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must be earned

**Amundi**  
ASSET MANAGEMENT

# ESG IN MOTION: A dynamic forward-looking approach to detect ESG 'improvers'

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AMUNDI INSTITUTE  
INFOGRAPHIC

## ESG Investing in 2022 - Main lessons for investors

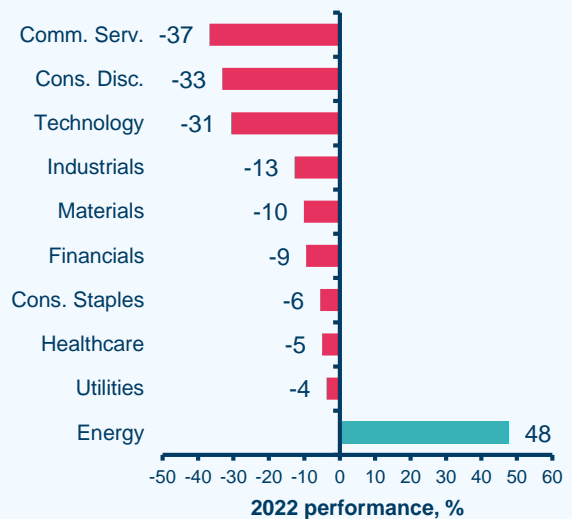
**Exclusion and sector biases can be harmful:** ESG indexes' underperformed due to an Energy underweight & a Growth overweight (suffered on rising rates)

**A focus solely on companies with strong ESG ratings is not sufficient:** compelling investment opportunities can be found outside the ESG leaders

**Increased recognition of the need to focus on positive ESG trends** that are not priced into valuations

**Led to a greater appetite for an Integration & Engagement approach:** a +700% growth vs. the 200% growth of the ESG market (AUM, Dec. 2020 to Aug. 2022)

### Sector performance divergence in 2022



Source: Amundi Institute, Bloomberg. The base currency of the MSCI sector indexes' price returns is the U.S. dollar.

“ We live amid a high level of geopolitical, regulatory, inflation and economic uncertainty. To cope with this uncertainty, investors should embrace a forward-looking ESG approach to invest today in the ESG winners of tomorrow. ”



**Kasper  
ELMGREEN**  
Head of Equities



**Alexandre  
DRABOWICZ**  
Deputy Head of  
Equities

1

Use a forward-looking approach to select companies with rising ESG ratings not reflected in valuations

2

Focus on two types of companies: ESG winners (strong ratings) & ESG improvers (rising ratings)

3

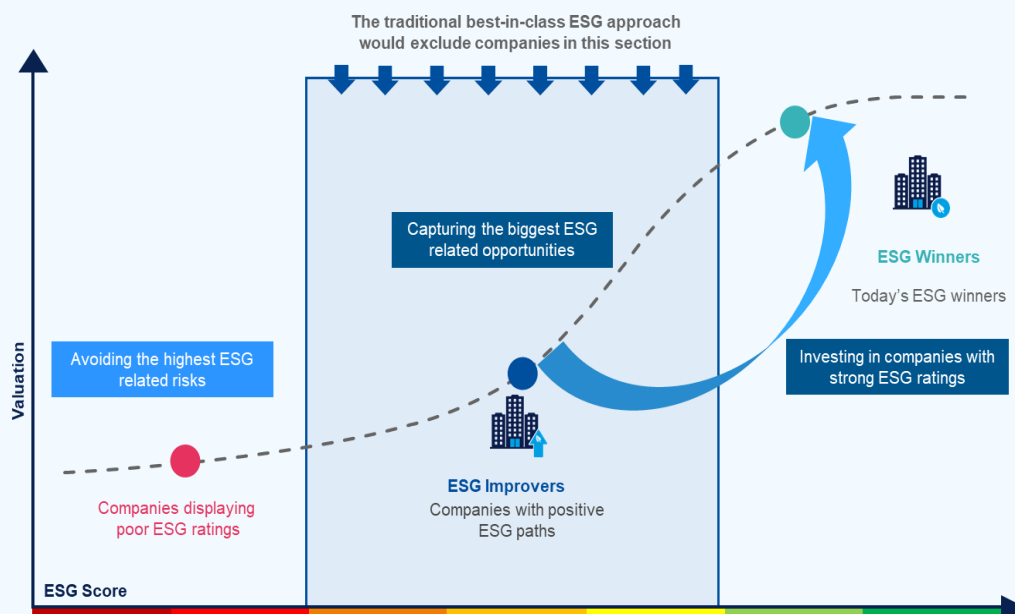
Integrate ESG analysis with fundamental research in assessing companies

4

Themes in focus: decarbonisation while “Social (S) concerns are growing

## ESG Improvers Concept

Improvement in ESG trend and impact on valuation curve



ESG improvers is a research backed concept....

