SOCIETE GENERALE
Private Banking

15 June 2022

MARKETS & INSIGHTS

A scorching summer – What if your investments were the solution?

The latest report from the IPCC, the Intergovernmental Panel on Climate Change, has gone almost unnoticed because of the geopolitical news. Yet its core message is alarming: it is crucial to act now to respond to the climate emergency, including the financial sector.

Previous reports have focused on assessing the impact of human activity on the environment. Having concluded with a very high probability that human activity is the main cause of global warming, the latest publication proposes with solutions.

One of the main recommendations is a more rapid redirection of global financial flows towards climate change mitigation and adaptation solutions. To date, the investment gaps to reach the Paris Agreement trajectories and succeed in slowing global warming are immense. According to the IPCC, investments in green electricity need to be multiplied by 2 to 5, in energy efficiency by 2 to 10, in transport by 7 to 8 and in sustainable agriculture, including silviculture, by 10 to 29.

This reorientation of financial flows concerns all players in the finance sector. For banks, it means integrating climate risks into the assessment of financing risks, and for asset management and investment companies, it means understanding and integrating the impact of investments on global warming into portfolio management. In this way, along with governments, asset managers are moving towards "net zero". The Net Zero Asset Manager initiative, created in December 2020, already has more than 236 signatories representing more than USD 57 trillion in assets under management. With this initiative, signatories commit to aligning their portfolios with the Paris agreements and to supporting investments for net zero emissions by 2050.

Thanks to data science and physical flow modelling, it is now possible to estimate the global warming trajectory of an investment portfolio, or in other words, the 'temperature' of the portfolio. Scientists are now able to estimate the greenhouse gas emissions 'budget' we can still emit to limit global warming to 1.5°C. Overall, the World needs to reduce its emissions by 7.6% per year. As not all sectors have the same immediate reduction capacity, scientists have also estimated the share of this budget attributable to each sector annually, depending on the potential for decarbonisation of their industrial processes and the technological progress expected. Alignment champions already exist, but heavy industries for example, as well as the oil sector, still have a long way to go in the transition. This sectoral analysis can then be combined with a more detailed analysis at company level: the efforts already made and their commitments towards net zero. It is thus possible to estimate the global warming trajectory of each company.

By obtaining a trajectory for each company in the portfolio and knowing the invested share of that company, it is possible to estimate the global warming trajectory of a portfolio of listed assets.

Due to the many existing methodologies, which are sometimes complex and not so transparent, as well as multiple data providers, the results can be highly heterogeneous and incomparable for the same portfolio. The report "The Alignment Cookbook" by the Louis Bachelier Institute published in 2020 highlights these disparities by studying the different methodologies of 12 data providers. For example, the implied temperature increase for the same portfolio can vary from 1.5°C (and therefore be aligned with the Paris Agreement trajectory) to more than 3.5°C (and therefore no longer aligned with the Paris Agreement). These differences can be even greater in terms of the underlying actions.

More than calculating the implied temperature of a portfolio, these tools have an educational role and can help investors realise their role in the fight against global warming. For example, if a portfolio follows a global warming trajectory well beyond 2 degrees, an investor can make the radical choice of divesting from the stocks or sectors that emit the most greenhouse gases. They can also make the sometimes more constructive and effective choice of engaging in dialogue with the companies concerned to encourage them to reduce their emissions.

This notion of engaged dialogue is now an integral part of the investment process. Investors engage and expect companies to engage in dialogue. Increasingly, companies have dedicated environmental specialists within their investor relations teams. This dialogue works and encourages companies to improve transparency on emissions and other environmental data. Often, it also helps to push for more ambitious targets. This dialogue is even more necessary as the majority of European equity indices are currently estimated to be well above a 2.5°C rise.

The fight against global warming can only be carried out with the participation of all stakeholders, with the financial sector having a major role to play. As the saying goes: "Small streams make big rivers...", it is through small individual efforts that the collective will be put in place.

AUTHORS

Petra Besson Fencikova, CFA
Head of ESG Investments | Portfolio manager, Societe Generale Private Wealth Management

Kevin Disdero,
Expert in ESG Investments | Portfolio Implementator, Societe Generale Private Wealth Management

Disclaimer
Societe Generale Private Banking ("SGPB") is the business line of the Societe Generale group dedicated to wealth management, operating through its headquarters within Société Générale S.A. and its network (departments or separate legal entities (branches or subsidiaries)) located in the territories mentioned below, acting under the brand name "Société Générale Private Banking", and distributors of this document.

