KBIGI

KBI Global Investors

From Targets to Action:
Our Net Zero Journey

Contents

Introduction and background 3

Setting the stage: adopting a net zero framework 4

Committing to all four NZIF categories 5

1. Asset Alignment Target 5
2. Engagement Target 5
3. Portfolio Decarbonisation Reference Objective 6
4. Climate Solutions Objectives 6

Targeting change: crafting our engagement goals 7

1. Measured, monitored and reported targets 7
2. Balancing divestment and engagement 7
3. Prioritising material sectors 8

Engaging for impact: focus on key climate issues 9

1. Beyond disclosure: pushing for science-based targets 9
   Engagement example: National Grid plc 10
   Engagement example: Xcel Energy Inc. 10
2. Coal's curtain call: accelerating the phase-out 11
   Engagement example: Enel SpA 11
   Engagement example: Veolia Environnement SA 11
   Engagement example: RWE Aktiengesellschaft 12
3. Numbers don't lie: integrating climate risk in financials 13
   Engagement example: engaging with audit committee chairs and auditors 13
   Engagement example: regulator and standard setter engagement 13
4. Money talks: aligning capex with climate goals 14
   Engagement example: Iberdrola 14
5. Climate in the boardroom: governance and pay 15
6. All about the people: ensuring a just transition 15
7. Votes that count: leveraging proxy voting power 16
   Voting examples 16

Lessons learned: reflecting on our journey 17

The road ahead: our priorities 17

Key Terms 18

Introduction and background

KBI Global Investors is an investment manager specialising in global equities. We're based in Ireland but have a global client base. KBI is committed to Responsible Investing and launched our first environmental, social and governance (ESG) strategies almost 25 years ago.

Although we have been active in engagement for many years, our decision in 2021 to adopt the Net Zero Investment Framework (NZIF) meant that we had to - for the first time - formulate specific numerical targets for engagement. We also needed to put in place a framework for monitoring the proportion of portfolio companies which were aligned or aligning with Net Zero.

In this paper, we describe how we put in place the numerical targets required by NZIF and how useful this has been in creating our engagement programme.

For our energy transition and sustainable infrastructure strategies, we will focus on the carbon emissions profile and engagement activity. These strategies include investments in utilities and industrials, sectors that have the highest emissions by far. Focusing on these can keep us on track to meet our NZIF targets.

This analysis is intended to give insight into the challenges and opportunities that arise when trying to integrate the NZIF into investment strategies.

We also aim to show the potential to achieve real-world change through strategic engagement.

Setting the stage:
Adopting a Net Zero framework

In 2021, we decided to commit to the Net Zero Asset Managers initiative (NZAMi). We've always supported such initiatives at an early stage. Doing so also matched our clients' expectations.

We decided that the Net Zero Investment Framework (NZIF) was the obvious methodology for our organisation to adopt. It was developed by the Paris Aligned Investment Initiative, a collaborate forum co-ordinated by various international investor groups, including the Institutional Investors Group on Climate Change. This principally required us to set four main targets:

1

A 5-year asset alignment target for increasing the percentage of AUM or financed emissions in material sectors that are considered aligned with net zero.

2

A short term (<5 years) engagement threshold which ensures that at least 70% of financed emissions[1] in material sectors are either assessed as 'achieving' net zero, 'aligned' to net zero, or are subject to engagement and stewardship actions.

The framework also recommends the following actions for investors:

- Monitor and disclose baseline portfolio scope 1 and 2 financed emissions, with portfolio scope 3 emissions kept separate and disclosed separately.
- Set and disclose medium term portfolio level reference objectives and to monitor progress using the following objectives and to monitor progress using two metrics, i.e. a portfolio decarbonisation reference objective, and the allocation to climate solutions (see below)

3

Portfolio decarbonisation reference objective:
A <10-year CO2e emissions reduction objective.

4

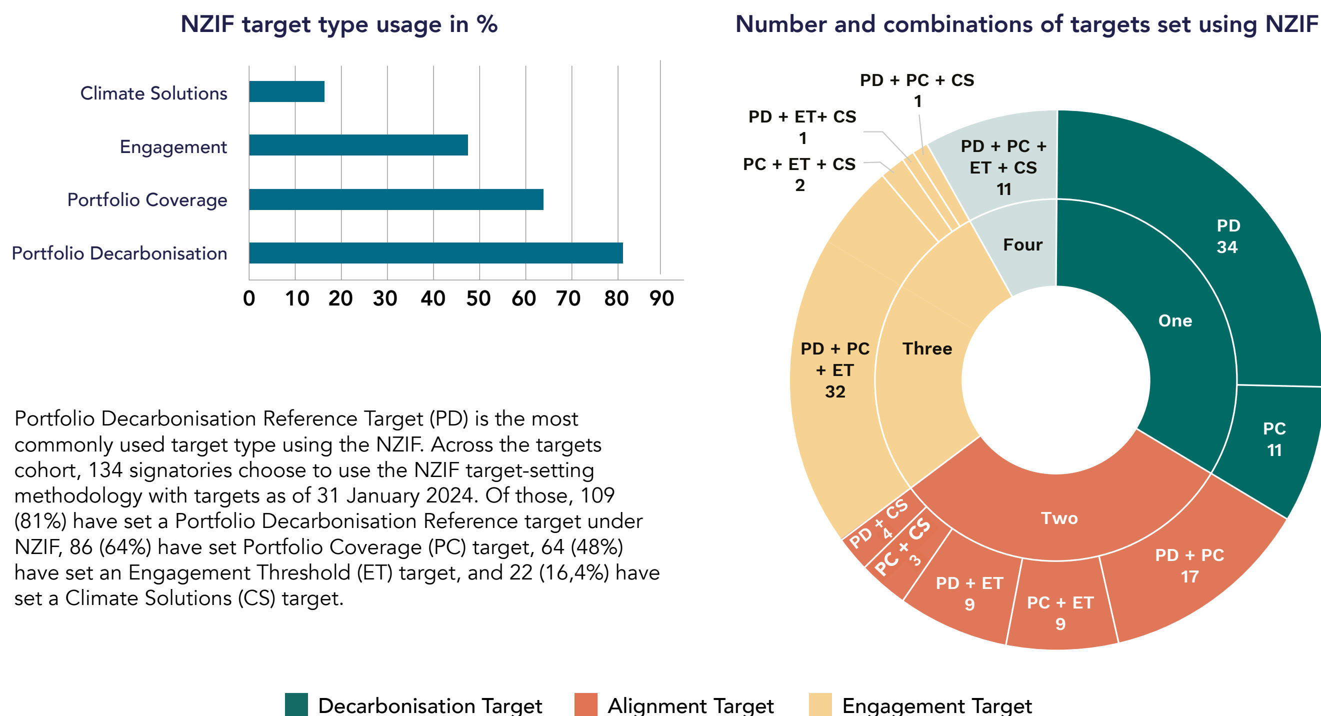
Allocation to climate solutions objective:
A <10-year objective for allocating capital to climate solutions.

