

#02

THE SRI LETTER
FROM DNCA

JULY 2019

LIVE BEYOND



FROM MILTON FRIEDMAN TO RESPONSIBLE CAPITALISM

“The Social Responsibility of Business is to increase its profits”⁽¹⁾, quotation from Milton Friedman published in an article in

the New York Times in 1970, representative at the time of the widespread skepticism concerning the wider scope of responsibility of economic players at the end of the three post-war decades. Social responsibility was then considered as a communication tool, but was nevertheless backed by a number of economists at the time reproaching the neo-liberal current of maintaining inequalities, of deepening the social divide and of plundering natural resources.

It wasn't before the 2000s that external factors were integrated into corporate business models. In 2014, Jean Tirole deciphered the limits of classical theories in the economy of the common good, which led him to win the Nobel Prize. He announced the main contemporary trends: irruption of digital, uberization of work and the challenge of climate change... all issues that are now present in the concept of CSR and responsible capitalism.

DNCA organized the first SRI conference for the general public on 4 June. The BEYOND DAY aimed to give various experts, economists, scientists and entrepreneurs the opportunity to discuss the change in paradigm that we are seeing in the real economy. This letter sets out the main points made over the day.

LÉA DUNAND CHATELLET
HEAD OF RESPONSIBLE INVESTMENT DIVISION

⁽¹⁾ “The social responsibility of business is to increase its profits”

E D I T O R I A L

S	EXPERT VIEWS	P2
T	DNCA INVEST BEYOND	P4
Z	& ITS SRI INDICATORS	
E	IN FIGURES	
T	ANALYSIS	P6
Z	VIEW	P8
O		
C		

THE VIEW OF CARTOONING FOR PEACE



Chappatte (Switzerland), member of Cartooning for Peace

Press drawing taken from “Ca chauffe pour la planète!” Cartooning for Peace collection Gallimard publishers



INTERVIEW WITH JOËL TRONCHON

Head of Sustainable Development and Deputy CEO of the SEB Group endowment Fund.

REPARABILITY YES, BUT QUALITY FIRST

Today, 93% of SEB products are designed to meet the Group's "10-years repair" promise.

This commitment implies availability, for each product covered, of spare parts for a minimum of 10 years "at affordable prices in order to make the repair attractive".

"But above all, sustainable development is firstly designing quality products that can last over time, which is what we sometimes forget... Quality is therefore the top priority for us," underscores Joël Tronchon.

SEB: when reparability is at the heart of a new model

In the era of programmed obsolescence, the SEB group, global leader in the household appliance market, has opted for a strategy based on extending the life-cycle of its products.

Do small household appliances necessarily rhyme with programmed obsolescence? No, according to SEB, the leading global group in the sector. At a time when the majority of French people consider it relevant to ban this practice within the European Union* the Bourgogne based company, which owns the Moulinex, Rowenta and Tefal brands, has decided to choose reparability.

With 12 new products sold a minute and 350 million units sold each year, the group does indeed have a significant environmental responsibility, recognizes Joël Tronchon, Head of Sustainable Development at SEB. Hence the choice made around 10 years ago to develop a model based on optimizing the lifecycle of its irons, vacuum cleaners and hair-dryers.

"This began by making them in a way that meant they can be repaired" he explains. "This means no longer soldering products because soldering is more profitable, systematically opting for rivets, and storing 6 million spare parts for a minimum of 10 years after a product has stopped being manufactured". This implies additional costs for the group, but above all a genuine return on investment, he promises: today, the fact that a product can be repaired provides genuine added value and helps enhance a brand's reputation and therefore the loyal nature of consumers.

To date, the group estimates the number of products repaired each year at 500,000 in France and 8 million on a global level. To achieve this, it relies on around 220 approved repairers in France, for 6,200 throughout the world. "Not enough yet", regrets Joël Tronchon however, while habits are still mixed between emerging countries where repairs often prove to be a necessity given the lack of means, and "mature" countries, where certain obstacles still limit development in the industry.

