

## Transcript

### PENSIONS FOR PURPOSE PODCAST SERIES 2, EPISODE 2

#### Net zero in an unstable world

**Laasya Shekaran:** Hello everyone and welcome back to the Pensions for Purpose Podcast. I'm your host Laasya Shekaran, and today I am joined by Jane Wadia from AXA Investment Managers. Jane is the Head of Sustainability Core Products and Clients, and she works with teams across the business to ensure that access listed asset capabilities reflect the needs of clients with regards to responsible investing.

Her responsibilities include engaging with clients on sustainability topics and defining active investment managers core responsible investment product strategy. So, welcome to the Podcast Jane, it's really great to have you here.

**Jane Wadia:** Thank you very much. I'm delighted to be here and look forward to our chat over the next half an hour or so.

**Laasya Shekaran:** Brilliant and my Pensions for Purpose co-host for today's episode is Monique Stephens, and today is extra special, because it's Monique's first time hosting the Podcast. So Monique, did you ever think that Podcast hosting was going to be part of your career path?

**Monique Stephens :** Hello, Jane and Laasya. Absolutely not, I'm thrilled to be doing it and I think it's going to be a really engaging conversation. I'm very much looking forward to being a part of it.

**Laasya Shekaran:** Brilliant, you're right, it is going to be an interesting conversation. We're going to be talking all about how we can achieve net zero in an unstable world. We'll be talking about how we should think about transitioning existing assets versus allocating to new climate solutions, how our approaches to net zero may vary across different asset classes, how this all fits in with biodiversity and social equality and of course, how this fits into an increasingly unstable world. But before we go into all of that, Jane let's start by just hearing a bit about you. How did you become interested in sustainable investing?

**Jane Wadia: :** It started quite a number of years ago, around 10-15 if my maths is correct, where one of my prior roles within AXA Investment Managers was working within our Quantitative Equity Team and we developed a strategy that we called sustainable equity at the time, which was our first truly ESG integrated approach to quantitative global equities. That got me thinking about sustainability, probably for the first time from a professional perspective and at the same time in my personal life, I have two young, well not so young daughters, but at the time they were younger, my eldest at the time was about seven and coming home talking about climate change and what she was hearing about it at school and how it was informing her views and listening her to in family conversations, even speaking to her grandparents, I could see that in the lens of my daughter's generation,

or at least hers at least, I can't speak for her whole generation. They were thinking about sustainability, but as part of business as usual, if I can put it that way is it was incorporated into the financial and the time considerations, it wasn't separate and so it was the conjunction of seeing this coming up more in my personal life and professional life that really catch the bug and the rest is history is, as the saying goes.

**Monique Stephens:** Jane, thank you for that introduction. That's a really interesting segue into my first question.

It's an ever changing world, it's moving quickly and the discourse about biodiversity is ever changing as well. From your perspective, as you speak to clients every day, what are the most important topics and questions that you're getting from clients? The second question, if I may, is how have you seen those topics change over time?

**Jane Wadia:** Starting with the first question and if I specifically focus on our UK institutional clients in terms of how I answer that, the overwhelming topic around climate related considerations, whether that's how I can make my portfolio more climate resilient for example, and certainly we have many clients who are engaging with us because they themselves have set their own net-zero targets or commitments, and then the question becomes how can we as one of their asset managers help them achieve their goals in the way that we're managing their portfolio, so definitely climate/the journey to net zero is definitely the most often discussed topic.

To bring in a little bit of the second part of the question, what's changed over the last couple of years is it was definitely about understanding the profile of their portfolio, the risk that it was including, reporting elements and so forth. Now certainly for many, but not all, many clients that we speak to, are moving into, what concrete actions can you implement in the portfolio that you're managing for me to help me achieve my targets? If I summarise the two broad approaches and I'm not saying there aren't more, but the two broad approaches are decarbonisation, how can I make my portfolio that may today be relatively brown, move to not orange or to brown and olive and then on to the green effectively? So, trying to decarbonise the portfolio is one element.

