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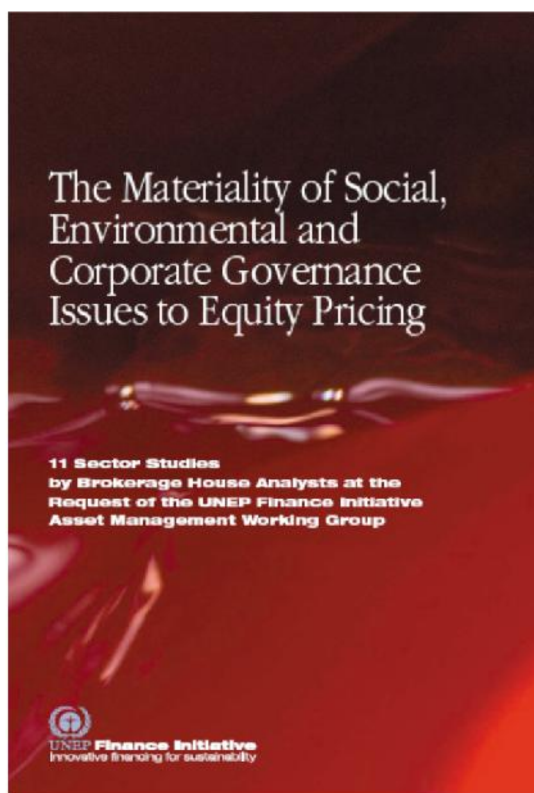
# PORTFOLIO CARBON

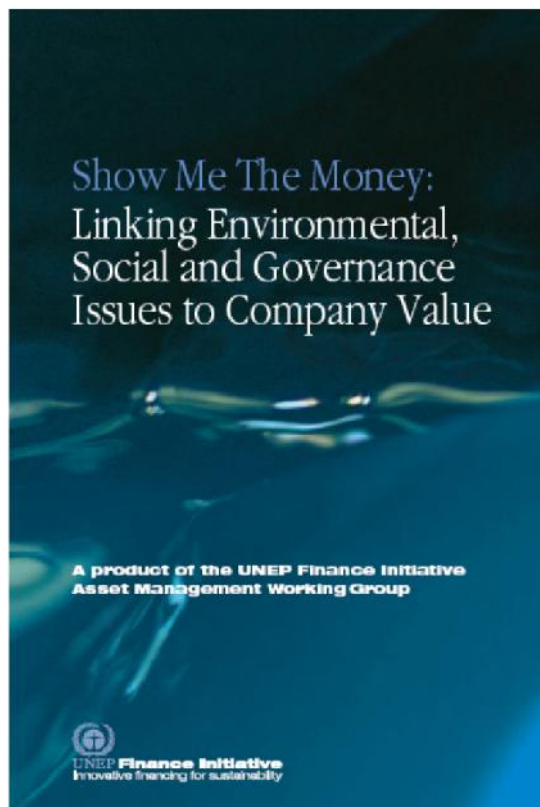
## Measuring, disclosing and managing the carbon intensity of investments and investment portfolios

