

THE PRI AND SSF PRESENT:



TCFD AND SDGS
USING EXISTING GLOBAL FRAMEWORKS
TO ENSURE MORE RESILIENT INVESTMENTS

TCFD and how Investors can position themselves for a low carbon economy

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6th November 2019



PRI at a glance

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

2

UN PARTNERS:
UNEP FINANCE INITIATIVE
UN GLOBAL COMPACT



2600+

SIGNATORIES:
ASSET OWNERS,
INVESTMENT
MANAGERS
AND SERVICE
PROVIDERS



89+

US\$ TRILLION:
ASSETS UNDER
MANAGEMENT



6

PRINCIPLES:
RECOGNISING THE
MATERIALITY OF
ENVIRONMENTAL,
SOCIAL AND
CORPORATE
GOVERNANCE ISSUES



Growing interest from regulators



中国金融学会绿色金融专业委员会
Green Finance Committee, China Society for Finance and Banking



Is TCFD only about reporting?



- Could climate change be source of mission failure for pension funds?

Value of TCFD is in:

- Testing the resilience of the investment strategy
- And structuring investor - corporate engagement

Taskforce on Climate-related Financial Disclosures (TCFD)

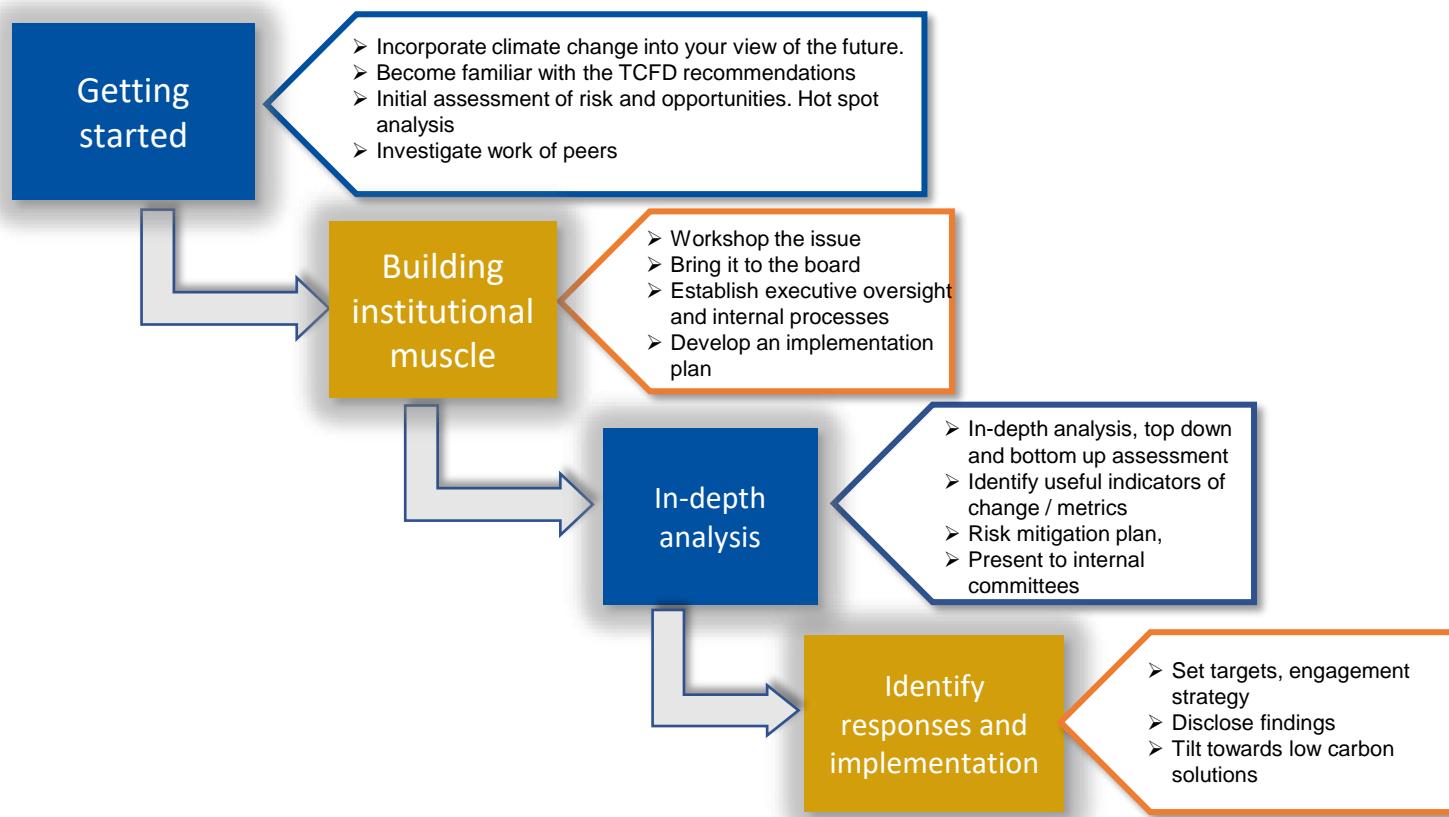
| Governance | Strategy | Risk Management | Metrics and Targets |
|---|---|---|---|
| Disclose the organization's governance around climate-related risks and opportunities. | Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material. | Disclose how the organization identifies, assesses, and manages climate-related risks. | Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material. |
| Recommended Disclosures | Recommended Disclosures | Recommended Disclosures | Recommended Disclosures |
| a) Describe the board's oversight of climate-related risks and opportunities. b) Describe management's role in assessing and managing climate-related risks and opportunities. | a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term. b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning. c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario. | a) Describe the organization's processes for identifying and assessing climate-related risks. b) Describe the organization's processes for managing climate-related risks. c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management. | a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process. b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets. |

