



ESG and market segmentation

As part of our longstanding academic collaboration with Université Clermont Auvergne, in 2012 we became a founding partner of the university's "Value & CSR" Research Chair. We recently attended a one-day scientific conference at which the work conducted in 2020 was presented. One of the papers presented was entitled *Unpleasant Arithmetic of Socially Responsible Investment*¹, a theoretical analysis based on modern portfolio theory that aims to model the impact of socially responsible investors on financial assets. The authors show that the presence of ethical investors leads to partially segmented markets and an under-pricing of those firms perceived as unethical in ESG terms as compared to other firms.

This theoretical work is to some extent echoed by our analysis of current market valuations. On the one hand, we find stocks or sectors that are significantly undervalued because they fail to meet the ESG criteria preferred by some investors and, on the other, bubbles forming around certain themes or companies trading at sky-high valuations, utterly unconnected to any economic reality, solely because they are perceived as ethical in ESG terms.

A large number of investors demonstrate palpable mistrust of many firms considered, rightly or wrongly, as unethical in ESG terms. The energy sector is the perfect illustration. The current under-pricing of the oil & gas majors is largely due to a number of investors turning away from the sector on the grounds of its contribution to greenhouse gas emissions. This reasoning, we believe, is false in that it fails to take into account a fundamental factor: the adaptability of the companies concerned. If there is one sector particularly concerned with transforming its business model, that sector is energy. Europe's oil & gas majors have embarked on energy transition with ambitious investment plans that will radically alter their profiles. **Total**, one of the first in the sector to invest in renewables, is aiming for renewable energy production capacity of 35GW by 2025 and 100GW by 2030, making it a world leader in the field². In contrast, wind turbine specialist Orsted is riding high on a valuation premium that reflects an expanding bubble rather than any solid economic reality. Industry offers plenty of other examples: take the market capitalisation of Tesla, ten times greater than that of an established auto manufacturer like **BMW** yet with only a third of BMW's revenues³. As we see it, this reflects a rigidly black and white vision that divides the market into supposed winners on one side and alleged losers on the other. Yet BMW will have 13 battery electric vehicles (BEVs) on the

market by 2023 and, like **Volkswagen**, expects BEVs to make up 50% of its revenue by 2030⁴. Were investors to refine their analysis of the situation, they would necessarily find themselves taking a more nuanced view.

To dwell for a moment on the question of global warming, the International Energy Agency reports that five sectors (fossil fuel extraction, electricity production, transport, steel and cement) account for 75% of direct greenhouse gas emissions worldwide. A simplistic approach might lead an investor to rule out all five of these sectors without distinction, to ensure a very low carbon footprint for its portfolio. This is not the approach we have adopted, as it would involve ruling out sectors that are essential both to the economy and, paradoxically, to the production of renewable energy: there is no way wind turbines can be manufactured and installed without using steel and cement, for example.

As portfolio managers, we must obviously draw a distinction between those companies that can and are willing to adapt and those that either cannot or are unwilling to do so, such as the coal and tobacco industries. As a responsible investor, however, it is also our role to support those companies prepared to adapt and transform through energy transition. Indeed, this is the very essence of our engagement with companies through the exercise of voting rights and also through the interviews, approaching 500 in number, that we carry out every year. It is in this same spirit that we have joined forces with other investors in engaging collectively with **HeidelbergCement** as part of the Climate Action 100+ initiative. Evidencing growing awareness of climate issues, the group recently undertook to reduce its greenhouse gas emissions per tonne of cement produced by 33% by 2030, with the aim of achieving carbon neutrality by 2050. HeidelbergCement has thus become the first cement manufacturer to have its strategy approved by the Science Based Target initiative as in alignment with the 2°C warming target set by the Paris Agreement.

This approach is part of a longer-term process that often involves casting aside short-term fads. Instead, it involves encouraging issuers to pursue improvements over time across all ESG themes and thereby achieve real, lasting positive impacts.

