SBTs for Financial Institutions

Road Testing Launch Webinar

SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

April 25, 2019

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CDP DISCLOSURE INSIGHT ACTION

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Today's Speakers

Cynthia Cummis

Director of Private Sector Mitigation
World Resources Institute

Giel Linthorst

Director
Navigant

Stanislas Dupré

Founder & CEO
2 Degrees Investing Initiative

Nate Aden

Senior Fellow
World Resources Institute

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Today's Discussion

Topic	Time
Overview of SBTi and method road testing process	15 min
Draft method descriptions and instructions	
• Emissions based approaches:	30 min
• Real Estate, Electricity Generation Project Finance and Corporate Instruments	
• Technology based approaches:	30 min
• Corporate Instruments	
Data access and summary	10 min
Next Steps	5 min

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Science Based Targets Initiative

The Science Based Targets initiative mobilizes companies to set science-based targets and boost their competitive advantage in the transition to the low-carbon economy.

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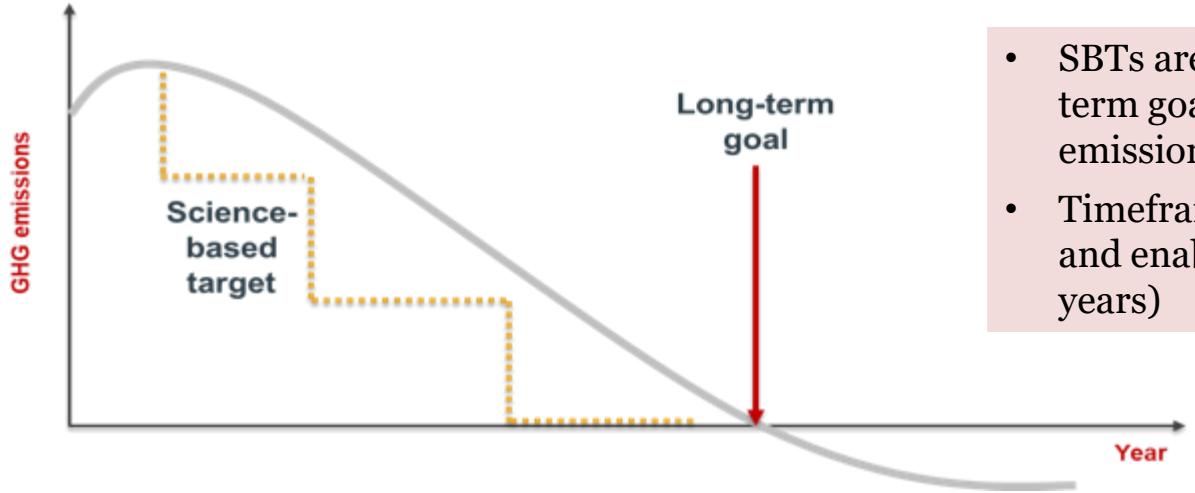
What are Science Based Targets?

"GHG emissions reduction targets that are consistent with the level of decarbonization that, according to climate science, is required to keep global temperature increase within 1.5 to 2°C compared to pre-industrial temperature levels."



- SBTs are consistent with the long-term goal of reaching net-zero emissions in 2nd half of century
- Timeframe drives short-term action and enables accountability (5-15 years)

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Science Based Targets for Financial Institutions

Almost **40** financial institutions have publicly committed to setting emissions reduction targets through the Science Based Targets initiative (SBTi) and an additional 70 reported to CDP in 2017 that they intend to set a science-based target within the next two years.

To help them align with the ambition of the Paris Agreement, the SBTi is developing a framework for financial institutions to set science-based targets for their investing and lending portfolios.

The project audience includes universal banks, pension funds, insurance companies and public financial institutions.

Building Momentum

Since officially launching in June 2015

864

Companies have reported to CDP that their intention to set a SBT by 2019

550

Companies have formally joined the SBTi

200

Companies have approved targets

~5

Companies join the initiative on average every week

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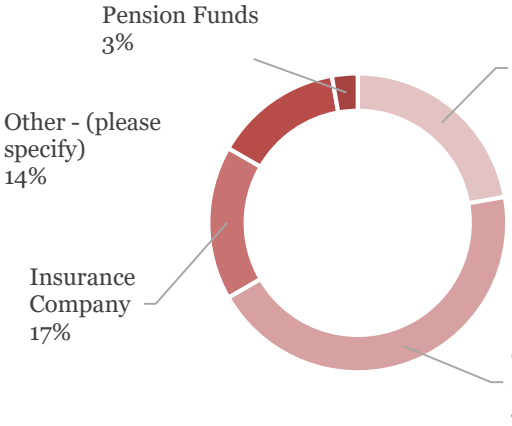
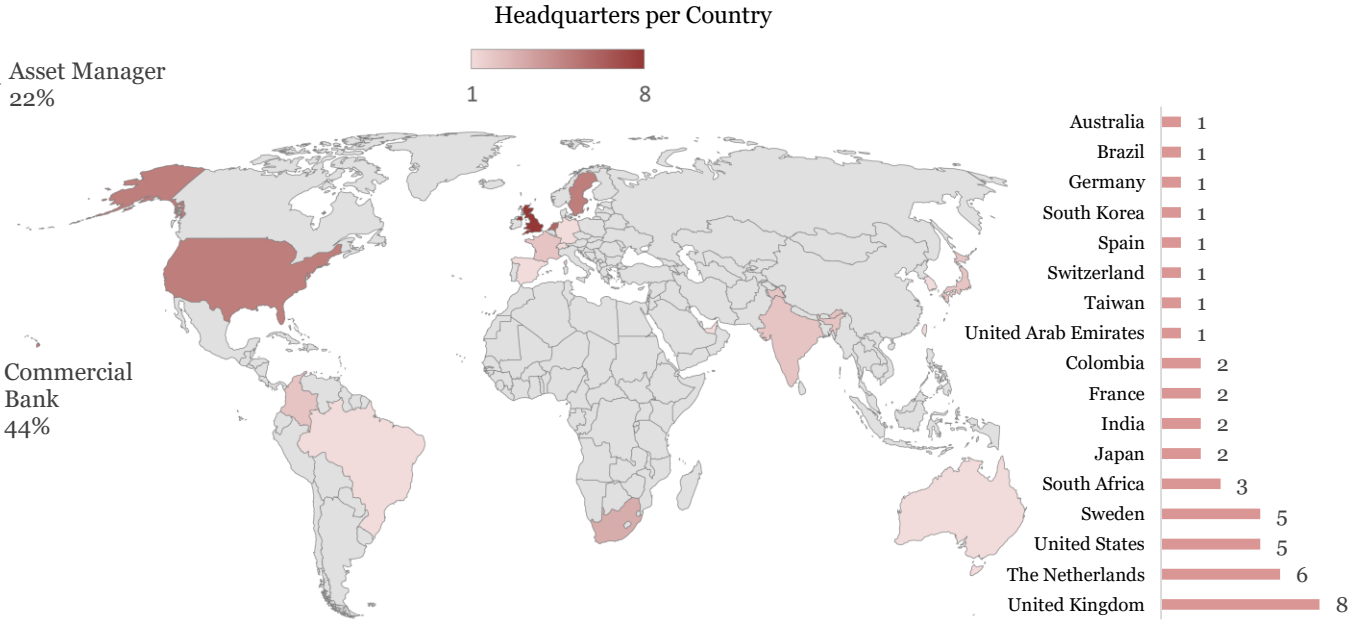
Updated on April 24th 2019

Welcome road testers!

The road testing process is intended to gather feedback from the project audience to ensure **target-setting method practicality** and **credibility** for financial institutions. Feedback from road testers will inform method revisions and the final framework.

43 financial institutions are road testing the methods, representing **5** institutional types and **17** countries





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Road Testing Process and Resources

Launch webinar
April 25

10-week road test period
April - July

Workshops to discuss feedback
September

SBTi Resources	*Recording and slides*	• *Road testing instruction and methods* • *Data provider support* • *Method developer support*	*Summary of road tester feedback*
Road testers Input		*Method assessment survey, including:* • *Modelling results* • *Feedback on method validity* • *Optional additional comments*	

Summer	Fall	Winter	Early 2020
Prepare criteria for consultation	Distribute 2nd draft of methods and 1st draft of framework for consultation	Incorporate feedback and finalize the framework	Launch target setting methods and guidance

Next phase of the project

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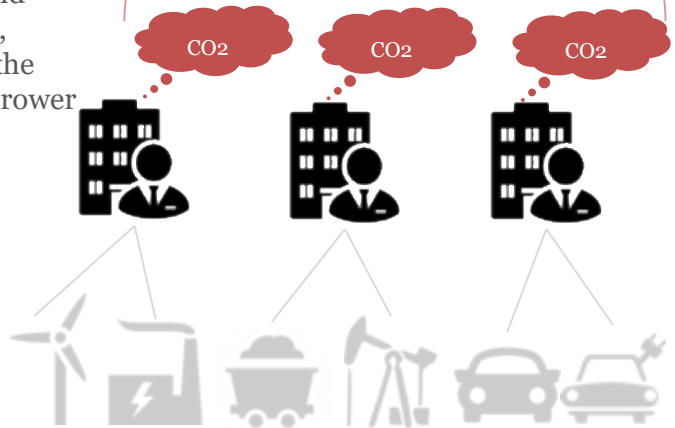
In addition, we will launch **a stakeholder process** for non-financial institutions (consultancies, academia, NGOs, etc.) to provide feedback. Draft methods will be shared with stakeholders and a separate survey will be distributed to collect feedback.

