

ESG impact: CAC40 has greener global footprint than DAX30 – a portfolio comparison



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France's CAC40 index scores better than Germany's DAX30 when judged on the average environmental impact of its component stocks, according to Scope Group's ESG impact review. The Frankfurt stock index performs better on social and governance factors.

The average environmental score of the CAC40¹ is 6.5 out of 10 – where 10 represents optimal ESG impact - compared with 6.3 for the DAX30. In contrast, the average social score for Paris-listed companies is 6.6 compared with 7.0 for the Frankfurt-listed stocks, with a governance score of 6.6 compared with 7.6.

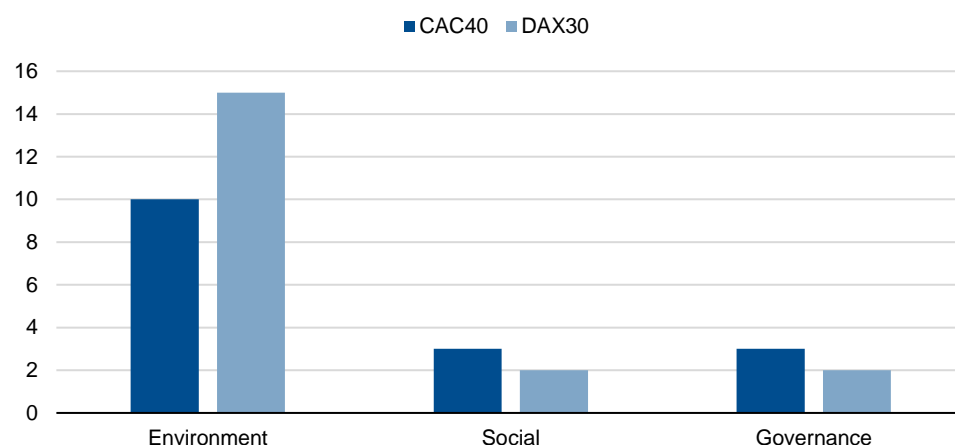
Comparing the ESG impacts of stock portfolios such as the benchmark indexes of the euro area's two largest economies illustrates, first, how sustainability differs from sector to sector and, secondly, how much it depends on where companies' activities are based and their inputs are sourced from.

In the case of the DAX30, the average cost of environmental impact of its component companies is EUR 0.15 for every euro of revenue compared with EUR 0.10 for the CAC40's. For social and governance impacts, the average cost is EUR 0.02 for the DAX30 stocks compared with EUR 0.03 for the Paris-listed companies.

Our assessment of environmental, social and governance impacts acts like an early warning system for portfolio managers, showing where future regulatory risks and associated costs lie through the analysis of today's impacts by factor, sector and geography.

ESG impact reviews are also a way for fund managers to conform with Sustainable Finance Disclosure Regulation (SFDR) on the principal adverse impacts of investors' investment decisions.

Figure 1: Comparing ESG impacts of investment portfolios: average costs of ESG externalities (euro cents) for CAC40, DAX30 component companies



Source: Scope ESG

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¹ For full list of index components, see Annex on page 5

Supply-chain externalities
central to analysis

DAX30 has higher concentration
of lower-impact companies

Sectoral make-up of a portfolio
crucial for ESG impact score

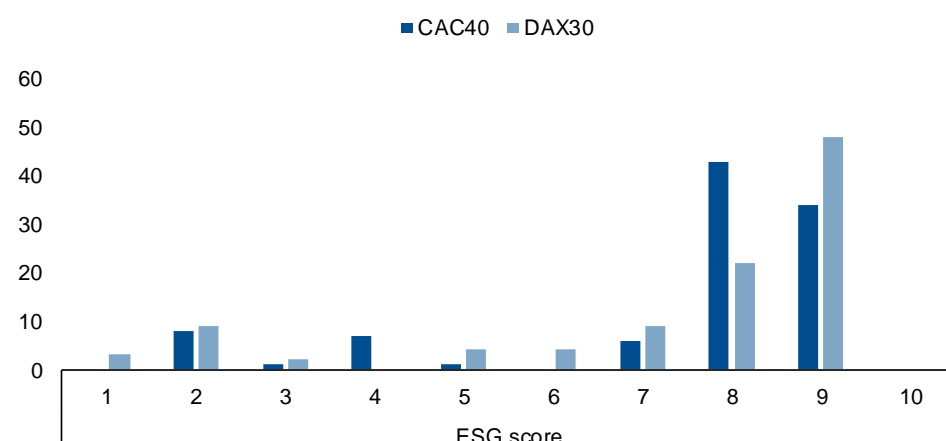
Monetising impacts allows cross-factor, cross-sector comparisons

The ESG impact score is based on calculating the cost of the externalities of a company's activities including its supply chain – using well-established, publicly available macro-economic data describing the interdependence of sectors and geographies - for every euro of revenue the company generates.

