

Climate Change for Asset Owners

Matthew McAdam
Director, Asia Pacific



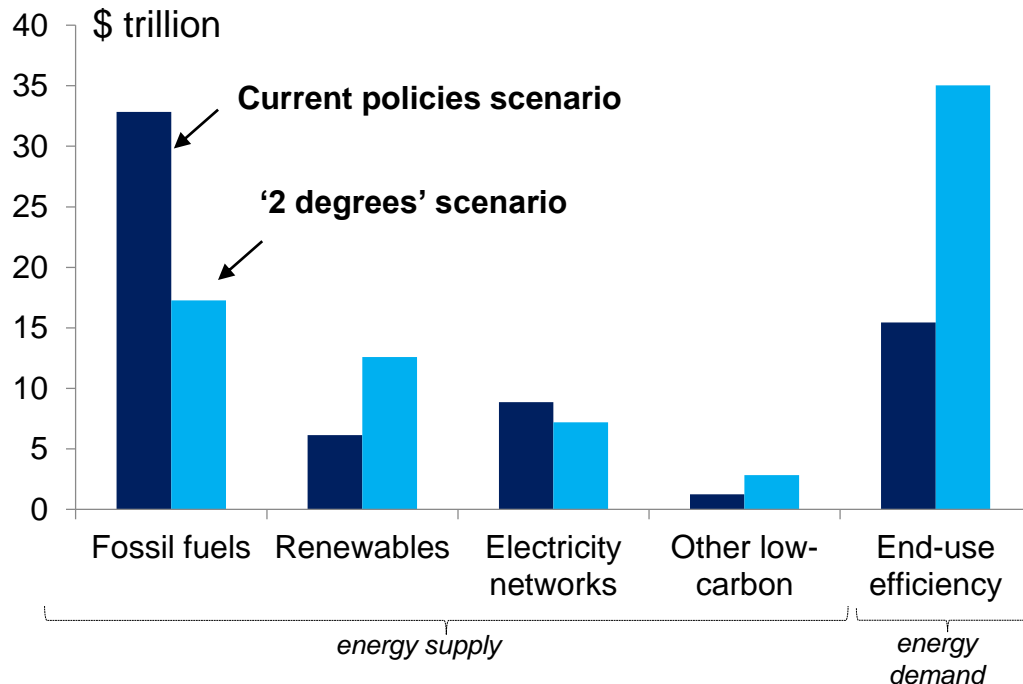
Agenda

- **Climate change: why should investors care and how should Asset Owners respond?**
- TCFD: best practice disclosure framework on climate risk measurement and management
- Global investor initiatives currently underway to position portfolios for the low carbon transition:
 - Stewardship: Climate Action 100+
 - UN Net Zero Asset Owner Alliance
 - PRI's Inevitable Policy Response (scenario analysis)
- Q&A

Climate change: Why should investors care?

Transition risk

Investment needs under different scenarios, 2016-2040



- Energy sector requires about \$70 trillion investment over next 25 years
- Total capital re-allocation to achieve 2° target: \$26 trillion
- Markets need information to invest in line with climate targets and technology trends.

