

**Responses received to letters sent to signatories of the Glasgow  
Financial Alliance for Net Zero**

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## Environmental Audit Committee

*Sent by e-mail only*

Dear,

### **The financial sector and the UK's net zero transition**

The Environmental Audit Committee of the House of Commons is conducting an inquiry into the financial sector and the UK's net zero transition. Details of the inquiry and the written evidence published to date can be found on the Committee's website at [www.parliament.uk/eacom](http://www.parliament.uk/eacom).

In view of the estimated global reach and total assets covered within recent initiatives to align the financial sector with the UNFCCC's net zero goals, and the increasing use of net zero statements as part of corporate climate strategies issued by banks, insurance companies, pension funds, asset managers and other stakeholders which is already in the public domain, the Committee considers that the sector will play a significant role in helping determine whether the UK Government's carbon budgets and its net zero target are likely to be met.

Given HSBC's status as a signatory to the Banking Alliance, the Asset Managers Initiative & the Paris Aligned Investor Initiative of the Glasgow Financial Alliance for Net Zero, I am writing on the Committee's behalf:

- to invite you to state your institution's public position regarding the financing of fossil fuel extraction and renewable energy generation; and
- to ask you whether, in communicating with fossil fuel producers, your institution supports the conclusions of the International Energy Agency's report Net Zero by 2050: A Roadmap for the Global Energy Sector.



## Environmental Audit Committee

### *Public position on fossil fuel finance*

Please set out your institution's position by answering the following questions as appropriate:

- a. Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.
- b. Does your institution's overall approach to energy transition include fossil fuel exclusion policies?
- c. How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?

### *The IEA Roadmap to Net Zero*

The International Energy Agency's May 2021 report states that reducing global carbon emissions to achieve net zero by 2050 will require "nothing less than a complete transformation of how we produce, transport and consume energy". Achieving this will require a managed decline in the use of fossil fuels, leading the IEA to assert that "there is no need for investment in new fossil fuel supply" or projects beyond those already committed to by 2021.

- d. In view of the statement above, does your institution also support the IEA's net-zero scenario which calls for 'no new investment is needed in coal, oil and gas'?
- e. What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?
- f. *Has your institution's credit committee been instructed to reduce or decline to make new capital available for new fossil fuel projects?*
- g. *Where you continue to hold investments in fossil fuel-producing companies, has your institution communicated to that company's management your position on*



## Environmental Audit Committee

*the IEA's Net Zero scenario and its conclusion on the need for no new investment in future new production? If not, does your company plan to do so?*

- h. *Please identify the proportion of the assets you manage which are (a) actively and (b) passively managed (for example in index tracking portfolios) and the extent to which differential policy mandates between the two investment approaches apply in relation to investment in fossil fuels.*

The Committee would welcome your response to the questions above not later than **Thursday 8<sup>th</sup> September 2022**.

The Committee plans to publish each response received on its website. It will invite analysis of the responses received so as to gain as clear a picture as possible of the current trajectory of fossil fuel investment.

Yours sincerely,

**Rt Hon Philip Dunne MP**  
**Chairman of the Committee**

**Response from abrdn plc to the Environmental Audit Committee's *The financial sector and the UK's net zero transition* inquiry letter to leading signatories to GFANZ.**

- Our overall approach to fossil fuels is captured in our fossil fuel position [statement](#). This highlights our approach to reducing reliance on fossil fuels which is focused on active ownership and transition of assets rather than divestment. We have embedded fossil fuel related restriction in a number of our sustainable funds, but not a blanket exclusion approach.
- We are members of the Powering Past Coal Alliance and support the phase out of coal assets through our active ownership activities such as engagement and voting, taking account of social implications and regional dependency/availability of energy sources.
- Our overall approach to net zero is captured in our net zero directed investing strategy which is focused on supporting net zero in the real world, not just in portfolios. For us that means focusing on identifying credible transition leaders in industries that may be carbon intensive but demonstrate leadership to innovate and reduce carbon intensity.
- We welcome the strong messaging of the IEA net zero 2050 scenario, but policy makers are not aligning incentives with this scenario and that is one major challenge for investors who want to align capital allocation with net zero goals. In the UK, the High Court ruled that the UK's net zero strategy was insufficient in achieving what was set out in the Climate Change Act. Climate commitments across the globe would still take us to a world that warms by 2.4C by 2100 and this policy ambition gap needs to be addressed urgently. We are very concerned about the lack of progress to implement COP26 pledges.
- In addition, we [wrote about our concerns that the war in Ukraine has not led to an acceleration to net zero](#) despite the desire to reduce reliance on Russian fossil fuels in Europe – energy security and affordability are driving decision making rather than climate priorities.

We expand on many of these topics in our previous submission to the Environmental Audit Committee's inquiry which has been published as part of the written evidence on the [Committee website](#).

16 September 2022

*Public position on fossil fuel finance*

*Please set out your institution's position by answering the following questions as appropriate:*

*a. Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.*

We do not explicitly state this on our website however we do state that in November 2021 Aegon Asset Management (Aegon AM) became a signatory to Net Zero Asset Management Initiative. This coincided with the announcement by our parent Aegon NV that the company is committed to net zero greenhouse gas emissions for its general account investment portfolio by 2050 and that it joined the Net-Zero Asset Owner Alliance, a United Nations convened group of institutional investors.

By becoming a signatory Aegon AM is committed to support the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit global warming to 1.5 degrees Celsius. Aegon AM also committed to support investing aligned with this net zero emissions target and work in partnership with its clients on decarbonisation, supporting them with their own climate ambitions.

To meet these commitments Aegon AM will look to increase the share of assets managed in-line with the attainment of net zero by 2050 or sooner – beginning with those managed on behalf of other Aegon Group companies following their own commitment to net zero. It will also prioritise reductions in the real economy by continuing its engagement program, using its influence with investee companies to encourage continued greenhouse gas measurement, targets and reduction.

The Net Zero Asset Managers initiative was launched in December 2020 and is a group of international asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner in line with global efforts to limit warming to 1.5°C.

<https://www.aegonam.com/en/secondary-navigation/media-center/aegon-am-becomes-signatory-to-the-net-zero-asset-managers-initiative/>

<https://www.aegonam.com/en/responsible-investing/climate-change/>

<https://www.aegonam.com/en/responsible-investing/>

*b. Does your institution's overall approach to energy transition include fossil fuel exclusion policies?*

In the UK where we identify issuers engaging in activities or practices that we consider to have significant adverse impacts on society or the environment, we place them on either the Exclusion List or the Watch List.

We identify and prioritize such significant adverse impacts using criteria, some of which are outlined below. These criteria are reviewed periodically to ensure the prioritization remains appropriate.

Following identification, we avoid these significant adverse impacts by not investing in securities issued by the entities listed on the Exclusion List.

Investment in securities issued by the entities listed in the Watch List is only permitted following enhanced due diligence with a pre-order justification signed off by senior leadership.

Following a decision to invest in a security issued by an entity on the Watch List, control committees are informed ex-post and consider, in each meeting, whether the Watch List investments remain acceptable.

The Watch List is not applicable to short positions: we may take short positions in securities issued by Watch List entities without applying the restrictions or additional approvals set out above. We do not take any position, short or long, in issuers on our Exclusion List.

#### **Watch List criteria related to Climate change**

- Companies that derive 30% or more of their revenue from the exploration, mining or refining of thermal coal. The proportion of revenue threshold will decline to 10% in 2027 and 5% in 2029;
- Companies that produce more than 20 million tons of thermal coal annually and are actively expanding exploration, mining or refining operations;
- Companies that own coal-fired electricity generation capacity greater than 10 gigawatts and are actively expanding coal-fired electricity production capacity;
- Companies that derive 30% or more of their total oil equivalent production from oil sands;
- Companies building or operating pipelines that significantly facilitate export of oil extracted from oil sands.

[aegon-am-uk-sustainability-risks-and-impacts-policy-2021.pdf \(aegonam.com\)](#)

*c. How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?*

*The IEA Roadmap to Net Zero*

*The International Energy Agency's May 2021 report states that reducing global carbon emissions to achieve net zero by 2050 will require "nothing less than a complete transformation of how we produce, transport and consume energy". Achieving this will require a managed decline in the use of fossil fuels, leading the IEA to assert that "there is no need for investment in new fossil fuel supply" or projects beyond those already committed to by 2021.*

At Aegon AM, we integrate climate change risk into our ESG analysis, look for opportunities to invest in climate change solutions and engage with companies to advocate change.

### **Integrating climate risk**

Climate-related risks are evaluated in the firm's proprietary ESG integration process when considered material as part of the fundamental research framework. Risks may include transition, stranded asset, regulatory and climate change-related physical risks. Utilizing their industry, country or asset class expertise, analysts identify the most material and relevant climate-related risks.

### **Investing in climate solutions**

A number of our focused responsible investment strategies invest in climate solutions and emphasize investments in companies we consider to be better prepared for the energy transition. From renewable energy and electric vehicles to green buildings, we are finding compelling opportunities to invest alongside the transition to a low-carbon economy while pursuing attractive investment returns.

### **Engaging for better outcomes**

Aegon AM carries out individual and collaborative engagements related to climate change in an effort to improve outcomes for our clients' portfolios and the world more broadly. By supporting collective action coordinated by Climate Action 100+, we aim to encourage the world's largest corporate greenhouse gas emitters to take necessary action. We are also

working with groups such as the Institutional Investors Group on Climate Change, ShareAction and CDP to further encourage corporate action on climate. Additionally, we conduct bilateral engagements on climate change to request disclosure of environmental metrics and encourage adoption of targets.

*d. In view of the statement above, does your institution also support the IEA's net-zero scenario which calls for 'no new investment is needed in coal, oil and gas'?*

Aegon AM has no specific position on this scenario, but per the policy described above we exclude investment in companies with significant exposure to coal and oil sands.

*e. What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?*

Aegon AM has no policy on the responsible retirement of fossil fuel assets beyond its approach to excluding certain investments with significant adverse impacts on the environment described above.

*f. Please identify the proportion of the assets you manage which are (a) actively and (b) passively managed (for example in index tracking portfolios) and the extent to which differential policy mandates between the two investment approaches apply in relation to investment in fossil fuels.*

Aegon AM is an active asset manager, we currently have assets under management of £270.5bn of which circa £120bn is in RI/ESG strategies. We do not currently breakdown our AuM in terms of fossil fuel exposure.

**Response from Allianz SE to the Environmental Audit Committee's *The financial sector and the UK's net zero transition* inquiry letter to leading signatories to GFANZ.**

- a) Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.

Yes, please refer to the official statements on Oil & Gas, Oil & Sands and Coal-related business models via below URLs:

- [Allianz Statement on Oil and Gas Business Models](#)
- [Allianz Statement on Coal -based Business Models](#)
- [Allianz-Statement-oil-sands-based-business-models.pdf](#)
- [Allianz Group Sustainability Report 2021-web.pdf](#) – p.10

- b) Does your institution's overall approach to energy transition include fossil fuel exclusion policies?

Please refer to the relevant pages of the official statements:

- [Allianz Statement on Oil and Gas Business Models](#) – p. 3-4
- [Allianz Statement on Coal -based Business Models](#) – p. 2-3
- [Allianz-Statement-oil-sands-based-business-models.pdf](#)

- c) How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?

Please refer to the relevant pages of the official statements:

- [Allianz Statement on Oil and Gas Business Models](#) – p. 4
- [Allianz Statement on Coal -based Business Models](#) – p. 4-5

- d) In view of the statement above, does your institution also support the IEA's net-zero scenario which calls for 'no new investment is needed in coal, oil and gas'?

Please refer to the relevant pages of the official statements:

- [Allianz Statement on Oil and Gas Business Models](#) – p. 3-4
- [Allianz Statement on Coal -based Business Models](#) – p. 2-3

- e) What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?

Allianz's statements on Oil & Gas/ Coal-related business models covers its proprietary investment portfolio and insurance, and is applicable globally.

- f) Please identify the proportion of the assets you manage which are (a) actively and (b) passively managed (for example in index tracking portfolios) and the extent to which differential policy mandates between the two investment approaches apply in relation to investment in fossil fuels.

The vast majority of our assets are actively managed and none of our policies distinguishes between active/passive.

- g) Where you continue to hold investments in fossil fuel-producing companies, has your institution communicated to that company's management your position on the IEA's Net Zero scenario and its conclusion on the need for no new investment in future new production? If not, does your company plan to do so?

Allianz's statements on Oil & Gas/ Coal-related business models is a public document and covers its global investment and insurance portfolios. Allianz remains committed to engaging with and supporting clients with their transition plans to net-zero. (With many Oil& Gas companies we are in an engagement dialogue, either directly or via CA100+)

*8 September 2022*

## Response to the Environmental Audit Committee

### Public position on fossil fuel finance

a. Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.

Ashmore's position on financing the energy transition as well as financing fossil fuels is referenced in its Climate Position Statement, annual Sustainability Report, as well as in its ESG Policy, and Exclusion Policy. [<https://ir.ashmoregroup.com/corporate-governance/sustainability>]

Ashmore's position on climate action is further outlined in the position paper: Seven Policy Proposals to Meet the Paris Agreement Objectives. [<https://www.ashmoregroup.com/en-gb/insights/seven-policy-proposals-meet-paris-agreement-objectives>]

As an asset manager investing exclusively in Emerging Markets, Ashmore also recognises the importance of financing this transition, as much of it will take place in the Emerging Markets.

b. Does your institution's overall approach to energy transition include fossil fuel exclusion policies?

Yes, the exclusion of fossil fuels is one of the sustainable characteristics of Ashmore's ESG-labelled fund range and certain segregated mandates. This subset of funds is managed in accordance with the Net Zero Asset Management Initiative ("NZAMI") which aims to achieve 'net zero by 2050' with interim decarbonisation targets reviewed annually to assess progress.

c. How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?

Ashmore believes that oil and gas companies have a role to play in developing and deploying technologies needed for the energy transition, and values clear transition plans. As a result, certain funds may invest in energy companies and Ashmore aims to engage with certain of these companies to encourage carbon emissions target setting, including emission reduction from production, the diversification of energy sources, and the required re-skilling of workers to support a Just Transition.

Renewable energy is today increasingly competitive compared to fossil fuel. Ashmore believes this is largely driven by certain Emerging Markets where it is being produced and adopted at scale. From this perspective, companies that are both producing fossil fuels and developing renewable energy may be given greater weighting.

### The IEA Roadmap to Net Zero

d. In view of the statement above, does your institution also support the IEA's net-zero scenario which calls for 'no new investment is needed in coal, oil and gas'?

Ashmore supports the IEA's Net Zero Emission by 2050 (NZE) scenario, designed as a roadmap for the global energy sector. This scenario stresses the need for a rapid shift away from fossil fuels, to meet the target of 'net zero by 2050' and, by that, limiting global warming to 1.5 degrees. The scenario has been selected as the primary scenario for Ashmore's NZAMI efforts. For the subset of ESG-labelled funds and selected segregated mandates, all fossil fuels are excluded from the investment universe.

Furthermore, the NZE scenario is identified in Ashmore's TCFD Report as the primary scenario to be used to consider climate risk and opportunities. Ashmore continues to examine the quality and completeness of underlying data and models required to develop robust climate-related scenario analysis.

The NZE outlines an energy transition involving a major contraction of oil and gas production with far-reaching implications for the companies producing these fuels. Although this scenario outlines a pathway consistent with reaching 'net zero by 2050', it is not necessarily representative of the current economic environment and is also dependent on the role of Developed Markets to support and finance the energy transition in Emerging Markets. Consequently, the extent to which the NZE scenario is applicable for all Ashmore's funds and clients will continue to evolve in line with market practice and investor sentiment. To this end, Ashmore's investment management strategy has been developed to support our clients' goals both in terms of the pace and level of their net zero aspirations.

**e. What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?**

As Ashmore invests exclusively in Emerging Markets, the current energy situation in the UK is not directly applicable to our investment portfolios.

**f. Please identify the proportion of the assets you manage which are (a) actively and (b) passively managed (for example in index tracking portfolios) and the extent to which differential policy mandates between the two investment approaches apply in relation to investment in fossil fuels.**

Ashmore's investments are largely actively managed.

# Aviva response to Environmental Audit Committee (EAC) inquiry into the financial sector and the UK’s net zero transition



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## Introduction

- **We believe the financial sector has a vital role to play in the UK’s net zero transition**
- **We see the transition to net zero as being in the best long-term interests of shareholders and customers. We have been on public record for well over a decade that climate change is a threat to our business model. Promoting the transition is therefore fully aligned with our fiduciary duty to clients and shareholders.**
- **That’s why we have set our own ambitious aim – to become a Net Zero company by 2040, which we followed up this year with a detailed transition plan**
- **It’s also why we are active participants in various net zero alliances and initiatives, including GFANZ and the UK Transition Plan Taskforce which, we believe, can do much to increase collective ambition and consistency.**
- **However, Financial firms cannot solve the climate crisis alone. Our net zero ambitions are made “in the expectation that governments will follow through on their own commitments to ensure the objectives of the Paris Agreement are met” (NZ Alliance commitment language).**
- **We welcome the leadership already shown by the UK Government and recognise the important role the UK is taking in driving global action on climate to progress towards the ambitious Paris Agreement goals.**
- **This response builds on our submission to the inquiry in June 2022.**

## 1. Aviva's position on fossil fuel finance

### A. Aviva's net zero goals

- In March 2021 we announced our ambition to become a Net Zero company by 2040:
  - We will aim to achieve net zero across our scope 1 and 2 and supply chain by 2030
  - We will aim to achieve net zero across our investments and insurance (including scope 3) by 2040
  - By 2025, we plan to cut the carbon intensity of our investments by 25%.
  - And by 2030, we plan to cut the carbon intensity of our investments by 60%. That's ahead of the Paris aligned target of 50% cuts by 2030.
  - Divest coal (at 5% revenue threshold) unless companies commit to Science-Based Targets
  - Stop insuring Thermal Coal (mining & power generation) and unconventional fossil fuels (at 5% revenue threshold) by end 2021
  - 20% new customer flows invested in sustainable impact or net zero-aligned funds by June 2022
  - By 2025, Aviva Investors will invest £2.5bn in low carbon and renewable energy infrastructure and deliver £1bn of carbon transition loans
  - By 2025, we will invest £6bn in green assets, including £1.5bn of policyholder money into climate transition funds.
  - We are setting Science-Based Targets aligned to a 1.5 degree pathway for our operations, supply chain and investments, and our climate goals will be delivered in a way that contributes to tackling the related challenges on biodiversity and nature.

As with any other of our commercial business and investment targets, these ambitious targets within the Aviva Sustainability Ambition have been set on a best-efforts basis. We are committed to be transparent about our trajectory, highlight where we fall short and - wherever this may be the case - set out the reasons why, so that we can be held to account. Perhaps the key driver of this transition will be a material carbon price, so we are looking to governments around the world to internalise the social and environmental externalities at source to support a well-managed and just transition."

### B. Public statements

- [Announcement of net zero by 2040 ambition](#)
- [Aviva's ESG baseline Exclusion Investment policy](#)
- [Aviva's ESG baseline Underwriting Statement](#)

These policies and statements apply to all of the Aviva businesses, and to the shareholder, with-profits, and policyholder investment portfolios where we have decision-making control.

### C. Our fossil fuel exclusion policies

#### Does your institution's overall approach to energy transition include fossil fuel exclusion policies?

- Thermal Coal Divestment
  - We believe the highest emission fuels are not part of a Net Zero future. We will therefore apply exacting limits on investing in or insuring coal (power generation or mining).
  - We are already members of the Powering Past Coal Alliance Finance Principles, but we want to go further faster. We've been taking action on coal over the last few years and by the end of 2022, we will have divested all companies making more than 5% of their revenue from thermal coal (extraction and power generation), and all companies making more than 10% of their revenue from oil sands and Arctic drilling, unless they have signed

- up to Science-Based Targets. We will divest the equities and corporate bonds putting the companies on our investment Stoplist. Because we support companies making the transition to low carbon, we will only continue to invest in ring-fenced, non-fossil fuel project finance bonds.
- By the end of 2021, we stopped insuring companies making more than 5% of their revenue from thermal coal (extraction and power generation) or unconventional fossil fuels. We will make an exception for those companies serious about their transition out of high carbon fuels and who have committed to clear Science-Based Targets aligned to the Paris Agreement target of limiting temperature rises to 1.5 degrees.
  - Aviva is not insuring:
    - Construction of coal fired power stations
    - Construction or operation of thermal coal mines
    - Companies where more than 5% of revenues are generated from thermal coal mining
    - Companies where more than 5% of power generation is from coal
    - Companies which hold at least 5% of their reserves in unconventional fossil fuels
    - Any new fossil fuel mining or extraction projects
    - Offshore oil and gas rigs and platforms
  - We are committed to supporting businesses transitioning away from coal and unconventional fossil fuels, as such we'll continue to provide construction/operational coverages for their standalone Renewable Energy assets and provide management liability and employee benefits insurance.
- Oil and gas
    - Aviva Investors Climate Escalation Programme  
In January 2021, Aviva Investors announced our new 'climate engagement escalation programme', starting with 30 systemically important carbon emitters in the oil and gas, metals and mining, and utilities sectors. We are making specific asks, including to deliver Net Zero Scope 3 emissions and establish robust transition roadmaps. We are setting out timelines between 12 and 36 months. If we don't see serious engagement from the companies to meet the climate challenge, we will put them on our Stoplist and divest any assets we hold. And we will work through the alliances of other asset owners and investors to increase the pressure.
    - Aviva UK Life
      - We have applied portfolio caps and constraints on oil and gas companies
      - Aviva has no material exposure to sovereigns whose credit quality is reliant on oil and gas production.
      - Some portfolios have decided that any new business investments should not worsen the current portfolio-level weighted average carbon intensity score for the overall existing book

#### *D. Our support for the transition to renewables*

**How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?**

*Investments*

- Over the past five years Aviva Investors has invested £500 million every year in low-carbon and renewable energy infrastructure including solar, wind and energy centres. This takes total energy generation capacity to 730 megawatts in the UK and Europe, enough to power one million homes.
- By the end of 2022, we expected to invest £10bn of assets from our auto enrolment default funds and other policyholder funds into low carbon strategies. We have already exceeded that ambition, investing £12.4 bn by the end of April 2022.
- By 2025, we will invest £6bn in green assets, including £1.5bn of policyholder money into climate transition funds from a 2020 baseline. By YE 2021 we had invested £4bn – the equivalent of £3.3m every day.
- By 2025, Aviva Investors will invest £2.5bn in low carbon and renewable energy infrastructure and deliver £1bn of carbon transition loans. We have already achieved the £1bn in carbon transition loans – 3 years ahead of the target deadline.
- However, the majority of our investments will be focused on driving the transition of assets from higher carbon to low or zero carbon impact.
- Aviva Investors CEO Mark Versey wrote to a letter to the chairs of companies we invest in (and some we don't, but still want to use our influence with) to set out our stewardship priorities for the year. Two of the asks were around Transition Plans and Carbon Accountancy –

#### ***‘Transition plans***

*We expect all businesses to develop climate transition plans, and companies in higher-impact sectors should present these for shareholder approval. In developing transition plans, we recommend companies comply with the six guiding principles outlined by the CDP Framework.<sup>2</sup> The key elements should include the following:*

- *2050 or earlier net-zero objectives augmented with interim targets aligned with the need to at least halve absolute global greenhouse emissions by 2030. Targets must be set for Scope 1, 2 and 3 emissions*
- *Net-zero objectives should be fully integrated in the broader corporate strategy, demonstrating how the business will fund the necessary investments in the transition while remaining commercially viable during the interim period. We expect companies to ensure ‘just transition’ considerations are included in the plan*
- *Quantifiable and verifiable performance indicators to enable objective monitoring of companies’ progress*
- *Key risks and dependencies that may impact the successful execution of the plan, including companies’ reliance on technologies, offsets, and regulation*

#### ***Climate accounting***

*Robust integration of climate risks and opportunities into fundamental valuations requires high-quality and consistent financial reporting. We welcome the publication of the IFRS Climate-Related Disclosure Prototype<sup>3</sup> and encourage companies to voluntarily report against this standard as soon as practical. We recognise the standard is still to be fully developed and would support a phased approach to reporting with full compliance by 2024. Key disclosures against the standard include:*

- *Absolute Scope 1, 2 and 3 emissions, expressed in accordance with the Greenhouse Gas Protocol, alongside emissions intensity data*
- *Assets and/or business activities vulnerable to transition and physical risks*
- *Revenues, assets, and other business activities aligned with Climate-related opportunities*
- *Capital expenditure and investments deployed towards Climate-related risks and opportunities*
- *Internal carbon price used for business and investment decisions*

*We expect climate reporting and related risk assurance to be included within the annual audit plan of the external auditors.'*

- At the start of 2021, for the first time, Aviva Investors' CEO set out annual sovereign engagement priorities in a letter to finance ministers and central bank governors from over twenty countries in which material sovereign investments were held. In a crucial year for climate policy, all three priorities centred on climate change. The letters were tailored and actionable, making the case for membership of and engagement in the Coalition of Finance Ministers for Climate Action, the Network for Greening the Financial System (NGFS), and for active engagement in the preparation of ambitious, updated national climate plans (NDCs).

### *Insurance*

- Aviva renewable underwriting portfolio is now more than 150% of the size of the fossil fuel power generation book it exited in January 2019. Our renewable energy insurance proposition now globally covers enough energy to offset the equivalent of 24.8 million tonnes of carbon dioxide annually. Aviva is also a UK market leader in insuring battery storage and is targeting a top three position as a renewable energy insurer in the London Market by the end of this year. Launched in 2019, Aviva's integrated package of renewable energy insurance is designed specifically to support a variety of clients in a complex and growing market. It provides commercial customers with a single package of insurance to cover the whole life cycle across marine project cargo, construction and operational, third-party liability and terrorism cover.

A key part of Aviva's renewables success has been the growth in battery storage cover, which enables the storage of electricity for future use on a utility scale, removing fluctuations or disruptions caused by weather or other conditions.

- Very recently, we have reaffirmed our commitment to sustainability by launching one of the UK's first standalone insurance products covering electric vehicle (EV) charging points. As the UK sees a boom in the installation of chargers, the insurer is responding to demand from brokers for a specialist all risks policy for both installers and operators. At the end of August, there were nearly 34,000 public charging points across the UK in more than 20,000 locations, a 34% increase on the August 2021. There are currently more than 940,000 plug-in cars registered in the UK. The sale of new cars and vans with petrol and diesel engines is set to be banned from 2030, and the government has set a target to increase the number of public charging points to at least 300,000 by the same date in a bid to boost the take-up of EVs. Aviva is now offering Erection All Risks (EAR) and Operational All Risks (OAR) cover for EV chargers on a standalone basis. The product is aimed at customers including contractors, car park operators, local authorities, asset managers and forecourt operators, with cover applicable for everything from a single charger to an entire network.

It will cover risks including fire, flooding, malicious damage, accidental / impact damage, and breakdown. Risk management assessments and inspections covering electrical integrity and safety are also offered through Aviva's specialist partner Bureau Veritas.

- In the UK, we have responded to the increased demand for EVs by expanding our personal lines motor insurance cover for roadside breakdown, electrical surges and EV accessories. We forecast that we will have over 1 million EV customers by 2030.
- Our in-house repair centres, Solus, have already invested to ensure that 50% of their technicians are qualified to repair electric vehicles all in sites across the UK.

## *2. The IEA Roadmap to Net Zero*

#### *A. Aviva's support for the IEA's net-zero scenario*

**Do we support the scenario in view of the following statement: The International Energy Agency's May 2021 report states that reducing global carbon emissions to achieve net zero by 2050 will require "nothing less than a complete transformation of how we produce, transport and consume energy". Achieving this will require a managed decline in the use of fossil fuels, leading the IEA to assert that "there is no need for investment in new fossil fuel supply" or projects beyond those already committed to by 2021.**

- We analyse a range of different scenarios to assess the resilience of our strategy and to understand the potential impact of Climate-related financial risks on our business. This includes 1.5 degree, net zero by 2050, scenarios.
- We have taken into account the views of multiple sources on what it will take to reach net zero by 2050. All the research demonstrates that this needs a managed decline of fossil fuel resources in energy mix, and as such, no new fossil fuel supplies should be pursued.
- In addition, we are increasingly concerned that a number of mainstream net zero scenarios have a high reliance on CCS technologies that are neither being rolled out at the scale required nor meeting performance expectations. This implies that there is a significant, underacknowledged, risk embedded in models relying on CCS or other forms of carbon capture to reach net zero, including the IEA's NZ scenario. Should technology not be able to deliver in reality versus modelled projections, then it would be prudent to also consider alternatives solutions to incorporate into scenario modelling. We welcome the introduction of the research on demand side management into the IPCC's Assessment reports, for the first time, in Chapter 5 Working Group III, AR6.

#### *B. Our policy on the responsible retirement of the fossil fuel assets*

**Describe our policy on the responsible retirement of the fossil fuel assets we hold, in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation**

Our policies/statements are mentioned in Section A, B and C.

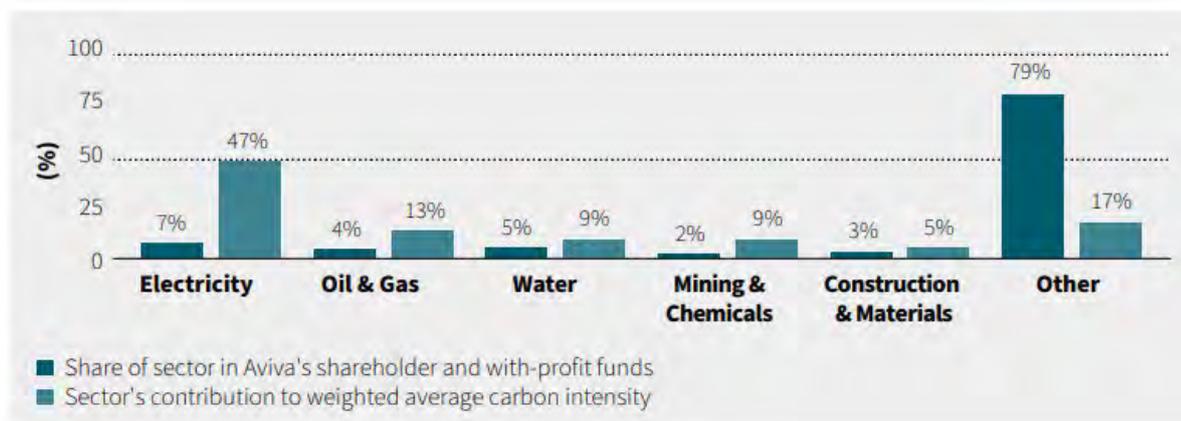
- Divest coal (at 5% revenue threshold) unless companies commit to Science-Based Targets
- Stop insuring Thermal Coal (mining & power generation) and unconventional fossil fuels (at 5% revenue threshold) by end 2021

#### *C. Investment approaches in relation to investment in fossil fuels*

**Add proportion assets under management which are (a) actively and (b) passively managed (for example in index tracking portfolios) and the extent to which differential policy mandates between the two investment approaches apply in relation to investment in fossil fuels**

Our baseline ESG investment exclusion policy applies to both our actively managed, and some passive portfolios where we have decision making control.

**Aviva's exposure to carbon intensive sectors in shareholder and with-profit funds (credit and equities) as at 31/12/2021. Source: Aviva/ MSCI3**



*D. Engagement with fossil fuel-producing companies*

**Where you continue to hold investments in fossil fuel-producing companies, has your institution communicated to that company's management your position on the IEA's Net Zero scenario and its conclusion on the need for no new investment in future new production? If not, does your company plan to do so?**

- We have communicated to companies that we have invested in that they need to set science-based targets which are built on robust climate change mitigation scenarios developed by the Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency (IEA), which are based on the best available science and analysis from around the world.

*3. Working with government to bring about enabling policy environment*

- To mobilise a broader economic transition toward net zero, we propose a systematic macro approach to government policy where country governance meets corporate governance. Transitioning away from the BAU climate change trajectory is arguably the toughest governance challenge humanity has ever faced. It will require policy innovation that involves working together for the collective common good.
- Individual companies publishing transition plans alone will not achieve net zero. We continue to need clear, strong signals from government and regulators to steer the entire economy in the direction of net zero.
- We must take steps to enact the vision of a financial system where each actor supports one another to understand regulatory and market failures and collectively to correct them. Private sector financial institutions should support policy makers to pull the requisite levers needed to align incentives and penalties with a transition to net zero.
- We are therefore calling on the UK Government to introduce its own whole of economy Net Zero Delivery Plan, and to give the regulator an explicit net zero statutory objective.
- We also think each corporate transition plan should also include a material overview of the government policy that the company requires in order to transition to net zero. While this should not be the main focus of the report, it would be a core systemic element. It would be designed to support policy makers and ministries in their deliberations. These corporate recommendations for a "policy floor" would support those leading the transition and encourage the laggard companies to follow suit. They would be designed to ensure that a more sustainable company be rewarded with a

lower cost of capital and vice versa (this is of course how a well-functioning, sustainable market should operate.) In order to be both material to valuation and relevant to capital allocation - and therefore effective - such measures would include for example, consideration of forward carbon price trajectory, sectoral or product level production standards, consumer awareness education, phase-out commitments and so on.

- These corporate transition reports should be put to an AGM vote. However, while harnessing long term investor oversight and stewardship is key, it is only the next step of the process. Investors do not have the ability to correct market failures - this is the role of Government.
- The combined body of approved corporate transition plans should then be subject to a detailed review by, for example, the UK's Climate Change Committee. The CCC would produce an annual progress report to government in the Autumn, based on the annual transition reports published earlier that Spring. This report would synthesise the policy recommendations from corporate disclosure in transition plans. The CCC would then offer a set of policy recommendations to the relevant Secretaries of State for their consideration (particularly HMT, BEIS and Defra). The relevant ministers would then in turn respond with a public Ministerial Transition Plan.
- Finally, on a one-year lagging basis, each of the Select Committees for these ministries could then review the Ministerial Transition Plans as well as those from the key regulators. As part of this, the Select Committees could also conduct annual hearings with evidence from companies, NGOs, and us as long-term investors.
- We believe that this approach to government policy would help country governance harness the best elements of corporate governance. This systematic approach would facilitate a continually evolving, balanced and well-choreographed transition.
- We further suggest the UK works with other G20 member states and interested G77 members beyond toward convening a Summit to collectively harness the international financial architecture to the promotion of a global net zero target. This might be most appropriately hosted at Bretton Woods in 2024 - i.e. the eightieth anniversary of the historic 1944 WWII meeting. It makes no sense for the climate for the UK to win a net zero ambition while other countries head in the opposite direction. It also has clear implications for our international economic competitiveness on the one hand, as well as national - and global - security on the other.



# Environmental Audit Committee: The Financial Sector and the UK's Net Zero Transition Response from AXA UK

1. The AXA Group is a worldwide leader in financial services, operating in 54 countries with over 153,000 employees and 104 million customers. In the UK, AXA operates through specific companies – AXA Insurance and AXA Health – and has over 8 million customers and 9,000 employees, with over 90 per cent employees based outside London.
2. AXA welcomes this opportunity to submit a response to the Committee's inquiry on the financial sector and the UK's transition to net zero. This response has been led by AXA UK with input from the AXA Group.

## Public position on fossil fuel finance

### **Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website?**

3. Yes. AXA's position on financing fossil fuels is carried as a public statement on its website. AXA's latest position, which highlights the business' extended commitment to fight climate change in the run-up to COP26, can be accessed [here](#). This includes AXA's commitment to [preserve biodiversity](#) by investing €1.5Bn to support sustainable forest management, implementing new exclusions of activities that actively contribute to deforestation, and introducing specific protections for biodiversity reserves identified by UNESCO.
4. AXA's website also carries further information on our responsible investment policy, as well as sector guidelines for oil and gas, tar sands and oil sands, coal extraction and coal-based energy. This information can be accessed [here](#).

### **Does your institution's overall approach to energy transition include fossil fuel exclusion policies?**

5. Yes. Starting in 2015, AXA adopted a balanced approach regarding its contribution to the transition to a more sustainable and less carbon-intensive economy. AXA was the first insurance company to commit to coal divestment in early 2015. Coal is by far the most carbon-intensive form of energy and phasing it out is key to achieving the goals of the Paris Agreement.
6. In 2017, AXA made the difficult business decision to pioneer coal and oil sands restrictions in its insurance business. In 2018, these restrictions were extended to AXA's new Commercial Lines entity, AXA XL. AXA has also committed to an ambitious green investment target. In 2020, this green investment target was increased to €26Bn by 2023.
7. Ahead of the COP26 Summit in November 2021, AXA announced it would strengthen existing oil and gas exclusions to support the energy transition. Specifically, AXA committed to:
  - a. Stop investing in and underwriting new upstream oil greenfield exploration projects unless carried out by companies with far-reaching and credible transition plans
  - b. Significantly reduce investment and insurance exposure to unconventional exploration and production from its business from 2022
  - c. Continue to intensify its investments in green and low-carbon energies

### **How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable resources?**

8. AXA selects companies for investments based on the following selection criteria:

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<sup>1</sup> For more detail on each of the commitments listed under section 5, please see Annex 1



- a. Companies which have sufficient financial capacity to fund investments in low-carbon activities (large size of CAPEX in absolute) and the willingness (credible long-term commitments backed by intermediary science-based targets and ambitious low-carbon development plans) to have a material impact in the transition.
9. Qualitative assessments are performed on a company by company basis to monitor developments and implementation of strategy, key risks (including stranded assets risk) and positioning relative to peers. For oil and gas companies, AXA focuses on the following factors and key performance indicators:
  - a. Energy transition strategy based on:
    - i. Fuel mix (reserves and production)
    - ii. Strategy in low-carbon assets (including % of dedicated CAPEX)
    - iii. Climate Governance and policy
  - b. Emissions management based on:
    - i. GHG intensity
    - ii. Methane emissions
    - iii. Emissions reduction targets
10. AXA also looks at three additional factors in the oil and gas industry besides governance and transparency: safety management, water management and social cohesion.
11. If businesses do not meet AXA's strict selection criteria, AXA does not invest. This means AXA only invests with less than 5% of the approximately 650 companies identified in the Global Oil and Gas Exit List by NGO Urgewald.

### **The IEA Roadmap to Net Zero**

#### **Does your institution also support the IEA's net-zero scenario which calls for 'no new investment is needed in coal, oil and gas'?**

12. In 2019, AXA committed to ensure its investments and underwriting business are consistent with the targets set out in the Paris Agreement, namely, to contain global warming below +1.5°C by 2100. This commitment is underpinned by the following initiatives and targets:
  - a. AXA's Net Zero Asset Owner Alliance membership and Net-Zero Insurance Alliance chairmanship
  - b. AXA's Net-Zero Asset Owner Alliance-related target to reduce the carbon footprint of its general accounts investments by 20% between 2019 and 2025
  - c. AXA's commitment for a 'total coal exit' by 2030 in the OECD and EU and by 2040 in the rest of the world.
  - d. AXA's target to reduce the carbon emissions of its operations, including energy, car fleet, business travel, office automation and IT activities perimeter, by 20% between 2019 and 2025.
13. As mentioned above, AXA was the first insurance company to commit to divesting from the coal industry in 2015, ending insurance coverage for coal plants and coal mines in 2017 and ending coal-related client-level commercial relationships in 2019.



**What is your institution’s policy on the responsible retirement of fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK’s national interest during the transition to renewable energy generation?**

14. The UK remains an important and attractive market for investment due to its comprehensive institutional, legal and regulatory framework. It continues to be one of AXA’s main markets for investment.
15. To date, AXA has invested just under €2Bn of green assets in the UK (out of its global €26Bn green investment target for 2023). Examples of UK-based green investments include on and offshore windfarms (€28M), solar farms (€6M), rail infrastructure (€266M), biomass plants (€219M), and sustainable buildings (the latest being 22 Bishopsgate in the City of London). AXA has also invested in the UK Treasury’s Green Bond issued by the DMO in September 2021 (€161M).
16. AXA is supportive of the Government’s ambition to reform Solvency II rules to incentivise the insurance industry to invest in long-term green infrastructure, sustainable buildings, and large-scale renewable energy generation. This investment is fundamental to the levelling-up agenda, as well as the UK’s transition to net zero.
17. AXA is committed to boosting home-grown renewable energy generation. AXA IM Alts’ £440 million purchase of a 25% stake in Hornsea 2 – the world’s largest offshore windfarm, located off the coast of Yorkshire in the UK – is an example of this commitment. The project will deliver 1.4GW of green energy to UK households (a 3.4% contribution to the Government’s target for offshore wind).