[1] 'Financed emissions' of an investment manager are the greenhouse gas emissions attributable to the investments of the investment manager.

Committing to all four NZIF categories

We have put in place commitments for all four categories of the framework and, at the time of writing, we are one of only 11 out of 134 signatories using the NZIF framework to have done so.

Figure 1: Net Zero Investment Framework



Source: Net Zero Asset Managers [2]

1. Asset Alignment Target

(previously known as the Portfolio Coverage Target)

When we committed to the Net Zero Asset Managers Initiative (NZAMi) in 2021, we had to "set an interim target for the proportion of assets to be managed in line with the attainment of net zero emissions by 2050 or sooner." [3]

We decided to commit to reducing the carbon intensity [4] of 100% of our AUM.

2. Engagement Target

The NZIF expects 70% of scope 1 and 2 financed emissions in material sectors (which are sectors with particularly high emissions such as energy or utilities) to be from companies that are either assessed as 'achieving' net zero, 'aligned' to net zero, or are subject to engagement and stewardship actions.

It also states the 70% threshold should rise to 90% by 2030 [5]. There should also be a strategy to engage with assets with material scope 3 emissions, especially companies in high-impact material sectors.

[2] Net Zero Asset Managers Target Disclosures Report 2024

[3] Net Zero Asset Managers initiative

[4] 'Carbon intensity' is a measure of the company's greenhouse gas emissions relative to its sales/revenues

[5] The engagement requirement relates to the percentage of financed emissions in material sectors, and not the percentage of AUM, or of investee companies in material sectors. This means companies that achieve net zero - and have no net emissions - will no longer be relevant for this calculation. The engagement target will remain challenging even for investment managers whose portfolios are heavily invested in companies that have achieved net zero. But that issue is not likely to arise for quite some time given how few companies have eliminated all emissions.

3. Portfolio Decarbonisation Reference Objective

Under the Paris Agreement, countries have committed to keeping the global rise in temperatures this century below 2° Celsius and ideally no more than 1.5°. The world needs to stop sending greenhouse gasses (GHG) into the atmosphere by 2050.

In 2019, a United Nations Environmental Programme (UNEP) report warned that, unless emissions fell by 7.6% a year from 2020 to 2030, the lower 1.5° target would not be reached.[6]

Therefore, our commitment is to reduce the carbon intensity of all of our AUM by 7.6% a year on average between 2019 and 2030, taking in scope 1 and 2 (direct and indirect GHG) emissions.

When it comes to our own business, we've carried out an audit of our emissions and submit our data to the CDP annually. We've set a formal target of reducing scope 1, 2 and upstream 3 emissions per employee by 30% in 2025, relative to 2019.

4. Climate Solutions Objectives

The NZIF recommends investors set an engagement threshold and allocate AUM to climate solutions within 10 years.

Our 2019 baseline for AUM allocated to climate solutions was 7%. So, we set a 2030 target of 20%.

Despite challenging headwinds, we see investors allocating capital to portfolios that aim to address sustainability issues. Our Natural Resource Strategies, which we have managed since 2000, and which represent about half of our AUM, seek out providers of solutions to the global scarcity of clean and safe water, clean energy and food.

Our clients and distribution partners also see the value of delivering climate solutions and alpha.

We are committed to Responsible Investing. Companies that set out to benefit from the shift to a more sustainable economy will win in the long term.

[6] United Nations Climate Change, 2019

Targeting Change:
Crafting our Engagement Goals

In 2019, we couldn't calculate the percentage of financed emissions in material sectors that were considered net zero. The information just wasn't available.

We could, however, establish that 14% of our AUM in material sectors (a reasonable proxy for financed emissions) was considered net zero, while 28% of material-sector AUM was subject to direct or collective engagement.

Combined, we had 42% of material-sector emissions assessed as 'achieving' net zero, 'aligned' to net zero, or are subject to engagement - well below the 70% target required at the end of five years.

1. Measured, monitored and reported targets

We had to work out how to measure, monitor and report on the proportion of material-sector financed emissions that qualify as net zero. As we have investments in almost 1,000 companies around the world, we looked to our data supplier for help.

