RBC BlueBay
Asset Management

RBC European Equity Environmental, Social & Governance Report 2024

Marketing communication

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A sign of the times: 2023, ESG and inflation

A step change in financial conditions for companies occurred in 2023. After years of near-zero interest rates and low inflation, the sharp rise in interest rates was in some ways a shock to markets perhaps overly comfortable in a world of easy financing and stable supply chains.

While there were distinct positives from 2023, such as very high growth rates for renewables (approximately 60% annualised for global solar power[1], for example), this sharp rise in rates drove up decarbonisation project costs in almost every sector, given these technologies often have high levels of capital expenditure and low levels of operating expenditure. This raises the question: if rates remain higher for longer, will this impact the growth rate of the energy transition, both at a macro level, but also for individual companies and sectors? The jury may still be out, but the year has reinforced the notion that it is not enough for companies to be simplistically aligned with decarbonisation thematics; financial and balance sheet resilience is now required, especially as investors are more discerning with regards to how they deploy their capital.

Where corporates and investors may take solace, however, is that the year also demonstrated that governments remain firmly behind projects. The United States' Inflation Reduction Act and the EU's Net Zero Industry Act are proving significant in the way that business is attracted, and capital is deployed in the decarbonisation movement.

Fund flows for the year were indicative of the shifting sentiment, particularly within the US. However, the devil, as always, is in the detail and headline flow figures often present a false dichotomy between 'ESG' and 'non-ESG' funds, so often labelled as such by the market.

In our view, 'Responsible Investment', an umbrella term describing a broad range of approaches for incorporating ESG considerations into the investment process[2], is developing rapidly enough to override this reductive distinction, but it does require a closer look at the data.

"Fund flows for the year were indicative of the shifting sentiment, particularly within the US."

The year 2023 saw market commentary on how responsible investing strategies may have underperformed the broader market. However, when looking just at Europe (until the beginning of the final quarter of the year), it becomes clear that performance varied wildly between different sub-categorisations of these strategies. Figure 1 shows a number of different ESG ETF categories (as defined by the research provider BAML), the flows that each type of ETF from the data set received, as well as their performance against the STOXX 600. Clean energy was by far and away the poorest performer, as were Article 9 funds, many of which were tilted towards the clean energy sector. On the other hand, more-tech focussed strategies outperformed, and Paris-aligned strategies attracted greater assets under management. Although the data is only a sample, it does shine a light on how it is important to disaggregate information in this arena.

[1] Morgan Stanley, 2024.
[2] Our approach to responsible investment (rbc.gam).

Figure 1: European ESG ETF flows and performance data

ESG ETF strategy	Flows (EURmn)	Relative performance	AUM (EURbn)
Clean energy	555	-31.0%	5,065
Climate transition	252	-0.5%	3,069
SRI/social	453	-0.4%	30,005
Paris-aligned	2,325	2.7%	4,605
ESG leaders	116	3.2%	7,337
Tech-focussed	485	17.6%	12,128
Other ESG	6,374	-0.7%	58,719
Article 8	7,580	0.4%	116,087
Article 9	1,896	-12.6%	4,755

Source: BAML, Bloomberg, as at October 2023. Performance is relative to the STOXX 600. The data set is comprised of 298 ESG equity ETFs domiciled in Western Europe & the UK.

The year 2023 was also demonstrative of lessons learned from previous periods of turmoil and the importance of good governance and regulatory environments. Following the collapse of Silicon Valley Bank in the US, the banking sector more widely came under intense scrutiny and no small amount of stress, as the recency bias of 2008 resulted in fears of another run on the banks.

European banks have endured a difficult period. Since the Global Financial Crisis ("GFC"), financial regulation has become notably stricter, and the integration of much more rigid capital constraints has led to diminished profitability profiles; prudence over profitability has very much been the mantra from regulators. The reduction in profitability, alongside the black-box nature of the sector, has resulted in a dearth of positive investor sentiment.

Proponents of stricter European regulation – certainly on a relative basis to the US – have argued counterintuitively that in some ways a positive event for the sector would be a recession or macro incident, to demonstrate that the sector was now armoured against negative headwinds.

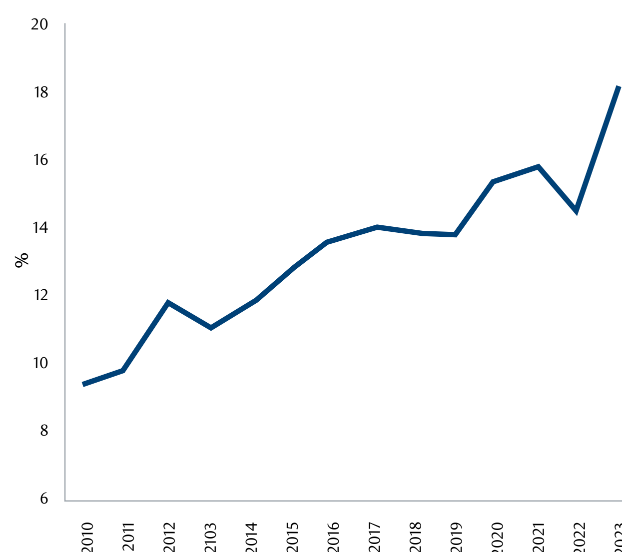
The pandemic stressed the banks but was dealt with in such an adept way that it went under the radar, and so instead it took the liquidity crisis in mid-sized US banks (a sector that has actively resisted regulation and lobbied against increased prudence) to demonstrate the strength of the European environment.

