

ITALIAN SUSTAINABILITY DAY 2019

Ed Baker, senior advisor

2nd July 2019



Why is this important for investors?

What have your international peers done?

What do investors want from companies?

PRI at a glance PRI

Launched in April 2006 at the NYSE, the Principles for Responsible Investment has:

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UN PARTNERS:

UNEP FINANCE INITIATIVE
UN GLOBAL COMPACT



2400+

SIGNATORIES:

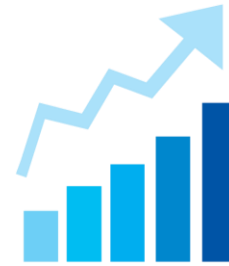
ASSET OWNERS,
INVESTMENT
MANAGERS
AND SERVICE
PROVIDERS



89+

US\$ TRILLION:

ASSETS UNDER
MANAGEMENT



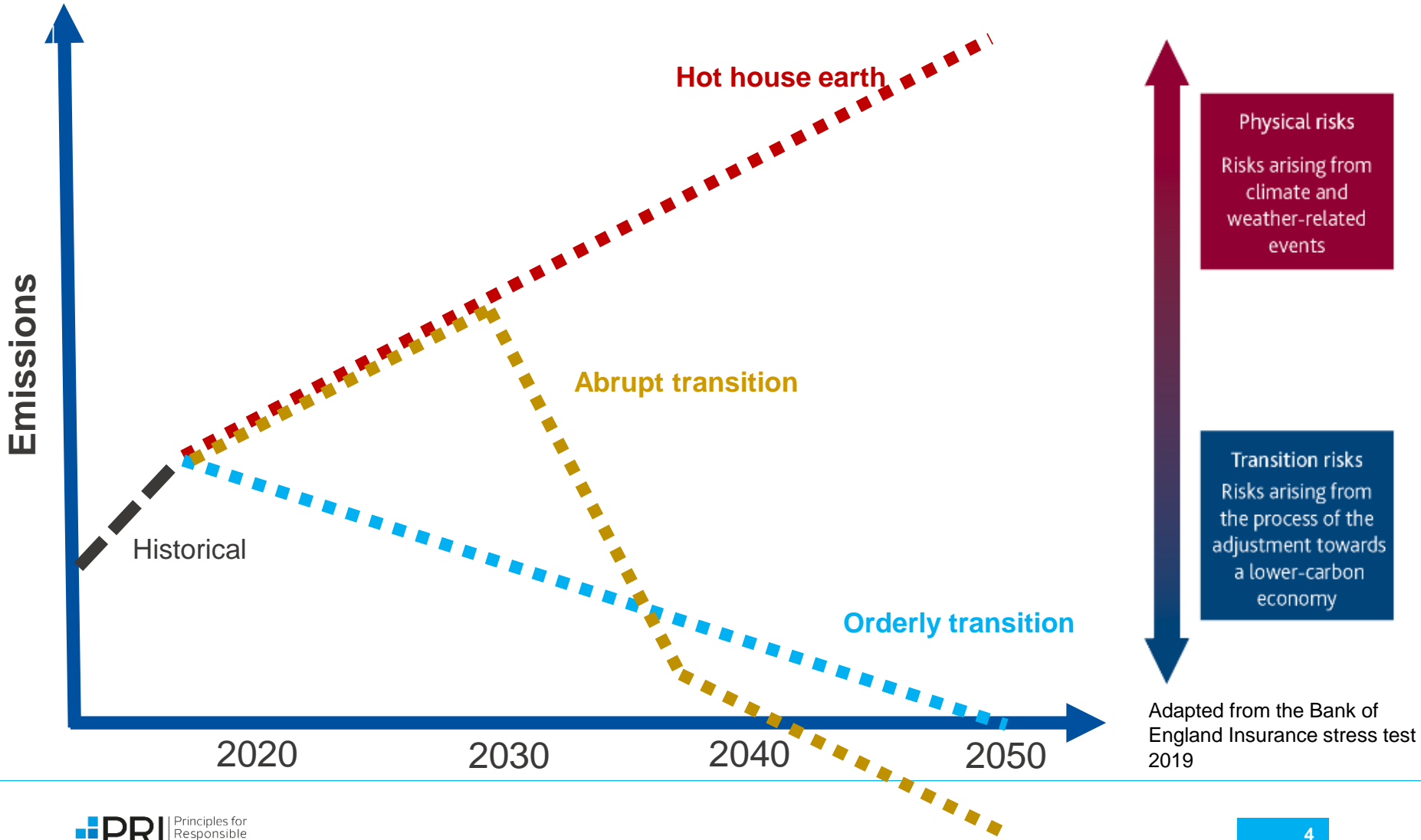
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PRINCIPLES:

RECOGNISING THE
MATERIALITY OF
ENVIRONMENTAL,
SOCIAL AND
CORPORATE
GOVERNANCE ISSUES



Three representative scenarios for the future



The Inevitable Policy Response: Act Now

Need for critical thinking on climate scenarios



- The PRI is aware that the longer the delay in climate policy action, the more forceful and urgent the policy response will inevitably need to be.
- The PRI is supporting the development of a body of work on an inevitable, rapid and forceful climate policy response.
- This will help institutional investors take action and implement processes to build resilience across investment portfolios, now and into the future.