**Please identify the proportion of assets you manage which are (a) actively and (b) passively managed and the extent to which differential policy mandates between the two investment approaches apply in relation to investment in fossil fuels?**

18. AXA actively manages 100% of its assets. This ensures AXA’s investments are aligned with our responsible investment strategy, as well as our commitment to fight climate change and protect biodiversity.

**Where you continue to hold investments in fossil fuel-producing companies, has your institution communicated to that company’s management your position on the IEA’s Net Zero scenario and its conclusion on the need for no new investment in future new production. If not, does your company plan to do so?**

19. In 2021, AXA Investment Managers announced it would intensify pressure on companies to take meaningful action on climate, biodiversity and social issues by rolling out a ‘three strikes and you’re out’ escalation approach to climate laggards.

*If you need to get in touch regarding the information in this submission, please get in touch with AXA’s Public Affairs Team at [ukpublicaffairs@axa-uk.co.uk](mailto:ukpublicaffairs@axa-uk.co.uk).*



## Annex 1

Ahead of the COP26 Summit in November 2021, AXA announced it would strengthen existing oil and gas exclusions to support the energy transition. Specifically, AXA committed to:

20. Stop investing in and underwriting new upstream oil greenfield exploration projects unless carried out by companies with far-reaching and credible transition plans
  - a. AXA excludes all new direct investments in listed equities and corporate bonds in developed markets in Oil and Gas companies operating in upstream and/or oilfield services and/or downstream subsectors, as well as most midstream players.
  - b. AXA selects integrated Oil and Gas companies for investments based on a restrictive selection process. Less than 5% of the approximately 650 companies identified in the Global Oil and Gas Exit List by NGO Urgewald<sup>2</sup> meet AXA's criteria.
  - c. From 2023, AXA will apply the same selection process, and take into account the Science-Based Targets initiative (SBTi) framework as it becomes available, for its underwriting business of new insurance coverage on new upstream oil greenfield exploration projects.
21. Significantly reduce investment and insurance exposure to unconventional exploration and production from its business from 2022
  - a. Arctic: AXA extends the scope of its Arctic investment and underwriting restrictions beyond the Arctic circle and the 70°N zone in alignment with the Arctic Monitoring and Assessment Programme (AMAP). Only businesses with Norwegian operations in the AMAP region will be maintained, given their high environmental standards and lower operational carbon footprint.
  - b. AXA will strengthen the thresholds applicable to both its investments and insurance activities in this particularly fragile region, excluding new investments and underwriting coverage for Oil and Gas extraction activities carried out in the AMAP region by companies deriving more than 10% of their production from the AMAP region or producing more than 5% of the worldwide volume of AMAP-based Oil & Gas. For underwriting, exemptions may be granted if the projects are carried out by Oil and Gas companies with the most far-reaching and credible transition plans.
  - c. Oil sands: on top of the existing restrictions in place, AXA will adopt a more stringent policy by ceasing direct investments in companies producing more than 5% of the worldwide volume of oil sands. For underwriting, current exclusions will be extended to all lines of business.
  - d. Fracking / shale Oil and Gas: AXA will no longer directly invest in companies, nor provide any insurance coverage to activities of companies, deriving more than 30% of their production from fracking / shale Oil and Gas.
22. Continue to intensify its investments in green and low-carbon energies
  - a. In addition to selective Oil and Gas investments and underwriting restrictions, AXA strives to support the transition to a low-carbon economy in line with the goal of the Paris Agreement.



- b. This pillar of AXA's energy policy will be developed over time in order to include growth targets with respect to investments and the provision of insurance coverage to low-carbon forms of energy (i.e., intermittent renewable energy: wind, solar PV, solar thermal, hydropower, geothermal and/or tidal power, where available; advanced biofuels and biomass, where no significant harm to biodiversity or food production occurs). AXA will also strive to support (in its investments and insurance activities) energy efficient technologies and practices that lead to reduced energy consumption and will align with upcoming Taxonomy Regulation.

Andrew Telfer  
Baillie Gifford & Co  
Calton Square, 1 Greenside Row  
Edinburgh  
EH1 3AN

7 September 2022

Rt Hon Philip Dunne MP  
Chair of the Environmental Audit Committee  
House of Commons  
Palace of Westminster  
SW1A 0AA

Dear Chair,

Please find Baillie Gifford's response to the Environment Audit Committee inquiry below.

**Public position on fossil fuel finance**

***Please set out your institution's position by answering the following questions as appropriate:***

- a. Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.***

We do not have a dedicated public policy statement on the financing of fossil fuels. However, this is a matter we are considering deeply as part of our broader thinking on climate and the energy transition.

As an investment management firm engaged by clients to invest on their behalf, mostly in listed equity portfolios, our firmwide stated policies focus on providing clarity to those clients about how we invest their assets. Baillie Gifford's stated investment philosophy centres on finding companies with long-term growth prospects. We direct our clients' funds almost entirely to secondary market equities: very little is applied to new primary capital.

We believe it's unlikely that significant investments in fossil fuel companies would align with our approach, and we have stated that in various public communications. For example, page 4 of our annual [Climate Report](#) explains:

*"We believe that the companies capable of making a significant contribution to reducing greenhouse gases will benefit from a range of growth drivers, including increasing demand for their products and services, as well as regulatory support."*

*“In contrast, companies whose business models rely on the unsustainable exploitation of natural resources will struggle to be consistent with our long-term growth philosophy, as they are likely to face significant competition and disruption over our investment time horizon.”<sup>1</sup>*

Our Climate Report also states that where we do take holdings on our clients’ behalf in companies with material climate-related risks and opportunities (including fossil fuel companies), we expect those companies to demonstrate a credible plan for aligning their strategy with the goals of the Paris Agreement by 2025 at the latest. This is stated on page 10 of our [Climate Report](#) and is consistent with our commitment to provide careful stewardship of our clients’ capital over the long term.

We also regularly share the perspectives of some of our senior staff on fossil fuels and climate change more broadly on our website. For example, [this interview with our Head of Climate Change](#)<sup>2</sup> and this article [on the need for low-carbon innovation](#)<sup>3</sup>.

The practical outcome of our investment philosophy is clear in the composition of the portfolios we manage for our clients: the overall exposure to fossil fuel companies is considerably below the market average. As our [Climate Report](#) states:

- Half of Baillie Gifford’s main investment strategies<sup>4</sup> have no exposure to companies generating significant (more than 5 per cent) of their revenues from oil, gas or thermal coal activities
- If you were to amalgamate Baillie Gifford’s holdings, they would have approximately one-quarter of the fossil fuel exposure of an equal-sized investment in the MSCI ACWI Index (a global benchmark for listed equities)
- On a similar basis, the average carbon footprint of our investments is about 70 per cent below the same benchmark for Scope 1 and 2 emissions, and about 56 per cent if you also consider Scope 3 emissions

***b. Does your institution’s overall approach to energy transition include fossil fuel exclusion policies?***

We do not have any firmwide fossil fuel exclusion policies in place. Beyond a focus on growth companies and a stated set of [Stewardship Principles](#)<sup>5</sup>, our firm does not enforce a ‘house view’ on most matters. Instead, it operates under a federated structure in which each investment strategy is given autonomy over the make-up of the portfolios of stocks and bonds it manages on its clients’ behalf. This extends to deciding whether to buy, sell or hold energy-related companies. However, as part of our bottom-up approach to picking companies, our teams consider how existing and potential holdings deal with the risks and opportunities posed by climate change.

At a portfolio level, we typically hold a relatively small number of companies (usually between 30 to 70) for long periods (five to ten years or more). This investment style demands a level of fundamental research that, in our view, does not require simplistic exclusion policies.

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<sup>1</sup> <https://www.bailliegifford.com/en/uk/individual-investors/literature-library/corporate-governance/baillie-gifford-co-tcf-climate-report/>

<sup>2</sup> <https://www.bailliegifford.com/insights/ic-article/2022-q2-esg-climate-solutions-10011627/>

<sup>3</sup> <https://actually.bailliegifford.com/fossil-distraction/>

<sup>4</sup> 18 strategies that represented 84 per cent of total assets under management as at 31 December 2021

<sup>5</sup> <https://www.bailliegifford.com/en/uk/about-us/literature-library/corporate-governance/our-stewardship-principles/>

We have specific fossil fuel restrictions for some of our ESG (environmental, social and governance)-focused investment portfolios, which the funds' documentation explains. We introduced these funds in response to client demand. The covered activities can include one, or all, of:

- thermal coal mining
- thermal coal power
- oil and gas upstream, midstream and downstream activities

Our clients are based in a range of jurisdictions around the world, with different regulatory regimes concerning fossil fuel financing and exclusion policies. Specific clients can exclude certain activities from the assets we manage on their behalf.

***c. How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?***

As mentioned in our [2022 Climate Report](#):

*“Our climate plans and commitments are based on our support for the Paris Agreement’s ambition to limit global warming to well below 2°C and ideally 1.5°C. The 1.5°C target was reinforced in the 2021 Glasgow Climate Pact and reflected in the UK’s 2050 net zero emissions target, which we also support.”*

Our membership in the [Net Zero Asset Managers initiative](#)<sup>6</sup> amplifies this public position.

When we joined, [we noted some of the complexities involved](#):

*“The energy transition is not a one-dimensional substitution of renewables for fossil fuels, or electric vehicles for ones with internal combustion engines. Rather, it is part of a wider resource and developmental narrative that requires deep transformations to be made across our societies. We must be creative and relentlessly ambitious – like many of the great companies we own and seek out – in the investments we make to support this.”<sup>7</sup>*

As investors seeking financial returns over an extended time horizon for our clients, we believe that some energy companies may be able to transition effectively and deliver for shareholders.

From an energy sector perspective, that means we are interested in both:

- Solutions innovators, including high-growth renewable and clean energy technology companies.
- Potential evolvers, including more established companies that may have relatively large exposure to unabated fossil fuels but are strategically committed and able to move to alternative business models. As addressed in the next question, the exact means of transition will be complex and company specific. However, we seek those that may be able to do so in a manner and timeframe consistent with global climate success (currently defined as limiting global temperature rises to 1.5-2°C above pre-industrial levels).

We determine pace and alignment on a company-by-company basis through our research and an ongoing engagement programme. You can find examples relating to fossil-reliant companies making the energy transition on page 27 of our [2022 Climate Report](#).

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<sup>6</sup> <https://www.netzeroassetmanagers.org/signatories/>

<sup>7</sup> <https://www.bailliegifford.com/en/uk/individual-investors/insights/ic-article/2021-q4-nzami-10004303/>

For all holdings in sectors with material climate-related risks (identified in the TCFD framework), we expect companies to have net zero-aligned climate goals that meet or exceed the ambitions of the Paris Agreement by 2025. We research and engage on this basis.

### **The IEA Roadmap to Net Zero**

***The International Energy Agency's May 2021 report states that reducing global carbon emissions to achieve net zero by 2050 will require "nothing less than a complete transformation of how we produce, transport and consume energy". Achieving this will require a managed decline in the use of fossil fuels, leading the IEA to assert that "there is no need for investment in new fossil fuel supply" or projects beyond those already committed to by 2021.***

***d. In view of the statement above, does your institution also support the IEA's net-zero scenario which calls for 'no new investment is needed in coal, oil and gas'?***

In principle, we support the IEA's net zero scenario.

However, the IEA predicates its view on near-perfect global cooperation, with "all countries participating in efforts to meet the net zero goal, working together in an effective and mutually beneficial way".

Such global cooperation, typified as it would be by free international trade and the operation of comparative advantage, would allow the lowest-cost fossil fuels to be supplied and accessed as required. In such a world, we think the IEA is right: sufficient resource has already been identified, and no additional investment would be required for new exploration or as yet unapproved developments.

Unfortunately, this is not the world as it was or is today. It is the place of governments and global institutions to set the terms of trade and determine appropriate levels of regulation and supply resilience. As the investors of our clients' capital, we must take a view on the future of markets, policy and technology.

Regarding future fossil fuel supply, it's harder for policy or technology to justify investment in new coal projects anywhere in the world.

The outlook for oil and gas is more complex. The IEA Net Zero scenario features only a 30 per cent drop in oil demand by 2030, with gas down only 5 per cent. Even in 2050, the IEA Net Zero world is still using 25mb/d of oil and 1,750bcm of gas. We suspect that regulation will evolve to protect a measure of local and regional security of supply such that some assets that appear uncompetitive in a globally open world of perfect substitution do, in fact, justify exploitation. However, significant uncertainties remain that suggest caution when considering the sustainable valuation of oil and gas assets over our stated investment time horizon.

***e. What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?***

Our strategies seek long-term investment returns for our clients by looking for companies with an underlying competitive edge and the opportunity for enduring growth. We struggle to find many such companies in the fossil fuel sector.

Across the few such companies owned on behalf of clients, we look for characteristics that suggest an ability to succeed through the energy transition and thus generate sustainable financial returns for shareholders. At this still early stage in that transition, such characteristics might include:

- cost competitiveness
- location
- the reallocation of capital to low-carbon alternatives (or accelerated capital return)
- management focus and capability

Over time, we expect to see increasingly clear evidence in company action and narrative that demonstrates alignment with a successful climate outcome. Indeed, we have a stated expectation that all companies in carbon-intensive sectors should have net zero aligned climate goals that meet or exceed the ambitions of the Paris Agreement by 2025.

Where we have invested in companies with fossil-fuel-related assets in the UK, we aim to encourage management to ready these assets for a positive contribution to the UK's decarbonisation trajectory. This engagement is rooted in our belief that such positioning will be intrinsic to the companies' opportunities for sustained financial performance.

We hold very few such companies, but one is EnQuest plc. We have encouraged it to set ambitious targets to reduce operational emissions and to explore opportunities to repurpose assets for a decarbonising energy system. The company's response has been positive throughout, and we are closely following its plans to promote hydrogen and synfuels at [Sullom Voe](#)<sup>8</sup>.

Our key message to those working directly with fossil fuels and to big emitters such as the miners and cement companies is that they can achieve competitive advantages over the energy transition via leadership and investment. The ultimate benefit should be their sustained financial performance.

***f. Please identify the proportion of the assets you manage which are (a) actively and (b) passively managed (for example in index tracking portfolios) and the extent to which differential policy mandates between the two investment approaches apply in relation to investment in fossil fuels.***

Baillie Gifford's strategies manage all their assets on an active basis.

I hope this provides all the information you require.

Yours sincerely,

Andrew Telfer  
Joint Senior Partner, Baillie Gifford & Co

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<sup>8</sup> <https://www.enquest.com/media/press-releases/article/operations-update-14>

## About Bank of America

Bank of America is one of the world's leading financial institutions, serving individual consumers, small and middle-market businesses and large corporations with a full range of banking, investing, asset management and other financial and risk management products and services. The company serves approximately 67 million consumer and small business clients in the US. Bank of America is a global leader in wealth management, corporate and investment banking and trading across a broad range of asset classes, serving corporations, governments, institutions and individuals around the world. The company serves clients through operations across the US and approximately 35 countries.

The bank is helping finance the transition to net zero emissions by 2050 by setting and achieving milestone targets, partnering with clients to support their transition, investing in climate solutions, developing decision-useful metrics to drive progress, leading industry collaborations and following guidance for transparency. In 2021, the bank announced a commitment to achieve net zero emissions across its financing activities, operations and supply chain before 2050. The bank established a \$1 trillion by 2030 goal to mobilise capital to accelerate this low-carbon transition as part of an overall \$1.5 trillion commitment to support the UN Sustainable Development Goals.

As part of the commitment to reach net zero before 2050, Bank of America has established emission reduction targets related to the financing activity for the auto manufacturing, energy and power generation sectors. These are as follows:

2030 Targets		
<b>Auto Manufacturing</b>		
Scope 1-2 CO <sub>2</sub> e, Scope 3 end use CO <sub>2</sub>	44% reduction	gCO <sub>2</sub> e/km
<b>Energy</b>		
Scope 1-2 CO <sub>2</sub> e	42% reduction	gCO <sub>2</sub> e/MJ
Scope 3 end use CO <sub>2</sub>	29% reduction	gCO <sub>2</sub> /MJ
<b>Power Generation</b>		
Scope 1 CO <sub>2</sub>	70% reduction	kgCO <sub>2</sub> /MWh

**a) Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.**

Bank of America's Environmental and Social Risk Policy Framework (ESRPF) articulates how the bank manages and governs environmental and social risks across its business, as well as outlining the environmental and social issues most relevant to the bank. It sets out information on the bank's approach to a range of environmental and social topics, including – in the context of the Committee's inquiry – energy, power and extractives.

The Framework document is published on the bank's website, with the current version (published in June 2022) available at the following URL:

[https://about.bankofamerica.com/content/dam/about/pdfs/ESRPF\\_ADA\\_Tagged\\_Secure\\_June\\_2022\\_Final.pdf](https://about.bankofamerica.com/content/dam/about/pdfs/ESRPF_ADA_Tagged_Secure_June_2022_Final.pdf)

**b) Does your institution's overall approach to energy transition include fossil fuel exclusion policies?**

As specified in the ESRPF, the bank has decided that it is not currently prepared to engage in the direct financing of a number of specific activities, including:

- petroleum exploration or production activities in the Arctic

- direct financing of the construction of new coal-fired power plants or expansion of existing – unless those facilities employ technology that is focused on the complete or near elimination of atmospheric carbon emissions
- direct financing of new thermal coal mines or the expansion of existing mines
- natural resource extraction in UNESCO World Heritage Sites – engaging in transactions focused on natural resource extraction within UNESCO World Heritage Sites, unless there is a priori consensus between UNESCO and host country's governmental authorities that activities will not adversely affect the natural or cultural value of the site

**c) How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?**

Bank of America is committed to assisting its clients in their own net zero objectives with all the capabilities it can bring to help ensure the transition to a more sustainable future.

This involves assisting clients by providing lending, capital raising, advisory, investment services, and other financial solutions as well as climate and blended finance focused partnership vehicles and funds. Net zero awareness training for staff in banking, credit and risk teams has been developed to increase their knowledge and understanding of how to best support clients in reaching net zero. An online ESG, Climate and Sustainable Finance college is available to all bank staff to deepen their understanding of these topics. The aim is to help clients understand the primary decarbonisation strategies for individual sectors and the traditional/new financing solutions available to assist their transition.

**d) In view of the statement above, does your institution also support the IEA's net-zero scenario which calls for 'no new investment is needed in coal, oil and gas'?**

In setting the bank's targets for net zero emissions, multiple third party scenarios were reviewed, including two from the International Energy Agency (IEA): the Sustainable Development Scenario (SDS) OECD pathway and the Net Zero Emissions 2050 (NZE2050) global pathway. The bank chose to use the IEA NZE2050 scenario released in 2021; it provided the necessary detail to develop appropriate and relevant targets for the three sectors where specific emission reduction targets have been set using 2019 as the baseline.

**e) What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?**

Bank of America has developed client and transaction standards and guidance, informed by international standards and best practices, to govern relationships with clients engaged in energy and extractive activity. The bank is engaging with clients in the energy and power generation sectors to enhance greenhouse gas emissions disclosure and management. In April 2022, the bank set emission targets for its energy, power generation and auto manufacturing portfolios (as specified above), aligned to a 1.5°C scenario.

By 2025, the bank will phase out all financing (including facilitating capital markets transactions and advising on mergers and acquisitions) of companies deriving  $\geq 25\%$  of their revenue from thermal coal mining, unless the company has a public commitment to align its business (across Scope 1, 2 and 3 emissions) with the goals of the Paris Climate Agreement and the transaction would be facilitating the diversification of the company's business away from thermal coal.

Bank of America will not directly finance new thermal coal mines or the expansion of existing mines. It will not directly finance the construction or expansion of new coal-fired power plants, including refinancing recently constructed plants, unless those facilities employ technology that is focused on complete or near elimination of atmospheric carbon emissions, such as carbon capture technology.

**f) Has your institution's credit committee been instructed to reduce or decline to make new capital available for new fossil fuel projects?**

A client relationship or transaction may require enhanced due diligence related to environmental and social issues because a front line unit or risk manager made a referral after standard due diligence, or if the client, business activity, industry or geography is deemed sufficiently sensitive (e.g. biodiversity and ecosystems; energy, power and extractives). In these circumstances, enhanced due diligence is conducted before the relationship or transaction can proceed toward approval. Such enhanced due diligence involves a deeper analysis of issues related to client transactions and associated stakeholders. Analysis may include direct client discussion, review of client disclosures, a comparison of the client's practices to industry peers' and consultation with and assessment by additional subject-matter experts.

The Rt Hon Philip Dunne MP  
Chairman  
Environmental Audit Committee  
House of Commons  
Westminster  
SW1A 0AA

13<sup>th</sup> September 2022

Dear Mr Dunne,

Thank you for your letter of 17 August in relation to the Environmental Audit Committee's inquiry into the financial sector and the UK's net zero transition.

We are determined to play our part in tackling the urgent and complex challenge of climate change. That is why in March 2020 we announced our ambition to be a net zero bank by 2050, becoming one of the first banks to do so.

Please find our responses to your Committee's questions below.

### **Public Position on Fossil Fuel Finance**

***Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.***

Yes. Barclays' position on financing fossil fuels is set out in our [Climate Change Statement<sup>1</sup>](#) and our [Climate Strategy, Targets and Progress 2022<sup>2</sup>](#).

***Does your institution's overall approach to energy transition include fossil fuel exclusion policies?***

Yes. We have set explicit restrictions to curtail or prohibit financing of certain activities in sensitive energy sub-sectors. These restrictions are set out in our Climate Change Statement. They include clear restrictions on thermal coal mining and coal-fired power generation, Arctic exploration and production, oil sands and hydraulic fracturing (fracking). Our thermal coal policy, for example, prohibits any financing specifically intended for greenfield development and material expansion of thermal coal mines or the construction or material expansion of thermal coal power plants.

Also, by 2023, we will cease providing general corporate purpose financing for clients with entities engaged in these activities unless we are satisfied that the proceeds of such financing will not be made available to entities engaged in these activities. More detail of our restrictive policies can be found in our Climate Change Statement.

We keep our policies, targets and progress under review in light of the rapidly changing external environment. We are also acutely aware of the need to support governments and clients in delivering an orderly energy transition and providing energy security.

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<sup>1</sup> <https://home.barclays/content/dam/home-barclays/documents/citizenship/Sustainability/SESG-BBPLC-CCStatement22-220321-FINAL-v1point2.pdf>

<sup>2</sup> <https://home.barclays/content/dam/home-barclays/documents/citizenship/Sustainability/Barclays-Climate-Strategy-Targets-and-Progress-2022-Final.pdf>

***How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?***

We believe that Barclays can make the greatest difference by supporting our clients to transition to a low-carbon economy, rather than by simply phasing out support for them. This is particularly true for our clients in highly carbon-intensive sectors. Restricting the flow of capital to these sectors could be harmful to the pace of transition, limiting the real terms impact on global warming. Our priority is, therefore, to support our customers and clients to transition. Where companies are unable or unwilling to reduce or eliminate their emissions, we will reduce our support over time. Such companies will find it increasingly difficult to access financing, including through Barclays.

To support our clients' transition, we are developing a framework to enable us to measure, monitor and seek opportunities to accelerate our clients' progress through the provision of advice and financing solutions. This will help us to better understand their plans, the progress they are making to align with a 1.5°C pathway, as well as their financing needs. We expect that the output of the UK's Transition Plan Taskforce and its aim to create a "gold standard" for climate transition plans, will support financial institutions in evaluating companies' plans for alignment with a credible pathway to net zero.

**International Energy Agency (IEA) Roadmap to Net Zero**

***Does your institution support the IEA's net-zero scenario which calls for 'no new investment is needed in coal, oil and gas'?***

Barclays is a founding member of the Net-Zero Banking Alliance (NZBA), which is part of the Glasgow Financial Alliance for Net Zero (GFANZ), and requires all signatories to use science-based decarbonisation scenarios that reach net zero by mid-century or sooner, with a maximum temperature rise of 1.5°C above pre-industrial levels by 2100. We have set 2030 targets, all of which integrate a 1.5°C aligned scenario (the IEA net-zero scenario), to reduce our financed emissions across four of the highest-emitting sectors in our portfolio: Energy, Power, Cement and Steel. We plan to continue this work until we have set targets for material high-emitting sectors in our portfolio.

As the IEA notes, limiting the global temperature rise to 1.5°C "requires nothing short of a total transformation of the energy systems that underpin our economies."

However, we believe the financial services sector should take a considered approach to the IEA's assessment of future oil and gas requirements, taking a number of factors into account. These factors should include energy security; affordability; the ongoing need for substantial capital expenditure to provide the oil and gas still envisaged as being required in the IEA NZE scenario, the technical challenges of defining and monitoring reserves and production, and the ability of major energy companies to finance their activities from diverse sources of capital, including their balance sheets.

***What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?***

Many of the companies engaged in new oil and gas projects are large multinationals that are critical for the transition. To ensure a just and orderly transition, our priority is to continue to engage with these multinational oil and gas clients rather than simply exit them. We know these companies are committing significant resources and expertise to renewables, power infrastructure, EV networks and other essential elements of decarbonisation and whilst these companies are not yet on a 1.5°C-aligned pathway, they are developing strategies to ensure their continued relevance in and contribution to a low-carbon economy. Typically, these companies finance their exploration activities from cash flows rather than from project finance, so apart from exiting these client relationships completely, it would be impracticable for Barclays to try and impose restrictions on financing specific activities.

***Has your institution's credit committee been instructed to reduce or decline to make new capital available for new fossil fuel projects?***

We are committed to aligning our financing portfolios, in every sector, with the goals and timelines of the Paris Agreement. In November 2020, we set targets, informed by Paris-aligned benchmark scenarios, to reduce our financed emissions. We prioritised the Energy and Power sectors because they are responsible for up to three-quarters of all Greenhouse Gas (GHG) emissions. We have made solid progress against our targets. However, it is important to note that progress towards our targets will likely be volatile and non-linear, reflecting a number of variables generally beyond our control, including geopolitical developments that result in energy supply pressures.

Since 2020, we have declined to provide financing to clients that have been unable to meet our existing policies in relation to thermal coal and oil sands.

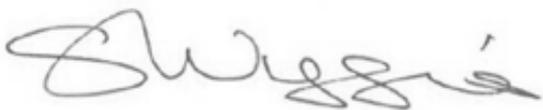
In addition to assessing our clients' progress in transitioning to lower carbon businesses, we also assess the climate risk the firm faces in supporting clients.

In 2019, we developed a Credit Risk Materiality Matrix for climate change. This identifies and assesses how climate change may impact the Group's wholesale credit risk exposures against physical and transition risks. The review is completed for wholesale clients operating in elevated risk sectors with material exposure of more than £5 million. The resulting rating informs portfolio review meetings, which then forms part of the overall risk appetite control framework.

In 2020, our Board Risk Committee made the decision that climate risk would become a Principal Risk within the Enterprise Risk Management Framework with a dedicated Climate Risk Framework and establishment of a Climate Risk Appetite at Group level, in line with the Group's risk appetite approach and informed by scenario analysis. Further details of our approach to climate risk are set out in [Barclays PLC Climate-related Financial Disclosures 2021](#)<sup>3</sup>.

We stand ready to work with the UK Government and wider industry on practical solutions to the challenge of reaching net zero, whilst recognising the need to address the challenges of near-term energy security and affordability.

Yours sincerely,



Sasha Wiggins

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<sup>3</sup> <https://home.barclays/content/dam/home-barclays/documents/investor-relations/reports-and-events/annual-reports/2021/Barclays-TCFD-Report-2021.pdf>

Rt Hon Philip Dunne MP  
House of Commons  
Westminster  
SW1A 0AA

10 October 2022

**Re: The financial sector and the UK's net zero transition**

Dear Mr. Dunne,

Thank you for your letter dated 17<sup>th</sup> August 2022 regarding the Environmental Audit Committee's inquiry into the financial sector and the UK's net zero transition. Please find enclosed information about BlackRock and our role as a fiduciary asset manager, and responses to the questions in your letter.

Yours sincerely,

**Sarah Melvin**  
Head of BlackRock, UK

**Paul Bodnar**  
Global Head of Sustainable Investing, BlackRock

**About BlackRock**

BlackRock is a provider of investment, advisory and risk management solutions, and we and our predecessor firms have served clients in the UK for over 50 years. Our clients include retail fund distributors (e.g. banks and financial advisors), defined benefit and defined contribution pension schemes, insurance firms and charities who entrust us to manage approximately £750bn on their behalf.

BlackRock is not a bank, and the money we manage is not our own - it belongs to our clients. We act on their behalf, investing for them in a wide range of public and private asset classes. Without exception, we are obligated to always act in our clients' financial best interests.

BlackRock has a long history of expanding investment choice. Our investment capabilities span active strategies that invest in a pre-defined region, sector, or theme, index strategies that track a specific benchmark of securities, and alternative investments such as in infrastructure. We connect the financial resources of diverse individuals and institutions in more than 70 countries to investment opportunities in companies, projects, and governments around the world.

Governments representing over 90% of global GDP have committed to move to net-zero in the coming decades.<sup>1</sup> We believe this energy transition will affect, to varying degrees, all economies, global finance, and all companies regardless of business model, sector, size, or geography. All companies, including energy companies, must decide how to manage material risks and opportunities related to the transition to a low-carbon economy. Investors and asset owners must decide where to put capital to work, and how to engage with companies to guard their long-term economic interests.

We believe that there are investment risks and opportunities associated with the transition towards a decarbonized economy. We also believe that, as this transition occurs, climate change will continue to test the resilience of many industries and businesses in which our clients invest. To that end, we believe investors and issuers that take a forward-looking position with respect to climate risk and its implications for the energy transition will generate better long-term financial outcomes. However, our clients decide how to invest, and our role is to offer them the tools to make investment decisions, including data and analytics, investment insights, and thought leadership about the impacts of the energy transition on their portfolios.

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<sup>1</sup> Net Zero Tracker, <https://zerotracker.net>.

**Public position on fossil fuel finance****a. Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.**

As noted, BlackRock manages money on behalf of clients, who choose their own investment strategies and products. To that end, BlackRock offers a broad suite of investment products to meet our clients' varied investment goals, priorities, and risk tolerances. Many of our largest clients globally have made the decision to align their portfolios with the long-term changes in the economy that they anticipate in response to climate change and the transition towards a decarbonised economy, while others seek out investment products that have broad market exposure, including to energy companies, or make sector-specific investments. BlackRock's product offering also takes account of the regional regulatory environment; for example, in the EU and the UK, we have enhanced product ranges and disclosures to meet new sustainability related regulation, including the application of exclusionary screens in respect of issuers with a material involvement in fossil fuel production. In each case, as a fiduciary, we seek to realise the best long-term financial results for our clients consistent with their individual preferences, investment objectives, risk tolerance, and other constraints. As noted above, our role is to provide clients with the tools and insight to make informed financial decisions and the choice of products to meet their financial needs.

**b. Does your institution's overall approach to energy transition include fossil fuel exclusion policies?**

No. We do not have a firmwide investment position on financing fossil fuels, reflecting our clients' varied goals, priorities, and risk tolerances, including as they relate to the energy transition. As described above, as a fiduciary we are bound to adhere to our clients' investment guidelines and objectives. For active portfolios where the client has granted us investment discretion, in 2020 we made an investment decision to exit public debt and equity investments in businesses generating greater than 25% of revenue from thermal coal. (This investment decision did not impact BlackRock's index-tracking products.) We took and continue to hold this view because our active portfolio managers concluded that the long-term economic or investment rationale no longer justified continued investment in companies with significant exposure to thermal coal. Consistent with our commitment to providing clients with choice, certain clients have opted to continue investing in thermal coal companies.

We provide a broad choice of investment products for clients who believe in the likelihood of long-term success for companies that take a forward-looking position with respect to climate risk and its implications for the energy transition. To serve client demand, we manage more than 300 dedicated sustainable investment strategies across index, active and alternative asset classes, accounting for \$470 billion of client assets.<sup>2</sup>

On behalf of our clients, we expect to remain long-term investors in carbon-intensive companies, because they play crucial roles in the economy – such as in power generation, transport, and manufacturing – and their success will be critical to our clients' financial goals and achieving an orderly transition. Indeed, divestment from such sectors in the near term may be at odds with enabling an orderly transition to a low-carbon economy in the long term. Furthermore, divesting from entire sectors – or pushing companies to simply pass carbon-intensive assets from public markets to private markets – could result in companies within these sectors being subject to less accountability. Many such companies are themselves engaged in developing new technologies and renewable power sources, and investors may seek opportunities to participate in the transition by identifying companies that are positioning themselves to lead decarbonization within their industries.

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<sup>2</sup> As of June 2022. Source: BlackRock Sustainable Investing

**c. How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?**

As described above, we invest in companies in accordance with our clients' instructions and investment objectives. BlackRock provides clients with investment strategies that seek to take advantage of the changes in the economy that they anticipate as a result of climate change and the transition towards a decarbonized economy. This can include investments in renewable energy companies and electric vehicles producers, or in carbon-intensive companies with a credible transition plan that help enable the transition by supplying needed materials, equipment, and services for capital investments. We offer one of the world's largest dedicated renewable power platforms, with over \$9 billion in client assets under management, with strategies across our index, active, and alternative investment strategies.

**The IEA Roadmap to Net Zero**

*[The International Energy Agency's May 2021 report states that reducing global carbon emissions to achieve net zero by 2050 will require "nothing less than a complete transformation of how we produce, transport and consume energy". Achieving this will require a managed decline in the use of fossil fuels, leading the IEA to assert that "there is no need for investment in new fossil fuel supply" or projects beyond those already committed to by 2021.]*

**d. In view of the [International Energy Agency] statement above, does your institution also support the IEA's net-zero scenario which calls for 'no new investment is needed in coal, oil, and gas'?**

No. BlackRock's role in the transition is as a fiduciary to our clients – it is not to engineer a specific decarbonization outcome in the real economy. BlackRock is developing tools that help our investors and clients assess how the transition is likely to unfold and to support clients' navigation of the transition and – for those who choose – to accelerate it. We are guided by our clients' investment choices, and we do not pursue broad divestment from sectors and industries as a policy.

We understand that net zero pathways will not be linear: energy markets and the macro-economic environment are complex and volatile. Many of our clients remain long-term investors in the energy sector because these companies play a crucial role in the economy and the energy transition by, amongst other things, providing reliable and affordable energy supply in the wake of short-term shocks, such as the war in Ukraine.

However, we recognize the strong statements of ambition made by governments, companies, and financial institutions to the specific goal of 1.5°C. However, as a fiduciary, our engagement with companies focuses not on enforcing a particular temperature goal, but rather on how companies can generate long-term financial performance in the operating context of evolving climate policy and regulation. It is the role of governments, not industry bodies or investors, to set the targets that private sector actors should pursue, and those government-set targets are currently grounded in the language of the Paris Agreement. Asset managers' role and duty is to understand how companies' long-term prospects may be impacted by, among other things, environmental factors and government regulations, including by seeking disclosure on how they are working to meet any such requirements.

**e. What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?**

We expect to remain long-term investors on behalf of our clients in carbon-intensive sectors, and, as noted above, we do not pursue broad divestment from sectors and industries as a policy. An energy transition cannot happen immediately and will need to pass through multiple phases of decarbonisation. To ensure continuity of affordable energy supplies throughout, traditional fossil

fuels like natural gas will be required both for power generation and heating, as well as to produce hydrogen.

The UK Government's [Net Zero Strategy](#) notes that oil and gas will continue to play an important role as the UK economy transitions away from fossil fuels and towards clean energy. The Government's [Energy Security Strategy](#) noted that in Autumn 2022 a new round of licensing for North Sea oil and gas will be launched, with the expectation that there will be "more domestic gas on the grid sooner". As part of this strategy, continued investment in fossil fuel and energy-intensive sectors will be necessary.

That said, between the former Prime Minister's Ten-Point Plan for a Green Industrial Revolution published in 2020, the 2021 Net Zero Strategy, and the 2022 Energy Security Strategy, the UK has set several clearly defined targets for energy generation from different sources, and targets for initiatives to slow the pace of climate change.

Private sector investors have made a big contribution towards financing the expansion of the zero-carbon energy sector. The UK's National Infrastructure Commission highlights that between 2018 and 2021 the vast majority of the UK's energy infrastructure was privately financed, and private financing is also expected for over half of the overall infrastructure pipeline (see [here](#) and [here](#)). This suggests that the UK's approach to regulation is already relatively conducive to attracting and incentivising private finance.

As noted in our response to the call for evidence on the [UK Green Finance Strategy](#), we see increased client demand to allocate capital toward activities that support the transition. Indeed, we believe the intersection of infrastructure and sustainability represents one of the biggest opportunities in alternative investment for our clients in the years to come, and as a fiduciary, it is our job to connect the two. Anecdotally, we see continued interest from a broad range of end-investors to make allocations to private markets, suggesting there is a strong supply of capital to be leveraged for the UK's policy objectives.

However, as the UK's [2022 Infrastructure Progress Review](#) noted, while the *Ten-Point Plan*, *Net Zero Strategy*, and *Energy Security Strategy* have generated "clear, long-term goals" for its infrastructure and energy generation requirements, it also warned of a "lack [of] detailed policy plans" and "major gaps" on implementation and how infrastructure should be financed.

While the UK has a robust regulatory regime for infrastructure financing, the recent wave of targets and objective setting have expanded financing requirements, including for nascent markets and technologies. Attracting private financing to meet these targets requires a robust regulatory and policy environment, but also a clear 'demand side' of projects that require financing. Policies that focus on the supply-side – opening up sources of capital and regulatory regimes to encourage investment – are critical, but government targets for infrastructure and energy generation capacity must be translated into project proposals. Specific infrastructure needs, and demand for finance, must be made clear to prospective investors for them to be able to provide the financing.

**f. Please identify the proportion of assets you manage which are (a) actively and (b) passively managed (for example in index tracking portfolios) and the extent to which differential policy mandates between the two investment approaches apply in relation to investment in fossil fuels.**

As of June 30, 2022, BlackRock's global assets under management are split as follows: 26% active; 32% index; 33% Exchange Traded Funds; 9% cash.<sup>3</sup> We manage more than 300 dedicated sustainable investment strategies across index, active and alternative asset classes globally.

BlackRock is actively engaged in the stewardship of the investments we manage on behalf of our clients, irrespective of the strategy that led to the investment, seeking to understand how

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<sup>3</sup> [BlackRock Q2 2022 Earnings Release Supplement](#)

companies are managing material environmental risks and opportunities to ensure long-term success.

On behalf of our clients, BlackRock has been one of the largest investors into the UK, investing approximately £500bn into the country, including into UK Corporate and Government debt. Over £5bn is aligned with the UK Governments' Energy Security Strategy and almost £7bn is invested into UK projects specifically aligned to the Ten-Point Plan and Build Back Better agenda. For example, BlackRock owns over 100 projects from offshore wind in Grimsby (Lincolnshire) to Walney (in the Irish Sea) on behalf of our clients.

BlackRock, October 2022

August 29, 2022

Attention: Environmental Audit Committee  
House of Commons  
Palace of Westminster  
SW1A 0AA

Dear Rt Hon Philip Dunne MP,

We are writing in response to your letter dated 17 August 2022. We appreciate the opportunity comment on Brookfield Asset Management's ("Brookfield") ambitions for achieving net zero by 2050 or sooner, and our position on financing of fossil fuel extraction and renewable energy generation.

Brookfield is a leading global alternative asset manager with approximately US\$750 billion of assets under management across real estate, infrastructure, renewable power and transition, private equity and credit. We are also a longstanding investor in the United Kingdom with more than £50 billion invested across critical infrastructure and approximately 20,000 people employed through our operations. We have placed our European headquarters in London, drawing on the many advantages the United Kingdom provides, particularly in transition finance which supported our decision to base our global renewable energy leadership team in the country.

As an alternative asset manager, we own and operate long-life assets and businesses, many of which form the backbone of the global economy. Our business philosophy is based on our conviction that successful investing in these sectors can be achieved only when acting responsibly toward society and our stakeholders. Guided by this principle, Brookfield is committed to making a significant contribution to the global decarbonization effort.

