Sustainable finance and the macro-context

P.R.I.M.E. Finance Annual Meeting, June 26, 2023

Joanne Kellermann
Chair of the Board of Trustees, PFZW
Why do we care?
Exponential change 1: climate

2020 in Statistical Tie for Warmest Year on Record

Global Temperature Anomaly (°C compared to the 1951-1980 average)
Exponential change 2: Covid and other zoonotics

Cumulative confirmed COVID-19 cases and deaths, World
Limited testing and challenges in the attribution of cause of death mean the confirmed case and death counts may not reflect the true counts.
Exponential change 3: water use

- 4 trillion m³
- 3.5 trillion m³
- 3 trillion m³
- 2.5 trillion m³
- 2 trillion m³
- 1.5 trillion m³
- 1 trillion m³
- 0 m³

1901
- World 671.31 billion m³ per year
- Total 671.31 billion m³ per year

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Exponential change 4: regulation

[Sustainable Finance Implementation timeline for SFDR | TR | CSRD | MiFID | IDD | UCITS | AIFMD]

- **1 Jan ’22 – 31 Dec ’23**: Financial undertakings disclose proportion of assets exposed to taxonomy non-eligible and eligible economic activities under Art 8 TR DA.
- **1 Jan ’22 – 31 Dec ’22**: Non-financial undertakings disclosetaxonomy-eligible and non-taxonomy-eligible activities under Art 8 TR DA.
- **6 April ’22**: COM adopts draft DA building on SFDR and TR RTs.
- **1 Jan ’22**: Periodic product disclosures in Art 11(1)-(3) SFDR start to apply.
- **1 Jan ’22**: Product disclosures under Art 5 and 6 TR start to apply for the ‘first two environmental objectives’.
- **13 Jul ’22**: First report of COM on application of TR (to be submitted every three years).
- **30 Dec ’22**: Art 7 SFDR disclosures on product-level PAI consideration applies.
- **1 Jan ’23**: Non-financial undertakings start disclosing the full KPIs on taxonomy-alignment under Art 8 TR DA.
- **1 Jan ’23**: Application of SFDR RTs, including Art 5 and 6 TR product disclosures for ‘all environmental objectives’.
- **30 Jun ’23**: CSRD applies to companies currently subject to NFRD.
- **1 Jan ’24**: Financial undertakings start disclosing the full KPIs on taxonomy-alignment under Art 8 TR DA.
- **1 Jan ’24**: First FMP PAI statement under SFDR RTs.
- **30 Jun ’24**: Second FMP PAI statement under SFDR RTs.
- **1 Jan ’25**: CSRD applies to companies not currently subject to NFRD.
- **1 Jan ’25**: CSRD applies to listed SMEs.

Last updated: 16 September 2022
Exponential change 5: scrutiny

German fund company sued for “greenwashing”

One of the largest German fund companies promotes a green equity fund with specific figures on savings and monetary benefits for the environment. A German-based consumer protection association considers this to be misleading – and is taking the matter to court.
What do we do already?
Climate plan for 2030, 2050

Primary goal:
PFZW strives to have a climate-neutral investment portfolio (Net-Zero by 2050)

Approach:
- **CO2-reduction**

Targets:
- A. Reduction of the carbon footprint of the portfolio by 50% in 2030 versus 2019. Lowering the tonnes of CO2 emitted per euro invested for asset classes where data is available and reliable.
- B. Reduction of CO2-intensity by 50% for the equities and corporate bonds portfolio between 2019 and 2030.

- C. 100% of invested capital in private real estate and infrastructure to be Paris-Aligned in 2030. Private Equity will achieve 100% Paris-Alignment in 2040.
- D. All fossil fuel companies must be Paris-Aligned by the end of 2023

- E. 15% of invested capital contributes demonstrably to climate SDGs by 2030

- F. No investments in coal and tar sand companies
- G. No investments in energy companies who extract oil and gas from the Artic (artic drilling)

Instruments:
- Impact driven capital allocation
- Active ownership (i.e. engagement and voting)
- Exclusion
Focus area 1: Health

Focus area 2: Climate

Sustainable World

- 20% of AUM invested in SDGs
- Doubling of measured impact in focus areas
- CO$_2$-reduction in public equity, credits, private real estate and infrastructure

Responsible Base

- Product exclusions incl. weapons, tobacco, coal, tarsand
- ESG exclusions per OECD screen
- SMART engagement/divestment incl. fossil fuels
- Further mitigation of climate risks
Active ownership fossil industry
SDG alignment

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What’s next for sustainable finance and impact?
Optimizing for long-term value

3D investment

Impact

Long-term value

Risk

Return

- Provide flexibility on risk-adjusted return
- Grow new/undersupplied capital markets
- Expand opportunity set (mandates)
- Increase SDG alignment
- Engage actively (SMART)
- Signal that impact matters

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Pensions with purpose