



Climate risk series, Session 3: Metrics and Targets

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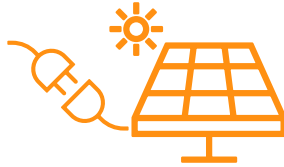
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GLOBAL (A\$15.3bn)



INFRASTRUCTURE (A\$15.1bn)



AIRLIE (A\$4.6bn)



Founded 2006



22 experienced investment experts



Australia, New Zealand, United States



ESG - integrated investment process

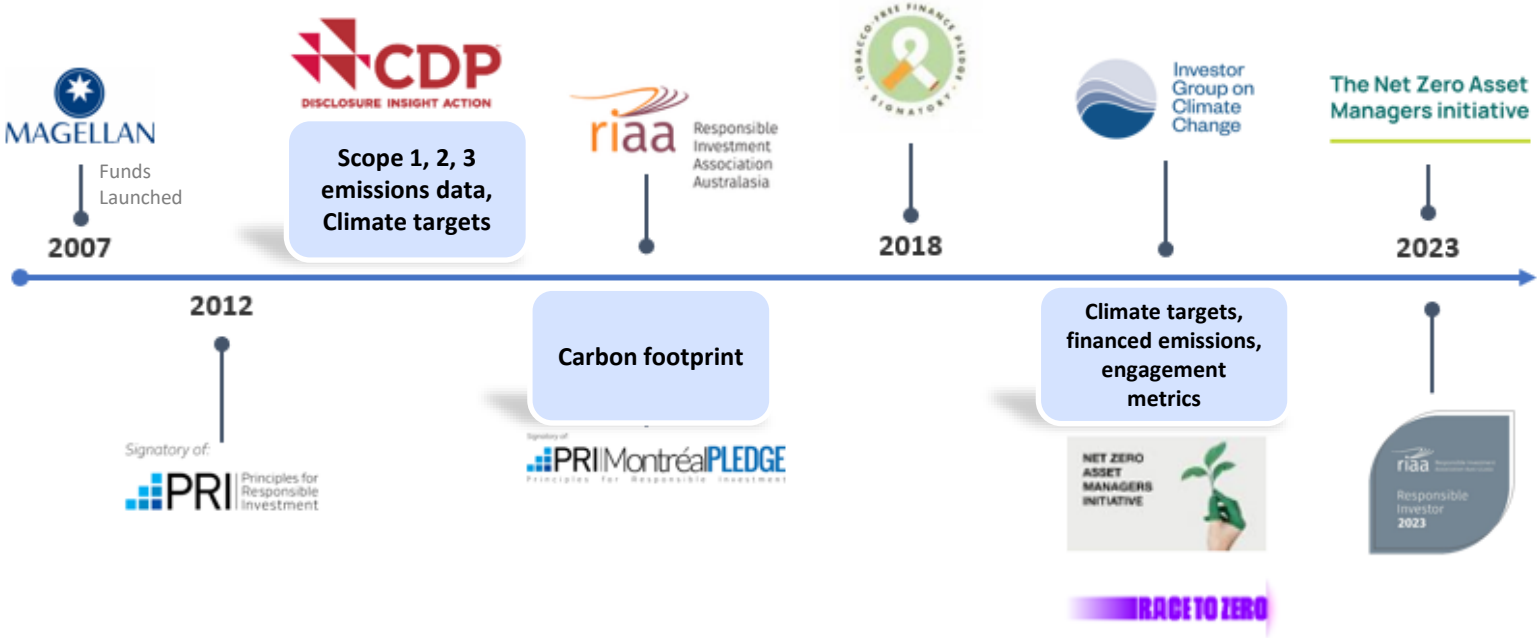
Agenda

Metrics and Targets

1. Approach – evolved over time
2. Metrics used – why were these selected?
3. Climate Targets & assessing credibility
4. Challenges
5. Resources, tools and training
6. Examples

Approach

Supported and guided by Responsible Investment associations and investor groups



Approach

Integrating climate metrics and targets across strategies

All strategies

- ESG integration: Materiality
- Portfolio Carbon intensity
- Net Zero investment Framework (NZIF) assessment
- Climate Stewardship strategy

Strategy specific (Sustainable)

- Low Carbon Framework
- Net Zero Asset Manager initiative targets

Strategy specific (Infrastructure)

