STRATEGY & SUSTAINABILITY

NEWSLETTER

 # 1

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REFLECTIONS ON GOVERNANCE MODELS AND THEIR IMPACT ON ECONOMIC ACTIVITY

Discover the new version of Strategy & Sustainability! Shorter, more incisive and with a new look. The longer version will still be produced twice a year.

The distinction between a Company and an Enterprise gradually took hold in the 19th century, with the establishment of the concept of the legal person, which already existed in Roman law with the distinction between the collective agent (universitas) and individual agent (singuli) made by the jurist Ulpian in the 2nd century. In this context, a Company is a legal person that owns a business plan. It is not owned, in the same way that a natural person (an individual) is not owned. The Enterprise is a nexus of contracts between stakeholders: shareholders, lenders, employees, suppliers, customers, the state, local and regional authorities, etc., all of which have their rights and responsibilities. This relationship structure reflects a balance between conflicting positions and interests. In such a structure, governance helps to maintain this balance with a minimum of friction.

The governance of an Enterprise may be built on the inclusion on the board of directors of stakeholders, such as employees, NGOs, etc. This is the network governance model used in cooperatives, mutuals, etc., of which one of the most developed and successful examples is the Basque cooperative Mondragón.

It is also possible to give an enterprise multiple objectives through its articles of association. These may encompass ESG objectives, such as the US Benefit Corporation model created in 2010, whose goals include making a positive impact on civil society, in addition to making a profit. Based on this model, France's PACTE (Action Plan for Business Growth and Transformation) Law provides for the creation of enterprises with a strong emphasis on social and environmental issues in their strategies and activities.

The interests of stakeholders can also be incorporated by quantifying negative externalities, using a market mechanism for carbon pricing for example, in order to measure the environmental impact of company activities. William Nordhaus's work in this field warranted him this year's Nobel Prize for Economics.

Whatever the model chosen, the way in which profits and risks are shared define the conditions for achieving a balance. A lack of governance can cause a disequilibrium that weighs on long-term economic growth. The sharing of profits between shareholders and employees is just one example. Currently, the return on equity for shareholders of listed companies is around 10% in France, equivalent to a risk premium of 9% in respect of the 10-year OAT, twice what it was ten years ago, while pay has barely risen and flexible working conditions mean that employees are shouldering an ever greater share of the risks inherent to business. This may lead to distortions that can pose an obstacle to growth maximisation.

Pierre Schoeffler
Global Asset Allocation and SRI Advisor, La Française Group

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THE UN IS CALLING FOR
URGENT ACTION ON CLIMATE CHANGE AND A NEW MODEL FOR GROWTH

Climate action and socio-economic progress **are mutually supportive**
commented Mr Guterres

On 5 September, UN Secretary General António Guterres presented the latest report of the Global Commission on the Economy and Climate, which makes an urgent call for action on climate change and describes the economic benefits this could generate.

Although we are seeing unprecedented progress in moving towards a "new climate economy", the pace of this transformation is not fast enough, and urgent action is required. While the commitment to a low-carbon economy offers a raft of opportunities, the costs at stake for failing to act can now be measured. "Last year, climate-related disasters caused thousands of deaths and losses of $320 billion", according to Mr Guterres.

The report cautiously estimates that bold climate action could deliver at least **$26 trillion in economic benefits through to** 2030, the deadline set by UN member states for achieving the Sustainable Development Goals.

Ambitious measures in the main sectors of the economy could:

- Generate over 65 million new low-carbon jobs by 2030.
- Avoid over 700,000 premature deaths from air pollution by 2030.
- Generate, through subsidy reform and carbon pricing, an estimated $2.8 trillion in additional government revenues per year in 2030.

The Global Commission calls for priority action on four fronts over the next three years:

1 - Ramp up efforts on carbon pricing and move to mandatory disclosure of climate-related financial risks:
- A carbon price of at least $40-80 by 2020. Subsidies and tax breaks on fossil fuels and farming practices that cause pollution are to be gradually phased out by 2025.
- Obligation to disclose information on the financial risks related to climate change in accordance with the TCFD recommendations.

2 - Accelerate investment in sustainable infrastructure:
- Make infrastructure an asset class in its own right.
- The goal: to invest at least $100 billion per year by 2020.

3 - Harness the power of the private sector and unleash innovation:
- All Fortune 500 companies should have targets aligned with the Paris Agreement.
- Commit at least $50 billion of new capital to meeting climate challenges beyond the energy sector.

4 - Build a people-centred approach that shares gains equitably and ensures a just transition:
- Establish energy transition plans with companies, trade unions and civil society to ensure a just transition for workers and communities.
- Include women in this transformation to boost global GDP by $28 trillion per year by 2025. (McKinsey).
- Place more emphasis on resilience and adaptation across policies and efforts.