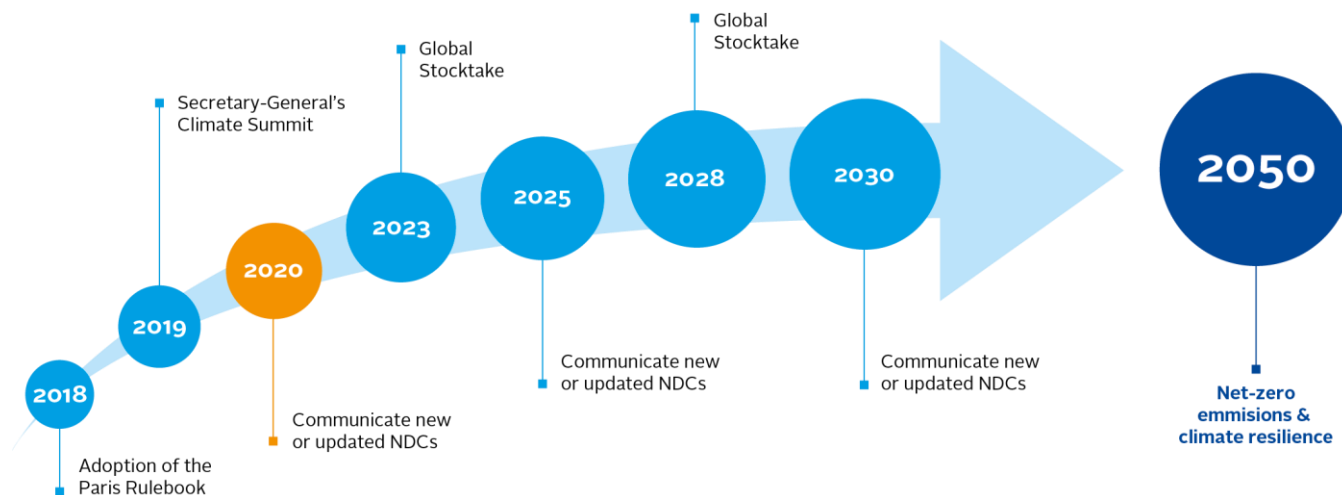
Source: IEA(2016).

Why government action matters to investors

Delayed action will have significant financial implications. Countries must undertake ambitious efforts to combat climate change and adapt to its effects.

The Paris Agreement aims to:

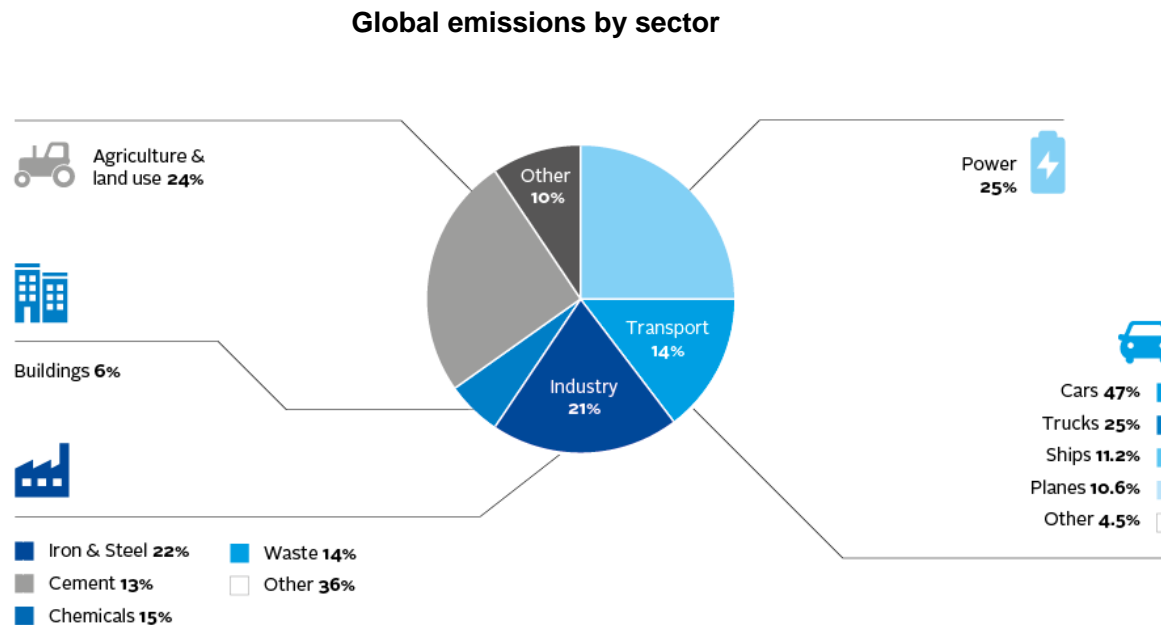
- stop global temperatures rising by more than 2.0°C above pre-industrial levels;
- limit that even further to 1.5°C.



A systemic issue affecting all asset types and sectors

Climate change will impact the portfolio returns, asset valuations, and asset allocation processes of asset owners with diversified, global portfolios.

It creates investment opportunities and introduces new risks.



