

# ENGAGE

## THE FINANCIAL SECTOR'S LEVERS FOR PROMOTING A LOW CARBON ECONOMY

**Zineb Bennani**  
Head of Governance Research and Engagement



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**Situated at the nexus of environmental, social and economic issues, climate change constitutes a systemic risk that weighs on every one of the world's economies. To ignore this factor in funding and investment decisions is to invite the long-term erosion of value.**

The year 2015, a sort of eleventh hour before the 21<sup>st</sup> United Nations Conference on Climate Change (COP21), has mobilised efforts to support the struggle against climate change to an unprecedented degree. Both public authorities and private entities, even those recalcitrant players long hostile to any type of action, have multiplied their commitments to limiting the global temperature rise to 2°C between now and 2050. This vast mobilisation bears witness to the magnitude of the challenge we will confront in the coming decades, and to a newfound awareness of the need to accelerate the shift to a low carbon economy.

On the one hand, the path ahead seems to be clearer at the political level, on the other, the issue of how to finance mitigation and adaptation solutions to climate risks remains a major challenge. The IEA (International Energy Agency) estimates that, in order to meet 2°C objectives, the *annual* investment needed is in the vicinity of US\$500 billion for the 2010-2020 period, and US\$700-900 billion for 2020-2050.<sup>1</sup> These estimates, however, do not take into account the additional costs associated with adaptation, which are impossible to estimate at this time. Current commitments don't come close to being sufficient. Furthermore, continuing to finance a carbon-intensive economy can only exacerbate future costs, which will carry economic and social costs it is practically impossible to evaluate, insofar as precise definitions of the full range of impacts escape us, and possible chain reactions remain unknown.

As a result, financing is a critical issue, central to making the transition toward a low-carbon economy. While we certainly need to mobilise additional financial resources, it is just as important that we redirect existing investments toward new technologies that offer solutions to climate

threats, both in order to reach climate goals and to ensure the future returns of investments.

Given this situation, public and private institutions both have a central role to play.

*Public authorities* must shoulder the responsibility of ensuring conditions favourable to channelling capital into a low carbon economy. This includes supporting R&D to accelerate the transition to green energy. It also involves removing the obstacles that drag on financing climate strategies. Several regulatory and fiscal mechanisms are available that could be employed to this effect: redirecting subventions to green technologies, taxing carbon, supporting a label for green investment funds, providing tax incentives for green investment funds, etc.

*Financial actors* play a crucial role in the strategies brought to bear on financing and have several levers through which they can contribute to making the economy low-carbon. These run the gamut from banking or financial innovation and reallocation of capital toward companies that offer solutions for adaptation or mitigation, to financing clean technologies and green infrastructure. Only when both public and private actors prove capable of considering the long term and anticipating the changes that will shape our world tomorrow will it become possible to develop innovative solutions for addressing climate change effectively and contribute to the sustainable development of our economies.

**In the face of this challenge, what role might institutional investors play? What levers are at their disposal to help make the transition to a low carbon economy a reality?** The present study examines this question within the context of a new collaborative engagement undertaken by Mirova, as part of its commitment to fully play its role as a responsible investor and act to promote the development of a new, low-carbon economy.

