Kommunale Investmentstrategien in Zeiten des Klimawandels

Dr. Maximilian Horster, Managing Director
Head of ISS-climate
27 March 2019
Oslo Becomes First Capital City in the World to Divest From Fossil Fuels

By Guest Contributor | Oct. 19, 2015 02:39PM EST

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


Divestment in Stuttgart

Stadt und LBBW sollen raus aus der Kohle

Von Thomas Faltin 04. Januar

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

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)
BY THE NUMBERS

STAFF
350+ professionals, with 195 analysts speaking 25+ languages

Europe 70%
USA 15%
Asia 15%

350+ PROFESSIONALS

CLIENTS
500+
Asset Owners & Asset Managers Globally

ESG

PROXY VOTING
200 Clients
Using SRI/Sustainability Voting policies

ISSUER UNIVERSE

25,000
CLIMATE

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

20,000
CONTROVERSIES / NORMS

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

Understand
Frame the topic of climate change for investors

Measure
Measure climate impact of investments

Act
Report, Create Climate friendly investment products, etc.
There is global consensus..
...to avoid this
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?

Ex-ante Investment Process

Impact

Risk/ Opportunities

Ex-post Measurement/ Reporting
What does that mean for Investors?

- Ex-ante Investment Process
- Ex-post Measurement/Reporting
- Risk/Opportunities

Impact
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

Understand
Frame the topic of climate change for investors

Measure
Measure climate impact of investments

Act
Report, Create Climate friendly investment products, etc.
<table>
<thead>
<tr>
<th>Location</th>
<th>Initiative</th>
<th>Description</th>
<th>Owner</th>
<th>Requirement</th>
<th>Status</th>
<th>Pre / Post</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
<td>Task force on Climate-related Financial Disclosure (TCFD)</td>
<td>The TCFD have developed voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors and other stakeholders.</td>
<td>Self governance</td>
<td>Voluntary</td>
<td>In place</td>
<td>Post</td>
</tr>
<tr>
<td></td>
<td>Portfolio Decarbonization Coalition (PDC)</td>
<td>Coalition of investors committing to decarbonizing their investment portfolios</td>
<td>Self governance</td>
<td>Voluntary</td>
<td>In place</td>
<td>Pre</td>
</tr>
<tr>
<td></td>
<td>Montréal Pledge</td>
<td>The Pledge allows investors to formalize commitment to the PDC, mobilizing investors to measure, disclose and reduce their portfolio carbon footprints.</td>
<td>Self governance</td>
<td>Voluntary</td>
<td>In place</td>
<td>Pre</td>
</tr>
<tr>
<td></td>
<td>ISO 14097</td>
<td>Framework and principles for assessing and reporting investments and financing activities linked to climate change.</td>
<td>Self governance</td>
<td>Voluntary</td>
<td>Expected</td>
<td>Post</td>
</tr>
<tr>
<td></td>
<td>Asset Owners Disclosure Project (AODP)</td>
<td>A ranking of the climate-related financial disclosures of the world’s largest pension funds, insurers, sovereign wealth funds and endowments.</td>
<td>Civil Society</td>
<td>Voluntary</td>
<td>In place</td>
<td>Pre</td>
</tr>
<tr>
<td></td>
<td>Climate Action 100+</td>
<td>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</td>
<td>Self governance</td>
<td>Voluntary</td>
<td>In place</td>
<td>Post</td>
</tr>
<tr>
<td></td>
<td>The Investor Agenda</td>
<td>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.</td>
<td>Self governance</td>
<td>Voluntary</td>
<td>In place</td>
<td>Post</td>
</tr>
<tr>
<td>Europe (EU)</td>
<td>Institutions for Occupational Retirement Provision (IORP) II</td>
<td>EU pensions directive with specific content on climate change requirements.</td>
<td>Regulator</td>
<td>Mandatory</td>
<td>In place</td>
<td>Post</td>
</tr>
<tr>
<td></td>
<td>EC Action Plan</td>
<td>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</td>
<td>Regulator</td>
<td>TBD</td>
<td>Expected</td>
<td>Post</td>
</tr>
<tr>
<td>France</td>
<td>Article 173 of the Energy Transition Law</td>
<td>Legislation on mandatory carbon disclosure requirements for listed companies and carbon reporting for institutional investors, defined as asset owners and investment managers.</td>
<td>Regulator</td>
<td>Mandatory</td>
<td>In place</td>
<td>Post</td>
</tr>
<tr>
<td>California</td>
<td>Climate Risk Carbon Initiative</td>
<td>Initiative to evaluate the degree to which California investors are impacted by effects of climate change on the economy.</td>
<td>Regulator</td>
<td>Mandatory</td>
<td>In place</td>
<td>Post</td>
</tr>
<tr>
<td>Sweden</td>
<td>National Pension (AP) funds</td>
<td>Co-ordination of carbon footprint reporting for investment portfolios within the AP funds.</td>
<td>Self governance</td>
<td>Voluntary</td>
<td>In place</td>
<td>Post</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Ministry of the Environment (FOEN)</td>
<td>Invitation from the FOEN to Swiss pension funds and insurers to test the climate compatibility of portfolios.</td>
<td>Regulator</td>
<td>Voluntary</td>
<td>Expected</td>
<td>Post</td>
</tr>
<tr>
<td>UK</td>
<td>Green Finance Taskforce (GFT)</td>
<td>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.</td>
<td>Regulator</td>
<td>TBD</td>
<td>In place</td>
<td>Post</td>
</tr>
<tr>
<td>Canada</td>
<td>CSA Staff Notice 51-354 Report on Climate change-related Disclosure Project</td>
<td>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.</td>
<td>Regulator</td>
<td>Voluntary</td>
<td>In place</td>
<td>Post</td>
</tr>
<tr>
<td>China</td>
<td>Carbon emissions data mandated by 2020 for listed companies in China</td>
<td>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.</td>
<td>Regulator</td>
<td>Mandatory</td>
<td>Expected</td>
<td>Post</td>
</tr>
<tr>
<td>Germany</td>
<td>Bundesbank: The Role of Central Banks</td>
<td>Conference and call for papers on the role of central banks in scaling up green finance</td>
<td>Regulator</td>
<td>TBD</td>
<td>Expected</td>
<td>Post</td>
</tr>
<tr>
<td>Australia</td>
<td>Australian Prudential Regulatory Authority (APRA) climate disclosure</td>
<td>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”.</td>
<td>Regulator</td>
<td>TBC</td>
<td>Expected</td>
<td>Post</td>
</tr>
</tbody>
</table>
PORTFOLIO ANALYTICS

