



Climate change – the risk of doing nothing



TOP DFM



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Introducing EQ Investors



Staff-owned, discretionary fund manager

- £1.6 billion AUM (July 2021)
- Founding UK B Corporation
- Focusing on sustainable and impact investing since 2008
- Building partnerships with adviser firms across the UK and globally



Agenda



1	Countdown to COP26 – setting the scene of the challenge
2	Dissecting “carbon” for investments
3	Carbon: investment risk for clients
4	Carbon: investment opportunity for clients
5	Prepare to act on the climate change challenge
6	Q&A



Countdown to COP26 – setting the scene of the challenge



UN Climate Change Conference

A history of the Conference of the Parties (COP)



COP 26 – what's the big deal?

The 26th annual climate conference of the parties (COP)



**UN CLIMATE
CHANGE
CONFERENCE
UK 2021**

IN PARTNERSHIP WITH ITALY

AIMS:

1. Secure global net zero by mid-century and keep 1.5 degrees within reach
2. Adapt to protect communities and natural habitats
3. Mobilise finance (public and private)
4. Work together to deliver

What is net zero?

Refers to a scenario where greenhouse gas (GHG) emissions are captured or offset, or avoided altogether through new processes

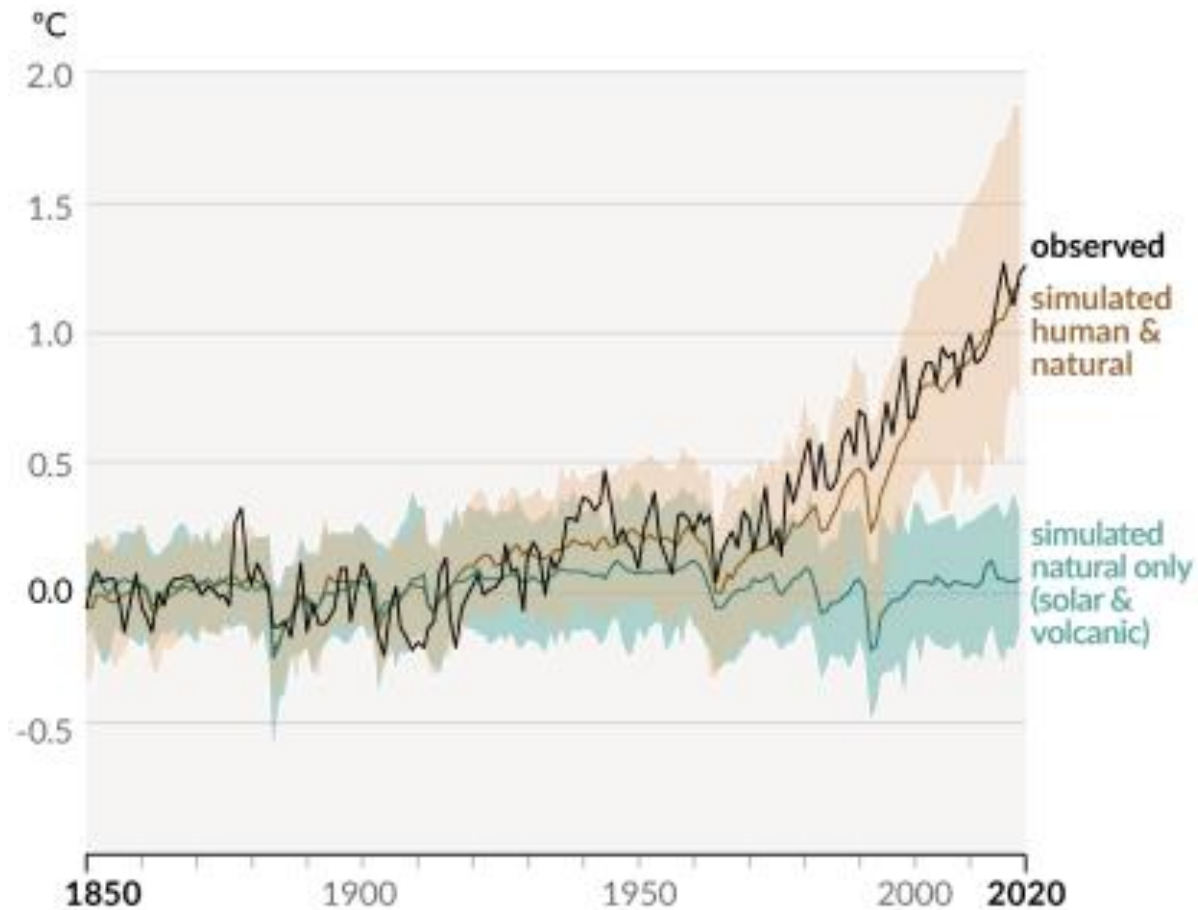
GHG emissions



Capture, offset &
avoidance

Climate change since pre-industrial levels

Human influence has warmed the climate at a rate that is unprecedented in at least the last 200 years



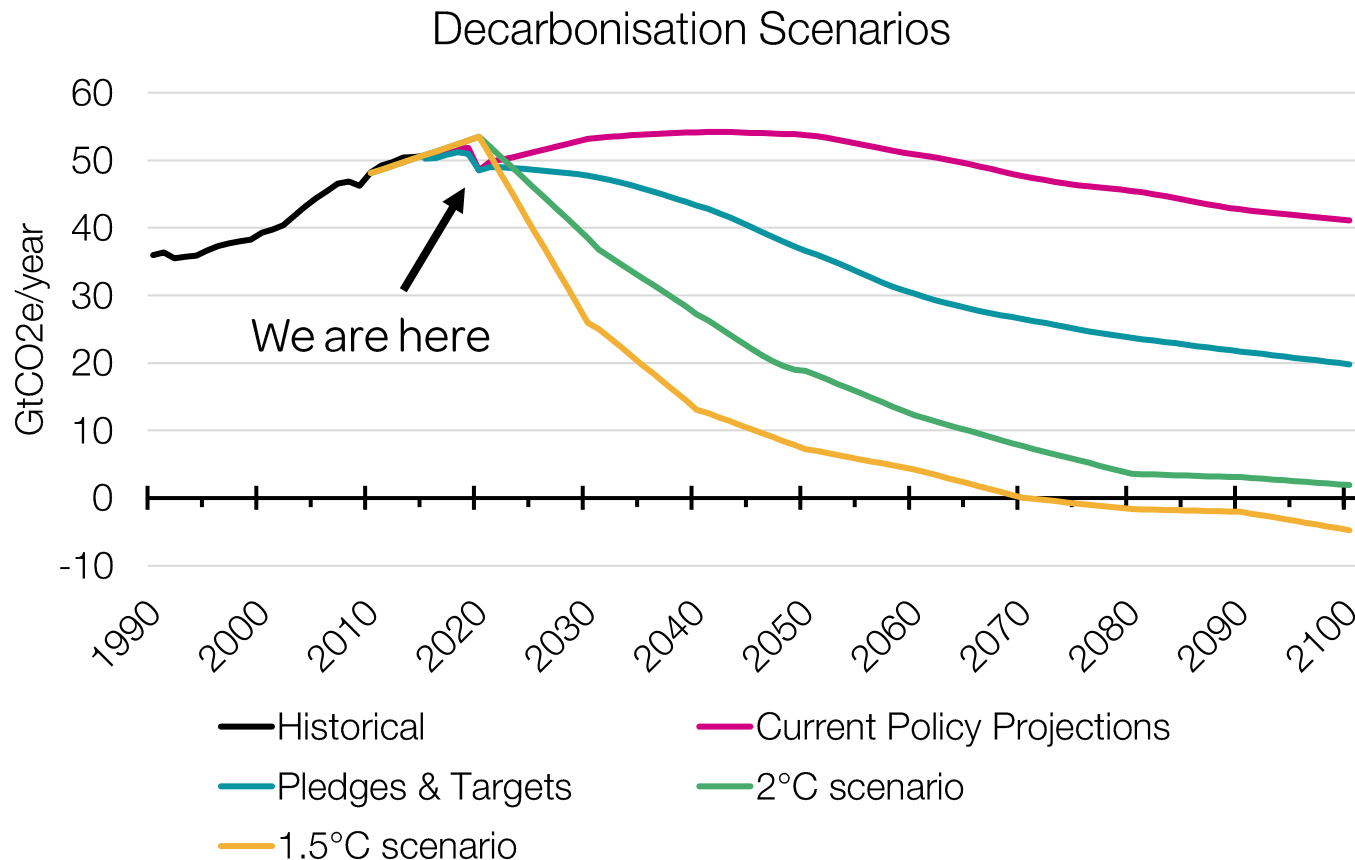
Human influence on climate include:

