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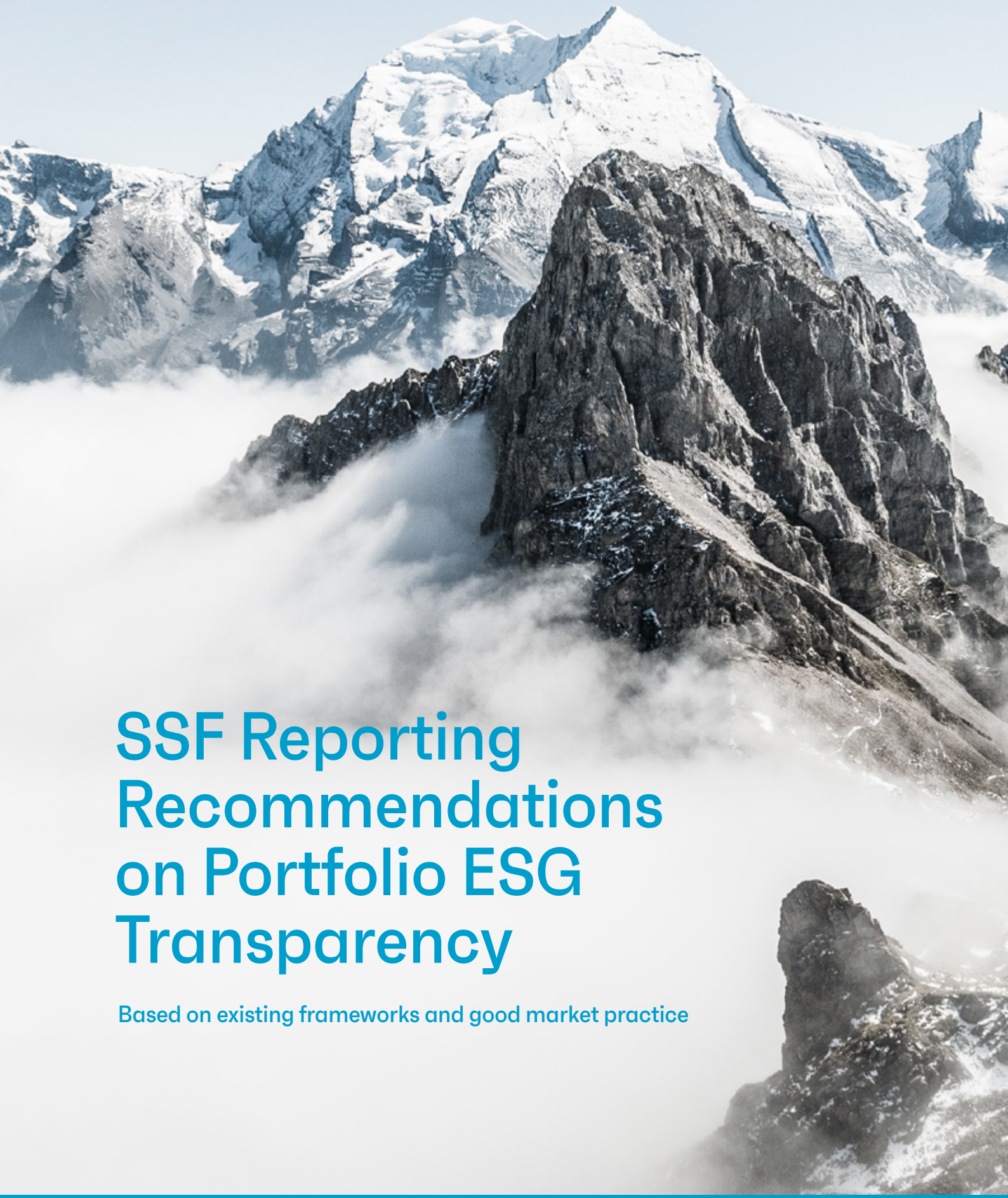

SSF Reporting Recommendations on Portfolio ESG Transparency

Based on existing frameworks and good market practice

Preface by SSF CEO and Workgroup Leaders

In the past year, the call for more ESG transparency for investments has become louder – and rightly so. Both private and institutional investors increasingly want to know if, and how, their investments influence the world. Regulators around the globe are starting to introduce requirements for more ESG investment transparency, be it based on complex taxonomies of economic activities, or sophisticated methods to measure the alignment of portfolios with the Paris goals.

Yet, for both asset managers and asset owners, it is difficult to prepare a simple and concise system of reporting that allows for aggregation across portfolios and provides comparable information to investors. Lack of agreement on relevant qualitative information and quantitative key performance indicators (KPIs), as well as missing data, are factors that hinder investors in preparing such information. These obstacles form the starting point for this project, as many SSF (Swiss Sustainable Finance) membershave called for support in providing lean, yet meaningful ESG portfolio reporting.

But what is the objective of greater investment transparency? For asset managers, transparent reporting helps them build trust with their clients about how ESG factors are dealt with in portfolio management. Furthermore, the definition of KPIs allows them to set targets to improve ESG performance and illustrate their progress. For investors, standardised reporting makes it easier to compare the sustainability performance of different portfolios, while the use of specific KPIs enables the selection of portfolios based on sustainability preferences.

Current reporting appears in varied formats and includes a variety of different sets of KPIs, making meaningful comparisons difficult. With this project, SSF aims to contribute to an agreement on relevant reporting items that allow investors to judge the ESG performance of assets and, where necessary, aggregate this for numerous portfolios. For SSF, it was also key to simultaneously consider the perspective of asset managers, who gather and aggregate data from single issuers, as well as that of asset owners, who often use the services of many asset managers and hence have to combine data received from different providers. The goal of the project was to recommend a set of key data points that provide a concise overview of the ESG performance of a portfolio, while not putting unnecessary reporting burdens on asset managers. By combining the input of both our asset management and asset owner workgroups, we hope to have built a bridge between them and produced a tool that improves the ability of financial market actors to aggregate data across diversified portfolios.

In Europe, the new Sustainable Finance Disclosure Regulation (SFDR) calls for transparency on risk management processes, compensation schemes, attribution to green activities as well as violation of sustainability norms. Yet, we think it fails to agree on how a client should gain a holistic picture of the overall ESG performance of a portfolio. With these recommendations, we aim to fill this gap and suggest concrete reporting items that provide transparency on the sustainability characteristics of a product. As market participants are not all equally advanced in ESG integration and reporting, we formulate our proposals on two levels: Foundational-level reporting for beginners, and Advanced-level reporting for more experienced investors. While the recommendations will not immediately affect data availability on the issuer level, we make proposals about meaningful data points, in the hope that this will influence company reporting over time.

The SSF Reporting Recommendations on Portfolio ESG Transparency are a starting point on the path to more sustainability transparency of Swiss investors. They will have to be tested by different investors and developed further, based on feedback. In addition, we are acting in a constantly changing regulatory environment, and developments in Switzerland, the EU and internationally will have to be considered when further developing the recommendations. International alignment is key in this process and SSF welcomes Switzerland's membership of the "International Platform on Sustainable Finance", where such discussions are held. We look forward to discussing these recommendations within such platforms and with key stakeholders in Switzerland and beyond. We continue to push forward and aim to contribute to increasing and meaningful transparency on the sustainability of all investments – for the benefit of investors and society at large.

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Summary and Key Take-Aways

1.1 Executive Summary

This report summarises the goals, processes and results of a study on meaningful ESG reporting for portfolios[1]. Swiss Sustainable Finance (SSF) commissioned Sustainserv to conduct this study in collaboration with its Institutional Asset Owner and its Wealth & Asset Management workgroups.

Responding to increasing requirements and dynamic market practice

Asset owners and asset managers[2] increasingly face pressure from their stakeholders, including beneficiaries, clients, regulators, and civil society representatives, to provide transparency on the sustainability credentials of their portfolios. Expectations include reporting on ESG performance and in particular, climate-related risks and opportunities of investments, such as those reflected in the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). In addition, current EU regulatory acts, notably the Sustainable Finance Disclosure Regulation (SFDR) with its far-reaching ambitions for ESG integration in investment and retail products, will increasingly require asset managers and asset owners to integrate ESG factors into investment processes and report on these activities with full transparency.

With many regulations currently being introduced or refined, ESG transparency for portfolios is quickly gaining international traction, including in the Swiss financial centre. As the Swiss Federal Council has articulated its expectation that the financial industry will develop adequate solutions, the reporting recommendations outlined by SSF in this paper represent a concrete contribution to meeting this expectation.

Aiming at concise reporting recommendations in line with "next-generation" approaches

This study provides a modern yet concise or "parsimonious[3]" reporting framework, by which we mean a framework that is focused on the essential information for the desired transparency and does not add any more than really necessary to the already hefty reporting burden of the investment industry. The study builds on the current reporting processes for asset owners and asset management firms in Switzerland and internationally, and the applied methodology includes the following three elements:

- investigate good reporting practices,
- gather and consolidate expectations of SSF members for reporting approaches,
- and align good practices and expectations of reporting parties with the numerous requirements for international reporting and transparency frameworks.

The result of this process is an economical and balanced reporting recommendations framework that allows asset owners and asset managers to prepare meaningful reports on the sustainability performance of their portfolios. It differentiates between experienced reporting parties that aim to adopt a common best-practice standard and beginners looking for a sufficiently granular entry level to reporting with moderate effort.

1 This report has a clear focus on the asset classes of listed equities and corporate bonds. While the framework can be applied to other asset classes, e.g. commercial real estate, with minor effort, more assessments would need to be conducted to apply such a framework to the more complex asset classes such as sovereign bonds and alternative investments.

2 For better legibility, we refer to asset managers and asset owners who want to prepare and publish reports on the ESG performance of their portfolios as "reporting parties". They are the target group for applying this reporting framework.

3 'Parsimonious' is a term popularly used in the financial reporting and accounting profession to characterise reports that are oriented toward what is just necessary.

The TCFD framework was used as a prototype of "next-generation" frameworks[4] that approach ESG disclosure from a systemic, comprehensive view and embed numeric key performance indicators (KPIs) in a context that allows meaningful interpretation through the inclusion of aspects such as strategy and risk management. To identify commonalities, nine major frameworks that encompass a cross-section of financial sector requirements have been evaluated on aspects of governance, strategy, risk management, and scenario building, as well as on targets and metrics.

Building on framework comparison, good practice and SSF workgroup input

The identified commonalities and corresponding good practice examples were discussed in workshops conducted with the SSF Institutional Asset Owner and the Wealth & Asset Management workgroups. Based on this assessment, SSF Reporting Recommendations for ESG Transparency of Portfolios were systematically developed through an in-depth research process and discussed with the SSF workgroups.

Based on this research and participation process, the project team together with the workgroups developed the "SSF Reporting Recommendations for ESG Transparency of Portfolios" containing a Foundational-level and an Advanced-level reporting option. In both options, entity-level information about the asset owner or the asset manager is provided upfront, in order to set the context for the asset-level disclosures of the portfolios these organisations hold or manage.

Summarising the SSF Reporting Recommendations and outlining next steps

Section 1.4 presents a compact overview of these two levels of reporting recommendations that can be used as a checklist or simple template for a report. Additional information on the research and development work that led to these recommendations is presented in Sections 2 and 3 of this report.

The next steps foreseen in the development and implementation of the "SSF Reporting Recommendations on ESG Transparency" include pilot testing and, as needed, refining the recommendations to make them fully suitable for broad market application in Switzerland and beyond.

4 "Next-generation" is a phrase that the project team has coined in line with the suggestion of the TCFD's authors that the TCFD blueprint might serve as a template for sustainability disclosure on other topics and aspects in a manner that relates data to governance, strategy, and risk management.

1.2 The Challenge: Key Frameworks and Requirements

The SSF workgroups "Institutional Asset Owners" (IAO) and "Wealth and Asset Management" (W&AM) raised the question of how to meaningfully report on the ESG performance and climate risks of portfolios. This is seen as a challenge, especially against the background of mounting requirements and expectations.

Proliferation of reporting requirements and expectations

There is broad external demand for transparency – such as from NGOs, industry initiatives (e.g. PCAF or TCFD), or from regulators in many jurisdictions (also see p. 5 for notes on these abbreviations) as for instance pieces of regulation that stem from the EU Action Plan on Sustainable Finance. Many asset management firms and asset owners are struggling to navigate this rapidly changing landscape. In addition to compliance with regulation, asset management firms and asset owners are motivated to make requirements from regulation an integral part of their business offerings.

Not only are there varying and diverging expectations and requirements for ESG and, in particular, climate-related disclosures at the portfolio level today: fulfilling expectations and requirements is expected to become even more difficult in the near future. For example, PRI signatories have to report on TCFD criteria to remain compliant with PRI requirements. In addition, the Swiss Federal Council decided in December 2020[5] that the authorities are to prepare for the binding implementation of the TCFD recommendations by Swiss companies in all sectors of the economy. The Federal Council is further advising companies to already start applying the TCFD recommendations. Interpreting these requirements as merely relating to reporting would be an oversimplification. TCFD requires asset managers and asset owners to not only integrate climate change – and increasingly also topics such as biodiversity or water protection in the future – into their management and governance, but also to respond to it strategically and incorporate it in their risk management. TCFD is fundamentally a management programme with a commitment to transparency, and by no means just a reporting programme.

Some key questions guiding the development of the reporting recommendations: What is the lowest common denominator of the various reporting requirements? What is the economical minimum of disclosure at the level of an investment portfolio that still meets the requirements of the various stakeholders, initiatives, and legislators? And finally, what would SSF recommended guidance for members regarding meaningful reporting look like?

5 The Federal Council, 11.12.2020, press release: https://www.admin.ch/gov/en/start/documentation/media-releases/media-releases-federal-council.msg-id-81571.html

Searching for a common denominator

To answer these questions, existing reporting requirements that offer options to practitioners but also pose challenges have to be evaluated in detail. In the context of increasing expectations and requirements for ESG transparency, a large number of frameworks and guidelines have been established and more are emerging continuously. It is not possible to discuss all of them in detail in this report. The following existing frameworks, which according to the Partnership for Carbon Accounting Financials (PCAF) can be categorised into more commitment-oriented and more performance-oriented approaches, were selected to assess the main features they share in the research and development project presented in this report. They impose significant, and to a certain extent similar, transparency requirements on asset management firms and asset owners.

- TCFD (Task Force for Climate-Related Financial Disclosures)
- SFDR/PASI (EU regulation 2019/2088 of the European Parliament on sustainability-related disclosures in the financial services sector and Draft RTS (Regulatory Technical Standard) by EBA, ESMA, and EIOPA)
- NGFS (Network for the Greening of the Financial System)
- PRI (Principles for Responsible Investing)
- SBTFI (Science-Based Targets for Financial Institutions)
- PACTA (Paris Agreement Capital Transition Assessment)
- CDP (formerly Carbon Disclosure Project)
- UN Net Zero (UN-convened Net-Zero Asset Owner Alliance)
- PCAF (Partnership for Carbon Accounting Financials)

Some frameworks, such as SASB (Sustainable Accounting Standards Board) and GRI (previously the Global Reporting Initiative), are deliberately omitted from this list as they are not specifically targeted at portfolio performance measurement. Figure 1 provides an overview of the above frameworks and outlines which main content elements are addressed.

Framework	TCFD	SFDR (PASI)	NGFS	PRI	SBTFI	PACTA	CDP	UN NET zero	PCAF
Type	B	B	B	A	B	B	B	A	B
High-level commitment	✓	✓	✓	✓	✓	✓	✓	✓	✓
Governance	✓	✓	✓	✓					
Strategy	✓	✓	✓	✓			✓		
Risk Management	✓	✓		✓			✓		
Scenario building	✓		✓	✓	✓	✓	✓		
Target setting	✓		✓		✓	✓			
Metrics & performance	✓	✓	✓				✓		✓
Reporting requirements	✓	✓		✓			✓		

The six areas of climate actions for financial institutions

- Type A Commitment **Compliance**
- Type B Measuring **Performance**

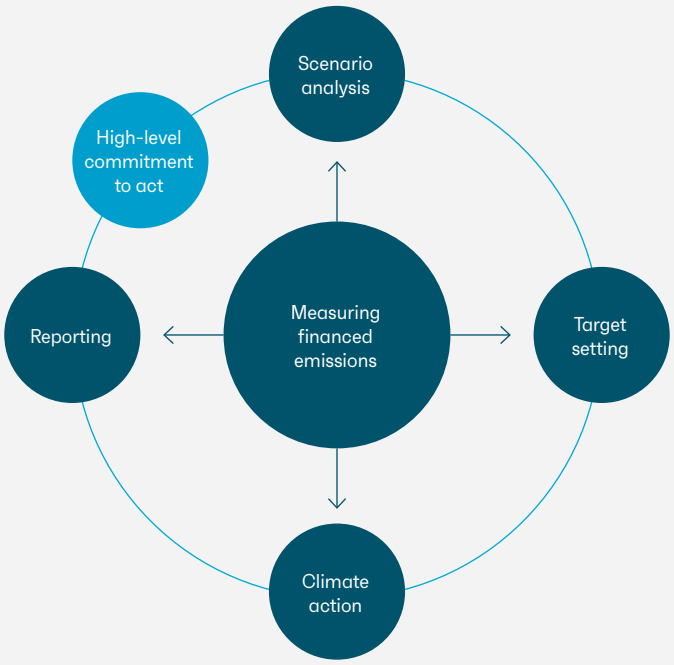


Figure 1: Overview of frameworks considered, with main content elements addressed. The left-hand graph depicts different functions of Type A (Commitment) vs. Type B (Performance) frameworks; lines highlight the key functions of the two types of frameworks.
Source: PCAF, Sustainserv.

Materiality – a tale of two perspectives

There are two ways in which relevant or "material" ESG factors for companies, and thus for the portfolios, need to be considered. This two-sided approach can be called double materiality (see also Appendix A1) or nested materiality (see Figure 2).

Beyond ESG information, where the financial impacts on the company are clear and recent enough to already be reflected in financial statements (Circle 1 in Figure 2), one direction of ESG impacts is the influence of sustainability matters on enterprise value (Circle 2 in Figure 2). The other direction is the impacts the company has on sustainability or on the future prospects of people, the environment, and the economy (CircleW 3 in Figure 2). The ESG performance of companies can be understood to encompass both directions, and like many of the frameworks assessed in this study, meaningful reporting recommendations will need to contain and consolidate elements of both perspectives.