Tools and Reports
Framework to integrate Climate Change into Investments

Understand
Frame the topic of climate change for investors

Measure
Measure climate impact of investments

Act
Report, Create Climate friendly investment products, etc.
What does that mean for Investors?

- Ex-ante Investment Process
- Ex-post Measurement/Reporting

Impact

Risk/ Opportunities
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.
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.
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** √

<table>
<thead>
<tr>
<th>Fossil Fuel Type</th>
<th>Production</th>
<th>Net Sales</th>
<th>Impact on the Investment Universe</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>≥ 0.5%</td>
<td>≥ 0%</td>
<td>≥ 20%</td>
</tr>
<tr>
<td><strong>Coal</strong></td>
<td></td>
<td></td>
<td>From 0%: 85, from 30%: several companies excluded</td>
</tr>
<tr>
<td>Producers</td>
<td></td>
<td></td>
<td>From 0.5%: about 15, from 1%: still some companies excluded</td>
</tr>
<tr>
<td>Producers (worldwide production)</td>
<td>☒</td>
<td>☒</td>
<td>From 0%: 145, from 30%: about 30 companies excluded</td>
</tr>
<tr>
<td>Processors</td>
<td></td>
<td></td>
<td>From 0%: about 125, from 30%: still some companies excluded</td>
</tr>
<tr>
<td>Service providers / others</td>
<td></td>
<td></td>
<td>Overall: more than 260, from 30%: about 50 companies excluded</td>
</tr>
<tr>
<td>Total coal-related activities</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Emissions can give a first insight into the climate characteristics of an index and portfolio.
TECHNOLOGY PERSPECTIVE

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

**STOXX 600**

189.7 tCO₂e / Mio EUR Revenue

- Coal Reserves: 56%
- Oil Reserves: 33%
- Gas Reserves: 11%
- Green Share: 11%
- Brown Share: 80%

**DAX 30**

282.4 tCO₂e / Mio EUR Revenue

- Coal Reserves: 20%
- Oil Reserves: 0%
- Gas Reserves: 80%
- Green Share: 20%
- Brown Share: 80%
**POSITIVE CONTRIBUTION – AVOIDED EMISSIONS**

Assessing a portfolio’s contribution to reduction of emissions.

