UK PACT THAILAND
CAPITAL MARKETS WORKSHOP

Stuart Wilson • June 2022

KEY TAKEAWAYS

1. Climate change is a material risk for investors. Even without external pressures, integrating the consideration of climate risk into investment decisions is necessary.

2. Responsible Investment is a material opportunity for investors.

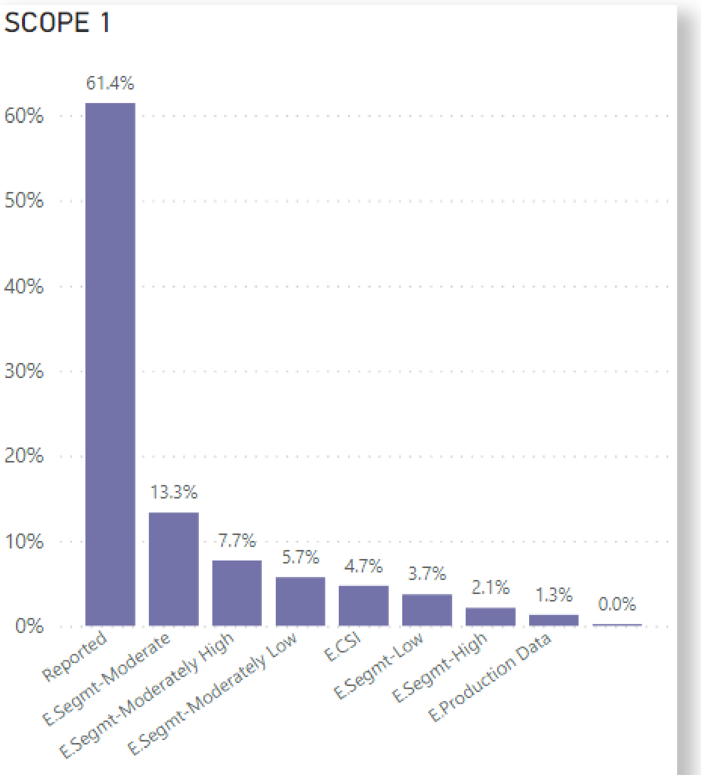
3. Our clients are demanding action on climate change.
   - Institutions are targeting Net Zero
   - Retail investors demand Responsible Investments

4. Regulators and Standard-setters are requiring transparency.

5. To measure transition risks relating to climate change, investors need consistent data and credible plans to transition to a low-carbon future.

6. Without access to data, estimation, divestment, and exclusion are more likely.

Reported v/s Estimated Carbon



Source: Eastspring, Aladdin, MSCI

CLIMATE RISK IS A MATERIAL RISK TO THE PORTFOLIO

To understand climate risk is to consider and address key questions of transition risk and physical risks.

Transition Risk – Asset stranding

- **Policy Risk:** Will a price on carbon emissions be instituted? Carbon prices are expanding through regions and the size of the tax is increasing. Companies with high emissions are most affected.
- **Substitution Risk:** Will customers seek lower carbon alternatives? Emission-intensive companies will be most affected
- **Technology Risk:** Will technologies be developed that will make products obsolete? Alternatively, will CCS be cost effective at scale?
- **Operational and Reputation risk:** Will banks provide debt capital? Will insurers underwrite policies? Is the company properly communicating its transition strategy or greenwashing?

Physical Risk

- How susceptible are the company’s value chain, including its supply chain, its own operations, and its customers, to chronic and acute physical risks?

INSTITUTIONAL & RETAIL INVESTOR DEMAND

Institutions are joining industry groups and committing to targets as they shift gears to invest in a global economy that is transitioning into a low-carbon world.

- USD130T FUM from institutions that are signatories to the UN Principles of Responsible Investment.
- Many pension funds, insurers, and other asset owners have committed to a Net Zero portfolio by 2050.
- This commitment includes interim targets – reduce Weighted Average Carbon Intensity by 25% by 2025.
- Retail Investor demand for sustainable investment started amongst younger cohorts and has expanded to older age groups.
- To meet client needs, we must measure carbon metrics of our portfolio.

