SBTs for Financial Institutions
Road Testing Launch Webinar

April 25, 2019
Today’s Speakers

Cynthia Cummis
Director of Private Sector Mitigation
World Resources Institute

Giel Linthorst
Director
Navigant

Stanislas Dupré
Founder & CEO
2 Degrees Investing Initiative

Nate Aden
Senior Fellow
World Resources Institute
## Today’s Discussion

<table>
<thead>
<tr>
<th>Topic</th>
<th>Time</th>
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<tbody>
<tr>
<td>Overview of SBTi and method road testing process</td>
<td>15 min</td>
</tr>
<tr>
<td>Draft method descriptions and instructions</td>
<td></td>
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<tr>
<td>• Emissions based approaches:</td>
<td>30 min</td>
</tr>
<tr>
<td>• Real Estate, Electricity Generation Project</td>
<td></td>
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<tr>
<td>• Finance and Corporate Instruments</td>
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<tr>
<td>• Technology based approaches:</td>
<td>30 min</td>
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<tr>
<td>• Corporate Instruments</td>
<td></td>
</tr>
<tr>
<td>Data access and summary</td>
<td>10 min</td>
</tr>
<tr>
<td>Next Steps</td>
<td>5 min</td>
</tr>
</tbody>
</table>
Science Based Targets Initiative

The Science Based Targets initiative mobilizes companies to set science-based targets and boost their competitive advantage in the transition to the low-carbon economy.
What are Science Based Targets?

“GHG emissions reduction targets that are consistent with the level of decarbonization that, according to climate science, is required to keep global temperature increase within 1.5 to 2°C compared to pre-industrial temperature levels.”

- SBTs are consistent with the long-term goal of reaching net-zero emissions in 2nd half of century
- Timeframe drives short-term action and enables accountability (5-15 years)
Almost 40 financial institutions have publicly committed to setting emissions reduction targets through the Science Based Targets initiative (SBTi) and an additional 70 reported to CDP in 2017 that they intend to set a science-based target within the next two years.

To help them align with the ambition of the Paris Agreement, the SBTi is developing a framework for financial institutions to set science-based targets for their investing and lending portfolios.

The project audience includes universal banks, pension funds, insurance companies and public financial institutions.
### Building Momentum

Since officially launching in June 2015

<table>
<thead>
<tr>
<th>Count</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>864</td>
<td>Companies have reported to CDP that their intention to set a SBT by 2019</td>
</tr>
<tr>
<td>550</td>
<td>Companies have formally joined the SBTi</td>
</tr>
<tr>
<td>200</td>
<td>Companies have approved targets</td>
</tr>
<tr>
<td>~5</td>
<td>Companies join the initiative on average every week</td>
</tr>
</tbody>
</table>

Updated on April 24th, 2019
Welcome road testers!

The road testing process is intended to gather feedback from the project audience to ensure **target-setting method practicality** and **credibility** for financial institutions. Feedback from road testers will inform method revisions and the final framework.

43 financial institutions are road testing the methods, representing 5 institutional types and 17 countries.
Road Testing Process and Resources

**SBTi Resources**
- Recording and slides

**Road Testers Input**
- Method assessment survey, including:
  - Modelling results
  - Feedback on method validity
  - Optional additional comments

**Launch webinar**
- April 25

**10-week road test period**
- April - July

- Road testing instruction and methods
- Data provider support
- Method developer support

**Workshops to discuss feedback**
- September

- Summary of road tester feedback

Next phase of the project

In addition, we will launch a stakeholder process for non-financial institutions (consultancies, academia, NGOs, etc.) to provide feedback. Draft methods will be shared with stakeholders and a separate survey will be distributed to collect feedback.
Overview of the two approaches

**SDA**

**Input:**
Emissions and Activity data, reported by the investee/borrower

**Output:**
Reduction of emission intensity in % for the sector in the scenario

**SEIm**

**Input:**
Technology deployment (current and future) for each investees/borrowers directly available via business intelligence databases