However, SEB's CSR strategy, focused on the circular economy, does not stop there. While production of small household appliances necessarily implies generation of waste of all types all over the planet, the group is also betting significantly on recycling. "Thanks to the numerous specific eco-organizations, electrical and electronic products are generally well recycled and have the right to a second life", continues Joël Tronchon, even if "the task is more complicated" when it comes to frying pans and saucepans for which there is less incentive to recycle. "For this reason, we have taken the initiative to undertake collection operations. Consumers return the product to their retailer and we take care of the collection, sorting, deconstruction and recycling of materials".

Is this profitable? Yes, ensures the head of the group's sustainable development division: "In return, customers are given a discount on a range of products and this generates additional sales. With this system, the economic balance is positive". SEB not only preserves the health of the company and the planet, but also favors innovation and prosperity here and now.

* Data from the HOP association (Halte à l'Obsolescence Programmée - stop to programmed obsolescence)

SEB: KEY FIGURES

more than **34,000**
employees throughout the world

12 products
sold per second

350 million
products sold each year in almost
150 countries

more than **40**
industrial plants throughout the world

EUR 6,812bn
in revenue in 2019

About SEB

A world reference in small domestic equipment (kitchenware, small household appliances), the SEB group has long been committed to sustainable development. Respecting people and the environment is clearly established in the company's fundamentals. With the aim of positioning all of its businesses in line with this vision, the group has implemented a strategy based on five pillars drawn up in coherence with the Sustainable Development Goals defined by the UN: respect of people, good health and wellbeing, better home life, circular revolution and climate action.



Blue economy: taking inspiration from nature to draw up a new model

INTERVIEW WITH GUNTER PAULI

Entrepreneur, specialist in the Blue economy

In contrast to so-called Red and Green economies, Belgian entrepreneur Gunter Pauli favors a new model inspired by natural ecosystems, whereby waste is turned into raw materials and each natural species finds something to meet its needs.

THE BLUE ECONOMY IN FIGURES

25 years
of existence

204
companies

EUR5bn
invested

3 million
jobs

The future of the economy is not Green, it is Blue. Whereas time is running out to identify concrete solutions to sustainable development challenges which weigh on all natural ecosystems, the Belgian entrepreneur Gunter Pauli has been calling for a change for almost three decades. A break with the dominant so-called “Red” economy, based on growth at any price, often to the detriment of the planet. But also with a “Green” economy considered too expensive and hence not sufficiently accessible for the common mortal, and which still overly systematically responds to a search for profits.

How? By developing a new business model clearly based on waste recycling and directly inspired by nature where nothing is wasted and everything is transformed. “The Blue economy aims to meet the basic needs of everyone, namely of all natural species, with resources that are already available. This involves a circular economy in which everything is reused and reusable”, explains the former manufacturer of bio detergents, who had the revelation around 30 years ago: “With the Ecover company, we built the first ecological plant of its time, with zero emissions and zero waste”, he remembers. “However, at the end of the day, I realized that I had become the biggest buyer of palm oil in Belgium, and that I was participating in the destruction of tropical habitats in Indonesia”.

Hence the idea to start afresh, by developing a system that would really take into account all of the links in the chain and would transform each problem into an opportunity. To illustrate this, Gunter Pauli cites the example of coffee grounds, used to cultivate mushrooms, the waste from which then serves as feed for chickens, which then produce eggs. “In this case, I use a cascade of produce that is already available locally, resulting in far higher yields, the elimination of transport requirements and a far higher level of customer satisfaction”.

Still in the teething stages, the Blue economy is thought to generate around three million jobs throughout the world, for around EUR5bn in investments. So what’s missing for it to become sustainably established? “A legal framework enabling us to innovate and steam ahead rapidly” regrets Gunter Pauli in particular, as the launch of certain products on the market often face approval problems.

IN SHORT...

The Blue economy aims to use nature as inspiration for the development of a circular model that creates jobs and in which all waste can be turned into a resource.

It stands out not only from the industrial Red economy, but also from the Green economy, whose model is based on excessively high prices.

About Gunter Pauli

An economics graduate from the Loyola University and with an MBA, Gunter Pauli founded one of the first companies based on the green economy. During the early 90s, he focused on the search for ecological solutions applicable to the world of economics. In 1994, he created the ZERI foundation: Zero Emission Research Institute. A fervent ecologist, Gunter Pauli recommended the use of innovative solutions inspired by natural ecosystems to resolve social, political and economic crises.