1. *The Global landscape of climate finance, Climate policy initiative 2013*

## 1 | Transitioning to a low carbon economy: an issue of moment for long term investors

### 111 Primary levers for promoting better integration of climate issues in long term investment strategies

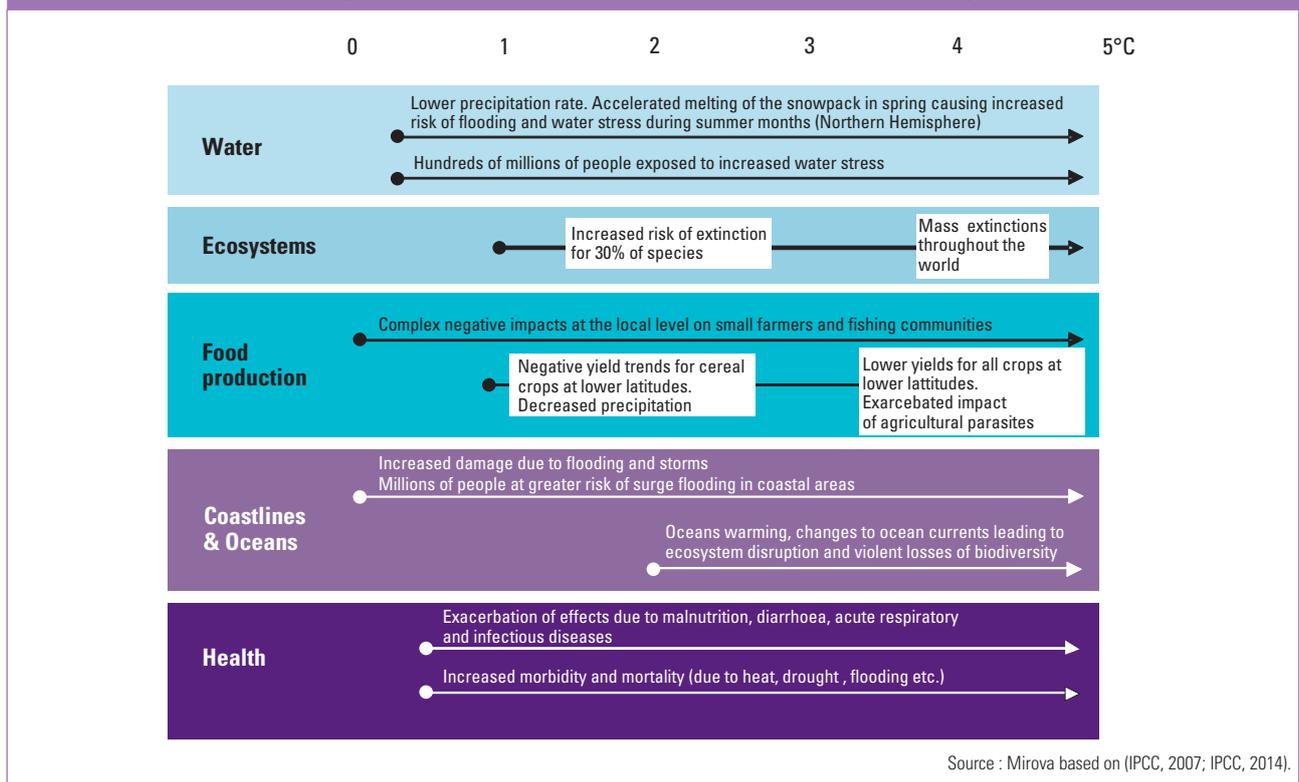
#### 1111 Climate change: loaded with risks for investors, but also a source of opportunities

**Climate change is at the origin of substantial environmental, social and economic risks** that could have irreversible consequences for all our value chains and pro-

foundly affect the sustainable development of economies worldwide. The IPCC (Intergovernmental Panel on Climate Change) considers that a 2.5°C global temperature increase could, speaking conservatively, have an impact of between 2 and 20 basis points on world GDP, and that any increase above this cut-off could have much more serious outcomes that are impossible to calculate at any level, economic, social or environmental.

**Climate disruption could, thus, to varying degrees, have an impact on all sectors, subjecting the economy, and society as a whole to a burdensome systemic risk.** Seen this way, the extent to which companies integrate these risks in their models for growth is part of their sustainability, just as adapting investment strategies to deal with the risks

**Figure 1.** The principal consequences associated with climate change



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associated with carbon is part of ensuring the long-term financial health of a portfolio’s liabilities. Restricting the global temperature rise to 2°C entails a substantial downshift in our need for fossil fuels, in order to limit the emission of greenhouse gasses relative to a Business as Usual scenario. This adjustment is expected to provoke a significant drop in the stock prices of oil, gas, and mining companies.

This theory, despite the denials of certain players in the energy sector, is far from being unreasonable, and is supported by the latest report by Standard & Poor’s, published in August 2015. **The credit rating agency warns of a decline in the market for coal, which, according to them, has already lost 20% of its value in the last year, and 75% over a 5-year period.** Probable causes for this trend include regulatory developments, lower demand from China, and the rise of renewable energy sources, factors that structurally affect the market in long-term ways, with serious implications for corresponding investments.

Thus, even if uncertainty about the actual risks of future climate scenarios and the current low price of carbon make the immediate financial impact of climate change relatively small, **continued investment in carbon-intensive sectors will eventually have a direct impact on these assets, whose value will depreciate as the market progressively integrates future risks in company valuations.**

Conversely, **investing in companies that are already aware and attuned to climate risk and incorporate it in their development strategy**—whether via adoption

of carbon pricing, anticipation of regulations to come and adaptive production models, or by themselves offering new energy efficiency solutions or developing low carbon technologies—**can present opportunities for investors with a long-term investment horizon.**

*See part 1 - Understand: What technologies can build a low carbon economy? p. 7*

### 11112 Public opinion: a reputational risk factor for investors

Beyond the governmental agreements likely to be concluded, **the COP 21 will inevitably prompt economic and financial actors to take unprecedented steps to combat global warming.** This is clearly illustrated in the proliferation of voluntary initiatives<sup>2</sup> on the part of businesses and investors taking place alongside the official solutions being negotiated by States.