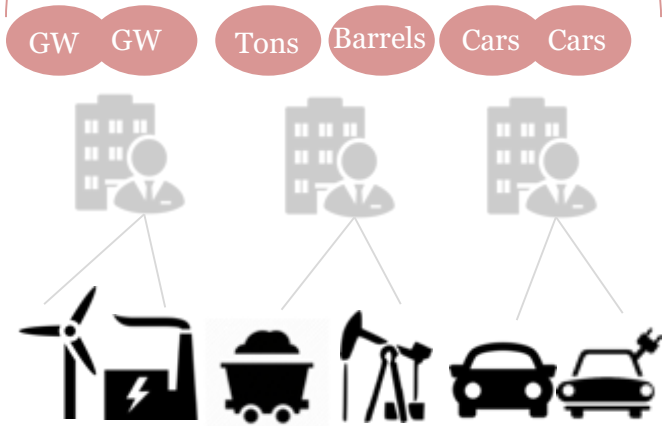
Overview of the two approaches

Output:
Reduction of emission intensity in % for the sector in the scenario

Output:
Retirement/deployment of the technology in the scenario

Input:
Emissions and Activity data, reported by the investee/borrower





Input:
Technology deployment (current and future) for each investees/ borrowers directly available via business intelligence databases

SDA

SEIm

Application of the methods by asset class

Asset class	SDA		SEIm	
Project finance (equity or debt)	✓		✓	Requires the ad hoc creation of custom '2D benchmarks'
Private equity	⚠	Assuming reporting on the assets	✓	
Listed equities	✓	Only if reporting by the investee or provided by data provider	✓	Online and automated
Corporate bonds (and energy-related sovereigns)	⚠	Only if reporting by the investee or provided by data provider	✓	Online and automated
Corporate loans	⚠	Only if reporting by the investee or provided by data provider	✓	
Real estate loans and equity	✓		✗	
Mortgage	✓		✗	

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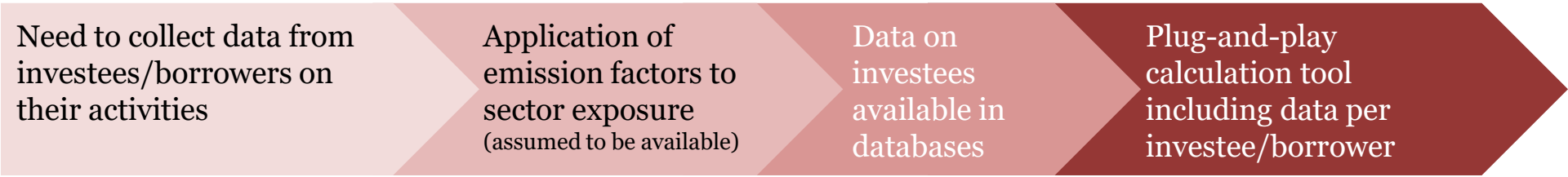
Spectrum of data collection requirements



SDA (PE, corporate loans, bonds)

SDA (mortgages and real estate)

SDA (listed equities, real estate)

SEIm (via PACTA tool)

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Road Tester Commitments and SBTi Support

Road testers are expected to:

- Successfully complete road testing within ten (10) weeks. Road testing is estimated to take 8 to 40 hours per method.
- Submit target modeling results for each asset class. These will be held in confidence. Road testers may share only as much information about their modeling results as they wish and are not required to publicly state their participation.
- Provide detailed feedback on practicality and robustness of methods.
- Participate in a workshop or webinar to discuss the practicality of the methods.
- Consider developing examples or brief case studies for inclusion in the final framework.

We will provide the following support:

- Road testing instructions and assessment survey Recorded launch webinar and slides
- Ad hoc support throughout road testing process, including written responses via emails and one on one calls with method developers
- List of data providers
- Summary of road testing feedback.

Method developers (Navigant and 2°ii) will be available to answer method-specific questions.

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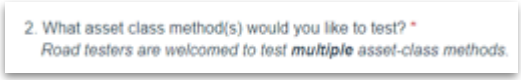
Road testing instruction and assessment survey

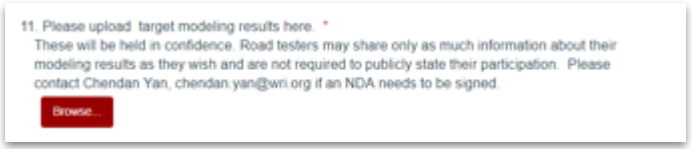
- The road testing instruction includes instructions for completing the road testing process and questions on methods' validity and practicality that we'd like road testers to answer.
- The methods assessment survey will be distributed to collect modelling results and feedback on the methods. It includes questions we listed in the instruction for each method, as well as fields to upload target modelling results and comment sheets (optional).

1st page of assessment report



On the first page, road testers can select methods they want to test and will be directed to pages with methods instructions and questions for the selected methods.

Asset class method page



Method page will contain questions on methods' practicality and validity and fields to upload modeling result and detailed comments to the drafts(optional). Modeling results will be held in confidence. NDA can be signed upon request.

Please review the road testing instruction and fill out the assessment report before **Friday, July 5th** for your feedback to be considered.

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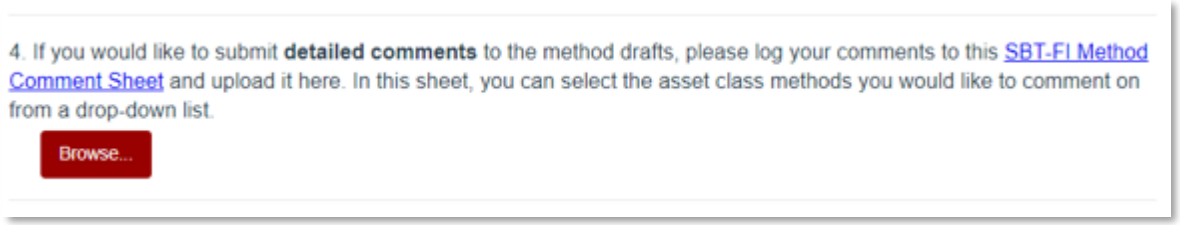
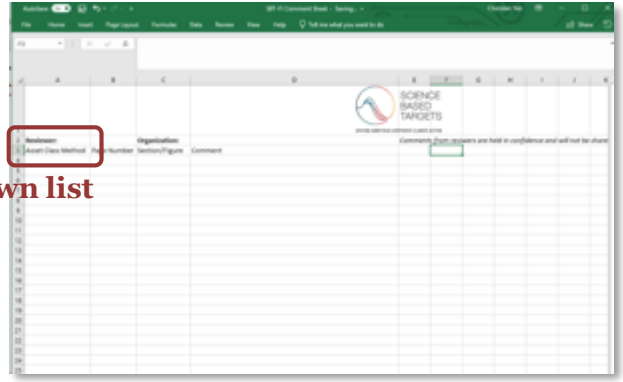
Please use excel sheet to log detailed comments

If you would like to provide detailed comments to the methods, please use the "SBT-FI Method Comment Sheet" to log detailed feedback and upload in the final page of the survey. Besides the link here, The sheet has also been emailed to road testers and attached in the survey.





drop-down list

In this sheet, you can select the asset class methods you would like to comment on from a drop-down list.

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Method Feedback Questions for Road Testers

Method assessment reports will include **overarching questions for all methods** and asset-class-specific questions. Here are overarching questions:

- Is the draft method practical to apply?
- Is it useful for target setting and decision making to drive institutional alignment with a Paris-aligned climate stabilization pathway?
- Which data sources did you use for the method (e.g., primary data or secondary data)?
- What challenges did you encounter while applying the method?
- Do you think setting absolute emissions targets could be meaningful for this asset class? Examples of absolute target setting are provided for relevant asset class methods.
- To support the SBT for this asset class, would it be useful to have additional targets related to actions?
- Can you suggest alternative target setting methods for this asset class?

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Emissions-Based *Approaches*

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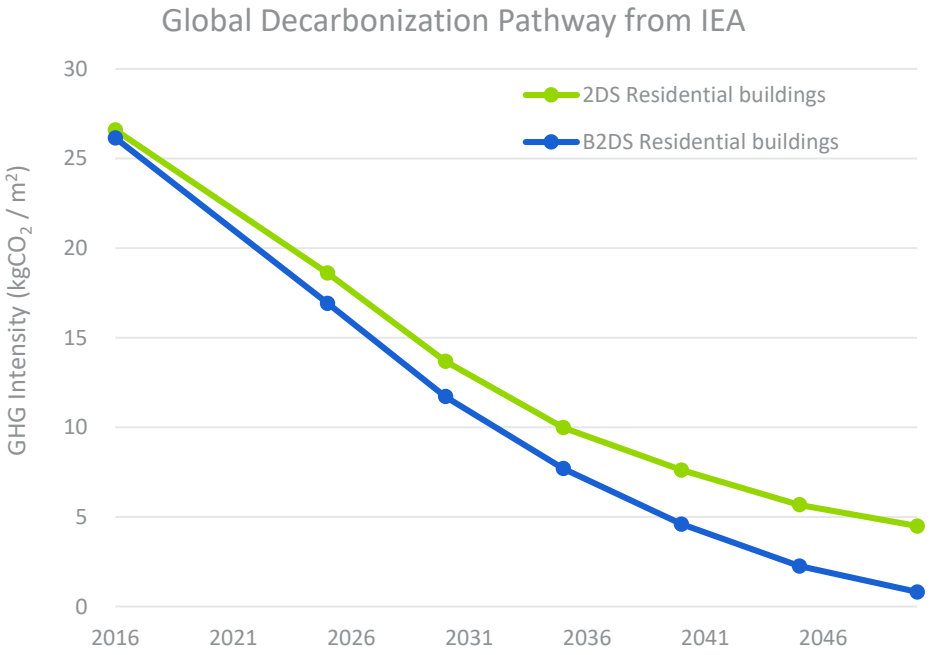
SDA for Mortgages

Method Overview

A financial institution can align its mortgage portfolio with the Paris Agreement and set an emissions reduction target using the Sectoral Decarbonization Approach (SDA):

Emissions intensity ($kgCO_2$ / m^2) of mortgage portfolio of financial institutions converges to same emissions intensity as global pathway for residential buildings in 2050.