Our contribution will be facilitated in two ways. The first is through our Net Zero commitment; the second is through our transition investing and sustainable finance initiatives. We believe transition investing plays a critical role in decarbonizing the global economy. As we have stated previously, while not everything can become green immediately – we believe that every business now needs to begin the shift to a cleaner future.

#### **Brookfield's Net Zero Commitment**

Brookfield is a signatory to the Net Zero Asset Manager (NZAM) initiative, part of the Glasgow Financial Alliance for Net Zero. As part of joining the NZAM initiative, we committed to:

- i. working toward decarbonization goals, consistent with an ambition to reach net-zero emissions by 2050 or sooner across all assets under management;
- ii. setting an interim target of a specific proportion of our assets to be managed in line with net zero, with targeted emissions reduction by 2030; and
- iii. reviewing this interim target at least every five years.

We submitted our 2030 net zero interim target within NZAM’s May 2022 progress report which is available on their website at [www.netzeroassetmanagers.org](http://www.netzeroassetmanagers.org). Our target is to reduce emissions by two-thirds by 2030 across approximately one-third of our total assets, being \$147 billion of our assets under management.<sup>1</sup>

Our intention is to increase the proportion of assets to be managed in line with net zero annually, consistent with our ambition to reach 100% over time.

Our interim emissions reduction target comprises assets across all four verticals in our business: real estate, infrastructure, private equity, and renewables. We developed our net zero strategy based on the Paris-Aligned Investment Initiative’s Net Zero Framework (PAII NZIF) and have set targets at the portfolio and the asset class level using the PAII NZIF recommended approach.

### **Facilitating Energy Transition**

We are one of the world’s largest investors in renewable power globally, with over 21,000 megawatts of generating capacity, approximately equivalent to the combined wind and solar capacity of California. We plan to support growth in renewable power by developing an additional 21,000 megawatts of new clean energy capacity by 2030, which would represent a doubling of our operating portfolio to 42,000 megawatts.

In addition, we recently launched the Brookfield Global Transition Fund (“BGTF”), which is the largest of its kind in the world with \$15 billion dedicated to accelerating the global transition to net zero. BGTF is a critical component of our net-zero strategy, co-led by former Bank of England governor, Mark Carney, who leads Transition Investing for Brookfield globally. BGTF will pursue opportunities only where we can make measurable positive impact, including through the development of additional clean power capacity or decarbonizing carbon-intensive businesses.

Through BGTF, we will invest to help companies decarbonize their operations and reach Paris-aligned net-zero goals. This may include energy producers that are looking to transition from reliance on fossil fuels to renewables, or industrial businesses looking to invest in greener production methods to maintain jobs and operations in a net zero economy.

We believe that, as countries and businesses work toward lowering emissions, a combined approach of substituting higher-emitting energy sources and transitioning assets toward net zero will be required. While this will undoubtedly require significant renewable energy investment and upgrades to electrical grids worldwide, critically located natural gas will continue, in our view, to play an important role in supporting the energy transition.

With this in mind, we will continue to invest in transportation and storage assets that are crucial to the functioning of our economies. Within our current portfolio we own 22,000 km of transmission pipelines, 600bcf of natural gas storage and 17 natural gas processing plants around the world. We do not typically invest in the new development and exploration of fossil fuels and have not made material investments in the past five years.

Our recent investment in SGN – which operates the gas distribution grids in southern England and Scotland – is a good example of our ownership strategy for gas assets. That investment recognizes the crucial role that

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<sup>1</sup> Represents figures as of December 31, 2020, to align with our baseline year emissions used in our interim target. Our target does not include \$148 billion of AUM managed by our partner, Oaktree Capital Management, which carries out its investment activities independently from Brookfield and is currently developing its own climate strategy.

gas continues to play in heating 85% of Britain’s homes and the need for prudent management of existing critical infrastructure. At the same time, we and our partners are investing capital to support SGN’s transition to a hydrogen economy, which in millions of properties across the UK may be the only viable form of zero carbon heating available in the next decade.

**Approach to Fossil Fuels**

Brookfield does not have a firm-wide exclusion on coal or other fossil fuel investments, precisely because we want the opportunity to make capital available to any industry with a viable transition plan. For example, as described above, the objective of BGTF is to provide capital to accelerate the transition to net zero. Therefore, we believe it is important to “go where the emissions are” and utilize our operating capabilities to drive value and impact. In select cases, this may involve acquiring coal and fossil fuel-based investments and setting them on a path to net zero consistent with Paris alignment. We have a track record of achieving this, for example through our TransAlta investment in Western Canada, and we want to keep those options open in other countries, including the U.K.

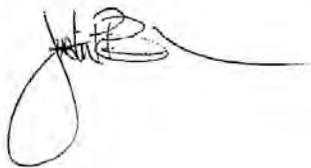
**Decarbonization Efforts**

Work is well underway to support our efforts in decarbonizing our businesses. As owners and operators of critical infrastructure, we will seek to achieve this thoughtfully alongside communities and stakeholders. We are in advanced stages of developing a comprehensive inventory of emissions across our businesses from which we can measure and report reductions through the development of specific decarbonization plans. In undertaking this work, we are initially focusing our net-zero efforts on investments where we have control, leveraging our operating capabilities—particularly in the renewable power sector—to develop decarbonization plans across these assets.

Our emissions reduction strategy will vary by business and will incorporate a variety of initiatives, including transitioning facilities from oil and gas consumption to renewable power, reducing energy use intensity at our facilities through operational improvements, and decreasing energy consumption in higher-emitting businesses through investment in greener production processes, to name a few. Brookfield is widely recognized for the operations-oriented approach that we bring to actively managing our assets, including carbon-intensive assets. We are now leveraging this expertise with a goal of placing all assets on a pathway to reducing emissions.

We wish to thank you again for the opportunity to discuss our business and we will very much welcome a continued dialogue with the Environmental Audit Committee on the progress of our net-zero strategy.

Yours sincerely,



Justin Beber

Head of Corporate Strategy & Chief Legal Officer

## Appendix: Brookfield investments in the United Kingdom

### Real Estate

- **Brookfield Properties** | 4.2 million square feet office portfolio
- **Canary Wharf Group** | Owner and developer of >100 acres of property on the Canary Wharf Estate and across London
- **CenterParcs** | Operator of six short-break holiday destinations
- **Harwell** | A leading science and innovation campus located near Oxford's research institutions
- **Retail Parks** | A portfolio of nine retail parks in strong locations throughout the country
- **Arlington** | A leading science, innovation, and technology real estate platform with 36 assets across the U.K.
- **Trium Portfolio** | Purpose built student accommodation portfolio

### Renewable Power

- **First Hydro** | 25% interest in 2 GW pumped storage hydro facility in Wales
- **Cambridge Power** | U.K. | a portfolio of battery energy storage solutions (BESS)

### Infrastructure

- **BUUK Infrastructure** | Leading independent provider of last-mile networks serving over a million homes
- **PD Ports** | Leading ports business and owner of Teesport, one of northeast England's largest container ports
- **SGN** | Second largest gas distribution company in the U.K. which services six million households
- **BOXT** | British smart home systems installer

### Private Equity

- **Greenergy** | A leader in waste-based biofuels with significant infrastructure and service provision
- **Multiplex** | Global contractor that has led some of the U.K.'s largest construction projects

Sent by email

31 August 2022

Dear Rt Hon Philip Dunne MP

I'm writing in response to your letter dated 17 August 2022, titled, "The financial sector and the UK's net zero transition".

## About us

Founded in 2000, Cardano is a privately-owned, purpose-built pensions advisory and investment specialist with a leading-edge sustainability offering. We are widely recognised as a market leader in the provision of specialised services to private-sector and collective pension schemes in the United Kingdom and the Netherlands. Our c. 500 professionals strive to deliver better and more secure financial outcomes.

- **Advisory:** A pensions covenant, investment, sustainability, corporate finance and risk advisory business serving approximately 400 scheme and corporate clients. Our scheme clients have aggregated assets of over £370bn
- **Investment Management:** A purpose-built asset and fiduciary management provider, with a leading-edge sustainability offering, serving pension schemes (and non-pension scheme clients with similar risk management requirements), insurance companies, banks and distribution partners with £50bn of assets under management
- **Defined Contribution:** We manage over £15bn in DC assets across the UK and the Netherlands. In the UK, we operate NOW: Pensions, an award-winning UK workplace pension provider, serving 2m members and tens of thousands of employers from a wide range of industry sectors

## Our commitment to sustainability

In January 2022, Cardano acquired ACTIAM, a sustainable investor, with 30 years' sustainability-related experience, and a dedicated team of sustainability professionals with expertise in sustainability issues, ESG data and research, and stewardship.

ACTIAM was one of the first asset managers in the world to incorporate sustainability issues in fund and asset management, incorporating concepts such as planetary boundaries, social foundations, and the safe and just zone in investment processes.

In the coming months, we will be integrating ACTIAM's sustainability leadership across Cardano Group. ACTIAM's policies are our starting point for our combined Group policy. For the purposes of your inquiry, I have set out Cardano's existing approach, adding reference to ACTIAM where relevant to your question.

## Publicly available Cardano policies

We have prepared answers to your questions based on the following publicly available policies:

- *Sustainable investment policy*, here: [https://www.cardano.co.uk/wp-content/uploads/sites/3/2021/12/Cardano-Sustainable-Investment-Policy-0321\\_final-1.pdf](https://www.cardano.co.uk/wp-content/uploads/sites/3/2021/12/Cardano-Sustainable-Investment-Policy-0321_final-1.pdf).
- *Annual sustainability report*, here: <https://www.cardano.co.uk/wp-content/uploads/sites/3/2021/12/Cardano-Annual-Sustainability-Report-2021.pdf>.
- *Model of influence*: <https://www.cardano.co.uk/perspectives/model-of-influence>.
- *Plan to address the climate crisis*: <https://www.cardano.co.uk/our-approach-to-sustainability/our-plan-to-address-the-climate-crisis>.

## Public position on fossil fuel finance

- a. Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.**

Yes, we have published our plan to address the climate crisis here: <https://www.cardano.co.uk/our-approach-to-sustainability/our-plan-to-address-the-climate-crisis/>.

We do not explicitly refer to the funding of new projects in our policy. Cardano typically invests via third-party fund managers and indices, in other words, not in single-name equities. As such, we assess the fund – and the fund manager – on a range of sustainability issues, including climate change. We use MSCI ESG and greenhouse gas emissions data in our investment decision-making. We do invest in corporate credit and follow ACTIAM's sustainability policy.

We have set portfolio-level decarbonisation targets for our fiduciary portfolios. We support the Paris Climate Agreement of limiting global warming to +1.5°C versus preindustrial levels. We do this by committing our investment portfolios to net zero carbon emissions by 2050. We support global emissions reduction of 50% by 2030, with baseline year 2019. This informs our asset-class decarbonisation targets.

While this is our default position for our advisory clients, ultimately advisory clients will determine their own path.

ACTIAM does invest directly in companies in corporate equity and credit, passive and active, as well as impact investments in private markets. ACTIAM has a comprehensive climate change strategy available on its website: [https://www.actiam.com/4a4b6c/siteassets/4\\_verantwoord/documenten/en/actiam-climate-target-strategy.pdf](https://www.actiam.com/4a4b6c/siteassets/4_verantwoord/documenten/en/actiam-climate-target-strategy.pdf).

- b. Does your institution's overall approach to energy transition include fossil fuel exclusion policies?**

In 2020, we ended our direct commodity exposure to fossil fuels.

A commodity investment does not allow us to exert influence through stewardship. Fossil fuels tend to perform well in periods of high inflation. To manage our inflation exposure, we have instead invested in base metals and inflation swaps. We expect base metals to help us manage inflation-related risks, as well as perform well as part of the transition.

This doesn't mean we disinvested from energy companies, companies with higher carbon footprints, or companies exposed to social issues, via our third-party managers, indices or in our corporate credit portfolio. We invest, but on the basis that we expect their business models to change to be more sustainable.

In 2022, we partnered with Sustainalytics to support our corporate engagement activities. This includes thematic engagements on topics such as climate change on companies in our portfolios.

Rather than excluding fossil fuels, ACTIAM follow sector-specific transition pathways established by independent assessment, such as the Science-Backed Targets Initiative (SBTI), as well as International Energy Agency (IEA), UN Environment Programme, and the Intergovernmental Panel on Climate Change (IPCC).

- c. How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?**

As above, Cardano invests via third-party fund managers and indices. In 2021, we made a number of changes to our investment portfolios:

- We increased our investments in green, social and sustainable bonds, including the UK government's green gilt
- We invested in physical ESG-focused, low carbon equity, with stewardship. This investment approach uses MSCI data to assess companies' transition plans.
- We invested in climate change baskets, investments that capture the broad thematic opportunities that will arise from the energy transition including: clean energy, sustainable transport, green infrastructure and circular economy.
- We enhanced our stewardship and engagement activities.

ACTIAM does give weight to energy companies in transition. Regulatory changes, technological changes, and market and consumer preference changes means that companies over-reliant on fossil fuels are likely higher risk. More on ACTIAM's approach can be found here, [https://www.actiam.com/491aac/siteassets/4\\_verantwoord/documenten/en/a-actiam-sustainable-investment-policy.pdf](https://www.actiam.com/491aac/siteassets/4_verantwoord/documenten/en/a-actiam-sustainable-investment-policy.pdf).

## The IEA Roadmap to Net Zero

### **d. In view of the [International Energy Agency's May 2021 report], does your institution also support the IEA's net-zero scenario which calls for 'no new investment is needed in coal, oil and gas'?**

Yes. We support the IEA net zero scenario's findings and agree that this requires no new investment in fossil fuels.

Cardano does not explicitly refer to the IEA's net zero scenario in our policy, however we have established a 'model of influence' to maximise our real-world sustainability impact, including on decarbonisation and net zero.

When we invest, we consider two simultaneous objectives:

1. Maximising Risk and return, which includes sustainability-related risks and opportunities
2. Maximising influence and impact, which considers the real-world sustainability impact of our investments

Institutional investors increasingly share this "double-materiality" view and want to incorporate both lenses into their investment process. Yet there is little clarity about what is meant by influence, real-world sustainability impact, and how to measure it.

Consequently, we developed our own 'model of influence'. This comprises of three key forms of influence, based on how direct an impact these actions have. More here: <https://www.cardano.co.uk/perspectives/model-of-influence/>.

### **e. What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?**

We have not explicitly commented on this in our policy. We have committed our investment portfolios to net zero greenhouse gas emissions by 2050, set out how we will maximise our real-world sustainability impact (see question d), and applied enhanced stewardship to our investment portfolios.

In our plan to address the climate crisis, we set out our support for the concept of 'fair share' decarbonisation targets (also known as, "just transition"). We are a member of a range of groups working with investors to ensure a just transition including the UN Principles for Responsible Investment (PRI) and the Institutional Investors Group on Climate Change (IIGCC). More here: <https://www.unpri.org/sustainability-issues/environmental-social-and-governance-issues/social-issues/just-transition>.

### **f. Please identify the proportion of the assets you manage which are (a) actively and (b) passively managed (for example in index tracking portfolios) and the extent to which differential policy mandates between the two investment approaches apply in relation to investment in fossil fuels.**

We invest in or advise on a range of asset classes, strategies and investment approaches. Across the liquid growth assets of our fiduciary portfolios, around 30% of the exposure is in actively managed equities (implemented via third-party asset managers) and around 20% is in passively managed equities (generally via derivatives such as futures), as at 30 June 2022.

For both active and passive mandates, we consider sustainability issues, including climate change, in our investment decision-making process.

With active mandates, we assess the manager's sustainability capabilities through our proprietary manager research process, across four pillars of policy and people, integration, engagement and reporting.

With passive mandates we consider sustainability issues in the selection of the index. In 2021, Cardano did invest in a passive ESG-screened, low carbon equity portfolio, and have increased our allocations through 2022.

ACTIAM's approach to passive and active equity investments is available here: <https://www.actiam.com/en/investment-solutions/equities/>.

## In conclusion

We believe the financial sector has a critical role to play in achieving the UK's net zero transition. We believe that investors should focus on real-world transition, rather than a headline portfolio carbon footprint. Targeting net zero on a portfolio metric does not, in itself, facilitate real world transition. Our view is that the most impactful activities include:

- Supplying new capital, debt or equity to a company or government, where this has an environmental or social objective
- Collaborative company engagement on sustainability-related topics, for example through the Climate Action 100+ initiative and co-filing resolutions
- Engaging with public policymaking to create a more sustainable economy
- Facilitating new forms of sustainability impact

We would welcome an opportunity to further contribute to your inquiry into the financial sector and the UK's net zero transition. Our co-head of sustainability, Will Martindale, would be happy to speak to you and your team. He can be contacted at [REDACTED]

Yours sincerely,



Kerrin Rosenberg  
CEO

[REDACTED]



Rt Hon Philip Dunne MP  
Chairman of the Environmental Audit Committee

Gareth Mostyn  
Chief Executive

Sent by email: [eacom@parliament.uk](mailto:eacom@parliament.uk)

8<sup>th</sup> September 2022

Dear Mr Dunne

Thank you for your letter dated 17 August 2022, on behalf of the Environmental Audit Committee.

Please see below response on behalf of the Church Commissioners for England to the questions raised by the Audit Committee in your letter. The Church Commissioners manage a fund of £10.1bn invested in a diversified portfolio spread across a broad range of asset classes, in an ethical and responsible way, consistent with our ambition to be at the global forefront of responsible investment.

The Church Commissioners believe that there must be a Just Transition to a low-carbon world. (<https://www.churchofengland.org/about/leadership-and-governance/church-commissioners-england/how-we-invest/responsible-investment-4>). It is essential to ensure, especially with regards to impacted communities, that workers and communities are thoughtfully considered and not forgotten in the transition to Net Zero.

**a. Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.**

The Church Commissioners' position on financing fossil fuels is publicly stated through the following policies and reports:

- Climate Change Policy of the National Investing Bodies of the Church of England: <https://www.churchofengland.org/about/leadership-and-governance/ethical-investment-advisory-group/policies-and-reviews>
- Report to General Synod on the National Investing Bodies approach to climate change, July 2021: [GS Misc 1283 - NIBs Approach to Climate Change- Report for July 21 Synod \(ID 246478\).pdf \(churchofengland.org\)](#)
- Church Commissioners for England Stewardship Report 2021: [CHURCH COMMISSIONERS FOR ENGLAND STEWARDSHIP REPORT 2021 \(churchofengland.org\)](#)

**b. Does your institution's overall approach to energy transition include fossil fuel exclusion policies?**

The Church Commissioners have an exclusion policy that covers companies in the fossil fuel sector specialising in activities associated with the highest carbon emissions – the extraction of thermal coal and oil sands. See Climate Change Policy, above. We have also committed to divest by 2023 from fossil fuel companies that are not Paris aligned (based on our assessment guided by the Transition Pathways Initiative).

**c. How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?**

Our reading of this question is that it means “how do we view” energy companies in transition (rather than increasing or decreasing the allocation to certain assets within an investment portfolio).

As set out in the Synod Report, above, and the Stewardship report, above, we have an engagement programme with energy companies to encourage them to support the transition to a low-carbon economy. We remain invested in some energy companies which are meeting our milestones to align with the Paris Agreement (based on assessment by the Transition Pathways Initiative), but we have restricted investment in, and divested from, many that have failed to meet those milestones.

**d. In view of the statement above, does your institution also support the IEA's net-zero scenario which calls for 'no new investment is needed in coal, oil and gas'? With regards to coal this is covered by the exclusions in our Climate Change Policy (see above).**

With regards to Oil and Gas, the Transition Pathway Initiative thresholds are based on the IEA via its biennial Energy Technology Perspectives reports, World Economic Outlook reports, and Net Zero Emissions by 2050 report ([see: 90.pdf \(transitionpathwayinitiative.org\)](#)).

**e. What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?**

This question is not relevant to us because we do not invest directly in fossil fuel assets.

**f. Where you continue to hold investments in fossil fuel-producing companies, has your institution communicated to that company's management your position on the IEA's Net Zero scenario and its conclusion on the need for no new investment in future new production? If not, does your company plan to do so?**

Our assessment of fossil fuel companies is made via the Transition Pathways assessment (see above), which makes use of the IEA's net zero scenario.

Yours sincerely,

Gareth Mostyn



David McD Livingstone  
Chief Executive Officer  
Europe, Middle East & Africa  
Citigroup Centre  
33 Canada Square  
London E14 5LB

13th September, 2022

Rt Hon Philip Dunne MP  
Chairman  
Environmental Audit Committee  
House of Commons  
London SW1A 0AA  
[eacom@parliament.uk](mailto:eacom@parliament.uk)

Dear Mr Dunne

**Re: The financial sector and the UK's Net Zero transition**

We refer to your letter inviting Citi to contribute to the Committee's Inquiry into "The financial sector and the UK's Net Zero transition". We are happy to have the opportunity to present our views on supporting the UK's energy security needs as well as its Net Zero transition.

Citi became a founding signatory to the Net-Zero Banking Alliance (NZBA) in April 2021, and made our commitment to net zero, including our Scope 3 financed emissions. A reduction in Scope 3 financed emissions is widely recognised as the most significant contribution the financial services industry can have to achieving a net zero economy. We serve on the steering groups for both NZBA and the broader Glasgow Financial Alliance for Net Zero (GFANZ). As part of GFANZ, we played a leading role in the development of a white paper entitled "[The Managed Phase-Out of High Emitting Assets](#)," which describes how the facilitation of the early retirement of carbon dioxide-intensive assets is an important part of the transition to a net zero economy.

*Citi's Net Zero Strategy*

Citi's overarching climate change commitments include our Net Zero by 2050 commitment related to our financing, Net Zero by 2030 for our operations, and our goal to provide \$1 trillion of sustainable finance. We view this dual focus on decarbonisation and accelerating sustainable finance as essential to help facilitate a smooth energy transition.

We set out Citi’s [Net Zero Transition Principles](#) to guide our Net Zero strategy, which reflect our aim to reduce emissions, while also driving a responsible and orderly transition that minimises economic disruption and supports the very real needs of economies for continuous energy security.

In January 2022, Citi published its [2021 TCFD Report](#), which provides extensive details on our Net Zero by 2050 financing methodology, the climate scenarios selected for target-setting purposes for the energy and power sectors, and our baseline metrics. Our 2030 energy and power emissions targets are ambitious, climate-science aligned and are described below.

## Net Zero 2030 Targets

2030 financed emissions targets for Citi’s Energy and Power loan portfolios:

Sector	2020 Baseline <sup>1</sup>	Climate Scenario	2030 Target
Energy (Scope 1, 2, 3)	143.8 million mt CO <sub>2</sub> e	IEA <a href="#">NZE 2050</a>	29% reduction from 2020 baseline 102.1 million mt CO <sub>2</sub> e
Power (Scope 1)	313.5 kg CO <sub>2</sub> e/MWh	IEA <a href="#">SDS OECD</a>	63% reduction in Scope 1 intensity per MWh 115 kg CO <sub>2</sub> e/MWh

We are currently developing targets for an additional set of sectors, as guided by the Net Zero Banking Alliance.

### *Citi’s Policies on Coal*

Prior to making our Net Zero commitment in March 2021, Citi had also established sector approaches for thermal coal mining and coal-fired power, as detailed in our [Environmental and Social Policy Framework](#), including:

- A thermal coal mining standard that prohibits project-related financing of thermal coal mines, and states that we shall reduce our credit exposure to thermal coal mining companies<sup>1</sup> by 50% by 2025 and to zero by 2030. After 2025, we also shall not provide capital markets or mergers and acquisitions advisory and financial services to thermal coal mining companies; and
- An updated coal-fired power standard that prohibits project-related financing of coal-fired power plants and establishes a sector-wide approach designed to help our power clients transition away from coal. The policy includes a set of increasing expectations for Paris alignment that our clients with coal-fired power will be expected to meet by transitioning their companies and phasing out coal-fired power (by 2030 for assets in OECD countries or 2040 for non-OECD countries).

While we continue to implement these policies, our focus related to these sectors is now to pursue the targets we have set, with an emphasis on the detailed work already underway on the part of many of our clients to transition. As we engage with our clients, we intend to consider a number of different factors, including but not limited to our clients’:

<sup>1</sup> According to our Environmental and Social Risk Management Policy, a thermal coal mining company is defined as having ≥25% revenues derived from thermal coal mining.

- Decarbonisation targets and plans;
- Transition plan development and key metrics;
- Climate governance approach; and
- The existence of enabling policy and regulatory environments to support our clients' transitions.

### *Citi in the UK*

In the UK, Citi continues to develop processes to consider the potential financial risks arising from climate-related transition and potential physical risks as required by the Prudential Regulation Authority. Citi has continued to enhance its governance of climate risk and integrate climate considerations into the priorities of our UK legal entities' Boards of Directors and senior management. Citi globally and Citigroup Global Markets Limited (CGML), Citi's primary subsidiary in the UK, have invested significantly in climate risk management, including a centralised team in risk management working exclusively on assessing climate risk.

Citi has already taken significant steps to reduce the carbon footprint of our operations in the UK, such as installing solar panels to provide direct power to our UK data centre in 2021. Citi continues to provide financial services to UK public and private sector clients to support them in their transition. Citi acted as the Joint Lead Manager of the UK Debt Management Office's inaugural £10bn Green Gilt issued in September 2021. In July 2022, Citi opened a Sustainable Deposits account for a leading UK international body, which contributes to financing or refinancing eligible green and/or social assets. Citi has also participated in sustainable aviation fuel (SAF) roundtables alongside the Department for Transport, aviation and energy companies to help create the conditions required to establish the SAF market in the UK. To support companies in Africa with their transition, Citi is working with British International Investment, the UK's development finance institution, to develop various risk sharing structures.

### *The IEA Roadmap to Net Zero*

As noted earlier, our 2030 emissions targets are aligned with Net Zero by 2050. For the power sector target, we selected the IEA SDS OECD pathway, which provides regional granularity for decarbonisation pathways (OECD vs. non-OECD), resulting in a more ambitious reduction rate under the SDS OECD compared to a global scenario such as IEA NZE 2050. For the energy sector target, we utilised the IEA NZE 2050 scenario, which we determined to be most appropriate given the global nature of energy as a commodity.

In using the IEA NZE 2050 scenario, we understand that it is not a forecast of what will happen, but instead is a pathway detailing how the major sectors of the energy system could effectively decarbonise to Net Zero. The IEA Net Zero by 2050 Roadmap<sup>2</sup> describes the emissions reductions represented for different sectors, including a 29% reduction in emissions from the energy sector globally by 2030. However, that 29% reduction is not accomplished in this scenario by bluntly terminating fossil fuels. Under this scenario, the path to Net Zero emissions "requires immediate and massive deployment of all available clean and efficient energy technologies." Under this scenario, the emissions reductions are dependent on the expansion of clean technologies, including for example:

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<sup>2</sup> IEA Net Zero by 2050: A Roadmap for the Global Energy Sector. Summary for Policy Makers. [https://iea.blob.core.windows.net/assets/7ebafc81-74ed-412b-9c60-5cc32c8396e4/NetZeroby2050-ARoadmapfortheGlobalEnergySector-SummaryforPolicyMakers\\_CORR.pdf](https://iea.blob.core.windows.net/assets/7ebafc81-74ed-412b-9c60-5cc32c8396e4/NetZeroby2050-ARoadmapfortheGlobalEnergySector-SummaryforPolicyMakers_CORR.pdf).

- By 2030, electric vehicle sales to have increased from about 5% of global car sales to more than 60%;
- By 2050, almost 90% of electricity generation comes from renewable sources, with wind and solar PV together accounting for nearly 70%. Most of the remainder comes from nuclear power.

Therefore, it is not just one sectoral decarbonisation target that will support the assumptions in these scenarios. Our 2030 emissions targets for the energy and power loan portfolios, together with forthcoming targets in other key sectors such as automotive manufacturing, will all play a role in supporting the transition.

The IEA NZE 2050 Roadmap also attributes the decline in emissions from fossil fuels as coming from an “unwavering policy focus on climate change” that helps to stimulate investments in clean energy and technology that enable economies to maintain secure and continuous access to energy while reducing demand for unabated fossil fuels. We agree that the Net Zero transition will require an enabling policy environment to support the whole-economy transition.

As we have experienced firsthand over the course of this year, protecting energy security is paramount, and this will continue to be essential even as energy systems transition. We believe that the only transition that will be realised is an orderly one that maintains and expands access to low-carbon intensive energy and also takes into account the welfare of fossil fuel communities and workers. We also know that clients in high-emitting sectors will need finance to support the transformation of energy generation and infrastructure. With these factors in mind, our Net Zero approach is centred on client transition, not divestment. We are working to understand where our clients are in their decarbonisation execution and help them to accelerate that transition.

We trust that this letter will assist the Committee’s inquiry with information on Citi’s Net Zero strategy.

Yours sincerely

A handwritten signature in black ink, appearing to read "David McD Livingstone". The signature is fluid and cursive, with a large, sweeping flourish at the end.

David McD Livingstone  
Chief Executive Officer  
Europe, Middle East & Africa  
Citi

## Written evidence submitted by Credit Suisse

### a) Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.

We have developed dedicated global policies which deal with fossil fuel related financing. These policies and guidelines set out environmental and social standards that we expect clients operating in certain sensitive sectors to comply with when conducting their activities.

A summary of our policies, including specific references to project finance (when applicable), is publicly available in the document [Sector Policies and Guidelines](#).

URL: <https://www.credit-suisse.com/media/assets/corporate/docs/about-us/responsibility/banking/policy-summaries-en.pdf>

Examples of funding restrictions involving project finance include:

- Certain transactions involving Oil & Gas Companies, and/or Mining Companies, and tied to specific projects— including project finance, project finance advisory services, project-related corporate loans, bridge loans, project-related refinance and project-related acquisition finance —are subject to enhanced due diligence under the Equator Principles, a management framework for determining, assessing and managing environmental and social risk in project-related transactions. Such transactions must be submitted to Sustainability Risk for review prior to final approval.
- Credit Suisse will not provide any form of financing that is specifically related to the development of a new coal-fired power plant, or where the majority of the use of proceeds is intended for a new coal-fired power plant, irrespective of location. (Exceptions would only be considered in situations where the power plant applies carbon capture, utilization and storage (CCUS) technology). In addition, Credit Suisse will not provide lending or capital markets underwriting to companies developing new coal-fired power plants or capacity expansions after 2021 (unless supporting energy transition<sup>1</sup>).

Source: Summary of Credit Suisse's [Sector Policies and Guidelines](#)

Our position on climate-related risks and opportunities is also published in our [Statement on Climate Change](#), which is publicly available.

### b) Does your institution's overall approach to energy transition include fossil fuel exclusion policies?

We apply financing restrictions based on policies and guidelines that are globally applicable, taking account of standards developed by international organizations such as the United Nations (UN), the World Bank or the International Finance Corporation (IFC). These policies and guidelines cover the sectors of oil and gas, mining, power generation, and forestry and agribusiness, which includes pulp and paper, as well as palm oil production.

Examples of exclusions include:

1. Credit Suisse will not provide any form of lending or capital markets underwriting for any company that presently does or, as a consequence of a potential mandate under review, would derive more than 25% of its revenue from thermal coal extraction unless the transaction meets the criteria for

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<sup>1</sup> Supporting energy transition: lending or capital markets underwriting are only permitted where the client has a credible transition strategy to diversify away from thermal coal and where, in addition, the transaction proceeds make a material contribution to this transition.

supporting the energy transition detailed in our [Sector Policies and Guidelines](#). Credit Suisse will reduce its credit exposure, lending and capital markets underwriting to companies deriving revenues from thermal coal extraction from now until 2030 as mentioned in our [Sector Policies and Guidelines](#).

2. Credit Suisse will not provide any form of financing that is specifically related to the development of a new greenfield thermal coal mine, or where the majority of the use of proceeds is intended for a new greenfield thermal coal mine. In addition, Credit Suisse will not provide lending or capital markets underwriting to companies developing new greenfield thermal coal mines after 2021 (unless supporting energy transition).
3. Credit Suisse will not provide any form of financing that is specifically related to the development of a new coal-fired power plant, or where the majority of the use of proceeds is intended for a new coal-fired power plant, irrespective of location. In addition, Credit Suisse will not provide lending or capital markets underwriting to companies developing new coal-fired power plants or capacity expansions after 2021 (unless supporting energy transition).
4. Credit Suisse will not provide any form of financing related to offshore or onshore oil or gas projects in the Arctic region (north of the Arctic Circle at 66.33° northern latitude). This includes upstream exploration, development and production, as well as midstream and downstream operations. In addition, Credit Suisse will not provide lending or capital markets underwriting globally to any company that derives more than 25% of revenues from Arctic Oil & Gas extraction (unless supporting energy transition). Credit Suisse will reduce its credit exposure, lending and capital markets underwriting to companies deriving revenues from Arctic Oil and Gas extraction from now until 2035 as mentioned in our [Sector Policies and Guidelines](#).
5. Credit Suisse will not provide lending or capital market underwriting for companies deriving more than 25% of their revenues from oil sands unless these companies have materially reduced their overall emissions intensity over time and have credible plans to materially reduce carbon intensity further.

With regard to investing related restrictions, we have publicly disclosed that a revenue limit of 20% shall apply to investments in coal (coal mining and coal-based electricity generation) with respect to sustainable investment products. This means that all companies whose share in thermal coal is above the 20% threshold are excluded from our active, sustainable investment universe. This threshold can be further lowered over time to reflect the transition toward a low-carbon society.

For some investment products, additional restrictions apply:

- Coal extraction: Companies that derive more than 5% of their revenue from coal extraction are excluded.
- Unconventional oil and gas extraction: Companies that derive more than 5% of their revenue from unconventional oil and gas extraction (e.g. oil extraction from tar sands and/or oil and gas extraction through hydraulic fracturing of shale and/or from arctic drilling) are excluded. Companies planning to expand their activities to cover unconventional oil and gas extraction are also excluded.
- Conventional oil and gas extraction: Oil and gas extraction companies that derive less than 40% of their revenue from activities related to natural gas extraction or renewable energy sources are excluded.

Sources:

- Summary of Credit Suisse's [Sector Policies and Guidelines](#)
- [Sustainable Investing Policy](#)

**c) How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?**

We actively engage with our clients throughout the entire credit lifecycle. An example of our engagement approach can be found in our Client Energy Transition Frameworks (CETF), through which we actively

encourage clients to transition along CETF scales over time; at the same time, we support them through financing and advisory services.

Our CETF frameworks consist of the identification of priority sectors/industries and a methodology to categorize clients that operate in these sectors according to their energy transition readiness (categorizations span: “Unaware,” “Aware,” “Strategic,” “Aligned” and “Green”). Financing for clients with the lowest categorization in terms of transition readiness, i.e., of “Unaware” clients, will be phased out over time. Clients are expected to submit a transition plan. The information submitted is used to perform a categorization under the Client Energy Transition Framework. To categorize clients, a sector-by-sector set of criteria was established, leveraging quantitative key performance indicators, third-party assessments/ratings and qualitative assessments based on climate-related questions. Questions that are relevant for the CETF assessment may reflect those illustrated on pg. 55 of our 2021 Sustainability Report.

Source: Credit Suisse [2021 Sustainability Report](#)

**d) In view of the statement above, does your institution also support the IEA's net-zero scenario which calls for ‘no new investment is needed in coal, oil and gas’?**

We have adopted sector policies and dedicated frameworks restricting fossil fuel financing (refer to answers a to c above).

We are conscious of the ongoing energy crisis and the efforts made by governments to improve energy supply, including the potential for new infrastructure to secure energy resources in the short-medium term as a means to tackle current shortages. We recognize the delicate balance between security of energy supply, affordability, and environmental impacts, and we are committed to playing our part through our role as a responsible financial intermediary between the economy, the environment and society. We believe that global financial flows should be brought in line with the Paris Agreement and have committed to achieving Net Zero emissions by 2050 across both lending and asset management activities, with interim science-based targets by 2030. Such net zero trajectories act as a constraint for emissions related to oil, gas and coal under a pathway aligned to a maximum of 1.5°C planet warming.

**e) What is your institution’s policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK’s national interest during the transition to renewable energy generation?**

Please refer to our response provided for question c) on Client Energy Transition Framework (CETF). Internal analysis by Credit Suisse states that our portfolio of lending exposures is not highly concentrated in UK energy providers.

**f) Has your institution’s credit committee been instructed to reduce or decline to make new capital available for new fossil fuel projects?**

Credit Committees have been operating in line with the aforementioned policies and procedures. For more details on financing related restrictions please refer to our [Sector Policies and Guidelines](#).

*September 2022*

The Rt Hon Philip Dunne MP  
Chairman of the Committee  
Environmental Audit Committee of the House of Commons  
House of Commons  
Palace of Westminster  
Westminster  
SW1A 0AA

## Financial Sector and the UK's net zero transition

Fidelity International (**Fidelity**), as a signatory to the Asset Managers Initiative of the Glasgow Financial Alliance for Net Zero, has committed to reducing our portfolio emissions by 50% by 2030 and reaching net zero for all our portfolios by 2050.

In response to the Environmental Audit Committee of the House of Commons' inquiry into the financial sector and the UK's net zero transition, this letter sets out our position on the financing of fossil fuel extraction and renewable energy generation and the International Energy Agency (**IEA**)'s report on Net Zero by 2050: A Roadmap for the Global Energy Sector.

### Public position on fossil fuel finance

***a) Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.***

Yes. Our [Climate Investing Policy](#) summarises our position on the financing of fossil fuels, including the funding of new projects.<sup>1</sup> The biggest impact we can have on the emissions caused by fossil fuels is through investment and engagement. We have detailed our approach for delivering our net zero commitment for funds managed for clients, which applies to all companies including those with fossil fuel revenue, below.

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<sup>1</sup> We are aiming to release our interim net zero targets for 2025 by the end of 2022

## 1. Assessing company's ability to deliver net zero commitments

We have various tools and frameworks to help us assess whether companies are positioned to transition to net zero. These include quantitative tools such as emissions profiling and revenue analysis in relation to climate change and frameworks that utilise our bottom-up research process such as our Climate Rating<sup>2</sup>.

### *Emissions Profile*

To analyse the emissions profile of each company, we may assess its emissions trajectory, whether such a trajectory is compatible with 1.5 °C alignment and its intensity emissions alignment to its relevant sectoral decarbonisation path.

### *Revenue assessment*

Our framework for assessing revenue alignment of a company to net zero uses a SDG mapping tool to assess whether the company is an 'enabler' of the transition, as well as using EU Taxonomy Alignment, where we may look at the positively contributing activities, but also negative, such as, thermal coal exposure.

### *Climate rating*

Our Climate Rating scores companies based on the alignment of their ambition, governance, and capital allocation to a net zero path and transition potential.

These tools enable us to determine the companies we seek to increase investment into over-time as well as to guide our climate engagements and ultimate phase-out for fossil fuel companies that show no potential to transition.

## 2. Engagement

We seek to engage with companies on meeting our minimum climate standards<sup>3</sup> and have implemented an engagement programme with heavy unabated thermal coal emitters to support these companies transition to net zero. Our transition engagement programme is designed to help these companies move away from high-emitting businesses within a clear, evidence-based timeframe with a phase out approach for those showing no prospect of increasing transition potential after an engagement period not exceeding three years.

Our minimum climate standards are integrated in our [Fidelity Voting Policy](#). We expect companies to manage climate change impacts, reduce GHG emissions and make specific and appropriate disclosures around emissions, climate targets, risk management and oversight. Where companies fall short of our minimum climate expectations and do not demonstrate a willingness or plan to meet them, we will vote against management.

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<sup>2</sup> Further details on our Climate Rating are available in our [Climate Investing Policy](#)

<sup>3</sup> See Appendix 1 of our [Climate Investing Policy](#) for our minimum climate standards and how these are integrated into our stewardship and voting

### 3. Phase-out of unabated thermal coal companies with no transition potential

While Fidelity aims to achieve as much of its emissions reduction as possible via investment and engagement, to reach net zero by 2050 across our portfolios, we have committed to phase-out exposure to unabated thermal coal by 2030 in OECD markets and 2040 globally<sup>4</sup>.

### 4. Providing investment opportunities in low carbon, transition companies and companies providing climate solutions

We provide clients with the opportunity to invest in various climate strategies through our sustainable fund range. These strategies include low carbon strategies which focus on issuers with low emissions, transition funds which target high emitters which are actively decarbonising and solutions funds which include issuers which are those providing climate solutions and innovations.