1. Paper by Mohammed Arouri, Guillaume Pijourlet and Benjamin Williams.
2. Total
3. Bloomberg
4. BMW, Volkswagen



SRI certification extended to the entire METROPOLE Gestion Responsible Value range

METROPOLE Sélection - METROPOLE Avenir Europe - METROPOLE Euro SRI

A COMPREHENSIVE AND INTEGRATED MANAGEMENT PROCESS

RESPONSIBLE VALUE INVESTING

Pre-selection

Evaluation

Catalysts

Managing positions



Pre-selection

Reduction of the investment universe in line with 3 successive criteria:

- Elimination of companies falling within the scope of our exclusion policy.
- Elimination of companies with the lowest ratings under the Best-in-Class/Best Efforts ESG rating produced using our proprietary methodology or which have been the subject of a major controversy.
- Selection of securities that are discounted vis-à-vis their industrial value by using for each sector the same valuation criteria as used for the sector's companies recorded in our proprietary database of past transactions.



Evaluation

Calculation of industrial value, analysis of the balance sheet strength, consideration of extra-financial controversies followed by meeting with management.

- A 360° analysis of the company taking into account three aspects: extra-financial analysis, financial analysis, balance sheet analysis.
- Meeting with management regarding these 3 aspects.
- Choosing an appropriate valuation ratio for each type of business.
- Evaluation of ESG risks and opportunities.



Identification of catalysts

Anticipation of changes in market status for the security selected, likely to reduce any undervaluation relative to their industrial value.

- Identifying financial or extra-financial catalysts, new controversies or changes in extra-financial ratings



Entry

Entry based on a collegial decision and weighting of each security according to its discount and catalysts.

- Portfolio with stocks discounted against their industrial value, with strong balance sheet and ESG qualities.
- Concentrated portfolios with 30 to 40 stocks.



Exit

Strict sell discipline.

- When the valuation target is reached.
- When identified catalysts do not materialise.
- In the event of a sharp downgrade in extra-financial ratings.
- In the event of significant controversy.

Disclaimer

General mention:

This document, the information contained herein and any and all materials (whether past, present or future) relating directly or indirectly hereto (including, without limitation, covering emails and follow-up communications and correspondence, collectively the "Materials") do not, and are not intended to, provide any form of investment advice, investment recommendations and/or other similar financial or investment advice. The Materials do not, and are not intended to, represent any sales, facilitation and/or promotional activity and therefore may not be construed as an offer for the purchase or sale of financial or investment instruments or do not constitute a product information sheet within the meaning of §31 para.3 of the German Securities Trading Act (WertpapierHandelsGesetz). The opinions expressed in the present document may be modified without prior notice. These Materials are strictly confidential and may not be distributed to any person or entity other than the recipient(s), except with Metropole Gestion's express and unequivocal prior written consent (which may be granted or withheld in its absolute and sole discretion).

METROPOLE Gestion SA assumes no obligations with respect to or liability for financial or other consequences arising from the subscription or acquisition of a financial instrument described in this Material. In particular, METROPOLE Gestion SA assumes no liability with regard to the information being accurate, complete or up to date unless the information is misleading, inaccurate or inconsistent with the relevant parts of the prospectus.

It is recommended that investment decisions with respect to the financial instruments mentioned in this Material only be made after reviewing the current version of the prospectus (available at METROPOLE Gestion and on the website www.metropolegestion.com). The distribution of the present Material or the prospectus may be restricted by law in certain territories, countries or jurisdictions and investors are required to inform themselves and to comply with any such restrictions in any relevant territory, country or jurisdiction. Prospective investors must decide for themselves whether their investment is suitable taking into account the legal, tax and accounting conditions that apply to them. Above all, when subscribing and buying fund units, the investor should be aware that this product entails a certain amount of risk and it is possible that the investor will not recover the full amount of the capital invested; in the worst-case scenario, the entire amount may be lost.

Positive results in the past are no guarantee for current or future returns.

The performance data of this document do not take into account the subscription and/or redemption fees that can be charged by the distributor.