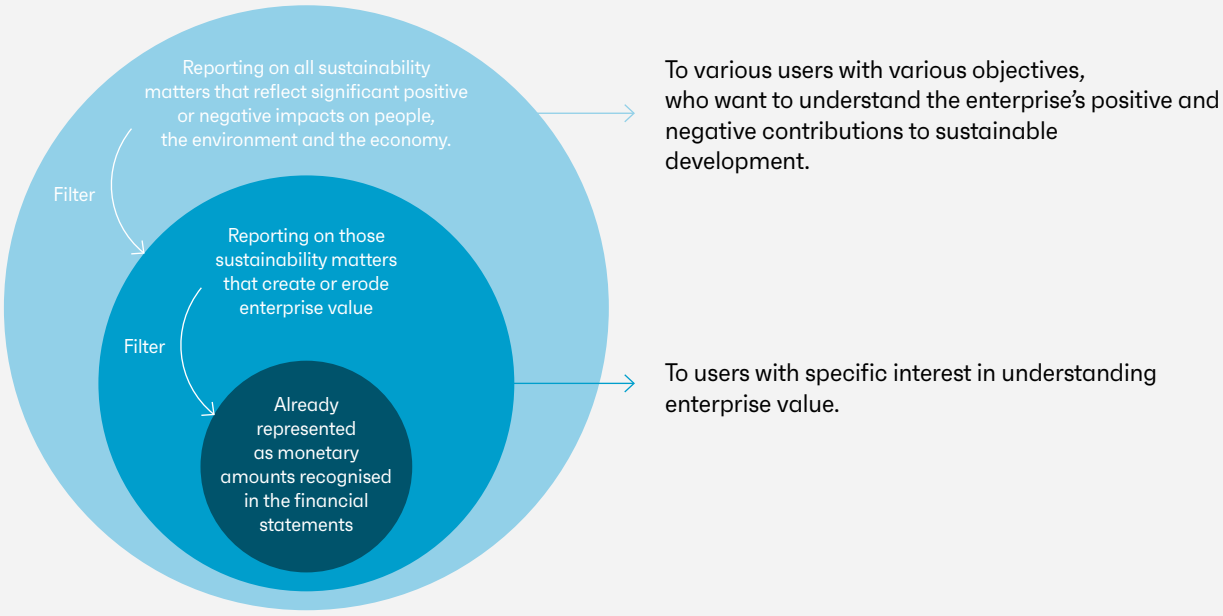


Figure 2: Comprehensive Corporate Reporting.
Source: Reporting on enterprise value. Published by CDP, CDSB, GRI, <IR>, SASB.

1.3 The Approach: Study Methodology and Process

Figure 3: Visualisation of study methodology and process.
Source: Sustainserv

Three input sources characterise the research and development method applied in this study (see Figure 3):

1. **Identifying common elements in major frameworks.** Common elements, relevant for ESG transparency within portfolios, were identified in various major established frameworks. These elements were considered when shaping the SSF recommendations, in order to ease the work of reporting parties that would additionally apply the SSF reporting recommendations.

2. **Summarising good practice.** The project team identified and summarised good ESG portfolio-reporting practice examples from asset management firms, asset owners, banks, and insurance companies. These insights were helpful for drafting the concrete elements of the SSF reporting recommendations and are also presented in this report, as they can act as inspiration for reporting parties.

3. **Engaging with SSF Workgroups and Management.** The project team gathered requirements and suggestions for reporting principles and engaged in discourse and iterations with SSF Institutional Asset Owner and Wealth & Asset Management workgroups and SSF Management.

4. **Finally, combining the above-mentioned sources, Sustainserv was able to condense findings into meaningful reporting requirements.** The project team drafted these requirements in the sense of a concise reporting framework that provides guidance for ESG reporting for portfolios owned and/or managed by SSF members and other reporting parties.

1.4 The Result: SSF Recommendations for Portfolio ESG-Reporting

The tables below summarise the SSF ESG-Reporting Recommendations developed in this project, with Table 1 providing an overview on Foundational-level reporting and Table 2 on Advanced-level reporting. The framework consists of two levels of reporting. Both levels begin with Section A, which provides disclosure of information about the asset owner's or asset manager's I) governance, II) strategy, III) risk management, and IV) target setting. Section B provides the frame for disclosing metrics for I) E, II) S, and III) G, on all portfolio assets (where feasible). More information on the development and content of the recommendations, as well as definitions of the terms used, can be found in Sections 2 and 3 of this report.

Table 1: Foundational-level Reporting Recommendations

A) Information on the Asset Owner/Manager Entity

I) Governance

Qualitative disclosures
- Is a general corporate sustainability policy in place[6]?
- Is such an ESG policy endorsed by portfolio managers, and if so, is endorsement mandatory?
- Do ESG policies exist for specific asset classes?

Which of these conditions are fulfilled? (if applicable, please describe. For example statements, see Section 3.1.1)

Quantitative disclosure
- Percentage of portfolios aligned with policy

II) Strategy

Qualitative disclosures
- Is a clear process in place at the senior management level to determine which major ESG developments are considered strategically relevant?
- Is this process consensus-based and qualitative or is it already evidence-/science-based and quantitative?

Which of these conditions are fulfilled? (if applicable, please describe. For example statements, see Section 3.1.2)

Quantitative disclosure
- Percentage of portfolios aligned with ESG strategy.

III) Risk Management

Qualitative disclosures
- Is risk estimated in monetary terms based on strategic assumptions, or is it arrived at by consensus?

Is this condition fulfilled? (If yes, please describe. For example statements, see Section 3.1.3)

Quantitative disclosure
- (None)

IV) Targets (For Foundational-level reporting, targets would not necessarily be set.)

B) KPIs for Portfolio Assets

I) Environment

Climate
- Total portfolio scope 1&2 carbon emissions
- Carbon tracking error (qualitative)

II) Social

Human Rights
- Recognition of human rights by investee companies through dedicated policies

Employee Matters
- Employee turnover and/or absenteeism

III) Corporate Governance

Proactive Positioning
- Board gender diversity

Compliance
- Exposure to controversial weapons

In addition to the elements described in Table 1 for Foundational-level reporting, organisations wishing to provide further information also aligned with the analysed frameworks may wish to provide the details described in Table 2 under Advanced-level reporting. On the advanced level, you see that many of the entity-level additional elements are based on scenario-level analysis. On the portfolio level, a limited number of additional KPIs are selected.

6 This is in line with recommendations from SFAMA and SSF (2020, p. 4)

Table 2: Advanced-level Reporting Recommendations

A) Information on the Asset Owner/Manager Entity

I) Governance

Qualitative disclosures
- Do checks and balances exist between an oversight body (e.g. ESG Board), Management and portfolio management concerning ESG issues?
- Is such a process employed for outside-in and inside-out topics[7]?
- Is the portfolio governance (e.g. investment committee) aligned with the entity's governance process?

Which of these conditions are fulfilled? (if applicable, please describe. For example statements, see Section 3.1.1)

Quantitative disclosure
- Percentage of portfolios aligned with policy.
- Percentage of assets under management subject to ESG governance (including institutional mandates).

II) Strategy

Qualitative disclosures
- Are scenarios utilised which provide quantified, evidential assumptions about consequences for the business?
- Are these scenarios used to identify strategic items through interpretation or mathematical calculation?

Which of these conditions are fulfilled? (if applicable, please describe. For example statements, see Section 3.1.2)

Quantitative disclosure
- Percentage of portfolios that are aligned with ESG strategy.
- Percentage of portfolios whose strategies are directly linked to scenarios or scenario-based goals.

III) Risk Management

Qualitative disclosures
- Are scenario-based models and calculations integrated into all relevant risk categories across the entire organisation and all portfolios?
- Do full risk measures (e.g. maximum ESG drawdown, etc.) exist for a significant proportion of assets under management or of portfolios?"

Are these conditions fulfilled? (If yes, please describe. For example statements, see Section 3.1.3)

Quantitative disclosure
- Percentage of assets under management, or number of portfolios, for which quantitative risk measurement exists (e.g. maximum ESG drawdown, etc.).

IV) Targets

Qualitative disclosures
- Are scenario-based models and calculations integrated into relevant ESG categories across the entire organisation and all portfolios?
- Are targets (absolute or relative) defined for select metrics? Are these targets included in the report?

Which of these conditions are fulfilled? (If applicable, please describe. For example statements, see Section 3.1.4)

Quantitative disclosure
- Which targets are set in absolute values?
- Which targets are set in relative values?

B) KPIs for Portfolio Assets

I) Environment

Climate
- Total portfolio scope 1&2 carbon emissions
- Weighted average scope 3 carbon emissions
- Carbon tracking error (quantitative)

Energy
- Total portfolio energy consumption

Water
- Total portfolio water consumption

II) Social

Human Rights
- Recognition of human rights by investee companies through dedicated policies
- Number of severe human rights incidents

Employee Matters
- Employee turnover and/or absenteeism
- Accidents and fatality rate

III) Corporate Governance

Proactive Positioning
- Board gender diversity (PWOMAN)

Compliance
- Exposure to controversial weapons
- Recognition of obligation to fight bribery and corruption through anti-bribery and anti-corruption policies

Financial and Governance Foundations
- Remuneration policy in place and public

7 In corporate communication, outside-in is often referred to as issues management (i.e. which ESG issues exist outside the organisation and require/allow action by the organisation), while inside-out topics are referred to as agenda setting (i.e. which ESG issues do we consider important/do we want to use for positioning our company).

02

Building on Framework Comparison, Good Practice, and SSF Workgroup Suggestions

2.1 Main Commonalities Between Established Frameworks and Standards

Key inputs into the development work of the SSF Reporting Recommendations were commonalities between major established frameworks relevant for ESG transparency of portfolios. This section lists key features of such frameworks and defines key take-aways that shape the development of the SSF recommendations.

The goal was not to integrate all requirements contained in these frameworks into the SSF recommendations, but rather to take inspiration from what most often is mentioned in those frameworks in order to build upon the knowledge of meaningful and feasible disclosures. Also, it can be expected that some reporting parties that want to apply the SSF Reporting Recommendations also want (or need) to apply some of these other frameworks. Aligning the SSF recommendations with these to a certain degree will therefore ease the reporting burden.

This section presents common features between the frameworks listed in Section 1.2 with respect to requirements the project team considered characteristic of next-generation reporting, namely:

- governance, (Table 3)
- strategy, (Table 4)
- risk management, including scenario building, (Table 5 & 6)
- and target setting. (Table 7)

Key commonalities found are summarised at the end of this section and were used as inspiration for entity-level reporting recommendations.

In addition, major frameworks were analysed for their asset-level based KPI content, with the results summarised in Appendix A5. This overview of commonly considered ESG metrics was then used as input and inspiration for the portfolio-level related metrics in the SSF Reporting Recommendations discussed in Section 3.2.

2.1.1 Governance

Table 3: Key aspects on governance in the frameworks from Figure 1

Framework	TCFD	SFDR (PASI)*	NGFS	PRI
Purpose of inclusion of governance-related aspects in reporting	– Understand the role an organization's board plays in overseeing climate-related issues as well as management's role in assessing and managing those issues. Aim: support evaluations of whether material climate-related issues receive appropriate board and management attention; provide context for the financial and operational results achieved.	– Assessment of good governance practices forms an integral part of financial products falling under Article 8 or Article 9 of that Regulation and should be considered as **a prerequisite for promoting environmental or social characteristics**, or for pursuing a sustainable investment objective.	– Climate-related risks as a source of financial risk call on central banks and supervisors to start integrating climate-related risks into micro-supervision and financial stability monitoring.	– **Understand an organization's overarching approach to responsible investment** (i.e. governance, responsible investment policy, objectives and targets, resources allocated to responsible investment, and approach to collaboration on responsible investment and public policy-related issues) and the incorporation of ESG issues into asset allocation.
Main disclosures outlined by frameworks	– Board: Describe the board's oversight of climate-related risks and opportunities, including processes and frequency of information about climate-related issues, whether climate-related issues are considered when reviewing strategy, policies, etc., setting performance objectives, and how the board oversees progress against goals and targets. – Management: Describe management's role in assessing and managing climate-related issues including e.g. whether the organization has assigned climate-related responsibilities to management-level positions or committees and the reporting line, the associated organizational structure, processes by which management is informed and monitors climate-related issues	– A short description of the policy to assess good governance practices of the investee companies. – Disclose adverse sustainability impacts on entity level and provide information on related policies (remuneration, integration of sustainability risk, engagement etc.). – Describe the policies of the financial market participant regarding the assessment process to identify and prioritize principal adverse impacts on sustainability factors, of the indicators used, and of how those policies are maintained and applied, including date of approval, allocation of responsibility for the implementation of policies, a description of methodologies etc.	– Disclose integration of **climate-related risks into prudential supervision when engaging with companies** to: · ensure that climate-related risks are understood and discussed at board level, considered in risk management and investment decisions, and embedded into firms' strategy; and · ensure the identification, analysis, and, as applicable, management and reporting of climate-related financial risks.	**Board Oversight (same as TCFD)** **Management roles and responsibilities (same as TCFD)** – Internal and/or external roles used by the organization, and how responsibilities are executed with regards to RI or climate-related issues. **Policies** – Outline how the organization sets out to achieve its mission. – Investment principles & strategy, interpretation of fiduciary duties (or equivalent), and consideration of ESG factors and real economy impact **Remuneration** – Indicate whether the organization's performance management and/or personal development processes have responsible investment elements.

Source: Sustainserv

2.1.2 Strategy

Table 4: Key aspects on strategy in the frameworks from Figure 1

Framework	TCFD	SFDR (PASI)	NGFS	PRI	CDP
Purpose of inclusion of strategy-related aspects in reporting	– Understand how climate-related issues affect the strategy and financial planning over the short, medium, and long term **to inform expectations about the future performance**.	– Show how products meet characteristics or objectives and how the investment strategy is implemented in the investment process on a continuous basis to **increase transparency for end-investors**.	– Establish a fundamental strategy based on motivation and a rationale to **develop sustainability policies and implementation measures** accordingly, as well as to build the basis to **evaluate and report** on progress toward achieving the objectives.	– Embed comprehensive consideration of all long-term trends affecting the portfolios and understand how to operate as efficiently as possible **for the benefit of the stakeholders as well as to build the basis for investment decisions**.	– Understand the **impact** of climate-related risks and opportunities and the **resilience** of the business strategy. → Refers to TCFD
Main disclosures outlined by frameworks	**Identification – describe** – **climate-related risks and opportunities identified over the short, medium, and long term** and the process to determine those risks. **Impact and integration – describe** – **impact of climate-related risks and opportunities on the business, strategy, and financial planning** (incl. products and services, supply chain, adaptation and mitigation activities, investment in R&D, and operations.) – How **climate-related risks and opportunities and the transition to lower-carbon economy are factored into relevant investment strategies or products**. **Resilience – describe** – **Resilience of the strategy, taking into consideration different climate-related scenarios**, (2°C or lower scenario, where strategies may be affected by climate-related risks/opportunities, the climate-related scenarios and associated time horizon(s) considered.)	**Impact and Integration** – A description of the **type of investment strategy used to attain the environmental or social characteristics** promoted by the financial product, the **binding elements** of that strategy to select the investments to attain each of those characteristics, and how the strategy is **implemented in the investment process on a continuous basis**. – Indicate the **reduction of the scope of investments** due to the application of the strategy.	**Impact and Integration** – Disclose integration of **climate-related risks into prudential supervision when engaging with companies** to: · ensure that climate-related risks are understood and discussed at board level, considered in risk management and investment decisions, and embedded into firms' strategy; and · ensure the identification, analysis, and, as applicable, management and reporting of climate-related financial risks. – Disclose **investing strategy** (negative screening, best-in-class, ESG integration, impact investing, voting and engagement).	**Impact and Integration – describe** – Key elements, variations, or exceptions to the investment policy that covers the responsible investment approach; **strategy aspects ESG factors, real economy influence, time horizon, integration of sustainability preferences of beneficiaries and clients**. – Describe how and over what time frame the management of **climate-related risks and opportunities** is incorporated into the strategy (including evaluating impact of climate-related risks). – Describe of a **climate change sensitive or climate change integrated asset allocation** strategy.	**Impact and Integration – describe** – **Impact of climate-related risks and opportunities on the business, strategy, and financial planning**, and how this impact has influenced the strategy (e.g. products and services). – Why and how **climate-related scenarios** inform strategy. – How climate-related issues are **considered in the policy framework** and in which policies such issues are integrated – **Exclusion policies** related to industries and/or activities exposed or contributing to climate-related risks. – To what extent climate-related issues are considered in the **external asset manager selection process**.

