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RESPONSIBLE INVESTMENTS

2023

ALIGNING THE GLOBAL ENERGY TRANSITION WITH RESPONSIBLE INVESTMENT STRATEGIES

WWF-SINGAPORE ENERGY TRANSITION FRAMEWORK ASSESSMENT REPORT

ACKNOWLEDGMENTS

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WWF is one of the world's most respected and experienced conservation organisations, with over 5 million supporters and a global network active in more than 100 countries. WWF's mission is to stop the degradation of the planet's natural environment and to build a future in which people live in harmony with nature. WWF has worked with the finance sector for more than a decade via innovative collaborations that seek to integrate ESG risks and opportunities into mainstream finance so as to redirect financial flows to support the global sustainable development agenda. Our approach to sustainable finance leverages WWF's conservation expertise as well as our partnerships with companies on key issues such as water, energy, climate and food to drive sustainability. Positioned at the cutting-edge of sustainable finance internationally, WWF contributes directly to leading initiatives, including the European Commission's Platform on Sustainable Finance and the development of an international green bonds standard. WWF also works directly with some of the largest asset owners in the world on decarbonizing investment portfolios. This has allowed us to strengthen lending and investment criteria for key industry sectors, provide insights and data on environmental and social risks, fulfil critical research gaps, help unlock innovations in sustainable finance products and convene key stakeholders to progress the sustainable finance agenda.

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EXECUTIVE SUMMARY

In 2023, the global energy landscape experienced a significant transformation, driven by pivotal events such as COP28, the establishment of the UK Transition Planning Taskforce (TPT), and the implementation of new frameworks supporting transition initiatives in ASEAN. This enhanced focus on transition finance, especially within the energy sector, has created a clear "direction of travel" for phaseout. The rapid ecosystem change varies considerably by energy sub-sectors, namely coal, oil & gas and renewable energy. This is juxtaposed against the backdrop of Asia and Europe's contrasting approaches and the diverse pathways asset managers (AMs) employ towards energy transition.

LIMITED PROGRESS ON COAL PHASEOUT IN ASIA: While there is a global consensus on the detrimental impacts of coal on the environment and the need to phase out coal completely to meet the goals of the Paris Agreement, the phaseout strategies diverge, particularly between Asia and Europe. While over 70% percent of European AMs exclude companies making new coal investments, in Asia only 5.6% (1 of the 18 assessed asset managers) have such a policy. Asian AMs are thus still unwilling to commit to complete coal phaseout in the short to medium term. Over the last year, Glasgow Financial Alliance for Net Zero (GFANZ) and Net Zero Asset Managers initiative (NZAM) have provided frameworks to manage coal phaseout. However, AMs have yet to form public policies around the same issue. This underscores the complexity of completely severing ties with coal, acknowledging the practical challenges of dependence of Asia on coal and the social and political impact of an abrupt transition.

RELUCTANCE TO DEVELOP POLICIES TO PHASE OUT OIL AND GAS: The Asset Managers show a notable vacuum in terms of phaseout of oil and gas sectors. While the UAE consensus[1] (COP 28) "recognizes that transitional fuels can play a role in facilitating the energy transition while ensuring energy security", it is important that new investments in Oil and Gas (O&G) (development of reserves, exploration and infrastructure) are stopped immediately[2]. In both Asia and Europe, asset managers are reluctant to stop investments in O&G and to develop science-based sector-specific transition policies. It is also worrying that only 10 AMs in Europe (out of 21 assessed) require investee companies to set science-based targets, with only 1 in Asia doing so.

RENEWABLE ENERGY: THE INVESTMENT IMPERATIVE: According to the "Energy Transition Investment Trends 2024" report, investment in the transition to low-carbon energy increased by 17% in 2023, hitting a total of $1.77 trillion. Companies within the clean energy sector led in equity fundraising, securing $49 billion[3]. While more green and sustainable energy products now exist, AMs are yet to disclose the extent of integration of renewable energy into investment portfolios. These disclosures will hopefully be supported by the COP 28 goal of tripling renewable energy capacity by 2030, and accelerating zero and low emissions technologies[4]. It is also critical to highlight that the renewable energy development itself should be done responsibly, keeping in mind social and environmental considerations.