#### **b) Does your institution's overall approach to the energy transition include fossil fuel exclusion policies?**

While we aim to achieve as much emissions reduction as possible via investment and engagement, our approach to energy transition includes divestment in certain circumstances where we deem our engagement to be unsuccessful and selected fossil fuel exclusions across our dedicated sustainable fund ranges.

As previously mentioned, we also target to phase-out exposure to thermal coal by 2030 in OECD markets and 2040 globally. The phase-out will be a combination of divestment for companies which show no progress after our engagement period of increasing their transition potential.

The selected fossil fuel exclusions for our dedicated sustainable fund range exclude all issuers that derive more than 5% of revenue from the mining of thermal coal and its sale to third parties, and issuers that derive more than 5% of revenue from thermal coal-based power generation.

#### **c) How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?**

We give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources through our transition engagements and by integrating climate factors into portfolio analysis and construction<sup>5</sup> as described in our answer to question (a) above.

We are also looking to support renewable companies through our corporate operations by endeavouring to transition to renewable energy contracts.

<sup>4</sup> Our coal phase-out policy is based on the conclusions of the 'net zero by 2050' scenario contained within International Energy Agency's report "Net Zero by 2050: A Roadmap for the Global Energy Sector"

<sup>5</sup> See Page 8 of our [Climate Investing Policy](#) for further details on our Climate Rating

## The IEA Roadmap to Net Zero

*The International Energy Agency's May 2021 report states that reducing global carbon emissions to achieve net zero by 2050 will require "nothing less than a complete transformation of how we produce, transport and consume energy". Achieving this will require a managed decline in the use of fossil fuels, leading the IEA to assert that "there is no need for investment in new fossil fuel supply" or projects beyond those already committed to by 2021.*

**d) In view of the statement above, does your institution also support the IEA's net zero scenario which calls for 'no new investment is needed in coal, oil, and gas'?**

We have based our plan to phase-out issuers exposed to unabated thermal coal in OECD markets by 2030 and non-OECD by 2040 on the conclusions in the IEA's 'net zero by 2050' scenario.

While the IEA 'net zero by 2050' scenario estimates a sharp decline in fossil fuel demand, it suggests investments will be required to maintain the operation of existing oil and gas assets by producers over time. We consider it necessary to consider the global landscape when making investment decisions on fossil fuels, and that continued investment in oil and gas companies is necessary to support a just transition to the IEA's net-zero scenario, particularly in developing markets, and meet the global energy demands of the coming decades.

The current energy landscape is considerably different from the environment contemplated in the IEA's net zero scenario. We will continue to assess and evolve our approach on fossil fuels, and the involvement of these in addressing energy needs while meeting net zero commitments, in consideration of any updates from the IEA on its 'net zero by 2050' scenario or other guidance on the impact of the energy crisis on the pathway to net zero.

**e) What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?**

Our phase-out of issuers exposed to unabated thermal coal will be a gradual reduction of aggregated holdings towards the respective deadlines to help support a just and orderly transition. Our phase-out approach is intended to balance the present need to maintain energy security against the medium and long term imperative to enable the transition to renewable energy generation. This approach will require the appropriate policies to provide an enabling environment to support this transition, including the prioritisation of renewable energy capacity in the UK, building green skills and providing public private opportunities for investment in renewable projects and technologies.

We are actively engaging with a targeted list of companies that generate material revenue from thermal coal mining or commit to expand thermal coal capacity beyond existing commitments, to support the transition of these companies in an orderly manner. Our transition engagement approach is designed to help companies move away from high-emitting businesses within a clear, evidence-based timeframe. Our decisions on which companies to phase-out will be based on the outcomes of these engagements.

- f) Please identify the portion of assets you manage which are (a) actively and (v) passively managed (for example in index tracking portfolios) and the extent to which differential policy mandates between the two investment approaches apply in relation to fossil fuels

The process for phasing out issuers will begin with our Sustainable Finance Disclosure Regulation Article 8 and 9 designated funds - most of these funds are actively managed with a small portion being passively managed. The same investment approach applies in relation to investment in fossil fuels for both actively and passively managed products.

We have outlined the steps we will be taking to achieve net zero commitments as a signatory to the Asset Managers Initiative of the Glasgow Financial Alliance for Net Zero. The financial sector has a lot of work to do to help achieve government and industry net zero commitments, but the financial sector alone cannot achieve these commitments. We need policy measures to support the mobilisation of investment into green and transitional activities, improve sustainability disclosures to help us determine what is green and to deliver real world economy outcomes, such as carbon pricing, to support green, transitional and adaptive activities. We would welcome a detailed discussion with you on policy measures which could be implemented to help us all reach our net zero commitments.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tony Lanser', written over a light blue horizontal line.

**Tony Lanser**  
Chief Executive Officer  
Fidelity Holdings (UK) Limited





Franklin Templeton Global Investors Limited  
Cannon Place, 78 Cannon Street  
London EC4N 6HL  
t +44 (0) 20-7073-8500  
f +44 (0) 20-7073-8700  
www.franklintempleton.co.uk

Rt Hon Philip Dunne MP  
Chairman of the Committee  
Environmental Audit Committee

8<sup>th</sup> September 2022

*By email only*

Dear Mr Dunne,

**The Committee's Enquiry - "The financial sector and the UK's net zero transition"**

We are writing in response to your email dated 17 August 2022, sent on your behalf by Chris Martin. For ease of reference, we respond to each of your questions in turn.

*a. Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.*

Our group does not have a corporate policy on financing fossil fuels.

*b. Does your institution's overall approach to energy transition include fossil fuel exclusion policies?*

Our group does not have a corporate policy on financing fossil fuels or excluding investment in fossil fuels. We have a fiduciary duty to all our clients and our approach to building investment solutions is dependent on the individual preferences of the client – our fiduciary duty is to act in the best interests of our client and in accordance with their instructions.

Climate risks are part of the wide suite of information that investors need to allocate capital efficiently and hence these risks are material to the investment thesis for issuers on that basis. This is particularly true for fossil fuel intensive sectors, which are predisposed to experience higher levels of physical, transition and stranding risks than average. Therefore, as responsible stewards of our client's capital, we assess the full suite of available financial and non-financial information and, given the breadth of our exposure to the marketplace, companies' impacts on the climate, in addition to their dependencies on it, are relevant to the protection of our clients' capital.

Some clients may choose to exclude investment in certain sectors from their portfolio; some clients are motivated by moral or ethical concerns around the sector, others by financial concerns about the sector's long-term viability. Where there is discretion to invest in energy companies, our view is that excluding investment in the fossil fuel sector is not supportive of the Net Zero transition and that taking an active approach to engaging with companies within sectors, to drive innovation and progress over time, is a more effective tool in pushing for change. It will require widespread engagement if we are to reach a Net Zero economy by 2050, so it is important to ensure that 'grey' issuers with an ambition to be 'green' have fair access to the finance needed to reach their goals, as much as those issuers which are already the 'greenest-of-green'.

To this end, we are represented on the steering committee for Climate Action 100+, and the initiative has a strong track record in driving the transition across a group of issuers that represent 25% of global emissions. In this commitment, we monitor the initiative's Net Zero Benchmark, where companies are monitored on their emissions performance and other supporting transition indicators, such as capital expenditures and lobbying alignment.

We are also conscious that the transparency and reporting of the public markets creates a stronger framework of accountability for issuers and provides information to investors that allows us to better manage risk; therefore, promoting effective market regulation is part of our approach to managing the energy transition.

*c. How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?*

We believe that the need to transition to net zero creates opportunities as well as risks, and companies which have a coherent and credible transition plan for their business are likely to make financial gains from being timelier in responding to future shifts in consumer demand and regulatory expectations and in mitigating the adverse impacts of climate change on the business. These are all factors which can affect the ability of that investment to generate long-term repeatable returns for our clients, which is our priority. Failing to plan appropriately for the transition to net zero would indicate potential weaknesses in the company's strategy. For some clients, we manage investment strategies which are expressly targeted at allocating capital to renewable energy investment or to companies which are leaders in their sector on net zero transition planning, so the investment restrictions would expressly limit investment to such companies and usually contain metrics around measuring such qualification.

*d. In view of the [International Energy Agency's] statement, does your institution also support the IEA's net-zero scenario which calls for 'no new investment is needed in coal, oil and gas'?*

We formally support the TCFD recommendations and the Net Zero Asset Manager's Initiative; evidence of our consideration of the risks that climate change poses to our portfolios and of the wider capability of our portfolios to address climate change and its effects. In this approach, we respect the findings of the IEA's report and would include it, among other credible research sources, in our consideration of the potential impact of net zero transition on our clients' portfolio investments. When discussing capital investment opportunities with the management of energy companies, transition risk due to future changes in regulation or consumer demand would be a common theme.

*e. What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?*

The transition has to be carefully managed to ensure that it is done in an orderly and rational way, consistent with addressing the climate risks posed to the business, whilst respecting wider stakeholder considerations – commonly referred to as the 'Just Transition'. Considering how best to manage and mitigate any collateral impacts is of central importance to a responsible retirement of fossil fuel assets.



**FRANKLIN  
TEMPLETON**

A failure to properly consider the Just Transition can translate to regulatory costs, reputational damage and a failure to properly transition the company's business model in a way that continues to create value over the long term. Many of these factors would overlap with considerations in the UK's energy security, but our fiduciary duty is to act in the best interests of our clients, whereby we aim to protect and enhance their returns in a manner that does not jeopardise our future ability to do so.

*f. Please identify the proportion of the assets you manage which are (a) actively and (b) passively managed (for example in index tracking portfolios) and the extent to which differential policy mandates between the two investment approaches apply in relation to investment in fossil fuels.*

As of 30 June 2022, we managed \$1,379 billion of which our passive products represent approximately \$5 billion. As explained above, we have no corporate policy on fossil fuel investments. Our view is that engagement with companies is a more powerful tool for driving change than divestment, which is rarely a credible strategy for driving real-world emissions reductions. Our passive strategies are able to engage through collaboration with our active managers and through informed exercise of their voting rights.

We trust that this is helpful but feel free to let us know if we can be of further assistance.

Yours sincerely,

**Anne Simpson**  
Global Head of Sustainability  
Franklin Templeton

**House of Commons  
Environmental Audit Committee Inquiry  
into the financial sector and the UK's net zero transition**

**Response by HSBC**

**8 SEPTEMBER 2022**

**The financial sector and the UK's net zero transition**

**Introduction**

HSBC welcomes the opportunity to give evidence to the House of Commons Environmental Audit Committee inquiry into the financial sector and the UK's net zero transition.

HSBC notes the Committee's views on the importance of private sector commitments to the ability of the UK to deliver net zero emissions with which we agree. As part of that, we have pledged to work with our peers to improve coherence and encourage robust approaches across the whole financial industry. This includes HSBC taking an active role in global partnerships like GFANZ and chairing the Financial Services Taskforce of the Sustainable Markets Initiative.

As the only UK-headquartered bank with a strong domestic and international presence in over 60 countries – many of which are emerging markets – HSBC is uniquely positioned to effect change. HSBC is also playing a leading role in industry-led and public private coalitions in Hong Kong and Singapore for example<sup>1</sup>.

A common theme being discussed in such industry groups is how to move from recent public commitments, many made in the run-up to COP26, towards embedding delivery of net zero into strategy and operations. A key part of delivering our own net zero commitments will be developing and assessing transition plans.

HSBC will issue our transition plan in 2023 to explain how we will implement reductions in financed emissions in different industry sectors and, as indicated below, how we will work with clients on their transition plans. Accessing and reporting the right information will be key, and we will work with leading expert bodies to help define what credibility in transition planning looks like in practice.

Over time, we expect greater standardisation in how banks calculate, report and reduce emissions from their financed portfolios. GFANZ is currently consulting<sup>2</sup> on how to measure the alignment of investment, lending, and underwriting activities with the goal of net zero. Following the publication of a draft report in June<sup>3</sup>, GFANZ members have expressed the need for sound and forward-looking portfolio alignment methods. Their draft report provides guidance and lays out illustrative quantitative and practitioner case studies for financial institutions looking to develop and use portfolio alignment metrics, drawing on extensive engagement with financial experts and other key stakeholders. The purpose of this consultation is to seek feedback from a broad, public audience prior to the publication of the final report ahead of COP 27.

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<sup>1</sup> Hong Kong Green Finance Association and Singapore Green Finance Industry Taskforce (GFIT)

<sup>2</sup> [GFANZ Unveils Enhancements to Measuring Net-Zero Portfolio Alignment for Financial Institutions | Glasgow Financial Alliance for Net Zero \(gfanzero.com\)](#)

<sup>3</sup> [GFANZ Recommendations and Guidance on Net-zero Transition Plans for the Financial Sector June2022.pdf \(bbhub.io\)](#)

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Also key will be the framework of policy and regulation under which we operate. The UK has taken a prominent position internationally – leading up to COP26 and beyond – and it is important that the focus on reaching net zero is retained.

### **Questions from the Committee**

As requested by the Committee, our **public position regarding the financing of fossil fuel extraction and renewable energy generation** is set out briefly below.

As you also will see in this section, **we do support the conclusions of the International Energy Agency's report "Net Zero by 2050: A Roadmap for the Global Energy Sector"**.

## **HSBC's Public Position on Fossil Fuels and Renewable Energy**

### **Financed Emissions**

In October 2021, HSBC set out an ambition to align **financed emissions** – the greenhouse gas emissions of customers – to net zero by 2050 or sooner, to meet the 1.5°C global warming target.

### **Thermal Coal**

In December 2021, HSBC launched a new **"Thermal Coal Phase-Out Policy"**<sup>4</sup> ("The Coal Policy"). The Coal Policy is one of HSBC's sustainability risk policies and should be read in conjunction with them<sup>5</sup>.

The Coal Policy fulfils the commitment approved (by over 99% of shareholders) at HSBC's 2021 Annual General Meeting in March 2021<sup>6</sup> "to publish and implement a policy **to phase out the financing of coal-fired power and thermal coal mining by 2030 in markets in the European Union ("EU") / Organisation for Economic Cooperation and Development ("OECD"), and by 2040 in other markets**" ("Phase-Out Commitment").

We also have a metric to manage down our year on year balance sheet exposure to coal in our Risk Appetite Framework (to complement the Thermal Coal Phase-Out Policy).

### **Oil and Gas, Power and Utilities**

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<sup>4</sup> <file:///C:/Users/43495920/AppData/Local/Temp/MicrosoftEdgeDownloads/11f95916-a51b-4b61-96c9-7a5bfc63df9e/211214-hsbc-thermal-coal-phase-out-policy.pdf>

<sup>5</sup> <https://www.hsbc.com/-/files/hsbc/our-approach/risk-and-responsibility/pdfs/211214-introduction-to-hsbc-sustainability-risk-policies.pdf>

<sup>6</sup> [Shareholders back HSBC's net zero commitments | HSBC news | HSBC Holdings plc](#)

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On 22 February 2022, HSBC also announced net zero aligned interim targets **to reduce financed emissions from Oil and Gas** – to reduce by 34% by 2030. HSBC also set out an interim target for **Power and Utilities to reduce financed emissions intensity** by 75% by 2030. Reducing emissions *intensity* rather than emissions per se recognises that energy demand will continue to grow<sup>7</sup>.

Reducing the GHG emissions in these sectors is critical to achieving an effective transition. The targets and the methodology announced in February are aligned with industry guidance on assessing portfolio alignment including from the Net Zero Banking Alliance. Add reference - link.

### **Revised Energy and other Lending Policies**

In our announcement of 16 March 2022<sup>8</sup>, **HSBC committed to phase down our financing of fossil fuels to what is required to limit the global temperature rise to 1.5°C**. This commitment builds upon recent announcements, including our new Thermal Coal Financing Phase-out Policy (above) which is now being implemented, and our publication in February 2022 of science-based targets for on-balance sheet financed emissions from the Oil and Gas, and Power and Utilities sectors<sup>9</sup>. We also pledged in March to review and where necessary revise our other sector policies including for Energy and indicated the key considerations that will influence this process. In 2022, we are extending our financed emissions analysis and targets to additional sectors including coal mining; aluminium; cement; iron and steel; and transport (including automotive, aviation and shipping). We also plan to report on the agriculture, and commercial and residential real estate sectors in our annual disclosures for 2023.

The review of our **Energy Policy**<sup>10</sup> is well underway and the new Policy will be released before the end of 2022. HSBC will make this available to the Committee on its release.

### **HSBC Strategy**

Financing the transition to net zero is a core pillar of our current corporate strategy<sup>11</sup>. To deliver this objective, in October 2020 we announced that we have allocated up to \$1 trillion by 2030 in finance and investment to prioritise sustainable financing and investment that supports the global transition to a net zero carbon economy<sup>12</sup>.

### **Client Engagement**

It is important to note that we have also said that we will **continue to support clients in the energy sector who take an active role in the energy transition and who apply good industry practices around environmental, social, and governance issues**<sup>13</sup>.

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<sup>7</sup> [HSBC sets financed emissions targets for oil and gas, power and utilities | HSBC news | HSBC Holdings plc](#)

<sup>8</sup> [Announcement - HSBC announces net zero steps](#)

<sup>9</sup> [Announcement - HSBC sets financed emissions targets for oil and gas, and power and utilities](#)

<sup>10</sup> [211214-hsbc-energy-policy.pdf](#)

<sup>11</sup> [Our strategy | HSBC Holdings plc](#)

<sup>12</sup> [HSBC's climate plan explained | HSBC Holdings plc](#)

<sup>13</sup> [Announcement - HSBC announces net zero steps](#)

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### **IEA Net Zero Scenario**

To achieve our objectives for fossil fuels, **HSBC will use science-based pathways**, aligned with the goals and timelines of the Paris Agreement ("HSBC's NZ50 Target")<sup>14</sup>.

**HSBC has chosen to align with the IEA Net Zero scenario**<sup>15</sup> which is increasingly seen as best practice in terms of scenario selection for portfolio alignment. It is what bodies such as the **Science Based Targets Initiative (SBTi)** and **Net Zero Banking Alliance (NZBA)** recommend.

We chose IEA as it has "no overshoot" or "low overshoot" of 1.5C, and low reliance on negative emissions technologies, which remain nascent in development. We believe it's the most scientifically credible choice for HSBC's net zero by 2050 ambition.

We expect to publish financed emissions targets to capture **capital markets activities for the Oil and Gas and Power and Utilities sectors in the fourth quarter of 2022**, once the Partnership for Carbon Accounting Financials (PCAF) accounting standard for capital markets is published.

As indicated above, we will require client-specific plans, and we will engage with our clients to understand and review their transition plans. **If no transition plans are produced, or if after continued engagement a client transition plan is not compatible with HSBC's net zero 2050 target, we will formally assess whether we continue to provide financing for that client.**

### **HSBC Response to the Committee's Questions (a) to (h)**

Our Answers are set out below.

**a. Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.**

Yes, as indicated above, we have announced that our position and policies on fossil fuel financing are under review and our new Energy Policy will be communicated to stakeholders later in 2022. Further information can be found by **following the links below** including our most recent Public Statement from March 2022.

[Thermal Coal Phase Out Policy \(now being implemented\)](#)

[Energy Policy \(under review\)](#)

[Advancing HSBC's transition to net zero ambition \(in which we commit to update the policy and provide an indication of key considerations as we do so\).](#)

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<sup>14</sup> <https://www.hsbc.com/who-we-are/our-climate-strategy>.

<sup>15</sup> [Our financed emissions targets | Insight | HSBC Holdings plc](#)

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**b. Does your institution's overall approach to energy transition include fossil fuel exclusion policies?**

Yes, as indicated above.

**c. How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?**

As we set out in our Statement of 16 March 2022<sup>16</sup>,

"Reviewing a client's transition plan for compatibility with HSBC's net zero target will be at the heart of our engagement approach with clients. Our requests will have deadlines, and if no transition plans are produced, or if after repeated engagement a client transition plan is not compatible with HSBC's net zero 2050 target, we will formally assess whether we continue to provide financing for that client. We will continue to support clients in the energy sector who take an active role in the energy transition and who apply good industry practices around environmental, social, and governance issues."

**The IEA Roadmap to Net Zero**

The International Energy Agency's May 2021 report states that reducing global carbon emissions to achieve net zero by 2050 will require "nothing less than a complete transformation of how we produce, transport and consume energy". Achieving this will require a managed decline in the use of fossil fuels, leading the IEA to assert that "there is no need for investment in new fossil fuel supply" or projects beyond those already committed to by 2021.

**d. In view of the statement above, does your institution also support the IEA's net-zero scenario which calls for 'no new investment is needed in coal, oil and gas'?**

As we set out in our Statement of March 2022<sup>17</sup>,

"HSBC recognises that the urgency on climate action continues to intensify, and that stakeholder expectations have evolved over the last year. 2021 saw some key developments in scientific guidance (notably the IEA Net Zero by 2050 and the IPCC AR6 reports), the emergence of the Glasgow Financial Alliance for Net Zero (GFANZ, of which we are a founder member), and key COP26 outcomes and government announcements."

Also see footnote 2 from the above Statement where we highlight the key findings from the IEA report that there is a "need for rapid investment and deployment of clean energy

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<sup>16</sup> [220316-advancing-hsbcs-transition-to-net-zero-ambition.pdf](#)

<sup>17</sup> As in Footnote 16 above

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technologies, a huge decline in the use of coal, oil and gas, and no need for new oil and gas fields (beyond projects already committed as of 2021). This needs to read in context however with the relevant section from the IEA 'Net Zero by 2050' Report, extracts of which are below, as the context helps understanding of the quoted text.

Page 101 – Oil:

"The trajectory of oil demand in the NZE means that no exploration for new resources is required and, other than fields already approved for development, no new oil fields are necessary. **However, continued investment in existing sources of oil production are needed.** On average oil demand in the NZE falls by more than 4% per year between 2020 and 2050. If all capital investment in producing oil fields were to cease immediately, this would lead to a loss of over 8% of supply each year. If investment were to continue in producing fields but no new fields were developed, then the average annual loss of supply would be around 4.5% (Figure 3.3). The difference is made up by fields that are already approved for development."

Page 103 – Investment in Oil and Gas:

"Upstream oil and gas **investment averages about USD 350 billion each year from 2021 to 2030** in the NZE (Figure 3.4). This is similar to the level in 2020, but around 30% lower than average levels during the previous five years. Once fields under development start production, all of the upstream investment in the NZE is to support operations in existing fields; after 2030, total annual upstream investment is around USD 170 billion each year."

Also, it is important to note that the IEA scenario models aggregate supply and demand. It does not take into account the impact of geopolitics and other market disruptions such as those currently resulting from the war in Ukraine. As indicated above, we will share our updated Energy Policy when it is launched before the end of 2022.

**e. What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?**

HSBC recognises the importance of energy security and a just transition from fossil fuels. At the launch of our new Coal Phase-out Policy in December 2021, Chief Sustainability Officer Celine Herweijer, explained that "eliminating coal-fired power emissions is the most symbolic and important milestone along the road to net zero. Coal-fired power stations contribute roughly a fifth of global carbon emissions output, and the science very clearly tells us they can have no part of a net zero world. No new coal is no longer good enough" [however]: "our attention has to turn to urgent phase-out of existing coal-fired power.

Although renewable alternatives are becoming ever cheaper and more efficient, shutting down coal power plants overnight isn't an option. Over 3 billion people live in countries that still depend on coal for over two-thirds of their power consumption. This reliance is particularly acute in many Asian and developing economies.

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An abrupt shift away from coal would literally turn the lights off for these people. It would endanger their most basic development needs, while disrupting industry and rendering a huge social impact from job losses in coal regions. That's why a just transition to net zero is absolutely vital.

We need to chart a course that supports the efficient functioning of these markets and allows them to continue to develop and invest in the energy infrastructure required for electrification, renewables and low emissions fuels, while also phasing out thermal coal on a timeline that does not jeopardise net zero."<sup>18</sup>

A critical part of our commitment of October 2020 (as set out on page 3 above) to make up to \$1 trillion available by 2030 to support our clients' sustainability and their transition to net zero will be investing in clean energy supply and distribution, electrification and storage, as well as demand side decarbonisation and the scaling of new technologies such as clean hydrogen and sustainable aviation fuels.

**Examples of HSBC investment into innovative financing solutions include:**

HSBC announced on 31 January 2022 that we would invest \$100m to accelerate green technologies earmarked by **Breakthrough Energy Catalyst**<sup>19</sup> an initiative within the larger Breakthrough Energy network founded by Bill Gates to support the decarbonisation of high-carbon sectors via four climate critical technologies – direct air capture, clean hydrogen, long-duration energy storage, and sustainable aviation fuel.

Other examples include:

- **REGIO**<sup>20</sup> (HSBC Real Economy Green Investment Opportunity). HSBC Asset Management, together with leading Development Finance Institutions (DFIs), have created an innovative investment solution to:
  - invest in a diversified portfolio primarily comprised of emerging market green bonds and other similar bonds, principally issued by corporate issuers, on a buy-and- maintain basis;
  - deliver real economy impact in primarily lower Gross National Income (GNI) countries; and
  - enable investors to achieve long-term, sustainable returns, whilst delivering on broader climate and environmental objectives in line with the SDGs and Paris Climate Agreement.
- **FAST-Infra**<sup>21</sup> ('Finance to Accelerate the Sustainable Transition – Infrastructure') Established by HSBC, IFC (International Finance Corporation), OECD (Organisation for Economic Co-operation and Development), GIF (Global Infrastructure Facility) and CPI (Climate Policy Initiative) FAST-Infra is an industry-led, public-private partnership to overcome the hiatus in the flow of private finance to developing world sustainable

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<sup>18</sup> [How we're enabling the transition from coal to clean | Insight | HSBC Holdings plc](#)

<sup>19</sup> [HSBC becomes partner in Breakthrough Energy Catalyst](#)

<sup>20</sup> [HSBC Real Economy Green Investment Opportunity Global Emerging Market \(REGIO\)](#)

<sup>21</sup> [Fast-Infra: A Public-Private Initiative \(hsbc.com\)](#)

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infrastructure. FAST-Infra launched a label to help identify "sustainable infrastructure" as an asset class at COP26 in Glasgow<sup>22</sup>.

The importance of a just transition was also emphasised in our Statement of 16 March 2022<sup>23</sup>.

"HSBC is a signatory to the **Just and Urgent Energy Transition (JUET) Principles**, and our significant presence in emerging and developing markets reinforces the importance of supporting an inclusive and just transition to net zero in our approach to fossil fuel finance."

**f. Has your institution's credit committee been instructed to reduce or decline to make new capital available for new fossil fuel projects?**

From the March 2022 statement:

"As part of our efforts to accelerate the energy transition we commit to phase down our financing of fossil fuels to what is required to limit the global temperature rise to 1.50C. This includes our commitment to phase-out thermal coal financing in EU/OECD by 2030, and worldwide by 2040. It will also mean achieving our published short-term science-based target of a 34% reduction in absolute Oil and Gas financed emissions by 2030, and a 75% reduction in financed emissions intensity for the Power and Utilities sector (on-balance sheet targets)."

and ...

"In 2022 we will undertake a review of and update our wider financing and investment policies critical to achieving net zero by 2050. In consultation with leading independent scientific and international bodies, investors and ShareAction, we will assess how our policies can be updated to best reflect emerging science, international guidance, and good industry practice. This will include a wider energy policy encompassing conventional and unconventional oil and gas, methane emissions, and environmentally critical areas such as the Arctic, Amazon, and UNESCO World Heritage sites.

and (footnote 6) ...

"Our assessment of clients' transition plans will be based on a variety of factors, including the client's level of ambition to reduce greenhouse gas emissions and the clarity and credibility of its transition strategy. In reviewing client transition plans, we expect to consider aspects such as metrics, governance and targets; disclosure; proposed abatement assumptions (where relevant); exploration and expansion plans; and support for an inclusive and just transition. We plan to leverage outputs from the GFANZ 'real economy transition plans' workstream, and to use external guidance such as TCFD (disclosures), SBTi (metrics

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<sup>22</sup> [New Label Designed to Identify Sustainable Infrastructure Assets Launches at COP26 - CPI \(climatepolicyinitiative.org\)](https://climatepolicyinitiative.org/publications/new-label-designed-to-identify-sustainable-infrastructure-assets-launches-at-cop26-cpi/)

<sup>23</sup> [220316-advancing-hsbcs-transition-to-net-zero-ambition.pdf](https://www.hsbc.com/~/media/220316-advancing-hsbcs-transition-to-net-zero-ambition.pdf)

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and targets) and IEA (decarbonisation pathways) as references. We will set timelines for clients to develop acceptable transition plans as a matter of course.”

**g. Where you continue to hold investments in fossil fuel-producing companies, has your institution communicated to that company's management your position on the IEA's Net Zero scenario and its conclusion on the need for no new investment in future new production? If not, does your company plan to do so?**

See response to Question (d) above, and response to Question (f) our approach to assessing clients' transition plans.

Further details and engagement will accompany the publication and implementation of the Energy Policy update expected later in 2022.

**h. Please identify the proportion of the assets you manage which are (a) actively and (b) passively managed (for example in index tracking portfolios) and the extent to which differential policy mandates between the two investment approaches apply in relation to investment in fossil fuels.**

HSBC Global Asset Management's passively-managed assets under management totalled \$89.4 billion in June 2022, out of total assets under distribution of \$594.8 billion. Sustainable assets under management – which include both active and passive strategies – totalled \$26.8 billion, some 4.5 per cent of total assets under distribution. The large proportion of these sustainable assets exclude investments in issuers with more than 10 per cent revenue exposure to thermal coal.

These sustainable assets under management include a number of passive funds where other climate-related factors have been included in the index / product construction methodology. Including fossil fuel or climate-related factors in legacy passive-managed assets typically requires investor approval. HSBC Global Asset Management is working with clients to help them meet their own net zero objectives and encourage index providers to extend the range of new indices and passive products that limit exposure to fossil fuels. As the net zero transition progresses, we expect fossil fuel exposure to decrease across all indices.

Our Global Asset Management business is due shortly to publish a policy on thermal coal investment in support of the HSBC Group Thermal Coal Phase-Out Policy. This will make phase-out commitments in respect of actively-managed assets.

HSBC Global Asset Management is also a signatory to the Net Zero Asset Managers Initiative, which sets an ambition to reach net zero emissions by 2050 or sooner across all assets under management.

## **Introduction**

The HSBC Bank (UK) Pension Scheme (“the Scheme”, “we”) welcomes the chance to respond to your letter of 17<sup>th</sup> August 2022 on ‘The financial sector and the UK’s net-zero transition’.

In October 2021 we set out a commitment to achieve net-zero greenhouse gas emissions across our Defined Benefit (DB) and open Defined Contribution (DC) assets by 2050 or sooner. This commitment was made in the context of our wider efforts to manage the impacts of climate change on the Scheme’s investments and the consequent impact on the financial interests of our members. This includes:

- targeting a real economy emissions reduction interim target of 50% by 2030 or sooner for our listed equity and corporate bond mandates, in line with the findings of the most recent Intergovernmental Panel on Climate Change (IPCC) report;
- having the ambition of achieving all of our corporate bond and equity investments being fully aligned to the goals of the Paris Agreement by 2030 across our DB and DC assets;
- enhancing our engagement and stewardship efforts through the Scheme’s asset managers.

As members of the Institutional Investors Group on Climate Change (“IIGCC”), in October 2021 we also signed the Paris Aligned Investment Initiative’s (“PAII”) Net Zero Asset Owner Commitment. We are drawing on the PAII’s Net Zero Investment Framework (“NZIF”) to guide our targets and approach. We acknowledge that climate change is a complex problem and that we do not yet have all the answers. However, we are sure that this is the right direction of travel for the benefit of our members. Consistent with the NZIF, we will review our targets on a regular basis, at least every five years, to ensure they remain appropriate.

We operate an outsourced model for our investment activities, and we do not manage any investments in-house. Our Trustee is ultimately responsible for overseeing and achieving this commitment, and it is supported by our Asset & Liability Committee, a full time management team and our investment advisors. Given this model, the approaches and actions taken by our advisors and investment managers on integrating climate-related risks and opportunities are key.

In your letter you invited us to set out our position on the following questions:

**(a) Is your institution’s position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.**

- At present, we do not have a public policy on financing fossil fuels, including the funding of new projects.

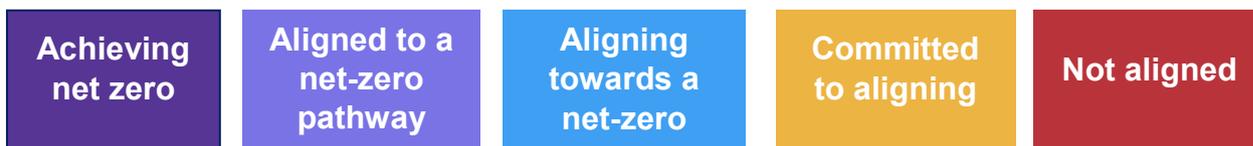
**(b) Does your institution’s overall approach to energy transition include fossil fuel exclusion policies?**

- At present, we do not have a Scheme-wide fossil fuel exclusion policy. We have a preference for engagement over exclusion for mitigating climate risk in our portfolios in the first instance. Exclusion may be used by our investment managers if it is deemed appropriate and in line with the Trustee’s targets and overall approach, such as when engagement is unsuccessful over a lengthy period of time. For example, LGIM is the investment manager of a large portion of the public equity assets in our DC Scheme. LGIM’s Climate Impact Pledge<sup>1</sup> is applied across this portion of assets, along with a bespoke Thermal Coal exclusions position.

**(c) How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?**

- In line with our outsourced investment model, our underlying investment managers are responsible for this level of investment decision. Transition alignment with net-zero is a focus for us, given our commitments outlined above. Following the NZIF’s recommendation to assess the alignment of our listed equity and corporate bond assets, we aim to classify them into five distinct categories of alignment from “achieving net-zero” to “not aligned”:

<sup>1</sup> [https://www.lgim.com/landg-assets/lgim/\\_document-library/responsible-investing/climate-impact-pledge-brochure-uk-eu-2021.pdf](https://www.lgim.com/landg-assets/lgim/_document-library/responsible-investing/climate-impact-pledge-brochure-uk-eu-2021.pdf)



This categorisation helps to inform our engagement activity. We see engagement as a key lever of influence to help decarbonise the assets we already hold. Our priority is to achieve decarbonisation in the real economy by requesting that our investment managers engage with the companies in which we invest, to ensure they set science-based decarbonisation targets in line with the objectives of the Paris agreement and ensure that they deliver on them over time. As such, we have set the following engagement target:

<b>Engagement target</b>	Following the NZIF, we aim to have at least 70% of our financed emissions in material sectors resulting from our listed equities and corporate bond exposures either assessed as net zero, aligned to a net-zero pathways(s), or subject of direct or collective engagement. By 2030, we will aim to increase this to 90%.
<b>Progress to date</b>	We started to assess the coverage of our financed emissions that are subject to climate-related engagement by our investment managers. Looking at the top emitters in our portfolios, we did not find uniform climate-related engagement carried out by our investment managers – only 7 of our top 40 emitters were subject to some degree of climate-related engagement over 2021.
<b>Next steps</b>	We operate a stewardship framework that helps us hold our investment managers to account on climate-related engagements that are material to us. We continue to engage with our investment managers to drive alignment between our engagement objectives. We hope to have all our non-aligned top emitters subject to climate-related engagement over the next two years.

Within our outsourced investment model, we expect our investment managers to enact climate-related stewardship on our behalf. However, we recognise that it is our role to hold our managers to account on their stewardship activities. We operate a stewardship framework that allows us to hold our managers to account on climate-related engagements, against detailed expectations in this area. To understand how our managers are engaging with companies on our behalf we started to assess the coverage of our financed emissions that are subject to climate-related engagement by our investment managers.

We started this process by aggregating the financed emissions of our listed equity and corporate bond assets across our Defined Benefit and Defined Contribution portfolios and measured the total percentage of financed emissions that come from the top 20 emitters, based on their contributions to our financed emissions. Some of these companies are energy companies. Following this prioritisation, we engaged with our investment managers to understand whether any climate-related engagement activity has been undertaken with these companies on our behalf over 2021.

Following this assessment, our next step is to build a clearer picture of the quality of engagements that are carried out on our behalf. This framework will help us hold our investment managers to account on climate-related engagements that are material to us, and subject to the commitments that we have made.

In addition to this company-level engagement, we also undertake policy and industry engagement focusing on supporting a regulatory environment and the creation of streamlined standards and frameworks that promote the transition to net zero by 2050.

**(d) Does your institution also support the International Energy Agency's (IEA's) net-zero scenario<sup>2</sup> which calls for 'no new investment is needed in coal oil and gas'?**

- We are a signatory to the 2022 Global Investor Statement to Governments on the Climate Crisis<sup>3</sup>, released on 13 September 2022. This recognises the urgency of action on government action on climate change. This statement is a 'Call to Governments' on a number of accounts, including "... setting a deadline to phase out thermal coal power and fossil fuel subsidies, and establishing plans and targets to peak and then phase out the use of other fossil fuels, in line with credible 1.5°C pathways".

<sup>2</sup> International Energy Agency Report, May 2021

<sup>3</sup><https://theinvestoragenda.org/wp-content/uploads/2022/08/2022-Global-Investor-Statement-.pdf>

**(d) What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?**

- At present, we do not have a policy on the responsible retirement of fossil fuel assets.

**(d) Were you to continue to hold investments in fossil fuel-producing companies, has your institution communicated to that company's management your position on the IEA's Net-Zero scenario and its conclusion on the need for no new investment in future new production? If not, does your company plan to do so?**

- As noted above, engagement with underlying companies is undertaken by our investment managers directly.

We thank you for inviting us to share our views. We are committed to managing climate risk, and working towards our commitment to achieve net-zero greenhouse gas emissions across our Defined Benefit (DB) and open Defined Contribution (DC) assets by 2050 or sooner.



.....

Lisa Young-Harry  
Chief Executive Officer  
HSBC Bank Pension Trust (UK) Limited



Rt. Hon Philip Dunne MP  
Chair of the Environmental Audit Committee  
House of Commons  
London  
SW1A 0AA

22 September 2022

Dear Rt. Hon Phillip Dunne MP and the Environmental Audit Committee,

**Re: The financial sector and the UK's net-zero transition**

Thank you for the opportunity to contribute to this inquiry on the UK financial sector's transition to net zero.

We understand from the questions being posed that you are seeking additional clarification from key actors in the UK finance industry as to their position on the financing of fossil fuels; specifically, those who have signed up to the Glasgow Financial Alliance for Net Zero (GFANZ) or other related initiatives. We welcome this focus on an important area and, in our response below, we have limited our answers to the direct questions posed rather than seeking to provide a more holistic response to how we think about our net-zero commitment as a firm. We hope this provides you with the focused information you require for your enquiry. However, we do think it is important to set the context for the type of asset manager we are and hence useful background for the responses given.

Insight is a global asset manager with a specialism in fixed income that is responsible for £867bn of assets under management<sup>1</sup>. Our assets comprise:

- c. 70% in liability-driven investments (formed mainly of derivatives and UK conventional and index-linked gilts); and
- a further c. 25% in other fixed income investments including other sovereign bonds, corporate bonds, money market instruments and asset-backed structures.

Over 99% of our investor base is institutional and is dominated by UK defined-benefit pension scheme clients, for whom we generally operate as agents in providing bespoke solutions to clients via segregated mandates.

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<sup>1</sup> As at 31 December 2021. Assets under management (AUM) are represented by the value of cash securities and other economic exposure managed for clients. Figures shown in GBP. FX rates as per WM Reuters 4pm spot rates. Reflects the AUM of Insight, the corporate brand for certain companies operated by Insight Investment Management Limited (IIML). Insight includes, among others, Insight Investment Management (Global) Limited (IIMG), Insight Investment International Limited (IIL), Insight Investment Management (Europe) Limited (IIMEL) and Insight North America LLC (INA), each of which provides asset management services.

Insight as a business does not typically directly finance fossil fuel projects but we do finance entities that may themselves operate fossil fuel projects or extend financing to them. For example, the largest entity we provide finance for is the UK government, which dominates our asset mix due to a requirement to hold significant bonds to match liability cashflows in our client mandates. Our holdings in corporates, by comparison, are a relatively small part of the total assets that we hold. The Environmental Audit Committee is well placed to establish whether the UK government utilises its debt proceeds in order to fund fossil fuel initiatives.

