

# The Evolving ESG Landscape, Climate and Disclosure

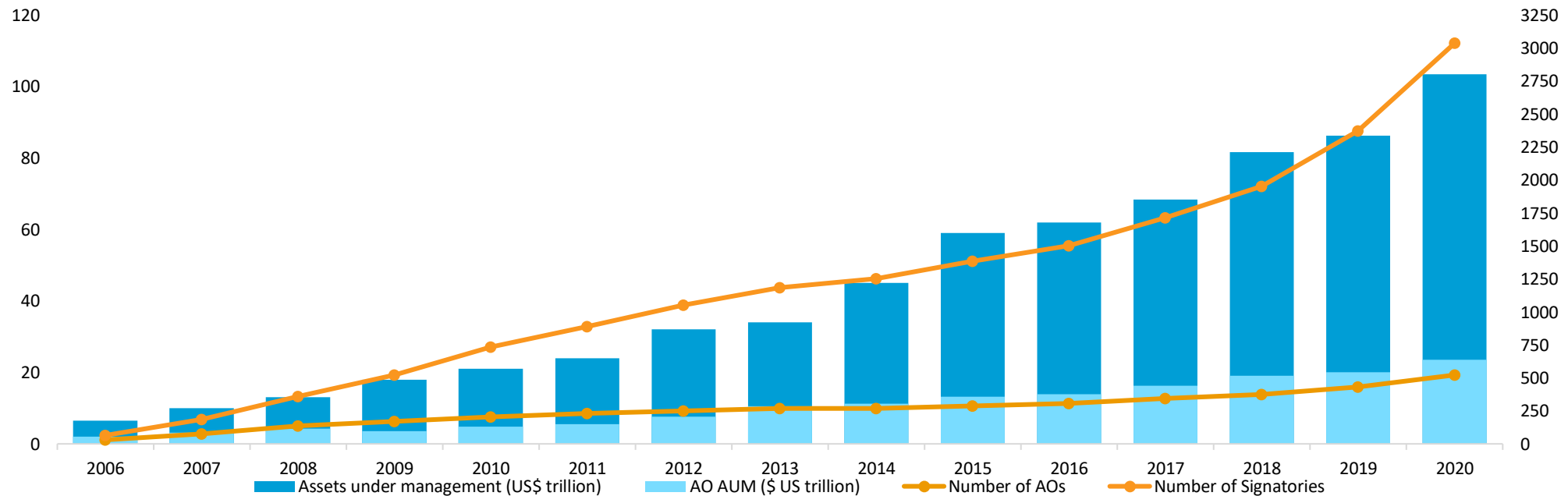
Carmen Velasquez  
Manager, Responsible Investment