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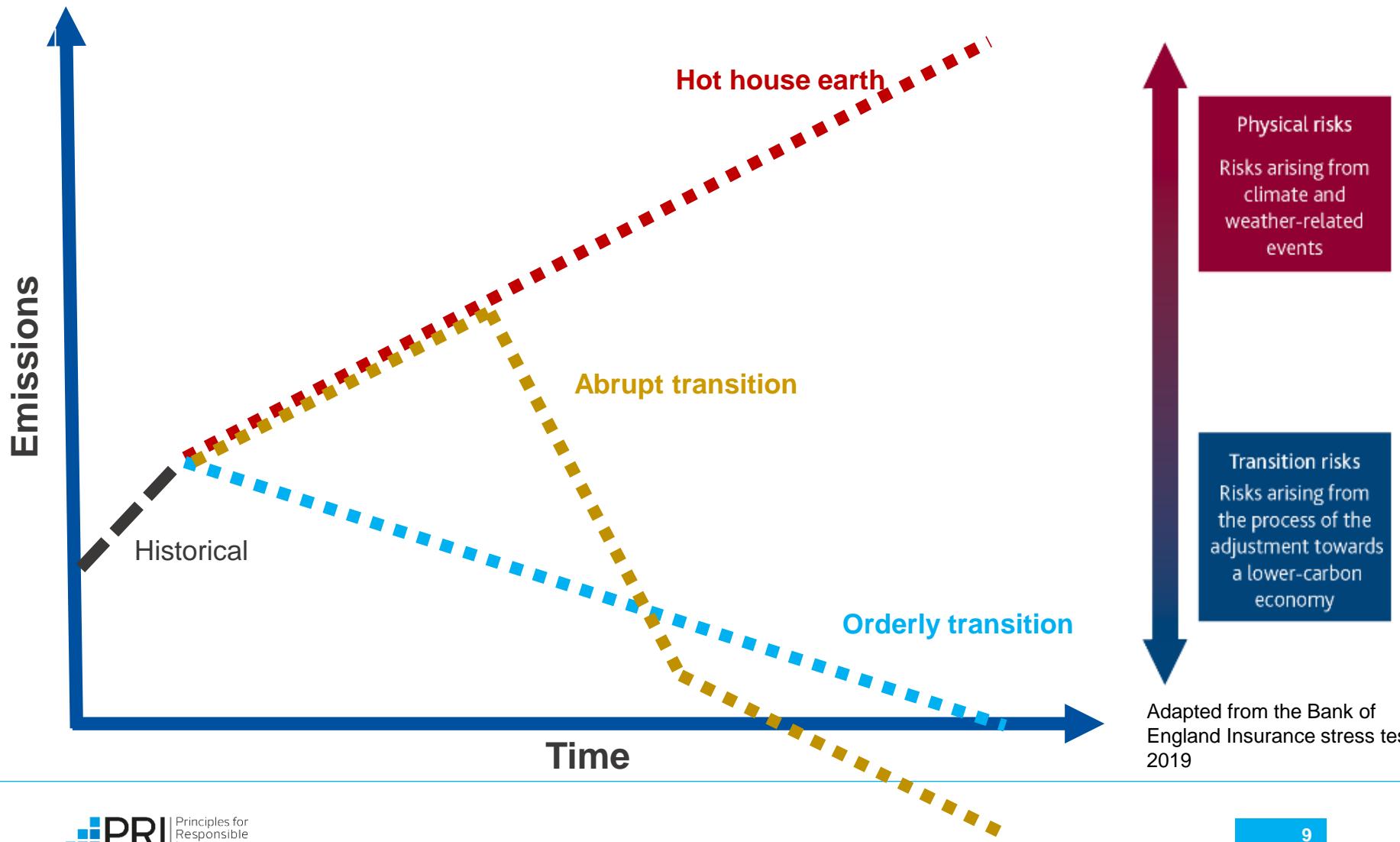
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How to put the recommendations into practice

