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This chapter represents the output from the Disclosures Working Group, part of the Climate Financial Risk Forum (CFRF). The document contains case studies on climate action from three firms.

This CFRF guide has been written by industry, for industry. The recommendations in this guide do not constitute financial or other professional advice and should not be relied upon as such. The PRA and FCA have convened and facilitated CFRF discussions but do not accept liability for the views expressed in this guide which do not necessarily represent the view of the regulators and in any case do not constitute regulatory guidance.

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1 Overview

Climate Financial Risk Forum – Disclosures Working Group

The Climate Financial Risk Forum (CFRF), co-chaired by the FCA and the Prudential Regulation Authority (PRA), builds capacity and shares best practice across financial regulators and industry, to advance our sector’s responses to the financial risks from climate change. It was established in 2019 to bring together senior financial sector representatives to share their experiences in managing climate-related risks and opportunities. The CFRF set up 4 working groups on disclosures, scenario analysis, risk management and innovation. These case studies have been provided by members of the Disclosures Working Group.

Case studies: Evolution of the firm’s climate approach

During the initial discussions of the Disclosures Working Group, members noted the need to connect the disclosure process with the work that goes on behind the scenes to develop an understanding of how climate change can impact the organisation, its business and future prospects, as well as the means of measuring and assessing this. Effective disclosure relies on an effective climate change management approach.

The case studies collected here come from very different organisations, but touch on a number of common themes that will be of broad interest to financial institutions seeking to develop their own approaches to climate risk. It is worth noting that the speed of change in this space means that these case studies are going to reflect a snapshot in time and there will inevitably be further developments in approaches and practices in just the coming months.

Climate risk can become an organisational focus due to a combination of factors including regulatory developments, external stakeholder demand, and internal leadership. All three firms note the importance of external developments in climate science and international agreements – whether the IPCC Special Report or the 2015 Paris Agreement – as a trigger for increased climate action. The recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) have provided a clear lens to all three firms to focus on decision-useful information in their disclosures.

The challenges of crafting a robust approach to climate risk, given the incompleteness and novelty of the data sets and methodologies required, is a common theme. However, all highlight the ways that, despite these difficulties, climate concerns are increasingly being integrated into risk management practices, investment research, stewardship, governance and policies, and new approaches to the construction of investment portfolios and products.

Whilst climate approaches are becoming increasingly sophisticated and tailored to the individual firm, there are still commonalities. In particular:

- The importance of starting somewhere. Enhancing the firm’s climate approach – including disclosure – is an iterative process that takes time.
- The need to involve staff and integrate the approach across the business in order to develop credibility and coherence

The firms note the benefits that have emerged as their climate approaches evolve. It has allowed the three firms to better understand their climate risk exposure and the opportunities relating to climate change. It has also brought commercial opportunities such as new products or new clients.

Taken together, these case studies illustrate the sea change that is underway in the financial sector, as serious engagement with climate financial risk and opportunity is becoming widespread.
2 Abrdn

About Abrdn

Abrdn is a global asset manager with £532 billion AUM as of 30 June 2021. As a founding member of the UN PRI and a member of the Net Zero Asset Manager initiative, integrating climate change into the investment process and developing solutions for net zero is a key area of focus for the firm. Abrdn is also a strong supporter of TCFD and published its latest TCFD report in June 2021.

What was the trigger for enhanced climate action and reporting?

The Paris agreement 2015 was a key trigger for increased climate action across the globe. It demonstrated ambition by world leaders to limit GHG emissions and take climate change mitigation seriously. This triggered a global increase of climate change policies and initiatives to drive the transition towards a low carbon economy. It increased pressure on investors to understand the implications of the changing environment on the value of their investments. This pressure was increasing on three fronts:

1. Regulatory – regulation was changing to reflect the importance of incorporating climate change into decision making and to provide transparency.
2. Commercial – clients were increasingly asking about climate change and how we incorporate it into decision making and investment products.
3. Financial – risk and opportunities – both transition as well as physical - were becoming increasingly more material across many regions and sector.

