

Sustainability as one of the centerpieces of investment decision making

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INTRODUCTION: IMPACT VIA EITHER CONSULTING OR INVESTING WITH RESPECT TO SUSTAINABILITY

For this edition of the VBA Journaal with ESG as the theme, we spoke with one of the pioneer thought leaders on this topic. Jane Ambachtsheer, Global Head of Sustainability at BNPP Asset Management (BNPP AM), who has more than two decades of experience on this matter, both from a consulting and an asset management perspectives, talked to us on a range of topics related to sustainability. In addition to consulting and asset management experience, she is also involved in the academic world.

We started by going over Jane's career. Not entirely by coincidence, as her father is Dutch and she studied Economics at the UvA in Amsterdam, her first job was in Amsterdam at a brokerage firm (Hall International). At this firm she assisted on the CEM (Cost Effective Measurement) framework. This framework has become the 'global standard' in benchmarking investment costs at pension funds. In 2000, she moved to Mercer in an investment advisory role. Jane's interest in sustainability began during her education on political economy at the UvA, particularly on topics like climate change and refugee movements. That was one of the triggers that led to her initiative to start a sustainability advisory team at Mercer in 2004. She noticed a missing link between the real economy and the impact of sustainability factors on companies, their profitability and portfolio performance. More specifically, she was interested in the impact of sustainability on investments, but also in how investors can influence the sustainability of the real economy. This was an early-stage example of what has recently been labelled as 'double materiality'. According to Jane, at that time these linkages were not effectively understood nor priced in. 'Therefore, I proposed to Mercer to set up an advisory unit to help our clients better understand these topics and work on them. Mercer was very forward-looking and supportive and it was great to take such a leadership role in the field at an early stage.'

Jane's team grew quickly during the subsequent years as more investors recognized the important role of sustainability to investment. During this period, she had lots of interactions with a broad range of investors across the globe. These interactions were both 'push and pull' as boards of pension funds and insurance companies had different views on this topic. This improved her understanding of the different perspectives and beliefs of investors on sustainability topics.

In 2018, she moved over to BNP Paribas Asset Management to lead their Sustainability Center that currently comprises more than 35 members over multiple locations globally. We spoke with Jane on the differences between a consultant and being part of

an institutional asset manager. Jane notes: 'The actual implementation of sustainability is goes a step beyond advisory and consulting. You have to manage the behavioral, technical, and operational challenges of implementing a strategy along with conceiving it



Jane Ambachtsheer is Global Head of Sustainability at BNPP AM, where she leads the firm's sustainability approach. She is a member of BNPP AM's Global Investment and Executive Committees. Jane was a founding member of the TCFD (the Task Force on Climate Related Financial Disclosures) and was a Trustee on the board of CDP (Carbon Disclosure Project) from 2015-2023. Before joining BNPP AM in 2018, Jane spent 18 years with global investment consultancy Mercer, where she was Partner and founder of the firm's Responsible Investment business. She is an Honorary Research Fellow at Oxford University's Smith School, holds a Master of Social Science from the University of Amsterdam and a Bachelor of Economics and English literature with honors from York University.

more broadly. However, the continuous implementation challenge is also where it becomes so interesting. It is an ongoing process'. That underscores our impression during the conversation: Jane is passionate about integrating sustainability considerations across all steps of the investment process.

Jane notes that investment professionals can have an equally important input as consultant and as investor, albeit in different ways. A consultant can be 'transformative' for numerous of its investment clients, while at an investment manager can be an industry leader and introduce best practices on this matter in actual investments. Although very different, she has thoroughly enjoyed both experiences so far in her career.

THE ROLE OF ACADEMIC INSIGHTS

Jane highlighted her efforts to bring together academia and industry, fostering partnerships with institutions like the Global Research Alliance for Sustainable Finance and Investments (GRASFI). These collaborations aim to underpin investment practices with rigorous, science-based research. BNPP AM was the inaugural sponsor of GRASFI in 2018 and has continued to support its annual academic conference since then. This is an example of BNPP AM's commitment to drive science-based academic research that develops and supports best practices in its approach to sustainable investing. 'At BNPP AM we try to be independent and look for a scientific basis for how we develop and evolve our different methodologies. Therefore, we foster these academic developments. There has been an incredible growth in the focus of academics on a range of different sustainability topics. This includes behavioral aspects, qualitative and quantitative sustainability policies, approaches to sustainability, role of divestments, etc.'. Having been an adjunct professor at the University of Toronto, and currently an Honorary Research Associate at Oxford University's Smith School, also helps Jane to stay on top of recent developments in academic research.