**At the business end of things,** the various announcements are part of a general trend that began several years ago to address the progressive tightening of regulations and seize opportunities created by the new markets ensuing from environmental concerns. It is worth noting, however, the abrupt change in tone from the petroleum industry, which as begun to collectively call for a carbon price signal to improve the competitiveness of gas relative to coal.

**The area of finance,** for its part, has seen an increase in efforts over the last year due to pressure from civil society.

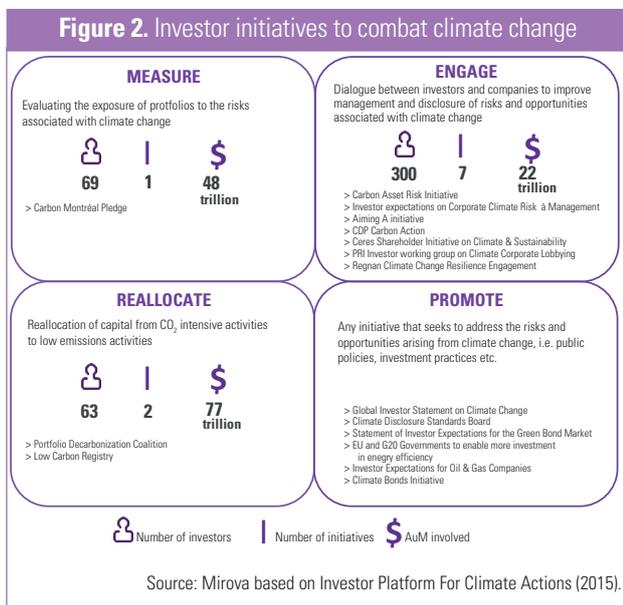
2. NACZA, is a platform launched for the COP 20 in Lima as a means of surveying the public and private initiatives undertaken to support the struggle against climate change in the lead-up to the signing of international agreements at COP 21.



Since 2012, investors have come under increasing pressure from movements such as 'GoFossilFree' which is sponsored by 305.org, a US-based non-profit, Divest/Invest, backed by philanthropic organisations, or 'Keep it in the ground', supported by British news The Guardian. The aim of these various groups is to secure divestment from companies emitting the highest levels of GHG.

Thanks to strong backing not only from universities in the US and Europe, religious organisations and non-profit foundations, but from public opinion, these movements have succeeded in influencing the investment strategies of several universities, pension funds, and private investors, which have publicly announced their intent to divest of coal and/or fossil fuels more generally. Thus far, more than 18 universities, holding a combined €19 billion of assets have made such commitments, joining the assets of the Church of England (€12.4 billion in assets under management) and those of several large US cities (€18.4 billion in combined assets). These movements have become so influential that they exert considerable pull on actors in the financial industry, whose recent commitments bear witness to the magnitude of the double carbon/reputational risk they are exposed to.

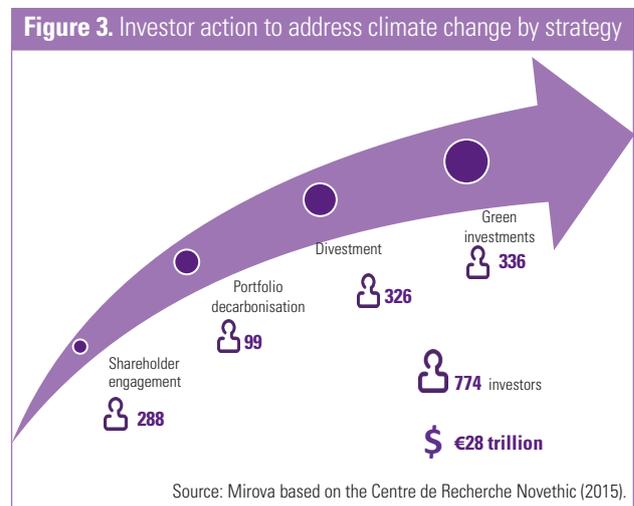
The platform promoting investor initiatives for action on climate change<sup>3</sup> launched in May 2015 during 'Climate Week' by seven of finance's major supranational organisations (PRI<sup>4</sup>, IIGCC<sup>5</sup>, CDP<sup>6</sup>, INCR<sup>7</sup>, IGCC<sup>8</sup>, UNEP FI<sup>9</sup>, AIGOCC<sup>10</sup>) now boasts **17 distinct initiatives bringing together a total of 400 investors that collectively represent US\$ 25 trillion in assets**. These efforts are classified as falling into four categories: measure, engage, reallocate and promote.



