ESG Investing

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AXA Climate is an AXA Group entity committed to climate and environmental adaptation. To serve this mission, it has four lines of business: Training, Consulting, Insurance, and Financing.

> AXA Climate was awarded Best ESG/Climate Reporting Platform at the ESG Investing Awards 2023.

**Théophile Bellouard**
**VP Altitude at AXA Climate**

Théophile leads the Altitude team, building an innovative SaaS product for climate and nature related screenings dedicated for private investors.

Prior to Altitude's recent launch, Théophile has led the practice dedicated to the Financial Services sector after launching the AXA Climate consulting offer in 2020. Among all the services offered by AXA Climate, he holds specific expertise on infrastructures, adaptation to the impacts of climate change, as well as nature related risks and biodiversity footprints.

He started his career at ZnR Batteries, a spin-off company from EDF in energy storage, before co-founding Storm Energy a start-up providing storage as a service. He then worked as a consultant for Polyconseil prior to joining AXA. Théophile is a graduate from École Polytechnique Paris and DTU in Copenhagen in energy engineering.

# Interview

## Company and Products

### Can you give an overview of your company and the products/services you provide?

AXA Climate is an AXA Group entity committed to climate and environmental adaptation. To serve this mission, we have four lines of business: Training, Consulting, Insurance, and Financing.

We provide consulting services to agri-food, industrial, financial services, and public sectors leaders who want to integrate climate and nature in their strategy. Our fields of expertise include ESG, Sustainable finance, climate adaptation and mitigation, and biodiversity. AXA Climate is also commercializing Altitude, a screening platform dedicated to private equity and infrastructure investors. Altitude is unique of its kind as it is dedicated to private investors and, hence, provides actionable recommendations to tackle climate change during the due diligence phase and holding period.

Altitude assesses climate physical risks up to 30-meter resolution for different global warming scenarios for the next two decades and screens transition risks and GHG emissions with a granularity of 160 sectors. The latest feature enables portfolio monitoring and management through a consolidated dashboard.

### What is your main focus with ESG?

Our Altitude platform is providing ESG Managers with state-of-the-art data and risk modeling on climate and nature related risks. Altitude covers the double materiality of the risk, i.e., the risks due to the impacts of a company on climate and the risks due to the impact of climate change on a company.

### What are investors demanding in terms of alternative ESG data and research?

Investors are looking for more and more data to make informed decisions and improve their reporting. Investors have specific business needs that need to be addressed. Two examples to illustrate this are:

1. How risk assessment and ESG rating vary greatly between public and private equity.

2. ESG data and research must serve specific use cases in the investment life cycle; either DD, portfolio reporting, or improvement of ESG performance under management, etc.

### Where is most demand for your products coming from in terms of company type and location?

Altitude's customers are infrastructure, private equity, and private debt firms, mostly in Europe. They invest in all sectors and all kind of alternative assets globally, which is made possible by Altitude's coverage.

### Where does most of your data and information come from?

Most of Altitude's data come from AXA proprietary databases and models. We have an internal team of 15 scientists, each with a PhD in their field of expertise, that includes climatologists, a hydrologist, a geologist, an ecologist, and an agronomist.

### Where has the demand for these products come from and where do you see the growth in these areas in the years ahead?

Integrating climate change into investment processes is new and thus drives the demand for solutions to link climate science and investment. The UK and the European Union are paving the way through new regulation on sustainable finance. However, the stakes are global, hence the challenge for the next couple of years is huge. Also, biodiversity collapse is the growing issue coming next. Finding the answers will be even more challenging for both investors and service providers.

## ESG Insights

### Where are we on the AI journey? Are we anywhere near the limits of using artificial intelligence to produce useful ESG data?

AI is for sure a powerful technology to identify material topics regarding ESG performance of a company. However, ESG performance is a combination of commitments taken, actions put in place, and measured performance. For an AI fed by open-source data, drawing a distinction between those three is tough and there is a risk of misinterpreting commitments without basis or greenwashing.

Basic AI is already used today to predict ESG performance based on sectorial averages, which helps for challenging bottom-up reporting.

### How important is satellite data now (e.g. for remote observation of companies greenhouse gas emissions or for monitoring activities in sensitive environments). To what extent do you think this kind of data will increase over the coming years?

Well, there are many use cases using satellite data which generate enthusiasm. Indeed, some are technologically and intellectually brilliant. You can now monitor on a day-to-day basis agricultural yield, drought, wildfire, methane emissions, deforestation, etc. However, these solutions are not yet implemented because ESG data and KPIs are used more on an annual basis rather than daily by investors to look at their portfolio companies. It means that data providers must consolidate the data into annual indicators, relying on satellite data behind the scenes. There is also a matter of cost, to scale satellite data widely.

Long story short, satellite data is not currently used by investors as the use cases do not serve strong needs they have.

### To what extent do you think this kind of data will increase over the coming years?

ESG data will keep increasing in the coming years, with two main trends.

We have already witnessed growing sustainability teams within investment firms. Having invested in human resources, these firms are now looking for data and tools with a higher level of expertise.

The second trend is the Corporate Sustainability Reporting Directive that will become live soon in the EU. Communicating on extra-financial information will become the new standard for all companies with more than 250 employees. This will inject ESG data and knowledge on the market at a new level.

### How do you foresee ESG investing changing over the next few years? Are there any other emerging ESG issues you are looking at?

ESG investing is becoming a powerful way to raise money as institutional investors are looking for Article 8 and Article 9 funds. Improving the ESG performance of all sectors is of course the main consequence. It will also drive capital allocation on climate finance, pollution reduction, biodiversity restoration and on water management. Those issues are critical for collective achievement of our 2050 targets.

### Are you optimistic that the goals of the Paris Agreement will be achieved (i.e. keeping climate change to below 2°C increase, preferably below 1.5 °C)?

If we are looking at where we stand now, we are unfortunately above the 2° curve (and far above the 1.5° curve). The NDC (Nationally Determined Contributions) are leading to a 3.5 °C global warming. However, the fight against climate change is becoming a reality not only at state level, but also at investor level, at company level, and individual level. This will drive change. It gives hope.

Personnaly, I feel that everyone is aware of the issue now. We need courage. There are courageous CEOs, courageous investors, but we need more of them as neither politicians nor activists will change things.

### What is the best way to avoid greenwashing from fund providers? How can an investor best differentiate greenwashed funds from the genuine article?

Without a doubt, training and raising awareness for both fund providers and investors. What to look at, how to look at it and what are the typical KPI to challenge. It could significantly limit greenwashing.

At AXA Climate we rely on Science and want to push it everywhere. Reporting on climate change or biodiversity collapse cannot be purely declarative, it must be science-based.

### Biodiversity is a hot topic at the moment. Have you done any work on this and what conclusions can you share?

We are witnessing the sixth mass extinction. Biodiversity collapse is therefore a physical, transition and systemic risk for companies and investors. We have worked on the TNFD framework and conducted pilot studies with the UNEP-FI. We also have included biodiversity risks assessment in Altitude since day one. Everyone says it is the next topic in the ESG field, but most LPs and GPs are not tackling it yet. My belief is that biodiversity assessments will become market standard faster than it has been for climate change. Hence it will be a big differentiator.

For further information on anything you've read, please don't hesitate to get in contact with one of our team:

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