



## Kommunale Investmentstrategien in Zeiten des Klimawandels

Dr. Maximilian Horster, Managing Director  
Head of ISS-climate  
27 March 2019

[ISSGOVERNANCE.COM/ESG](https://ISSGOVERNANCE.COM/ESG)

# Städte und Gemeinden im Rampenlicht

## Oslo Becomes First Capital City in the World to Divest From Fossil Fuels

By [Guest Contributor](#) | Oct. 19, 2015 02:39PM EST

CLIMATE

The City of Paris has committed to distancing itself from investments in sectors that contribute to climate change.

## Swedish Capital Stockholm Divests From Fossil Fuel Investments

ANNOUNCEMENT / 11 JAN, 2018

New York City to Divest Pension Funds of Fossil Fuels

## Münster verzichtet als erste deutsche Stadt auf klimaschädliche Geldanlagen

09. Feb. 2016 von [Gerhard Joks](#)

### Divestment in Stuttgart

## Stadt und LBBW sollen raus aus der Kohle

Von Thomas Faltin 04. Janua

Nachhaltigkeit

### Erst arm und sexy, jetzt öko

Um das Geld der Stadt klimafreundlich anlegen zu können, lässt der Berliner Finanzsenator Matthias Kollatz-Ahnen einen neuen Aktienindex entwickeln.

Interview: **Felix Rohrbeck**

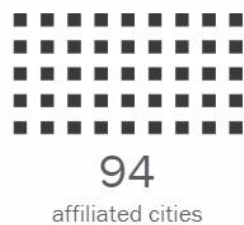
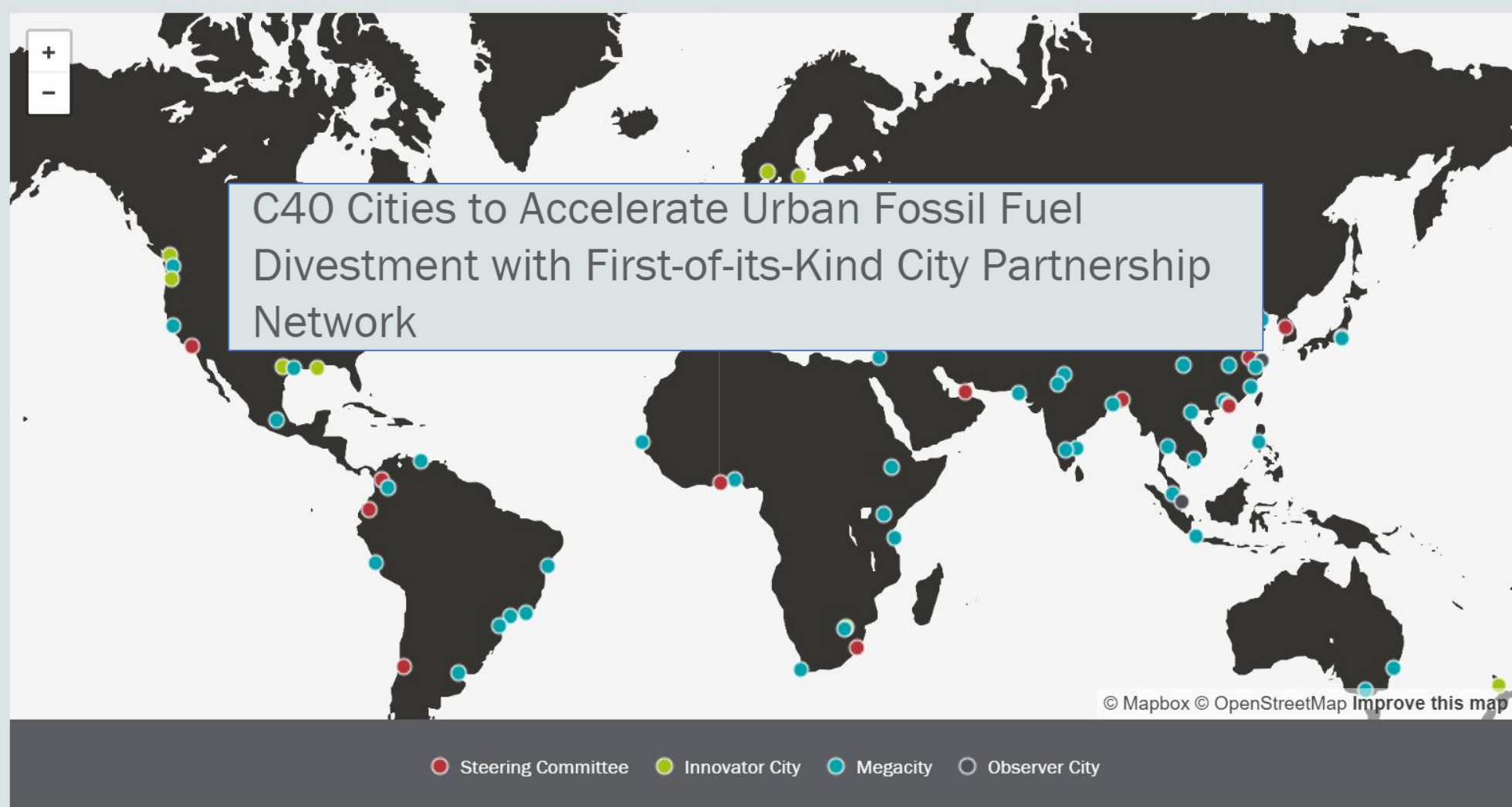
7. Juli 2016, 3:48 Uhr / Editiert am 10. Juli 2016, 19:15 Uhr / DIE ZEIT Nr. 27/2016, 23. Juni 2016 /

Cities account for at least **70 percent** of total worldwide **greenhouse gas emissions**.

They also face the **worst risks** from the ultimate consequences of those emissions, as **90 percent of cities** were built on coastal lands.

It is fitting, then, that **cities**, the primary drivers and likeliest victims of climate change, **hold the antidote** as well.

(Michael Bloomberg)



25 %  
of global GDP



1 in 12  
people worldwide

10,000

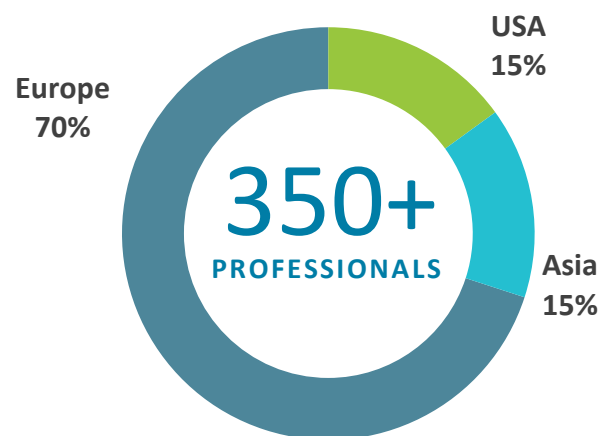
actions to combat climate  
change



# BY THE NUMBERS

## STAFF

350+ professionals, with 195 analysts speaking 25+ languages



## CLIENTS

### ESG

**500+**

Asset Owners & Asset Managers Globally

## PROXY VOTING

**200 Clients**

Using SRI/Sustainability Voting policies

## ISSUER UNIVERSE

**25,000**

CLIMATE

**20,000**

CONTROVERSIES / NORMS

>11,000 (2020)  
10,000 (2019)  
7,000 (2018)

ISS - oekom  
RATINGS



# ISS ESG's Climate Team

The only global full-fledged ESG provider with a **dedicated climate change** team.

15+ experts providing holistic **advisory and data** in the area of climate change and investments to the ISS client base of **2'000+ institutional investors**.

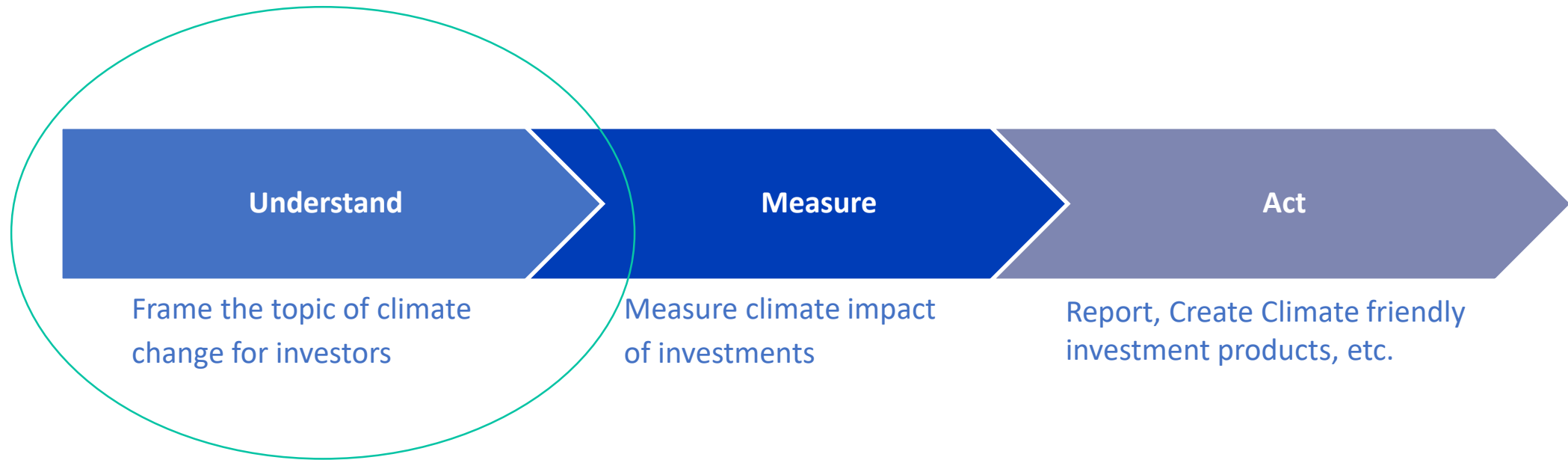
Drawing from **200 sector and topic analysts** from ISS-ethix and ISS-oekom, **500 governance analysts** from ISS, as well as external research.

We help our clients

- **understand** climate change implications for their investments and their investment impact on the climate
- **measure** climate impact, risk and opportunities
- **act** by reporting, investing and voting



# Framework to integrate Climate Change into Investments



There is global consensus..



