VIEWPOINT

# IT IS TIME FOR PORTFOLIO DECARBONISATION

**The pressure on companies is rising: environmental protection is becoming increasingly important for the private sector due to the Paris climate agreement and pressure by investors.**

Decarbonisation refers to action taken to reduce the carbon intensity, and carbon dioxide ($CO_2$) emissions in particular, of an economy. As an integral part of the energy transition, decarbonisation is part of the fight against global warming and its impact on the planet.

In terms of portfolio management, decarbonisation comes under sustainable and responsible investment. In a first step, the carbon footprint of an investment portfolio is measured by calculating the $CO_2$ emissions generated by the activities and products of the companies in that portfolio. Next, the portfolio's exposure to the companies with the biggest carbon impact is reduced and its exposure to those offering energy transition solutions is increased.

To prevent the total exclusion of particular sectors, investments concern those companies with the lowest emission levels, while shares in companies with very high emission levels are kept to a minimum. A decarbonisation strategy directs investments towards the companies making the greatest efforts to reduce their $CO_2$ emissions and pushes the biggest emitters to take action to reduce their environmental impact.

Encouraged by the Paris Agreement, which aims to keep global warming to well below 2°C by the end of the century, an increasing number of investors is taking a close interest in corporate strategies for a low-carbon world. Shareholder pressure is growing on businesses that are highly exposed to the risk of transition to a low-carbon economy and ever more shareholder coalitions are using their muscle to encourage the most carbon-intensive companies (fossil fuels top the list) to change their business models.

As global warming flagships, oil companies have been the first to be affected. In 2015, almost all the shareholders of the two biggest companies in the sector demanded greater transparency of the impact carbon risk would have on their holdings. In 2017, another industry heavyweight was told to assess the financial impact of the energy transition on its business.

In 2015, over a hundred investors representing more than USD 10 000 billion decided to measure and publish the carbon footprints of their portfolios. Two initiatives translate investor efforts in this field into formal action: the Montreal Carbon Pledge and the Portfolio Decarbonization Coalition, both launched by the Principles for Responsible Investment (PRI) and UNEP FI (United Nations Environment Programme – Finance Initiative).

This is a global movement, but France is going even further with an energy transition law that already requires institutional investors to consider the climate risk on their investments by publishing, for example, greenhouse gas measurements for their shareholdings and their own contributions to the fight against climate change and for the energy transition. Portfolio decarbonisation is therefore unlikely to go away when the way ahead looks so promising. So what is decarbonisation – that odd, but strangely attractive-sounding word?

## Climate protection has been investable in ETF format for more than 10 years

The Low Carbon 100 Europe® NR, an index created and published by Euronext that contributes to financing energy transition by redirecting investments towards those companies that are most active in reducing their carbon emissions and that offer the products and services required for energy transition to occur. Euronext recently announced the exclusion of fossil fuel companies following its December rebalancing of the index. The BNP Paribas Easy Low Carbon 100 Europe UCITS ETF (ISIN: LU1377382368) is managing assets of 429 mn Euro, has an annual Total Expense Ratio of 0,3% (as of 27 January 2019) and is listed on SIX Swiss Exchange since 11 December 2018. The fund applies full physical index replication without securities lending. This is a sub-fund of BNP Paribas Easy, a SICAV under Luxembourg law that complies with Directive 2009/65/EC. The sub-fund has been approved in Switzerland by the Swiss Financial Market Supervisory Authority (FINMA).

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Claus Hecher joined BNP Paribas Asset Management in July 2016 as Head of Business Development ETFs and Index Solutions for German speaking Europe. He began his career in equity derivatives, joining Deutsche Bank in 1987 and spending 16 years in sales roles in Frankfurt, Zurich and London. He then headed the structured equity products sales team for Germany and Austria at Bear Stearns between 2003 and 2006, before holding a similar role at Natixis Corporate & Investment Bank from 2006 to 2007. Between 2008 and 2012 he worked at Blackrock where he was Head of Sales for Germany and Austria at iShares, before becoming a consultant to Natixis Global Asset Management, where he advised on ETF sales. Claus has a master's degree in business administration and management from Ludwig Maximilian University of Munich.

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