In this document, we set out our position mainly with respect to the financing of corporates and financials with fossil fuel exposure, but we would be very happy to engage in further dialogue around other areas of our commitment if that would be of use. We hope the answers are informative and provide you with encouragement that financial institutions such as ourselves are taking their commitment very seriously but also outline some of the necessary constraints under which we are operating.

Yours sincerely,

Robert Sawbridge, Head of Responsible Investment



Insight Investment, 160 Queen Victoria Street, London, EC4V 4LA

Switchboard: +44 (0)20 7163 4000

[www.insightinvestment.com](http://www.insightinvestment.com)

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(14000)

## Public position on fossil fuel finance

Please set out your institution's position by answering the following questions as appropriate:  
a. Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.

As described, the core of Insight's holdings are invested in UK government debt. Whilst we have significant additional holdings in money market funds (largely exposure to banks), our corporate bond book comprises c.£70bn, which amounts to less than 10% of our total AUM (as at 31 December 2021; this excludes assets under management transitioned from Mellon Investments in late 2021).

Despite this, as part of our net-zero asset manager commitment, we set out our position on the financing of thermal coal projects earlier this year, which applies across our corporate asset base where we have discretion over the assets we manage. Additionally, we operate a sustainability-focused fund range which has more prescriptive requirements pertaining to fossil fuels which is set out below. Finally, we provide a link to our net zero pledge for additional context.

- **Insight's position on thermal coal:** <https://www.insightinvestment.com/investing-responsibly/perspectives/insight-position-on-thermal-coal/>
- **Exclusions policy for corporate and sovereign fixed income in the Responsible Horizons fund range:** <https://www.insightinvestment.com/globalassets/documents/responsible-investment/responsible-investment-reports/responsible-horizons-exclusions-policy.pdf>
- **Insight Investment's net-zero pledge:** <https://www.insightinvestment.com/investing-responsibly/perspectives/net-zero-pledge/>

b. Does your institution's overall approach to energy transition include fossil fuel exclusion policies?

It is important to stress that Insight acts as an agent for our clients. As a business of largely segregated, bilateral mandates, our specific approach in individual mandates tends to vary depending on the requirements of our clients and their specific investment beliefs.

That being said, when a client appoints Insight they do so on the basis of a core investment approach, and within that we are advocates that engagement is more likely to lead to effective real-world decarbonisation than denial of capital by exclusion. We believe helping companies on their decarbonisation journey is more likely to yield desired results than divesting and making solving the energy transition 'someone else's problem'. Yet in our view it is wrong to see the approaches as completely mutually exclusive – exclusion and engagement strategies can be complementary, and engaging with the ultimate threat of divestment can provide the best incentive for companies to improve behaviours in our experience.

In this regard, in March 2022 we published our position on thermal coal (see link above), which includes defined thermal coal phase-out dates for companies across our portfolios (2030 for issuers domiciled in OECD countries, 2040 for issuers domiciled elsewhere), and screening criteria on new thermal coal mining and energy projects. All holdings related to thermal coal are required to have a clear and actionable plan to exit coal by the dates above, whilst balancing the imperatives of a Just Transition as stated in the Paris Agreement. We believe this gives companies in relevant industries the opportunity and incentive to transition, which will have a greater real-world impact than simply excluding based off current exposure levels.



Insight Investment, 160 Queen Victoria Street, London, EC4V 4LA  
Switchboard: +44 (0)20 7163 4000  
[www.insightinvestment.com](http://www.insightinvestment.com)

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(14000)

c. How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?

Our core investment process for the energy sector is underpinned by a belief that energy companies that have a plan and willingness to address a transition to a low-carbon world will make better long-term investments. Yet this is not without nuance – Insight is a bond manager primarily and the term of the investment is an important factor in understanding the applicability of a transition analysis to the investment case. The nature of the mandate in question matters too – both in terms of opportunity set (emerging markets versus developed markets) and what the investment objective is (risk-adjusted returns only or sustainability outcomes). For example, in emerging markets, the energy-transition story is arguably most relevant, but starting points on that journey are less advanced. As a result we tend to pay more attention to the direction and rate of travel than the current state, and accordingly we have defined a category of ‘improving issuers’ for impact-focused mandates, where there are cases of companies with higher current emissions levels but credible forward-looking capital expenditure plans and strategies in line with low-carbon transition.

### The IEA Roadmap to Net Zero

*The International Energy Agency’s May 2021 report states that reducing global carbon emissions to achieve net zero by 2050 will require “nothing less than a complete transformation of how we produce, transport and consume energy”. Achieving this will require a managed decline in the use of fossil fuels, leading the IEA to assert that “there is no need for investment in new fossil fuel supply” or projects beyond those already committed to by 2021.*

d. In view of the statement above, does your institution also support the IEA’s net-zero scenario which calls for ‘no new investment is needed in coal, oil and gas’?

Insight firmly supports the idea that financial institutions need to take action to address climate change, and also supports the principle of managing climate risk at both an individual investment and systemic level, recognising that managing these risks is a fundamental part of managing overall investment risk. This philosophy underpins our 2050 and interim net-zero alignment targets, thermal coal position and engagement activities across asset classes.

Equally, Insight does not believe that financial institutions alone can deliver climate-change outcomes. Indeed, in our capacity as agents for our clients we can only help to deliver the objectives of the Net Zero Asset Manager initiative with the help of other actors. This is made clear in the commitment language:

“...the scope for asset managers to invest for net zero and to meet the commitments set forth above depends on the mandates agreed with clients and clients’ and managers’ regulatory environments. These commitments are made in the expectation that governments will follow through on their own commitments to ensure the objectives of the Paris Agreement are met, including increasing the ambition of their Nationally Determined Contributions, and in the context of our legal duties to clients and unless otherwise prohibited by applicable law...”<sup>2</sup>

In this context we would hope that the UK government will follow up on its Net Zero Strategy document (October 2021)<sup>3</sup> with a more detailed description of policy measures and associated emissions

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<sup>2</sup> [The Net Zero Asset Managers Commitment](#)

<sup>3</sup> [Net Zero Strategy: Build Back Greener](#), 19 October 2021, Department for Business, Energy & Industrial Strategy



Insight Investment, 160 Queen Victoria Street, London, EC4V 4LA

Switchboard: +44 (0)20 7163 4000

[www.insightinvestment.com](http://www.insightinvestment.com)

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(14000)

reductions to deliver the 2050 target. We also request the government to provide further clarification on the role of financial regulators in facilitating the sector's alignment with net zero, building on the updated remit letters published in March 2021.<sup>4</sup>

Decarbonisation is a complex, systemic issue with social ramifications that will likely require a high level of government oversight and intervention to ensure it is achieved in a fair and equitable way. Many economies, particularly those in emerging markets, have a strong structural dependence on fossil fuels (often as a result of existing economic and employment structures and incentives such as subsidies) from which it will take time to transition away, and it may not be possible to completely avoid any form of new investment in some fossil fuels whilst maintaining the social fabric of these countries and in some instances energy security. In many instances, doing so will merely continue the trend of substituting public sources of fossil-fuel financing with private sources and thus reducing transparency and visibility. The UN Race to Zero revised member criteria<sup>5</sup>, to which Insight is a signatory via GFANZ, note that 'fossil fuel phase down and out' does not refer to a single universal target for all entities and sectors but that it should instead be aligned to a science-based just transition that avoids perverse incentives such as inhibiting activities such as engaging with fossil fuel assets to accelerate phase out. However, effective engagement is hard to carry out with no seat at the table.

Rules around fiduciary obligations further complicate the investment equation as it remains unclear whether managers should curtail investments without a specific mandate from their clients unless there is a robust, financially material rationale for doing so. As the understanding of fiduciary responsibilities of both asset owners and asset managers continues to evolve pertaining to climate change, we think there needs to be more legal clarity around how asset managers and asset owners can reasonably be expected to act within their fiduciary obligations. In our experience, the current lack of clarity is leading some pension schemes to opt for a more cautious approach regarding objectives that lack clear pecuniary materiality or where the extent of that materiality is hard to measure. Clarifying how pension scheme trustees' obligations apply regarding such goals and having clarity on the extent to which systemic factors should be incorporated within the investment decision-making process could remove this barrier, allowing for a larger proportion of UK schemes' assets under management to be invested in support of such targets.

Overall, whilst the IEA is a well-respected body and it is hard to doubt the science behind the statement that there is no need for investment in new fossil fuel fields to meet a net-zero target on a global basis, we are not currently in a position where we can make a pecuniary argument for avoiding all companies that have any sort of fossil-fuel expansion plans in all our mandates. From our perspective, taking into account the reality of client and government progression towards net-zero targets, the best approach to take at this point is one that moves capital away from the laggards and towards the best performers on emissions, as well as tilting investment towards issuers that can demonstrate momentum in terms of emissions reduction and carbon transition. This is likely to deliver better financial results for our clients and more meaningful change in emissions in the real economy, in line with the goals of GFANZ.

Similarly, collaborative actions are becoming an increasingly important tool for decarbonisation. In 2022, Insight joined collaborative initiatives under Climate Action 100+ focusing on three new oil and gas companies representing significant constituents of fixed income corporate benchmarks. We believe the weight of investors acting through such collaborative initiatives will increase pressure on these issuers to accelerate their transition.

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<sup>4</sup> [Recommendations for the Financial Conduct Authority](#), 23 March 2021, HM Treasury

<sup>5</sup> [Race to Zero criteria](#)



Insight Investment, 160 Queen Victoria Street, London, EC4V 4LA

Switchboard: +44 (0)20 7163 4000

[www.insightinvestment.com](http://www.insightinvestment.com)

Issued by Insight Investment Management (Global) Limited, Registered office 160 Queen Victoria Street, London EC4V 4LA, Registered in England and Wales. Registered number 827982. Authorised and regulated by the Financial Conduct Authority. FCA Firm reference number 119308.

Telephone calls may be recorded.

➤ BNY MELLON | INVESTMENT MANAGEMENT

(14000)

*e. What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?*

Our approach to fossil-fuel asset retirement within the companies we hold is that it should be done in a way which mitigates any negative impact on the investment case and broader society. In particular, our engagements through Climate Action 100+ (CA100+) seek to ensure this, with a key component of the CA100+ benchmark tool being the Just Transition analysis<sup>6</sup>.

Energy security will be part of this analysis, but Insight is a global business with global holdings and the UK's national energy security is not systematically considered in our analysis other than through the lens that as one of the largest holders of UK gilts (representing the core of our AUM at c.£300bn), it is in our interests for those clients to ensure an orderly low-carbon transition that safeguards domestic energy security.

*f. Please identify the proportion of the assets you manage which are (a) actively and (b) passively managed (for example in index tracking portfolios) and the extent to which differential policy mandates between the two investment approaches apply in relation to investment in fossil fuels.*

As outlined above, the largest part of Insight's business consists of physical liability-hedging assets (typically in the form of UK gilts) and derivatives. Corporate bond holdings make up the largest direct exposure to entities which might have fossil-fuel linkages and these instruments are all held in active or semi-active accounts. Insight does not manage passive, index-tracking solutions, although our efficient beta strategies share some characteristics with passive index replication in some cases.

To that extent, our approach to fossil fuels is largely consistent in our active discretionary accounts with the exception that, as mentioned above, we operate a large number of segregated client mandates, many of which have ESG preferences specific to the clients in question. Some of these may specifically exclude investments in fossil fuels or have other climate-related tilts (e.g., low carbon tilts which discourage investments in the sector).

Typically, we see a higher emphasis on environmental factors and externalities in our portfolios run for European and UK clients than we do for those in the US, and this is one of the reasons that our US-managed assets do not fall under the scope of our initial net-zero commitments. We also operate a specific range of strategies called Responsible Horizons designed to have an elevated level of focus on sustainable investing, and in these strategies we do not exclude fossil fuels entirely, but do apply a higher hurdle to investment that is specific to that fund range.

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<sup>6</sup> [Net Zero Company Benchmark: structure and methodologies](#)



Insight Investment, 160 Queen Victoria Street, London, EC4V 4LA

Switchboard: +44 (0)20 7163 4000

[www.insightinvestment.com](http://www.insightinvestment.com)

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➤ BNY MELLON | INVESTMENT MANAGEMENT

(14000)

Managing Director and Chief Executive Officer

**Rt Hon Philip Dunne MP**  
**Chairman**  
**Environmental Audit Committee**

Sent by e-mail only

Milan, 1<sup>st</sup> September 2022

Dear Sir,

I acknowledge receipt of your letter dated 17<sup>th</sup> August last, sent through our London Branch on behalf of The Environmental Audit Committee of the House of Commons concerning an inquiry into the financial sector and the UK's net zero transition, and posing some questions as to Intesa Sanpaolo's position regarding fossil fuels.

Please find in the Annex attached the answers to your queries, based on public information and which you are welcome to publish on the Committee's web site.

Yours sincerely,

Carlo Messina



## ANNEX

### A. Public position on fuel finance

*a. Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.*

Intesa Sanpaolo's position is public on its web site.

In this regard, Intesa Sanpaolo has two sector policies in place, one on Coal and the other one on Unconventional Oil and Gas, available at the following link: <https://group.intesasanpaolo.com/en/sustainability/sustainability-governance/sustainability-policies>.

Moreover, following adhesion – among others - to the Net Zero Banking Alliance, in its recent 2022-2025 Business Plan Intesa Sanpaolo has set net zero aligned targets for 2030 in the following sectors: Oil & Gas, Power Generation, Automotive, Coal mining. Targets may be found at the following links: <https://group.intesasanpaolo.com/en/sustainability/environment> and [https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/presentazioni-en/2022/Piano%20di%20Impresa\\_2022-2025\\_UK.pdf](https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/presentazioni-en/2022/Piano%20di%20Impresa_2022-2025_UK.pdf).

*b. Does your institution's overall approach to energy transition include fossil fuel exclusion policies?*

The approach includes exclusion and phase out clauses set out in the two policies (Coal and Unconventional Oil&Gas) mentioned above. In terms of phase out, Intesa Sanpaolo undertakes to terminate its exposure to counterparties belonging to the coal mining sector by 2025, and its exposure linked to unconventional resources prohibited by the policy by 2030.

*c. How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?*

In the sector policies mentioned above, respectively Coal and Unconventional Oil& Gas, Intesa Sanpaolo clearly states that:

"The Group intends to support its customers in the process of gradually reducing the use of coal for energy production (phase-out) and encouraging the transition to low-carbon alternatives (e.g. renewables and gas)"

and "The Group commits to guide companies including by promoting the granting of loans and other financial services aimed at the production of energy from renewable sources, in the transition to a low-carbon economy, in line with the targets set by the Paris Agreement and subsequent updates and international commitments on the subject (for example in the form of "green loans", "sustainable loans", "transition loans", "acquisition/project transition financing)".

In fact, Intesa Sanpaolo has announced, within an amount of over 400 billion euro of new financing linked to the NRRP, the availability of 76 billion to finance the green and circular economy and the green transition.

### B. The IEA Roadmap to Net Zero

*d. In view of the statement above, does your institution also support the IEA's net-zero scenario which calls for 'no new investment is needed in coal, oil and gas'?*

Targets set in Intesa Sanpaolo's 2022-2025 Business Plan (please see above, [https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/presentazioni-en/2022/Piano%20di%20Impresa\\_2022-2025\\_UK.pdf](https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/presentazioni-en/2022/Piano%20di%20Impresa_2022-2025_UK.pdf)) take as reference IEA NZ scenarios.

*e. What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest*

*during the transition to renewable energy generation?*

To help companies in their transition path, in Intesa Sanpaolo's 2022-2025 Business Plan targets were set in relative emissions terms and not in absolute emissions terms, so that the gradual transition of companies may be taken into account in the path to Net Zero financed emissions.

*f. Has your institution's credit committee been instructed to reduce or decline to make new capital available for new fossil fuel projects?*

Rules have been set both in terms of policies (Coal and Unconventional Oil&Gas) and in terms of strict Reputational Risk Clearing which address the themes of financing fossil fuel projects. Moreover, Intesa Sanpaolo has reviewed its lending processes with the aim of facilitating the transition to a greener economy, including sectoral strategies and ESG scores by counterpart with a strong weighting of environmental issues, which can lead to prohibit or limit credit granting.



Michael Marks  
Legal & General Group Plc  
One Coleman Street  
London  
EC2R 5AA

8 September 2022

Rt Hon Philip Dunne MP  
Environmental Audit Committee  
House of Commons  
Palace of Westminster  
London  
SW1A 0AA

***By e-mail to: [eacom@parliament.uk](mailto:eacom@parliament.uk)***

Dear Mr Dunne

**Your letter to Sir Nigel Wilson re: the financial sector and the UK's net zero transition**

Thank you for your letter to Sir Nigel Wilson dated 17 August 2022. As Head of Investment Stewardship & Responsible Investment Integration, I am responding on behalf of Legal & General Group Plc and its businesses. We welcome the opportunity to provide responses to your additional questions regarding Legal & General's position on financing of fossil fuel extraction and renewable energy generation. We have set out our answers following the numeration in your letter. We have also attached our original response to your Inquiry for completeness.

- a. Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL**
- b. Does your institution's overall approach to energy transition include fossil fuel exclusion policies?**

Yes, as described in our initial submission to your Committee, we have a number of policies which describe our approach to climate change and fossil fuels exclusions. These include:

- i. Coal & Oil Sands Policy: exclusion of investing in those companies that have a material proportion of their revenue from the mining and extraction of thermal coal or coal based energy production and oil sands, as well as engagement to ensure no new thermal coal generation is developed and no further oil sands are exploited; [LGIM policy on coal 2022](https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgimh-coal-policy.pdf)<sup>1</sup>. L&G, with its own balance sheet, is pushing ahead by going above and beyond the minimum standards that we set, including target to exit existing financing of companies involved in coal mining or coal power generation by 2030. We also apply extra group governance to high carbon holdings, such as energy and utility companies with oil and gas exposure; [L&G 2021 Climate Report](https://group.legalandgeneral.com/media/2vidb1kw/l-g-2021-climate-report-tcf.pdf)<sup>2</sup>

<sup>1</sup> [https://www.lgim.com/landg-assets/lgim/\\_document-library/capabilities/lgimh-coal-policy.pdf](https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgimh-coal-policy.pdf)

<sup>2</sup> <https://group.legalandgeneral.com/media/2vidb1kw/l-g-2021-climate-report-tcf.pdf>

- ii. Climate Change Policy: details our approach to accelerating the net zero transition; [LGIM policy on climate change 2021](#)<sup>3</sup>
- iii. Biodiversity Policy: outlines our investment business' approach to biodiversity and nature loss, and the interlinkages with climate; [LGIM policy on biodiversity 2021](#)<sup>4</sup>.

**c. How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?**

Legal & General is highly supportive of all companies having clear plans for the energy transition and specifically energy companies which have an important role to play in enabling the transition across all sectors. Hence staying invested to enable engagement with these companies through campaigns such as our [Climate Impact Pledge](#)<sup>5</sup> is critical to our approach, with escalating sanctions to those that are not taking appropriate action. However, it is also important to recognise that our economy will require fossil fuels for some time to come and the pace of this transition is therefore equally important.

**d. Does your institution also support the IEA's net-zero scenario which calls for 'no new investment is needed in coal, oil and gas'?**

At Legal & General, we have modelled a range of climate scenarios and our research supports that there could be a pathway to net zero without investment in new coal, oil and gas capacity in line with the IEA scenario. However, there are other pathways to net zero and we will continue to monitor the need for new oil and gas in relation to short-term energy security and medium-term energy transition considerations. The majority of our exposure to the energy sector is through equity and bond investments in listed energy and utility groups, whose activity often spans all energy types. Our focus is to encourage those companies to transition their business models to low carbon energy, through engagement, and it may be counterproductive to divest prematurely only because they have a small percentage of activity linked to developing new capability. Nevertheless, where engagement is not successful, we use a range of shareholder tools to take action, with public divestment as a final step. At Legal & General, our policies (above) restrict investment in companies making new coal and oil sands investment. We are also seeking better data disclosure and industry frameworks to help identify new fossil fuel investments.

**e. What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?**

Maintaining energy security must be managed alongside a rapid transition to a decarbonised energy system in the UK. In our view, the twin challenges can be addressed by accelerating the rapid adoption of low carbon energy sources, increasing the resilience of energy infrastructure, diversifying sources of those fossil fuels that are required, and increasing investments into energy efficiency.

**f. Please identify the proportion of the assets you manage which are (a) actively and (b) passively managed (for example in index tracking portfolios) and the extent to which differential policy mandates between the two investment approaches apply in relation to investment in fossil fuels.**

As at December 31, 2021 LGIM's assets under management is £1.4 trillion on behalf of a wide range of global clients including pension schemes, sovereign wealth funds, fund distributors and retail investors. Of these assets, £502 billion is invested in index strategies.

The fossil fuel policies described in a) and b) above apply to all active strategies. The £97.6bn of proprietary balance sheet assets fall predominantly within these strategies.

Within index strategies, vast majority relates to mandates where the client ultimately selects the index they wish LGIM to track, most of which currently do not adopt climate objectives or fossil fuel policies.

<sup>3</sup> [https://www.lgim.com/landg-assets/lgim/\\_document-library/capabilities/lgim-climate-change-policy.pdf](https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-climate-change-policy.pdf)

<sup>4</sup> [https://www.lgim.com/landg-assets/lgim/\\_document-library/capabilities/lgim-biodiversity-policy.pdf](https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-biodiversity-policy.pdf)

<sup>5</sup> <https://www.lgim.com/uk/en/responsible-investing/climate-impact-pledge>

In these mandates we do not apply the fossil fuel policies as this would be in breach of our fiduciary responsibility.

However, an increasing proportion of LGIM's index portfolios include fossil fuel considerations ranging from the exclusion policies to Paris-aligned and climate transition objectives. At present, this accounts for approximately 15% of all index strategies (by assets under management).

**g. Where you continue to hold investments in fossil fuel-producing companies, has your institution communicated to that company's management your position on the IEA's Net Zero scenario and its conclusion on the need for no new investment in future new production? If not, does your company plan to do so?**

Yes, through our Climate Impact Pledge engagement campaign, which we have undertaken for over six years, we have sector specific expectations for 15 climate critical industries, which we engage with the relevant companies on. These expectations are reviewed annually and updated to reflect the pace of change required in these sectors. It is also important to note that we additionally engage with policymakers and regulators globally on areas of policy which seek to address the demand-side of the scenario, as without a change in consumption, as much as the supply, the IEA Scenario will not be achieved.

Thank you for the opportunity to input to this important Inquiry by your Committee. If there is anything further we can assist with please do not hesitate to contact me.

Yours sincerely,



**Michael Marks**

Head of Investment Stewardship & Responsible Investment Integration

Rt Hon Philip Dunne MP  
Chairman, Environmental Audit Committee  
House of Commons  
Palace of Westminster  
Westminster  
SW1A 0AA

## BY EMAIL

20 September 2022

Dear Mr Dunne

### **The financial sector and the UK's net zero transition**

Thank you for your letter of 17 August 2022 and request to participate in the Environmental Audit Committee's inquiry into the financial sector and the UK's net zero transition. I am responding to your call for evidence on behalf of the Society of Lloyd's ("Lloyd's"). We appreciate the opportunity to comment and engage.

The following note endeavours to respond to the specific questions you have put to us, alongside setting out our approach and actions that support our commitment to net zero by 2050.

#### About Lloyd's

Lloyd's is a society of members, incorporated under the Lloyd's Acts 1871 – 1982, which operates as an international insurance market. Its members write onshore insurance in 80 countries, onshore reinsurance in 100 countries and offshore reinsurance in over 200 countries. All insurance business in the Lloyd's market is underwritten by Lloyd's members, with over 50 managing agents underwriting on behalf 89 active syndicates, over 200 registered Lloyd's brokers and a global network of more than 4,000 local coverholders.

Lloyd's (formally, the Council of Lloyd's) is responsible for managing the affairs of the Society and has powers to regulate and direct the business of insurance at Lloyd's. More information about Lloyd's is available [here](#).

#### Lloyd's Net Zero Strategy Overview

Our ambition is for Lloyd's to be the commercial and specialty market of choice for insuring the transition to net zero by providing the vital risk management solutions that will enable multi-sector decarbonisation, large-scale clean energy investment and expansion, together with deploying an increasing proportion of capital to support climate innovation. Central to delivering on this ambition is our commitment to align our climate approach and activities to government policy in achieving net zero emissions by 2050.

In 2021 Lloyd's set a market-wide ambition to transition its investments and underwriting to

net zero by 2050 or sooner – a commitment the Corporation of Lloyd’s strengthened by joining the Net Zero Insurance Alliance (NZIA) and Glasgow Financial Alliance for Net Zero (GFANZ). More detail on these commitments can be found in our [2021 ESG Report](#).

As Chair of the [Sustainable Markets Initiative \(SMI\) Insurance Task Force](#), Lloyd’s is also convening and mobilising the sector to drive risk solution innovation that will enable multiple industries and economies to build greater climate resilience, alongside supporting and protecting transition progress.

As Lloyd’s works towards net zero emissions by 2050, in supervising the market we are committed to demonstrating that we are supporting multi-sector decarbonisation and that transition is taking place across our portfolio of business. To do this, through our leadership of the SMI Insurance Task Force, and in partnership with the NZIA, we are developing a measurement framework that will allow us to track and measure our progress in transitioning to a net zero underwriting position by 2050.

Alongside developing a climate transition measurement approach, Lloyd’s requires each managing agent to develop a tailored ESG strategy that is appropriate for their business for making the transition to net zero by 2050. To support this, in 2021 we issued [market guidance](#), covering both underwriting and investment, to help managing agents in forming these plans. Managing agents are now submitting their ESG plans for review and will be expected to implement these in 2023.

Lloyd’s is committed to transition our diverse underwriting and investment portfolios to net zero by 2050 and appreciate that this will be an ongoing and iterative process. As Lloyd’s can accept business from over 200 territories globally, Lloyd’s must reach its net zero commitments while navigating policy and regulation in each territory where the Lloyd’s members can underwrite.

Below we have set out answers to the specific questions the EAC have raised.

### **Public position on fossil fuel finance**

- a. *Is your institution’s position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.*

Each managing agent in the Lloyd’s market will have their own position with regard to insuring fossil fuel risks and how they invest syndicate assets. However, in the Corporation’s [October 2021 ESG guidance](#) to the market we identified thermal coal, oil sands and Arctic energy exploration as particular areas for the market to consider when developing their approach. While it is up to each individual managing to decide its own ESG targets and policy, the Corporation remains of the view that ceasing to provide new cover for these classes, and phasing out of existing cover by 2030, remains a sensible and pragmatic ambition for supporting the energy transition.

The Corporation is responsible for directly managing the assets held in the Central Fund, which are held as Lloyd’s central assets and which are available, at the discretion of the

Council of Lloyd's, to meet any valid claim that cannot be met from the resources of a member.

Lloyd's approach to sustainable investments with respect to these assets is set out in our latest [ESG report](#) in which we have committed to transition the £3bn Central Fund of Lloyd's to net zero by 2050, as well as introduced specific exclusions to investments in certain sectors. We achieved these investment exclusions in 2022, and it excluded any investments in companies whose primary activity involve thermal coal-fired power plants, thermal coal mines, oil sands and new Arctic energy exploration activities, as well as avoiding investments in companies who have significant revenue from these activities.

*b. Does your institution's overall approach to energy transition include fossil fuel exclusion policies?*

Lloyd's overall approach to energy transition, including exclusion policies, is set out above. As previously outlined, while Lloyd's has set out its expectations for the market to achieve net zero by 2050 in line with government policy, it will be for individual managing agents as independent businesses to determine their approach and while individual managing agents may choose to include fossil fuel exclusions, that is not mandated by Lloyd's.

The approach of the Corporation to its management of the assets comprising the Central Fund is also set out above and includes exclusions to certain activities related to fossil fuels.

*c. How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?*

As outlined above, Lloyd's is committed to insuring the transition by providing the vital risk management solutions that will enable multi-sector decarbonisation and transition, together with large-scale clean energy investment and expansion. This approach means that we expect managing agents will continue to support energy, and other high-emitting sectors who have a credible transition plan in place, which can be measured and tracked over the years ahead. As independent businesses, each managing agent will be responsible for determining its own detailed pathway to net zero.

Lloyd's will use a climate transition measurement approach to determine the market's progress towards net zero. Following thorough testing and a pilot with a selected number of managing agents in 2022, Lloyd's expects to implement a 'Sustainability Transparency and Reporting' regime from 2023 onwards which will allow us to form, for the first time, a market-wide aggregate baseline view of the carbon contribution of underwriting portfolios – thereby enabling the monitoring and reporting of the market's underwriting position over time.

### **The IEA Roadmap to Net Zero**

*d. In view of the statement above, does your institution also support the IEA's net-zero scenario which calls for 'no new investment is needed in coal, oil and gas'?*

Lloyd's is committed to supporting government policy in achieving net zero emissions by 2050. We will do so by aligning our climate approach and activities to government net zero targets and driving progress towards this on a market-wide basis.

By insuring the transition, Lloyd's will support customers as they decarbonise while providing critical insurance support to climate and clean energy technologies. As part of this, Lloyd's needs to carefully consider its role in alleviating the UK and the world's current energy security concerns by providing necessary insurance products and services, while ensuring we maintain momentum and progress towards our net zero by 2050 commitment.

In Lloyd's October 2021 guidance we identified sectors for the market to consider when developing their approach across both their underwriting and investment portfolios (outlined in question a.). While it is up to each individual managing agent to decide their own ESG targets and policy, we remain of the view that ceasing to provide new cover for these classes, and phasing out of existing cover over time, remains a sensible and pragmatic ambition for supporting the energy transition.

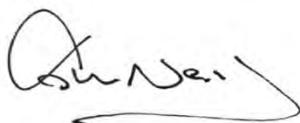
e. *What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?*

The approach of the Corporation to its management of the assets comprising the Central Fund is set out above and includes exclusions to certain activities related to fossil fuels.

As to the risks underwritten in the Lloyd's market, while individual managing agents will have different approaches, the need to insure the transition means supporting our customers as they decarbonise, while also helping them to manage and mitigate the risks they will face on that journey. Lloyd's will continue to support hard-to-abate sectors, on the condition that they have a credible transition plan in place. Lloyd's underwriters will also provide risk management solutions for decommissioning fossil fuel assets, green innovation and renewable energy investment expansion, in both the UK's and the world's interest in maintaining energy security.

Thank you for your engagement and interest in our approach, actions and how Lloyd's is navigating this transition. We look forward to a continuing dialogue as we progress with our goals and commitments.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Neal', with a long horizontal flourish extending to the right.

John Neal  
Chief Executive Officer



Rt Hon Philip Dunne MP  
Environmental Audit Committee  
House of Commons  
Palace of Westminster  
SW1A 0AA

9 September 2022

Dear Mr Dunne,

Thank you for your letter, requesting information on M&G's approach to fossil fuels in the context of the UK transition to net zero.

As a global investor and steward of long-term capital, actively managing the savings of millions of people in the UK and internationally, M&G's most significant contribution to a cleaner and greener UK economy is through our investment decisions. We continue to increase the amount of capital we channel into sustainable activities and to use our influence with our investees to accelerate their own transition.

I have provided answers to your Committee's specific questions below and you can find more information on M&G's approach to sustainability and the progress we are making towards delivering our commitments in our latest [Sustainability Report](#).

Should you need anything further, please do not hesitate to get in touch.

Yours sincerely

A handwritten signature in grey ink, appearing to read 'John Foley', written over a faint, light grey rectangular box.

John Foley  
Chief Executive  
M&G Plc

## Questions

### a) Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.

Phasing out coal is a key step towards achieving M&G's goal of net zero carbon emissions across our investment portfolios by 2050, at the latest, and helping to restrict global warming to 1.5°C in line with the Paris Agreement.

In March 2021, we publicly committed to reducing our exposure to unabated thermal coal: we committed to apply restrictions to companies investing in new coal mines and coal-fired plants, and to exclude public companies which cannot commit to a complete phase out of coal (by 2030 in developed countries and by 2040 in emerging markets). This is available [here](#).

Selling all our coal assets right away would quickly reduce our own carbon emissions as an investor but the emissions themselves would not go away. This is why, rather than making it someone else's problem, we prefer to use our influence as a shareholder to persuade companies to find better ways, and support them with the finance to transition holding them accountable to demonstrate sufficient progress – with divestment as a credible sanction.

We have made significant progress in implementation over the last 18 months in relation both to those assets controlled by M&G's asset owner business and to those managed by our asset manager<sup>1</sup>. In relation to the latter, we formalised M&G's coal position in April 2022 with the development of the M&G Investments *Thermal Coal Investment Policy* which includes concrete investment requirements. This is available [here](#).

We began with coal because of its disproportionate contribution to the problem: it is the single largest source of carbon dioxide in the power sector, and one of the largest contributors to the climate crisis. This is why addressing coal is a key building block in M&G's net zero investment framework and provides the foundation for approaching other high carbon investments.

We are currently in the process of defining our investment approach for other fuels and technologies. As we believe engagement and voting deliver superior systemic outcomes, any investment policies for other types of fossil fuels are likely to emphasise active dialogue with companies to encourage their transition to a science-aligned pathway to net zero.

### b) Does your institution's overall approach to energy transition include fossil fuel exclusion policies?

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<sup>1</sup> We invest on behalf of our customers in two separate capacities, with distinct roles and responsibilities. Our responsibility as an *asset owner* is to create the best customer outcome in terms of general well-being in line with our fiduciary duty, taking into consideration financial security. To do this, we make decisions about how to allocate assets, what should be the financial and sustainability investment requirements for our mandates, and which asset manager should manage them. We also invest as an *asset manager*, where we act on behalf of individual savers and institutional clients, working to meet their required investment objectives. As an *asset manager*, we must follow the mandates set out in fund objectives or agreed with institutional clients. Sometimes, these mandates will have sustainability policies which differ from those we apply as *asset owner*.

M&G recognises that the energy transition is an essential, and urgent, part of achieving Paris Agreement targets. The burning of fossil fuels is unequivocally the greatest contributor to realised increases in global mean temperatures, and the greatest threat to reaching Paris Agreement targets.

Our approach to the responsible retirement of fossil fuels is based on the belief that the costs and benefits of the transition to a low carbon economy must be shared fairly between generations, regions and communities – to avoid long-term harm to social inclusion, economic development, and population health and wellbeing, as well as loss of the public support necessary to deliver change urgently.

This is front of mind as we approach fossil fuels in our portfolios:

As outlined in our answer above, M&G as an organisation has laid out its position with respect to thermal coal, acknowledging it as the dirtiest and least efficient fossil fuel, and committing to exclude coal-linked companies that continue to develop new assets or those without a plan to phase-out its use. We expect phase-out to take place earlier in developed countries than in developing countries, where there may be more reliance on coal, and less investment capital available to finance new infrastructure.

Oil and gas are not subject to any specific investment policy, exclusionary or otherwise. Recent turbulence in energy markets (we go in more detail in our answer to question e) demonstrates that an exclusive focus on supply-side reform results in a significant *de facto* transfer of risk and cost to the consumer. For the energy transition to be delivered and then sustained long-term within the context of planetary *and* societal boundaries, supply side measures - especially in the context of an unstable supply chain – must be introduced alongside addressing demand. This requires concerted policy action to remove the incentives inherent in a fossil fuel driven economy and encourage the scaling up of greener and cleaner technologies. We outlined our views on what measures might be helpful in this regard in our response to the Government's *revised Green Finance Strategy* consultation.

In addition:

M&G is growing its range of badged 'Sustainable' funds. These funds incorporate an exclusion on fossil fuel activity, except where we have deemed the investee company's climate disclosures and transition plans sufficiently credible.

We maintain a targeted engagement "hot list" of 100 investee companies based on highest emissions and largest M&G Investments-wide exposure. For each company, we devise a specific engagement strategy with clear objectives, key performance indicators to determine progress to delivery, and a timetable for engagement.

**c) How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?**

We assess investee companies using the M&G ESG Scorecard, ranking climate performance on Disclosure, Intensity, Footprint, Vulnerability and Intent.

For the major fossil fuel companies, we undertake granular stranded asset analysis, assessing balance sheet liabilities of decommissioning and the economic sensitivity of these being brought forward to enable the decarbonisation trajectory to be in line with the Paris Agreement.

In the case of coal, M&G's investment policy as described in answer *a*) is a forward-looking policy that goes beyond basic quantitative screening to assess the credibility of transition plans in accordance with phase-out timelines, and involves engaging with investee companies to achieve real-world positive change, by supporting them in transitioning towards a more sustainable business model. In the case of energy companies, coal phase-out plans can include investment in renewable sources. We describe our broader engagement approach under question *g*).

**d) Does your institution also support the IEA's net-zero scenario which calls for 'no new investment is needed in coal, oil and gas'?**

The IEA Net Zero by 2050 scenario (IEA NZ2050) is a 'no overshoot' emissions pathway, starting with carbon neutrality as an end-point, and working backwards linearly. We view IEA NZ2050 as one of a range of scenarios necessary for consideration when managing our clients' capital. This approach helps us to gain a better understanding of physical and transition risks present across our holdings and better equips us to integrate climate into our decision-making.

At the same time, we recognise the inherent limitations to 'no overshoot' pathways such as the IEA NZ2050 as described by the IPCC. These include heavy dependence on carbon dioxide removal measures, which are uncertain; lack of global cooperation; lack of governance of the required energy and land transformation; and increases in resource-intensive consumption – all key impediments to achieving 1.5°C pathways, in the words of the IPCC.

As we stated under question *b*) it is critical that supply side levers are addressed alongside the swift delivery of energy efficiency and other measures to dampen demand.

Alongside our engagement with fossil fuel companies to accelerate their transition to clean energy, we are also active supporters of Carbon Dioxide Removal technologies – through our investment in Climeworks (the world's most advanced Direct Air Capture company) and Storegga (a UK-based CCUS company) via the M&G Catalyst mandate.

**e) What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?**

In a world where humans were already consuming more resources than the planet can sustain, the COVID-19 pandemic and war in Ukraine have highlighted our vulnerability to supply shocks and their impact on social and economic resilience. The Russian invasion of Ukraine, in particular, has exposed the sustainability challenges of a global energy system dependent on fossil fuels and has generated real concerns about how people will keep warm this winter and how businesses can cope with huge increases in input costs.

Whatever measures governments implement to mitigate these immediate issues, the medium- and long-term priority remains both clear and unchanged: creating a policy framework that will help to reduce reliance on fossil fuels and encourage the scaling up of clean energy solutions. As we allude to under *b*), the role M&G and the wider finance community can play in the transition is defined to a large extent by the policy and regulatory environment and, in particular, our responsibility to deliver financial returns for customers. We would encourage policymakers to consider whether a wider definition of fiduciary responsibility, taking into consideration climate impact and intent to transition, would be an appropriate way to broaden the investor focus beyond financial returns and risk trade-offs.

As investors, we can see the complexity of the low carbon transition: its risks and opportunities; different competing needs and time horizons; and interdependencies with other issues such as biodiversity, water use and air quality. Our job is to consider and balance these for our customers and clients, shareholders, and wider society.

The responsible retirement of fossil fuel assets requires all stakeholders to consider a range of factors, including energy security, in order to maximise the prospects of achieving a just transition. M&G's approach is set out in our Just Transition statement (available [here](#)), which recognises that some communities or demographic groups may be particularly impacted by the transition to a sustainable economy.

In addition, M&G's Thermal Coal Investment Policy, referred to under *a*), is also aligned with the objectives of a just transition, to help avoid the regional, inter-generational and income inequalities that may very likely arise from the profound changes required by the net zero transition.

We aspire to industry leadership on the just transition through public advocacy, integration of social considerations in our investment process, and the full articulation and consideration of trade-offs. We are also committed to continuing to educate ourselves on rapidly evolving concepts around the just transition to ensure our investment process remains robust, relevant and well-considered.

**f) Please identify the proportion of the assets you manage which are (a) actively and (b) passively managed (for example in index tracking portfolios) and the extent to which differential policy mandates between the two investment approaches apply in relation to investment in fossil fuels.**

Approximately 90 per cent of M&G group assets are in actively-managed strategies<sup>2</sup>.

As mentioned in answer *b*), oil and gas are not currently subject to any specific investment policy, exclusionary or otherwise.

