IAPF Investment Week

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RESPONSIBLE INVESTMENT IN FIXED INCOME – WHAT IT MEANS FOR TRUSTEES

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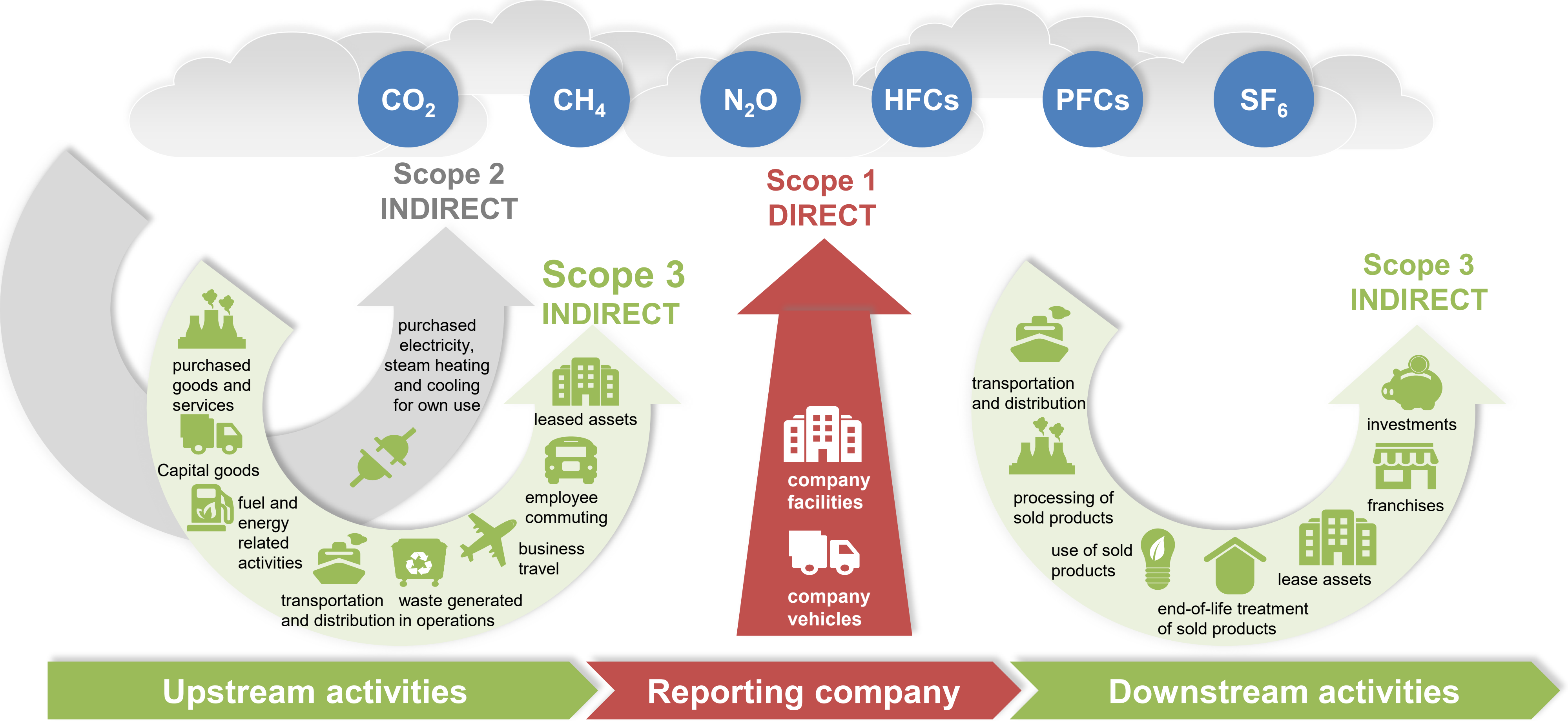
Agenda

- Know your carbon measures – it's important!
- Is a net-zero carbon portfolio achievable whilst maintaining market-type returns?
- How can we measure Paris-Alignment of portfolios?

What carbon measures are you looking at?

- Weighted Average Carbon Intensity (WACI): expressed in tonnes of CO2e per $1m sales
- Carbon footprint: expressed as tonnes of CO2e per $1m of Enterprise Value
- Scope 1, 2 or 3?

What are Scope 1, 2 and 3 emissions?



Source: World Resources Institute and World Business Council for Sustainable Development, September 2011.