Source: IEA ETP 2017

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SDA for Mortgage

Inputs[1]

- Scope 1 & 2 emissions of buildings (or energy performance to calculate emissions)
- Gross floor area (m^2)
- Portfolio growth rate (%) in target year

Input Data source

- Actual energy performance data of buildings; or
- EU Buildings Database
- EIA Residential Buildings Energy Consumption Survey 2015
- More on data support at the end

Key Assumptions[2]

- All buildings will do its fair share of emission reduction towards 2°C or below
- Global pathways assume converging of the same emission intensity for buildings across regions in 2050
- SDA relies on pathways' assumptions on cost, technology, market and demographic

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[1] *The PCAF report 2018 provides guidance on emission attribution by asset class: http://carbonaccountingfinancials.com/wp-content/uploads/2018/11/PCAF-report-2018.pdf*

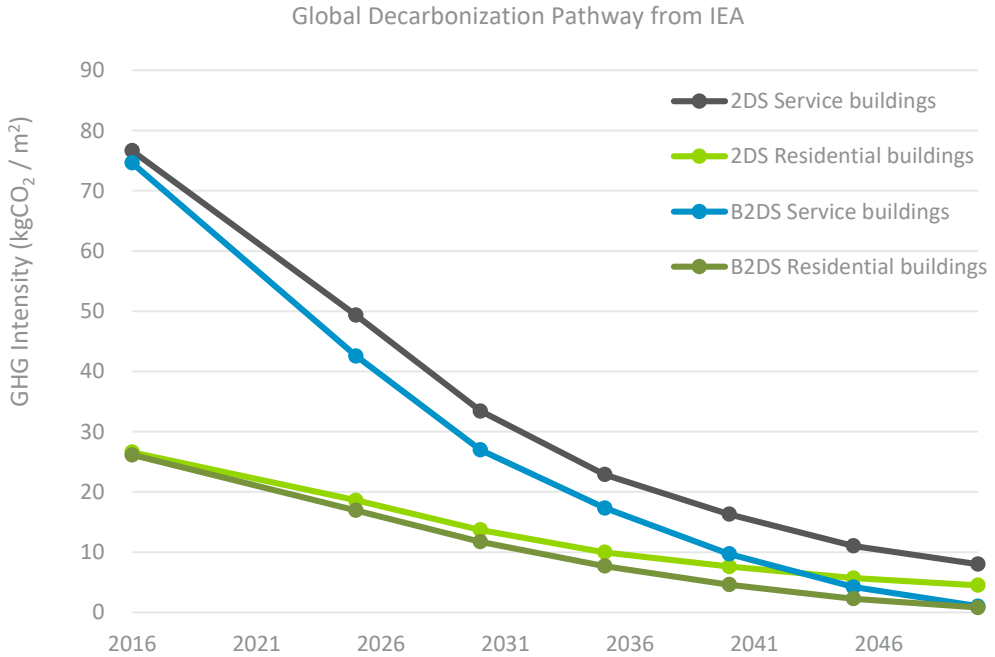
[2] *See all other assumptions of SDA here: https://sciencebasedtargets.org/wp-content/uploads/2015/05/Sectoral-Decarbonization-Approach-Report.pdf*

SDA for Real Estate

Method Overview

A financial institution can align its real estate portfolio with the Paris Agreement and set an emissions reduction target using the Sectoral Decarbonization Approach (SDA):

Emissions intensity ($kgCO_2$ / m^2) of real estate portfolio of financial institutions converges to same emissions intensity as global pathway for residential and service buildings in 2050.



Source: IEA ETP 2017

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SDA for Real Estate

Inputs[1]

- Scope 1 & 2 emissions of buildings (or energy performance to calculate emissions)
- Gross floor area (m^2)
- Portfolio growth rate in target year

Input Data source

- Actual energy performance data of buildings; or
- GRESB
- EU Buildings Database
- EIA Commercial Buildings Energy Consumption Survey 2012
- EIA Residential Buildings Energy Consumption Survey 2015
- More on data support at the end

Key Assumptions[2]

- All buildings will achieve fair share of emission reduction towards 2°C or below
- Global pathways assume converging to the same emission intensity for buildings across regions in 2050
- SDA relies on pathways' assumptions on cost, technology, market and demography.

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[1] *The PCAF report 2018 provides guidance on emission attribution by asset class: http://carbonaccountingfinancials.com/wp-content/uploads/2018/11/PCAF-report-2018.pdf*

[2] *See all other assumptions of SDA here: https://sciencebasedtargets.org/wp-content/uploads/2015/05/Sectoral-Decarbonization-Approach-Report.pdf*

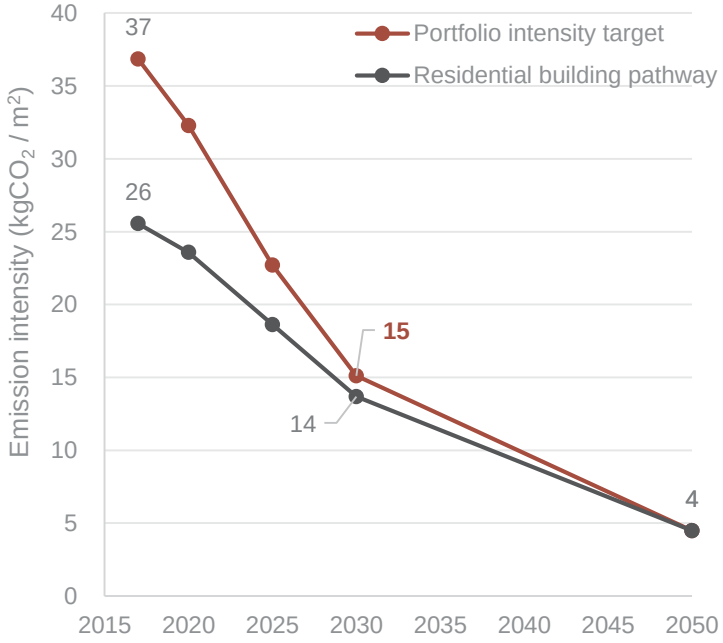
SDA for Mortgage & Real Estate – an example

Assume a financial institution has a global mortgage portfolio of residential buildings. Based on energy consumption, building certificates or other data the emissions of these buildings are assessed for 2017 and for the target year of 2030.

$$\textit{Portfolio intensity target} = (PI_{2017,i} - SI_{2050,i}) \times \frac{(SI_{2030,i} - SI_{2050,i})}{(SI_{2017,i} - SI_{2050,i})} \times \frac{(PA_{2017,i} - SA_{2017,i})}{(PA_{2030,i} - SA_{2030,i})} + SI_{2050,i}$$

The expected growth rate (11%) from 2017 to 2030 is used to estimate floor area in target year.

See detailed calculations in the methodology document.



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Method Specific Questions: SDA for Mortgage and Real Estate

- To support the SBT for this asset class, would it be useful to have additional targets related to actions?
- Should the area denominator data cover total built space or usable (rented) space?

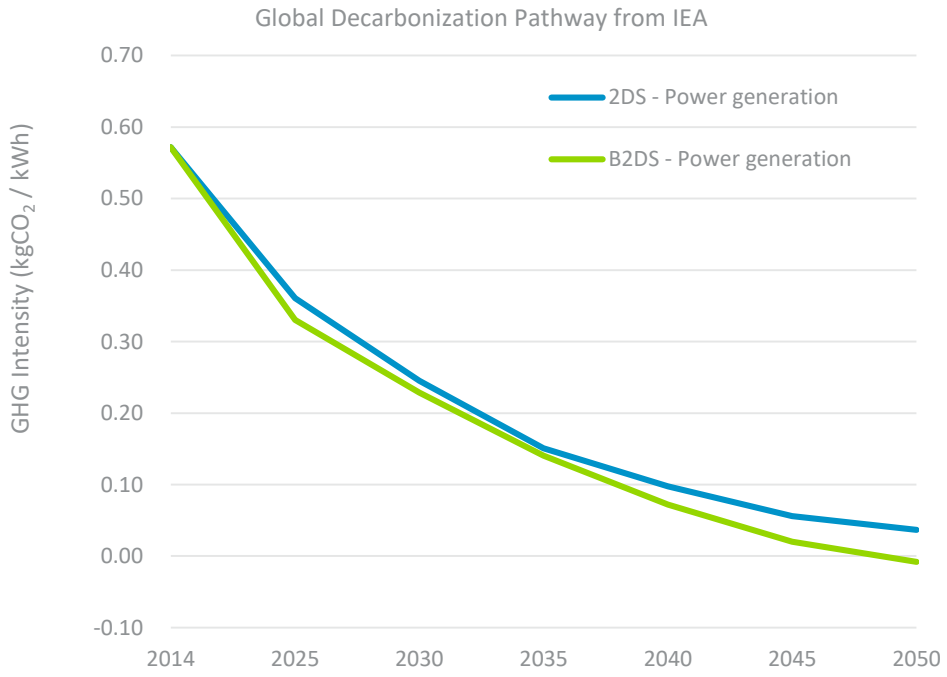
- What actions could be helpful to reduce your asset class level emissions?
  - Engage and support clients to improve buildings' emission data transparency (e.g. encourage energy or emission data disclosure, encourage clients to set a science-based target, etc.)
  - Engage and support clients to improve energy performance (e.g. provide financial instruments to support abatement measures, incentivize improvement through preferential assessment, etc.)
  - Divert new investment towards low-carbon buildings (e.g. set mandate for maximum carbon intensity for new investment)
  - Discontinue investment in buildings that are inconsistent with decarbonization pathway at the end of the investment maturity
  - Shift existing portfolio away from carbon-intensive buildings: divesting from high-carbon buildings does not necessarily lead to decarbonization in the real economy since these buildings may still exist and continue to emit high carbon emissions. Therefore, financial institutions are encouraged to prioritize the first three actions

SDA for Electricity Generation Project Finance

Method Overview

A financial institution can align its electricity generation project finance portfolio with the Paris Agreement and set an emissions reduction target using the Sectoral Decarbonization Approach (SDA):

Emissions intensity ($kgCO_2$ / kWh) of real estate portfolio of financial institutions converges to same emissions intensity as global pathway for the power generation sector in 2050.