General Disclaimer
This promotional document, subject to change, is provided for informational purposes only and has no contractual value. The content of this document is not intended to provide investment advice or any other investment service, and does not constitute, on the part of any entity of Société Générale Private Banking, an offer, a personalized recommendation, or advice with a view to the purchase or subscription or sale of an investment service or the product(s) concerned, nor to invest in the asset class mentioned. The information contained in this document does not constitute legal, tax or accounting advice. Some heritage products, services and solutions may not be implemented within all Societe Generale Private Banking entities. They depend on locally applicable laws, and depending on the applicable tax laws and regulations, these solutions, products and services may not be adapted or authorized in certain countries and must comply with the Société Générale Group's Tax Code of Conduct. Some of the investment products and/or services mentioned may present various risks, involve a potential loss of the entire amount invested or even an unlimited potential loss, and therefore be reserved only for a certain category of investors, and/or suitable only for investors who are knowledgeable and competent for these types of investment products/services/asset classes. In addition, access to some of these products, services and solutions is subject to conditions such as eligibility. Your private advisor is at your disposal to discuss with you these solutions, products and services to check if they meet your needs and if they are adapted to your investor profile. Consequently, before taking an investment decision, as the case may be and the applicable legislation, the potential investor will be questioned by his private advisor within the Societe Generale Private Banking entity of which he is a client about his knowledge, experience in investment matters, as well as his financial situation and investment objectives, in order to determine with him whether he is competent to subscribe to the financial product(s) and/or investment service(s) envisaged and whether the investment product(s) or service(s) is/are compatible with his investor profile and investment objectives. The potential investor is also required, before any investment, to contact his independent external legal, tax and financial advisors in order to obtain all the financial, legal and tax information that will allow him to assess the characteristics and risks of the product(s)/service(s) envisaged, as well as their tax treatment, in the light of his personal situation. The provision by a Societe Generale Private Banking entity of an investment service and/or the subscription of product(s) by a potential investor, requires the latter to first acquaint himself, understand and sign the contractual and informative documentation relating thereto, in particular on the associated risks (prospectus, document entitled "Key information document for the Investor", Term sheet etc.). This documentation is available upon request from his privy advisor. The potential investor should not base his investment decision and/or give an investment instruction solely on the basis of this document. Any subscription to investment products or services may have tax consequences and no Societe Generale Private Banking entity provides tax advice. The potential investor should also rely on independent tax advice (if necessary). It is the responsibility of any person in possession of this publication to inform themselves and to comply with the legal and regulatory provisions of the jurisdiction concerned. This publication is in no way intended to be disseminated to any person or in any jurisdiction for which such dissemination would be restricted or illegal. This document is in no way intended for distribution in the United States, nor to any U.S. tax resident. The price and value of investments and the income derived from them can fluctuate, both upwards and downwards. Changes in inflation, interest rates and exchange rates can have negative effects on the value, price and income of investments denominated in a currency other than the client's. Any simulations and examples contained in this publication are provided for illustrative purposes only. This information may be modified in the light of market fluctuations, and the information and notices referred to in this publication may change. No Societe Generale Private Banking entity undertakes to update or modify this publication, and will not assume any responsibility in this regard. The sole purpose of this publication is to inform investors, who will make their investment decisions without over-reliance on this publication. No Societe Generale Private Banking entity shall be liable for any direct or indirect loss related to any use of this publication or its content. No Societe Generale Private Banking entity offers any guarantee, express or implied, as to the accuracy or completeness of this information or as to the profitability or performance of any asset class, country or market. This document is not intended to list or summarize all the terms and conditions of financial products, nor to identify all or any part of the risks that could be associated with the acquisition, disposal of a financial product/investment in any of the above-mentioned asset classes. The historical data used and the information and opinions cited come from or are based in particular on external sources that the Societe Generale Private Banking entities consider reliable but that they have not independently verified. No Societe Generale Private Banking entity will assume any responsibility for the accuracy, relevance and completeness of this data. Any information on past performance reproduced does not guarantee future performance and may not be repeated. The value of an investment is not guaranteed and the valuation of investments can fluctuate. Forecasts of future performance are based on assumptions that may not materialize and therefore do not constitute any assurance or guarantee with respect to the expected results of investments in the asset classes mentioned.
This document is confidential, intended exclusively for the person to whom it is given, and may not be communicated or brought to the attention of third parties (with the exception of external counsel and provided that they themselves respect its confidentiality), nor reproduced in whole or in part, without the prior written consent of the Societe Generale Private Banking entity concerned.

