Responsible Investment Views for 2024

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Chief Responsible Investment Officer

To reach the carbon neutrality objective by 2050, global clean energy spending has to increase to $4.5 trillion per year by 2030, with nearly half of this being dedicated to emerging markets. To support investments in clean energy infrastructure and technologies, the Inflation Reduction Act in the US and the Green Deal Industrial Plan in the EU aim to mobilise $400 billion in incentives and €300 billion in tax credits, respectively.

Sustainability issues will impact the economy, and our economic activities impact sustainability matters. Investors therefore need to address the investment context in a holistic manner to be profitable in the long run. While financial markets bear a higher level of complexity and uncertainty due to both the recent geopolitical and repeated extreme weather events, at **Amundi we stand firm in our conviction that responsible investment delivers long-term value to our end-savers.**

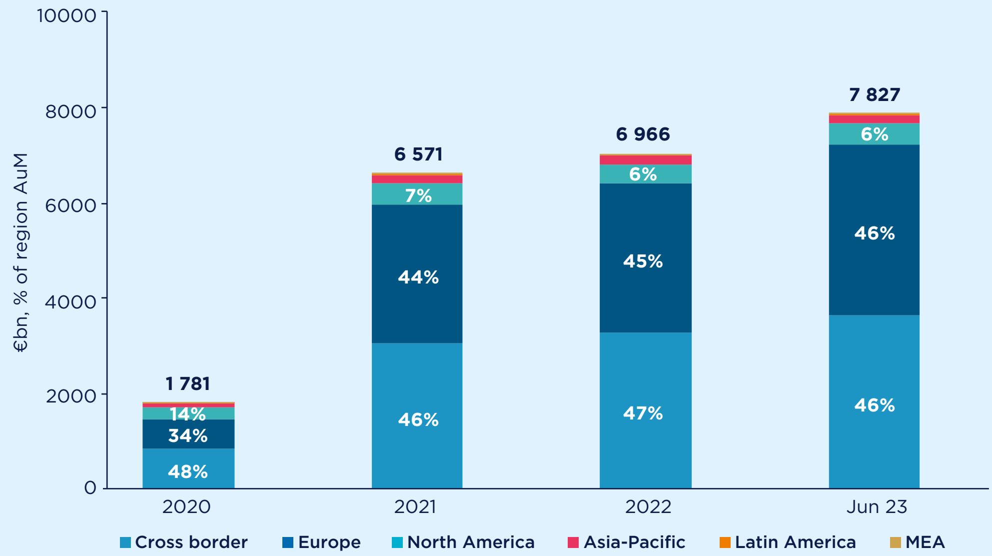
Despite challenging market conditions, responsible investment flows have continued to increase (see graph below) and there are several favourable numbers and trends that should support its future development:

- 67% of global asset owners are convinced of the materiality of ESG factors.
- Thematic and impact strategies are expected to dominate the market in 2024 and onwards (a shift driven by investors who not only prioritise financial returns but also measurable environmental and social impact).

"Responsible investing is moving from a niche to a standardised environment."

At the same time, the successful, long-term decarbonisation of the economy will bring significant social challenges. **Social, climate and biodiversity issues cannot be considered in isolation.** For example, around 78 million jobs are estimated to disappear due to the transition to a low-carbon economy, replaced by 103 million jobs that workers must be trained for. Companies will increasingly be asked to prove their commitment to a just energy transition for all stakeholders: workers, suppliers, communities and consumers.

Responsible investment funds - Worldwide AuM



Source: Amundi business intelligence based on Broadridge data. Data is as of June 2023.

It is also important to advance our understanding of the interconnected risks between climate change and biodiversity. "Planetary boundaries" is a concept that delineates the environmental limits within which humanity can safely operate and provides a compelling framework to assess issuers' exposure to these interconnected risks.