- Burning fossil fuels
- Land-use change
- Deforestation
- Animal farming
- Knock-on effects of human influence

We have set a global target: 1.5 degrees



Limiting warming to 1.5 degrees will prevent the most devastating effects on people and ecosystems



Current targets by countries around the world are not ambitious enough: ca. +2.4 degrees projected



Effects of global warming



With every incremental increase in temperature, effects will strengthen

Impact on planet



- More extreme droughts, more floods, more forest fires
- Sea level rises
- Ice cap/glacier melts
- Ocean circulation changes
- Ecosystem and biodiversity changes
- Knock-on effects of climate system

Impact on human wellbeing

- Physical impact on health and personal belongings
- Migration
- Economic disruptions
- Impact on food security
- Impact on water security

The inevitable policy response

Expected policy responses to act on climate change all have implications on investment risks and opportunities

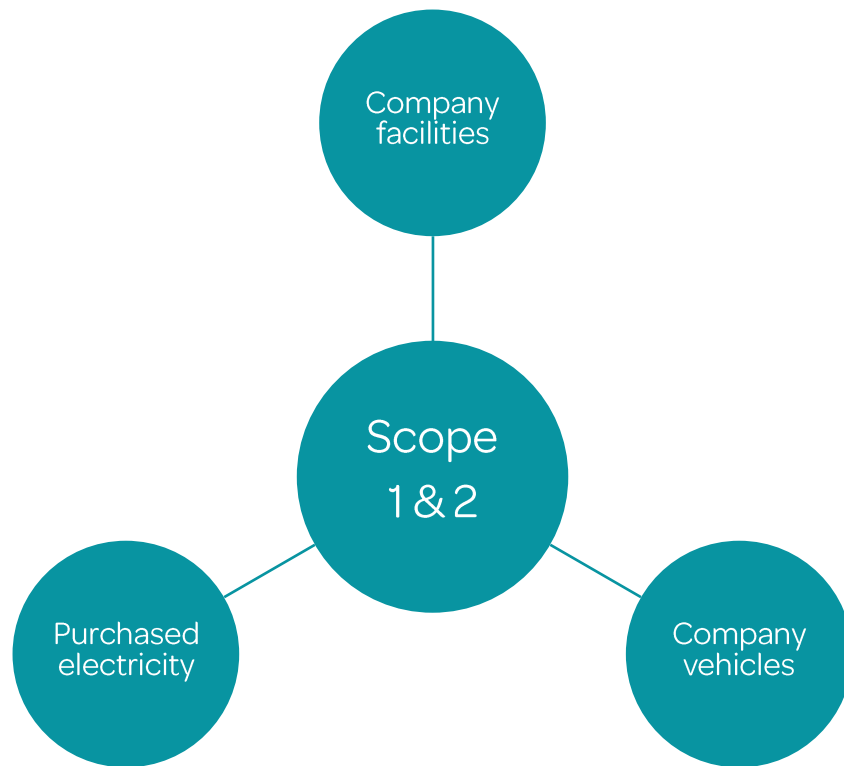
 Carbon pricing <ul style="list-style-type: none">• Carbon taxes• Emissions trading systems• Border carbon adjustments	 Coal phase-out <ul style="list-style-type: none">• Prohibiting regulations• Emissions performance standards• Electricity market reforms	 100% clean power <ul style="list-style-type: none">• 100% clean power targets• Renewables capacity auctions and other support policies	 Zero emission vehicles <ul style="list-style-type: none">• 100% zero emission vehicle (ZEV) sales legislation• Manufacturer ZEV obligations• ZEV consumer subsidies
 Low-carbon buildings <ul style="list-style-type: none">• Prohibiting regulations for fossil heating systems• Purchase subsidies for low-carbon heating systems• Thermal efficiency regulations for new build and retrofit• Minimum energy performance standards for new appliances	 Clean industry <ul style="list-style-type: none">• Emissions performance standards for industrial plant• Subsidy for new or retrofit clean industrial process	 Low-emissions agriculture <ul style="list-style-type: none">• Methane or nitrous oxide emissions tax or cap-and-trade system• Subsidy for low-emissions agricultural practices and technologies• Farmer education and technical assistance programmes	 Forestry <ul style="list-style-type: none">• Strong policy action against deforestation, such as monitoring and penalties, supported by consumer pressure• Incentives for reforestation and afforestation via domestic action and carbon markets