Source: Sustainserv

2.1.3 Risk Management (including scenario building)

Table 5: Key aspects on risk-management in the frameworks from Figure 1

Framework	TCFD	SFDR (PASI)	PRI (refers to TCFD)	CDP (refers to TCFD)
Recommended information on identification and assessment of risks	– Describe **processes for identifying and assessing climate-related risks** incl. determining the relative significance of climate-related risks in relation to other risks and considering regulatory requirements related to climate change.	– Disclose **how all relevant sustainability risks** (seen in PASI as including climate change, resource depletion, environmental degradation, and social issues) that might have a relevant negative material impact on the financial return **are being assessed.**	– Describe of the **processes used for assessing** the potential size and scope of identified climate-related risks. – Disclose investment risks and opportunities **that arise as a result of long-term trends**. – Indicate whether **transition and physical climate-related risks and opportunities are identified and factored into the investment strategies and products**, within the organization's investment time horizon.	– Disclose how **the short-, medium- and long-term time horizons** are defined. – Describe how **substantive financial or strategic impacts** are defined. – Describe **which risk types are considered** in the climate-related risk assessments (e.g. regulation, physical, etc.). – Disclose how **the portfolio's exposure to climate-related risks and opportunities** is assessed. – Disclose how the **portfolio's exposure to water-related risks and opportunities** is assessed. – Disclose how the portfolio's exposure to **forests-related risks and opportunities** is assessed. – Describe the **risks and opportunities identified** with the potential to have a **substantive financial or strategic impact** on the business.
Information on risk management	– Describe **processes for managing climate-related risks**, including how to make decisions to mitigate, transfer, accept, or control and prioritize climate-related risk. – Disclose how the **positioning of the total portfolio** is considered with respect to the transition to a lower-carbon energy supply, production, and use, as well as how material climate-related risks are managed for each product or investment strategy. – Disclose **engagement activity with investee companies** to encourage better disclosure and practices related to climate-related risks to improve data and the ability to assess climate-related risks including how they identify and assess material climate-related risks for each product or investment strategy, as well as the resources and tools used in the process.		– Disclose **activities and tools** to manage climate-related risks and opportunities. – Disclose how **decisions to mitigate, transfer, accept, and/or control climate-related risks** are made in managing processes. – Disclose the **construction of portfolios** due to ESG integration, i.e. underweighting or overweighting certain sectors due to ESG risk.	– Describe how climate-related information from **clients/investees are requested** as part of the **due diligence and/or risk assessment practices**.
Description of integration into overall risk management	– Describe how **processes for identifying, assessing, and managing climate-related risks are integrated into the overall risk management**.	– Disclose specific information on approaches to the integration of sustainability risks and the consideration of adverse sustainability impact.	– Describe how the processes for identifying, assessing, and managing climate-related risks are integrated into overall risk management systems, as well as the likelihood and impact of those risks. – Indicate the integration of TCFD recommendations within investment risk identification and assessment processes. – Disclose the significance of climate-related risks in relation to other risks determined and consideration of regulatory requirements related to climate change.	

Source: Sustainserv

Table 6 Key aspects on scenario building (with links to strategy and risk management) in the frameworks from Figure 1

Framework	TCFD	NGFS	PRI	SBTFI	PACTA
Description of purpose and use of scenario building	– Scenario building considered as strategic planning tool (part of the TCFD strategy module) to **inform the organization's strategy and financial planning**.	– Scenarios provide quantitative **climate-related risk analysis** to size the risks across the financial system.	– Scenario building (part of the PRI strategy and climate change module) helps **identify** where the concentrations of **risk** are likely to be **and how they may affect the performance** of investment portfolios over time.	– Enable financial institutions to align with low-carbon economy, identify and capitalize on opportunities, mitigate climate risks, and increase competitiveness by **gaining insights into the transformation**. – Financial institutions are expected to **align their portfolio** scope 1+2 temperature score with a minimum well below 2°C scenario, and in addition align their portfolio to a minimum 2°C scenario for the scope 1+2+3 portion by 2040.	– Help investors **implement** TCFD and **comply** with relevant regulations. – Enable alignment of portfolios with various climate scenarios and with the Paris Agreement. – Measure the **alignment of financial portfolios with 2°C** decarbonization pathways (to see alignment with a 2°C trajectory).
Requirements in scenario building	– A description of the **resilience of the organization's strategy**, taking into account different climate-related scenarios, including a **2°C or lower scenario**.	– Recommend use of consistent and comparable set of data-driven scenarios encompassing a **range of different plausible future states** of the world ('what-if' methodological framework).	– Indication of **why and which** scenario analysis is conducted (including description of the scenario analysis).	– Emission scenario should be plausible, responsible, objective, consistent, and aligned with a specific temperature goal (**1.5°C or well below 2°C** of global warming).	
Recommended tools for scenario building		– **Guidance and a set of reference scenarios** ("orderly" vs. "disorderly" vs. "hot house world"). Climate scenario assumptions include factors such as atmospheric concentration of greenhouse gases, socioeconomic context, technological evolution, climate policies, consumer preferences, and climate impacts.			– **Model to assess 2°C alignment** that aggregates global forward-looking asset-level data (physical assets such as power plants, oil and gas fields, produced cars, coal mines) of (parent) companies.

Source: Sustainserv

2.1.4 Target Setting

Table 7: Key aspects on targets in the frameworks from Figure 1

Framework	TCFD	NGFS	SBTi	CDP	PACTA
Role of targets in respective frameworks	– Reporting/ Disclosure (no specific tool)	– Encourages financial sector institutions to disclose in line with TCFD (→ see left)	– Target-setting tool	– Reporting/ Disclosure – Credit points are awarded	– No target-setting tool or reporting requirement.
Level of ambition	– Not specified	– See TCFD	– Scope 1+2 target: Well below 2 C or better – Scope 1+2+3 target: 2 C or better	– Extra points if science based (WB2C or 1.5C)	– Measures the alignment of financial portfolios with 2 C decarbonization pathways (climate compatibility test).
Scope of targets	– Key climate-related targets e.g. – GHG emissions – Water usage – Energy usage	– See TCFD	– Scope 1+ 2 +3 – Scope 3: All financial institutions must set targets on their portfolio (exceeds scope of scope 3 Standard of the GHG Protocol for the "Investments" category).	– Scope 1, 2, 3	– N/A
Target types	– Absolute and intensity targets – May include efficiency or financial goals, financial loss tolerances – Also avoided GHG emissions – Net revenue goals for products and services designed for a lower-carbon economy.	– See TCFD	– Absolute and intensity targets. – Targets must cover a minimum of 5 years and a maximum of 15 years from submission. – Progress must be reported yearly (via sustainability report, CDP, or other).	– Absolute or intensity targets – Progress to be reported	– N/A
Includes financial sector specific target suggestion/Options	– No additional guidance for asset owners and asset managers.	– See TCFD	– All financial institutions must set targets on their portfolio. – Phase-out of coal investments target required. – Scope 1 and 2: Absolute Contraction or SDA for buildings. – RE100 Target accepted for scope 2. – Note, Scope 1 and 2 emissions the FI has control over must be included in these scopes.	Green Finance Target: – Investments in green bonds – Amount of green debt instruments – Green finance raised and facilitated	– N/A

Source: Sustainserv

2.1.5 Conclusions from framework comparison

The following main key take-aways (KTA) from the framework comparisons shaped the development of the SSF Reporting Recommendations:

KTA No. 1 — Governance: Asset managers' and asset owners' ESG reports should explain the interaction between how ESG is governed at the entity level and at the level of the portfolio. We refer to this as "efficiency of ESG governance."

This includes, first, showing how the company is managed in relation to ESG issues, what the responsibilities of the board and senior management are in this regard, and how this translates into key policies. Secondly, it shows how key policies affect the scope of portfolio management. The latter is important because governance at the corporate level that is not linked to portfolio management risks being perceived as lacking integrity (saying one thing, doing another).

KTA No. 2 — Strategy: Essentially, reporting parties should illustrate in their reports the interaction between ESG integration into the firm's strategy and ESG strategy definition, execution, and dissemination to the portfolio level. We dub this "ESG integration efficiency."

Managing an enterprise (entity) vs. managing a portfolio entails different levels of granularity and strategy enforcement. Often a corporate ESG strategy is more abstract and less concrete in its goals than a portfolio strategy. Only if the corporate strategy and the portfolio strategy are in sync, in terms of direction but also in terms of the degree of concreteness, can there be real ESG integration. Concrete items to consider at the entity level include linking ESG considerations to financial planning, and at the portfolio level to investment strategy, exclusion, or asset manager selection.

KTA No. 3 — Risk Management and Scenarios: Risk management links to strategy, which is the function measuring risk and opportunity against actual performance. ESG risk is not a risk class of its own; rather, ESG must be reflected in every risk class that the company tracks and measures.[8]

ESG can pose risks to reputation as well as to assets, customer relationships, or liquidity. ESG is not a specific type of occurrence, but a qualitative aspect of issues that can have significant negative or positive impacts in a variety of ways.

Identifying and integrating ESG issues fully into overall risk management and using scenarios that can be qualitative or data-driven descriptions of plausible future business environments to test the resilience of strategy and risk management, make it possible to identify and manage longer-term ESG risks.

KTA No. 4 — Target Setting: Goals are desired states or results, typically of a qualitative nature. Metrics, most often performance indicators, quantitatively measure states or progress against goals. Targets, finally, translate qualitative goals into desired achievements in terms of metrics' values. Goals are typically set at entity level, targets mostly at the level of portfolios[9]. Such targets can be expressed in absolute or relative (intensity) terms. And they can take the form of degree of alignment of the organisation's or the portfolio's trajectory with externally defined scenarios or pathways.

Commitment to quantitative targets is an important indication of serious, credible ESG initiatives. Not so much because of the truism that you can only manage what you measure. Rather, because it is a critical ingredient of a strategy's real impact within the organisation if it commits to being held accountable to the transparent goals and targets it has set.

8 An example of how ESG needs to be integrated with risk management is the following: "The existing legal requirements, as specified in MaRisk 2, MaGo 3, KAMaRisk 4, for example, must be observed in all cases, i.e. all material risks must be identified, evaluated, monitored, managed and communicated. Sustainability risks affect the known risk types. BaFin expects the supervised companies to ensure that sustainability risks are also addressed, and to document this." (Guidance Notice on Dealing with Sustainability Risks by the German BaFin)

9 In everyday life, goals and targets are often neither semantically nor conceptually clearly distinguished from each other. An example will explain the concepts: the goal for an asset owner could be to reduce his carbon footprint, generally and across all portfolios. At the target level, the asset owner sets a target of -25% for his own assets under management or for portfolios outsourced to third parties. The metrics in terms of which the target is expressed can be defined as CO2 emissions Scope 1&2.

2.2 Good Practice Examples

The framework comparison described in the previous chapter is instructive when comparing the key take-aways from that overview to real-life examples. To provide structure to good practice examples, we use the formal outline of next-generation frameworks such as TCFD – namely, the building blocks of governance, strategy, risk management, and metrics and targets. In addition to TCFD applications, we have found good practices in the implementation of many reports, as well as examples that offer a high degree of transparency. We have looked at various documents and sources in our research. Our sources included sustainability and ESG reports, TCFD reports, websites, research reports, handbooks, and other documentation.

Sustainable investing, and how it translates into an asset owner's or asset manager's strategy, is not only a technical issue but also a narrative, a story to be told. Many asset managers and asset owners that report on ESG portfolio performance introduce the topic of sustainable investing by discussing why it is considered essential, and how the topic is managed within the reporting organisation. In fact, there is a good case for helping report users, including beneficiaries or non-professional, individual investors to understand the many different ways of thinking about sustainable investing and the rationale behind the reporter's strategy. For broad segments of the population, sustainable investing is an extremely complex subject area with its own complicated language. We cannot assume users of reports and similar portfolio disclosures have detailed knowledge of investment forms and the challenges they pose, even if the reader of the report shares the conviction in the benefits of sustainable investing. For example, in the case of the professional investor basic assumptions, such as, those made in climate scenarios, cannot always be understood without further explanation.

For these reasons, we have included examples of reports with prose-style, tabular and graphical information. These types of presentations serve specific purposes, and SSF members seeking to draw conclusions or "inspiration" from the examples presented are encouraged to mix the different formats to improve legibility and conciseness. Also, we would like to point out that some of the sample presentations of information are helpful instruments for furthering the discussion internally. We have added rationales for selecting the specific examples.

There are many good reporting practices at many companies in the financial industry, and this report includes a diverse selection from both Switzerland and other countries. We have also sought a mix of large and mid-sized asset management companies and asset owners (including insurance companies). This point is particularly important, because exemplary reporting is not exclusively dependent on access to resources. The examples of good practices listed below are certainly not an exhaustive list. If a company is not among the good practice examples, this does not imply its standard of reporting is below average.

2.2.1 Governance

The rationale behind closely linking governance with ESG is the belief that ESG should be embedded in the "company's DNA" and subject to appropriate senior management control and governance oversight, similar to other significant strategic issues.

The senior management, of asset management and asset owner firms, is responsible for adhering to ESG principles and ensuring that all business activities are in line with the firm's strategy, through policies, directives and workflow design. Otherwise, ESG will not be relevant to management and hence will not inform processes or measure individual performance. Governance oversight needs to ensure that ESG factors are appropriately integrated into corporate strategy and its execution.

Even among experienced asset managers, ESG offerings have grown organically over the years and have not always been strategically managed. In this case, ESG factors are sometimes only minimally integrated into governance and strategy compared to how they should be according to TCFD guidelines.

Key issues related to governance and ESG include:

- Does senior management care about ESG aspects?
- Is senior management involved and does it supervise compliance?
- Is there an ESG policy and is it anchored in the standard operating procedures (SOPs)?
- Is senior management compensation linked to ESG performance?
- Does portfolio management report to senior management and is there a direct link between portfolio management and policy?

Governance can be broken down into a simple formula: How do sustainability and ESG issues move from the external environment into the organisation, and how are they addressed once there? A good way to illustrate this is to use graphs with so-called "chain-of-commands", as depicted in our good practice example 1, and with descriptions of the development and status of ESG governance, as exemplified in our good practice example 2.

Good practice example 1

AXA

Global
Asset Manager

Rationale for selection

This graphic is an adapted version from AXA. However, this type of organisational chart is typical of many company reports. The purpose of the diagram is to provide a simple illustration of all the bodies involved in governance. It is important that all relevant bodies involved in governance are listedand that their composition and reporting lines are shown. The phrasing "or equivalent" in the chart is intended to indicate that the committees may well have differing names and different configurations, but what is important is that their central task is fulfilled within the company.

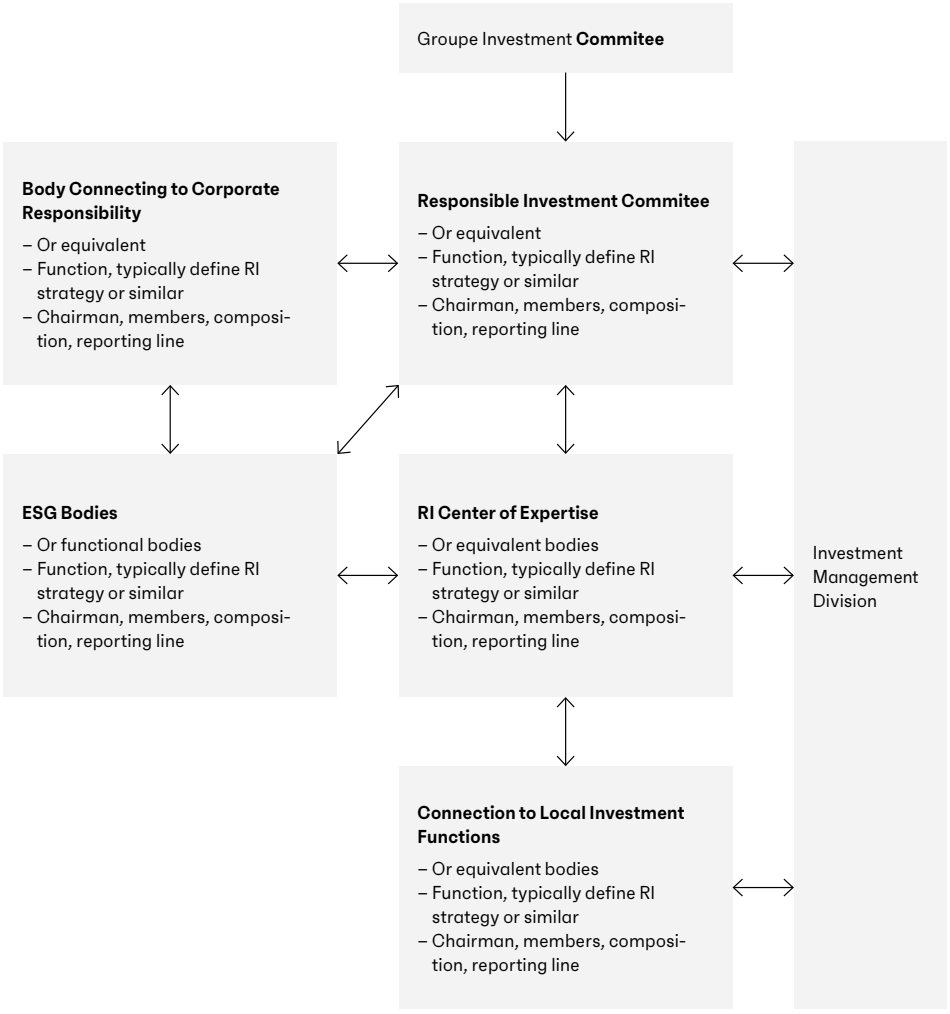
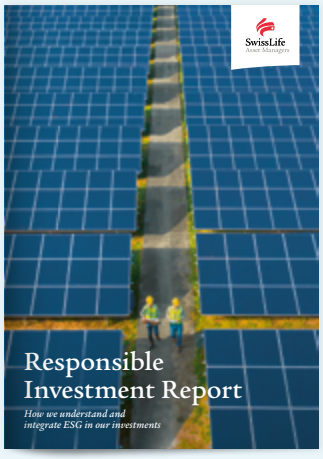


Figure 4: AXA Group.
Source: 2020 Climate report: renewed action in a time of crisis, p. 8.



Good practice example 2

SwissLife

Switzerland
Asset Owner & Asset Manager

(...)

We want to achieve the incorporation of ESG factors into the day-to-day processes of all our teams, from portfolio to fund, and risk to sales management. By encouraging and supporting our teams to ramp up ESG expertise in all areas of our business, we aim to bridge the gap between business knowledge and ESG expertise. To initiate this, an ESG ambassadors programme was launched. We appointed employees from various business areas to receive special training and education in the area of sustainability. For example, as part of their annual personal targets, ESG ambassadors take responsibility for applying and developing our approach to responsible investment in their area of business. Targeted events throughout the year help to build an ESG community that exchanges knowledge and encourages progression. Additionally, several external and internal trainings are conducted for ESG ambassadors. As such, all portfolio managers requiring substantial understanding of responsible investment are trained on ESG data management. In 2019, for example, 18.6% of all employees of Swiss Life Asset Managers underwent training on the topic of ESG. We are confident that the numbers will increase in the future.

(...)

Rationale for selection
Swiss Life delivers a "story" in lively colours of how ESG is embedded in the organisation's governance. While organisation charts provide concise depictions, they fail to explain the evolution.

Figure 5: Swiss Life
Source: Responsible Investing Report 2020, p. 25.