Climate change for asset owners

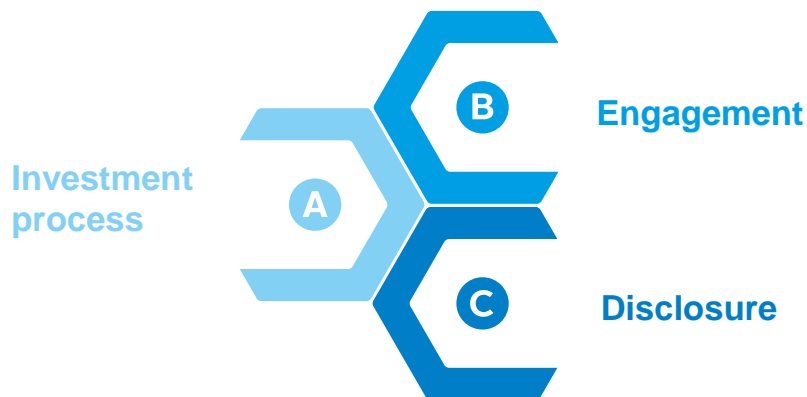
A systemic issue affecting all asset types and sectors

Climate change affects all asset types and sectors. It creates investment opportunities and introduces new risks.

An effective response requires governments and asset owners to **act now**, not later.

How should asset owners respond?

A three-stage approach to implementing a climate change response:



Introductory questions to ask external managers

1	<p>Organisation-wide support for the TCFD recommendations</p> <ul style="list-style-type: none">▪ Does your organisation support the TCFD recommendations?▪ If not, please explain the rationale behind this decision.▪ If yes, when do you anticipate implementing the recommendations?
2	<p>Governance</p> <ul style="list-style-type: none">▪ Has your organisation included the monitoring of climate-related impacts as part of the board's and/or management group's oversight responsibilities?▪ How is progress reviewed, by whom and how often?
3	<p>Strategy</p> <ul style="list-style-type: none">▪ Is there a firm-wide strategy in place to identify the risks and opportunities related to climate change?▪ Has the organisation considered the impact of climate-related scenarios on future outcomes in terms of expected risk and return, as well as the identification of new opportunities?
4	<p>Risk management</p> <ul style="list-style-type: none">▪ Has a process been established to assess and integrate climate-related investment risks (transition and physical impacts) into investment decisions?▪ What is your process for monitoring these risks?
5	<p>Metrics</p> <ul style="list-style-type: none">▪ What climate-related metrics, if any, does your organisation use?▪ Can you describe how these metrics have impacted investment decisions?
6	<p>Challenge, targets and next steps</p> <ul style="list-style-type: none">▪ Has the organisation prepared disclosures on its climate commitments in line with the TCFD recommendations and ahead of the upcoming EU taxonomy regulation?▪ Has the organisation introduced steps to transition investment portfolios to net-zero GHG emissions by 2050?▪ Has the organisation prepared and modelled for scenarios such as the Inevitable Policy Response?

Agenda

- Climate change: why should investors care and how should Asset Owners respond?
- **TCFD: best practice disclosure framework on climate risk measurement and management**
- Global investor initiatives currently underway to position portfolios for the low carbon transition:
 - Stewardship: Climate Action 100+
 - UN Net Zero Asset Owner Alliance
 - PRI's Inevitable Policy Response (scenario analysis)
- Q&A

TCFD Framework: Overcoming the “tragedy of the horizons”