Measuring extra-financial performances is a major challenge for DNCA. To ensure transparency, we aim to highlight the impact and the contribution to sustainable development of our funds and the companies in which we invest, using simple and readable indicators.

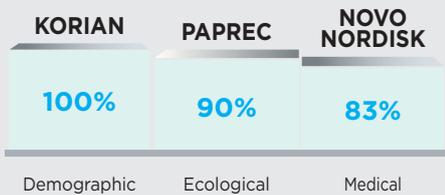
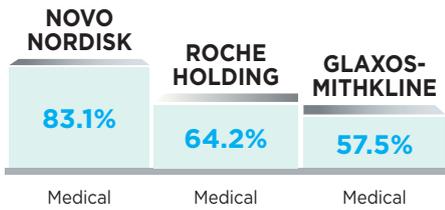
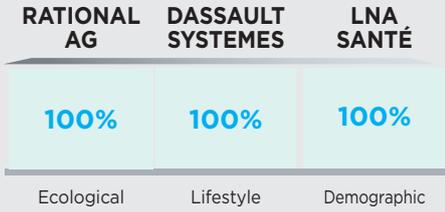
TOP 3 CONTRIBUTORS TO THE ECOLOGICAL TRANSITION



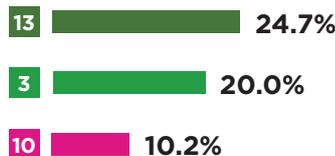
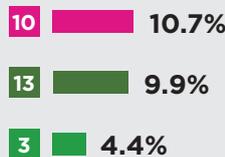
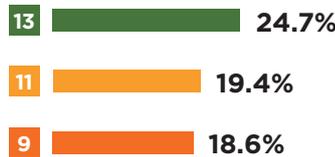
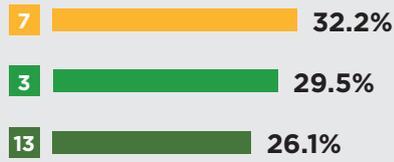
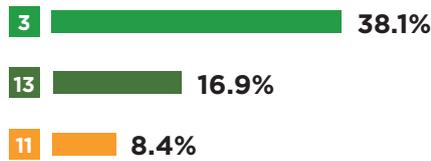
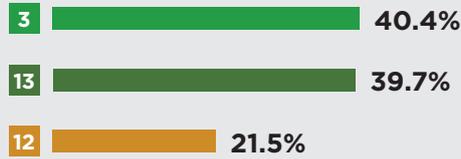
⁽¹⁾ Round-trip flights Paris - New York: CO₂ emissions per million euros invested. ⁽²⁾ Brown share: Share of companies generating more than 30% of their revenue from the extraction, production and refining of oil and gas, from mineral extraction, and coal-based power production. ⁽³⁾ Coal share: Share of companies generating more than 30% of their revenue from extraction and coal-based electricity production. ⁽⁴⁾ Carbon intensity: CO₂ emissions (scope 1 and 2) by million euros of revenue.

These indicators are calculated using the data reported by the companies and analysis carried out by our managers. These are related to the 17 Sustainable Development Goals drawn up by the United Nations in September 2015.

**TOP 3 STOCKS
THE MOST EXPOSED
TO THE SUSTAINABLE TRANSITION**



**EXPOSURE TO THE 3 MAIN
SUSTAINABLE
DEVELOPMENT GOALS**



Data at 31.05.2019 Companies in the portfolio at 31.05.2019 Source: DNCA Finance. The information presented above is neither contractual nor investment advice. Past performances do not predict future performances. The funds mentioned offer no guarantee of yield or performance and present a risk of capital loss. Investors are advised to read the prospectus, KIID and other regulatory information available at www.dnca-investments.com



INTERVIEW WITH MAXIME DE ROSTOLAN

Founder of Fermes d'Avenir
and the 6 mois pour la
Bascule movement

FRENCH FARMING FIGURES

EUR73bn
in 2018, or 6.7% of French GDP

30 million
hectares

448,500
farmers, with an average
wage of EUR1,250

1/3 of them
are thought to earn less
than EUR350 a month

THE VIEW OF CARTOONING FOR PEACE



Chappatte (Switzerland),
member of Cartooning for Peace

Press drawing taken from "Ca chauffe pour
la planète!" Cartooning for Peace collection
Gallimard publishers

Fermes d'avenir: more sober farming to better feed the planet

As opposed to industrial and chemical farming that destroys value for mankind and the planet, the founder of French association Fermes d'avenir, Maxime de Rostolan, favors the widespread uptake of a model based on agro-economy. However, the obstacles to get there are considerable.