1 https://cop28.com/UAEconsensus
2 wwf-global-energy-policy-framework_1.pdf (panda.org)
3 As reported by the "Energy Transition Investment Trends 2024." (https://about.bnef.com/blog/global-clean-energy-investment-jumps-17-hits-1-8-trillion-in-2023-according-to-bloombergnef-report/)
4 https://cop28.com/UAEconsensus

TRANSITION PATHWAYS - A DUAL APPROACH:

By 2025, for the first time in history, Asia will account for half of the world's electricity consumption as electricity consumption increases in China, India and Southeast Asia[5]. Therefore, it is imperative for AMs in Asia to develop robust decarbonisation plans for the energy and power sectors, including requirements on investee companies to decarbonise.

The transition to clean energy should be facilitated by two approaches of Exclusion and Stewardship. An exclusion-based approach involves divesting / not investing in fossil fuel companies that are misaligned with the goals of the Paris agreement (e.g. companies expanding coal fired power plant capacity). In contrast, a stewardship-based approach involves engaging with investee companies to encourage them to adopt more sustainable practices. Engagement with investee companies is a critical lever for AMs to achieve a successful transition. This includes developing engagement / shareholder proposals for corporations to implement a transition plan, bilateral engagement with investee companies on transition plans as well as divestment of companies that do not execute decarbonisation plans in line with expected outcomes.

Both of these approaches are necessary to help AMs transition their portfolios towards their net-zero commitments. However, the specifics of how these approaches are implemented can vary greatly depending on the individual asset manager's policies and strategies.

While some AMs prefer proactive engagement and transition planning over blanket/threshold based exclusions, others prefer a mix of both strategies. We carried out case studies on 3 Asset Managers (using their public disclosures) in this report to study the varied strategies taken by AMs. The studies reveal the following observations:

1. In terms of exclusions for fossil fuels, group level restrictions have limited applicability to AMs, and AMs are able to continue to make equity investments in such companies.
2. In cases where a stewardship approach is emphasised, there is a need for clear robust transition plans in line with existing available frameworks. This means that AMs would need short, medium and long term transition milestones to map progress through such an approach.
3. Some AMs look at energy transition from both a risk and opportunity perspective, where active ownership can play an important role in scaling up solutions.

We recommend a pragmatic approach based on principle based exclusions and time-bound transition planning. This requires significant investment by asset managers to build data collection and analysis capabilities that guide investment and voting decisions. There is also a need for different AMs to have consensus on transition pathways. This is where global coalitions such as Investor Agenda, IIGCC, CA100+ and PRI can play a crucial role.

Energy transition, especially in ASEAN is a complex, challenging process. Looking forward to future COPs, there is an expectation that tangible steps in terms of operationalising the decisions from COP 28 would be taken, particularly in terms of further financing this transition.

5 Electricity Market Report 2023 (windows.net)

METHODOLOGY

WWF-Singapore supports Asset Managers in sustainable investment practices through its assessment tool and framework guideline, RESPOND - Responsible and Sustainable Portfolios, which includes the setting of responsible investment processes and policies, sustainable investment methodology, the measurement of environmental risks and impacts, stewardship activities and disclosures. RESPOND assesses a panel of 39 AMs. Out of the 39, 21 AMs are headquartered in Europe and 18 are headquartered in Asia. The AMs assessed in RESPOND have to meet the following criteria:

- MINIMUM ASSETS UNDER MANAGEMENT OF US$200 BILLION FOR EUROPEAN AMS AND US$20 BILLION FOR ASIAN AMS
- EUROPEAN AMS ARE REQUIRED TO HAVE A PRESENCE IN ASIA
- AMS ARE PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI) SIGNATORIES

The Energy Transition Framework is a sector based assessment that looks at the specific energy transition policies of asset managers. The complete Energy Transition Framework can be found in the Appendix. The Framework is currently in its second year of assessment, and will progressively be refined in later editions as methodologies, regulatory requirements and data advance the importance of credible transition of the energy sector.