Core Elements of Recommended Climate-Related Financial Disclosures



Governance

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

Strategy

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

Risk Management

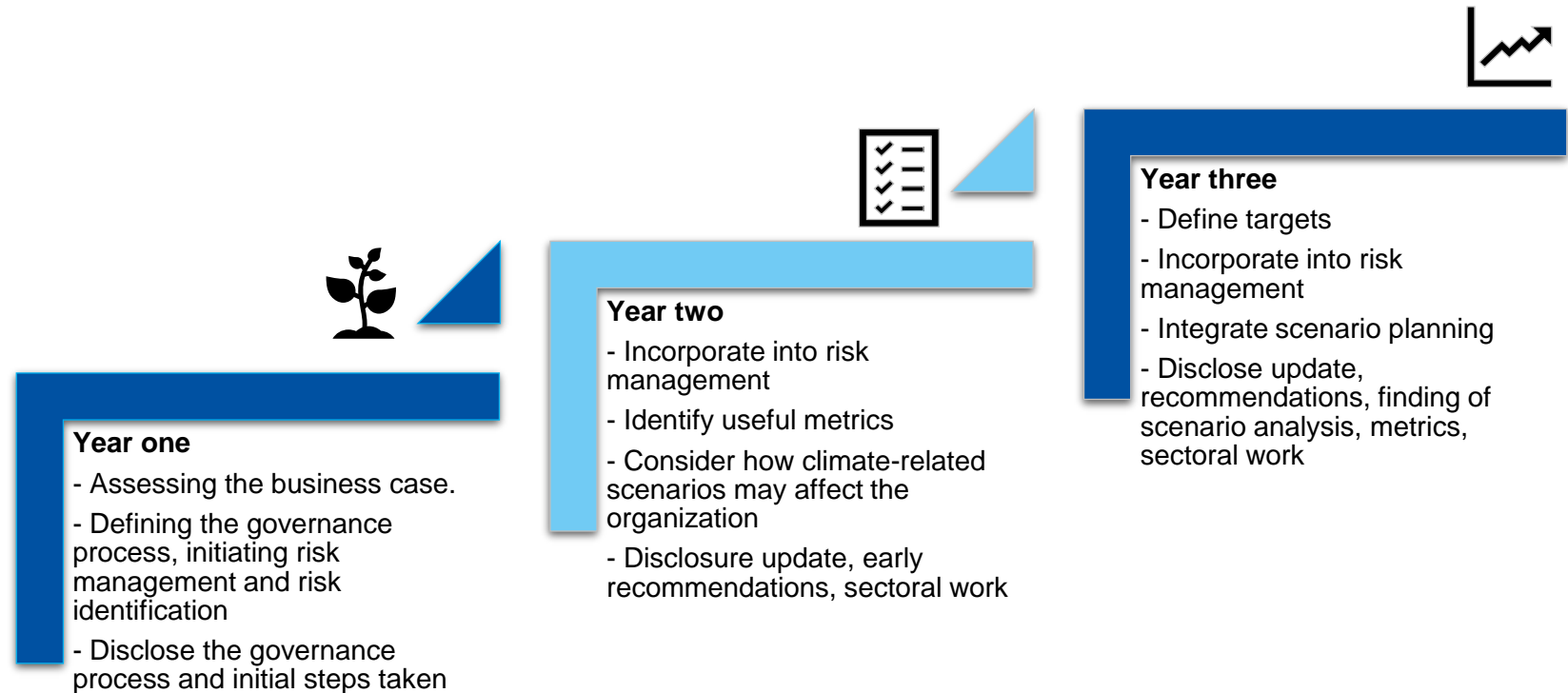
The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets

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



Sample multi-year TCFD implementation plan



The Taskforce on Climate related Disclosures (TCFD)

The PRI supports investors with a guide offering a practical framework to implement TCFD recommendations



- The guide has been prepared for **asset owners looking to improve their practices** according to the Taskforce on Climate-related Financial Disclosures (TCFD) Recommendations.
- To meet investors' need for practical tools and guidance, this guide offers a **range of actions** allowing improvement across the four pillars of the TCFD framework (governance, strategy, risk management, and metrics and targets).
- The guide highlights **near term actions** as well as setting out recommendations for **engaging with fund managers** on their management of climate-related issues.

TCFD: What are the benefits for asset owners?



