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Amundi
ASSET MANAGEMENT

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Amundi Asset Management

MEFOP Intervento Social Bonds

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Agenda

- 1. The context: Social inequalities**
- 2. Introduction to Social Bonds**
- 3. The Social Bond Market**
- 4. The Social Bonds Strategy**
- 5. The Just Transition for Climate Strategy**

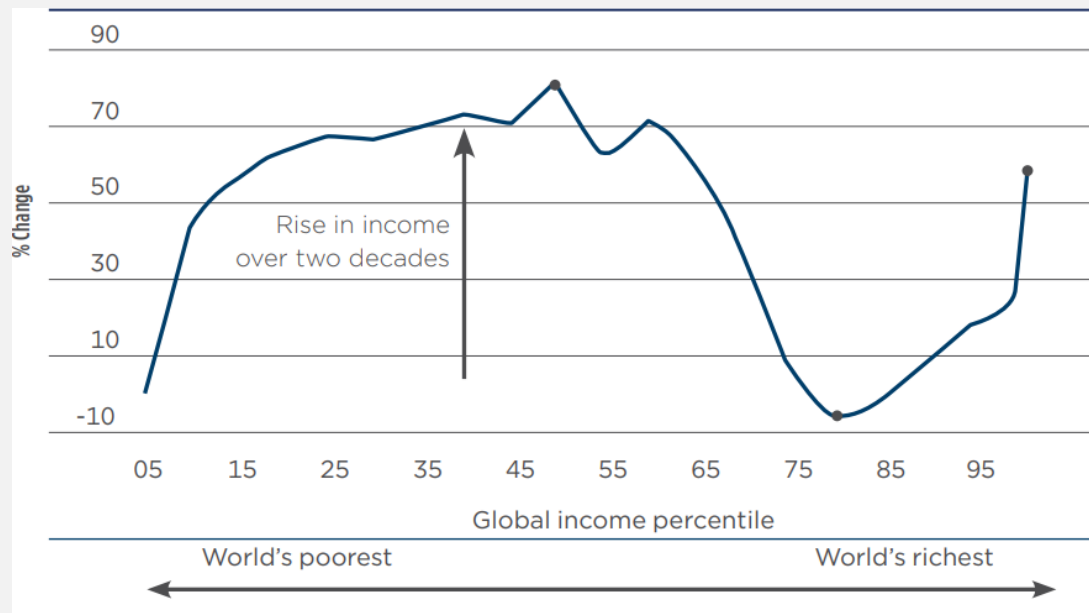
01

The context: Social inequalities

Why the social pillar is relevant for investors?

1. Social inequalities pose a real threat to global economic system

Change in real income in 1988-2008



Source: Branco Milanovic, Global inequality. A new approach for the age of globalisation. Copyright: BBC. Data as of 14 October 2020.

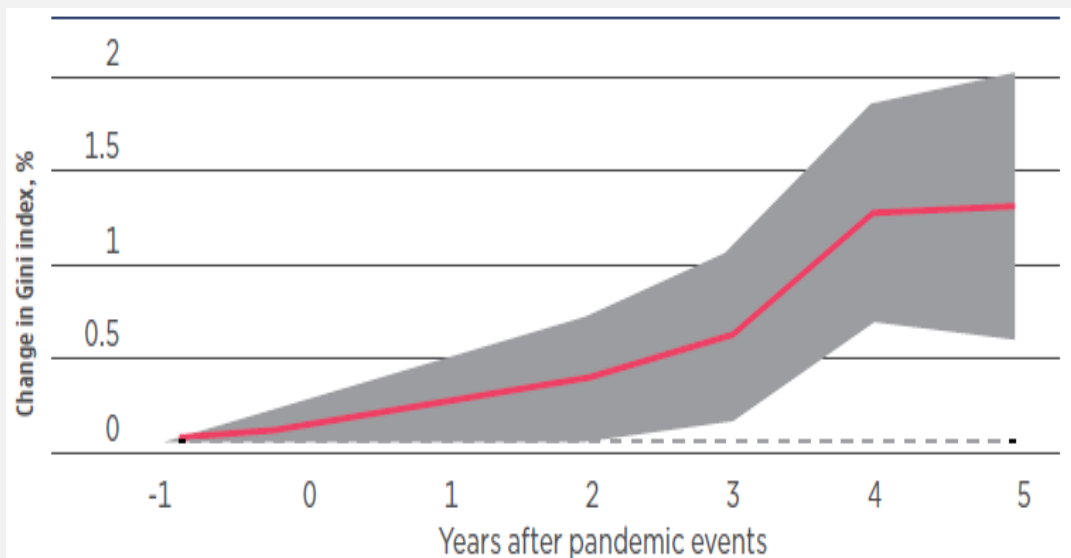
Source: Amundi Investment Insights Blue Paper (2020) « Social Bonds: financing the recovery and long-term inclusive growth

- Top 20% in USA owns roughly 72% of wealth while bottom 20% only 3%
- **Top down:** Income inequality leads to lower potential growth and produces socioeconomic imbalances that can, in turn, affect financial market stability
- **Bottom up:** regulatory and litigation risks (e.g., employee treatment or paid leave). Moody's estimates that \$8trn of the total debt it rates is subject to material social risks, i.e., **four times the amount exposed to climate change risks.**

2. Covid as an accelerator of social inequalities and awareness of the social pillar

Covid-19 significantly increase social inequalities in the world

Impact of pandemics on inequality



Source: Vox EU. Data as of May 2020.

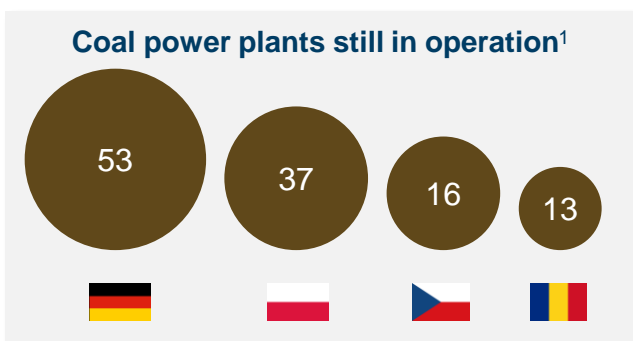
- Least developed nations have been hit harder by the crisis due to **poor health infrastructure** as well as living conditions that make their citizens more vulnerable to contagion.
- Developed countries were strongly impacted. For instance, in the US socioeconomic inequalities have been exacerbated more than ever, with **higher mortality rates experienced by the most marginalised groups**

Source: Vox EU. Data as of May 2020.