In relation to investment in coal, a distinction is made between actively and passively managed funds: as per the internal asset manager's *Thermal Coal Investment Policy*, the assets in scope are all public assets actively managed by M&G Investments on behalf of its clients, including the internal asset owner. For passive funds, whose objective is to replicate the performance of an index, it will not be possible to implement the *Thermal Coal Investment Policy* in full, as its requirements are not reflected in the benchmark that the funds are seeking to perform in line with. However, where these passive funds own

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<sup>2</sup> As at end of June 2022.

shares in companies in the thermal coal industry, we will seek to use our influence and encourage management to transition away from thermal coal in line with IPCC recommendations.

**g) Where you continue to hold investments in fossil fuel-producing companies, has your institution communicated to that company's management your position on the IEA's Net Zero scenario and its conclusion on the need for no new investment in future new production? If not, does your company plan to do so?**

M&G believes in supporting our investee companies in their decarbonisation efforts. As an active asset manager, supported by an active asset owner, we do this through consistent and open engagement with management teams concerning their strategies and plans. M&G regularly discusses our expectations with the significant fossil fuel producing companies (FFPCs) in which we invest. We make the Board and Management aware of our commitment to the *Net Zero Asset Managers Initiative's* position: we expect to achieve net zero carbon emissions on our entire investment portfolio by 2050 at the latest.

We do not advocate any one scenario for fossil fuel companies to adhere to given the computational complexities of long-range forecasting. For investee companies representing the highest emissions and largest M&G-wide exposure – including FFPCs – we devise a specific engagement strategy with clear objectives, key performance indicators to determine progress to delivery, and a timetable for engagement. Overall, we expect companies to commit to reaching net-zero in line with the Paris Agreement, and to provide credible targets and metrics for how they will do so.

In our experience, the commitment to net zero is not always viewed with the same degree of urgency, with UK/European FFPCs significantly more open to dialogue on these issues than many international companies. Where we believe some FFPCs are laggards, we have participated in the strongest actions to get these companies to change behaviour. For example, M&G was the only European co-filer in Exxon Mobil shareholder resolutions encouraging a change of behaviour and disclosure.

M&G also actively participates in Climate Action 100+ initiatives to ensure FFPCs are aware of their obligations and investor expectations. M&G is on the steering group of the CA 100+ BP engagement and is a co-lead on the CA 100+ TotalEnergies engagement.

House of Commons  
Environmental Audit Committee  
Palace of Westminster  
SW1A 0AA

*Sent by email only*

8th September 2022

**Regarding your letter on the financial sector and the UK's net zero transition**

Dear Rt Hon Philip Dunne MP,

Thank you for your letter dated 17th August, which informs us of your important inquiry into the UK's net zero transition. I hereby convey our responses to the questions outlined by the Environmental Audit Committee, which are derived from the steps we have taken following our Carbon Neutrality Declaration in May 2021. MUFG is implementing group-wide environmental measures globally, aiming to achieve net zero GHG emissions from our financed portfolio by 2050 and following our commitment to GFANZ, we are also required to set interim targets for 2030 or earlier using a science-based approach.

As a responsible globally important financial institution, we are committed to supporting a smooth transition to a decarbonized society through our financial services, and proactively contribute to creating a sustainable society by fostering a virtuous cycle between the environment and the economy.

We would welcome the opportunity to engage with you and answer any more specific questions you may have following your review of our responses and materials related to this important work.

Yours Sincerely,



Takanori Sazaki  
Regional Executive for EMEA

**Annex 1****Response to questions a-g**

- a. *Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.*

**MUFG Environmental and Social Policy Framework (updated as of May 2022) sets out the policy for financing fossil fuels, including A) Coal Fired Power Generation Sector**

**B) Mining Sector (Coal), C) Oil and Gas Sector:**

<https://www.muftg.jp/english/csr/policy/index.html>

- b. *Does your institution's overall approach to energy transition include fossil fuel exclusion policies?*

**MUFG Environmental and Social Policy Framework (updated as of May 2022) includes exclusion policies on A) Coal Fired Power Generation Sector and B) Mining Sector (Coal).**

- c. *How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?*

**As stated in the Progress Report (April 2022), MUFG will promote finance to support clients' transition and innovation through engagement. This includes an ongoing review of individual clients' transition plans and commitments.**

[https://www.muftg.jp/dam/csr/report/progress/202204\\_en.pdf](https://www.muftg.jp/dam/csr/report/progress/202204_en.pdf)

- **P7 Interim Target: Power**
- **P8 Engagement in the Power Sector**
- **P9 Interim Target: Oil & Gas Sector**
- **P10 Engagement in the Oil and Gas Sector**

- d. *In view of the statement above, does your institution also support the IEA's net-zero scenario which calls for 'no new investment is needed in coal, oil and gas'?*

**Our interim targets published in the Progress Report (April 2022) aims the emission level aligned with the IEA NZE scenario:**

[https://www.muftg.jp/dam/csr/report/progress/202204\\_en.pdf](https://www.muftg.jp/dam/csr/report/progress/202204_en.pdf)

- **P7 Interim Target: Power**
- **P9 Interim Target: Oil & Gas Sector**

- e. *What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?*

**Please refer to the comments to c above.**

- f. Has your institution's credit committee been instructed to reduce or decline to make new capital available for new fossil fuel projects?

**Please refer to comments to b. above. The Sustainability Committee regularly reviews the need to update our Environmental and Social Policy framework and makes amendments as necessary to reflect changes in our business activities and the business environment.**

- g. *Please identify the proportion of the assets you manage which are (a) actively and (b) passively managed (for example in index tracking portfolios) and the extent to which differential policy mandates between the two investment approaches apply in relation to investment in fossil fuels.*

**Our overall net zero transition strategy does not include any exclusion policies for fossil fuels. As part of our net zero journey, our approach is to collaborate and engage with our clients to achieve net zero emissions by 2050, which is why we are unable to report on the portion of passively and/or actively managed portfolios.**

Rt Hon Philip Dunne MP  
Chairman  
Environmental Audit Committee  
House of Commons  
London  
SW1A 0AA

8 September 2022

Dear Chairman

Thank you for your letter of 17 August regarding the Committee's inquiry into the financial sector and the UK's net zero transition. Morgan Stanley is pleased to provide details of our overall approach to supporting the transition to net zero, including the financing of carbon-intensive industries.

### ***Morgan Stanley's Overall Approach***

Climate change management is a priority for senior leadership at Morgan Stanley. We take a globally harmonised approach to managing climate-related risks, opportunities, and activities, with oversight from firm leadership and input from our businesses. This includes managing risks associated with financing carbon-intensive clients.

Central to Morgan Stanley's climate strategy is the commitment, announced in September 2020, to reach net-zero financed emissions by 2050. Morgan Stanley was the first major US-headquartered financial institution to make a net zero commitment and to join the Glasgow Financial Alliance for Net Zero (GFANZ). To support this commitment and align with the International Energy Agency (IEA) Net Zero Emissions by 2050 Scenario (NZE) pathway, Morgan Stanley set 2030 interim targets in November 2021 for the most emissions-intensive sectors within our lending portfolio: Auto Manufacturing, Energy, and Power. More details of our Net Zero Commitment and Interim Targets, together with our wider approach to climate and sustainability, are provided in our [2021 Climate Report](#) and [Sustainability Reports](#).

### ***Public position on fossil fuel finance***

Morgan Stanley believes there is a benefit in helping companies in the emissions-intensive sectors transition to the low carbon economy, leveraging our existing client relationships and expertise.

# Morgan Stanley

For public details on our interim sector targets and methodology, including our Measure-Manage-Report framework launched in 2021, please refer to [Reaching Net-Zero Financed Emissions](#).

Our 2030 interim sector targets cover Scope 1, Scope 2 and Scope 3 emissions of our clients, includes all greenhouse gases and applies to our corporate lending portfolio. For the Energy sector specifically, our target is to reduce our financed emissions lending intensity by 29% compared to the 2019 base year. We believe that using an intensity approach as the basis for this target properly incentivises our businesses to work proactively with clients on climate transition opportunities, not simply to reduce our emissions by withdrawing capital from carbon-intensive sectors.

Our focus remains on understanding and actively supporting our clients. As appropriate, we will engage with clients to understand their greenhouse gas reduction initiatives and diversification strategies.

## ***Exclusion Policies***

Morgan Stanley has tailored risk-based approaches to fossil-fuel based energy sectors, including coal-fired power generation, thermal coal mining, and oil and gas. Our public [Environmental and Social Policy Statement](#) provides the following:

- With regard to coal-fired power generation, our Policy Statement outlines that we will not finance transactions that directly support the development of new or physical expansions of coal-fired power generation or provide financing for a stand-alone coal-fired power plant.
- With regard to thermal coal mining, we will not provide financing where the specified use of proceeds would be directed toward mountaintop removal (MTR) mining. Moreover, we will not provide financing for companies that rely on MTR for anything more than a limited portion of their annual coal production, nor will we provide financing for any company that does not have a plan to eliminate existing MTR operations in the foreseeable future. We will also not provide financing where the specified use of proceeds would be directed toward new thermal coal mine development or expansion of existing mines. By 2025, we will not provide lending, capital markets or advisory services to any company with greater than 20% of revenue from thermal coal mining, unless such company has a public diversification strategy or the transaction being provided by our lending, capital markets or advisory services facilitates diversification. By 2030, we will phase out our remaining credit exposure to companies with greater than 20% of revenue from thermal coal mining globally.
- With regard to oil and gas, we will not directly finance new oil and gas exploration and development in the Arctic, including the Arctic National Wildlife Refuge.

## ***Energy Companies in Transition***

Energy companies bring significant resources, technology, and engineering expertise to the climate challenge, and many have invested heavily in new forms of energy. The International Energy Agency report [Net Zero by 2050](#), for example, acknowledges that “[o]il and gas companies are well-placed to accelerate the pace of development and deployment of these technologies.” We will continue to support energy companies in their work to decarbonise the global economy at a pace that balances climate concerns alongside energy security and other factors.

# Morgan Stanley

Consistent with our long-standing business practice to match our financial investments and financial products with the demands of our clients and conditions of the financial markets, we have made a number of voluntary climate commitments. We note that many of our clients, including energy companies operating globally, have made similar commitments relating to reducing greenhouse gas emissions.

## *Net Zero Emissions by 2050 IEA Scenario*

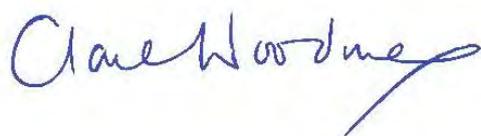
Morgan Stanley has a role in supporting an orderly transition to net zero. We also recognise the importance of balancing near-term energy security with the long-term transformation needed to decarbonise global industries to stop global temperature rise.

At this time, we believe that immediately removing support from key sectors like energy would likely undermine a smooth climate transition. Our priority in terms of achieving our 2050 net zero commitment, and 2030 interim targets, is supporting all our clients in their own transition to more sustainable operations and solutions, including those in carbon-intensive sectors such as energy.

As noted above, we used the absolute IEA NZE emissions scenario to define our energy sector's 2030 interim target. The scenario describes the technological advances, fuel transition, and operational efficiencies that energy companies we lend to will need to make in order to reach net-zero emissions by 2050. In addition to engaging clients individually, we will need to take a portfolio-wide approach to meeting our targets, since they are portfolio-level targets. This will require, over time, ensuring that our capital allocation decisions are appropriately guided by climate considerations, amongst many other business factors, in order that we meet our commitments. Morgan Stanley's net-zero climate commitment is monitored by the members of our Climate Risk Committee, which is chaired by our Chief Risk Officer and our Chief Sustainability Officer.

I hope this information is helpful to the Committee in pursuing its inquiry.

Yours sincerely



Clare Woodman

**Chairman of the Environmental Audit  
Committee  
House of Commons  
Palace of Westminster  
Westminster  
SW1A 0AA**

07 September 2022

Ian Davies  
Head of Protection

Dear Rt Hon Philip Dunne MP

### **The financial sector and the UK's net zero transition**

Thank you for your email dated 17<sup>th</sup> August. Munich Re UK Life Branch is a Branch of our Head Office, Münchener Rückversicherungs-Gesellschaft which is based in Munich. Our Head Office has responsibility for this topic.

Munich Re is supporting the Paris Agreement and as an environmentally conscious company, Munich Re will play its part in meeting the targets. Our climate strategy published December 2020 includes a further reduction of carbon emissions with the mid- to long-term goal of net-zero carbon emissions in our own business operations and our investments as well as on the liability side regarding the direct insurance of coal, oil and gas. Munich Re is already operating carbon neutral since 2015.

To underline our dedication, Munich Re has set clear decarbonization targets already in 2020 (i.e. before the Ukraine war) for its liabilities, investments & own operations. Further, we are a member of the UN-convened Net-Zero Asset Owner Alliance and co-founded the Net-Zero Insurance Alliance in 2021, which include commitments to achieve net-zero emissions across our investment and insurance portfolios. Our climate ambition already includes emission reduction targets for the facultative, direct and primary property insurance business for Oil and Gas, which includes existing and new oil and gas projects. For this business, we aim to achieve net-zero emissions by 2050 with a first intermediate goal of -5% emissions by 2025. Further, we have put in place exclusion guidelines regarding oil sands and for exploration & production of oil and gas in the Arctic. We also committed to develop a decarbonization strategy for our treaty business.

With these commitments, Munich Re has taken a clear and science-based stance to support the Paris Climate Goals. We are constantly monitoring our progress against this ambition and reporting transparently in our annual and sustainability reports.

**Munich Re UK Life Branch**  
10 Fenchurch Avenue  
London  
EC3M 5BN

Tel.: +44 (0)20 3003 7000  
[www.munichre.com/uk-life](http://www.munichre.com/uk-life)

Registered in the UK as  
Munich Re Company United  
Kingdom Life Branch.  
UK Est. No. BR003492

Head Office:  
Münchener Rückversicherungs-  
Gesellschaft Aktiengesellschaft  
in München.  
Königinstr. 107, 80802 Munich,  
Germany

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Commercial Register Munich,  
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and limited regulation by the  
Prudential Regulation Authority.  
Details about the extent of our  
regulation by the Prudential  
Regulation Authority are  
available from us on request.

Information on data protection:  
<https://www.munichre.com/en/service/information-gdpr/index.html>

Page 2

We are still in the process of establishing a final position on the respective questions. We would be happy to return to the issue once that has been resolved. However, this will not be the case before the end of the deadline.

Please reach out to Ralf Fischer zu Cramburg  
[REDACTED] from our Group ESP team in future.

07 September 2022

Ian Davies  
Head of Protection

Ian Davies  
Head of Protection

Alison Rose  
Group Chief Executive Officer  
NatWest Group



The Rt Hon Philip Dunne MP  
Chairman, Environmental Audit Committee  
House of Commons  
Palace of Westminster  
Westminster  
SW1A 0AA

6 September 2022

Dear Philip,

Thank you for your letter of 17 August 2022 inviting me to write to you on NatWest Group's transition to net zero. Combatting climate change is at the heart of the Group's Purpose-led strategy and I am proud of the leadership position the bank has taken on supporting our customers on their net zero journey, as well as ensuring the transition of our own operations. I am sure you will agree that the importance of the transition to net zero has only increased as the UK seeks to enhance its energy security and protect consumers from the soaring costs of their bills.

I have set out the Group's response to each of your questions in the appendix to this letter. In reading this return, you may find it helpful to reference our Climate Related Disclosures Report, which is available [here](#).

Please do let me know if I or any of my team can do anything to support the important work of the Environmental Audit Committee.

Yours sincerely,

A handwritten signature in black ink, appearing to read "ARose", written in a cursive style.

Alison Rose

250 Bishopsgate, London EC2M 4AA

## Appendix A – NatWest Group Response to the Environmental Audit Committee’s questions

### 1. To invite you to state your institution’s public position regarding the financing of fossil fuel extraction and renewable energy generation:

#### Renewable energy generation

Our climate strategy sets out ambitious targets including to at least halve the climate impact of our financing activity by 2030, and reach net zero carbon on our financed emissions by 2050 at the latest. This is in line with our commitment as one of the founding members of Net Zero Banking Alliance and as a signatory to the ‘Business Ambition for 1.5C’. A key pillar of achieving our net zero ambitions will be to support renewable energy generation, including through the target we set out at COP26 to provide £100 billion Climate and Sustainable Funding and Financing by the end of 2025.

To provide transparency on the green credentials of these projects, we publish our Climate and Sustainable Finance Inclusion Criteria (CSFI) on [our website](#). As reported on p.63 our Climate Related Disclosures Report, the below chart shows the proportion of renewable energy lending captured within our CSFI criteria:

Wholesale loans by CSFI criteria category in 2021<sup>(1)</sup>



#### Notes:

1. In the above chart, loans funded since 1 July 2021 and therefore contributing towards the £100 billion target were: renewable energy £859 million, sustainable transport £676 million, water and waste management £225 million, other £115 million. Sustainability Linked Loans are excluded from this chart.
2. Renewable Energy – Other primarily relates to lending to funds who invest in multiple types of renewable energy.
3. Energy infrastructure includes lending for companies and assets relating to electricity transmission and distribution.
4. Other consists of energy efficiency £138 million, low carbon and offsetting technology £39 million and built environment £25 million.



## Fossil fuel extraction

### Coal

We announced in 2020 that we would not lend and underwrite to companies with more than 15% of activities related to thermal and lignite coal, unless they had a Credible Transition Plan in line with the 2015 Paris Agreement in place by the end of 2021. As a result, we will stop lending and underwriting to these customers, including stopping renewal, extension or refinancing of any existing commitments as they mature. We will fully exit these customer relationships as soon as is practicable.

Since November 2021, we have prohibited:

- new customer relationships with corporates who explore for, extract or produce coal, or that operate unabated coal power plants;
- existing customers who are increasing coal mining activity by exploring for new coal, developing new coal mines or increasing thermal coal production; and,
- all project financing (including refinancing) related to coal mining activity by exploring for new coal, developing new coal mines and coal infrastructure.

We intend to:

- By 1 October 2024: phase out of coal for UK and non-UK customers who have UK coal production, coal fired generation and coal infrastructure.
- By 1 January 2030: full phase out of coal.

Last year, NatWest Group also joined the Powering Past Coal Alliance, a coalition of businesses, governments and organisations working to advance the transition from coal power generation to clean energy.

### Oil and Gas

As set out in our Climate Related Disclosures report, as of 31 December 2021, the total percentage of our balance sheet exposed to oil and gas was 0.7%. Since 31 December 2019, we have reduced our oil and gas sector exposure by c. £1.7bn, and we do not lend and underwrite to companies unless they had a Credible Transition Plan in line with the 2015 Paris Agreement in place by the end of 2021.

While the oil and gas sectors continue to play a critical role in UK energy security and the transition to clean energy, NatWest Group recognises the significant climate, environmental and social risks associated with it. As a result, we have also tightened our oil and gas ESE policy. As of 1 January 2022, we only continue to support upstream oil and gas companies:

- Where the majority of their assets being financed are based in the UK (onshore or offshore UK Continental shelf); and
- Where those companies report to us the overall emissions of the assets they operate by the end of 2023.

Full details of our updated Power Generation, Mining and Metals and Oil & Gas Environmental, Social, Ethical (ESE) policies are available in the [Downloads section](#) on our website. Additionally, p.58 of our Climate-related Disclosures Report 2021, summarises the Group's exposures to sectors identified as

exposed to heightened climate-related risk impacts. The amounts reported include amounts reported include all lending to customers including climate and sustainable lending.

**2. To ask you whether, in communicating with fossil fuel producers, your institution supports the conclusions of the International Energy Agency’s report Net Zero by 2050: A Roadmap for the Global Energy Sector:**

We continue to engage closely across our customer based on the transition to net zero. Based the commitments set out above on reducing our fossil fuel exposure, we identified large corporate customers with an aggregate lending exposure of £1,428 million on 31 December 2021 (31 December 2020: £1,965 million) as requiring assessment of their Credible Transition Plan (CTP).

This included oil and gas majors with aggregate lending exposure of £814 million on 31 December 2021 (31 December 2020: £1,320 million), and also customers with more than 15% of their activities related to coal (thermal and lignite) engaged in mining, power generation and trading activities with aggregate lending exposure of £614 million on 31 December 2021 (31 December 2020: £645 million).

As referenced on p.30 of our Climate-related Disclosures Report, the CTP assessment involved three components summarised below. For a customer’s transition plan to be assessed as credible and in line with the 2015 Paris Agreement, we applied the following criteria:

CTP assessment criteria	
<b>A</b> A quantitative assessment using an independent third-party proprietary model to assess alignment with the 2015 Paris Agreement	<p>This model calculates a temperature alignment score by:</p> <ul style="list-style-type: none"> <li>- use of climate scenario temperature alignment model to assess whether a customer’s transition plans and resulting projections for Scope 1,2 and 3 emissions are consistent with temperature scenarios that are aligned to the goals of the 2015 Paris Agreement.</li> <li>- To calculate temperature alignment, climate outcome scenarios were used to model future energy production. Emission projections were compared against sector and geography specific pathways under those scenarios. By interpolating/extrapolating against the climate scenario outcomes, an assessment was made of the temperature alignment score for the company. This is in line with the Intergovernmental Panel on Climate Change’s report as well as our commitment as one of the founding members of the Net Zero Banking Alliance.</li> </ul>
<b>B</b> A credibility assessment	<p>A credibility assessment of customer transition plans which considered both public and client information and included use of a standardised scorecard which analysed factors such as executive and management incentives, investments to date and future investment plans in decarbonisation and transition technologies, as well as climate scenarios used in strategy development and information on how financial performance will evolve.</p>
<b>C</b> Management review and assessment	<p>Approval by the NatWest Group Reputation Risk Committee (GRRC) of outcomes of the quantitative and credibility assessments as well as customers’ forward-looking strategy and alignment to NatWest Group’s environmental, social and ethical (ESE) policies, and the impact of current and expected legislative requirements and policy developments on customers’ strategies.</p>

The outcome of the assessments was as follows:

- Thermal and lignite coal customers with exposures amounting to £437 million on 31 December 2021 (31 December 2020 £439 million) did not have a CTP aligned with the 2015 Paris Agreement. As a result, we have stopped lending and underwriting to these customers, including stopping renewal, extension or refinancing of any existing commitments. We will fully exit these customer relationships as soon as is practicable.
- Oil and gas customers with exposures amounting to £530 million on 31 December 2021 (31 December 2020 £751 million) did not have a CTP aligned with the 2015 Paris Agreement. As a result, we have stopped lending and underwriting to these customers as soon as practicable, including stopping renewal, extension or refinancing of any existing commitments. In our continued discussions with these customers, we understand that they are investing in activities



to support transition towards net zero. As a responsible business and in recognition of NatWest Group role's in financing the transition, we may provide lending and underwriting to these customers where such lending and underwriting is limited to activities that are aligned to our CSFI criteria, where the proceeds of such financing are linked to the development of the assets and activities referenced in the CSFI criteria. Assessment of whether a transaction meets the CSFI criteria will be carried out as part of the credit approval process.

- Customers with exposures amounting to £461 million as of 31 December 2021, of which oil and gas £284 million; thermal and lignite coal: £177 million (31 December 2020: £775 million, of which oil and gas £569 million; thermal and lignite coal: £206 million) will be retained, provided they comply with our ESE policies.
- We will continue to monitor all customers' progress against their published transition plan or strategy annually, as part of the ESE risk assessment process.

**3. Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL:**

NatWest Group's ESE risk management framework is one of a number of risk management systems we operate, comprising policies and processes to give us better insight into our customers' activities, help address issues of concern, minimise risks to the bank and manage stakeholder expectations. It gives clear guidance to staff on the procedures they must follow in relation to ESE risks when dealing with customers and transactions. Our policies reflect adherence to national and international laws and regulations, wherever they apply. We have also incorporated a number of voluntary standards such as the Equator Principles and the UN Global Compact.

Our ESE Risk Policy summaries for Power Generation, Mining and Metals and Oil & Gas can all be found at this link: <https://www.natwestgroup.com/our-purpose/downloads.html> Additional detail can be found within the Climate-Related Disclosures Report.

**4. Does your institution's overall approach to energy transition include fossil fuel exclusion policies?**

Our approach to fossil fuels, including prohibitions, as part of our overall approach to the net zero transition can be found in the answers above. Precise prohibitions are set out at <https://www.natwestgroup.com/our-purpose/downloads.html>

**5. How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?**

Please see our answers above. Additionally, it may be helpful to note that as a signatory of the Science Based Targets initiative, NatWest Group has sought to use the initiative's guidance for financial institutions to estimate emissions intensity estimates for 2030, where possible. The bank has submitted 2030 emission intensities and sector-specific targets to SBTi for validation. As of 31 December 2021, NatWest Group had analysed 52% of its gross lending and investment balances at full year 2019 to support estimating its financed emissions. This includes Oil and Gas which can be found on p.89 of the Climate Related-Disclosures Report.



**6. Does your institution also support the IEA's net-zero scenario which calls for 'no new investment is needed in coal, oil and gas'?**

Our approach to fossil fuel sectors is as stated in our strategy is primarily managed through the Credible Transition Plan Assessment process, as set out above. Linked to this we have a range of ESE policies which include prohibitions such as:

- to stop lending and underwriting to major oil and gas producers unless they had a credible transition plan aligned with the 2015 Paris Agreement in place by the end of 2021. (See answer to question 2 for the Credible Transition Plan assessment details)
- We prohibit general corporate lending to the oil & gas sector for new reserve-based lending for operations in Arctic or Antarctic Waters and regions
- We prohibit projects involving exploration for new oil and gas reserves

Full detail of our ESE Policies can be found here: <https://www.natwestgroup.com/our-purpose/downloads.html>

**7. What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?**

This is covered through our Credible Transition Plan Assessments as set out above. Additionally, at our March 2022 AGM, NatWest Group shareholders voted 92% in favour of the bank's Say on Climate Resolution. This means that in 2023 the bank will publish its climate transition plan, which will further support our ambition to do what is necessary to achieve alignment with the 2015 Paris Agreement. We intend to be transparent in providing updates on progress against our climate transition plan by publishing annual reports.

**8. Has your institution's credit committee been instructed to reduce or decline to make new capital available for new fossil fuel projects:**

While the oil and gas sectors continue to play a critical role in UK energy security and the transition to clean energy, NatWest Group recognises the significant climate, environmental and social risks associated with it. As a result, we have tightened our oil and gas ESE policy:

From 1 January 2022, we will only continue to support upstream oil and gas companies:

- where the majority of their assets being financed are based in the UK (onshore or offshore UK Continental shelf); and
- where those companies report to us the overall emissions of the assets they operate by the end of 2023.



8th September 2022

Rt Hon Philip Dunne MP  
Chairman of the Committee  
Environmental Audit Committee  
House of Commons  
Palace of Westminster  
Westminster  
SW1A 0AA

*Sent by e-mail only*

Dear Rt Hon Philip Dunne MP,

**The financial sector and the UK's net zero transition**

Thank you for your letter of 17 August 2022 outlining the House of Commons' inquiry into the financial sector and the UK's net zero transition. Climate change is a priority issue for Ninety One, informing our approach to investing as well as the way we operate our business.



Ninety One joined the Net Zero Asset Managers initiative (NZAM) in June 2021, acknowledging the urgent need to accelerate the transition towards global net zero emissions and for asset managers to play their part to help deliver the goals of the Paris Agreement and ensure a just transition. In joining, we committed to work for an inclusive transition for the whole world, including emerging markets.

We intend to do more than reduce carbon emissions by simply constructing portfolios that exclude high-emitting countries and companies. We believe that if we mechanically apply an exclusionary process to achieve net-zero targets, we would likely create portfolios concentrated in developed markets and asset-light industries, without the transition focus on the sectors that are most critical to achieving net zero. Instead, we seek to differentiate between the reduction of 'portfolio carbon' and the reduction of carbon emissions in the real world. Therefore, when joining NZAM we made two commitments:

1. Our approach to cutting emissions will support real-world decarbonisation; and
2. We will work for a fair transition that includes emerging markets.

We have sought to design net zero targets for our investments aimed at driving real-world emissions reduction and allowing emerging markets to transition in a fair and inclusive manner, as follows:

- At least 50% of the corporate emissions financed by Ninety One will be generated by companies with Paris-aligned science-based transition pathways by 2030.
- The proportion of our corporate AUM covered by Paris-aligned science-based transition pathways will meet the Science Based Targets initiative (SBTi) requirements for Ninety One to obtain a verified SBTi. We calculate this requirement to be 56% of our corporate assets under management with science-based transition pathways by 2030.
- We will also undertake direct engagement with companies responsible for at least 80% of our financed emissions, prioritising engagement with our highest emitting companies to maximise the proportion of our corporate AUM and financed emissions with science-based transition pathways.

**Ninety One plc**  
55 Gresham Street  
London EC2V 7EL

T +44 (0) 20 3938 2000  
[www.ninetyone.com](http://www.ninetyone.com)

We believe our strategy of engaging with the companies we invest in will bring real transformation that is practical and realistic.

In addition, we are also committed to achieving carbon neutrality in our own operations. We aim to reduce absolute Scope 1 and 2 GHG emissions by 46% by 2030 from a 2019 base year.

Please see the annex to this letter where we have provided specific responses to your questions. If you have any further questions, please do not hesitate to reach out.

Yours sincerely,

A handwritten signature in black ink, consisting of a stylized 'H' followed by a long horizontal stroke that tapers to the right.

**Hendrik du Toit**  
Chief Executive Officer

## Ninety One's response to the Environmental Audit Committee's letter of 17 August

**a) Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.**

We do not have a public statement outlining our approach to financing fossil fuels and/or the funding of new projects. In principle we are reluctant to fund new fossil fuel projects that are not aligned to the relevant country's Paris-aligned Nationally Determined Contribution (NDC).

However, if we exclude existing businesses, there are several potential unintended consequences. Firstly, they may end up in private hands, where shareholders may pay less attention to environmental consequences. We therefore prioritise engagement with high emitting companies as our preferred means to encourage transition away from fossil fuels. Secondly, decarbonisation should not cause energy shortages in the short term. We are very supportive of an orderly carbon transition, where the negative impact on particularly lower income consumers is limited.

Our detailed approach to our net zero transition plan is outlined in our Sustainability and Stewardship report, which can be found on our website<sup>1</sup>.

**b) Does your institution's overall approach to energy transition include fossil fuel exclusion policies?**

Ninety One does not impose its values on our clients and their portfolios and therefore does not have a single firm-wide policy to exclude or limit investment in coal or other fossil fuels. As an active investor, our firm-wide approach to net zero is to maximise our real economy contribution to emissions reduction by engaging high emitting companies to set targets and develop and implement science-based transition plans.

We evaluate the impact of externalities on a company's future revenue streams and integrate this into all of our investment processes. In addition, we do offer a range of dedicated investment strategies with defined sustainability objectives that focus on positive inclusion and consequently many of these funds involve limits or exclusions in relation to coal and other fossil fuel investments.

**c) How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?**

In order to ensure a successful transition to net zero, significant investment in transition is required. In emerging markets alone, there is an US\$850bn shortfall in the quantum of investment that is required to successfully transition their energy systems. Therefore, we strongly support increasing allocation to companies that are transitioning from fossil fuels, and enabling other companies to do so. In our role as an asset manager we are actively developing strategies to enable our clients to allocate finance to the transition.

We are also working actively with a coalition of investors through the Sustainable Markets Initiative to develop criteria to define and categorise different types of transition investments to support effective investments in transition while avoiding greenwashing.

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<sup>1</sup> <https://ninetyone.com/en/united-kingdom/sustainability/sustainability-report>



- d) In view of the statement above, does your institution also support the IEA's net-zero scenario which calls for 'no new investment is needed in coal, oil and gas'?**

Ninety One's primary target setting approach is based on the portfolio coverage approaches outlined within the current SBTi methodology for Financial Institutions, and the Net Zero Investment Framework. The primary science-based pathway currently utilised to assess targets and transition plans is the IEA NZE 2050 scenario, and we engage with companies to encourage transition in line with these expectations.

Over half of Ninety One's AUM is invested in emerging markets. In addition, we are the largest third-party asset manager in South Africa by AUM. Therefore Ninety One recognises the importance of differentiation in country and sectoral pathways and the context of a country's NDC to support a just transition to net zero. We assess company targets and plans accordingly. In this regard there is a need for the net zero models and scenarios currently available to develop country pathways to better reflect specific country contexts, constraints and opportunities for transition and support investment in a fair and inclusive transition.

- e) What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?**

Phase out and retirement of fossil fuel assets will be a part of the transition to net zero. The transition categorisation exercise that we are developing as part of the Sustainable Markets Initiative has a category for phase out and interim assets – thus recognising the need to work with the holders of fossil fuel assets to responsibly phase out those assets.

Ninety One is also participating actively in the GFANZ working group on the Managed Phase Out of High-Emitting Assets to support development of relevant approaches to this aspect of transition.

In addition, phase out needs to be benchmarked locally, taking into account the different circumstances of individual countries.

- f) Please identify the proportion of the assets you manage which are (a) actively and (b) passively managed (for example in index tracking portfolios) and the extent to which differential policy mandates between the two investment approaches apply in relation to investment in fossil fuels.**

Ninety One is an active asset manager and does not manage any passive assets.

Rt Hon Philip Dunne MP

*By email*

8 September 2022

Dear Philip Dunne,

## **THE FINANCIAL SECTOR AND THE UK'S NET ZERO TRANSITION**

Thank you for your letter of 17 August, seeking further information on Phoenix Group's approach to the net zero transition.

Phoenix Group strongly welcomes the Committee's focus on the role of the finance sector in supporting and driving the decarbonisation of the economy. The sector has a central role to play in enabling the UK to both manage the risks and seize the opportunities of the net zero transition. We at Phoenix are proud to have set ambitious targets for decarbonising our investment portfolio, operations, and supply chain, and are now fully focused on ensuring those targets are met.

Your letter raised a number of important questions; our responses are set out in the Annex below.

In particular, you rightly raise the issue of investment in new coal, oil and gas extraction and the International Energy Agency's recommendation that "no new investment is needed in new coal, oil or gas [fields]".

I can assure the Committee that Phoenix has no plans to make direct investments in such assets.

However your questions raise a broader point which I wanted to address directly.

Phoenix is a large-scale pensions and insurance investor, and protecting our customers' short- and long-term interests is at the heart of what we do. The nature of our business means that we have broad exposure across the economy and maintain holdings in companies in all major sectors, including energy production and utilities. Having that breadth of activity is important to ensuring we protect the interests of our customers.

In some cases, the governments in the countries in which we operate – including the UK – are actively encouraging and incentivising investment in new fossil fuel fields. That inevitably means that some of the companies in which we are invested are considering such projects.

Our strategy is to work with companies considering such investment to influence their future business models, and accelerate the transformation away from fossil fuels and towards renewable and other low carbon infrastructure investment. We do this through our climate change engagement programme, which is based around a set of expectations on companies building on the pillars of the Taskforce for Climate-Related Financial Disclosure, the CA100+ Net Zero Framework, the Transition Pathway Initiative, the Global Standard on Responsible Climate Lobbying and the Just Energy Transition Framework.

We recognise the limitations of our approach in the context of the IEA advice, and would strongly support additional measures from governments, including here in the UK, to focus market incentives on dramatically accelerating investment in net zero-aligned infrastructure rather than new fossil fuel infrastructure. We believe this can help to deliver the aligned objectives of lower emissions, lower costs, and reduced exposure to volatile global commodity markets.

We would welcome a focus from the Committee on this issue, and in particular for the Committee to consider recommendations on how market signals should be changed to reflect the urgent need to scale back investment in fossil fuel infrastructure and increase investment in zero carbon assets.

If you have any questions, please contact our Head of Climate Change, Tim Lord [REDACTED]  
[REDACTED] We would be happy to appear before the Committee to discuss these issues, and the wider role of the sector in driving decarbonisation, if that would be helpful.

Yours sincerely,

**Andy Briggs**

**Group Chief Executive Officer**

**Phoenix Group**

## ANNEX

**Q: To invite you to state your institution's public position regarding the financing of fossil fuel extraction and renewable energy generation; and to ask you whether, in communicating with fossil fuel producers, your institution supports the conclusions of the International Energy Agency's report Net Zero by 2050: A Roadmap for the Global Energy Sector.**

Phoenix Group is a strong advocate of investment which supports the net zero transition. With around £300bn in assets under management, and over 13m customers, we have the scale to make a real difference.

At portfolio level, this is reflected in the targets we have set to decarbonise all the assets we control by 50% by 2030, and to reach net zero for our entire portfolio by 2050.

To support that, we are engaging in an ambitious programme of active stewardship of our investments. As part of our climate engagement programme, we have identified the investments with the most material carbon footprint and poor performance on climate forward looking analysis, and are engaging with those companies – particularly in the energy production and utilities sectors – to ensure they have set certified science-based emissions reduction targets, and to interrogate their plans to deliver them. We are also asking investee companies to conduct a scenario analysis using the IEA NZ framework, report on the insights gained and explain how they influence their future climate strategy and targets.

With regard to renewable energy generation: we are working closely with key investees to encourage and incentivise them to increase the proportion of their investment which goes towards renewable energy generation and use. We are also directly investing in renewables assets ourselves, with investments of £220m in 2021.

With regard to fossil fuel investments: Phoenix does not undertake direct investment in new fossil fuel fields. Where our investees are investing in new fossil fuel projects, we are working with them to ensure they are only doing so in a way which is compatible with delivery of science-based decarbonisation targets. If they are not, we will work to influence them to do so and, if they do not progress against our set engagement targets, we will consider options for escalating our concerns including, ultimately, reduction of investments and divestment.

**Q: Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.**

We do not currently set out an overall position on financing fossil fuels on our website. We will provide public information on our climate engagement programme, including options for escalation, in our first Stewardship Report which will be issued in Q1 2023.

**Q: Does your institution's overall approach to energy transition include fossil fuel exclusion policies?**

Yes. While our preference will always be to engage in constructive dialogue with our investee companies to help improve their performance on ESG factors, we accept that this might not always be feasible. Our approved exclusions policy screens out stocks that have more than 20% of revenues generated from thermal coal, arctic

drilling and oil sands. It has resulted in portfolio names being earmarked for sale and works to complement wider changes in portfolio design which support delivery of our decarbonisation targets.

**Q: How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?**

Our approach to decarbonisation is to focus on delivering “real economy” emission reduction – that is, where possible we will support companies which are seeking to make the transition from high- to low-emissions business models in order to drive overall emission reduction, rather than only prioritising reductions within our own investment portfolio.

We support this in a number of ways, including:

- Engaging directly with highly emitting companies in our investment portfolio which are not yet taking sufficiently ambitious decarbonisation actions.
- Monitoring engagement activities on climate change conducted by our asset management partners on our behalf.
- Increasing the proportion of low carbon assets in our investment portfolio, for example by tilting our portfolio towards investments with lower emissions. We are in the process of moving 1.5 million customers and over £15bn of assets to a Sustainable Multi-Asset default, which will deliver emission reductions in line with our decarbonisation targets while aiming to enhance returns over the long-term.
- Direct investment in low carbon and renewable assets.
- Enhancing the Group’s governance framework to embed oversight and management of climate risk and opportunities.

**Q: Does your institution also support the IEA's net-zero scenario which calls for ‘no new investment is needed in coal, oil and gas’?**

We do not directly invest in new coal, oil or gas fields, and have excluded stocks that have more than 20% of revenues from thermal coal, arctic drilling, or oil sands.

Where companies in which we are invested are considering new coal, oil and gas investment, we engage with them to clarify how such investments are justified in the context of their broader net zero transition planning and available climate scenarios. If their plans are not sufficiently credible or ambitious, we will escalate our engagement, ultimately including escalation strategies in case of lack of progress.

We would strongly support additional action from governments to ensure that market frameworks are aligned with the net zero transition, by strengthening incentives to invest in net zero-aligned assets rather than new fossil fuel fields.

**What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?**

We have no current direct holding in fossil fuel assets nor is our intention to make new investments in this area.

In relation to our indirect holdings on companies exposed to fossil fuel assets, we have developed a climate change engagement programme focused on high emitting companies responsible for a large percentage of our financed emissions following the Asset Owner Alliance Protocol v.2. As part of the programme, we have developed a set of expectations on companies building on the pillars of the Taskforce for Climate-Related Financial Disclosure, the CA100+ Net Zero Framework, the Transition Pathway Initiative (TPI), the Global Standard on Responsible Climate Lobbying and the Just Energy Transition Framework.

