WWF

SUMMARY

EU

2017

TOPLINE RECOMMENDATIONS
WWF CLIMATE GUIDE TO ASSET OWNERS:
ALIGNING INVESTMENT PORTFOLIOS WITH THE PARIS AGREEMENT

SUMMARY

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INVEST WELL BELOW 2°C

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A photovoltaic solar power station near Guadix, Andalucia, Spain.

INTRODUCTION

Climate change is a risk. A financial risk. It has been described as 'the tragedy of the horizon' by Mark Carney, Chairman of the G20 Financial Stability Board and Governor of the Bank of England, because it imposes a cost on future generations that the current one has no proper incentive to fix. However, the transition to a low carbon economy also offers significant investment opportunities.

WWF works with many stakeholders to tackle the challenge that climate change presents. With these topline recommendations, we wish to support asset owners and show how they can align their investments with the objectives of the Paris Climate Change Agreement ('Paris Agreement').

This document is a summary of the recommendations detailed in the WWF Climate Guide to Asset Owners. Each of the 15 recommendations contains links to the relevant chapters of the Climate Guide, tools where relevant and additional references. All the relevant sources are detailed in the WWF Climate Guide to Asset Owners. The document ends with the next steps planned by WWF.

The recommendations to asset owners can be grouped in three categories according to key roles they play:

LEARNING AND SEEKING ADVICE

DECISION-MAKING

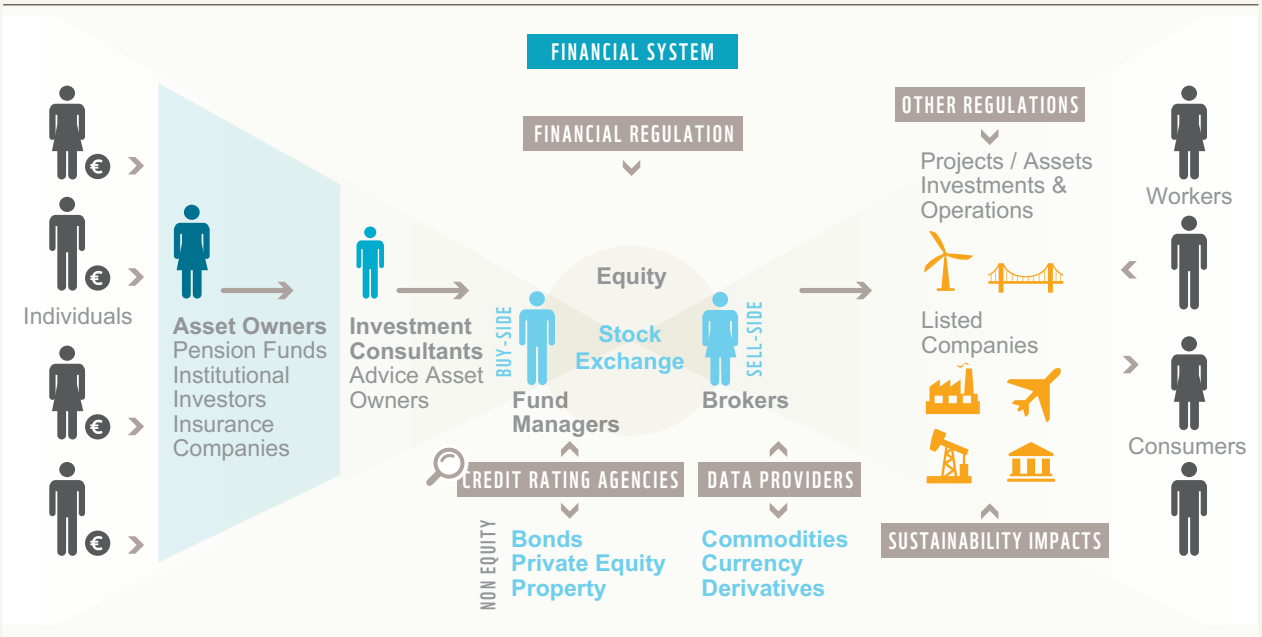
MONITORING SERVICE PROVIDERS AND ENGAGING WITH KEY STAKEHOLDERS

WWF's view is that aiming to align investments with the Paris Agreement – by taking action in line with the recommendations in this Guide – will contribute to investing in the best interests of members and beneficiaries and therefore fulfil asset owners' fiduciary duties.

WWF's approach to asset owners

Asset owners play a unique role in the investment system, sitting at the top of the investment chain. They can and do influence the companies in which they invest and their service providers such as their investment managers (see Figure 1). WWF believes they can do more and these recommendations are in line with that view.

FIGURE 1. ASSET OWNERS' UNIQUE POSITION IN THE FINANCIAL SYSTEM (SOURCE: ADAPTED FROM AVIVA AND EUROPEAN POLITICAL STRATEGY CENTRE 2017)



WWF recognises that addressing climate change requires several steps and that asset owners are at different stages on this path. Yet the pace and scale of action required to comply with the Paris Agreement do not leave room for procrastination: the costs of the low carbon transition increase with every year of inaction.