A four step guide



Three representative scenarios for the future



The Inevitable Policy Response: Act Now

Need for critical thinking on climate scenarios

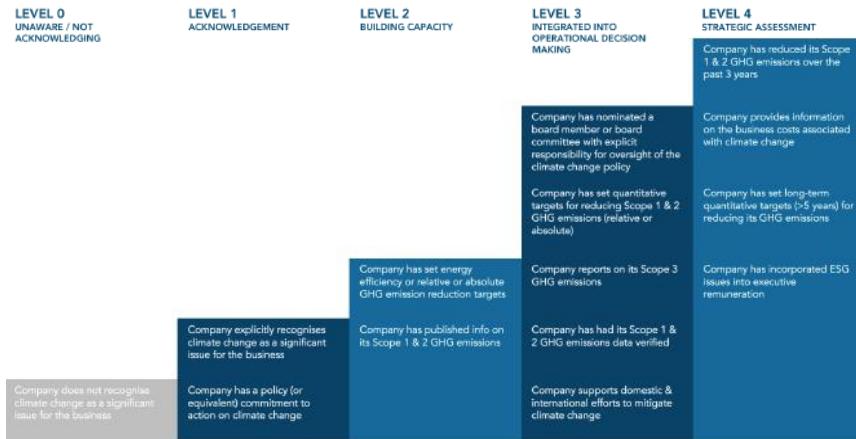


INEVITABLE
POLICY
RESPONSE

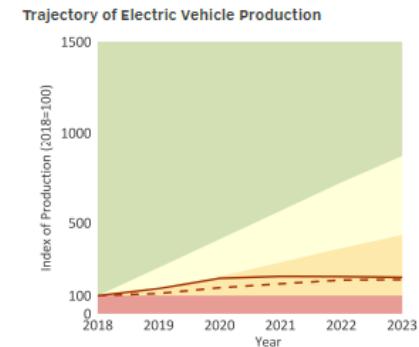
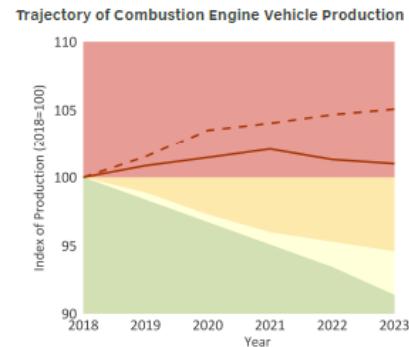
- A forceful policy response to climate change is not priced into today's markets.
- Yet it is inevitable that governments will be forced to act more decisively than they have so far, leaving investor portfolios **exposed to significant risk**.
- The longer the delay, the more disorderly, disruptive and abrupt the policy will inevitably be.

TCFD – free-to-use tools

Transition Pathway Initiative

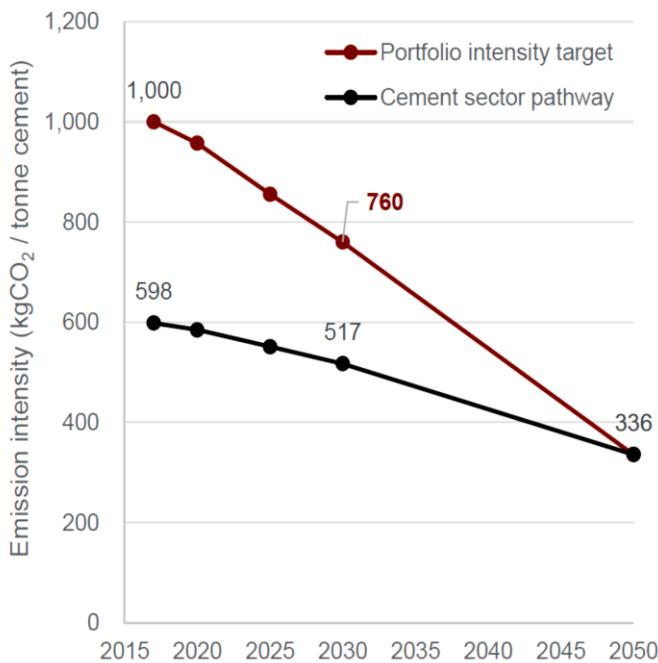


PACTA climate scenario tool



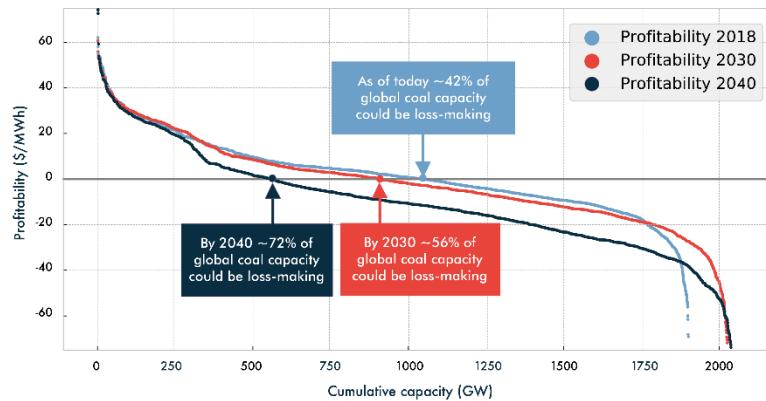
TCFD – free-to-use tools

Science based targets



Carbon Tracker

Global gross profitability curve of coal capacity existing and under construction



