Natural Energy Enhances Corporate Value

Fiona Reynolds, Managing Director
Renewable Energy Institute and CDP event, 25th October 2017
The PRI

Investor-led, supported by the United Nations

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance issues and to support signatories in integrating these issues into investment and ownership decisions.

The six Principles were developed by investors and are supported by the UN. They have more than 1,700 signatories from over 50 countries representing over US$73 trillion of assets.
MONTRÉAL CARBON PLEDGE

A PRI-led initiative supporting investor action on climate change

- For investors to measure and disclose the carbon footprint of their portfolio, or part of it
- Launched at PRI in Person in 2014 with the support of Christiana Figueres
- Supported by nearly 120 investors with US$10 trillion by COP 21
- Currently nearly 150 investors have signed the pledge
- Open to all PRI signatories and non-signatories to endorse at www.montrealpledge.org

Montreal Carbon Pledge signatories include:

- HESTA (Australia)
- Bâtirente (Canada)
- University of Ottawa (Canada)
- AXA Group (France)
- BNP Paribas Investment Partners (France)
- PGGM Investments (Netherlands)
- Secom Pension Fund (Japan)
- Arisaig Partners (Singapore)
- AP4 (Sweden)
- Nordea (Sweden)
- Alliance Trust (UK)
- Environment Agency Pension Fund (UK)
- Old Mutual Group (South Africa/UK)
- HSBC Global Asset Management (UK)
- CalPERS (USA)
- University of California (USA)
PRI signatory example

CalPERS

NAME: California Public Employees' Retirement System

AUM: US$300 billion

COUNTRY: US

- 2014: committed to portfolio carbon footprinting
- 2017: identified “systemically important carbon emitters:”
  - Assessed 10,000 holdings in 47 countries
  - Identified 100 companies in 20 countries that account for 50% of portfolio emissions
  - Asking companies to address emissions: Global Climate Action 100+
PRI SIGNATORY EXAMPLE

- Asset under management: $1, 674.8 billion
- Insurance firm headquartered in France
- 2014: monitoring, investigating climate change
- 2015: 1 billion committed to green bonds, coal divestment
- 2017: implementation
  - Tripling green investments to $3 billion, divesting $0.5 billion from coal
  - Published carbon intensity of investments (Montreal Carbon Pledge)
  - Joined Carbon Pricing Leadership Coalition, FSB Task Force
  - New 15-year research programme with University of Cape Town: “Understanding, Reducing and Managing African Climate Risk”
An ambitious path: the Green bonds market grows more than ten fold

$1 trillion by 2020 target

Green bonds for climate solutions, from $81 billion of green bonds issued in 2016
Highlights of PRI’s climate work

Supporting investor action on climate change

- Climate disclosure and FSB Task Force (TCFD)
  - PRI Chair served on Task Force, with strong signatory input
  - Final recommendations published 29th June 2017
  - PRI committed to drive TCFD implementation

- Investor action and practical tools
  - 2 degrees of separation report and regional workshops
  - PRI-Baker McKenzie country climate disclosure reviews
  - PRI collaboration platform alerts for climate resolutions e.g. ExxonMobil

- Paris Agreement and government action
  - Government response to US withdrawal: Paris Agreement is “irreversible”
  - G20 investor letter supported by nearly 400 investors (US$22 trillion AUM)
  - PRI contributed to China’s green finance leadership
Stranded assets: investing in unneeded coal, oil and gas reserves

In 2013, according to Carbon Tracker, between 60-80% of coal, oil and gas reserves of publicly listed companies were ‘unburnable’ if the world is to have a chance of not exceeding global warming of 2°C, when about $6 tn were invested.

- 2860 GtCO₂: CO₂ embedded in total reserves and resources owned by private and public companies.
- 900 GtCO₂: Total 2°C Carbon Budget for the fossil fuel industry.
2 degrees of separation: transition risk for oil and gas in a low carbon world

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Global warming temperature

- **2°C**
  - **$2.3 tn** within 2°C budget
  - **$4.9 tn** outside 2°C budget

Oil and gas upstream capital expenditure (capex to 2025)

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Oil carbon supply cost curve

- **Carbon budget = 188 GtCO₂**
- **$400** Break-even price (15% RR, $/boe)

**Source:** Rystad Energy, CFI analysis

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Principles for Responsible Investment
A JUST TRANSITION: linking the SDGs

A just Transition is “a deliberate effort to plan for and invest in a transition to environmentally and socially sustainable jobs, sectors and economies”

Created by the International Trade Union Confederation and its partners, the Just Transition Centre will bring together and support unions, businesses, companies, communities and investors in social dialogue to develop plans, agreements, investments and policies for a fast and fair transition to zero carbon and zero poverty.

Privately funded, the Appalachian just transition fund is an intermediary that finds, funds, and helps scale community-based transition efforts that align with its commitment to sustainable economic development, equity, and energy resilience.
Policy certainty is key for investors
climate action

After announcing the US withdrawal from the Paris Agreement, President Trump proceeds to roll back environmental regulations.

In Australia, the frequent modifications of energy policy led to a very volatile renewable energy market.

Source: IHS Markit, Bloomberg, ICAP Australia.
Climate Action 100+, supporting investors and the Paris Agreement

Investors driving business transition

- Climate Action 100+ is a new five-year investor initiative to engage more than 100 of the world’s largest corporate greenhouse gas emitters to curb emissions, strengthen climate-related financial disclosures and improve governance on climate change.

- Builds on the commitments laid out in the 2014/2015 Global Investor Statement on Climate Change, supported by 409 investors representing more than US $24 trillion, which stated:
  - “As institutional investors and consistent with our fiduciary duty to our beneficiaries, we will: […] work with the companies in which we invest to ensure that they are minimising and disclosing the risks and maximising the opportunities presented by climate change and climate policy.”

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Climate Action 100+
Global Investors Driving Business Transition
PRI’S GREEN FINANCE WORK TO DATE

- PRI recommendations adopted in 2016 G20 Green Finance Synthesis report
- Chinese investor capacity-building with the Peoples Bank of China in 2017
- Practical investor guidance: greening equities, air pollution, carbon footprinting
- Policy collaboration: PRI serves on the UK Green Finance Task Force, UK-China Green Finance Task Force, Financing for Tomorrow (France), Sustainable Finance Hub (Germany) and EU High-Level Expert Group, FSB Task Force on Climate-related Financial Disclosures
While progress has been made in green bonds, investors cite the following barriers to scaling-up green investment:

- **Supply and shortage of bankable green projects:** Regular equity and debt capital market options, sufficient green bonds supply = limited allocation to green investment.

- **Definition and standards:** Green washing risk = higher transaction costs.

- **Data:** Lack of comparability and consistency = data can not be used.

- **Risk analysis:** Lack of methodologies = weak green assessment.

- **Investor governance:** Short-termism = lack of consideration of green.