2.2.2 Strategy

Many asset managers and asset owners have already adopted the TCFD requirements in their reporting. These requirements include the following key questions regarding strategy and ESG aspects:

- Are ESG factors integrated into the company's strategic process so that the company is managed through meaningful, realistic, and specific (i.e. quantitative, monetised, financially linked) targets?
- How are strategic elements transferred from the entity level to the portfolio level?

As the good practice examples 3, 4 and 5 show, the Sustainable Development Goals (SDGs) of the United Nations play an important role in the strategic work of asset managers and asset owners as either a way to reconcile the objectives of investments with overarching and socially anchored goals, or to provide appropriate accountability in reporting, in which assets under management are thematically categorised.

Ensuring that the assets in the portfolio are aligned with the asset owners' or asset managers' strategy can be supported by corporate engagement activities. While investing according to SDGs or general aspects, such as climate mitigation, refers to a topical or thematic strategy, engagement or a specific investment style (e.g. ESG integration, or exclusion) refers to an influencing strategy. Good practice example 6 from de Pury Pictet Turrettini shows how engagement activities can be concisely and transparently disclosed while example 7 from State Street Global Advisors provides a materiality matrix that depicts the process of assigning priority to a range of topics. Example 8, finally, from Swiss Re has been chosen because of its reference to opportunities. While most companies follow the obvious path to identify risks, Swiss Re sets a focus on the other side of the "equation" and concentrates on opportunities.

Good practice example 3 and 4

Vontobel

Switzerland
Asset Owner & Asset Manager

APG

Netherlands
Asset owner

Rationale for selection
The application of the SDGs to investment strategies is on the rise. SDGs represent relatively simple but powerful criteria for a strategy that seeks to integrate ESG aspects. Our three examples – Vontobel's and APG's graphical representations, and NEST's elaboration – show that general alignment to the highly regarded SDGs does allow strategic variability to be maintained. Moreover, while the SDGs lend themselves as strategic goals, they can also be replaced by other goals, e.g. environmental goals, as included in the EU taxonomy, investment themes e.g. "regenerative energy", or "water" (or see the good practice example 7 below from SSgA). **No matter what goals an asset manager or asset owner sets** strategically, it is the weight, i.e. assets under management invested in a goal, that is the crucial aspect in the strategy.

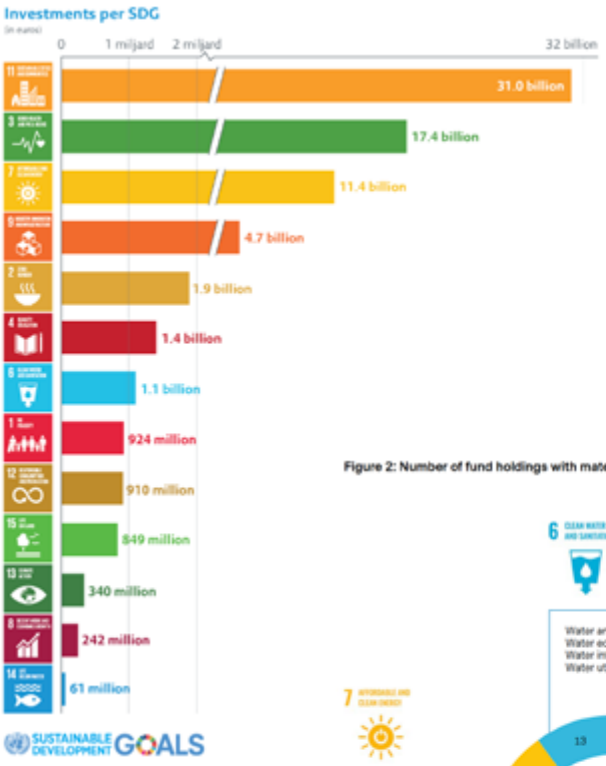


Figure 6: APG
Source: APG Responsible Investment Report 2019, p. 20.

Figure 7: Vontobel
Source: Asset Management Impact Report 2019: Vontobel Fund – Clean Technology, p. 7.

Fachbeitrag von Nest Sammelstiftung

Wahre Nachhaltigkeit im Anlageportfolio?

Aktuelle Marktstudien zeigen das rasante Wachstum an nachhaltigen Anlagen auf. Trotz dieser erfreulichen Entwicklung stellen sich folgende Fragen: Wirken diese verschiedenen Ausprägungen von nachhaltigen Anlagen auch wie gewünscht, d.h. sind sie Teil der Lösung der dringenden Herausforderungen der Menschheit? Und was braucht es, um dies zu beurteilen respektive auch zu überwachen?

Globale Abkommen und Initiativen wie das Pariser Klimaabkommen oder die Nachhaltigen Entwicklungsziele der UNO («SDGs») haben dazu geführt, dass der Fokus nun auch auf den Finanzmarktakteuren liegt. Institutionelle Investoren verwalten einen Grossteil der globalen Vermögen und haben damit einen enormen Einfluss. Ihre Rolle bei der Erreichung der Nachhaltigkeits- und Klimaziele der Weltgemeinschaft wird intensiver denn je diskutiert. Sie sollen aufgrund fehlender öffentlicher Mittel zur Finanzierung dieser Ziele wie der Bekämpfung des Klimawandels und der Armut beitragen. Der Ball wurde von Investoren und Vermögensverwaltern aus unterschiedlichsten Motiven aufgenommen, denn wer will schon nicht Gutes tun und dabei noch Geld verdienen? Aber hilft diese Finanzgemeinschaft wirklich, die brennendsten Herausforderungen der Menschheit zu bewältigen oder handelt es sich nur um Schlagworte, die sich gut verkaufen und vermarkten lassen?

Beispiel Klimarisiken: Wieso reicht die Risikobetrachtung nicht?

Zahlreiche Berichte und Studien über die Klimaerwärmung zeigen auf, dass die CO2-Emissionen aktuell massiv zu hoch sind und darum dringend reduziert werden müssen. Dadurch soll die Erderwärmung stabilisiert werden, um klimabedingte Schäden an Ökosystemen und deren Auswirkungen auf die Gesellschaft zu reduzieren. So wird auch plädiert, dass Kapitalströme entsprechend ausgerichtet werden sollen, damit Industrien, welche das Klima stark belasten, nicht noch gefördert werden. Welcher Nachhaltigkeitsansatz bei den Anlagen hilft, dieses Ziel zu erreichen? Ein wichtiger Faktor dabei ist der Miteinbezug von Externalitäten.

Externalitäten sind Kosten und Nutzen, die in der Produktion oder beim Konsum entstehen, welche jedoch nicht beim Verursacher anfallen, sondern bei Aussenstehenden. So trägt beispielsweise beim Autofahren die Allgemeinheit die Kosten des ausgestossenen CO2. Dies zeigt auf, wie wichtig es ist, die gesamten Auswirkungen von Geschäftsaktivitäten auf die Umwelt sowie die Gesellschaft zu beurteilen, und zwar entlang der ganzen Wertschöpfungsketten. So sollten nebst CO2-Emissionen durch die Produktion auch jene durch den Konsum eines Produktes oder einer Dienstleistung (z. B. Flugreisen) berücksichtigt werden. Der Hauptteil der CO2-Emissionen stammt nämlich aus dem Konsum resp. der Nutzung, im Fachjargon auch «Scope 3» genannt. Um gemäss dem Pariser Klimaabkommen eine «Climate Resilient Green Economy» zu erreichen, müssen die gesamten Auswirkungen betrachtet werden.

Diese Sicht der Nachhaltigkeit, welche die ganzheitlichen Auswirkungen («Impact») auf Umwelt und Gesellschaft berücksichtigt, unterscheidet sich vom Ansatz der Klimarisikenbetrachtung («ESG Integration»). Die Analyse finanzieller Auswirkungen von Klimarisiken für ein Unternehmen hat per se nichts mit Nachhaltigkeit zu tun, sondern mit dem Risikomanagement, und wird auch bei nicht-nachhaltigen Investoren berücksichtig. Die Berücksichtigung der gesamten Auswirkungen hingegen bringt zwei Vorteile mit sich: Einerseits erlaubt sie es Investoren, Klimarisiken zu vermeiden, und leistet anderseits durch ihr Wirkungspotenzial auch einen effektiven Beitrag zur Erreichung der Klimaziele. Dies ermöglicht es somit, dass die Klimarelevanz nicht bloss auf den Aspekt der Vermeidung von langfristigen Anlagerisiken reduziert wird. Bei «ESG Integration» wird nur der erste Vorteil wirklich berücksichtigt, da beispielsweise auch in Erdölraffinerien investiert wird, wenn der Aktienkurs genügend attraktiv ist.

Die Analyse finanzieller Auswirkungen von Klimarisiken für ein Unternehmen hat per se nichts mit Nachhaltigkeit zu tun.

In der Nachhaltigkeitsanalyse müssen dementsprechend folgende Fragen beantwortet werden: Welche Produkte und Dienstleistungen können die Grundbedürfnisse der Gesellschaft wie Transport, Gesundheit, Energie usw. möglichst auf eine umwelt- und sozialverträgliche Art abdecken? Welche Auswirkungen auf Umwelt und Gesellschaft ergeben sich über die ganzen Wertschöpfungsketten dieser Produkte, von der Beschaffung über die Nutzung hin zur Entsorgung?

Nachhaltigkeitsanalyse am Beispiel des Transportsektors

Zweifelsohne ist diese ganzheitliche Beurteilung alles andere als trivial. Die Komplexität lässt sich anhand des Transportsektors veranschaulichen. Im Vergleich zu anderen Sektoren ist der Transportsektor für einen enormen Teil an CO2-Emissionen verantwortlich und gleichzeitig von den Externalitäten direkt stark betroffen. Zudem wird heftig diskutiert, welche Akteure primär für die Reduktion von CO2-Emissionen verantwortlich sind: Industrie, Konsument oder Regierung. Einerseits ist ein funktionierendes Transportsystem fundamental für das Funktionieren einer Gesellschaft (anerkanntes Grundbedürfnis) sowie für die Wirtschaft. Anderseits sind die negativen Externalitäten sehr gross. Nebst den Auswirkungen auf Luftqualität, Wasser und Biodiversität müssen auch Gesundheitsschäden und Verkehrsunfälle berücksichtigt werden. Umso wichtiger ist es also, in der Nachhaltigkeitsanalyse des Transportsektors anhand der gesamten Wertschöpfungsketten zu beurteilen,

16 18/2020 | AWP Soziale Sicherheit

Good practice example 5

NEST Collective Foundation

Switzerland
Asset owner

Rationale for selection
This description from an asset owner is a good illustration that a sound allocation strategy based on SDGs is entirely feasible. Moreover, the approach shows in a relatively "pure" way how sustainability goals can be implemented, without a complex analytical process.

How can sustainability be measured in the portfolio?

[Among others NEST applies] SDGs 13, 14 and 15 from the "Sustainable Development Goals (SDGs) Impact Reporting" for Nest's equity portfolio. This reporting takes into account all positive as well as negative contributions (impacts) of the business activities of all companies in Nest's portfolio as well as those of a global benchmark, in this case the MSCI World Index. These business activities were assigned to the individual SDGs, weighted according to their share of sales. The entire value chains were considered, including contributions from procurement, use and disposal.

This sustainability reporting compares the Nest portfolio with the benchmark index, which can be understood as a reflection of the global economy. Thus, it not only shows that Nest has a more sustainable portfolio, but also that the economy still has a long way to go before it is truly sustainable. Specifically, the negative impacts outweigh the positives by a factor of three for the benchmark index. Among other things, the analysis shows that today's global economy is still heavily based on fossil fuels. Put simply, as long as something is produced and the products and services are used and consumed by consumers, this has an impact on the climate as well as life on land and underwater. In this regard, it should be noted that the SDGs are primarily directed at states and do not specify hierarchies of goals. However, despite the conflicting goals, an analysis of all SDGs can serve as a framework for investors to become aware of the overall impact of investment portfolios. For example, this highlights the limitation of positive contributions from a listed equity portfolio. Listed global corporations can contribute positively to one SDG while negatively impacting another.

Figure 8: NEST
Source: Retrieved from https://nest-info.ch/fileadmin/webdaten/archiv/medien-referate/202010_AWP_18.pdf. p. 17; translated from German by DeepL.com. Further information to NEST's treatment of SDGs: https://nest-info.ch/fileadmin/webdaten/anlagen/Nachhaltigkeit/193112_Inrate_Factsheet_Nest_SDG.pdf.

Good practice example 6

de Pury Pictet Turrettini (PPT)

Switzerland
Asset Manager

Rationale for selection
Rationale for selection: PPT provides an overview of their voting strategy, including rationale, in a clear and concise manner.

(...)

Of the total 730 votes that we cast in 2019, 5.6% were against management recommendations. The information obtained from voting continues to sharpen our insight into the governance, management and financial structure of each company.

We opposed at least one item at 52% of our companies which is a mark of how seriously we take our role as active shareholders. The vast majority of our portfolio companies do not however present controversial governance issues. We opposed none or only one item at 79% of our portfolio companies.

(...)

For readers who require more details, PPT offers granular voting results at the level of individual portfolio companies.

A chart displaying voting trends complements the prose information.

Figure 9: the Cadmos fund family of PPT
Source: Retrieved from https://cadmos.ppt.ch/swiss-engagement-fund/#active-management

Good practice example 7

State Street Global Advisors (SSgA)

United States/Global
Asset Manager

Rationale for selection
In this graphic, SSgA shows their strategic alignment with the SASB and the TCFD frameworks, and how their ESG strategy focuses on stakeholder relevance and business relevance/impact in a simple 2x2 materiality matrix illustration. Apart from an easy-to-understand 2x2 representation, the graphic shows that strategic considerations lead to themes (e.g. reflected by the SDGs) that give the strategy resilience, traceability and accountability.

Figure 10: State Street Global Advisors
Source: Corporate Responsibility Report 2019, p. 18.

Good practice example 8

SwissRe

Switzerland
Insurance company

Rationale for selection
SwissRe is taking a bold approach by linking its strategy directly to climate-related opportunities - a unique selling point compared to other reports that focus mainly on climate-related risks.

In the future, reporting approaches that follow next-generation frameworks that look at both risks and opportunities will require asset managers to make assumptions about, and report on, how they can benefit from issues such as biodiversity or the circular economy. This approach already anticipates such requirements to some extent.

Most notable about this section is that SwissRe published it not in a TCFD or sustainability report, but in their annual financial report.

Climate-related opportunities
Climate change does not just create risks, but also presents new opportunities. Developing corresponding products and services is a core part of our Group Sustainability Strategy, 2030 Sustainability Ambitions and Climate Action Plan. With our offerings, we pursue two different but complementary objectives: adapting to the effects of climate change and supporting the transition to a low-carbon economy.

Opportunities related to physical risks in our re/insurance business
Since most of our re/insurance contracts are renewed on an annual basis, we can offer our clients effective natural catastrophe protection that can help them cope with current climate risks. The same applies to our weather insurance solutions.In addition, we undertake special efforts to help expand re/insurance protection by focusing on non-traditional clients (in particular from the public sector), underdeveloped markets and innovative risk transfer instruments. (...)

Opportunities related to transition risks in our re/insurance business
While Swiss Re is active in all types of renewable energy re/insurance, over the years we have become a recognised lead market for offshore wind risks. More than five years ago, Swiss Re Corporate Solutions established a Centre of Competence for Wind Power and through this focused investment, we have built up and refined the technical expertise required to understand and manage these risks. For example, (...)

Opportunities for our investments
We expect to experience, particularly over the longer term, an improved risk/return relationship in our investment portfolio as part of our consistent and broad-based integration of environmental, social and governance (ESG) criteria along the investment process. We address sustainability risks such as climate change to make the portfolio more resilient against financial market shocks. This is of crucial importance as such risk factors are not yet fully reflected in current market valuations.

Source: Swiss Re. Financial Report 2019, p. 158-159

Real estate
Our real estate investment portfolio comprises commercial and residential buildings with a total market value of USD 4.7 billion as of 31 December 2019. These are predominantly located in Switzerland, the US, Germany, Australia, the UK, and Central and Eastern Europe. As ESG criteria are considered a key pillar of long-term sustainable value creation, we incorporate them into decision-making throughout the whole operating model, including external investment manager due diligence. New property investments are evaluated from an ESG perspective, which includes both a property's current and potential future status as it relates to energy efficiency, public transport connectivity, use of sustainable materials, occupier well-being and community engagement. Ongoing business plan execution and asset management of properties already in the portfolio always incorporate different ways to improve ESG characteristics, as economically and financially sensible.

For investment real estate in Switzerland, we apply the following sustainability criteria: analysis of energy sources as a percentage of market value and MINERGIE® certifications. MINERGIE® is a Swiss sustainability label for new and refurbished buildings. By the end of 2019, the combined value of our MINERGIE®-certified buildings reached USD 0.4 billion, or 23% of our Swiss portfolio of direct real estate investments by value, which corresponds to a gross floor area of 82 497 m2 . The Swiss portfolio is gradually shifting away from fossil fuels as a heating source to either renewable energy (14%) or district heating (15%). Whenever this is not possible, gas (49%) is considered as an alternative, given its smaller carbon footprint compared to oil (19%).

Of the opportunities, three are listed specifically. Real estate is used here as an example.

Figure 11: SwissRe
Source: Financial Report 2019, p. 158-159.

2.2.3 Risk Management including scenario use

Research into the reporting practices of asset management firms and asset owners shows that even organisations open to the requirements of the TCFD take very different approaches to answering the demands of risk management. In its purest form, the TCFD requires companies not only to integrate ESG aspects into their enterprise-wide risk management (a requirement that was already laid down in a leaflet by the German market regulator BaFin in 2019), but also, specifically, to anchor the strategy to scenarios as a concrete manner to address ESG risks. This approach forces users to apply evidence-based methods and to record their basic assumptions.

In addition, in-depth analysis usually requires the evaluation of an optimistic and a pessimistic scenario to identify extreme outcomes. Scenario analyses usually require an increase in resources (internally or externally purchased) - not least because scenarios have to be maintained due to changing variables. This is the core of new frameworks like the TCFD: When scenarios need to be adapted, the strategies of asset managers, asset owners, banks, and insurance companies have to be adapted as well.