These recommendations are aimed at traditional long-term horizon and well-diversified asset owners, whether or not they have any commitments to being responsible. Asset owners have different strategies, and operate under different jurisdictions. The recommendations set out here are general in nature, therefore WWF aims at establishing constructive bilateral dialogues with asset owners and support them in better capturing the specifics of their own situation, and adequately tailor the recommendations.

LEARNING & SEEKING ADVICE

INVEST WELL BELOW 2°C

A growing number of asset owners have come to realise that they need to better understand climate-related risks and opportunities. This will enable them to mitigate the risks they face, grasp the opportunities that the transition to a low carbon economy provides, and play their part in meeting the targets of the Paris Agreement.

1. ASSESS THE EVIDENCE OF CLIMATE-RELATED FINANCIAL RISKS AND OPPORTUNITIES

WWF RECOMMENDATION 1

WWF recommends that asset owners assess the evidence of climate-related financial risks and opportunities: extensive research shows these to be significant and multi-faceted, across all asset classes and all time frames.

There is an extensive body of evidence on climate-related financial risks and opportunities. Even the lowest cost estimates of the climate-related value at risk, which is the probability distribution of the present market value of losses on global financial assets due to climate change, are in trillions of US$. For example, the Economist Intelligence Unit finds climate-related risks ranging from US$4.2 trillion to US$43 trillion in discounted, present value terms, depending on the climate scenario.

Stranded assets are the crystallisation of climate-related transition risks. The OECD defines stranded assets as those "unable to recover their investment cost as intended, with a loss of value for investors". Climate-related stranded assets are already a market reality (e.g. the collapse of the US coal mining sector), but harder to fully assess and manage compared to other financial risks. This is because of their magnitude and the uncertain time horizon over which they may be expected to materialise. So far most analysis has focused on stranded fossil fuel assets, but stranding in downstream sectors and others may be even more important (utilities, agriculture, buildings, automotive, etc).

Climate-related opportunities arise notably from the huge need for new sustainable infrastructure (such as renewable energy and smart grids, energy efficiency in buildings and transport, water). All asset classes should play a role, notably Alternatives (see Recommendation 7).

TOOLBOX	
CHAPTERS IN WWF CLIMATE GUIDE TO ASSET OWNERS	• 1.1 Climate change as a systemic risk • 1.2 Climate-related financial risk at the global level • 1.3 Climate related financial opportunities at the global level
MAIN REFERENCES	• Carney, Mark (2015), Breaking the tragedy of the horizon, Speech at Lloyd's of London • London School of Economics, Grantham Research Institute on Climate Change and the Environment (2016), 'Climate Value at Risk' of global financial assets, in Nature Climate Change • Carbon Tracker Initiative (2013a), Unburnable carbon 2013: wasted capital and stranded assets • New Climate Economy (2014), Better Growth, Better Climate • Mercer (2015), Investing in a time of climate change

PRIORITY

2. USE TOOLS TO MEASURE PORTFOLIO CLIMATE RISKS AND PORTFOLIO ALIGNMENT WITH CLIMATE GOALS

WWF RECOMMENDATION 2

WWF recommends that asset owners measure and publish both the climate risk exposure and the climate alignment of their portfolio, using a few available complementary tools enabling forward-looking climate scenario analysis at portfolio level.

A growing body of research shows that inaction – leading to global warming of 4 to 6°C – is the scenario with the highest risk for investors. Conversely, Mercer finds that a 2°C scenario does not jeopardise financial returns for a diversified portfolio, and is expected to better protect long-term returns.

Climate-related risks and opportunities are expected to be spread very unevenly between industry sectors, asset classes and time horizons. There is hence a growing consensus amongst investors, policy makers and regulators about the need to assess how investments portfolios will be affected by climate change. This will strengthen asset owners' understanding of the climate-related financial risks and opportunities contained in – and available to – investment portfolios, thereby enabling strategy development and portfolio performance monitoring.

A variety of assessment metrics are being developed to undertake forward-looking climate scenario analysis of portfolios. This can be divided into two groups:

- **Climate risk exposure:** Assessing the climate-related value at risk – and opportunities – in the investment portfolio is increasingly important for asset owners given its order of magnitude.
- **Climate alignment:** Assessing how investment portfolios are consistent with and contribute to the public policy objective of the Paris Agreement – that is to ensure that global warming stays well below 2°C, aiming at 1.5°C.

While the climate assessment space is very dynamic and rapidly evolving, a range of models and metrics is already available to enhance asset owners' decision-making (see Toolbox section). Disclosing climate assessment results will send a critical signal to peers and the full investment chain, to portfolio companies and to policy makers.

