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EDMOND DE ROTHSCHILD

Editorial

SHOULD WE EXPECT MORE OR LESS REGULATION IN SUSTAINABLE FINANCE?



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Head of the Responsible Investment Team

While January is the month of wishes and good resolutions, what can we expect in terms of regulation for sustainable finance in Europe by 2025? In France, candidates for the competitive examination and students at the Institut national du service public (INSP), which has replaced the Ecole nationale d'administration (ENA) since 2022, have been working for decades on a similar question: more or less state? The right answer is a more EFFICIENT state.

We can therefore also hope for a more effective regulation of sustainable finance. The European Commission's announcement at the end of 2024, proposing an omnibus project to better coordinate the various sustainability regulations currently being developed, in particular the 3 pillars of CSRD, SFDR and TAXONOMY, is a welcome step in this direction.

Following three years of complexity and instability in Europe between 2022 and 2024, companies and investors can now look forward to an end to the current situation, which we describe as Kraken and Chaos. This harmonized simplification at European level, if possible without local variations (Germany, France...), would not aim to reduce ambitions but, on the contrary, to accelerate the transition to ACTION, in particular to facilitate the shift to a less carbon-intensive economy, one of the 3 major objectives recalled by the Draghi report, alongside innovation and security.

As far as investors are concerned, in the absence of a clear, stabilized roadmap, the complexity and uncertainty of the current situation means that we are not only running the risk of "greenwashing", but above all the risk of INACTION, even though climate change is a matter of urgency, and 2024 has once again broken all global warming records, with the +1.5°C threshold now crossed.

In this context, our chronicles look back at the mixed results of the 2024 biodiversity and climate COP, although they remain essential. We also take a look at the update of our climate and biodiversity approaches, and highlight the importance of the long-term work carried out by researchers to support today's and tomorrow's decision-makers, alongside public authorities, the private sector, and citizens.

Enjoy your reading!

Sustainable Finance and Responsible Investment Chair

FIR FORUM POUR L'INVESTISSEMENT RESPONSABLE

PRI Principles for Responsible Investment

Edmond de Rothschild Asset Management is a co-sponsor of the Sustainable Finance and Responsible Investment Chair which is co-managed by Ecole Polytechnique and the Toulouse School of Economics, and is a co-sponsor of the FIR - PRI european research awards.

ALTHOUGH DISAPPOINTING AT THE END OF 2024, THE CLIMATE AND BIODIVERSITY COP REMAIN ESSENTIAL

As climate and biodiversity issues are becoming increasingly interconnected, it seemed more relevant to address both the Biodiversity and Climate COP that took place in late 2024 simultaneously.

The COP 16 on Biodiversity was held in Cali, Colombia, at the end of October 2024. Above all, this conference brought the key role of indigenous peoples and local communities in preserving ecosystems back to the forefront. However, many criticized the lack of leadership in establishing an operational framework for monitoring the implementation of the Global Biodiversity Framework, and the weak mobilization of funding, particularly public financing. Nevertheless, it is worth noting that previous Biodiversity COP were decisive in formalizing common objectives following the Kunming-Montreal agreement at the end of 2022, which was accepted by all countries, notably the key goal of protecting 30% of the planet's land and sea. They were also the driving force behind the G20's establishment last September of the ten principles of the circular bioeconomy. In this challenging environment, the private sector was significantly more engaged than in previous Biodiversity COP, with a clear intention to increasingly federate structured actions around initiatives like the TNFD, or "Taskforce on Nature-related Financial Disclosures". In the end, many questions have been postponed to the next Biodiversity COP, which will be held in Armenia in two years.



"Oh yuck, let's invade a different beach."

The COP 29 on Climate took place in Baku, Azerbaijan, at the end of November 2024, facing even stronger criticism regarding its outcomes. Although, an agreement on the carbon emissions trading was quickly reached, the record of carbon offsetting over the last 10-15 years is so controversial that the issue ultimately remains minor in view of the challenges. An agreement on annual financing, the NCQG or "New Collective Quantified Goal," which will increase from 100 to 300 billion dollars from developed countries to developing countries, was reached but was immediately denounced by the "Global South." Yet, why not focus on securing money where it exists, for example, in the more than 500 billion dollars of global annual subsidies to fossil fuels? Finally, the "elephant in the room" effect of Donald Trump's election came into full play, and many oil and gas states and the thousands of lobbies present took advantage of this to contribute to the removal of any explicit mention regarding the key issue of phasing out fossil fuels. After two "transitional" COP hosted by two petroleum-rich states, we can only hope for better outcomes from the next Climate COP 30 in late 2025 in Belém, Brazil.

