900 billion, including over \$400 billion in green bonds. This impressive growth can be attributed to ongoing inaugural government issues, for example in Italy and Spain, coupled with corporate bond issues. What's more, this trend is expected to keep going strong in the coming years: the European Union alone is planning to issue some €250 billion in green bonds over the next few years. The green wave is here to stay, and our bond picking criteria need to be all the more stringent.

In our fixed income strategies, Ostrum AM implements an investment process aimed at reconciling the search for environmental impact and financial performance. In addition to selecting projects serving to decarbonise portfolios, such as renewable energies, low-carbon/sustainable mobility and preservation of ecosystems, we analyse each issuer's environmental strategy. By learning more about issuer strategies, we are able to incorporate new instruments like sustainability-linked bonds. We are also attentive to the financial performance of the assets we invest in, and assess the "greenium" of each bond, i.e. the "green premium" paid relative to a tradition bond from the same issuer. While it cannot be denied that greeniums currently tend to be negative due to the supply/demand imbalance and the fact that they are included in the ECB's asset purchase programme, the variety of valuations and persistence of the situation provide food for thought. This is why we firmly believe that active management of green bonds is the right way to go in order to take full advantage of all the benefits offered by these instruments.



Nathalie Beauvir-Rodes
Senior Impact Bond Analyst

OPTIMISING FUND MOBILISATION BY SELECTING ASSETS WITH THE GREATEST IMPACT

The necessary acceleration of efforts aimed at combating global warming and reducing the resulting vulnerability of natural and human systems is one of the key objectives that the private finance sector is called on to address. A growing number of investors and asset managers are announcing their targeted efforts to achieve these goals and incorporate them in their development strategy. Ostrum AM is one such asset manager. Through our mandates and open-ended funds, we are helping our clients to implement their climate commitments and optimise their impacts. Investing in sustainable bonds, an asset class we are deeply committed to with exposure of more than €17 billion at end-September 2021 (source: Ostrum AM), meets this objective.

Green bonds, in particular, are bonds that steer funds into projects with a positive impact on the climate and environment. New instruments such as sustainability-linked bonds, whose performance is indexed to established metrics promoting the carbon neutrality of issuers, are also interesting tools.

That said, the quality of instruments available on the market varies widely, making it important to direct funds into projects generating the most impact. To that end, non-financial analysis plays a vital role. We look very closely at the issuer's overall energy transition strategy, the materiality and additionality of financed projects (or of predefined key performance targets), and impact reporting containing quantified data as well as information on methodologies employed.

ADDITIONAL NOTES

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