

POINTS OF VIEW

1 question, 3 experts

WHY IS THE JUST TRANSITION A KEY ELEMENT OF CLIMATE STRATEGIES?



Nathalie Pistre
Head of Research
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WHAT IS THE JUST TRANSITION?

According to Ostrum AM, the **Just Transition is a transition to a low-carbon world, respectful of the environment and biodiversity, while being inclusive from a social and territorial point of view.**

Everyone agrees on the need to take into account the impacts of the climate transition on workers, communities, consumers and citizens, if we want to achieve a rapid change towards a low-carbon economy. This approach is now an integral part of institutional investors' CSR and investment policies.

The concept of Just Transition comes from the North American trade union sphere in the 1990's. In 2009, the International Trade Union Confederation suggested the theme to the United Nations. Since 2015, the concept has grown in scope, as illustrated by its inclusion in the Paris Agreement foreword (COP21). In 2018, at the COP28 Climate Conference, 53 countries signed the Just Transition Declaration. This is followed by the European Just Transition Mechanism in 2019, the integration of this theme in the European Taxonomy through the notion of «Minimum Social Safeguards» and in the Social Taxonomy project.

Investors around the world are also mobilising through coalitions such as *Investors for a Just Transition (Finance For Tomorrow)* or *Statement of Investor Expectations for Job Standards & Community Impacts in the Just Transition*, two initiatives actively supported by Ostrum AM.



Nathalie Beauvir Rodes
Senior Impact Bonds
Analyst

THE NEED FOR ROBUST EVALUATION MODELS

Recognising the urgency and the key role that the private sector must play in financing the transition, we decided to go beyond the single lens of carbon neutrality.

Our new fixed-income Just Transition strategy aims to invest in sustainable bonds with three objectives:

- **Reduce carbon footprint:** renewable energies, green buildings, circular economy, etc.
- **Promote social impact** through health & wellness, inclusive development, etc.
- **Preserve local ecosystems & economies,** by financing biodiversity protection, the real economy, etc.

The sustainable bond market is a "self-certified" market, where each investor decides on the sustainable quality of the bond issued. This is why we thought it was essential to have robust proprietary tools and methodologies to analyse the this market. We developed a **Sustainable Bond Rating** adapted to each type of bond: green, social, sustainability, sustainability-linked bonds, aimed to select the most qualitative instruments and reduce the risk of «green/social washing». We strengthened this approach by creating a **Just Transition Indicator**, differentiated by sovereign/assimilated issuers and corporates. This indicator aims to identify issuers with good practices from a social and territorial point of view.



Olivier Vietti
Senior Fixed Income
Portfolio Manager

INVEST FOR A JUST TRANSITION

We decided to integrate the social and territorial dimension of the Just Transition into our new **global fixed-income impact bond strategy (SFDR 9)**. We invest 100% in sustainable bonds, a market that remains buoyant in 2022, with a predominance of green and euro issues (emergence of international diversification), and an increasing penetration rate of corporate issues. Our analysis and active investment processes allow us to **invest in sustainable bonds with a solid Just Transition profile, differentiating our strategy from traditional green bond funds.**

The recent central bank regime change and the end of the low interest rate environment for a long time are supporting our dynamic management of duration. In addition to selecting issuers, we measure the financial attractiveness of issues through the systematic evaluation of their greeniums.

In the short term, in an inflationary context, we favour a defensive positioning in duration and high-quality sovereign debt vs. credit. Through our current selection, **we finance, among other projects, renewable energy, clean mobility, inclusive development and the real economy, as well as biodiversity and circular economy.**

This global active aggregate strategy is fully aligned with investors' commitments.

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