...to avoid this



# A Mandate to Limit Investment Emissions

197

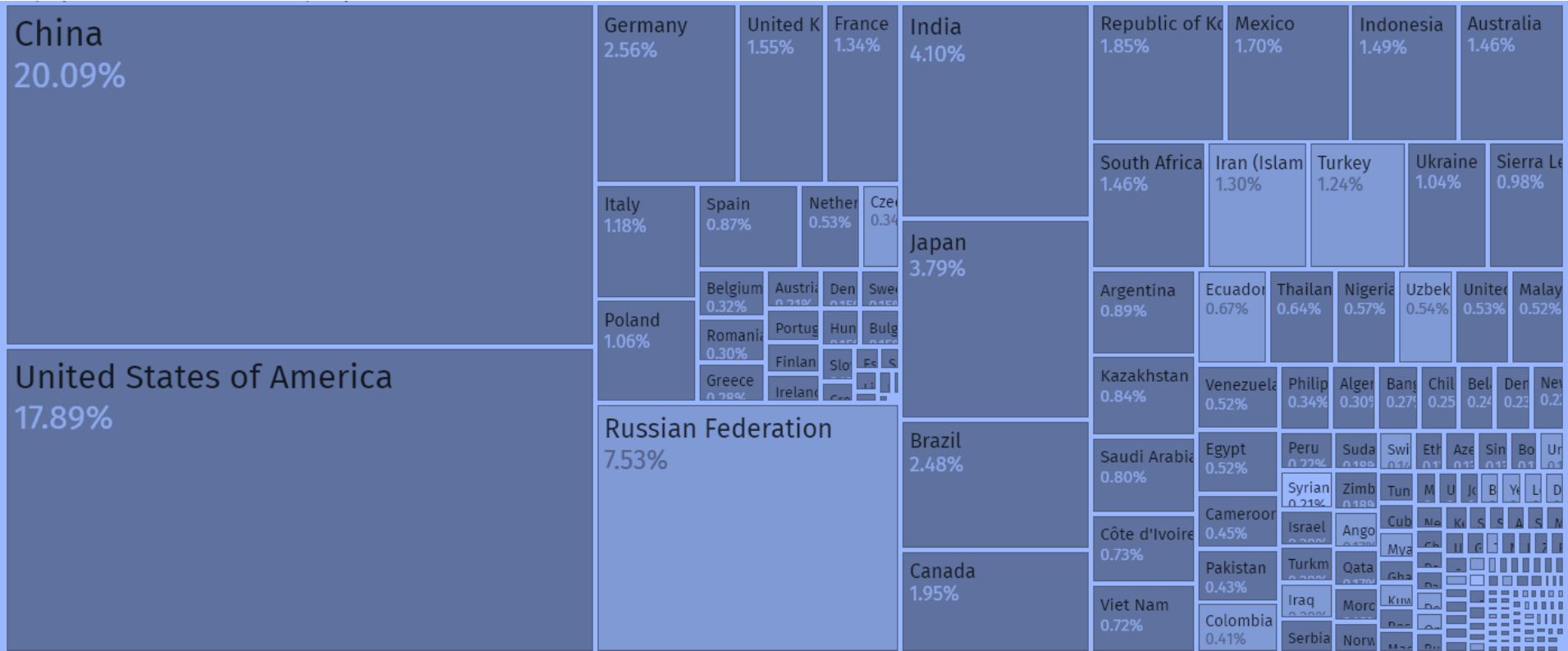
Parties **signed** the Agreement

168

Parties **ratified** the Agreement

87.6%

of the total global greenhouse gas emissions covered



**Paris Agreement**  
Article 2.1.c:  
‘Making **finance flows consistent** with a pathway towards **low greenhouse gas emissions** and climate-resilient development’

# What does that mean for Investors?



# What does that mean for Investors?



# Climate Risks



## Physical Risks

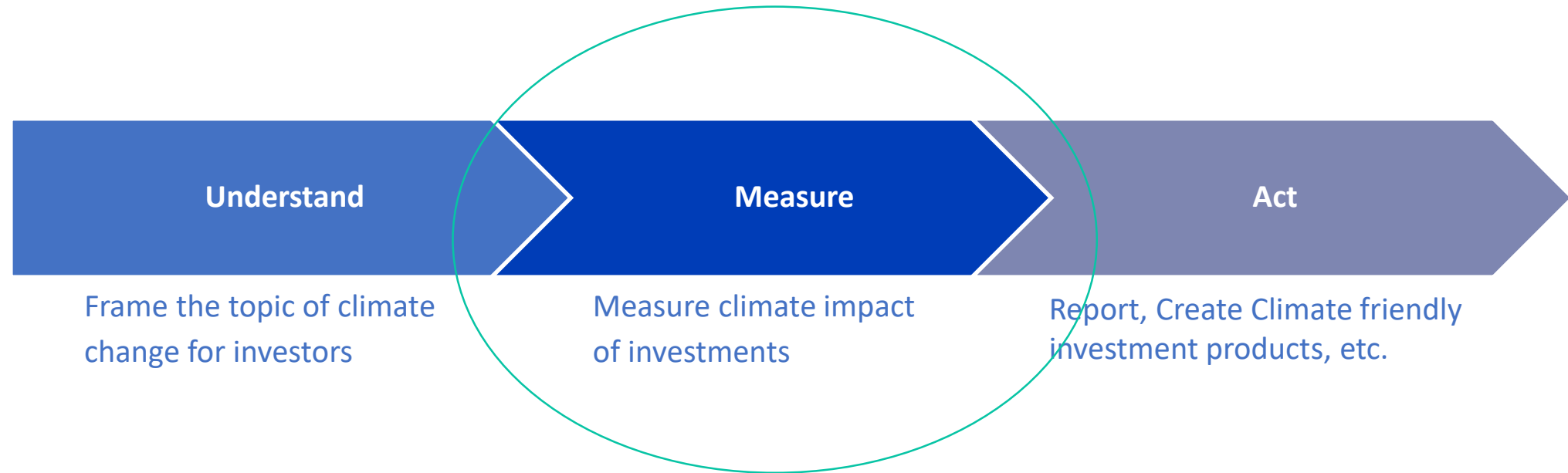
- Extreme weather events
- Rising sea levels
- Droughts
- Flooding



## Transitional Risks

- Loss of license to operate
- Carbon Pricing
- Regulation
- Societal change

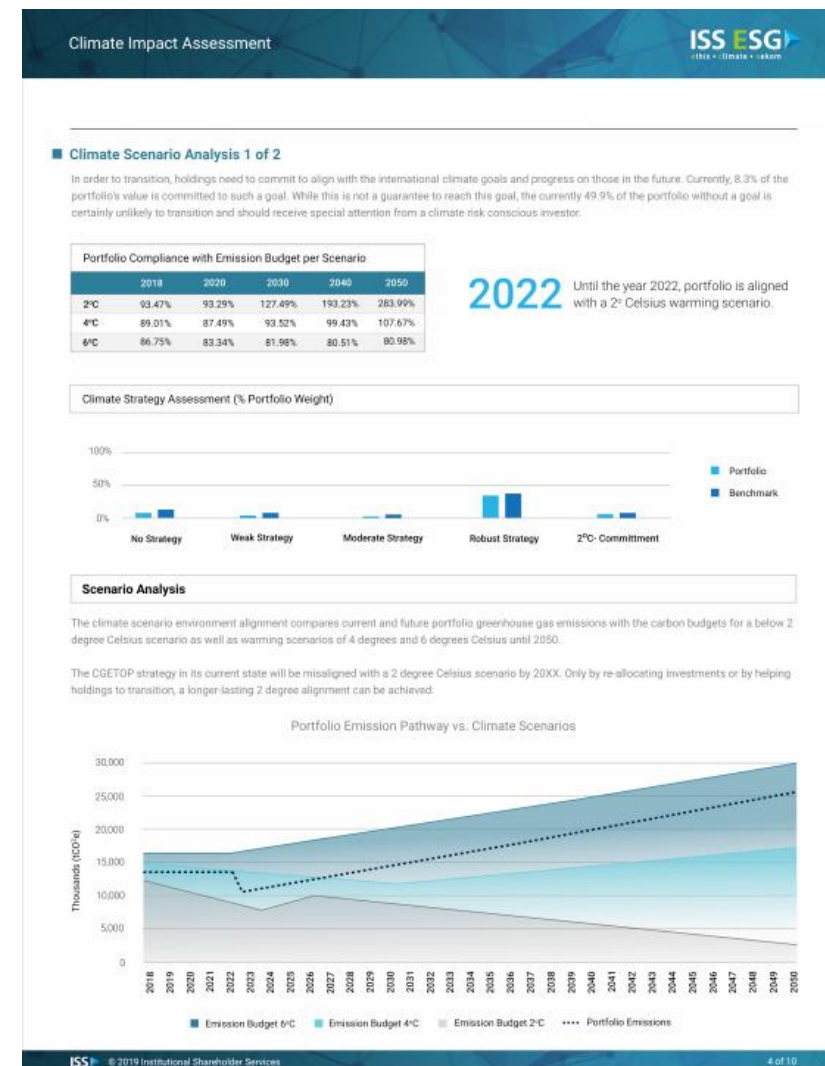
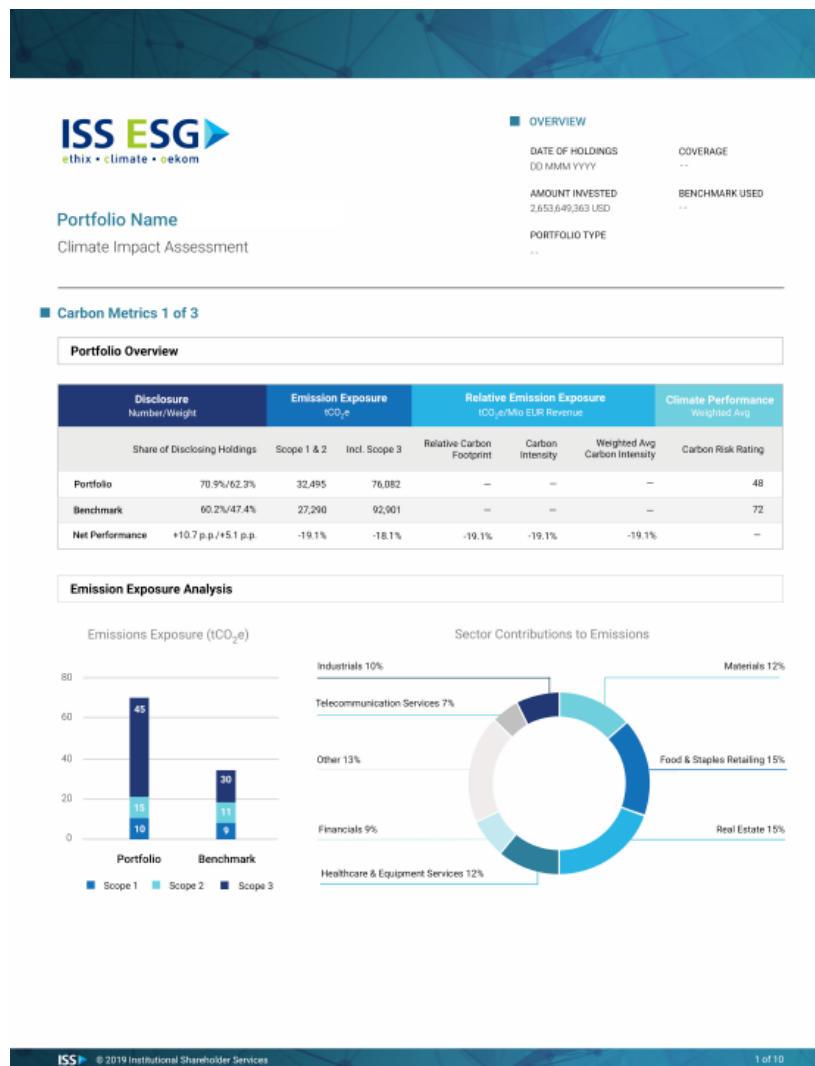
# Framework to integrate Climate Change into Investments