Monetising ESG impacts allows Scope to directly compare different factors such as air and water pollution, labour standards and health and safety and relate them to how much value a company creates - whereas others rely on fixed weights for ESG factors to aggregate comparisons and rankings.

The average ESG impact score of the biggest listed companies by market capitalisation that the two indexes represent is the same at 6.9, but the Germany index includes a greater concentration of lower-impact companies. Nearly half of the Frankfurt-listed companies scored above eight compared with only a third among CAC40 stocks (see **Figure 2**).

Figure 2: Distribution of ESG scores among CAC40, DAX30 companies
Distribution (lhs, %) of ESG impact scores (10=best)



Source: Scope ESG

Sectoral breakdown vital for understanding a portfolio's ESG impacts

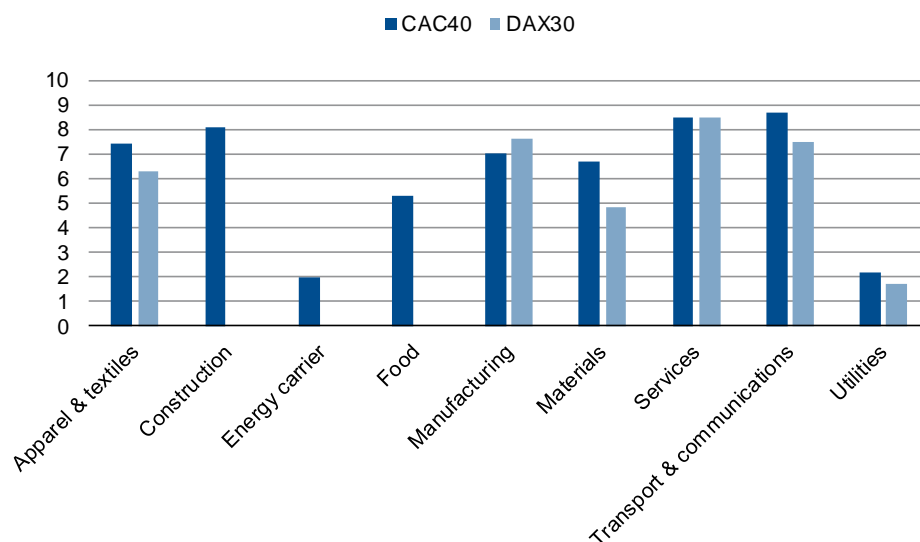
Understanding the ESG impacts of an investment portfolio depends crucially on the sectoral make-up of the component companies and their supply chains as the comparison between the CAC40 and DAX30 shows (see **Figures 3 and 4**).

- DAX30-listed manufacturing companies score better than CAC40 rivals, but the sector's relatively poor ESG scores and relatively heavy weighting – 25% of the index's market capitalisation compared with 16% for the CAC40 - ensures that they weigh down on the overall ESG score.
- DAX30-listed materials companies score relatively poorly compared with French counterparts but the sector accounts for a similar proportion of the two indexes' market capitalisation: 24% and 23% respectively.
- DAX30 companies in the relatively low-impact services sector make up a third of the index's market capitalization compared with only 17% in the CAC40

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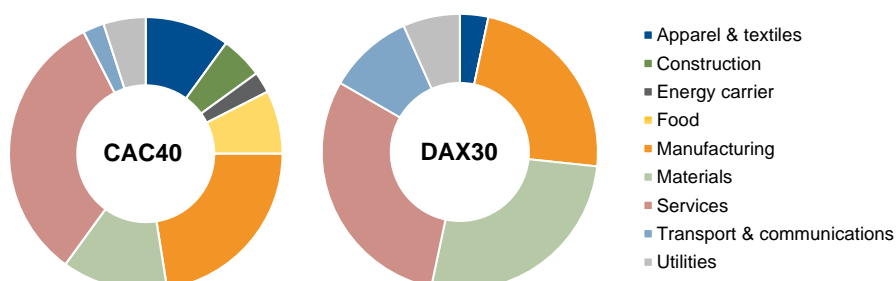
- Apparel and textiles and food companies make up 30% of the CAC40's market capitalisation but also score relatively poorly, whereas they are little represented on the DAX30.