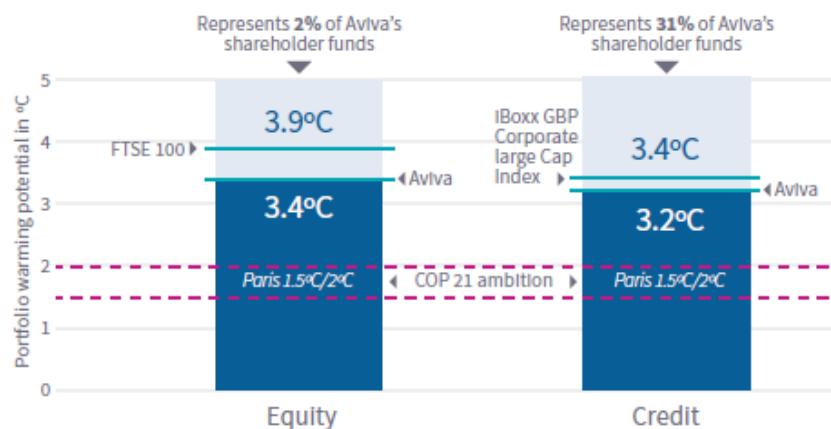
TCFD: overview of free-to-use tools

| Name | Asset classes | Alignment test | Company engagement | Financial analysis |
|-----------------------------------|-------------------------------|----------------|--------------------|--------------------|
| Portfolio screening tools | | | | |
| PACTA | Public equity, corp. bonds | | Under development | |
| IPR | TBC | | | |
| Sector / company engagement tools | | | | |
| TPI | Public equities | | | |
| Carbon tracker | Oil gas, coal Equities | | | |
| Science based targets | Equities, corp. bonds | | | |

Case Study Aviva Investors

Aviva has used Carbon Delta's warming potential metric to assess our corporate credit and equities shareholder funds' alignment with the Paris agreement 2°C target. This is calculated as a weighted average of individual issuers' warming potential, which is based on the alignment of each company within the portfolio to the sectoral Greenhouse gas emission intensity needed for each sector to make its contribution to reach the global 2°C target.

Corporate credit and equities warming potential (in °C) for Aviva's shareholder funds as at 31/12/2018. Source: Carbon Delta.



► The actions we are taking to reduce our investment exposure to carbon intensive sectors over time should lead to a reduction of the warming potential of our investment portfolio. The analysis found that Carbon Delta's warming potential of our equity portfolio at 3.4°C was 0.5°C below that of the FTSE 100 and the warming potential of our corporate credit portfolio at 3.2°C was 0.2°C below that of the iBoxx GBP Liquid Corporate Large Cap Index. This analysis does not include our investments in sovereign, real estate and infrastructure assets where we have heavily invested in green assets.

Case Study Aviva Investors

1.

Aviva is most exposed to the 4°C scenario where physical risk dominates, negatively impacting long-term investment returns on equities, corporate bonds, real estate, real estate loans and sovereign exposures. The aggressive mitigation 1.5°C scenario is the only scenario with potential upside.

2.

When aggregated together to determine an overall impact of climate-related risks and opportunities across all scenarios, the plausible range is dominated by the results of the 3°C and 4°C scenarios, reflecting that neither existing or planned policy actions are sufficiently ambitious to meet the Paris agreement goal.

3.

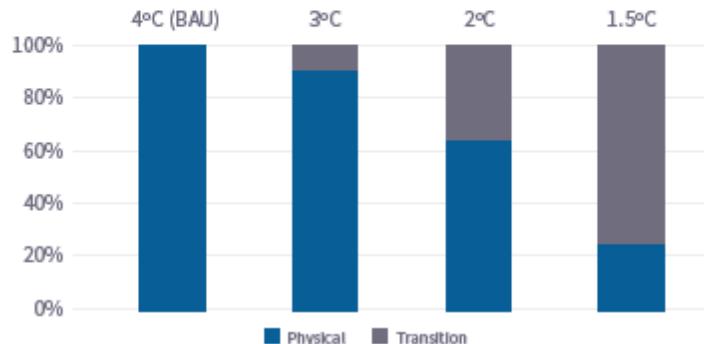
The 1.5°C scenario is dominated by transition risk, even after taking into account mitigating technology opportunities. In the 2°C scenario, transition and physical risks are more evenly balanced, whereas in the 3°C and 4°C scenarios physical risk dominates.

Initial Climate VaR output by scenario for Aviva's shareholder funds as at 31/12/2018. Source: Aviva.



The grey bars represent the range of outputs between the 5th Percentile and the central estimate for each scenario and the orange bars the range between the central estimate and the 95th Percentile.

Physical versus transition risks by scenario for Aviva's shareholder funds as at 31/12/2018. Source: Aviva.