BNPP AM leverages these academic insights, among others, in their ESG scoring framework and other methodologies. ESG scoring is a powerful tool helping them to generate robust ESG insights for better-informed decisions. It looks beyond headline values to evaluate individual metrics that can provide valuable insights into both investment risks and opportunities. Covering around 13,000 issuers of securities, this framework helps pinpoint an issuer's performance on material ESG issues and integrate this into investment decisions. For BNPP AM, it is markedly differentiated, with a more focused number of ESG metrics (37 indicators) and a clear preference for 'performance' over 'policy' indicators.

ACHIEVING NET ZERO, COMMITMENTS AND DATA QUALITY

The next topic of the interview was the goal of achieving Net Zero. Jane notes that their 'perspective is that as fiduciaries and long-term investors, we and our clients are going to be much better off if we can successfully achieve a Net Zero economy. Accordingly, we have to address and tackle climate change. This belief is also key in our investment decision making. Sustainability topics like climate change help us better understand risks, but also investment opportunities that arise due to climate change and the energy transition. Our Net

Zero commitments at BNPP AM, similar to the net zero commitments of hundreds of other investors, provide a framework on how to think about the role of climate change and how to take it into account when investing.' Jane expands that healthy ecosystems (including biodiversity) and equality are interlinked with climate change and are equally important sustainability themes for BNPP AM. Again, both from a risk and opportunity perspective.

Jane states that in the actual implementation of Net Zero commitments, there are different approaches used by different investors. The approach will also vary depending on the asset classes, because each approach has its own advantages and limitations. Some investors focus more on temperature alignment, carbon metrics (ex post or ex ante), SDGs, divestments or investing in clean energy, etc. The approach per asset class is also reliant on data availability and other tools and methodologies available to investors. There is no one-size-fits-all for implementing a commitment. Clients tend to use a combination of different approaches and BNPP AM has built tools to assist their clients to 'define their approaches', for instance on their goals of decarbonization, stewardship and/or green investment.

THE ACTUAL IMPLEMENTATION OF SUSTAINABILITY IS TOUGHER THAN ADVISORY AND CONSULTING. REASON BEING IS THAT YOU REALIZE ALL BEHAVIORAL, TECHNICAL, AND OPERATIONAL CHALLENGES OF ITS IMPLEMENTATION

The Net Zero roadmap of BNPP AM consists of 10 commitments, of which five relate to how they invest, three to stewardship activities and the remainder on their own operations. BNPP AM's initial commitment covers 50% of its assets under management, with the aim of increasing the proportion of AUM included in its net zero commitments and strengthening its targets to ensure it reaches net zero by 2050 or earlier. Given the lack of data and methodologies available in other asset classes, they have decided to focus on listed equities and corporate bonds in the first phase of their commitment.

For corporates they have developed a proprietary framework to measure alignment of companies with global net zero goals, largely inspired by the Paris Aligned Investment Initiative Net Zero Investment Framework. This Triple A framework (NZ: AAA) assesses whether companies are Net Zero Achieving, Aligned or Aligning based on a number of data sources, including Transition Pathway Initiative, Science Based Targets initiative (SBTi), Climate Action 100+ and CDP. They aim for 60% of in-scope investments to be in companies "Achieving, Aligned or Aligning" with Net Zero by 2030, growing to 100% by 2040. Additionally, BNPP AM targets to reduce the (scope 1 and 2) carbon footprint of its investments by 30% by 2025, and by 50% by 2030 (against a 2019 baseline), a goal it has already achieved.

Jane emphasizes the importance of the quality of the climate-related disclosures by companies and the increase of mandatory reporting on carbon emissions by companies. Transparency in general, including climate metrics, is very important for financial markets and investors. More and better-quality data and information result in improved and informed decision making. In contrast to the scope 1 and 2 emissions, the quality of scope 3 emissions remains more problematic as companies use a wide range of different methods to approximate these. Even though Jane expects that SEC mandatory disclosure rule proposals are unlikely to progress during the Trump administration, the quality and coverage of carbon data on US companies will also increase for companies that are covered under CSRD.

