Amundi ASSET MANAGEMENT | ETF

Focus

The time is now for climate-positive investing

New EU benchmark labels make cost-effective climate change investing accessible to all

At a glance

- The investment industry has a key role to play in achieving the 2°C limit objective of the Paris Agreement.
- Investing for positive climate impact is no longer out of the reach of index investors.
- Investors can significantly reduce the carbon impact of their portfolio through efficient index tracking.

Putting the power in index investors' hands

Since the advent of the 2015 Paris Agreement when the world came together to agree to limit global temperature increase this century to 2°C above preindustrial levels, investors have wrangled with how to invest for positive climate impact. For many investors, active approaches to climate investing were neither affordable nor appropriate and the first generation of low carbon indices were insufficient. With the introduction of new climate index labels in the EU regulation, investors have a new way to make a difference.

In a move that underlines the important role of finance, and index management in particular, in transitioning to a low carbon economy, the EU assembled a panel of experts from the investment industry, academia and sustainability practitioners to develop the index labelling – and in doing so provide investors with clear and transparent guidelines in sustainable investing. ■

A dual approach

The impact of low-carbon investing will increase as it become more widely implemented. Indices using the European Union labels will allow extensive adoption by index investors and, with the use of two levels of carbon emissions reduction provide clarity, and facilitate a simple transition:

FUTURE EU LABEL	Climate Transition Benchmarks (CTB)	EU Paris-Aligned Benchmarks (PAB)
Self-decarbonisation target	-7% year-on-year self-decarbonisation	-7% year-on-year self-decarbonisation
Carbon intensity v Parent index	30% reduction	50% reduction
Do no harm principles	√	√
Activity exclusions	X	Coal exploration/processing – 1% Oil exploration/processing – 10% Natural gas exploration/processing – 50% Electricity generation with GHG above 100gCO2e/kWh – 50%

By maintaining high levels of diversification and limited tracking error to the parent index, the new climate change indices can replace traditional geographical exposure in portfolios while delivering significant levels of impact. ■

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Comprehensive index methodologies

The Amundi ETF climate solutions use the MSCI World Climate Change[1] and the iSTOXX Ambition Climate PAB indices, both follow comprehensive positive and negative screening, reweighting and scoring methodologies to deliver on their carbon reduction objectives. Additionally, they use historical data on emissions scope 1 (direct), scope 2 (purchased electricity) and scope 3 (all other indirect emissions) of greenhouse gas (GHG) emissions to explicitly allocate to the most climate positive companies. This backwards-looking analysis is combined with forward-looking approaches considering company strategy and transition risks associated with carbon emissions. ■

Negative screening (UNGC, Controversial weapons, Tobacco, Fossil fuel (partial)).

Stock reweighting (based on index specific scoring) to deliver carbon reduction objectives.

EU Commission label optimisation to ensure required carbon reduction.

Comparing climate change investing to traditional low carbon investing

Low carbon style investing is not entirely new. For example, Amundi co-developed the MSCI Low Carbon Leaders index series with FRR and AP4 in 2014. However, the new generation of climate change indices, reinforced by the regulatory framework of the CTB and PAB labels[2], provides a more comprehensive approach to investing for positive impact.

These new indices deliver an enhancement to older indices by:

- Incorporating commitments from companies to reduce their future GHG emissions,
- Taking into account all GHG emissions scope 1 (direct), scope 2 (purchased electricity) and scope 3 (all other indirect emissions) where historically low carbon indices only considered scopes 1 and 2.

Using one of the new future CTB or PAB labelled climate change indices gives investors comfort in knowing that the measurement of the carbon intensity is interpreted through the full value chain and that the management of the index takes a more proactive and future focused approach. ■

Tracking climate change indices with Amundi ETFs

While the new climate change indices can be implemented using a variety of vehicles, investors now have the opportunity to incorporate climate-positive "off-the-shelf" index products into their portfolios.

The Amundi ETF climate strategies, as part of a broader responsible investing suite, offer a number of compelling advantages:

- Transparent and standardised product,
- Simple to incorporate as a building block within existing portfolio,
- Cost-effective,[3]
- Official European Commission labelling,[4]
- Significant carbon reduction.

Visit amundietf.com or email **info@amundietf.com** to find out more. ■

1 This index is not currently aligned to CTB, however it is anticipated that it will transition to a CTB benchmark following a full review by MSCI in H2 2020.
2 Awaiting release of the final legislation.
3 We consider the ETFs to be a cost-effective way to deliver climate change exposure compared to active strategies. Amundi seeks to be competitively priced across their entire ETF range.
4 Intended to meet the requirements of the official European Commission labelling once legislation is finalised.

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