

Talking Heads podcast on megatrends/inclusive growth

Andrew Craig: Hello and welcome to this week's BNP Paribas Asset Management Talking Heads podcast. Every week, Talking Heads will bring you in-depth insights and analysis through the lens of sustainability on the topics that really matter to investors. In this episode, we'll be discussing what we at BNP Paribas Asset Management see as megatrends, that's to say, four clearly identifiable trends spanning the globe and shaping tomorrow's world and with it, future opportunities for investors. Those megatrends are, in alphabetical order, demographics, environment, geopolitics, and innovation. Our focus today is on geopolitics and the social themes arising from geopolitics. I'm Andy Craig, Co-Head of the Investment Insight Centre, and I'm joined today by Shazaan Gaffoor, Investment Specialist for the Global Equity Team. Welcome Shazaan, and thank you for joining me today.

Shazaan Gaffoor: Hello Andrew. Happy to be here.

AC: Let's start by talking about geopolitics and how it impacts equity investors, especially in the context of the four megatrends.

SG: We expect geopolitics to influence our world for decades to come, shaping the social, political and even the economic climate. We've seen populist governments with protectionist agendas that are impacting the current and future global trade environment. This has led to onshoring, reshoring across the world, which can provide higher growth for industrial companies, for example.

On the social front, the inequality of opportunities within many countries threatens the long-term stability of our economies. You see social tensions affect the climate for doing business and investment. This impacts the economy. So, in a nutshell, the current geopolitical pressures are likely to be material challenges for society, but also for companies that will need to adapt.

AC: Let's look more specifically at the rise of populist policies and their impact on, for example, immigration and the workforce. Can you explain why investors should consider looking at, for example, these social challenges as part of their assessment companies, in other words, by applying environmental, governance and social criteria to their decision-making on investments?

SG: I think those things are structural in nature and always lead to an increase of inequality. Despite significant progress in reducing extreme poverty worldwide, inequality is rising. You'll have factors like age, place of birth, gender, ethnicity, parental background and climate change that will drive this inequality and will impact the most vulnerable population. This can limit the access to education, job income, healthcare and talent development. The IMF warns that rising income inequality is a threat to long-term economic stability. It will deprive businesses of consumers, talent and educated workers and cause social tension that will harm the business and investment environment.

As investors, this is important and we need to factor this in in view and identify companies that deliver sustainable product and services through inclusive businesses practises. Our investment analysis considers how the company's operation impacts their entire value chain. We focus on the company practises, and we believe it's a differentiated approach versus just looking at the company's activities.

First, we will look at the customer, how companies are ensuring that products are safe and reliable, that they're fostering customer loyalty and making their products accessible to the low income population.

And then the treatment of employees. This is the second thing to look at: the promotion of inclusive

workplaces through equitable recruitment practises, monitoring supplier quality and safety, upholding human rights and maintaining a long-term relationship with the trusted partners. And then finally, looking at communities and societies. So, making sure that we have a good governance and of environmental practises and that those companies are transparent in terms of their tax policies.

AC: You've talked about the importance of looking at inclusive business practises and that's part of the part of the objective of investing in companies that are fostering inclusive growth, which is one of the investment strategies that your team runs. How relevant would you say the inclusive growth theme is today in driving investment performance compared to other ESG themes? How do you measure social factors when you're screening companies for investment?

SG: First of all, let's define inclusive growth. Inclusive growth is economic growth that is distributed fairly across societies and that also creates opportunities for all. Within our investment framework, we have identified five main pillars of action.

The first one being decent work, so looking at robust social standards such as decent pay and job security for the employees. And also looking at advancing human rights within the supply chain.

Then social mobility, which is essentially developing employee skills. Within human capital development, you will have that need of upskilling and reskilling, which is driven notably by the economic disruption of AI and the increasing need of new talents.

You have also the need of offering accessible, quality products and services to customers. The long-term commitment to community and societies as I mentioned earlier, ethical business practises and the promotion of decarbonisation and biodiversity protection.

Those five pillars underpin our social themes. We'll have a score for each of those, which we call the inclusive growth score. We will focus on the companies that score in the top third against their peers. That would give us a well-diversified investment universe with superior social and inclusive practises.

AC: Thank you, that's very helpful. We don't often talk about the social aspect of ESG. But as you've explained, with the geopolitical situation, with the rise of populism, with the increasing inequalities, the focus on inclusive business practises when we're looking at companies as potential investments in equity portfolios is a very important component. You mentioned the breakdown between environmental, social and governance factors in your analysis and the significant 60%, which is assigned to inclusive business practises. Thank you very much for joining me today.

SG Thank you, Andrew.

AC That's it for this week's episode of Talking Heads. If you'd like to learn more about our investments insights or investing in environmental, social or governance strategies, please reach out to your BNP Paribas Asset Management contact or check out Viewpoint, our website for investment insights at viewpoint.bnpparibas-am.com. We recommend subscribing to Talking Heads on your favourite podcast channel such as YouTube or Spotify. You'll receive your podcast episodes every week. If you like Talking Heads, do please leave us a positive review and a nice rating. You've been listening to the BNP Paribas Asset Management Talking Heads podcast with me, Andy Craig, and Shazaan Gaffoor, investment specialist for the Global Equity team at BNP Paribas Asset Management. Please join us again next week. Until then, take care.