Crises are rarely the same as their predecessor. The 2023 liquidity crunch was no different, and whilst capital is now at all-time highs, it wasn't these capital buffers that stopped the European banks from failing. Government guarantees on deposits, strong loan-to-deposit ratios, ample liquidity coverage ratios and a well-diversified deposit base meant that once again European banks came away broadly unscathed.

It was heartening to see the conservative regulatory approach stifle an incident before it commenced, and also gave evidence that a broader de-risking of the sector, rather than a narrow focus on better capital, had proven supportive to a sector previously seen as risky from an investment standpoint.

The only European casualty of this liquidity crunch was Credit Suisse, a bank with longstanding issues and, in some circles, an acceptance that something had to give; ultimately regulators ensured an orderly transition.
The demonstration of how good governance, and a strong regulatory environment, when compared with other areas, was a helpful reminder that particularly in Europe, lessons learned can in the long term prove a tailwind to certain investment.

Figure 2: European CET1 levels 2010-2023



Source: RBC GAM, as at January 2024.

How we integrate ESG into our process

Short-termism and a view from certain investors that ESG is a separate assessment criterion are both market weaknesses. We believe that ESG criteria should be considered in the same way as traditional financial criteria, in terms of their capacity to affect shareholder value, and therefore long-term investment performance.

Some ESG criteria are more relevant to certain industries and sectors, and we therefore believe that investors cannot use a 'one-size-fits-all' approach to ESG analysis and integration. Investment screens can serve a useful purpose for investment managers who are required to screen out or include certain sectors. However, we believe that through a bottom-up process, without an over-reliance on external data, active managers making informed, explicit decisions can add significant value for investors.

> "ESG criteria should be considered in the same way as traditional financial criteria in terms of their capacity to affect shareholder value."

We look at companies through three lenses: Operational Quality, Competitive Advantages, and Material Issue Management (ESG). The last of these focuses on those ESG factors that we believe are most material and pertinent to the successful performance of the business being analysed. Rather than applying broad analytics, we prefer to look on a fundamental, bottom-up basis at those factors which, based on our proprietary material issue analysis and scoring, matter most to a business and its stakeholders. An example of how these factors may be analysed on a company-by-company basis is shown in Figure 3.

The results of this analysis are then integrated into our financial analysis and, ultimately, into the decision to invest – or not – in a business. We remain cognisant that including material ESG factors in our fundamental analysis not only serves as an excellent risk management tool but, just as importantly, can provide us with opportunities both at a corporate and portfolio management level. We believe that this mindset, married to our skillset as active managers, is how we can benefit our investors in the long run.

Figure 3: RBC GAM European Equity investment process: Material issue management (ESG)

Category	Luxury goods - Company A	Capital goods - Company B
Leadership and goverance	▪ Board composition ▪ Executive compensation ▪ Management quality ▪ Disclosure	▪ Board composition ▪ Executive compensation ▪ Management quality ▪ Disclosure
Social capital	▪ Product quality and safety ▪ Data security	▪ Product quality and safety
Human capital	▪ Labour practices	▪ Employee health and safety
Business model and innovation	▪ Supply chain management ▪ Materials sourcing and efficiency	▪ Product design and lifecycle management ▪ Materials sourcing and efficiency
Environmental	▪ Water and wastewater management ▪ Energy management	▪ Energy management ▪ GHG emissions

--- Changing factors in our ESG risk management research

Source: RBC GAM, as at February 2024.

Portfolio ESG themes and events in 2023

Turning negatives into positives

Novozymes: the biotechnology expert partnered with the Bill and Melinda Gates Foundation and the Novo Nordisk Foundation to work on scaling up a process to make sustainable proteins for human foods derived from captured CO_2. This will allow them to produce proteins through fermentation in a more sustainable manner. Not only does this process make better use of carbon emissions, but it should also reduce the carbon footprint required from meat and dairy production. They will look to deploy this throughout low-and middle-income countries to improve food security in these regions.

> "As part of its Terra approach, ING will look to reduce oil and gas activities loans by 35% by 2030."

Kingspan: the global leader in advanced insulation looked to further improve its sustainable offerings by taking a majority stake in German wood fibre insulation producer, Steico. Not only does the wood fibre insulation help reduce the energy required to heat a building, it also captures carbon emissions at the same time. Steico's wood insulation panels, made from leftover wood, capture 3x more carbon emissions than it actually takes to produce them[3]. Given Kingspan's global footprint, it will help expand the distribution of this product so more people may help reduce their carbon emissions.

