Consultation on the Renewed Sustainable Finance Strategy
Additional comments - Meridiam

Question 6: What do you see as the three main challenges and three main opportunities for mainstreaming sustainability in the financial sector over the coming 10 years?

We see infrastructure as an enabler to a low carbon and inclusive economy as it allows most of the physical flows that support it. Mainstreaming sustainability in the infrastructure sector is key to irrigate the rest of the financial sector with sustainable investments flows.

Generally speaking, the risk perception of sustainability in the financial sector is often higher than the real risk. We believe this can be partially mitigated through specific instruments and practices to mainstream those investments and broaden investors' understanding.

Challenges:

Sustainable infrastructure assets have specificities which could be better considered in EU regulations so that the infrastructure investment industry can play its full part in the systemic shift of our economies [see Question 7].

Private sector infrastructure investment can be fostered by **long-term contractual arrangements** enabling much needed predictability. Infrastructure assets typically have a lifespan longer than most other types of assets, requiring investors to take into account long term market risks, which can be mitigated efficiently by such robust public-sector backed contractual frameworks over the industrial life of the asset.

For various reasons, including longstanding budgetary constraints or stop and go investment cycles, public authorities often lack capacities to implement ambitious investment programs and create a significant pipeline of projects up to the Green Deal objectives. Further, they often do not sufficiently mobilize innovative delivery schemes (like bundling of small size projects to reach a critical size palatable to investors) or, for complex projects, approaches based on blended finance.

Opportunities:

The renewed sustainable finance strategy will contribute to the European Green Deal success, creating jobs and building a low-carbon, inclusive economy. Infrastructure provide investors with a diversified, less volatile, long term and capital-intensive asset class, hence allowing capital flows to be channeled towards the real economy and fuel financial stability.

Infrastructure investors have been among the most **active and early adopters** to lead the way to sustainable finance and are willing to carry on. Hence, if the European commission manages to narrow the gap between contractual and legal frameworks in the infrastructure field between member states, it will help create a new field of profitable investments.

The EU is and aims to remain at the forefront of global financial system reforms and leading sustainable finance trends. The renewed sustainable finance strategy represents an opportunity for European financial authorities and market players to **disseminate best-in-class practices**.

Question 10 : Should institutional investors and credit institutions be required to estimate and disclose which temperature scenario their portfolios are financing (e.g. 2°C, 3°C, 4°C), in comparison with the goals of the Paris Agreement, and on the basis of a common EU-wide methodology?

Answer: Yes, both.

EU-wide temperature scenario methodology would be a powerful tool to help investors and credit institutions to measure where their portfolios stand and incentivize 2°C alignment through the disclosure of the results.

For infrastructure portfolios, we have sponsored innovative methodologies like the **2-infra challenge**, in partnership with EU funded Climated KIC and would be honored to work with the Commission to make this a global standard. It aims to measure the alignment of infrastructure and infrastructure portfolios with a 2-degree trajectory and the associated physical and transition climate change risks. Meridiam supported the project from the beginning. Now we apply the 2-infra challenge to our own funds to consistently assess and improve our contribution to tackling climate and foster the use of such methodologies in the infrastructure sector.

Question 32: Several initiatives are currently ongoing in relation to energy-efficient mortgages and green loans more broadly. Should the EU develop standards or labels for these types of products?

Answer: No

This market is currently under development, regulation should be envisioned later, once there is sufficient feedback on the practices. Meanwhile, banks should invest in highly trained resources to analyze and distribute this kind of product. This could be enhanced by the EIB, using a centralized pool of analysts, that would assess the risk of the project prior to granting a specific guarantee, which would favour the development of those loans and mortgages.

Question 41: Do you think that a defined set of EU companies should be required to include carbon emission reductions, where applicable, in their lists of ESG factors affecting directors' variable remuneration?

Answer: Yes

However, we do not believe there is a rationale to stress carbon emission specifically as compared to other ESG factors like the impact on biodiversity or employees working conditions.

Question 46: Due regard for a range of 'stakeholder interests', such as the interests of employees, customers, etc., has long been a social expectation vis-a-vis companies. In recent years, the number of such interests have expanded to include issues such as human rights violations, environmental pollution and climate change. Do you think companies and their directors should take account of these interests in corporate decisions alongside financial interests of shareholders, beyond what is currently required by EU law?

Answer: Yes, a more holistic approach should favour the maximisation of social, environmental, as well as economic/financial performance.

The Commission could contemplate the creation of a European, B Corp-like certification to ensure that companies achieve and maintain high standards in this field. European labels like Positive Worplace emerge as robust alternatives to the existing market players. In France the "PACTE" law created the "société à mission" status, similar to Certified B corps, which could be a basis for a European harmonization.

Question 47: Do you think that an EU framework for supply chain due diligence related to human rights and environmental issues should be developed to ensure a harmonised level-playing field, given the uneven development of national due diligence initiatives?

Answer: Yes

As long-term investors, we are committed to the sustainability and resilience of our supply chain and its adequacy with the UN SDGs framework.

Supply chain due diligence is a key element of sustainable finance as it enables to push all sorts and sizes of companies to define and implement ESG-SDGs policies. Several countries within the EU already have financial regulations in this respect (for instance, French Autorité des marchés financiers includes in its regulation considerations about the supply chain, and so do international financial institutions like IFC or the EIB, acting as lenders or investors in funds). An EU framework levelling up supply chain due diligence (and including suppliers located outside the EU) would be welcome.

Question 50: Do you think that retail investors should be systematically offered sustainable investment products as one of the default options, when the provider has them available, at a comparable cost and if those products meet the suitability test?

Answer: Yes

As a response to the growing awareness on sustainability issues, it is essential that financial markets provide citizens with opportunities to invest their pensions and savings in environmentally and socially impactful ways.

Along **with Allianz, Meridiam developed a retail investment product** directed towards long-term investments in unlisted infrastructure that meet the challenges of energy transition and economic development. These assets are then offered to Allianz's customers in the form of funds within life insurance contracts.

The investment sector must however realize that sustainable finance remains unclear to most people, making it difficult to navigate between green and non-green products. Establishing sustainable investments as default options is essential to mainstream such products and further engage retail investors in action for our climate and environment. Once again, the role of financial advisors is key to correctly guide customers in this process, stressing the importance of trained personnel.