It knew when a company had a Science-Based Target Initiative-approved net zero target in place. With this information, we built a monitoring system that can check the proportion of financed emissions considered to be net zero.

Next, we looked at the trend in that number. The 2019 baseline was 14%, but by 2021 that number had increased substantially.

Between 2019 and 2021, there was a large increase in the proportion considered net zero in our portfolios. Pressure from investors, particularly through Climate Action 100+, played a role in this. It was made clear to high-emissions companies that investors wanted to see them take concrete steps to reduce emissions.

We had already decided we would commit to having at least 40% of financed emissions on a net zero pathway and, under the NZIF framework, we needed to get to a total of 70% when including engagement, so it was relatively easy to decide that we should set a minimum target of 30% for engagement.

We were also aware that, according to the NZIF framework, the 70% combined threshold will need to rise to 90% by 2030.

2. Balancing divestment and engagement

The creation of a public target can affect an investment manager in two ways.

- It can lead to portfolio changes as we divest from companies not on a credible path to net zero. This is not the preferred option as we lose our ability to create positive changes in the company.
- It can lead to increased engagement with companies in material sectors that are not on the path to net zero. This is our preferred route to a 70% combined target by 2025, and subsequently a 90% target by 2030.

3. Prioritising material sectors

Our engagement target also had to focus on material sectors, to ensure that at least 90% of financed emissions in material sectors are either assessed as net zero, aligned with a net zero pathway, or engaged on the subject.

Not all sectors are equal when it comes to emissions. For example, the utilities sector within the MSCI ACWI index has emissions of 1807 tCO2e/$m sales[7] - that's 20-50 times more than real estate, consumer staples, consumer discretionary, IT, communication services, healthcare or financials. But reducing exposure to certain sectors just to cut overall portfolio carbon intensity is not best practice - it's too easy.

Why we focus on material sectors

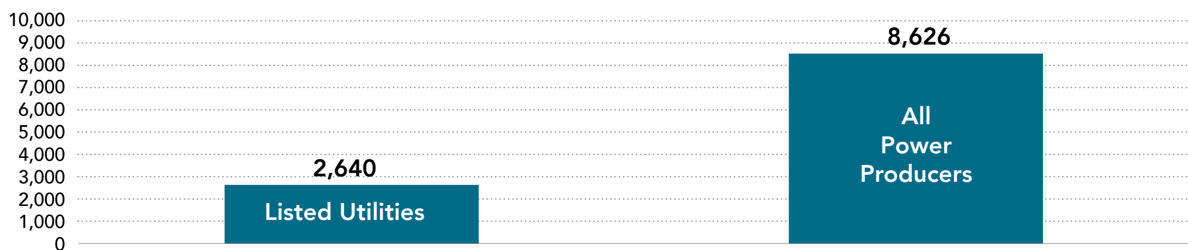
Our energy transition and sustainable infrastructure strategies invest in providers of solutions to the global scarcity of clean energy and sustainable infrastructure. That means we invest in utilities that generate clean energy from sources such as wind, solar and hydro.

In some cases, however, these utilities have high carbon emissions from legacy power plants, and this drives up the total emissions for the portfolio. The strategies also have low exposure, relative to the MSCI ACWI index weights, to sectors such as consumer staples, healthcare and communications, which have low carbon emissions. Therefore, it makes sense for us to focus on material sectors.

Listed utilities will play a notable role in the energy transition, as the sector must move away from carbon-intensive power generation to achieve net zero goals.

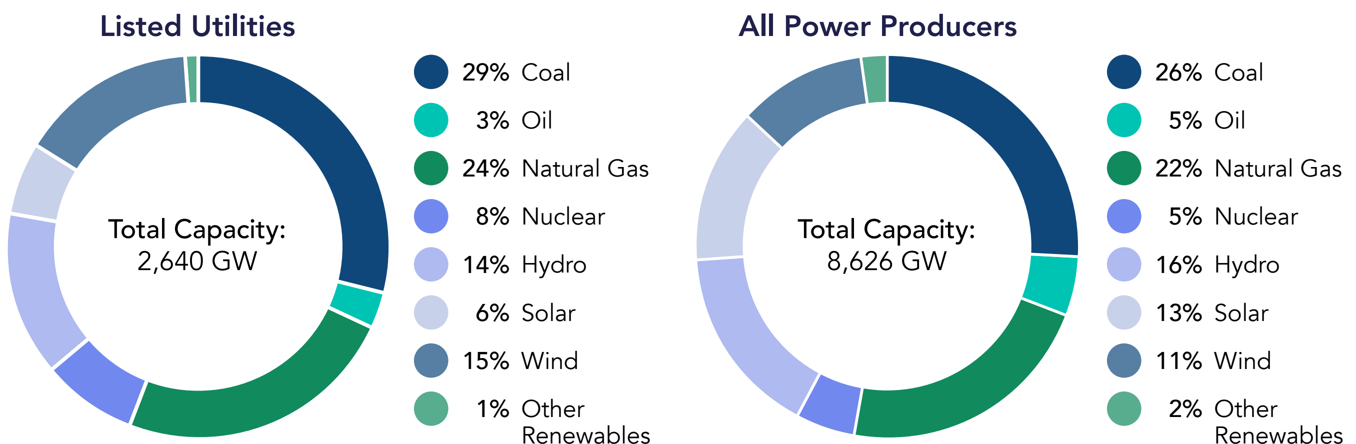
At COP28, countries pledged to triple the installations of solar, wind and other forms of renewable energy or add at least 11,000 GW[8] by 2030. Listed utilities owned about one-third (31%) of the 8,600 GW of global power generation capacity estimated in 2022.