Two of these 17 initiatives are considered particularly strategic issues for the financial sector and, more specifically, the asset management industry. The first of these is the Montreal Carbon Pledge, under the aegis of the PRI, and the Portfolio Decarbonisation Coalition, supported by the

UNEP-FI. Launched in September 2014 during the United Nations Climate Summit, these efforts are aimed at encouraging investors to measure the carbon footprint of their portfolios, and to decarbonise their investments. **This represents an innovation for the asset management industry and articulates a distinct turning point in the investment strategies of financial players toward favouring a low carbon economy.**

Alongside these initiatives, banks, insurers and major pension funds in Europe and the US have announced a flurry of intentions to **divest from coal** (Axa, Crédit Agricole, Bank of America, the Government Pension Fund of Norway, etc.) and **increase investments in low carbon assets** (Axa, APG, PensionDanemark, Calsters for a total amounting to US\$ 34 billion). Novethic has also identified over **774 investors**, representing **€28 trillion** in assets under management, that have committed to addressing climate change following 4 broad strategies: **shareholder engagement, decarbonising portfolios, divestment and green investment**.



This increasing mobilisation of effort reflects a greater awareness of climate risks on the part of the financial community, and signals the beginning of a veritable energy revolution in favour of growth that is more resilient to climate change, a shift in which civil society has undoubtedly played an essential role at both the institutional and political levels.

### 11113 Beyond a rising awareness: anticipated regulatory risks

Pressures from civil society and rising awareness of climate issues as a systemic risk factor are likely to provoke a tightening of regulations. France, for instance, has taken a step along this path with its adoption of a law on the energy transition and green growth, which has already imposed new obligations on issuers and investors. As a provision of Article 173 of the *loi sur la transition énergétique et écologique* (law on the energy and ecological transition), issuers must henceforth 'make clear the financial risks associated with the effects of climate change, and the measures undertaken

3. <http://investorsonclimatechange.org/>. 4. PRI: Principles for Responsible Investment. 5. IIGCC: Institutional Investors Group on Climate Change. 6. CDP: Carbon Disclosure Project. 7. INCR: Investor Network on Climate Risk. 8. IGCC: Investor Group on Climate Change. 9. UNEP FI: United Nations Environment Program Finance Initiative. 10. AIGOCC: Asia Investor Group On Climate Change.

to reduce these by implementing a low-carbon strategy at every stage of their activities.' Investors must, for their part, calculate and disclose the carbon footprint of their portfolios.

The French government is also separately working to develop a label to support the energy and ecological transition in order to increase the visibility to consumers of funds whose investments are directed toward companies that contribute positively. In the UK, the Bank of England has been assigned the task of studying the role of insurers in preventing climate risk. The European Commission is working on the question of investors' fiduciary responsibility in the face of climate issues. This project is part of a broader review of how to generate economic growth in Europe, and indicates just how important climate change is for the sustainable development of Europe's economies. At the international level, the G20 recently asked the FSB (Financial Stability Board, an international economic group created in the wake of the Great Financial Crisis) to identify possible mechanisms by which the financial sector can take into account the issues associated with climate disruption.

Domestic policies in favour of climate measures also seem to be taking a new turn, more committed and stronger. The policy shift in countries historically reluctant to recognise the issue, such as the United States or China is evidence of this.

Given all this, it would be absurd to ignore the risk of tightening regulations that would affect all economic actors to varying degrees. A multi-lateral international agreement on a carbon signal price remains a possibility, despite the obstacles that face implementation of such a mechanism on an international scale. Beyond this carbon risk, domestic climate policies in various countries to favour the development of clean energy would not be without impact on current economic equations.