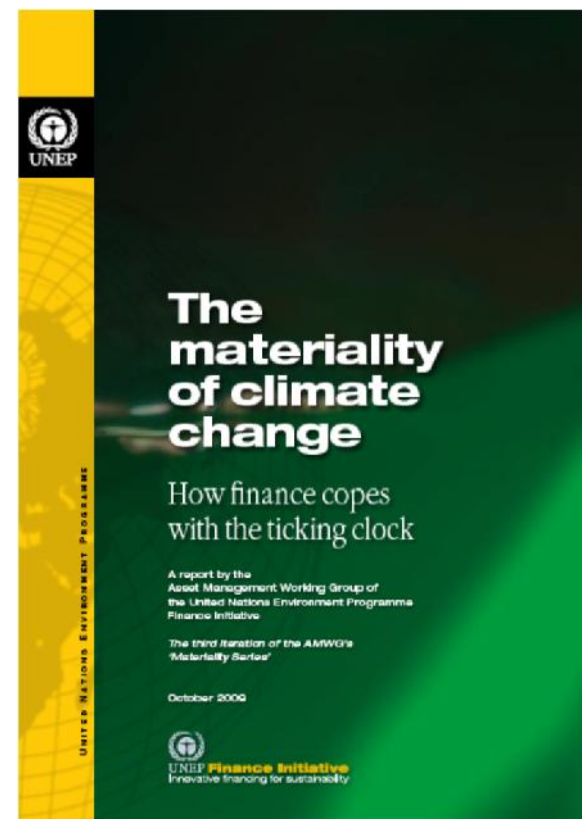
27 June 2013

# Investment and ESG: the evolution

## *1. Materiality*

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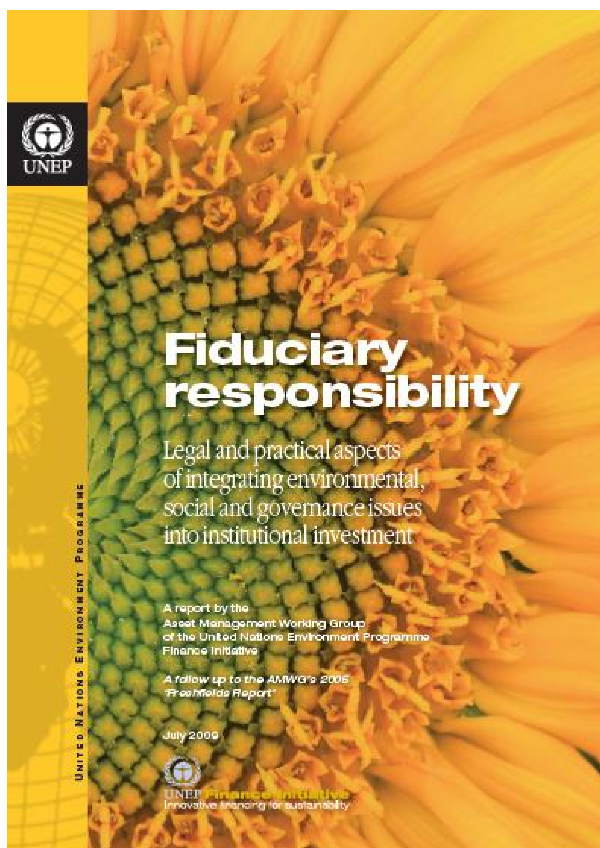
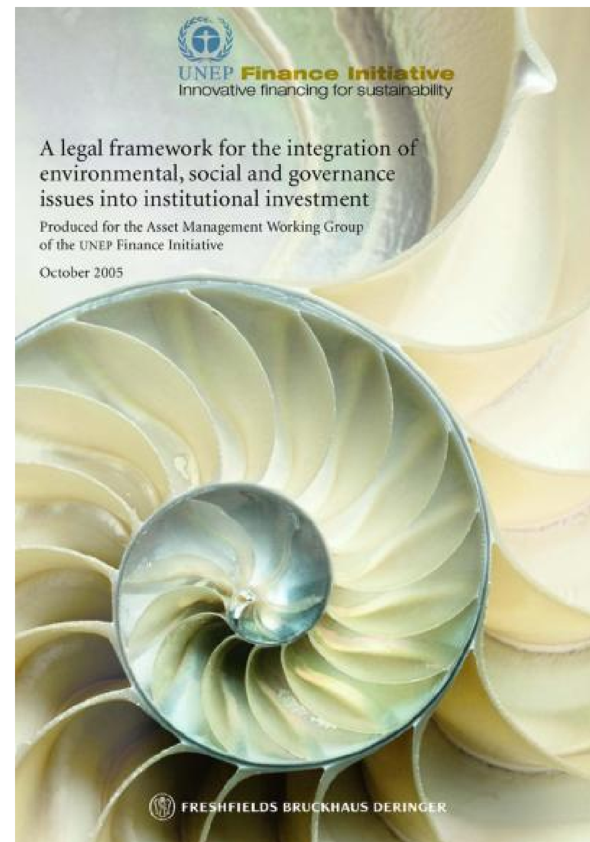
# Investment and ESG: the evolution
## *2. Fiduciary duty*



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# The Principles for Responsible Investment