**Output:**
Retirement/deployment of the technology in the scenario
## Application of the methods by asset class

<table>
<thead>
<tr>
<th>Asset class</th>
<th>SDA</th>
<th>SEIm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project finance (equity or debt)</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Requires the ad hoc creation of custom ‘2D benchmarks’</td>
</tr>
<tr>
<td>Private equity</td>
<td>△</td>
<td>✔</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Listed equities</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Online and automated</td>
</tr>
<tr>
<td>Corporate bonds (and energy-related sovereigns)</td>
<td>△</td>
<td>Only if reporting by the investee or provided by data provider</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Online and automated</td>
</tr>
<tr>
<td>Corporate loans</td>
<td>△</td>
<td>✔</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real estate loans and equity</td>
<td>✔</td>
<td>✗</td>
</tr>
<tr>
<td>Mortgage</td>
<td>✔</td>
<td>✗</td>
</tr>
</tbody>
</table>
Spectrum of data collection requirements

Need to collect data from investees/borrowers on their activities

Application of emission factors to sector exposure (assumed to be available)

Data on investees available in databases

Plug-and-play calculation tool including data per investee/borrower

**SDA (PE, corporate loans, bonds)**

**SDA** (mortgages and real estate)

**SDA** (listed equities, real estate)

**SEIm** (via PACTA tool)
Road Tester Commitments and SBTi Support

Road testers are expected to:

- Successfully complete road testing within ten (10) weeks. Road testing is estimated to take 8 to 40 hours per method.
- Submit target modeling results for each asset class. These will be held in confidence. Road testers may share only as much information about their modeling results as they wish and are not required to publicly state their participation.
- Provide detailed feedback on practicality and robustness of methods.
- Participate in a workshop or webinar to discuss the practicality of the methods.
- Consider developing examples or brief case studies for inclusion in the final framework.

We will provide the following support:

- Road testing instructions and assessment survey
- Recorded launch webinar and slides
- Ad hoc support throughout road testing process, including written responses via emails and one on one calls with method developers
- List of data providers
- Summary of road testing feedback.

Method developers (Navigant and 2°ii) will be available to answer method-specific questions.
Road testing instruction and assessment survey

- The road testing instruction includes instructions for completing the road testing process and questions on methods’ validity and practicality that we’d like road testers to answer.
- The methods assessment survey will be distributed to collect modelling results and feedback on the methods. It includes questions we listed in the instruction for each method, as well as fields to upload target modelling results and comment sheets (optional).

On the first page, road testers can select methods they want to test and will be directed to pages with methods instructions and questions for the selected methods.

1st page of assessment report

Asset class method page

Method page will contain questions on methods’ practicality and validity and fields to upload modeling result and detailed comments to the drafts (optional). Modeling results will be held in confidence. NDA can be signed upon request.

Please review the road testing instruction and fill out the assessment report before Friday, July 5th for your feedback to be considered.
Please use excel sheet to log detailed comments

If you would like to provide detailed comments to the methods, please use the “SBT-FI Method Comment Sheet” to log detailed feedback and upload in the final page of the survey. Besides the link here, The sheet has also been emailed to road testers and attached in the survey.
Method Feedback Questions for Road Testers

Method assessment reports will include **overarching questions for all methods** and asset-class-specific questions. Here are overarching questions:

- Is the draft method practical to apply?
- Is it useful for target setting and decision making to drive institutional alignment with a Paris-aligned climate stabilization pathway?
- Which data sources did you use for the method (e.g., primary data or secondary data)?
- What challenges did you encounter while applying the method?
- Do you think setting absolute emissions targets could be meaningful for this asset class? Examples of absolute target setting are provided for relevant asset class methods.
- To support the SBT for this asset class, would it be useful to have additional targets related to actions?
- Can you suggest alternative target setting methods for this asset class?
Emissions-Based Approaches
SDA for Mortgages
Method Overview

A financial institution can align its mortgage portfolio with the Paris Agreement and set an emissions reduction target using the Sectoral Decarbonization Approach (SDA):