TOOLBOX	
CHAPTERS IN WWF CLIMATE GUIDE TO ASSET OWNERS	• 1.4 Climate-related financial risks and opportunities at the portfolio level • 1.5 Tools to assess climate-related financial risks and climate alignment
AVAILABLE TOOLS	• Portfolio climate risk assessment: Mercer TRIP model • Portfolio alignment with 2°C climate scenario: Sustainable Energy Investment Metrics (free tool)
MAIN REFERENCES	• Mercer (2015), Investing in a time of climate change • The Economist Intelligence Unit (2015), The cost of inaction • University of Cambridge Institute for Sustainability Leadership (2015), Unhedgeable risk • WRI, UNEP-FI, 2° Investing Initiative (2015), Climate strategies and metrics: exploring options for institutional investors • 2° Investing Initiative (2016), Investor climate disclosure – Stitching together best practices

3. ASSESS THE REGULATORY AND POLICY CONTEXT AND ENSURE TCFD-ALIGNED REPORTING

WWF RECOMMENDATION 3

WWF recommends that asset owners anticipate regulatory obligations to assess climate-related financial risks and opportunities and climate alignment of portfolio: to prepare for this, asset owners should implement the TCFD recommendations as from the 2018 reporting cycle.

WWF believes that the rapidly evolving regulatory and policy context at global, European and national levels will ultimately impose obligations to assess portfolio climate risks and portfolio alignment with climate goals: it is in the interest of asset owners to anticipate it. Indeed, the mounting evidence of climate-related financial risks is generating increasing attention from financial regulators and policy makers.

The industry-led Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures (TCFD) has forged unprecedented convergence across industry and G20 governments on climate-related financial risks and opportunities. There are signs that the final recommendations of the TCFD are rapidly becoming the new normal of climate-related financial disclosure.

The forthcoming obligations included in European regulations (IORPs II and the Shareholders Rights Directives) – combined with several developments at global, European and national levels, notably the EU High Level Expert Group on sustainable finance – increase the likelihood of mandatory climate and wider ESG-related disclosure requirements. This will include climate-related elements of the investment strategy (beliefs, policies, targets, processes, etc). Prudent asset owners, and certainly responsible asset owners, will want to be ahead of this curve.

TOOLBOX	
CHAPTERS IN WWF CLIMATE GUIDE TO ASSET OWNERS	• 2 Regulation and policy
MAIN REFERENCES	• FSB Task Force on Climate-related Financial Disclosures (2017), Final Report • FSB Task Force on Climate-related Financial Disclosures (2017), Implementing the Recommendations of the TCFD • EU High-Level Expert Group on Sustainable Finance (2017), Interim report

DECISION-MAKING

Experts are unanimous about the need for asset owners to develop a top-down approach towards the integration of climate-related risks and opportunities. This involves formulating climate-related investment beliefs, establishing a fit-for-purpose governance and incentives structure, adopting and implementing investment policies, and setting climate-science based targets.

4. ADOPT CLIMATE-RELATED INVESTMENT BELIEFS

WWF RECOMMENDATION 4

WWF recommends that asset owners formulate climate-related investment beliefs which recognise that portfolio alignment with the Paris Agreement will contribute to investing in the best interests of members and beneficiaries and therefore fulfil asset owners' fiduciary duties.

Investment consultants recommend asset owners to formulate climate-related investment beliefs, as the first step of a top-down approach to integrate climate risks and opportunities in their investment portfolios. Mercer clarifies that such beliefs serve to develop a shared understanding and formal strategic approach to oversee climate risks across both internally and externally managed investments.

The investment chain operates on the basis of investment beliefs or assumptions and in line with this – and although WWF considers the language poorly suited to irrefutable scientific consensus– there is a clear need to expand these investment beliefs to explicitly include climate-related risks. For WWF the only meaningful way forward for asset owners to respond to the risks related to climate change is therefore to commit portfolio alignment with the Paris Agreement. The analysis set out in Recommendation 1 further supports this approach.

TOOLBOX	
CHAPTERS IN WWF CLIMATE GUIDE TO ASSET OWNERS	• 3 Strategic advice from financial sector actors • Notably Box 2. Aligning investment beliefs with the Paris Agreement: an approach by Cambridge Associates
AVAILABLE TOOLS	• Cambridge Associates (2017), Considerations for ESG Policy Development
MAIN REFERENCES	• Mercer (2015), Investing in a time of climate change • Intergovernmental Panel on Climate Change (2014), Fifth assessment report

5. ESTABLISH A CLIMATE GOVERNANCE STRUCTURE

WWF RECOMMENDATION 5

WWF recommends that asset owners make portfolio alignment with the Paris Agreement a Board priority – including explicit attribution of this responsibility within the Board – and put governance structures in place that ensure proper support and implementation of the policy – including incentive schemes, commitment of resources, capacity building and involvement of members and beneficiaries.

The TCFD specifies governance as a key factor for addressing climate-related issues within an organisation. This involves describing the Board's oversight of and the management's role in assessing and managing climate-related risks and opportunities.