SUMMARY RESULTS BASED ON ENERGY TRANSITION ASSESSMENT

	Europe	Asia (Ex. Japan & China)	Japan	China
ESG INTEGRATION PILLARS	Average	Average	Average	Average
PURPOSE				
Relevance of sustainability in the organisation's strategy and investment beliefs	96.2%	34.3%	60%	26.7%
POLICIES				
Oil and gas policy	17.5%	0%	0%	0%
Unconventional fossil fuel policy	31%	0%	0%	0%
Coal extraction/refining policy	47.6%	3.6%	5%	0%
Coal power generation policy	55.6%	9.5%	0%	0%
Renewable energy policy	22.2%	0%	6.7%	0%
Crosscutting climate energy policy	33.4%	0%	17.1%	0%
Advanced Indicator	4.8%	0%	0%	0%
PROCESSES (WITHOUT ADVANCED INDICATORS)				
Active ownership	7.1%	0%	0%	0%
Advanced Indicators	7.1%	0%	0%	0%
PEOPLE				
Governance and skills	78.6%	21.4%	50%	16.7%
PRODUCT (WITHOUT ADVANCED INDICATORS)				
Standard Indicators	22.6%	0%	10%	0%
Advanced Indicators	33.4%	4.8%	0%	5.6%
PORTFOLIO				
Risk assessment	47.6%	0%	50%	8.4%
Metrics and targets	4.8%	0%	0.00%	0%

TABLE 1: REGION WISE SUMMARY RESULTS BASED ON THE CURRENT ASSESSMENTS

YEAR-ON-YEAR COMPARISON

YEAR-ON-YEAR COMPARISON IN PERCENTAGES

Total 39 AMs[6], 21 asset managers are headquartered in Europe and 18 are headquartered in Asia in 2024 and 40 in 2023(22-Europe, 18-Asia).

	ASIA		EUROPE	
INDICATOR	2023 (%)	2024 (%)	2023 (%)	2024 (%)
Does the AM require relevant investee companies to publicly disclose GHG emissions (Including Scope 3)?	5.6%	5.6%	27.3%	33.4%
Does the AM require investee companies in integrated mining to phase out of all thermal coal extraction or processing in line with science-based guidance?	0%	0%	18.2%	38.10%
Does the AM require companies in the integrated energy sector to phase out all thermal coal power generation and distribution in line with science-based guidance?	0%	0%	27.3%	38.10%
Does the AM require all investee companies in exploration, extractive and energy sectors to provide a public TCFD report?	5.6%	5.6%	5.6%	5.6%
Does the AM require all investee companies in exploration, extractive and energy sectors, including those in energy-related support, midstream and downstream services to set science-based targets (e.g., decarbonization in line with Paris Agreement)?	5.6%	5.6%	18.2%	38.10%
Does the AM require all relevant investee companies to commit to appropriate decommissioning plans and rehabilitation of the natural environment?	0%	0%	4.5%	4.8%
Does the AM have expectations on oil/gas producers to stop expansion into oil/gas fields?	0%	0%	4.5%	4.8%
Does the AM have expectations on oil/gas producers to transition to renewables?	0%	0%	4.5%	9.5%

TABLE 2: YEAR ON YEAR COMPARISON ON SELECTED INDICATORS

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6 Total AM reduced due to acquisition of NNIP by Goldman Sachs Asset Management (https://www.goldmansachs.com/media-relations/press-releases/2022/announcement-11-apr-2022.html)

SECTION 1: KEY FINDINGS

A. REGULATORY PROGRESS

Regulations occupy a central role in guiding economies towards sustainable energy systems by offering a structured approach for the transition from fossil-based to zero-carbon sources. They serve to direct, motivate, and occasionally mandate a shift towards cleaner energy practices, fostering an environment conducive to sustainable initiatives across various sectors. As Asia stands at the forefront of global economic growth, the region's approach to sustainability and energy transition becomes increasingly pivotal. Recognizing the critical need for a coherent and unified strategy, Asian economies are adopting and adapting global regulatory frameworks to fit their unique contexts[7]. This adaptation not only aligns with international standards but also respects regional characteristics, ensuring a path toward sustainable development that is both globally informed and locally relevant.

While energy transition target setting based regulations are yet to come into place, there are 2 interconnected but distinct (currently) voluntary approaches being taken up: One is through the development of taxonomies, allowing for easier disclosures, and the other is the development of frameworks to guide the transition of Financial Institutions (FIs). Through this, regulators aim to lay the foundations of systems for the identification and reporting of sustainable activities, ensuring transparency and accountability in transition planning.