How we can achieve net zero



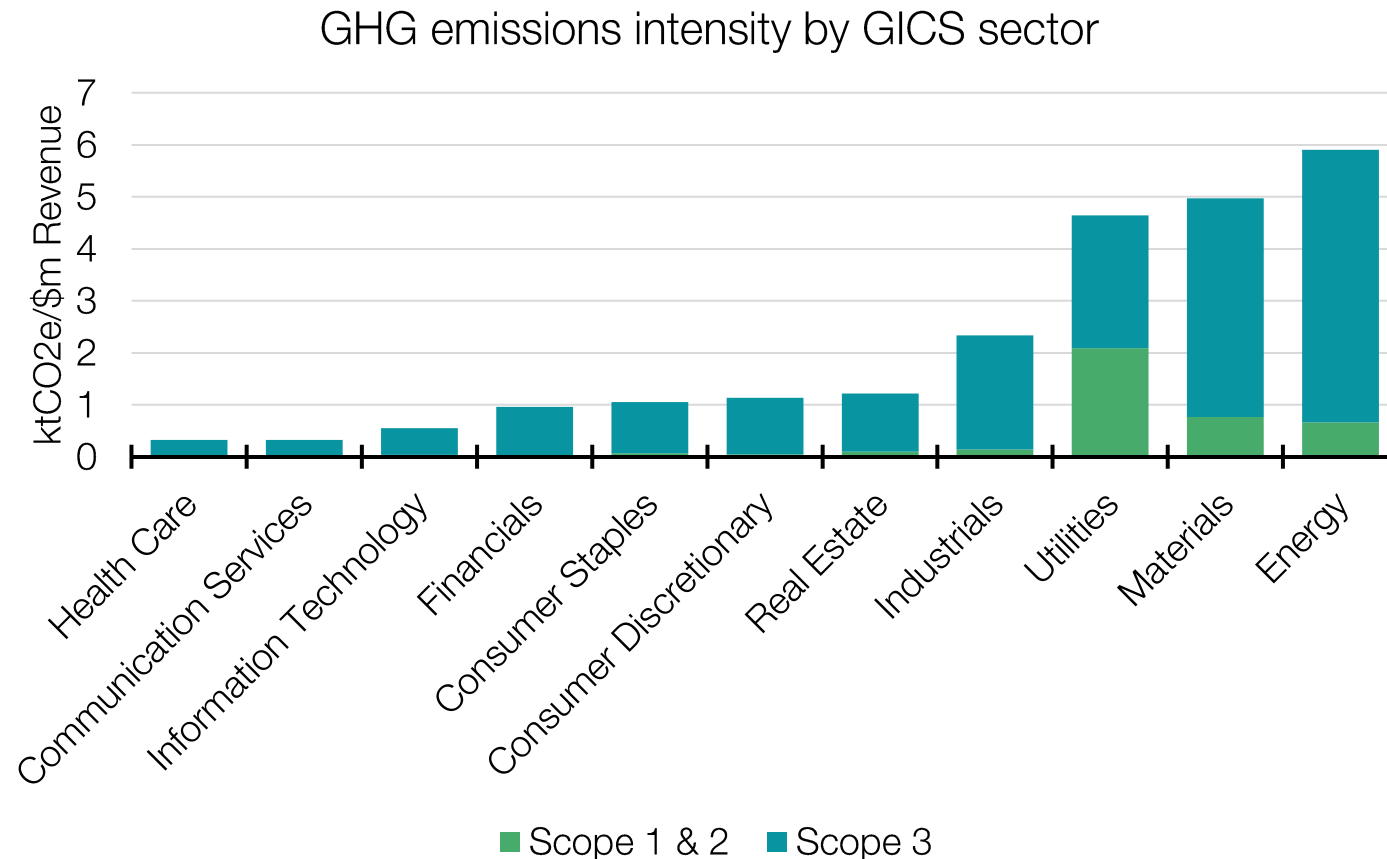
What are greenhouse gas emissions?

A company's emissions are not just to do with its operations but encompasses everything from its assets to its products



Emissions intensities vary by sector

Different sectors show significant differences in carbon intensity



Three sectors are the most carbon intense – and thus the focus of much policy crackdown and risks

- Energy
- Materials
- Utilities

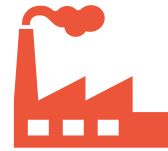
Carbon capture, offset & avoidance

Different problems require different solutions



Avoidance

New processes (such as renewable energy or electric vehicles) are scaled up to decarbonise existing industry



Capture

GHGs separated from other emissions & transported for permanent storage



Offset

GHG emissions calculated and trees (or other carbon sinks) are planted to offset



Where avoidance is not possible



Desired scenario

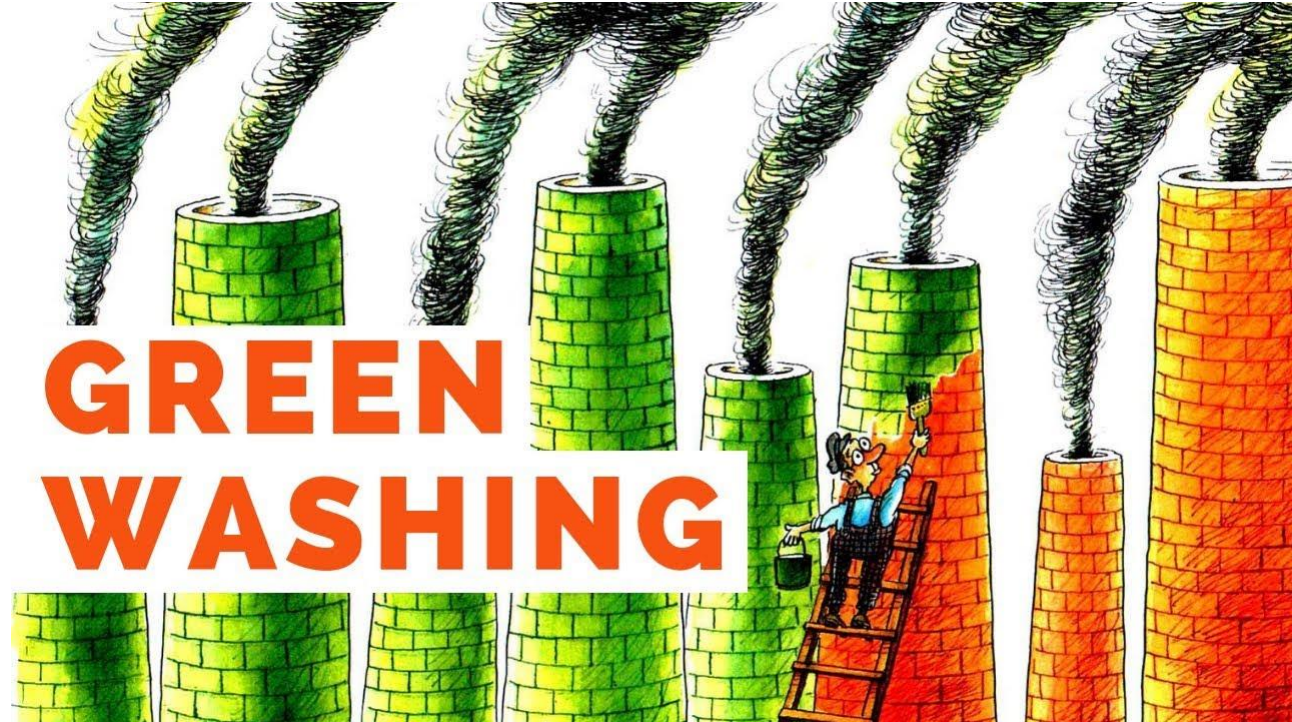
avoided emissions
minus
GHG emissions
(Scope 1, 2 & 3)

= greater than 0!