Integrating climate change affects every part of an asset owner's portfolio. Early discussion with the Board, Trustees and Chief Investment Officer is therefore important to ensure that the issue is tackled in an integrated way. WWF believes that the role of a Board includes adopting climate-related investment beliefs, adopting a motion that sets out the need for policy development, overseeing the policy development, making sure that fit-for-purpose targets are in place and incentivized, and identifying resourcing needs.

33% of signatories of the UN Principles for Responsible Investment employ no ESG staff and a further 20% employs just one, according to E3G. Such findings are worrying as such scarce capacity will prevent investors from developing sufficiently effective and sophisticated climate and wider ESG policies. Asset owners should establish key roles and responsibilities within the organisation, empower teams to understand climate risks, increase capacity, set up internal Key Performance Indicators, and ensure a proper governance structure for implementing the climate strategy.

TOOLBOX	
CHAPTERS IN WWF CLIMATE GUIDE TO ASSET OWNERS	• 3.4 WWF view on strategic advice from financial sector actors • 5.2 Develop your climate policy and disclosure in accordance with TCFD recommendations
AVAILABLE TOOLS	• AODP (2015), Climate Risk Management Best Practice Methodology
MAIN REFERENCES	• FSB Task Force on Climate-related Financial Disclosures (2017a), Final Report • E3G (2017), Missing in action – The lack of ESG capacity at leading investors

PRIORITY

6. INTEGRATE CLIMATE CHANGE IN INVESTMENT POLICY

WWF RECOMMENDATION 6

WWF recommends that asset owners adopt an investment policy that reflects and implements their climate-related investment beliefs – including investment targets, strategic asset allocation, engagement objectives, selection criteria and incentives for all service providers, and performance measurement and reporting.

The TCFD recommendations highlight the importance for asset owners to describe how climate-related risks and opportunities are factored into relevant investment strategies.

Analysis by Mercer and the Global Investor Coalition on Climate Change (GICCC) find that including climate change considerations in an investment policy is the most strategic approach.

The investment policy should include the overall objective to leverage asset owners' position at the top of the investment chain to drive service providers (in particular investment managers), portfolio companies and policy makers toward alignment with the Paris Agreement. Such an integrated policy should cover all asset classes. WWF provides more details on these issues in Recommendations 10 to 15.

TOOLBOX	
CHAPTERS IN WWF CLIMATE GUIDE TO ASSET OWNERS	• 3 Strategic advice from financial sector actors
AVAILABLE TOOLS	• Global Investor Coalition on Climate Change (2015), Climate change investment solutions: a guide for asset owners • PRI (2015), Developing an asset owner climate change strategy: pilot framework
MAIN REFERENCES	• FSB Task Force on Climate-related Financial Disclosures (2017), Final Report • Mercer (2015), Investing in a time of climate change

7. ADJUST STRATEGIC ASSET ALLOCATION TO HARNESS CLIMATE-RELATED OPPORTUNITIES

WWF RECOMMENDATION 7

WWF recommends that asset owners include climate risks and opportunities in strategic asset allocation (SAA), including increasing their exposure where feasible to alternative asset classes that are more likely to have a direct positive climate impact on the real economy.

The TCFD recommends asset owners to describe the integration of climate-related risks and opportunities for the full portfolio or for specific asset classes. Investor-led analysis from the Global Investor Coalition on Climate Change (GICCC) argues that asset owners can achieve such top down integration of climate change by adjusting their SAA.

Analysis indicates that the current low yield environment for fixed income makes alternative and relatively less liquid asset classes increasingly attractive for asset owners, such as infrastructure (e.g. grids and renewable energy), real estate (highly energy efficient and resilient buildings) and private equity (renewable and energy efficiency companies). Adjusting SAA targets to reflect these opportunities will also allow asset owners to have a higher impact on the real economy given their likely higher additionality.

TOOLBOX	
CHAPTERS IN WWF CLIMATE GUIDE TO ASSET OWNERS	• 3 Strategic advice from financial sector actors
AVAILABLE TOOLS	• Global Investor Coalition on Climate Change (2015), Climate change investment solutions: a guide for asset owners
MAIN REFERENCES	• FSB Task Force on Climate-related Financial Disclosures (2017a), Final Report • Mercer (2015), Investing in a time of climate change • Bloomberg New Energy Finance, Chatham House, Frankfurt School (2016), Finance guide for policy-makers: renewable energy, green infrastructure – 2016 update • WRI, UNEP-FI, 2° Investing Initiative (2015), Climate strategies and metrics: exploring options for institutional investors

8. ADOPT SECTOR-SPECIFIC POLICIES

WWF RECOMMENDATION 8

WWF recommends that asset owners extend their investment policy to address sectors and technologies that pose particular climate-related risks or offer particular opportunities, and actively follow-up on the implementation of these policies, notably by increasing scrutiny on investment managers.