Regulations in Europe have functioned as catalysts for change, pushing FIs and businesses towards adopting greener practices. Initiatives like the European Union's Corporate Sustainability Reporting Directive (CSRD) require large companies to publicly disclose their climate mitigation transition plans. In the UK, the Financial Conduct Authority (FCA) sets forth recommendations for transition plan disclosures, channelling investments towards sustainable ventures and establishing a competitive environment for responsible finance.

TAXONOMY-BASED APPROACH

Taxonomies are pivotal in transition finance, serving as a classification system for "green" and "transition" activities[8]. They standardise frameworks, support decarbonization goals, facilitate capital allocation[9], and promote transparency. They help avoid lock-in of emitting activities and catalyse transition finance. By providing consistent criteria, they direct capital towards sustainable activities, shaping the future of sustainable finance.

The adoption of a taxonomy-based approach is serving as a cornerstone for Asian economies in their sustainability journey. By establishing a clear and common language to identify environmentally sustainable activities, taxonomies play a vital role in guiding investments towards renewable energy, green infrastructure and clean technologies.

The EU Taxonomy's global influence is undeniable, particularly in Asia. Recognising the need for specificity to address regional environmental challenges and opportunities, countries and regions within Asia are developing their own sustainability taxonomies. The ASEAN Taxonomy is a prime example of being tailored to meet the Southeast Asian context. These local adaptations allow for a more nuanced approach to sustainable investment, ensuring that regional goals are met without compromising global sustainability standards.

COUNTRY	INITIATIVES/REGULATIONS	HIGHLIGHTS
ASEAN	ASEAN Taxonomy for Sustainable Finance	Facilitates a just energy transition within Southeast Asia. Focuses on six key sectors, including energy.
MALAYSIA	Climate Change and Principle-based Taxonomy (CCPT)	The CCPT sets out five Guiding Principles (GPs) intended to help financial institutions (FIs) assess and categorise economic activities according to the extent to which they meet climate objectives and promote the transition to a low-carbon economy.
INDONESIA	Green Taxonomy Edition 1.0 (2022) Just Energy Transition Partnership	The Green Taxonomy, aligning with Indonesia's Indonesia Standard Industrial Classification (KBLI) , includes both green and non-green sectors. The goal is to create a common vocabulary among stakeholders.
PHILIPPINES	Philippine Sustainable Taxonomy Guidelines (STFG)	Guides investments based on sustainability. Activities are classified as green, amber, or red.
SINGAPORE	Singapore-Asia Taxonomy for Sustainable Finance (Singapore-Asia Taxonomy)	Introduces a "transition" category, a first globally, to align with Asian region needs. It uses a traffic light system for defining activities across eight sectors, subject to time-bound thresholds. Additionally, a "measures-based approach" encourages investment in decarbonisation to meet green criteria eventually.
CHINA-EU	China-EU Common Classification Standard for Green Finance	Aims to harmonise green finance definitions between China and the EU. It covers various sectors, including energy, to ensure consistent criteria for sustainable investments.

TABLE 3: SUMMARY OF SOME REGIONAL TAXONOMY INITIATIVES

7 https://greencentralbanking.com/2024/02/29/climate-related-financial-supervision-in-asia-pacific/
8 https://www.ocbc.com/business-banking/articles/the-singapore-asia-taxonomy-a-catalyst-for-transition-finance.page
9 https://investorleadershipnetwork.org/wp-content/uploads/BAR.PAR_.141-August-23-Whitepaper-FINAL.pdf

SCIENCE-BASED TARGETS AND PATHWAYS

The commitment to science-based targets (SBTs) signifies a strategic pivot towards sustainability in Asia. Initiatives such as the GFANZ Managed Phaseout are providing pathways for asset managers to manage the phaseout of high-emitting assets in their portfolios[10]

Notably, the Monetary Authority of Singapore (MAS) in November, 2023 issued consultation papers that propose new guidelines on transition planning for banks, insurers, and asset managers. These guidelines, which are an extension of the existing Environmental Risk Management (ENRM) Guidelines, focus on establishing robust transition planning processes to enable effective climate change mitigation and adaptation by financial institutions and investee companies. Similarly, the Transition Plan Task Force is working to develop disclosure frameworks and sector guidelines to help financial markets with transition planning.

With these guidelines, along with the taxonomies, there is a market signal towards quicker and holistic integration of SBTs into investment strategies.