The other element is allocating capital, what we often call climate solutions, so companies and issuers in the case of bonds, whose products and services are driven by enabling effectively this transition as well. I think it's not a question of which one is better, it's a question of both are complementary. Both are needed certainly to achieve genuine production of emissions in the atmosphere, which is ultimately the end goal. However, from a portfolio construction perspective, I think both are needed and it really depends on where the individuals, clients starting point is. Perhaps their angle of focus and also are they trying to do this across their equity and their bond portfolio for example at the same time, or are they starting it in in one particular vein. So that's probably where we've seen the shift more

over the last couple of years, a little bit less about the 'why', but more on the 'how'. Then more recently even in the last year or taking 2024 as an example, we've started to see the interest be much focused on net zero, but perhaps broadening to have questions around biodiversity, and I think you want to talk about that a little bit later on, but that's certainly an area where we've seen an uptake in interest, which I would characterise today if I'm going to be honest as being more awareness, educational raising: what is it, and why is it important from an investment perspective? Then the last element we've seen a pickup in interest, or questions around is the field of impact investing, which would tie into that notion I was talking about climate solutions earlier, those climate solutions can be environmentally focused, or they can be even more specifically biodiversity related. So that's the other hook in terms of the types of conversations we're having.

**Laasya Shekaran:** I like you anticipated that I was about to ask you, which is more important, decarbonisation or climate solutions, and very clearly said that you need both. I often hear from people that they think that climate solutions are something you can only do in private markets, but obviously you specialise in listed assets. Do you see opportunities to do both the decarbonisation and the climate solutions part of the plan in listed markets?

**Jane Wadia:** Absolutely, I think that listed again, it's not a question of private or public ones, good ones bad, etc. But public markets have a huge role to play here, and in particular, one of the benefits of public markets is the scale that you can reach effectively as well as you know the global investment universe that we have from which to pick and choose from.

I'll give you two concrete ways that you can think about climate solutions and enlisted assets. One is via green bonds, which is an instrument, it's called a use of proceeds bonds, where actually the bond itself is being issued, typically either by a corporate or by a government. The financing of that bond is there to serve a purpose of financing a project that has an environmental focus. So there's a clear direct impact if you like, in terms of what the bond is there to do and there are quite strict protocols around how green bonds can be issued in the market. That really isn't a new instrument. It existed for many years, issuance has grown exponentially since around 2015, 2016, year-on-year. Yes, there was a little bit of a dip during COVID, but we've seen record levels of issuance last year again and that's set to continue into this year, not least because if you think about the climate accords being about 10-years old and a number of green bonds that were issued originally on the back of that, that will be coming to maturity, there's perhaps more reissuance that might occur.

Green bonds is extremely liquid, it's a large investment universe. So in some cases we have clients that allocate to green bonds as part of their global aggregate portfolio for example. So it's not even a dedicated green part of their allocation, it's just part of their fixed income allocations. Therefore green bonds is one concrete way to invest in the listed space when it comes to climate solutions.

The other way is via equities, where you can invest in companies whose products and services, their raison d'être if you like, is to develop solutions that are going to help mitigate some of the climate change-related issues that we have. They can be biodiversity related, they can be more broadly related to the energy transition. So a renewables electricity company remains a little bit the poster child of what I'm trying to get to, but it does go way beyond that.

What has changed over the last couple of years, perhaps there more than on fixed income, that's been I would say a deeper investment universe for many years is that the investment universe has grown. So for us as portfolio managers, we'd like to have a broad investment universe that we can choose from and that's definitely the case today in equities as well as for these climate solution type strategies.

**Laasya Shekaran:** It's really important message. I've spent most of my career working with defined benefit pension schemes and has a couple of trillion pounds of assets there. But because they are mainly invested in bonds, whether that's UK Government bonds or corporate bonds and thinking about the assets that an insurer can accept later on, they almost feel like I can't do climate solutions, because I can't do private markets, but I think you've just explained very well why that's not an excuse anymore.

**Jane Wadia:** Yeah, I think that what we tend to notice with our clients certainly with green bonds or with bonds in particular, there are two main approaches. Some clients will decide to have an allocation of green bonds within their wider portfolio that they give us, and in other cases we have clients that like to have a dedicated green bond portfolio. I don't think there's necessarily a right or wrong, I really just think it depends on the client's overall asset allocation and how they like to allocate, whereas within equities what we do observe is that clients that want to go down this climate solutions, or biodiversity solutions type strategies that exist, tend to do that much more within a dedicated portfolio or investment into underlying funds where they exist as well.

**Laasya Shekaran:** Let's talk a little bit about engagement and stewardship because that's a part of the transition section of getting to net zero. Now you work with both fixed income and equity. So how do you think about stewardship across these different asset classes?