Engagement targets

- Engage with 20 companies focusing on those with highest owned emissions or those responsible for combined 65% owned emissions in portfolio (either directly, collectively, or via asset manager)
- Contribute to:
  - Asset Manager Engagement: Each member to participate in at least one engagement led by the Alliance
  - Alliance positions: Each member, where possible, to participate in Alliance position paper creation

Sector targets

- Intensity-based/absolute-reductions on all material sectors.
- Scope 3 to be included wherever possible.
- Sector specific intensity KPIs recommended.
- Sectoral Decarbonization Pathways used to set targets.

Short-term targets for 1.5°C aligned, net-zero world by 2050 with real-world impacts

Sub-portfolio (later portfolio) emission targets

- 22 to 32% CO2e reduction by 2025 (per IPCC 1.5°C SR scenarios) on equity and debt to listed corporates, infrastructure, and with the same reduction or CRREM national pathways for real estate.
- 49 to 65% CO_2e reduction by 2030 (per IPCC 1.5°C SR scenarios).
- Covers portfolio emissions Scope 1 & 2, tracking of Scope 3.
- Absolute or intensity-based reduction KPIs.

Financing transition targets

- Reporting progress on a climate-positive trend for all Alliance members internally to the Alliance; an individual public quantitative progress target is optional for members.
- Contribution to Alliance's financing transition sub-work tracks, for example, supporting activities to provide greater transparency, build solutions or enhance climate solution reporting.

Source: Net Zero Asset Owners Alliance

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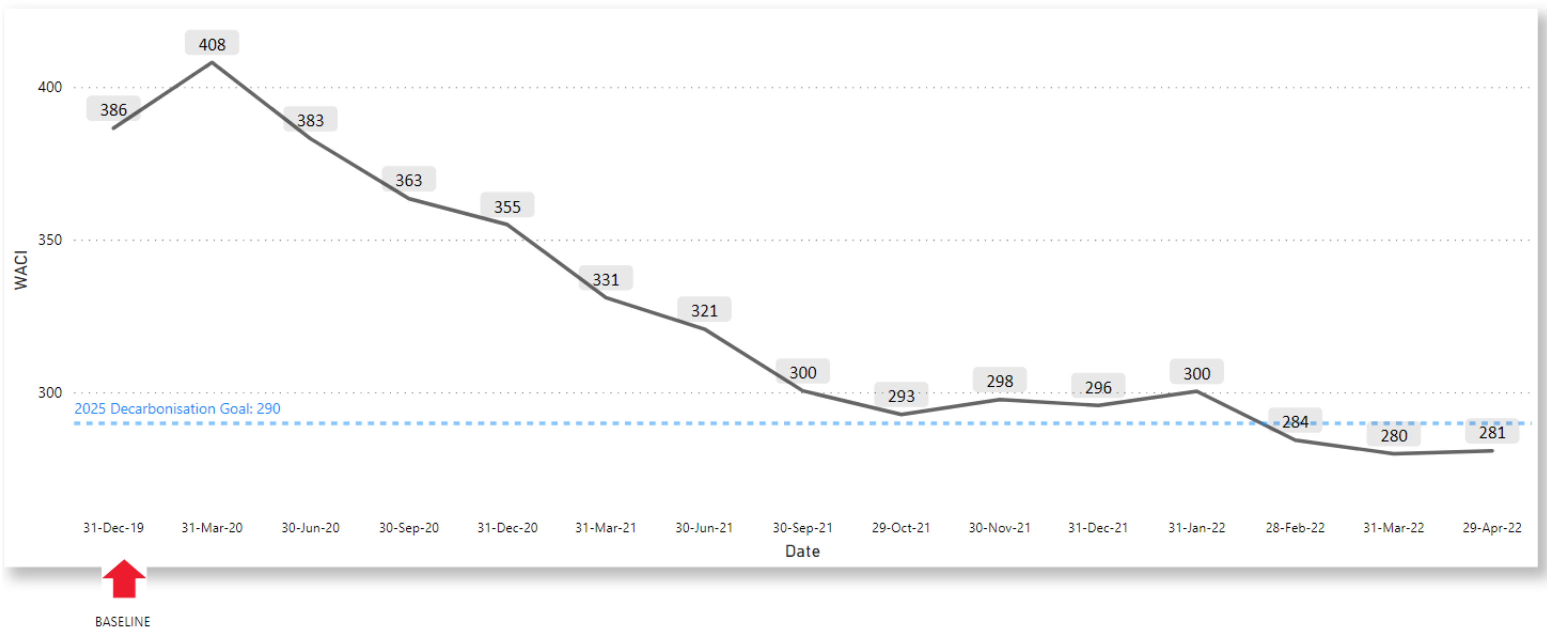
IMPLICATIONS FOR ASSET MANAGERS

