



**LOMBARD ODIER**  
INVESTMENT MANAGERS

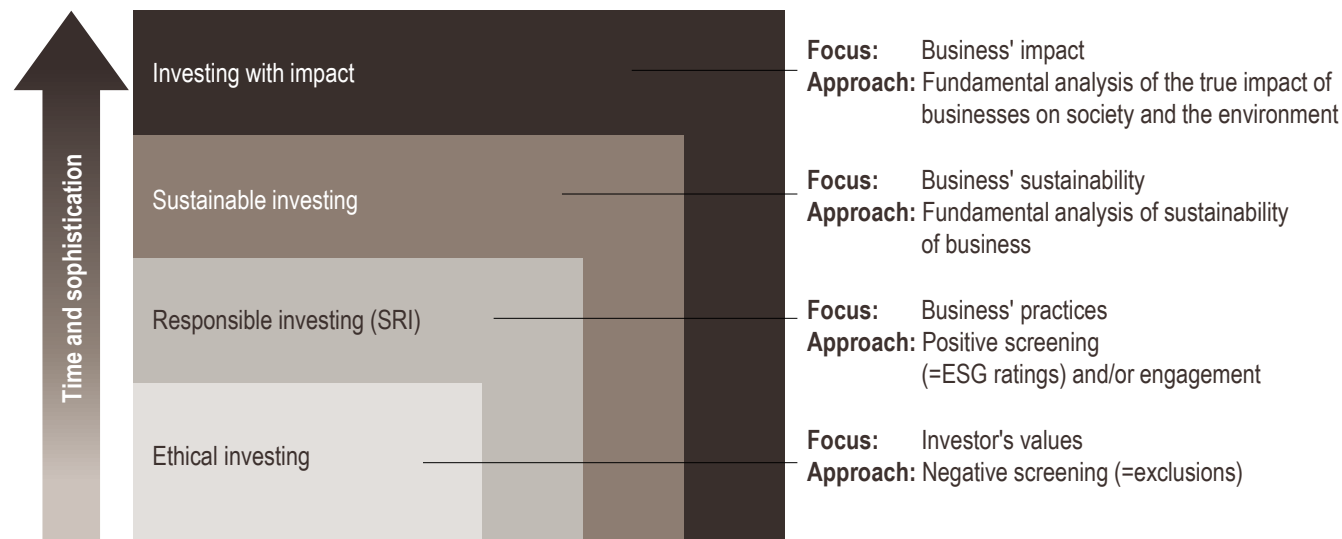
# ENERGY AND INVESTING WITH IMPACT

MAY 2017

# Evolution of investing with impact

Impact is the sum of positive and negative, direct and indirect effects that a company's operations and products have on the environment and on society

## HOW WE GOT TO WHERE WE ARE TODAY



Bringing back purpose to investments, impact is the new dimension of investing

Source: Lombard Odier.

