

WINNING CLIMATE STRATEGIES

PRACTICAL SOLUTIONS AND BUILDING BLOCKS FOR ASSET OWNERS FROM BEGINNER TO BEST PRACTICE

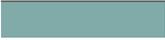
SUMMARY REPORT

This document is a summary. For the full report, including a list of respondents, supporting examples, and case studies, please visit: www.aodproject.net/best-practice.

ShareAction»

ASSET OWNERS/
DISCLOSURE PROJECT

EXECUTIVE SUMMARY



This report explores the climate strategy journeys of 22 leading asset owners and presents a range of key findings covering the current best practices landscape, common barriers, and a practical framework of ten building blocks relevant for asset owners including large and small pension funds, charities and foundations, at earlier stages of their climate strategy journeys.

Our findings are drawn from an in-depth series of interviews with a selection of asset owners who received a 'leaders' rating in our 2017 Asset Owners Disclosure Project (AODP) Global Climate Index. The asset owners interviewed vary considerably by size, location, and category. Our discussions covered a range of themes including the Task Force on Climate-related Financial Disclosures (TCFD) framework, culture, purpose, education, engagement, investment strategies, barriers, priorities looking forward, and practical advice for other asset owners.

The breadth of responses reveals a rich variety of innovative and creative approaches asset owners are currently pursuing to help manage both climate-related risks and opportunities in their investment practices. Our key findings are presented across three main sections:

1. Current best practices landscape
2. Common barriers
3. Ten key building blocks for other asset owners

KEY



TCFD: Governance



TCFD: Risk Management



TCFD: Strategy



TCFD: Metrics & Targets

LEADERS ARE

1. Embracing senior leadership and education in their climate governance
 2. Building organisational cultures that support responses to climate-related risks
 3. Building meaningful relationships with members, savers and beneficiaries around climate-related issues
 4. Publishing TCFD-aligned reports
 5. Pursuing a 'whole of fund' approach in their climate strategies
 6. Innovating in their low-carbon asset allocation
 7. Driving commitments from asset managers on climate-related issues
 8. Prioritising climate-related issues in their risk and investment analysis
 9. Refining, escalating and collaborating in their engagement with investee companies
 10. Engaging on climate-related regulation and policy
-

This report will be of interest to all asset owners, investment consultants, asset managers, and regulators who are interested in managing climate-related risks and opportunities. It also sits in a series of reports and indexes AODP has and will be publishing on climate-related risks in capital markets, including the previously published [insurance sector report](#).

SURVEYING THE BEST PRACTICES LANDSCAPE

This section explores ten common approaches through which leading asset owners are demonstrating innovation and creativity in their climate strategies, and highlights the many pathways toward best practice. The 10 key findings cover core TCFD-related themes (governance, strategy, risk management and metrics/targets) as well as other insightful areas including culture, purpose, education, engagement, and investment strategy.



Key finding 1: Leaders are embracing senior leadership and education in their climate governance

Strong leadership from the Board and senior management was commonly identified as a driving force behind leading climate strategies, with many also undertaking climate-related education and training. Leading asset owners are also exploring climate-related advisory groups, incentive schemes, and organisation-wide involvement.



Key finding 2: Leaders are building organisational cultures that support responses to climate-related risks

A significant number of respondents discussed the importance of their organisational culture in driving their climate strategies. Some key cultural dimensions include environmental, social and governance (ESG) and responsible investment backgrounds, entrepreneurship, and governance.



Key finding 3: Leaders are building meaningful relationships with members, savers and beneficiaries around climate-related issues

Leading asset owners are looking beyond traditional reporting avenues to help build meaningful relationships with their members around climate change. Some innovative approaches include undertaking member delegate programmes, climate-related events, transparency in their communications, and exploring more engaging narrative styles.



Key finding 4: Leaders are publishing TCFD-aligned reports

Some asset owners are leading by example in publicly responding to the TCFD recommendations by already publishing TCFD-aligned reports.



Key finding 5: Leaders are pursuing a 'whole of fund' approach in their climate strategies

All respondents are taking systematic and holistic approaches in their climate strategies, with the majority also incorporating various climate-related targets, and some incorporating the Sustainable Development Goals (SDGs).



Key finding 6: Leaders are innovating in their low-carbon asset allocation

Developing or integrating low-carbon indexes, exploring green bonds, and increasing investments in low-carbon illiquid assets are some of the most common approaches to low-carbon asset allocation.



Key finding 7: Leaders are driving commitments from asset managers on climate-related issues

Many respondents are proactively driving their relationships with external asset managers via selection and monitoring, creatively using metrics such as carbon footprinting, or applying climate-related targets.



Key finding 8: Leaders are prioritising climate-related issues in their risk and investment analysis

Leading asset owners are increasingly prioritising the transitional and physical risks associated with climate change in their risk and investment analysis. Many have also already undertaken first steps in scenario analysis and are integrating key findings into their climate strategies.



Key finding 9: Leaders are refining, escalating and collaborating in their engagement with investee companies

Respondents are refining and escalating their climate-related company engagement by targeting core issues and sectors, and increasingly relying on influential collaborative initiatives such as the Climate Action 100+.