# The Principles for Responsible Investment

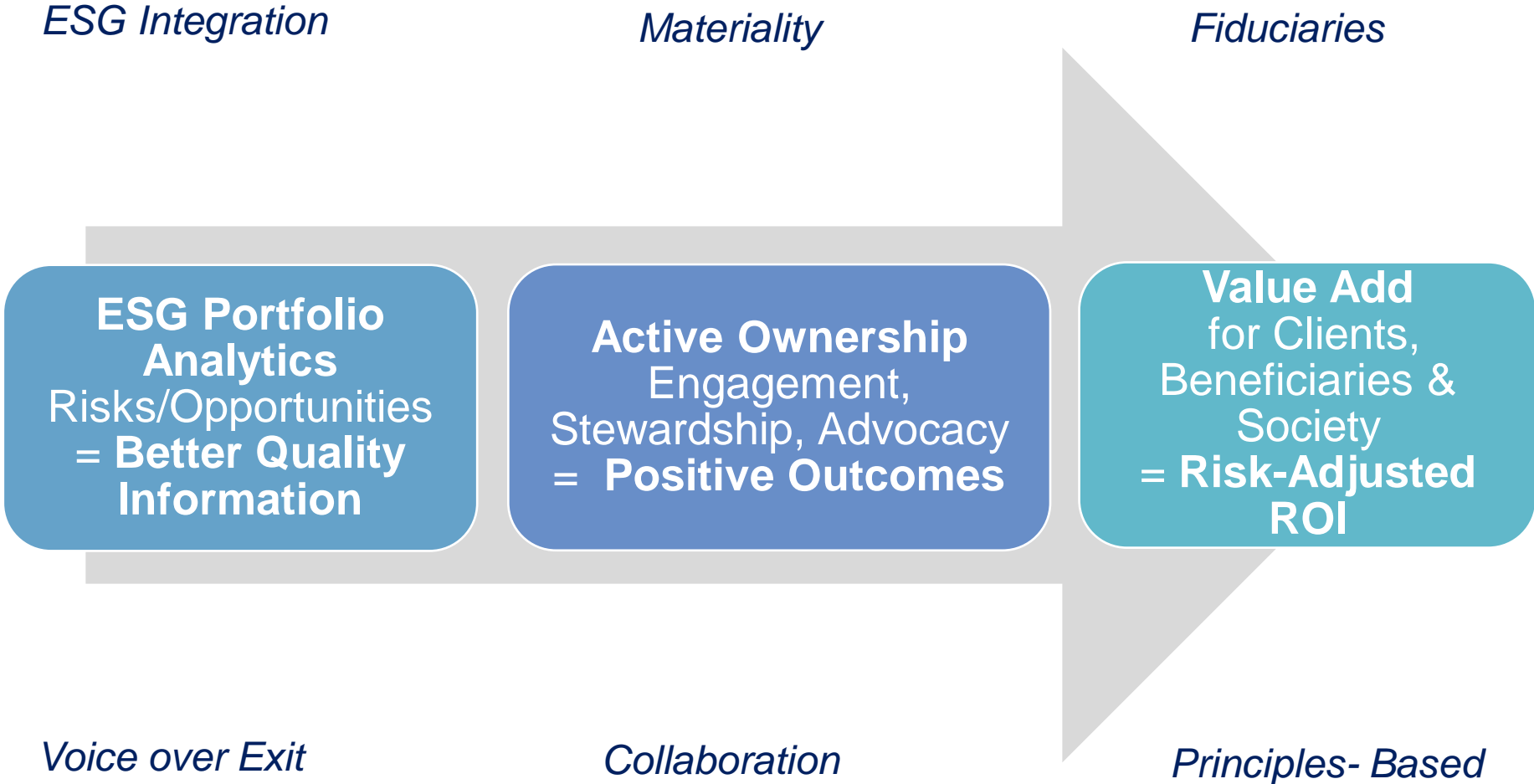
**PRI:** World's leading proponent of responsible investment

**History:** Launched 2006, AIMCo joined in 2010

**Signatories:** Over 3,000 signatories from over 50 countries, representing approximately US\$100 trillion



# Guiding RI Philosophy



# AIMCo ESG Focus Areas



## Environment

Climate Change

Environmental Management &  
Disclosure

Water Risk



## Social

Worker Safety & Human  
Rights Across the Supply  
Chain

Data Privacy



## Governance

Shareholder Rights

Pay for Performance

Board Diversity

# Key RI Trends



**Global Efforts to harmonize ESG reporting:** 5 ESG standards bodies (TCFD, SASB, GRI, CDP, CDSB) declare Statement of Intent. IFRS, CFA, OECD, IIRC continue the sustainability standards race.

**Global Trend of Voluntary → Mandatory ESG Disclosure:** EU Sustainable Finance Disclosure Regulation; New Zealand mandatory climate reporting, older: Article 173 France.

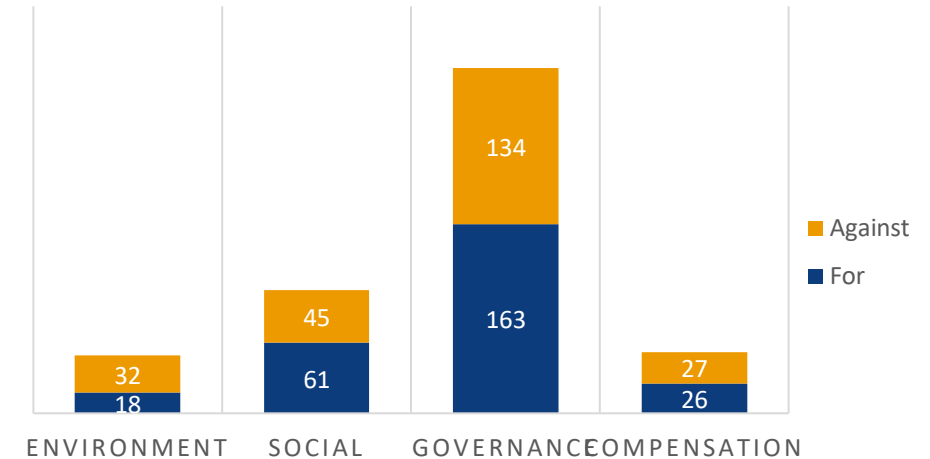
**Global Net-Zero Targets:** Governments, firms, products -> 120 nations set net-zero targets by 2050 (China by 2060)

**Canada:** Throne speech- net-zero by 2050, exceed 2030 climate goal, ban single use plastic & create national water agency