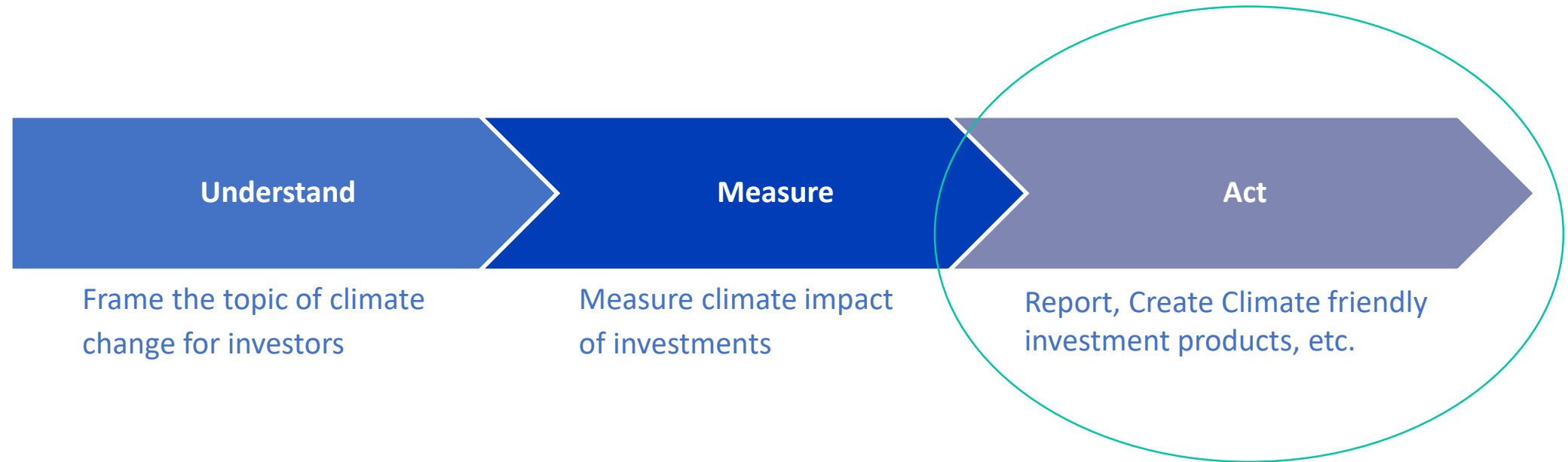
Location	Initiative	Description	Owner	Requirement	Status	Pre / Post-Paris
Global	Task force on Climate-related Financial Disclosure (TCFD)	The TCFD have developed voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors and other stakeholders.	Self governance	Voluntary	In place	Post
	Portfolio Decarbonization Coalition (PDC)	Coalition of investors committing to decarbonizing their investment portfolios	Self governance	Voluntary	In place	Pre
	Montréal Pledge	The Pledge allows investors to formalize commitment to the PDC, mobilizing investors to measure, disclose and reduce their portfolio carbon footprints.	Self governance	Voluntary	In place	Pre
	ISO 14097	Framework and principles for assessing and reporting investments and financing activities linked to climate change.	Self governance	Voluntary	Expected	Post
	Asset Owners Disclosure Project (AODP)	A ranking of the climate-related financial disclosures of the world’s largest pension funds, insurers, sovereign wealth funds and endowments.	Civil Society	Voluntary	In place	Pre
	Climate Action 100+	A five-year initiative led by investors to engage with the world’s largest corporate GHG emitters to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures	Self governance	Voluntary	In place	Post
	The Investor Agenda	The Investor Agenda has been developed for the global investor community to accelerate and scale up the actions that are critical to tackling climate change and achieving the goals of the Paris Agreement.	Self governance	Voluntary	In place	Post
Europe (EU)	Institutions for Occupational Retirement Provision (IORP) II	EU pensions directive with specific content on climate change requirements.	Regulator	Mandatory	In place	Post
	EC Action Plan	A body of experts from civil society, the finance sector and academia advising the European Commission on how to better integrate sustainability considerations in the EU’s financial policy framework	Regulator	TBD	Expected	Post
France	Article 173 of the Energy Transition Law	Legislation on mandatory carbon disclosure requirements for listed companies and carbon reporting for institutional investors, defined as asset owners and investment managers.	Regulator	Mandatory	In place	Post
California	Climate Risk Carbon Initiative	Initiative to evaluate the degree to which California investors are impacted by effects of climate change on the economy.	Regulator	Mandatory	In place	Post
Sweden	National Pension (AP) funds	Co-ordination of carbon footprint reporting for investment portfolios within the AP funds.	Self governance	Voluntary	In place	Post
Switzerland	Ministry of the Environment (FOEN)	Invitation from the FOEN to Swiss pension funds and insurers to test the climate compatibility of portfolios.	Regulator	Voluntary	Expected	Post
Netherlands	Platform Carbon Accounting Financials (PCAF)	Collaboration of 12 Dutch financial institutions to develop a carbon accounting methodology for financed emissions.	Self governance	Voluntary	Expected	Post
UK	Green Finance Taskforce (GFT)	This Taskforce will work with industry to accelerate the growth of green finance, and help the UK government to deliver the investment required to meet the UK’s carbon reduction targets.	Regulator	TBD	In place	Post
Canada	CSA Staff Notice 51-354 Report on Climate change-related Disclosure Project	The CSA has developed new guidance and initiatives to educate issuers about the disclosure of climate change-related risks, opportunities and financial impacts. It also intends to consider new disclosure requirements regarding non-venture issuers’ corporate governance practices in relation to material business risks.	Regulator	Voluntary	In place	Post
China	Carbon emissions data mandated by 2020 for listed companies in China	Seven government agencies have collectively issued guidelines stating China’s intention to develop a ‘green financial system’. The roadmap will have three stages, finishing in 2020 whereby all listed companies will be required to disclose .	Regulator	Mandatory	Expected	Post
Germany	Bundesbank: The Role of Central Banks	Conference and call for papers on the role of central banks in scaling up green finance	Regulator	TBD	Expected	Post
Australia	Australian Prudential Regulatory Authority (APRA) climate disclosure	Australia’s financial regulator has stepped-up its warning to banks, lenders and insurers, saying climate change is already impacting the global economy, and flagged the possibility of “regulatory action”.	Regulator	TBC	Expected	Post