Translates climate change into financial metrics



Means to improve risk management



Comparable, flexible framework



Forward-looking approach

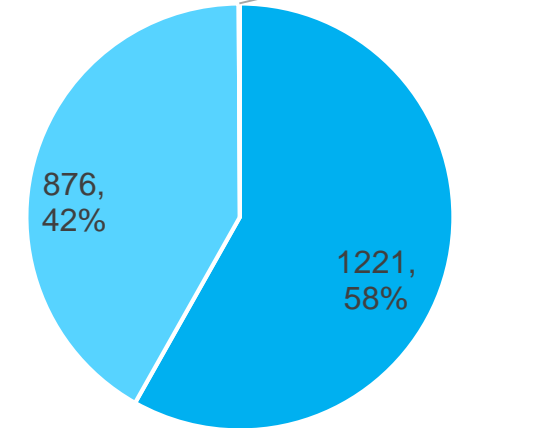


Increase financial trust and respond to beneficiaries

Strategy and support for TCFD by PRI signatories

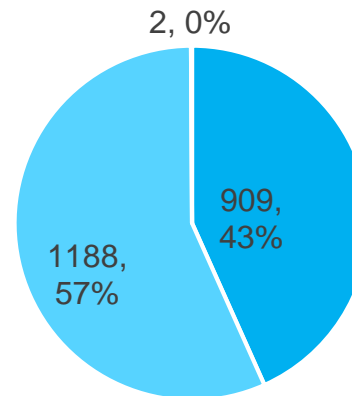
58% of signatories had an organisation wide strategy to manage climate risks and opportunities. 43% were public supporters of the TCFD.

Signatories with an organisation-wide climate strategy



■ Yes ■ No ■ Did not respond*

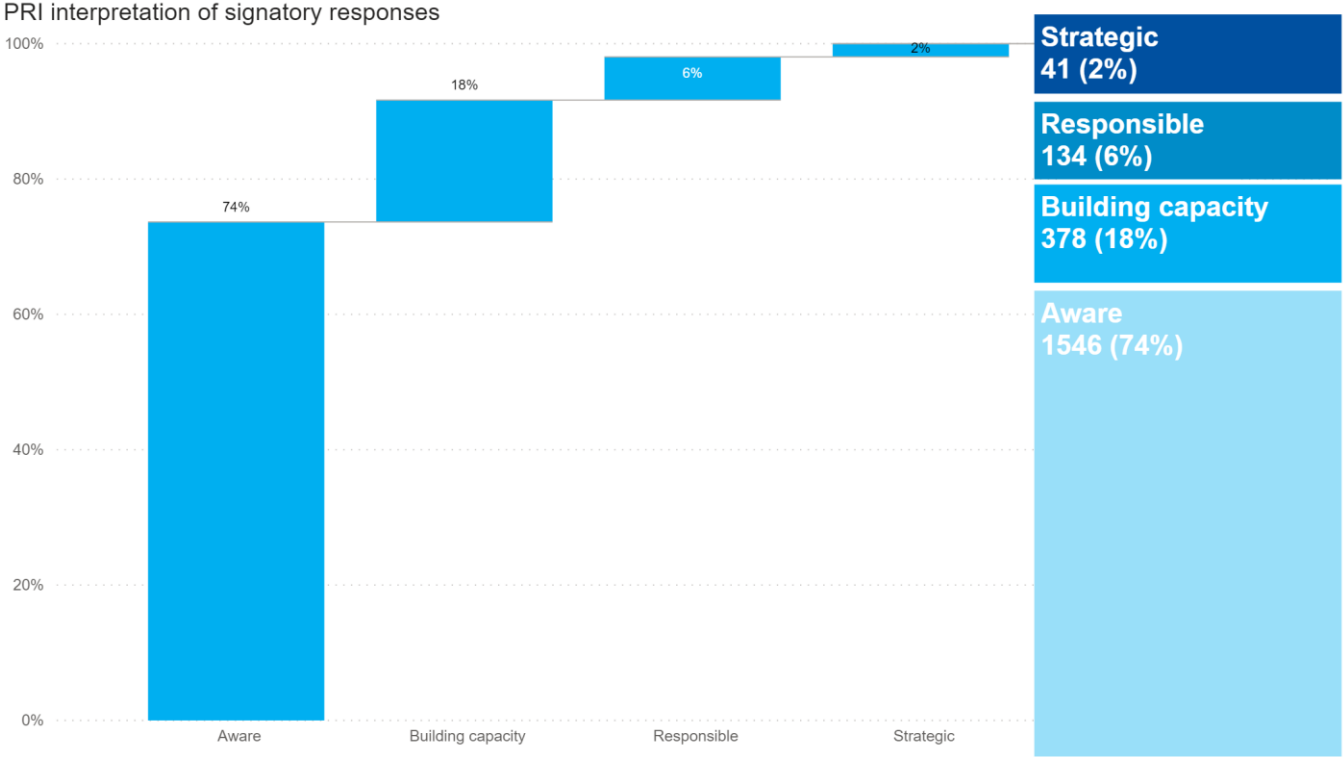
Signatories that publicly support the TCFD