Source: IEA ETP 2017

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SDA for Electricity Generation Finance

Inputs[1]

- Outstanding loans or equity in projects
- Total investment amount of projects/ project value at time of investment
- Current energy production (kWh)
- Future energy production (kWh) or portfolio growth target (%)
- Scope 1 emissions from projects

Input Data source

- No other data source are needed
- If Scope 1 emissions is unknown, emissions factors translating the fossil fuel used to emissions can be derived from IEA

Key Assumptions[2]

- All power generation projects will do their fair share of emission reduction towards 2°C or below
- Global pathways assume converging to the same emission intensity across regions in 2050
- SDA relies on pathways' assumptions on cost, technology, market and demography

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[1] *The PCAF report 2018 provides guidance on emission attribution by asset class: http://carbonaccountingfinancials.com/wp-content/uploads/2018/11/PCAF-report-2018.pdf*

[2] *See all other assumptions of SDA here: https://sciencebasedtargets.org/wp-content/uploads/2015/05/Sectoral-Decarbonization-Approach-Report.pdf*

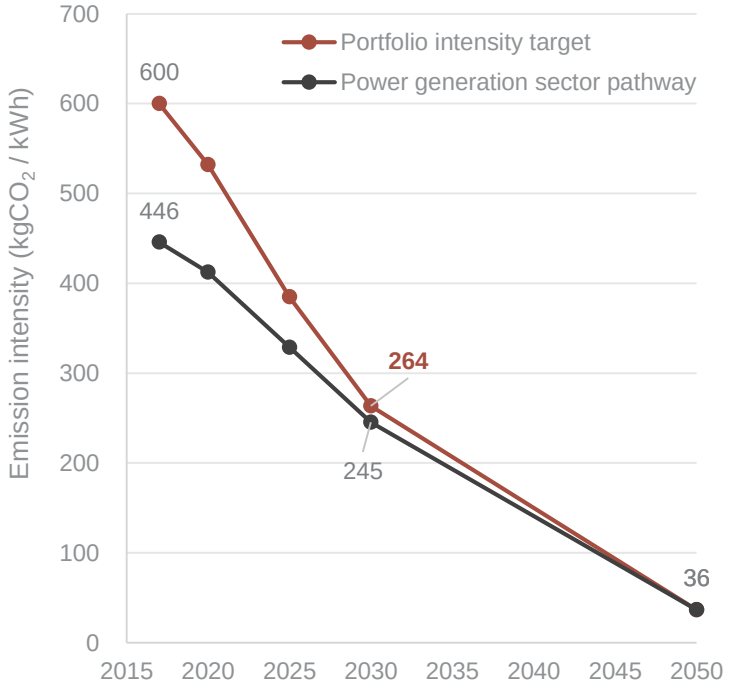
SDA for Electricity Generation Finance– an example

Assume a financial institution has a project finance portfolio of various power generation projects. Based on power output and fuel type, the emissions of these projects are assessed for 2017 and for the target year of 2030.

$$\textit{Portfolio intensity target} = (PI_{2017,i} - SI_{2050,i}) \times \frac{(SI_{2030,i} - SI_{2050,i})}{(SI_{2017,i} - SI_{2050,i})} \times \frac{(PA_{2017,i} - SA_{2017,i})}{(PA_{2030,i} - SA_{2030,i})} + SI_{2050,i}$$

The expected growth rate (12%) from 2017 to 2030 is used to estimate power generation (kWh) in target year.

See detailed calculations in the methodology document.



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Method Specific Questions: SDA for Electricity Generation Finance

- To support the SBT for this asset class, would it be useful to have additional targets related to actions?

- What actions could be helpful to reduce your asset class level emissions?
  - Engage and support clients in pre-project phase (e.g. encourage adoption of low-carbon technologies in due diligence phase)
  - Engage and support clients to improve projects' emission data transparency (e.g. encourage energy or emission data disclosure, encourage clients to set a science-based target, etc.)
  - Engage and support clients to improve performance (e.g. provide financial instruments to support abatement measures, incentivize improvement through preferential assessment, etc.)
  - Divert new investment towards low-carbon projects (e.g. set mandate for maximum carbon intensity for new investment)
  - Shift existing portfolio away from carbon-intensive projects; divesting from high-carbon projects does not necessarily lead to decarbonization in the real economy since these projects may still exist and continue to emit high carbon emissions. Therefore, financial institutions are encouraged to prioritize the first three actions

SDA for Corporate Instruments

SDA for Corporate Instruments Method Overview

A financial institution can align its corporate debt and equities finance portfolio with the Paris Agreement and set an emissions reduction target using the Sectoral Decarbonization Approach (SDA):

An emission intensity target (e.g. $kgCO_2$ / tonne production) should be set at the portfolio level for sectors covered by SDA:*

- Power generation
- Cement
- Iron & steel
- Aluminium
- Pulp & paper
- Transport
- Buildings

Sector targets shall converge to the same emissions intensity as global pathway for the sector in 2050.

**An Excel-based tool is available for setting sectoral emission intensity targets: https://sciencebasedtargets.org/sda-tool/*

**SBTi recently released a new Science-based Target Setting Tool. This new integrated target-setting tool for companies includes the Sectoral Decarbonization Approach with updated temperature pathways.*

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SDA for Corporate instruments

Inputs[1]

- Enterprise value & total investment amount; or share of market cap (equity only)
- Current production volume (e.g. tonnes)
- Future production volume (e.g. tonnes) or portfolio growth target (%)
- Companies' scope 1 and 2 emissions

Input Data source

- Public disclosure of emissions data of companies
- Asset-level data (via PACTA-tool)
- More on data support at the end

Key Assumptions[2]

- All sectors will do their fair share of emission reduction towards 2°C or below
- Global pathways assume converging to the same sectoral emission intensity across regions in 2050
- SDA relies on pathways' assumptions on cost, technology, market and demographic, as modelled by IEA

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[1] *The PCAF report 2018 provides guidance on emission attribution by asset class:* http://carbonaccountingfinancials.com/wp-content/uploads/2018/11/PCAF-report-2018.pdf

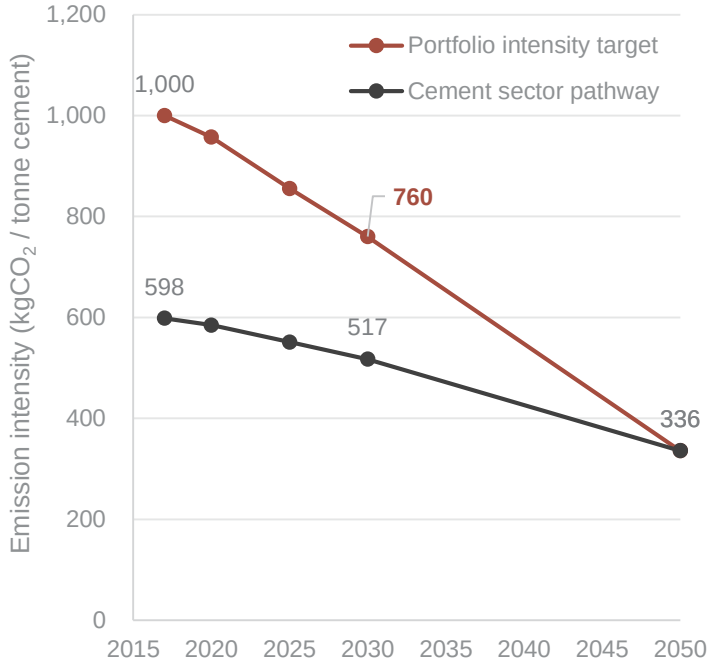
[2] *See all other assumptions of SDA here:* https://sciencebasedtargets.org/wp-content/uploads/2015/05/Sectoral-Decarbonization-Approach-Report.pdf

SDA for Corporate instruments – an example

Assume a financial institution has a corporate instrument portfolio of 10 cement companies. Based on company disclosed emissions and production data, the emissions intensity of the portfolio is calculated for 2017 and for the target year of 2030.

$$Portfolio\ intensity\ target = (PI_{2017,i} - SI_{2050,i}) \times \frac{(SI_{2030,i} - SI_{2050,i})}{(SI_{2017,i} - SI_{2050,i})} \times \frac{(PA_{2017,i} - SA_{2017,i})}{(PA_{2030,i} - SA_{2030,i})} + SI_{2050,i}$$

The expected growth rate (15%) from 2017 to 2030 is used to estimate portfolio cement production in target year.



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Method-Specific Questions: SDA for Corporate Instruments

- How does SDA compare with PACTA and investee engagement for corporate instruments? Could these methods be usefully combined?
- To support SBTs for this asset class, would it be useful to have additional targets related to actions?
- SDA requires physical activity data for denominators—are these data sufficiently available? What secondary data are available for institutions that don't have primary data?
- Is the SDA's sector-level approach useful and appropriate for corporate instruments?

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SBT Portfolio Coverage

SBT Portfolio Coverage for Corporate Instruments

- A method whereby financial institutions have a minimum percentage of their investees (in monetary or GHG emissions terms) to have *their own science-based targets.*
- The method is a financial sector analogue to supplier engagement targets for 'real economy' companies' scope 3 emissions.
- Examples of approved supplier engagement targets:
    - Japanese multinational chemical company Sumitomo Chemical commits that 90% of its suppliers by product weight will institute science-based GHG reduction targets by 2024.
    - Multinational enterprise information technology company Hewlett Packard Enterprise commits that its manufacturing suppliers covering 80% of spend will set science-based targets by 2025.

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SBT Portfolio Coverage Method Overview

Potential target requirements for validation by the initiative:

- Boundary: FIs may set SBT Portfolio Coverage targets covering a minimum 30% of their investees by GHG emissions, assets under management or market capitalization.
- Timeframe: targets must be fulfilled within a maximum of 5 years from the date the FI's target is submitted to the SBTi for an official validation.
- Level of ambition: The FIs investees shall have science-based emission reduction targets on their scope 1 and 2 emissions.

Potential recommendations

- Investees in sectors with high scope 3 emissions are encouraged to set scope 3 targets as well
- Investees can use SBTi resources to set targets but validations by SBTi would not be required.
- Investors can track whether investees have SBTs through their reporting to CDP or annual sustainability reports.

SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

SBT Portfolio Coverage Method Inputs and Examples

Inputs

- Scope 1 and 2 emissions per investee. Scope 3 emissions are optional to include, OR
- Current assets under management by investee and projected percentage increase in investment

Output

An illustrative example of a target:

- Investment firm A commits that 30% of its equity portfolio by market capitalization will have science-based targets by 2024.

SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Method Specific Questions: SBT Portfolio Coverage

- Is the 30% SBT coverage threshold appropriate? If not, what threshold would you recommend?
- Is assets under management (AUM) a meaningful economic metric for target setting? If not, what alternative metric would you recommend?
- Would the investee engagement method be best applied to corporate debt and equity asset classes? How about pairing with other methods?
- How should an FI determine if an investee have an SBT?

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Technology-Based *Approaches*

SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

PACTA tool

SEIM application to

Project finance

Private & listed equities

Corporate and sovereign energy-related bonds

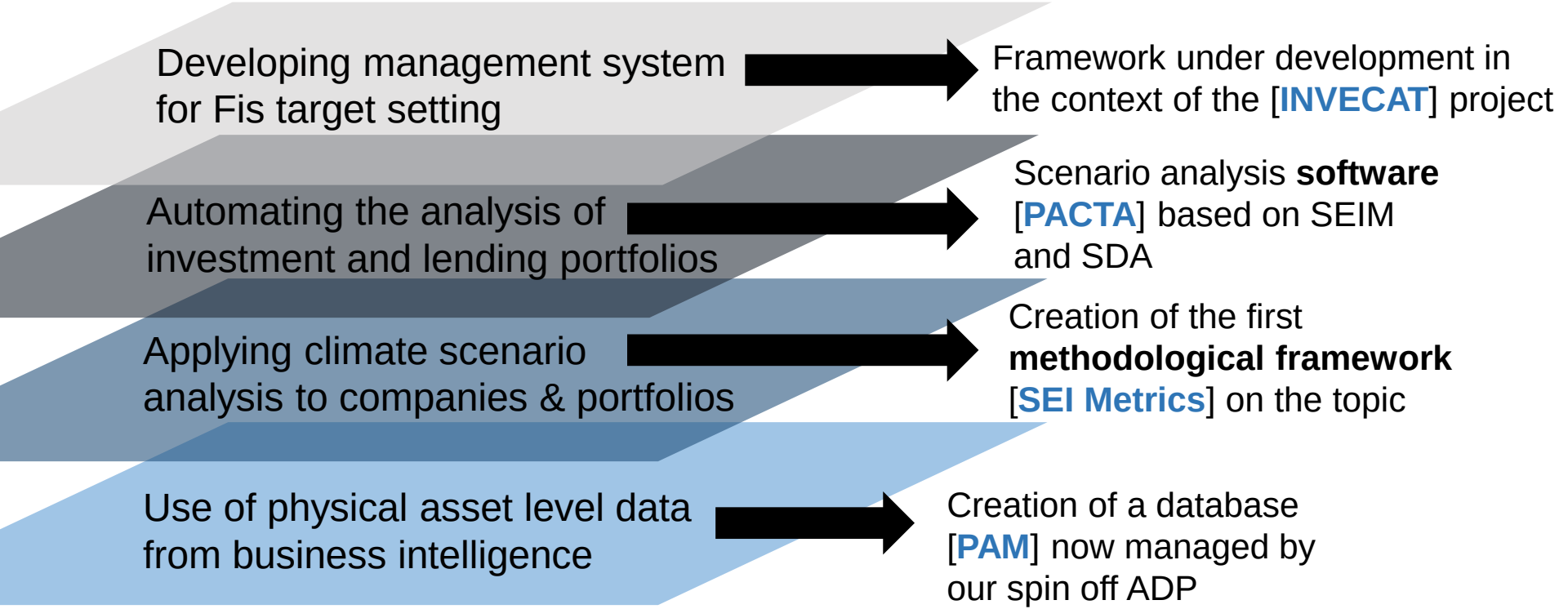
Corporate lending

2° Investing Initiative

PARIS-NEW YORK-BERLIN-LONDON

Methods, tools, data…

Disentangling the different layers

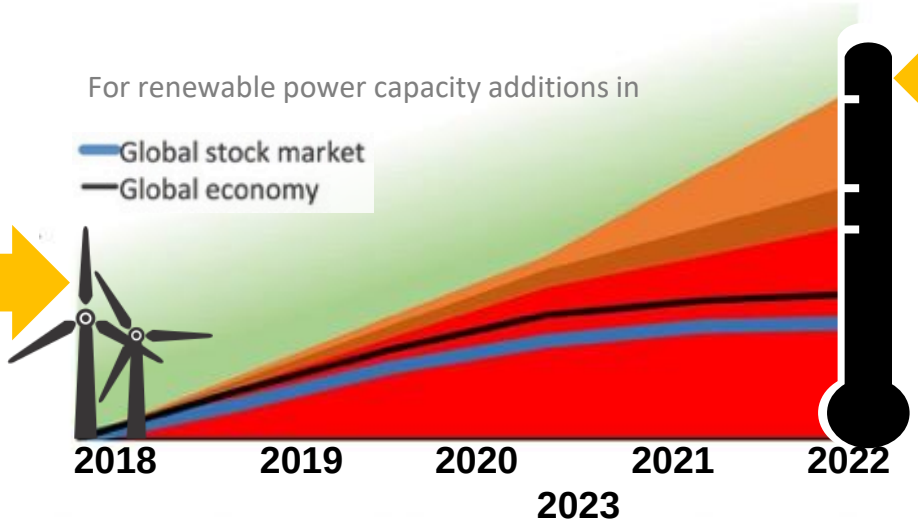


SCENARIO ANALYSIS IN THE FINANCE SECTOR

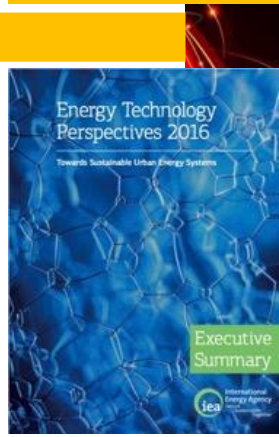
Comparing deployment of energy technologies with 2D roadmaps

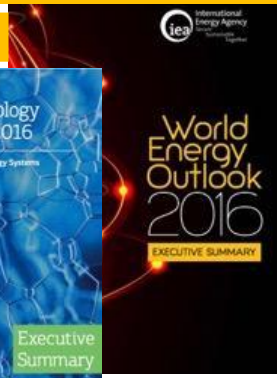
Data on physical asset & CAPEX / production

Compared with



Technology roadmaps (aka climate scenarios)





SEI Metrics - Project financed by the European Commission

DATA PROCESSING

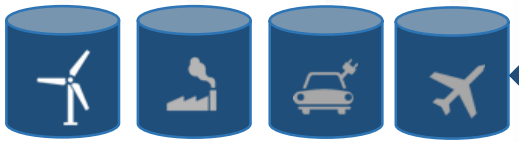
Step 1: Business intelligence data

Real estate & land use not covered

Securities / loans

Parent companies

Owners



Physical asset data

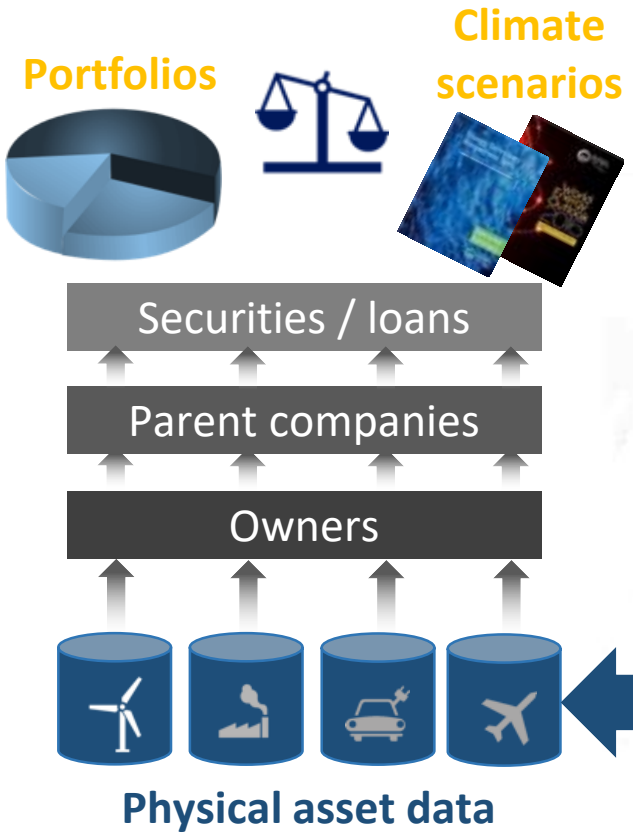
230,000+ assets covering 75% of CO2 emissions

22k oil and gas fields, 2k coal mines, >100k power plants,
95M produced cars, 36k airplanes, 10k ships,
2,200 cement factories, 13k steel plants

2° Investing Initiative

DATA PROCESSING

Step 1: Business intelligence data



230,000+ assets covering 75% of CO2 emissions

ASSET CAPACITY AND ACTIVITY LEVELS
Potential and actual activity levels for the asset (MW/MWh, cars produced, etc.)