Fixing a big problem

Novo Nordisk: the Danish health care company that has historically been a leader in diabetes treatments has started to see the benefits of its focus on tackling one of the biggest health epidemics, obesity. In addition to helping with weight loss, its SELECT trial showed that its semaglutide drug can help prevent major adverse cardiovascular events by 20%[4]. Society is still in the early stages of the adoption of Glucagon-like peptides-1 ("GLP-1s"), but the future looks bright in terms of the additional health benefits they may have.

Unlocking barriers

Assa Abloy: the Swedish global leader in locking solutions released its Planet drop-down seals. The seal automatically drops from inside the door when closed and withdraws when opening the door. This allows the doorways to be barrier-free and makes access easier for wheelchair users. It also prevents the escape of warm or cool air from the building, as well as reducing noise and light pollution. The solution appears simplistic, but it has a significant positive impact from an environmental and societal perspective and is the solution-orientated innovation we have come to expect from the company.

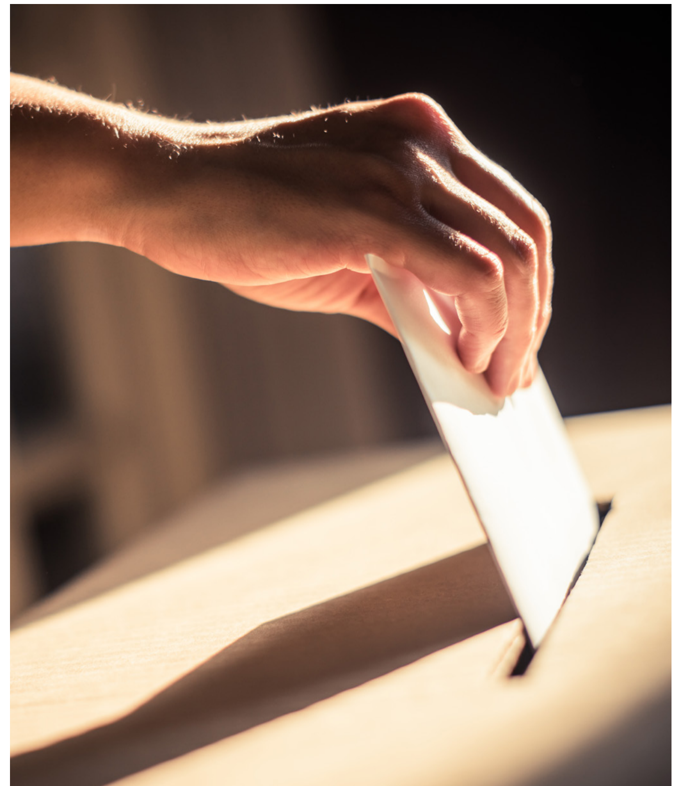
Banking on a greener future

ING: on the back of COP28, the Dutch bank announced it would phase out the financing of upstream oil and gas by 2040, as well as triple renewables financing by 2025. As part of its Terra approach, ING will look to reduce oil and gas activities loans by 35% by 2030[5]. The jump in renewables financing is also significant as the previous goal was for EUR3 billion annually by 2025 and this will now be EUR7.5 billion. The bank has increased its renewable financing targets, as it believes in the benefits of adapting to the needs of the planet and society.

[3] Steico Sustainability Report 2022.
[4] News Details (novonordisk.com).
[5] ING takes next steps on energy financing after COP28 | ING.

Topics we are looking ahead to

Some may chalk it up to a peculiarly western sense of comfort, but geopolitical influence on markets has, to some extent, been deemed subordinate to other market stimuli over the last decade. However, the coalescence of the pandemic, wars in Ukraine and the Middle East, and inflationary supply chain issues have all re-focussed attention on external factors influencing markets.



"Despite the usual melodrama attached to European politics, there is a general sense that these elections may be of more importance than usual."

2024 is the year of the election, with more voters than ever in history heading to the polls in at least 60 countries, with over 2 billion people potentially voting[6]. Europe is no outlier, with at least nine parliamentary elections as well as various presidential ones. Of equal importance are the European Parliament elections at the beginning of June, when all 705 seats of the only directly elected EU body will go to the polls.

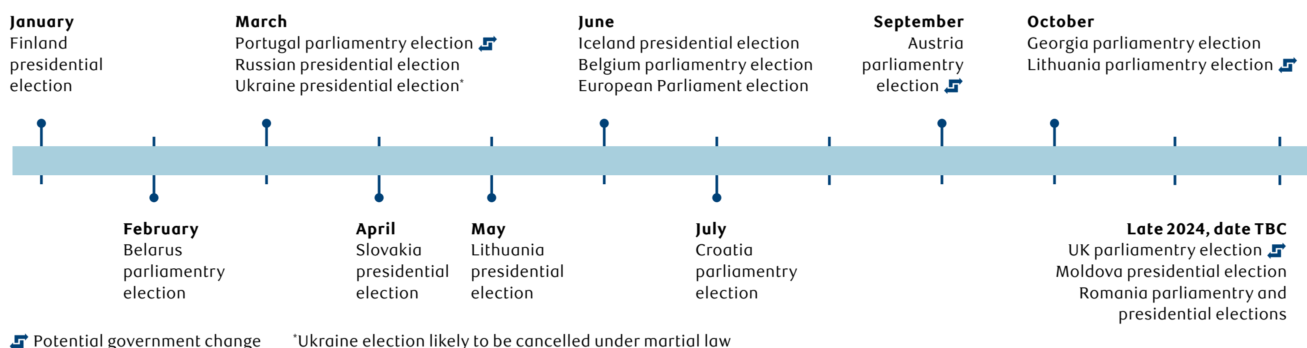
Despite the usual melodrama attached to European politics, there is a general sense that these elections may be of more importance than usual, as the bloc grapples with war on its borders for the first time in many decades, requests to enlarge the union, and an accretive move towards closer economic mechanisms.