■ Yes ■ No ■ Did not respond*

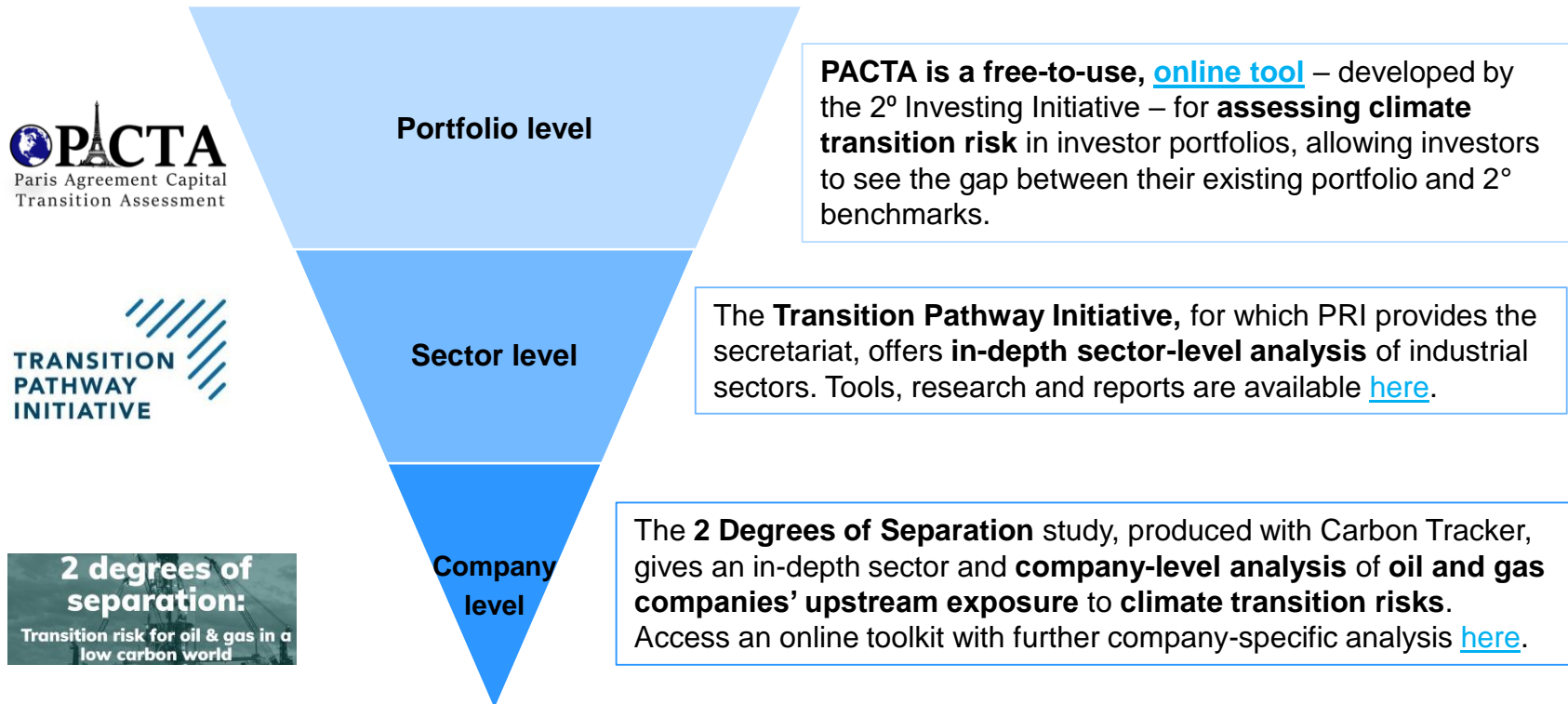
* These climate change questions were made mandatory to report in 2020 for nearly all signatories. However, the Strategy and Governance module in which they reside is optional for signatories that have 50%+ of their AUM invested in inclusive finance. A comparison to 2019 data is misleading because 71% did not respond to either question in 2019. SG 01.9 CC (left), SG 01.10 CC (right).