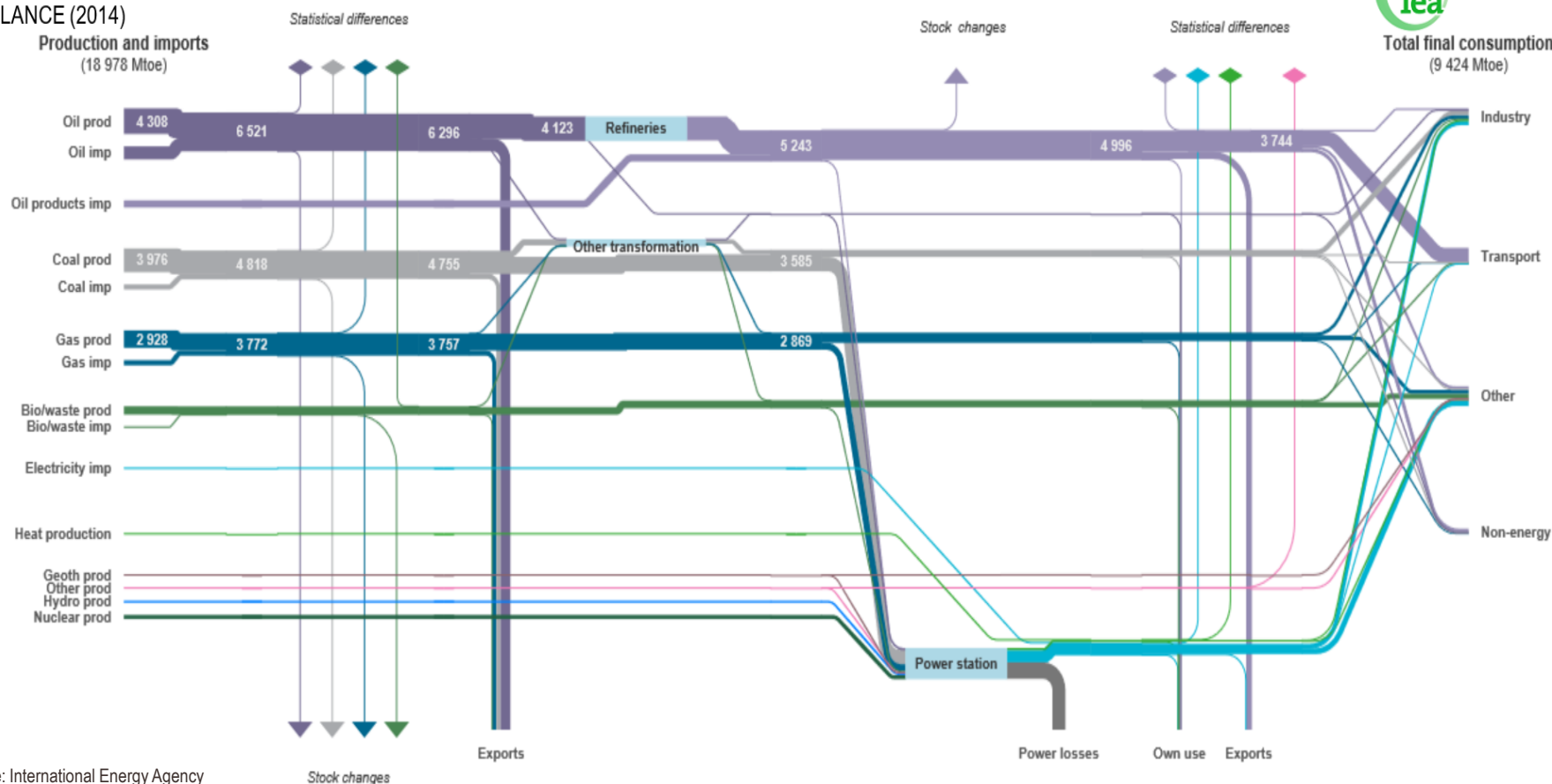
# Energy sector: complex and far-reaching

## Exclusions and capital starvation is not a solution

### World

BALANCE (2014)

Millions of tonnes of oil equivalent ▼



Source: International Energy Agency

# Staying Engaged with clear objectives

Managing risks while accompanying transition

## AVOIDING KEY RISKS

- Structural regulatory risk
- Controversies
- Worst behaviour

## ACCOMPANYING TRANSITION

- Favouring best practices
- Rewarding results

Source: International Energy Agency

# Regulatory issues: Lombard Odier Global Carbon Solutions

## TIGHTENING REGULATORY ENVIRONMENT

- Regulatory framework changes
- Compulsory disclosure of portfolio CO<sub>2</sub> emissions
- Other possible constraints issued from any new international agreement on climate concerns (e.g., COP 21)

## ASSET OWNERS' AND MANAGERS' OPINIONS

- “**Norway** Will Divest From Coal in Push Against Climate Change” (New York Times, 5 June 2015)
- “**Axa** to divest from high-risk coal funds due to threat of climate change” (The Guardian, 22 May 2015)
- “**FTSE** joins **Blackrock** to help investors avoid fossil fuels” (Financial Times, 28 April 2014)
- “**Goldman Sachs** declared in January that fuel had reached ‘retirement age’”. (The Guardian, 15 June 2015)