While the issues the bloc is contesting are unusually consequential, these elections are also facing a notable shift in voters' allegiances and priorities. For most recent European elections, dividing lines have lain across issues of left versus right, and often correspondingly pro versus anti EU.

This is no longer the case. A recent report from the European Council on Foreign Relations has shed light on how these neat dividing lines no longer exist, and that voters are increasingly falling into five groups that are concerned with events that have warped the European psyche in the last few years[7]:

- The climate emergency
- The migration crisis
- Economic turmoil
- The war in Ukraine
- The Covid-19 pandemic

Figure 4: European elections 2024



Source: EIU, as at November 2023.

[6] World Economic Forum, 2023.
[7] *A Crisis of One's Own: the Politics of Trauma in Europe's Election Year*, European Council on Foreign Relations, January 2024.

The extent that these concerns are felt varies, subject to the individual country: Germany is particularly concerned with migration given the events of 2015, Eastern European countries are more concerned with Russia's invasion of Ukraine given their own nascent post-soviet liberalism, and France and Denmark are more concerned with the climate emergency.

All five of these apprehensions have 'mobilising potentials', but it is how different political parties react to the amalgamation of the concerns and are effective at producing proposed solutions to the issues that will shape how elections will turn out. As the electorate has become more issue-orientated rather than ideologically aligned with segments of the political spectrum, this may go some way to explaining the rather scattergun success of far-right parties across the continent, as many have campaigned on individual issues such as the economy and migration, rather than a broader ideological creed. This is perhaps best shown in the Dutch parliamentary elections in November last year.

If climate change has been a traditional assembly point for the liberal cause and this has, in turn, led to European climate-conscious legislation and green agendas, so climate is under threat of becoming co-opted by the anti-establishment wings of many European parties. The US has seen a not-immaterial backlash against ESG; this is unlikely to occur in Europe given the deep roots already planted, as well as a generally pro-environmental liberal seam that runs through much of European society. However, it is not impossible that the very real anti-green wings of politics are able (even if elected on separate issues) to severely hinder supra-national sustainable policies, especially if there are explicit and short-term economic consequences for the electorate.

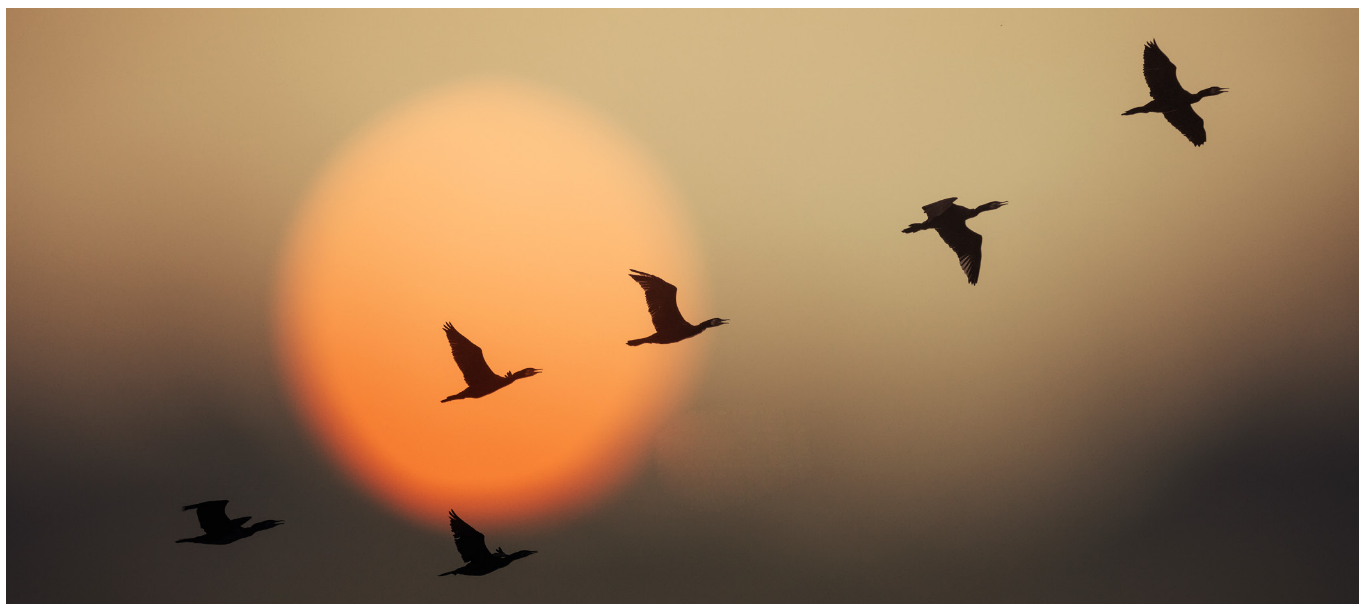
As always, forecasting is a thankless endeavour. However, it does not take too many assumptive leaps to see right-wing parties with a nationalist bent in various alliances – many of whom may have campaigned by lamenting issues of economic malaise and immigration – creating significant obstacles to the European Green New Deal, funding of Ukraine, and EU enlargement.