In addition, the Task Force on Climate related Financial Disclosures (TCFD) was launched in 2017 and abrdn committed to reporting in line with TCFD. We recognise TCFD as a key initiative for moving towards more complete, transparent climate data for better decision making. In order to do that however, we needed to have the resources, governance, processes and reliable data in place to enable TCFD reporting. As shown in Figure 1, it took two years to get everything together and publish our first TCFD report in 2020, followed by a more extensive second report in 2021. It is a journey that really helps embed climate change into the business strategy.

What people and process were involved?

The first step was to appoint a dedicated senior climate change analyst in our Responsible
Investing team to help develop a climate change approach for our investments. This was not an easy task given the global and cross asset class reach of our business. So we established a climate change working group with representatives from different asset classes as well as other teams such as distribution, marketing and corporate sustainability to ensure a joined up approach across our firm.

Then we had to agree on a joint set of beliefs and areas of focus. These are shown in Figure 2 and were aligned with the four areas of focus of the Principles for Responsible Investment (PRI) investor agenda. They are: investments, corporate engagement, public advocacy and transparency. For each, we agreed a set of actions and expectations and published these in our climate change approach document in 2019.

Figure 2 Abrdn climate change approach

Key to success was collaboration across the business and buy in from the asset classes and our Research Institute. The climate change working group was a great vehicle for this, but pretty soon too many people wanted to be involved and it became too large for effective decision making. In 2020, we restructured it into a smaller climate change strategy group with the CIO as executive sponsor and a number of sub-groups. These were focused on specific topics such as climate product development and scenario analysis where more detailed discussions could take place more frequently. Being clear on what the working groups needed, their purpose and outputs as well as the right attendees (in terms of their knowledge but also ability to make decisions) was key to moving things forward effectively. It was also critical to have dedicated resources to research the topic of climate change and its impacts rigorously. The Abrdn Research Institute played a key part on that journey and hired a climate scenario analyst to help deliver thought leading climate research.

In 2021, as the climate agenda became more strategic in nature and required more senior leadership, a Head of Climate Change Strategy was appointed, supported by a climate change analyst. Having dedicated knowledgeable resource in place enabled us to really move things forward: we published our second, more extensive TCFD report as well as our thought leading climate scenario analysis white paper and joined the Net Zero Asset Managers initiative.

What tools and data are needed?

When it comes to data and tools, we needed to have a strong, robust baseline to understand the carbon footprint of our funds. More importantly, however, we needed to develop, a
forward-looking view on the potential climate impacts that could arise from different scenarios and how well-prepared companies are for the transition.

We launched an Enhancing ESG programme with resources and budget to deliver a carbon footprinting and climate scenario analysis tool at asset and fund level. The first step was to select the provider we wanted to work with based on the robustness and transparency of their methodology and ability for us to feed into the process. We selected Trucost as our carbon data provider – their robust estimation methodology to address disclosure gaps was important to us - and Planetrics (part of Vivid Economics) were selected as our partner of choice for climate scenario analysis.¹

We used PowerBI as a reporting tool to replace spreadsheet-based carbon footprinting and launched our fixed income and equities carbon footprinting tools in 2021. Rather than buying an “off-the-shelf” tool, we decided to build our own with the data provided by external providers. This meant we could shape it in line with our requirements. These tools are part of our wider ESG toolkit as shown in Figure 3 which also includes an ESG house score that includes climate change and an engagement tool. The toolkit will need to evolve constantly as requirements change. Next, we are looking to incorporate green revenues and develop a company-wide transition assessment tool. The challenge is to really understand what the data is telling you and how to incorporate it into your investment decision. Our vision is to have all this data combined in one dashboard for investment decision makers with clarity on the ‘so what’.

Figure 3 Developing an ESG toolkit

What emerged as the key challenges and benefits to the business?

Key challenges
Climate change is a complex topic that affects all countries and sectors in different ways. This complexity needs to be reflected in the investment process – which requires knowledgeable resources, budget and time.

