

2° Investing Initiative

24 november 2020 – Werkconferentie
Klimaatcomittment

Paris Agreement Capital Transition Assessment

Supported by:



Federal Ministry
for the Environment, Nature Conservation
and Nuclear Safety

based on a decision of the German Bundestag



About our funders: This project is part of the International Climate Initiative (IKI). The Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) supports this initiative on the basis of a decision adopted by the German Bundestag. This project has also received funding from the European Union LIFE program. The views expressed here are the sole responsibility of the authors and do not necessarily reflect the views of the funders.

Our mission

Aligning financial markets & regulations with
climate goals



Founded in 2012



Working globally, with offices in Paris, New York, Berlin, Brussels, and London



Collaborate with FIs, NGOs, universities, policymakers and supervisors



Non-profit, non-commercial

Why measure alignment?

- Manage risk (portfolio level is enough, company level is better)
- Contribute to emission reductions in real world? (need company level results)
- Both?
- Engagement with counter parties?
- Disclosures?
- Because governments expect you to?

Portfolio alignment key principles

- Key components: scenario's, input data, measuring methodology, output metric.
- Input unit should be the same as scenario unit
- If everyone does is, the equation solves, in other words, the sum of micro-actor must solve for the macro-scenario
- Metrics shouldn't be biased by financial asset price movement
- Science-based: if you cannot sum to portfolio level in a meaningful way, don't do it.

How does PACTA work in a nutshell?

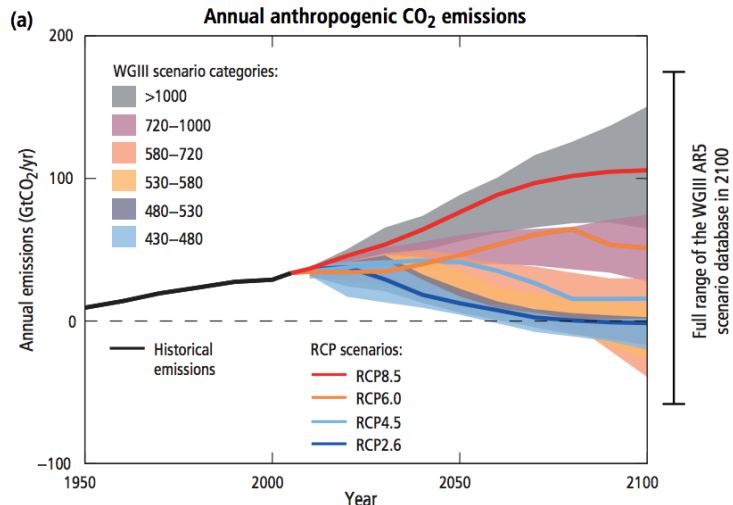
Corporate lending and investment portfolios



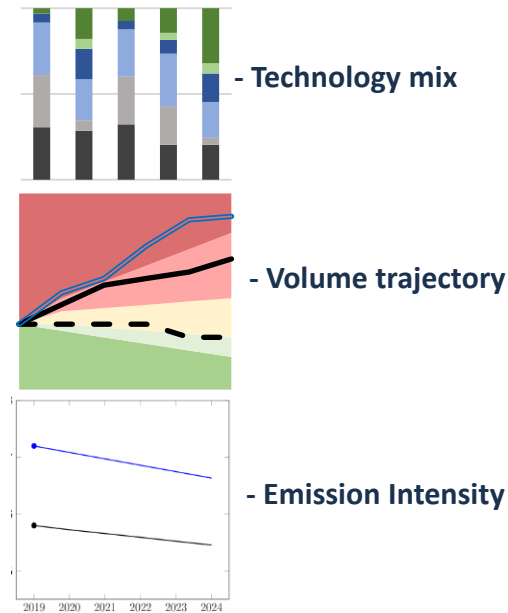
Alignment of portfolios is benchmarked against **climate change scenarios** and the **market**

Investments and loans are mapped to the **physical assets** in the **real economy** and their corresponding production values