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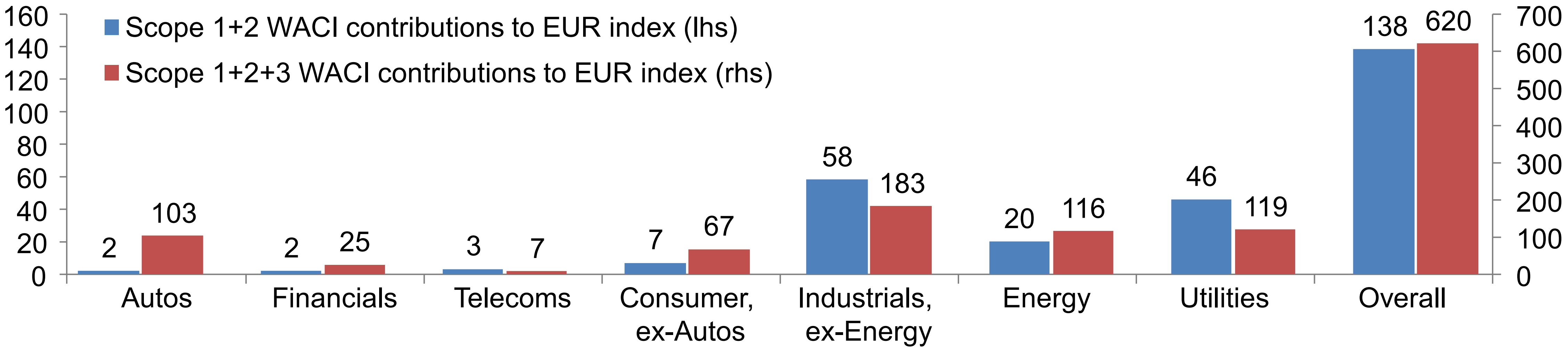
WACI contributions to the EUR index by sector

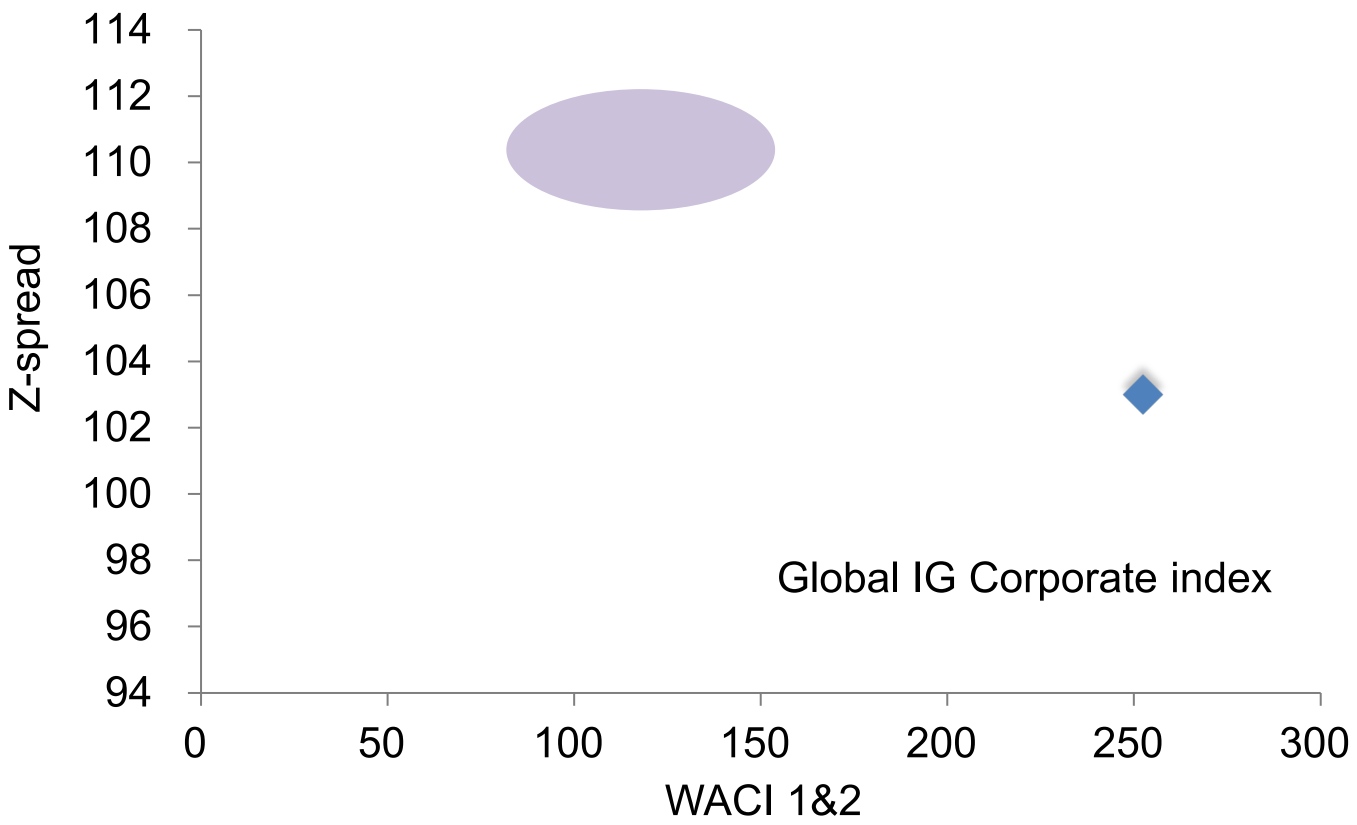


- Utilities are about 7% of the index but contribute about 33% of carbon intensity
- Energy sector is about 5% of the index but accounts for 15% of the carbon intensity
- A low carbon portfolio based on scope 1+2 emissions would bias away from these sectors

- Adding in Scope 3 emissions changes the picture
- The Industrials ex-energy and the Autos sectors have high carbon intensities too
- A low carbon portfolio based on scope 1 and 2 emissions may not be so low carbon when incorporating scope 3 emissions

Source: Insight as at December 2021.

