COMPANIES AND CLIMATE CHANGE

A research application of the

AIIB-Amundi Climate Change Investment Framework

The AIIB – Amundi Climate Change Investment Framework

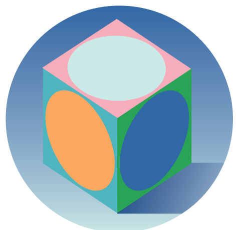
Launched in September 2020, the AIIB - Amundi Climate Change Investment Framework (CCIF) equips investors with a benchmark for assessing investments against climate change-related financial risks and opportunities. The CCIF translates the three objectives of the Paris Agreement into fundamental metrics that enable investors to assess an issuer's level of alignment with climate change mitigation, adaptation and resilience, and low-carbon transition objectives. For each objective, the CCIF sets out key metrics to assess financial risks and opportunities. The CCIF was jointly developed by AIIB and Amundi and was endorsed by the Climate Bonds Initiative (Climate Bonds).

Report summary

A new report presents the first research application of the CCIF on three levels: sectors, companies, and issuers of debt securities. The research universe comprises corporates domiciled in AIIB Members predominantly in EM Asia, and operating across AIIB's focus areas. The report and its constituent analyses were produced by a consortium of organisations led by AIIB and Amundi: the sector-level analysis was contributed by Fitch Solutions, the company-level case studies by the Carbon Trust, and the issuer and bond-market level analysis by Climate Bonds. Key findings and conclusions from each level of analysis are presented below. This report reviews the overall market and is not specific to AIIB and/or Amundi funds.

BY SECTOR:

Data availability and quality gaps drive differences in performance



This analysis compiled sector-level low carbon transition trackers, assessing and scoring the performance of 208 companies across eight sectors: autos, basic industries, healthcare, telecoms, energy, technology / electronics, utilities, and transportation. Key findings are outlined below.

1. Using the CCIF shows high variation in sector alignment with the Paris Agreement objectives.

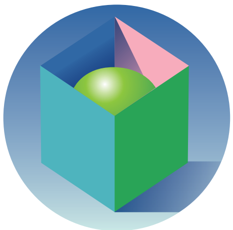
a. Mitigation: Most sectors report on mitigation but inconsistencies abound. Sectors are generally reporting carbon emissions and carbon reduction targets however the underlying data, methodology and scope is inconsistent.

b. Adaptation: Limited reporting on the physical risks related to climate change. Sectors are limited in reporting their physical exposure to climate change. Alternative data sources and analyses, such as using country-level scores as a proxy, are sometimes required to assess sectors' efforts on adaptation.

c. Financial Contribution: Varying performance by sectors. Sectors with a higher correlation between direct carbon emissions and business models, for example energy, utilities, and autos, have more detailed policies and data related to financial contribution. Conversely, for sectors where emissions are indirect, policies and data related to financial contribution are less explicit.

2. The CCIF is a robust benchmarking tool, but financial capability should also be considered in assessing the companies' ability to transition. Reducing carbon emissions, ensuring resilience, and investing in green technologies are all capital-intensive processes thus a company's green transition is partly contingent on its financial health. In acknowledgement of this, financial capability was added to the CCIF.

BY COMPANY:



Some progress, but work remains especially on climate adaptation

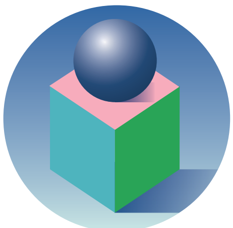
This analysis compiled ten company case studies from the following sectors: energy, telecom, transport, utilities, healthcare, automotive, basic industries, and technology & electronics. The target companies were among some of the more advanced organisations incorporating climate mitigation and adaptation strategies into their Asian operations. The geographies covered include China, India, South Korea, and Singapore. Key findings are outlined below.

1. Greater focus on renewable energy and GHG measurement. Most of the companies had adopted climate mitigation strategies by procuring renewable energy and measuring and reporting at least Scope 1 and Scope 2 greenhouse gas (GHG) emissions. Fewer companies had set 1.5-degree science-based targets and/or publicly committed to net zero goals.

2. More efforts needed to devise and implement detailed adaptation measures. Most of the companies had conducted physical climate risk assessments. However, few companies had incorporated financial analyses and implemented measures to respond to these risks. In addition, while many companies disclosed their climate mitigation plans, few companies focused on long-term climate adaptation plans.

3. Increased investment into green technologies and integration of circular economy in operations: Most companies focused on optimising energy consumption across their products and services through investments in energy-efficient technologies. Continuous research and development initiatives for exploring green technologies, and life cycle assessments in most of the analysed companies were observed.

BY ISSUER:



Companies contributing to the transition are not necessarily prepared for climate risks

This analysis includes 483 issuers originating from 33 geographies. Key findings are outlined below

1. No companies performed well across all three CCIF objectives. Even among green bond issuers, this analysis did not identify any issuers that did well on all three objectives of the CCIF: mitigation (target-setting and strategies), adaptation (low risk exposure and/or adaptation plans and strategies), and financial contribution (climate-aligned revenues).

2. Best performers were characterised by significant climate-aligned revenues and being in low-risk areas. Together, these companies had outstanding debt of USD466bn. However, due to the unpredictable nature of climate impacts, these companies may nonetheless be exposed to climate risks if they do not develop credible transition, adaptation and resilience strategies.

3. Most companies are subject to physical climate risks but are not taking action to manage them. Only 14% of companies researched have an adaptation and resilience plan in place, leaving the rest exposed to potential financial losses. This is particularly relevant for emerging market (EM) companies, as many already suffer disproportionately from the physical impacts of climate change. Further planning and implementation action is strongly recommended to manage climate risks.

Outlook

This research applies the CCIF to the analysis of the climate performance of different sectors, companies, and debt issuers. The research suggests that while sectors and companies are climate-mitigation focused, more concerted efforts must be channeled into climate adaptation planning and implementation. For sampled companies, the diversity of operational locations, inconsistency in climate mitigation and adaptation data, and lack of financial contribution, were among the challenging factors in performing well across all three CCIF metrics.

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