THE NET-ZERO REVOLUTION

Asset Management's Role in Shaping a Sustainable Future

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Section 1: **Introduction**

In this whitepaper, we embark on an exploratory journey into the transformative world of asset management, as it aligns with the global imperative of achieving net-zero emissions. As the financial sector stands at the crossroads of economic growth and environmental responsibility, this paper delves deep into the evolving role of asset managers as catalysts for sustainable change.

We begin by setting the stage for the urgency of this transition, highlighting the critical intersection of climate change, financial stewardship, and investment strategies. Our journey will take us through real-world case studies, from Exxon Mobil's pivot towards sustainability under investor pressure to JD.com's governance transformation, and Aegea's proactive approach to climate risks.

These stories not only illustrate the changing landscape but also serve as beacons of inspiration and practical guidance. Further, we confront the challenges and opportunities that lie ahead for General Partners (GPs) in this new era. From navigating data complexities to balancing financial returns with environmental goals, we provide actionable insights and innovative solutions. Finally, we introduce ImpactVisible's unique approach to sustainable asset management. Our methodology, which blends environmental science with financial acumen, offers a new paradigm for integrating sustainability into investment strategies.

As we guide you through these pages, our goal is to offer a comprehensive understanding of the transformative power of asset management in achieving a sustainable future. We invite you to join us in envisioning and shaping a world where every investment decision contributes to a greener, more resilient planet.

Section 2: **Asset Managers Champions of Sustainability**

Asset Managers: Catalysts for a Greener Future

In the quest for a sustainable future, asset managers play a pivotal role. Their investment decisions have the power to reshape corporate practices, ignite innovative solutions, and direct capital towards environmentally conscious ventures. This section delves into how asset managers are instrumental in fostering sustainability, as illustrated by real-world success stories and their transformative impact on Portfolio Companies (PCs).

ExxonMobil Case Study: A Journey of Engagement and Change

The Engagement Challenge

In 2017, EOS alongside 62% of ExxonMobil's shareholders, challenged the oil giant to assess the long-term impacts of technological advances and global climate change policies on its portfolio. This bold move was aimed at urging ExxonMobil to align its long-term strategy with the evolving realities of climate change, suggesting stress tests against various demand assumptions and policy scenarios.

A Turning Point in 2021

The year marked a significant shift. ExxonMobil faced a proxy contest initiated by Engine No. 1, an activist shareholder proposing an alternative slate of directors. EOS engaging with both parties, supported this contest, advocating for board refreshment in light of ExxonMobil's long-term financial underperformance.

A Call for Action

By 2019, concerns grew as ExxonMobil seemed to retreat from meaningful dialogue on climate change, limiting investor access to management. This led EOS at Federated Hermes to recommend votes against certain board members, citing an insufficient response to climate change challenges.

Actions Taken

ExxonMobil responded with several initiatives:

- Committing $15 billion towards lower-emissions investments through 2027.
- Announcing a comprehensive net-zero plan.
- Starting methane certification for some production in the Permian Basin.
- Supporting large-scale carbon capture, utilization, and storage technology alongside 11 other companies.

Continued Advocacy

Post-proxy contest, EOS pushed for clear targets on reducing Scope 3 emissions in alignment with the International Energy Agency's 2050 net-zero scenario. They also recommended supporting the company's auditor by exception, highlighting the need for climate change to be a factor in audit reports.

The Impact

This case study exemplifies the influential role of asset managers in driving significant environmental commitments and actions within major corporations. Through strategic engagement, EOS played a crucial role in steering ExxonMobil toward a more sustainable and environmentally responsible future. It's a testament to how persistent dialogue, strategic vision, and shareholder activism can lead to impactful corporate sustainability transformations.

JD.com Case Study: Enhancing Corporate Governance and Climate Action

Engagement Challenge

JD.com, one of the world's largest e-commerce companies faced challenges in corporate governance and climate-related disclosures. Hermes Investment, engaging with the company since 2018, raised concerns about the concentration of power, as the founder Mr. Liu held both CEO and chair roles, and the lack of a clear succession plan. Additionally, there was a growing need for JD.com to enhance its climate-related disclosures, especially in the context of China's commitment to carbon neutrality by 2060.

A Call for Action

Hermes Investment urged JD.com to separate the roles of CEO and chair for better governance and questioned the company's succession plan for these roles. On the climate front, they emphasized the importance of disclosing a Task Force on Climate-related Financial Disclosures (TCFD) report, sharing examples of TCFD reporting in China to guide JD.com.

Actions Taken

In early 2020, JD.com announced that Mr. Liu had stepped down from key management roles in subsidiary companies. By 2022, the company confirmed Mr. Liu's transition from operational roles, with Mr. Xu replacing him as CEO. JD.com also incorporated climate-related disclosures in its first ESG report in 2021, including Scope 1, 2, and 3 emissions figures and reporting in line with the TCFD, including scenario analysis.