1. Data & methodologies – While emission disclosures are improving particularly in developed markets, there are still too many data gaps to be able to truly reflect ‘real world impact’ through disclosures. For example, by investing in a wind turbine manufacturer, the carbon footprinting report will not be able to capture the avoided emissions from the products sold. And the requirements and industry standards are evolving so fast that tools implemented can be out of date very quickly. For example, in line with TCFD, we focused our carbon footprinting on the Weighted Average Carbon Intensity (WACI) and

¹ More detail on the selection criteria for Planetrics are provided in the first CFRF scenario analysis report as a case study
the absolute emissions of our equity investments were apportioned based on the amount invested divided by market cap. However, with the Partnership for Carbon Accounting Financials (PCAF) emerging as the new global standard for financed emissions, we would need to update the methodology in our tools again to use enterprise value including cash (EVIC) in the denominator for financed emissions.

2. Decision making - The other challenge is to get key decision makers to agree on a complex topic that may affect their region or asset class in different ways. A one-size-fits-all approach often does not work – for example, you cannot have the same expectation of companies when it comes to climate targets in emerging or developed nations. They have very different policy environments, and these nuances need to be reflected in the approach. The same applies to a blanket exclusion approach which will affect different regions in very different ways.

Key benefits

1. Strengthening integration of climate risks and opportunities - A key benefit of going through the process of preparing for our first TCFD report is that it really helped to develop the governance and to strengthen processes and data around climate change. Assessing current state and where you want to get to when it comes to the 4 TCFD pillars – governance, strategy, risk management and metrics & targets – is an extremely beneficial process for an organisation to go through. It has helped us to understand the impact of climate change risks and opportunities and what is required to manage them effectively.

2. Commercial opportunities - Ultimately developing a climate change approach with robust backward- and forward-looking climate metrics enabled us to understand how climate change may impact the value of our investments and integrate this into our decision making. It also allowed us to recognise commercial opportunities related to developing products that can benefit from the energy transition and meet growing client demand for net zero directed solutions.

What are the next steps?
Things have really moved on from an initial focus on integrating climate change into our decision making as a risk and opportunity to a more strategic priority that acknowledges the importance of investors on the net zero journey – our focus is now on net zero directed investing. We are evolving our climate change approach accordingly and developing net zero solutions focused on real world impact. Measuring portfolio alignment is an important topic for the industry to be able to demonstrate the impact of investment decisions on climate change – but current methodologies are, in our view, not mature enough to simplify the impact of a portfolio into one single temperature metric. This is going to be an important area of focus for us, and we continue to evolve our climate scenario analysis work to feed into that process.
3 Barclays

About Barclays

Barclays is a British universal bank. We are diversified by business, by different types of customers and clients, and by geography. Our businesses include consumer banking and payments operations around the world, as well as a top-tier, full service, global corporate and investment bank, all of which are supported by our service company which provides technology, operations and functional services across the Group. Barclays was a founding member of the industry-led, UN-convened Net Zero Banking Alliance.

What was the trigger for enhanced climate action and reporting?

Our approach to tackling climate change has evolved significantly over the last few years, propelled forward by the influence of external forces including shareholders, regulators and clients, internal leadership and management decisions and, just as importantly, the persistent interest and passion of colleagues across our organisation. Ultimately, this process has resulted in Barclays committing to align our financing activities with the goals of the Paris Agreement and setting an ambition to be a net zero bank by 2050. At the same time, we have also made meaningful and encouraging progress in our ability to assess and disclose the risks, opportunities and impacts we see arising from climate change.

Following the COP21 Climate Change Conference in Paris, governments and businesses shifted markedly to support the transition to a low-carbon future. Barclays sought to contribute through our commercial propositions, becoming the first UK bank to issue a green bond using UK assets in 2017 and, in 2018, launching a suite of different green products. For SMEs and mid-cap corporates, we were the first major UK bank to launch green mortgage products as well as green loans and green innovation finance. In the larger corporate market, we built a presence as an underwriter of green bond issuances across sectors and geographies, as well as in corporate sustainability-linked RCFs. The development of many of these products grew out of coordinated colleague efforts across Barclays to identify and capture opportunities to be recognised as a provider of green finance.