10 Science Based Targets initiative (SBTi): The SBTi provides a framework that enables companies to set science-based targets in line with the level of decarbonization required to keep global temperature increase below 2 degrees Celsius compared to pre-industrial temperatures. For financial institutions, this involves setting targets that align their lending and investment activities with the Paris Agreement. However, the rigorous validation process and the challenges associated with data collection and emissions reduction can make it difficult for some companies, particularly in Asia.

GFANZ Managed Phase-out: The GFANZ Managed Phaseout provides voluntary guidance and practical steps that financial institutions can take to support the financing of the managed phaseout of high-emitting assets, such as coal-fired power plants. This approach is more flexible and adaptable to the specific circumstances of different regions, including Asia. It encourages financial institutions to work alongside governments, multilateral development banks, and other public and private sector parties to support sufficiently credible, financially viable, and inclusive coal phaseout transactions.

BOX 1: SOME REGIONAL INITIATIVES TO DEVELOP TRANSITION PATHWAYS

The Glasgow Financial Alliance for Net Zero (GFANZ) has introduced a draft framework designed to guide financial institutions toward a net-zero future, ensuring their transition plans are both credible and impactful. This initiative is crucial for scaling up finance in clean energy and transition projects, aiming to align global efforts with the Paris Agreement's goal of limiting warming to 1.5 degrees Celsius.

Transition Finance Framework by the G20 Sustainable Finance Working Group highlights the importance of financing mechanisms that support the transition, promoting investment in eco-friendly projects and technologies.

The Monetary Authority of Singapore (MAS) has launched the Finance for Net Zero (FiNZ) Action Plan, focusing on mobilising financial resources to support decarbonisation in key sectors across Singapore and Asia, showcasing a holistic and collaborative approach to addressing climate change.

Other Regional Initiatives include Asia Transition Finance Guidelines[11], Exponential Roadmap Initiative, IIGCC Sector Guidance, NZAOA Target-Setting Protocol (TSP) which includes various initiatives aimed at accelerating climate solutions and guiding transition finance efforts in Asia.

The strategic incorporation of taxonomy-based approaches and science-based targets within the Asian financial sector exemplifies the region's proactive stance on sustainability and energy transition. These regulatory frameworks, adapted to the unique challenges and opportunities of the Asian context, enable asset managers to drive forward-looking investments. Through these initiatives, Asia is not only aligning with global sustainability goals but also demonstrating leadership in the transition to a more sustainable and resilient future. Moreover, these regulatory measures address the need for an equitable transition, ensuring that the shift towards a low-carbon economy is inclusive and beneficial for all stakeholders.

11 https://www.theacmf.org/images/downloads/pdf/ASEAN%20Transition%20Finance%20Guidance%20Version%201%20-%20FINAL%2017%20Oct%202023.pdf

B. COAL

At COP28, which concluded in December 2023, nearly 200 parties reached a decision on the world's first 'global stocktake' to ratchet up climate action before the end of the decade[12]. The stocktake acknowledges that parties are off-track in meeting their Paris Agreement goals and calls for accelerated efforts towards the phaseout of unabated coal power, phasing out inefficient fossil fuel subsidies, and other measures that drive the transition away from fossil fuels in energy systems in a just, orderly, and equitable manner.

The assessment covering 39 AMs shows very slow progress on reducing coal related investments - very few AMs have restrictions on investing in coal and coal fired power plants, particularly in Asia. While 10 AMs in Europe (out of 21 AMs assessed) have Paris aligned science-based targets to divest coal related assets, only 1 AM in Asia does so (out of 18 AMs assessed). Similarly, while 8 AMs in Europe require investee companies in integrated mining/energy to phase out thermal coal extraction/power generation in line with science-based guidance, none in Asia do so. Restrictions on investing in companies expanding in coal mining and coal fired power plants are also missing, particularly for Asia based AMs (see details in Table 4).

This is in contrast to bank financing policies in Asia, where a recent assessment of 46 banks in Asia by WWF-Singapore showed that 57% of banks implement restrictions for financing new coal fired power plants[13]. In several instances, coal related exclusionary policies apply only to lending and capital markets and not to the asset management businesses of the financial institutions assessed. Given that coal-fired power plants account for half of the emissions in Asia, it is imperative that all AMs implement restrictions on investments in coal related assets and require investee companies to divest coal in line with science-based targets.