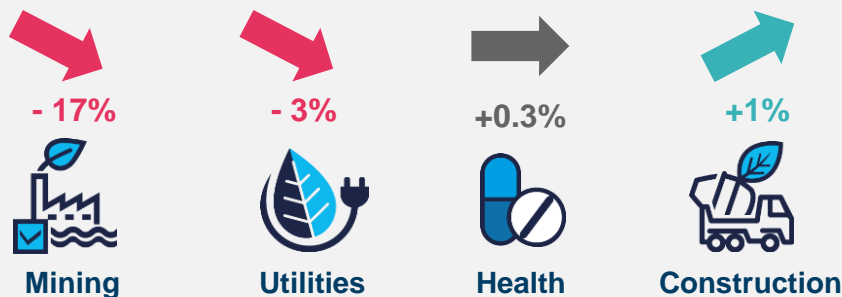
3. Key global challenges, above and beyond the pandemic

Consideration of how companies business models can contribute to the alleviation of social issues

1 Significant **social impacts** of a “green” transition across sectors



Employment implications of Paris Climate Agreement by 2030 in Europe²



2

Most of **social projects** are in line with the **SDGs** (long term objectives)

The realisation of the SDGs requires massive amounts of capital: The financing gap to achieve the SDGs in developing countries is estimated at **\$2.5-3.0trn per year**.

In this context, **social bonds could help fill the SDG financing gap**, especially since the pandemic could delay the achievement of the SDGs by 10 additional years until 2092.

¹ Source: EU coal regions: opportunities and challenges ahead (2018) <https://publications.jrc.ec.europa.eu/repository/handle/JRC112593>

² Source: Eurofound (2019), Energy scenario: Employment implications of the Paris Climate Agreement, Publications Office of the European Union, Luxembourg.

... and how can investors integrate the S factor?

Through different approaches

1

S PILLAR

S SCORE

- Consider S factors & select issuers through a best-in-class approach
- Select traditional bonds issuers regarding their **best social practice**: S pillar in ESG rating > D



JUST TRANSITION

- Ensuring that the green transition operated in an **inclusive and fair manner**: a **Just Transition** score
- The Just Transition concept adds a social block on a Net Zero strategy



2

IMPACT INVESTING

SOCIAL BONDS

- Social Bonds could provide opportunities for investors to align their strategies with key global challenges, above and beyond the pandemic



Inclusion of a social component

02

Introduction to Social Bonds

What are Social Bonds?

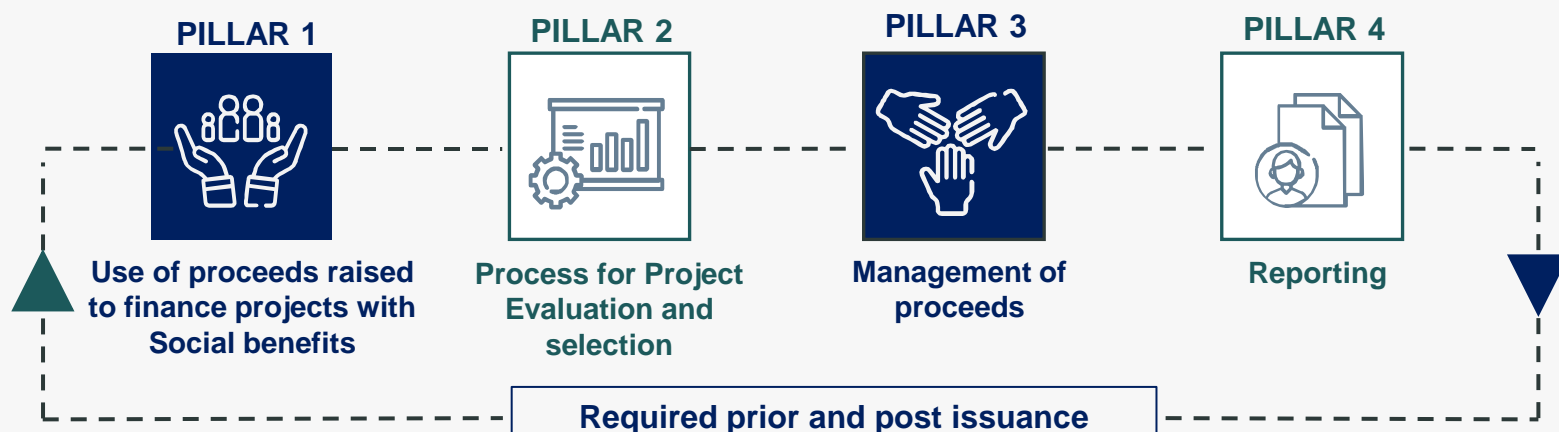
Transparency, accuracy and integrity of information

DEFINITION

Social Bonds are any type of **bond instrument** where the **proceeds** are exclusively applied to finance or re-finance in part or in full new and/or existing **eligible Social Projects** which are **aligned** with the four core components of the Social Bonds Principles (SBP)¹