Impact

JD.com's governance structure saw significant improvements with the separation of the CEO and chair roles. The company's first ESG report marked a substantial step in climate transparency, showcasing its commitment to addressing climate change. JD Logistics, a subsidiary, set science-based targets to reduce greenhouse gas emissions by 50% by 2030, although similar targets for JD.com itself were still pending.

Continued Engagement

Hermes Investment continues to engage with JD.com on various aspects of minority shareholder rights, including its multi-share class structure, advocating for a 'one share, one vote' structure and director elections at AGMs. On climate change, the focus remains on encouraging JD.com to set sciencebased targets for its emissions reduction, further aligning with global sustainability goals.

AEGEA Case Study: Addressing Climate Physical Risks

Engagement Challenge

AEGEA, the largest private sanitation company in Brazil, faced the challenge of managing physical climate risks due to its significant exposure to environmental factors. As a provider of clean water and sewage services, AEGEA's operations were particularly vulnerable to climate-induced changes such as droughts and rainfall variability.

A Call for Action

Wellington Management's fixed-income credit analysts engaged with AEGEA in the third quarter of 2022 to assess the company's preparedness for these physical climate risks. The engagement aimed to encourage AEGEA to mitigate potential impacts on its services and operations.

Actions Taken

AEGEA acknowledged the hydrological risks identified by Wellington Management. In response, the company hired a weather forecasting consultant to improve its climate modeling. AEGEA's analysis indicated that drought in the northeast region of Brazil, where it heavily relies on the Parnaiba River, would not significantly impact its operations or water supply.

Impact

AEGEA demonstrated a proactive approach to managing climate risks by incorporating climate-related disclosures in its first ESG report in 2021. The report included Scope 1, 2, and 3 emissions figures and TCFD-aligned reporting, including scenario analysis. AEGEA also implemented measures to reduce water loss, such as repairing and replacing water networks and installing water pressure meters.

Continued Engagement

Wellington Management continues to engage with AEGEA on climate-related issues. While recognizing AEGEA's understanding of physical risks and its geographic diversification as a risk mitigation strategy, Wellington Management emphasizes the need for ongoing efforts to adapt and respond to evolving climate challenges.

The Impact of Asset Managers on Portfolio Companies

1. Engagement and Advocacy:

Asset managers engage with the management of Portfolio Companies, advocating for sustainable practices and policies. This engagement often leads to tangible changes, such as adopting cleaner technologies or improving labour practices.

2. Voting Power:

Through their voting rights in shareholder meetings, asset managers can support resolutions that promote sustainability, influencing company strategies and operations.

3. Capital Allocation:

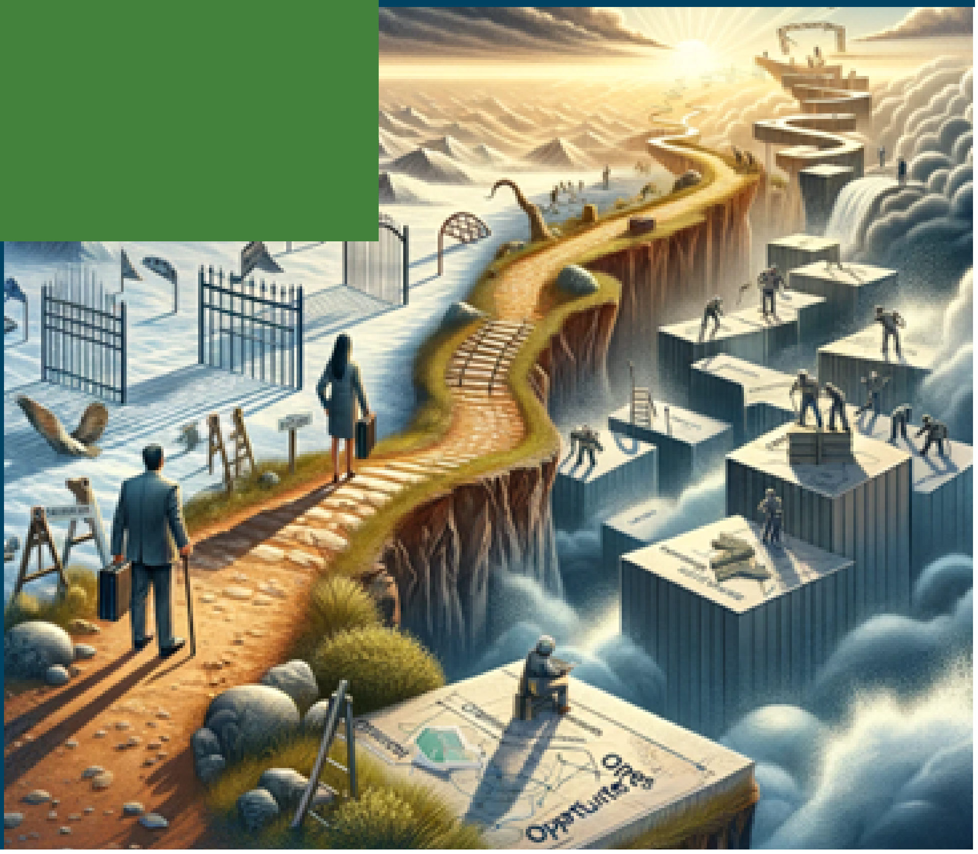
By directing capital towards companies with strong sustainability credentials and divesting from those that lag in this area, asset managers incentivise portfolio companies to adopt sustainable practices.