Climate Change Scenarios



Metrics

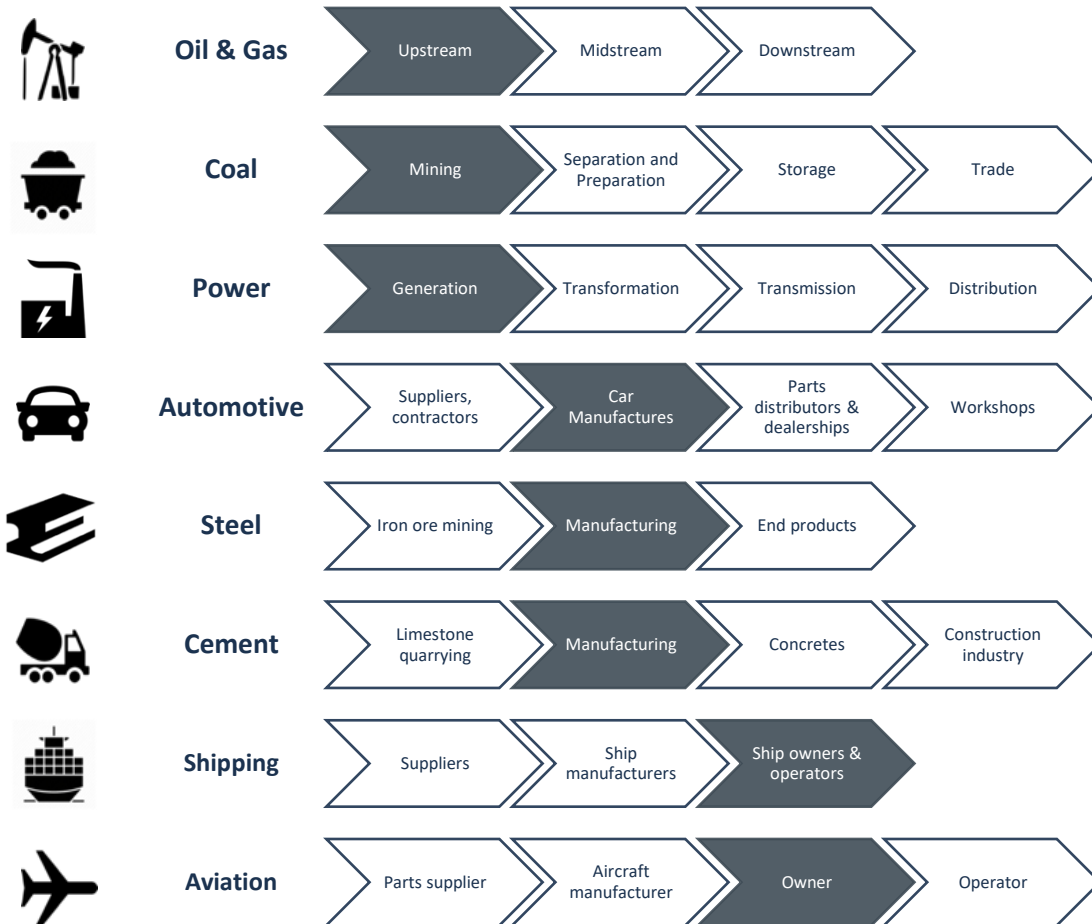


Physical Assets in the Real Economy



PACTA Methodology

Sectors Scope

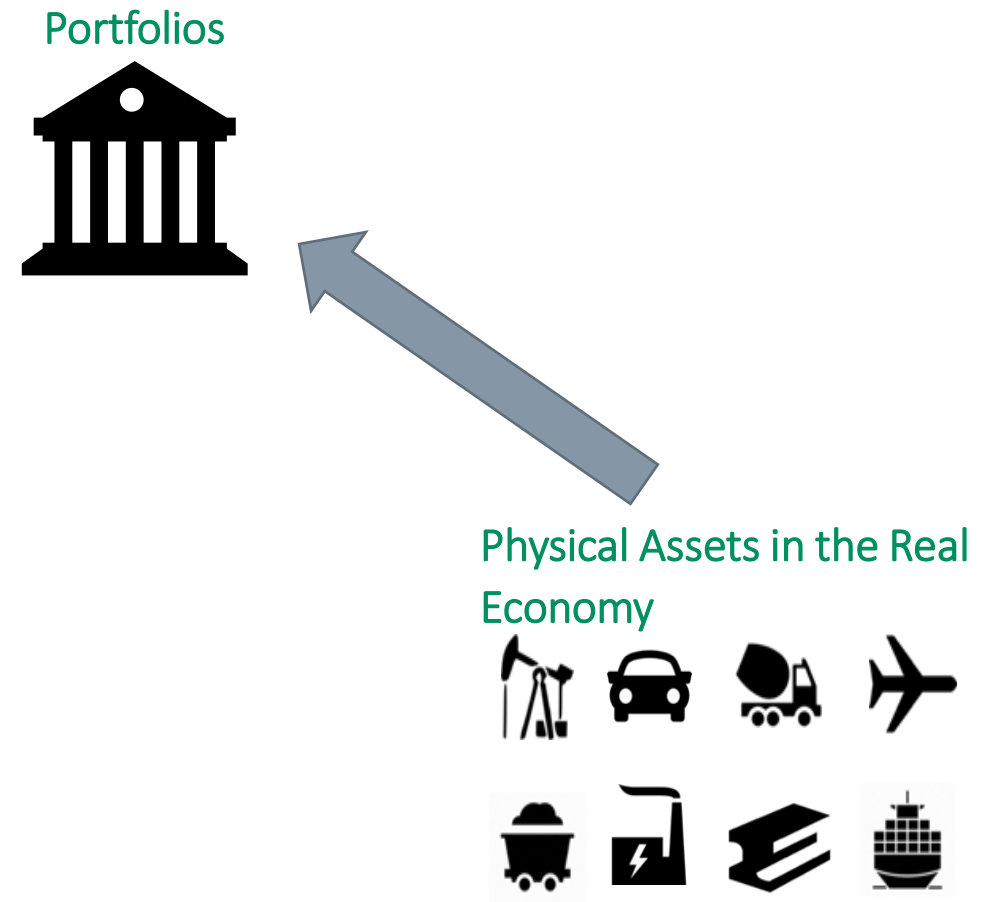


- Only the most climate-relevant segment of the value chain is covered
- Rationale is that if steering efforts align this segment of the value chain then the rest will become aligned
- Results are given at the sector and technology level

PACTA Methodology

Method of allocating physical economic assets to financial instruments

- **Ownership approach**
- **Portfolio-weighted approach**
- If the loan to coal company A represents 10% of your coal portfolio, then you are allocated 10% of company A's coal production
- **Unweighted approach**
- This approach allocates the absolute values of the companies that a portfolio is exposed to the portfolio's alignment score
- Used for company-level results



PACTA Methodology

For distributing macro carbon budgets to micro-economic actors

- **Market share approach**
- The decarbonization efforts required by a company is proportionate to their share of the market
- Market share is calculated as the companies' share of the sector's total production in a given technology
- If company A makes up 10% of the market share in a given technology, it is required to make 10% of the sector's decarbonization efforts in that technology