Climate Action 100+

373 investors representing \$35 trillion

Engaging 161 companies in 33 markets

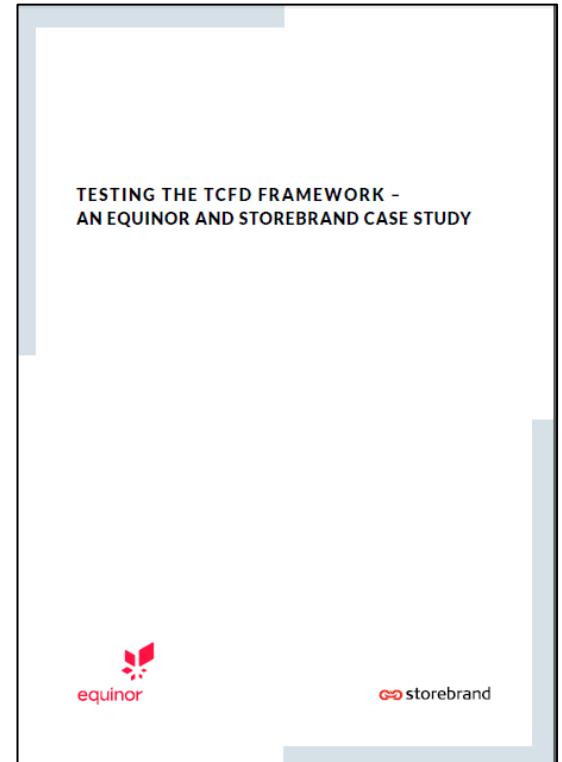
Progress report

- Public commitments from 12 companies
- Only 9% of companies aligned with Paris



Case study Equinor & Storebrand

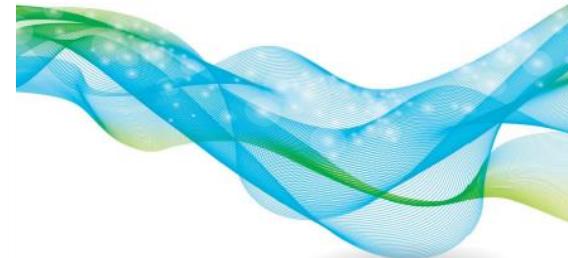
- Joint investor – company TCFD report, highlights use of scenarios, metrics, disclosure format, materiality.
- Equinor metrics:
 - Water efficiency (fresh water consumption)
 - Upstream carbon intensity
 - Targets for renewables & CCUS capex
 - And low carbon R&D
- Joint statement with CA100+, agreed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



Climate risk reporting for PRI signatories

Introduced in January 2018

- 20 open and closed indicator questions.
- Voluntary in 2018 & 2019. Responses can be public or private
- 1,707 asset owners and asset managers were eligible to report in 2019.
- Governance & strategy indicator questions to become **mandatory to report – but still voluntary to disclose - for PRI signatories from Q1 2019**



PRI REPORTING FRAMEWORK 2019 Strategy and Governance

(Climate-related indicators only)

November 2018

reporting@unpri.org

+44 (0) 20 3714 3187

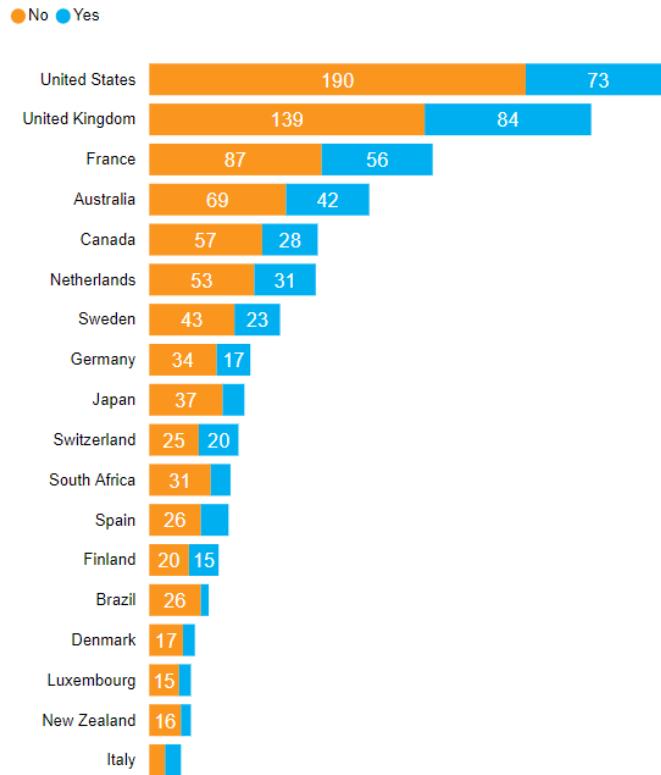
PRI Association
Argonaut Office 10 Floor, 11 Conduit Street
London WC1R 4BS, United Kingdom
T: +44 (0)20 3714 3187 | W: www.unpri.org

UFI **Finance Initiative**
Changing Finance, Financing Change
An initiative initiated by CDP, Climate Disclosure, and UN Global Compact