ASSET AGE
Initial age of operation, expected lifetime, retrofits

ASSET ECONOMICS
Production cost, capex, or valuation

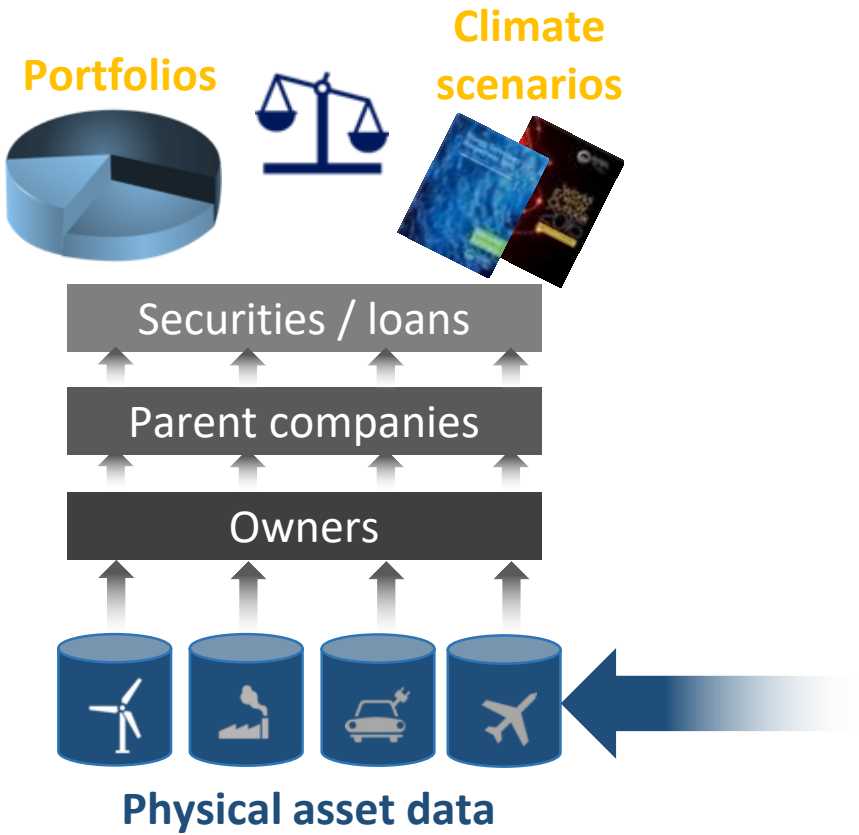
FUTURE ASSETS
Announced/under construction/permitted/order books as well as existing assets

ASSET EMISSIONS/ESG INFORMATION
CO_2 emissions, water use/stress, etc.

ASSET LOCATION
Geolocation (lat/long; stationary assets) or country

DATA PROCESSING

Step 1: Business intelligence data



Close to 100% coverage globally

POWER GENERATION
(capacity)

6,887 GW

5,995 GW

3,950 GW

AUTOMOTIVE
(annual production)

97.3 million vehicles / year

95.9 Mv / year

93.1 Mv / year

Global benchmark (source: IEA, 2017)

Asset-level data in the database

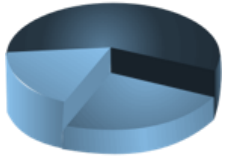
Financially-mapped data

DATA PROCESSING

Step 2: Matching assets with 35,000+ companies

Portfolios

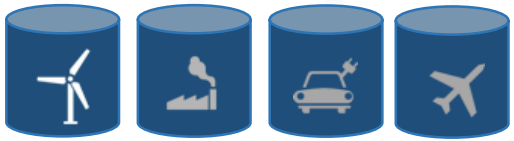
Climate scenarios



Securities / loans

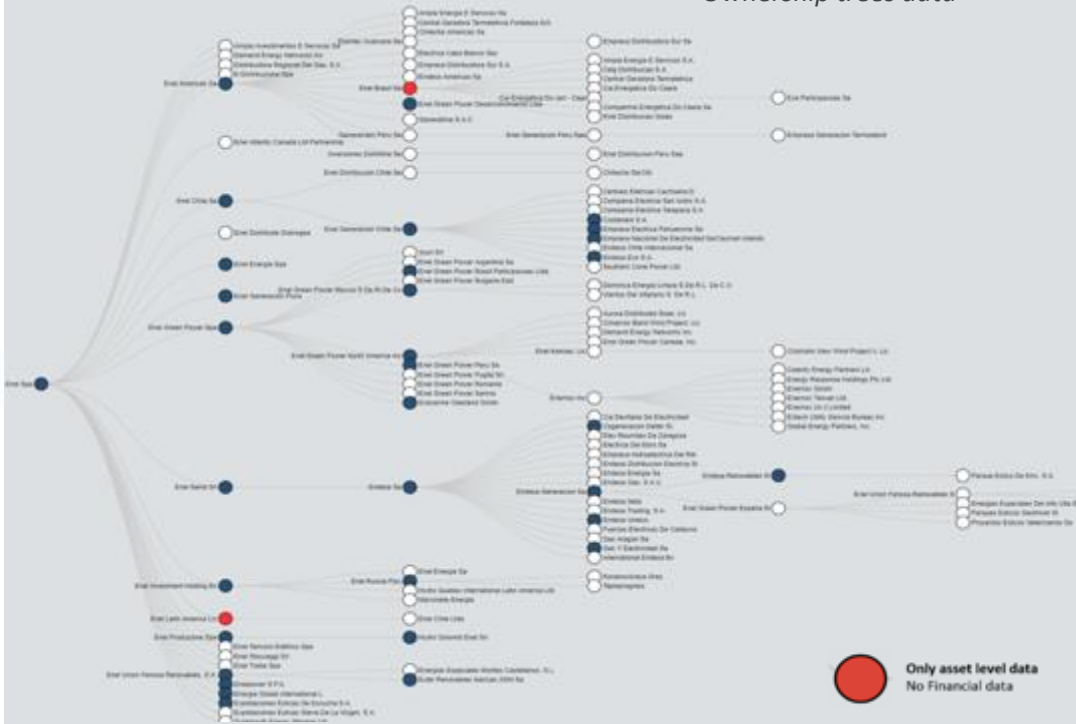
Parent companies

Owners



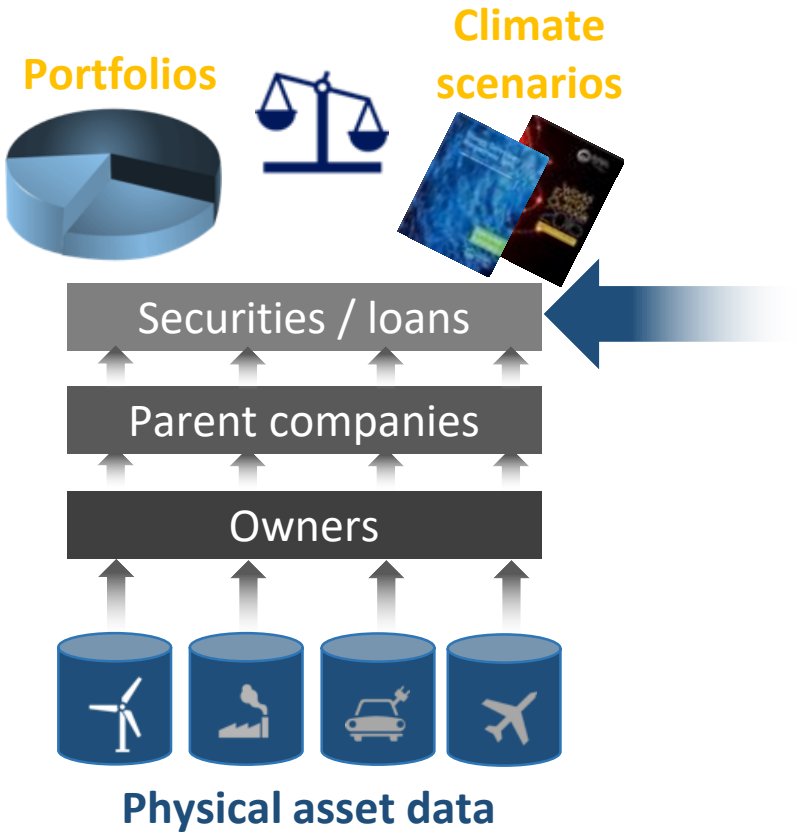
Physical asset data

Sources: Asset level databases, Ownership trees data

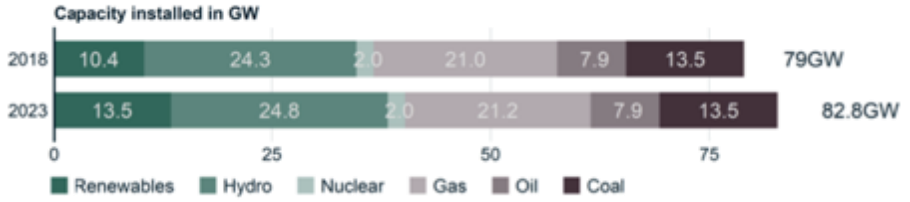


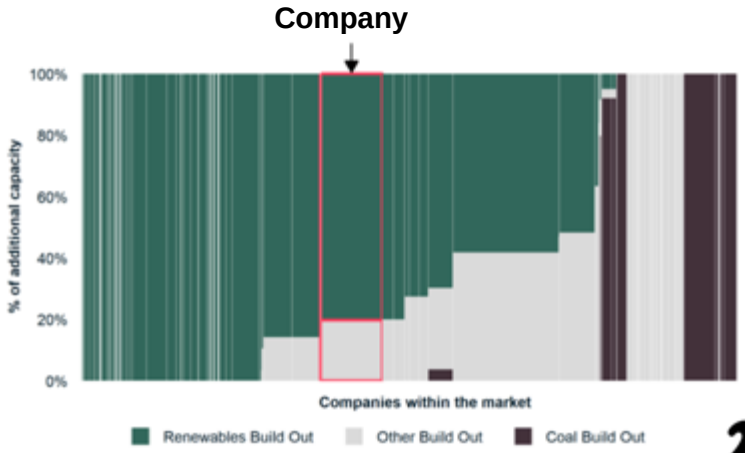
DATA PROCESSING

Step 3: Energy transition profiles of all equities, corp bonds & loans…



Automated matching based on ISIN for securities
Fuzzy matching algorithm for bank loans and PE





DATA PROCESSING

Step 4: Aggregation at portfolio level

Portfolios

Climate scenarios

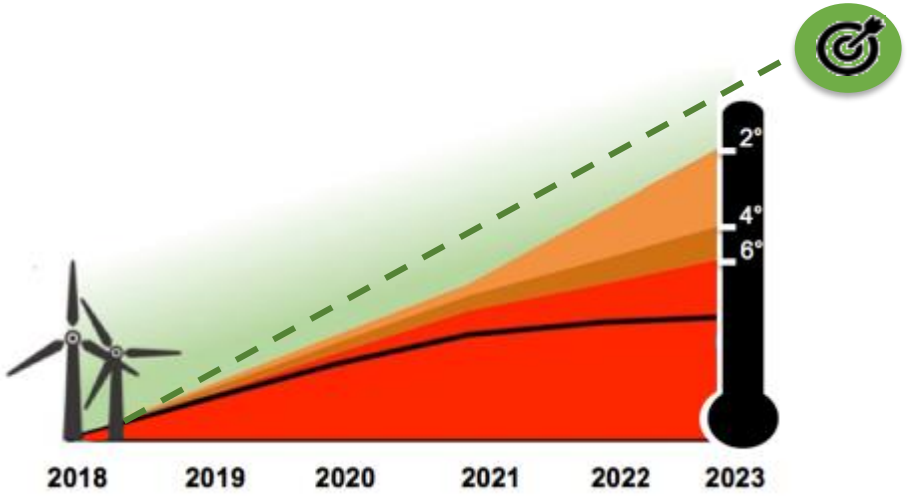
Comparison with the 1.5°C, 2°C, 4°C… scenarios from the IEA, BNEF, Greenpeace…