# PORTFOLIO ANALYTICS

## Tools and Reports



# Framework to integrate Climate Change into Investments

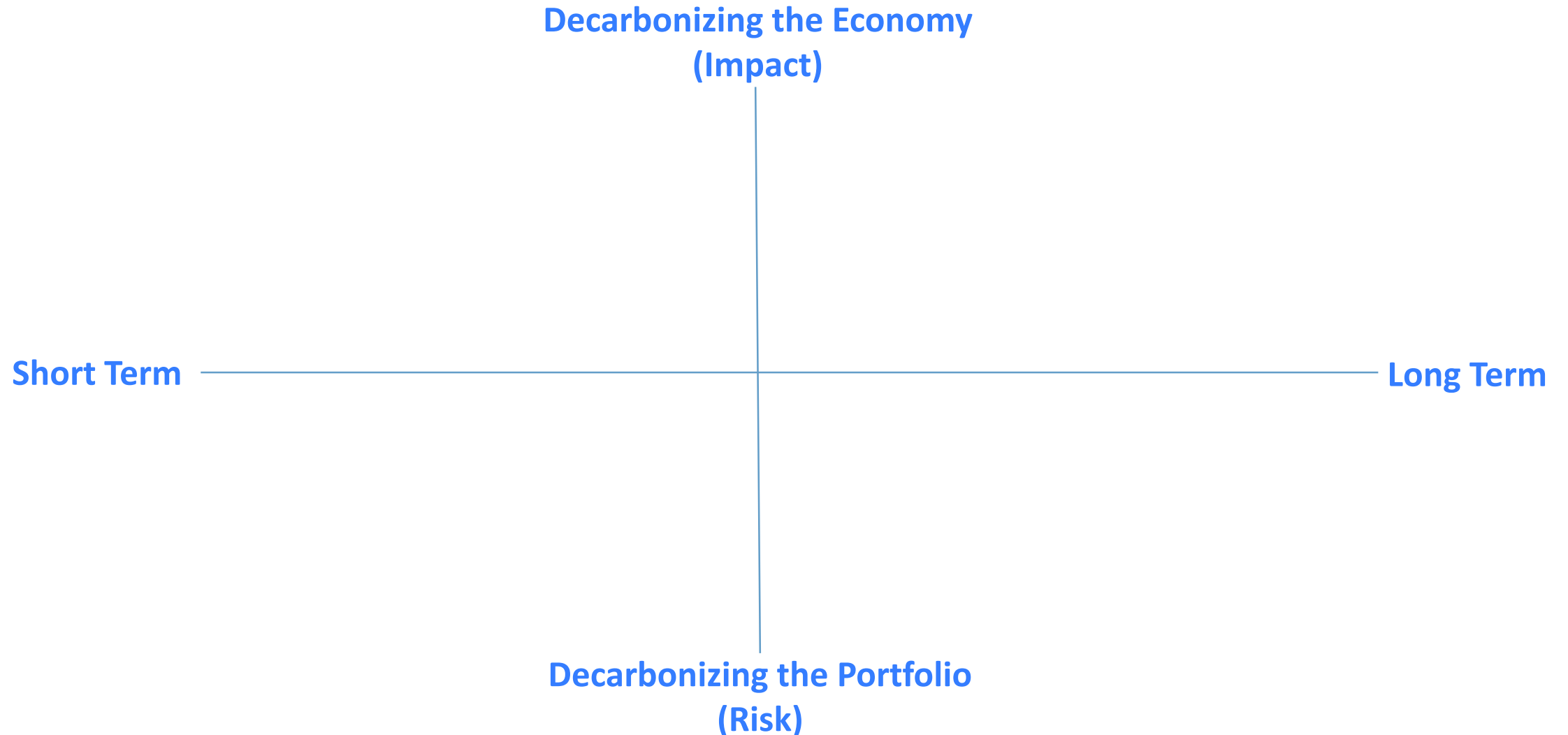


# What does that mean for Investors?



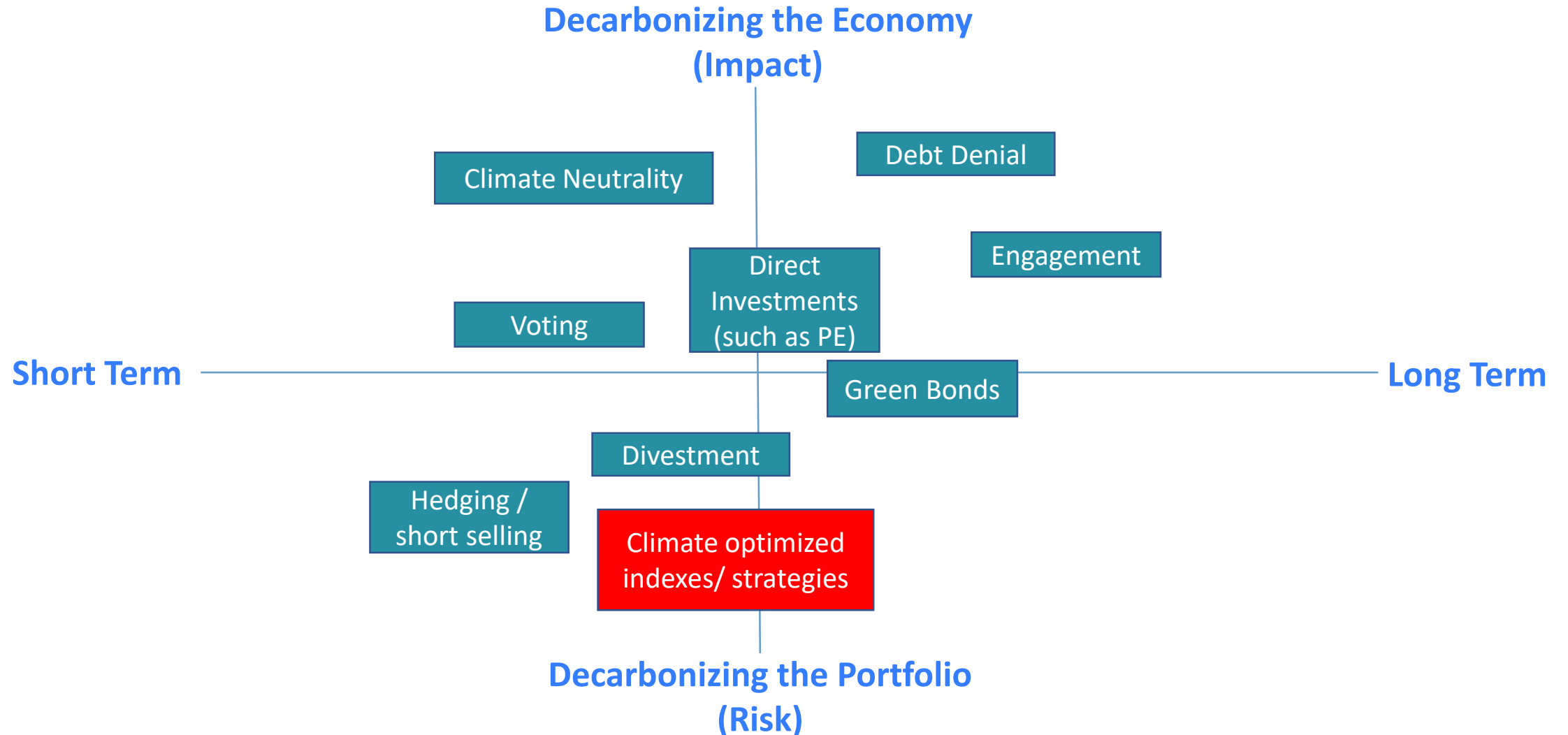
# Impact vs Risk

Investors might approach climate change from an impact or a risk perspective:  
One aims to decarbonize the economy, the other one aims to decarbonize a portfolio



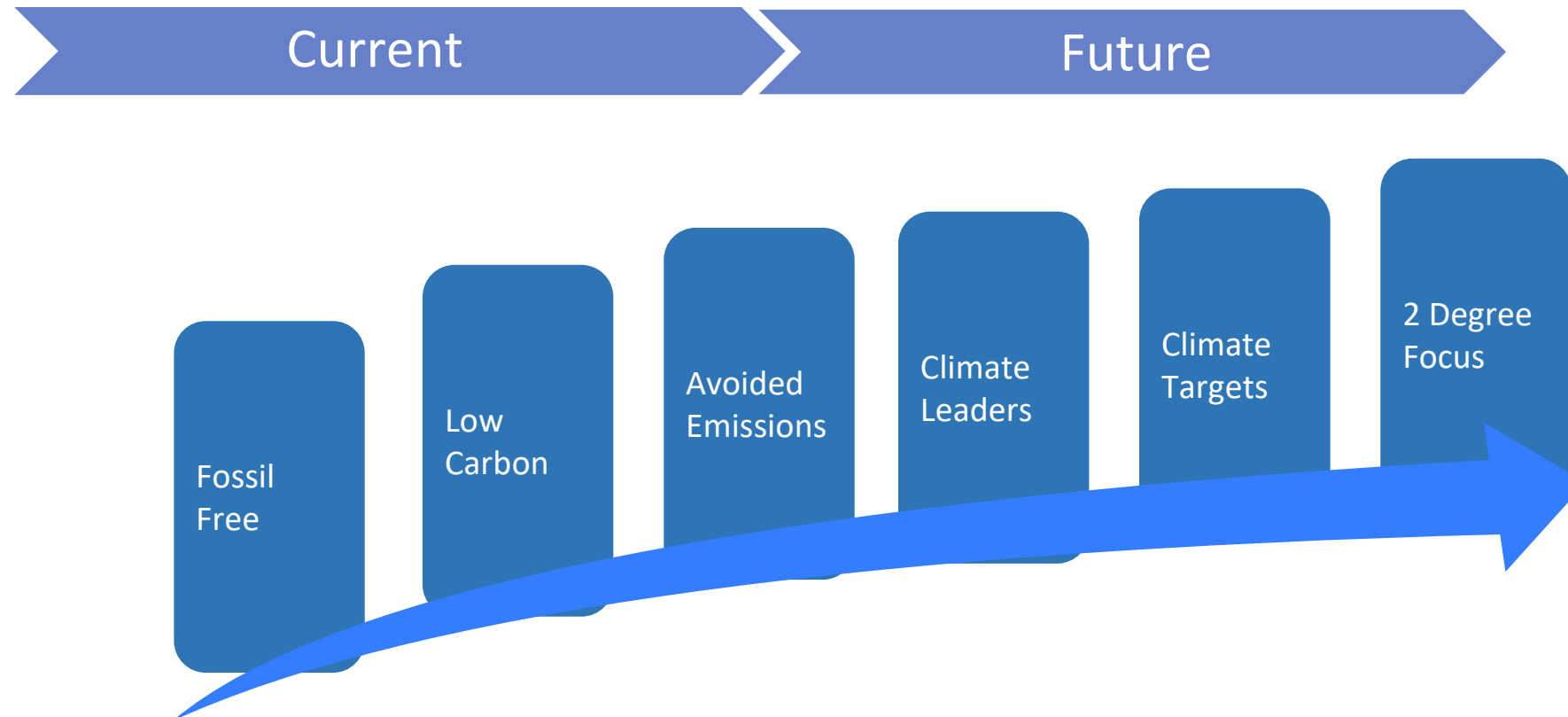
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# Climate Optimized Strategies

There is an ever-growing variety of possibilities on how to address climate changes in investment strategies