Figure 2: Estimated installed power generation capacity in 2022 (MW)



Source: MSCI ESG Research and the International Energy Agency[9]

Figure 3: Generation Capacity by Fuel (2022)



Source: MSCI ESG Research and the International Energy Agency.

[7] Source: MSCI ESG Manager, carbon portfolio analytics as at 31.06.24, based on Scope 1 and 2 emissions. 'Carbon intensity' is the ratio of portfolio carbon emissions normalised by the investor's claim on sales, expressed as tCo2e/$ sales. Real Estate 85.1 tCO2e/$m sales, Consumer Staples 45.3 tCO2e/$m sales, Consumer Discretionary 44.3 tCO2e/$m sales, Information Technology 27.5 tCO2e/$m sales, Communication Services 16 tCO2e/$m sales, Health Care 16.5 tCO2e/$m sales or Financials 16.6 tCO2e/$m sales.

[8] https://www.cop28.com/en/global-renewables-and-energy-efficiency-pledge

[9] MSCI 2024

Engaging for impact:
Focus on Key Climate Issues

As investors, we play a key role in engaging with carbon-intensive sectors and companies. We do this because we believe that a lack of action to tackle climate change could be very damaging to investment returns in the long term.

We joined Climate Action 100+ (CA100+) in 2017 and have been part of the investor group leading engagements with three CA100+ target companies. We are also involved with:

- the CDP Non-Disclosure Campaigns and Science Based Targets campaign
- the ShareAction Chemical Decarbonisation Investor Coalition
- the IIGCC Net Zero engagement initiative.

We also continue to focus on direct (one-to-one) engagements with specific companies.

Engaging with specific companies has played a key role in our emissions reduction targets, and we believe the type of utilities we hold are leading the global transition to net zero.

Here, we set out our climate engagement efforts on key issues we believe are essential to the decarbonisation of our strategies along with examples of engagements.

1.
Beyond Disclosure: Pushing for Science-based Targets

Since we committed our targets to the Net Zero Asset Managers initiative, there has been a sharper focus on net zero. In the early years of our climate-related engagement, we often focussed on asking investee companies to disclose climate data, principally emissions, not least because at that time there were far too many companies that did not disclose even basic emission data. We've participated in the CDP Non-Disclosure Campaign to lead engagements with non-disclosing companies since 2016.

Today, our engagements are pressing for companies to commit to net zero via the Science-Based Targets initiative (SBTi). In 2024, about a quarter of our engagements for the energy transition and sustainable infrastructure strategies focused on asking companies to commit to SBTi.

Since 2012, we've also taken part each year in the CDP's annual Science-Based Targets campaign. In 2024, we engaged with our electric utility portfolio companies to encourage them to participate in the Technical Advisory Group to work on the update for the SBTi power sector decarbonisation pathway.

Scope 3 emissions - indirect emissions from a company's value chain - account for a notable percentage of the utility sector's total emissions. These are not within the company's control and are usually the hardest to measure. Scope 3 targets are also required by the SBTi Net-Zero Standard [10]. In 2019, most utilities did not include scope 3 emissions in their net zero goals.

Today the picture is different. All the electric utilities and independent power producers in our energy transition and sustainable infrastructure strategies include scope 1, 2 and 3 in their net zero targets, as do about 80% of all investee companies held in our energy transition and sustainable infrastructure strategies.[11]

In future, we expect to move away from encouraging companies to **set** net zero and scope 3 targets, and towards ensuring companies **achieve** those targets.

[10] https://sciencebasedtargets.org/resources/files/SBTi-criteria.pdf

[11] Portfolio holdings as at 30.06.24 and data sourced from MSCI ESG Research

Engagement example:
National Grid plc

National Grid is a multinational electricity and gas utility company headquartered in the United Kingdom. Its focus had been on aligning its medium and long-term targets with the Paris Agreement. It announced emissions reduction targets in September 2023 that align to a 1.5°C pathway and confirmed that its targets had been validated by SBTi.

The targets include a reduction of scope 1 and 2 emissions by 60% by 2030, and to net zero by 2050. It also included targets to reduce scope 3 emissions by 37.5% by 2034, and to net zero by 2050.

We asked the company to set short-term emissions reduction targets with clear goals and action steps to be taken. The company noted our request and said that it will review its short term targets. In 2024, it set a target to reduce emissions by 34% by 2026.[12]

We supported the vote on the Climate Transition Plan of National Grid in 2024 because of these actions. The proposed plan covers all three scopes, with SBTi-verified targets. The level of investment expected in the transition, via upgrade of the infrastructure, is also of note.

Engagement example:
Xcel Energy Inc.

Xcel Energy Inc is a US-regulated electric utility and natural gas delivery company. We spoke with the company's head of investor relations and its director of energy and environmental policy.

We considered its energy mix, which includes coal and renewable energy, its capacity compared to its peers, the social implications of closing coal mines, its political and climate lobbying position, and carbon reduction targets.

We encouraged the company to adopt best practice when it comes to capital allocation and to set short- and medium-term emission reduction targets.

The company used an independent auditor to validate its carbon goals. We emphasised the importance of submitting its Net Zero targets to the SBTi, a comparable standard widely used by global investors and regulators.

[12] National Grid, Annual Environment Report 2023

2.
Coal's curtain call: accelerating the phase-out

Coal is the biggest source of CO2 emissions from energy and it still supplies about a third of the world's electricity generation[13]. It isn't easy to flick off that switch.

