

"Resilience": *the ability of an ecosystem to recover from an external event*¹

MARKET FLASH – SUSTAINABLE FINANCE

APRIL 21ST, 2020



Confronted with the global health crisis generated by Covid-19, companies are facing an unprecedented and exceptional situation as it affects for the first time and simultaneously all stakeholders in the economic and social sphere: employees, customers, suppliers, shareholders, as well as their relationships with governments and public authorities.

But now, having barely reached the pandemic peak, discussions are already moving towards the "next world", probably reflecting a belated and constrained awareness of the need to regain a consistent horizon for thinking and decision-making over the long term.

We did not wait for this moment to start thinking about it. From the perspective of a long-term investor and through a fundamental analysis of companies, the integration of environmental, social and governance (ESG) criteria has been at the heart of most of our investment strategies for several years, with as a cornerstone the idea that a company is first and foremost a human organisation. This is why our approach is based on two pillars: **human capital** and **corporate governance**, which are the main focus of our internal ESG analysis model.

Through both quantitative and qualitative analysis of criteria such as the leadership of the CEO, the cognitive diversity of an executive committee, the degree of organizational complexity of the company, the ability of teams to innovate or the quality of social relations and the working life of employees, we consider that the value of a company's human capital is a powerful vector of performance, a source of value creation in the medium and long term.

Similarly, a structured and rigorous analysis of criteria such as the functioning of control bodies, the independence and diversity of directors, executive compensation policy, the composition of committees, fiscal responsibility and the degree of transparency, proves to be an important lever for limiting risks, particularly when positioning as a minority investor.

¹ source: Larousse

To validate this hypothesis, among the 600 companies that we analyse², we measured the basket of best-rated companies simultaneously on each of these two pillars: the result is an outperformance of 35% over 3 years and 50% over 5 years with an average volatility that is around 7 points lower than that of the basket of worst-rated companies.

	Performance		Volatility	
	3 years	5 years	3 years	5 years
TOP ESG* basket	7,6%	13,5%	28.3%	28.0%
BOTTOM ESG** basket	-27.0%	-37.0%	35.0%	34.7%
Stoxx 600	-12.8%	-19.8%	31.6%	31.3%

* values rated 5/5 on both the human capital and corporate governance pillars

** values rated 1/5 on both the human capital and corporate governance pillars

While the time horizons and benchmarks may still be questionable, we also note that the basket of top-rated companies held up much better in the sharp market downturn between 19 February and 18 March 2020, and has rebounded in equivalent proportions since then.

	TOP ESG* basket	BOTTOM ESG** basket	Stoxx 600
19/02 - 18/03	-34.2%	-40.4%	-35.5%
19/03 - 13/04	21.2%	21.2%	18.6%

* values rated 5/5 on both the human capital and corporate governance pillars

** values rated 1/5 on both the human capital and corporate governance pillars

These two pillars, human capital and corporate governance, confirm that they are relevant and essential filters in the search for sustainable and shared value creation among the various stakeholders.

In an environment of sluggish global growth, a likely increase in corporate failures and, more broadly, the acceleration of major social and environmental transitions, the relevance of ESG criteria applied to portfolio management has never been stronger. The quality of a company's operational management (human capital) and control bodies (corporate governance) has been and will continue to be, according to our analysis, one of the key to creating shared value and long term performance for investors. More than ever, they define a "resilient" company.



Nicolas Jacob

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² Universe covering mainly European large and mid caps

Past performances are not a reliable indicator of future performances and are not constant over time.

Sources: ODDO BHF AM, Factset, data as of 04/13/2020

ODDO BHF Asset Management SAS (France)

A portfolio management firm certified by the French Financial Markets Authority (AMF) under n° GP 99011.

Established in the form of a simplified joint-stock company with authorised capital of €9,500,000.

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