There is still enough time left to radically transform our farming model. Solutions exist. There is no lack of people committed to this approach who are mobilized on a daily basis. However, the pace is still too slow and every day, the window of opportunity for avoiding the irreversible consequences for human societies and natural ecosystems is narrowing. As such, we need to act quickly and make the necessary decisions. It is generally with this idea in mind that Maxime de Rostolan, a trained chemical engineer, launched the Fermes d'avenir association in early 2014, with the aim of accompanying the deployment of agro-ecology in France.

In concrete terms, the actions of the association, which has so far created a network of around 700 farms committed to this approach throughout France, is based on four pillars: farm production via three laboratory farms spread across France, training sessions, financing, with the Blue Bees crowdfunding platform and the Ferme d'Avenir competition and finally, influence, or "in other words lobbying" explains Maxime de Rostolan, "because we consider that the current backdrop does not favor agro-ecology".

ECOLOGICAL "COMMON SENSE"

The situation is serious he insists: "We have lost 60% of wild animals in 40 years. We have polluted virtually all of the planet's drinking water resources. All mainly due to industrial and chemical farming". The consequences are not only environmental but also sanitary and economic, with the industrial model thought to have destroyed 80% of jobs in the sector within three decades.

"And yet, points out Maxime de Rostolan, we know that this type of farming is not sustainable: it is directly subsidized by the CAP, up to EUR10bn a year, or EUR1m an hour to buy tractors and phytosanitary products. Despite that, the average farmer lives with EUR350 euros a month and works 70 hours a week..."

Hence the urgent need to restore "some common sense" to the system and reverse the power struggle by transiting towards a style of farming that "experience has shown produces better, sustains the regions, generates greater happiness and maintains biodiversity ..." he reminds us passionately.

PRIVATE INTERESTS AND GENERAL INTERESTS

"Under the framework of the Food law, we pushed 11 amendments, 4 of which were debated and 1 was voted. It concerned payments of ecosystemic services". However, in the end "it was rejected by the constitutional council for obscure and fallacious reasons" bemoans the founder of Fermes d'avenir, who denounces a lack of mobilization by government institutions. "Today, there are lobbies and a lot of investments in place to maintain a system that responds to the demands of growth. Private interests oppose general interests".

Only, continuing on this path is a very bad calculation he insists: "The problem is that we are counting wrongly since our indicators are only based on GDP and on growth. We are only looking through the prism of financial capital and we are masking natural capital and human capital. What to do? Reintegrate these two values into the overall profit & loss accounts and balance sheets of companies and index tax to these results".

"Accounting is the biggest source of leverage we have to make things change. Financiers are at the controls and if they want to be part of the story and not be among those accused of having put our society in danger, they have everything they need...", concludes the person who a few months ago opted for a change in strategy by launching the citizen lobby La bascule, the aim of which is to provide a new source of leverage to place pressure on policy makers.

Health and sustainable eating involves changing our production and consumption methods



**BY ALIX
CHOSSON**
SRI analyst
at DNCA

SOME FIGURES ON OUR FOOD PRODUCTION METHODS TODAY AND OUT TO 2050

If the global population were to reach 9.6bn people in 2050, almost three planet earths would be required to provide the necessary resources to maintain current lifestyles.

Every year, due to bad transport and harvest practices, 1/3 of food produced, or the equivalent of 1.3bn tonnes is wasted.

There are 2 billion people around the world who are overweight, double the amount of people who suffer from malnutrition.

The food sector represents around 30% of global energy consumption and almost 22% of greenhouse gases.