The analysis provided by the TPI builds on the IEA Net Zero scenario and allows us to have an informed dialogue with companies on the necessary timeline and coverage of their GHG emissions reduction targets, retirement of fossil fuel assets and investments in renewable energy to be aligned with a 1.5 degree scenario. In the specific case of coal assets, we are aligned with the AOA coal position paper which is demanding full phase out by 2030 for industrialised countries and 2040 globally.

**Where you continue to hold investments in fossil fuel-producing companies, has your institution communicated to that company's management your position on the IEA's Net Zero scenario and its conclusion on the need for no new investment in future new production? If not, does your company plan to do so?**

As mentioned above, the IEA Net Zero scenario is the reference scenario for Phoenix Group's science based targets (which will be submitted to the SBTi for external certification) and stewardship activities.

Rt Hon Philip Dunne MP  
Chair, Environmental Audit Committee  
House of Commons  
Palace of Westminster  
London  
SW1A 0AA

**Date:** 30 September 2022

Dear Rt Hon Philip Dunne MP

### **The financial sector and the UK's net zero transition**

We refer to your letter dated 17 August 2022. We are pleased to provide our responses below and remain at the Committee's disposal should it seek further clarification or new information.

Railpen supports, and is owned by, one of the UK's largest and longest established pension funds, the Railways Pension Scheme. With offices in Darlington, Coventry and London, we are responsible for the safekeeping and investment of c.£35 billion on behalf of the scheme's 350,000 members connected to the railway industry.

Our purpose is to secure our members' future and improve the world they retire into. We are accountable to them and transparent with them in what we do on their behalf. Acting as a long-term, responsible investor is fundamental to the Trustee's mission of paying members' pensions securely, affordably, and sustainably – which is particularly important in an increasingly difficult economic climate.

Tackling the climate crisis reflects, and is core to, our broader ambitions. We are committed to achieving [Net Zero](#) by 2050 or sooner across our investment portfolio and the emissions associated with our corporate footprint. Our long-term investment horizon exposes members' savings to the impacts of climate change. Therefore, we have a dual responsibility: to make our investments resilient to this threat and to use our influence and scale to effect positive change in the world.

We believe it is essential to focus on the foundational activity that can drive real impact over the long term, both climate-related and sustainability more broadly, over shorter-term headline-grabbing activity.

Please see our responses to the Committee's questions below.

- a. *Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.*

We have an exclusion policy in place for certain fossil fuels, and this policy is reviewed on an annual basis. Details can be found in Railpen's Net Zero Plan and in our client's TCFD Report.

The largest Greenhouse Gas (GHG) emitters in the portfolio are in scope of Railpen's proprietary Net Zero Engagement Plan. This plan builds on the best practice guidelines laid out in the Paris Aligned Investing Initiative's (PAII) *Net Zero Investment Framework* (NZIF) and the

Institutional Investor Group on Climate Change's (IIGCC) *Net Zero Stewardship Toolkit*. We believe the transition to a low carbon economy will not be achieved without investors remaining engaged with those companies whose need to transition is greatest.

We stated the following in Railpen's Net Zero Plan: "Following the NZIF and the International Energy Agency's (IEA) net zero pathway, we do not support the allocation of capital to new thermal coal projects (new mines, mine extensions, or new coal-fired power projects) or new exploitation of tar sands."

Railpen Net Zero Plan:

[https://cdn-suk-railpencom-live-001.azureedge.net/media/media/dyiflcd5/railpen-net-zero-plan\\_2020.pdf](https://cdn-suk-railpencom-live-001.azureedge.net/media/media/dyiflcd5/railpen-net-zero-plan_2020.pdf)

RPTCL TCFD Report:

<https://www.railpen.com/media/bq1cjgd1/tcf-d-report-rps-2021.pdf>

*b. Does your institution's overall approach to energy transition include fossil fuel exclusion policies?*

We have an exclusion policy in place for certain fossil fuels, and this policy is reviewed on an annual basis.

Details can be found in Railpen's Net Zero Plan and in our client's TCFD Report, as above.

*c. How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?*

As part of Railpen's Net Zero Engagement Plan, we are engaging those companies that contribute most to our portfolio's financed emissions, in line with the PAll's *Net Zero Investment Framework* and the IIGCC's *Net Zero Stewardship Toolkit*.

In addition, Railpen's Net Zero Plan and our client's TCFD Report show the ways in which our portfolio has invested directly in climate solutions, for example in UK renewable energy.

*d. In view of the [assertion by the International Energy Agency (IEA) that there is no need for new investment in fossil fuel supply in a net zero by 2050 world], does your institution also support the IEA's net-zero scenario which calls for 'no new investment is needed in coal, oil and gas'?*

We believe that the IEA's net zero scenario would be a better societal outcome than scenarios in which weaker, more fragmented climate policy lead to higher levels of warming and increased physical climate risks. Our support of initiatives such as the Global Investor Statement on Climate Change, which calls on policy makers to do more to support the transition, affirms this belief.

We stated the following in Railpen's Net Zero Plan: "Following the NZIF and the International Energy Agency's (IEA) net zero pathway, we do not support the allocation of capital to new

thermal coal projects (new mines, mine extensions, or new coal-fired power projects) or new exploitation of tar sands.”

- e. *What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?*

Our institution does not have a policy addressing this particular question. However, our approach to engaging companies through the energy transition is aligned with industry best practice and we are sensitive to local, national and supra-national issues when engaging our global portfolio of companies.

- f. *Where you continue to hold investments in fossil fuel-producing companies, has your institution communicated to that company's management your position on the IEA's Net Zero scenario and its conclusion on the need for no new investment in future new production? If not, does your company plan to do so?*

We engage companies on the climate transition as part of Railpen's Net Zero Engagement Plan. Each engagement is different, and some are undertaken collaboratively for example through Climate Action 100+. When we, or our collaborative partners, feel that the board or company management need to heed the views of the IEA, or our position on the IEA's assertion on new fossil fuel production, then we will include that as part of the engagement.

As above, we would be happy to provide further information should the Committee required it.

Yours sincerely



**Jonathan Clark**  
Head of External Relations and Communication



**Re: The financial sector and the UK's net zero transition**

Dear Rt Hon Philip Dunne MP,

On behalf of Royal Bank of Canada (RBC or the bank), I am writing in response to your letter, dated 17<sup>th</sup> August 2022, regarding the inquiry into the financial sector and the UK's net zero transition being conducted by the Environmental Audit Committee of the House of Commons.

We appreciate this opportunity to provide the information requested in your letter. RBC is committed to doing its part to address climate change, and we have a clear climate strategy that includes working with our clients to support their plans to reduce greenhouse gas (GHG) emissions. In 2021, we committed to net zero emissions in our lending by 2050, aligned with the global goals of the Paris Agreement. To support our net zero ambition, we joined the Net Zero Banking Alliance (NZBA), a global, industry-led initiative to accelerate and support efforts to address climate change.

Underpinning our approach is a fundamental belief that this multi-decade transition must be orderly and inclusive – one that balances the needs of individuals, companies, regions, society and the economy. We have to work with our clients across all sectors, particularly higher-emitting sectors, to enable their net zero transition journeys, with client-by-client risk and opportunity decisions along the way.

We see opportunities to support clients that are investing in clean innovation and other projects that will help reduce GHG emissions, reduce emissions intensity or enhance resilience to severe weather events. We are also leveraging our sector expertise to work with clients in high-emitting sectors, helping to provide the financing and advice they need to invest in innovation and technologies that could help them on their transition journeys. In addition, RBC has also been active in supporting clients in renewable energy, low-emissions transportation and other low carbon sectors.

In response to the UK's Prudential Regulation Authority (PRA) requirement for all financial institutions to understand the financial impacts of climate change, and in line with the Climate Financial Risk Forum guide, RBC Europe Limited (RBC EL) developed a climate risk project roadmap. This project roadmap consists of four pillars: (i) governance, (ii) risk management, (iii) scenario analysis and (iv) disclosure.

Responses to your questions are detailed in the accompanying document.

If you have any questions or require further information, please do not hesitate to contact us.

Sincerely,

David Thomas  
CEO  
RBC Capital Markets Europe Ltd.

## **Attachment – Questions and responses**

### ***Public position on fossil fuel finance***

Please set out your institution's position by answering the following questions as appropriate:

***a. Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.***

Our approach to addressing climate change is outlined in our climate strategy and roadmap, the RBC Climate Blueprint – combining short- and long-term actions and commitments that support achieving net zero in our lending by 2050. The RBC Climate Blueprint is available on the RBC website [here](#)<sup>1</sup>.

RBC's environmental and social risk management policy requires that clients operating in industries of elevated environmental risk, including those in the oil & gas sector, be subjected to an environmental and social risk review. Additional details on our environmental and social risk management policies can be found on the RBC website [here](#)<sup>2</sup>.

We also have [Policy Guidelines for Sensitive Sectors and Activities](#)<sup>3</sup>, which limit financing for certain coal-related activities, and any project or transaction that directly supports exploration or development in the Arctic ecosystem, the Arctic National Wildlife Refuge, and UNESCO World Heritage Sites.

An overview of RBC Europe Limited's (RBC EL) management of climate risk is described in Appendix A of RBC's 2021 [Taskforce for Climate Related Financial Disclosures \(TCFD\) report](#)<sup>4</sup>.

RBC Global Asset Management (RBC GAM)'s approach to climate change, including integration of material climate change factors into their investment approach and perspectives on fossil fuel investment can be accessed [here](#)<sup>5</sup>.

In the coming months, we intend to disclose interim emission reduction targets. Subsequently, within 12 months of disclosing such targets, we intend to disclose how we are advancing plans to achieve those targets. These targets and our progress towards achieving them will be published on rbc.com.

***b. Does your institution's overall approach to energy transition include fossil fuel exclusion policies?***

We are committed to net zero emissions in our lending by 2050. As we work towards this goal, one of our priorities is to help our clients make traditional sources of energy cleaner and more sustainable. This will be important to ensuring that throughout the transition to net zero, society maintains access to the energy sources that power economies, lives and livelihoods. We are partnering closely with our clients, through the provision of advice and sustainable finance products and services, to help them achieve their sustainability objectives and support global efforts to lower GHG emissions.

RBC counts many energy companies among its clients. RBC restricts financing it provides to existing clients for certain activities in the energy sector, and in certain circumstances, may not pursue business opportunities with new energy company clients. Decisions related to extending financing in this sector are based on multiple considerations, including RBC's commitment to appropriately managing risk, including financial, legal, and reputational risk.

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<sup>1</sup> [https://www.rbc.com/community-sustainability/\\_assets-custom/pdf/RBC-Climate-Blueprint.pdf](https://www.rbc.com/community-sustainability/_assets-custom/pdf/RBC-Climate-Blueprint.pdf)

<sup>2</sup> <https://www.rbc.com/community-social-impact/environment/environmental-social-risk-management.html>

<sup>3</sup> [https://www.rbc.com/community-social-impact/environment/RBC-Policy-Guidelines-for-Sensitive-Sectors-and-Activities\\_EN.pdf](https://www.rbc.com/community-social-impact/environment/RBC-Policy-Guidelines-for-Sensitive-Sectors-and-Activities_EN.pdf)

<sup>4</sup> [https://www.rbc.com/community-social-impact/\\_assets-custom/pdf/RBC-TCFD-Report-2021.PDF](https://www.rbc.com/community-social-impact/_assets-custom/pdf/RBC-TCFD-Report-2021.PDF)

<sup>5</sup> <https://www.rbcgam.com/documents/en/other/our-approach-to-climate-change.pdf>

For example, under our [Policy Guidelines for Sensitive Sectors and Activities](#), RBC does not finance transactions with proceeds primarily used to develop new greenfield coal-fired power plants, thermal coal mines, or Mountain Top Removal coal mining projects; does not provide direct financing for any project or transaction involving exploration or development in the Arctic National Wildlife Refuge or UNESCO World Heritage Sites; and restricts financing activity with certain new clients that derive revenues from coal mining or have coal power generation assets

***c. How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?***

We have an important role to play in supporting our clients to get to a net zero emissions economy by 2050 and are working closely with clients in key sectors including oil and gas, power & utilities, automotive & transportation, and agriculture to support their transition plans. We are also investing in climate data and analytics to better understand the opportunities and risks across our lending portfolio. We finance companies that have clear, measurable net zero strategies, and we will be having conversations with those who do not have net zero strategies to help them get there.

RBC has committed to reaching [C\\$500 billion in Sustainable Financing by 2025](#)<sup>6</sup>. This commitment includes raising capital and providing advisory services for sustainable clients, projects and activities. It also includes providing credit solutions for sustainable businesses and projects, including green and sustainability-linked loans.

We see opportunities for added lending to support clients that are investing in clean innovation and other sustainable projects that will help reduce emissions, reduce emissions intensity or enhance resilience to severe weather events. Our climate strategy includes additional financial support to our clients in high emitting sectors so they can continue to invest in innovation and technologies that help them on their transition journeys. In addition, RBC has been active in supporting clients in renewable energy, clean transportation and other low carbon sectors.

The RBC Capital Markets' Global Energy Transition Platform has been active in the UK and supported clients in renewable energy, clean transportation and other low carbon sectors. The Platform consists of over 100 bankers focused on energy, renewables, clean technologies and energy transition clients. Its work has included the following select UK client mandates:

- Raised up to £2.8 billion in equity for Greencoat UK Wind, a listed renewables infrastructure fund investing in UK wind farms since their Initial Public Offering<sup>7</sup>; and
- Advised infrastructure investors on two landmark Electric Vehicle charging investments with Infracapital's £200m investment in Gridserve<sup>8</sup> and EQT Infrastructure's acquisition of Instavolt<sup>9</sup>.

Another key RBC-driven initiative helping to address climate change is [RBC Tech for Nature](#)<sup>10</sup>. This is a multi-year commitment to supporting new ideas, technologies and partnerships to solve pressing environmental challenges. This includes leveraging RBC's own technology capabilities in areas such as artificial intelligence, blockchain, and app development to work with charitable partners to address water and climate challenges. Supported by the RBC Foundation, there are over 100 initiatives currently

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<sup>6</sup> [http://www.rbc.com/community-sustainability/\\_assets-custom/pdf/OurCommitment\\_EN.PDF](http://www.rbc.com/community-sustainability/_assets-custom/pdf/OurCommitment_EN.PDF)

<sup>7</sup> <https://www.rbccm.com/assets/rbccm/docs/insights/rbcs-decisive-role-in-energy-transition-efforts.pdf>

<sup>8</sup> <https://www.gridserve.com/pressroom/gridserve-accelerates-with-200m-boost-from-infracapital/>

<sup>9</sup> <https://eqtgroup.com/news/2022/eqt-infrastructure-to-acquire-instavolt-one-of-the-leading-rapid-electric-vehicle-charging-network-operators-in-the-uk>

<sup>10</sup> <https://www.rbc.com/community-social-impact/environment/environmental-donations.html>

funded through the program, including UK-based organizations, with more than C\$27 million donated (as at October 31, 2021) to support more than 110 community partnerships globally since 2019.

### ***The IEA Roadmap to Net Zero***

*The International Energy Agency's May 2021 report states that reducing global carbon emissions to achieve net zero by 2050 will require "nothing less than a complete transformation of how we produce, transport and consume energy". Achieving this will require a managed decline in the use of fossil fuels, leading the IEA to assert that "there is no need for investment in new fossil fuel supply" or projects beyond those already committed to by 2021.*

#### ***d. In view of the statement above, does your institution also support the IEA's net-zero scenario which calls for 'no new investment is needed in coal, oil and gas'?***

Global decarbonization and energy transition plans are in flux as concerns regarding the cost of energy, inflation, and energy security are managed. The IEA (International Energy Agency) Net-Zero by 2050 scenario is one of several credible, science-based scenarios that can be used for the purpose of setting financed emissions reduction targets, as per NZBA's Guidelines.

RBC recognizes that each credible, science-based scenario is developed using a variety of assumptions, inputs, and models; and each provides different plausible pathways towards achieving Paris Agreement aligned temperature goals. For example, credible, science-based scenarios from bodies such as the International Panel on Climate Change and the Network for Greening Financial Services also have net zero pathways in which fossil fuel exploration is reduced rather than halted.

RBC supports NZBA's guidance allowing banks to choose from amongst the available credible, science-based scenarios when setting financed emissions reduction targets. This guidance is aligned with RBC's fundamental belief that the multi-decade transition to a net zero future must be orderly – one that balances the needs of individuals, companies, regions, society and the economy.

#### ***e. What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?***

As mentioned above, underpinning our approach to climate change is a fundamental belief that the multi-decade transition to a net zero future must be orderly – one that balances the needs of individuals, companies, regions, society and the economy. We have to work with our clients across all sectors, particularly higher-emitting sectors, to enable their net-zero transition journeys, with client-by-client risk and opportunity decisions along the way.

Traditional energy sources, like fossil fuels, are important to support our daily lives and the reliance on them will continue for some time in order to meet global energy demand. Society will continue to need fuel to heat homes and power transportation while infrastructure is built to enable the transition to more sustainable sources of energy. At the same time, jobs and prosperity need to be preserved and enhanced while the economy transitions to a more sustainable future.

Society's challenge will be to develop and use those resources in the most efficient and responsible ways possible. The health, security and prosperity of billions of people depend on it. Achieving a smooth transition will not be easy, but everyone must move forward together with a sense of urgency and thoughtful action.

One of the pillars of the RBC Climate Blueprint is to inform and inspire a sustainable future, where we have focused on producing thought leadership on climate issues and policies to educate and effect meaningful actions across a wide-range of sectors. These thought leadership efforts included the

publication of a series of reports and videos focused on the Energy Transition, with some reports specific to the European and UK markets. A recent example, "[The European Energy Trilemma](https://www.rbccm.com/en/insights/episode/the-european-energy-trilemma)"<sup>11</sup>, explored the emerging geopolitical realities and how they are shifting focus now to both increasing renewables investment to new highs, and direct investment towards all forms of energy to secure supply.

***f. Has your institution's credit committee been instructed to reduce or decline to make new capital available for new fossil fuel projects?***

RBC's environmental and social risk management policy requires that clients operating in industries of elevated environmental risk - including those in the oil & gas sector - be subjected to an environmental and social risk review. Additional details on our environmental and social risk management policies can be found on the RBC website [here](#)<sup>12</sup>.

Our key businesses have assigned executives to climate change issues and are configured to address the sustainable financing, responsible investment and client needs associated with the net-zero transition. We are partnering closely with our clients to help them achieve their sustainability objectives and support global efforts to achieve net zero emissions. We believe these efforts will have a meaningful impact in successfully achieving net zero and supporting economic prosperity.

For prospective and existing clients with business activities that may pose environmental or social issues, we have processes in place to identify and assess associated risks. If we pursue or maintain the business relationship, we take appropriate steps to mitigate those risks. Our environmental and social risk management (ESRM) process is designed to ensure we apply a suitable level of due diligence on a transaction.

More broadly, we have created management accountability across the bank to focus on climate change issues, including in key functions such as Risk Management and Strategy. Oversight over climate change issues is a management responsibility in each business and function, bringing additional focus and resources dedicated to our climate commitments and actions. We have also accelerated our climate risk analysis capabilities and conducted and disclosed an initial measurement of our financed emissions to establish a baseline and systematically assess the impact of, and integrate climate risk into, the various risk types that we monitor and manage across the enterprise. We are now advancing in building the data foundation and methodologies to anticipate and proactively manage risks.

Specifically for our UK business activities, and in response to the Prudential Regulatory Authority (PRA) regulatory requirements for financial institutions to understand the risks of climate change and embed climate risk management into their operations, we have provided enhanced disclosures regarding RBC Europe Limited's (RBC EL) management of climate risk. These UK-specific disclosures focus on four key areas: governance; risk management; scenario analysis; and disclosures. These disclosures have been done through a dedicated Appendix in the [2021 RBC TCFD Report](#)<sup>13</sup>, as well as through [RBC EL's 2021 Annual Accounts](#)<sup>14</sup>, its 2021 Internal Capital Adequacy Assessment Process and its [2021 Pillar 3 disclosures](#)<sup>15</sup>.

RBC EL is also monitoring emerging regulatory and legal requirements, in particular the developments of the UK Sustainability Disclosure Requirements (SDR) incorporating the UK Green Taxonomy and associated work of the International Sustainability Standards Board (ISSB).

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<sup>11</sup> <https://www.rbccm.com/en/insights/episode/the-european-energy-trilemma>

<sup>12</sup> <https://www.rbc.com/community-social-impact/environment/environmental-social-risk-management.html>

<sup>13</sup> [https://www.rbc.com/community-social-impact/\\_assets-custom/pdf/RBC-TCFD-Report-2021.PDF](https://www.rbc.com/community-social-impact/_assets-custom/pdf/RBC-TCFD-Report-2021.PDF)

<sup>14</sup> [RBC EUROPE LIMITED filing history - Find and update company information - GOV.UK \(company-information.service.gov.uk\)](https://www.gov.uk/company-information-service/company-information/filing-history)

<sup>15</sup> [https://www.rbc.com/regulatory-information/\\_assets-custom/pdf/Pillar-III/RBC-Annual-Pillar-3-2021.pdf](https://www.rbc.com/regulatory-information/_assets-custom/pdf/Pillar-III/RBC-Annual-Pillar-3-2021.pdf)

Environmental Audit Committee  
House of Commons  
Palace of Westminster  
Westminster  
SW1A 0AA

7 September 2022

**FAO: Rt Hon Phillip Dunne MP**

Dear Mr Dunne,

**Santander response to EAC's letter on the financial sector and the UK's net zero transition**

Thank you for your letter of 17 August on the financial sector and the UK's net zero transition. Our response detailed below provides information from the perspective of our global parent company, Banco Santander, which Santander UK is a wholly owned subsidiary of. We also make specific reference, where relevant, to areas of focus for Santander UK.

In February 2021, Banco Santander's board of directors approved an ambition to be net zero carbon by 2050. This applies to the Group's operations (which have been carbon neutral since 2020) and emissions from our lending, advisory and investment services. The Group is working to align climate relevant portfolios with the Paris Agreement goals and set decarbonisation targets for the climate-material sectors of its portfolio. Details of the progress we are making are set out in the answers to the questions below: a comprehensive overview of our performance can be found in our annual Climate Finance Report, which can be found [here](#).

Banco Santander was a founding member of the Net Zero Banking Alliance (NZBA), committing the Group to:

- i. transition operational and attributable greenhouse gas (GHG) emissions from lending and investment portfolios towards pathways to net zero by mid-century;
- ii. set intermediate targets for priority GHG emitting sectors for 2030 (or sooner); and
- iii. prioritise client engagement with products and services that facilitate the necessary transition in the real economy.

Santander UK is a ring-fenced bank and therefore is predominantly retail focussed. Santander UK's approach to climate change is centred on three strategic pillars, all of which support and align with the Group's commitments:

1. **Managing climate risks** – ensuring we understand the exposure to risks and incorporate climate considerations within business decisions.
2. **Supporting customers transition** – looking at how we can support our customers to make the transition to Net Zero.
3. **Reducing emissions in our own operations** – focusing on reducing emissions from our own property estate.

A key priority for Santander UK is to help customers improve the energy efficiency of their homes. Residential housing accounts for over 20% of total carbon emissions and less than 40% of homes in England have an energy performance certificate (EPC) rating of C or above (Government, Heat and Building Strategy - October 2021).

We recognise that banks can play a crucial role in supporting customers to start making the transition to net zero within their homes. Deciding on the retrofitting work that is most suitable for their property, alongside accessing necessary funding, are some of the main challenges faced by those property owners looking to transition, cut emissions and save on their energy bills. To address these barriers, Santander has taken a multi-faceted approach. We offer a free home energy report (EnergyFact) and green financing for those customers who wish to borrow to fund green retrofits. In March 2021, Santander became the first lender to offer mortgage customers a free digital home energy assessment, EnergyFact Report (EFR). The report was developed in partnership with Countrywide and Energy Saving Trust and was endorsed by the Green Finance Institute (GFI). Over 5,000 households have benefited from the report to date and the plan is to scale distribution up significantly in 2022 and provide a platform linking to our green lending products.

We also provide Green Additional Loans which are available to mortgage customers looking to carry out green home improvements including heating system upgrades, insulation projects and the installation of items like double glazing and solar panels. For corporate customers, our Corporate and Commercial bank has also created three new lending products whilst embarking on division wide training to raise education and awareness.

In 2021 Santander UK partnered with National Parks UK to fund a new project involving the restoration of 220 hectares of damaged peatland in the Cairngorms National Park in Scotland. This restoration site has the potential to avoid more than 16,000 tonnes of CO<sub>2</sub> emissions over its first five years, offering a significant opportunity for emissions mitigation.

Reducing emissions to net zero by 2050 will require a huge collaborative effort across Government, the financial services industry and green technology industries among others, to share knowledge and expertise and identify the most effective incentives that would support the 19 million residential properties that require retrofitting to start making the transition. Policy

measures will be needed to incentivise this happening and make it affordable for the more vulnerable.

Please see below for answers to the specific questions raised within your letter.

**Public position regarding the financing of fossil fuel extraction and renewable energy generation.**

- a. Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.

In February 2021 Santander Group set two decarbonisation targets regarding thermal coal (please see [here](#) for the press release).

In addition, in our '[Environmental, Social and Climate Change \(ESCC\) Risk policy](#)' we set specific prohibitions for new fossil fuels projects, including those related to:

- Financing for Oil upstream greenfield projects.
- Financing for new coal-fired power plant projects worldwide, or for the upgrade and/or expansion of existing coal-fired plants.
- Financing for new, or the expansion of thermal coal mines.

- b. Does your institution's overall approach to energy transition include fossil fuel exclusion policies?

In our [Climate Financial Report](#) (p.29) we published our position on the energy sector. The main challenge identified is climate change however we also need to consider energy security and the need to ensure a just transition. We do not exclude financing oil and gas in the future and if we were to do so, we would pay special attention to the credibility and robustness of our customers' transition plans to get to net zero, aligned with NDCs. However, we do prohibit financing for new coal-fired plants and other projects that are expected to generate more than 30% of revenue from coal power generation ([Environmental, Social and Climate Change \(ESCC\) Risk policy](#)).

In addition, our ESCC Risk policy sets out Santander's criteria for the identification, assessment, monitoring and management of Environmental and Social (E&S) risks and other climate change related activities, in the Oil & Gas, Power Generation and Mining & Metals sectors and those arising from businesses engaged in soft commodities. It is aligned to, and must be applied in conjunction with, Santander Group's Sustainability and Human Rights Policies. The ESCC Risk policy sets out Santander Group's criteria for

- (i) investing in entities, and/or

- (ii) providing financial products and/or services to customers involved in activities including Oil & gas: exploration, extraction, production and treatment including refining, transportation, storage and wholesale distribution.

c. How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?

As the global economy changes, it is critical that the transition is just (the price of energy and electricity is affordable for everyone) and orderly (ensuring energy supply is secure, which has recently become an acute issue given the Ukraine-Russia war). Increasing global renewable energy capacity is a priority to enable this to happen. In this regard, Santander is one of the top lenders in renewable energy, increasing the volume of green finance to support the electrification transformation in several sectors (including transport, power generation, residential and commercial real estate, etc.).

Santander is part of the pool of banks financing the construction of Dogger Bank projects, which was the largest UK Offshore Wind transaction of 2020. The windfarm consists of three phases (Dogger Bank A, B and C) and the financing structure contemplates a total debt of up to £2.2bn for Dogger Bank A and up to £2.4bn for Dogger Bank B. When completed this will be the largest offshore wind farm in the world when operational and it is the largest offshore wind project financing to date globally. It will be able to produce enough renewable electricity, to supply 5% of the UK's demand and equivalent to powering six million UK homes each year.

Santander UK has also established a market-leading position in financing battery storage projects with more than £250m of funding committed to the sector between 2019 and Q2 2022. This plays an important role in boosting the nation's capability to capture, store and release renewable energy, providing a more reliable and regular supply.

Given our international footprint, we are also present in economies and communities that are at different stages of the path to net zero. We want to help them all in the transition to a low carbon economy - mindful of their starting point, the challenges they face, and the need for economic growth to help finance the transition. Our transition plan assessment approach leads to a tiering system. We assess how our customers' emissions trajectory aligns with our targets and then we assess the quality of their transition plan, combined with the transparency of their emissions reporting and the governance of their transition strategy. How strong we perceive each customer's transition plan to be, will influence how we ultimately tier them. Our assessment is also vital for identifying topics that will support future engagement.

To play our part in supporting our customers and the global economy to be net zero by 2050 we are offering our customers decarbonisation solutions to help them fulfil their climate goals. As

part of our climate strategy to help customers transition to a low-carbon economy, we have commitment to raise or mobilise EUR 120bn in green finance between 2019 and 2025 and EUR 220bn by 2030.

Last year Santander UK also launched a Climate Risk Assessment Model to support clients in key sectors and embed climate risk in credit risk management processes. We are also working towards having a new risk model that will help us to understand where our clients are on their journey to net zero and thus enabling us to have discussions with them to assist in their transition plans.

### **The IEA Roadmap to Net Zero**

- d. *In view of the statement above, does your institution also support the IEA's net-zero scenario which calls for 'no new investment is needed in coal, oil and gas'?*

We support the IEA-NZE scenario as a credible scenario that could help us drive change to decarbonize our portfolios and define emissions reduction targets ambitious enough to meet net zero by 2050. We have used the pathways made by the IEA-NZE as a benchmark to draw the decarbonisation strategy and decarbonisation targets of our portfolios.

Regarding the 'no new investment is needed in coal, oil and gas' statement, we understand that it refers only to new fields approved after 2021, but it considers new investment in fossil fuel upstream will be needed in the coming years for fields approved by 2021 to meet the energy demand. The IEA-NZE scenario recognizes the reduction needed in coal and oil production by 2030, while making a distinction with gas which will still play an important role, reaching peak production in the late 2020s. The Executive Director of the IEA, Fatih Birol, has said "We cannot afford to ignore either today's global energy crisis or the climate crisis, but the good news is that we do not need to choose between them – we can tackle both at the same time."

- e. *What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?*

We are committed to supporting clients whose long-term trajectory of emission intensity is reducing, and they have a credible transition plan to net zero. As outlined in our Climate Finance Report, we will continue to fund renewables and support the decarbonisation of the [world] economy, while supporting measures that will deliver energy security in a responsible way. If the transition is to be orderly, we need to ensure growth and decarbonisation are simultaneous. This will require accelerating the drive for renewable energy, so that we cut emissions and improve

energy security, while at the same time reducing the need for fossil fuels and supporting people and businesses to transition.

As outlined above, an example of the way we are doing this is through the financing of the Dogger Banks projects. Santander was the lead arranger in the financing of Dogger Bank C, a 1.2 GW wind farm, which is the largest offshore wind project financing to date, and is due to be the largest offshore wind farm globally.

f. Has your institution's credit committee been instructed to reduce or decline to make new capital available for new fossil fuel projects?

We are declining new capital for fossil fuel projects that do not meet the criteria set out above (for example financing for coal-fired power plant projects). For others, we are being more selective and prioritising clients that have a lower emissions trajectory and/or have ambitious credible transition plans in place. At all times we are guided by our Environmental, Social and Climate Change risk management policy.

In parallel we continue to

- Progress in the definition of decarbonisation targets ([Climate Finance Report](#) p.27).
- Focus on client engagement to drive progress in their transition ambitions and reaching our targets ([Climate Finance Report](#) p.30). This assessment is also vital for identifying material engagement topics with customers and support our future engagement with them.
- As detailed in our [Climate Finance Report](#), our client engagement approach will be part of our portfolio steering governance designed to identify client or portfolio related actions to achieve our power sector portfolio target.

I would like to thank you for raising this matter with us, and for giving me the opportunity to highlight the work we are doing to support the UK's ambition to transition to net zero. I would be happy to meet to discuss this further with you, and should you require any more information on the work Santander is doing in this area please do get in touch.

Yours Sincerely,



Mike Regnier  
CEO Santander UK Plc

Rt Hon Philip Dunne MP  
Chairman, Environmental Audit Committee  
House of Commons  
Palace Of Westminster  
London  
SW1A 0AA

6 September 2022

By email: [eacom@parliament.uk](mailto:eacom@parliament.uk)

Dear Mr Dunne,

Thank you for your letter of 17 August, inviting us to provide information on our position and approach toward net zero transition.

We were a founding signatory of the Net Zero Asset Manager Initiative and are also among the first 20 financial institutions globally to have had our climate commitments validated by the Science Based Target initiative, and remain the largest asset manager to date recognised by the SBTi. Our climate strategy, which is reflected in those commitments, is grounded in our belief that climate change poses significant disruptive threats and opportunities to the economies, industries, companies and assets we invest in. We believe we have a responsibility to mitigate those risks and identify the opportunities in order to protect and expand the value of the capital our clients entrust to us.

That conviction is reflected in our approach to analysis and investment decision making. In recent years, we have invested heavily in our proprietary sustainable investment models, research and active ownership capabilities.

We consider active ownership – the influence we can bring to the management teams of the companies and assets we invest in – to be a key element of our ability to navigate the climate transition. We have published (and are following) our Climate Transition Action Plan which describes the emphasis we place on engagement to facilitate change, starting with the most exposed companies. We are committed to transparency and have also published an Engagement Blueprint which outlines how we engage on a range of sustainability related issues. We have embarked on the largest engagement programme in our firm's history to support that transition.

Schroders plc  
1 London Wall Place, London EC2Y 5AU  
T +44(0)20 7658 6000 F +44 (0)20 7658 6965  
**[schroders.com](https://www.schroders.com)**

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Fossil fuel use contributes around 80%<sup>1</sup> of both global energy supply and manmade greenhouse gas emissions and producers of oil, gas and coal are unavoidably at the heart of a climate transition. We believe that those companies' decarbonisation journeys will be critical to delivering the climate goals political leaders have committed to. As a result, we focus on supporting, encouraging and pushing companies in that industry to establish sufficiently ambitious climate commitments and to detailing their plans to deliver them. Our experience has been that where companies can successfully deliver material decarbonisation, significant value can be unlocked.

We do not believe divestment or exclusion of those companies typically supports those climate goals, nor does it support investment returns of the portfolios we manage for clients. Exclusion simply removes the voice and influence investors like ourselves can bring to those businesses.

We consider coal mining to be in a different position. The long life of coal mines and their relatively weaker cash generation in most years mean it will be very difficult for companies in that industry to transition their business quickly enough to stay ahead of global decarbonisation commitments. As a result, we will exclude companies which generate more than 20% of their revenues from coal mining from Schroder-managed portfolios.

We recognise that our approach requires significant and sustained organisational commitment, and will take decades to deliver. We are committed to maintaining transparency in our progress through annual reporting and will continue to engage our clients to help them to understand our approach and the approaches they could take themselves.

We have attached more detailed comments in response to the specific questions you asked.

Yours sincerely



Peter Harrison  
Group Chief Executive

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<sup>1</sup> REN21 Global Energy Report 2022 [https://www.ren21.net/wp-content/uploads/2019/05/GSR2022\\_Full\\_Report.pdf](https://www.ren21.net/wp-content/uploads/2019/05/GSR2022_Full_Report.pdf)  
Schroders plc  
1 London Wall Place, London EC2Y 5AU  
T +44(0)20 7658 6000 F +44 (0)20 7658 6965  
**[schroders.com](https://www.schroders.com)**

## Schroders responses to House of Commons Environmental Audit Committee questions

### Public position on fossil fuel finance

Please set out your institution's position by answering the following questions as appropriate:

- a. **Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.**

We believe that achieving net zero commitments requires a multi-faceted approach and in 2021 we published our [Climate Transition Action Plan](#) in which we set out how we were going to achieve them. This emphasises active ownership and engagement rather than exclusion. We are committed to transparency and have also published our [Engagement Blueprint](#) in which we outline our approach to engagement.

That said, on 1<sup>st</sup> October 2022, we will implement a new policy excluding companies that generate more than 20% of their revenues from thermal coal mining<sup>1</sup>. We believe that companies directly and materially exposed to thermal coal mining face growing regulatory, social and political pressures that pose significant risks to their business models and the value of those assets, unless they transition to a new model. They have very long-term assets, weak cashflow generation and low profitability, putting the value of investment in those companies at significant risk.

We do not explicitly incorporate specific exclusions of companies with plans to expand coal production. At a practical level, few companies which do not already have material exposure to coal mining are seeking to develop new mines. Further, objective data on the expansion plans of different companies, and the degree to which investment is expansionary or maintenance, is not consistently and widely available.

To meet client needs, many funds we manage apply more comprehensive exclusions covering fossil fuels and other activities. This includes strategies which focus on climate solutions and those which have broader climate exclusion policies. The approach for each fund is explained in the individual fund documentation which can be found [here](#).

### Our press releases:

- [Founding signatories to Net Zero Asset Managers Initiative](#)
- [Science Based Target formally validate by the initiative](#)
- [Schroders urges oil & gas majors to publish climate targets consistent with Paris Agreement](#)

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<sup>1</sup> This policy will apply globally from 1<sup>st</sup> October 2022, other than in Indonesia where its implementation will be phased given the dependency of that economy and society on coal

Our Climate Transition Action Plan has four key elements:

### **Measure exposure and realign portfolios**

We continue to invest in our leading proprietary tools and data with a view to portfolios aligning to 2.2°C by 2030 and 1.5°C by 2040

### **Track and hold companies to account**

We prioritise companies based on a combination of companies' current emissions, their reduction targets and the level of our investment. These are the companies where we can make the biggest difference, both in terms of mitigating the climate risks faced across our assets and also in terms of real world emissions. We have developed and published, in our [Engagement Blueprint](#), an engagement and escalation framework and will take action against companies that do not make progress.

### **Take a solutions approach to net zero**

We seek to develop climate-focused products and solutions. This includes partnerships with innovative climate solutions providers, such as our majority shareholding in Greencoat Capital and our partnership with Akaria Natural Capital<sup>2</sup>.

### **Transition our own operations**

We have set, and monitor, targets for our own emissions.

### **Does your institution's overall approach to energy transition include fossil fuel exclusion policies?**

As noted above, our overall approach is based on active ownership and engagement rather than exclusion (other than in relation to coal or in relation to particular funds). There are number of key reasons for this:

- In order to participate in the transition, we believe in staying invested while using our influence to accelerate progress, helping our clients to benefit from the value that transition can unlock
- Excluding significant areas of the market has no material impact on real world emissions. In fact, it can do the opposite with those public shares potentially ending up in the hands of less responsible investors or private markets<sup>3</sup>. Investing through secondary markets (or divesting) pushes share prices up or down to some extent, but does not put financial pressure on companies to change, unless they are planning to raise capital from public markets which few large oil companies do

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<sup>2</sup> For more on both of these, please see our press releases:

<https://www.schroders.com/en/global/media-relations/media-centre/schroders-completes-acquisition-of-majority-shareholding-in-greencoat-capital/>

<https://www.schroders.com/en/global/media-relations/media-centre/schroders-and-conservation-international-to-accelerate-global-investment-in-natural-climate-solutions/>

<sup>3</sup> <https://www.ft.com/content/4dee7080-3a1b-479f-a50c-c3641c82c142>

We already have an exclusion on coal investment for certain sustainable funds which cannot invest in companies that generate more than 10% of revenues from thermal coal mining or more than 30% from coal fired power generation.

**b. How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?**

As noted above, our climate engagement and escalation framework is set out in our the Climate Transition Action Plan and our Engagement Blueprint. In summary, with our Blueprint, we have identified the expectations we expect large and medium sized companies to adopt in order to align their business models with transition to net zero (and we expect them to publish data in relation to this) ; we have prioritised the companies with which to engage; we monitor progress, based on a strong data-driven approach; and we have refined and adapted our voting principles in this area, in line with best practice, adopting a “support or explain” approach to environmental and social resolutions. A fuller summary was published in our quarterly Sustainable Investment Report: <https://publications.schroders.com/view/645724165/7/>

**The IEA Roadmap to Net Zero**

**The International Energy Agency’s May 2021 report states that reducing global carbon emissions to achieve net zero by 2050 will require “nothing less than a complete transformation of how we produce, transport and consume energy”. Achieving this will require a managed decline in the use of fossil fuels, leading the IEA to assert that “there is no need for investment in new fossil fuel supply” or projects beyond those already committed to by 2021.**

**c. In view of the statement above, does your institution also support the IEA's net-zero scenario which calls for ‘no new investment is needed in coal, oil and gas’?**

We firmly believe that active ownership is the best way to accelerate progress towards net zero. Our approach is focused on engaging with companies to progress transition, rather than exclusion (other than in relation to thermal coal mining). While we are supportive of the call for “no new investment in coal, oil and gas,” which the IEA has identified as a consequence of its analysis of ambitious decarbonisation goals, we also note the challenges of implementing this across our assets. It is not always clear what a capital raise issuance is for, exacerbated by the differences in companies identified by different data providers and the lack of recognised, comprehensive source data.