TCFD recommendations

Core Elements of Recommended Climate-Related Financial Disclosures



Governance

The organization's governance around climate-related risks and opportunities

Strategy

The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management

The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities

EU Sustainable Finance Taxonomy

The EU taxonomy is a tool to help investors and issuers understand whether an economic activity is environmentally sustainable.

It sets performance criteria for economic activities based on six environmental objectives.

Environmental objectives

1. **Climate change mitigation**
2. **Climate change adaptation**
3. Sustainable use and protection of water and marine resources
4. Transition to a circular economy, waste prevention and recycling
5. Pollution prevention and control
6. Protection of healthy ecosystems

Why is this important for investors?

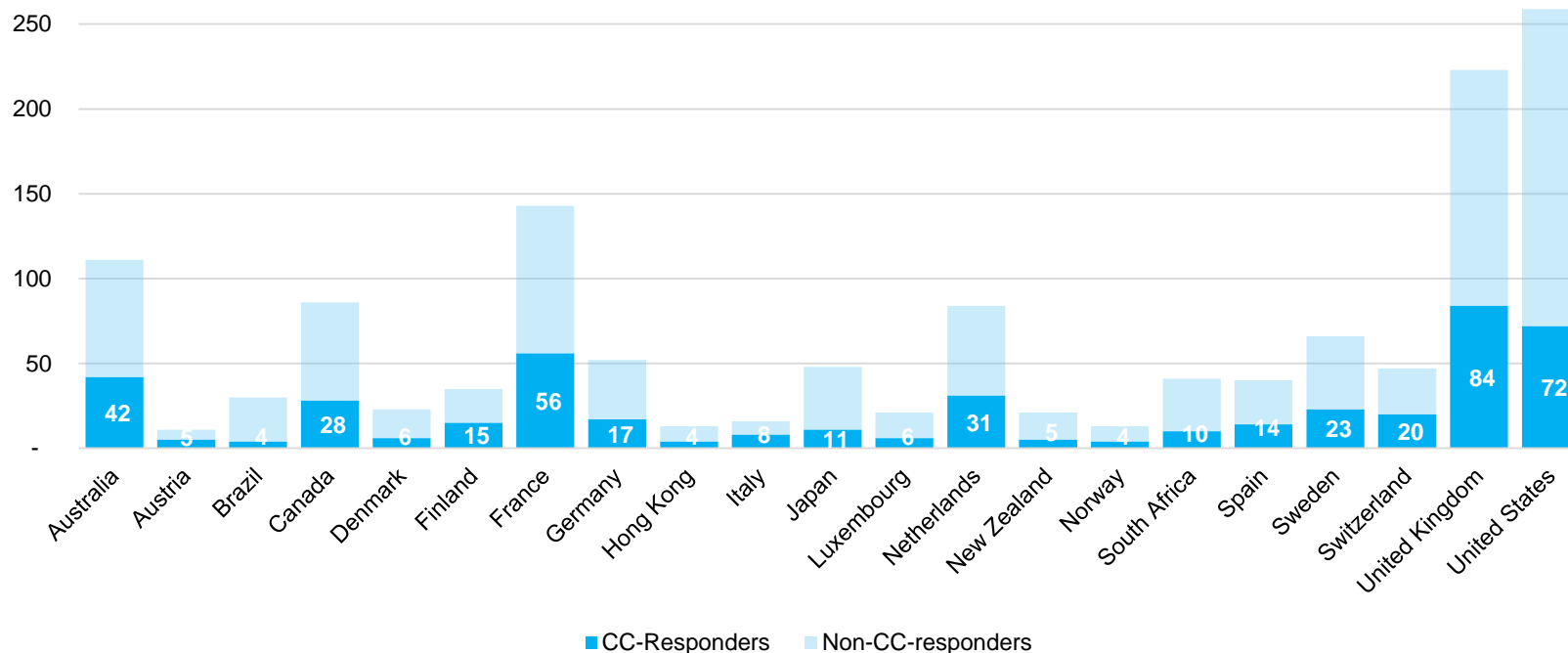
What have your international peers done?

What do investors want from companies?

How have investors been responding to TCFD?