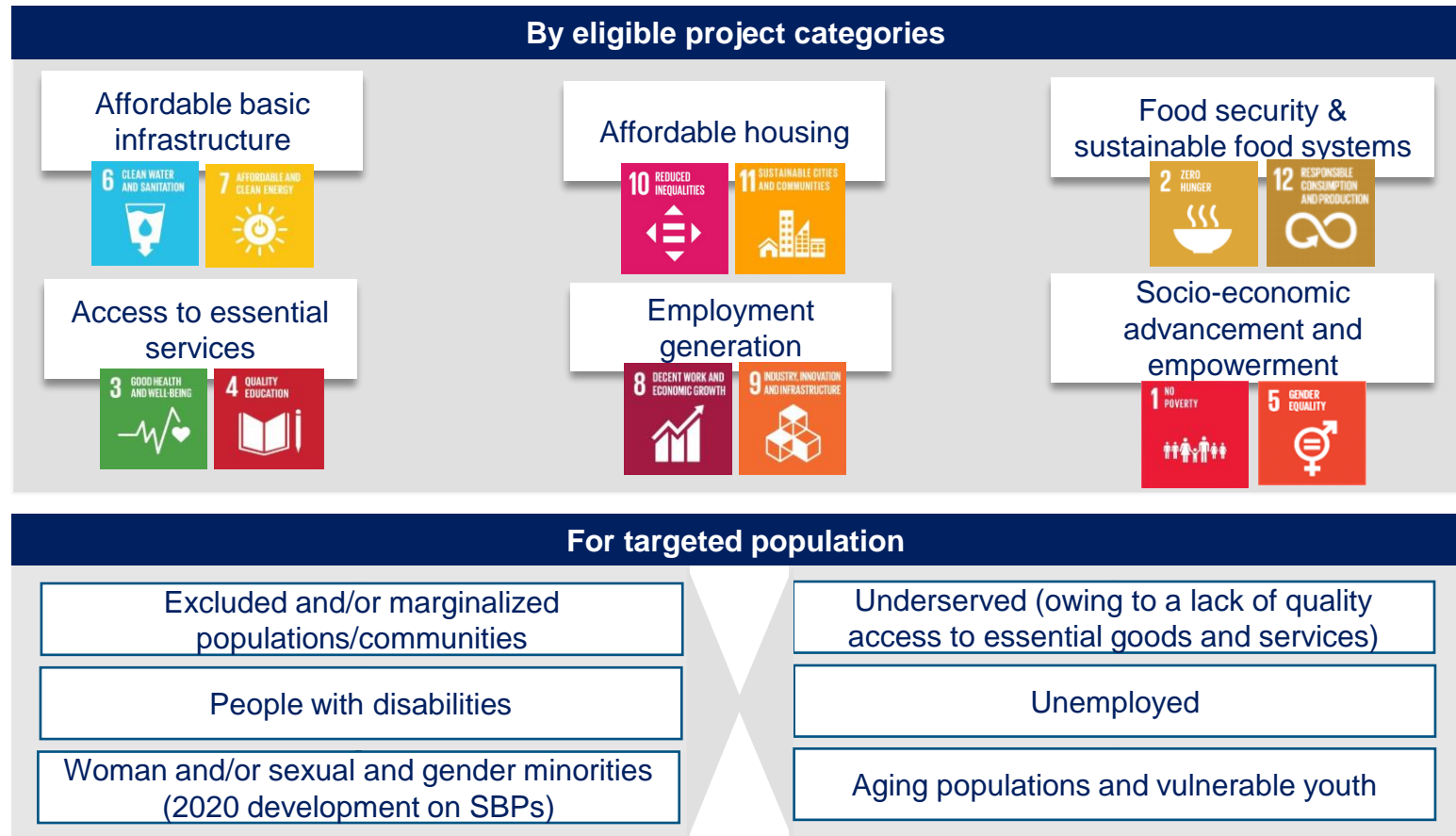
The 4 pillars of the Social Bond Principles



1, The International Capital Market Association (ICMA) published principles in 2017 to establish some guidelines to define what is a social bond. The SBP are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Social Bond market by clarifying the approach for issuance of a Social Bond. For more information: <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

The Social Bond Principles (“SBP”)


How proceeds are used?*




*most commonly used types of project but not limited to

1, Sustainable Development Goals. Source: <https://www.un.org/sustainabledevelopment/sustainable-development-goals/>

Social Bond example



SURE
Supporting Member States to
help protect people in work and jobs





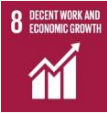
SURE

- ✓ **Project category:**
SDG #3 and #8
Healthcare and employment generation
- ✓ **Target population:**
Unemployed & people affected by the Covid-19 crisis
- ✓ **Social Bond Principles :**
Aligned with SBPs

Geo allocation of proceeds:
100% Euro

Project in a nutshell:

SURE is dedicated to Member States to fight against the economic and social damage of COVID-19 crisis (total budget of €100 billion).

