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SANDFORD FLEMING FORUM

Investing in Valued Property

Sponsored by: Southern Harbour FUTURE READY, decision·partners insight · judgment · decision making, RiskLogik, ENTUITIVE

Snapshot of the Current Situation

- The financial sector is on the periphery of sustainable finance and appears to lack strategic drive
- The government is not sufficiently engaged (despite inclusion of climate risk in financial systems review by BoC)
- The rest of the world is gaining momentum
- Canada is lagging

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The Role of Capital Markets

- Reallocate capital from savers to fund innovation and development, and provide liquidity by matching security sellers with security buyers
- But material environmental and social externalities from companies are transferred onto society
  - Why? Because of the inability to capture all the costs of doing business and allocate capital more effectively

Why the Financial Sector?

- Market forces are very influential and can move at a rapid rate if the financial imperatives are aligned

- Positioned at the top of the capital markets chain, asset owners could **create demand** for sustainable finance products and services that support a low carbon economy

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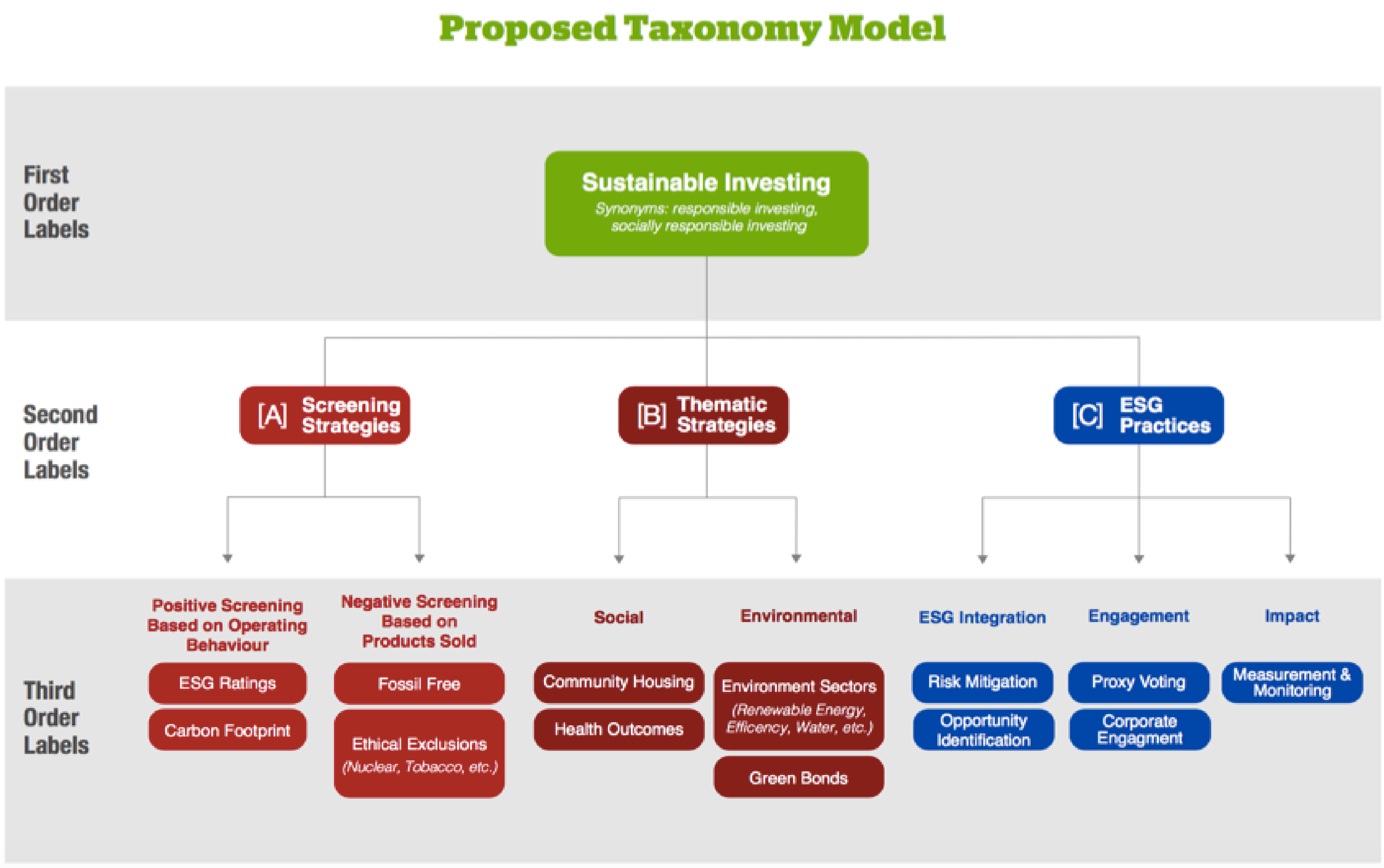
Sustainable Finance Defined