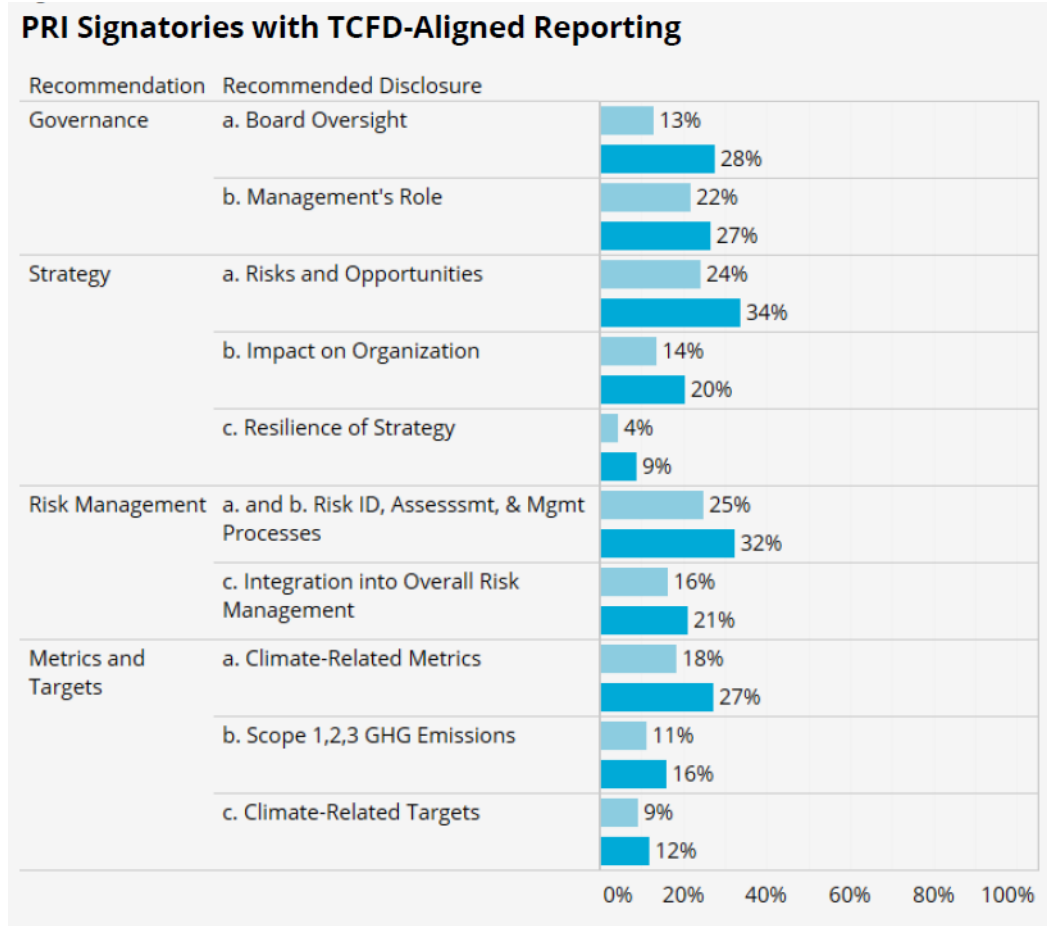
Number of responses to the PRI 2018 climate indicators - 480 investors representing US\$42trn AUM

Signatories reporting on Climate Change



In depth analysis of responses published in the PRI climate snapshot

How have investors been responding?

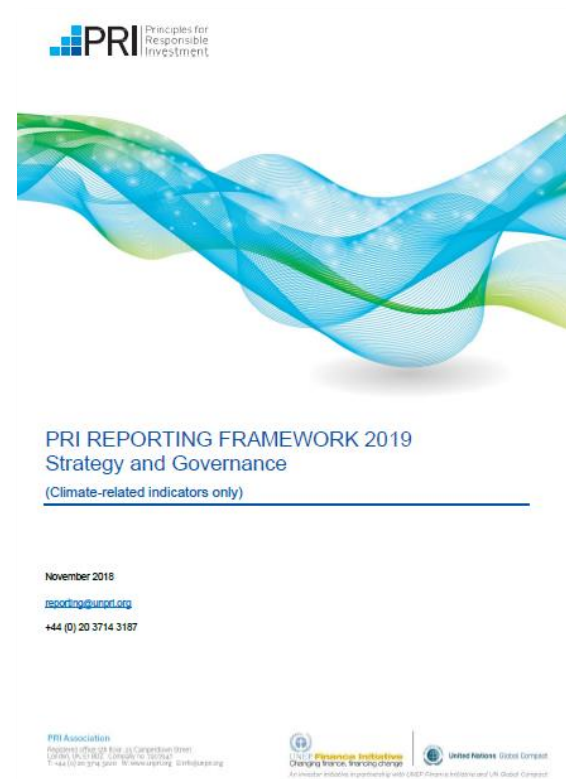


asset manager (in total 1,111)
asset owner (in total 338)