Legacy coal assets are largely the cause of emissions in our investee companies. Against the backdrop of energy security and geopolitical concerns, we have learnt that it is important to engage with these companies to ensure that they are committed to phasing out coal - and are on the path to doing so.

Engagement example:
Enel SpA

We started engaging with this large Italian utility in 2019, asking it to sell its coal business or announce a date to do so. Subsequently, we joined the lead investor group as part of the Climate Action 100+ initiative to engage with this company. The Italian government is the majority shareholder of the company, so the political landscape in Italy has to be taken into consideration.

We have had many discussions with the company on its phase-out of coal generation, investment in renewables, scope 3 emissions and targets.

In 2021, Enel said it planned to bring its net zero commitments forward by 10 years.
It was the first company to meet all the indicator criteria in the third assessment of the CA 100+ Net Zero benchmark in October 2022.

The following year benchmark criteria changed and Enel's dropped back from "meets criteria" to "meets some criteria".

The lead investor group then followed up with the company with our priorities, which included board-level governance on climate, and the continued commitment of the new management amidst the changing political landscape in Italy.

We also asked for a timetable showing when it would phase out coal. Its sustainability report, published in 2024, details when and how it plans to do this.

Engagement example:
Veolia Environnement SA

We have been engaging with the large French waste, water and energy services company since 2019 about its use of coal as a power source. We wanted to know what percentage of energy came from coal and what percentage of revenue came from coal-related activities. We also asked for any plans or targets in place.

In May 2020, the company committed to converting its entire coal fleet by 2030 at a cost of €1.2bn. In September 2021, it committed to the SBTi's Business Ambition for 1.5°C, essentially doubling the company's efforts compared to its ambitions adopted in 2019 (22% GHG reduction by 2030), with the goal of 'net zero' emissions by 2050.

In 2024, we discussed getting out of coal power again. The company has an established plan in Europe to ensure district heating facilities powered by coal are replaced with other forms of energy generation by 2030. As the plan for China is less clear, we asked for more information.

[13] IEA, 2024

Engagement example:
RWE Aktiengesellschaft

RWE is one of the largest electricity producers in Germany. Over the years, the company has shifted from coal-powered energy to become one of the world's largest owner-operators of renewable power generation. It also played a central role in Germany's response to the energy crisis precipitated by the Russia-Ukraine war in 2022.

We have been working with RWE since June 2021 to speed up its exit from coal power and have had talks with its chief executive, chief financial officer, head of investor relations and head of sustainability. These centre around phasing out coal generation, investing in renewables and climate planning. The company knows its coal assets are discouraging others from investing.

In 2021, we asked RWE to set more aggressive medium-term targets. It had no carbon reduction plan for the mid-2020s. We also encouraged it to get out of coal before its 2038 target.

The following year, it announced updated deadlines, amid pressure from the German government following the start of the Russian-Ukraine war.

- It agreed with federal and state governments in Germany to exit its coal business by 2030, rather than 2038.
- It also agreed to reduce emissions in line with the 1.5°C target.
- In the short term, however, it would provide 2.1GW of lignite generation capacity to increase energy security during the energy crisis.

Tracking climate risks and opportunities

In 2023, we asked RWE about its climate analysis, including key assumptions and variables, and what it viewed as the key risks and opportunities.

We also wanted to know how much of its capital expenditure is going towards carbon-intensive assets and what its plans are to decarbonise its capital expenditure.

In its response to the CDP climate change questionnaire, the company provided details of its use of climate-related scenario analysis.

In November 2023, the company revised its targets. Its aim is to reduce its scope 1 and 2 emissions by 70% by 2030 and scope 3 emissions by 40% by 2030. It resubmitted its targets to the Scienced Based Targets initiative (SBTi) and in early 2025, the company received SBTi confirmation that its emission reduction targets are in line with a 1.5 degree pathway.

The company also disclosed non-operating adjustments it will make to its key earnings indicators from 2024 onwards - its total earnings from its phaseout technologies, coal and nuclear.[14]

This is an important signal that coal is not core to RWE's business. It could be seen as the first step towards separating them into a state-backed foundation, which can only be done with the approval of the German government. Removing coal from RWE's portfolio would improve the group's profile as a clean energy utility and could give a boost to its valuation.

In March 2024, the three RWE lignite units that were returned to service following the invasion of Ukraine by Russia were closed. It also announced that it is shutting down five other power plant units in the Rhenish mining area.[15]

[14] RWE Investor Relations, 2023

[15] https://www.rwe.com/en/press/rwe-power/2024-03-26-rwe-power-permanently-shuts-down-a-further-five-power-plant-units

3.
Numbers don't lie: integrating climate risk in financials

As mentioned earlier, we're moving towards focusing our engagement on ensuring companies achieve their net-zero targets. We look at their financial statements to see if they're consistent in their financial and non-financial reporting as regards climate risks.

Do a company's financial statements (including the notes), and the auditor's report, reflect the financial effects of climate risk? As investors, we vote on a company's financial statements and reappointment of its auditor. Financial statements must include information relevant to investment decision-making.

Regulators and accounting standard setters recognise the accounting and auditing standards require climate-related risks to be considered in financial statements and audit reports, so why do so few companies publish such information in their financial statements?

As Carbon Tracker said in the third of its series of Flying Blind reports, "If companies do not consider the impacts of such risks on the balance sheet today and provide transparency over such considerations, management may not be monitoring the real costs of continued investment in or dependence on fossil fuels, and investors too are left in the dark."