# Fossil Fuel Perspective

Detailed operationalisation using criteria such as revenue shares

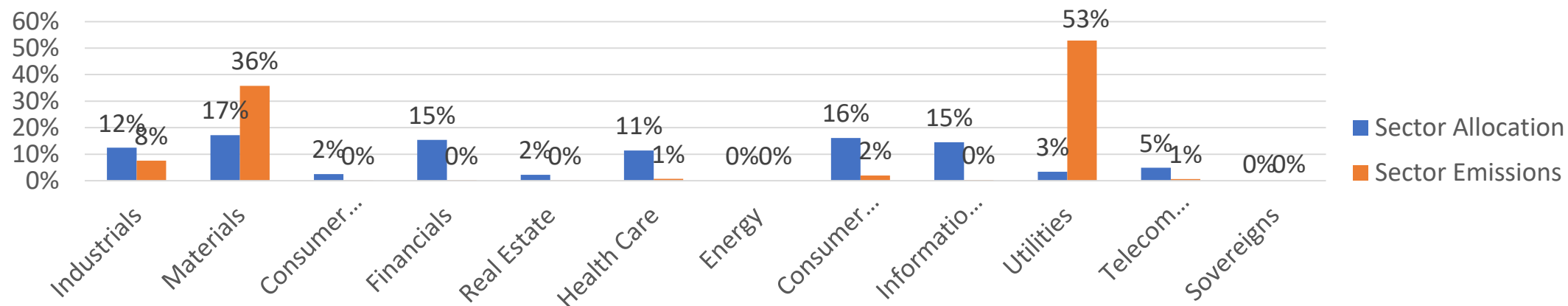
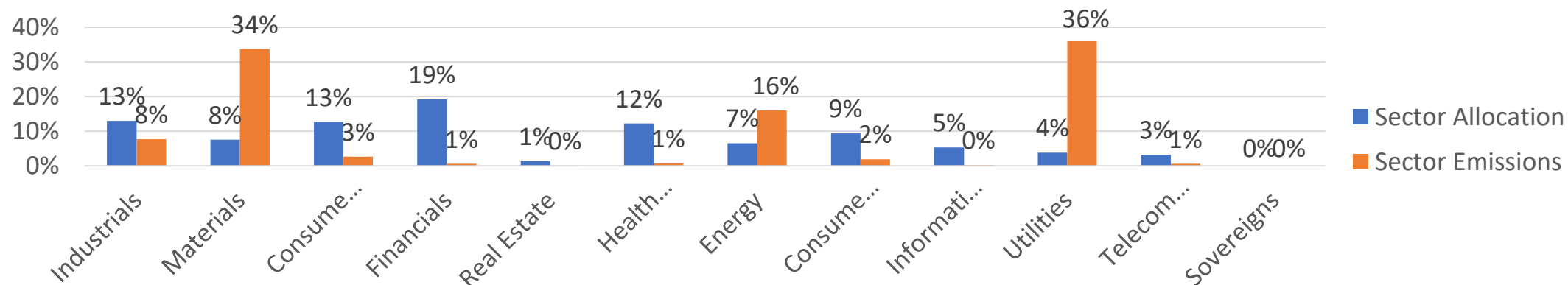
☒ Coal
 ☒ Oil
 ☒ Natural Gas
 ☒ Fossil Fuels (combined)
 ☒ Hydraulic Fracturing
 ☒ Oil Sands

Fossil Fuel Type	Production		Net Sales						Impact on the Investment Universe
	≥ 0.5%	≥ 1%	≥ 0%	...	≥ 20%	≥ 30%	...	≥ 90%	
<input checked="" type="checkbox"/> Coal									
<input type="checkbox"/> Producers			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	From 0%: 85, from 30%: several companies excluded
<input checked="" type="checkbox"/> Producers (worldwide production)	<input type="checkbox"/>	<input checked="" type="checkbox"/>							From 0.5%: about 15, from 1%: still some companies excluded
<input type="checkbox"/> Processors			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	From 0%: 145, from 30%: about 30 companies excluded
<input type="checkbox"/> Service providers / others			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	From 0%: about 125, from 30%: still some companies excluded
<input type="checkbox"/> Total coal-related activities			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Overall: more than 260, from 30%: about 50 companies excluded

# EMISSIONS PERSPECTIVE

Emissions can give a first insight into the climate characteristics of an index and portfolio.

Allocation vs. Emissions (Scope 1&2) in Portfolio



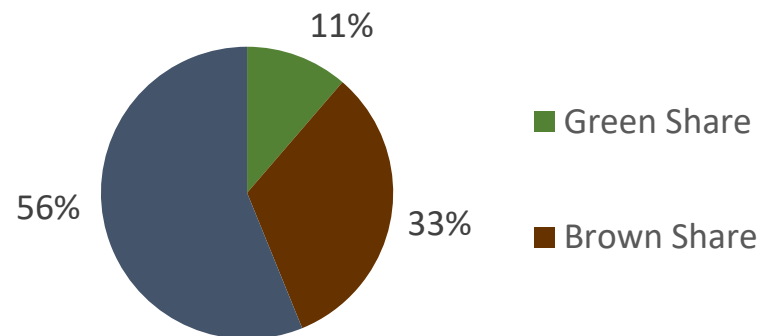
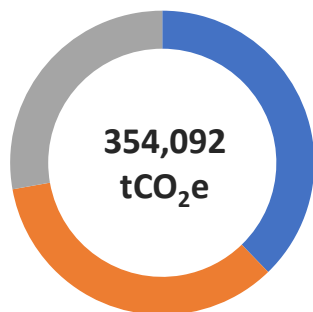
# TECHNOLOGY PERSPECTIVE

Using additional technology-specific data points to dive deeper into climate characteristics.

## STOXX 600

*189.7 tCO<sub>2</sub>e / Mio EUR Revenue*

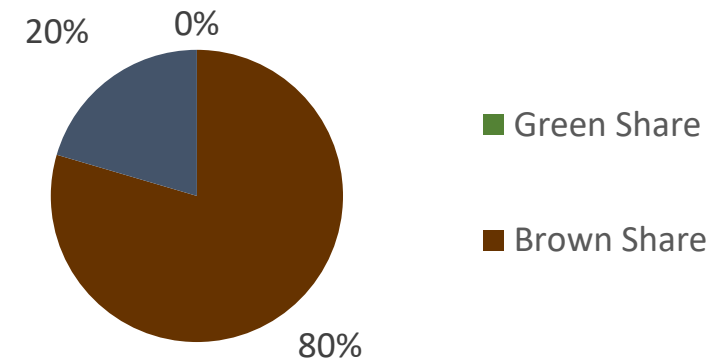
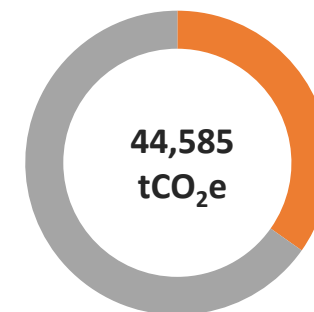
■ Coal Reserves  
■ Oil Reserves  
■ Gas Reserves



## DAX 30

*282.4 tCO<sub>2</sub>e / Mio EUR Revenue*

■ Coal Reserves  
■ Oil Reserves  
■ Gas Reserves



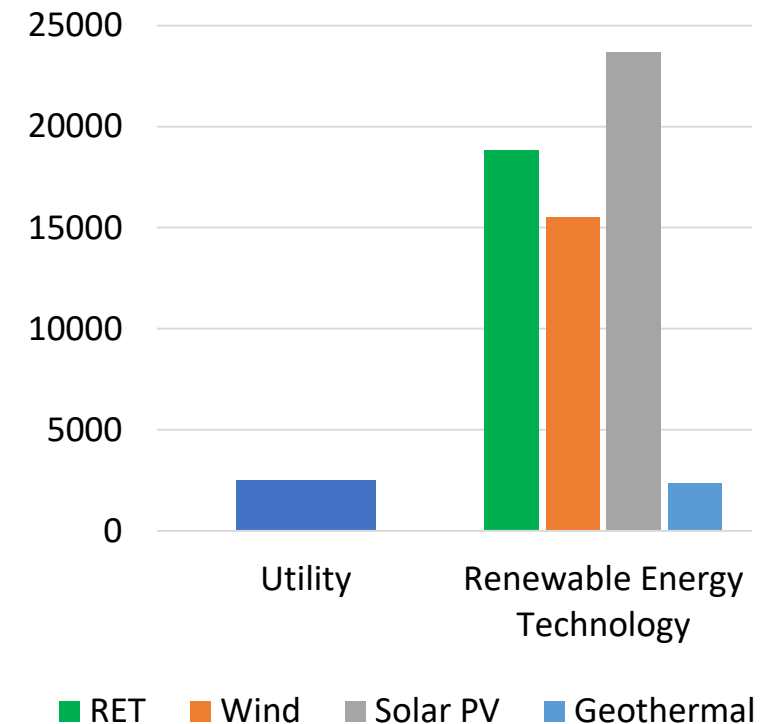
# POSITIVE CONTRIBUTION – AVOIDED EMISSIONS

Assessing a portfolio's contribution to reduction of emissions.

Portfolio name	Number of Holdings	PAE-relevant Holdings (%)	Total market Value (EURm)	Total PAEs (tCO <sub>2</sub> e)	PAE intensity (tCO <sub>2</sub> e/EURm)
ICLN	24	68%	8	41,269	5,159

Name	Portfolio Weight	Total PAE/Holding (tCO <sub>2</sub> e)	PAE intensity (tCO <sub>2</sub> e/EURm inv.)	Total PAEs in Portfolio (tCO <sub>2</sub> e)	PAE Portfolio Exposure
Canadian Solar, Inc.	2.1%	52,566,156	72,086	11,847	29%
Siemens Gamesa Renewable Energy SA	6.0%	86,926,470	12,236	5,852	14%
Vestas Wind Systems A/S	5.5%	142,045,272	12,193	5,413	13.1%
Nordex SE	1.6%	34,305,153	40,789	5,274	12.8%
Cia Energetica de Minas Gerais	5.8%	10,860,208	5,137	2,387	5.8%

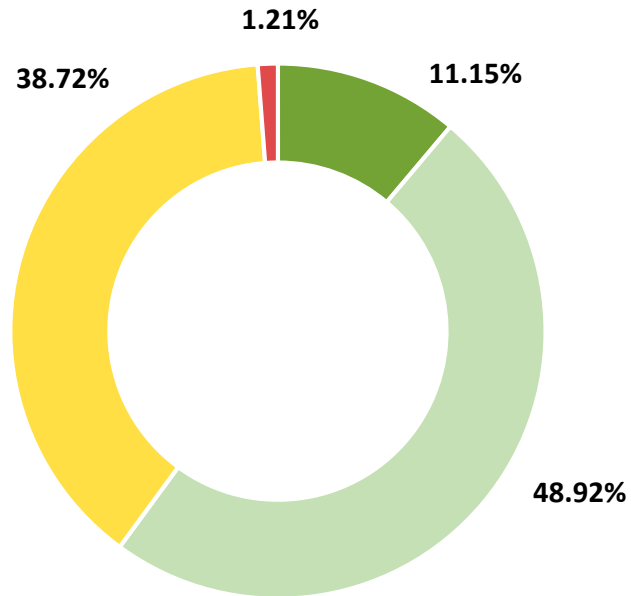
Avoided emissions per sector (tCO<sub>2</sub>e/EURm)