PRI mandatory TCFD reporting

For Strategy & Governance Indicators

- Governance & strategy indicators to become a reporting requirement at the end of March 2020.
- Mandatory to report, but voluntary to disclose.
- Indicator question published in the press release with links to a resources page and indicator guidance



Four categories of investor responses

NOT
RESPONDING

RESPONSIVE
- Acknowledging,
but not assigned
resources, no
external disclosure

RESPONSIBLE
- Assigned RI
resource
covering
climate,
investigating
TCFD but do
not have a
board approved
plan

STRATEGIC
- Board multi-year
implementation
plan on climate
risks.
- Integration with
risk management
& engagement
practice
- Tilting toward low
carbon solutions

Multi-year implementation strategies



Australian asset owner, invests over \$A47 bn

Announced a multi-year board approved implementation plan for TCFD

TCFD targets for fund managers

Full compliance against TCFD recommendation by June 2020

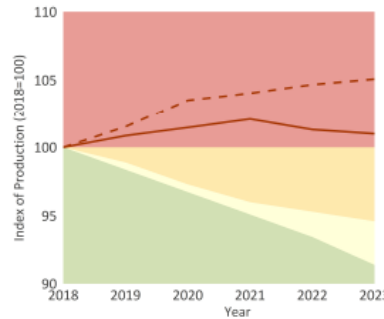
Available guides and tools

TCFD AO guide

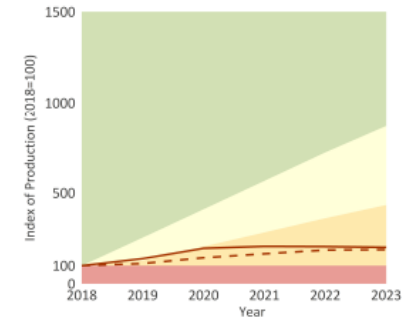


PACTA climate scenario tool

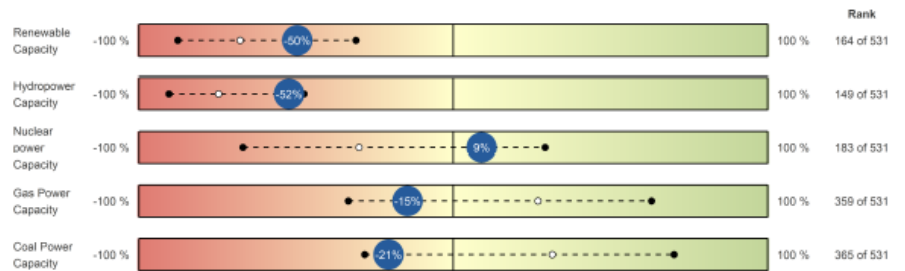
Trajectory of Combustion Engine Vehicle Production



Trajectory of Electric Vehicle Production



Range of Temperatures Specified by IEA Scenarios: $\leq 2^{\circ}\text{C}$ (IEA 2DS), $2^{\circ}\text{C} - 4^{\circ}\text{C}$ (IEA 4DS), $4^{\circ}\text{C} - 6^{\circ}\text{C}$ (IEA 6DS), $\geq 6^{\circ}\text{C}$.
 Portfolios: Aggregated Bond Portfolio (solid blue), Global Bond Universe (dashed blue), Aggregated Equity Portfolio (solid red), Listed Equity Market (dashed red).



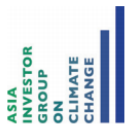
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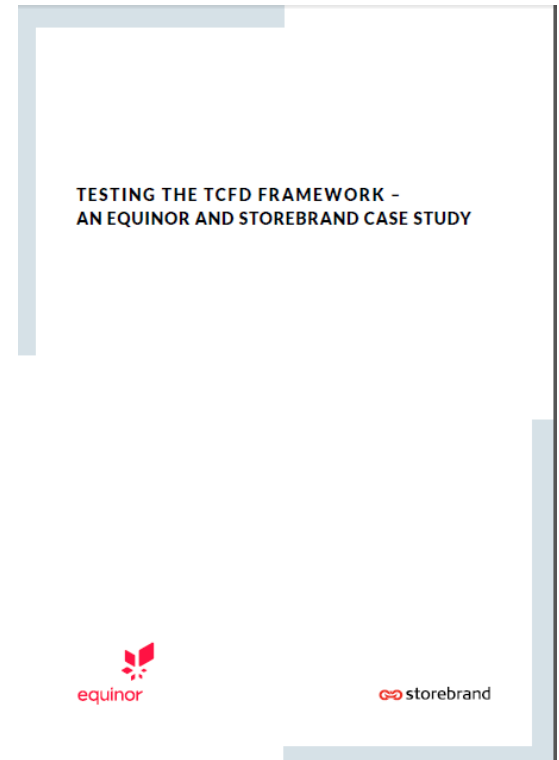
Key asks of Climate Action 100+

- 1) **Implement a strong governance framework** which clearly articulates the board's accountability and oversight on climate
- 2) **Take action to reduce greenhouse gas emissions across the value chain**, consistent with the Paris Agreement's goal;
- 3) **Provide enhanced corporate disclosure** in line with the TCFD



Case study Equinor & Storebrand

- Joint investor – company TCFD report, highlights use of scenarios, metrics, disclosure format, materiality.
- Equinor metrics:
 - Water efficiency (fresh water consumption)
 - Upstream carbon intensity
 - Targets for renewables & CCUS capex
 - And low carbon R&D
- Joint statement with CA100+, agreed to assess portfolio & capex with to below 2° scenario analysis, linking CEO pay to climate KPIs.