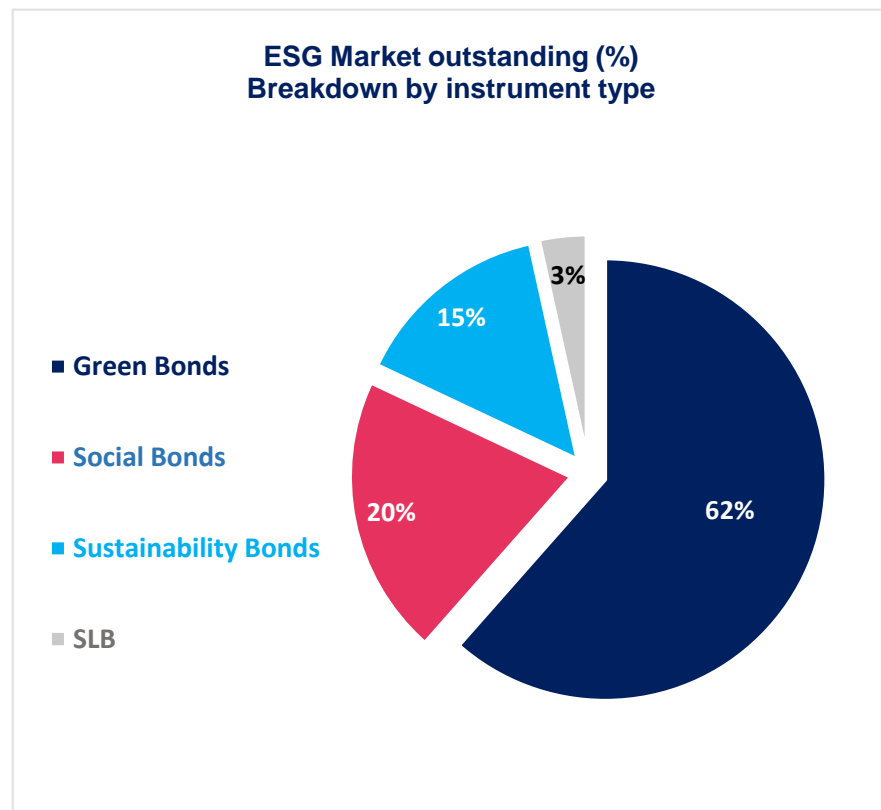
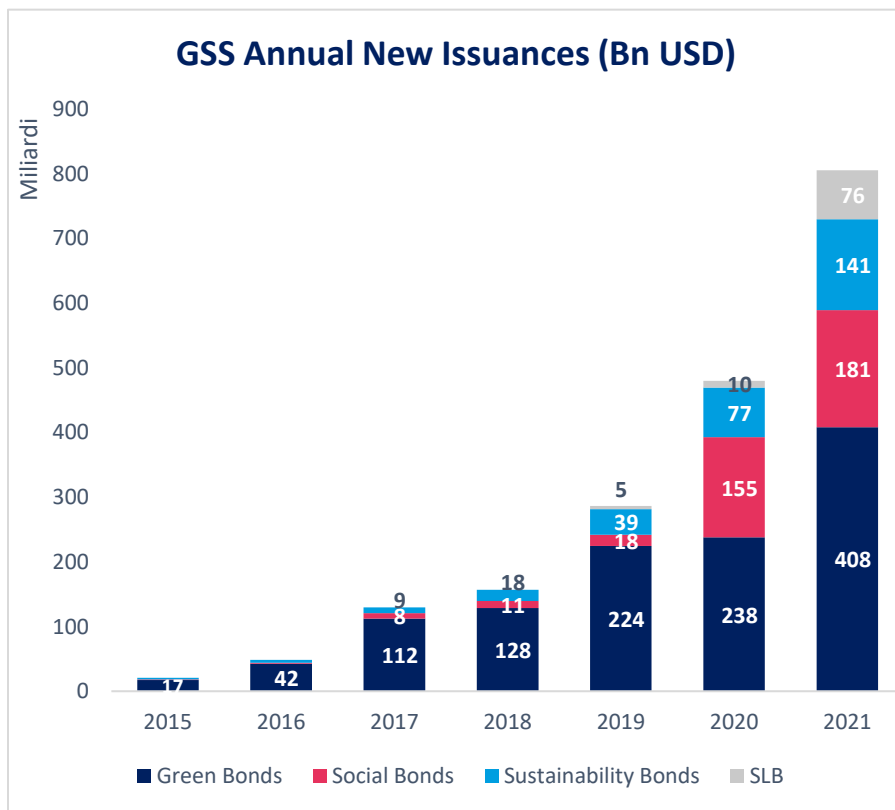


03

The Social Bond Market

Green, Social and Sustainability Bonds Market

- Sovereign have entered strongly this market, with recent green issuances from Germany, Italy, UK and Spain
- Social bond market: driven by SSA issuers mainly Euro but diversification is coming even more in 2021.