Carbon net zero commitments

Not all commitments are the same: seeing through greenwashing

- Scope 1,2 and 3 coverage of commitments
- Industry standards: Net Zero (PAS 2060), Science-based targets
- Reliance on offsets/capture
- Capital allocation alignment
- Governance alignment, e.g. remuneration link, lobbying activity



Carbon: investment risk for clients



Climate risks to your investments



Physical climate risks

Climate transition risks

Physical climate risks

Climate change has physical impacts on assets and economic workings

- Asset productivity loss
- Asset damage
- Supply chain disruptions
- Insurance costs



Source: Aon, 2021

Climate transition risks

Risks emerging from changing policy and market forces related to a global move to a zero carbon world

- Risks to high carbon emitters
- Risks to holding reserves
- Risks to slow transitions



Stress testing climate relevant sectors

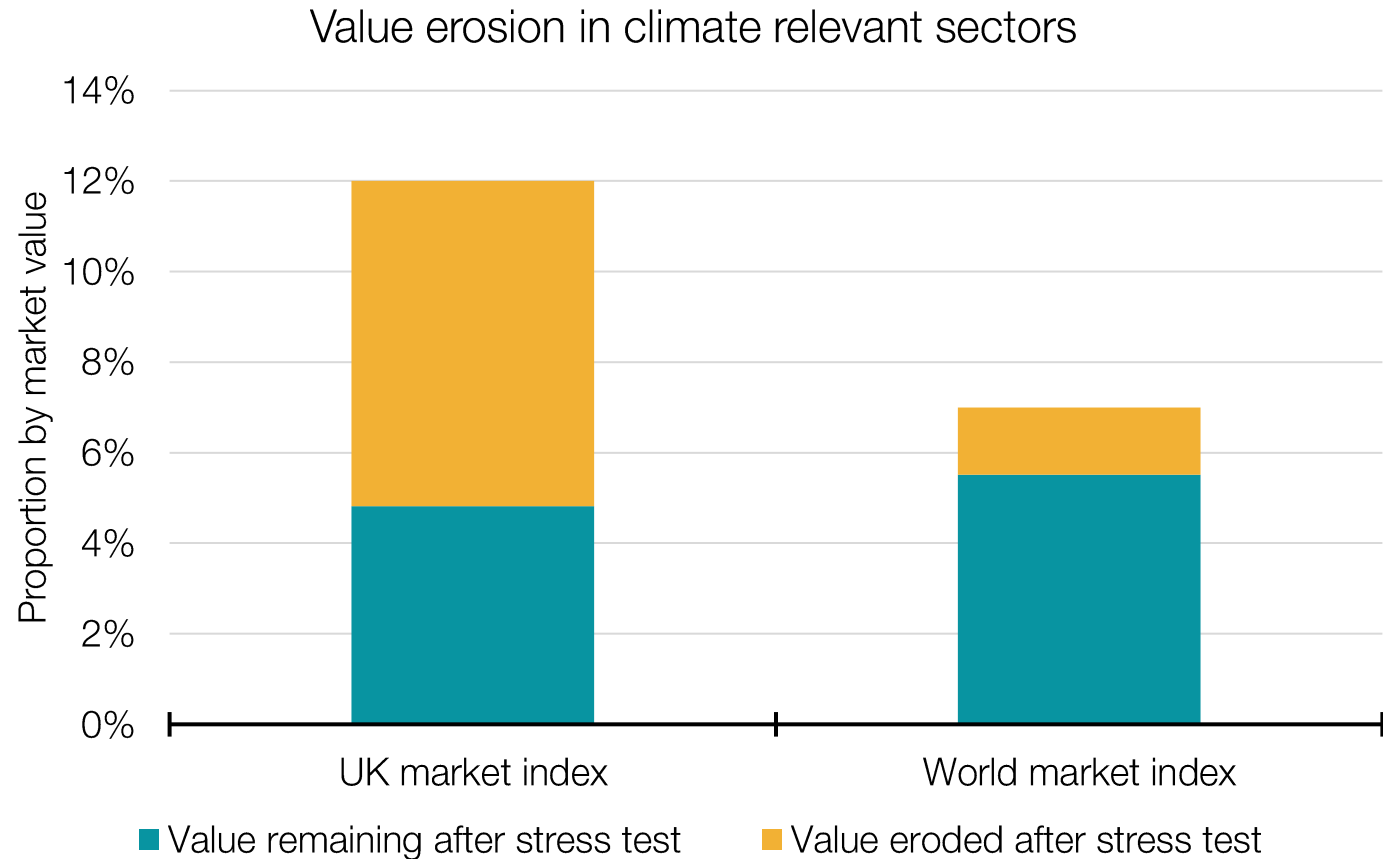
How could a policy crackdown affect equity markets?

Focus on the following sectors:

- Automotive
- Coal
- Oil & Gas
- Power



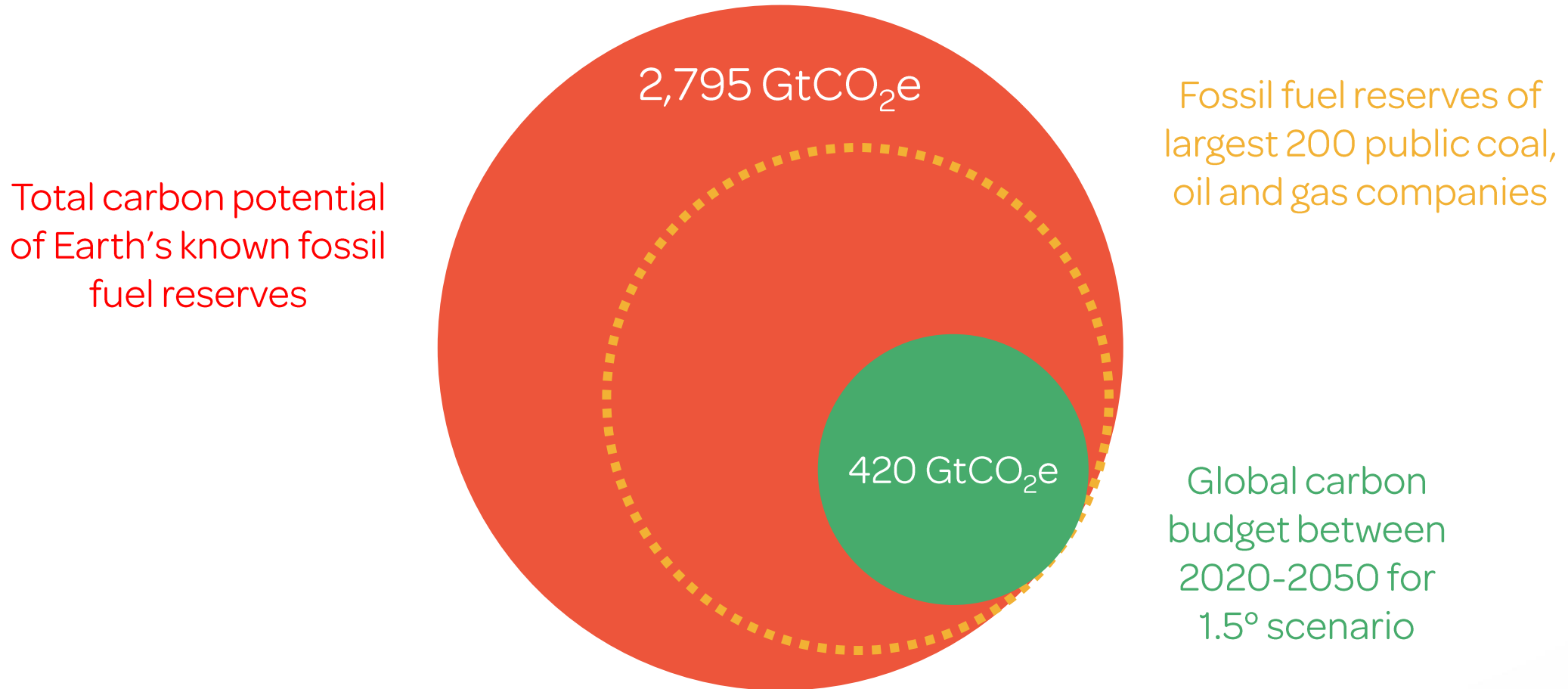
12% of UK equity index
7% of global equity index