**Jane Wadia:** So the first point I'll make is, I think it's an absolutely key element to our role as investment managers to have strong stewardship policies within the asset classes that you've just mentioned, we can carry out what's called 'engagement'. So ongoing dialogue with our underlying investee companies across both fixed income and equities, and voting by construction can only be done when you're a shareholder.

There are obviously some differences in terms of how that stewardship can get carried out just by virtue of the asset classes. I think that a big advantage that we have as asset

managers, particularly the likes of ourselves and others that invest across both is that you can benefit from having that. If you're a bondholder, you don't necessarily have the escalation technique if your engagement isn't going in the right direction, that you do as an equity holder because you have an AGM that you can potentially vote at.

When you're covering both asset classes and when you think about your engagement strategy, which we do holistically, then actually we can benefit effectively from all of these different techniques. So that's a little bit how we think about it, and I would definitely say that certainly stewardship is I believe more talked about and I recognise myself in that. I probably talk about more about stewardship today than I was necessarily or would have been five, six or seven years ago for the reasons that you articulated, but it definitely isn't anything new. It really is part and parcel of our fiduciary duty effectively as asset managers to be holding the companies we work with accountable, and in some cases it's simply about the ongoing dialogue we have with them that's absolutely critical. Again, certainly speaking from my experience with the interactions we've had with clients, I think what has evolved in the last couple of years is most of the questions were: 'Describe to us how many companies you're engaging with, how much of that, for example, is climate related change-related?' So those were the types of questions, it was quite numerical, if I can put it that way. I think it came with the fact that we ourselves were saying, well, this is a lever to help support the transition, so therefore the questions were coming back that way. More recently, what we've tended to observe is that we still obviously do get those questions, but the conversation has shifted more to: 'Give me examples of the stewardship you are doing? Demonstrate to me the stewardship is effective?'. So we've moved more from questions where the answer was more numerical to ones that are more qualitative in nature. I think that's a positive sign in the sense that we do need to be articulating why we're doing the engagement, but also then being able to demonstrate that it's effective.

I do think there's genuine understanding across the industry that engagement by definition is long term. First of all, there's an ongoing dialogue with the companies that you hold. By definition, that's quite permanent and when you do have areas that you would like to see the company improve on, or mitigate, or readdress then I think clients understand that it takes a while, it can take a couple of years. One of the things that we do to help bring that to life to our clients is we've got what we call our engagement tracker, which has milestones and we're able to provide our clients not only with the number of companies that we report on, but also where they sit along that tracker of the engagement: it has started, it's succeeding to perhaps it is in need of escalation.

On the quality side as well, I think that it's asking your asset managers if I was a client to demonstrate to me the quality of your engagements, and one way that we can achieve that is by looking at the number of engagements carried out at senior level. If I just take AXA IM as an example, over the course of 2024, there's about a third of our engagements that were carried out either at board level or C-Suite level, which can give an indication to the

importance that this is being taken by the companies themselves and testament to the work that we're doing. Those are the areas that we've seen shifted, and then also been able to provide our clients with those case studies of examples within their portfolios, it is also something that we've worked on to be able to respond to the increased client questions that we have in that area.

**Monique Stephens:** Just moving on, last year we had the COP16 in Cali, Columbia, as we know COP is EU's major conference of the parties, where you're gather together to discuss the major issues. Last year, there was a lot spoke about on biodiversity and there is the biodiversity, climate change nexus. I think that was something that was talked about a great deal. This is a topic we've also seen our membership engaging with a lot more recently. Perhaps you could help us understand a little bit about why investors should care, and what should they do about it?

**Jane Wadia:** So if I start with the 'why' first, two reasons, the first one is that over 50% of the world's GDP relies on a moderately to high-functioning biodiversity ecosystem and so there is massive economic impact if the biodiversity loss that we've already witnessed, and potentially more future biodiversity loss. So there's a financial implication, there are financial risks to ignoring the problem, that's reason number one.