Investment consultants (Mercer, Cambridge Associates, Willis Towers Watson, Russell Investments), investor coalitions (GICCC, PRI) and other service providers (MSCI) have all expressed a need for asset owners to set up an approach to sectors that present particular risks or opportunities in the light of the pathways set out by the Paris Agreement. WWF believes that these are, in particular:

- Sectors where carbon-intensive companies have a significant potential to offer alternative solutions and thus reduce their emissions – such as power utilities, industrial sectors (steel, cement, chemicals) and automotive;
- Similarly, the banking sector could shift its support from high to low carbon sectors, resulting in significant indirect climate benefits;
- Sectors that are deemed to shrink and ultimately disappear with the energy transition (e.g. coal mining and oil & gas), but where some companies still have the potential to make a timely shift to other business models (e.g. some diversified miners or oil & gas companies already active in the renewable industry). WWF's position is to achieve a 100% renewable-based energy system globally by 2050 at the latest.

In addition, increasing low carbon capital expenditure, innovation and R&D plans will be needed for many portfolio companies to ensure rapid enough developments.

Asset owners should develop specific policies and Key Performance Indicators that maximise their ability to capture changes within these sectors, by defining criteria that allow internal and external investment managers to identify companies able to align their business model with the Paris Agreement. Criteria should also provide guidance on the use of active ownership to urge companies to adopt well below 2°C transition plans, and should include reduced exposure/ divestment if the company is unable or unwilling to transition in a timely manner.

TOOLBOX	
CHAPTERS IN WWF CLIMATE GUIDE TO ASSET OWNERS	• 3 Strategic advice from financial sector actors • 5.3 Engage with investment managers and other service providers • 5.4 Engage with portfolio companies
AVAILABLE TOOLS	• Global Investor Coalition on Climate Change (GICCC) (2014), Investor expectations: Oil and Gas company strategy • GICCC (2015), Investor expectations of Mining Companies • GICCC (2016), Investor expectations of Electric Utilities Companies • GICCC (2016), Investor expectations of Automotive Companies • The Global Real Estate Sustainability Benchmark • IGCC, Ceres, PRI, UNEP-FI (2016), Sustainable real estate investment • ShareAction (2017), An investor guide for engaging with banks on climate change
MAIN REFERENCES	• Mercer (2015), Investing in a time of climate change • Towers Watson (2015), Fossil fuels: exploring the stranded assets debate • Cambridge Associates (2014), The fossil fuel divestment discussion • UN PRI (2015a), Developing an asset owner climate change strategy: pilot framework

PRIORITY

9. DEVELOP TOOLS AND METRICS TO SET CLIMATE SCIENCE BASED TARGETS

WWF RECOMMENDATION 9

WWF recommends that asset owners publicly commit to align their investment portfolios with the Paris Agreement, actively contribute to the development of tools that enable setting climate-science based targets, and commit to setting such targets per asset class as these tools become available.

Currently, when asset owners set targets to reduce their carbon footprint or other intensity metrics this process tends to only consider past and present conditions. The TCFD has acknowledged the limitations of carbon footprinting for asset owners to assess climate risks (the lack of forward-looking element) and supports advancing the development of new climate metrics.

WWF believes that asset owners can play a decisive role in supporting the development of tools enabling them to set climate science based targets. A public commitment from asset owners to align their portfolio with the Paris Agreement and employ the tools and metrics as they become available will help to further spur their development.

TOOLBOX	
CHAPTERS IN WWF CLIMATE GUIDE TO ASSET OWNERS	• 4.3 Asset owner good practice on decision-making • 5.2 Develop your climate policy and disclosure in accordance with TCFD recommendations
MAIN REFERENCES	• Portfolio Decarbonisation Coalition (PDC), UNEP-Finance Initiative, CDP (2016), Investment portfolios in a carbon constrained world: the second annual progress report of the PDC • FSB Task Force on Climate-related Financial Disclosures (2017), Final Report • WRI, UNEP-FI, 2° Investing Initiative (2015), Climate strategies and metrics: exploring options for institutional investors • 2° Investing Initiative (2016), Investor climate disclosure – Stitching together best practices

MONITORING SERVICE PROVIDERS & ENGAGING WITH KEY STAKEHOLDERS

WWF believes that asset owners are uniquely placed to lead the investment chain towards alignment with the Paris Agreement. Leading asset owners are making good progress in using their position to create an impact and generate change – both individually and through coalitions.

However, more can and should be done to accelerate the low-carbon transition. Asset owners will need to engage more actively with their suppliers to ensure that their strategy and investment policy fully reflects climate-related risks and opportunities. They will also need to scale up their engagement with portfolio companies and policy makers to guarantee the pace of the low-carbon transition is sufficient.