Source: PACTA Climate Alignment Scenario Analysis

The carbon bubble

Potential emissions from unburnt fossil fuel reserves vastly exceeds the global carbon budget, raising the risk of stranded assets



Carbon: investment opportunity for clients



Where is the innovation?

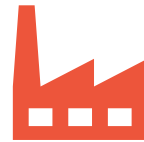
The energy transition is creating change in five key areas of the global economy



Generation



Transport



Industry



Buildings



Agriculture

Renewables cheaper than fossil fuels

Reversal of deforestation key to carbon storage

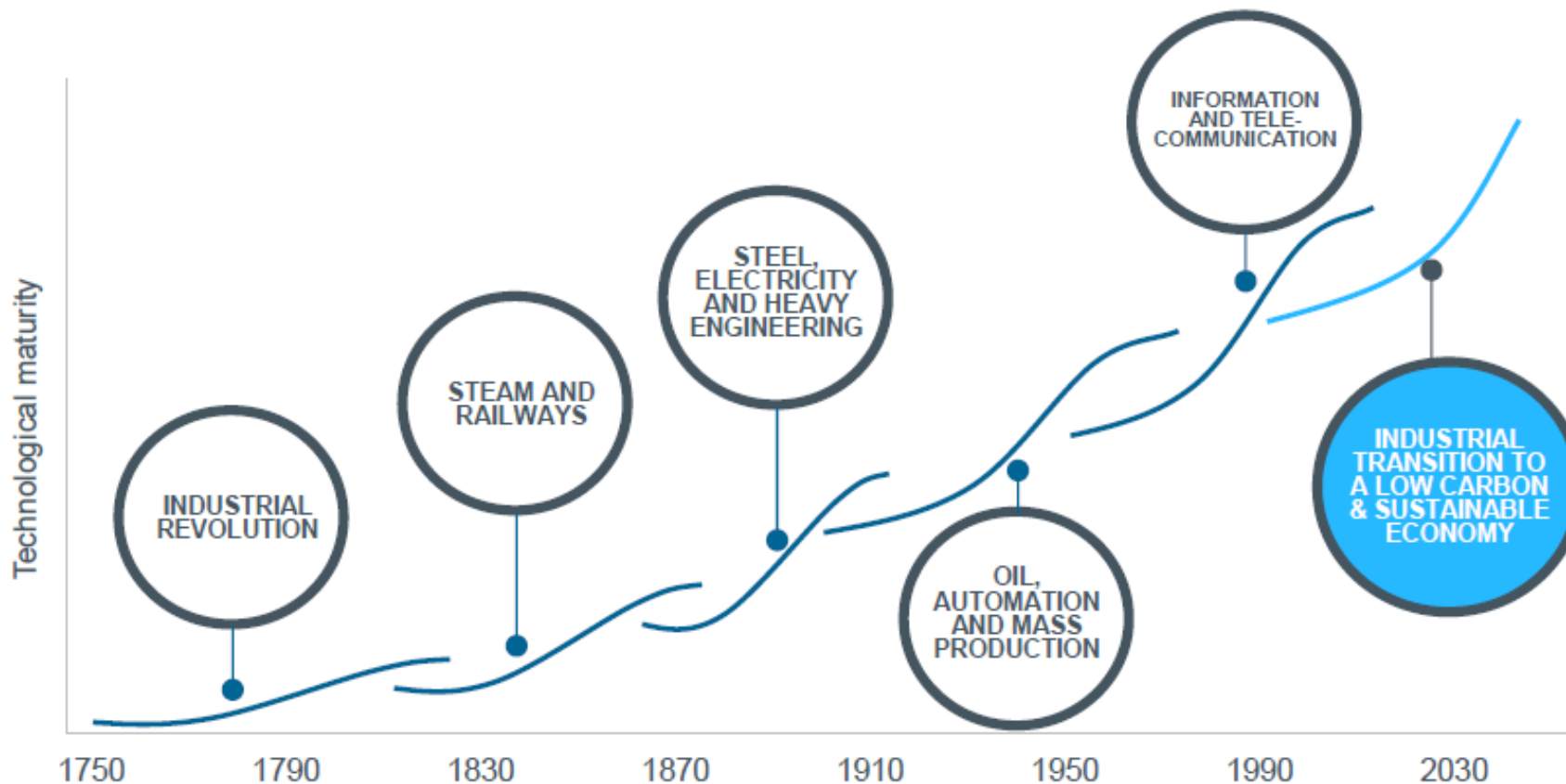
Hard-to-abate industry developing more advanced carbon capture technology