Emissions intensity (kgCO$_2$/m$^2$) of mortgage portfolio of financial institutions converges to same emissions intensity as global pathway for residential buildings in 2050.
SDA for Mortgage

**Inputs**

1. Scope 1 & 2 emissions of buildings (or energy performance to calculate emissions)
2. Gross floor area (m²)
3. Portfolio growth rate (%) in target year

**Input Data source**

- Actual energy performance data of buildings; or
  - EU Buildings Database
  - EIA Residential Buildings Energy Consumption Survey 2015
  - More on data support at the end

**Key Assumptions**

1. All buildings will do its fair share of emission reduction towards 2°C or below
2. Global pathways assume converging of the same emission intensity for buildings across regions in 2050
3. SDA relies on pathways’ assumptions on cost, technology, market and demographic

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Method Overview

A financial institution can align its real estate portfolio with the Paris Agreement and set an emissions reduction target using the Sectoral Decarbonization Approach (SDA):

Emissions intensity (kgCO$_2$ / m$^2$) of real estate portfolio of financial institutions converges to same emissions intensity as global pathway for residential and service buildings in 2050.
## SDA for Real Estate

### Inputs
- Scope 1 & 2 emissions of buildings (or energy performance to calculate emissions)
- Gross floor area (m²)
- Portfolio growth rate in target year

### Input Data source
- Actual energy performance data of buildings; or
- GRESB
- EU Buildings Database
- EIA Commercial Buildings Energy Consumption Survey 2012
- EIA Residential Buildings Energy Consumption Survey 2015
- More on data support at the end

### Key Assumptions
- All buildings will achieve fair share of emission reduction towards 2°C or below
- Global pathways assume converging to the same emission intensity for buildings across regions in 2050
- SDA relies on pathways’ assumptions on cost, technology, market and demography.

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Assume a financial institution has a global mortgage portfolio of residential buildings. Based on energy consumption, building certificates or other data the emissions of these buildings are assessed for 2017 and for the target year of 2030.

\[
Portfolio \text{ intensity target} = (P_{2017,i} - S_{2050,i}) \times \frac{(S_{2030,i} - S_{2050,i})}{(S_{2017,i} - S_{2050,i})} \times \frac{(P_{2017,i} - S_{2017,i})}{(P_{2030,i} - S_{2030,i})} + S_{2050,i}
\]

The expected growth rate (11%) from 2017 to 2030 is used to estimate floor area in target year.

See detailed calculations in the methodology document.
Method Specific Questions: SDA for Mortgage and Real Estate

• To support the SBT for this asset class, would it be useful to have additional targets related to actions?
• Should the area denominator data cover total built space or usable (rented) space?

• What actions could be helpful to reduce your asset class level emissions?
  • Engage and support clients to improve buildings’ emission data transparency (e.g. encourage energy or emission data disclosure, encourage clients to set a science-based target, etc.)
  • Engage and support clients to improve energy performance (e.g. provide financial instruments to support abatement measures, incentivize improvement through preferential assessment, etc.)
  • Divert new investment towards low-carbon buildings (e.g. set mandate for maximum carbon intensity for new investment)
  • Discontinue investment in buildings that are inconsistent with decarbonization pathway at the end of the investment maturity
  • Shift existing portfolio away from carbon-intensive buildings: divesting from high-carbon buildings does not necessarily lead to decarbonization in the real economy since these buildings may still exist and continue to emit high carbon emissions. Therefore, financial institutions are encouraged to prioritize the first three actions
SDA for Electricity Generation
Project Finance
Method Overview

A financial institution can align its electricity generation project finance portfolio with the Paris Agreement and set an emissions reduction target using the Sectoral Decarbonization Approach (SDA):

Emissions intensity (kgCO$_2$/kWh) of real estate portfolio of financial institutions converges to same emissions intensity as global pathway for the power generation sector in 2050.
# SDA for Electricity Generation Finance