This ‘grassroots’ support amongst our employees, and their passion to see us do more to address climate change, helped to drive many of our most successful product innovations.

In addition, there were a number of defining events between late 2017 to early 2020 that accelerated our approach and strategy.

The first of these was the publication of the FSB’s Task Force for Climate-related Financial Disclosures (TCFD) recommendations, creating a clear framework to help firms disclose information, and enabling firms to design and operationalise their response to climate challenge disclosures to an industry-led standard. Barclays was pleased to be able to contribute to the formulation of the recommendations, as well as to take part in a number of the resulting industry-wide initiatives to explore new requirements proposed (e.g. scenario analysis).

In January 2019, Barclays published our first Energy and Climate Change Statement, setting out a public set of positions and restrictions with respect to a number of energy sub-sectors particularly linked to high emissions and climate change.

Later that year, in April, we also saw the publication of the Bank of England’s Supervisory Statement (SS3/19) - Enhancing banks’ and insurers’ approaches to managing the financial risks from climate change. This was an important intervention from our primary regulator, setting out a number of clear expectations of UK banks. For Barclays, its publication enabled us to think about how we could develop and enhance our risk management approach,
applying our long-standing risk management expertise and skills to a new type of risk, encompassing longer timeframes and potential future events that could not necessarily be predicted from patterns of the past.

In late 2019, Barclays’ Board along with executive management, initiated a deep-dive strategic review of Barclays’ approach to understanding the climate challenge, including the opportunities and risks associated with climate change and our role in the broader societal challenge. While the bank’s evaluation was ongoing, a shareholder activist group tabled a resolution ahead of Barclays’ 2020 AGM in an attempt to affect a change in the firm’s approach to climate change via shareholder support. Barclays decided to put forward its own shareholder resolution, passing with the support of 99.93% of votes cast and setting into reality our ambition to be a net zero bank by 2050 and our commitment to align all our financing activities with the goals of the Paris Agreement.

**What people and processes were involved?**

The Sustainability and ESG team within Barclays leverages subject matter expertise and growing knowledge of industry best practice to ensure the firm uses the highest standards to assess and respond to its responsibilities relating to sustainability matters, including climate change. The team advises senior management and the Board on the suitability and integrity of the climate strategy and actions that the firm decides to adopt. In order to do this, it is important that the team is able to stay abreast of emerging issues, new approaches and practices in the sustainability arena.

The significant elevation and enhancement of the firm’s approach to climate change would not have been possible without it being an issue adopted by and integrated into almost every area of the bank – Strategy, Risk, various client-facing business teams across the Investment Bank and Corporate Bank, Research, real estate and operations and procurement teams, and more.

Specifically, we have created a dedicated Climate Risk team to develop Barclays’ climate risk methodologies and manage the financial and operational risks from climate change in the portfolio. The team is strengthening our approach to climate risk governance, and developing our scenario analysis methodologies and carbon modelling, including our BlueTrack™ model used for portfolio alignment and target setting.

**What tools and data are needed?**

There have been many tools and data sets used as we have evolved our approach to climate change.

*Types of data and data sources*

Some of the most important datasets in climate change analysis are sourced externally, including climate scenarios (both transition and physical risk), emissions data and client business activity (industry codes; financial revenue or asset splits; capacity, production and volume data). There is also a significant need for robust internal data, including things like financial exposure.

Where selection and use of climate scenarios is concerned, it is important that the purpose of the modelling that requires the scenario is carefully thought through. For example, for scenario analysis work, a range of scenarios may be required containing varying degrees of transition and physical risk. For portfolio alignment work, the important consideration is the temperature alignment of the scenario. Consideration also needs to be given to the data sets provided by the scenario and whether these are adequate for analysis and modelling purposes.

For our portfolio alignment work, we had to quantify client emissions. While company-level
disclosure has improved significantly in recent years, particularly driven by the TCFD, we continue to find that the data is still not robust enough overall to be a primary source. Because of this, the methodology has to estimate company emissions by combining information from external databases with our own internal assumptions.