As we look towards 2024, three main themes stand out for their implications on the responsible investment industry:

1. **The first Global Stocktake shows that global CO_2 emissions have exceeded interim targets for meeting the 2050 objective of the Paris Agreement.** To achieve the global objective of net zero, governments must issue and maintain more ambitious climate-related policies. Climate strategy has become an essential component of investors' long-term risk management toolbox: an integrated net zero framework, embracing alignment and contribution dimensions, should be favoured by responsible investors. Tail risks stemming from both physical and transition risks should not be underestimated by investors.
2. **The success of the transition at a global scale depends on its success in emerging markets, as they are the regions most affected by climate change.** Following China's Belt and Road Initiative, the US and EU have also launched their own infrastructure programmes focusing on low- and middle-income countries. However, public capital alone will not be sufficient. Blended finance appears to be an efficient solution to leverage public capital to de-risk private investments and channel private money where it is most needed.
3. **Responsible investing is quickly moving from a niche to a standardised and regulated environment.** To face the environmental and social challenges of today's economy, it is key to increase transparency related to investors' commitments and bring greater clarity to our value proposition. In the EU, we are convinced that to achieve its objective of financing the transition through individual choices, the Sustainable Finance Action Plan should:
   - Provide clarity in the range of sustainable finance offerings, to ensure comparability and comprehensiveness for end investors
   - Tailor sustainable finance offerings to the needs of end investors, to ensure savings are not restricted to a niche sector.

"Decarbonising the economy requires coordinated action from all players."

To conclude, successfully decarbonising the economy requires urgent and coordinated action from all players, including from the financial industry. The coming years are crucial if we want to avoid huge financial, environmental and social costs in case of a delayed or not successful transition, and make the most of the massive financial, environmental and social opportunities a steady and orderly transition can gift us with. All investors should stay the course.

RESPONSIBLE INVESMENT THEMES FOR 2024

1 Green tech investment trends following the US Inflation Reduction Act and the EU Green Deal Industrial Plan

2 Net zero investment trends following the Global Stocktake exercise and the development of net zero investment frameworks

3 Development of future investment frameworks following the mapping of planetary boundaries and the increased attention given to biodiversity and the just transition

4 Development of sustainable capital markets in emerging markets and developing economies through blended finance and reforms of international finance institutions

5 Implications for the asset management industry of the EU Sustainable Finance Action Plan

6 Implications for the asset management industry of the ESG and greenwashing backlash

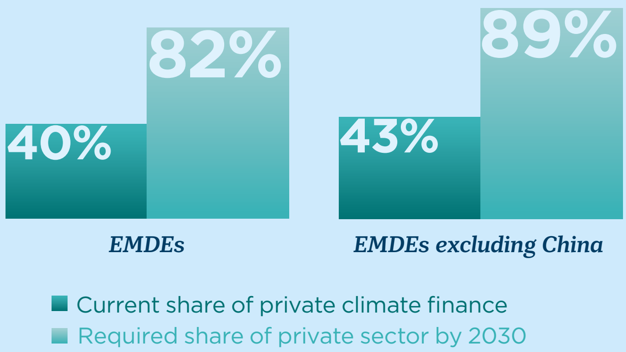
Energy transition in focus

	Themes	Convictions
US	**Positive momentum amid incentives from IRA (Inflation Reduction Act)** **Key themes:** the evolution of traditional hydrocarbon firms; the increased share of new and lower-cost tech; the energy grids' ability to handle more intermittent power; and the adoption of new technologies.	**Favour the traditional hydrocarbon firms as well as the capital goods technology providers** (e.g. building controls, electrification components) **and commodity firms. Favour those exposed to CCUS** (carbon, capture, usage and storage) **and hydrogen** with competitive advantages in those areas.
EU	**A notable theme for the EU, but with some challenges** The European Green Deal should support the transition, but there are challenges related to delays, planning permission in some countries and regulation.	**Favour exposure to renewables** that can finance their transition through internal cash flows, EV trucks, solar panels, sustainable aviation fuels and the structural growth in automation, as well as reshoring activities. Conviction also in some of the cable and building insulation companies.
EM	**Greater private financing needed to support EM critical players** EM play a vital role in global supply chains and the energy transition, but these countries will need about $2 trillion annually by 2030 to reach net zero emissions by 2050*. The private sector will have to support around 80-90% of the investment needed.	**Favour countries where commitment to fighting climate change is increasing.** China is among the favoured countries in the long-term. In the EM, Sustainable Development Goals are gaining traction. In particular, these regions play a key role in the EV and renewable energy space.

* Source: IMF and International Energy Agency.

"According to the IMF the share of private sector climate finance in Emerging and Developing economies will have to rise significantly to reach the net zero transition"

Necessary increasing role of private sector for EM climate goals



Source: Amundi Investment Institute, IMF and IEA on Climate Policy Initiative with staff calculations. The estimation share of private climate finance to achieve net-zero emissions by 2050 is based on public climate financing share in total public investment that increases by a factor of 1.5 until 2030. Bloomberg. Data is as of 30 October 2023. EMDEs: Emerging Markets and Developing Economies.

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