As a global investor, we are aware of the risks climate change presents to our investments and as such we are committed to playing our full part in addressing the issue of climate change. This policy is aimed at increasing the climate resilience of our clients' investments as well as contributing towards financing the transition to a low carbon economy. We see this as consistent with our fiduciary duties to our clients.
The climate change challenge

A rapidly changing climate represents an urgent threat to habitats, societies and economies around the world. This was recognised in 2015, when 195 countries signed the Paris Climate Agreement, committing countries to transition to a lower carbon economy and limit the global average temperature rise to well below 2 degrees Celsius (°C) above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5 °C.

The 2018 Intergovernmental Panel on Climate Change (IPCC) Special Report on Global Warming of 1.5 °C highlights that the lower target of 1.5°C warming will be reached by 2040 on current emissions levels unless global carbon dioxide (CO2) emissions decline by 45% by 2030 and reach ‘net zero’ by 2050. The report outlined the benefits of aiming for the lower threshold but recognised that this would require rapid, far-reaching and unprecedented changes in all aspects of society.

Given the scale and speed of the transition that is required, even an orderly transition will impact how companies operate now and in the future. This transition risk – alongside physical risks and liability risk – is one of the three channels through which Bank of England Governor Mark Carney sees climate risk affecting financial stability. The changes are already creating investment risks and opportunities, and they will only gather pace going forward.

Our strategic response

Our climate change policy is aimed at increasing the climate resilience of our clients’ investments, as well as contributing towards financing the transition to a low-carbon economy.

We aim to:

1. **Deliver** lower-carbon investment solutions and opportunities that meet our clients’ investment criteria while meeting their risk and return objectives
2. **Identify and integrate** the climate-related risks and opportunities presented by climate change and climate policy in our investment portfolios, using relevant data and analysis – including scenario analysis – to inform our investment decisions
3. **Engage** with investee companies to better understand and support their disclosure and management of the risks and opportunities presented by climate change and climate policy. We engage directly and collaboratively, using our voting decisions to escalate issues where appropriate
4. **Disclose** publicly and to our clients the actions we have taken and the progress we have made in addressing climate-related risk and investing in climate-related solutions
5. **Advocate** for a supportive policy framework, working with policymakers to support their efforts to implement measures that encourage capital deployment at scale to finance the transition to a low-carbon economy and encourage investment in climate-change adaptation
Task Force on Climate-related Financial Disclosures (TCFD)

We are strong supporters of – and an early signatory to – the disclosure recommendations of the Financial Stability Board’s Task Force on TCFD. We started disclosing our equity portfolios’ carbon footprint as signatories to the Montreal Carbon Pledge in 2015, we published our first Climate Change Policy in 2016, and publicly disclosed our responses to the PRI TCFD-aligned questions in our 2017/18 Transparency Report.

Our responses to the four recommended areas of disclosure – governance, strategy, risk management, and metrics and targets – are outlined below. These will continue to evolve.

Governance
The integration of climate-related risks and opportunities into our investment decisions, alongside integration of all material ESG considerations, lies with our Global Chief Investment Officer (CIO). Our asset-class CIOs and investment teams are responsible for integrating ESG issues into their respective investment decisions, supported by our ESG specialists.

Strategy
As a global investor, we are aware of the risks climate change presents to our investments and, as such, we are committed to playing our full part in addressing the challenge of climate change. Without global action, investors’ holdings, portfolios and asset values will be impacted in the short, medium and long term. From an investment perspective, the transition to a low-carbon economy presents both risks and opportunities.

The primary areas are identified below:

- **Transition risk** – the structural changes required for a global movement from a high-carbon to a low-carbon economy could result in a reassessment of the value of a range of assets. This could be driven by higher explicit or implicit carbon prices as a result of tighter environmental regulations, the adoption of energy-efficient and disruptive technologies, or market changes. There are also early indications that large carbon emitters may be found liable for damages associated with the direct impact of their activities on the environment, or with inadequate disclosure related to their climate risks.

- **Physical risk** – more frequent and severe climate events, as well as longer-term shifts in climate patterns, could result in the devaluation of assets due to physical damage to property and facilities, disrupted global supply chains and reduced access to natural resources.