- Proprietary Infrastructure climate transition framework (SAFE)

Strategy specific (Energy Transition)

- Proprietary Infrastructure climate transition framework (SAFE)
- Net Zero Asset Manager initiative targets

Approach

How it has evolved over time

Scope of industries has evolved and broadened

Expectations of companies has increased

Sector specialist approaches e.g. Infrastructure
(bottom up)

Climate as a systemic financial risk over the long term across many industries
(top down)

Approach

How it has evolved over time – industry focus

ESG FRAMEWORK



POLICIES

ESG ASSESSMENT &
EXCLUSIONS

STEWARDSHIP

ESG OVERSIGHT

Infrastructure



NET ZERO
INVESTMENT
FRAMEWORK **1.5°C**

IMPLEMENTATION
GUIDE

Climate metrics

METRICS USED

Company metrics

- Scope 1 & 2 carbon emissions
- Scope 3 carbon emissions
- Carbon intensity

Portfolio Metrics

- Carbon footprint
- Weighted average carbon intensity (WACI)
- Financed emissions

Engagement

- % financed emissions in high impact material sectors subject to engagement

CONSIDERATIONS & CHALLENGES

Accuracy and data availability

- Location vs market based
- Timeliness
- Actual vs estimated

Carbon intensity

- Approach can differ (revenue vs EVIC)

Portfolio carbon footprint

- Growth in issuer
- Growth in portfolio
- Goal of net zero and absolute emission reduction

Climate targets

TARGETS ASSESSED

Company Targets

- Emission reduction target – short, medium, long term
- External verification e.g. SBTi
- Net Zero emission target
- TCFD alignment

Portfolio Targets

- % AUM aligned to net zero
- % financed emissions in high impact material sectors assessed as aligned to net zero

CONSIDERATIONS & CHALLENGES

Data

- Accuracy and data availability
- Inconsistent disclosure
- Coverage of targets ... Scope 1, 2 AND material Scope 3

External verification of targets

- Sector methodology - Oil & gas sector

Tracking progress

- Progress towards emission reduction targets is not linear
- Resource intensive

Resources, tools and training

RESOURCES

- Company reports
- Investment team & engagement are your best resources
- 3rd party data providers
- [PRI](#) Guides
- [IGCC](#) Reports
- [IIGCC](#) Toolkits
- [TCFDhub.org](#) resources
- CDP company reports

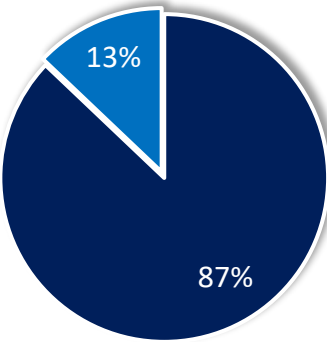
TOOLS & RESOURCES

- Training
- Coordination across the investment team
- Engagement tracking tools
- Trends and progress towards targets
- Communication & reporting

Climate targets and strategy

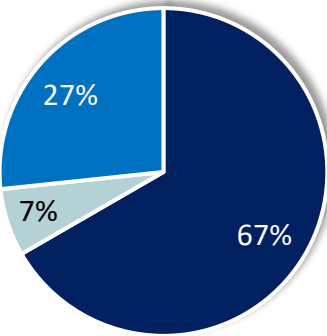
Just get started ...

% Companies with Net Zero Targets



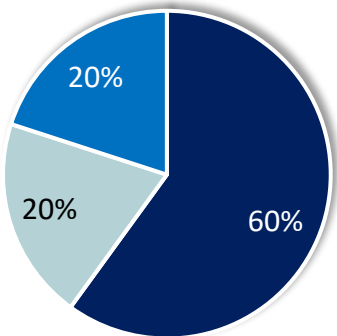
■ Yes ■ No

% Companies with Science based targets*



■ Yes ■ Committed ■ No

% Companies with TCFD reporting^



■ Yes ■ In progress ■ No

Magellan Global Fund Portfolio as at 30 June 2023.