10. WORK COLLECTIVELY WITH OTHER INSTITUTIONAL INVESTORS

WWF RECOMMENDATION 10

WWF recommends that asset owners, through investor coalitions, work collectively with other asset owners to learn, seek advice, share best practice and, most importantly, increase the impact of engagement activities with investment managers, portfolio companies and policy makers (see Recommendations 11 to 14). Asset owners should, moreover, drive coalitions to promote the alignment of portfolios with the Paris Agreement.

WWF believes that climate-related investor coalitions are one of the most relevant ways to learn, seek advice and share best practice. Joining forces helps to overcome capacity limits and to pool more expertise, and brings more weight when engaging with portfolio companies. It is particularly important given the urgency of the climate challenge and the need to get high carbon portfolio companies to rapidly shift their own business model towards alignment with the Paris Agreement.

The most recent climate-related investor coalitions (e.g. the Portfolio Decarbonization Coalition, Montréal Pledge, Climate Action100+ and Aiming for A - now part of IIGCC) have increasingly specific and measurable objectives. However, WWF believes that a central element is still missing throughout all the climate-related investor coalitions: a clear commitment to align portfolios with the Paris Agreement, as the best way to mitigate climate-related financial risks and invest in the best interests of members and beneficiaries. In addition, they should move from backward-looking carbon footprint metrics to forward-looking climate scenario analysis as recommended by the TCFD.

TOOLBOX	
CHAPTERS IN WWF CLIMATE GUIDE TO ASSET OWNERS	• 4.4 Asset owner good practice on monitoring service providers and engaging with key stakeholders
MAIN REFERENCES	• CDP: www.cdp.net • UN Principles for Responsible Investment: www.unpri.org • Institutional Investor Group on Climate Change: www.iigcc.org • Montreal Pledge: montrealpledge.org • Portfolio Decarbonisation Coalition: unepfi.org/pdc • Climate Action 100+: climateaction100.org/

PRIORITY

11. CLOSELY MONITOR INVESTMENT MANAGERS

WWF RECOMMENDATION 11

WWF recommends that asset owners require internal and external investment managers to address climate-related risks and opportunities – notably by requiring investment managers in new requests for proposals to align mandated portfolios with the Paris Agreement; to amend existing mandates; to forcefully engage with high carbon portfolio companies and align proxy voting with the climate objectives of the asset owners; to deliver TCFD-aligned reporting; and to adjust remuneration accordingly. Asset owners should publicly signal these requirements to create market demand and increase impact.

Investment managers are critical service providers, as they manage – whether internally or externally – the asset owners' assets on the basis of the mandates awarded to them. The selection of experienced investment managers is therefore crucial if asset owners want their assets to be managed in line with their own climate-related investment beliefs, policies and targets.

WWF believes that asset owners should only work with the investment managers that publicly recognise the reality of climate-related financial risks and opportunities, understand the value of aligning investments with the Paris Agreement, and have a robust track record that shows capacity to assess and address these risks and opportunities through portfolio reallocation and forceful company engagement.

TOOLBOX	
CHAPTERS IN WWF CLIMATE GUIDE TO ASSET OWNERS	• 4.4 Asset owner good practice on monitoring service providers and engaging with key stakeholders • 5.3 Engage with investment managers and other service providers
AVAILABLE TOOLS	• ShareAction (2017), Lifting the Lid: Responsible Investment Performance of European Asset Managers
MAIN REFERENCES	• PRI (2015), Developing an asset owner climate change strategy: pilot framework • CalSTRS (2016), Green Initiative Task Force 2016 Annual Report • Varma (2016), Varma publishes its climate policy – targeting a smaller carbon footprint in various asset classes

12. CLOSELY MONITOR OTHER SERVICE PROVIDERS

WWF RECOMMENDATION 12

WWF recommends that asset owners ensure that all service providers – most notably investment consultants, index providers, proxy voting advisors – address climate-related risks and opportunities and adapt their core services so that they align with the Paris Agreement. Asset owners should publicly signal their climate-related requirements for all service providers to urge the service providers to act in order to avert a potential devaluation of their reputational capital.

There are many reasons why the investment supply chain would not act in alignment with asset owners' interests on climate issues: commercial conflicts of interests, time horizons, cultural norms (e.g. US-headquartered organisations), etc. Therefore asset owners need to closely monitor all their service providers.

Investment consultants need to advise on the development of relevant climate-related investment beliefs and policies, or to assess the climate-related performance of investment managers. To do this efficiently, asset owners should ask their investment consultants to allocate a significant percentage of time for interaction and discussion on long-term risks and opportunities – including climate change – and to adjust remuneration accordingly.

The current indices created by **index providers** directly and indirectly influence the allocation of trillions of dollars across sectors. These indices usually reflect business-as-usual scenarios, where for instance high carbon sectors are overweighed in term of achieving the Paris goal, and they lack a good indication of energy technology exposure. The measurement of relative risk is also related to these indices, further limiting the possibility to allocate investments in line with climate goals, and away from the current unsustainable business-as-usual market. Asset owners should require index providers to disclose how existing indices align with the Paris Agreement, and to develop new products that ensure such alignment. This will, in time, allow investors to benchmark their own investment portfolios against the Paris Agreement.