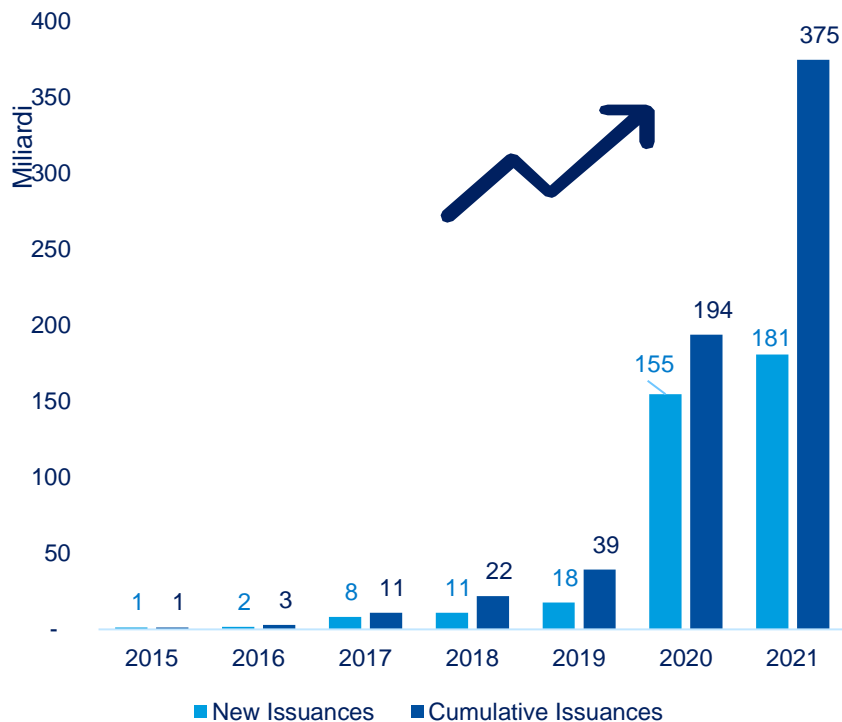


Data as of 09/10/2021. Source: Bloomberg, Amundi

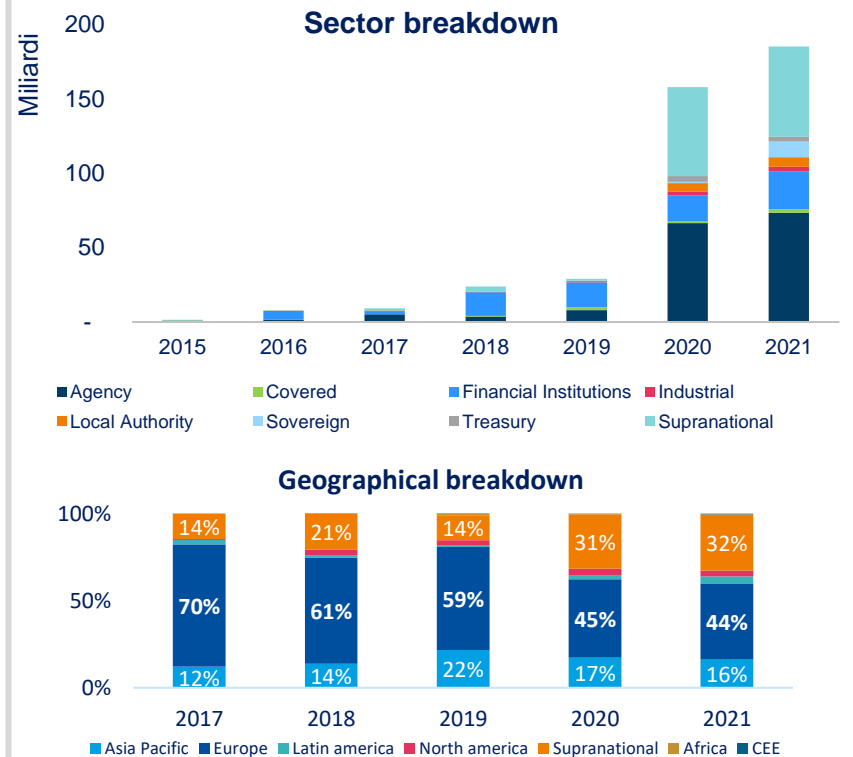
Social Bonds: a young and promising market

More diversification, more interest and growing opportunities...

Social Bonds market outstanding (Bn USD)



Social Bonds market breakdown (Bn USD)



Data as of 09/10/2021. Source: Bloomberg, Amundi

What about Social Bonds pricing?

At the moment no evidence of a Social negative premium

Social Bond Premium							
Scope	Median Premium	Average Premium	Nb Obs	T statistic	Average MD	Average Spread	Average Premium vs Av Spread
All currency	0,0	0,2	73	0,3	6,6	39,2	0,4%
Eur only	-0,1	-0,4	54	-0,8	6,9	42,0	-1,0%
SSA all currency	-0,2	-0,4	54	-0,9	6,9	38,2	-1,0%

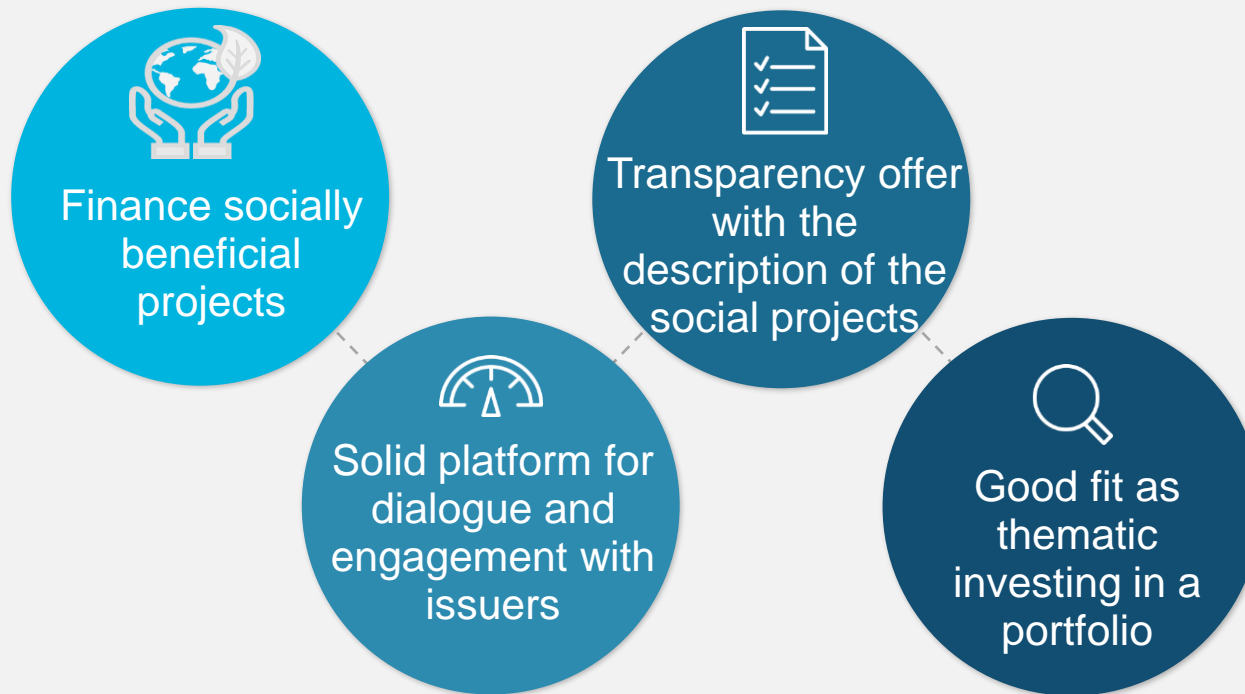
- At the moment, there are no negative premium on social bonds
- When focusing on core segments (EUR, SSAs) there is a negative bias but not statistically significant with high level of confidence
- In social bonds issued by corporates, we don't see anything at all



**Social Bonds market seems to be where the Green Bond market was few years ago:
Tensions in finding paper ... not yet reflected in price differences**

Source: Amundi. Data as of July 2021.

Why social bonds?