The outcomes of 2024 remain modest and ultimately predictable, failing to meet expectations, particularly from the perspective of NGOs and the most vulnerable states. In essence, the COP mirror escalating geopolitical tensions and the current leadership void within the United Nations. Nonetheless, they are indispensable for coordinating and establishing common rules for all, especially for states that wish to play by the rules, such as the European Union. For instance, although it remains insufficient, the projected global warming by 2100 is expected to be approximately +2.7°C to +3.1°C, instead of +4.0°C to +5.0°C, without the comprehensive efforts of the COP.

CHAIRS IN GREEN AND SUSTAINABLE FINANCE: A TOOL FOR TRANSFORMING RESEARCH AND TEACHING?



Patricia Crifo

is Professor of Economics at École Polytechnique, member of CREST (CNRS), and Associate Researcher at CIRANO (Montreal, Canada). At École Polytechnique, she is Director of the Master's program in Economics for Smart Cities and Climate Policy, as well as the Sustainable Finance and Responsible Investment Initiative (a collaboration between TSE and École Polytechnique), and serves as the deputy director of the Energy4Climate center.

Patricia Crifo holds a Ph.D. in Economics and is an alumna of the École Normale Supérieure Paris-Saclay. She is actively involved in various committees and expert groups focusing on sustainable development and SRI, including serving as Vice-Chair of the ACPR's Climate and Sustainable Finance Commission.

She is a specialist in finance and sustainable development, corporate social and environmental responsibility, governance and work organization, and has published in international and national journals such as *Industrial Relations, Journal of Corporate Finance, Journal of Banking and Finance, Journal of Business Ethics, International Journal of Production Economics, Labour Economics, Macroeconomic Dynamics, Review of Economics Dynamics.*

Once marginal until the early 2000s, sustainable finance involves integrating environmental, social, and governance (ESG) criteria into investment evaluation processes. Today, 96% of large global companies (G250) publish ESG reports. At the same time, over 5,000 investors have signed up to commitments such as the Principles for Responsible Investment (PRI).

In this context, green and sustainable finance is increasingly seen as an essential tool for guiding economic activities toward more responsible economic and social pathways.

Higher education institutions, as training grounds for tomorrow's decision-makers, play a central role in this transition. They promote the emergence of collaborative platforms in the form of green and sustainable finance chairs. These structures bring together academics, industry professionals, and decision-makers to innovate, share best practices, and transform educational and research dynamics. This article explores how these initiatives contribute to the transformation of higher education, while also addressing the challenges posed by the ecological and social transition.

MAPPING THE FRENCH ECOSYSTEM

A study conducted by Finance for Tomorrow, the Louis Bachelier Institute, and the Forum for Responsible Investment highlights the diversity of green finance actors in France, comprising over 150 organizations. These include academic institutions, public entities, NGOs, think tanks, and private companies. Their activities cover a wide range of topics, from climate and biodiversity to sustainable mobility, corporate social responsibility (CSR), and financial ethics.

Academic chairs serve as privileged collaborative platforms in this ecosystem. Relying on partnerships between universities, financial institutions, and governmental and non-profit organizations, they develop innovative programs spanning three to five years. These programs combine academic research, teaching, and industrial practices, encouraging interaction between theory and practice and fostering innovation in public policy and business.