Before calculating scenarios, risks have to be specified. Good practice example 10 shows how axa manages risk governance, the detection and agenda-setting of risks, while PGGM, in example 11, takes the reader by the hand and describes the link between climate change and its risk management operations.

The TCFD recommends that "organizations just beginning to use scenario analysis may choose to start with qualitative scenario narratives or storylines to help management explore the potential range of climate change implications for the organization".[10] A simple table overview of the steps involved when starting to use scenarios is depicted in the good practice example 9 below.

The TCFD does not specify whether scenarios belong to the stage of strategy definition or are rather an essential risk management tool. In fact, no company can define strategies without thinking through and calculating the consequences of these strategies. At the same time, scenarios can only be reasonably defined if the variables that are contrasted in the scenarios are appropriately identified. The table in Good Practice Example 12 is ideally suited for the purpose of identifying variables that describe risks but could also be included in the section on strategy. It can be seen as the output of an internal company discussion on risks, and as such does not necessarily need to be published.

10 The Task Force on Climate-related Financial Disclosures, "Technical Supplement - The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities", July 2017, p. 29

Good practice example 9

TCFD

Technical Supplement "The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities"

1. Ensure governance is in place: Integrate scenario analysis into strategic planning and/or enterprise risk management processes.

2. Assess materiality of ESG-related risks in the portfolio. What are the current and anticipated portfolio exposures to ESG-related risks and opportunities? Do these have the potential to be material in the future?

3. What scenarios and narratives are appropriate given the exposures? Consider input parameters assumptions, and analytical choices. What reference scenario(s) should be used?

4. Evaluate the potential effects on the investees' or assets' strategic or financial position in the portfolio under each of the defined scenarios. Identify key sensitivities.

5. Use the results to identify applicable, realistic investment decisions to manage the identified risks and opportunities. What adjustments to asset allocation would be needed?

6. Document and disclose

Rationale for selection

This example is a blueprint based on a suggestion from TCFD. It shows that getting started with scenarios starts with defining assumptions and finding narratives that are plausible and concise (in order to share with management). The example shows that an asset manager or asset owner does not have to start with complex scenarios from the scientific domain but can work their way there by starting with "heuristic" scenarios. But even with heuristic scenarios, it is crucial that assumptions are plausible and well-reasoned.

Figure 10: TCFD
Source: Technical Supplement "The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities, p. 7.

Good practice example 10

AXA

Global
Insurance Company & Asset Manager

Rationale for selection
The use of scenarios is likely to be a novelty not only for many companies, but also for investors. With this passage, AXA effectively provides 'investor education'.

What is a climate scenario?

A climate scenario is a forecast of the future based on projecting several variables, such as greenhouse gas emissions, cost and assimilation of technology, economic growth, demographics, use of 'carbon sinks' (e.g. Carbon Capture & Storage). Delete two outcomes such as how much temperatures will rise and what does level of global warming will result in for the environment, society and the economy.

Scenarios often used by investors and companies are developed by the IPCC and the International Energy Agency. There are other scenarios developed by non-governmental organizations such as Green Peace, academics such as Potsdam Institute, commercial data provider such as Bloomberg and energy players such as BP, Royal Dutch Shell and Equinor. Oil & gas companies within the energy sector including BP, Royal Dutch Shell and Equinor, have also developed scenarios which are generally close to the IEA scenarios.

Scenarios are a necessary simplification of real life which only focus on key variables and cannot integrate adequately changes which can be surprising, unexpected or disruptive. Most climate scenarios assume a future world in which the main economic parameters – GDP growth rates, demographics, political control – are close to the ones we experience now, which is questionable. The current Covid crisis shows change can be deep and abrupt indeed.

Most below '2°C' scenarios however require a rapid and radical shift in the energy supply and demand, such as a sharp decrease in fossil fuels, with coal and oil being squeezed out while gas remains in use. Renewable energy (wind, solar and biomass) increase significantly, and nuclear usually remains a key part of the future energy mix. But they may remain elusive on social conditions, relative costs and technological developments to achieve such energy mix shifts. This is why Integrated Assessment Models are needed.

Rationale for selection
AXA coherently explains the background for the use of scenarios, their origin and the limits of their forecasting power.

Figure 13: AXA Group.
Source: 2020 Climate report: renewed action in a time of crisis, p. 15.

Good practice example 11

PGGM

Netherlands

Asset owner

(...)

We identified the risks and opportunities inherent in climate change and the energy transition for various components of the portfolio on the basis of scenarios (Figure 1). The scenarios vary along the policy and technology axes, which represent the key uncertainties over the time horizon used (15 years). These factors may reinforce each other or may move in opposite directions. In the most favourable scenario (Green Growth), effective and coordinated government policy (particularly the pricing of CO 2 and other greenhouse gases) and rapid technological breakthroughs (for example relating to battery technologies) create a positive spiral, which limits the earth's warming to a maximum of 2°C by the end of this century, in line with the goals of the Paris Climate Agreement. In an unfavourable scenario (Divided Polluters), policy is fragmented internationally or regionally, and new technological breakthroughs fail to materialise, as a result of which the earth's warming may have risen by up to 4°C or even more by the end of the century. The scenarios Restrained Policy and Government Action fall in between these scenarios; policy and technology act in opposing directions here. All of these outcomes are still feasible; as investor we must provide due consideration to multiple outcomes. Table 1 summarises the effects of these scenarios on portfolio components.

(...)

Rationale for selection

PGGM describes the long path from recognising the necessity for the asset owner to deal with climate-related risks and opportunities up to the definition of climate scenarios. PGGM achieves this in a factual way that is didactically effective, since for many non-professional readers, climate change is challenging to explain adequately.

Graphical information to support the explanation in prose.

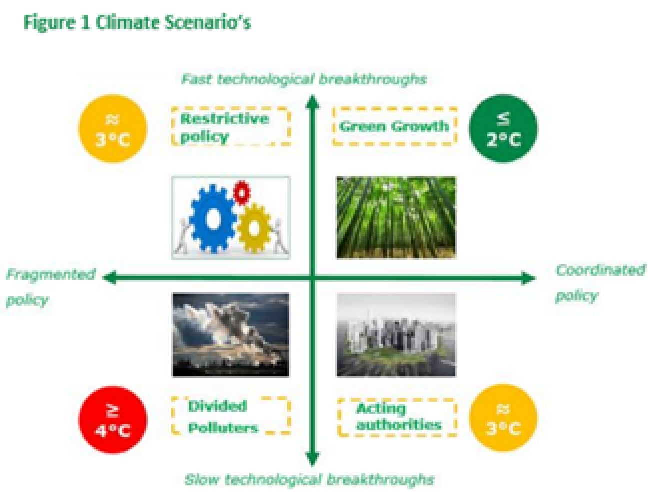


Figure 14: PGGM
Source: Reporting in accordance with the Task Force on Climate-related Financial Disclosures, p. 2

AP2

Sweden
Asset owner

Rationale for selection

The table refers to TCFD Overview (Booklet) p. 13 and is used to derive climate-related risks and opportunities. The table was adapted from AP2. It can be recommended as a blueprint for any company considering TCFD reporting, even if the purpose is not to publish it, but to facilitate discussion inside the company.

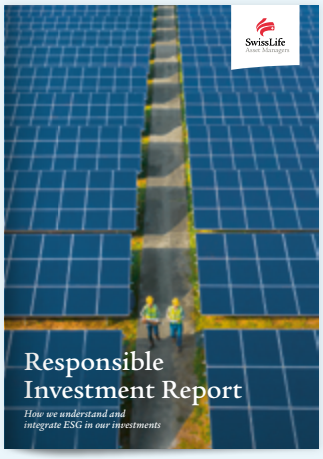
Transition risks	Potential financial impacts on assets/investee companies	Potential financial impact for XYZ
Policy and legal		
– Increased pricing of GHG emissions – Enhanced emissions-reporting obligations – Mandates on and regulation of existing products and services – Exposure to litigation	– Increased operating costs (e.g. higher compliance costs, increased insurance premiums) – Write-offs, asset impairment, and early retirement of existing assets due to policy changes – Increased costs and/or reduced demand for products and services resulting from fines and judgments	Higher price for carbon dioxide, climate regulations and reporting are generally speaking financially positive for XYZ as a universal owner. If the cost of carbon dioxide is internalized, this results in a more effective market. The challenge for XYZ lies in identifying which classes of asset/sectors/companies are winners and losers, respectively, as the regulatory requirements increase.
Technology		
– Substitution of existing products and services with lower emissions options – Unsuccessful investment in new technologies – Costs to transition to lower emissions technology	– Write-offs and early retirement of existing assets – Reduced demand for products and services – Research and development (R&D) expenditures in new and alternative technologies – Capital investments in technology development – Costs to adopt/deploy new practices and processes	The rate of transition is decisive for the financial valuation of the fossil fuel reserves and the companies that have assets that are dependent on fossil energy for their products/services. The challenge for XYZ lies in assessing which technologies will succeed and at what rate and how new technologies will affect classes of asset, sectors, companies and securities.
Market		
– Changing customer behavior – Uncertainty in market signals – Increased cost of raw materials	– Reduced demand for goods and services due to shift in consumer preferences – Increased production costs due to changing input prices (e.g. energy, water) and output requirements (e.g. waste treatment) – Abrupt and unexpected shifts in energy costs – Change in revenue mix and sources, resulting in decreased revenues – Re-pricing of assets (e.g. fossil fuel reserves, land valuations, securities valuations)	Technological and market risks and opportunities are linked. The transition will involve changes among consumers and they may both depend on changes in preferences and/or technological changes. The challenge is the same as for technological risks.
Reputation		
– Shifts in consumer preferences – Stigmatization of sector – Increased stakeholder concern or negative stakeholder feedback	Reduced revenue from decreased: – demand for goods/services – production capacity (e.g. delayed planning approvals, supply chain interruptions) – negative impacts on workforce management and planning (e.g. employee attraction and retention)	Companies can create increased shareholder value by reinforcing their brand. It is important that companies/funds in the XYZ portfolio do not violate conventions and guidelines that Sweden has signed up to. For XYZ, it is important to manage the pension assets in a way that maintains or reinforces the public's confidence in the pension system.

Figure 12: AP2
Source: AP2's climate report based on TCFD's recommendations, p. 9.

2.2.4 Metrics & Targets

If anything, a paradoxical picture prevails in performance reporting today: On the one hand, there are a multitude of KPIs that can be reported; on the other, the quality of reporting often has room for improvement. Considering that certain KPIs of investees, such as Carbon Emissions Scope 1 and 2, have to be aggregated in a stock portfolio to capture the carbon emissions of the portfolio, it becomes clear that the quality of many data points can be influenced by asset managers or asset owners only to a limited extent. But they still have an obligation to their stakeholders to deliver more than mere estimates. With the taxonomy regulation of the European Commission, this situation can be expected to worsen even further, according to experts. The decisive factor will be whether and how quickly intermediaries will emerge to close the gap between performance-relevant and factually available data.

The outline of metrics reported by companies including asset managers and owners to date shows a wide range, from a few KPIs with high relevance and materiality to SASB-compliant granular reporting formats, such as in the form of tables with periodic comparisons (much like financial performance data). However, data does not necessarily have to be reported in granular form. Our good practice examples 13 to 15 show that tabular presentations are helpful tools that save effort, while enforcing clear targets, KPIs, and – as can be seen in example 14 from Kempen Asset Management and example 15 from Vontobel – benchmarks. This goes hand in hand with an extraordinarily high degree of transparency.



Good practice example 13

SwissLife

Switzerland
Asset Owner & Asset Manager

Rationale for selection
This particular example manages to convey more information than a simple list or table by structuring the performance highlights into the three pillars of ESG that the company has defined for itself.

Executive summary

Swiss Life Asset Managers' responsible investment in eight figures. Clustered based on the three pillars of our ESG concept.

FIDUCIARY DUTY

90%	A+	12	9 out of 12
90% of all assets under management are in scope of ESG integration strategy	A+ accredited in the Strategy and Governance module of PRI	As of August 2020, 12 FTEs are fully dedicated to ESG, incl. 50 amabssadors	9 out of 12 submitted real estate vehicles were Green Star-rated by GRESB

INTERGENERATIONAL RESPONSIBILITY

CHF 0	CHF 2 bn
CHF 0 are invested in companies deriving more than 10% of their revenue from thermal coal	CHF 2 bn are to be invested in green bonds by 2023

ACTIVE STEWARDSHIP

15	9%
In 2019, we have initiated 15 ESG engagements* among our infrastructure assets	In 9% of all votable AGM agenda items, we did not follow the management's proposition

Figure 16: SwissLife
Source: Responsible Investing Report 2020, p. 8.

Good practice example 14

Kempen

International
Asset Manager

This simple spreadsheet is an effective and uncomplicated presentation format for smaller organisations. It shows the comparison between the fund manager's own performance and the benchmark in a simple way and can also be used for KPIs other than carbon emissions.

This good practice example which has been adapted from the Kempen report shows a creative implementation of an approach made popular by next-generation frameworks, most notably the TCFD, that has also been used in the draft Regulatory Technical Standard (RTS) for Principal Adverse Sustainability Impacts (PASI) as proposed by EBA, ESMA, and EIOPA. This approach calculates carbon intensity, for example, through ratios of carbon against items such as capital invested, by normalising carbon effects through calculation against the investee's value in the portfolio, or by eliminating size effects by normalising against investees' revenues.

Carbon Footprint Breakdown for Each Internally Managed XYZ Fund

	Carbon emissions per million invested tCO_2e / Million EUR EV	Carbon emissions per million invested tCO_2e / Million EUR EV compared to benchmark	Weighted average carbon intensity tCO_2e / Million EUR Revenue	Carbon intensity compared to benchmark
XYZ (LUX) Euro Credit Fund	114	Lower	194	Lower
XYZ (LUX) Euro Credit Fund Plus	135	Lower	230	Higher
XYZ (LUX) Euro Sustainable Credit Fund	126	Lower	209	Lower
XYZ European High Yield Fund	263	Higher	312	Higher
XYZ Euro Government Fund	37	Lower	35	Lower
XYZ (LUX) European High Dividend Fund	199	Higher	308	Higher
(...)				

Figure 17: Kempen
Source: Annual Stewardship and Responsible Investment Report, p. 52.

Good practice example 15

Vontobel

International
Asset Manager

Rationale for selection

The holdings within this example from Vontobel AM have been anonymised in order to illustrate its versatility for different purposes (i.e. different asset classes or KPIs). Like example 14, it is an effective presentation table, albeit slightly more detailed than the example derived from Kepmen. While the left side shows a concise list of KPIs for ESG compared to its corresponding index performance, the right side presents the top 10 holdings of the portfolio compared to the corresponding index.

Metrics (Portfolio Weighted)	XYZ Asset class	Index Asset class
Portfolio Securities	50	1193
Index Coverage by weight	99%	99%
Governance		
Combined CEO/Chair	16%	22%
Multiple classes of voting stock	24%	21%
Has classified (staggered board)	78%	87%
Provision of whistleblower protection	11%	10%
Social		
Senior responsibility – data privacy/security	67%	61%
Major layoffs (2017)	0%	5%
Environmental		
Carbon intensity (t CO2e/$1 M sales)	80	341
Carbon emissions (t CO2e/$1 M invested)	26	317
Water withdrawal intensity (cubic meters/$ 1 M sales)	1093	4055
Exposure to water stress	1.8%	5.5%

ESG Ratings (Agency ABC) of Largest Holdings	Weight (%)	ESG Rating
XYZ Asset class – Top 10 Holdings		
Stock A	5.5	A
Stock B	4.7	BB
Stock C	4.1	AA
Stock D	3.8	A
Stock E	3.7	AA
Stock F	3.5	BBB
Stock G	3.3	BBB
Stock H	3.2	A
Stock I	3.0	A
Stock J	2.7	BBB
Index – Top 10 Holdings		
Stock G	4.7	BBB
Stock K	4.4	BB
Stock M	4.0	BBB
Stock Z	3.4	AA
Stock D	1.9	BBB
Stock E	1.5	BB
Stock R	1.3	BB
Stock N	1.0	B
Stock B	1.0	BB
Stock V	0.9	A

Figure 18: Vontobel
Source: ESG Metrics Report: Emerging Markets Equity 2 Q 2019, p. 3.

2.3 Participatory Development of Criteria and Requirements

The "Institutional Asset Owners" (IAO) and "Wealth and Asset Management" (W&AM) workgroups of SSF deal with the question of how to overcome barriers to the further adoption of sustainable investment practices in the market. This includes working on meaningful reporting recommendations concerning ESG performance and climate risks of investment portfolios that meet the needs of, and are manageable for, market participants.

Such an SSF reporting approach is meant to help practitioners overcome challenges of increasing reporting requirements and expectations, including those of the TCFD, and turn them into opportunities for market positioning and meaningful transparency.

Over the course of many meetings, the asset owner and asset manager workgroups agreed on clear requirements for a reporting framework based on established frameworks and good practice examples of current reporting by asset owners and asset managers. On this basis, criteria, structure, and content of SSF Reporting Recommendations for ESG performance of portfolios were developed. The SSF Reporting Recommendations presented in this report are the outcome of this participatory process.

2.3.1 Entity-level ESG capability disclosures provide context for asset-level ESG metrics

In the workshop discussions, a consensus prevailed that the TCFD requirements are not only one of the major challenges for both asset owners and asset managers, but also that they represent a meaningful, new generation of management and reporting requirements (see also Appendix A2). This approach goes beyond a collection of isolated KPIs by embedding metrics in a context that shows the approach and capabilities of the organisation to define and manage relevant ESG issues.

For this reason, it was decided that the SSF Reporting Recommendations would be a combination of some context information for the entity that holds or manages the portfolio, with more numerical performance information for the assets in that portfolio. As the managing entity is a single organisation, and the portfolio is typically composed of assets related to a large number of underlying assets, the bulk of the recommended reporting content is composed of portfolio KPI disclosures augmented with some focused, contextual entity information. This is in line with SSF workgroup recommendations concerning the balance of SSF recommended reporting in two dimensions: entity-level and portfolio-level disclosures (with emphasis on the latter) and KPI, as well as process disclosures (with emphasis on the former). This approach adds an important quality to ESG performance reporting that is designed to support communication between asset owners and asset managers.