04

The Social Bond Strategy

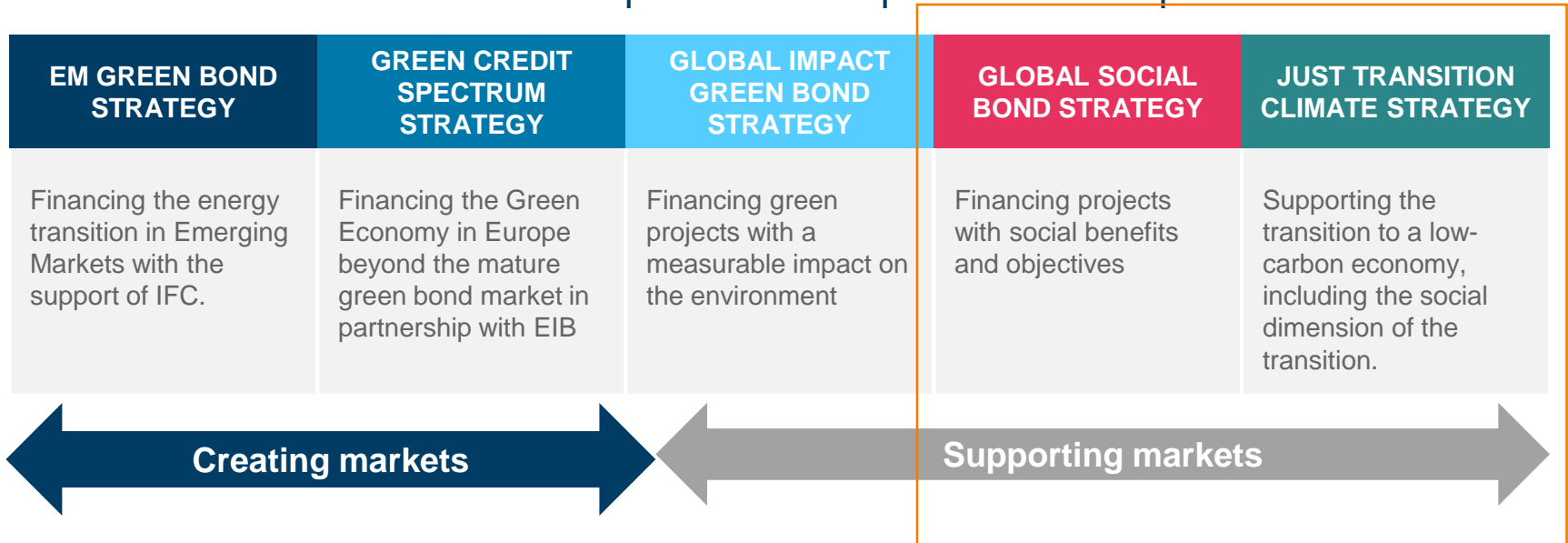
Wide range of Sustainable Fixed Income solutions

A long history of investing in green, social and sustainability bonds

€30bn
In Green Bonds

€5bn
In Social Bonds

€4bn
In Sustainability Bonds



Source: Amundi. Social Bonds and Sustainability Bonds AuM as of September 30, 2021. The Morningstar ESG Commitment Level | May 2021

Amundi Social Bonds: financing social projects & promoting the best social practices

Amundi Social Bonds

Active management integrating the social dimension



**Core allocation 75%
Min**

Social Bonds in line with SBP



**Diversification
25% max**

Issuers with **best social practices**

ESG & label

Social Bonds: ESG rating \geq E*
Best in class issuers: S pillar of ESG rating \geq D

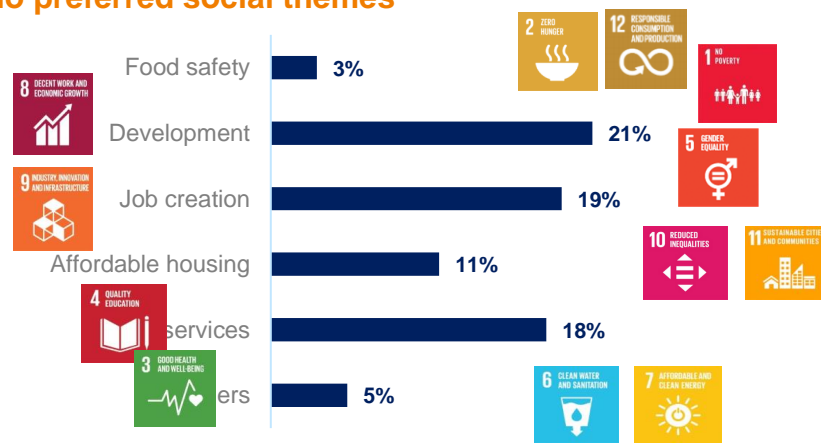


Examples of target populations

1. Living below the poverty line
2. Excluded and/or marginalised populations
3. People with disabilities
4. Migrants and /or displaced persons
5. Undereducated
6. Underserved, owing to a lack of quality access to essential goods and services
7. Unemployed
8. Women and/or sexual and gender minorities
9. Aging populations and vulnerable youth
10. Other vulnerable groups (as a result of natural disasters)



Broad & Inclusive Approach No preferred social themes

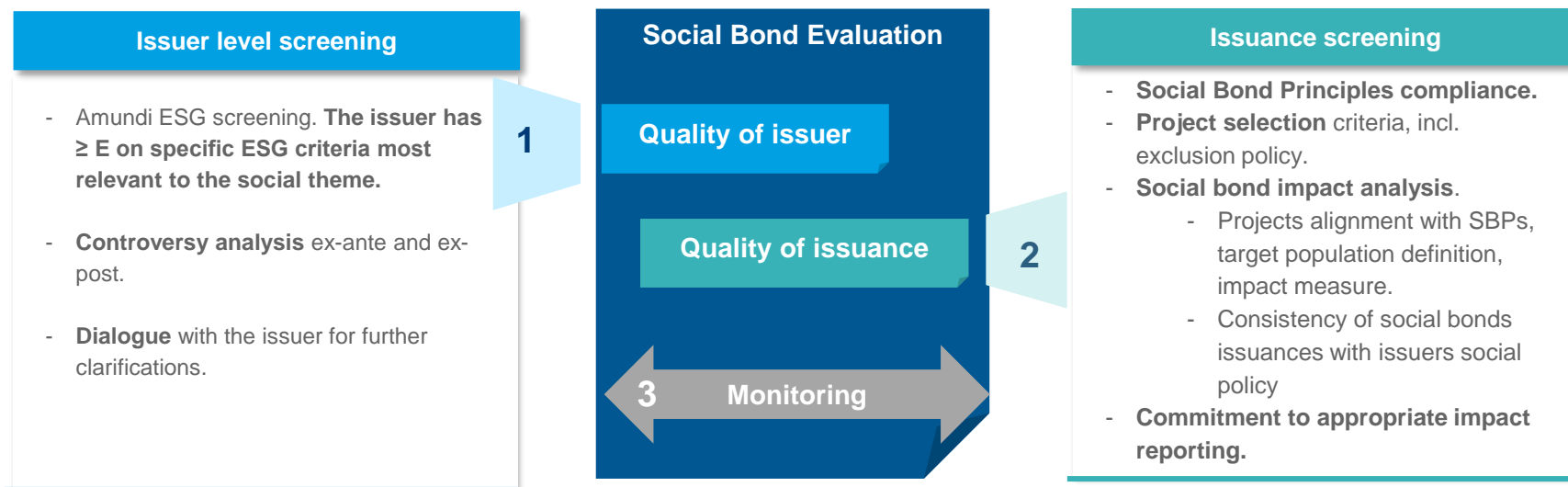


*Most commonly used types of project but not limited to. For illustrative purposes only