DIFFERENT INTERNATIONAL PERSPECTIVES AND REGULATORY DRIVES ON SUSTAINABILITY

THE GLOBAL PERSPECTIVES: BIG PICTURE

As BNPP AM is a global investment firm, we wanted to discuss with Jane the different international perspectives on ESG. Jane starts with stating: 'The EU clearly has a higher preference for and places significant importance on the role of sustainability. This holds true for both institutional and retail investors. However, within the EU there are also quite different views between countries'. She adds: 'The level of regulation on sustainability is also at a much higher level in some regions compared to others'.

THESE DEVELOPMENTS WILL IMPACT THE SPEED OF THE TRANSITION, BUT WE HAVE DEFINITELY PASSED THE POINT OF NO RETURN IN THE TRANSITION. THE ONLY REMAINING QUESTIONS ARE HOW QUICKLY WE WILL GO, AND WILL IT BE FAST ENOUGH?

Jane emphasizes that in Asia there is also increased activity and progress, including on regulation, regarding sustainability. Singapore and Hong Kong are regional leaders on ESG, but other countries have also introduced sustainability-related policies and targets around disclosures and taxonomies. These policies also resonate with investors themselves. An important reason for the drive to progress on this front is that Asian citizens and companies actually 'feel the risk of climate change, but also see the opportunity'. Jane lists several of the actual risks that arise from sea level increases, storm damages, water shortages and the impact of increased temperatures on agricultural yields. Policymakers are aware that these risks affect their populations, and they want to manage the climate and energy transition minimizing downside risks. Likewise, there is a large opportunity in the transition in terms of new markets, new jobs, and new technologies. Related to these are for instance upstream activities (mineral extraction and refining) and midstream and downstream production (like batteries). Jane shares with us that she is impressed by the breadth and depth of the levels of development in China regarding the energy transition

including the EV-market. Several unknowns can and will have an impact on these developments in Asia, but also in Europe. One of the unknowns is which measures the new Trump administration will enact with respect to tariffs, but also how much sustainability regulation and stimulus under the Biden administration will be repealed and/or modified. Another unknown is how the broader geopolitical landscape will look in 12-24 months and if and how this will disrupt the flow of goods and services. However, Jane remains positive and stresses: 'These developments will impact the speed of the transition, but we have definitely passed the point of no return in the transition. The only remaining questions are how quickly we will go, and will it be fast enough?'

REGULATORY DISPERSION WITHIN EUROPE, IMPLEMENTATION COMPLEXITY AND EXPECTED HARMONIZATION

As the VBA Journaal has predominantly Dutch-based investment professionals as readers, we wanted to talk about the differences in the views on sustainability between EU asset owners and between countries. We started with the difference between Dutch and French asset owners. Jane: 'Both countries are leaders in this journey and have strong commitments on this subject. They have similar levels of ambition, though there are differences in terms of practicalities. French organizations have very detailed approaches and methodologies on ESG. France also has additional regulation on sustainability (i.e., more granular labelling of investments including a range of additional requirements and constraints per category), while Dutch regulation is predominantly based upon EU-regulation (SFDR)'. Jane adds that the French approach results in additional requirements and constraints on how an asset manager like BNPP AM can manage investments on behalf of its French investors. When looking across Europe, Jane notes that Scandinavian countries are also leading. Investors in these countries focus more on SDGs and certain divestments, while in the UK the role of stewardship is more significant.

As investors, we wanted to spend more time on the role and influence of sustainability-related regulation and investor requirements on actual investing. Jane is very clear on this: 'Differences in terms of regulation make it more complex to manage these funds. However, the basics of investing still stand. To make better informed investment decision, we need to understand companies' cash flows, but we also need to understand how the regulatory context as well as sustainability-matters, like climate change, will affect the company and opens new opportunities. However, the introduction of well-intentioned regulatory frameworks like SFDR and the upcoming ESMA regulation adds additional complexities: related to both compliance and implementation for portfolio managers, in addition to providing more transparency and clarity for end investors.'