Subsidies are helping drive the EV revolution

Energy efficiency breakthroughs are enabling greener buildings

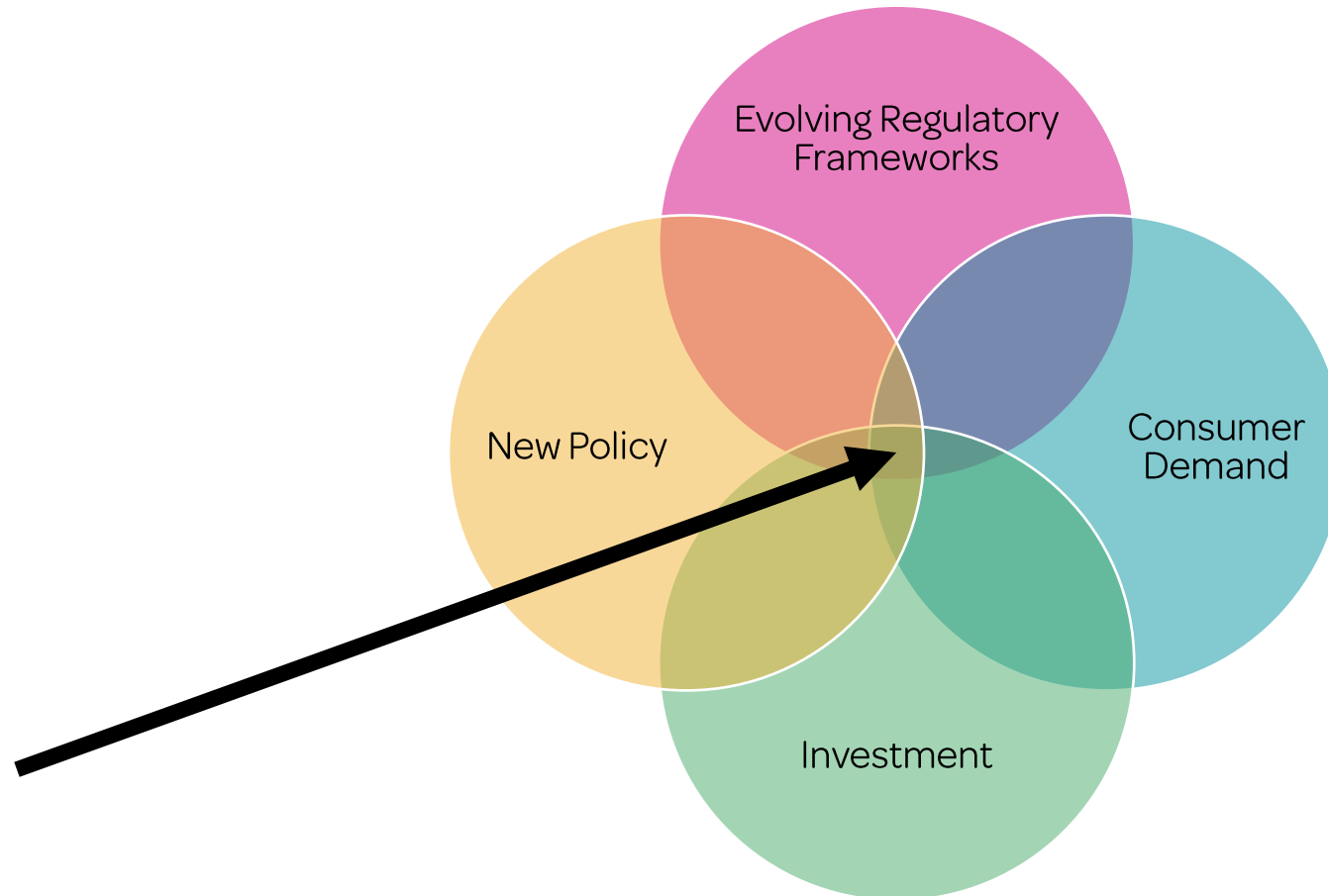
The sixth industrial revolution?

Transformative change is unleashing a new industrial revolution, akin to the invention of the railways



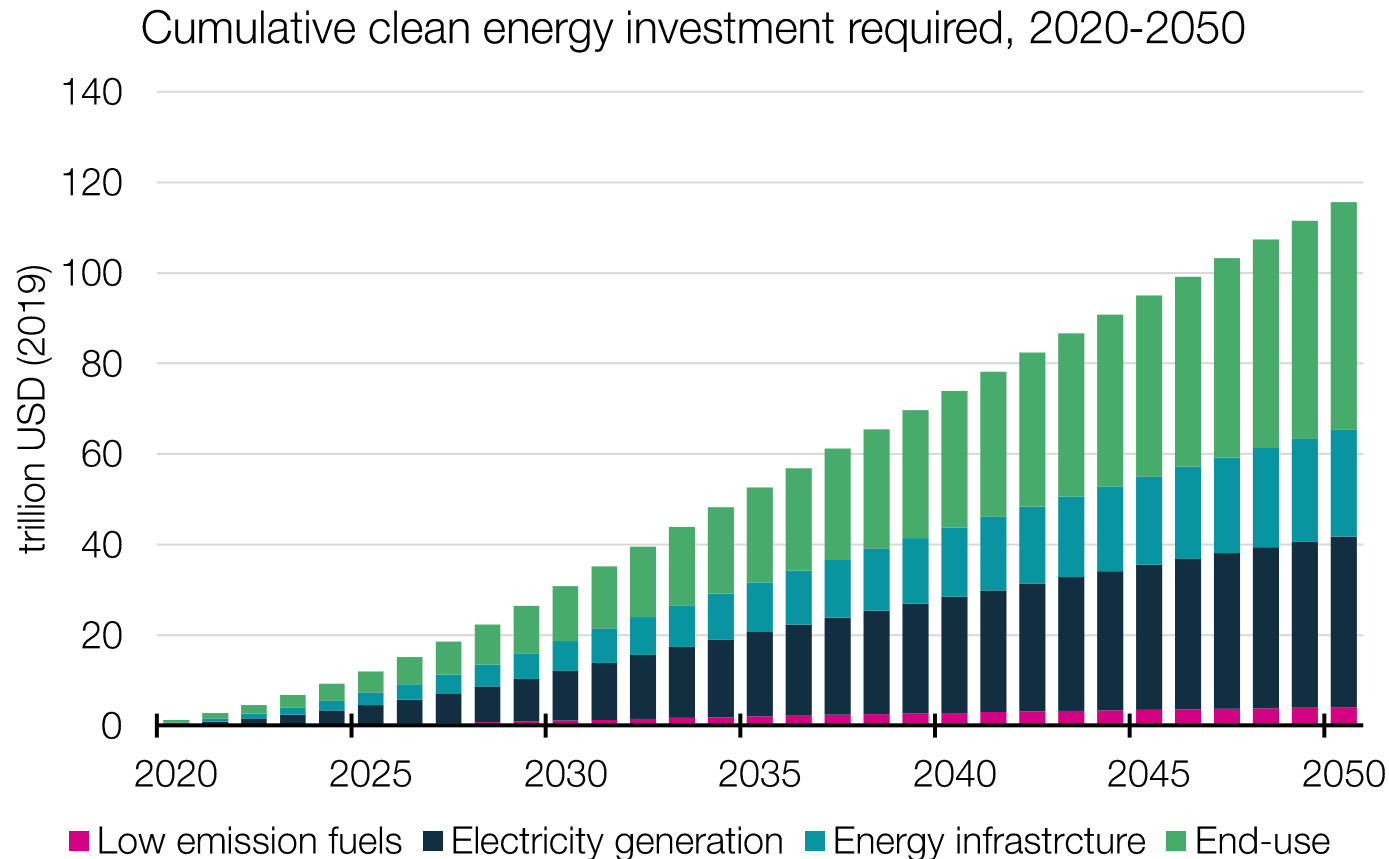
What are the tailwinds?

Tailwinds come from a range of factors including regulation, politics and an evolving consumer preference



Tailwind in focus: Investment

Supportive government policies have reduced project risk in a bid to mobilise the private capital required for a net zero transition



The IEA estimates annual investment in clean energy needs to be c. USD 4 trillion annually from 2020-2050

What does the climate challenge mean to you?