# Investment Process: Climate and the 2019-2020 proxy season

- Environment-related shareholder proposals (SHPs) represent approximately 10% of all SHPs we vote on annually.
- An initial assessment of the results of this voting season indicates that five SHPs requesting climate-related reporting received majority support, namely at energy companies.
- Behind the ballot, it was reported that 44 environment-related SHPs were withdrawn after the company and the proponent reached an agreement on the request.
- As per AIMCo's proxy voting guidelines, we generally support requests for disclosure on climate-related policies and procedures, such as requests for TCFD disclosure, so long as they are not overly burdensome for the issuer or where there is no clear enhancement to shareholder value

2019-2020 SHAREHOLDER PROPOSALS VOTED



For the period Jul 1 2019 - Jun 30 2020	
<b>Total meetings voted (#)</b>	<b>3,197</b>
<b>Ballot items voted (#)</b>	<b>33,056</b>



# Engagement: Climate Action 100+

The Climate Action 100+ Net-Zero Company Benchmark contains the following indicators:

1. **Ambition:** Whether the company has set an ambition to achieve net-zero GHG emissions by 2050 (or sooner);
2. **Targets and goals:** If clear short-, medium- and long-term GHG reduction targets or goals covering all material scope 1, 2 and 3 GHG emissions are in place and aligned to a 1.5°C global warming trajectory;
3. **Decarbonisation strategy:** Whether the company has a robust decarbonisation strategy to deliver these GHG reduction targets, goals and ambitions;
4. **Capital alignment:** Whether an assessment has been carried out of the extent to which a company's capital investment in carbon-intensive assets or business lines are consistent with the goals of the Paris Agreement;
5. **Climate policy support:** If a clear commitment and set of disclosures, clarifying intent to support climate policy, has been developed by the company, together with a demonstration of how direct and indirect lobbying is consistent with this intent;
6. **Governance:** Whether the company has effective board oversight of, and remuneration linked to, delivery of GHG targets and goals (as described in point 2 above);
7. **Just transition:** Whether the company has disclosed information on how a 'just transition' can be achieved – taking account of the impact on employees, communities and other stakeholders – and has been incorporated into the company's transition planning;
8. **Reporting:** Whether the company's overall climate risk reporting is consistent with the recommendations of the TCFD.

# AIMCo Strategic Priorities '20-22

## INVESTING RESPONSIBLY



Consistent with our goal of creating long term, sustainable value for our clients, we will strive to exhibit global leadership in charting new environmental, social and governance (ESG) frontiers by:



### ALIGNING ESG INTEGRATION ACROSS AIMCo

- Align our ESG integration strategies across asset classes and investment processes
- Roll out analytical tools to track ESG performance
- Continue to align internal policies, procedures and reporting with our RI activities
- Raise awareness of ESG with clients and across the organization



### NAVIGATING THE TRANSITION TO A LOW-CARBON ECONOMY

- Advance our understanding, management and reporting of climate-related financial risks and opportunities in our portfolios, in alignment with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations
- Expand carbon footprinting cross asset classes
- Strive to meet our clients' expectations and requests for carbon risk analysis



### STEWARDSHIP AND ADVOCACY

- Advocate for improved corporate ESG disclosure and performance
- Contribute to global ESG practices and standards through our membership in key collaborative initiatives
- Continue to exercise shareholder voice to encourage investees to adopt best ESG practices



# Climate Change - TCFD

*Climate change is a key ESG focus area & one of the most pressing systemic risks of our time, with far reaching, global, ecological & socio-economic impacts & resulting investment implications.*