LEVERS FOR TRANSFORMING RESEARCH AND EDUCATION

The Chairs in Green and Sustainable Finance are transforming higher education by focusing on four key areas:

- **Research Opportunities:** These chairs act as incubators for advanced research in sustainable finance, energy transition, and sustainable development. They encourage student involvement in research projects, exposing them to resources, databases, and international networks.
- **Innovative Teaching Approaches:** Chair activities, such as seminars, conferences, online courses, and simulations, integrate modern teaching methods. This fosters a culture of continuous learning and innovation, preparing students to meet the complex challenges of the ecological transition.
- **Experiential Learning:** Chairs offer practical opportunities such as internships, applied research projects, or hackathons. These experiences enable students to acquire tangible skills, enhancing their employability while cultivating a sense of responsibility and positive impact.
- **Interdisciplinary Programs:** By drawing on a broad range of academic disciplines, these programs can blend economic and social sciences with engineering, material sciences, or geophysics. The chairs thus offer a systemic understanding of sustainable development challenges.

CASE STUDIES

Two case studies illustrate how these chairs can transform the educational and research dynamics of higher education.

The Initiative for Sustainable Finance and Responsible Investment (Finance Durable et Investissement Responsable – FDIR), created in 2007 through a partnership between the École Polytechnique, IDEI in Toulouse, the FDIR Association, and AFG, focuses on three main research areas: **(1) long-term ESG performance and risk assessment, (2) corporate governance, and (3) shareholder engagement.**

The goal is to develop theories and practices in responsible investment, while facilitating collaboration between academics and industry. With an impressive academic output (over 150 articles in scientific journals and 30 annual publications), the initiative has become a major player in the field.

Another example is the Energy4Climate (E4C) initiative, launched in 2019 by the Paris Institute of Technology and École des Ponts ParisTech, which addresses crucial energy transition topics such as greenhouse gas emission reduction and public policy evaluation. It offers training ranging from master's to integrated doctoral programs, as well as an entrepreneurship program, based on innovative teaching tools. The program involves collaboration between thirty laboratories, fostering an interdisciplinary approach that mobilizes various disciplines, from geophysics to finance.

FUTURE PERSPECTIVES AND CHALLENGES

To maximize the impact of sustainable finance, several challenges remain:

- **Impact Measurement:** Developing reliable tools to quantify impacts, particularly on complex dimensions like biodiversity and social justice, faces insufficient data quality and standardization, as well as the difficulty of aggregating diverse indicators.
- **Risk Management:** Identifying physical climate risks (e.g., natural disasters) and transition risks (e.g., climate policies) is crucial to ensuring sustainable investments.
- **Financial Innovation:** The emergence of new financial products, such as green bonds, requires rigorous frameworks to avoid confusion and ensure credibility.
- **Regulatory Frameworks:** Regulations such as the European CSRD directive aim to enhance the transparency of extra-financial reporting, but they pose challenges in terms of data collection and standardization.

CONCLUSION

Green and sustainable finance chairs are essential drivers for transforming higher education and research. Through interdisciplinary approaches, innovative teaching methods, and close collaboration with industry actors, they train decision-makers capable of meeting sustainable development challenges. By promoting more inclusive and resilient finance, these initiatives address the complex issues of a world undergoing ecological and social transition.

Patricia Crifo, « Chairs in green and sustainable finance : a tool for transforming research and teaching?", Annales des Mines, Réalités industrielles 2024/3, August 2024

Company meetings

OUTOKUMPU

Outokumpu is a leading Finnish industrial company specializing in stainless steel production, vertically integrated through its Kemi chrome mine in Finland. The company is best-in-class in terms of emissions in a high-impact sector, thanks to its own ferrochrome sourcing, high use of recycled materials and low-carbon electricity. Moreover, stainless steel is extremely corrosion-resistant and low-maintenance, making it extremely long-lasting and positioning the company as a solutions provider. We believe Outokumpu should benefit from the Carbon Border Adjustment Mechanism (CBAM), due to be introduced in 2026. The company has ambitious emission reduction targets, validated by the Science Based Targets initiative. The next challenges will be biodiversity, in view of the development of biocoke.

Social management remains a delicate issue, with numerous restructurings in recent years. Nevertheless, indicators remain good (health and safety, staff turnover, etc.) and show a high level of employee commitment.

In terms of governance, the managerial transition is well underway, with the recent changes of CEO and CFO. It is worth noting that the new CEO, who has been a Board Member since 2016, is well acquainted with the company.

