Perrine Dutronc, Managing Director, Inflection Point Capital Management

1. What is article 173 and how is it impacting sustainable investment decisions in France today?

Article 173 was passed a year ago as a part of COP21. There was a law passed on energy transitions and this particular article has been specifically directed to institutional investors. It's a general law that describes how buildings could better meet environmental standards and how cars should be more fuel efficient. It's more about energy transition.

You wouldn't think about institutional investors as a part of the energy transition up front. Starting in 2017, all the institutional investors will have to report for 2016 if and how they are incorporating environmental factors into their investment decisions.

More specifically for the environmental part, it's very much of a comply and explain approach because there is no requirement for investors to take ESG into account on their financial decisions. They would simply have to report why ESG isn't relevant. They would even say environmental factors are not a risk.

I believe more advanced investors in France are going to report extensively on what they do, why, and how it impacts their investments. It's more of a trigger for the smaller investment firms to somehow do something about the environmental risks their future investments pose.

We're very hopeful this article will at least make all the institutional investors in France question themselves about "What is ESG?" "Why should I care?" "What are the environmental risks of my investments and what does that mean for me and my firm?"

It's a good opportunity as an asset manager to explain to them the relation between environmental risks and how it will impact the performance of their investments. Today the impact is in the preparing stage. There is no real impact yet but this new articles is preparing institutional firms to incorporate and report on the environmental risks of their investments. We anticipate in 2017 that only a few big firms will report expensively on the environmental factors. This will get the other firms to begin being in more of an explaining mode and to start analyzing the environmental risks of their current portfolios.

2. You mentioned in the panel discussion that investors still need to maintain their investments in the carbon sector too. Can you explain why this is important for sustainable investing firms?

It's key that sustainable investors don't immediately get rid of all their fossil fuel investments. That's the easy way out. There are at least 200 fossil fuel companies and the idea now is that if you don't invest in 1 of these 200 companies then you're considered "clean".

This is oversimplified and it's the easy way out. What we're proposing is to go a route that is more demanding but efficient. We believe some companies aren't worth investing in because they haven't realized or understood that climate change may be a risk. Typically, Exxon mobile would fit into this category as they still deny the reality of climate change.

However, there are other fossil fuel companies who are beginning to realize the severity of climate change. They've sensed something needs to change. Dong energy in the U.S. is a good example of this. They had invested in fossil fuels and coal but now they want to invest in off-shore wind. They've begun to change their investments to this renewable energy. Would you not invest in Dong energy? If you simply say "fossil fuel is bad" you wouldn't invest in a company like Dong energy that is trying to make the transition to renewable energy.

You have to look at the entirety of the company and focus on where the company is going rather than criticize them for their past. Dong has fossil fuel plants but they need help to make the transition from fossil fuels into renewable energy for the future. We also need to help them transition their pre-existing plants to more energy efficient as much as possible. If it's not possible to make their plants energy efficient then you gradually shut the plants down and decommission them. Yet, you can't expect them to immediately shut down twenty-year-old plants. The financial impact for immediate shut downs would be detrimental for their financial performance and ours as investors.

As I'd mentioned in the panel discussion, there can be negative effects if fossil fuel companies face too much pressure to immediately shut down their plants without having an efficient exit strategy in place. Vattenfall in Sweden was under a lot of pressure because they had coal plants in the country. There was a lot of pressure from people in the divestment movement to divest in coal plants. So Vattenfall sold their plants to EPH. EPH is a Czech company that isn't listed with owning coal because the owner is also the shareholder. We know for sure they don't treat their employees well and they've also had coal plants in Germany. They also run their coal plants in an unsustainable way and that they aren't making any investments to make their plants cleaner. This company will make use of their coal plants until they're no longer able to operate. In this situation, there was a greater amount of environmental degradation done by EPH than Vattenfall.

3. What has been your hardest issue with convincing institutional investors to make sustainable investments?

First thing, investors always think "will it hit my returns. I understand the theory of sustainable investing and I hear it will get me returns in the long run but what about my immediate returns? If I go your route, will I lower returns?"
Since sustainable investments are quite recent, there are a number of studies about sustainable investments that have the differing conclusions about the immediate financial returns on investments.

Sustainable investments are still marginal. If most investment funds aren't immediately performing well, it might not be a big deal because a lot of other investors are also investing in the same company. However, if you have invested in a sustainable firm and it isn't doing well then the issue is you've chosen an investment that isn't aligned with the rest of the crowd. Now you've got to convince your board that investing in the sustainable company was ultimately a good decision even though it failed.

The board wouldn't accept this but the board would be more accepting if you told them one of your other investments failed if it was a well-known company. The board would rationalize this by saying, "Yeah. Who would've known such a well performing company would take such a bad turn." You don't want to take a risk as a person because sustainable investing is newer. You don't feel secure enough to defend your investment decisions to the board if it's a newer investment field. It's hard to give immediate proof of the profitability of sustainable investment but it takes time to educate your board on the importance and overall profitability of sustainable investments.

4. What is your best piece of advice for young professionals who are interested in pursuing a career with a sustainable investment firm?

The key point is to have an edge to you. You need to develop a specific skill set. Sustainability is a virtual skill than can and should be applied to something more specific. Be in an expert in financial analysis or credit or something that is useful to the investment world.

There are too many people that want to work on sustainability so it's better leverage when you have another skill to tie in with sustainability. Find something you like and become an expert in it or develop skills around that. Then sustainability will naturally come in with your job.

Interviewer: Jon Daniel McKiever, TBLI Conference Student Worker