Key finding 10: Leaders are engaging on climate-related regulation and policy

Recognising the importance of a supportive regulatory and policy environment for a successful low-carbon transition, some respondents are prioritising regulatory and policy engagement in their climate strategies.

COMMON BARRIERS

FACED BY LEADERS

1. Data quality concerns
 2. Lack of momentum in regulation and policy
 3. Perceived lack of low-carbon investment opportunities
 4. Misaligned time horizons
 5. Prevalence of traditional mindsets
 6. Lack of confidence in asset managers
 7. Language concerns
-

EXPLORING COMMON BARRIERS

This section explores seven common barriers commonly faced by respondents, relevant for all asset owners considering how to manage climate-related risks and opportunities.

Barrier 1: Data quality concerns

Nearly all respondents raised concerns about climate-related data quality, on a variety of levels. The topic of scenario analysis was also commonly raised due to concerns around a lack of clarity and expectations for asset owners, and the investment-relevance of currently available scenarios.

Barrier 2: Lack of momentum in regulation and policy

Another dominant barrier raised by respondents related to climate-related regulation and policy concerns, mostly at national levels. Some leading asset owners have responded by prioritising policy engagement in their climate strategies.

Barrier 3: Perceived lack of low-carbon investment opportunities

Respondents offered mixed views around the availability of low-carbon investment opportunities. While some reported facing difficulties in finding enough investable opportunities, others noted they had faced no such issue. Some respondents also reported liquidity constraints as an issue where opportunities existed, in non-equity asset classes.

Barrier 4: Misaligned time horizons

Misaligned time horizons also featured as a barrier on a variety of levels, from the time horizons of different categories of climate-related risks to the time horizons between actors across the financial ecosystem (asset owners, asset managers, and investment consultants).

Barrier 5: Prevalence of traditional mindsets

Some respondents identified traditional mindsets as a barrier, such as investors who still consider ESG and financial performance as a trade-off, or trustees who still regard climate change as an ethical or political issue.

Barrier 6: Lack of confidence in asset managers

A lack of confidence in the climate-related stewardship or asset management services from the asset manager community was also identified as a barrier by a number of respondents.

Barrier 7: Language concerns

Some respondents noted concerns around the use of language and terminology in this field as a barrier, which have tended to be complex, historically focused, and unable to connect with multiple audiences.

TEN KEY BUILDING BLOCKS

1. Get educated on climate change issues
 2. Focus on climate governance
 3. Focus on communication
 4. Start now but follow a step-based approach
 5. Develop a formalised climate-related strategic response
 6. Start with small low-carbon investments
 7. Consider climate change as an investment risk
 8. Start supporting climate-related shareholder resolutions
 9. Join a collaborative initiative
 10. Start with carbon-footprinting your listed equity portfolio
-

FRAMEWORK OF TEN KEY BUILDING BLOCKS FOR OTHER ASSET OWNERS

This final section offers a practical framework of simple, cost-effective, and impactful building blocks based on recommendations from our respondents for other asset owners, relevant for large and small pension funds, charities, and foundations, who are at earlier stages of their climate strategy journeys. The following building blocks are structured by TCFD themes.



Building block 1: Get educated on climate change issues

Becoming informed around the investment risks of climate change is a fundamental step in developing an effective climate strategy. Seeking assistance from external professionals (such as researchers, investment service providers and leading peers) helps to develop an internal knowledge-base and gain commitment. Sharing climate-related knowledge throughout the organisation also helps clear misconceptions and gain internal ‘buy-in.’



Building block 2: Focus on climate governance

A strong climate governance foundation is also pivotal for developing a successful climate strategy, which can be developed through climate-related education, training, incentive schemes, and internal participation.



Building block 3: Focus on communication

Clear and simple communication with both internal and external stakeholders around climate-related investment issues can help gain commitment, strengthen relationships, and signal ambition.



Building block 4: Start now but follow a step-based approach

Our respondents emphasised how their leading climate strategies developed over years. Following a step-by-step approach also leaves appropriate room to learn from experience.



Building block 5: Develop a formalised climate-related strategic response

The simple process of collecting all climate-related initiatives into a single document helps identify strengths and weaknesses. Developing a more formalised climate-related strategic response with corresponding beliefs, goals, targets, objectives, and responsibilities helps to identify barriers and gain commitment.



Building block 6: Start with small low-carbon investments

Leading climate strategies often begin with small investments in low-carbon opportunities, which help to develop a stronger understanding of these investments before incrementally increasing over time.



Building block 7: Consider climate change as an investment risk

Considering climate change as a material investment risk helps to identify areas of portfolio risk exposure and guide climate strategy development.



Building block 8: Start supporting climate-related shareholder resolutions

Supporting climate-related shareholder resolutions is an affordable and effective way to begin company engagement on climate-related issues. Another step could involve introducing key climate-related issues into direct company engagement activities.



Building block 9: Join a collaborative initiative

Collaborative initiatives present an affordable way to influence systemic-level change beyond the reach of individual investors, build networks, share best-practice, and gain valuable information.