This may have considerable implications for environmental and social policies, both within the bloc and on a more global scale.

AI & ESG

In 2023, AI was front and centre, as the emergence of ChatGPT on a global scale has led many to believe that generative AI will be the next revolution. Although it is still in its relative infancy, it is important to look at how developments in AI can impact environmental and social matters.

From a social perspective, there are risks to the spread of disinformation through generative AI. In a year where half of the world's population will be going to the polls for national elections, and in the midst of several geopolitical conflicts, this can pose that much more of a threat. Although AI algorithms are supposed to be objective, it is still possible for them to have bias when presenting information. This can come from systemic biases based on issues with the source data, statistical biases from not having significant sample size, and human bias from the initial human development in the design of the model. It is possible then for players to spread disinformation through AI or to create deepfakes through applications, in order to infiltrate the views of people thinking the information they are reading or the videos they are watching are true to nature.



Regulation has been passed to help try to prevent some of the dangers AI poses, but it is struggling to keep up with the development of AI itself. Bills containing 'artificial intelligence' passed into law rose from 1 in 2016 to 37 in 2022[8] and we would expect this upward trend to continue. It should also be noted that the industry has been developing more diagnostic metrics to help identify and reduce AI biases.

Another concern around AI is the potential job displacement it will cause as workers' tasks and jobs will be automated. If history tells us anything, concerns can be ameliorated to some extent. With any technological development some jobs or industries will be made redundant, and some tasks will be automated, but this will also create opportunities in new industries. Historically, around 9-10% of the total jobs every decade are net new occupations that didn't exist previously[9]. While there is a risk that Gen AI will disproportionately impact those in lower skilled occupations, it may push more workers to develop new skills. It may also help overworked professions to spend additional time on the more value-add areas, rather than more mundane tasks.

While it has mainly been social impacts discussed when it comes to the impact of AI, the environmental impacts could also be large. On the negative side, the amount of energy required to run machine learning models is significant. For example, large language model BLOOM's training emitted 1.4x more carbon than the average American uses in one year[10].

To put this in perspective, BLOOM had 25 tonnes of CO_2 emissions per annum in model training compared to GPT-3 at 502 tonnes[11].

The good news is that we believe this should decline over time, as there should be more energy efficiency in the hardware and data centres used, as well as the source of the energy powering them as these shift to more renewables. AI could also help improve energy efficiency across industries. For example, the AI learning agent, BCOOLER, optimised the cooling procedures for Google's data centres to achieve 12.7% in energy savings[12]. There can also be applications in agriculture to optimise equipment, and in crop management to improve yield and reduce the amount of water usage and food waste in an energy-intensive industry.

"While there is a risk that Gen AI will disproportionately impact those in lower skilled occupations, it may push more workers to develop new skills."

While it is exciting to see if developments in AI could provide efficiency gains in society and the management of our carbon footprint, it is important to remember that it doesn't come without risks. It will be important for governments and businesses to manage these risks, in order for society as a whole to benefit from this emerging technology.

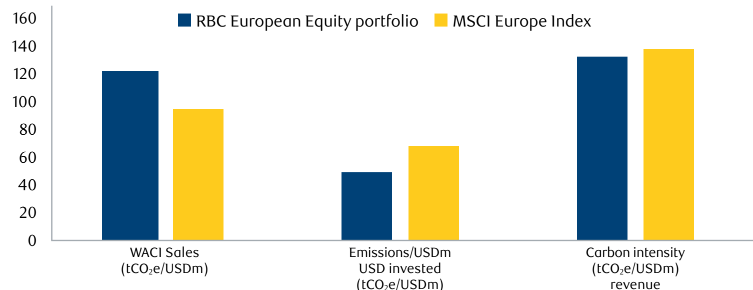
[8] Artificial Intelligence Index Report 2023, HAI Stanford University, 2023.
[9] Generative AI: How will it affect future jobs and workflows? McKinsey Global Institute, 2023.
[10, 11] Estimating the Carbon Footprint of BLOOM, a 176B Parameter Language Model, A.Luccioni, S. Viguier, Anne-Laure Ligozat, Journal of Machine Learning, 2022.
[12] Artificial Intelligence Index Report 2023, HAI Stanford University, 2023.