SUMMARY

- The trend is your friend. Climate risk factors will grow over time.
- TCFD is the best available framework for assessing risks and positioning strategy for the low carbon transition.
- PRI seeks to reduce information barriers through guides and tools, collaboration platforms and the reporting framework

Thank you

Any questions?

The Transition Pathway Initiative

LEVEL 0 UNAWARE / NOT ACKNOWLEDGING

Company does not recognise climate change as a significant issue for the business

LEVEL 1 ACKNOWLEDGEMENT

Company explicitly recognises climate change as a significant issue for the business

Company has a policy (or equivalent) commitment to action on climate change

LEVEL 2 BUILDING CAPACITY

Company has set energy efficiency or relative or absolute GHG emission reduction targets

Company has published info on its Scope 1 & 2 GHG emissions

LEVEL 3 INTEGRATED INTO OPERATIONAL DECISION MAKING

Company has nominated a board member or board committee with explicit responsibility for oversight of the climate change policy

Company has set quantitative targets for reducing Scope 1 & 2 GHG emissions (relative or absolute)

Company reports on its Scope 3 GHG emissions

Company has had its Scope 1 & 2 GHG emissions data verified

Company supports domestic & international efforts to mitigate climate change

LEVEL 4 STRATEGIC ASSESSMENT

Company has reduced its Scope 1 & 2 GHG emissions over the past 3 years

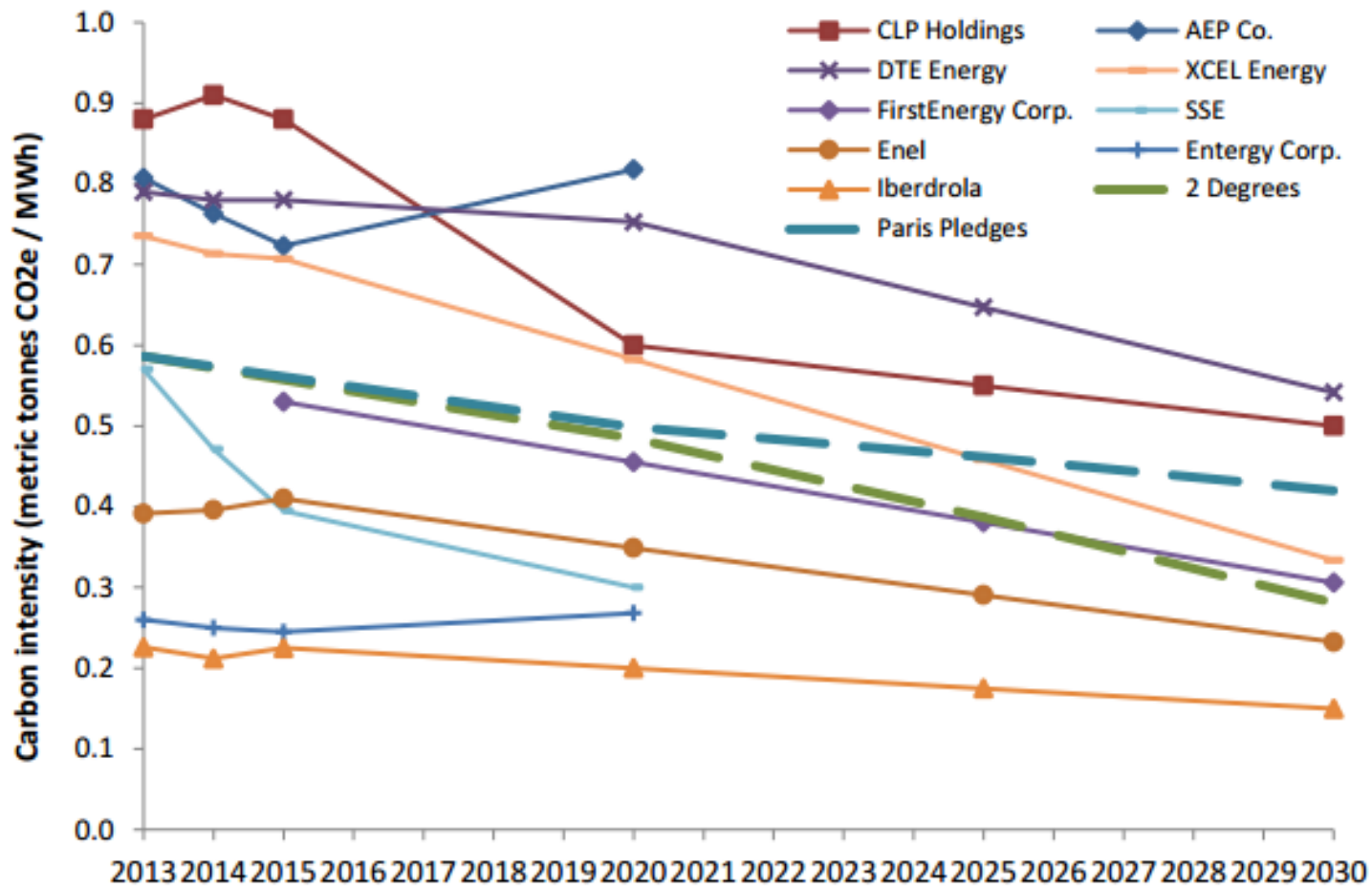
Company provides information on the business costs associated with climate change

