

Climate Risk Capacity Building Series APAC

Session 3: Metrics and Targets

14 March 2024





Housekeeping and Introduction

Climate Risk Capacity Building Series APAC

1. **Governance and risk** (8th February)
2. **Strategies and scenarios** (29th February)
3. **Metrics and targets** (14th March)
4. **Net zero initiatives and implementation** (20th March)
5. **Net zero transition plans** (22nd April)

Register to join Session 4: <https://unpri.tfaforms.net/5084731>

Speakers



James Robertson

Head of Asia (ex-China & Japan)

PRI



Daniel Gallagher

Senior Lead, Climate Change

PRI



Amy Krizanovic

Head of ESG

Magellan Asset Management Ltd



Liza Jansen

Head of Responsible Investment

Prudential PLC

Agenda

- **Housekeeping & Introductions**
 - James Robertson (PRI)
- **Part 1: Overview of Climate Metrics and Targets**
 - Daniel Gallagher (PRI)
- **Part 2: Investor action on Metrics and Targets**
 - Amy Krizanovic (Magellan Asset Management Ltd)
 - Liza Jansen (Prudential PLC)
- **Conclusion and Q&A**



1. Overview of climate metrics and targets

The TCFD recommends that all organizations exposed to climate-related risks should **disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities** where such information is material

Recommendations and Supporting Recommended Disclosures

Governance

Disclose the organization's governance around climate-related risks and opportunities.

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.

Risk Management

Disclose how the organization identifies, assesses, and manages climate-related risks.

Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

The TCFD has **3 recommendations on** Metrics & Targets disclosure

Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Recommended Disclosures

A) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.

B) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

C) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

The TCFD recommends seven broad, flexible **categories for cross-industry metrics** that all organizations should disclose

1

Metric Category	Example Unit of Measure ²³	Example Metrics
GHG Emissions Absolute Scope 1, Scope 2, and Scope 3; ²⁴ emissions intensity	MT of CO ₂ e	<ul style="list-style-type: none"> • Absolute Scope 1, Scope 2, and Scope 3 GHG emissions • Financed emissions by asset class • Weighted average carbon intensity • GHG emissions per MWh of electricity produced • Gross global Scope 1 GHG emissions covered under emissions-limiting regulations

2

Transition Risks Amount and extent of assets or business activities vulnerable to transition risks*	Amount or percentage	<ul style="list-style-type: none"> • Volume of real estate collaterals highly exposed to transition risk • Concentration of credit exposure to carbon-related assets • Percent of revenue from coal mining • Percent of revenue passenger kilometers not covered by Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)
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3

Physical Risks Amount and extent of assets or business activities vulnerable to physical risks*	Amount or percentage	<ul style="list-style-type: none"> • Number and value of mortgage loans in 100-year flood zones • Wastewater treatment capacity located in 100-year flood zones • Revenue associated with water withdrawn and consumed in regions of high or extremely high baseline water stress • Proportion of property, infrastructure, or other alternative asset portfolios in an area subject to flooding, heat stress, or water stress • Proportion of real assets exposed to 1:100 or 1:200 climate-related hazards
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The TCFD recommends seven broad, flexible **categories for cross-industry metrics** that all organizations should disclose.

4

Climate-Related Opportunities

Proportion of revenue, assets, or other business activities aligned with climate-related opportunities

Amount or percentage

- Net premiums written related to energy efficiency and low-carbon technology
- Number of (1) zero-emissions vehicles (ZEV), (2) hybrid vehicles, and (3) plug-in hybrid vehicles sold
- Revenues from products or services that support the transition to a low-carbon economy
- Proportion of homes delivered certified to a third-party, multi-attribute green building standard

5

Capital Deployment

Amount of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities

Reporting currency

- Percentage of annual revenue invested in R&D of low-carbon products/services
- Investment in climate adaptation measures (e.g., soil health, irrigation, technology)