Portfolios



Climate Change Scenarios

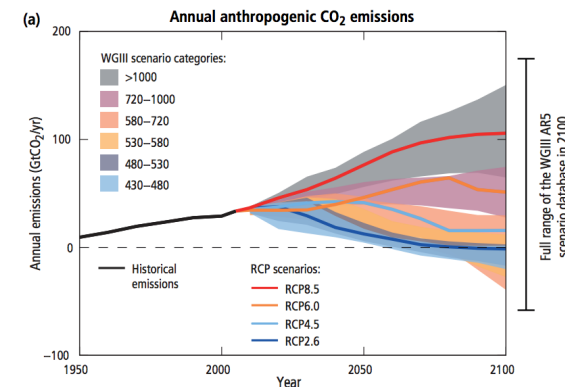
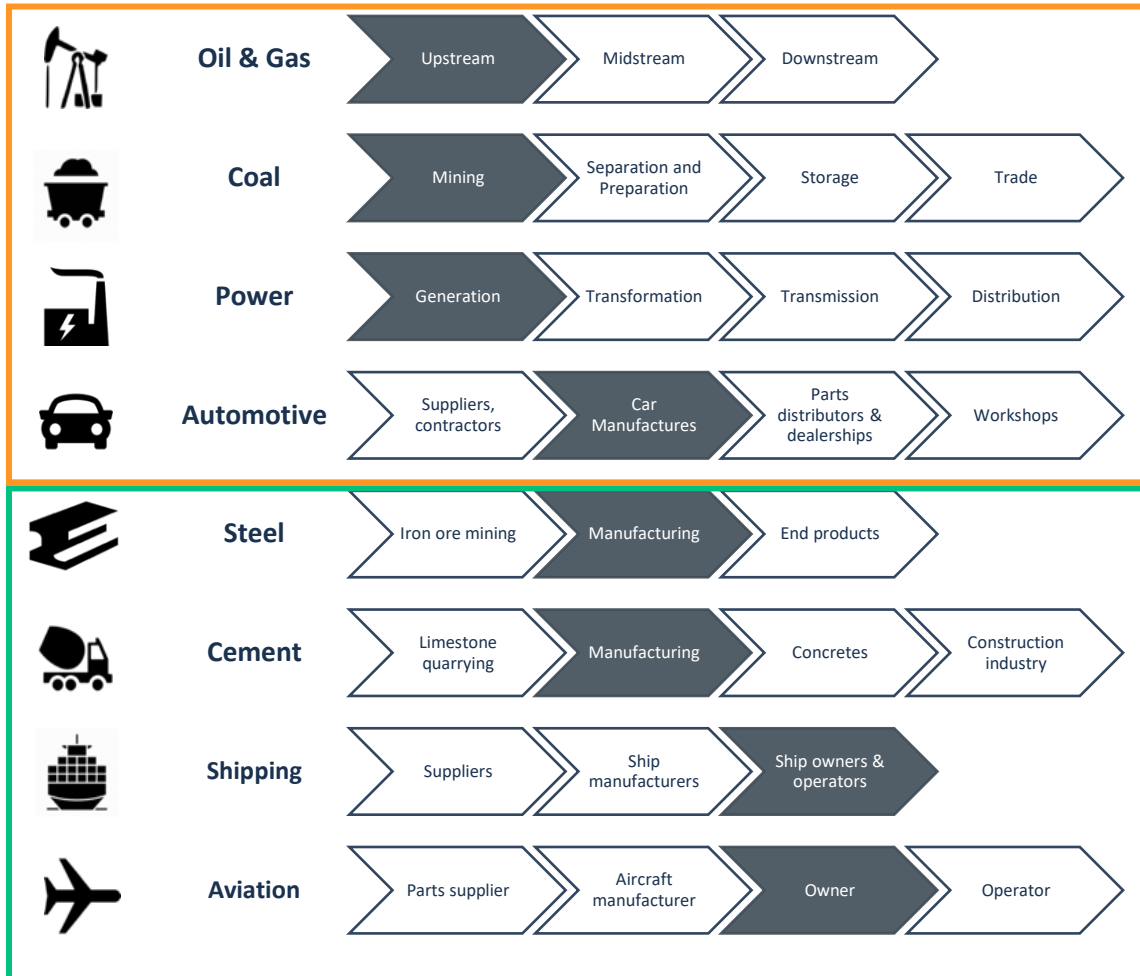


Figure SPM.5 from page 9 of the [IPCC AR5 Summary for Policymakers](#):