* Source: <https://sciencebasedtargets.org/companies-taking-action>. ^ Source: Task Force on Climate-related Financial Disclosures <https://www.fsb-tcfd.org/>

Enhance target and credibility assessment

Measuring alignment using the Net Zero Investment Framework (NZIF)

	Net zero target	Interim target	Progress	Disclosure	Strategy	Capex alignment	Credibility
Achieving Net Zero	✓		✓	✓	✓		✓
Aligned: High impact	✓	✓	✓	✓	✓	✓	✓
Aligned: Low impact		✓	✓	✓			✓
Aligning		✓		✓	✓		✓
Committed	✓						✓
Not Aligned							
			MAGELLAN VIEW				MAGELLAN VIEW

Use of climate targets and metrics

Engagement, voting and risk assessment

- Prioritise engagement (Letters, meetings)
- Consider escalating through voting
- Track progress towards targets



Stewardship Strategy - Climate



Example 1: American Water

Climate targets



AMERICAN WATER

- American Water - US utility
- **Objective** – 1. commit to a net zero target by 2050; 2. seek external validation of emission reduction targets.
- **New climate targets** – We saw positive progress over multiple years of engagement. Initially a commitment in the proxy statement that existing emissions goals were being reviewed.
- Further progress was achieved when AWK announced new, science-based targets; this included a long-term goal to achieve net zero emissions by 2050 and a medium term 50% absolute emission reduction goal by 2035.



New, Science-Based Goals for Scope 1 and 2 GHG Emissions Reductions - Aligned with Paris Agreement 

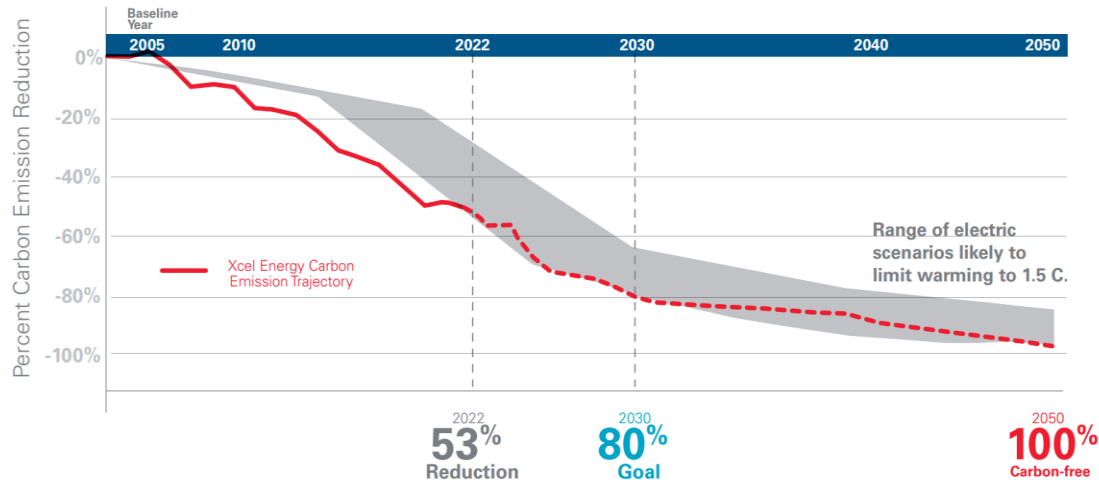
Medium-term: By 2035, reduce absolute Scope 1 and 2 emissions by 50% (2020 baseline¹)

Long-term: Achieve Net Zero Scope 1 and 2 emissions by 2050

Example 2: US power generation

Emission reduction is not linear

Xcel Energy's carbon emissions trajectory for the electricity provided to customers aligns with science-based scenarios likely to limit global warming to 1.5 C.



Example 3: Chipotle

Credibility of climate strategy



Engagement Objective

1. Encourage to set a net zero target;
2. Understand the initiatives to meet current emission reduction targets.

Outcome

- Credibility of the actions and initiatives in place at Chipotle to achieve their SBTi emission reduction targets and rationale for not announcing a net zero target yet.
- Subsequent announcement of the Responsible restaurant design provides comfort on future capex alignment to net zero.



Closing

Metrics and Targets

1. Approach – start with disclosure, targets and build on it over time, bottom up and top down
2. Metrics used – More than one metric to tell the story
3. Climate Targets & assessing credibility – Industry frameworks and company engagement
4. Challenges – data, consistency and transparency is improving.
5. Resources, tools and training to support the team



Q&A

Thank you!

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