## LOMBARD ODIER CLIMATE GLOBAL SOLUTIONS



### 1 EMISSION MEASUREMENT

- Estimation
- Asset classes
- Aggregation
- Attribution

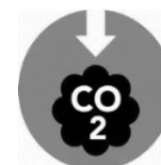
### 2 REPORTING THE INFORMATION



### 3 STRANDED ASSETS RISK MITIGATION

-  Coal
-  Oil & gas
-  Utilities

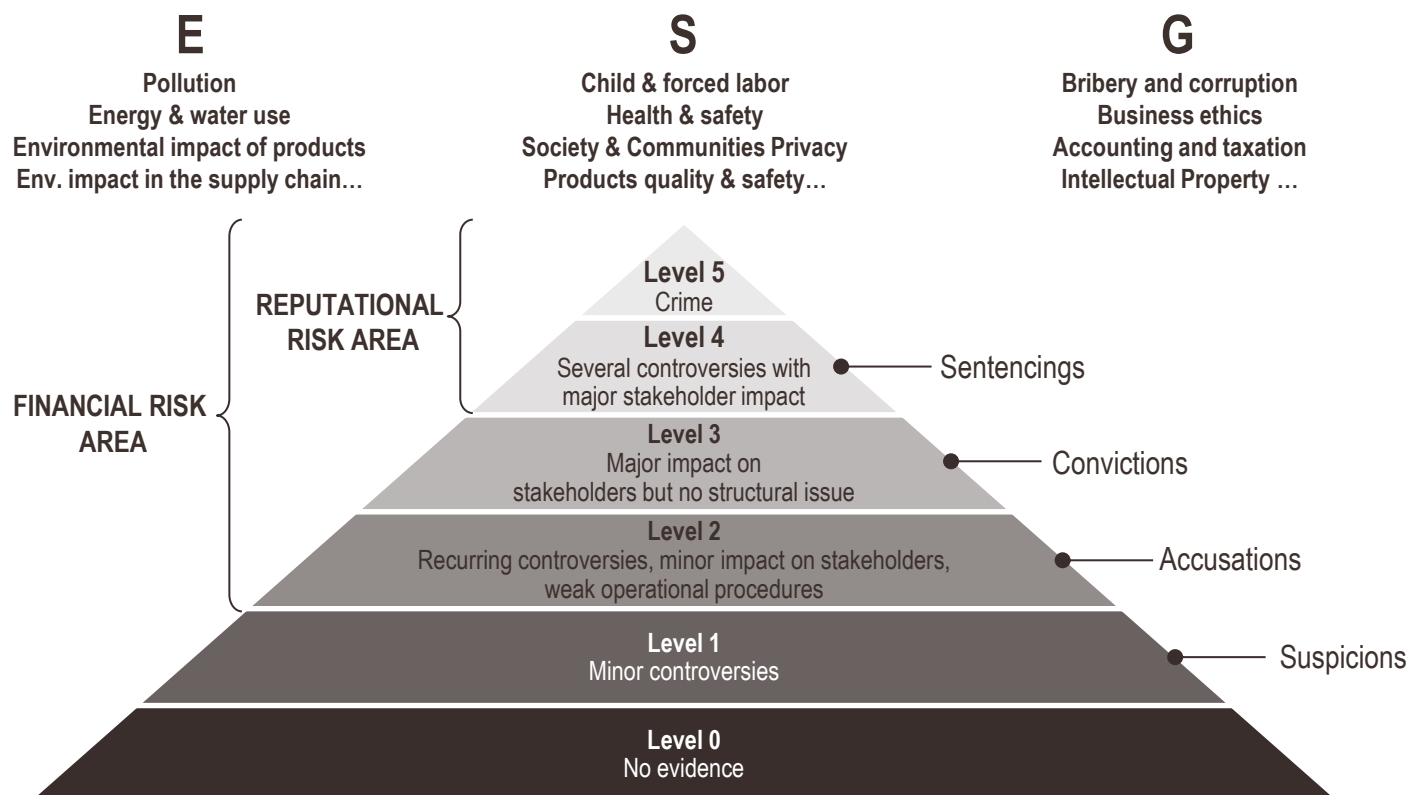
### 4 LOW CARBON STRATEGY



# How do we analyse a company?

## Lombard Odier's controversy radar

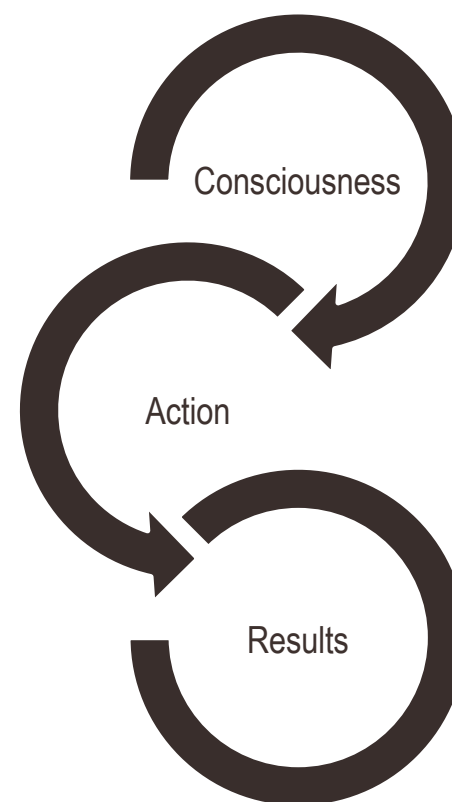
### BREACHES OF MAIN INTERNATIONAL ESG STANDARDS (UNITED NATIONS GLOBAL COMPACT PRINCIPLES)



# How do we analyse a company?

## Lombard Odier's unique CAR approach

- We believe ESG analysis says little about the real-world consequences of companies' products and services
- We have developed an additional analytical framework for the 5,000 listed companies that we cover: "CAR" (Consciousness, Actions, Results)
- CAR complements our ESG approach by looking beyond intentions and into concrete actions taken by companies to get measurable results
- This helps us identify companies that are taking action and those that are simply writing nice reports – "greenwashing" in the environmental sector



# How do we analyse a company?

## Lombard Odier's unique ESG/CAR approach

### MEASURING PERFORMANCE (ESG)

#### **E** PRESERVE THE ENVIRONMENT

- Emission reduction
- Natural resource reduction
- Product innovation

#### **S** WORK FOR SOCIAL PROGRESS

- Respect of human rights
- Impact on communities
- Client/Product responsibility
- Diversity in workforce
- Health and safety
- Training and career development