Portfolio ESG analysis

Carbon

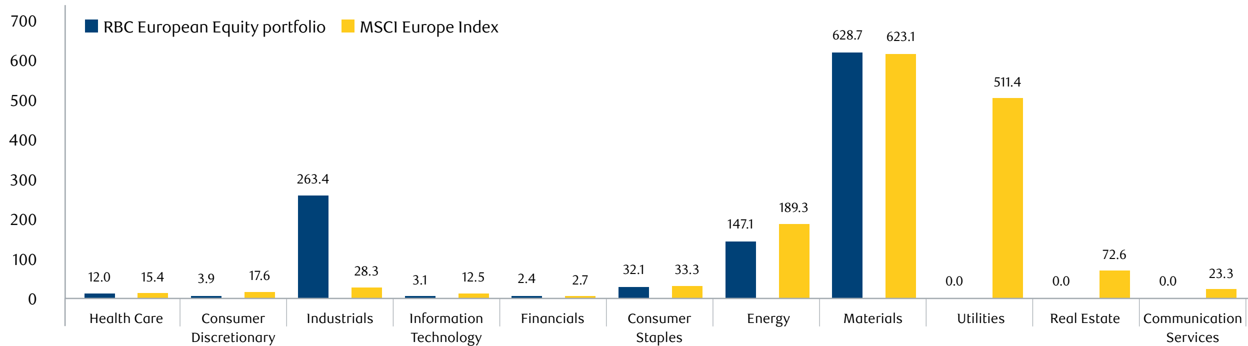
Our portfolios continue to exhibit lower carbon emissions intensity than the broader benchmark for some metrics, although not for weighted average carbon intensity. While we do not have a specific target related to these metrics, they are considered as an additional data input to our fundamental, bottom-up research in constructing investment cases for individual companies, as well as the construction of our portfolios as a whole.

Figure 5: Carbon emissions analysis



Source: RBC European Equity Fund versus MSCI Europe Index. RBC GAM analysis based on MSCI Climate Change Research, as at 31 December 2023, MSCI®.
*Reflects most recently-available data for each company on the date of running the report. WACI stands for Weighted Average Carbon Intensity.

Figure 6: Sector weighted average carbon intensity (sales)



Source: RBC European Equity Fund versus MSCI Europe Index. RBC GAM analysis based on MSCI Climate Change Research, as at 31 December 2023, MSCI®.

Relative ESG ratings

With Europe the highest scoring ESG region in the world when it comes to corporate-level sustainability, as defined by Morningstar, we note that the portfolio continues to score well on a relative basis[13]. However, we are aware of the limits of external third-party vendor scores so, as with our carbon intensity, we place more value on our fundamental processes, although we believe that this data provides a useful sense check to our work.

Figure 7: RBC European Equity portfolio ESG scoring

MSCI ESG scoring							
Overall ESG score - portfolio	Overall ESG score - benchmark	Environment - portfolio	Environment - benchmark	Social - portfolio	Social - benchmark	Governance - portfolio	Governance - benchmark
8.09	7.82	7.00	6.85	5.50	5.34	6.56	6.34

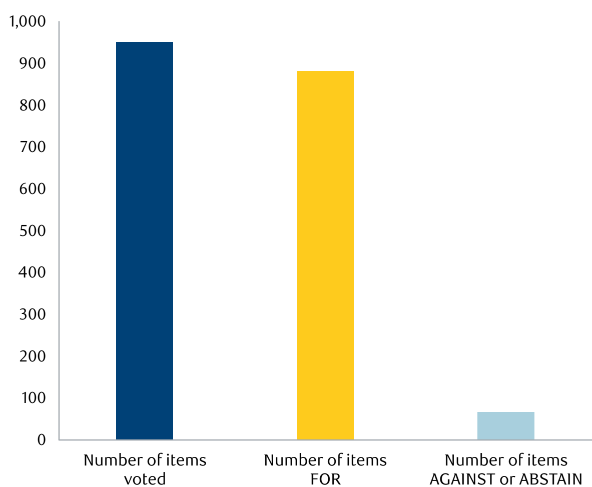
Source: RBC GAM analysis based on MSCI ESG Research, as at 31 December 2023, MSCI®. MSCI data shows the relative scores of the RBC European Equity strategy versus those of the underlying benchmark, the MSCI Europe Index.

[13] Morningstar/Sustainalytics Sustainability Atlas, April 2023.