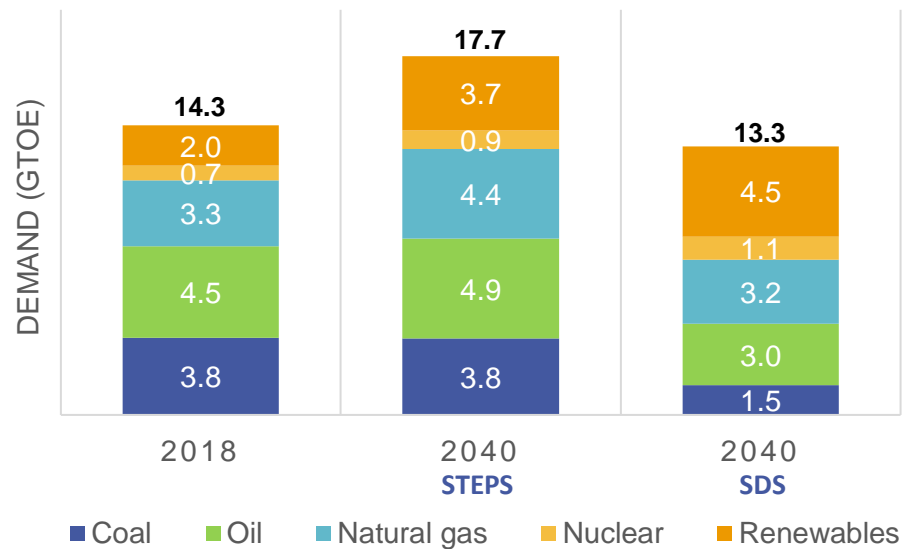
- In 2016, the FSB's Task Force for Climate-related Financial Disclosure (TCFD) developed voluntary disclosure recommendations for firms to provide information to lenders, insurers & investors.
- A more robust data disclosure landscape will enhance how climate-related risks are assessed, priced and managed.
- The TCFD structured its recommendations around four thematic areas: Governance, Strategy, Risk management, and Metrics and Targets.
- AIMCo issued our first TCFD report in 2019
- AIMCo has been tracking absolute CO2 emissions & emissions intensity of our holdings since 2016, starting with Public Equities & gradually expanding to additional asset classes to capture more AUM.



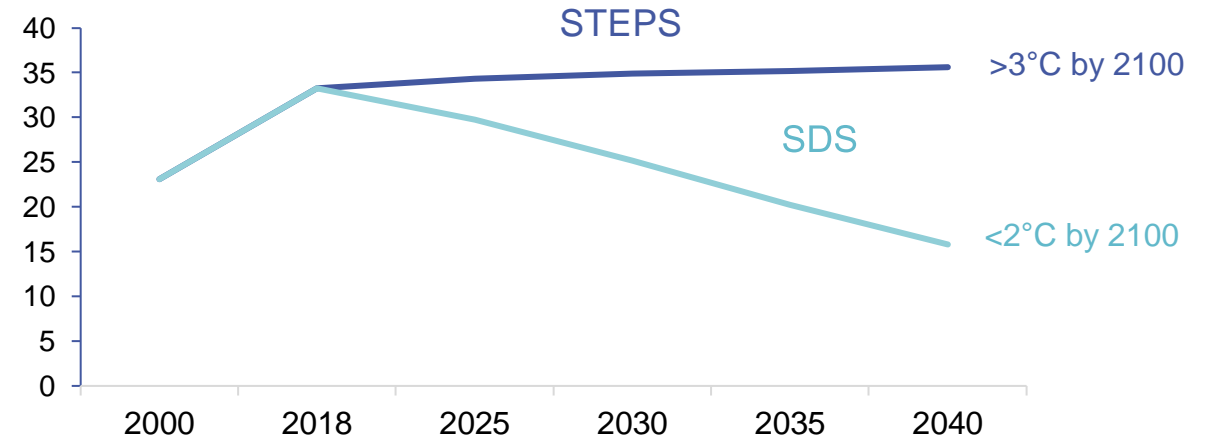
# Approach for Scenario Analysis

- **Narrative:** What could the STEPS and SDS scenarios mean for investors from a climate risk/opportunity perspective through 2040 across 4 sectors: electricity, transport, buildings, industry (with fossil fuels)
- Considered the influence and impact of transition-related factors: regulatory, financial, technological & operational

ENERGY DEMAND BY TYPE (GTOE)







CO2 emissions pathways by scenario (Gt)