Company has set long-term quantitative targets (>5 years) for reducing its GHG emissions

Company has incorporated ESG issues into executive remuneration

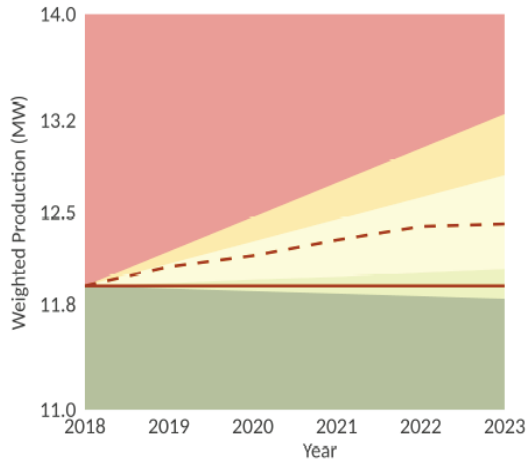
The Transition Pathway Initiative

Figure 1 Emissions intensity paths for companies with targets

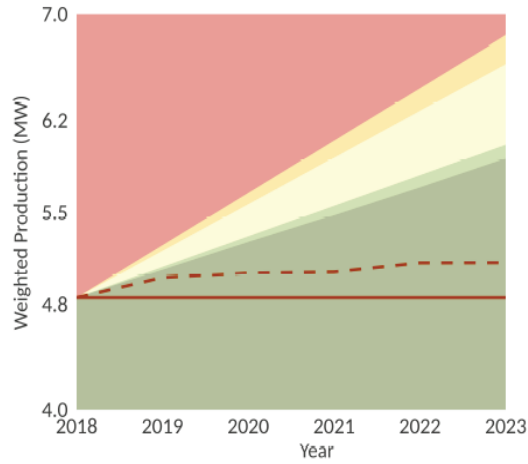


PACTA – 2 Degrees Investing Initiative

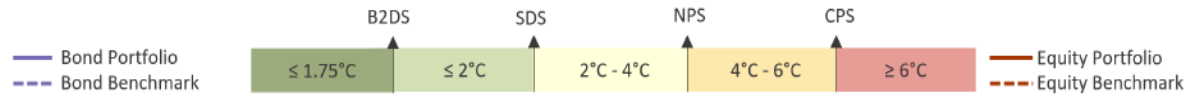
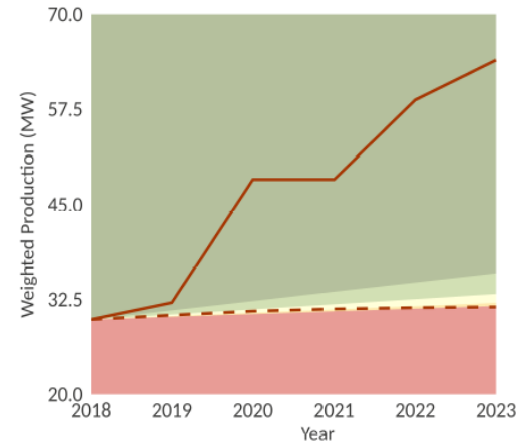
Trajectory of Coal Power Capacity