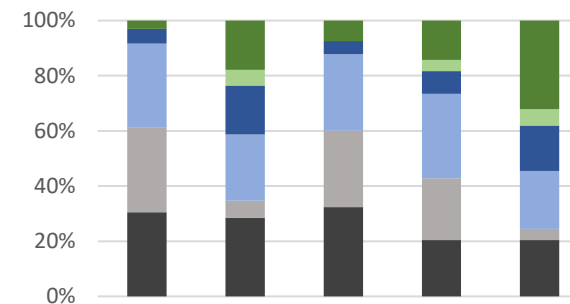
PACTA Methodology

Sectors Approach

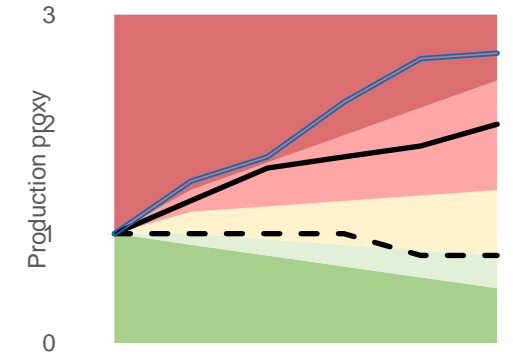


Sectors with Technology Road Maps

Technology / Fuel Mix

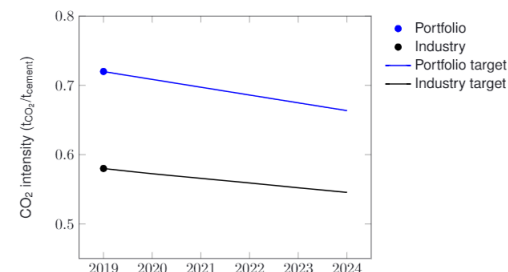


Production Volume Trajectory



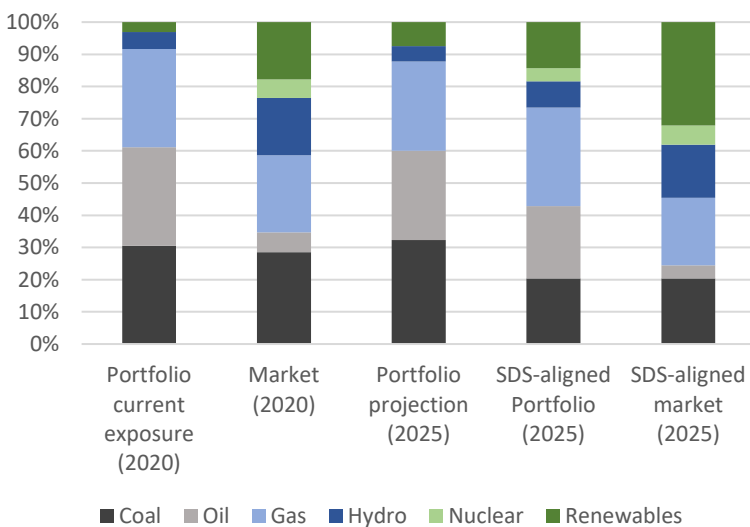
Sectors without Technology Road Maps

Emission Intensity

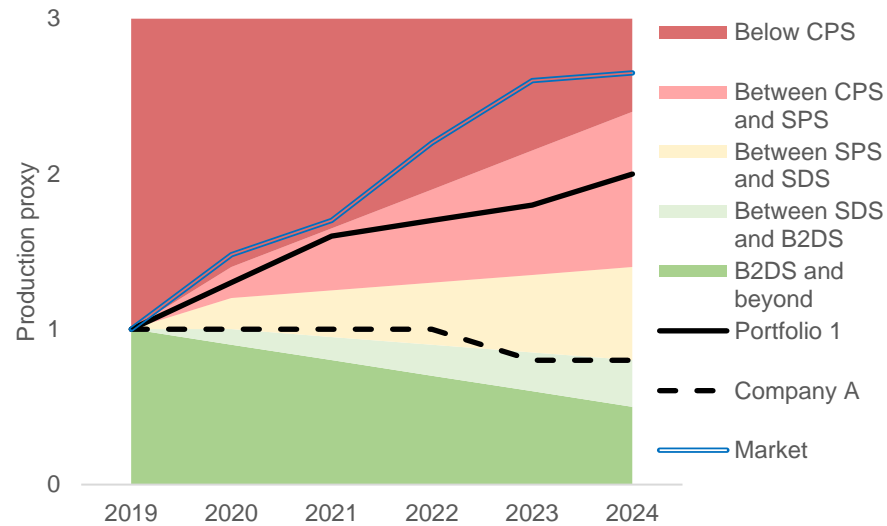


PACTA Metrics

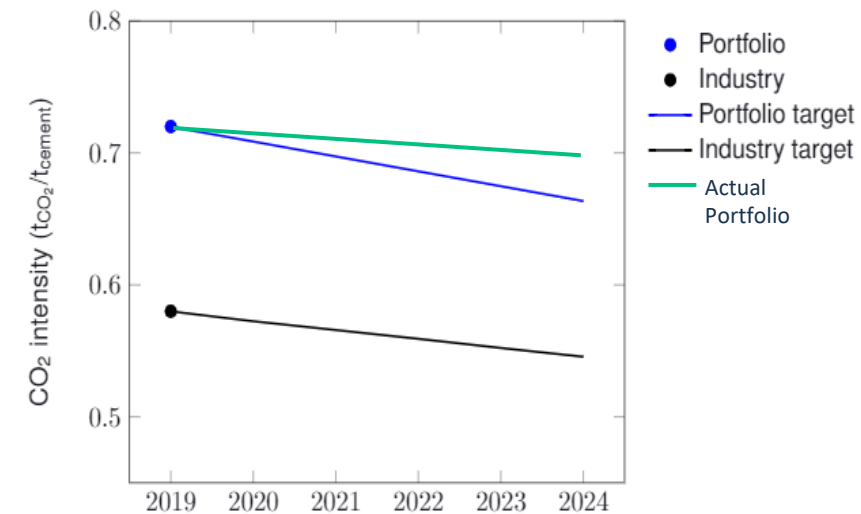
Technology / Fuel Mix



Production Volume Trajectory



Emission Intensity



What can PACTA be used for?

PACTA can be used to help inform:

- Risk Management
- Climate related decision making and strategy
- Target setting
- Identifying and engaging with clients
- Disclosure and reporting

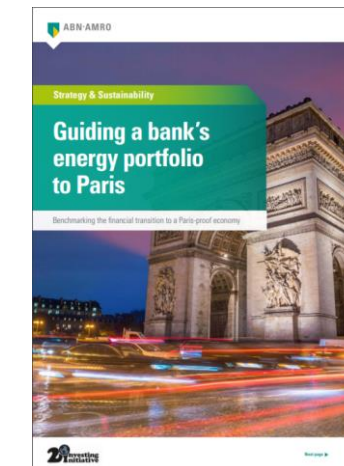
“Given the importance of forward-looking assessments of **climate-related risk** the **TCFD** believes that **scenario analysis** is an important and useful tool for an organization to use...” – TCFD, [The Use of Scenario Analysis in disclosure of Climate-related Risks and Opportunities](#)

Examples:

[ING Terra Report](#)



[ABN-Amro Report](#)



[Standard Chartered TCFD Report](#)



How investors can use PACTA

1

Equity Bonds

2

Assessed Sector (\$)