To assess which data providers would be most suitable for our requirements, we source data feeds from a number of providers to cross check and increase the accuracy of the model.

**Climate Risk Assessment, Stress Testing tools**

Barclays’ approach to our climate stress test in 2020 aligned to the proposals set out in the Bank of England’s Discussion Paper published in December 2019, on the Climate Biennial Exploratory Scenario (for example dividing assessments into five-year intervals). We then developed methodologies to assess risks for three asset classes: corporates, households and governments. Where it made sense, we took a tiered approach, where the granularity of analysis increased with exposures that carried increased risk. External research (scientific, academic and from typical financial sector organisations such as rating agencies) have informed climate risk considerations in our assessments, but internal expertise in financial risk (credit, market, liquidity) also informed those considerations.

**Alignment tools**

To deliver on our commitment to align our financing with the goals of the Paris Agreement, including our capital markets activity, it was necessary to create a methodology that builds on and extends existing industry approaches – we call this methodology BlueTrack™.

Our work sits alongside engagement with leading industry and academic groups on common approaches to tackling the climate challenge, including the Paris Agreement Capital Transition Assessment (PACTA) and the Partnership for Carbon Accounting Financials (PCAF) and this engagement continues.

**What emerged as the key challenges and benefits to the business?**

The nature of the challenges that have arisen over recent years have changed along the way. Initially the focus on climate change needed momentum at an industry level. Yet as concerns over the risks of climate change grew amongst stakeholders and peers (including shareholders, regulators, clients) the momentum needed to drive real change arrived, and the nature of the challenge has evolved to focus on changing practices and standards for the better.

Another significant challenge has been the inherent imperfection of the tools available to us to design and operationalise our approach. In an industry where practitioners are so used to long-standing processes and sources of data that have stood up to challenge over many years, we are being asked to change that way of thinking. For example, given the much longer time horizons over which climate change occurs, with no historic data to predict a future subject to potentially huge change and uncertainty, we need to understand new information and types of data (climate science, types of emissions, scope of emissions), as well as entirely new ways of measurement and analysis (attribution of impact to bank’s activities, alignment methodologies). However, some of our historical tools are still reliable, particularly as climate risks translate into the types of risk banks have always had to manage (credit, market, operational, reputational).

One positive consequence of this new approach is that, in keeping with our aim to be transparent with stakeholders on our approach to climate change – we are providing a level of information that we may not have been expected to share in the past for such new and emerging practices.

The nature of the threat from climate change is so significant and new that it requires the
adoption of a new mind set from many in the financial services industry – whether this be how we approach new types of risk, how we engage with clients or develop new products and services. This response also offers an opportunity to reset elements of organisational culture and to engage with a broader set of stakeholders in order to take a more sustainable, longer-term view.

We expect that responding to climate change will be a multi-decade endeavour for the bank. The issues are complex and evolving – for example, it is already clear that considerations of biodiversity, our dependence on nature, circular economies will need to be much better understood and integrated into practices. We expect to have to work collaboratively with clients, peers, shareholders, regulators, policy makers and other stakeholders if we are to move forward with a degree of success.

For more information about our approach to climate change and net zero ambition, please visit home.barclays/netzero.
4 International Business of Federated Hermes

About the International Business of Federated Hermes

The international business of Federated Hermes is a global leader in active, responsible investment. We are guided by the conviction that responsible investing is the best way to create long-term wealth. Our goals are to help individuals invest and retire better, to help clients achieve better risk-adjusted returns, and to contribute to positive outcomes in the wider world.

What was the trigger for enhanced climate action and reporting?

At the international business of Federated Hermes (‘Federated Hermes’), we have long believed that the investment management industry has not only the potential but the duty to be a driving force in addressing the climate crisis. However, the ever-growing political momentum and scientific consensus – in particular the Intergovernmental Panel on Climate Change’s warning that in order to stabilise temperatures, we must reach net zero greenhouse gas emissions by mid-century at the latest, front-loading much of the progress into the next decade - has helped to crystallise the timelines in which we must act. These internal and external triggers strengthened our belief that we must use our influence with investee companies to make the case for accelerating the allocation of capital to activities and infrastructure that will help, not hinder, the delivery of the Paris Agreement.