Incorporating the analysis and valuation of environmental, social and economic impacts in the short and long-term as part of the investment and financial decision-making process

Sustainable Finance Defined



source: http://greenchipfinancial.com/wp-content/uploads/2016/09/Sustainable-Investment-Taxonomy-Report.pdf

Canada and Sustainable Finance

Data shows the financial sector's interest in sustainable finance growing rapidly:

- Growth of approx. 42% ($2,132 bln) from 2016 to 2018 (vs. 49% from 2014 to 2016)

- Proportion of sustainable investing to total assets managed in 2018: 50.6% (37.8% in 2016, 31.3% in 2014)

source: Global Sustainable Investment Alliance

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Canada's Financial Sector

We face a particularly tough challenge with broad financial sector engagement in Canada.

The current system is mostly working for those that are part of it and many don't see any urgency to change practices. Why?

Because financial returns are world class

Inertia

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Barriers to Low Carbon Investing

- Financial regulations favour investing in the resource economy
- Lack of comparable ESG data
- Lack of tools/knowledge to embed climate change in financial models
- Insufficient investment opportunities of scale
- Boardroom intransigence
- Benchmarks

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Embedding ESG

- Third party measurers & assurers integrated into traditional investment analysis process
  - Assess company performance on various ESG metrics (Sustainalytics, MSCI, Trucost, Reprisk, TruValue Labs, etc.)
  - Assess bond issues as to whether they meet various green standards (Climate Bonds Initiative + assurers)
  - Plus: proxy advisors, credit ratings agencies
- Revolving credit facilities where the coupon is impacted by the credit seeker’s ESG score

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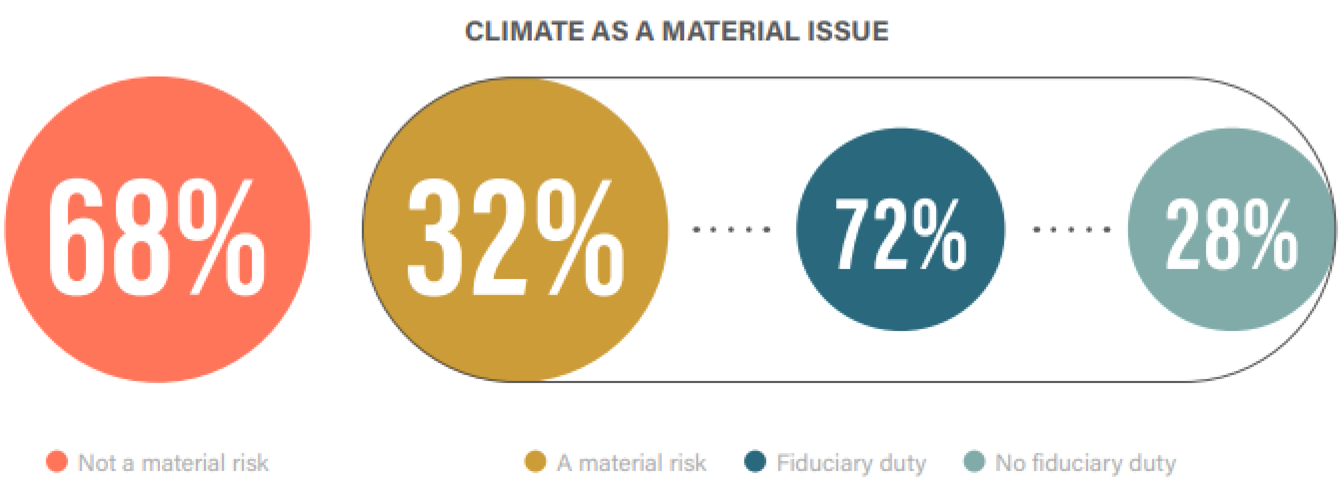
Global Pension Funds & TCFD