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**Carbon risks, reputational risks, and regulatory risks: all factors that justify ensuring that investment strategies take climate issues into account. Certain players have already launched strategies to this intent, demonstrating the financial industry's capacity for innovation and adaptation in the face of climate challenges.**

### 112 What levers for action are available to long-term investors ?

#### 11211 Financial innovation in the service of a low carbon economy

Beyond the recognition that climate change does indeed constitute a risk factor for investors, taking climate risk into account in investment strategies confronts a number of obstacles:

- 1. A disjunction between the temporality of physical and economic impacts due to climate change, which are relatively long-term, and the investment horizon of financial markets, which focus on the short-term.**

- 2. The prevalence of passive or index-hugging strategies, which, if a genuine and significant decarbonisation of portfolios were to take place, would lead to an overly large deviance from current reference indices (tracking error).**
- 3. Companies' lack of transparency as to their own exposure to carbon risks, or, their strategy for developing green products.**
- 4. Methodological limitations hampering the calculation of investments' carbon impact, often limited to scope 1 and scope 2 emissions.**
- 5. The lack of adequate methodologies for measuring the impact of climate on the risks and performance of portfolios.**

These obstacles, despite their magnitude, are being overcome as awareness of the financial impact of carbon risks increases along with financial innovation and regulatory changes.

Three areas of progress in particular are worth noting:

- The development of low carbon investments, whether through ambitious equities strategies, the development of green bonds, renewable energy infrastructure investment or low carbon—even carbon-positive—real estate.
- The emergence of more robust methodologies for calculating carbon impact that take into account both the emissions induced and those avoided over the entire life-cycle of products. This first step should encourage incorporation of carbon risk in investment strategies and a transition toward low carbon investments.
- The introduction of measures requiring issuers to disclose the carbon impact of products and services offered. In France, this is exemplified by Article 173 of the loi sur la transition énergétique (energy transition law). Implementing such measures will provide investors with greater visibility to make investment choices that can contribute to sustainable growth.

#### 11212 Strategies for integrating climate risks in investment decisions

These advances pave the way for a better integration of climate risks within investment strategies. Five distinct levers can be used separately or in combination:

- **Channelling investments into assets that contribute to the transition toward a low carbon economy**

This can involve financing green infrastructure, clean technologies or projects that seek to reduce carbon emissions. These can be designed around investment vehicles dedicated to infrastructure, or green bonds dedicated to projects with measurably positive environmental impacts.

→ **Changing portfolio construction models to conform to a 2°C scenario**

This can be achieved using two complementary levers:

1. **Sectoral reallocation:** by adjusting the composition of portfolios, according heavier weighting to sectors that contribute to transitioning toward a low carbon economy (macro sector of renewables and energy transition) at the expense of positions in carbon intensive (oil, coal, gas, etc.), so as to achieve an energy mix within the portfolio that complies with a 2°C scenario.
2. **Selection of securities:** by favouring players that offer technological solutions, products, or services that address sustainable development issues.

→ **Divestment from fossil fuels**

This entails systematic exclusion of sectors that emit the most GHG gasses and might jeopardise any attempt to limit the global temperature rise to 2°C, such as coal or oil.

→ **Carbon accounting**

Measuring the carbon footprint of investments is a first step toward a transition to lower-carbon strategies. Awareness of the emissions associated with financing, both those induced and those avoided, makes it possible to gradually integrate risks in investment decisions and to progressively define targets for limiting the carbon footprint of portfolios.

→ **Engagement**

**Investing in green bonds, reallocating portfolios in favour of clean technologies, divesting from carbon-intensive sectors, creating low-carbon index funds etc. All these mechanisms constitute levers to be deployed according to a portfolio's strategy, investment horizon and degree of aversion to climate risks. The array of solutions is broad, and makes it possible to meet the constraints of different categories of investors. Alongside measures that directly affect financing strategies, and thus, the allocation of capital to a low carbon economy, shareholder engagement actions can serve as an appropriate collective mechanism for encouraging companies to take climate risks into account in their own investment decisions.**

## 2 | How can engagement contribute to a long-term investment strategy that supports a low carbon economy?

### 211 Financing the transition to a low carbon economy: the priority engagement issue for long-term investors

#### 2111 Levers for action to promote the transition to a low carbon economy

Transitioning to a low carbon economy requires that we strengthen climate policies to reduce GHG emissions on the

one hand, while, on the other hand, adapting economic models for growth to the realities of climate change. Achieving these ambitions requires focused and coordinated action in three areas: regulations, solutions and financing.

- **Regulations:** actions concern adopting specific energy/climate goals, supporting new energy efficiency technologies, and establishing incentives to channel capital toward a low carbon economy.
- **Solution:** this involves accelerating development of the green energies and new technologies that we will rely on tomorrow, as well as innovations to reduce dependence on fossil fuels to limit GHG emissions.
- **Financing:** this primarily involves redirecting flows of capital and money creation toward low carbon solutions and providing support for the development of clean energy.