<table>
<thead>
<tr>
<th>Inputs¹</th>
<th>Input Data source</th>
<th>Key Assumptions²</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Outstanding loans or equity in projects</td>
<td>• No other data source are needed</td>
<td>• All power generation projects will do their fair share of emission reduction towards 2°C or below</td>
</tr>
<tr>
<td>• Total investment amount of projects/ project value at time of investment</td>
<td>• If Scope 1 emissions is unknown, emissions factors translating the fossil fuel used to emissions can be derived from IEA</td>
<td>• Global pathways assume converging to the same emission intensity across regions in 2050</td>
</tr>
<tr>
<td>• Current energy production (kWh)</td>
<td></td>
<td>• SDA relies on pathways’ assumptions on cost, technology, market and demography</td>
</tr>
<tr>
<td>• Future energy production (kWh) or portfolio growth target (%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Scope 1 emissions from projects</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Assume a financial institution has a project finance portfolio of various power generation projects. Based on power output and fuel type, the emissions of these projects are assessed for 2017 and for the target year of 2030.

The expected growth rate (12%) from 2017 to 2030 is used to estimate power generation (kWh) in target year.

See detailed calculations in the methodology document.
Method Specific Questions: SDA for Electricity Generation Finance

• To support the SBT for this asset class, would it be useful to have additional targets related to actions?

• What actions could be helpful to reduce your asset class level emissions?
  • Engage and support clients in pre-project phase (e.g. encourage adoption of low-carbon technologies in due diligence phase)
  • Engage and support clients to improve projects’ emission data transparency (e.g. encourage energy or emission data disclosure, encourage clients to set a science-based target, etc.)
  • Engage and support clients to improve performance (e.g. provide financial instruments to support abatement measures, incentivize improvement through preferential assessment, etc.)
  • Divert new investment towards low-carbon projects (e.g. set mandate for maximum carbon intensity for new investment)
  • Shift existing portfolio away from carbon-intensive projects; divesting from high-carbon projects does not necessarily lead to decarbonization in the real economy since these projects may still exist and continue to emit high carbon emissions. Therefore, financial institutions are encouraged to prioritize the first three actions
SDA for Corporate Instruments
A financial institution can align its corporate debt and equities finance portfolio with the Paris Agreement and set an emissions reduction target using the Sectoral Decarbonization Approach (SDA):

An emission intensity target (e.g. kgCO₂ / tonne production) should be set at the portfolio level for sectors covered by SDA:

- Power generation
- Cement
- Iron & steel
- Aluminium
- Pulp & paper
- Transport
- Buildings

Sector targets shall converge to the same emissions intensity as global pathway for the sector in 2050.

*An Excel-based tool is available for setting sectoral emission intensity targets: [https://sciencebasedtargets.org/sda-tool/](https://sciencebasedtargets.org/sda-tool/)

*SBTi recently released a new [Science-based Target Setting Tool](https://sciencebasedtargets.org/sda-tool/). This new integrated target-setting tool for companies includes the Sectoral Decarbonization Approach with updated temperature pathways.*
# SDA for Corporate instruments

## Inputs
- Enterprise value & total investment amount; or share of market cap (equity only)
- Current production volume (e.g. tonnes)
- Future production volume (e.g. tonnes) or portfolio growth target (%)
- Companies’ scope 1 and 2 emissions

## Input Data source
- Public disclosure of emissions data of companies
- Asset-level data (via PACTA-tool)
- More on data support at the end

## Key Assumptions
- All sectors will do their fair share of emission reduction towards 2°C or below
- Global pathways assume converging to the same sectoral emission intensity across regions in 2050
- SDA relies on pathways’ assumptions on cost, technology, market and demographic, as modelled by IEA

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SDA for Corporate instruments – an example

Assume a financial institution has a corporate instrument portfolio of 10 cement companies. Based on company disclosed emissions and production data, the emissions intensity of the portfolio is calculated for 2017 and for the target year of 2030.

