



ECMI Annual Conference

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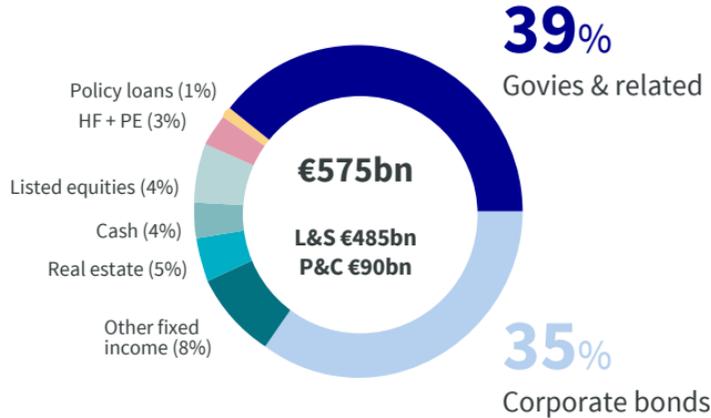
Session 1: short vs long term investment: What will capital market deliver?

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November 24th – Brussels

AXA current allocation and its evolution

Group Main Funds assets as at the end of June 2017 (€bn)



Duration

Fixed income assets duration as of June 30, 2017

Life & Savings **8.2** years

Property & Casualty **5.5** years

Evolution over the last 3 years

- ❑ AXA allocation to main buckets remain pretty stable.
 - ✓ Main buckets (Govies and credit) remain stables
 - ✓ The smaller buckets as well (Listed equity, Real Estate, PE, HF)
- ❑ Only change is the rise of the other fixed income bucket growing

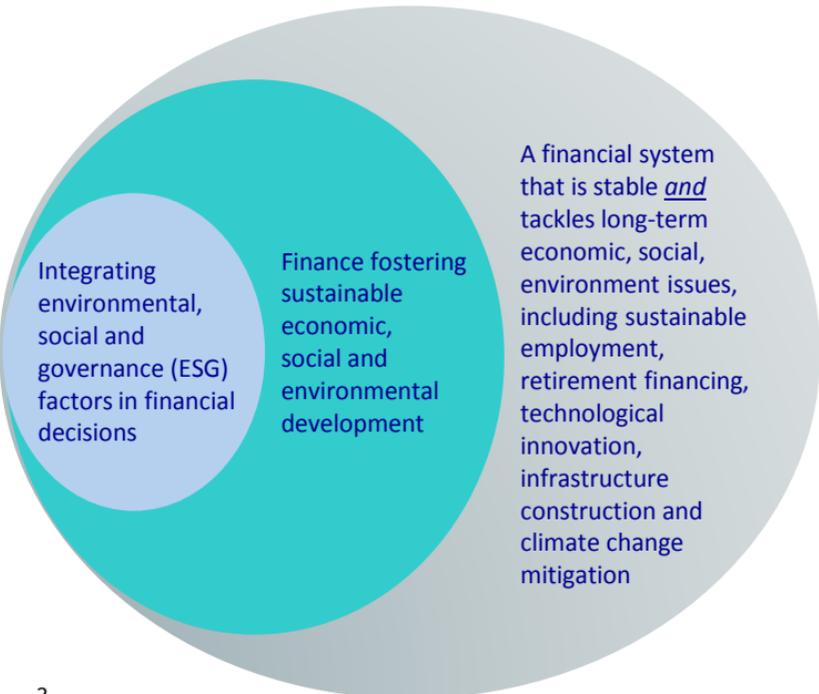
Longer investments

- | | |
|-----------------------|------------------|
| ❑ Govies | ❑ Equity |
| ✓ OECD | ✓ Listed |
| ✓ Emerging Markets | ✓ Private |
| ❑ Illiquid debts | ✓ Infrastructure |
| ✓ Mortgages | |
| ✓ Infrastructure debt | |

EU High Level Expert Group on sustainable finance

Financing a sustainable European economy

From a narrow to a broader definition of a sustainable financial system



Integrating environmental, social and governance (ESG) factors in financial decisions

Finance fostering sustainable economic, social and environmental development

A financial system that is stable and tackles long-term economic, social, environment issues, including sustainable employment, retirement financing, technological innovation, infrastructure construction and climate change mitigation

Recommendations

- ❑ A classification system for sustainable assets
- ❑ A European standard and label for green bonds and other sustainable assets, as well as labels for sustainable funds
- ❑ Fiduciary duty that encompasses sustainability
- ❑ Disclosures for sustainability
- ❑ A sustainability test in financial legislation
- ❑ Create 'Sustainable Infrastructure Europe'
- ❑ Position the European supervisory agencies on sustainability
- ❑ Accounting standards for energy efficiency

Leadership

- ❑ Develop a benchmark to review, monitor and compare the quality of climate disclosures
- ❑ Sustainability should be embedded in the mandates of credit agencies
- ❑ Long term sustainability risk and opportunities to be captured in Prudential rules.

ESG integration for sustainable finance

Flagging long terms risks and opportunities

Quantitative ESG integration

- ❑ Aggregation of significant amount of extra financial data from several recognized providers
- ❑ Simple output as E, S, G and ESG ratings for the assets held.
- ❑ Top / worst performers flagged for different geographies, sectors or issuers



Thematic ESG research

- ❑ Research topics driven by current events and results of the quantitative analysis.
- ❑ Deep dives on specific sector or companies according to the quantitative results.
- ❑ Approach should be both positive and negative.
- ❑ Deep dive climate in 173 Article (2 degrees, Carbon Delta)



LT risk & opportunities

Investment decisions driven by such analysis:

- ❑ Flag stranded assets (Coal intensive)
- ❑ Can create investment opportunities for long term investments
 - ✓ Sector review
 - ✓ Stock picking
 - ✓ Technology advantages

Solvency 2, accounting standards and real economy financing

Insurance companies not perfectly regulated for longer term investments

Solvency 2

- ❑ Solvency horizon in the framework is 1 year only
- ❑ Short term view in opposition with insurance activities that are commitments above 1 year.
- ❑ Adapted treatments for private debt, infrastructure in internal models and progressively in standard formulas.

IFRS 9

- ❑ All equities will have to go through fair value (creating P&L volatility) or through equity
- ❑ Such treatment in fair value does not favour long term equity investments

IFRS 17

- ❑ Favour less volatile assets: Private equity over listed equity
- ❑ Restrictive shadow policy holders absorption



EU at the heart of the regulation / accounting standards definition, should ensure consistency between the regulation imposed to insurance companies and the long term objectives of the European financial markets.

Capital Market Union

Selected priorities from the EFR

The role of supervisor

- ❑ With Brexit, the European decentralized capital markets need further harmonizing
- ❑ ESMA oversight to be strengthened

Lack of LT savings

- ❑ Savers natural preference for liquidity
- ❑ Regulated long term savings more relevant after Basel 2

HLEG

- ❑ Opportunity after the final December recommendations

Promote equity

- ❑ As a more suited investment for investor:
 - ✓ Solvency
 - ✓ IFRS
 - ✓ Pensions regulation

Internationalization

- ❑ Not only seamless trading for EU participants
- ❑ But also attractiveness from international players

Securitization

- ❑ Looking at the US instance
- ❑ True European securitization with public guarantees
- ❑ Perfect for long term residential loans

CMU Insolvency rules

- ❑ Not enough harmonization in the current proposal for insolvency proceedings
- ❑ Opt in regime not implementable

Standardization

- ❑ Comparable reporting
 - ✓ Opportunity with HLEG
- ❑ Administered data base of non listed companies seeking funding