...based on the premise that an increase in a company's ESG rating, reduces its cost of capital & enhances its profitability

.... all of which drives its valuation metrics higher.

Source: Amundi. For illustrative purposes only.

## Moving from a static approach to a forward-looking approach

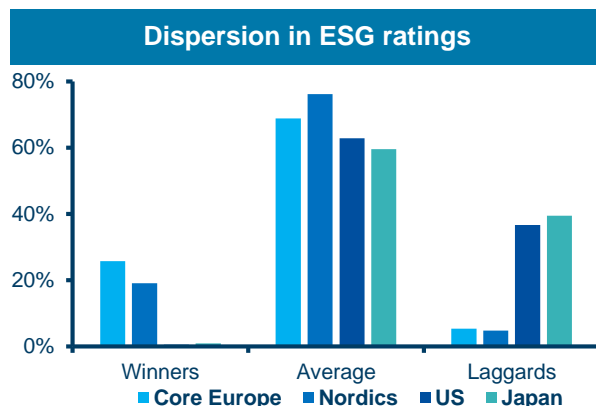
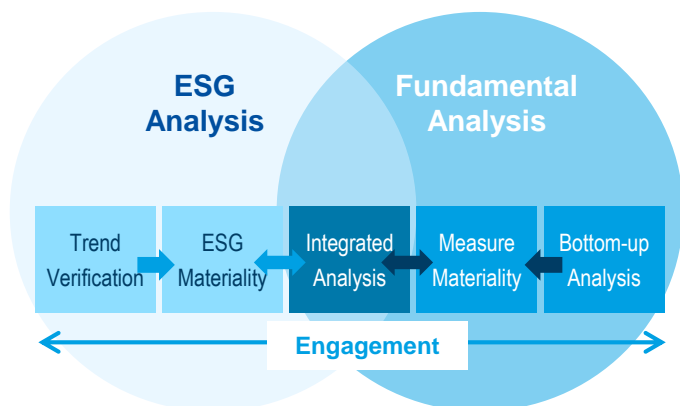
### Limitations of Traditional Approach

- ESG ratings: a company's ESG footprint**
- Overall company ratings: an average rating can mask ESG dynamics
- Snapshot of the current situation
- Does not reflect a company's resolve to improve its ESG profile

### New Paradigm

- Unlocking alpha from positive ESG trends needs a forward-looking perspective**
- 3** Assess how those drivers may change
- 2** Understand the financial impact of those drivers
- 1** Identify ESG material drivers for a business

## ESG integrated approach



Source: Amundi Institute, 30 September 2022.

Source: Amundi Institute. For illustrative purposes only.



**Suzanne KEANE**  
Senior European Equity  
Portfolio Manager-  
Equity Solutions



*With a high dispersion in ESG ratings and sector performance globally, investors can seek to generate alpha through an integrated forward-looking approach to ESG investing.*



**Piergaetano IACCARINO**  
Head of Equity  
Solutions

## ESG themes with strong tailwinds

**Decarbonisation becoming urgent**

Select energy & utility companies with regulators that allow for transient costs

Favour industrials involved in factory efficiency, alternative energy equipment & sustainable transport

**An increasing focus on social inequalities**

Prefer companies that are well-positioned in relation to political or regulatory risks

Ex. within housing, favour companies within the affordable sector

**Product safety within global supply chains**

Focus on businesses that are improving compliance processes & conducting supply chain audits

**Growing labour risks**

Highly complex labour issues among food & clothes companies

Favour those attaining ESG certification on their sector risks & collaborating with local bodies to mitigate them

**Cybersecurity is critical**

Data breaches: impact companies, investors, supply chains & individuals



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