\[
\text{Portfolio intensity target} = (PI_{2017,i} - SI_{2050,i}) \times \left( \frac{SI_{2030,i} - SI_{2050,i}}{SI_{2017,i} - SI_{2050,i}} \right) \times \left( \frac{PA_{2017,i} - SA_{2017,i}}{PA_{2030,i} - SA_{2030,i}} \right) + SI_{2050,i}
\]

The expected growth rate (15%) from 2017 to 2030 is used to estimate portfolio cement production in target year.
Method-Specific Questions: SDA for Corporate Instruments

• How does SDA compare with PACTA and investee engagement for corporate instruments? Could these methods be usefully combined?

• To support SBTs for this asset class, would it be useful to have additional targets related to actions?

• SDA requires physical activity data for denominators—are these data sufficiently available? What secondary data are available for institutions that don’t have primary data?

• Is the SDA’s sector-level approach useful and appropriate for corporate instruments?
SBT Portfolio Coverage
SBT Portfolio Coverage for Corporate Instruments

- A method whereby financial institutions have a minimum percentage of their investees (in monetary or GHG emissions terms) to have *their own science-based targets*.

- The method is a financial sector analogue to supplier engagement targets for ‘real economy’ companies’ scope 3 emissions.

- Examples of approved supplier engagement targets:
  - Japanese multinational chemical company Sumitomo Chemical commits that 90% of its suppliers by product weight will institute science-based GHG reduction targets by 2024.
  - Multinational enterprise information technology company Hewlett Packard Enterprise commits that its manufacturing suppliers covering 80% of spend will set science-based targets by 2025.
SBT Portfolio Coverage Method Overview

Potential target requirements for validation by the initiative:

- **Boundary:** FIs may set SBT Portfolio Coverage targets covering a minimum 30% of their investees by GHG emissions, assets under management or market capitalization.
- **Timeframe:** targets must be fulfilled within a maximum of 5 years from the date the FI’s target is submitted to the SBTi for an official validation.
- **Level of ambition:** The FIs investees shall have science-based emission reduction targets on their scope 1 and 2 emissions.

Potential recommendations

- Investees in sectors with high scope 3 emissions are encouraged to set scope 3 targets as well.
- Investees can use SBTi resources to set targets but validations by SBTi would not be required.
- Investors can track whether investees have SBTs through their reporting to CDP or annual sustainability reports.
Inputs

• Scope 1 and 2 emissions per investee. Scope 3 emissions are optional to include, OR
• Current assets under management by investee and projected percentage increase in investment

Output

An illustrative example of a target:

• Investment firm A commits that 30% of its equity portfolio by market capitalization will have science-based targets by 2024.
Method Specific Questions: SBT Portfolio Coverage

• Is the 30% SBT coverage threshold appropriate? If not, what threshold would you recommend?

• Is assets under management (AUM) a meaningful economic metric for target setting? If not, what alternative metric would you recommend?

• Would the investee engagement method be best applied to corporate debt and equity asset classes? How about pairing with other methods?

• How should an FI determine if an investee have an SBT?
Technology-Based Approaches
PACTA tool
SEIM application to
Project finance
Private & listed equities
Corporate and sovereign energy-related bonds
Corporate lending
Methods, tools, data…
Disentangling the different layers

- Developing management system for Fis target setting
- Automating the analysis of investment and lending portfolios
- Applying climate scenario analysis to companies & portfolios
- Use of physical asset level data from business intelligence

Framework under development in the context of the [INVECAT] project

Scenario analysis software [PACTA] based on SEIM and SDA

Creation of the first methodological framework [SEI Metrics] on the topic

Creation of a database [PAM] now managed by our spin off ADP
SCENARIO ANALYSIS IN THE FINANCE SECTOR
Comparing deployment of energy technologies with 2D roadmaps

Data on physical asset & CAPEX / production

For renewable power capacity additions in

Compared with

Technology roadmaps (aka climate scenarios)