You can prepare for the challenge



Clients' capital should be invested to limit climate risk and take advantage of the opportunity

Discussing climate risks & opportunities

Client's sustainability preferences?

Finding a suitable DFM solution

Consideration of climate transition risks?

Targeting climate solutions?

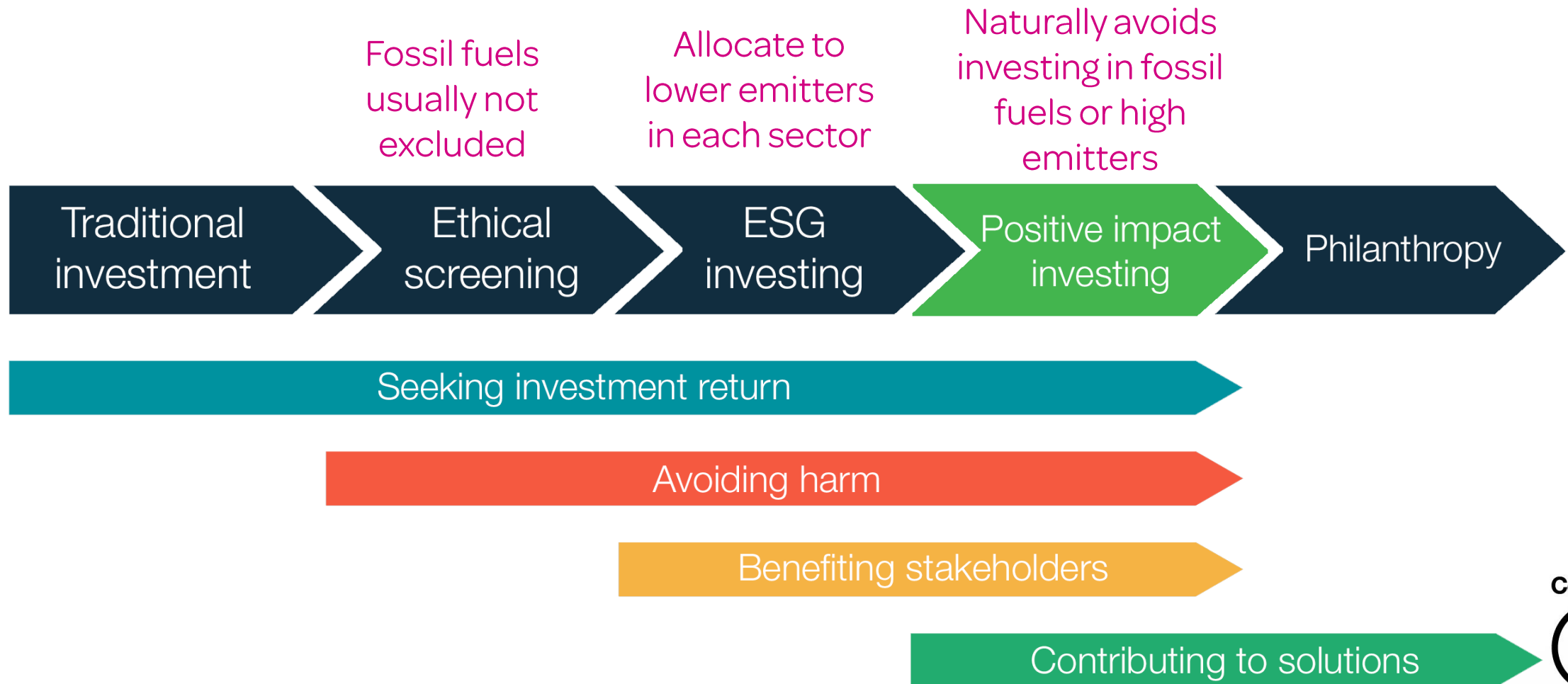
Engaging and voting for change?

Communicating and reporting on sustainability & impact

Reporting on portfolio's tangible impact?

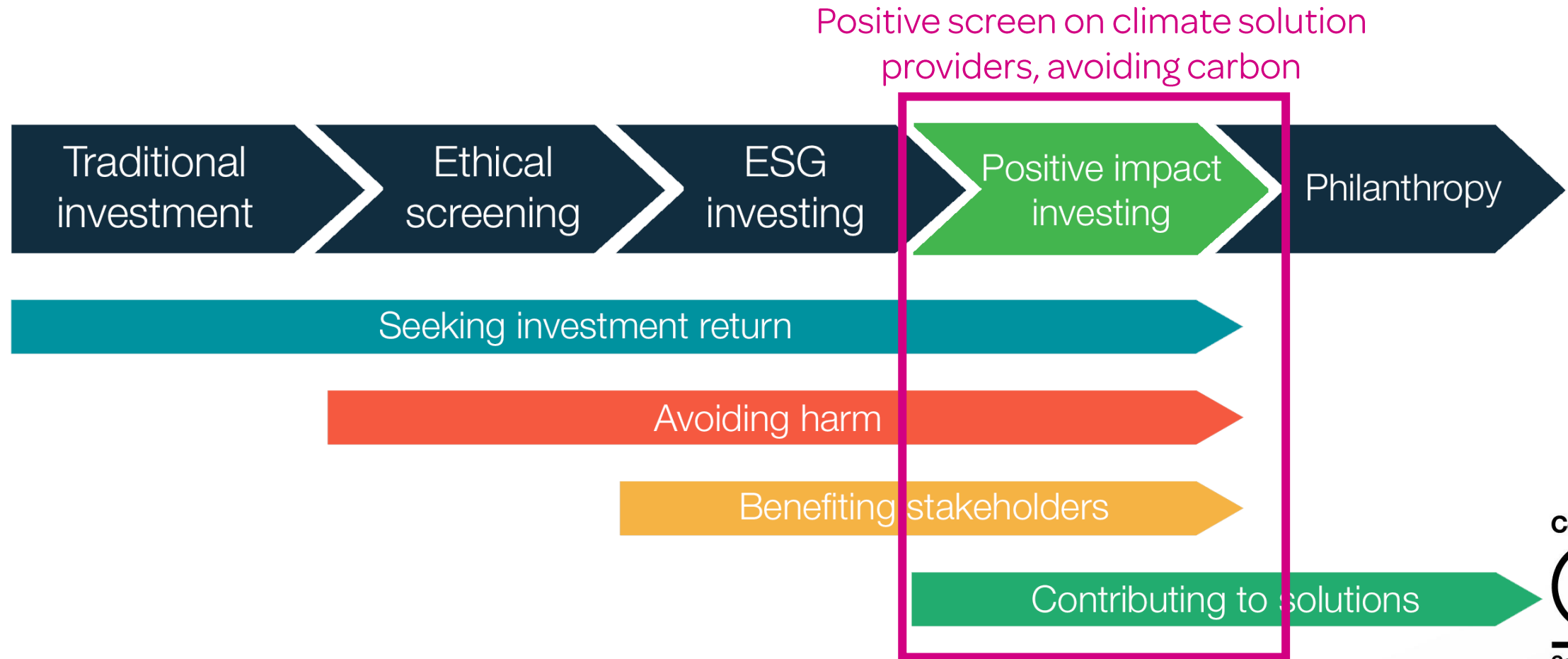
Investment solutions

What investment approaches best avoid climate risks?



