

NEWTON

Investment
Management

▶ BNY MELLON | INVESTMENT MANAGEMENT

CLIMATE CHANGE INVESTMENT CONSIDERATIONS

Pension Investment Academy

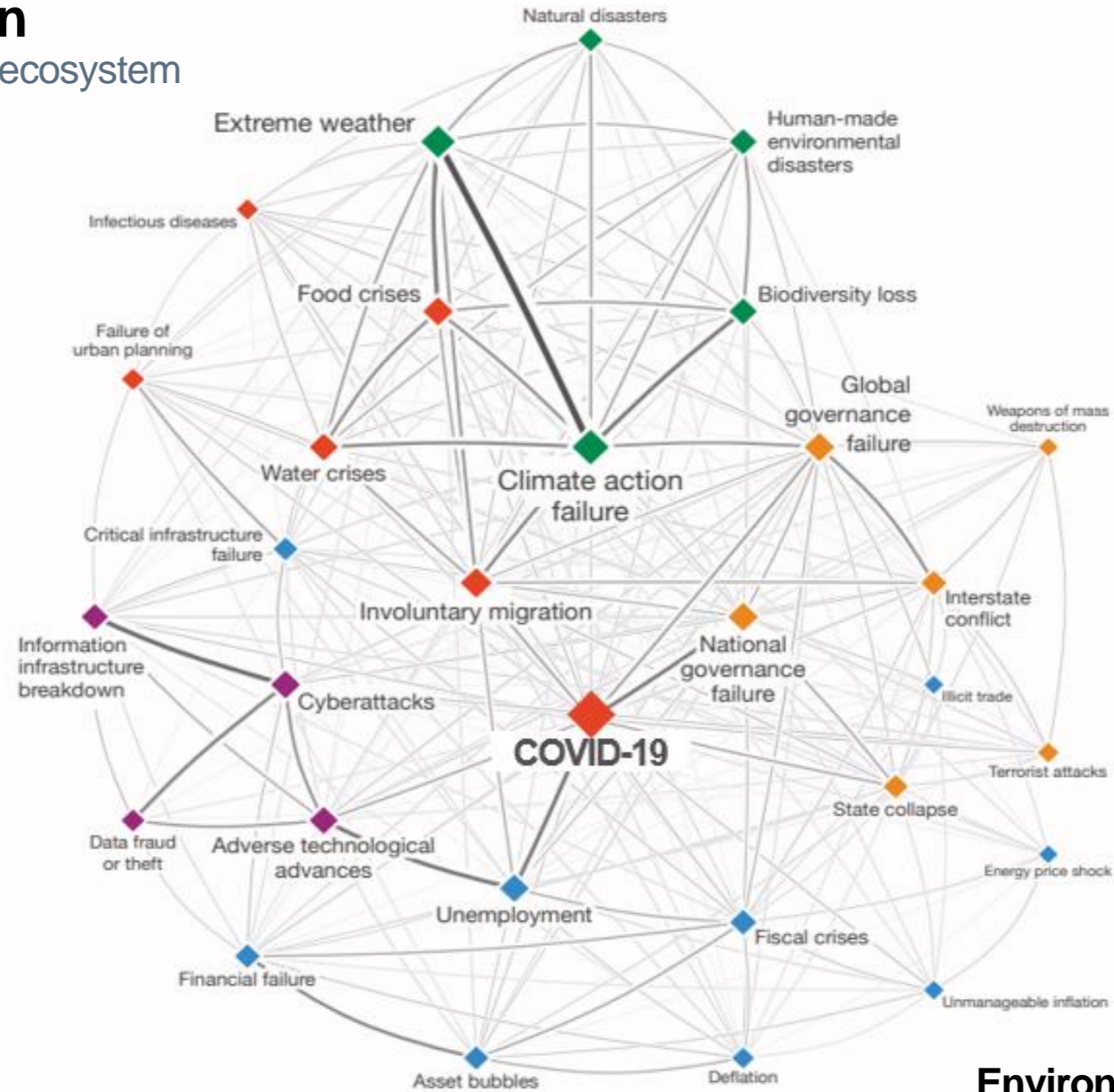
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FOR PROFESSIONAL INVESTORS ONLY