With the relatively young fleet age of coal fired power plants in Asia, early retirement of coal assets is another important lever for achieving decarbonisation targets for the region[14]. There are several initiatives that focus on early retirement of coal assets in Asia, including the Asian Development Bank's Energy Transition Mechanism and the Just Energy Transition Partnerships (JETPs) in Indonesia and Viet Nam. Recently, the Monetary Authority of Singapore and McKinsey & Company published a report proposing transition credits for early retirement of coal assets[15], which attempts to address the funding gap often faced by these projects. The regulatory framework is also evolving with the inclusion of an assessment framework to phase out coal in the latest version of the ASEAN taxonomy board (ATB)[16]. While early retirement of coal assets is a complex undertaking requiring coordination across multiple stakeholders, AMs should get engaged in these initiatives and consider launching dedicated funds to provide equity capital to accelerate the transition away from coal.

COAL EXCLUSION: ASIA VS EUROPE

INDICATOR	ASIA	EUROPE
Does the AM have a paris aligned (science-based) target to divest coal related assets?	5.6%	47.6%
Does the AM require investee companies in integrated mining to phase out of all thermal coal extraction or processing in line with science-based guidance?	0%	38.1%
Does the AM exclude or require thresholds for investments in companies involved in physical coal trading?	0%	33.4%
Does the AM exclude investments in companies with significant (>30% of revenue or generation capacity) exposure to activities related to thermal coal power generation?	11.1%	71.4%
Does the AM require companies in the integrated energy sector to phase out all thermal coal power generation and distribution in line with science-based guidance?	0%	38.1%

COAL EXPANSION: ASIA VS EUROPE

INDICATOR	ASIA	EUROPE
Does the AM exclude investments in companies that engage in new/ expansion in thermal coal extraction or processing?	5.6%	71.4%
Does the AM exclude investments in companies involved in new/ expansion of thermal coal power generation capacity?	0%	57.1%

TABLE 4 : ASIA AND EUROPE AM SCORES ON COAL EXCLUSION AND EXPANSION POLICIES

12 COP28 Agreement Signals "Beginning of the End" of the Fossil Fuel Era | UNFCCC
13 SUSBA-2023-Report-Final.pdf (wwf.sg)
14 Transition credits (mas.gov.sg)
15 accelerating-the-early-retirement-of-coalfired-power-plants-through-carbon-credits--sep-2023.pdf (mas.gov.sg)
16 AT V2 Main Rpt Draft_08Jun23_1700BKK (asean.org)

C. OIL AND GAS

Oil and Gas operations accounts for approximately 15% of global emissions and the use of the oil and gas results in another 40% of emissions[17]. Hence decarbonisation of this sector is key to achieving the goals of the Paris Agreement. Unfortunately, recent geopolitical issues as well as energy security concerns sparked by the war in Ukraine have slowed the decarbonisation momentum in oil and gas considerably. Unlike coal, where AMs have started implementing exclusions on coal related investments, restrictions on O&G investments are largely absent. Only 1 AM assessed has restrictions on investing in exploration and development of new oil and gas assets (Table 5). While some AMs in Europe have implemented restrictions on investing in unconventional oil & gas (33% of AMs) or investments in critical landscapes (24% of AMs), none in Asia have done so.

Given the absence of exclusions for oil & gas, it is critical for AMs to develop robust transition plans including requirements for investee companies to set science-based targets for decarbonisation and improve disclosures on progress made towards these targets. In this regard, 9 AMs in Europe (out of 21 assessed) require investee companies to set science-based targets, a significant improvement from 6 AMs last year. In Asia, only 1 AM requires investee companies to have science-based targets. Similarly, 13 AMs in Europe require investee companies to disclose their transition plans, whereas only 1 AM in Asia does so.