**April 2006, New York Stock Exchange**

# The Principles for Sustainable Insurance

## The insurance industry and sustainable development

**19 June 2012, Rio de Janeiro, Brazil**

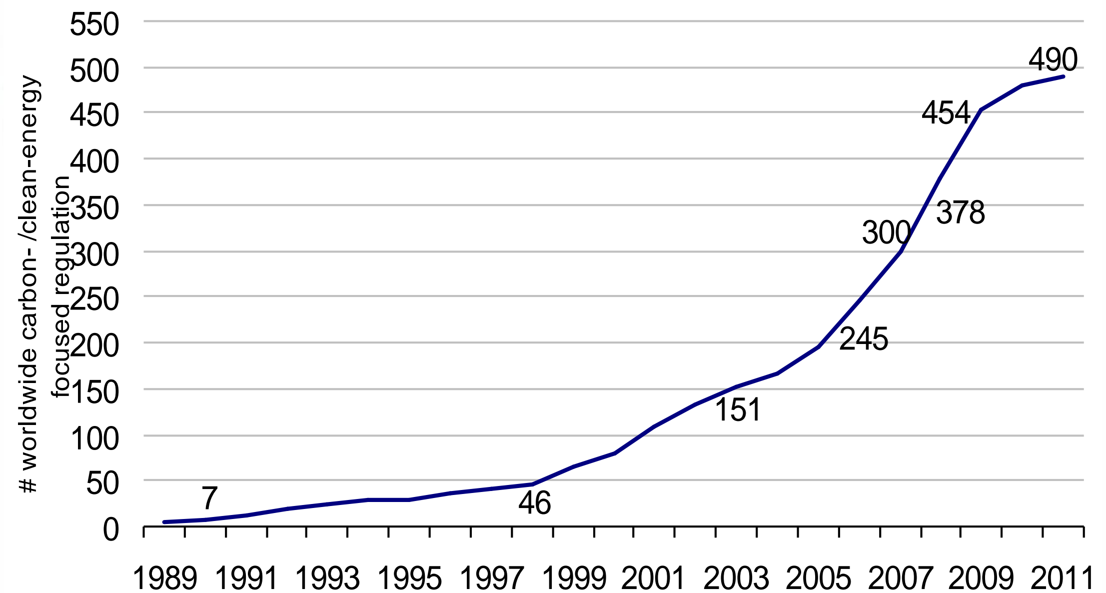
# Why are GHG emissions increasing in importance for institutional investors and other financial intermediaries?

1. **Steady, bottom-up build-up of public policy**
2. **Climate impacts are intensifying – and policy ambition is likely to return**
3. **Growing expectations of investor transparency**
4. **Regulatory shift to mandatory reporting - for companies and financial intermediaries**

# Why are GHG emissions (and 'carbon intensities') increasing in importance for financial intermediaries?

## 1. Steady, bottom-up build-up of public policy in recent years

- Climate regulation impacting profitability across sectors & regions
- Steady build up of initiatives at national and local levels




*Source: UNEP FI; data from IEA*

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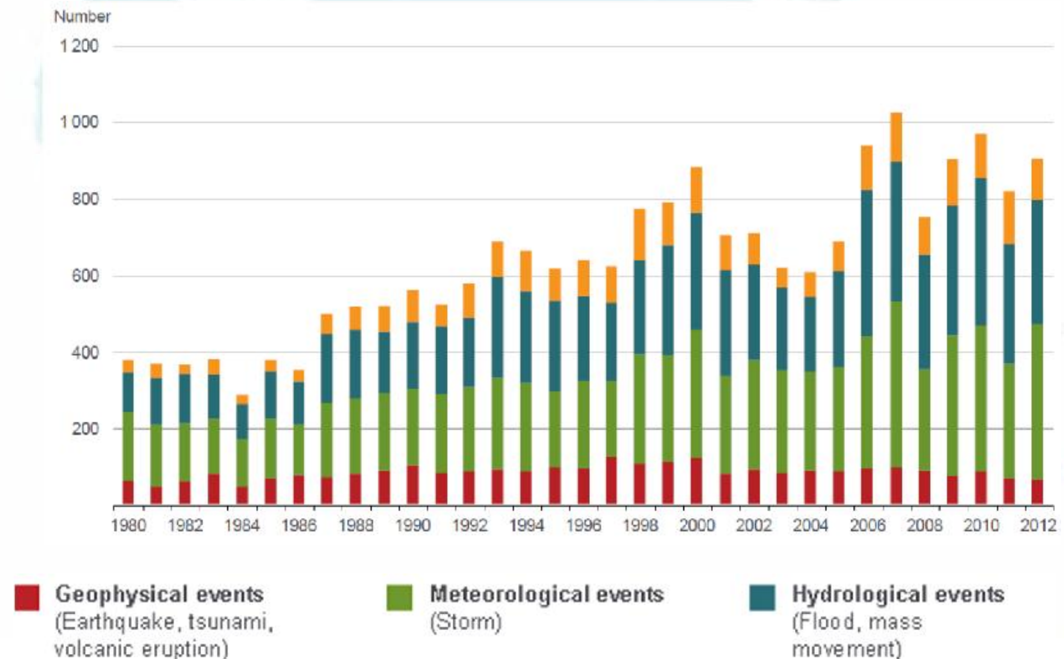
# Why are GHG emissions (and carbon intensities) increasing in importance for financial intermediaries?