6

Internal Carbon Prices

Price on each ton of GHG emissions used internally by an organization

Price in reporting currency, per MT of CO₂e

- Internal carbon price
- Shadow carbon price, by geography

7

Remuneration

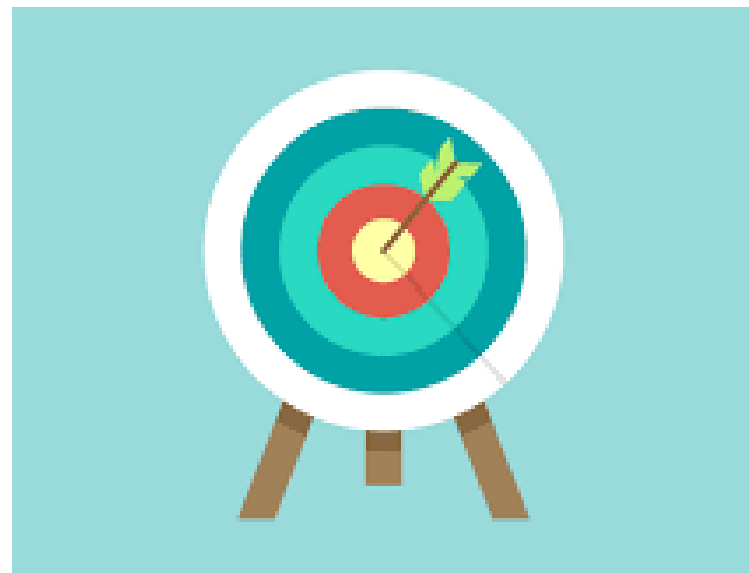
Proportion of executive management remuneration linked to climate considerations**

Percentage, weighting, description, or amount in reporting currency

- Portion of employee's annual discretionary bonus linked to investments in climate-related products
- Weighting of climate goals on long-term incentive scorecards for Executive Directors
- Weighting of performance against operational emissions' targets for remuneration scorecard

Without meaningful metrics, it is difficult for investors to assess the progress made toward stated targets

We often think of metrics as measurements and targets as goals, but the two items are linked. . .



Climate targets should be framed in terms of metrics, e.g., "reducing carbon emissions per dollar of revenue by 50% in 2024-2030"

Metric dashboards have become common

- **Alignment metrics:**
 - Are investee companies moving toward net zero emissions?
 - Are investee companies assessing physical climate risk and its financial impacts?
 - Are investee companies considering adaptation and resilience needs?
- **Engagement metrics:**
 - Is the investor ramping up meaningful stewardship activity?
 - Does the stewardship strategy include both climate mitigation and adaptation?
- **Decarbonisation metrics:**
 - How are the financed emissions of the portfolio changing?
- **Climate solutions metrics:**
 - How is capital being deployed to support the transition?
 - How is capital being deployed to build systemic climate resilience?

Alignment to Net Zero and Climate Resilience

- The **Net Zero Investment Framework** is one popular method that focuses on alignment.
- It includes criteria for being "aligned" or "aligning" with net zero. With this and similar systems, key questions include:
 - Are companies' stated plans credible?
 - What is their past history of follow-through on goals?
 - Is their capex aligned with aspirations?

Examples of targets set by an investor may include:

- Raise the % of investee companies aligned or aligning to net zero from 10% to 50% in 2019-2025
- Assess the financial impacts from physical climate risk for 30% of portfolio invested in at risk sectors, such as real assets and agriculture, by 2025.
- Increase the % of investee companies who have climate adaptation strategies in place to 30% by 2025.

Engagement Metrics

- Sometimes investors set targets for increasing their number of engagements with companies in certain sectors, or with their own portfolio's highest emitters
- **Key questions** may include:
 - What are the tools being used (dialogue, letter writing, resolution filings?)
 - Are company research calls and proxy voting aligned with engagement strategy?
 - Is there an escalation strategy (e.g., opposition to directors)?

Examples of target set by an investor may include:

- Ensure that by 2026, 100% of holdings in high-emitting sectors that are not already "aligned or aligning" to net zero are under engagement.
- Increase engagement activities on climate adaptation from 10% to 30% of portfolio by 2030.

Decarbonisation Metrics

- Absolute emissions are hard to use (because they would appear to penalize portfolio growth).
- Emissions intensity metrics scaled by unit of production would be ideal for within-industry comparisons (and are recommended by the UN-Convened Net Zero Asset Owner Alliance).
- However, it is difficult to find production data and hard to use production metrics across industries.
- Emissions intensity metrics scaled by economic variables can be subject to market fluctuations as well as distortions due to data lags.
- Therefore, many people are calculating decarbonisation metrics as rolling three-year averages or using them as backward looking "sense-checks".

Example of a metric: "Reduce emissions per million dollars of AUM by 50% in 2019-2030."

Climate Financing Metrics

Climate financing metrics require defining "climate finance." Questions include:

- Do renewable energy infrastructure and energy efficiency investments in "brown" assets both count?
- Do investments in Advanced Economies (e.g., for retrofitting) and in Emerging Economies (for climate mitigation or adaptation) both count?
- Do investments in "dirty" industries essential to the energy transition (e.g., mining and metals) count?