- **Climate opportunities** – at an operational level, companies can benefit from efficiency and cost savings associated with reducing greenhouse-gas emissions. There is also a growing market for existing and new disruptive technologies focused on reducing the climate impact. Our strategy is to identify and integrate the climate-related risks and opportunities presented by climate change and climate policy in our investment portfolios, using relevant data and analysis to deliver more resilient portfolios and lower-carbon investment solutions and opportunities for our clients.
Over the last two years we have worked with an external provider to explore the impact of six illustrative low-carbon climate-transition scenarios on equity valuations, including a review of the implications of a 1.5 degree approach. We also explored the implications of the various scenarios on corporate credit valuations.

Based on this analysis we issued a report of our high-level findings (Low-carbon transition scenarios: Exploring scenario analysis for equity valuations) which was featured as a case study in the IIGCC report ‘Navigating climate scenario analysis’. We continue to be an active member of the IIGCC ‘Investor Scenario Analysis’ Working Group.

We advocate for a strong and supportive policy framework to deliver on the systemic change and capital deployment at the scale required to transition to a low-carbon economy. As an example, we are also active members of the IIGCC Policy Working Group and signed the 2018 Global Investor Statement.

Risk Management

Climate Change is a core ESG consideration for us and, as such, we integrate climate-risk management in our overall approach. We address climate risk at three levels:

- **Company/Issuer-specific assessment** of climate-related issues: this includes identifying material risks and opportunities using third-party and in-house analysis and assessment, and integrating these risks and opportunities in our investment cases as part of our fundamental research process. Analysts and portfolio managers are provided with a wealth of training, tools and resources to enable them to perform these assessments.

- **Portfolio-level assessment of climate-related issues**: all our portfolio managers’ decisions support tools embed ESG and carbon data. This allows the managers to make high-level assessments of their climate-related risk exposure, on an absolute and relative basis, at any time, as part of their ongoing portfolio management activities.

- **Macro/sector research on climate-related issues**: the analysis of climate-related issues, in particular transition risks, and their impact on financial markets, is an evolving area of research. We continue to lead the way, through proprietary research such as our report on Low-Carbon Transition Scenarios, collaboration with outside experts and industry initiatives. We share the insights from this work across our investment teams, to better inform our investment decisions.
Engagement with investee companies, to better understand and support their disclosure and management of the risks and opportunities presented by climate change and climate policy, is an important part of our process. We engage directly and collaboratively with our peers, using our voting decisions to escalate issues where appropriate.

We are founding signatories of the Climate Action 100+ initiative, and part of its Steering Committee. We are the lead / co-lead investor in engagement projects with companies across four continents, working in collaboration with other signatories to help those firms deliver improved governance, targets and disclosure of their climate-related risks. We have been focusing on improved disclosure for many years. In 2018, our Global Voting Policy explicitly articulated that, in our engagement, we encourage companies to disclose their carbon emissions and climate-related risks, in line with the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD).

We strongly believe in the impact and effectiveness of engagement in improving corporate responses to climate change. We:

- encourage our investee companies to phase-out the use of unabated coal power by no later than 2030 in the OECD and EU, and no later than 2040 in the rest of the world, and
- encourage the setting of net zero commitments and appropriate transition plans.

Where companies in energy-intensive sectors persistently fail to disclose their carbon emissions and climate-risk governance, we normally vote against the re-election of the company chairperson. If continued engagement with investee companies is not delivering sufficient progress in reducing climate risks, we apply selective exclusions which are reviewed on an ongoing basis. Exceptions may be considered in exceptional circumstances, for example if doing so would result in unacceptable market risk relative to the benchmark, where it is not aligned with a Just transition. We are a signatory to the Statement of Investor Commitment to support a Just Transition on Climate Change.

In line with our commitment to the Paris Climate Agreement, we prioritise the following high carbon sectors for early action:

- **Thermal coal extraction** – involvement in companies extracting thermal coal which have not made a robust net zero commitment. We will target commitments from those companies generating over 30% of revenues by end 2021, 20% by end 2022 and 10% by end 2025.
- **Coal-fired power generation** – we will engage with those companies within our portfolios to phase-out the use of unabated coal power by no later than 2030 in the OECD and EU, and no later than 2040 in the rest of the world. We will target commitments from those companies’ involvement in electricity generation representing 50% of generating capacity by end 2021, 30% by end 2022 and 10% by end 2025. The exception to this is investment in green bonds issued by these companies in line with our Green Impact Investment Guidelines.
- **Fossil fuel-related infrastructure** – we will not invest directly in projects for coal-fired power plants (including existing plants, new plants or major expansions to existing plants), coal mining-related infrastructure, infrastructure supporting offshore oil or gas projects in the Arctic, infrastructure supporting oil sands projects (including extraction and pipelines).