Reason two is the climate change biodiversity nexus that you just alluded to. I think that's become a lot more at the forefront of all of our minds as investors. Today, biodiversity and climate change are completely intertwined, the loss of biodiversity is aggravating climate change, and climate change is also contributing to further loss of biodiversity. If you have as an investor already made a net-zero commitment for example, then you need to start incorporating biodiversity into your thinking when it comes to investment purposes, so that's really to answer the why. I think those elements, particularly the nexus point that I think has become a lot clearer to all of us. I believe biodiversity at least is on the agenda of many clients today, in terms of what you can do about it, as a trustee or as a pension scheme trying to understand what is it that you can do in your portfolio today, what is it may be that you can do in your portfolio tomorrow? I think we need to recognise it's still perhaps a bit of a newer and emerging theme, it is less well understood than climate change. In terms of what I think trustees can do today, if they're thinking about their overall portfolio and wanting to start to consider biodiversity, they must understand what is it that companies can be engaged on. We spoke about the importance of stewardship, can you make a dedicated effort on biodiversity-related topics? That's something, for example, we did when we decided to make biodiversity a higher priority is look at companies where it would make sense to engage on those very specific topics. What you shouldn't invest in? Most clients have some sort of exclusion policy, certainly most asset managers have various exclusion policies as part of their way of working and again are you excluding the worst of the worst, deforestation would be a good example of areas to exclude, and then being part more generally of industry sort of collaborations measuring biodiversity is doable, it's more of

a challenge but it's doable. Understanding how to measure the biodiversity footprint of their portfolio is another way.

To start, how much risk or how much exposure does a portfolio have to biodiversity risk, these are all elements I believe clients can do today effectively with existing tools and the benefit of that is they can start to think about biodiversity across their overall portfolio. For those that want to take it a step further, and really start to integrate even more biodiversity into the investment process and/or into their allocations. Again, you can do it in private markets, public markets. If you'll do it via nature capital, for example in private markets, in public markets, again the two areas where I think you can achieve this is green bonds, which we spoke about earlier.

I'll be completely honest and say green bonds are bonds that issue financing for environmental projects. They are not necessarily biodiversity specific or 100% focused to biodiversity, so you don't quite get the purity, but we do find when we've at least done analysis that the biodiversity-related elements of that project can range from 5% all the way to 90%. You can go high if you want to and importantly, because they are such a large liquid investable asset class you get the benefits of that from an investment perspective versus some newer parts of the fixed income world such as the blue bond, which is more specifically focused on biodiversity on marine and the oceans. Where you don't have such liquidity and invest ability at this particular junction to build a full portfolio over it.

So if you're looking to do it in fixed income, green bonds would be a way to think about it. If you want more pure allocation to biodiversity, equities is definitely the way to go in that case. There we can build biodiversity-dedicated strategies, where you're investing in companies whose products and services are geared towards solving or helping companies make that biodiversity transition. I'll just give you one example to try and bring it to life, agriculture, we often say agriculture is to biodiversity, what energy is to climate. So if you can make your agriculture more sustainable, less deforestation, better use of pesticides etc. It doesn't mean to reduce completely, avoid pesticides, but if you can use those pesticides more intelligently, then you can help to develop more sustainable agricultural farming practises. There are large cap companies that have developed technology that's called CN spray that allows them to now target the amount of pesticides that is being used. There's a benefit to the environment, because there are less pesticides being used, so more lands of sustainable agriculture versus not using this technology. So that's the positive impact you're having on the planet, but importantly, because we also have to remember we're investors, the financial benefits, it's less costly ultimately for the farmers to be targeting and using this technology where it's needed versus using litres of pesticides that just get put into the atmosphere.

So there are all sorts of benefits in terms of how these types of companies that exist in large cap space, but also perhaps more mid and small cap newer companies that are helping to address the challenges of the biodiversity transition.

**Laasya Shekaran:** Jane, are there enough listed companies that you can have a listed equity allocation that has just a pure biodiversity focus. So the kind of company you just described, but multiple ones of those in a diversified portfolio?

**Jane Wadia:** Yes, there are today, if you had you asked me the question five, seven years ago, possibly the answer would have been not enough to have a fully-fledged portfolio. Today, we view it as a biodiversity investable universe and there are thousands of stocks in that universe and we do that with a robust methodology to avoid having effectively everything in there just to give you a sense the overlap is with the MSCI world is around 4%, so it's definitely a subset of the market, but it is certainly one that is investable.

I do think clients that are interested in these type of strategies, also need to recognise you're tracking error, for example, versus the MSCI world, which will be relatively high, so there are elements to understand from a portfolio construction perspective. But is it manageable? Absolutely, I gave you one example on sustainable farming, but I think what's also important to understand, it's not just the number of companies that are available, but it's the diversification across different sectors, that's also important from an investment perspective.