Engagement example:
Engaging with Audit Committee Chairs and Auditors

We have been part of the collaborative engagement group, engaging with audit committee chairs and auditors of European companies since 2020. The group engaged with Enel SpA on including climate-related risks in its financial statements and auditor reports, and we directly engaged with Iberdrola, a multinational electric utility company based in Spain, on climate accounting.

In the fifth round of assessments of the CA100+ Net Zero Benchmark in October 2024, both Enel SpA and Iberdrola were assessed to have partially met some criteria in their disclosures of material climate-related matters in their financial statements as well as some consistency with other reporting such as sustainability reports.

The audit reports, however, still don't show the auditor included material climate-related matters in the audit. Therefore, we will continue to engage with these companies.

Engagement example:
Regulator and Standard Setter engagement

We co-lead the Climate Action 100+ Thematic Engagement on Climate Accounting (North America) thematic working group.

The working group is expected to engage with regulators. We signed an investor letter submitting comments on the International Accounting Standards Board's (IASB) tentative agenda decision on climate-related commitments.

The letter stressed the need for more corporate disclosures, facilitated by IASB guidance on commitments and reporting. The financial statements, and notes, of businesses that have made notable climate commitments should state the implications of these decision clearly.

In April 2024, the IASB finalised its agenda decision regarding Climate-related Commitments (IAS 37) and the investor comment letter was referenced multiple times in the IASB's analysis.

[16] Carbon Tracker, Flying Blind: in a holding pattern, 3rd report in the series

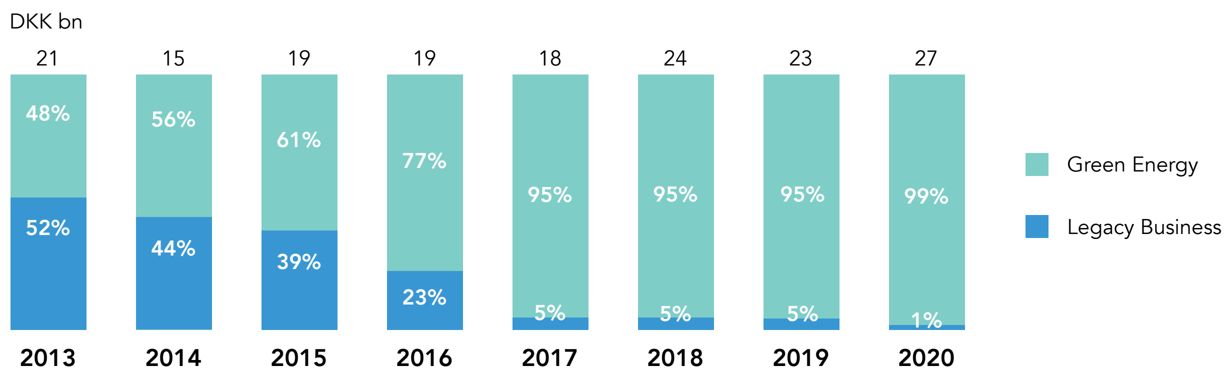
4.
Money Talks: Aligning Capex with Climate Goals

We engage with companies on climate risks in financial reporting because when material climate considerations are included in financial statements, they will also be included in capital deployment and capital allocation. When climate risks and opportunities are integrated into the economics of the business, investors are better assured that capital is deployed correctly.

Capital expenditure offers insights into a company's plans. Investors pay close attention to this, as it can have a sizable impact on cash flow, and free cash flow is often used to value a company. Capital expenditure can also be a key indicator that a company is transforming its fossil fuel business into green energy.

In the late 2000s, Ørsted began its green transformation. At the time, the company operated one of the most coal-intensive power generators in Europe and had an expanding oil and gas production business. Today, it is one of the largest renewable energy companies and has exited its fossil fuel business.

Figure 4: Capex allocation to new strategic core 2013-2020



Source: Ørsted [17]

Capital expenditure allocation played a notable role in Ørsted's green transformation, and it is a useful example of what we like to see when we engage with companies on this topic. This was also key when engaging with RWE Aktiengesellschaft, Xcel Energy Inc and Veolia Environnement SA.

Engagement example:
Iberdrola

Iberdrola, the Spanish multinational electric utility company, is one of the largest producers of wind power. We started to engage with it in 2019.

We discussed capital allocation and asked about its investments in the US. We wanted to know whether it plans to increase investment in natural gas-fired power as natural gas is viewed differently in the US than in Europe.

We strongly advised staying away from investing in new coal or gas capacity. Iberdrola said that, in terms of organic growth, it will not invest in gas-fired electricity generation. It has a track record of getting rid of fossil fuel assets that it gets through acquisition. This includes Scottish Power in 2006, which owned the least carbon-efficient power stations in Europe. Iberdrola has since transformed it into a pure-play renewable generator.

Checking on carbon offsets

We asked the company whether carbon offsets are part of its plan to achieve its net zero targets, and how it engages with its supply chain and expects suppliers to set net zero goals.

Iberdrola said offsets are used only on residual emissions, which are used as backup capacity, and where there is no available technology as a substitute. The company selects suppliers based on carbon footprint and a range of ESG criteria. It has more than 500 indicators for improvement.

We asked whether it had considered climate risk in the preparation of its financial statements and its audit report. The company confirmed that it had reviewed the lifetime of its assets and has determined that are no material climate risks that warrant inclusion in its financial statements. We asked the company to include this analysis in the narrative for its financial statements.

[17] Ørsted white paper: Our Green Business Transformation: What we did and lessons learned

5.
Climate in the boardroom: governance and pay

Another key issue is board oversight of climate change, and whether remuneration of senior management and the board is linked to reducing emissions.