Securities / loans

Parent companies

Owners

Physical asset data



Suggested ‘alignment’ target by technology

OUTPUTS

Indicators to calculate the starting point and calibrate the target

Power	Coal mining	Oil & gas upstream	Auto manufacturing	Cement	Steel	Aviation	Shipping
Capacity (GW)	Production (Tons)	Capacity (Barrels, M^2)	Production (Vehicles)	Production (Tons)	Production (Tons)	Fleet (planes)	Fleet (vessels)
By primary energy	By type	By type and cost	By engine type and model	By carbon intensity	By carbon intensity	By carbon intensity	By carbon intensity

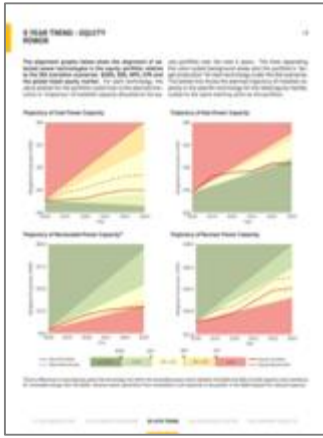
We directly compare technology deployment with the 2D scenario

Locked-in carbon emissions are estimated and provided on demand
They can be compared to sectorial carbon budget (same results)

The company profile is compared to the scenario based on carbon intensity (similar to SDA approach but only for the technology)

TOOL FOR INVESTORS

600 direct users • 2,000 via insurance & pension funds supervisors



TCFD REPORT AUTOMATICALLY GENERATED FOR EACH PORTFOLIO

The analysis takes < 1 min,

Only requires ISIN codes and amounts,

Free of charge and confidential

2° Investing Initiative

TOOL FOR BANKS

20 banks + 1 supervisor

3 month waiting list

KATOWICE GROUP

ING

SOCIETE GENERALE

Standard Chartered

BBVA

BNP PARIBAS

RESPONSIBLE BANKING PRINCIPLES

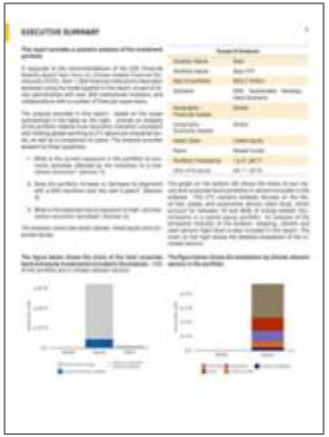
UNEP FINANCE INITIATIVE

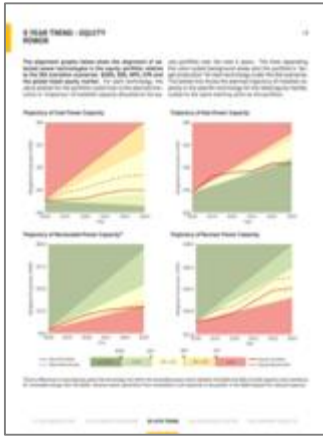
JAPANESE BANKING SUPERVISOR

Financial Services Agency

Software installation

NDA	1
Onboarding	1
Loan book data cleaning	1
Matching with our data	4
Calibration & calculation	2
Results analysis	1





TCFD report (similar as for investors)

2° Investing Initiative

PACTA tool

Module for target-setting and related engagement

2° Investing Initiative
PARIS-NEW YORK-BERLIN-LONDON

RESPONSIBLE MARKETING PRINCIPLES

The target setting tool is based on the application of these principles

REALITY-BASED - Financial institutions are expected to avoid ambiguous statements equating the deployment of any approach (the means) with a reduction of environmental impacts in the real economy (the end). In particular:

- Refraining from equating an evolution of the boundaries of its portfolio of assets (e.g. divestment from an entity owning a coal-fired power plant) with a reduction of environmental impacts in the real economy (e.g. closure of a coal-fired power plant replaced by renewables);
- Refraining from equating an increase in its allocation to certain financial assets (e.g. increase in green bond exposure, or assets under management in green funds) with an increase of investments in the real economy (e.g. increase in capital expenditures in the green projects).

EVIDENCE-BASED – An institution that believes the deployment of an investment/lending approach (such as divestment from certain assets, the increase in allocation to other assets or the deployment of a certain tools) will lead indirectly to a reduction of environmental impacts in the real economy shall refrain from making unsubstantiated claims by equating assumptions with facts. The institution should lay out its thesis and discuss the existence of scientific evidence associated with each assumption made (ex-ante) for the specific case. As part of its monitoring and reporting activities, the organisation should collect further evidence (ex-post) and report how they support - or contradict - its thesis. This evidence-building process should also be used to support ex-ante assessment, and the continuous improvement of the approaches.

RESPONSIBLE MARKETING PRINCIPLES

The target setting tool is based on the application of these principles

ADDITIONAL - An institution should refrain from making statements suggesting that the environmental impacts of its investees and borrowers can automatically be credited to its investment/lending strategy and / or report these impacts as if the financial institution itself was delivering them. This involves refraining from suggesting that:

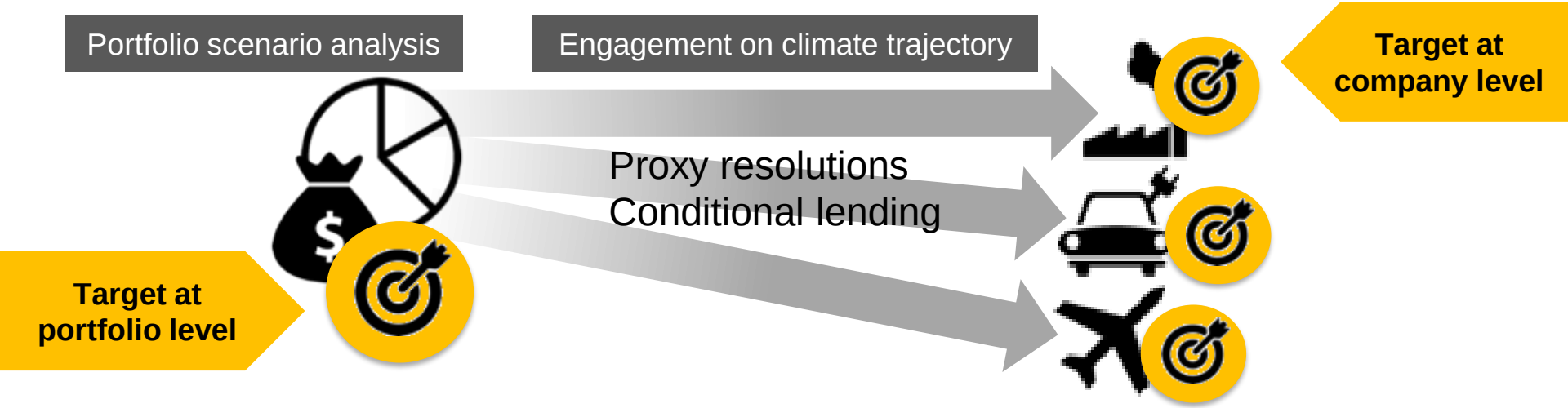
- The provision of financing to green activities brings a critical contribution to their development, if these activities do not face difficulties to access finance in the first place;
- Its refusal to finance brown activities prevents their access to finance, if the evidence suggests that the effect is fully offset by other financial sector players;
- Its strategy triggered the environmentally-friendly practices of investees/borrowers if their decision were already made or have been primarily driven by other factors.

MANAGED- – Claims regarding an objective to 'contribute' to the achievement of environmental goals or the setting of a target require a management system to deliver on these objectives. A management system aiming specifically at this objective must include:

- An unambiguous statement of the objective endorsed by the governance body,
- The planning and deployment of investment/lending techniques consistent with this objective,
- A monitoring system for assessing the effectiveness of these means in achieving the objective, and iv) a mechanism to ensure continuous improvement.

MAIN FOCUS OF PACTA APPROACH: ENGAGEMENT

Cascading a portfolio target to investees/clients targets



PACTA TOOL

New 2019 module: investee profile & suggested target

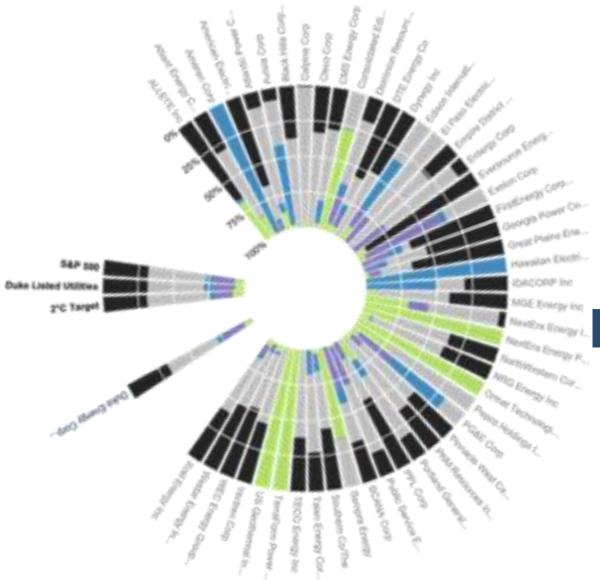
1 Equity | Bonds

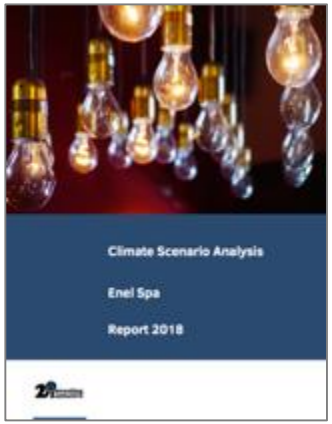
www.transitionmonitor.com

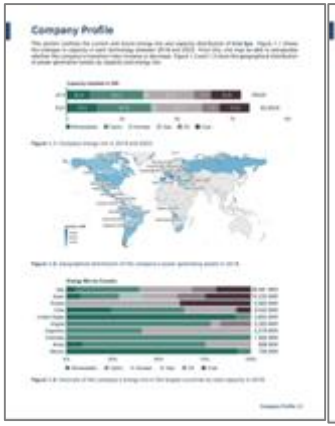
2 Assessed Sector ($) | Current Exposure | Future Exposure | 5 Year Growth Trend | CO_2-Intensity Trend | Company Information | Regional Exposure | Peer Comparison