"Over 60% of pension funds publish little or no information on their climate responses, placing them at risk of breaching their legal duties to their beneficiaries."



source: https://aodproject.net/wp-content/uploads/2019/01/AODP-PensionsChangingClimate.pdf

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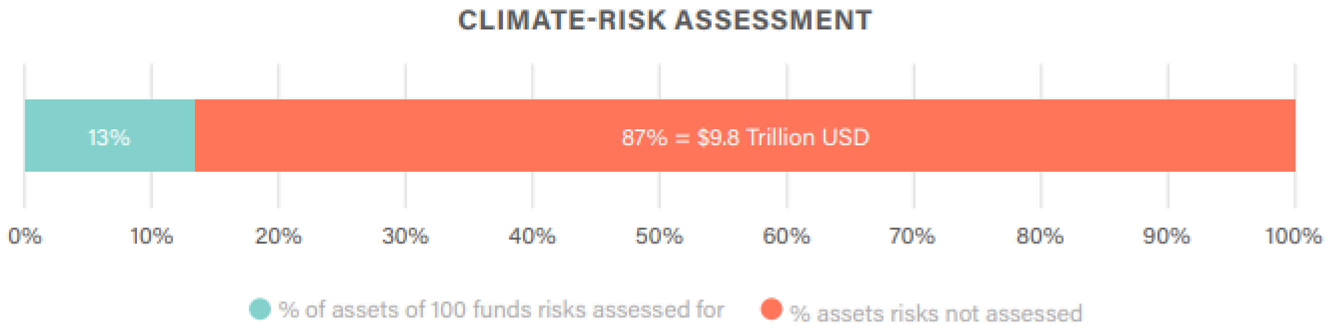
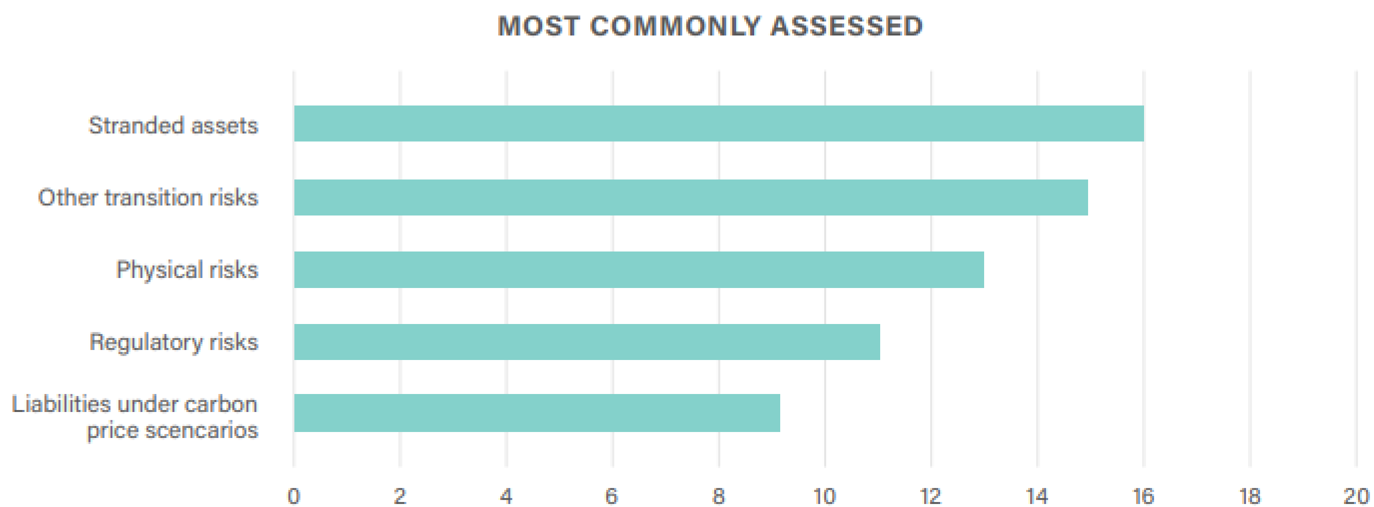
Global Pension Funds & TCFD





