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
Carbon Footprint for Fixed Income

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

**Weighted Average Carbon Intensity** = \((\text{Scope 1 + 2 Emissions} / \$m \text{ Sales}) \times \text{Weight}\)

- **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 CO2e\(^1\) / $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