The expected economic benefits: **$26 trillion**

Unlocking the Inclusive Growth Story of the 21st Century: Accelerating Climate Action in Urgent Times is the 2018 report of the Global Commission on the Economy and Climate.

EVERY HALF DEGREE COUNTS!

VALÉRIE MASSON-DELMOTTE
REPORTS ON THE IPCC'S CONCLUSIONS

It is still possible to limit the increase to **1.5°C**

On 18 October, we were honoured to host a discussion with Valérie Masson Delmotte*, Co-Chair of IPCC Working Group 1, at our Zero Carbon Club event. She shared a summary of the takeaways from the report on the consequences of global warming of 1.5°C published by the IPCC on 8 October.
Interestingly enough, without this work the Paris agreement could not have been achieved. The countries most exposed to climate change - mainly island countries - only agreed to sign the agreement subject to an IPCC commitment to prepare a special report on the impact of a 1.5°C increase in global temperatures.

This report draws on 6,000 publications, three-quarters of which were not included in the last IPCC report. The scientific community has therefore stepped up to the plate to study this crucial issue for the small island states, as well as for all of the 195 signatory countries.

The main findings of the report are as follows:

- **We have already reached 1°C** above the pre-industrial period; and the effects of the 1°C increase have started to be felt, particularly through extended heatwaves and heavy rainfall. Climate change is not an issue for some far-off future; it is already here and it affects us all.
- **Limiting global warming to 1.5°C rather than 2°C has clear benefits.** These multiple benefits may seem distanced from our everyday lives (e.g. biodiversity), but are more real to us when they relate to food security and human safety.
- It is still possible to limit global warming to 1.5°C by halving our CO^2 emissions by 2030 and reaching net zero emissions by 2050:
  - This will require major changes on the supply side, in energy systems, land management, urban systems and industrial systems. Such changes will not be possible without an evolution of the financial system.
  - It will also require changes on the demand side, in energy and food demand for example. This clearly relates to all of us.
- A major innovation of this report is that **scientists and social scientists worked together** for the first time. The report underlines the need for an ethical and just transition, and for a mix of mitigation and adaptation measures to limit the harmful impacts: it would not be appropriate, for instance, if adaptation involved developing greenhouse gas-emitting air conditioners that were to contribute further to global warming...
- The conditions necessary to constrain global warming to 1.5°C will require cooperation / political will / financing.

Overall, we face three major risks:

1 - Climate risk.

2 - The risk of delaying, placing the burden on future generations and relying on the development of carbon capture technologies.

3 - Financial risk, as the sustainability of a number of sectors relies on the implementation of a planned, rapid and voluntary transition.

In short, every half degree counts. Each year counts. All of our individual and collective choices count. And whatever happens, the finance sector will have an important role to play.

*Valérie Masson-Delmotte is a paleoclimatologist and researcher at the Atomic Energy Commission's Laboratory of Climate and Environmental Sciences, and Co-Chair of IPCC Working Group 1 (physical scientific basis of the climate system and climate change)

SUSTAINABLE, RESPONSIBLE
& DESIRABLE REAL ESTATE
BY TAKING ON THE CHALLENGES OF BIODIVERSITY

Can we still talk about a distinction between the city and the countryside in the evolving world in which we live?

The distinction between city and countryside is no longer appropriate when our planet has to tackle ecology and food challenges.

Meeting these challenges means rethinking agriculture by breaking down the barriers put up by modern urban planning and increasing dialogue between urban and rural dwellers.

Often upstream of any political action, more and more solutions aimed at restoring a balance, providing meaning and establishing roots are starting to emerge, and they are coming not only from farmers, but also from within civil society.

Urban agriculture is one solution, in that it helps to preserve biodiversity, reduce the carbon footprint and produce healthy food, as well as reactivating a social connection that fits perfectly with the development of the sharing economy.

As a major player in the real estate sector, La Française REM has begun to consider the potential for developing urban agriculture on land it owns in Paris and its inner suburbs.

A first initiative, in conjunction with the company MUGO, has just been launched in Puteaux, where 2,000 m² of urban food gardens and green space have been made available to the tenants of the Aviso Campus office complex.

Beyond the comfort and well-being that comes from being close to nature, this garden is intended to create social connections by enabling users to get involved in growing fruit and vegetables on a community plot and by offering them educational events on a quarterly basis. The produce harvested will be sold at a weekly mini-market.

La Française REM is pioneering this approach and aims to become a key player in the management of sustainable, responsible and desirable real estate.

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128, bd Raspail 75006 Paris - France
Tel. +33(0)1 44 56 10 00
Fax +33 (0)1 44 56 11 00
480 871 490 RCS PARIS

www.la-francaise.com

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Editor in Chief: Pierre Schoeffler
Contributors to this edition: Gérard Degli-Esposti - Perrine Dutronc - Pierre Schoeffler
Editor: Claudine Prêtre
Graphic design: Sylvia Chadi
Photos: Debbie Marty - Nicolas Réalo
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