Political support, commitment from industrial actors and contributions from financial players all facilitate the emergence of a new, low carbon, economic model. In terms of regulations, the upcoming 21st Climate Conference has driven unprecedented political activity that indicates a growing awareness as to the magnitude of this issue. Agreements have been drafted and legislation, such as France's law on the energy and ecological transition, are beginning to emerge, clearing a path toward low carbon economies.

Private actors in the realm of industry have also seized on these subjects, and the technological revolution is moving forward. Renewable energy industry, electric vehicles, smart grids, energy efficiency solutions for buildings etc., are all solutions illustrating industry's capacity for innovation and adaptation to climate issues.

But, however encouraging, these moves are no more than the first step toward a low carbon economy. The challenges and the stakes are both extreme, and mobilisation needs to step up the pace and strengthen its efforts if we are to achieve the objectives set by the established baseline scenarios.

This leaves the question of financing, ever a sticking point of climate policy. The financial industry's efforts remain inadequate, while its contributions are essential to addressing the issues raised by climate change for a number of reasons, including its enormous weight in the economy, and its ability to redirect capital flows toward solutions for mitigating and adapting to climate change.

According to the IEA (International Energy Agency) only 250 billion of the 1.6 trillion dollars invested in energy were allocated to renewable energy, despite that financing needs in the sector are somewhere in the vicinity of US\$ 690 billion, based on a 2°C scenario.

Meanwhile, the bulk of investments in energy, 1.1 trillion dollars in fact, involve fossil fuels (extraction and transport, refining as well as construction of carbon-intensive power plants). If we extend these numbers to 2035, supplying

our societies with energy would represent 40 trillion dollars annuals, of which half would be dedicated to identifying new hydrocarbon deposits or building (obsolete) power plants. Considering investments in fossil fuels and carbon-intensive facilities, the current allocation of capital appears inefficient and requires reorientation toward low carbon assets in order to address climate issues. Money creation also remains neutral, in the absence of an adequate carbon signal price, despite it being imperative that authorities implement appropriate policies.

The financial sector is in the eye of the storm when it comes to climate issues, because of its vulnerability to carbon risks, and its role in financing. Furthermore, the weight of this sector in indices worldwide (20% of the MSCI World and 47% of the iBoxx bond index) exposes investors to a significant financial risk that makes it important to engage with the sector to ensure the long-term value of investments.

### 21112 Role of finance in financing the transition to a low carbon economy

As discussed earlier, players in the financial sector are progressively incorporating the risks of climate change. Commitments to divest from the companies emitting the most carbon, to calculate the carbon footprint of portfolios, interest in green bonds and increased investments in clean energy are concrete manifestations of this shift.

— 7 — The measures adopted so far, however, are far from being sufficient, as pointed out by the UNEP-FI in a working paper entitled 'Climate risk to global economy'. According to the UN, few financial institutions have taken the full measure of climate issues, and most do little to integrate these concerns in their decision-making process.

This sector needs to focus its priorities on defining an integrated climate strategy, meaning one that takes into account not only the investment risks, but also the opportunities associated with climate change. Doing so requires that areas of risk be identified for each business area, and integrated into

operational processes. It also demands that ambitious targets for financing the low carbon economy be established and met.

### 212 Integrating climate risks in financial products and services

Within the financial industry, climate risks will have different effects on specific activities. In the short term, we see two main sources of risk:

- **Regulatory risks:** the commitments that States are currently making to limit GHG emissions will most likely translate to new constraints imposed on economic actors in order to ensure that the goals being set are met. The financial sector may find itself directly affected via carbon risks, or indirectly, via its financing and investment activities in various sectors of the economy.
- **Reputational risks:** the increasing mobilisation of civil society in support of the struggle against climate change brings commensurate risks to bear on the financial sector, which is in the line of fire, for instance, from campaigns for fossil fuel divestment. These campaigns may also grow considerably as the effects of climate change materialise.

Looking ahead to the longer term, financial actors are also exposed to risks related to climate change itself, the impact of which it is difficult to define. This notwithstanding, integrating these risks in investment and financing strategies is crucial, given the risks described earlier, and the imperative of attenuating climate risks to achieve sustainable growth in our economies.

Thus, the materialisation of carbon and climate risks will result in considerable financial losses that are expected to vary according to the activities, meaning lower yields for financing activities, loss of asset value for asset management and insurance, and counterparty defaults for lending activities (see Figure 4, Primary carbon and climate risks in the financial sector, by business activity).

