

EIRIS Climate Change Toolkit

- Helping investors integrate climate change

Investors rank climate change as one of the most financially significant environmental issues facing companies today.

Many investors are requesting more information from companies in order to understand the carbon exposures of their portfolios. However, a lack of consistent, comparable data has made it difficult for investors to determine which companies are responding effectively to climate change, or what to do about those companies that are not.

EIRIS has developed a comprehensive solution – 3 tools to help investors assess their portfolios and design investment strategies in response to the challenge of a carbon-constrained economy. Developed in direct response to feedback from investors, with input from the Carbon Trust, Institutional Investors Group on Climate Change and expert environmental groups like WWF, each tool is based on EIRIS’ detailed and robust research methodology.

EIRIS Climate Change Toolkit		
1) Carbon Profile – for risk Screening	2) Carbon Engager – for engagement	3) Carbon Risk Factor – for integration
<p>Carbon Profile – compares the relative carbon performance of a fund or portfolio against an index or benchmarks of your choice</p> <ul style="list-style-type: none"> Helps investors understand the quantitative climate change impact of holdings. Our assessment of performance combines a measure of carbon footprint with an analysis of what company management is doing to mitigate climate change risk. 	<p>Carbon Engager - a detailed report on company performance & best practice examples on relevant KPIs to support a variety of engagement approaches.</p> <p>It identifies:</p> <ul style="list-style-type: none"> Companies most at risk from climate change and the steps they need to take to mitigate risks Best practice companies to reinforce good performance Corporate transparency and disclosure on climate change 	<p>Carbon Risk Factor - quantifies a company’s climate change impact with management response to give an overall climate risk rating.</p> <ul style="list-style-type: none"> The rating covers all companies in the FTSE All World Developed Index (3,000), enabling investors to quantify climate change risk across all sectors.

Using our research

EIRIS climate change data can be used to determine the carbon profile of client portfolios. Asset owners and investment managers can use this data to benchmark overall carbon performance. Clients may adopt a variety of approaches including:

Impact level – investors can examine and adapt the carbon profile of their portfolio by adjusting sectors weights – biasing their portfolio towards lower impact sectors.

Sector neutral approach– investors can combine the impact criteria with the management response and determine which energy-intensive companies are managing their climate change exposures most effectively. In addition, EIRIS research also identifies ‘transformational initiatives’ by companies taking advantage of the opportunities presented by the transition to a carbon-constrained economy.

1) Carbon Profile

The **EIRIS Carbon Profile** calculates the climate change impacts of a portfolio and also provides an analysis of carbon performance relative to major market indices.

Example Profile: Sustainable Development Fund

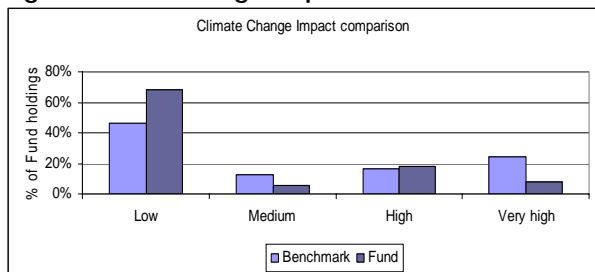
This carbon profile is designed to assist a European Fund manager to understand the quantitative climate change impacts of the holdings of their fund and provide an analysis of the relative carbon performance of the portfolio.

The benchmark selected for this comparison is the Dow Jones Eurostoxx 50.

What is 'Carbon Impact'?

EIRIS calculates the Carbon impact of a portfolio by classifying each stock held in the fund according to the direct GHG emissions associated with its industrial sector. EIRIS classifies 3,000 companies globally into over 50 climate change sectors and sub-sectors based on their business activities. Each sector is assigned to one of four categories: very high, high, medium or low climate change impact based on their direct, indirect and product emissions.* The table below illustrates the distribution of companies by carbon impact in the fund vs. its benchmark.

Fig. 1 Climate Change Impact



How is Climate Change strategy assessed?