Jane underscores the positive role of disclosure requirements and transparency on sustainability topics, however asks the question: 'Does a region like the EU really need multiple slightly different frameworks for the same investment product? Regulators as well as investors have to strike the right balance. At what point does an incremental framework detracts versus adds value for our clients?'. Jane expects future developments on this front. BNPP AM is also involved in these regulatory discussions. During these conversations

Jane emphasizes her main goals: transparency, consistency of disclosures and high ambition. Also, on this matter she is positively inclined and expects more consolidation and harmonization of different frameworks.

The potential expansion of ESG rating regulations to other jurisdictions is considered, with Jane expressing cautious optimism about their ability to enhance market transparency. However, she notes the importance of balancing regulation with innovation and competition.

THE FUTURE IS NOT SUSTAINABLE FINANCE OR MAINSTREAM FINANCE. IT'S HOW WE BRING THESE TOPICS TOGETHER, BOTH FROM A BOTTOM UP AND TOP-DOWN PERSPECTIVE

Opportunities for further regulatory improvements are not fully explored in the interview, but Jane hints that an ongoing dialogue between regulators and industry participants is also key to refining and enhancing ESG standards – a progress we can see is underway in the market.

TRUMP ADMINISTRATION AND HETEROGENEOUS SUSTAINABILITY BELIEFS ACROSS THE US

Of course, we also quizzed Jane on her perspective on the ESG-developments in the largest investment market on the globe, namely the US. In the last 12-18 months, we have seen several large asset managers pulled back from their commitments and/or withdrew their support from several sustainability industry groups like Climate Action 100. However, she also notes that in the US there is a large variety of investor preferences regarding ESG. A significant number of investors still focus on the idiosyncratic and systemic risks of climate change and biodiversity risks. These investors are engaging with corporate management on the impact of these risks on their businesses and are expected to continue to focus on these topics – regardless of the current pull back on sustainability related matters by some asset managers and regulators.

Jane emphasizes that BNPP AM's approach is clear: 'Our strategic focus is on making sure that we make well-informed investment decisions including an analysis of sustainability risks and opportunities. That is part of who we are.'

THE FUTURE ROLE OF SUSTAINABILITY FOR (YOUNG) INVESTMENT PROFESSIONALS

The final topic of the conversation turns towards the future for current CFA / VBA Charter holders and especially young investment professionals. We asked Jane for her advice for young investment professionals that are pursuing a career in investments. Jane: 'The future is not sustainable finance or mainstream finance. It's how we bring these topics together, both from a bottom up and top-down perspective. We know that sustainability themes are relevant and important, but these should not be separately handled from the other relevant topics investors address when pursuing investments across the entire chain of investment decisions. Sustainability topics should be integrated in how we're setting investment beliefs, asset allocations, manager selection guidelines and objectives for (internal) investment teams and finally in how we measure and report'.

Directly addressing the young professionals, she says: 'Make sure that you have a deep understanding of both sustainability and mainstream finance topics. Help to bridge the gap between the two disciplines, so we can continue to raise the bar on integrating sustainability across the global investment platforms'. In this respect she reiterates the focus on double materiality: understand how sustainability risks impact both a country's performance and a firm's performance in terms of its cash flows. In addition, consider how sustainability themes create investment opportunities for countries and companies. The double materiality can also be raised one level higher, in other words at the societal level and beyond political cycles. These topics include issues revolving around energy security, pollution, nature loss, workforce productivity and the need for better and resilient education. Tackling these topics are necessary to creating a resilient, thriving economy and are therefore also of interest to long-term investors

CONCLUSION

Our takeaway from the interview is that Jane is a very well-informed and convincing person on the critical role that sustainability topics have and must play in each layer of the investment decision process. Investors, but also politicians and citizens, cannot avoid it as climate change impacts us all and we have to confront it. Jane emphasizes that sustainability issues create both risks but also investment opportunities. Although regulation is necessary to improve disclosures of companies to ensure better investment decision making, overdoing it with multiple different frameworks makes implementation more complex. Current political headwinds can reduce the speed but not the direction of the journey. That conviction of Jane is a positive note to conclude our interview.