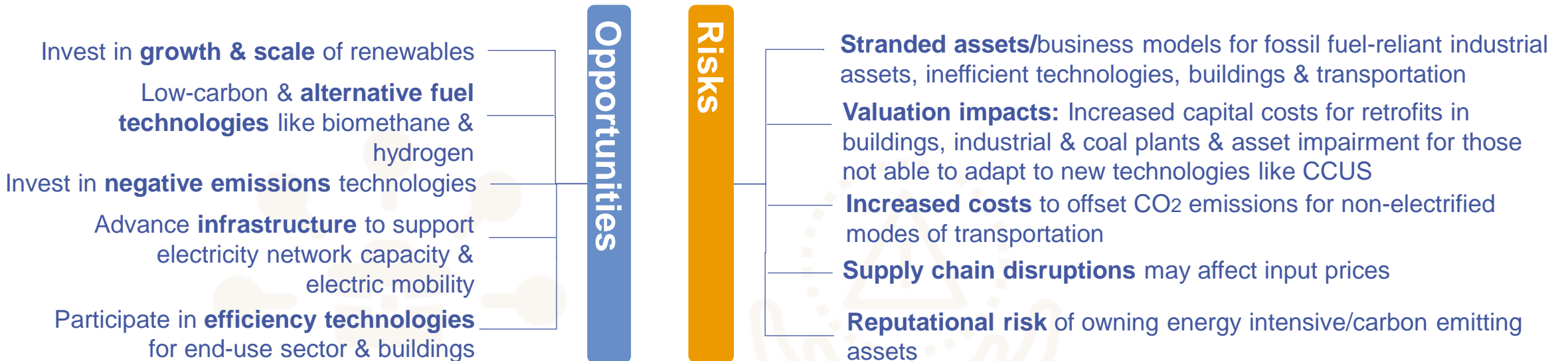


# Identified Levers, Risks & Opportunities

## Levers to Stabilize Climate

<p><b>Change Energy Demand</b></p> <ul style="list-style-type: none"> <li>Eco-efficiencies</li> <li>Process optimization</li> <li>Technological innovation</li> </ul> 	<p><b>Shift Energy Mix</b></p> <ul style="list-style-type: none"> <li>Electrification</li> <li>Renewables</li> <li>Alternative energies</li> </ul> 	<p><b>Manage Carbon</b></p> <ul style="list-style-type: none"> <li>Carbon capture (CCUS)</li> <li>Reforestation</li> <li>Carbon trading</li> </ul> 	<p><b>Market/Regulatory Factors</b></p> <ul style="list-style-type: none"> <li>Market instruments</li> <li>Consumer preferences</li> <li>Circular economy</li> </ul> 
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## Opportunities & Risks for Investors



# Carbon Accounting

Carbon accounting (footprint) enables quantification & management of greenhouse gas emissions and is the most widely-used metric in climate change analysis.

There are three methods available for calculating carbon footprints:

## Weighted Average Carbon Intensity (WACI)

An output based measure that shows portfolio's exposure to carbon intensive companies on a revenue basis

$$\sum_n \left( \frac{\text{current value of investment}_n}{\text{current portfolio value}} * \frac{\text{issuer's Scope 1 and Scope 2 GHG emissions}_n}{\text{issuer's \$M revenue}_n} \right)$$

## Financed Intensity

An asset based measure that attributes carbon emissions according sources of capital; both debt and equity

$$\text{Carbon Ownership: } \sum \left( \frac{\text{Holding MV (equity + debt)}}{\text{Market Cap + Total Debt + Preferred Equity + Min. Interest}} * (\text{Scope 1\&2 tCO}_2\text{e}) \right)$$

$$\text{Carbon Intensity: } \sum \left( \frac{\text{Carbon Ownership}}{\text{Holding MV (equity + debt)}} * \$1\text{MM} * w_{\text{holding}} \right)$$

## Owned Intensity

Carbon emissions are attributed to *equity* investors only

All methods only consider scope 1 & 2 emissions:



# Key Takeaways on TCFD Analysis

## Carbon Footprint

- The top emitting sectors continue to be utilities, materials, energy, and industrials
- A few discrete CO2 intensive assets can skew the total CO2 intensity of the portfolio

## Scenario Analysis

- The transition to the low-carbon economy presents opportunities & risks
- Opportunities to invest in solutions-focused technologies are numerous
- Identifying which companies will adapt or innovate will be key

# Transition Taxonomies

## EU Sustainability Taxonomy

The EU Taxonomy is designed to help investors, companies, issuers, and project proponents, transition to a climate-resilient economy by providing a common language and uniform criteria to identify the extent to which economic activities may be considered environmentally sustainable. The EU Taxonomy sets performance thresholds (technical screening criteria) to help parties identify environmentally friendly activities and access green financing, in order to grow low-carbon sectors and decarbonize high-carbon sectors.

## Canada's Transition Taxonomy

Like the EU's Taxonomy, Canada's Transition Finance framework, once developed, will allow Canadian companies seeking capital for transition-oriented activities such as reducing greenhouse gas emissions, and provide an assurance for institutional and retail investors that their investments do support the transition to lower carbon economy.

# Partnership for Carbon Accounting Financials (PCAF)

- PCAF is a global partnership of financial institutions working together to develop and implement a harmonized approach to assess and disclose GHG emissions associated with their loans and investments.
- PCAF is collaborating with banks and investors (i.e. pension funds, asset owners and managers) as they represent most of the available capital globally and play a crucial role in facilitating the transition.
- Membership involves signing a commitment letter and participation in quarterly PCAF North American chapter meeting, or potentially a Core team driving additional asset class research and standards development.





**Contact:**

[carmen.velasquez@aimco.ca](mailto:carmen.velasquez@aimco.ca)

[www.aimco.ca](http://www.aimco.ca)