Conflicts of interest
As a general rule, companies in the Societe Generale group may be market makers, carry out transactions concerning the securities referred to in this document, and may provide banking services to the companies mentioned in this document, as well as to their subsidiaries. The companies of the Société Générale group may, from time to time, carry out transactions, generate profits, hold securities or act as advisors, brokers or bankers in connection with such securities, or derivatives of such securities, or in connection with the asset classes mentioned in this document. The companies of the Société Générale group may be represented on the supervisory or administrative board of these companies.
Employees of the Societe Generale group, or persons or entities related to them, may, from time to time, hold a position in a security or asset class mentioned in this document. Societe Generale group companies may acquire or liquidate, from time to time, positions in the securities, or underlying assets (including their derivatives) mentioned in this document, or in any other assets as the case may be, and therefore any return to a potential investor may be directly or indirectly affected. Societe Generale group companies have no obligation to disclose or take this document into account in the context of advice or transactions with a client or on behalf of a client. The Societe Generale Group effectively maintains an administrative organization taking all necessary measures to identify, control and manage conflicts of interest. To this end, Societe Generale Private Banking entities have put in place a conflict of interest management policy to prevent conflicts of interest. For more details, PIMS clients may refer to the conflict of interest management policy provided to them by the PIMS entity of which they are clients.

Risk Level

In order to draw the attention of potential clients to the risk associated with each investment solution, Societe Generale Private Banking has classified each product according to its specific level of risk, on a risk scale ranging from the least risky level to the riskiest level.

This risk classification represents an internal risk indicator at Societe Generale Private Banking. There are five levels of risk, from R0 (lowest risk) to R4 (highest risk).

Risk Profile: R0: Very Low - R1: Low - R2: Medium - R3: High - R4: Very High

For example, the words "Risk Level R1" correspond to a defensive risk profile. These indicators are based on the Value at Risk 95% 1 year (VaR). The VaR corresponds to the maximum amount that the portfolio considered is likely to lose under normal market conditions over a given period with a given probability. If the 95% 1-year VaR is y%, this means that the probability that the portfolio will not lose more than y% of its value in 1 year is 95%.

Potential risk in the event of an investment

Capital loss risk, volatility risk, small and mid-cap risk, credit risk, counterparty risk, issuer risk, liquidity risk, discretionary management risk, foreign exchange risk and market risk.

Specific Disclaimers by jurisdiction

Luxembourg: This document has been distributed in Luxembourg by Société Générale Bank and Trust ("SGBT"), a public limited company registered with the Luxembourg Trade and Companies Register under number B 6061 and a credit institution authorised and governed by the Commission de Surveillance du Secteur Financier ("CSSF"), under the prudential supervision of the European Central Bank (ECB), and whose registered office is at 11 avenue Emile Reuter – L 2420 Luxembourg. Further details are available upon request or on www.sgbt.lu. No investment decision whatsoever could result from a reading of this document alone. SGBT accepts no responsibility for the accuracy or other characteristics of the information contained herein. SGBT accepts no responsibility for the actions taken by the addressee of this document solely on the basis of this document, and SGBT does not present itself as providing advice, in particular with regard to investment services. The opinions, views and forecasts expressed in this document (including its annexes) reflect the personal opinions of the author(s) and do not reflect the opinions of others or SGBT, unless otherwise stated. This document was prepared by Société Générale. The CSSF has not carried out any analysis, verification or control over the content of this document.

http://www.privatebanking.societegenerale.com

SOCIETE GENERALE PRIVATE WEALTH MANAGEMENT

11 avenue Emile Reuter

L-2420 Luxembourg

www.sgpwm.societegenerale.com