Progress towards TCFD implementation by PRI signatories



Climate Action: Scenario Analysis

Scenario analysis tools



PRI encourages signatories to undertake climate scenario analysis to better understand climate risk.

Agenda

- Climate change: why should investors care and how should Asset Owners respond?
- TCFD: best practice disclosure framework on climate risk measurement and management
- **Global investor initiatives currently underway to position portfolios for the low carbon transition:**
 - Climate Action 100+
 - UN Net Zero Asset Owner Alliance
 - PRI's Inevitable Policy Response
- Q&A

Climate Action 100+ : Stewardship

Investors engaging companies to:

GOVERNANCE

Implement a strong governance framework which clearly articulates the board's accountability and oversight of climate change risk

ACTION

Take action to reduce greenhouse gas emissions across their value chain, consistent with the Paris Agreement's goal of limiting global average temperature increase to well below 2 degrees

DISCLOSURE

Provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

300+

INVESTORS SIGNED UP

30+

US\$ trn

ASSETS COMMITTED

13 CLIMATE ACTION



Climate Action: UN-convened Net-Zero Asset Owner Alliance

Making a bold commitment to transitioning portfolios to net-zero GHG emissions by 2050

An international group of asset owners representing nearly US\$5 trillion in AUM, committing to **transitioning their portfolios to net-zero GHG emissions by 2050**, consistent with a maximum temperature rise of 1.5°C above pre-industrial temperatures. Members set and publicly report on intermediate targets in line with the Paris Agreement, convened by UNEPFI and the PRI. Key outputs will be available for all PRI signatories in 2021.



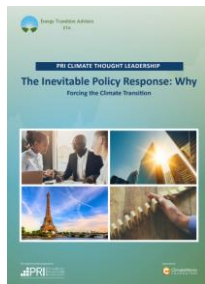
The PRI encourages asset owner signatories to commit to net zero and join the alliance.
Find out more [here](#).

Climate Action: Inevitable Policy Response

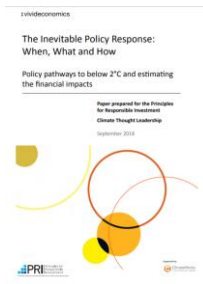
The Inevitable Policy Response: Act Now

- A new PRI climate thought leadership paper to encourage critical thinking by investors on climate risk and opportunity
- Key finding: without much stronger action now, PRI sees an Inevitable Policy Response (IPR) to an overshoot of the Paris Agreement to limit global warming to well below 2 degrees

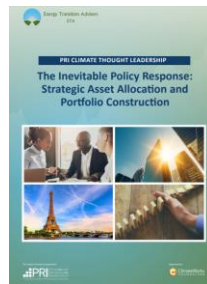
PRI has drawn on Energy Transition Advisers and Vivid to develop the following set of technical guidance papers on investor actions:



IPR: Why



IPR: When, What and How



IPR: Strategic Asset Allocation and Portfolio Construction



IPR: Investor Actions



PRI encourages signatories to read and act on our [climate thought leadership papers](#).

Climate Tools for Investors

The climate emergency – how can investors take action?

<p>Investment</p>	<ul style="list-style-type: none"> ▪ How to invest in the low-carbon economy ▪ Climate change and the just transition ▪ TCFD: Asset owner guide, PE GP guide ▪ RI intro: climate change for asset owners ▪ Pathways to net zero: scenario architecture for strategic resilience testing and planning
<p>Corporate engagement</p>	<ul style="list-style-type: none"> ▪ Collaborative investor engagement: Climate Action 100+ ▪ Investor guides: Corporate climate lobbying
<p>Investor disclosure</p>	<ul style="list-style-type: none"> ▪ Climate scenario analysis tools directory ▪ PRI climate snapshot 2020
<p>Policy advocacy</p>	<ul style="list-style-type: none"> ▪ The Inevitable Policy Response to climate change ▪ Global Investor Statement on Climate Change



These four areas are defined by the [Investor Agenda](#), a global platform set up by investors to tackle climate change. PRI is a co-founder.