SEI Metrics - Project financed by the European Commission
DATA PROCESSING
Step 1: Business intelligence data

- Securities / loans
- Parent companies
- Owners
- Physical asset data
- Climate scenarios

Portfolios

230,000+ assets covering 75% of CO2 emissions

- Power
- Coal mining
- Oil & gas upstream
- Auto manufacturing
- Cement
- Steel
- Aviation
- Shipping

22k oil and gas fields, 2k coal mines, >100k power plants, 95M produced cars, 36k airplanes, 10k ships, 2,200 cement factories, 13k steel plants

Real estate & land use not covered
DATA PROCESSING

Step 1: Business intelligence data

Portfolios

Climate scenarios

Securities / loans

Parent companies

Owners

Physical asset data

230,000+ assets covering 75% of CO2 emissions

ASSET CAPACITY AND ACTIVITY LEVELS
Potential and actual activity levels for the asset (MW/MWh, cars produced, etc.)

ASSET AGE
Initial age of operation, expected lifetime, retrofits

ASSET ECONOMICS
Production cost, capex, or valuation

FUTURE ASSETS
Announced/under construction/permitted/order books as well as existing assets

ASSET EMISSIONS/ESG
INFORMATION
CO2 emissions, water use/stress, etc.

ASSET LOCATION
Geolocation (lat/long; stationary assets) or country
DATA PROCESSING
Step 1: Business intelligence data

- Securities / loans
- Parent companies
- Owners

Physical asset data

Climate scenarios

Portfolios

Power generation (capacity)
- 6,887 GW
- 5,995 GW
- 3,950 GW

Global benchmark (source: IEA, 2017)

Asset-level data in the database

Financially-mapped data

AUTOMOTIVE (annual production)
- 97.3 million vehicles / year
- 95.9 Mv / year
- 93.1 Mv / year

Close to 100% coverage globally
DATA PROCESSING
Step 2: Matching assets with 35,000+ companies

Sources: Asset level databases, Ownership trees data
Step 3: Energy transition profiles of all equities, corp bonds & loans...

Automated matching based on ISIN for securities
Fuzzy matching algorithm for bank loans and PE
DATA PROCESSING
Step 4: Aggregation at portfolio level

Comparison with the 1.5°C, 2°C, 4°C... scenarios from the IEA, BNEF, Greenpeace...

Suggested ‘alignment’ target by technology
## OUTPUTS

Indicators to calculate the starting point and calibrate the target

<table>
<thead>
<tr>
<th>Capacity (GW)</th>
<th>Production (Tons)</th>
<th>Capacity (Barrels, M²)</th>
<th>Production (Vehicles)</th>
<th>Production (Tons)</th>
<th>Production (Tons)</th>
<th>Fleet (planes)</th>
<th>Fleet (vessels)</th>
</tr>
</thead>
</table>

- By primary energy
- By type
- By type and cost
- By engine type and model
- By carbon intensity
- By carbon intensity
- By carbon intensity
- By carbon intensity

- We directly compare technology deployment with the 2D scenario
- Locked-in carbon emissions are estimated and provided on demand
  They can be compared to sectorial carbon budget (same results)

- The company profile is compared to the scenario based on carbon intensity (similar to SDA approach but only for the technology)
TCFD REPORT AUTOMATICALLY GENERATED FOR EACH PORTFOLIO

The analysis takes < 1 min,

Only requires ISIN codes and amounts,

Free of charge and confidential
TOOL FOR BANKS
20 banks + 1 supervisor

KATOWICE GROUP

ING
SocGen
BBVA
BNP PARIBAS

RESPONSIBLE BANKING PRINCIPLES

JAPANESE BANKING SUPERVISOR

Financial Services Agency

Software installation

- NDA 1
- Onboarding 1
- Loan book data cleaning 1
- Matching with our data 4
- Calibration & calculation 2
- Results analysis 1

TCFD report (similar as for investors)

3 month waiting list
PACTA tool
Module for target-setting and related engagement
RESPONSIBLE MARKETING PRINCIPLES