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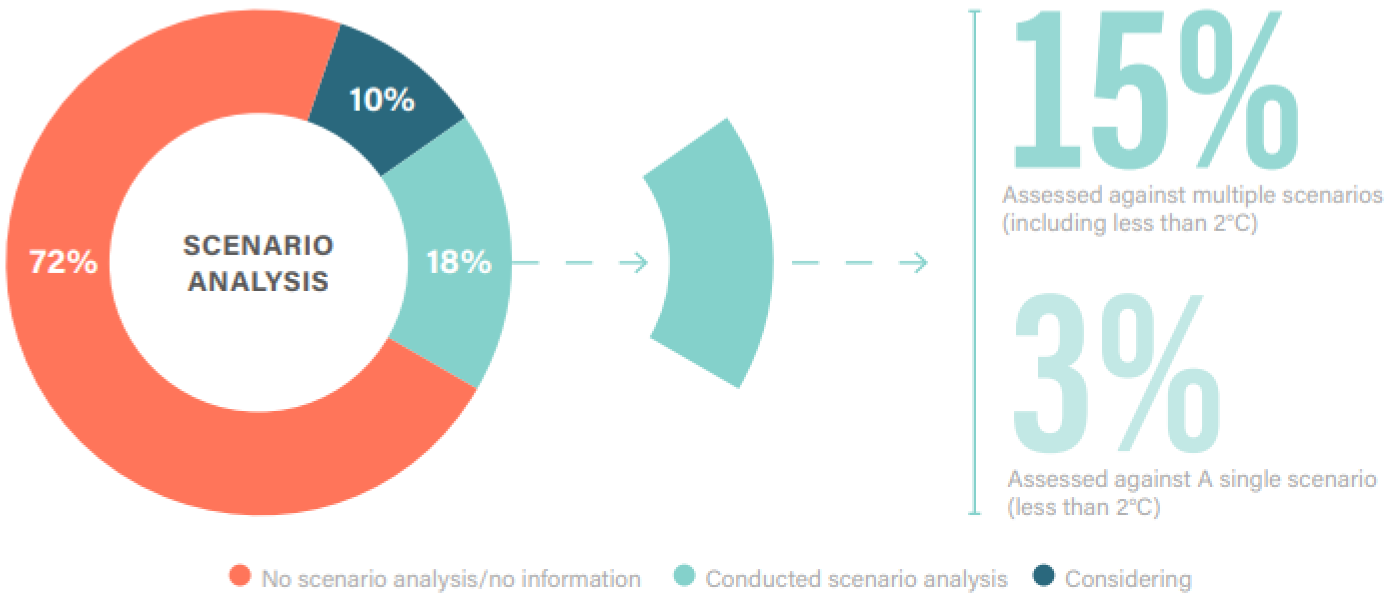