Figure 3: Average CAC40, DAX30 ESG impact scores by sector



Source: Scope ESG

Figure 4: Benchmark stock index components by sector (market capitalisation)



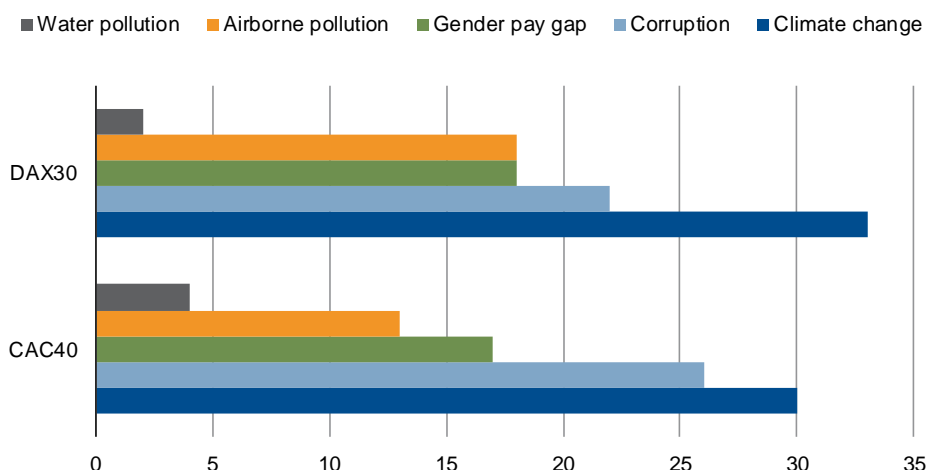
Source: Scope ESG

Air pollution is an important factor in DAX30 ESG impacts

Our analysis also shows subtle differences in the importance of ESG factors for the two groups of companies. Greenhouse-gas emissions account for more of the DAX30's ESG impacts than the CAC40's while the reverse is true for exposure to countries where corruption is a problem, though they are both the main drivers of ESG impacts. Airborne pollution is a relatively more important factor for DAX30 companies.

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Figure 5: ESG impact divergence: higher greenhouse-gas emissions, airborne pollution costs among DAX30 than CAC40 companies, but governance costs lower
Main drivers of ESG impacts among CAC40, DAX30 component stocks



Source: Scope ESG

Geography plays important role in ESG impact assessment

Geographic profiles of portfolios are important too. Average environmental impacts for the Frankfurt-listed companies are more concentrated in Europe at 81.7% of the total compared with 69.1% for the CAC40.

The Paris stock exchange index has a greater proportion of multinational companies with a global presence and international supply chains, particularly in the Asia-Pacific region, such as steel-maker Arcelor Mittal, tyre-maker Michelin and luxury goods group LVMH. Many of the operations of DAX30 companies have a narrower European, if not German focus, such as chemicals supplier BASF, Deutsche Telekom and real estate company Deutsche Wohnen.

Annex I: CAC40, DAX 30 component stocks

CAC40, DAX 30 component stocks	
CAC40	DAX30
Air Liquide SA	Adidas AG
Airbus SE	Allianz SE
Alstom SA	BASF SE
ArcelorMittal SA	Bayer AG
Atos SE	Bayerische Motoren Werke AG
AXA SA	Beiersdorf AG
BNP Paribas SA	Continental AG
Bouygues SA	Covestro AG
Capgemini SE	Daimler AG
Carrefour SA	Delivery Hero SE
Credit Agricole SA	Deutsche Bank AG
Danone SA	Deutsche Boerse AG
Dassault Systèmes SE	Deutsche Post AG
Engie SA	Deutsche Telekom AG
EssilorLuxottica SE	Deutsche Wohnen SE
Hermès International SA	Fresenius Medical Care AG
Kering SA	Fresenius SE
L'Oréal SA	HeidelbergCement AG
Legrand SA	Henkel AG
LVMH SE	Infineon Technologies AG
Michelin SA	Munich Re AG
Orange SA	RWE AG
Pernod Ricard SA	SAP AG
Peugeot SA	Siemens AG
Publicis Groupe SA	Volkswagen AG
Renault SA	Vonovia AG
Safran SA	
Compagnie de Saint-Gobain SA	
Sanofi SA	
Schneider Electric SE	
STMicroelectronics SA	
Teleperformance SA	
Thales SA	
Total SA	
Unibail-Rodamco-Westfield SE	
Veolia Environnement SA	
Vinci SA	
Vivendi SA	
Worldline SA	



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