This approach allows asset owners to assess whether the asset managers they work with are well-positioned to achieve and sustain good ESG performance in the future. Similarly, it enables asset managers to communicate not only past performance but also future-oriented capabilities to their clients, who then can make better-informed investment decisions.

2.3.2 Broadening the TCFD blueprint for all ESG topics and deepening it to the portfolio level

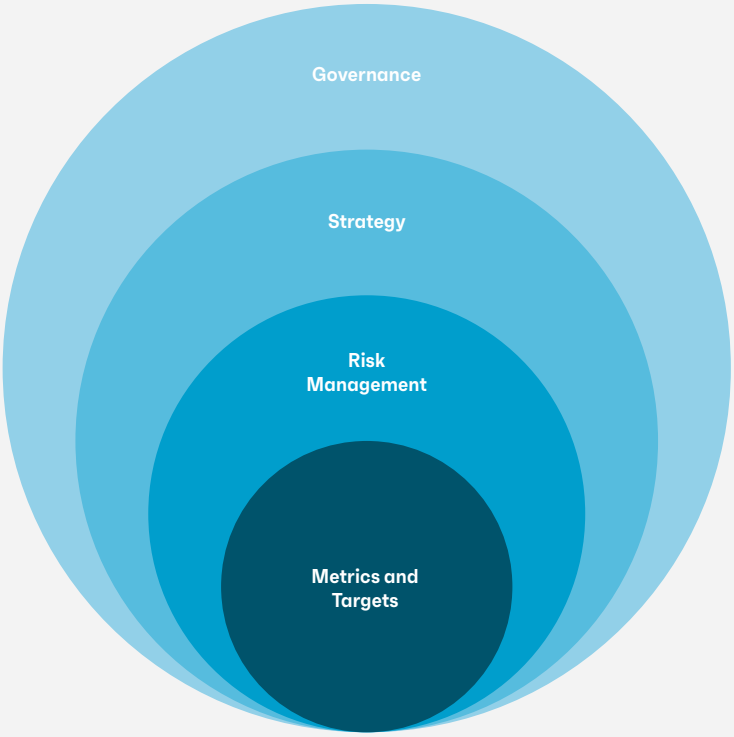
Using the TCFD Recommendations as a structural blueprint for such an approach makes it is necessary to augment them in three regards.

- First, while the TCFD was developed with a focus on climate issues, an extension to ESG issues more broadly is needed. Figure 19 shows how the original eleven recommendations by the TCFD (see Appendix A2) could be extended to ESG aspects more broadly.
- Second, the organisation-level disclosures recommended under the TCFD need to be complemented by information on how this entity-level governance, strategy, risk management and metrics, and targets interlink with corresponding issues on the portfolio level. The entity capabilities need to be considered as context for portfolio management capabilities, as shown in Figure 20.
- And third, while the TCFD framework was developed mainly to understand and communicate financial disclosures related to climate change (impacts of sustainability issues on economic value) augmenting TCFD reporting metrics with content from other major current frameworks implies that reporting on the reverse direction of ESG impacts (impacts of companies' economic activities on sustainable development) should be included. Thus, an augmented TCFD-type approach will address both directions of nested or double materiality (see Section 1.2 and Appendix A1).

Step 1	Organization	→	Investment Portfolio
Step 2	Climate-related Risks	→	ESG-related Risks and Opportunities

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

Figure 19: This figure illustrates how the TCFD framework needs to be adapted to reflect broader ESG topics instead of just climate change.
Source: TCFD, adaptations by Sustainserv.



	Organizational level	Level of investment vehicle
Governance The organization's governance around climate-related risks and opportunities	Board oversight	Portfolio Management
Strategy The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy and financial planning	Identification of risks and opportunities for the organization as a whole	Identification of risks and opportunities for investment vehicle
Risk Management The processes used by the organization to identify, assess and manage climate-related risks	Identification, assessment and management of risks for the entire organization	Identification and assessment of risks within the vehicle
Metrics and Targets The metrics and targets used to assess and manage relevant climate-related risks and opportunities	Organizational metrics for entire organization as deplyed by management	Investment-specific metrics as deployed by investment management

Figure 20: Adaptations from TCFD entity-related disclosures to portfolio-related disclosures.
Source: TCFD, adaptations by Sustainserv.

2.3.3 Setting Priorities within Next-Generation Framework Requirements

Using the TCFD as a prototype of next-generation transparency frameworks, the Institutional Asset Owner and Wealth & Asset Management workgroups each identified which of the 11 TCFD recommendations (see Figure 35) are most important from their perspective and specified whether they are easy or difficult to implement. The factors for which both groups came to the same conclusion (see Appendix A3), were taken as the starting point to decide which of the TCFD recommendations should be incorporated in the development of the SSF Reporting Recommendations. Focusing on these areas of shared assessment between the groups is expected to contribute to the recommendations being meaningful for both asset owners and asset managers, thus enhancing their potential to be used in an aggregated form in communications between the two groups of actors.

Figure 21 shows the results from the workgroup discussions on which next-generation content at the entity level would be most meaningful to include in the SSF Reporting Recommendations. For Foundational-level reporting, the four categories of the recommended framework are designated by four check marks in light blue, whereas for Advanced-level reporting they are designated by seven check marks in dark blue. The check marks indicate which of the respective elements are considered suitable for reporting within the respective SSF Reporting Recommendations levels (for information how those elements were prioritised in the workshop process with the SSF workgroups, see Appendix A3). For example, concerning strategy it is recommended that at Foundational level (beginner) the reporting party reports which risks and opportunities have been identified, while at Advanced level the reporting party also includes the results of calculating different scenarios. The implicit assumption here is that a Foundational-level reporting party does not yet calculate scenarios, but rather proceeds heuristically, while an Advanced-level reporting party performs scenario analyses for the identification of risks and opportunities.

In the following section, these priority areas are taken as the starting point for the entity-level elements of the SSF Reporting Recommendations.

Structural elements of SSF Reportig Recommendations	Foundational ESG-reporting	Advanced ESG-reporting	Comments for possible inclusion
Governance and management The organization's governance and management around ESG-related risks and opportunities			
Disclose the role of (corporate and) portfolio management in assessing and managing ESG-related issues	✓	✓	Is there an ESG policy and if so is it mandatory for portfolio managment to apply?
Strategy The actual and potential impacts of ESG-related risks and opportunities on the organization's businesses, strategy, and financial planning			
Disclose the resilience of the portfolio's investment strategy, taking into consideration different climate or broader ESG-related scenarios		✓	
Risk Management The processes used by the organization to identify, assess, and manage ESG-related risks			
Describe the organization's processes for managing ESG-related risks (e.g. scenario analysis, portfolio carbon footprint, etc.)	✓	✓	Are there ESG risk guidelines and if so is it mandatory for portfolio management to apply
Describe how processes for identifying, assessing, and managing ESG-related risks are integrated into the organization's overall risk management		✓	Is this also applied at the portfolio level
Metrics and Targets The metrics and targets used to assess and manage relevant ESG-related risks and opportunities			
Disclose the metrics used by the organization to assess portfolio ESG-related risks and opportunities in line with its strategy and risk management process	✓	✓	
Describe the targets used by the organization to manage ESG-related risks and opportunities and performance against targets		✓	

Figure 21: Preconditions for a next-generation adaptation to the portfolio level: the entity-related elements of a reporting that provide the context for portfolio reporting.
Source: Sustainserv.

2.3.4 Overview of Fundamental Requirements

In addition to agreeing that the SSF Reporting Recommendations should encompass significant parts of TCFD requirements, the workgroup members suggested that the recommendations could be structured in phases that users could implement step by step. For example, in a first phase a reporter would identify ESG responsibilities and in a later phase add resilience reporting.

The three main design requirements for the SSF Reporting Recommendations framework emerging from the workgroup sessions are presented in Figure 22.

Figure 22: The three main design requirements of the Reporting Recommendation framework.
Source: Sustainserv.

03

Developing the SSF Reporting Recommendations

3.1 Illustrative Examples of Entity-level Content

The following section provides detailed examples of how the information on an entity level can be conveyed for both Foundational- and Advanced-level reporting.

The SSF Reporting Recommendations developed through the process outlined in the previous section have been summarised in Section 1.4.

They come in two levels, Foundational and Advanced, and consist of entity-level disclosures of the asset manager or asset owner reporting, and portfolio-level metrics on the assets in the respective portfolio.

The entity-level reporting content is meant to give a meaningful context to the portfolio metrics and to show how the entity ensures that ESG aspects of the portfolio are managed appropriately. This entity-level content follows the key overlaps concerning governance, strategy, and risk management between the frameworks and standards analysed by the project team.

In determining these reporting recommendations, the project team also took inspiration from the good practice examples studied. This involved developing "mock-up" sample disclosures that would fulfill the recommended qualitative entity-level reporting requirements. The following section presents these sample disclosures in the sense of an inspiration to reporting parties of how the recommendations could be fulfilled in a concrete manner. Based on these examples, reporting parties can develop their own approaches for similar information that reflects their practice.

3.1.1 Governance

Foundational-level reporting:
The SSF Reporting Recommendations concerning governance specify that at the Foundational level, reporting parties disclose whether they have a general ESG policy in place, whether such a policy is endorsed by portfolio managers voluntarily or on a mandatory basis, and whether asset-class-specific ESG policies are established.

Illustrative example
"Senior management has defined a process for identifying ESG-related issues. If issues brought to senior management's attention are significant and material, senior management will make decisions on immediate steps, for example, exclusion of companies linked to issues etc.

We have ESG policies in place at the corporate level. These policies are binding for portfolio management. The policies address climate change and human rights. The core principle is that we mitigate risks related to climate change and human rights from our policies as much as possible. Portfolio managers are obliged to sign off on these policies. 100% of our portfolios are aligned with policies."

Advanced-level reporting:
At the Advanced level, recommended reporting would include disclosing whether a sophisticated process of checks and balances between a group ESG Board (or a similar body), senior management and portfolio management is employed. With such a process, agenda setting ("inside-out": which ESG issues do we consider important/do we want to use for positioning our company?), and issues management ("outside-in": which ESG issues exist outside the organisation and require/allow action by the organisation?) can be accomplished.

Illustrative example
"It is the duty of the ESG board to define policies for the entire organisation that allow for disaggregation to portfolio management. Portfolio managers report ESG issues and ongoing dynamics of ESG aspects to the ESG board so that they can liaise with senior management. The ESG board oversees the alignment of portfolios with the ESG strategy of the company. Product development and investment methods are constantly checked for suitability against a growing ESG database."

3.1.2 Strategy

Foundational-level reporting:
At the Foundational level, disclosure recommendations concerning strategy are based on the expectation that for typical Foundational-level reporting parties, consensus-based (rather than evidence-based) strategic assumptions are considered, and that those assumptions are generated by or signed off by senior management, without necessarily quantitative and/or science-based underpinnings.

Illustrative sample:
"Senior management sets the strategic goals for the firm following a process of building assumptions. The ESG strategy of each portfolio is in line with the overall corporate ESG strategy. Portfolio managers have discretion to interpret the corporate ESG strategy. XX% of all our portfolios (or AuM) are aligned with the corporate ESG strategy."

Advanced-level reporting:
At the advanced level, it would be expected that for many reporting parties, scenarios underpin the strategic item definition. Scenarios are built and run in order to produce quantified and fact-based assumptions about the future. These assumptions then become input to either interpretative procedures for identifying strategic items ("judgment"), or they form the base for mathematically derived strategic items ("calculation").

Illustrative sample:
"Strategy setting, including ESG strategy, is a corporate-wide process. Senior management, the strategy department, portfolio management, and group sustainability jointly work on scenarios. The scenarios are fixed by way of resolution or by virtue of their scientific evidence. The ESG strategy is implemented in a holistic approach by examining the exposure of each portfolio to the scenarios built. Strategies of scenarios may vary according to their exposure to climate scenarios. Portfolio managers are obliged to steer their investment in line with their specific ESG targets against the corporate overall ESG targets. Strategic goals as well as scenarios are reviewed and rebalanced every six months or as and when required."

3.1.3 Risk Management (including scenario building)

Foundational-level reporting:
At the Foundational level, disclosure would entail whether risk is estimated in monetary terms based on strategic assumptions arrived at by consensus, or by systematic methods (e.g. by rules, models, or calculatory methods).

Illustrative sample:
"We deploy an integrated strategy process that also encompasses ESG risks. The process is driven by the consensus of senior management on expectable risk levels. Based on this consensus we build estimates for expected risk."

Advanced-level reporting:
At the Advanced level, however, it would be expected to disclose whether there is full integration of scenario-based models and calculations into all relevant risk categories across the entire organisation and all its portfolios. This information would be supported by the related quantitative disclosure on the percentage of assets under management or number of portfolios for which full risk measurement (e.g. maximum ESG drawdown) exist.

Illustrative sample:
"We have integrated ESG-related risks into all risk categories (i.e. credit risk/default risk, market price risk, liquidity risk, operational risk, strategic risk, and reputation risk). Our risk assessment based on scenarios allows us to tackle risks and opportunities for different climate scenarios. Portfolios are aligned with risk calculations so that we can measure risks and opportunities including effects of different climate scenarios at the level of portfolios."

3.1.4 Targets[11]

Foundational-level reporting:
While targets developed through a strategic and reasoned process are very valuable as a context for past and intended future performance, setting meaningful ESG targets needs some maturity of the organisation. For this reason, in the SSF Reporting Recommendations parties following the Foundational level would most likely focus on qualitative goals that indicate a rough direction and a minimum level of ambition, but are not monitored through quantitative indicators.

Illustrative sample:
"It is our goal to increase the share of green investments by 25% by the year YYYY. By YYYY, we will have completely withdrawn as an asset manager from investments in fossil fuels."

Advanced-level reporting:
Since it can be assumed that at the Advanced level governance, strategy, and risk management are already calibrated to ESG aspects via a quantitative infrastructure (i.e. methods, data processing, scenarios), reporting parties pursuing the Advanced level would disclose such models and calculations. In addition, it would be expected that Advanced-level reporting parties disclose whether targets (absolute or relative) are defined for selected metrics, and whether these targets are met.

Illustrative sample:
"We measure the exposure of our portfolios to carbon and have set a goal for the carbon tracking error of > 10% (i.e. we aim to be better than the benchmark for each of our portfolios by 10% or more)."

11 There is a complicated relationship between goals, metrics and targets. Goals are usually desired states or results, typically described qualitatively. Metrics are performance indicators by which states or progress are measured in relation to the goal. Metrics by definition have a quantitative format. Targets describe how well results from the goals have been achieved, typically in quantitative form. Goals are more often defined at the level of entities than at the level of portfolios, while targets are more likely to be found at the level of portfolios.

Practically, goals and targets are often neither semantically nor conceptually clearly distinguishable from each other. An example will explain the concepts: the goal for an asset owner could be to reduce his carbon footprint, generally and across all portfolios. At the target level, the asset owner sets a target of -25% for his own assets under management or for portfolios outsourced to third parties. Metrics are defined as CO2 emissions Scope 1&2.

While targets can change from year to year and over time, other metrics can be added to the metric to contribute to the goal 'reduction of carbon footprint'. The goal does not change over time.

3.2 Metrics at the Portfolio Asset Level

3.2.1 Structural features and approach for KPI selection

In line with the next-generation reporting approach chosen for this project, the SSF Reporting Recommendations complement the entity-level disclosures discussed in the preceding section with the disclosure of metrics at the level of the portfolio assets. Selecting such ESG Key Performance Indicators (KPIs) can take place in a variety of ways. The KPIs proposed for inclusion in the SSF Reporting Recommendations for ESG transparency of portfolios have been mainly curated from portfolio/metric-level disclosures included in the established frameworks listed in Section 1.2, augmented with a small number of SFF-unique KPIs (such as Carbon Tracking Error).

Selecting a small number of meaningful KPIs from the large number of metrics included in major frameworks and guidelines (we compiled almost 100 such KPIs for consideration - see Appendix A5) is challenging. In order to provide a structured approach and ensure a meaningful rationale that avoids arbitrary selections, the project team:

- First organised KPIs from established frameworks and additional metrics suggested by the SSF workgroups into layered overviews concerning E (environmental), S (social), and G (governance) topics, respectively.
- In each of these overviews, the team distinguished input- and output-related KPIs for this particular topic or "capital" (to employ the language used in integrated reporting – for example, 'natural capital' to express environmental aspects).
- In addition, metrics related to financial, intellectual, and governance aspects were only included in these overviews in cases where they would influence how natural capital is handled on the input side, for example, or in cases where natural capital outputs can also be expected to influence financial outcomes.
- Based on this functional layering of potential KPIs, the project team proposed a small number of metrics that include at least one output KPI for Foundational-level reporting and at least one input and one output KPI for Advanced-level reporting that address issues of major political and industry importance. These KPI selections were then discussed with the SSF workgroup leaders and reviewed by the SSF workgroup members before the final selection was made.

All in all, to ensure balance and feasibility, the KPIs selected cover a meaningful breadth of key ESG topics without asking for information at the portfolio company/asset level that would not be available or too expensive.

Environmental KPI Selection: Foundational and Advanced-level reporting

At the Foundational level, parties report "operational carbon emissions scope 1 & 2" and "carbon tracking error" for the E category of ESG. At the Advanced level, parties report under the E category "operational carbon emissions scope 1 & 2," "carbon tracking error," energy use, water use, and up- or downstream carbon emission (scope 3) (see Figure 23).