Figure 4. Primary carbon and climate risks in the financial sector, by business activity

	Main activities exposed to carbon/climate risks	Type of risk
<b>Financing and investment activities</b> Comprises investments and financing of projects and companies	<ul style="list-style-type: none"> <li>- Financing installations related to high-carbon assets that may prove unburnable (<i>stranded assets</i>).</li> <li>- Financing sectors with high exposure to regulatory risks associated with restricting GHG gases, such as coal.</li> <li>- Investments in companies exposed to climate risks</li> </ul>	<ul style="list-style-type: none"> <li>- Risk of lower yields on investment</li> <li>- Risk of defaults</li> <li>- Reputational risks</li> </ul>
<b>Savings</b> Covers all types of investment activities across the various asset classes (equities, bonds etc...)	<ul style="list-style-type: none"> <li>- Exposure of investments to high-carbon assets that may prove unburnable (<i>stranded assets</i>).</li> <li>- Investments in the equity or debt of players with high exposure to regulatory risks associated with restricting GHG gases</li> </ul>	<ul style="list-style-type: none"> <li>- Risk of asset depreciation</li> <li>- Risk of legal action regarding the fiduciary responsibility to investors</li> <li>- Reputational risks</li> </ul>
<b>Insurance</b> Covers term and whole life insurance and non-life products as well as asset management	<ul style="list-style-type: none"> <li>- Exposure to carbon risks</li> </ul>	<ul style="list-style-type: none"> <li>- Risk of asset depreciation</li> <li>- Reputational risks</li> </ul>

Source : Mirova.



To attenuate the underlying impacts these risks refer to, a number of measures could be adopted:

- Creating a topography of risks by type of activity and sector;
- Pinpointing carbon impacts associated with clients or products;
- Establishing stringent policies for each sector;
- Integrating climate risks in the decision processes governing investment and financing decisions;
- Measuring and tracking carbon impact;
- Collaborating with businesses to encourage them to make climate risks a component in their development strategies.

In addition to taking risks into account, it is essential that finance contribute to developing a low carbon economy in order to mitigate climate risks.

### 213 Reallocating capital toward the low carbon economy

#### 21311 Levers for financing the low carbon economy by type of activity

Financing the transition to a low carbon economy presupposes two strategies:

- Partial or total divestment from economic actors with high GHG emissions, and
- Massive investment in solutions aimed at mitigation or adaptation to climate change, such as clean energy and technology or financing green infrastructure projects, energy efficiency solutions etc.

Thus the issue is largely one of reallocating capital from carbon intensive sectors toward cleaner sectors. The financing mechanisms and vehicles can, in fact, be remarkably diverse, from investing in the stock of sustainable companies and green bonds, to infrastructure project financing, climate change derivatives etc. To be more specific, the contributions of various banking activities to the energy transition can be achieved in the following ways:

- **Retail banking:** Given their business of taking deposits, making and managing loans, and advising individuals, households or small businesses regarding savings vehicles, banks are in a position to offer eco-loans to individuals for buying real estate that respects high environmental standards, conducting renovations aimed at energy efficiency, or purchasing an electric vehicle. Retail banks can also offer savings vehicles directed toward financing the low carbon economy.
- **Corporate and investment banking:** Corporate and investment banks play a key role in financing the energy transition. Due to their broad range of activities, players

in this industry possess significant levers for reallocating capital into low carbon companies and/or sectors. Action can take the form of investments in the equity or debt of clean technologies, serve as originators for green bonds, or sponsor low carbon indices.

- **Asset management companies:** Like the previous category, these players possess considerable financing power and significant levers that can be put into effect by: developing savings vehicles with measurable environmental impact, such as targeted thematic funds, green bond funds, green infrastructure funds, renewable energy project funds etc.
- **Insurers:** Insurance activities are largely concerned with identifying and managing risk. For insurers, creating products that offer advantageous premiums correlated to climate benefits can contribute to climate change objectives. With regard to insurers' investment activities, levers will be identical to those of asset managers.

#### 21312 Strategy for engagement with the financial sector by type of activity

As discussed above, the financial sector has two mechanisms available for integrating climate change issues:

- **Taking into account the risks associated with climate change in the products and services offered by its various business activities;**
- **Reallocating financing toward solutions that support mitigation and adaptation solutions.**

Based on this observation, engagement with the financial sector can follow one of 3 avenues:

#### **Avenue 1: Disclosing banks' exposure to carbon and climate risks for all its activities.**

This entails that financial players measure the carbon impact associated with their investment and/or loan products and services on the one hand, and on the other that they evaluate their exposure to climate risks in terms of sectoral diversification.