<table>
<thead>
<tr>
<th>Portfolio name</th>
<th>Number of Holdings</th>
<th>PAE-relevant Holdings (%)</th>
<th>Total market Value (EURm)</th>
<th>Total PAEs (tCO₂e)</th>
<th>PAE intensity (tCO₂e/EURm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICLN</td>
<td>24</td>
<td>68%</td>
<td>8</td>
<td>41,269</td>
<td>5,159</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Name</th>
<th>Portfolio Weight</th>
<th>Total PAE/Holding (tCO₂e)</th>
<th>PAE intensity (tCO₂e/EURm inv.)</th>
<th>Total PAEs in Portfolio (tCO₂e)</th>
<th>PAE Portfolio Exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canadian Solar, Inc.</td>
<td>2.1%</td>
<td>52,566,156</td>
<td>72,086</td>
<td>11,847</td>
<td>29%</td>
</tr>
<tr>
<td>Siemens Gamesa Renewable Energy SA</td>
<td>6.0%</td>
<td>86,926,470</td>
<td>12,236</td>
<td>5,852</td>
<td>14%</td>
</tr>
<tr>
<td>Vestas Wind Systems A/S</td>
<td>5.5%</td>
<td>142,045,272</td>
<td>12,193</td>
<td>5,413</td>
<td>13.1%</td>
</tr>
<tr>
<td>Nordex SE</td>
<td>1.6%</td>
<td>34,305,153</td>
<td>40,789</td>
<td>5,274</td>
<td>12.8%</td>
</tr>
<tr>
<td>Cia Energetica de Minas Gerais</td>
<td>5.8%</td>
<td>10,860,208</td>
<td>5,137</td>
<td>2,387</td>
<td>5.8%</td>
</tr>
</tbody>
</table>

Avoided emissions per sector (tCO₂e/EURm)
CLIMATE PERFORMANCE – LEADERS AND LAGGARDS

Assessing companies’ climate performance on risks and opportunities.

Strategy

- Climate Laggard: 0 - 24
  - 38.72%
- Climate Underperformer: 25 - 49
  - 11.15%
- Climate Performer: 50 - 74
  - 48.92%
- Climate Leader: 75 - 100
  - 1.21%

Benchmark

- Climate Laggard: 0 - 24
  - 31.01%
- Climate Underperformer: 25 - 49
  - 21.11%
- Climate Performer: 50 - 74
  - 47.57%
- Climate Leader: 75 - 100
  - 0.31%
Evaluating a portfolio’s contribution to objectives linked to the Sustainable Development Goals (SDGs).

**STOXX 600 (weighted by volume)**

- All SDGs:
  - 10.18% No (net) Impact
  - 12.38% Limited (net) Contribution
  - 30.37% Significant Contribution
  - 17.84% Limited (net) Obstruction
  - 29.23% No (net) Impact

- SDG 13: Mitigating Climate Change:
  - 14.94% Significant Contribution
  - 5.44% Limited (net) Contribution
  - 0.34% No (net) Impact
  - 9.70% Limited (net) Obstruction
  - 69.58% No (net) Impact
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
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:

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

Source: ISS Analytics
Environmental: Climate Change Proposals Are The Most Represented

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

Top E&S Issues
Number of Resolutions Filed (2018)
Breakdown of 2018 Climate-focused Shareholder Resolutions

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

91 Climate Proposals (2018)

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

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

Source: ISS Analytics
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
**Four Key Inputs**

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

**Performance indicators**, including existing ISS climate 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

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**Climate Risk Exposure**

**SECTOR CLIMATE RISK EXPOSURE**

<table>
<thead>
<tr>
<th>Sector Risk Level</th>
<th>High</th>
</tr>
</thead>
</table>

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.

**INCIDENT-BASED RISK EXPOSURE**

<table>
<thead>
<tr>
<th>Norms Violation</th>
<th>Severe</th>
</tr>
</thead>
</table>

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.

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**Climate Performance**

**CURRENT CLIMATE PERFORMANCE**

<table>
<thead>
<tr>
<th>Greenhouse Gas Emissions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Emissions (Scope 1 &amp; 2)</td>
<td>2,345,678 tCO₂e</td>
</tr>
<tr>
<td>Total Emissions (Scope 3)</td>
<td>12,345,678 tCO₂e</td>
</tr>
<tr>
<td>Emission Intensity (Scope 1 &amp; 2/Revenue)</td>
<td>2 tCO₂e/£</td>
</tr>
<tr>
<td>Avg Peer Emission Intensity (Scope 1 &amp; 2/Revenue)</td>
<td>1.5 tCO₂e/£</td>
</tr>
</tbody>
</table>

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).

**FUTURE CLIMATE PERFORMANCE**

<table>
<thead>
<tr>
<th>Greenhouse Gas Emissions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate Rating</td>
<td>Lagard</td>
</tr>
<tr>
<td>Climate Rating Grade (0-100)</td>
<td>12</td>
</tr>
</tbody>
</table>

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**Climate Disclosure**

**CLIMATE RISK DISCLOSURE**

<table>
<thead>
<tr>
<th>Climate Disclosure Pillars</th>
<th>Disclosure Alignment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance</td>
<td>MEETS STANDARD</td>
</tr>
<tr>
<td>Strategy</td>
<td>DOES NOT MEET STANDARD</td>
</tr>
<tr>
<td>Risk Management</td>
<td>EXEMPLIFIES STANDARD</td>
</tr>
<tr>
<td>Metrics &amp; Targets</td>
<td>PARTIALLY MEETS STANDARD</td>
</tr>
</tbody>
</table>

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
Maximilian.Horster@iss-esg.com

Q&A