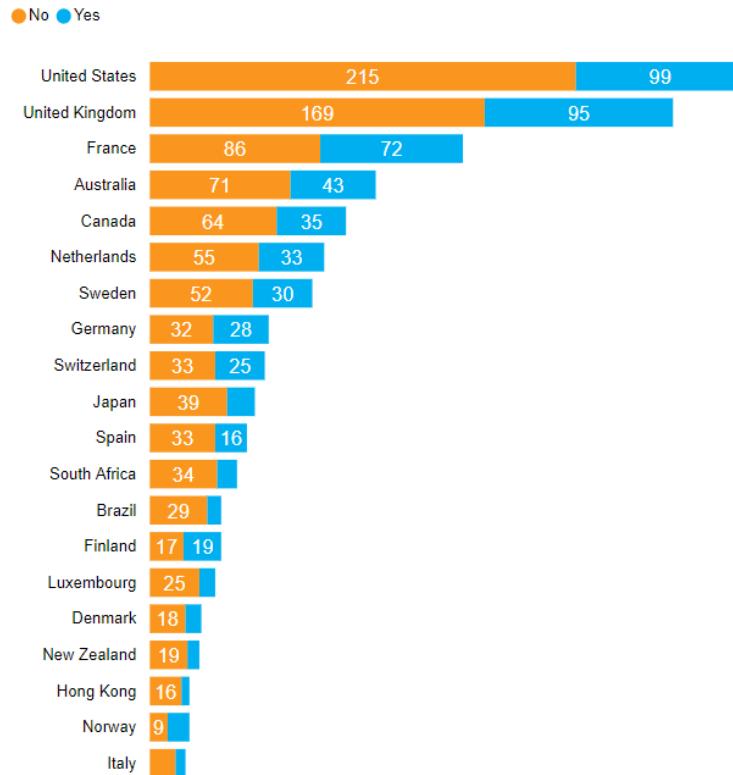
591 investors \$49 tr AUM reported to PRI in 2019

221 investors in 23 countries opted to make their responses public

Opted into climate change reporting (2018)



Opted into climate change reporting (2019)



Anonymous interpretation of reporting

Grouping signatories' responses over four categories

NOT REPORTING
1119 (65%)

RESPONSIVE
454 (27%)
Opted to make
responses private
or a public yet
partial response

RESPONSIBLE
106 (6%)

Public response.
Has done scenario
analysis, and
describes results

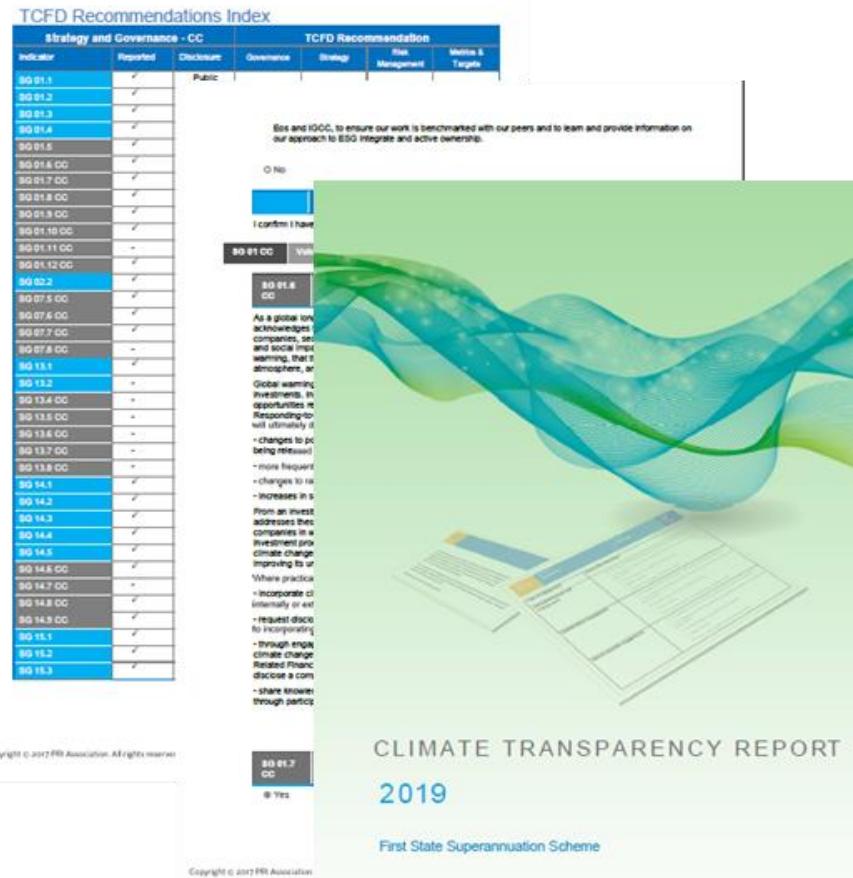
STRATEGIC

29 (2%)

Public response.
Publicly supports
TCFD, & board
approved
implementation
plan, & considers
short and long
term climate risks,
& published
climate targets

PRI climate snapshot 2019

- Dynamic aggregated analysis of 591 investors signatories with \$49 trillion
- 221 investors climate reports
- Anonymous interpretation of the responses grouping signatories across four categories



TCFD & EU Taxonomy

Do they fit together?