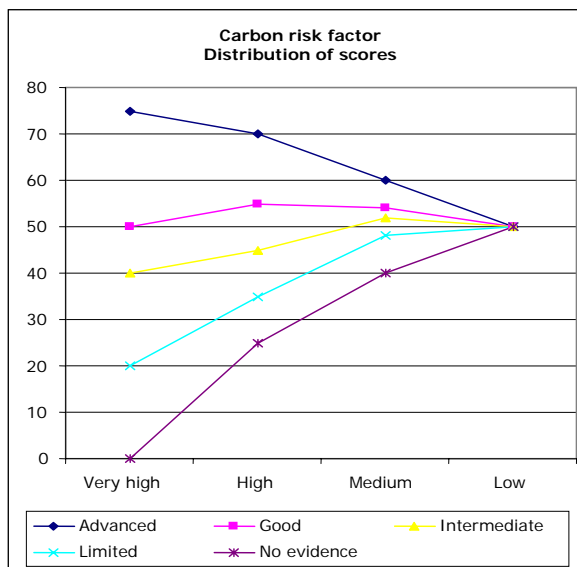
EIRIS has developed a five point scale to assess each company's management response to Climate Change based on 4 broad categories of indicators:

- **Policy & Governance**
- **Management & Strategy**
- **Disclosure**
- **Performance and Innovation**

24 specific indicators are used including board level responsibility, executive remuneration, setting targets, quality of disclosure & performance trends. This scale is then combined with the impact assessment to produce a 'Carbon Risk Factor'.

* The impact classifications also take into account projected growth of emissions in the sector, net impact of the sector (e.g. benefits of public transport), the allocated share of upstream and downstream emissions as well as the strategic importance of the sector in contributing to solutions to climate change.

The Carbon risk factor plots each company's climate change performance on a 100 point scale.



The average weighted score of the portfolio will reflect the extent to which the fund is investing in the companies of lower carbon intensity and also those that are managing their risks.

Table 1. Performance overview

	Fund	DJ Eurostoxx 50
Total value (Euros m)	276628	1723251
Carbon performance	48.57	46.23

Carbon out performance	2.34
Sector allocation	2.04
Company allocation	0.3

Table 1 above illustrates the fund's total carbon performance relative to the selected benchmark. The fund has a lower carbon impact than the benchmark (26% of its holdings are in high & very high impact sectors relative to 41% in the benchmark). The overall market cap weighted out-performance of these holdings is 2.34 points better than the benchmark.

Carbon performance

The sector allocation of the fund is responsible for most of the carbon out-performance. This sustainable development fund is overweight relative to its benchmark in banks, mobile telecommunications and electronics and electrical equipment which are all low impact sectors.

2) Carbon Engager

EIRIS provides a full set of reports to identify high priority companies for engagement. The **EIRIS Carbon Engager** enables investors to:

1. **Identify companies** for engagement according to different priorities and strategies
2. **Support active ownership** – via detailed reports on company performance and appropriate key performance indicators
3. **Track reporting** - on climate change and assess the quality of disclosure
4. **Monitor progress** – by tracking improvements over time

Elements of our engagement tool include:

- Carbon performance reports including comparative metrics on region, sector & market cap
- Reports including detailed best practice examples
- Full Climate Change Profiles

The **Carbon Engager** groups **very high** and **high impact companies** into the following categories suitable for different engagement approaches:

Target group	EIRIS Climate Change Classification	Focus	Engagement support
Opportunity Maximisers	companies which exhibit best practices in their response to climate change	<ul style="list-style-type: none"> ▪ Drive innovation ▪ Learn from advanced companies ▪ Maximise upside 	Engagement support tools include data on: <ul style="list-style-type: none"> ▪ Disclosure ▪ Peer group comparison & best practice examples ▪ Full climate change profile for target companies ▪ Sector benchmarking
Issues Managed	companies with good management strategies in response to climate change	<ul style="list-style-type: none"> ▪ Benchmark good performance 	
First Steps	companies assessed as 'intermediate'	<ul style="list-style-type: none"> ▪ Protect shareholder value ▪ Support improvement 	
Sector Laggards	Companies in bottom quartile performance of their sector	<ul style="list-style-type: none"> ▪ Risk mitigation ▪ Improved dialogue 	
Poor disclosers	companies with inadequate disclosure (includes medium impact companies)	<ul style="list-style-type: none"> ▪ Better investment decisions ▪ Comparable data 	
Non-starters	Companies with 'no evidence' of any management response to climate change	<ul style="list-style-type: none"> ▪ Minimise downside risk ▪ Encourage enhanced performance 	