1. **Portfolio Innovation:** Clients adding exclusions and carbon intensity limits to portfolios.
2. **Active Ownership:** We engage with companies to encourage more and better disclosure. We vote on director elections and remuneration with this in mind.
3. **Exclusions:** Clients have implemented policies of divesting and excluding thermal coal producers where revenue exceeds 30% of total and there is no credible transition plan.
4. **Product Development:** Asset managers are developing products that solve risk, return, and net zero.

WACI TREND & TARGET



Source: Eastspring, MSCI, Aladdin

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OTHER INFLUENCES

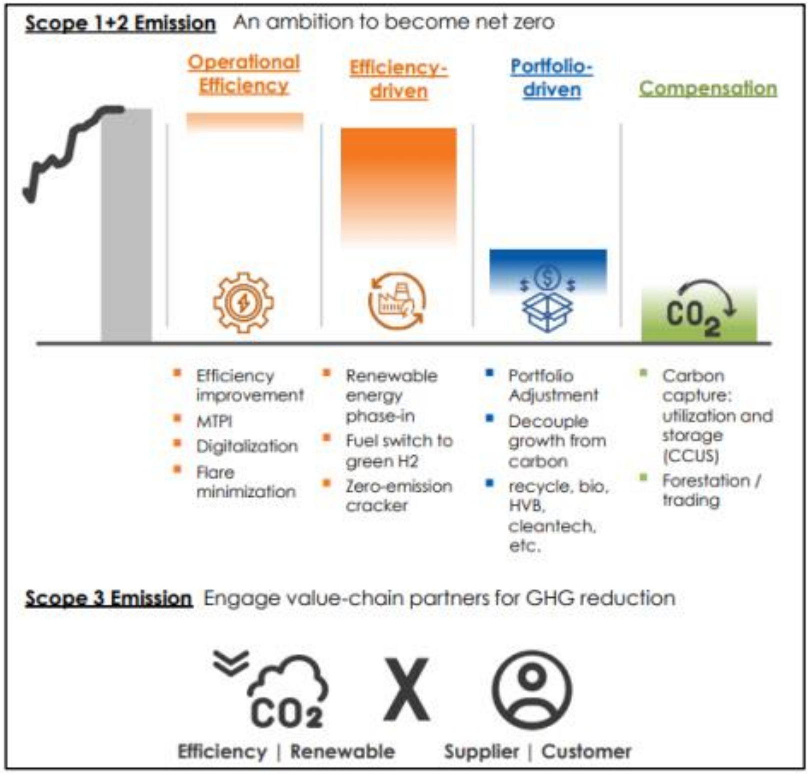
The journey to net-zero requires key developments and commitment from multiple players, targeting different facets of and creating opportunities for a just transition.

1. **Governments:** As part of its Nationally Determined Contributions (NDCs), Thailand has targeted a 20% decline in projected greenhouse gas emissions by 2030. This target could potentially increase to 25%.

   Significantly, state-Owned enterprises are taking action.

2. **Exchanges and Regulators:** Securities Exchanges and Monetary Authorities n Asia are following the EU in demanding more and better disclosure on climate risks.

3. **International Standards:** Standards set internationally are a key complement to NDCs. The IFRS Foundation has launched the International Sustainability Standards Board with the intent to make climate reporting similar to financial reporting.



Source: UNFCC

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