CLIMATE IMPACT INVESTING

Climate Impact Scores – The relevance of the financial industry towards net zero

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Marketing material for professional/qualified investors only

This is the second time Twelve Capital have performed their yearly rating of companies to generate an impact score. This year, Twelve rated 224 companies based on questionnaires which were sent out to the companies. Most of them are part of the MSCI Financials[1] and a hand-full are off-benchmark names.

The impact scoring is part of the sustainability process at Twelve Capital and divided into two parts. First, the transition impact score. This is an assessment of how efficiently and effectively a company is transitioning capital from high to low carbon activities on both the asset and liability side of the balance sheet (i.e., downstream emissions). Secondly, an emission impact score. This is the assessment of how efficiently and effectively a company is reducing their own operational emissions (i.e., upstream emissions).

The backbone to Twelve's strategy is there is no path to net zero without addressing the funding gap

There is a major investment gap that governments cannot fill and the reallocation of capital by financial institutions is required to close this gap. However, currently less than half of climate finance flows are funded by the private sector. Hence, the conundrum is assessing how effectively and efficiently capital is in reality being committed to address the current budget deficit.

Drivers and financial implications of going green

Addressing Transition Risk has become a number one priority at a board level. The survey suggests that this is baked into a company's governance principles and is becoming an increasing expectation from both shareholders and a more complex raft of climate regulation.

Further, climate related objectives like TCFD[2], Paris alignment and the SDG guidelines, are becoming more important to companies according to the survey.

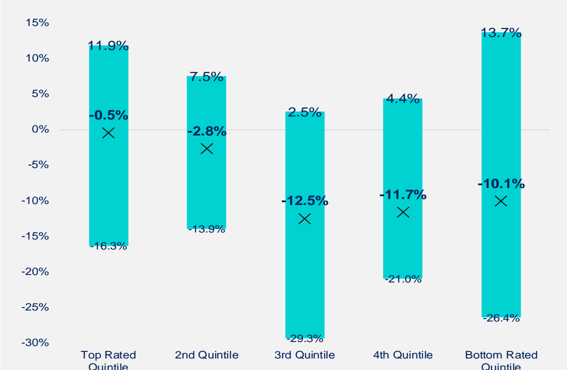
An improvement in branding and positive externalities are cited as the number one benefit of addressing climate change. This also feeds into an improvement of their cost of capital (equity risk premium) and improved revenue/distribution.

The survey suggests that addressing operational emissions is starting to improve costs and margins despite short-term capital requirements in taking action.

Companies have also cited better returns and capital efficiency via reallocating capital away from high to low carbon activities and by avoiding stranded assets.

These Financial benefits are starting to materialize, given best-in-class rated companies within the MSCI Financials are outperforming their peers and in particular companies we have deemed as worst in class.

MSCI Financials performance since 29 December 2021 - Grouped by Impact Rating



X: Average. Top end of shaded represents top quartile performance, lower end third quartile performance in the subset

Source: Twelve Capital. As at 10 April 2023.

Transition impact findings on the investment side

Twelve sees improvements overall. In 2022, 62% of all companies graded adopted some kind of a climate orientated investment intention vs 57% in 2021.

Within this Banks & Asset Managers conveyed the biggest increase in intentions on the investment side. Insurance was relatively mixed, with P&C in particular deteriorating

[1] The index captures large and mid cap financial companies across 23 Developed Markets countries.

[2] TCFD: Task Force on Climate Related Financial Disclosures.

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which was however offset by an improvement in Multiline Insurers.

In addition, clear long-term net zero ambitions are improving. Dissecting this further, in 2022, 50% of all companies graded adopted a net zero 2050 investment target vs 35% in 2021.

Short-term commitments however, lag these long-term targets. While 50% of the companies have a long-term net zero target, only 37.3% of all companies have a short-term commitment. This however had shown significant progress vs 2021.

Transition impact findings on the underwriting & bank loan books side

Looking at the greenhousegas emissions from the financing and the loan books at Banks, intentions are driven by divestments. In 2022, 48% of all companies graded adopted a strategy towards divestments rotating away from high to low carbon activities. This compares to 33% in 2021.

For insurers, between 40-50% of companies within Reinsurance, P&C and Multiline are actively walking away or have an intention to reallocate/divest their underwriting book towards low carbon projects/activities. Despite this only between 10%-20% of companies across all three subsectors are actively engaging with their clients.

Emission assessment on operations

Commitments to reduce operational emissions are gathering steam and in 2022, 81% of all companies graded adopted a climate orientated operational emission intention, this compares to 71% in 2021. Still, despite this broad-based intention, 29% of companies graded do not have any tangible emission targets or specific timelines. This was broad based across all subsectors.

Overall, more urgency is needed. Only 18% of all companies graded had a short-term operational net zero 2030 target. Again, this was broad based across all subsectors except for Reinsurance where 50% of companies adopted such a target. 35% of companies graded had a short-term 2025 target but would not commit to net zero.

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