The way we eat is not sustainable, either for our health or for our environment. According to a study published in October 2018 in the famous scientific magazine Nature, the environmental impact of our food is set to increase further from 50 to 92% by 2050, depending on the pace of demographic growth and the rise in the standard of living. The scientific team, made up of around 20 research staff therefore recommends a massive nutritional rebalancing towards a “flexitarian” diet that would limit consumption of animal based proteins. Beef consumption would therefore fall by 80% on a global level by 2050 and even by 90% in developed countries. Pork consumption would fall by 88%, lamb by 70% and poultry by 50%. We should also reduce our egg and milk consumption by 52% and 27% respectively.

In February 2019, the EAT-Lancet Commission report also raised the alarm suggesting similar levels of reduction in animal proteins, and adding in refined sugar (-50%) while recommending a diet far richer in plants and oilseeds.

This nutritional revolution clearly requires radical changes to our farming mix and production methods. The transition towards more sustainable farming is one of the investment themes we play in our SRI approach, in the ecological component of our sustainable transition concept. As such, we invest in companies that have triggered or contribute to this farming transition. Bonduelle for example has pledged to cultivate 100% of its surface areas with an alternative farming technique by 2025 (for example, 27% of its surfaces use plant covers). Dutch group DMS has developed the “Clean Cow” food supplement for cattle, helping to reduce methane emissions caused by breeding by 30%. Note that a dairy cow generates the equivalent of 3 tonnes of CO₂, implying that the Clean Cow product can reduce CO₂ per dairy cow by around one tonne a year. This is a considerable result, bearing in mind that 4% of global emissions stem from cattle breeding. Agri-food group Kerry has embarked on a shift towards plant-based alternatives to meat. Kerry also produces plant-based proteins, flavors and texturing agents helping major food groups to embark on their own transition towards healthier and sustainable nutrition. This segment is indeed showing double-digit growth with margins well ahead of meat products.

Bearing in mind that one third of French households are “flexitarian”, that only 2% are vegetarians, but that vegetarians account for 1 in 10 young people between the ages of 16 and 25, the nutritional revolution clearly seems to be underway.





Il ne sert de rien à l'homme
de gagner la lune s'il
vient à perdre la fesse.
F. Mauriac.



CLIMATE:

5 IPCC REPORTS
5 ALARMING FIGURES

95%

The is the degree of certainty, qualified as "extremely likely" that "human activity is the main cause of global warming observed" since the middle of the XXth century

4.8°C

After a rise of 0.85°C on average between 1880 and 2012, the increase in average temperatures on the surface of the planet could reach 4.8°C by 2100 relative to the period 1986-2005

98 cm

The level of the oceans in 2100 relative to the period 1986-2005 could rise by virtually one meter.

54%

Annual emissions of CO₂ of human origin (fossil fuels, cement production) over 2002-2011 were 54% higher than in 1990.

-70%

This is the reduction in global greenhouse gases required (CO₂ but also methane and nitrous oxide) in 2050 relative to their level in 2010 to maintain the average increase in temperatures at below 2°C.

FRENCH START UPS TO CHANGE THE WORLD

12kg

OF CLOTHES ARE THROWN AWAY PER PERSON IN FRANCE FOR JUST 2.5KG RECYCLED

FabBRICK: your old clothes transformed into building materials

The company turns your old clothes into bricks: tissue stemming from a sorting plant are covered in 100% ecological glue and then compressed into a mold especially designed for the purpose. Structural and insulating materials can then be used to build dividing walls and indoor and outdoor furniture.

15

50W LAMPS CAN BE POWERED BY A "WIND TREE"

New World Wind: wind trees to generalize wind power in cities

The start-up has developed an urban wind power system enabling sustainable power production close to consumers. The design worked on these wind power systems or wind trees was inspired by nature to integrate them into the landscape. Their "leaves" turn thanks to the strength of the wind prompting magnet rotation and thereby producing power.

89bn

PLASTIC BOTTLES ARE SOLD EACH YEAR THROUGHOUT THE WORLD

OHOO! edible water bubbles to replace our plastic bottles

UK start-up Skipping Rocks Lab offers an ecological alternative to single-use plastic containers: entirely edible and biodegradable "OHOO!" capsules that can contain any type of liquid. Manufactured from algae gelatin and calcium, they are biodegradable within 4-6 weeks.