We will invest in companies that are geared towards sustainable agriculture and will also be investing in companies focused on recycling and repackaging other companies geared to more helping make our infrastructure be more resilient or biodiversity positive, for example. These would be water treatment companies, and importantly, the role of technology in all of this, which may not sound completely obvious or compatible with biotechnology, but a lot of the solutions that are being built are driven by new technologies and so their technology companies can be like a second derivative to enabling these companies to help.

It is that breadth that I think from a sector perspective, and diversification perspective that means although it will continue to be different from a MSCI world, global equity fund it's not completely targeted in just a handful of companies or sectors.

**Laasya Shekaran:** Yeah, I do think that tracking error is a bit of a red herring and we focus on it too much as investors sometimes, if you're a really long-term investor and your goal is just to get that stable return think about systemic risks as well, then I don't know if we're overly wedded to worrying about how much we're deviating from a short-term MCI world benchmark. Well then, perhaps we could have better benchmarks as well. We should have a biodiversity benchmark or something like that, but I think perhaps that's a topic for another day.

**Monique Stephens:**

Jane, just moving on from COP to another potential risk in the system, the title of the Podcast is 'Net zero in an unstable world', there is a feeling of instability out there, I certainly feel it

and with that in mind, with Trump pulling out of pulling the US out of the Paris Agreement, for example, how should we feel about that and how should investors react?

**Jane Wadia:** It's a bit double edged, but on the other hand I think it's an important question and we hear and read about it every day, including myself. I think and we need to be aware of bigger worlds for sure. The way I like to think about it is, yes, we all heard Trump on Inauguration Day confirming that he would withdraw the US from the Paris Agreement for the second time, but that had been extremely well communicated. So, I don't think there's anything new that we, heard or learned there, and for me again, if I put it with my investor hat on less perhaps in my daily life and what longer-term implications, but really from an investment perspective, I think the area perhaps to watch more than the Paris Accords from the US is the Inflation Reduction Act (IRA) and what Trump may, or may not do with respect to that.

For very brief context, the Inflation Reduction Act was passed by President Biden a couple of years ago. Although the title says 'inflation', it was actually the biggest incentive of tax credits and incentives to transform the US economy into a greener economy. Now, Trump has indicated he is going to look at that Act, potentially, he could repeal some elements of it. I think what is super important to remember with that Inflation Reduction Act is that 60% of the projects, which corresponds about 85% of the investments made have been allocated to Republican districts, so he may have views about whether is a good Act or a bad Act, but I would suspect that a lot of his own constituents and a lot of members of his own party will be fighting for that Act to remain in place. So I think that's element one to think about from a financial perspective.

The other element is that through this IRA that was introduced quite a few years ago now, there have been just under 500 billion investments made by companies in particular in green technology investments, that Capex that has already been done and I would expect also the companies themselves to want to see a return on investments on those investments that they've made. So boots on the ground etc type analogy, which also gives me comfort that again from an investment perspective, certainly near term the IRA is the one to watch and so far. I don't think it's necessarily going to go down the same route as the Paris Accords for the reasons that I've outlined. So, appreciating it's an uncertain world and not having the crystal ball, and by the time this podcast is published maybe I would have given you a different answer, but certainly that's my view for now is watch the IRA in particular from an investment perspective.

**Monique Stephens:** Fantastic, thanks.

**Laasya Shekaran:** Before we let you go, what's one thing you want listeners to take away from this discussion?

**Jane Wadia:** To pick up on the last question and the US, I think it would be remiss of me to suggest there hasn't been a lot of backlash around ESG investing. So, I'll now bring investing to you in broader terms, not specifically net zero, over the last 12-18 months, and perhaps at the heart of it, and what has perhaps got lost in translation a little bit through all of that is that. A lot of what ESG investing is about is simply investing. It is about making good investment decisions on the basis of the information that you have to hand, that's a lot of the time, obviously financial information, but also ESG considerations to help either mitigate risk, or provide investment opportunities. But ultimately it is about making that sounder a better investment decision to begin with. So if there was one takeaway that I would like the audience to leave with, it's that one.

**Laasya Shekaran:** Brilliant. That's such an important takeaway and another thing I'm really taking from this is how much you can do in the listed space. So we can't use don't have private markets in my portfolio as an excuse.

**Jane Wadia:** Absolutely.

**Laasya Shekaran:**

Thank you so much for joining us today, listeners, if you want to make sure that you never miss an episode, hit the follow button and remember that you can find us wherever you get your podcasts. Thanks for listening and I'll see you on the next one.