We want to see board committees having oversight of climate change, and that a named position on each board has this responsibility. This is vital to prevent backtracking on policies that have been committed to already. This can happen following a change of chief executive or of government, especially in the case of majority state-owned companies [18].

For example, in November 2023, Enel SpA, a large Italian utility which is majority owned by the Italian government, cut its spend on renewables after a new CEO was appointed by the government.

As part of the CA100+ lead investors in the engagement team, we followed up with the company with our priorities, which included board-level governance on climate, and asked for the continued commitment of the new management amid the changing political landscape.

As shareholders, we vote on remuneration policy and executive pay. As the board and senior executives are keen to discuss remuneration before a company's annual general meeting, we often use this to engage with the companies. For example, we asked Iberdrola to include progress towards achieving the company's GHG reduction targets as a key performance indicator in its CEO and chair's remuneration agreement.

6.
All about the people: ensuring a just transition

People are crucial in the transition to net zero. It will change how they work and how much work they have. Millions of jobs will be created, while others will disappear as technologies change. Jobs will transform, leading to unequal effects on skills, gender, sector and region. Without a focus on the people affected by these changes, climate action may not be realised.

The CA 100+ Net Zero Company Benchmark assessed companies for their Just Transition plans for the first time in 2023. (Just transition is the term used to describe the transition to a climate-neutral economy while securing the future and livelihoods of workers and their communities.)

It found only "10% of companies assessed have set out Just Transition plans . . . (and) just 23% commit to retaining, retraining, deploying and/or compensating workers affected by their decarbonisation efforts, and only two companies have committed to developing decarbonisation projects in consultation with, and seeking the consent of, affected communities." [19]

We have supported just transition shareholder proposals. For example, at the 2023 AGM of the American automotive and e-mobility supplier BorgWarner Inc, we supported a shareholder proposal for a report on the company's approach to a just transition relating to its climate change strategy (against management recommendation) because we believe shareholders can benefit from additional social impact disclosure.

The resolution garnered an encouraging 32% support from shareholders, which typically indicates a notable level of shareholder concern meriting management action on the issue.[20]

[18] https://www.reuters.com

[19] https://www.climateaction100

[20] https://www.proxypreview.org

7.
Votes that count: leveraging proxy voting power

We use our votes to support climate-focused engagement. For notable greenhouse gas emitting companies [21], we generally vote against or withhold support from the chair of the related committee if the company is not taking the minimum steps to get on track to achieve net zero by 2050.

We also support shareholder proposals seeking information on climate-related risks and shareholder proposals calling for reduced GHG emissions.

In relation to Say on Climate management proposals, we assess the company's climate transition plan. We also review our votes on the appointment of audit committee chairs, auditors, remuneration policy and remuneration, as part of our climate-related engagement and voting strategy.

Voting examples

California Water Service Group: In 2023, we supported a shareholder proposal to vote against management recommendations to adopt GHG emissions reduction targets aligned with the Paris Agreement goal as shareholders would benefit from the company adopting more ambitious climate targets. In turn, those would help the company align with regulatory expectations in California and Hawaii to be carbon-neutral by 2045.

Nextera Energy: In 2024, we supported a shareholder resolution for a report on climate lobbying. More information about this would allow shareholders to better evaluate the company's lobbying efforts and align them with best practices undertaken by some of its peers.

National Grid: We supported the management resolution to approve a climate transition plan in 2022 and 2024. Its proposed Climate Transition Plan in 2024 covered all three scopes, with SBTi-verified targets.

[21] Defined as Climate Action 100+ companies

Lessons Learned: Reflecting on our Journey

Adopting the Net Zero Investment Framework was a key step for KBI Global Investors, as it enhanced our climate engagement efforts. This framework sharpened our focus and drove the evolution in our approach:

- **Shift in engagement priorities:** we moved from asking for emissions disclosure to pushing for credible, science-based net-zero targets.
- **Comprehensive strategy:** our engagement covers a range of critical areas – from asking for coal phase-out timetables to climate accounting and capital expenditure alignment.
- **Governance focus:** we've increased emphasis on board oversight and executive compensation linked to emissions reductions.
- **Just transition:** while not part of our formal net-zero targets, we recognize the importance of supporting a socially responsible transition.

The Road Ahead: Our Priorities

This is how we plan to continue on the path to success – and net zero.

- **Monitoring progress:** we aim to develop systems to track companies' advancements towards their net zero commitments. This will allow us to hold companies accountable and adjust our engagement strategies as needed.
- **Supporting a Just Transition:** we will continue to encourage companies to consider the social implications of decarbonisation, ensuring the shift to a low-carbon economy is equitable and leaves no one behind.

By maintaining this focused, evolving approach to engagement, we believe we can continue to drive real-world decarbonisation in high-emitting sectors, while generating long-term value for our clients.

Our experience shows adopting formal frameworks and targets can notably enhance the effectiveness and impact of climate-related engagement efforts.

Key Terms

1. Capital expenditures (CapEx) are funds used by a company to acquire, upgrade, and maintain physical assets such as property, plants, buildings, technology, or equipment. CapEx is often used to undertake new projects or investments by a company.

2. Carbon intensity is a measure of the company's greenhouse gas emissions relative to its sales/ revenues.

3. CDP, originally named Carbon Disclosure Project, is an independent non-profit organisation providing large databases of environmental data on companies. The most well-known database offers insights into carbon emissions and strategies of companies. Apart from carbon data, CDP also provides data on water, forest products, supply chains, and more (www.cdp.net).