Proxy voting advisors consult with investors to decide how to vote on matters that require shareholder approval at the AGMs of their portfolio companies. Asset owners need to interact with proxy voting advisors through their internal and external investment managers, instructing them to include climate change in their proxy voting policy - notably have voting activities that are wholly consistent with the climate commitments of the asset owners and support resolutions that call for the adoption of well below 2°C transition plans. They should also instruct investment managers to interact with the proxy voting advisors on climate change, and scrutinise climate-related voting behaviour.

TOOLBOX	
CHAPTERS IN WWF CLIMATE GUIDE TO ASSET OWNERS	• 5.3 Engage with investment managers and other service providers
MAIN REFERENCES	• Oxford Smith School (2015a), Investment consultants and green investment • 2° Investing Initiative (2014a), Optimal diversification and the energy transition: impact of equity benchmarks on portfolio diversification and climate finance

PRIORITY

13. ENGAGE FORCEFULLY WITH PORTFOLIO COMPANIES

WWF RECOMMENDATION 13

WWF recommends that asset owners develop an assertive engagement strategy to ensure that high-carbon portfolio companies, in the very near term, publish time-bound well below 2°C transition plans and climate science-based targets, and deliver TCFD-aligned reporting. For most asset owners this will mean acting in collaboration with like-minded peers and investment managers.

Asset owners should either escalate engagement to more public and more assertive strategies or reduce/remove exposure to high carbon companies if engagement efforts do not result in targeted companies publishing credible targets and transition plans in a timely fashion, and require investment managers to act accordingly.

Sectoral policies for those sectors that pose particular risks and opportunities (see Recommendation 8) should enable internal and external investment managers to identify the relevant companies for engagement.

WWF believes that asset owners also need to provide their investment managers with guidance for engagement. The explicit ultimate objective of engagement should be the alignment of portfolio companies' business models with the Paris Agreement – most notably through the adoption and publication of time-bound well below 2°C transition plans composed of the following elements:

- A commitment to align business models with the Paris Agreement and, more concretely, a time-bound climate science-based target built on forward looking climate-scenario analysis.
- Capital management plans to end capital expenditure for new high carbon projects, increase capital expenditure for low carbon projects, and a clearly articulated timeline for the closure of existing high carbon assets. This could include cash returns through buybacks or dividends.
- The disclosure of the target and transition plan and alignment with the TCFD recommendations. Such information should be published in mainstream financial reports (integrated reporting).
- A commitment to review and ratchet up targets and transition plans in the light of the evolving climate science, in particular the development of 1.5°C scenarios driven by the Paris Agreement.
- A public commitment to support policies that aim to reduce emissions in line with the Paris Agreement, be transparent about lobbying activities and related expenditures, and leave third party organisations (e.g. business and trade associations) that promote policies that risk to derail the Paris Agreement.

Asset owners should require internal and external investment managers to reduce/remove exposure to the targeted companies if the engagement process does not lead to significant results within set timeframes (12, 18, 24 months).

TOOLBOX	
CHAPTERS IN WWF CLIMATE GUIDE TO ASSET OWNERS	• 4.4 Asset owner good practice on monitoring service providers and engaging with key stakeholders • 5.4 Engage with portfolio companies
AVAILABLE TOOLS	• CDP, Global Compact, WRI, WWF: sciencebasedtargets.org • InfluenceMap (2017), Corporate Carbon Policy Footprint • See the sector-specific guides from the Global Investor Coalition on Climate Change in the toolbox of Recommendation 8 • League tables of peer companies (oil & gas, coal mining, power utilities, cement, steel): Transition Pathway Initiative (2017), The toolkit
MAIN REFERENCES	• Global Investor Coalition on Climate Change (2017), Investor Climate Compass: Oil and Gas - Navigating Investor Engagement • Preventable Surprises (2017), Forceful Stewardship • Portfolio Decarbonisation Coalition (PDC), UNEP-Finance Initiative, CDP (2016), Investment portfolios in a carbon constrained world: the second annual progress report of the PDC • PRI (2015), Investor expectations on corporate climate lobbying

PRIORITY

14. ENGAGE FORCEFULLY WITH POLICY MAKERS

WWF RECOMMENDATION 14

WWF recommends that asset owners engage with policy makers to ask for climate and energy policies and regulations that drive a timely implementation of the Paris Agreement, for adequate climate and wider ESG corporate disclosure policies and regulations, and for financial policies and regulations that drive better understanding of climate-related risks and opportunities for financial institutions.