4. Knowledge Transfer:

Asset managers often provide expertise and resources to help Portfolio Companies develop.

Section 3: **Navigating the Terrain - Challenges and Opportunities in Sustainable Asset Management**

In the dynamic landscape of sustainable asset management, General Partners (GPs) encounter a spectrum of challenges and opportunities. This section provides a balanced exploration of these aspects, illustrating how each challenge paves the way for new opportunities, and how practical solutions can be effectively implemented.



3.1. Common Challenges Faced by General Partners

1. Data Quality and Availability

The Challenge: General Partners (GPs) frequently encounter the issue of inadequate and inconsistent data on sustainability metrics. This shortfall hampers their ability to precisely evaluate the environmental impact of their investments.

Practical Solutions:

I. Enhancing Data Collection Methods:

- Utilize advanced technologies like AI and big data analytics to improve data accuracy.
- Encourage portfolio companies to adopt standardized reporting frameworks such as GRI or SASB.

ii. Promoting Industry-Wide Reporting Standards:

- Engage in industry forums and collaborate with regulatory bodies to advocate for universal sustainability reporting standards.
- Support the integration of TCFD recommendations for uniform climate-related financial reporting.

iii. Leveraging Third-Party Assessments:

- Partner with environmental rating agencies like MSCI ESG Research, Sustainalytics, or CDP for external evaluations of sustainability aspects.
- Regularly integrate these assessments into investment analysis for a more comprehensive view of sustainability performance.

iv. Fostering Data Sharing Partnerships:

- Establish alliances with other asset managers, NGOs, and academic institutions for data exchange and best practice sharing.
- Such collaborations can enhance the quality and breadth of sustainability data available.

2. Balancing Financial Returns with Sustainability Goals

The Challenge: In the realm of sustainable asset management, General Partners (GPs) often confront the challenge of reconciling financial performance with sustainability objectives. This perceived trade-off, however, presents both challenges and opportunities.

Practical Solutions:

I. Educating Stakeholders:

- GPs can demystify the misconception that sustainable investments compromise returns by showcasing data and success stories where sustainable investments have performed on par with or better than traditional investments.

ii. Risk Management:

- Highlighting the lower risk profile of sustainable investments, GPs can emphasize how ESG factors lead to better risk-adjusted returns, avoiding potential regulatory, reputational, and operational pitfalls.

iii. Long-Term Value Creation:

- GPs can illustrate the alignment of sustainable investments with long-term value, showing how companies with robust sustainability practices are better equipped for future challenges and opportunities.

iv. Sustainability Ratings Collaboration:

- Partnering with sustainability rating agencies can aid GPs in making informed decisions, selecting investments that balance financial performance with sustainability impact.

3. Complexity in Implementing ESG Strategies

The Challenge: General Partners (GPs) face the intricate task of integrating Environmental, Social, and Governance (ESG) factors into asset management. This integration often involves a steep learning curve, necessitating new skills and knowledge.

Practical Solutions:

I. Invest in Training and Education:

- Implement comprehensive training programs on ESG principles, metrics, and reporting standards. Utilize workshops, seminars, and collaborations with ESG experts to enhance team expertise.

ii. Use Technology and Analytics:

- Adopt advanced analytics and technology platforms to streamline the integration of ESG factors into investment analysis. These tools assist in aggregating and interpreting ESG data, making it more actionable.

iii. Partner with ESG Rating Agencies:

- Collaborate with ESG rating agencies for insights and benchmarks. These agencies provide standardized evaluations of companies' ESG performance, supporting informed decision-making.

iv. Companies:

- Maintain active engagement with portfolio companies to understand and guide their ESG practices and address challenges.