#### **Avenue 2: Designing a climate strategy for each type of activity and communicating its objectives clearly.**

This involves encouraging financial players to establish a climate strategy that can serve as a roadmap for integrating climate change issues into their banking activities.

#### **Avenue 3: Establishing and publishing targets for contributions to financing the low carbon economy.**

This path focuses on encouraging financial players to undertake and make public commitments in the area of financing the low carbon economy.

The table presented here provides an overview of these pillars and their significance for the main business activities within banking.

**Figure 5.** Avenues for engagement with the financial sector on the topic of financing the energy transition, as applicable to the sector's main activities

	<b>Avenue 1</b> Disclosing exposure to carbon and climate risks	<b>Avenue 2</b> Designing a climate strategy for each type of activity and publishing its objectives	<b>Avenue 3</b> Publishing targets for contributions to financing the low carbon economy
<b>Corporate and Investment Banking</b> - Financing companies - Financing projects - Providing financial solutions for companies	Identifying environmental and social issues by sector/project type/geographical region, Evaluating exposure of financing/investments to climate and carbon risks, Evaluating the carbon footprint of financing/investments.	Design of a climate change strategy for financing and investment activities that integrates: - Sector-specific policies for risk mitigation and adaptation to climate change, - Targets that focus on reducing the carbon footprint of investments/ financing, - Objectives for the integration of climate change issues in financing decisions, such as incorporating carbon footprint in investment yield, - Targets for the financing of green assets, Implementation of a strategy for financing the low carbon economy, i.e. developing the green bond market or financing green technologies.	Implementation of reporting on the climate change strategy that includes: - Carbon footprint of financing and investments, - Portion of investments/ financing dedicated to the transition to a low carbon economy.
<b>Asset management</b> - Investments on behalf of third parties in equities, corporate or sovereign bonds, projects etc.	Defining investments' exposure to climate issues. Evaluating the exposure of investments to climate and carbon risks. Assessing the carbon footprint of investments.	Defining a responsible investment policy that incorporates objectives regarding: - Allocating savings to green assets, i.e. energy transition funds, green bond funds etc., - Integrating climate issues in portfolio construction and asset allocation - Integrating climate issues in portfolio construction and asset allocation - Reducing the carbon footprint of investments, - Engaging with issuers to encourage broader integration of climate risks in their strategies for business development.	Publishing reports on implementation of the responsible investment policy that include: - Metrics assessing the carbon impact of investments, - The proportion of investments allocated to solutions for achieving a low carbon economy, - Engagement initiatives supporting the struggle against climate change and the transition to a low carbon economy.
<b>Insurance</b> - Insuring persons and property Asset management	Defining investments' exposure to climate issues. Evaluating the exposure of investments to climate and carbon risks. Assessing the carbon footprint of investments.	Designing a policy for responsible insurers that includes targets in the following areas: - Management of climate risks as a component insurance policies - Inclusion of climate/ carbon issues in investments (cf. asset management). Contributing to scientific research aimed at identifying the risks and opportunities associated with climate change.	Cf. Asset Management

Source: Mirova.

### 3 | Conclusion

Climate change is a source of significant risks, but also opportunities for those actors with the foresight to anticipate changes to come at both the economic and societal levels. Furthermore, the transition to a low carbon economy cannot take place in the absence of strong political support, transformative technological innovations, and an ambitious financing strategy. Public authorities, private actors and financiers all have crucial roles to play in this revolution.

Because of its position at the heart of financing the economy, the financial sector is a true keystone of this edifice, whose participation in the struggle against climate change will have a determining impact on shaping the future economic growth and development that our future societies will live with. The challenges are of a magnitude with the stakes themselves, and effectively mobilising financial players will be key to success.

As a responsible investor, Mirova intends to fully shoulder its role in the transition to a low carbon economy. Beyond its choices of investment, which prioritise products and services that address sustainable development issues, and

tackling the difficulties of establishing a robust methodology for measuring the carbon footprint of its investments, while engaging alongside regulators to develop mechanisms with the power to move the transition toward a low carbon economy forward, **Mirova now seeks to galvanise the financial sector to action on the issue of building a low carbon economy.**

The engagement strategy will be implemented with support from the members of Mirova's engagement platform, and will revolve around two primary objectives:

- ➔ **Inciting players to integrate climate and carbon risks within their financing and investment activities, and**
- ➔ **Redirecting capital toward a low carbon economy.**



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Limited Company - Share Capital: €156 344 050  
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Registered Office: 21 quai d'Austerlitz - 75634 Paris Cedex 13