OIL AND GAS: ASIA VS EUROPE

INDICATOR	ASIA	EUROPE
Does the AM exclude investments in exploration and development of new assets in the oil and gas sector?	0%	4.76%
Does the AM investment process aim to phase out investments in exploration and development of new assets in the oil and gas sector?	0%	23.81%
Does the AM exclude investments in companies involved in oil and gas-related activities in or near enough to affect the critical landscapes, such as the arctic?	0%	23.81%

UNCONVENTIONAL OIL AND GAS

INDICATOR	ASIA	EUROPE
Does the AM exclude or require thresholds investments in companies engaging directly in - oil sands activities? - fracked shale oil and gas activities	0%	33.33%
Does the AM exclude or require thresholds for investments in companies involved directly in unconventional oil/gas infrastructures (e.g. pipelines)?	0%	28.57%

TABLE 5: POLICIES ON CONVENTIONAL AND UNCONVENTIONAL OIL AND GAS AMONG ASIA AND EUROPE AMS

17 Emissions from Oil and Gas Operations in Net Zero Transitions – Analysis - IEA

D. RENEWABLE ENERGY

The global commitment to phase out coal and embrace renewable energy sources marks a pivotal shift in the energy sector, underscoring the urgency to combat climate change and adhere to the ambitious goals set during COP 28. The consensus to significantly increase investments in renewable energy is a testament to the collective effort required to replace coal-fired power while ensuring the integrity and reliability of the grid. This approach, necessitating frontloaded investments, is crucial for a smooth transition to clean energy, minimising disruptions in energy supply and aligning with the 'build back better' philosophy. In 2022, renewable energy investments soared to an unprecedented USD 0.5 trillion globally. However, this amount is still below one-third of the yearly investment required from 2023 to 2030 for achieving IRENA's 1.5°C Scenario[18].

Asset managers hold a crucial role largely through their investment strategies and the stewardship of the assets they manage. By leveraging existing global initiatives like RE100 and SBTi, AMs can encourage corporations to achieve 100% renewable energy usage by 2050, creating investment opportunities and reducing the portfolio footprint. This is particularly true for utilities, who will be critical to maintaining a stable energy supply and facilitating a seamless shift towards a more sustainable energy landscape.

INDICATOR	ASIA	EUROPE
Does the AM disclose the fraction of its AUM invested in renewable energy/disclose the portfolio energy mix?	0%	14.3%
Does the AM require investee companies to assess and mitigate nature related risks (eg. water, biodiversity, deforestation) when financing energy/ green energy/ renewable energy projects?	5.6%	28.6%
Does the AM require investee companies to assess, mitigate impact of renewable energy projects on local communities and their social and economic wellbeing.	0%	23.8%

TABLE 6: INDICATOR ON RENEWABLE ENERGY DISCLOSURES IN ASIA AND EUROPE

18 https://www.irena.org/Digital-content/Digital-Story/2023/Mar/Scaling-up-energy-transition-investments-to-meet-the-1-point-5-degrees-celsius-goal/detail#:~:text=Global%20investment%20in%20renewable%20energy,IRENA's%201.5%C2%B0C%20Scenario.

AMs can explore thematic clean energy products which focus on issues ranging from energy efficiency, low-carbon transport solutions (such as high-efficiency and electric vehicles), to solar photovoltaic power. Additionally, innovative cleantech solutions are also emerging.

Additionally, Infrastructure funds are crucial for financing the clean energy grid. Singapore, for instance, has established a Future Energy Fund with a $5 billion starting capital to support the country's transition to a low-carbon electricity future. Similarly, the United States has allocated over $20 billion in federal financing for grid resilience and to prevent power outages. Aligning investment strategies with megatrends, may help AMs both green their portfolios, and achieve financial returns.

SOUTHEAST ASIA'S RENEWABLE ENERGY MARKET IS ANTICIPATED TO GROW AT CAGR 7.4%

SOURCE: EDB, "WHY COMPANIES SHOULD CONSIDER SOUTHEAST ASIA FOR THEIR RENEWABLE ENERGY PROJECTS".[19]

19 Renewable Energy | Singapore EDB

SECTION 2: TRANSITION

The Network for Greening the Financial System scenario framework[20] allows one to better understand the impact of climate change and policy trends, and articulates 4 lower to higher risk outcomes:

1. **ORDERLY SCENARIOS:** predict subdued physical and transition risks thanks to early and gradually stringent climate policies.
2. **DISORDERLY SCENARIOS:** depict higher transition risks from delayed or inconsistent policies, leading to higher carbon prices for the same temperature increase.
3. **HOT HOUSE WORLD SCENARIOS:** envision insufficient global climate efforts, exceeding critical temperature thresholds and causing severe physical impacts like sea-level rise.
4. **TOO LITTLE, TOO LATE SCENARIOS:** highlight elevated transition risks and high physical risks due to policy delays and lack of international cohesion, resulting in ineffective climate action.