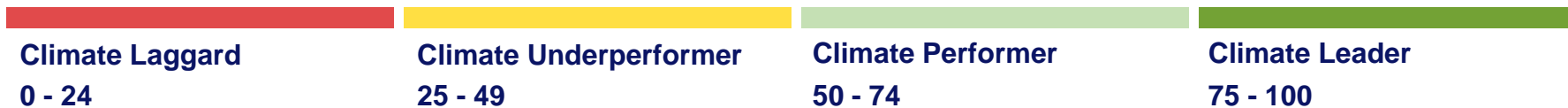
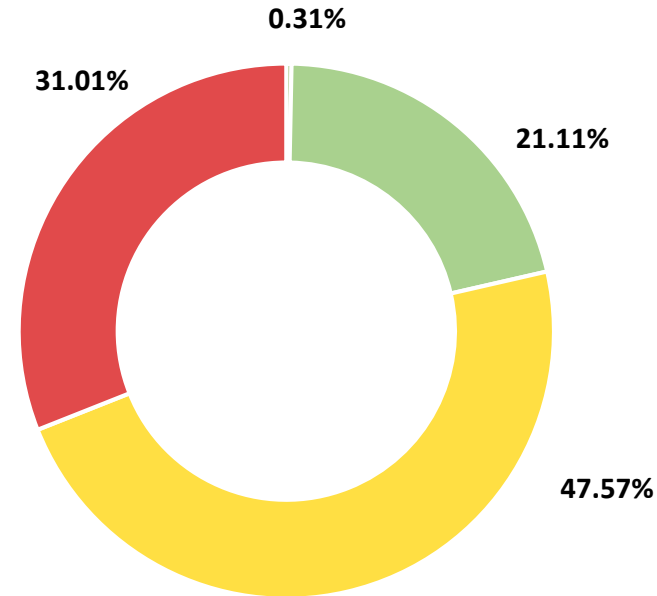
# CLIMATE PERFORMANCE – LEADERS AND LAGGARDS

Assessing companies' climate performance on risks and opportunities.

**Strategy**



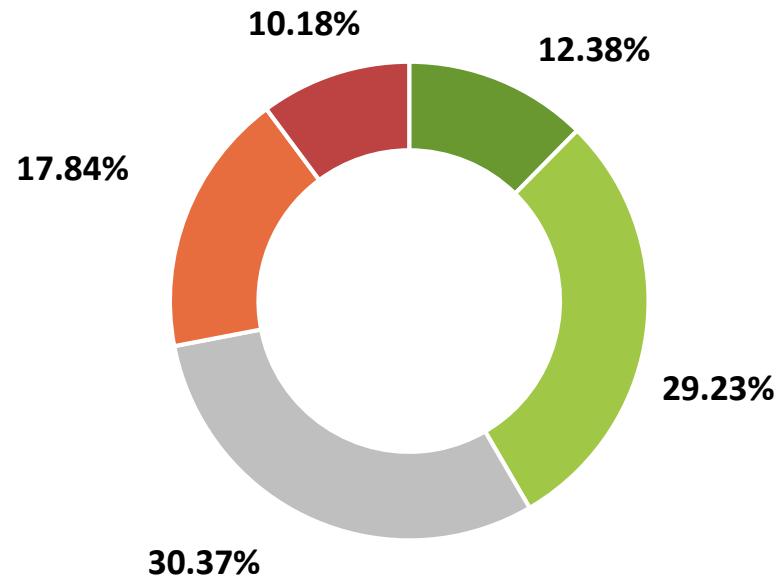
**Benchmark**



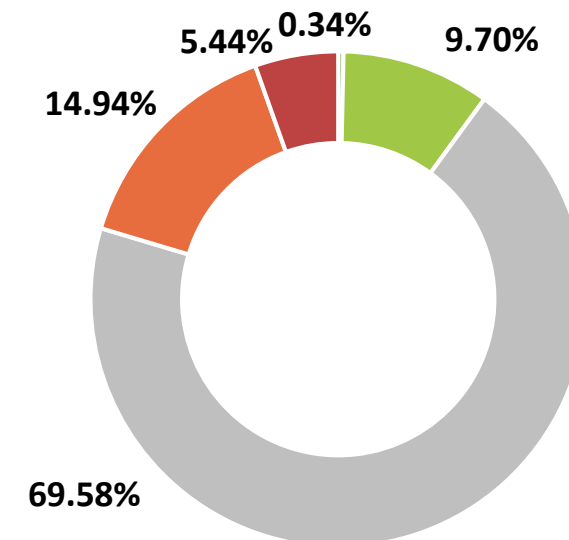
# POSITIVE CONTRIBUTION - SDGs

Evaluating a portfolio's contribution to objectives linked to the Sustainable Development Goals (SDGs).