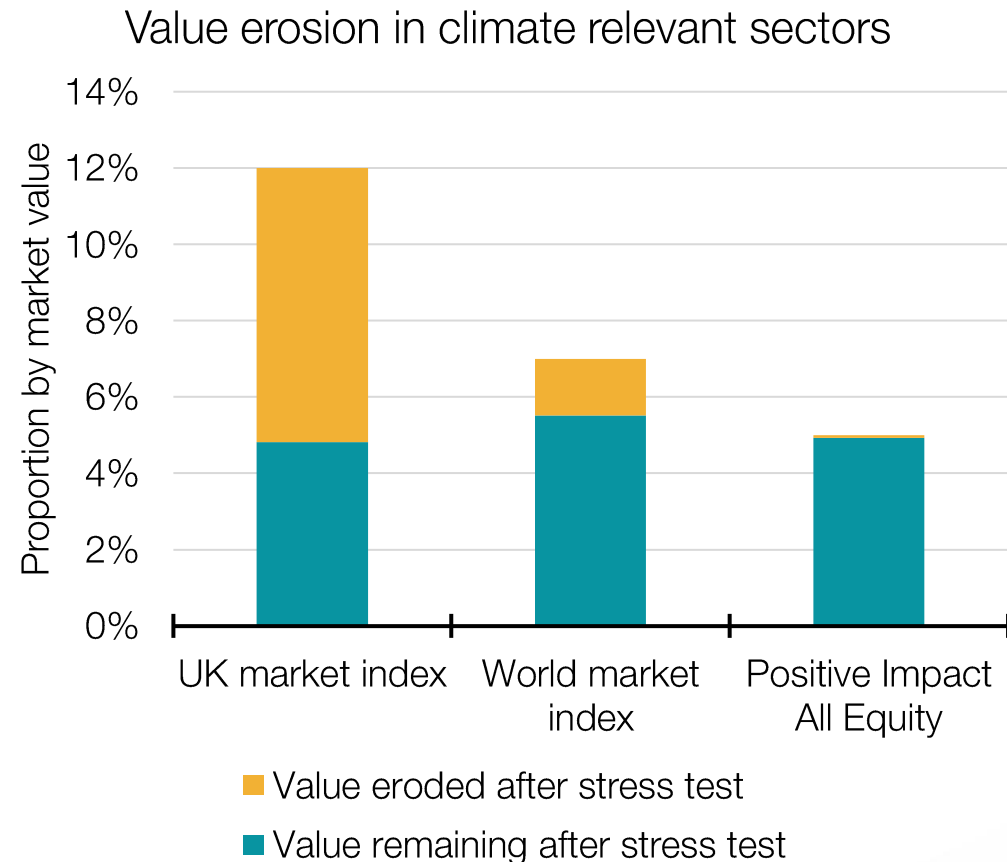
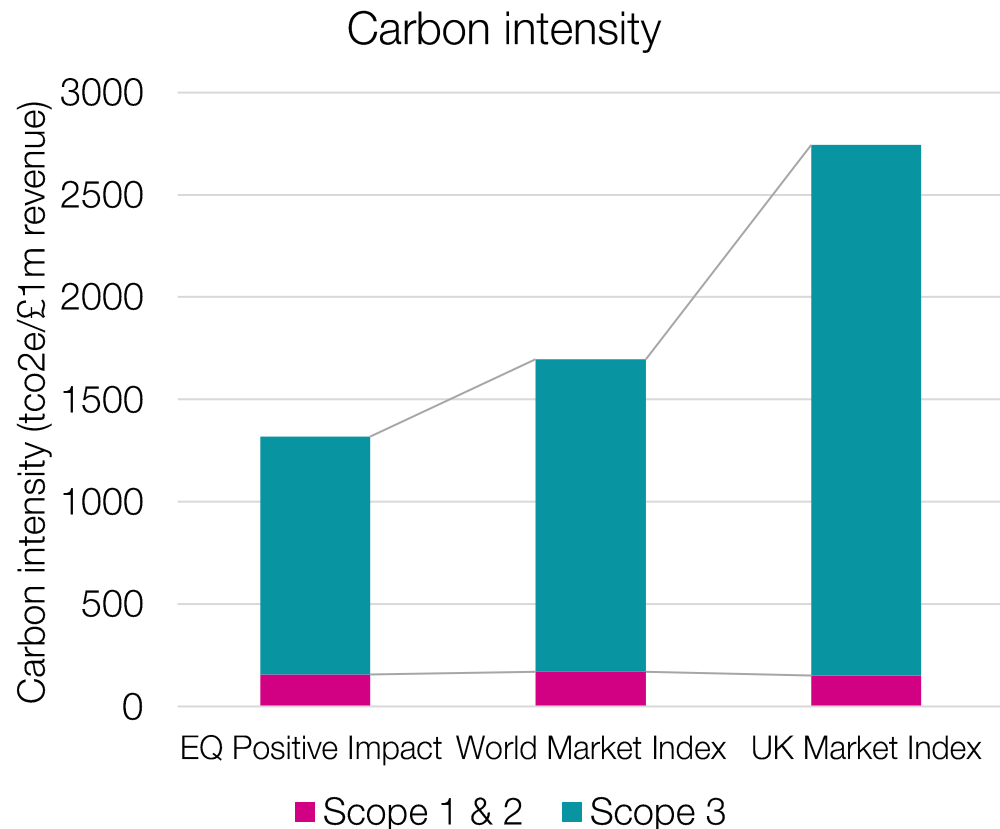
Investment solutions

What investment approaches best capture climate opportunities?



Carbon footprint reporting

Reporting on carbon footprint of investments is one way investment managers can demonstrate their achievements



Positive climate impact reporting

Allocating to businesses that are climate positive demonstrates clients are exposed to the opportunities arising from the challenge

For 1m GBP invested in the EQ Positive Impact Adventurous portfolios, underlying invested businesses in 2019 have:



This impact calculator illustrates the underlying positive impacts that companies in EQ's Positive Impact Portfolios contribute to the world. This positive impact is generated by the end users or beneficiaries of the products and services of invested businesses; the data does not include positive impacts that result from non-material parts of invested businesses. For an in-depth explanation of our impact methodology, please visit <https://eqinvestors.co.uk/advisers/blog/positive-impact-methodology-2020/>

Strong track record, competitive fees



#positiveimpact



#futureleaders

For clients who want to maximise their impact and returns

Multi-asset portfolios of active funds running dedicated impact strategies

Portfolio management fee: **0.32%–0.18%**

Underlying fund charges: **~0.6%**

For passive-only clients who want to invest as sustainably as possible

Multi-asset portfolios of passive funds: ESG-integrated and thematic index funds and ETFs

Portfolio management fee: **0.24%–0.10%**

Underlying fund charges: **~0.25%**

Q & A

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