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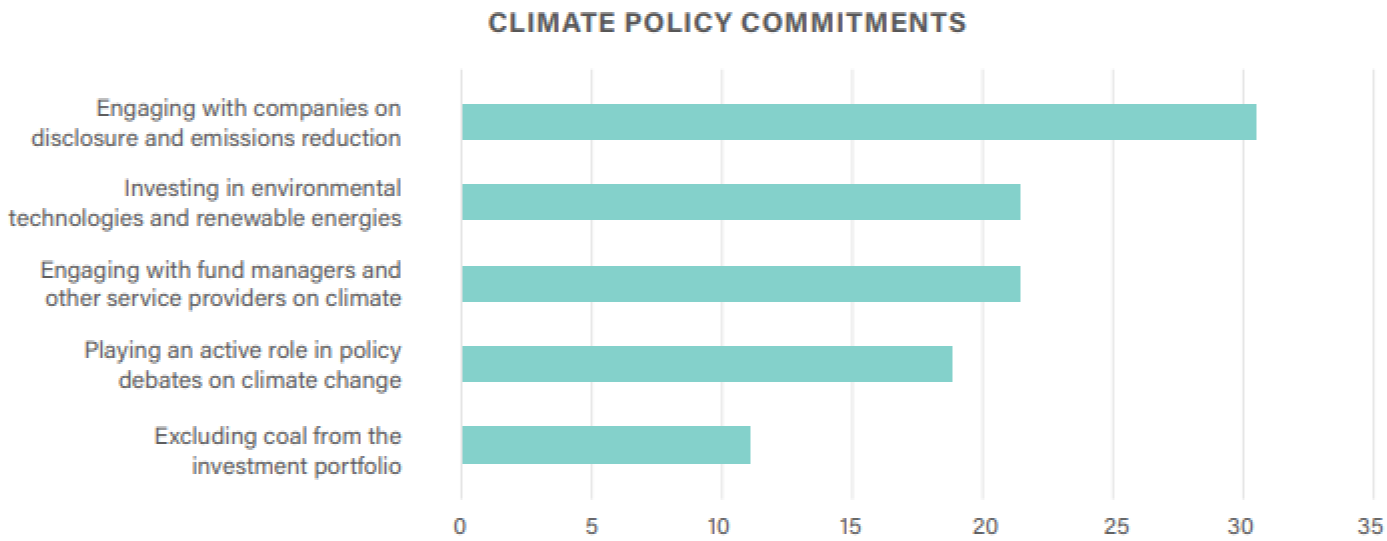

source: https://aodproject.net/wp-content/uploads/2019/01/AODP-PensionsChangingClimate.pdf

Sustainable Finance in other Markets

Leaders are innovating in their low-carbon asset allocation. For example:

- Developing or integrating low-carbon indices
- Exploring green bonds
- Increasing investments in low-carbon illiquid assets.

source: https://aodproject.net/wp-content/uploads/2018/06/AODP-WinningStrategiesReport.pdf

Sustainable Finance in other Markets

Leaders often begin with small investments in low-carbon opportunities, which helps to develop a stronger understanding of these investments before incrementally increasing over time

- Using this strategy, one Danish fund is committed to investing 10% of AUM in climate mitigation and adaptation opportunities by 2020 and being fully Paris-aligned by 2030 (net zero)

source: https://aodproject.net/wp-content/uploads/2018/06/AODP-WinningStrategiesReport.pdf

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Sustainable Finance in other Markets

- In April 2018, Unilever launched its first illiquid ‘impact fund’ for members
- Aims to deliver both financial and environmental returns
- Designed to achieve portfolio diversification across geographies and asset classes and focuses on companies expected to succeed in alignment with the low-carbon transition
- A complimentary strategy to more traditional market-based benchmarks, which are seen to lack a long-term focus and be underexposed to climate-related opportunities.

source: https://aodproject.net/wp-content/uploads/2018/06/AODP-WinningStrategiesReport.pdf

Common Low-Carbon Initiatives in Real-Estate and Property

- ➢ Benchmarking against the GRESB survey
- ➢ Seeking building certifications
- ➢ Engaging service providers to obtain building carbon footprint data
- ➢ Developing methodologies to carbon footprint their property portfolio

source: https://aodproject.net/wp-content/uploads/2018/06/AODP-WinningStrategiesReport.pdf

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PGGM Real Estate Mapping

- Map individual buildings of all companies
- Simulate the consequences of extreme weather events under different scenarios
- Apply to buildings to understand relative weather-related exposure per company
- Extrapolate indirect consequences (rise in insurance premiums, loss of access to infrastructure, i.e. roads) so as identify which RE portfolios will experience the greatest impact

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RE ‘decarbonisation pathways’ initiative

- Funded by Dutch funds PGGM & APG, and the Norwegian SWF NBIM in 9/2019
- Created to help property investors develop climate change strategies
- Will develop 1.5 and 2-degree decarbonisation pathways for real estate assets by applying global carbon budgets as identified by the IGPCC

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