The target setting tool is based on the application of these principles

REALITY-BASED - Financial institutions are expected to avoid ambiguous statements equating the deployment of any approach (the means) with a reduction of environmental impacts in the real economy (the end). In particular:

- Refraining from equating an evolution of the boundaries of its portfolio of assets (e.g. divestment from an entity owning a coal-fired power plant) with a reduction of environmental impacts in the real economy (e.g. closure of a coal-fired power plant replaced by renewables);
- Refraining from equating an increase in its allocation to certain financial assets (e.g. increase in green bond exposure, or assets under management in green funds) with an increase of investments in the real economy (e.g. increase in capital expenditures in the green projects).

EVIDENCE-BASED – An institution that believes the deployment of an investment/lending approach (such as divestment from certain assets, the increase in allocation to other assets or the deployment of a certain tools) will lead indirectly to a reduction of environmental impacts in the real economy shall refrain from making unsubstantiated claims by equating assumptions with facts. The institution should lay out its thesis and discuss the existence of scientific evidence associated with each assumption made (ex-ante) for the specific case. As part of its monitoring and reporting activities, the organisation should collect further evidence (ex-post) and report how they support - or contradict - its thesis. This evidence-building process should also be used to support ex-ante assessment, and the continuous improvement of the approaches.
RESPONSIBLE MARKETING PRINCIPLES
The target setting tool is based on the application of these principles

ADDITIONAL - An institution should refrain from making statements suggesting that the environmental impacts of its investees and borrowers can automatically be credited to its investment/lending strategy and/or report these impacts as if the financial institution itself was delivering them. This involves refraining from suggesting that:

- The provision of financing to green activities brings a critical contribution to their development, if these activities do not face difficulties to access finance in the first place;
- Its refusal to finance brown activities prevents their access to finance, if the evidence suggests that the effect is fully offset by other financial sector players;
- Its strategy triggered the environmentally-friendly practices of investees/borrowers if their decision were already made or have been primarily driven by other factors.

MANAGED - Claims regarding an objective to ‘contribute’ to the achievement of environmental goals or the setting of a target require a management system to deliver on these objectives. A management system aiming specifically at this objective must include:

- An unambiguous statement of the objective endorsed by the governance body,
- The planning and deployment of investment/lending techniques consistent with this objective,
- A monitoring system for assessing the effectiveness of these means in achieving the objective, and iv) a mechanism to ensure continuous improvement.
MAIN FOCUS OF PACTA APPROACH: ENGAGEMENT
Cascading a portfolio target to investees/clients targets

- Portfolio scenario analysis
- Engagement on climate trajectory
  - Proxy resolutions
  - Conditional lending

Target at company level
Target at portfolio level
PACTA TOOL
New 2019 module: investee profile & suggested target

TCFD REPORT AUTOMATICALLY GENERATED FOR EACH COMPANY IN THE PORTFOLIO

Analysis based on asset level data

+ sent to all companies targeted by engagement activities for review & comments

www.transitionmonitor.com
PACTA TOOL
New 2019 module: target-setting

www.transitionmonitor.com

Selection of climate actions (voting, conditional lending…) in a pre-established list to build the related action plan

TARGETS AUTOMATICALLY CALCULATED FOR EACH PORTFOLIO AND INVESTER/CLIENT
# PACTA TOOL
New 2019 module: target-setting

<table>
<thead>
<tr>
<th>Scenario analysis</th>
<th>Selection of actions</th>
<th>Investee targeting</th>
<th>Impact monitoring</th>
</tr>
</thead>
<tbody>
<tr>
<td>‘Gross’ science-based trajectory by technology</td>
<td>List of climate actions to be implemented (engagement, divestment, etc.)</td>
<td>Priorization of companies based on multiple criteria (e.g. target of shareholder action campaign)</td>
<td>Tracking the evolutions of the physical assets and production (to identify impacts)</td>
</tr>
<tr>
<td>Cascaded into a generic suggested trajectory by investee (starting point of the conversation)</td>
<td>Description of expected results (in the real economy)</td>
<td>Suggested requests (based on asset base, capex plans and economic analysis)</td>
<td>Documentation of actions undertaken</td>
</tr>
<tr>
<td><strong>Company report</strong> (to be sent for review)</td>
<td>Ex-ante evidence available to support the analysis</td>
<td>Company report v2 integrating feedback</td>
<td>Analysis of the results and effectiveness of the approach</td>
</tr>
</tbody>
</table>
Potential target output examples per draft method