SDG: Sustainable Development Goals. Source: <https://www.un.org/sustainabledevelopment/sustainable-development-goals/>

1 How do we analyze Social Bonds?

Ensuring compliance with social bond best market practices



» Select traditional bonds issuers regarding their best social practice: **S pillar in ESG rating > D**

» The risk is linked to the issuer's quality: **Fundamental ESG and Credit analysis is Key**



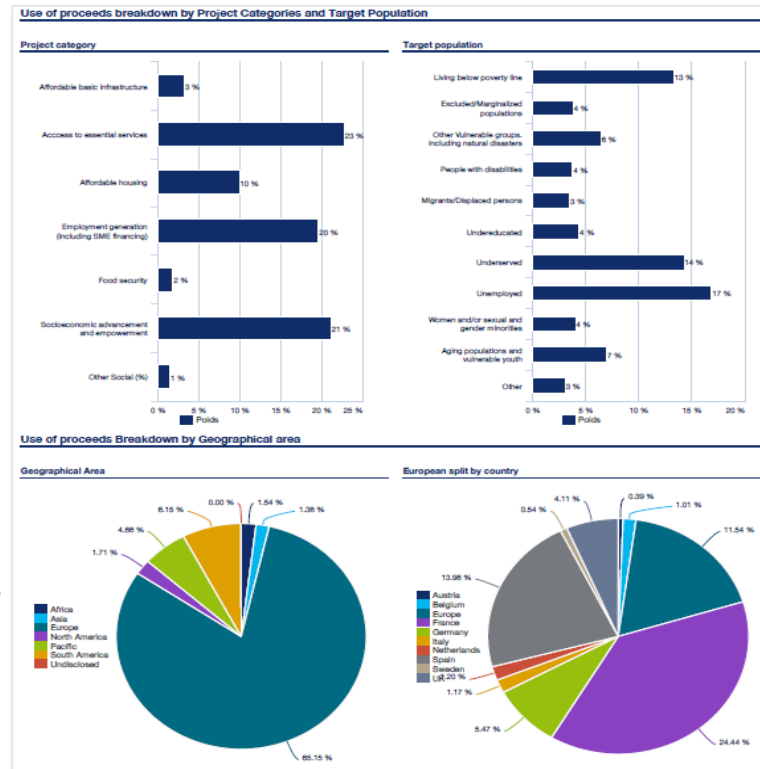
Social Bond: extra financial reporting (1/2)

Monthly Impact Reporting

Use of proceeds
breakdown by
Projects
Categories

Use of proceeds
breakdown by
Target Population

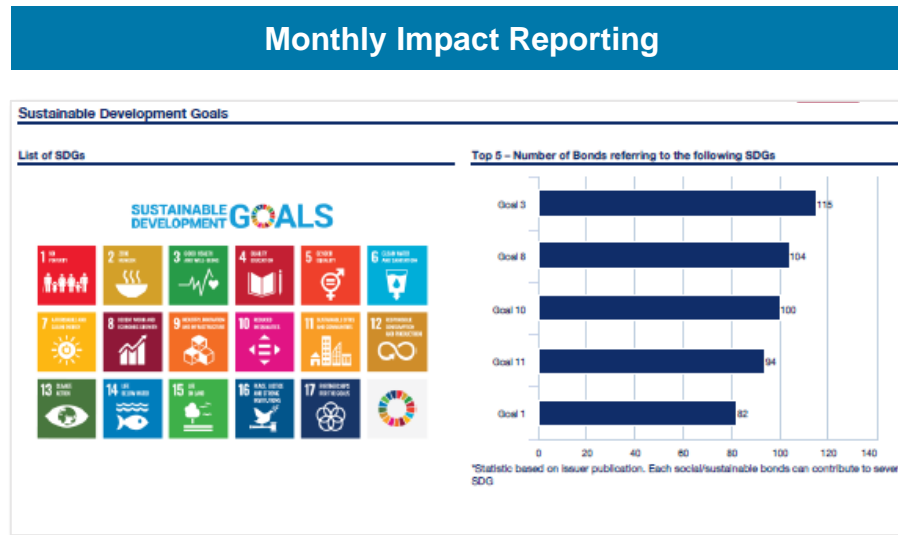
Use of proceeds
breakdown by
Geographical area



Source 1. Monthly report of Amundi Social Bonds – I Amundi AM; Data as of 31/05/2021

Past performance is not a reliable indicator of future results or a guarantee of future returns. For more details about the fund “Amundi Impact Green Bond”, and its investment objective and policy, please refer to Key Investors Information Document of the Fund. **Illustration provided for information only and may be changed without prior notice**

Social Bond: extra financial reportings (2/2)



Sustainable
Development
Goals

Source 1. Monthly report of Amundi Social Bonds – I Amundi AM; Data as of 31/05/2021

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05

Just Transition for Climate

Amundi's Just Transition for Climate Strategy

Combining net-zero alignment and contribution to the transition

WHY Just Transition for Climate?