For more information, click [here](#) or contact climate@unpri.org.



Recap: Actions for investors

Climate change analysis in the investment process: CFA Institute.

- A price on carbon
- Carbon price expectations included in investment decisions
- Increased transparency and disclosure on climate metrics
- Engagement with companies on physical and transition risks
- Education across the investment industry
- Government policy that complements these efforts

Q&A

Appendix

Climate Action

Moving towards net zero through investor action, corporate engagement and policy reforms

The PRI encourages all signatories to take action through the following initiatives:



[Climate Action 100+](#) wants to ensure that **160** of the world's largest corporate greenhouse gas emitters take necessary action on climate change. So far, more than **450 investors** representing **US\$41trn** have signed up to **lobby for reforms, push companies to meet 2050 net-zero targets** and **engage on TCFD implementation**. Sign on [here](#).



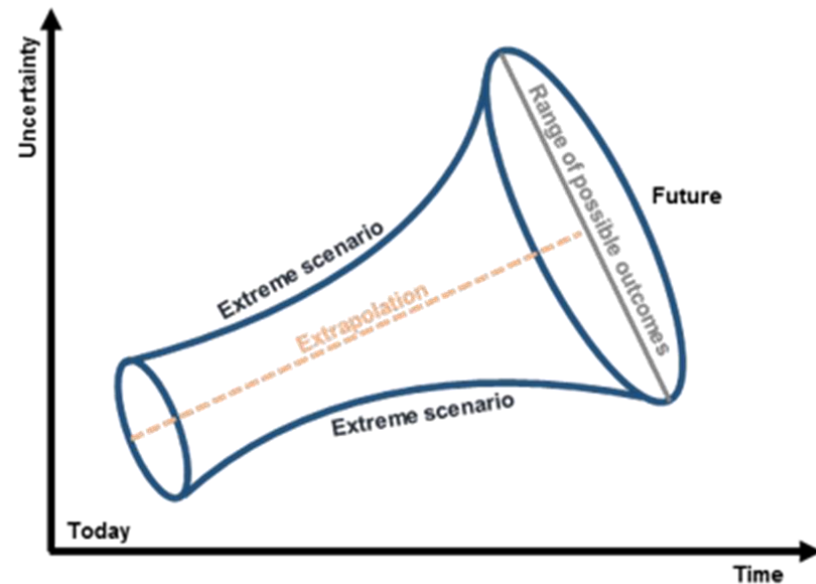
[COP26](#) will take place in November 2021 in Glasgow. The PRI is encouraging governments to incorporate climate into the COVID recovery. We are part of the [COP26 Race to Zero campaign](#) and we encourage asset owners to join the [UN-convened Net Zero Asset Owner Alliance](#). We are hosting a webinar series on actions all investors can take towards COP26. Under the [Investor Agenda](#), we are collaborating with investor groups worldwide on climate change.



As the realities of climate change become apparent, governments will be forced to act more decisively than ever before. Signatories can **assess the implications** of a **forceful, delayed** and **disruptive** policy response by 2025 through [this pioneering project](#). Meanwhile, COVID-19 is a wake-up call for society, governments and investors to take climate change action and prepare for the inevitable. **Get the latest insights from our [podcast](#), [blog](#) and [webinars](#).**

TCFD'S THREE PRINCIPLES OF SCENARIO ANALYSIS

- I. Include at least one $\leq 2^\circ$
- II. Use a range of scenarios
- III. Transparency. Use public reference scenarios



WHERE DO CLIMATE SCENARIOS COME FROM?

Physical changes to the climate

 Four central scenarios

 National Meteorological Agencies

 Met Office

 EUMETSAT

Energy System transition scenarios

 Current Policy Scenario
New Policy Scenario
Sustainable Development Scenario
Beyond Two Degrees Scenario

 IRENA
International Renewable Energy Agency IRENA 2030

 Greenpeace Advance Energy Scenario

 Bloomberg
NEW ENERGY FINANCE

 International Institute for Applied Systems Analysis

 POTSDAM INSTITUTE FOR CLIMATE IMPACT RESEARCH