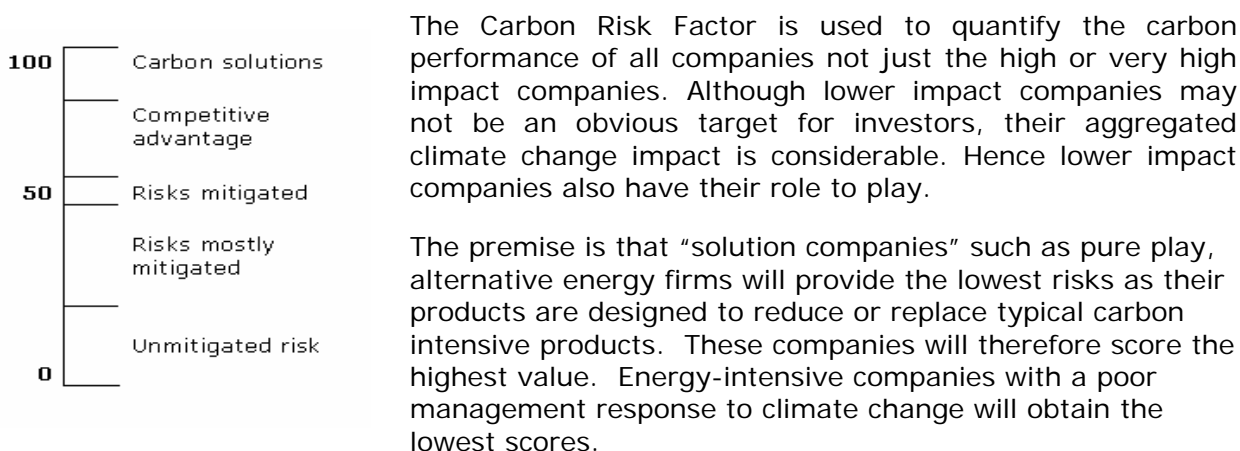
The EIRIS carbon engager provides relevant and comparable data on the climate change strategy of almost 3,000 companies worldwide. EIRIS can support investors to develop and implement their own engagement strategies based on their available resources and investment timelines.

3) Carbon Risk Factor

The **EIRIS Carbon Risk Factor** provides tools to assist analysts and fund managers to integrate climate change considerations into their research and recommendations. It quantifies each company's climate change performance based on impact and management response to provide an overall climate change rating.

The Carbon Risk Factor makes the calculation of carbon performance for each company simple, by providing a clear methodology for the calculation of a score which combines carbon exposure risk and the management of climate change challenges. It is measured on a scale of zero to 100, where the mid-point, 50, identifies companies which have adequate risk management systems in place.

Fig 2. Carbon Risk Factor Scale



The principle guiding the carbon risk factor is ‘the larger the impact, the larger the potential up and down side risk’.

The range of possible scores will vary depending on the impact classification of each company – Very high impact companies have the largest range of possible scores – from 0 to 75 reflecting the greater risks and opportunities facing companies with very energy intensive activities. As with other EIRIS research products, the Climate Change toolkit can be combined with detailed data on other social, environmental and ethical performance indicators – depending on the needs and preferences of particular clients.

Contact us

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EIRIS is a leading global provider of independent research into the environmental, social governance (ESG) and ethical performance of companies. With over 25 years' experience of conducting research and promoting responsible investment strategies, EIRIS now provides services to more than 100 asset owners and asset managers globally. In the last ten years new EIRIS research has focussed on the risks and exposure of companies in key ESG areas, and how companies are responding. We work with clients to create their own ESG ratings and rankings, to engage with companies and to create specific funds for their clients. We have a multinational team of over 50 staff in London, together with offices in Boston and Paris. The EIRIS network includes research organisations in Australia, France, Israel, Germany, Spain & South Korea and now covers over 3,000 companies globally