STOXX 600 (weighted by volume)  
All SDGs



STOXX 600 (weighted by volume)  
SDG 13: Mitigating Climate Change



Significant Obstruction  
-10.0 to -5.1

Limited (net) Obstruction  
-5.0 to -0.2

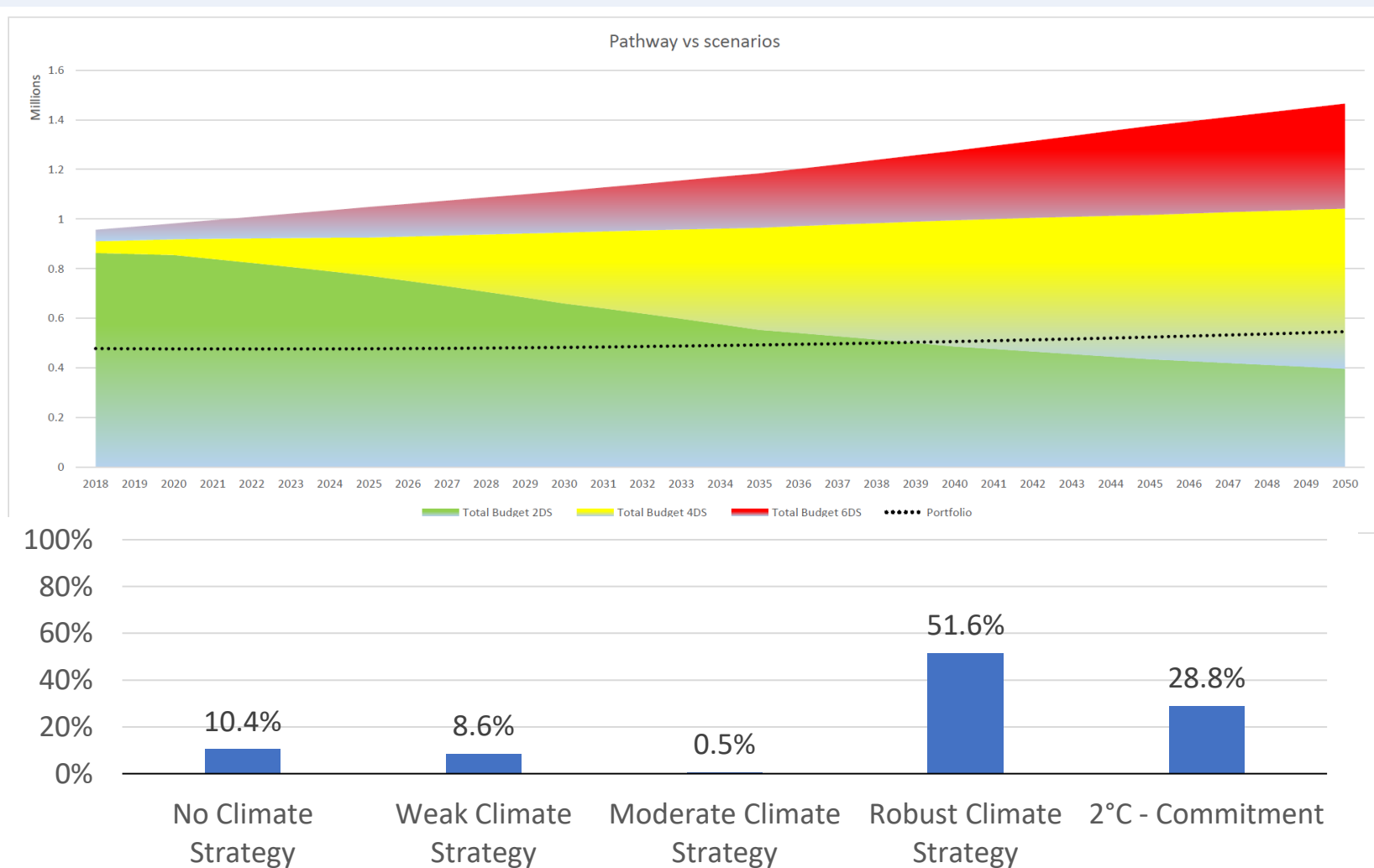
No (net) Impact  
-0.1 to 0.1

Limited (net) Contribution  
0.2 to 5.0

Significant Contribution  
5.1 to 10.0

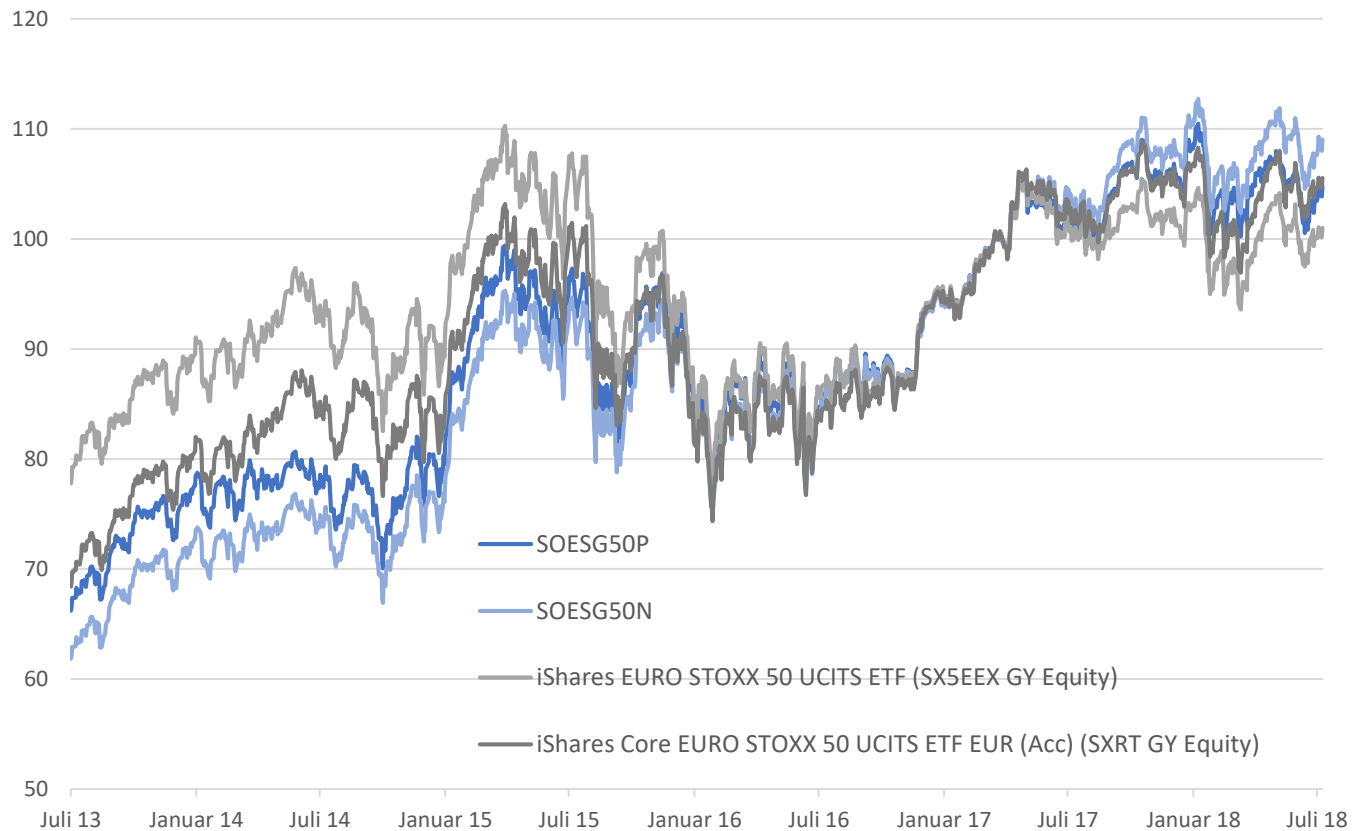
# Below 2 Degree Alignment

Assessing a portfolio trajectory – how to align a portfolio with the 2°C international climate goal over the coming decades?



# Real Life Example

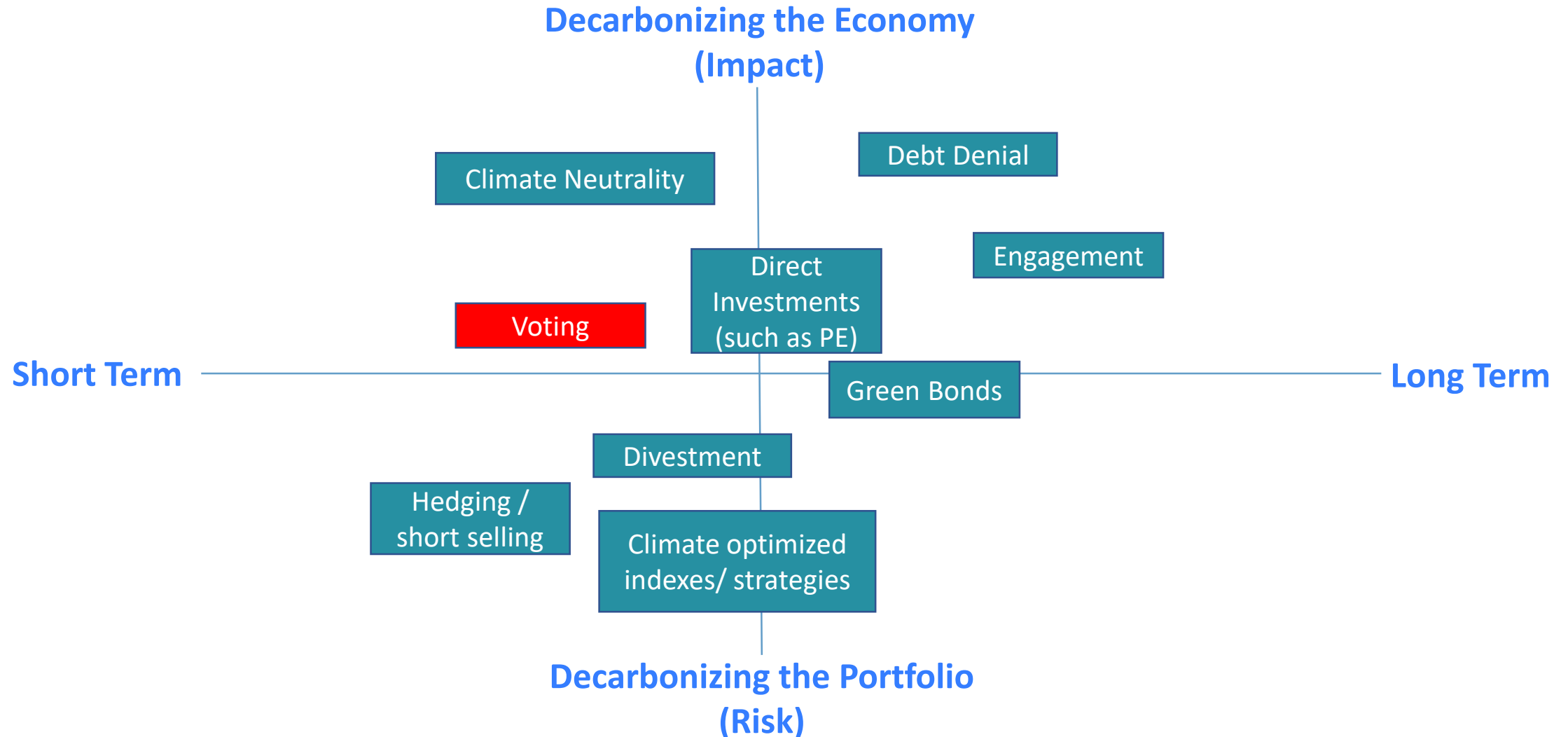
## The Fossil Free Index of the State of Berlin



	SOESG50	Benchmark	Differenz
<b>Gesamtemissionen Scope 1&amp;2 (tCO<sub>2</sub>e)<sup>1</sup></b>	13.679	31.816	-18.137
<b>Gesamtemissionen Scope 1,2 &amp; 3 (tCO<sub>2</sub>e)</b>	52.062	130.807	-78.744
<b>Prozent der Anteile mit verfügbaren Daten</b>	96%	98%	-2,0%
<b>Emissionen (tCO<sub>2</sub>e) pro investierte 1 Millionen EUR</b>	76,0	176,8	-57,0%
<b>Gewichtete Emissionen (tCO<sub>2</sub>e) / Gewichteter Umsatz EUR Million</b>	40,3	182,0	-77,8%
<b>Finanzierte Emissionen (tCO<sub>2</sub>e) / Finanzierter Umsatz EUR Million</b>	87,0	198,1	-56,1%

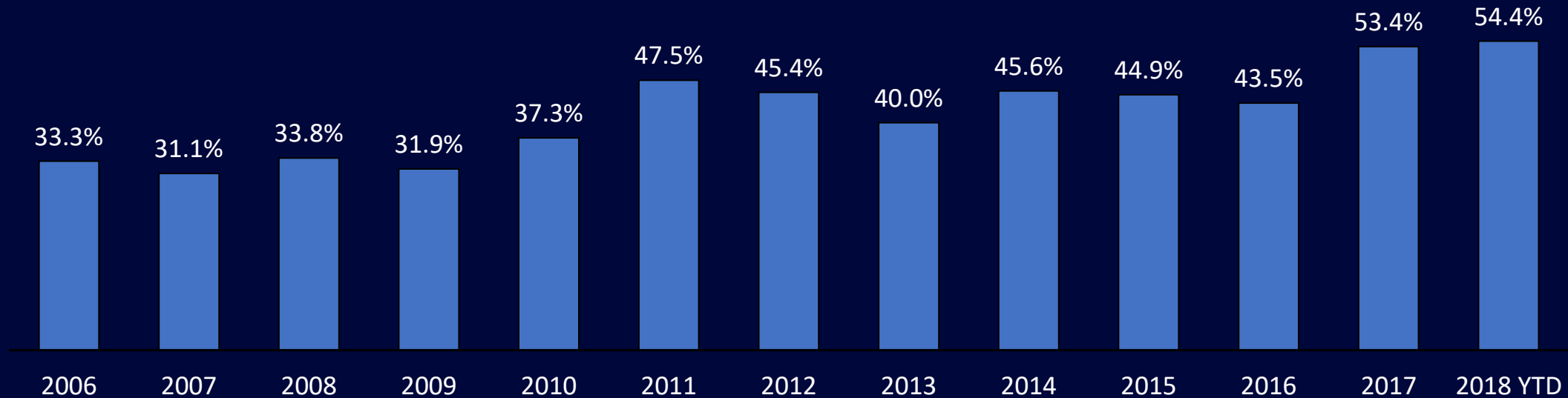
# Impact vs Risk

Investors might approach climate change from an impact or a risk perspective: One aims to decarbonize the economy, the other one aims to decarbonize a portfolio



# Voting: E&S Shareholder Proposals On The Rise

E&S proposals now represent the majority of all shareholder proposals in the US:

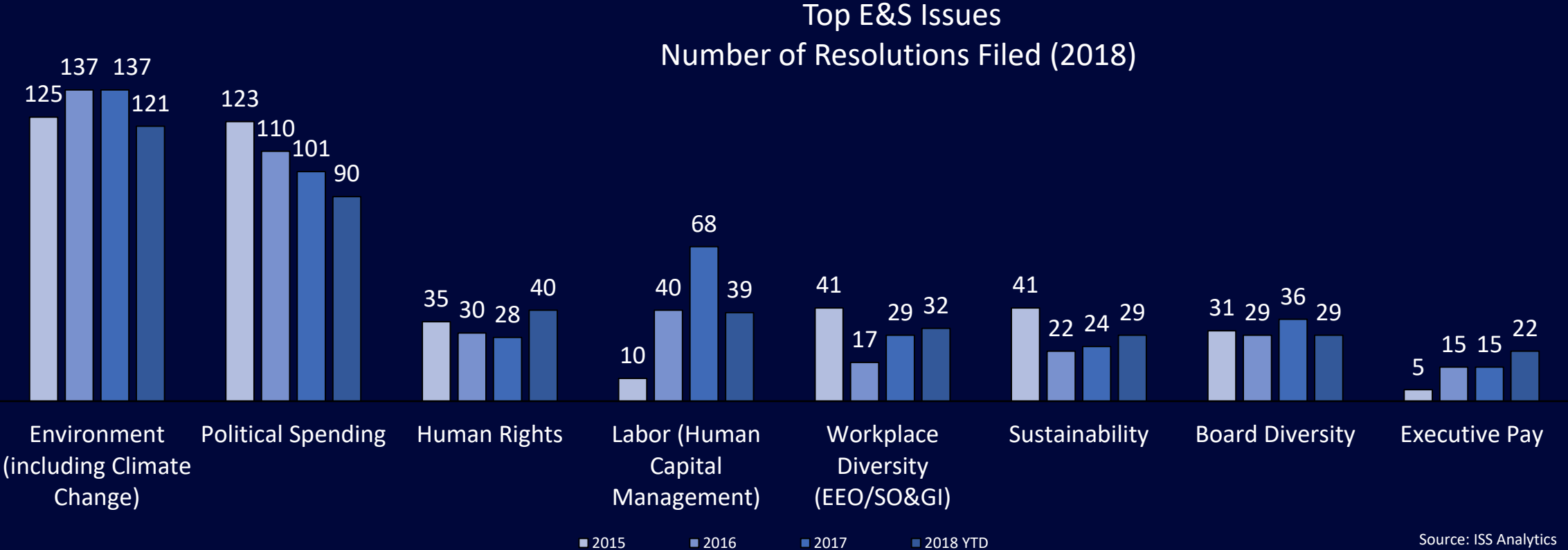


Source: ISS Analytics

Percentage of U.S. Shareholder Proposals Relating to E&S  
Proposals Submitted to Companies, including Withdrawals and Omissions (2018)

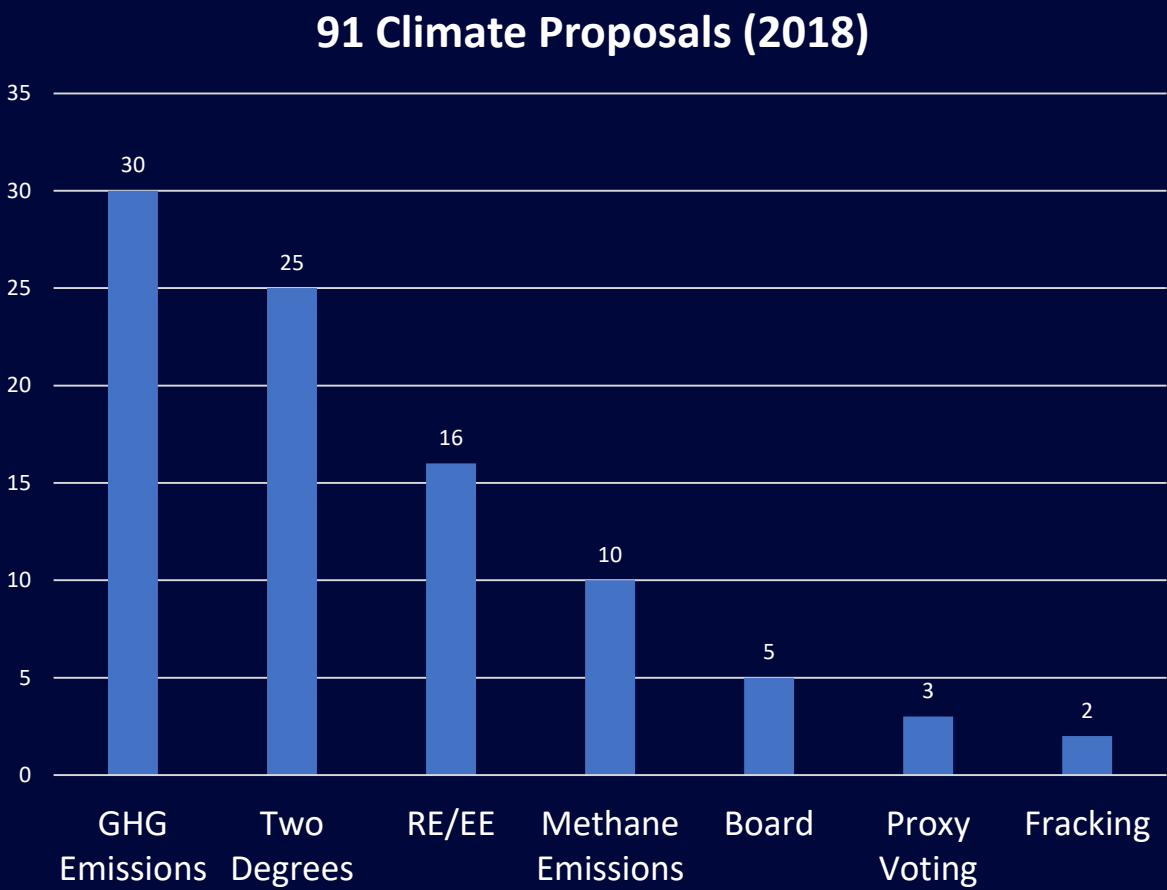
# Environmental: Climate Change Proposals Are The Most Represented

Among E&S proposal, environmental-related proposal are the most represented:



# Breakdown of 2018 Climate-focused Shareholder Resolutions

Among E&S proposal, environmental related proposal are the most represented:



In Perspective: The number of majority-supported E&S resolutions rises to 9 in 2018 from 6 in 2017:

Company	Shareholder Resolution	Support
Sturm Ruger & Company, Inc.	Report on Gun Safety	68.8%
Depomed Inc.	Governance Measures Related to Opioids	62.3%
Kinder Morgan	Report on Sustainability	60.4%
Kinder Morgan	Climate Risk - Two Degree Scenario	59.7%
Middleby Corporation	Report on Sustainability	57.2%
Genesee & Wyoming	Adopt GHG Emissions Reduction Goals	57.2%
Ameren Corporation	Report on Coal Ash Risks	53.2%
Anadarko Petroleum	Climate Risk - Two Degree Scenario	53.0%
Range Resources Corp.	Report on Methane Emissions Reduction	50.3%

# Why A Climate Change Focused Voting Policy?

- To address investors' climate risk concerns regarding their holding companies
- To address investors' climate impact concerns regarding their holding companies
- To comply with regulatory expectations regarding climate change
- To support investor engagement commitments such as Climate Action 100+
- To turn TCFD ambitions and other (self-) regulatory initiatives and expectations into investor action

# CLIMATE CHANGE IN PROXY VOTING

## Four Key Inputs

**Disclosure indicators**, such as the 200+ ISS climate-linked data and analysis factors

**Performance indicators**, including existing ISS climate ratings and scores such as the Carbon Risk Ratings (CRR) and involvement in sector-specific controversial business practices (tar sand exploration, arctic drilling etc.)

**GHG Emissions Data** (absolute, intensity, source, etc.) – by industry, sector

**Norm-Based Research** climate-related cases



## Climate Risk Exposure

### SECTOR CLIMATE RISK EXPOSURE

Sector Risk Level	HIGH
<i>Different sectors have different exposure to climate change. The ISS sector climate risk exposure differentiates between sectors with low, medium, and high climate risk exposure. A company is assigned a sector risk level based on its specific industry and business activities.</i>	

### INCIDENT-BASED RISK EXPOSURE

Norms Violation	SEVERE
<i>The Paris Agreement and other universally accepted climate norms set "do no harm" standards for a corporate climate practice. Certain companies, however, might be violating such norms. ISS Norm-Based Research differentiates between the level of failure to respect norms.</i>	

## Climate Performance

### CURRENT CLIMATE PERFORMANCE

Greenhouse Gas Emissions	Total
Total Emissions (Scope 1 & 2)	2,345,678 tCO <sub>2</sub> e
Total Emissions (Scope 3)	12,345,678 tCO <sub>2</sub> e
Emission Intensity (Scope 1 & 2/m\$ Revenue)	2 tCO <sub>2</sub> e
Avg Peer Emission Intensity (Scope 1 & 2/m\$ Revenue)	1.5 tCO <sub>2</sub> e

### FUTURE CLIMATE PERFORMANCE

Greenhouse Gas Emissions	Total
Climate Rating	Laggard
Climate Rating Grade (0-100)	12

*To meet climate targets and avoid climate risks, the current and future performance on climate challenges matters. Current direct and indirect greenhouse gas emissions, normalized by revenue, provide an indicator for the climate efficiency of a company in comparison with average emissions of its peers. This can be contrasted to the average emission intensity of industry peers with a similar emission profile. The ISS Carbon Risk Rating gives among others an indication of future climate performance by assessing a company's climate-related strategy and activities in relation to the sector it operates in. It differentiates between leaders, performers, underperformers and laggards on a scale from 0 (worst) to 100 (best).*

## Climate Disclosure

### CLIMATE RISK DISCLOSURE

Climate Disclosure Pillars	Disclosure Alignment
Governance	MEETS STANDARD
Strategy	DOES NOT MEET STANDARD
Risk Management	EXEMPLIFIES STANDARD
Metrics & Targets	PARTIALLY MEETS STANDARD

*A key indicator of a robust strategy to address the risks and opportunities of climate change is a company's disclosure of its activities. The ISS Climate Disclosure Standards follows the nomenclature of the Task Force on Climate-related Financial Disclosure (TCFD) to score a company on disclosure regarding climate governance, strategy, risk management, metrics & targets with the classifications: unmet, partially met, met and exemplified.*

# THANK YOU



**Dr. Maximilian Horster**

Managing Director

Head of ISS-climate

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Q&A