Carbon intensity sweet spot



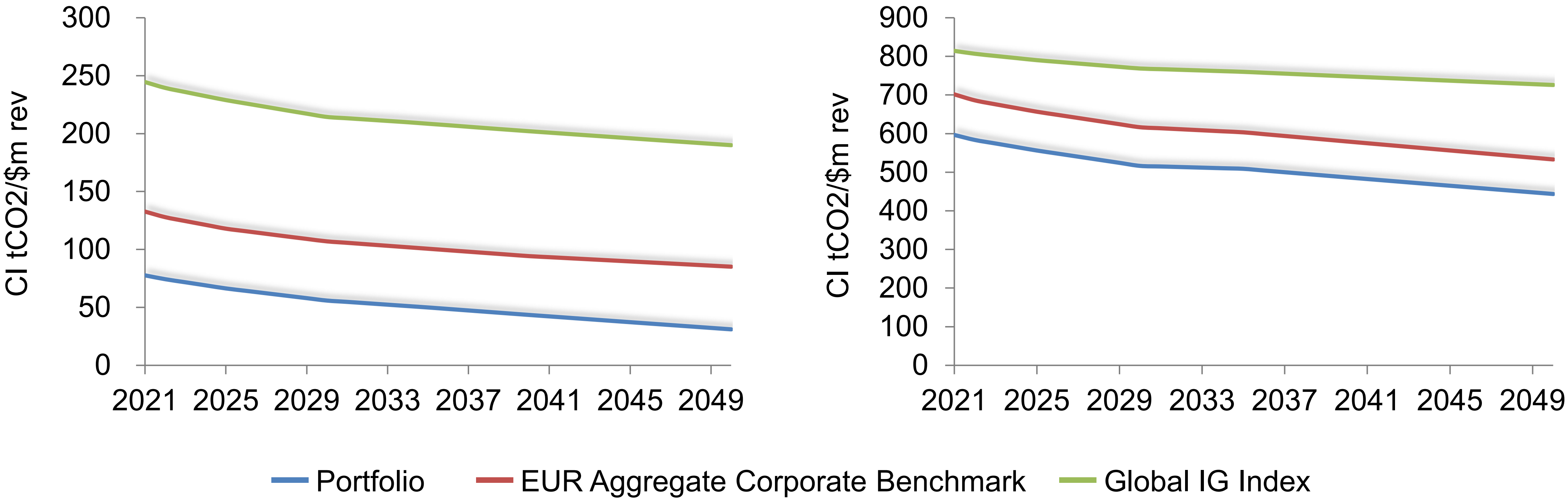
- De-carbonising beyond a certain point starts to impact returns
- How much 'good' does exclusion do? Supporting issuers who are reducing carbon emissions will have a greater impact

Source: Insight and MSCI as at December 2021.

Can net zero be achieved?

Scope 1+2 Projected WACI

Scope 3 Projected WACI



Source: Insight and MSCI as at December 2021.

What about building 'aligned' portfolios?

Potential source data	Global IG coverage: Market value	Global IG coverage: Scope 1&2	Comment
TruCost	68%	81%	Assessment made on basis of 2025 trendline – too short-termist
Science based targets	34%	24%	Requires companies to subscribe – a good standard to screen for but coverage potentially stays too low for overall portfolio analysis
Transition pathway initiative	12%	60%	Coverage very low
Climate Action 100+	16%	49%	Framework designed for high GHG emitting issuers – can it be rolled out more broadly?
MSCI	97%	100%	Better coverage – but data still requires further analysis

- Use this data to assign issuers into the IIGCC framework
- Over time, work on transposing that determination into a degrees Celsius alignment metric

Too early to build fully 'aligned' portfolios

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IIGCC alignment framework

- Achieving Net Zero
- Aligned to a Net Zero pathway
- Aligning towards a Net Zero pathway
- Committed to Aligning
- Not Aligned

- Decisions about how to categorise issuers is left to managers
- Expect to see portfolio allocations to move to the left over time
- Will drive engagement with issuers – managers should hold them to account

Conclusions

- Understand your carbon data and how your manager is using it
- Consider your philosophy – what are your aims and how far are you prepared to go?
- Ask how your manager will categorise issuers in the IIGCC framework

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