Trajectory of Gas Power Capacity



Trajectory of Renewable Power Capacity*



Carbon Delta, UNEP FI and Vivid Economics

Figure 1: Analytical elements of scenario-based impact assessments

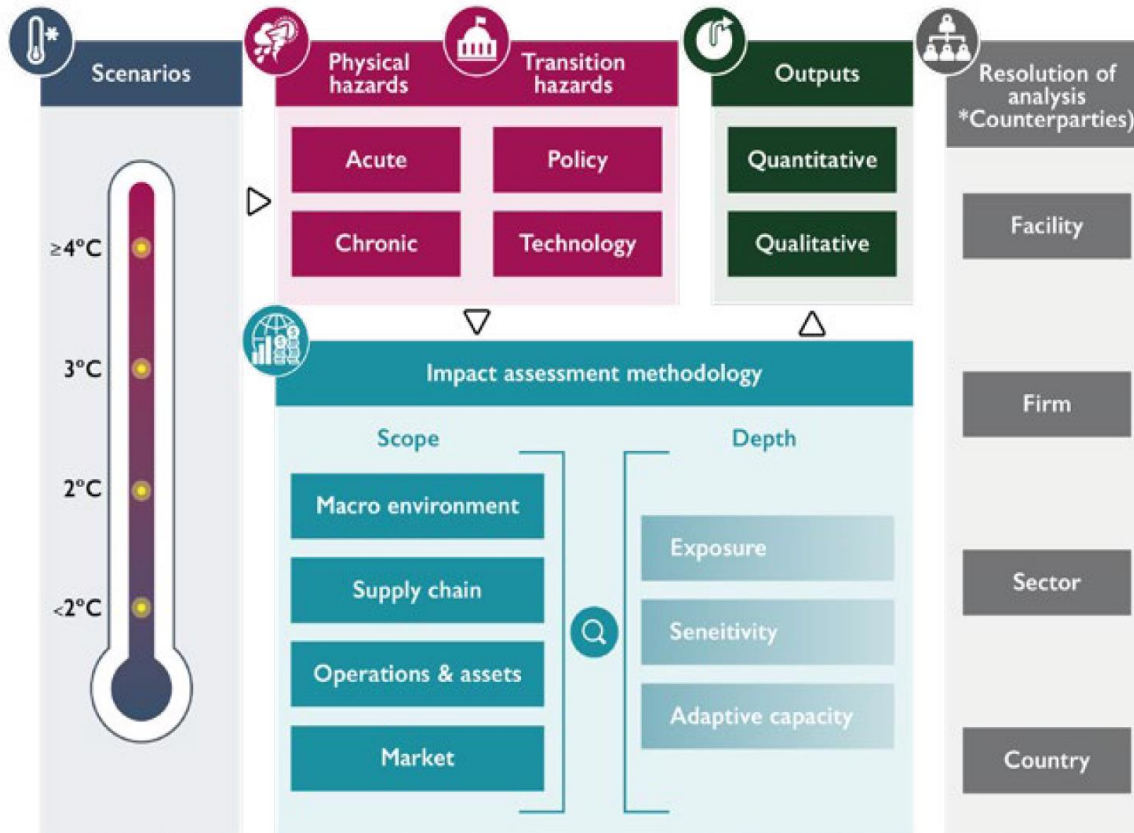
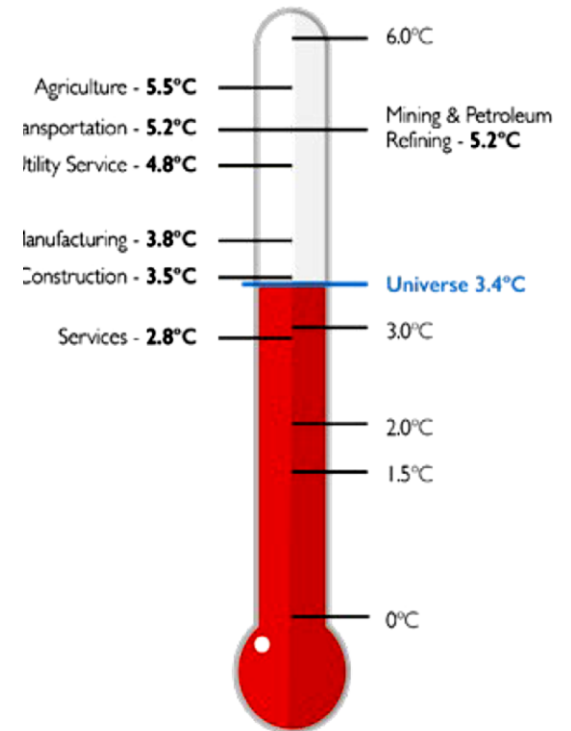


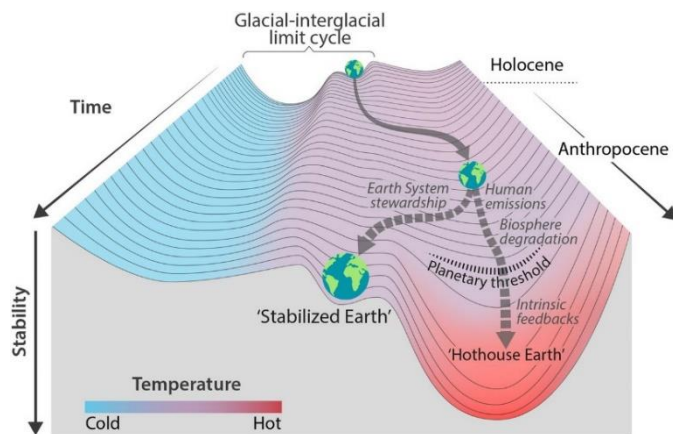
Figure 13: Portfolio Temperature Gauge



Climate change: why should investors care?