Current Exposure

Future Exposure

5 Year Growth Trend

CO₂-Intensity Trend

Company Information

Regional Exposure

Peer Comparison

3

Sector

Coal Mining

Technology

Not available

4

Scenario

IEA: SDS

Accounting Principle

Ownership

Scenario Geography

Global

Equity Market


Global

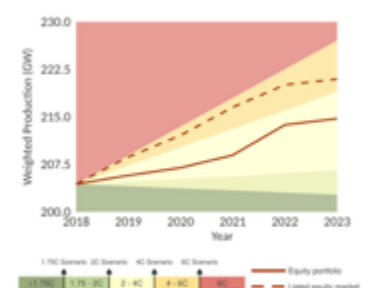
Benchmark Portfolio

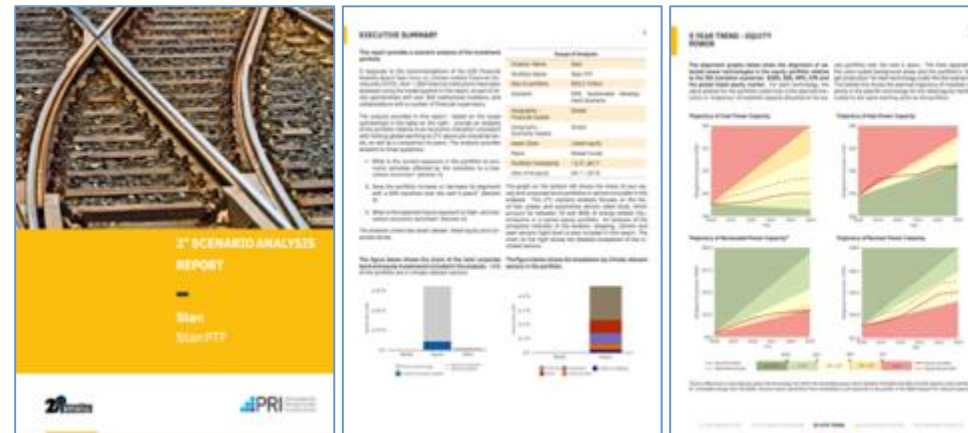