Voting record

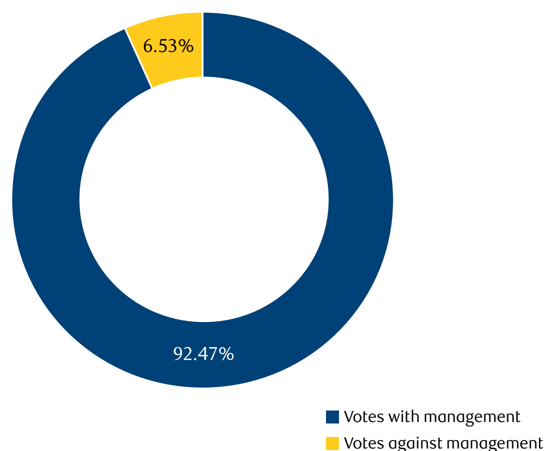
Proxy voting remains an important tool for us in supplementing our engagement with management. While RBC GAM has a set of custom Proxy Voting Guidelines for many markets, in Europe, RBC GAM uses the local proxy voting guidelines of a research provider. We work closely with the Corporate Governance & Responsible Investment (CGRI) team to review every ballot item and ensure that proxies are voted in accordance with best practices in corporate governance and in the best interests of our clients. This is with a view to enhancing the long-term value of securities that are held. The proxy voting process ensures that we make voting decisions based upon our deep knowledge of the companies that we invest in, while benefiting from the ESG expertise of the team.

Figure 8: 2023 proxy voting record



Source: RBC GAM. Data as at December 2023.

Figure 9: European Equity team votes



Source: RBC European Equity strategy. Data as at December 2023. Total may not add to 100% due to rounding. Please note that there were no instances in which we abstained.

In 2023, as in previous years, our percentage of votes in support of management sits at just over 90%. With an investment philosophy grounded in investing in excellent companies, run by management teams we both understand and trust to increase the long-term value of the businesses, we would expect this number to remain high. Despite this, however, we are always prepared to vote against management when we deem it necessary.

2023: Notable corporate engagements

Teleperformance

The company came under scrutiny following media reports about the conditions for employees in its content moderation department. We spent a day in one of the company's offices to meet with local management and employees, as well as a group executive team member. Most of the employees in this content moderation business segment will never be exposed to egregious content, and for those that do it is very uncommon (less than once or twice a month) as AI has developed enough to block it immediately. The company has further resilience checks in this department, for example, employees have counsellors on-site, there are regular check-ins, and a 24/7 employee assistant hotline. Employees in this department also have more mental health time and are paid a premium. After speaking to employees without management present, it was clear that they take pride in what they do and enjoy working in this department. We came back confident in how the company treats its employees, and how it ensures best practices are in place in a difficult job that is essential to protect the general public.

Barratt Developments

We met with management at a site where the company is testing the design of new homes in energy-controlled facilities. Barratt is finding ways to improve its efficiency of energy, carbon, and water usage, with a goal of improving standards for future construction. The company tests and analyses systems (in silo and combinations) that include air source heat pumps (in different locations), infrared panels, heating systems from skirting boards, coves and underfloor, as well as self-shading, water recovery, technical insulation within walls and air flow systems. It then reviews the data to see how it can develop these homes at scale. We were impressed at how the company is taking the lead when it comes to improving the energy efficiency of new homes in the UK, and we look forward to future developments.

Keywords Studios

The CEO explained how the company has progressed in all five strategic pillars that he laid out when he joined the firm. In terms of a focus on human capital development, it has invested in academies across the world. The company is attracting more skilled engineers and ensuring employees are being taken care of during a cost-of-living crisis. It is looking to have more cross-studio transfers, so employees can expand their skill sets and remain engaged. The company is taking a bit of a margin hit from its Russian operations but has made the decision to keep operating a good business yet move these operations outside the country. Keywords Studios has been moving its employees and families to four different locations and has another 80 employees to go. It believes that, despite the short-term cost, this was best for employees and the business, rather than shutting down altogether.

> **"Barratt is finding ways to improve its efficiency of energy, carbon, and water usage, with a goal of improving standards for future construction."**

Hexagon

We addressed the recent short selling report that brought the company under scrutiny. While most of the report was incorrect, it has led the company to reflect on its practices. It plans to further improve disclosures, as well as take a more proactive approach in investor education. We took comfort in the fact that three independent directors are not seeking re-election due to extraneous factors, rather than discontent in the company. New independents are also being added to the board, and they have complementary skills to existing members, including US and SaaS experience. The new CEO has an excellent vision for the future of the business, and overall, we see positive change in a company that has historically had governance issues.

DCC

The company explained how it feels it has been unfairly tarnished as a carbon heavy business, while it believes it is a facilitator of the energy transition, and a key player in carbon reduction. It is playing a key role in helping clients transition away from carbon in their energy solutions and allowing customers and businesses to take control of their own carbon stories and energy efficiency. Management talked about the company's blending capabilities with biofuels and the use of LPG and biogases to reduce carbon by 90% without changing the energy installations. DCC is also pushing a lot of hydrogenated vegetable oil in its blending, for further carbon reductions. We believe the narrative has started to change and the company should no longer be seen as carbon intensive.

Our recent ESG research and articles

We produced a number of papers and articles on important ESG topics in 2023. As ESG becomes both broader in scope and more widely accepted, so we have increasingly delved deeper into areas that may in the future prove important in this regard.

Metals and mining: a sustainability paradox?