Building block 10: Start with carbon-footprinting your listed equity portfolio

Undertaking carbon footprinting of listed equity portfolios (where services and methodologies are most developed) helps to identify areas of climate-related portfolio exposure and develop literacy around carbon data.

CONCLUSION

14

Our assessment of the best practices landscape reveals how leading asset owners are responding proactively and creatively to the TCFD recommendations in their investment practices, with some also leading by example in their TCFD-aligned public disclosure. The variety of asset owners featured in our report, also highlights how best-practice is attainable for asset owners of all sizes, categories, and geographies. It should be noted, however, that there is always room for improvement, with even 'best practice' respondents needing to continually review and reassess the effectiveness of their climate strategies.

Section two reveals some of the most common barriers faced by respondents, including data quality concerns, climate-related regulation and policy, a perceived lack of low-carbon investments, and a general lack of confidence in the asset manager community. Leading

ACKNOWLEDGEMENTS

ShareAction gratefully acknowledges the financial support of the European Climate Foundation, Finance Dialogue, Hewlett, and the KR Foundation for this project. These foundations kindly supported this project, but the views expressed are those of ShareAction. More information is available on request.

We would further like to thank the panel of experts (in particular Valborg Lie from Borg Consulting and Adele Ewing and Eva Gehres from the UN Principles for Responsible Investment) who gave their time to provide guidance to inform this research project, and particularly the development of the methodology.

Report written and produced by: Toby Belsom, Peter Uhlenbruch, Pavel Kirjanas, Felix Nagrawala and Sam Hayward of ShareAction.

ABOUT AODP AND SHAREACTION

The Asset Owners Disclosure Project (AODP) rates and ranks the world's largest institutional investors and assesses their responses to climate-related risks and opportunities. The ratings are made public, providing much-needed transparency for beneficiaries, clients, investors, and stakeholders, and emphasised through advocacy and direct engagement to drive change.

In June 2017, ShareAction announced an agreement to take over the reins of the Asset Owners Disclosure Project (AODP). The intention was to build on the strong foundations established by 10 years of experience carrying out climate-related investor analysis. As the only comprehensive, climate-specific, independent, non-self-selective assessment, AODP prides itself on being the world's benchmark of climate leadership in the investment system.

DISCLAIMER

This publication and related materials are not intended to provide and do not constitute financial or investment advice. ShareAction makes no representation regarding the advisability or suitability of investing in any particular company, investment fund or other vehicle or of using the services of any particular entity, pension provider or other service provider for the provision of investment services. A decision to use the services of any pension provider, or other entity should not be made in reliance on any of the statements set forth in this publication. While every effort has been made to ensure the information in this publication is correct, ShareAction and its agents cannot guarantee its accuracy and they shall not be liable for any claims or losses of any nature in connection with information contained in this document, including (but not limited to) lost profits or punitive or consequential damages or claims in negligence. ShareAction did not assess asset owners according to financial performance or metrics. The research in this report was carried out between January and April 2018. During the period of analysis, the entities surveyed were given the opportunity to comment on or ask questions on relevant sections to make additional disclosures or to provide clarification. Any notifications of changes, information or clarification not drawn to ShareAction's attention prior to the deadlines are not included in the report.

The opinions expressed in this publication are based on the documents specified. We encourage readers to read those documents. Online links accessed between 10 January and 4 February 2018. Fairshare Educational Foundation is a company limited by guarantee registered in England and Wales number 05013662 (registered address 16 Crucifix Lane, London, SE1 3JW) and a registered charity number 1117244, VAT registration number GB 211 1469 53

ABOUT SHAREACTION

ShareAction (Fairshare Educational Foundation) is a registered charity that promotes responsible investment practices. ShareAction believes that responsible investment helps to safeguard investments as well as securing environmental and social benefits.

shareaction.org
info@shareaction.org
+44 (0)20 74037800

16 Crucifix Lane
London, UK
SE1 3JW

ABOUT AODP

The Asset Owners Disclosure Project (AODP) rates and ranks the world's largest institutional investors and assesses their responses to climate-related risks and opportunities. The ratings are made public, providing much-needed transparency for beneficiaries, clients, investors, and stakeholders, and emphasised through advocacy and direct engagement to drive change.

In June 2017, ShareAction announced an agreement to take over the reins of the Asset Owners Disclosure Project (AODP). The intention was to build on the strong foundations established by 10 years of experience carrying out climate-related investor analysis. As the only comprehensive, climate-specific, independent, non-self-selective assessment, AODP prides itself on being the world's benchmark of climate leadership in the investment system.

CONTACT

Toby Belsom ShareAction
Head of Investor Research & Analytics
toby.belsom@shareaction.org

Peter Uhlenbruch
AODP Investor Engagement Officer
peter.uhlenbruch@shareaction.org

This document is printed on 100% recycled papers
and relied on 100% renewable electricity, with no
waste going to landfills.

ShareAction

16 Crucifix Lane
London, UK
SE1 3JW

shareaction.org
info@shareaction.org
+44 (0)20 74037800