Please read the important information at the back of this material

A world in transition

A complex, interconnected ecosystem



**Environmental and social challenges
are now part of “business as usual”**

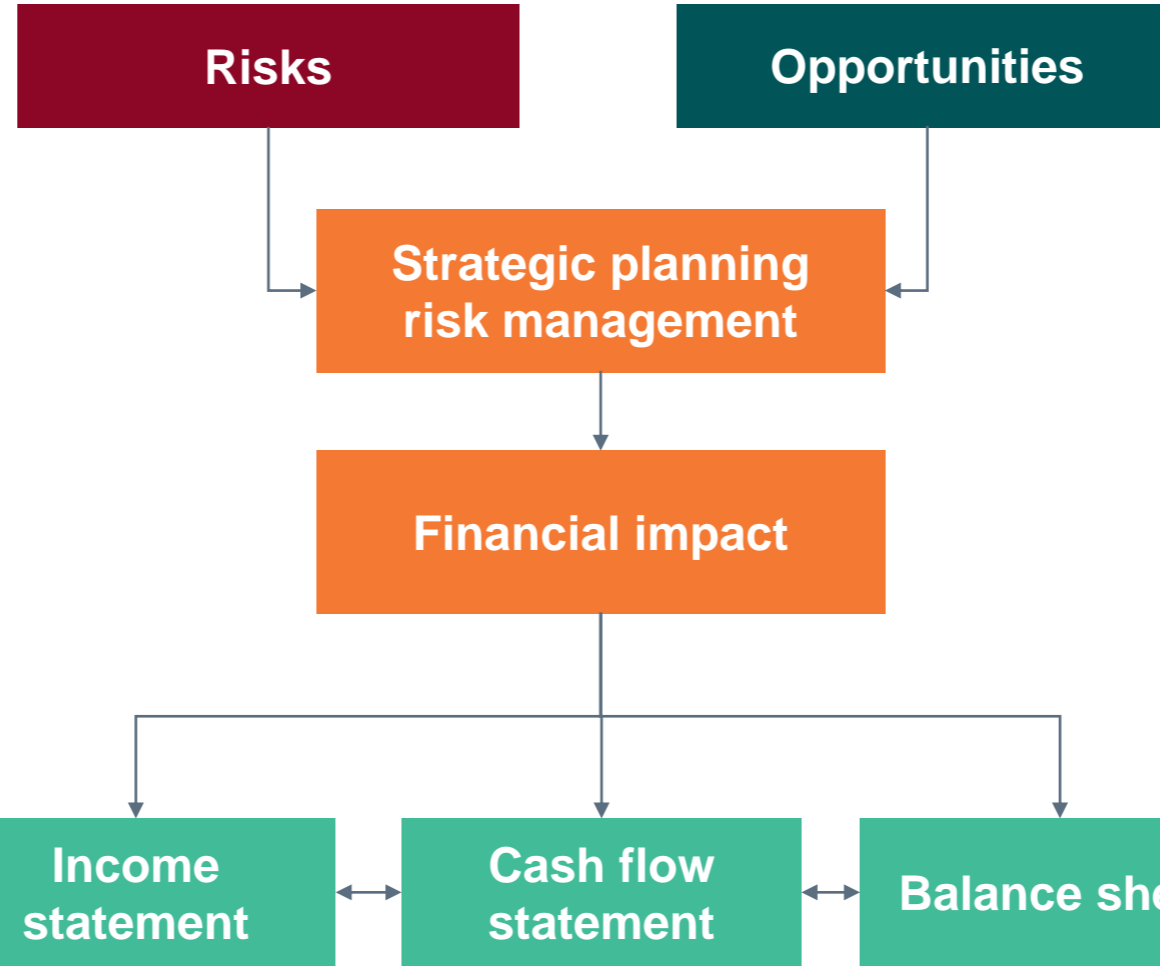
TRANSITION RISKS

- Policy and legal
- Technology
- Market
- Reputation

PHYSICAL RISKS

- Acute
- Chronic

- Revenues
- Expenditures



OPPORTUNITIES

- Resource efficiency
- Energy Source
- Products/services
- Markets
- Resilience

- Assets & liabilities
- Capital & financing

Being green isn't a sufficient condition for investment stewardship

Source: TCFD Recommendations.

Impact on long term asset class returns very difficult to forecast with a usable degree of certainty

It is easy to be green when the market is rewarding growth/capital light companies like it did in 2010's

The market environment in the 2020's is different to that of the 2010's

Two broad narratives colliding for fossil commodities – regulation vs growth

Consequence of this is great uncertainty

No simple answers in the short term

Investment consequences

Specific active management consequences

STEP AWAY FROM UNACCEPTABLE RISK

- New or extended coal mining
- Coal fired power stations
- Speculative or high cost exploration for oil and gas

STEP INTO WELL MANAGED OPPORTUNITIES

- Energy transition related metals and minerals
- Battery technology
- Energy efficiency
- Renewables
- Electric vehicles

ENGAGE WITH EYES WIDE OPEN

- Asset management as a system influencer
- Direct vs collaborative
- Potential for naivety

VOTE WITH YOUR FEET

- Energy transition resolutions
- Shareholder resolutions
- Other options

Net zero asset managers commitment

Breaking down the requirements

3X COMMITMENTS

A

Work in partnership with asset owner clients on decarbonisation goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all AUM

B

Set an interim target for the proportion of assets to be managed in line with the attainment of net zero emissions by 2050 or sooner

C

Review interim target at least every five years, with a view to ratcheting up the proportion of AUM covered until 100% of assets are included

TO FULFIL THIS

TARGETS

Interim targets for 2030 consistent with 50% CO₂ reduction, 1.50c target

SCOPE

Take account of Scope 1&2 (if possible, scope 3) emissions

PRIORITY

Prioritise reductions within firms/sectors we invest in

SOLUTIONS

Offsets only where no technologically or financially viable alternative

INNOVATE

Develop investment products aligned with net zero 2050, focus on climate solutions

ACROSS ALL AUM

RESEARCH

Identify investment opportunities aligned with, or expected to transition to, NZ 2050

ENGAGE

Employ voting & engagement strategy consistent with NZ 2050

REPORT

Provide asset owners with information on climate opportunity/risk, net zero investing

INFLUENCE

Work with stakeholders: ratings agencies, auditors, service providers to ensure consistency with NZ 2050

ADVOCACY

Consistent direct and indirect policy advocacy supportive of NZ 2050 goals

Conclusions

Return expectations at asset class level challenging

Focus on the companies

The transition will be long, complex and disruptive at certain junctures

Systems and processes for ascertaining progress are beginning to come together

Asset owners and managers need to work together to clarify expectations and consequences

CONCLUSIONS



Important information

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