**Mortgages/SDA:** Financial institution A commits to reduce its mortgage portfolio GHG emissions ___% per square meter by 2030 from a 2017 base-year.

**Real estate/SDA:** Financial institution A commits to reduce its real estate portfolio GHG emissions ___% per square meter by 2030 from a 2017 base-year.

**Electric generation project finance/SDA:** Financial institution A commits to reduce its electricity generation project finance portfolio GHG emissions ___% per kWh by 2030 from a 2017 base-year.

**Corporate instruments/SDA:** Financial institution A commits to reduce GHG emissions from the steel sector within its corporate lending portfolio X% per ton of cement by 2030 from a 2017 base-year.

**Corporate instruments/PACTA:** Financial institution A commits to increase installed capacity in renewable electricity by ____ MW by __[year]__ across the __[asset class]__ portfolio companies that we are specifically targeting in the context of our climate actions.

**Corporate instruments/SBT Portfolio Coverage:** Investment firm A commits that 30% of its equity portfolio by market capitalization will have science-based targets by 2024.
No-cost default data option

If you need data support, please directly contact:
Joseph Ben Salem
ISS
+44 (0) 203 192 5755
joseph.bensalem@issgovernance.com

• We thank ISS ESG, who generously offered to provide off-the-shelf datapoints to interested road testers free of charge. Certain limitations might be applied.
• Data can only be used internally, for a limited time and for road testing only. Users need to sign a respective agreement.
• Free data comes “as is” - advice or bespoke research can be added on a ‘for pay’ basis.
• Other data providers can provide data and assistance for a fee.
Next steps: criteria discussion and consultation

While the road test focuses on target setting methods for portfolio alignment, we will address the **role of action targets and divestment** when we prepare the target validation criteria document for consultation.

**Commit to SBTi at Institutional Level**

**Asset Class Materiality Assessment**

**Portfolio Alignment Hotspot Assessment**

**Set SBTs at Asset Class Level**

**Take Action**

- Investee engagement (ACT initiative, CA100+, SBTi)
- Sustainable real asset (GRESB)
- Sector standards

We are here

- Real Estate
- Mortgage
- Electricity Generation Project Finance
- Corporate Equity and Debt

To be refined after road testing
Thank you! Here are the key contacts for questions.

For questions related to the SBT Portfolio Coverage method for corporate instrument, the road testing process, and the Science Based Targets initiative, please contact Nate Aden, Senior Fellow, World Resources Institute, nate.aden@wri.org or Chendan Yan, Research Analyst, World Resources Institute, chendan.yan@wri.org.

For questions related to the other emissions based approaches, please contact Giel Linthorst, Director, Navigant giel.linthorst@navigant.com or Kaboo Leung, Senior Consultant, Navigant, kaboo.leung@navigant.com

If you need ISS data support, please contact Joseph Ben Salem, ISS at +44 (0) 203 192 5755, joseph.bensalem@issgovernance.com.

For questions related to the technology based approaches, please contact Florence Palandri, Analyst, 2º Investing Initiative, florence@2degrees-investing.org, +44 77 08 32 90 90

- 2º Investing Initiative also provides free, online, fully automated equity and bond portfolio analysis (www.transitionmonitor.com)
- The team provides a desktop software version for assessing loan books and PE. The software and related support service are provided free of charge.
- The underlying data covering about 52,000 legal entities (issuers and their subsidiaries) is provided as part as the analysis of the portfolio.