Two types of climate-related risk

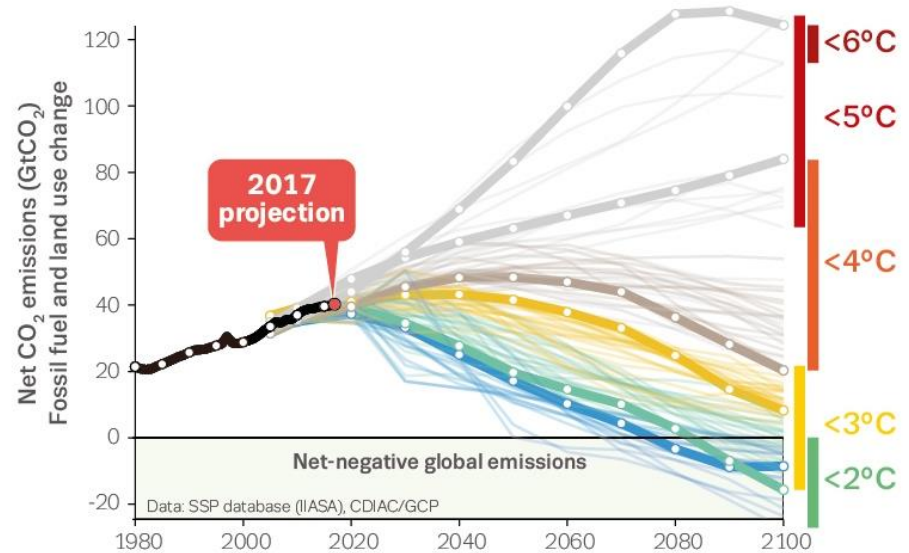
Physical risks – “hothouse earth”



Source: Trajectories of the Earth System in the Anthropocene, Steffen et al

<http://www.pnas.org/content/115/33/8252>

Transition risks



Source: Future Earth

<http://futureearth.org/blog/Budget2017>

How is an economic activity assessed?

Substantially contribute
to at least one of the six
environmental objectives
as defined in the proposed
Regulation



Do no significant harm to
any of the other five
environmental objectives as
defined in the proposed
Regulation



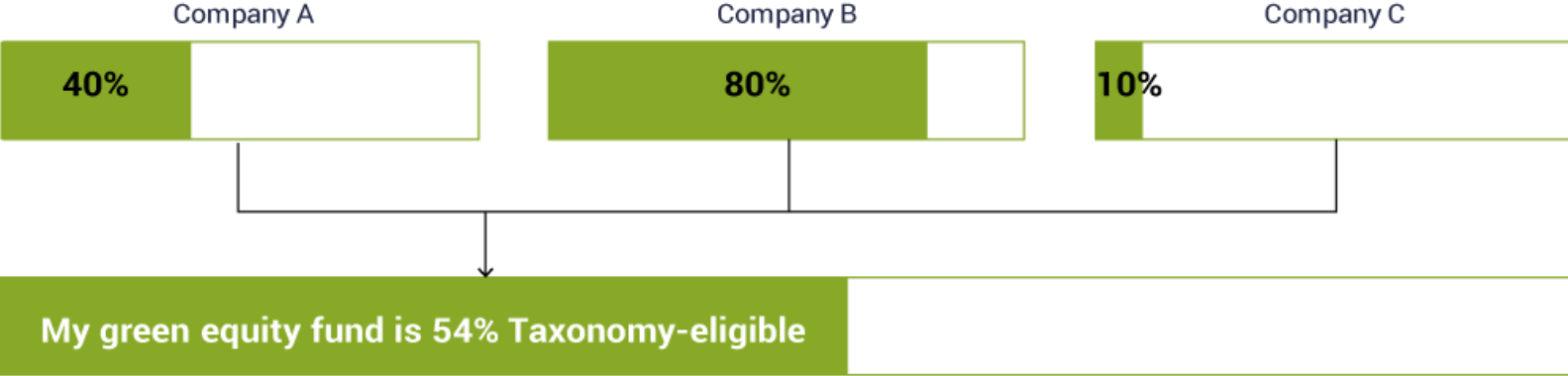
Comply with
**minimum
safeguards**

Calculating the proportion of investments funding Taxonomy-eligible activities

How to apply the taxonomy to an equity portfolio



Proportion of the company revenue or turnover



Add each company's weighting in the portfolio