In a recent episode of our Sustainability Podcast, Freddie Fuller, Product Specialist, and David Howells, Senior Analyst, performed a deep dive into a historically challenging sector with regards to responsible investing: Metals & Mining. They examined how the sector has changed in recent decades, moving away from the 'pickaxe' industry of old; metals and mined minerals are vital to decarbonisation and electrification, so from a global ESG perspective, tailwinds are growing, and with that, scrutiny towards the sector. However, David points out that it's the 'local ESG' that is hugely impacting the supply side and has been considerably more controversial. There does seem to be progress in ensuring that local communities are better aligned with companies, and this will continue to be a positive looking into the longer term.

From an investment perspective, Freddie points out that valuations are directly impacted by this. Concerns can challenge earnings, multiples and access to financing, and so reputational risk is becoming all the more important to manage. Given the long time horizon for permitting mines, David points out that the onus is on management to ensure that the business is aligned from local, global, and regulatory perspectives.

The episode concludes with a debate on how technology is transforming the industry, presenting management with the opportunity to improve health and safety, mining yields, and ultimately by reducing the cost curve, allowing mines to open that were previously untenable.

Listen to the podcast here

Evolution not revolution: transforming 'boring' industries

Mid-way through the year, David Howells paid a visit to a joint project between Salford University and a number of UK housebuilders, who were attempting to construct the 'house of tomorrow' from a sustainability perspective and further the ability to build zero carbon homes at scale.

This gave rise to an article examining how 'boring' industries have been transformed over recent decades, often driven by technology, but through evolution rather than a series of revolutions. Whatever the solution is in the housebuilding industry, it is extremely unlikely to be a 'winner takes all' situation. The line of thinking is that it will be a host of features, where the resulting picture is a form of mosaic theory: a collation of strategic 'tiles' needing multiple solutions and businesses. The conversation isn't too different to that of the lithium battery versus hydrogen cell argument within automobiles; it stands to reason that we are entering an era of multi-modal solutions. The days of a new technology turning up, revolutionising, and dominating industries for 150-odd years looks increasingly outdated.

In our never-ending thirst for progress, the multi-faceted and exquisitely complicated solutions may have investors and outsiders salivating, but the technical challenge of bringing these to the market in a reliable and stable way at scale is an extremely tall order. These challenges are housebuilding's iPhone moment. An industry in flux is always an intriguing time for investors, and whether through the natural cultivating of the current landscape or an influx of new and interesting companies, it's an exciting time for seemingly staid industries such as housebuilders. Maybe progress isn't such a bad thing after all.

Read more here

From East to West: the sustainability journey

In a further episode of our podcast, Freddie Fuller was joined by two Portfolio Managers from our Asian Equity team – Chris Lai and Derek Au – with whom the European equity team co-manage a number of International Equity strategies. The two teams have managed these strategies together for many years, and they decided to come together to have an 'East versus West' look at several sustainability topics.

Chris discussed how Asia's shift has picked up a head of steam in recent years. Asia-Pacific accounted for 52% of global fossil fuel-related CO_2 emissions, as of 2020 . If Asia doesn't meet emission reduction goals, the world won't meet its overall targets. Within Asia, the two key countries that drive this are China and India. Much will come down to how the delicate balance is managed between necessary growth to meet burgeoning energy demand and the need to offset the environmental impact. However, Freddie also raised the question as to whether Western emission reductions were simply being offset by Eastern increases.

Demographic change is a large factor in how Eastern countries will drive their decarbonisation journey, with the team analysing India and Indonesia as examples of where work will need to be done.

The episode concluded with a debate on potential frictions between regions, especially in the face of the Inflation Reduction Act in the US and how this was likely to impact Europe. It would appear that there is an increasing need for Asian and European companies to work together, especially in areas such as semiconductors, as well as green mobility and metals & mining.

Listen to the podcast here

Conclusion

We believe that ESG issues will continue to permeate areas of the investment, regulatory and corporate landscapes for the foreseeable future, often in surprising ways. Themes will wax and wane, but we stand firm in our belief that investing in the best companies that pay attention to the fundamentals of ESG – in the way that they run their businesses – will continue to provide robust returns for investors. In the meantime, we continue to assess and evolve our own views and processes to ensure that we can be as ahead of the curve as possible on behalf of our own clients.

Authors

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Product Specialist

11 years of experience

Diploma in Investment Management (ESG) (2020); IMC (2013); BA (English Literature and Language) (2012), University of Leeds, UK.

Freddie is a product specialist on the European Equities team at RBC GAM. Prior to joining the organization in 2018, Freddie was head of Investment Oversight for the London local authorities' collective investment vehicle. In that role, he oversaw the pooling and management of up to £35 billion of pension strategy assets, with a focus on investment analysis, manager selection and oversight. Freddie had earlier worked at an investment management company and a large British multinational investment bank. He started his career in the investment industry in 2013.

Lukas Harrison, CFA

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12 years of experience

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Lukas is a senior analyst on the European Equities team at RBC GAM. In this role, he is responsible for coverage across the European equity universe, with an emphasis on mid-cap securities. Lukas joined his current team in 2017, having earlier worked as part of RBC GAM's performance team in London and as a performance analyst in Canada since joining the firm in 2012, which is when he started his career in the investment industry.

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