Your Aligned Portfolio

Peer Group

Global Funds







The analysis takes < 1 min,

Only requires ISIN codes and amounts,

Free of charge and anonymous

Alignment versus real-world impact

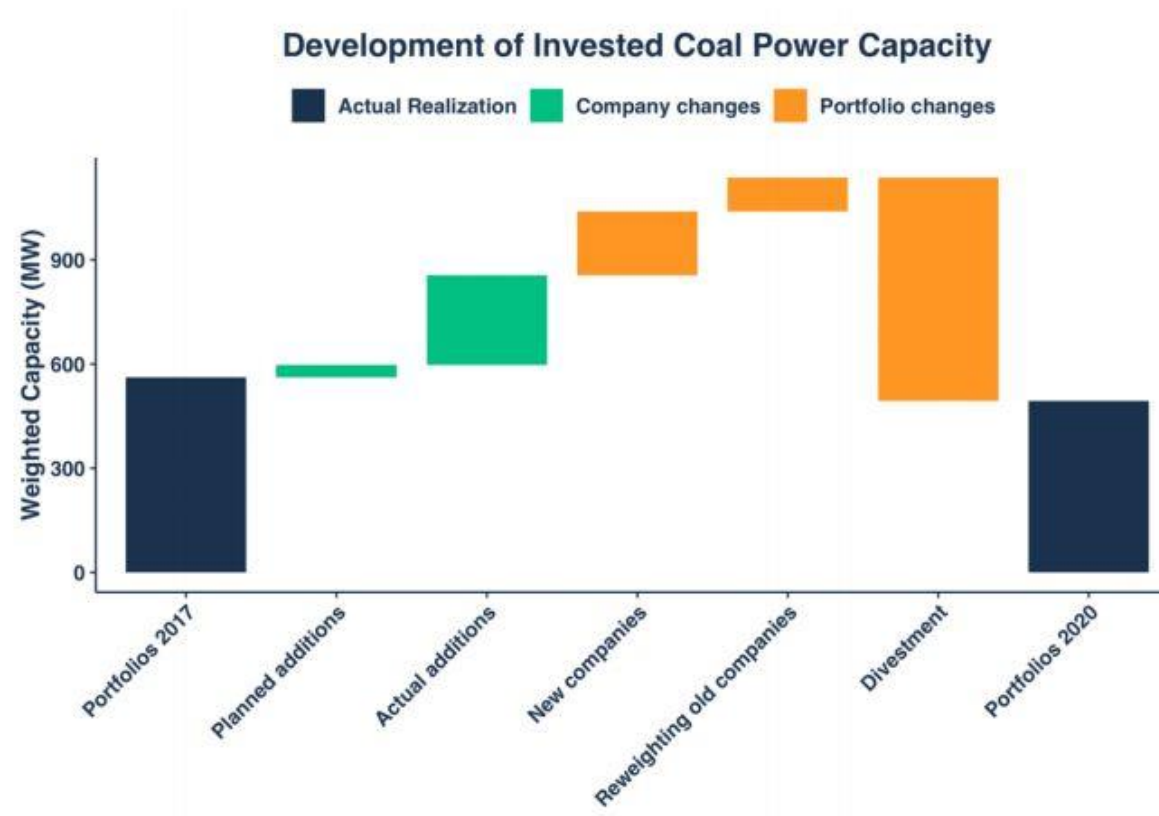
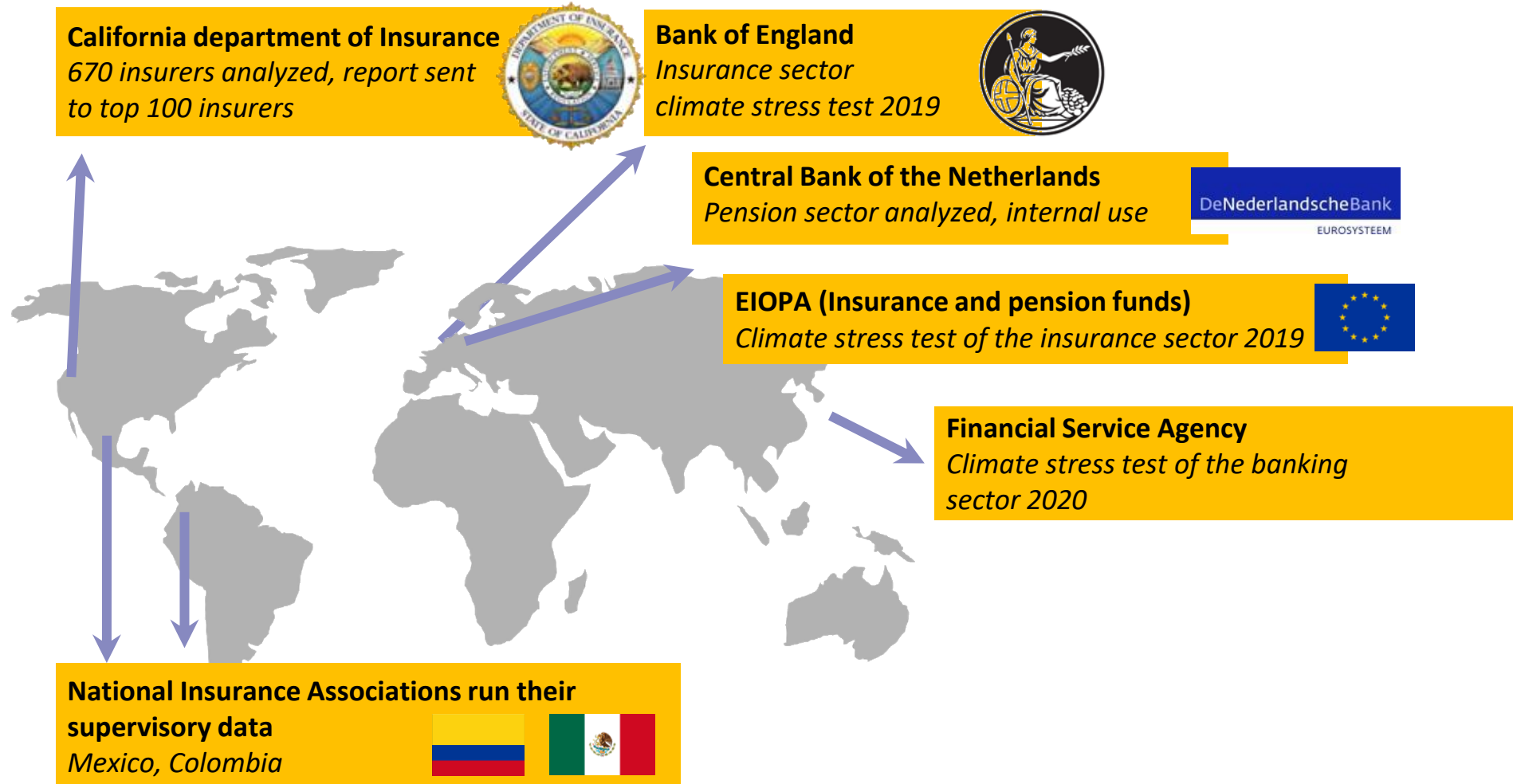


Figure 39: Development of invested coal power capacity.

PACTA partnerships





Q&A