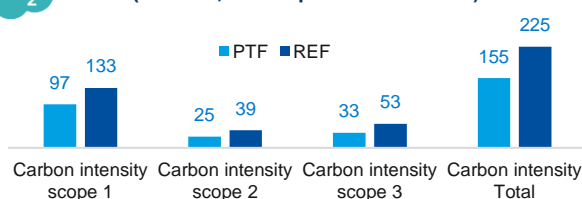
Substantial emission gaps persist between current pledges and Paris-aligned objectives

- 1st strategy **addressing all objectives** of the Paris Agreement
- Seeks to cover **all aspects** of climate risks and opportunities, including **reducing carbon footprints**
- 1st method to **include the social dimension** of the green transition
- A strong **engagement framework** aiming to leave no one behind

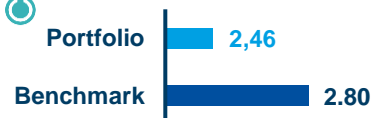
Investment strategy: An actively managed € IG Credit portfolio



Carbon intensity
(Trucost, tCO₂e per €1m turnover)



Temperature
(Iceberg Data Lab)

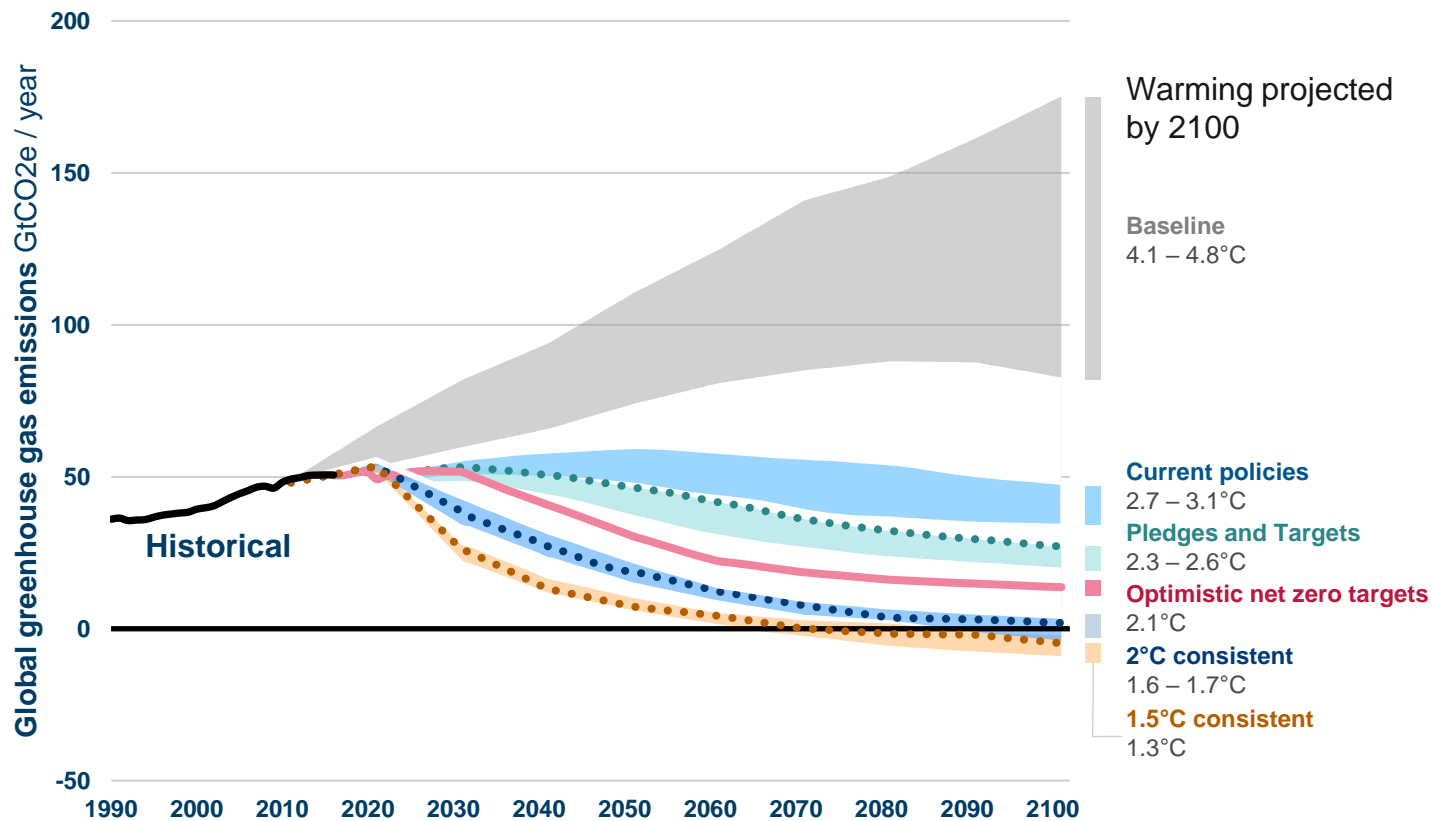


Source: Amundi, as of 30/09/2021, gross performance in EUR. Past performance does not prejudice future results, nor is it a guarantee of future returns

Paris Agreement objectives are still not met

Substantial emission gaps persist between current pledges and Paris-aligned objectives

2100 WARMING PROJECTIONS



Policy Lacking at Two-Levels

- Global bottom-up regulations are insufficient to meet current pledges and targets.
- Global top-down pledges and targets are not aligned with the Paris Agreement goal.

Confidential. For internal use only. Source: Sciences Based Target initiative

The Amundi Conviction: Don't forget the social

The social dimension must be included, as well as an approach that is economy-wide

What is the Just Transition?

It stems from the belief that a **transition to a cleaner, more sustainable economy must be conducted in a way that is fair to all stakeholders**: workers, consumers, local communities and society at large.

How does Amundi interpret this notion?

The financial industry has a role to ensure that it **maximizes positive impacts** and **minimizes negative impacts of the transition to a low carbon economy** across sectors and industries.

Corporates aligned with a *just transition* are actively conducting efforts that take into consideration 4 main stakeholders:



IBERDROLA – A just energy transition

Iberdrola has launched a Just Transition plan to **reskill employees** working for **coal plants that are being closed or converted**

In Spain, the coal plants being closed represent at least 2,300 workers



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