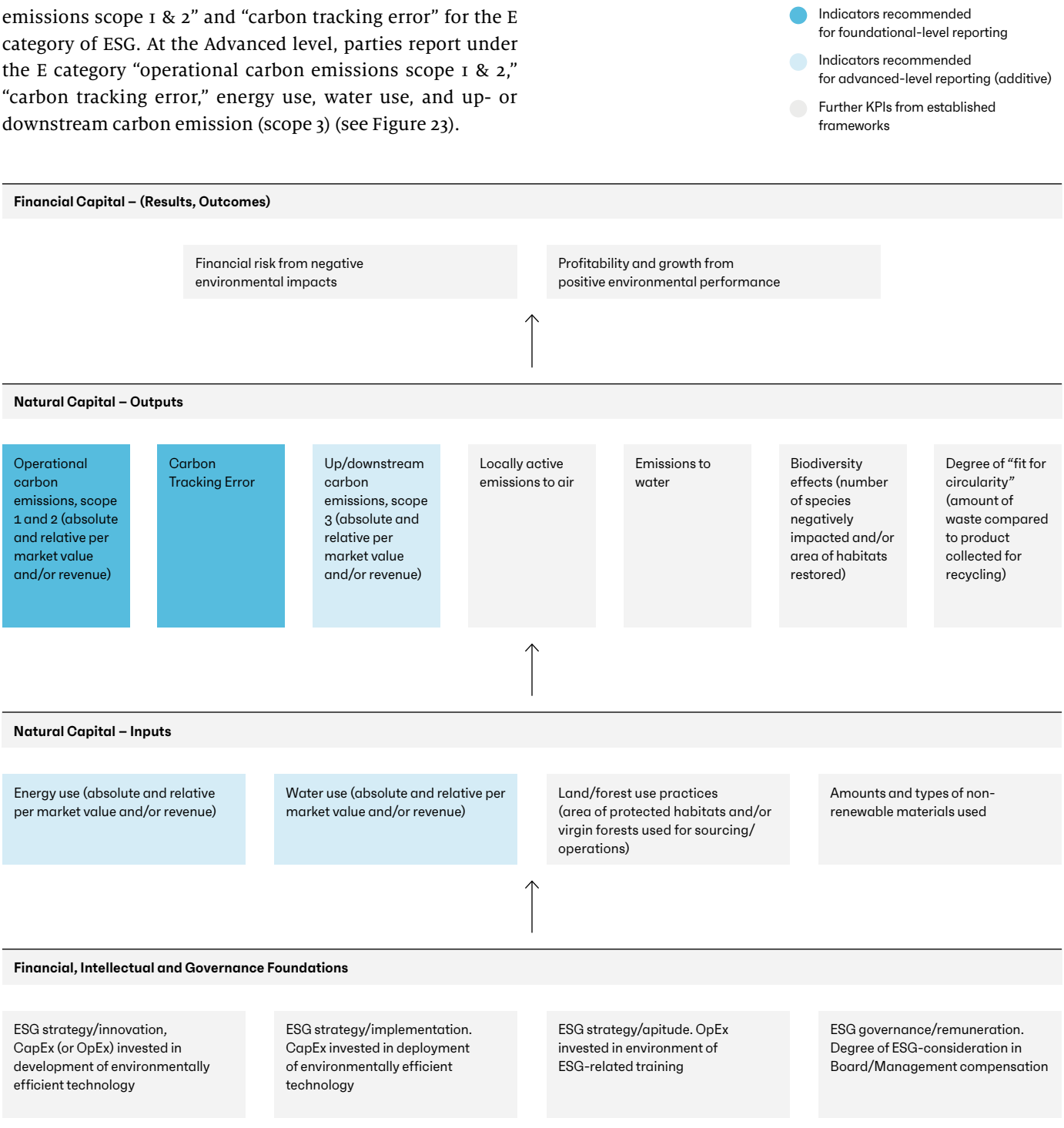


Figure 23: KPI layers for Environmental issues with KPI content for Foundational and Advanced-level reporting highlighted.
Source: Sustainserv.

Social KPI Selection: Foundational and Advanced-level reporting

At the Foundational level, parties report under the S category of ESG "human rights policy" and "employee turnover and/or absenteeism". At the Advanced level, under the S category parties report on top of the Foundational-level KPIs "number and nature of identified cases of severe human rights issues and incidents" and "accident and fatality rate" (see Figure 24).

Figure 24: Interlinked KPI layers for Social issues with KPI content for Foundational and Advanced-level reporting highlighted.
Source: Sustainserv.

Corporate Governance KPI selection: Foundational and Advanced-level reporting

At the Foundational level, parties report under the G category of ESG "board gender diversity" and "exposure to controversial weapons (e.g. land mines or cluster bombs)". At the Advanced level, under the G category parties report on top of the Foundational-level KPIs "anti-corruption and anti-bribery policies" and "ESG governance/remuneration/excessive CEO pay ratio" (see Figure 25).

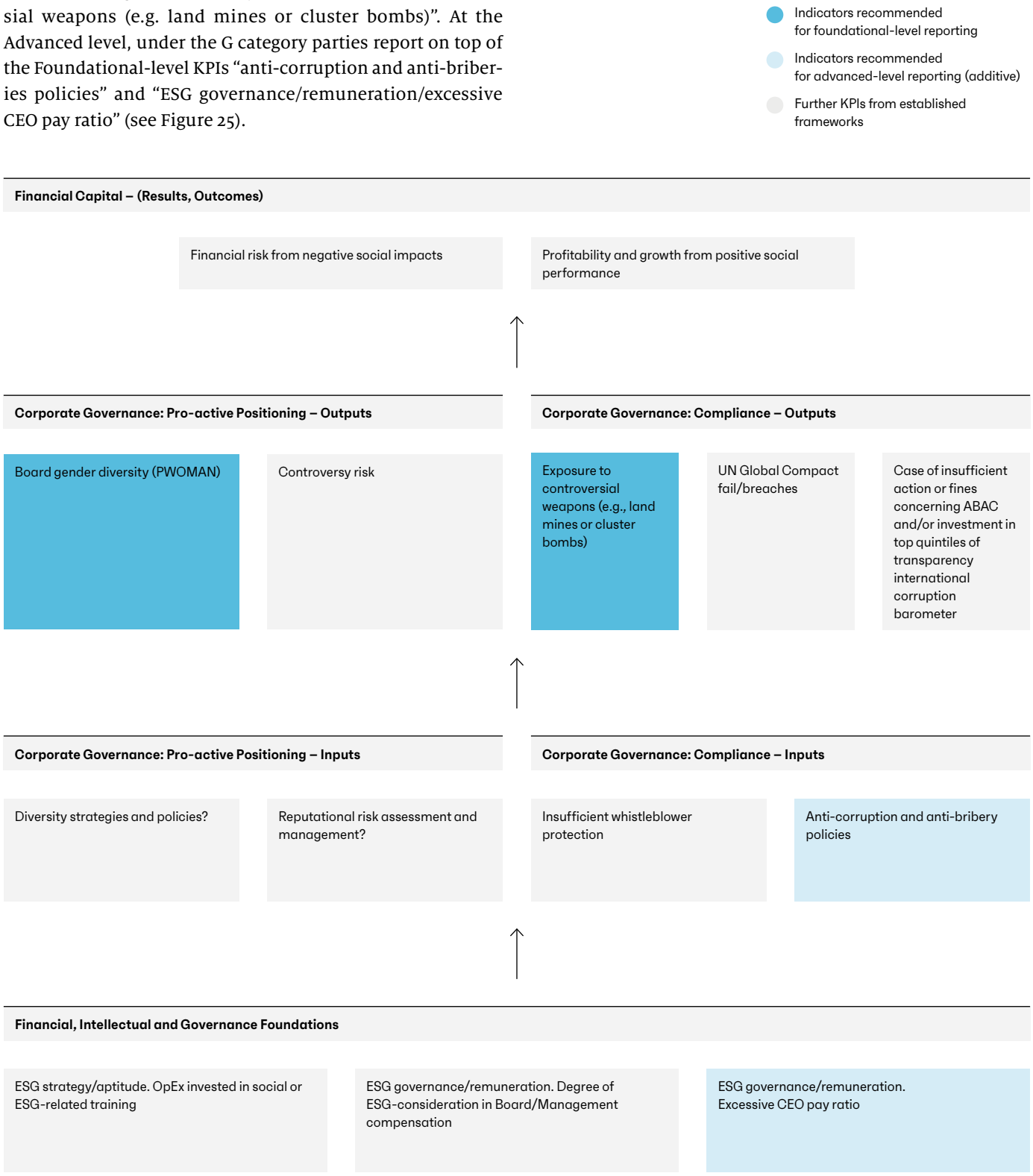


Figure 25: KPI layers for Corporate Governance issues with KPI content for Foundational and Advanced-level reporting highlighted.
Source: Sustainserv.

3.2.2 Definition of the KPIs Suggested for the Two Reporting Levels

Reporting Level	E, S, G	KPI	Definition, Calculation	Comment
Optional (Examples)	Environment: Climate	EU Taxonomy Alignment	$\frac{\textit{Equity \& Bond investments aligned with EU Taxonomy}}{\textit{Total Assets-under-Management}}$	ESMA Regulation for Asset Management Firms
	Environment: Climate	EU Taxonomy Alignment	$\frac{\textit{Non-life gross premiums and investments aligned with EU Taxonomy}}{\textit{Total Assets – under – Management}}$	EIOPA Regulation for Insurance Companies including Pension Funds, and Asset Owners
	Environment: Biodiversity	Negative impacts on biodiversity	Percentage of investee companies or assets screened for occurrence of negative impacts on biodiversity of total investments in portfolio	
	Corporate Governance: ACAB	UN Global Compact breaches/fails	Percentage of investee companies or assets screened for occurrence of UN Global Compact breaches or fails of total investments in portfolio	
	ESG strategy: Integration of ESG in investment management and advisory	CapEx invested in deployment of low-carbon technology, energy efficiency, resilience	$\sum_{n}^{i}\left(\frac{\textit{current value of investee company i in portfolio}}{\textit{investee company i's enterprise value or market capitalization}} \times \textit{investee company i's CapEx in low-carbon technology, energy efficiency, etc.}\right)$	Compatible with EU Banking Regulation for Green Asset Ratio
Advanced	Environment: Climate	Weighted average scope 3 carbon emissions	$\sum_{n}^{i}\left(\frac{\textit{current value of investee company i in portfolio}}{\textit{current portfolio value}} \times \frac{\textit{investee company i's Scope 3 carbon emissions}}{\textit{investee company i's revenue in M\$}}\right)$	
	Environment: Climate	Carbon tracking error (quantitative)	Quantitative Carbon Tracking Error = Standard Deviation (P-B) where P reflects the portfolio's and B the benchmark's total carbon emissions.	
	Environment: Energy Use	Total portfolio energy consumption	$\sum_{n}^{i}\left(\frac{\textit{current value of investee company i in portfolio}}{\textit{investee company i's enterprise value or market capitalization}} \times \textit{investee company i's energy consumption}\right)$	
	Environment: Water Use	Total portfolio water consumption	$\sum_{n}^{i}\left(\frac{\textit{current value of investee company i in portfolio}}{\textit{investee company i's enterprise value or market capitalization}} \times \textit{investee company i's water consumption}\right)$	
	Social: Human Rights	Cases of severe human rights incidents	Percentage of investee companies or assets screened for occurrence of severe human rights incidents of total investments in portfolio	
	Social: Health & Safety	Accident rate	$\frac{\sum_{n}^{i}\textit{(Accident rate investee company i)}}{n}$	Accidents are typically measured as number of accidents per total number of hours or working days of entire workforce.
	Social: Health & Safety	Fatality rate	$\frac{\sum_{n}^{i}\textit{(Fatalities investee company i)}}{n}$	Fatalities are typically measured as number of fatalities per total number of hours or working days of entire workforce.
	Corporate Governance: Compensation	Remuneration policy	Percentage of investee companies or assets screened of total investments in portfolio for remuneration policy that entails dedicated ESG goals for senior management	
	Corporate Governance: ACAB	Anti-corruption and anti-bribery policies	Percentage of investee companies or assets screened for anti-corruption and anti-bribery policies being inplemented of total investments in portfolio	

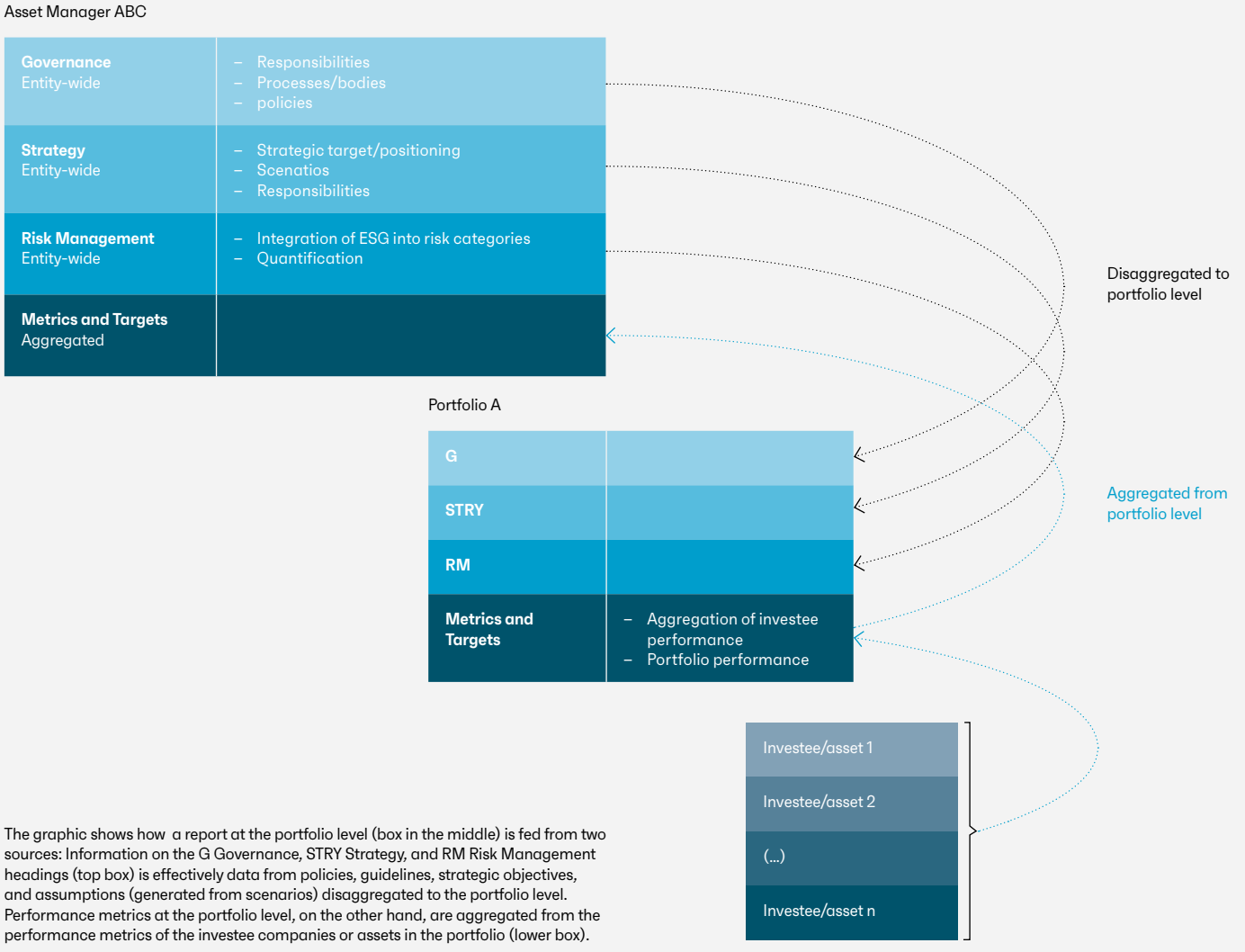
↓

Reporting Level	E, S, G	KPI	Definition, Calculation	Comment
Foundational	Environment: Climate	Total portfolio scope 1 & 2 carbon emissions	$\sum_{n}^{i} \left(\frac{\text{current value of investee company i in portfolio}}{\text{investee company i's enterprise value or market capitalization}} \times \frac{\text{investee company i's Scope 1 \& 2 carbon emissions}}{} \right)$	
	Environment: Climate	Carbon tracking error (qualitative)	Qualitative Carbon Tracking Error = heuristic indication (higher/similar/lower) of how the portfolio's total carbon emissions relate to the benchmark's.	
	Social: Human Rights	Human rights policy	Percentage of investee companies or assets screened as to whether a human rights policy is in place of total investments in portfolio	
	Social: Employee Matters	Employee Turnover	$\frac{\sum_{n}^{i} (\text{Employee turnover rate investee company i})}{n}$	Employee turnover is typically calculated as number of employees leaving in period t divided by total number of employees in period t
	Social: Employee Matters	Absenteeism	$\frac{\sum_{n}^{i} (\text{Absenteeism rate investee company i})}{n}$	Absenteeism is measured as total number of absence in hours or working days divided by total number of contracted hours or working days
	Corporate Governance: Positioning	Board Gender Diversity	Percentage of investee companies or assets screened as to whether Gender Diversity policy is in place of total investments in portfolio	
	Corporate Governance: Compliance	Exposure to controversial weapons		

Figure 26: Overview KPIs at different reporting levels.
Source: Sustainserv.