We are also committed to transparency and earlier this year we pre-declared our voting intentions at a number of oil majors. Read more [here](#).

**d. What is your institution’s policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK’s national interest during the transition to renewable energy generation?**

Energy security is a key issue and we believe an impetus to accelerate the transition to renewable energy. Sustainability and resiliency can go hand in hand when it comes to energy, as decarbonising and electrifying the energy system is a way to enhance energy security. The logical conclusion of net zero emission goals is that energy systems will need to move much closer to 100% renewable energy generation. That goal has not changed, but with the current geopolitical landscape we see energy security moving up the political agenda and we believe this strengthens our current position in terms of the materiality of climate risks and the investment opportunity of climate solutions.

We also recognise that in transitioning to a sustainable economy we must ensure that the benefits are shared widely, reducing inequality and ensuring we protect those people at risk of being left behind. Failure to ensure that range of stakeholders are considered in the context of a climate transition risks undermining the sustainability of the companies and assets we invest in. This includes customers, employees and wider society.

Please see here for more on our approach to the Just Transition:

- [\*What is the Just Transition and why does it matter for investors?\*](#)

- e. Please identify the proportion of the assets you manage which are (a) actively and (b) passively managed (for example in index tracking portfolios) and the extent to which differential policy mandates between the two investment approaches apply in relation to investment in fossil fuels.**

We are an active manager and our net zero commitments and Climate Engagement and Escalation Framework apply across our managed assets. Our assets under management are £637.5bn, with an additional £135.9bn in JVs and Associates<sup>4</sup>. While we may use passively managed assets from third parties in some portfolios, we do not consider any of the investments we manage to be passive.

We are also committed to supporting our clients in their own climate journeys. We have a range of climate solutions which invest in companies leading the decarbonisation journey and providing innovative solutions to transition our economy. This includes £7.7bn related to our majority acquisition of Greencoat Capital, a key provider of climate solutions. We also have a range of climate solutions across asset classes including our public equity Global Energy Transition strategy and BlueOrchard Emerging Market Climate Bond funds. We also have strategies that apply more stringent exclusions with regards to climate, understanding that our clients may have different climate goals and ambitions.

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<sup>4</sup> As at June 2022.

This information has been specifically approved for public release or is generally considered to be public information.

The Rt Hon Philip Dunne MP  
Chairman of the Environmental Audit Committee  
House of Commons  
Palace of Westminster  
Westminster, SW1A 0AA

SMBC Bank International  
100 Liverpool Street  
London, EC2M 2AU  
United Kingdom

7<sup>th</sup> September 2022

## The financial sector and the UK's net zero transition – SMBC Bank International

Dear Mr Dunne

Thank you for your letter and invitation to contribute to this important inquiry. We agree that the financial sector has a critical role to play in the transition to net zero and we welcome the Environmental Audit Committee's inquiry in this area.

Sumitomo Mitsui Financial Group is the holding company of Sumitomo Mitsui Banking Corporation (SMBC), a Japanese-headquartered G-SIB bank that is ranked among the largest 25 banks globally by assets. SMBC Group has offices in 20 cities across Europe, the Middle East and Africa (EMEA) including its regional headquarters in London.

We are responding to this inquiry as SMBC Bank International (BI), the UK subsidiary of SMBC and our headquarters in the EMEA region. In EMEA, our core business is to provide long term sources of finance for our customers, typically sovereigns, financial institutions and corporates, either domiciled in EMEA, or regional subsidiaries of global multinational corporates, many of which are headquartered in Japan and Asia. We offer a wide range of wholesale banking products, including corporate lending, deposit taking, structured finance, foreign exchange and derivatives.

In our response we have sought to respond on behalf of the most appropriate entity in each case, referencing commitments by both SMBC BI and the consolidated SMBC Group.

### Public position on fossil fuel finance

- a. *[Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.]*

SMBC Group's position on financing fossil fuels, including the funding of new projects, is available as a statement on its website:

<https://www.smfg.co.jp/english/sustainability/materiality/environment/risk/>

- b. *[Does your institution's overall approach to energy transition include fossil fuel exclusion policies?]*

SMBC Group's approach to facilitating the energy transition includes specific exclusion policies related to fossil fuels. This reflects that the transition to net zero will require a shift away from technologies and energy sources with the highest carbon intensity. There is therefore a risk of assets related to

This information has been specifically approved for public release or is generally considered to be public information.

these technologies and energy sources becoming stranded. SMBC Group's specific fossil-fuel related exclusion policies are:

- SMBC Group will not provide support for new or expansion of existing coal-fired power generation.
- SMBC Group will not provide support for new or expansion of existing thermal coal mining projects.

Please follow the statement linked in the response to question (a) for full details of SMBC Group's exclusion policies.

c. *[How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?]*

SMBC Group recognises that corporate clients in high-emitting sectors will require significant investment to transition their businesses in the radical and rapid fashion necessitated by our collective net zero commitments.

We recognise that while divesting from high-emitting sectors or companies may lower the individual impact of a bank's portfolio, it is not guaranteed to reduce 'real world' emissions. Therefore, in addition to its continuous support for renewable energy, SMBC intends to continue investing in energy companies that have adequate transition plans and intends, to the extent its position allows, to hold companies accountable to their transition plans. SMBC BI is testing a framework for evaluating company transition plans with clients, which gives weight to the following aspects of a credible transition plan: Paris-aligned targets, robust plans, implementation action, internal monitoring and external reporting.

### **The IEA Roadmap to Net Zero**

d. *[In view of the statement above, does your institution also support the IEA's net-zero scenario which calls for 'no new investment is needed in coal, oil and gas'?]*

As a member of the Net Zero Banking Alliance (NZBA), SMBC Group is committed to setting targets to reduce the emissions associated with our portfolios for high-emitting sectors. In May 2022, SMBC announced the first of these targets – the power sector.

The IEA's net-zero scenario was selected as a reference scenario, and we aim to achieve an emissions intensity in our power portfolio consistent with the IEA's net-zero scenario by 2030. Whilst we see the importance of carefully considering each country's energy generation circumstances, SMBC selected the IEA's net-zero scenario because it meets our NZBA commitment to align financing with a 1.5°C temperature rise, has low reliance on negative emissions technology, has 'low- or no-overshoot' and allows us to compare our portfolio targets with peer banks who use the same scenario.

e. *[What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?]*

This information has been specifically approved for public release or is generally considered to be public information.

The responsible retirement of fossil fuel assets is an important element of a transition plan for energy companies, coupled with the required investment in renewable and low-carbon energy sources. As described in the response to question (c), SMBC intends to continue investing in energy companies that have adequate transition plans, while strengthening our position as a global leader in renewable energy financing.

f. *[Has your institution's credit committee been instructed to reduce or decline to make new capital available for new fossil fuel projects?]*

In line with the policies described in the response to question (b), SMBC Group will decline to make new capital available for new coal-fired power plants and expansion of existing plants, as well as newly planned thermal coal mining projects and expansion of existing projects. SMBC manages its exposure to a broader set of fossil fuel projects closely by tracking the exposure to 'carbon-related assets', which were disclosed publicly in SMBC BI's most recent TCFD-aligned disclosure.

g. *[Please identify the proportion of the assets you manage which are (a) actively and (b) passively managed (for example in index tracking portfolios) and the extent to which differential policy mandates between the two investment approaches apply in relation to investment in fossil fuels]*

As described in the introduction to our response, SMBC BI offers wholesale banking products to entities in EMEA and regional subsidiaries of global multinational corporates. SMBC BI does not offer asset management services in the UK.

\* \* \*

We thank again the Environmental Audit Committee for the opportunity to respond to this inquiry and hope our comments will contribute to further consideration by the Committee.

Yours faithfully,

SMBC Bank International



# Stewart Investors

Rt Hon Philip Dunne MP  
House of Commons  
Palace of Westminster  
Westminster  
SW1A 0AA

Wednesday, 31 August 2022

Dear Mr Dunne

Thank you for your letter of 17 August 2022 regarding the inquiry by the Environmental Audit Committee of the House of Commons into the financial sector and the UK's net zero transition. We are grateful for the opportunity to respond to the Committee's questions.

Stewart Investors is a small team of passionate investors managing, on behalf of our clients, investment portfolios with a focus on high-quality companies that are well-positioned to contribute to and benefit from sustainable development. We believe that these companies play essential roles in resolving the urgent sustainability challenges of our time, and, in doing so, they make better and more resilient long-term investments for our clients.

Our first sustainable development focused fund was launched in 2005 and today sustainable investment is the sole focus of our business. We invest in both developed and developing markets throughout the world.

In relation to the questions raised in your letter, we have provided our responses on the following pages. We welcome any supplementary questions that the Committee may have.

We are encouraged and excited by the Committee taking the initiative in this critical area and we will follow the outcome of the inquiry with particular interest.

Yours sincerely,

Grigor Milne  
Managing Partner

David Gait  
Portfolio Manager

23 St Andrew Square, Edinburgh, EH2 1BB

Email: [cr@stewartinvestors.com](mailto:cr@stewartinvestors.com)

Stewart Investors is a trading name of the following companies which are authorised and regulated by the Financial Conduct Authority: First Sentier Investors (UK) Funds Limited, registered office Finsbury Circus House, 15 Finsbury Circus, London, EC2M 7EB, registered in England & Wales with company number 2294743; First Sentier Investors (UK) IM Limited, registered office 23 St. Andrew Square, Edinburgh EH2 1BB, registered in Scotland with company number SC047708; and First Sentier Investors International IM Limited, registered office 23 St. Andrew Square, Edinburgh EH2 1BB, registered in Scotland with company number SC079063.

## **Response to the Environmental Audit Committee of the House of Commons.**

### **State your institution's public position regarding the financing of fossil fuel extraction and renewable energy generation.**

We invest only in companies that we believe are contributing to and benefiting from sustainable development. As such, we do not invest in companies that extract, produce or generate electricity from fossil fuels. We have outlined our position on fossil fuel investment in our [climate change statement](#) and our [position statement on harmful and controversial products and services](#), both of which are available on our website ([www.stewartinvestors.com](http://www.stewartinvestors.com)).

In terms of climate change solutions, we have mapped the contributions that the companies we invest in are making using Project Drawdown's catalogue of over 80 climate change solutions. Details of these contributions can be found using our interactive [Portfolio Explorer tool](#), which provides information on all of the companies we invest in.

### **Whether in communicating with fossil fuel producers, your institution supports the conclusions of the International Energy Agency's report Net Zero by 2050: A Roadmap for the Global Energy Sector.**

Because we do not invest in fossil fuel companies, we generally do not communicate with fossil fuel producers.

#### **a) Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.**

Yes, please see our climate change statement and our position statement on harmful and controversial products and services.

<https://www.stewartinvestors.com/all/sustainable-funds-group/our-policies.html>

#### **b) Does your institution's overall approach to energy transition include fossil fuel exclusion policies?**

Yes. We believe the long-term sustainability headwinds for fossil fuel companies carries significant risks that we are unwilling to expose our clients' capital to.

#### **c) How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?**

All companies must transition from fossil energy sources if we are to achieve the goals of the Paris Agreement. Some companies will evolve their business models and find ways to benefit from the transition, while others will find it more difficult. There are also companies that may be unwilling or unable to transition due to issues of incumbency and business model lock-in.

23 St Andrew Square, Edinburgh, EH2 1BB

Email: [cr@stewartinvestors.com](mailto:cr@stewartinvestors.com)

As long-term, bottom-up investors, we consider the sustainability positioning of every investment from the company's perspective. We focus a significant portion of our analysis on the integrity and quality of the management team and board of directors, and their record in managing their company's social and environmental impacts. We believe this analysis allows us to identify companies that are able to lead the transition to a low carbon economy.

For example, Spirax-Sarco is a UK company with expertise in steam applications for industrial processes from the healthcare to the oil and gas sectors. While Spirax-Sarco's technology helps companies to be more energy efficient, industrial steam is overwhelmingly produced by gas-fired boilers and the company's exposure to oil and gas customers poses risks to future revenues.

Spirax-Sarco has, however, set net-zero targets aligned with the [Science Based Targets Initiative's framework](#) and is investing capital to improve electric boilers so that it can support its customers to decarbonise. It has also been reducing its exposure to oil and gas customers so that such customers comprise only around 5% of sales. We believe companies like Spirax-Sarco are well-positioned to lead the transition away from fossil fuels.

**d) In view of the statement above (on the IEA Roadmap), does your institution also support the IEA's net-zero scenario which calls for 'no new investment is needed in coal, oil and gas'?**

We would struggle to reconcile expansion of fossil fuel investment with the goals of the Paris Agreement. We are not, however, energy experts and do not take top-down house views on macroeconomic issues such as the speed of the energy transition. Rather we try to understand how these factors will influence the fortunes of individual companies. We believe that over the long run, the imperative for sustainable development will exert itself and as a consequence investments made in unsustainable activities today will risk becoming stranded assets in the future.

**e) What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?**

We do not invest in fossil fuel assets and have not been required to develop a formal position on this issue from a portfolio perspective. From a wider perspective, we are very mindful of the importance of a just transition and the need to maintain secure and affordable energy during that transition. We believe examples like Spirax-Sarco, described above, demonstrate the opportunity that exists for the UK to transition its own energy infrastructure and markets and to export the knowledge and technology it develops in doing so to the rest of the world.

**f) Please identify the proportion of the assets you manage which are (a) actively and (b) passively managed (for example in index tracking portfolios) and the extent to which differential policy mandates between the two investment approaches apply in relation to investment in fossil fuels.**

We manage, and have only ever managed, active portfolios.

23 St Andrew Square, Edinburgh, EH2 1BB  
 Email: [cr@stewartinvestors.com](mailto:cr@stewartinvestors.com)

**Response from Swiss Re to the Environmental Audit Committee's The financial sector and the UK's net zero transition inquiry letter to leading signatories to GFANZ.**

**Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.**

Please find the relevant URL links below.

[Decarbonising our business model - Annual report 2021 \(swissre.com\)](https://www.swissre.com/our-business/managing-our-assets/responsible-investing-in-practice/esg-criteria-exclusion.html#overview)

<https://www.swissre.com/our-business/managing-our-assets/responsible-investing-in-practice/esg-criteria-exclusion.html#overview>

<https://www.swissre.com/our-business/managing-our-assets/responsible-investing-in-practice/esg-criteria-exclusion.html#kpi>

**Does your institution's overall approach to energy transition include fossil fuel exclusion policies?**

Please find the relevant URL links to the policies below.

[ESG Risk Framework: guidelines and policies | Swiss Re](#)  
[esg-risk-framework.pdf \(swissre.com\)](#) – pages 23 and 24.

For Asset Management: please refer to the links above.

**How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?**

We will partner with our energy clients on the net-zero-transition and will align our re/insurance support to oil and gas companies according to the following ambitions:

- a. By 2025, half of our overall direct and facultative premium income are to come from oil and gas companies that are aligned with net-zero by 2050;
- b. By 2030, Swiss Re's oil and gas re/insurance portfolios will only contain companies that are aligned with net-zero by 2050.

This ambition is dependent on meaningful third party standards which allow the judgement of net-zero alignment.

For Asset management, please refer to the [Sustainability Report](#) (page 40 ff) and [TCFD Report](#).

The Rt Hon Philip Dunne MP

Chair

Environment Audit Select Committee

By Email

8<sup>th</sup> September 2022

Dear Mr Dunne MP,

Thank you for your letter of the 17<sup>th</sup> August, on the Environmental Audit Committee's inquiry into the financial sector and the UK's Net Zero transition.

The Church of England Pensions Board is responsible for £3.7 billion, invested on behalf of more than 41,000 members. Recognised as a signatory of the UK Stewardship Code in 2021 and 2022, we manage our investments in the line with our fiduciary duties and our ethical and responsible investment beliefs, including in relation to climate change. We concur with the view that the financial sector will play (and is playing) a significant role driving the climate transition.

Please find answers to your questions below:

*Public positions on fossil fuel finance*

- a. Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.**

The Board's position on financing fossil fuels is articulated online. Our policy position can be found in the Climate Change Policy of the National Investing Bodies of the Church of England: <https://www.churchofengland.org/about/leadership-and-governance/ethical-investment-advisory-group/policies-and-reviews>

Further details can be found on our approach within our Stewardship Report: [https://www.churchofengland.org/sites/default/files/2022-05/5562\\_Stewardship%20Report\\_2021\\_FINAL.pdf](https://www.churchofengland.org/sites/default/files/2022-05/5562_Stewardship%20Report_2021_FINAL.pdf).

We also published a Report to the Church of England General Synod on the National Investing Bodies approach to climate change, July 2021: [GS Misc 1283 - NIBs Approach to Climate Change- Report for July 21 Synod \(ID 246478\).pdf](https://www.churchofengland.org/sites/default/files/2021-07/1283_GS_Misc_1283_-_NIBs_Approach_to_Climate_Change_Report_for_July_21_Synod_(ID_246478).pdf) ([churchofengland.org](https://www.churchofengland.org))

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The Church of England Pensions Board, PO Box 2026, Pershore, WR10 9BW

Chair: Clive Mather

Chief Executive: John Ball

The Church of England Pensions Board is a Registered Charity No. 236627

Registered address: 29 Great Smith St, Westminster, London SW1P 3PS

To aid our and the wider investment community understanding of the transition in fossil fuel companies and other high carbon intensive sectors we along with the Environment Agency Pension Fund founded and continue to chair the Transition Pathway Initiative (TPI) (<https://www.transitionpathwayinitiative.org/>), which publishes a climate transition assessment methodology for listed fossil fuel companies (and other sectors), which we have incorporated into our stewardship activities (for example, proxy voting, investment exclusions and weighting, etc.).

**b. Does your institution’s overall approach to energy transition include fossil fuel exclusion policies?**

Yes, our 2015 Climate Change Policy (referenced above) includes an exclusion of any company deriving more than 10% of their revenue from thermal coal or tar sands.

The Board applies a “0” weighting (*de facto* exclusion) to equity issuers assessed by the TPI methodology as either not aligned to the transition (NDCs), and those that do not disclose sufficient information for TPI to make an assessment. This “0” weighting is applied to our passive and active mandates.

The Board also pursues exclusion track engagement with individual companies (based on TPI and the Climate Action 100+ Net Zero Benchmark), where issuers are engaged over a defined period, and if insufficient progress is made, the Trustees may determine that the company should be restricted/excluded.

**c. How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?**

This is an important question and one we have given considerable thought. At one level we are working across the investor community to ensure that we can capture the complexity of a transition plan by a fossil fuel company. We have led an investor process through the Institutional Investor Group on Climate Change (IIGCC), supported by the Transition Pathway Initiative (TPI) to develop a net zero standard for oil and gas companies. We are also chairing a similar process to develop a Standard for diversified mining sector.

The Board applies relevant TPI methodologies for fossil fuel companies in assessing our holdings, throughout our stewardship approach. The Board is also informed by the Climate Action 100+ Net Zero Benchmark (<https://www.climateaction100.org/net-zero-company-benchmark/>) which is developed by the Transition Pathway Initiative (TPI). Our proxy voting is informed by the benchmark.

On a more technical sense we also apply ‘weighting’ in our passive equity portfolio on the basis of climate data and transition assessments. In our passive mandate, five

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climate related weightings are applied; we underweight companies with fossil fuel reserves, over or underweight companies according to their greenhouse gas emissions, overweight companies engaged in the transition to the green economy, over or underweight companies according to their TPI management quality score, and over or underweight companies according to their TPI carbon performance assessment.

**d. In view of the statement above, does your institution also support the IEA's net-zero scenario which calls for 'no new investment is needed in coal, oil and gas'?**

The Board advocated for and engaged directly alongside other investors with the IEA to provide a public 1.5 degree scenario. We have publicly welcomed the fact the IEA produced this scenario which we believe is critical to investor understanding and management of risk and opportunities.

We have adopted the detail of the IEA's Net Zero scenario in certain sectors, as it has allowed the TPI to develop net zero sector benchmarks. These benchmarks have also been published by TPI and will continue to be updated as TPI works through the carbon intensive sectors the tool assess. The Transition Pathway Initiative thresholds are based on the IEA via its biennial Energy Technology Perspectives reports, World Economic Outlook reports, and Net Zero Emissions by 2050 report (see: [90.pdf](#) ([transitionpathwayinitiative.org](https://transitionpathwayinitiative.org))).

**e. What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?**

The Board does not directly hold specific assets but has exposure to specific projects through equity holdings. We have generally significantly reduced our exposure to the oil and gas industry over the last three years (and as noted above we have restricted thermal coal and tar sands investments since 2015). From 2023 we will restrict any fossil fuel company that is not demonstrably in line with the Paris Agreement. We will be using TPI data to inform these decisions.

We have been clear that any company operating whether in the UK or elsewhere needs to ensure alignment of their capital expenditure with their targets. We also underline our expectation that this should be consistent with country Nationally Determined Contributions.

The Board has also been active on the steering group of the "Investing in the Just Transition" project run by Professor Nick Robbins <https://www.lse.ac.uk/granthaminstitute/investing-in-a-just-transition-global-project/>, which seeks to identify potential investor contributions to the just transition, across the portfolio.

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The Church of England Pensions Board, PO Box 2026, Pershore, WR10 9BW

*Chair:* Clive Mather      *Chief Executive:* John Ball

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- f. **Where you continue to hold investments in fossil fuel-producing companies, has your institution communicated to that company's management your position on the IEA's Net Zero scenario and its conclusion on the need for no new investment in future new production? If not, does your company plan to do so?**

In order to be included in the Board's investment portfolio, fossil-fuel producing companies must demonstrate alignment to the Paris Agreement. This has been communicated in direct corporate engagement since 2018, and publicly, particularly through our stewardship reporting.

We continue to be in detailed dialogue with fossil fuel producing companies, and in 2021 launched the Net Zero Benchmark (<https://www.iigcc.org/download/iigcc-net-zero-standard-for-oil-and-gas/?wpdmdl=4866&refresh=6140cea4a40a01631637156>) for the oil and gas sector – a demanding standard backed by investors with USD\$10.4 trillion AUM (<https://www.iigcc.org/news/investors-representing-usd-10-4-trillion-set-out-standard-for-net-zero-transition-plans-in-the-oil-and-gas-sector/>). This standard, which is being piloted by 6 oil and gas majors, references the IEA's net zero scenario, and aims to assess the credibility, acceptability and real-economy impact of net zero commitments by oil and gas companies.

We trust that these brief answers support your enquiry, and we would be pleased to answer any follow up questions.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Clive Mather', with a horizontal line underneath.

**Clive Mather**  
**Chair**  
**Church of England Pensions Board**

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The Church of England Pensions Board, PO Box 2026, Pershore, WR10 9BW

*Chair:* Clive Mather      *Chief Executive:* John Ball

The Church of England Pensions Board is a Registered Charity No. 236627

Registered address: 29 Great Smith St, Westminster, London SW1P 3PS



**UBS Group AG**  
P.O.Box  
8098 Zurich  
Tel. +41-44-234 11 11

Christian Leitz  
Head of Corporate Responsibility

Bahnhofstrasse 45, 8001 Zurich

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[www.ubs.com](http://www.ubs.com)

Rt Hon Philip Dunne MP  
Chairman, Environmental Audit Committee  
House of Commons  
London SW1A 1AA

8 September 2022

Dear Rt Hon Philip Dunne MP,

As the Head of Corporate Responsibility, I am responding on behalf of UBS Group Chief Executive Officer Ralph Hamers to your letter of 17 August regarding the Committee's inquiry into the financial sector and the UK's net zero transition.

UBS has around 6,000 permanent employees in the UK and operates through three main entities: UBS AG London Branch, which provides Investment Banking and Global Wealth Management services, UBS Asset Management (UK) Ltd and UBS Business Solutions AG, UK Branch, a UK service company providing technology and other services to the business.

UBS aspires to achieve net zero greenhouse gas emissions resulting from all aspects of our business by 2050, and to providing milestones so that progress can be transparently tracked. We have put sustainability at the heart of our own purpose. We established our environmental programme in the 1980s, have had it certified against ISO 14001 since 1999 and have reduced our own greenhouse gas footprint by 92% since 2004. This achievement comes largely as a result of improving our energy efficiency through investments in more sustainable buildings as well as our commitment to buying 100% renewable electricity globally. For instance, our 5 Broadgate building was designed as one of the greenest office buildings in London, receiving a BREEAM 'Excellent' rating in 2015. Constructed of 39% recycled materials and with 65% lower carbon emissions than the previous two buildings on its site, our main London office has 7,500 sq ft of green roof space and, at the time of construction, the largest solar array on an office building in Europe.

Our Sustainability Report provides our stakeholders with an update on the progress we made across the firm in 2021 and sets out our ambitions for the future. Alongside this, we published our Climate Roadmap, which takes us from aspiration to action, setting out key milestones to deliver on our net zero targets by 2050, including reducing absolute financed emissions associated with UBS loans to fossil fuel companies by 71% by 2030 and engaging with our main vendors about moving toward net zero emissions by 2035. The Climate Roadmap was put to an advisory vote at the UBS Group AG Annual General Meeting 2022 reflecting our commitment to give shareholders a say on the firm's climate strategy. The Climate Roadmap was approved by shareholders.

I will provide an overview of the UBS Group position on fossil fuel finance, the International Energy Agency (IEA) Roadmap to Net Zero and the proportion of assets actively and passively managed as well as the extent to which differential policy mandates between the two investment approaches apply in relation to investment in fossil fuels.

### **Fossil Fuel Finance**

UBS is focused on supporting the transition toward a lower-carbon future. We aspire to achieve net-zero greenhouse gas emissions resulting from all aspects of our business by 2050. To ensure we make progress we have set intermediate milestones. We are also committed to directing capital toward the low carbon transition: through investments, by helping our financing clients achieve their climate targets, and by identifying and investing in credible, innovative, carbon removal projects.

As a global financial institution, it is our responsibility to help clients navigate through the challenges of the low-carbon transition. We help our clients assess, manage and protect their assets from climate-related risks by offering innovative products and services in investing, financing and research as well as by providing transparency on climate risk exposure.

As part of our drive to net-zero, we have conducted a baseline and target-setting exercise for financed emissions, initially in three sectors: fossil fuels, power generation and real estate (commercial and residential). Our financing of fossil fuels and power generation is already limited. We continue to engage with power generation and extraction companies (among others) on their climate transition. Work is also underway on other sectors, in line with Net-Zero Banking Alliance expectations. Our approach to fossil fuels is included in the UBS Sustainability Report 2021, as part of our net-zero targets as well as our management of climate risks. The Report can be found at [www.ubs.com/gri](http://www.ubs.com/gri)

Across our Asset Management business, carbon emissions data is available to portfolio managers and analysts, enabling them to leverage carbon and carbon intensity data for more than 10,000 companies, and allowing them to examine the carbon footprint of their portfolios. This complements the work of portfolio managers and analysts using our proprietary ESG Risk Dashboard which aggregates multiple ESG data sources to help identify companies with material ESG risks. Asset Management also uses its own risk system to aggregate ESG risks at a portfolio level.

Asset Management has furthermore developed a suite of products, called Climate Aware, to help investors align their portfolios toward a low-carbon future. The Climate Aware strategy enables investors to reduce a portfolio's carbon footprint, invest in new technologies, and align portfolios to a low-carbon climate "glidepath," such as the 1.5°C scenario, envisioned by the Paris Agreement. They are supported by Asset Management's climate engagement programme.

Our Investment Bank supports clients on their transition journey, in terms of addressing climate risk and executing on their sustainability strategies. This includes the provision of advisory services, capital raising and access to capital markets. We are also looking at ways to facilitate access to carbon markets to meet clients' needs.

Within our Global Wealth Management business, we identify the most material ESG issues to the sectors within the framework of our sustainable investing scoring assessment, of which one of the six focus topics is climate change. We also have an established shelf of long-term investment themes, the majority of which have a strong link to sustainability. A significant number explicitly focus on climate change-related themes such as renewable energy and green technology.

### **The IEA Roadmap to Net Zero**

We seek to protect our firm's assets by limiting our risk appetite for high-emission assets. We use scenario-based stress-testing approaches and other forward-looking portfolio analyses to estimate our vulnerability to climate-related risks. As of 31 December 2021, we had reduced our lending exposure to carbon-related assets to 9.9% (USD 45.6 billion) of our total customer lending exposure. This is down from 10.4% at the end of 2020 and 10.7% at the end of 2019. Carbon-related assets are defined as significant concentrations of credit exposure to assets tied to (i) energy; (ii) transportation; (iii) materials and buildings; and (iv) agriculture, food and forest products as defined by the Task Force on Climate Related Financial Disclosures (TCFD).

Recognizing that the term carbon-related assets is currently not well-defined, the TCFD encourages banks to use a consistent definition to support comparability. We continue to collaborate with the industry to drive further consistency. Note that this does not preclude our lending to or supporting these segments. Rather it reflects our intent to support the transition to greater carbon efficiency across all industries.

Recognizing the climate implications created by the extraction and burning of coal, we are committed to not providing project-level financing for new coal-fired power plants globally and have limited our support to transactions of existing coal-fired operators that have less than 20% of coal reliance or operators that have a transition strategy in place that aligns with a pathway under the Paris Agreement, or to those where the transaction is related to renewable energy.

We limit financing where the stated use of proceeds is for greenfield thermal coal mines or to coal-mining companies engaged in mountain top removal (MTR) operations. Financing of existing thermal coal-mining companies (>20% of revenues) is limited to those with a transition strategy that aligns with the goals of the Paris Agreement. We will support a transaction that is related to renewable energy or clean technology.

We do not provide financing where the stated use of proceeds is for new offshore oil projects in the Arctic or greenfield oil sands projects, and only provide financing to companies with significant reserves or production in arctic oil and / or oil sands (>20% of reserves or production) if they have a transition strategy that aligns with the goals of the Paris Agreement or if the transaction is related to renewable energy or clean technology.

### **Investment and engagement approach**

Asset Management has over USD 1 trillion in assets under management of which approximately 40% is passively managed. We believe that the consideration and incorporation of sustainability factors into the investment process through the analysis of material ESG data can result in better overall risk-adjusted outcomes for clients. As a result, we are committed to embedding sustainable investing as the everyday standard across our business. As of 31 December 2021, our AUM in Sustainability Focus and Impact strategies were USD 251 billion.

This is underpinned by our active approach to stewardship across asset classes (both active and passive), through a clear and structured program, encompassing the integration of sustainability-related factors into investment decision making, engagement, proxy voting, advocacy with standard setters, and collaboration with market peers and our clients.

In 2021, after a 3-year climate engagement program with 45 oil and gas companies identified as lagging on climate change performance, more than 58% of companies made good or excellent progress against set objectives in aligned with the TCFD framework on governance, strategy, risk management, metrics and targets. However, due to their lack of progress, Asset Management divested its holdings in five energy companies across its Climate Aware product suite (including passive funds) and actively managed equity and fixed income sustainability funds.

I trust this contribution will be of assistance in taking forward the inquiry. We would be happy to provide further input in case you had any further questions.

Yours sincerely,



Dr Christian Leitz  
Head of Corporate Responsibility



4th Floor  
The Walbrook Building  
25 Walbrook  
London EC4N 8AF

Tel: +44 (0)20 3753 5600

Environmental Audit Committee of the House of Commons  
House of Commons  
Palace of Westminster  
Westminster  
SW1A 0AA

15 September 2022

*Sent by email only:* [eacom@parliament.uk](mailto:eacom@parliament.uk)

Dear Rt Hon Philip Dunne MP, Chairman of the Committee,

Vanguard appreciates the opportunity to respond to the inquiry from the Environmental Audit Committee of the House of Commons on the financial sector's contribution to the UK's net zero transition. Vanguard manages assets on behalf of more than 30 million individual investors around the world who are saving for long-term goals, such as retirement or a new home. Our core purpose is to take a stand for all investors, to treat them fairly, and to give them the best chance for investment success. We are proud to serve UK investors and we continue to invest in our commitment to the UK market. Since opening our London office in 2009, we have worked to lower the cost of investing for individuals, and to encourage them to adopt straightforward investment principles, including setting appropriate goals, having a balanced portfolio, and maintaining a long-term perspective.

As an investment manager, Vanguard provides a range of product options, inclusive of index and active funds, to serve our clients' investment needs. We believe that investors are best served by diversified portfolios that include appropriate allocations to the broad global stock and bond markets.

Vanguard considers climate change – and the evolving global policy responses required to mitigate its impact<sup>1</sup> – to be financially material to companies and to their shareholders' long-term financial success. We differentiate our investment approach to climate-related risk identification and assessment depending on the mandate of each fund – including whether it is index or active. Each Vanguard fund operates within the constraints of each fund's investment strategy and our fiduciary obligations. Vanguard does not have any firm-wide policies regarding divestment of any sector, including energy companies generally, nor as related to fossil fuels.

Globally, Vanguard offers more than 286 index mutual funds and ETFs, covering 80% of Vanguard assets under management (AUM),<sup>2</sup> that have specific objectives and follow tightly

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<sup>1</sup> The 2015 Paris Agreement remains the most referenced example of an inter-governmental climate change agreement that has resulted in commitments and targets for countries and companies to meet. Vanguard expects the companies that our funds invest in to follow applicable climate rules set forth by policymakers in their respective jurisdictions, and to plan appropriately for emerging risks and regulation in this area. We engage with the companies in our funds' investment portfolios accordingly.

<sup>2</sup> Vanguard assets under management as of July 31<sup>st</sup>, 2022.

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prescribed strategies. Importantly, managers of index funds do not make active decisions on where to allocate capital; the funds reflect the composition of their underlying benchmarks. Driven by client demand, Vanguard offers UK investors a suite of environmental, social and governance (ESG) index funds,<sup>3</sup> with policies that allow investors to reflect their related preferences. For equity index funds, our Investment Stewardship team engages with portfolio companies and executes proxy voting pursuant to fund board-approved policies, but does not dictate strategy, influence day-to-day operational decisions, or make decisions on how funds invest in companies. Decisions on how to vote all proxy ballot items, including climate-related ones, are firmly grounded in our mission to give our shareholders the best chance for investment success.

Vanguard's global offering of 124 actively managed mutual funds, representing the other 20% of AUM, are managed by more than 25 different asset management firms, one of which is Vanguard. In the instances in which the funds are managed by external advisors, those firms are responsible for carrying out the investment stewardship activities on behalf of the assets they manage. A portion of these active funds are ESG-focused, including a suite of active ESG products that we offer to UK investors<sup>4</sup>. Active fund advisors are carefully selected to ensure their investment principles align with the objectives of their respective funds. Indeed, over the last nine months, we have introduced four actively managed ESG focused funds for clients in the UK and continue to look for opportunities to meet investor preferences in this area.

Below, we have included additional information in response to your questions. Thank you for the opportunity to share our perspectives with the Committee on this important matter.

Sincerely,



Sean Hagerty  
Managing Director of Vanguard Europe

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<sup>3</sup> Vanguard offers UK investors nine ESG index funds, including eight Irish domiciled products (as at the date of this letter).

<sup>4</sup> Vanguard offers UK investors four ESG active products (as at the date of this letter).

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Please find further information on your questions below:

**a) Is your institution's position on financing fossil fuels, including the funding of new projects, carried as a public statement on its website? If so, please provide the URL.**

Vanguard does not directly participate in project finance, for fossil fuels or any other sectors. Vanguard has explained and made publicly available its concerns about climate change and the financial risk it presents to long-term investors.<sup>5</sup> Additionally, we have outlined our views regarding risks for companies with significant coal exposure.<sup>6</sup>

**b) Does your institution's overall approach to energy transition include fossil fuel exclusion policies?**

Vanguard does not have an overall approach as an institution, nor any firm-wide policies, related to fossil fuel exclusion. Importantly, Vanguard index funds have specific objectives: They seek to represent the returns of specific markets (or stated portions of markets) and do so by tightly following a stated index, which is managed by a third party. Only a limited number of index funds with mandates that specifically exclude companies according to defined criteria (such as within an ESG index fund employing an exclusionary approach) would reflect a policy on fossil fuel exclusions. Active funds also have specific mandates and objectives, which may in certain cases include fossil fuel exclusions if in alignment with the stated strategy of the fund, including funds that recognize net zero commitments.

**c) How does your institution give weight to energy companies which are in transition from reliance on fossil fuels to investment in renewable sources?**

Vanguard does not have firm-wide policies that give weight to specific energy companies over others. Within individual funds, portfolio weightings of specific companies are based on the stated strategy of the fund (e.g., an index fund that aims to track a specific index representing a portion of the market, or an active fund that considers specific criteria to outperform a stated market). As stewards of internally managed equity funds, we recognize that certain companies face greater exposure to certain material risks, including climate change, than others. Based on potential threats to shareholder value, the Vanguard Investment Stewardship team has engaged with subsets of companies in carbon-intensive industries. The focus of those engagements is risk management, board oversight, and disclosure of climate-related risks to investors.

**d) In view of the statement above, does your institution also support the IEA's net-zero scenario which calls for 'no new investment' is needed in coal, oil and gas?**

As a provider of a wide range of product options, individual Vanguard funds have distinct mandates. The index provider for each fund's benchmark is the owner of decisions around what is and is not excluded from the indexes, affecting what is subsequently held by the funds. Vanguard does, however, offer certain products taking an exclusionary or inclusionary approach, some of which recognize net zero commitments, and many investors choose these products.

Vanguard does not dictate strategy and operations in portfolio companies, and therefore does not have an enterprise view of the IEA net zero scenario and its recommendations for 'no new investment.' We recognize that some portfolio companies may elect to use reports such as the IEA Net Zero 2050 roadmap in their models, but as stated, we do not prescribe a specific mitigation approach.

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<sup>5</sup> Vanguard, 2022: Our approach to climate risk; available at:

<https://corporate.vanguard.com/content/corporatesite/us/en/corp/climate-change.html>

<sup>6</sup> Vanguard, 2021: Vanguard's expectations for companies with significant coal exposure. The Vanguard Group; available at: [https://corporate.vanguard.com/content/dam/corp/advocate/investment-stewardship/pdf/perspectives-and-commentary/Coal\\_1961823\\_122021.pdf](https://corporate.vanguard.com/content/dam/corp/advocate/investment-stewardship/pdf/perspectives-and-commentary/Coal_1961823_122021.pdf)

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As referenced above, Vanguard Investment Stewardship has published disclosure and risk oversight guidance for companies with significant coal exposure.

**e) What is your institution's policy on the responsible retirement of the fossil fuel assets you hold in ways which are compatible with maintaining energy security in the UK's national interest during the transition to renewable energy generation?**

Vanguard does not have a firm-wide policy to divest or retire fossil fuel assets and looks to policymakers' actions on such questions. We do, however, offer a suite of products from which investors can choose, including funds that employ an exclusionary approach, with consideration for fossil fuel exposure and other environmental risks.

**f) Please identify the proportion of the assets you manage which are (a) actively and (b) passively managed (for example in index tracking portfolios) and the extent to which differential policy mandates between the two investment approaches apply in relation to investment in fossil fuels.**

Globally, 20% of Vanguard assets under management are actively managed and 80% of assets under management are index funds.<sup>7</sup> As noted above, Vanguard offers ESG products within both our index and active offerings. Each of these ESG products operates within mandates that prescribe how the fund will consider ESG factors, including both exclusionary and inclusionary approaches. Each fund's prospectus details further information on its investment approach. To aid investors in understanding Vanguard funds through the lens of net-zero goals set by policymakers, Vanguard disclosed<sup>8</sup> the proportion of assets that are presently aligned to net zero, acknowledging differences between index funds and active funds, and within both line-ups, funds that include climate-related exclusionary policies.

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<sup>7</sup> Vanguard assets under management as of July 31<sup>st</sup>, 2022.

<sup>8</sup> Vanguard, 2022: [Vanguard's initial commitment under the NZAM initiative | Vanguard](#)

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