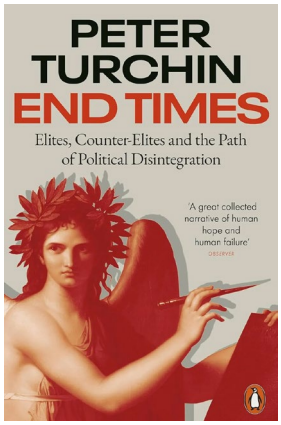
The information about the companies cannot be assimilated to an opinion of Edmond de Rothschild Asset Management (France) on the expected evolution of the securities and on the foreseeable evolution of the price of the financial instruments they issue. This information cannot be interpreted as a recommendation to buy or sell such securities.

Recommended reading

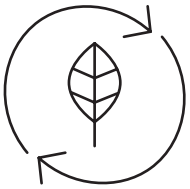
END TIMES

Peter Turchin, professor at the University of Connecticut, has made a major contribution to a new method called cliodynamics (from Clio, the muse of history in Greek mythology, and dynamics, the science of change). Cliodynamics exploits millions of data points to design a mathematical model capable of understanding and predicting the highly complex trajectory of human society.

The book “End Times” synthesizes the accumulation of millions of data points on 700 political regimes over ten thousand years of history to better understand the rise and fall of states. It concludes that the great crises arise from a double dynamic: widening inequalities and an overproduction of elites. Of particular interest are the developments devoted to Western democracies, especially the USA. A must-read, because as French sociologist Edgar Morin wrote, “the worst is never certain”.



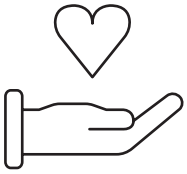
End times,
by Peter Turchin



Environment: $2 000 billion

Global investment in clean energy is expected to reach $2,000 billion by 2024, with spending on solar photovoltaics estimated at $500 billion.

Source: International Energy Agency (IEA)



Social: 3.8 billion

Some 3.8 billion people, mainly in developing countries, do not benefit from any form of social protection, leaving them vulnerable to life's risks and environmental challenges.

Source: International Labour Organization (ILO)

NEW CLIMATE AND BIODIVERSITY APPROACHES AND POLICIES

Edmond de Rothschild Asset Management updates its Climate and Biodiversity approaches and publishes its Climate and Biodiversity policies.

Edmond de Rothschild Asset Management (France) developed its first climate roadmap back in 2017, aligned with the Paris Agreement, with the aim of helping limit global warming to below 2°C.

Following an initial update in 2020, Edmond de Rothschild AM[1]'s membership in the Net Zero Asset Managers (NZAM)[2] initiative in May 2023 and the publication of our climate objectives in May 2024 provided an opportunity for a second update.

This latest update incorporates the International Energy Agency's (IEA) most recent "Net Zero" climate scenario. We have also taken into account the challenges of preserving biodiversity, as climate change and biodiversity are closely linked and the two phenomena are mutually reinforcing.

As in previous versions, our analysis focuses on a limited number of sectors and subsectors presenting climate and, now, biodiversity challenges, considering both risks and opportunities. For example, the energy/extraction, transport, and industry sectors present significant climate risks, while electrification, energy efficiency, and renewable energies hold substantial investment opportunities.

To update our approach, we have undertaken extensive research based on various studies and reference frameworks published by recognized climate and biodiversity initiatives, such as the TCFD and TNFD, while incorporating industry best practices.

This work has enabled us to consolidate a body of reporting structured around four pillars: governance, strategy, risk management, and indicators and targets. This report serves as a reflection tool for our climate- and biodiversity-focused investment strategies, and is intended for internal use, mainly by our management teams. A summary for our clients was also published on our website at the end of December 2024.

On this occasion, we have also formalized and published our Climate Policy as well as our Biodiversity Policy, documenting our objectives, exclusion policies, engagement approach, and management tools. We encourage you to take a look!

1. Via Edmond de Rothschild Suisse SA

2. The Net Zero Asset Managers initiative brings together an international group of over 300 asset managers representing some $60,000 billion under management. The initiative's signatories are committed to supporting the goal of achieving carbon neutrality by 2050, in line with international efforts to limit global warming to 1.5°C.

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