

Global Fixed Income Corporate Portfolio Carbon Footprint – Montreal Pledge

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The Montreal Pledge

- The Pledge was launched on September 25, 2014 at PRI in Person in Montreal
- By signing the Pledge, investors commit to measure and publicly disclose the carbon footprint of their investment portfolios annually
 - “The purpose of a carbon footprint is to better understand, quantify and manage the carbon and climate change related impacts, risks and opportunities in our investments.”
- CalPERS was the first U.S. signatory to the Montreal Pledge

PRI Principles for Responsible Investment

Montreal PLEDGE

About the Montréal Carbon Pledge

There is a strong scientific case for urgent and long-term action on climate change: the IPCC's 2014 Synthesis Report calls for fossil fuels to be phased out by 2100¹ and highlights that "limiting climate change would require substantial and sustained reductions in greenhouse gas emissions which, together with adaptation, can limit climate change risks"².

The PRI launched the Montréal Carbon Pledge at its annual conference, PRI in Person, in Montréal in September 2014. The Pledge commits those that sign it to measuring and disclosing the carbon footprint of part or all of their equities portfolio.

Measuring their carbon footprint helps investors better understand, quantify and manage climate change-related impacts, risk and opportunities. The Pledge aims to attract US\$3 trillion of portfolio commitment for COP21 in December 2015.

Today, there are over 50 investor signatories to the Pledge, including *Établissement du Régime Additionnel de la Fonction Publique (ERAFF)*, *PGGM Investments*, *Bâtirentre*, *CalPERS*, *University of California* and *The Building Owners and Managers Association of Canada (BOMA Canada)*.

www.montrealpledge.org

How to sign the Pledge:

Investors can sign the Pledge online at www.montrealpledge.org until 1 September 2015.

Your carbon footprint needs to be measured and disclosed by 1 December 2015 and annually thereafter on your website, annual report, sustainability report, responsible investment report or other publicly visible client/beneficiary reporting channel. You must also tell the PRI the proportion of your assets under management that have been measured.

The PRI does not prescribe how a carbon footprint should be undertaken, including whether you do this in-house, through an external provider, or which provider you use.

We do recommend though that you are transparent about your methodology and we provide practical guidance on the Pledge website.

For more information, please email montrealcarbonpledge@unpri.org

1 <http://www.ipcc.ch/report/ars/syr/>
2 http://www.ipcc.ch/news_and_events/docs/ars/syr_headlines_en.pdf

Carbon Footprint for Fixed Income

- Measures a corporate credit portfolio's carbon intensity relative to the benchmark index

Weighted Average Carbon Intensity = (Scope 1 + 2 Emissions / \$m Sales) X Weight

Scope 1: Direct emissions from sources owned or controlled by the company

Scope 2: Indirect emissions from consumption of purchased electricity

- Results
 - Total credit portfolio weighted average carbon intensity:
656 tons CO₂e¹ / \$m sales vs. 475 tons CO₂e / \$m sales for the GFI benchmark
 - Differential to benchmark driven by utilities exposure overweight
 - 20 companies = 75% of portfolio carbon intensity

¹ CO₂e = Carbon Dioxide Equivalent

Source: MSCI

Findings

- CalPERS is the first US public pension plan to disclose fixed income carbon footprint
- Bondholders have a contractual obligation with the issuer, whereas equity holders have ownership rights: equity holder engagement = driver of change
 - CalPERS' engagement strategy is Global Climate 100 = a high percentage of largest emitters in GFI portfolio will be included
- Carbon intensity is one of many factors when assessing credit risk
 - For the Utilities sector, considerations include:
 - Position in capital structure: First mortgage bonds historical low default rate, high recovery
 - Regulatory compact: Recovery of and return on capital costs
 - 25% reduction in carbon intensity over the last 10 years
 - Coal generation reduced from 50% to 30%
 - Increasing investment in renewables and gas generation
- Limitations to carbon footprint analysis
 - Data coverage
 - Carbon footprinting for fixed income is nascent