4. Climate Action 100+, launched in 2017, is the world's largest investor engagement initiative on climate change. Investors are focused on ensuring 168 of the world's biggest corporate greenhouse gas (GHG) emitters take the necessary actions to align their business strategies with the goals of the Paris Agreement. This includes improving corporate governance of climate change, reducing GHG emissions, and strengthening climate-related financial disclosures. The 168 focus companies include the initial 100 'systemically important emitters', identified with the highest combined direct and indirect GHG emissions, and additional companies selected by investors as critical to accelerating the net zero transition.

5. Climate Action 100+ Net Zero Company Benchmark assesses the performance – based on disclosures and alignment assessments – of 168 Climate Action 100+ focus companies against the initiative's three high-level goals: improved governance, emissions reduction and enhanced climate-related disclosures.

6. Climate Transition Plan is an action plan where an organization describes its strategy to transition all its processes, operations, and business models.

7. COP stands for Conference of the Parties and it often refers to the United Nations Framework Convention on Climate Change (UNFCCC) international meeting focusing on climate. COP is the main decision-making body of the UNFCCC.

8. Divestment is a means of removing a stock from a portfolio. For listed equity investors, the decision to engage with or divest from ESG laggards depends on the ESG issues concerned as well as the (sustainability) objectives of their clients. The two are not mutually exclusive – many investors favour a stewardship-first approach that includes divestment as the final step in an escalation strategy. However, divestment may be more effective in some contexts than others, for example environmental investors who do not wish to invest in companies with coal and fossil fuel related activities.

9. European Union Taxonomy is an EU-wide classification system for sustainable activities https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en

10. Financed emissions of an investment manager are the greenhouse gas emissions attributable to the investments of the investment manager. This measures the carbon emissions for which an investor is responsible, per USD million invested, by their equity ownership. Emissions are apportioned based on equity ownership (% market capitalization).

11. GHG Protocol Corporate Standard classifies a company's GHG emissions into three 'scopes'. Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

12. IASB : The International Accounting Standards Board's (IASB) is an independent group of experts with an appropriate mix of recent practical experience in setting accounting standards, in preparing, auditing, or using financial reports, and in accounting education. IASB members are responsible for the development and publication of IFRS Accounting Standards, including the IFRS for SMEs Accounting Standard. The IASB is also responsible for approving Interpretations of IFRS Accounting Standards as developed by the IFRS Interpretations Committee (formerly IFRIC).

13. IIGCC Net Zero Engagement initiative (NZEI) is an investor led initiative aimed at helping IIGCC members align more of their individual investment portfolios with a net zero pathway using corporate engagement. It focuses on major emitters beyond the Climate Action 100+ focus list.

14. Institutional Investors Group on Climate Change (IIGCC) is a European collaborative investor platform on climate change. The initative has co-founded and fostered initiatives including Climate Action 100+, the Net Zero Asset Managers initiative, Paris Aligned Asset Owners group and Nature Action 100.

15. Just Transition is the term used to describe the transition to a climate-neutral economy while securing the future and livelihoods of workers and their communities.

16. Material sectors are sectors which have particularly high emissions such as energy, industrials or utilities.

17. Net Zero Asset Managers initiative is an international group of asset managers committed, consistent with their fiduciary duty to their clients and beneficiaries, 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 degrees Celsius; and to supporting investing aligned with net zero emissions by 2050 or sooner. The Net Zero Asset Managers initiative is a formal partner of the UNFCCC's Race to Zero Campaign.

18. Net Zero Investment Framework is the most widely used guide by investors to set targets and produce related net zero strategies and transition plans. NZIF outlines key components of a net zero strategy and transition plan for investors, with two key objectives: 1) Transitioning investment portfolios in a way that is consistent with the mitigation goals of the Paris Agreement, focusing on real economy decarbonisation. 2) Increasing investment in the range of climate solutions to enable the transition.

19. Paris Agreement is a legally binding international treaty on climate change. It was adopted by 196 Parties at the UN Climate Change Conference (COP21) in Paris, France, on 12 December 2015. Its overarching goal is to hold "the increase in the global average temperature to well below 2°C above pre-industrial levels" and pursue efforts "to limit the temperature increase to 1.5°C above pre-industrial levels." However, in recent years, world leaders have stressed the need to limit global warming to 1.5°C by the end of this century.

20. Science Based Targets initiative (SBTi) develops standards, tools and guidance which allow companies to commit and set science based greenhouse gas (GHG) emissions reductions targets. When a company submits a target, the SBTi Target Validation Team thoroughly assesses the target to ensure it conforms with SBTi Criteria and is aligned with climate science. If the target is in conformance, it is validated and marked on the SBTi Target Dashboard as 'Targets set'. If it is not in conformance, the SBTi provides feedback to the company to encourage them to re-submit.

21. Shareholder proposal is a resolution that is put forward by a single shareholder, or group of shareholders, to a company board, asking for a matter to be voted upon at the company's Annual General Meeting (AGM). It is an important stewardship tool that focuses efforts on a concrete call to action.

22. Stewardship: The use of investor rights and influence to protect and enhance overall long-term value for clients and beneficiaries, including the common economic, social, and environmental assets on which their interests depend.

23. UN Emissions Gap reports are a series of reports that brings together many of the world's top climate scientists to look at future trends in greenhouse gas emissions and provide potential solutions to the challenge of global warming.

24. Weighted Average Carbon Intensity measures a portfolio's exposure to carbon-intensive companies, defined as the portfolio weighted average of companies carbon intensity (emissions/sales).

KBIGI

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