4. Navigating Regulatory Compliance and Evolving Standards

The Challenge: General Partners (GPs) often face the daunting task of navigating a rapidly evolving regulatory landscape around sustainability, which varies across regions. This complexity can be overwhelming

Practical Solutions:

I. Staying Informed and Proactive:

- GPs should prioritize staying up-to-date with the latest regulatory changes and standards in sustainability. This involves regularly monitoring updates from regulatory bodies and participating in industry forums.

ii. Building a Compliance Team:

- Establishing a dedicated team or hiring experts specializing in sustainability regulations can help GPs navigate this complex landscape more effectively. This team can focus on understanding and interpreting various regional and global sustainability regulations.

iii. Leveraging Technology for Compliance:

- Implementing technology solutions that track and manage regulatory compliance can be a game-changer. Software tools that provide alerts on regulatory changes and help in reporting can streamline the compliance process.

iv. Collaboration and Partnerships:

- Engaging in partnerships with other asset managers, regulatory bodies, and sustainability experts can provide valuable insights and shared learning opportunities. Collaborative efforts can lead to a better understanding of best practices in regulatory compliance.

3.2. Opportunities Arising from Sustainable Investment

The integration of sustainability into asset management not only presents challenges but also opens up a wealth of opportunities. General Partners (GPs) can leverage these opportunities for financial growth and significant environmental impact.

Practical Examples:

I. Access to New Markets and Investment opportunies

Renewable Energy Sector: GPs can invest in the burgeoning renewable energy market, which includes solar, wind, and hydroelectric power projects. These investments not only support the transition to clean energy but also offer the potential for high returns due to the growing demand for sustainable energy sources.

Green Technology Innovations: Investing in companies developing innovative green technologies, such as electric vehicles, battery storage, and energy-efficient solutions, opens doors to new markets that are at the forefront of sustainability.

ii. Enhanced Risk Management:

ESG Integration in Risk Analysis: By incorporating ESG factors into investment analysis, GPs can identify and mitigate long-term risks associated with environmental and social issues. This approach leads to more resilient investment portfolios that are better equipped to handle future sustainability challenges.

Climate Risk Assessment: Focusing on climate risk assessment allows GPs to avoid investments in companies or sectors that might face future regulatory changes, environmental liabilities, or resource scarcity.

iii. Building Brand Reputation and Investor Relations:

Sustainability Reporting: GPs that prioritize sustainability and transparently report their ESG efforts tend to attract more investors, especially those who are increasingly conscious of the environmental and social impact of their investments.

Stakeholder Engagement: Engaging with stakeholders on sustainability issues can enhance a GP's reputation as a responsible investor, fostering trust and loyalty among clients and partners.

iv. Driving Positive Environmental and Social Impact:

Impact Investing: GPs can engage in impact investing, targeting investments that generate measurable environmental and social impact alongside financial returns. This approach directly contributes to addressing global challenges like climate change and social inequality.

v. Long-term Value Creation:

Sustainable Business Models: Investing in companies with sustainable business models often leads to long-term value creation. These companies are typically more adaptive to changing market and environmental conditions, ensuring sustained growth and profitability.

In summary, sustainable investment offers GPs a path to not only enhance their financial performance but also make a meaningful contribution to a more sustainable and equitable world. Recognizing and embracing the potential of sustainable investment can redefine the landscape of asset management for the better.

Section 4: **Conclusion and Next Steps**

As we reach the conclusion of this whitepaper, the imperative for sustainable asset management in today's world is unmistakably clear. We have explored the transformative role of asset managers in driving sustainability, witnessed through impactful case studies. The challenges and opportunities in this journey have been laid out, highlighting the need for innovative solutions and strategic approaches.

Key Takeaways:

Asset Managers as Change Agents:

The critical role of asset managers in steering investments towards sustainability has been underscored, showcasing their influence in corporate environmental responsibility.

Challenges Transformed into Opportunities:

We've seen how challenges in data quality, balancing financial and sustainability goals, and regulatory compliance open doors for innovative solutions and market leadership.

ImpactVisible Advantage

01

Comprehensive Approach:

Combines environmental and financial insights to address sustainability challenges, turning them into growth and resilience opportunities.

02

Holistic Perspective:

Sustainability is integrated as a core part of business strategy and financial performance.

03

Customized Solutions:

Tailored strategies are provided to meet the unique needs of each client, moving away from one-size-fits-all solutions.

04

Proactive Engagement:

Involves active participation with stakeholders at all levels, including board members and investment teams, to drive the sustainability agenda and ensure effective implementation.

Our services include:

- Comprehensive Carbon Footprint Analysis
- Science-Based Target Setting
- Customised Decarbonisation Strategy
- Training and Engagement

Take the Next Step

To learn more about how ImpactVisible can assist you in achieving your sustainability goals, or to start a conversation about your specific needs, please reach out to us. Let's work together to create a sustainable, prosperous future for all.

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