- Designed to do different things:
 - TCFD: the greening of finance
 - EU Taxonomy: financing of green

And yet:

- Mass adoption of TCFD will increased demand for better metrics
- Taxonomy could be used as screening tool for climate scenario analysis



SUMMARY

- Momentum behind TCFD is building
- Start simple and gradually build complexity over time
- PRI Climate risk reporting on governance and strategy indicators to become mandatory January 2020.
- The analysis can go wrong if investors just focus on climate

SDG Outcomes

Switzerland, November 5th and 6th



Role of investors – SDG outcomes

There is significant potential for investors to contribute to SDGs:

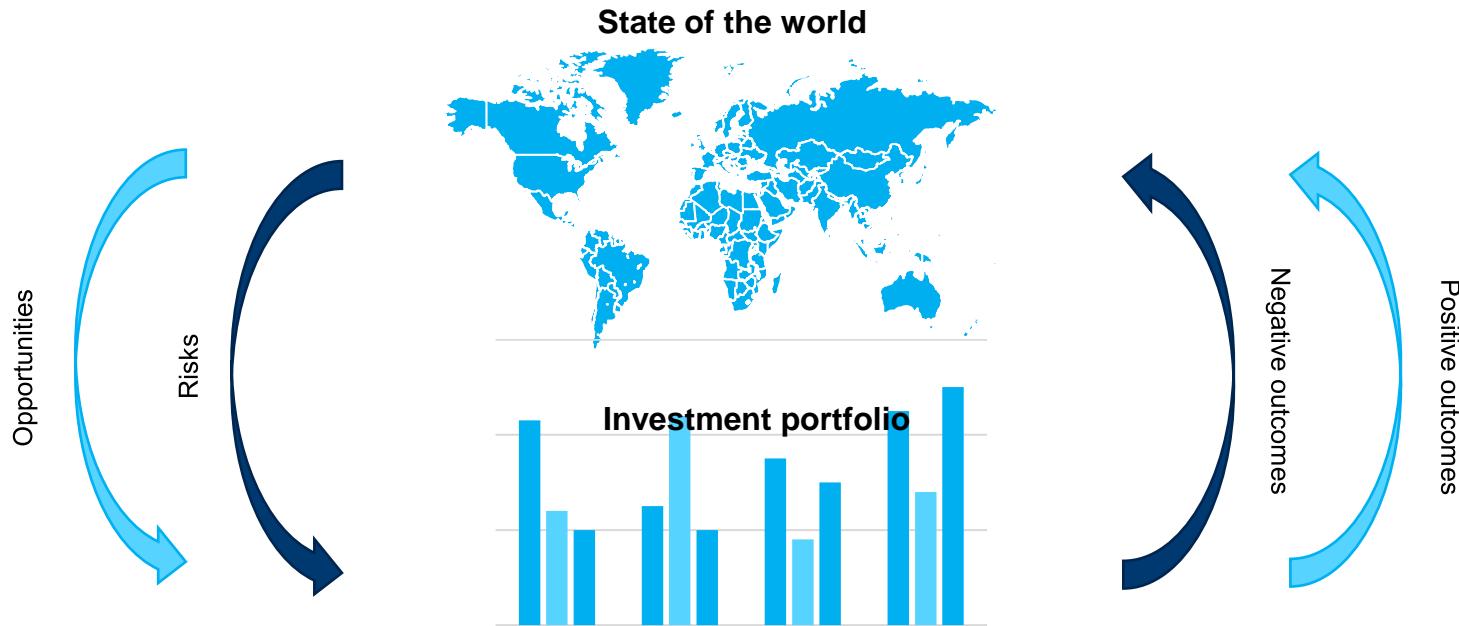
- All investments influence *outcomes* in the environment and society
- Investors can make a substantial and systemic contribution to SDG *outcomes*
- PRI signatories (with \$US 86 trillion in AUM) can play a unique role through seeking to increase positive *outcomes* and decrease negative *outcomes* from their investments

PRI has a mandate to support this contribution:

- PRI can support signatories to contribute to SDG *outcomes* by 2030, by:
 - “bringing responsible investors together to work towards sustainable markets that contribute to a more prosperous world for all”
 - “enabling signatories to improve the real world – now and in the future – by encouraging investments that contribute to prosperous and inclusive societies for current and future generations”
 - “enabling real-world impact aligned with the SDGs”
 - (PRI Blueprint, 2017-27)

Real world OUTCOMES in the investment cycle

Why?

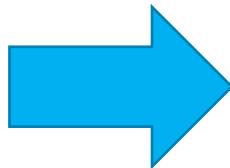


Sustainability impact is the change in outcome (positive or negative) caused by an organisation, directly or indirectly, wholly or partially, intended or unintended, on at least one of the 3 pillars of sustainable development: social, economic, environment.

Outcome is the result or effect of an action.