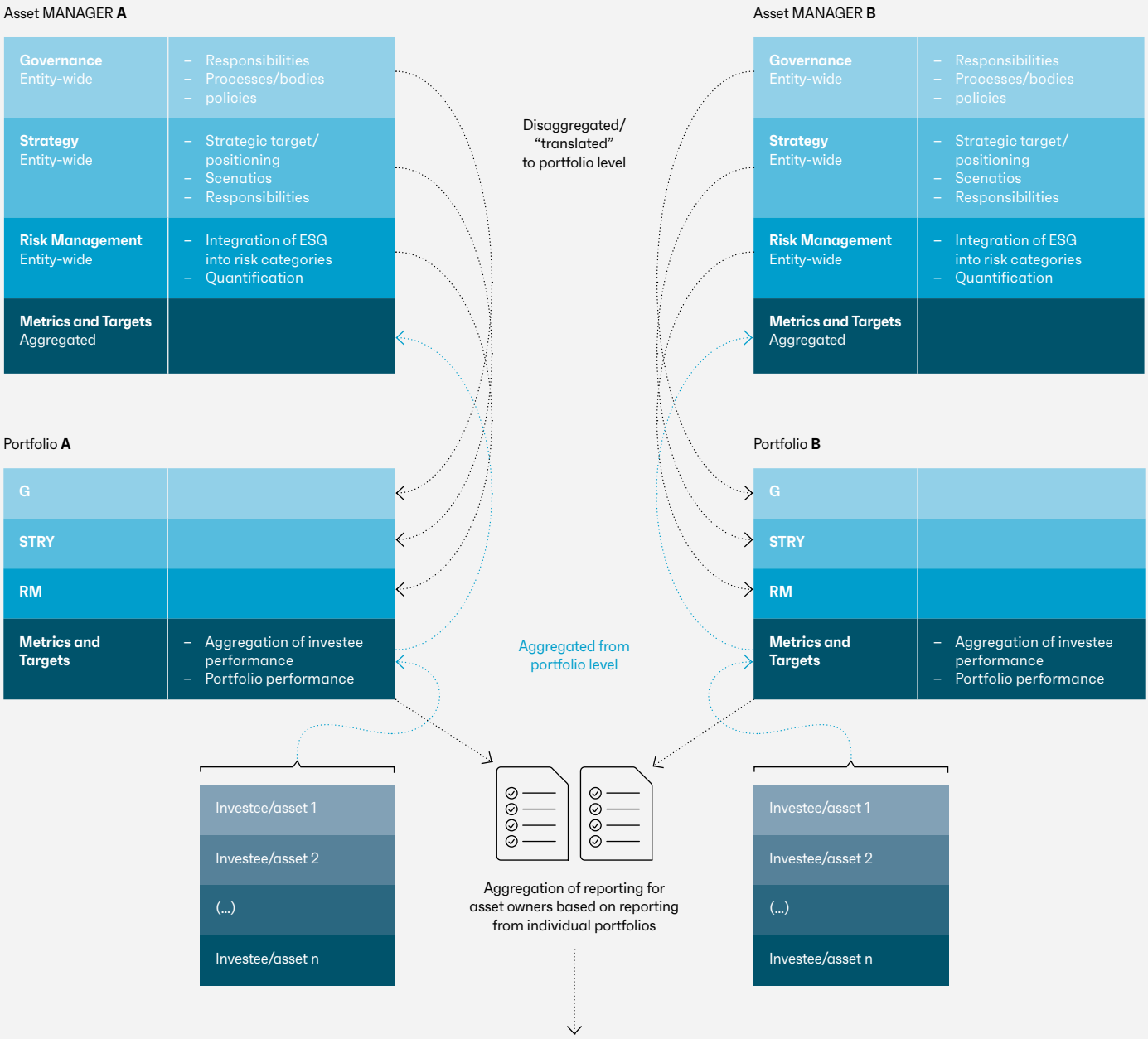
3.3 Facilitating Reporting Aggregation across Entities and Portfolios

Asset owners, who mandate asset managers to manage one or several of their portfolios, need to communicate expectation to managers and must determine what they can actually deliver. In addition, if they choose to generate a consolidated picture for their own management and disclosures, they need some mechanism to be able to aggregate SSF recommended reporting from different asset managers on different portfolios. The following example illustrates how this may work: An asset owner owns portfolios which are managed by two or more different asset managers. The asset managers report periodically to the asset owner (e.g. in the SSF Reporting Recommendations format) but the asset owner wants to aggregate the two or more reports into a single report to show their overall performance. To illustrate this, Figure 27 first shows the underlying consideration: Aggregation takes place from the different levels within an asset management company (i.e. before delivering its report to its client, the asset owner). Portfolios aggregate the data across different assets such as companies (stocks) or other investments. The governance of the asset manager (e.g. which policies and committees regulate ESG), determine the governance of the portfolio management (e.g. via rules and regulations). Similarly, the asset manager's strategy controls the strategic direction of the portfolio, just as an asset manager's risk management is generally applied to the portfolio level.



The graphic shows how a report at the portfolio level (box in the middle) is fed from two sources: Information on the G Governance, STRY Strategy, and RM Risk Management headings (top box) is effectively data from policies, guidelines, strategic objectives, and assumptions (generated from scenarios) disaggregated to the portfolio level. Performance metrics at the portfolio level, on the other hand, are aggregated from the performance metrics of the investee companies or assets in the portfolio (lower box).

Figure 27: Aggregation.
Source: Sustainserv.



This figure depicts the process of aggregating reports at the portfolio level for an asset owner. Key to this are the conditions mentioned in the box on the top right: Asset managers must have a governance process for ESG at the entity level, ESG must be embedded in the strategy, and the asset manager should be able to calculate specific opportunities and risks using scenarios.

Figure 28: Aggregation of portfolio level data for asset owners.
Source: Sustainserv.

Appendix

A1 Double materiality

Double materiality requires investors to face two aspects of materiality. Financial materiality related to an external impact, such as climate, on a company's activities, and environmental and social materiality which relates to a company's impact on the climate. Through the lens of double materiality, one perspective takes both aspects into account. (see Figure 29).

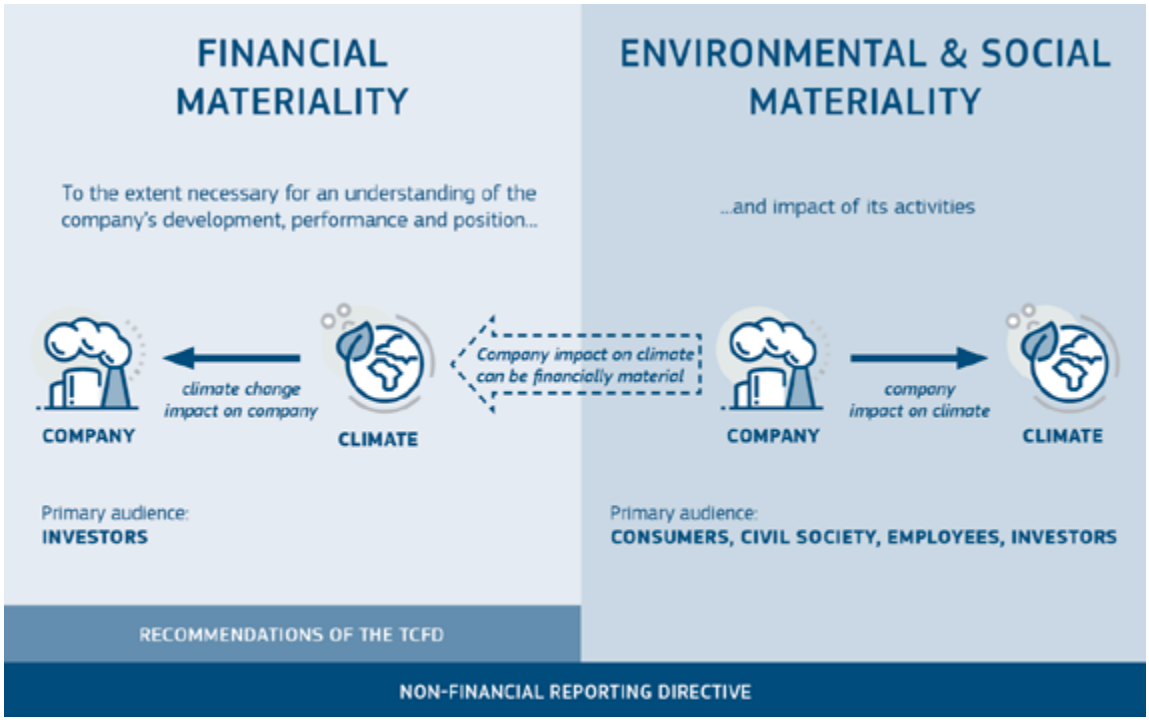


Figure 29: Holistic View: Risk/Chances and Impact Perspectives.
Source: European Commission (2019). Guidelines on reporting climate-related information, p. 7.

For decades these two aspects did not receive the same attention, nor were they considered equally important by different stakeholder groups. While conventional investors were more interested in the financial materiality of ESG, in many cases they did not have corresponding information because companies did not adequately understand or report on the impact of external environmental or social factors on their economic and financial performance. In contrast, when companies did report on material environmental and social impacts of their activities, this information was often not monetised, and provided little input in a stand-alone form for economic considerations.

For example, if an investor selects carbon-neutral companies for their portfolio, they reduce negative material effects on the environment that would otherwise have to be borne by society at large. However, this does not mean that they have thereby automatically eliminated all climate-related risks on their investments. Their investees may be disproportionately affected by climate risks, for example through climate impacts on agriculture or insurance in a financially material way, even if these investees would not themselves contribute to climate change. Asset managers and asset owners must keep both sides of the dual materiality in mind.

A2 Why and how was TCFD considered as a key inspiration for this study?

The TCFD template embeds climate risks deep into the decision-making processes of companies, and thus can be considered exemplary for the requirements of next-generation frameworks. Besides the very prominent TCFD, a multitude of frameworks and initiatives with detailed requirements for asset managers and asset owners (see Figure 1) are available. Many of the specific requirements from such other frameworks can be met with a next-generation framework.
The TCFD outline offers a structure that can easily be adapted to further requirements of customers or legislators. For example, the climate orientation of the TCFD can easily be extended to topics such as biodiversity or human rights in the supply chain.

A reporting framework at the portfolio level nevertheless needs a framework of guidelines, rules, and infrastructure at the entity level (i.e. the asset management company or the asset owner) in order to provide appropriate information in a meaningful context (see Figure 31 for details). For example, portfolio governance requires policies and guidelines at the organisational level because portfolio management must be set up in accordance with the governance of the entire entity in order to avoid a siloed or stand-alone solution.

One would therefore expect the reporting entity to comment on how governance is practised at the entity level and how the governance exercised by portfolio management is intertwined. Similarly, one would expect that a portfolio would pursue a strategy that bears the signature of the organisation, not one that is completely independent of the company as a whole. Regulators are already assuming that ESG will be seamlessly integrated into known risk classes, and for this reason risk management at portfolio level can only be a derivative of corporate risk management.

The original requirements of the TCFD concern the level of the organisation (i.e. the entity), while SSF workgroups want to use this information as a meaningful context for reporting at the portfolio level. Therefore, the original structure of the TCFD (see Figure 30) had to be adapted to include the portfolio level, which, as shown in Figure 31, is feasible. Governance links portfolio management oversight with board oversight or senior corporate management responsibilities at the entity level. Strategic risks and opportunities are identified for the portfolio within the context of the entity's strategy; risk management specifies how risks are handled at the portfolio level within the overall entity context, while metrics refer to the portfolio that is managed in line with the overall organisation's approach to ESG. The level proposed here is the next granular level, which allows aggregating to ESG at different portfolios within an organisation (and similarly different asset managers).

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

Figure 30: TCFD Recommendations and Supporting Recommended Disclosures.
Source: TCFD.

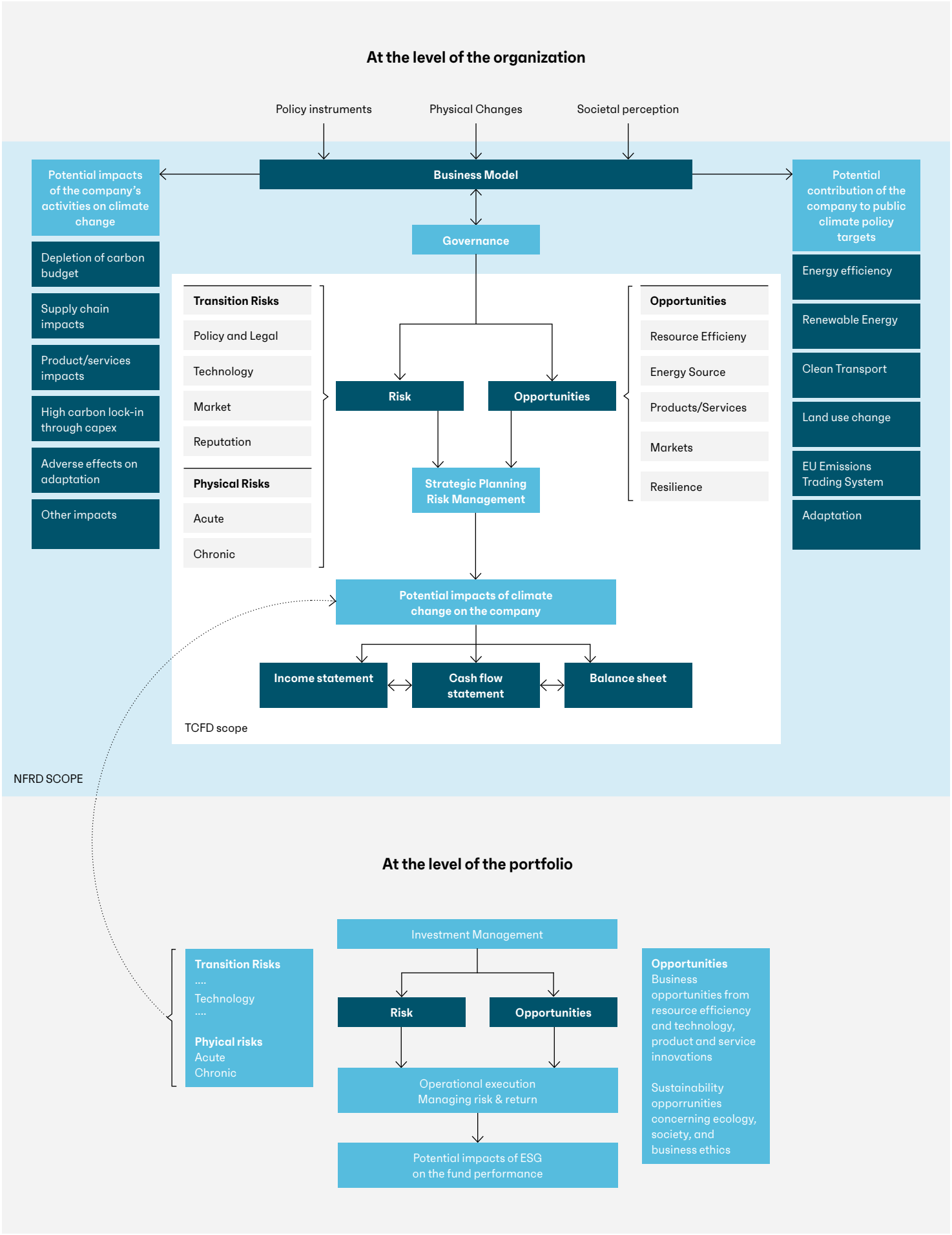


Figure 31: Adaptations from TCFD entity-related disclosures (top) to portfolio-related disclosures (bottom).
Source: TCFD, adaptations by Sustainserv.

A3 Selecting priorities on governance, strategy, risk management and targets to include

In the spirit of making the SSF Reporting Recommendations a concise framework, the SSF asset owner and asset manager workgroups were asked to assess which of the 11 elements of the TCFD (see Figure 30), are: a) most value creating, b) most common or easy to fulfill, and c) truly challenging. The groups' assessments also reflected the idea that reporting frameworks should reflect different levels of competencies and maturity of ESG management, so that an entry level (termed "Foundational-level") and a more involved level (dubbed "Advanced-level") should be defined. The elements for which both workgroups came to the same conclusion are highlighted in Figure 32.

Criteria	Of next-generation framework elements, which recommendations: Create most value	Are most common or easy	Are most challenging	Comments, suggested implication for SSF reporting recommendations
Governance The organization's governance around ~~climate~~ ESG-related risks and opportunities				
Disclose the role of the board of the organization in overseeing ~~climate~~ ESG-related issues.				Could be left open in SSF reporting recommendations (neither encourage nor discourage)
Disclose the role of management in assessing and managing ~~climate~~ ESG-related issues		✓		Could be included in "foundational" as well as "advanced" recommendations
Strategy The actual and potential impacts of ~~climate~~ ESG-related risks and opportunities on the organization's businesses, strategy, and financial planning				
Disclose the ~~climate~~ ESG-related risks (physical and transition) and opportunities the organization has identified over the short, medium, and long term				Could be left open in SSF reporting recommendations (neither encourage nor discourage)
Disclose the impact of ~~climate~~ ESG-related risks and opportunities on the organization's businesses, strategy and financial planning				Could be left open in SSF reporting recommendations (neither encourage nor discourage)
Disclose the resilience of the organization's strategy, taking into consideration different ~~climate~~ ESG-related scenarios including a 2 °C or lower scenario	✓		✓	Could be included in "advanced" recommendations
Risk management The processes used by the organization to identify, assess, and manage ~~climate~~ ESG-related risks				
Describe the organization's processes for identifying ~~climate~~ ESG-related risks				Could be left open in SSF reporting recommendations (neither encourage nor discourage)
Describe the organization's processes for managing ~~climate~~ ESG-related risks (e.g. scenario analysis, portfolio carbon footprint, etc.)	✓			Could be included in "foundational" as well as "advanced" recommendations
Describe how processes for identifying, assessing, and managing ~~climate~~ ESG-related risks are integrated into the organization's overall risk management	✓		✓	Could be included in "advanced" recommendations
Metrics & targets The metrics and targets used to assess and manage relevant ~~climate~~ ESG-related risks and opportunities				
Disclose the metrics used by the organization to assess ~~climate~~ ESG-related risks and opportunities in line with its strategy and risk management process	✓			Could be included in "foundational" as well as "advanced" recommendations
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.				Could be left open in SSF reporting recommendations (neither encourage nor discourage)
Describe the targets used by the organization to manage ~~climate~~ ESG-related risks and opportunities and performance against targets.	✓			Could be included in "advanced" recommendations (or also in "foundational" recommendations?)

Figure 32: Consolidated responses from Asset Owner and Asset Management Group surveys on the TCFD's most value-adding, easiest, and most difficult requirements.
Source: Sustainserv.

A4 Note on asset class coverage

Depending on the mandate, asset managers and asset owners are invested in a variety of asset classes. This reporting framework was designed with the asset classes listed equities and corporate bonds in mind. It can be applied with minor effort to other prominent asset classes such as commercial real estate, if some additional KPIs are included.

In the case of asset classes such as sovereign bonds, the basic criteria used to determine whether an underlying is sustainable or not (think of the discussion about the death penalty, which in many cases leads to immediate exclusion from a sustainable portfolio, but also affects U.S. T-bills for precisely this reason) have not yet been defined at a socio-political level. For some of the remaining asset classes, typically subsumed under 'Alternatives', it is not at all clear under which circumstances they can be designed to be sustainable at all.

Starting with listed companies and corporate bonds is appropriate, however, not least because the availability of data for investee companies is relatively high, and one is dealing with "straight forward" asset classes that help train the reporting party for the more complex asset classes.

Imprint

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