Government policies and regulations are key drivers of systemic change. Asset owners therefore need to engage with policy makers to accelerate the integration of climate risk analysis and mitigation across the whole investor and financial community. WWF believes that given the urgency of the climate challenge, asset owners should swiftly and unequivocally engage with policy makers in favour of the proper implementation of the Paris Agreement. Asset owners should support:

- Climate and energy policies and regulations that are in line with the well below 2°C goal embedded in the Paris Agreement – most notably the UNFCCC process, EU greenhouse gas reduction targets for 2030 and 2050, EU regulations (EU Emissions Trading Scheme, renewable energy and energy efficiency directives), the phase out of all fossil fuel subsidies, the internalization of negative externalities, and support frameworks for low carbon business and infrastructure;
- Adequate climate and wider ESG corporate disclosure policies and regulation – most notably the transposition into EU and/or national legislation of the TCFD recommendations to ensure a level-playing field;
- Financial policies and regulations that drive better understanding of climate-related risks and opportunities for investors. At the European level, this includes a clarification that fiduciary duty includes material climate and wider ESG risks, requirements to publish responsible investment and engagement policies, requirements to assess and disclose portfolio alignment with the Paris Agreement on the basis of a commonly defined well below 2°C scenario, requirements for greater disclosure of holdings data across a broad range of asset classes, and the development of robust standards for green bonds.

TOOLBOX	
CHAPTERS IN WWF CLIMATE GUIDE TO ASSET OWNERS	• 4.4 Asset owner good practice on monitoring service providers and engaging with key stakeholders • 5.5 Engagement with policy makers
MAIN REFERENCES	• PRI, UNEP-Inquiry, UNEP Finance Initiative, UN Global Compact (2014), Policy frameworks for long-term responsible investment - The case for investor engagement in public policy • EU High-Level Expert Group on Sustainable Finance (2017), Interim report • E3G e.a. (2016), A sustainable finance plan for the European Union

15. ENGAGE WITH MEMBERS AND BENEFICIARIES

WWF RECOMMENDATION 15

WWF recommends that asset owners ensure they have a sound understanding of the broad range of long term sustainability interests and preferences of their members and beneficiaries (notably on climate change), incorporate such preferences in their investment policy (see Recommendation 6), and disclose how such preferences were considered.

Large surveys by Natixis Global Asset Management and by Schroders find that social and environmental objectives are an important factor for around 70% individuals or more. However there is evidence that such long term sustainability interests and preferences (notably on climate change) are not factored in adequately by asset owners.

It is crucial that members and beneficiaries who wish to be informed and express their views are provided the opportunity to do so by asset owners. This can be done through members surveys, face to face meetings such as annual general meetings, consultative events, intranet discussion forums or retrospective reporting on responsible investments and voting activities.

TOOLBOX	
CHAPTERS IN WWF CLIMATE GUIDE TO ASSET OWNERS	• 5.6 Engage with members and beneficiaries
MAIN REFERENCES	• Natixis (2017), Mind shift - Getting past the screens of responsible investing • Schroders (2017), Global perspectives on sustainable investing 2017 • 2° Investing Initiative (2017), Non-financial message in a bottle

NEXT WWF STEPS

These recommendations are a first step as part of WWF's work to drive the alignment of asset owners' portfolios with the Paris Agreement. While significant action can be undertaken on that basis, WWF recognises that several climate-related tools, methodologies and products are still at early stage and that more work is needed.

To better assist asset owners on their journey towards portfolio alignment with the Paris Agreement, WWF is preparing sector-specific recommendations for asset owners on **coal mining** (Autumn 2017), **coal and renewable power** (Autumn 2017), **oil and gas extraction** (Autumn 2018), and **real estate** (Autumn 2018).

WWF is also partnering with several stakeholders to drive a meaningful shift in financial flows: developing a methodology and tool to set climate science-based targets for investors; deepening company-level analysis (notably on corporate alignment with the Paris Agreement) to provide more in-depth analysis to investors for engagement with key high and low carbon companies; ensuring a comprehensive and harmonized management framework with tools, methodologies and metrics for assessing portfolio alignment with the Paris Agreement for all relevant asset classes and sectors; providing further analysis on low carbon and sustainable indices; and exploring portfolio alignment with environmental science and international agreements beyond climate change (such as the Sustainable Developments Goals).

In parallel WWF is engaging with public policy makers on disclosure issues (implementation of TCFD recommendations and of the French Article 173), on sustainable finance issues, and has a representative in the EU High Level Expert Group on sustainable finance.

TOPLINE RECOMMENDATIONS
WWF CLIMATE GUIDE TO ASSET OWNERS:
ALIGNING INVESTMENT PORTFOLIOS WITH THE PARIS AGREEMENT

SUMMARY

100% RECYCLED

OPPORTUNITIES

A 2°C scenario doesn't jeopardise financial returns (Mercer 2015).

RISKS

Climate-related value at risk for asset owners could reach up to US$43trillion (Economist Intelligence Unit 2015).

JOURNEY

This Guide provides operational recommendations to asset owners in their efforts to address climate change.

LEADERSHIP

Some asset owners have already committed to align their investment portfolio with the Paris Agreement.

Why we are here
To stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature.

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