Role of investors – SDG OUTCOMES

To contribute to the SDGs investors must understand the positive and negative *outcomes* from their investments and related activities and how they can shape those *outcomes*.



1. Assess and Understand

2. Set Policies and Targets

3. Achieve and Monitor Progress - Individual

4. Achieve and Monitor Progress - System



PRI aims to support investors who want to contribute to the SDGs with clear ideas and tools about how to assess, track and achieve *outcomes* – across:

- a) Investment allocations,
- b) Stewardship of investments,
- c) Dialogue with policy makers and key stakeholders, and
- d) Disclosure and reporting.

Role of investors – SDG OUTCOMES

1. Assess and Understand

Individual investors seek to assess and understand ‘collateral’ SDG outcomes linked to current investment activities

2. Set Policies and Targets

Individual investors set targets and policies re. contribution to SDGs (qualitative and quantitative)

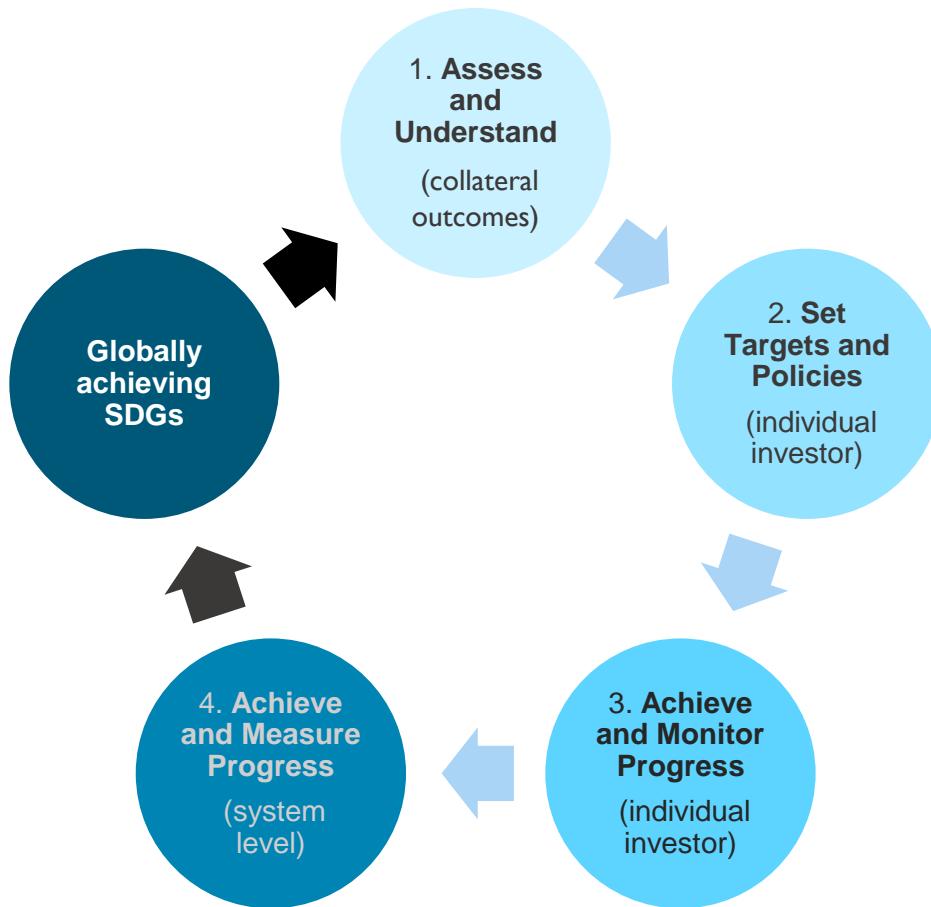
3. Achieve and Monitor Progress – Individual Investors

Individual investors seek to increase positive outcomes and decrease negative outcomes and monitor progress toward those objectives – micro and meso targets

4. Achieve and Monitor Progress – System

Investors act at scale to increase positive outcomes and decrease negative outcomes – and track collective progress (against gap) – macro targets

Role of investors – SDG OUTCOMES



Case study – Investment Manager (engagement)

Assets under management: €122 bn

- ‘At a time when investors are increasingly required to report on the true impact of their investments in communities, IM believe the SDGs serve as a guide for leading exchanges with issuers.’
- Topics of dialogue are chosen based on their materiality for considered sectors/companies and after internal ESG analysis.
 - Large-scale food contribute to loss of biodiversity, depleting soils that, in turn, require fertilisers, and affect water and its availability.
 - Agriculture, accounts for over 20% of global anthropogenic greenhouse gas emissions.
 - Shifts in diet patterns have strong social consequences ranging from land grabbing in developing countries to food safety concerns and public health issues.

Case study – Investment Manager (engagement)

Assets under management: €122 bn

- Food engagement case:
 - individual dialogue targeting product reformulation with companies from the food and beverage and food staples retailing sectors;
 - actively supporting two collaborative initiatives on the use of sustainable proteins and antibiotics; and
 - supporting shareholder resolutions calling for more sustainable agriculture practices, including the limited use of pesticides.

Thank you