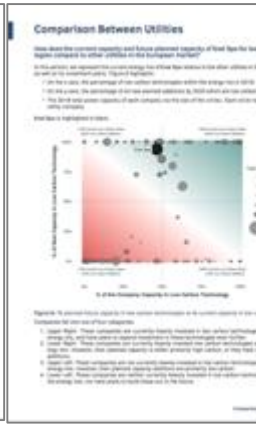
3
- Sector: Coal Mining
- Technology: Not available

4
- Scenario: IEA: SDS
- Accounting Principle: Ownership
- Scenario Geography: Global
- Equity Market: Global
- Benchmark Portfolio: Your Aligned Portfolio
- Peer Group: Global Funds









TCFD REPORT AUTOMATICALLY GENERATED FOR EACH COMPANY IN THE PORTFOLIO

Analysis based on asset level data

+ sent to all companies targeted by engagement activities for review & comments

PACTA TOOL

New 2019 module: target-setting

www.transitionmonitor.com

1 Equity | Bonds

2 Assessed Sector ($) | Current Exposure | Future Exposure | 5 Year Growth Trend | CO_2-Intensity Trend | Company Information | Regional Exposure | Peer Comparison

3 Sector: Coal Mining

Technology: Not available

4 Scenario: IEA: SDS

Accounting Principle: Ownership

Scenario Geography: Global

Equity Market: Global

Benchmark Portfolio: Your Aligned Portfolio

Peer Group: Global Funds

Global

Step 1: Compare your portfolio's vehicle production to the market's vehicle production in 2018

	ICE	Hybrid	Electric
Enter your portfolio's 2018 production in # vehicles:	9000	120	130
Your portfolio's production in 2018 by % share	97%	1%	1%
The market's production in 2018 by % share	88%	11%	1%
How does your portfolio compare to the market?	Slightly Behind	Behind	Ahead

Step 2: Discover your portfolio's scenario-aligned vehicle production

Select your preferred scenario: IEA SDS

Select a target year: 2030

Your portfolio's 2030 scenario-aligned production in # vehicles	6823	3757	789
Your portfolio's 2030 scenario-aligned production by % share	60%	33%	7%
12-year change in production required for scenario alignment	-2177	3637	659

Step 3: Set growth or reduction targets for each technology to see how they compare to scenario trajectories.

Select a vehicle technology: ICE

Set your desired % change: -20%

Select a target year: 2030

TARGETS AUTOMATICALLY CALCULATED FOR EACH PORTFOLIO AND INVESTEE/CLIENT

Selection of climate actions (voting, conditional lending…) in a pre-established list to build the related action plan

2° Investing Initiative

PACTA TOOL

New 2019 module: target-setting

Scenario analysis	Selection of actions	Investee targeting	Impact monitoring
‘Gross’ science-based trajectory by technology	List of climate actions to be implemented (engagement, divestment, etc.)	Priorization of companies based on multiple criteria (e.g. target of shareholder action campaign)	Tracking the evolutions of the physical assets and production (to identify impacts)
Cascaded into a generic suggested trajectory by investee (starting point of the conversation)	**Description of expected results** (in the real economy)	Suggested requests (based on asset base, capex plans and economic analysis)	Documentation of actions undertaken
Company report (to be sent for review)	Ex-ante evidence available to support the analysis	Company report v2 integrating feedback	**Analysis of the results and effectiveness of the approach**

Potential target output examples per draft method

Mortgages/SDA: Financial institution A commits to reduce its mortgage portfolio GHG emissions ____% per square meter by 2030 from a 2017 base-year.

Real estate/SDA: Financial institution A commits to reduce its real estate portfolio GHG emissions ____% per square meter by 2030 from a 2017 base-year.

Electric generation project finance/SDA: Financial institution A commits to reduce its electricity generation project finance portfolio GHG emissions ____% per kWh by 2030 from a 2017 base-year.

Corporate instruments/SDA: Financial institution A commits to reduce GHG emissions from the steel sector within its corporate lending portfolio X% per ton of cement by 2030 from a 2017 base-year.

Corporate instruments/PACTA: Financial institution A commits to increase installed capacity in renewable electricity by ____ MW by _[year]_ across the _[asset class]_ portfolio companies that we are specifically targeting in the context of our climate actions.

Corporate instruments/SBT Portfolio Coverage: Investment firm A commits that 30% of its equity portfolio by market capitalization will have science-based targets by 2024.

SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

No-cost default data option

If you need data support, please direcly contact:

Joseph Ben Salem
ISS
+44 (0) 203 192 5755
joseph.bensalem@issgovernance.com

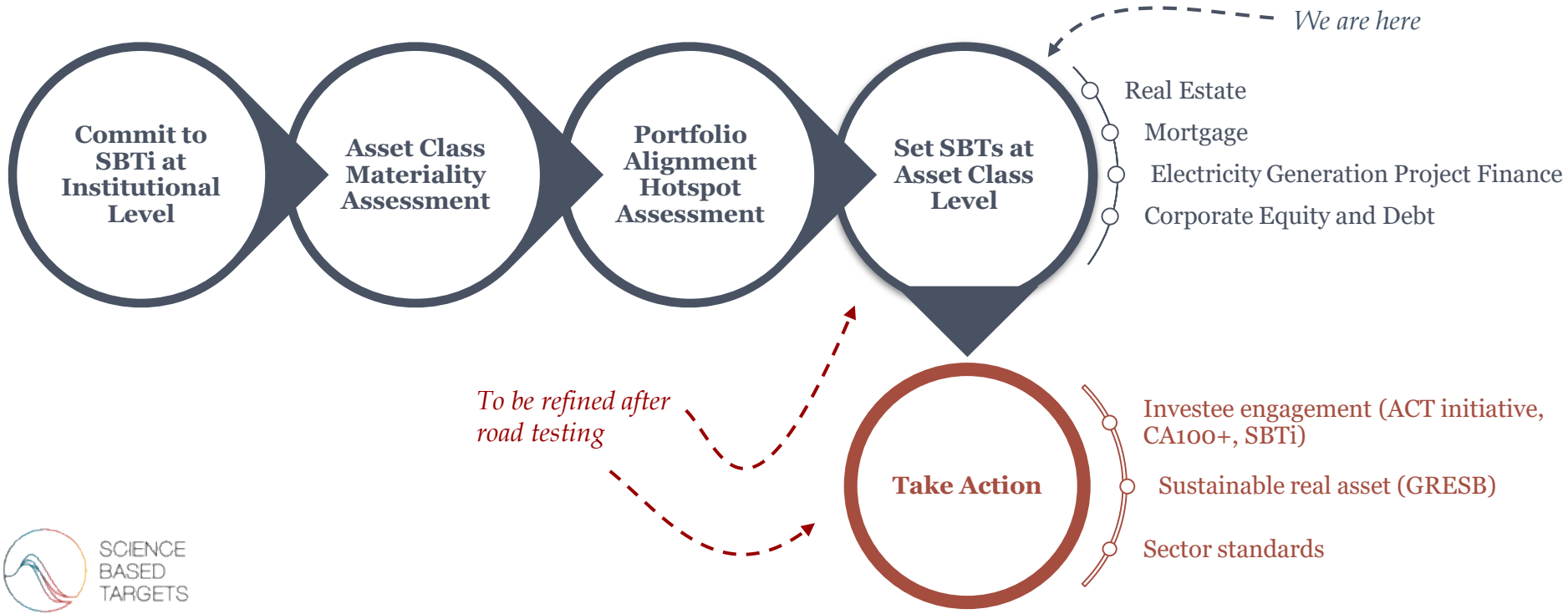
ISS ESG
ethix • climate • oekom

- We thank ISS ESG, who generously offered to provide off-the-shelf datapoints to interested road testers free of charge. Certain limitations might be applied.
- Data can only be used internally, for a limited time and for road testing only. Users need to sign a respective agreement.
- Free data comes “as is” - advice or bespoke research can be added on a ‘for pay’ basis.
- Other data providers can provide data and assistance for a fee.

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Next steps: criteria discussion and consultation

While the road test focuses on target setting methods for portfolio alignment, we will address the **role of action targets and divestment** when we prepare the target validation criteria document for consultation.



SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Thank you! Here are the key contacts for questions.

For questions related to the SBT Portfolio Coverage method for corporate instrument, the road testing process, and the Science Based Targets initiative, please contact Nate Aden, Senior Fellow, World Resources Institute, nate.aden@wri.org or Chendan Yan, Research Analyst, World Resources Institute, chendan.yan@wri.org.

For questions related to the other emissions based approaches, please contact Giel Linthorst, Director, Navigant giel.linthorst@navigant.com or Kaboo Leung. Senior Consultant, Navigant, kaboo.leung@navigant.com

If you need ISS data support, please contact Joseph Ben Salem, ISS at +44 (0) 203 192 5755, joseph.bensalem@issgovernance.com.

For questions related to the technology based approaches, please contact Florence Palandri, Analyst, 2° Investing Initiative, florence@2degrees-investing.org, +44 77 08 32 90 90

- *2° Investing Initiative also provides free, online, fully automated equity and bond portfolio analysis (www.transitionmonitor.com)*
- *The team provides a desktop software version for assessing loan books and PE. The software and related support service are provided free of charge.*
- *The underlying data covering about 52,000 legal entities (issuers and their subsidiaries) is provided as part as the analysis of the portfolio*

SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION