LBPAM full SRI conversion may trigger snowball effect

By: Adrien Paredes-Vanheule | 17 May 2018

French asset manager La Banque Postale AM, managing €216bn in assets, has recently unveiled plans to become a fully SRI-compliant manager by 2020.InvestmentEurope finds out more on France's latest green wave.

Socially responsible investing will become the only relevant asset management model in the coming years. That is the conviction of Daniel Roy, chairman of the board of Paris-headquartered La Banque Postale Asset Management, that had AUM of €216bn as of end December 2017.

The company has set the objective of becoming a fully SRI-compliant manager by 2020. Over half of its assets (€109bn) were already SRI assets at the end of last year. LBPAM outlines three issues underpinning its belief: global warming; the demographic limits of the French social protection scheme; and the growing divide between the financial markets and wider society.

The manager's open-ended funds will hence converge towards a responsible investment process by 2020. In parallel, the firm will raise awareness of institutional clients whose assets do not integrate extra-financial filters yet.

In addition, LBPAM has unveiled a new SRI conviction fund range, composed of four sub-funds, with launch scheduled for June 2018 and covering equities, fixed income, green bonds and money markets.

GOOD NEWS

France teems with SRI asset managers. A pioneer in the area has been Natixis' affiliate Mirova whose chief executive officer Philippe Zaouati *(pictured left)* welcomes LBPAM's move.

"With recent events such as the One Planet Summit, or the release of the European Commission Action Plan, people at all levels are realising the importance to change the financial system. This is no longer a matter of growing sustainable finance as a part of finance, but of changing finance as a whole to make it more sustainable.

"LBPAM's announcement is a big step in this direction. It makes us at the same time happy and hopeful. We are talking about no less than the fifth biggest asset manager in France deciding to become 100% SRI. This really shows that sustainable finance is becoming mainstream," Mirova's CEO says.

In his view, a snowball effect is possible, other companies will follow because this evolution comes from discussions with clients demanding more SRI products.

He suggests French institutional investors are way ahead in SRI practices and that is no surprise first asset manager to make such a move is a French one.

The €2bn AUM boutique Promepar Asset Management, a fully-owned subsidiary of Bred involved in fund selection since 2003, has launched an SRI open-architecture offering for its mandate management business eligible to French equity savings plans PEA. Promepar's head of SRI Fund Selection and portfolio manager Murielle Hermellin *(pictured below)* also considers LBPAM's step as positive news.

"Anything that sheds light on socially responsible investing practices and makes investors understand SRI makes sense in their portfolios is good. Though we do need to assess what kind of SRI we are talking about, since there are multiple shades of SRI.

"LBPAM has been pro-active in this field as 15 of its funds have been granted the French public-backed SRI label so far, but not all SRI funds are labelled yet. A few French managers are already fully SRI-compliant, many others will soon join the club but I am not convinced all managers will step into SRI," she explains.

Hermellin pinpoints the emergence of a huge trend around the integration of ESG criteria across the French AM industry.

She says the use of extra-financial ratings or analysis by fund managers is gaining traction, whether or not the final decision to take ESG criteria into account is theirs to make.

"Red flags on governance are particularly of interest for fund managers as it could affect the environmental and social pillars of the firm being analysed. The full integration of ESG criteria into

French managers' processes would be a huge milestone. In France, SRI means full integration of the three ESG pillars. Otherwise we refer to thematic funds in which certain strategies could be SRI-compliant but others not," she adds.

The view echoes that of Benoit Magnier, managing partner at Sanso Investment Solutions for whom all players are likely to implement the integration of ESG criteria in their investment decisions without constraints.

"To draw a parallel with equities, the probability is high you would look at a stock valuation before investing; but if this stock is expensive, this will not necessarily cause you to rethink the investment if growth prospects and other components seem attractive enough.

"Similarly, in the scope of an ESG integration process, a low ESG rating will not constrain your investments but will lead you to enlarge your view on the company.

"We think this type of approach will continue to co-exist with SRI management practices, whose process is more constrained."

For Magnier, LBPAM's move is a very good strategic choice. It demonstrates the SRI trend is strong and that investors get into the space globally with a strong mobilisation of asset managers.

Would this move push pioneers like Mirova to go even further in the SRI field? "We created Mirova with the conviction that, at some point, ESG integration would become mainstream. Our aim was thus not to just do ESG investing, but to target impact.

"The financial industry needs companies like Mirova, really advanced and impact oriented, to open new ways and help change the paradigm. The current evolution is totally in line with what we expected and we intend to continue playing our role to pull the market even further," replies Zaouati.

Mirova has been working for two years on the new asset class of natural capital. With Althelia's team which joined last September, a range of funds allowing institutional investors to invest in sustainable land and ocean management has been developed.

CONVERSION: A RISK?

For an asset manager, converting to SRI presents two main risks, according to Promepar's SRI fund selection head Hermellin.

"Being SRI-compliant costs a tremendous amount of money and time as you need reliable data and the resources to analyse this data in order to translate it into investment ideas for your portfolio.

"Another risk dwells in the notion of choice. As a fund selector, I can stress that the offering is tightly in a few asset classes such as bonds, convertibles, money market. And in the end, the SRI offering needs to be crystal clear and a long-term commitment for retail clients," she adds.

Edmond Schaff *(pictured left)*, portfolio manager at Sanso IS, explains SRI is multifaceted and should be described in many shades. He points out that an asset manager wishing to integrate an SRI layer in its investment process should first question itself about the approach that best fits its process and the ESG data that could enable the manager to enrich its analysis and investment decisions.

"Not doing this and copying a standard SRI process that will be perceived by fund managers as a constraint could be counterproductive in terms of performance and risk," says Schaff, for whom it is very likely other managers would follow LBPAM and Sanso IS' move.

Sanso IS went through the SRI conversion process as it was formed as a result of the merger of three asset management companies in June 2017, of which only one was SRI focused. Managing partner Magnier adds: "The investment process of all our open-ended funds now include a SRI layer. We have integrated ESG metrics to most of our monthly reports to reflect this. We have the ambition to continue to improve on these metrics and strengthen our commitment towards third-party managers and our SRI policy.

"Acquiring ESG data forms a significant financial investment but we do not see it as a cost given our conviction that taking into account this data will enable us to avoid certain risk and catch opportunities therefore to improve the risk/reward profile of our funds. Also we are persuaded that our approach will allow us to convince more investors."

RIGHT FIT

The fitting of SRI into the whole investment spectrum divides the investment community.

Sanso IS's Schaff says that certain asset classes are well covered such as large cap equities and investment grade bonds. but he points to difficulties in finding SRI products in segments like small/mid-caps, diversified and flexible funds as well as high yield bonds and absolute return strategies.

"With these asset classes, we have chosen to implement an engaging approach towards managers we work with. We urge them to deploy an ESG approach in their portfolio management and are in touch with them on a regular basis to measure progress achieved."

Pauline Lejay, head of SRI at Erafp, says the French pension fund does not face constraints to find SRI products across asset classes since its SRI approach is global, ESG issues are taken into account in all its investments.

"Erafp has selected a best in class approach to take into consideration the ESG criteria underlying its SRI charter for all its investments. Operationally, this principle takes the form of detailed rules that make it possible to determine, based on the scores that the issuers obtain for Erafp's SRI criteria, those that can be considered as the best in their category."

Mirova's Zaouati concludes that in a mid-long term investment view, SRI-compliant products can be created in any asset class. Though some asset classes will require to gather more data and create methodologies to assess the impact but "we've done it and can assure that it is totally manageable", he says.

This article was first published in the May 2018 edition of InvestmentEurope.