#### **G** PRACTICE FAIR GOVERNANCE

- Board of directors functions and structure
- Directors compensation policy
- Shareholder rights
- Strategy integration

### MEASURING PROGRESS (CAR)

#### **C** IS THE COMPANY CONSCIOUS?

- Setting ESG general policies
- Participation to international organisations and workshops
- Marketing

#### **A** WHAT ACCTIONS ARE TAKEN?

- Developing reporting tools
- Implementation of ESG policies in the mainstream business
- Increasing transparency and reporting
- Fitting ESG into the corporate strategy

#### **R** WHAT RESULTS ARE ACHIEVED?

- Reducing environmental impact
- Improving social balances
- Improving governance structure



# Our CAR approach can identify who is communicating well and who is progressing

(March 2017)

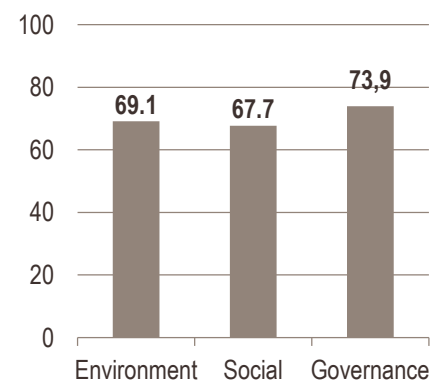
## COMPANY “A” (UNITED STATES)

### GOOD COMMUNICATOR...

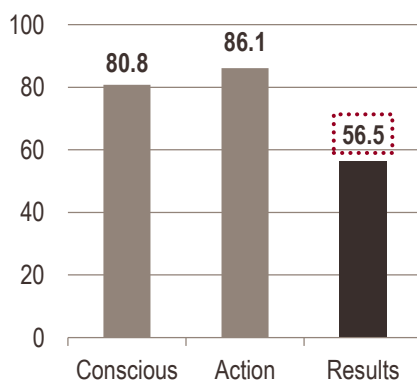
- Company “A” shows a good ESG score but when broken down into the CAR score it shows that Company “A” is a good communicator with a Conscious score of **80.8** but has not demonstrated high Results with **56.5**

	CONSCIOUS	ACTION	RESULTS	ESG SCORE
ENVIRONMENT	80.0	100	46.3	<b>69.1</b>
SOCIAL	75.0	91.7	50.4	<b>67.7</b>
GOVERNANCE	87.5	66.7	72.8	<b>73.9</b>
CAR SCORE	<b>80.8</b>	<b>86.1</b>	<b>56.5</b>	<b>70.2</b>

### ESG DIMENSION



### CAR DIMENSION



For illustrative purposes only. These examples are for illustrative purposes only and are not actual results. If any assumptions used do not prove to be true, results may vary substantially.  
Source: LOIM (March 2017).