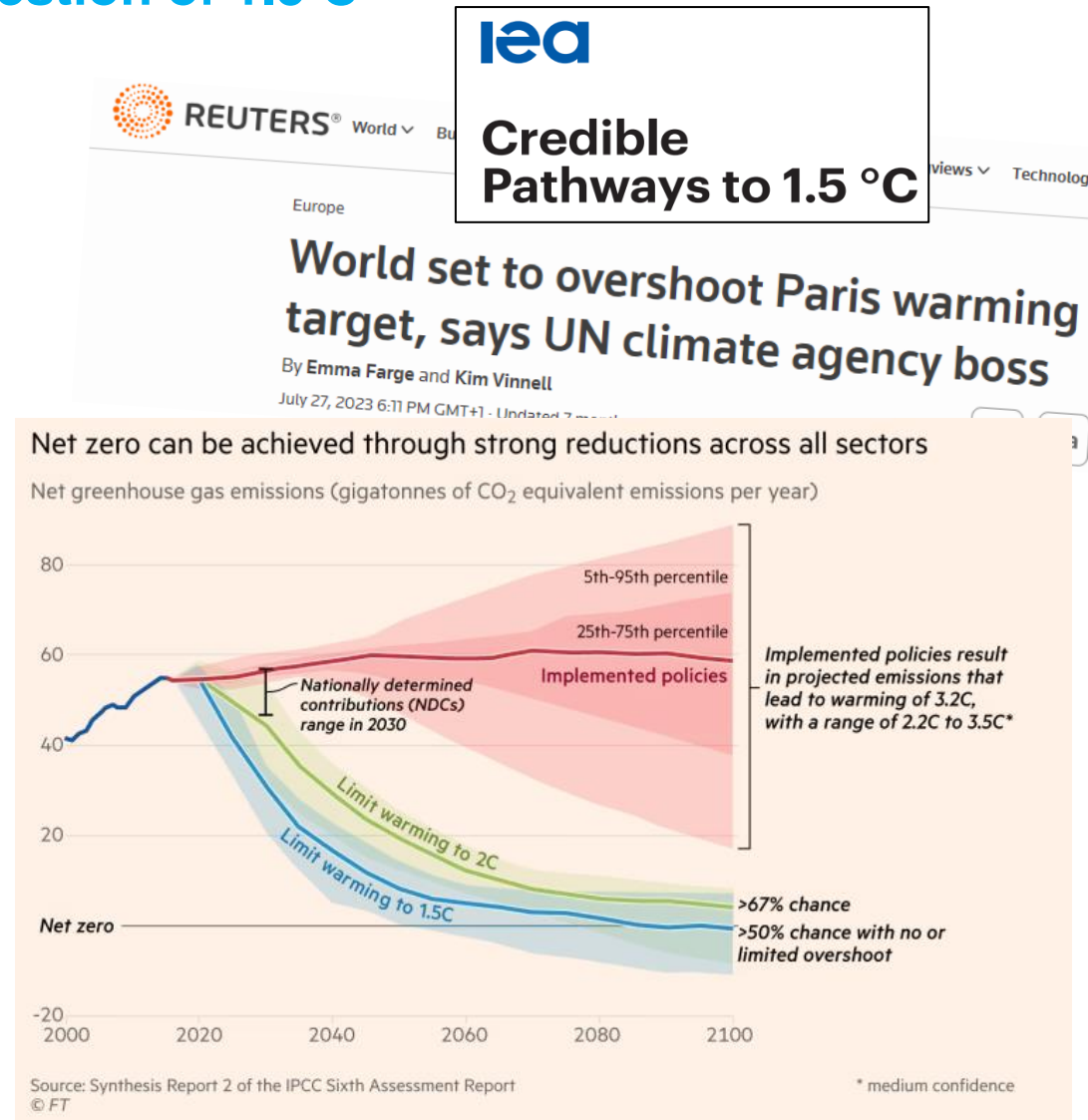
Official answers exist in some jurisdictions, and a range of guidance is emerging. Investors must make sense of this ambiguity and develop a rationale, so transparency is key.

Examples of target set by an investor may include:

- Increase the percentage of our portfolio invested in climate mitigation and adaptation solutions from 2% to 10% in 2019- 2030.

Net zero targets and the question of 1.5 C

- Scientific consensus is now that we are unlikely to remain below 1.5 C of warming above pre-industrial levels.
- Yet much of our investor target-setting retains 1.5 C (with no/low overshoot) as the basis for investor ambition.
- Every fraction of a degree matters to systemic and uncertain levels of climate risk.
- Physical climate impacts are being experienced in many regions and set to increase with further warming, even if warming is limited to below 2C.
- Therefore, managing physical climate risk using adaptation solutions is important alongside net zero targets.
- Investors should stay informed of policy forecasts and form a view





2. Investor action on metrics and targets