## 2. Climate impacts are intensifying – and policy ambition is likely to return

- Governments targeting 2015 for next global agreement
- Public perceptions and prioritisation of climate change is changing, including in the USA

Natural catastrophes worldwide, 1980-2012 (number of events by peril with trend)




*Source: MunichRe, 2013*

# Why are GHG emissions (and carbon intensities) increasing in importance for financial intermediaries?

"Our climate is changing. And while the increase in extreme weather we have experienced in New York City and around the world may or may not be the result of it, the risk that it might be -- given this week's devastation -- should compel all elected leaders to take immediate action."

*Michael Bloomberg, New York City Mayor (October 2012)*[10]

"But if Congress won't act soon to protect future generations, I will. I will direct my Cabinet to come up with executive actions we can take, now and in the future, to reduce pollution, prepare our communities for the consequences of climate change, and speed the transition to more sustainable sources of energy."

*President Barack Obama, USA (February 2013)*[11]

## Why are GHG emissions (and carbon intensities) increasing in importance for institutional investors and financial intermediaries?

**4. Growing expectations of investor transparency**

- Corporate disclosure now well-established (CDP), including on Scope 3
- Investor disclosure closes the loop of corporate reporting
- Investor and financial institution transparency identified as next frontier by civil society

## Why are GHG emissions (and carbon intensities) increasing in importance for institutional investors and financial intermediaries?

**4. Regulatory shift to mandatory reporting - for companies and investors**

- Increasing **mandatory GHG** disclosure requirements: Australia, Canada, European Union, France, Japan, New Zealand, United Kingdom, United States, etc.
- To date, most schemes target companies, but nascent regulatory efforts to target investors and financial intermediaries Grenelle II (France); European Commission on retail funds.

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# Carbon risk? The two Rs

1. **Regulatory risk**
2. **Reputational risk**

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## How can institutional investors and financial intermediaries manage carbon risk exposure?

1. **Understand and measure carbon risk exposure**
2. **Carbon footprint analysis at the company and portfolio level**
3. **Reporting of ‘financed emissions’ to address stakeholder, regulatory disclosure pressures and show environmental stewardship as well as ‘progress over time’**
4. **Managing risk exposure by reducing the carbon footprint of individual investments, lending positions and entire portfolios**

## How can institutional investors and financial intermediaries manage carbon risk exposure?

**1. Understand and measure carbon risk exposure**

- Mapping external risk factors: policy, markets, technology, society
- Quantify carbon footprints
- Both qualitative and quantitative approches required

# How can institutional investors and financial intermediaries manage carbon risk exposure?

**2. Measure carbon intensity at the company and portfolio level**

- Comprehensive carbon risk assessment often requires carbon footprint analysis at the company or 'position' level
- Carbon footrpinting analysis at the portfolio level, however, is key for:

  1. *Disclosure: Client reporting / Public accountability / Tracking progress over time*
  2. *Risk management: when 'external factors' are constant / Tracking risk exposure over time*

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## How can institutional investors and financial intermediaries manage carbon risk exposure?

**3. Report on ‘financed emissions’ to address stakeholder, regulatory disclosure pressures and show environmental stewardship as well as ‘progress over time’**

- Avoid reputational risk through robust and meaningful disclosure of financed emissions
- Explain to external users of information that ‘apples have to be compared with apples’
- Set meaningful but realistic decarbonisation targets, and track progress over time
- Requires a ‘quality disclosure standard’ to comply with

## How can institutional investors and financial intermediaries manage carbon risk exposure?

### 4. Reducing carbon risk exposure

- **‘Geographic approaches’** (does only reduce the regulatory component, not the reputational component of carbon risk exposure)
- **‘Carbon footprint approaches’** (does reduce both regulatory and reputational components of carbon risk exposure)

*1. Sector allocation*

*2. Stock selection*

*3. Engagement*

*4. Passive investment in carbon-tilted indexes*

# Where next for institutional investors and financial intermediaries towards measuring and disclosing?

- Develop a strategic response – building on carbon footprinting to address full Scope 3 performance

- Anticipate societal and regulatory disclosure requirements with industry-driven approach

- Collaborate to develop common data and methodologies

- Use carbon performance results to inform shareholder engagement and asset allocation decisions

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# Thank you.

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