Specific mentions for Germany and Austria:

This Material is not a financial analysis within the meaning of § 34b of the German Securities Trading Act (WertpapierHandelsGesetz) or within the meaning of sections 36 and 37 of the Austrian Securities Supervision Act (Wertpapieraufsichtsgesetz) of 2007 or section 48f of the Austrian Stock Exchange Act (Börsegesetz) and was not prepared in compliance with the applicable legal requirements for financial analyses or with the statutory provisions on promoting the independence of investment research and is not subject to the prohibition on trading after the dissemination of investment research.

The only legally binding document is the prospectus, which also contains a description of the risks. The investor may not hold the company liable under civil law solely on the basis of this Material unless the information is misleading, inaccurate or inconsistent with the relevant parts of the prospectus. The prospectus, the German version of the Key Investor Information Document (KIID) for the funds of METROPOLE Gestion SA that are registered for public distribution in Austria and mentioned in this Material, the German version of the customer information documents in accordance with section 134 InvFG and the information within the meaning of sections 140 to 142 InvFG can be obtained from METROPOLE Gestion SA – 9, rue des Filles Saint-Thomas 75002 Paris – France, tel.: +33 (0)1 58 71 17 00.

The risks, fees and ongoing charges are described in the KIID. The prospectus, KIIDs, NAV and annual reports are available at www.metropolegestion.com or upon request at METROPOLE Gestion.

Specific mentions for Switzerland:

The METROPOLE Gestion funds are collective investment schemes established in France and subject to the regulatory supervision of AMF. The representative in Switzerland is CACEIS Switzerland SA, route de Signy 35 CH-1260 Nyon. The paying agent in Switzerland is CACEIS Bank Paris succursale de Nyon, route de Signy 35, CH-1260 Nyon. The prospectus, the key investor information document, the regulations or articles of association, as well as the annual and semi-annual reports of the funds may be obtained free of charge and at all times from the representative in Switzerland. The place of jurisdiction and the place of performance with respect to all actions regarding the distribution of shares in Switzerland is at the registered office of the representative.

Specific mentions for Belgium:

The prospectus and key investor information must be read prior to any subscription. The most recent version of the full prospectus, the key investor information and the most recent periodic reports (in French) are available free of charge from the financial services provider: CACEIS BELGIUM SA B-1000 Brussels, Avenue du Port 86 C b320 (Tel : +32 2 209 26 58) and are also available on the website www.metropolegestion.com/Belgique. Additional information may also be obtained from the financial services provider. The net asset value is published in the L'Echo newspaper in Belgium. The SICAV fund is subject to taxation on capital gains.

For additional information, please contact either the financial services provider (contact information provided above) or METROPOLE Gestion, at the following address: metropoleg@metropolegestion.fr.

Specific mentions MENA:

The Investment Products have not been registered for public offer or distribution in Bahrain, Kuwait, KSA, Oman, Qatar and UAE. The Investment Products must not be distributed within Bahrain, Kuwait, KSA, Oman, Qatar and UAE by way of a public offer, public advertisement or in any similar manner and may not be offered to the public in Bahrain, Kuwait, KSA, Oman, Qatar and UAE or used in connection with any offer for subscription to the public in Bahrain, Kuwait, KSA, Oman, Qatar and UAE.

For any additional information, please contact METROPOLE Gestion SA at the following address: metropoleg@metropolegestion.fr. The publication of this Material was made by the Management Company: METROPOLE Gestion SA 9, rue des Filles Saint-Thomas, 75002 Paris, France – Tel: +33 (0) 1 58 71 17 00 - Fax: +33 (0) 1 58 71 17 93 - www.metropolegestion.com - metropoleg@metropolegestion.fr. METROPOLE Gestion is a limited company registered in France and authorized by the French financial markets authority ("Autorité des Marchés Financiers") as a Portfolio Manager under No.02/026 dated 21 October 2002. METROPOLE Gestion is not registered, approved and/or licensed by any authority, regulator or state outside of the European Union.

No specific mentions for Netherlands.