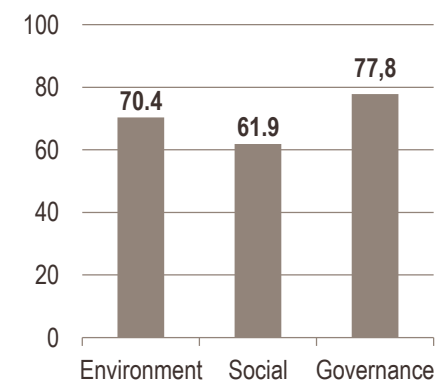
## COMPANY “B” (SWITZERLAND)

### SILENT ACHIEVEMENTS...

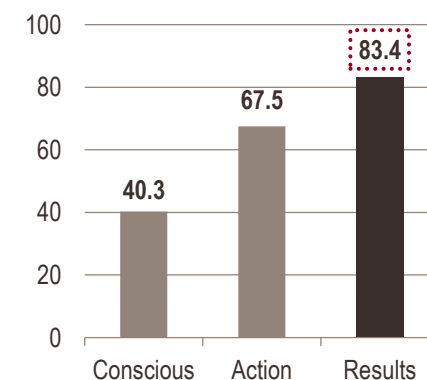
- On the contrary, Company B has relatively poor communication as measured by **40.3** for Conscious, but is a silent achiever with a high score for Results at **83.4**

	CONSCIOUS	ACTION	RESULTS	ESG SCORE
ENVIRONMENT	40.0	65.0	85.7	<b>70.4</b>
SOCIAL	31.0	37.5	88.9	<b>61.9</b>
GOVERNANCE	50.0	100	75.6	<b>77.8</b>
CAR SCORE	<b>40.3</b>	<b>67.5</b>	<b>83.4</b>	<b>70.0</b>

### ESG DIMENSION



### CAR DIMENSION



# Our Responsible Investment process

## An integrated and systematic approach

### STARTING POINT: MSCI WORLD INDEX

#### Exclude non-responsible companies that are:

- Engaged in non-ethical businesses
- Exposed to structural regulatory risks
- The subject of severe controversies
- Seen to display sub-standard behaviour within their industry

### GLOBAL RESPONSIBLE RESEARCH UNIVERSE

#### RESPONSIBLE CRITERIA

#### Emphasise companies with best sustainable practices

- Reward progress in sustainable practices
- Reward lowest CO<sub>2</sub> emitters within their industry

#### FINANCIAL CRITERIA

#### Focus on companies with best investment characteristics

- Strongest financial and business fundamentals with potential for future growth (factor exposures: Quality, Small Size and Low Risk)
- Most attractive valuations (factor exposures: Value and Momentum)

### GLOBAL RESPONSIBLE INVESTMENT UNIVERSE

Limit exposure to most carbon-intensive sectors



Balance risks in terms of sectors and stocks

### GLOBAL RESPONSIBLE EQUITY PORTFOLIO

≈ 1,600  
companies

≈ 650  
companies

≈ 200  
companies

For illustrative purposes only.

# Conclusions

- Investing with impact is becoming increasingly important; existing ESG policies are being intensified using measurable sustainability targets
- Empirical evidence suggests that investing with impact can have a positive effect on performance
- LOIM has a strong heritage in sustainability and investing with impact
- For LOIM, the preservation of capital, innovation and responsibility to society have always been of key importance
- We believe that investing methodologies should take an integrated approach to ESG in order to avoid green washing and to ensure a focus on results
- LOIM's unique ESG/CAR approach can help to identify companies achieving tangible results
- LOIM can help investors to make a meaningful impact by offering solutions in equities and fixed income

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