Transparency and accountability are fundamental aspects of ensuring that we, as both a business and as an industry, are making progress that is genuine and committed, which is why have published an annual climate report since 2017. The recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) have been a strong driver in the development of our reporting, and we have used the TCFD framework for our climate-related disclosures for the past two years, supporting a focus on decision-useful information. For meaningful and effective disclosure, we have found it is important to be able to draw on our governance, strategy, resources, and risk management processes.

What people and processes were involved?

While the responsibility for implementing our climate management approach resides with all our staff, we have a formal governance structure for climate risks and opportunities management. This is key to effective risk management and identifying the potential impacts on our business and strategy, as well as supporting better disclosure.

The Board and Executive Committee review the firm’s climate management approach annually and are kept up to date on the progress of implementation through updates from the Head of Responsibility and Head of Policy & Advocacy, who is the climate change co-ordinator for the firm.

Building on the foundations of an informal working group, Federated Hermes set up a formal Climate Change Working Group (CCWG) at the end of 2019 to bring together key functions involved in our climate risk management and disclosure. The CCWG is a cross-business initiative with strong representation of senior management and teams including investment, engagement, responsibility, product development and risk. This formal working group has provided significant momentum to enhance our climate strategy and share best practice across the firm.

All of these elements – effective oversight, supportive ‘tone from the top’ and sufficient
resourcing – are crucial enablers of an effective climate management approach and send an important signal to the whole business about the importance of managing climate-related risks and opportunities.

We aim to understand both an investment’s contribution to climate change and its exposure to related risks and opportunities. Our approach to assessing impact and managing risk covers our public equities and credit; direct lending; infrastructure and real estate assets. At its core our strategy is based on our belief that we can create positive feedback loops between investment and stewardship to reduce the climate risks and maximise the opportunities for the companies and assets in which we invest, as well as improving their impact on the climate. Our approach has four key elements: awareness, integration, engagement and advocacy.

Figure 1: Approach to managing climate change risk and opportunity within our investment practice (Source: Federated Hermes)

All of our investment teams across public and private markets are responsible for integrating climate change considerations into their investment decisions, to ensure that this responsibility is owned by the teams themselves. Each team undertakes their own fundamental environmental, social and governance (‘ESG’) research, including assessing climate risks and opportunities, and is accountable through the performance appraisal system for their part in delivering our mission to generate wealth sustainably. Our ESG integration team supports investment teams across the business, including coordinating access to tools and data relating to climate change and wider ESG risks.

Our stewardship team, EOS at Federated Hermes (‘EOS’), has one of the largest stewardship resources of its kind in the world. Engagement is a crucial element of our approach to managing climate change and climate is a specific engagement focus in EOS’s public-markets engagement programme. EOS aims for all companies to have a business model consistent with achieving net-zero emissions and an effective transition plan to deliver this by 2050 or sooner. EOS has also taken an active role in a wide range of initiatives related to climate change, including the Climate Action 100+ initiative which engages with more than 100 of the world’s biggest greenhouse-gas emitters and a further 60 or so companies that
have a significant opportunity to drive the clean energy transition. EOS is leading or co-leading the engagement on 31 companies. Such collaborative initiatives are key if the world is to meet the goals of the Paris Agreement.

For our private-market strategies, engagements are prioritised according to the exposure of the portfolios. Within both Real Estate and Infrastructure, climate change risk and opportunity management are high on our agenda – we are close to the assets and so use our rights and leverage as owners or as one of a small number of shareholders of those assets and companies to influence practice and strategy. Our real estate business is an industry leader in responsible asset management and has developed its own responsible property investment (RPI) principles. These focus on effective environmental management, a key component of our real-estate management proposition, inform the issues we engage on. We significantly exceeded our industry-leading 2020 target to reduce absolute landlord-controlled carbon emissions by 40% against a 2006 baseline. The team has achieved these results primarily through collaborating with property managers, occupiers and sustainability consultant Carbon Intelligence over several years, along with the rollout of smart optimisation and asset upgrade (including the use of renewables in new or refurbishment projects and the introduction of a non-sedum carbon-neutralising roof with olivine for one of our properties).

**What tools and data are needed?**

We integrate climate risk across our public and private investment portfolios using a range of proprietary and third-party tools, data and approaches. Insights gleaned from stewardship are also key. These inputs are important both for our risk and opportunity management and for our corresponding disclosure, especially given the increasing disclosure expectations for the industry.

The primary means through which we monitor and measure the climate-change exposure of our public-markets investment portfolios is through our proprietary carbon tool, which measures a fund’s carbon footprint relative to its benchmark and calculates its carbon intensity. As well as providing a carbon heatmap, the tool enables portfolio managers to stress-test the resilience of our portfolios to a range of carbon prices, identify whether high-emitting companies in the portfolio are being engaged with or whether engagement needs to be initiated, and understand the progress on any climate or wider environmental engagements already underway. The information also helps increase our investment teams’ awareness of carbon-related risks, which can lead to updated valuations and may influence investment decisions.

*Figure 2: Carbon footprint – portfolio dashboard (Source: Federated Hermes, as at February 2021. For illustrative purposes only)*

In private markets, ESG data – including data related to climate risk – is often less readily available. As such, the teams are heavily reliant on their due-diligence process and engaging directly with borrowers, investees and tenants to obtain the required data. This supports a
more in-depth understanding of the asset in question. Our real estate team has created a range of dedicated tools and procedures that cover all aspects of our real-estate operations. This includes minimum sustainability requirements for refurbishments and developments, dedicated guidelines for directly managed assets on environmental matters, active data management systems for utilities and waste, and community and occupier engagement tools. These tools enable us to assess, monitor and manage social and environmental risks and opportunities in the real-estate portfolio, and therefore informs the objectives of our engagement.

What emerged as the key challenges and benefits to the business?

While several years ago the challenge may have been the need to raise climate change up the agenda, we now face what could be considered the reverse challenge – keeping abreast of fast-moving developments to continually enhance our approach and ensure our investment and stewardship teams maintain a best practice approach to integrating climate risk and opportunity management into their investment processes. This has required an increase in resources, particularly as regulators increasingly mandate disclosures. Having a formal CCWG has been invaluable in tackling these challenges, as it provides a forum to share learning and refine our approach.

Accessing reliable investee data remains a challenge, particularly for private markets, small companies and emerging markets. This is compounded by the lack of standardised metric methodologies amongst both investees and investors, and the fundamental uncertainties that exist at every stage of climate modelling and scenario analysis. Third-party tools are often not transparent about the methodologies and assumptions used to generate outputs. This has meant we have had to become comfortable disclosing data that we know is not perfect. Over time, these issues are being increasingly addressed and, in the meantime, we believe it is important to disclose decision-useful information with transparency about its limitations. We also engage directly with our investees to improve their own disclosures as well as contributing to industry efforts to improve standardisation of methodologies – including chairing the UK chapter of the Partnership for Carbon Accounting Financials (PCAF).

Despite these challenges, we have seen clear benefits to the business. Physical and transition climate-related risks may be material to large segments of the investable universe. We therefore see significant value in our investment teams being well equipped to integrate consideration of climate risk and opportunity into their decision-making, including through proprietary tools that can be integrated into their investment philosophies. We have achieved concrete results through our informed engagement with investees, in a number of cases seeing an acceleration of the allocation of capital to activities and infrastructure that will support the achievement of the Paris Agreement goals. We are also able to clearly articulate and explain our approach to clients and support them in understanding their own exposures to climate-related risks and opportunities. Ultimately, we believe intelligent and considered stewardship will benefit our clients and their end-beneficiaries not only financially but also by playing our part in mitigating the impacts of climate change on their lives.