INDICATOR	ASIA	EUROPE
Does the AM conduct and disclose the outcomes of energy-related risk assessments or scenario analysis (e.g. IEA scenarios) at the portfolio level?	22.2%	52.4%

TABLE 7 : SCENARIO ANALYSIS AS PART OF ASSET MANAGER POLICY

INDICATOR	ASIA	EUROPE
Does the AM have and disclose a transition plan? (a credible transition strategy includes commitments on both absolute and relative carbon reduction targets in scope 1, 2, and 3 emissions)	5.6%	61.9%
Does the AM require transition plans from investee companies directly or indirectly engaging in energy sectors activities?	5.6%	42.9%

TABLE: 8 TRANSITION PLANNING AMONG AMS IN ASIA CONTINUES TO LAG EUROPE SIGNIFICANTLY

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20 https://www.ngfs.net/ngfs-scenarios-portal/

Within this document, we look at 2 main approaches available to Asset managers: Exclusion and Stewardship. Most Asset managers would employ a combination of both these methods, often with a slight preference for one over the other.

APPROACH	PROS	CONS
EXCLUSION	Simplifies portfolio alignment with sustainability goals. Reduces exposure to high-risk sectors. Sends a clear market signal about sustainability preferences.	May limit diversification and potential returns. Reduces influence on corporate behaviour and only lead to portfolio decarbonisation. Can lead to "green bubbles" by concentrating investments in a limited number of sectors.
STEWARDSHIP	Allows engagement with companies to drive sustainability improvements. Can influence broader industry change. Retains exposure to a wider range of investment opportunities.	Requires significant resources and expertise to effectively engage and monitor progress. Changes may be slow, and can lead to risks of greenwashing and failed transition. Potentially maintains investments in higher-risk sectors.

BOX 2: PRO AND CONS OF AN EXCLUSION FIRST VS STEWARDSHIP FIRST APPROACH. AN IDEAL POLICY WOULD INVOLVE A PRAGMATIC MIX OF THE TWO.

INDICATOR	ASIA	EUROPE
Does the AM require all investee companies in exploration, extractive and energy sectors to provide a public TCFD report?	5.6%	38.1%
Does the AM require all investee companies in exploration, extractive and energy sectors, including those in energy-related support, midstream and downstream services to set science-based targets(e.g. decarbonization in line with Paris Agreement)?	5.6%	42.9%
Does the AM require all relevant investee companies to commit to appropriate decommissioning plans and rehabilitation of the natural environment?	0%	4.7%
Does the AM require transition plans from investee companies directly or indirectly engaging in energy sectors activities?	5.6%	42.8%

TABLE 9: IMPORTANCE OF EXPECTATIONS IN ENGAGEMENT ACTIVITIES

CASE STUDIES

In this section, we present case studies of three AMs who are employing different strategies for transition planning. These case studies are based on the AMs' public disclosures and, when possible, direct feedback from the AMs themselves. The scope of these case studies is limited to understanding and summarising the policies stated by the AMs; and do not verify the implementation of these policies in the AMs' investment practices. Moreover, inclusion in this report does not imply endorsement or criticism of the policies described. WWF's recommendations will be discussed in the subsequent section, in alignment with our established positions.

CASE STUDY 1: BNP PARIBAS ASSET MANAGEMENT

BNP Paribas Asset Management (BNPP AM) is the dedicated asset management arm of BNP Paribas Group, a leading banking group in Europe with a global reach. BNP Paribas Group is a founding signatory to the Net Zero Banking Alliance (NZBA) and BNPP AM is part of the Net Zero Asset Managers initiative (NZAM).

In 2022, BNPP AM published its Net Zero Roadmap, covering the progressive alignment of its portfolio investments with the goal of reaching net zero emissions[21], together with associated efforts across their stewardship activities and operations.

This Net Zero roadmap leverages on BNPP AM's robust sustainability framework, illustrated below:

21 In scope assets that are currently Article 8 or Article 9 under the Sustainable Finance Disclosure Regulation (SFDR), F5EE3377-26CE-4DFD-B770-DBD29323D78B (bnpparibas-am.com)

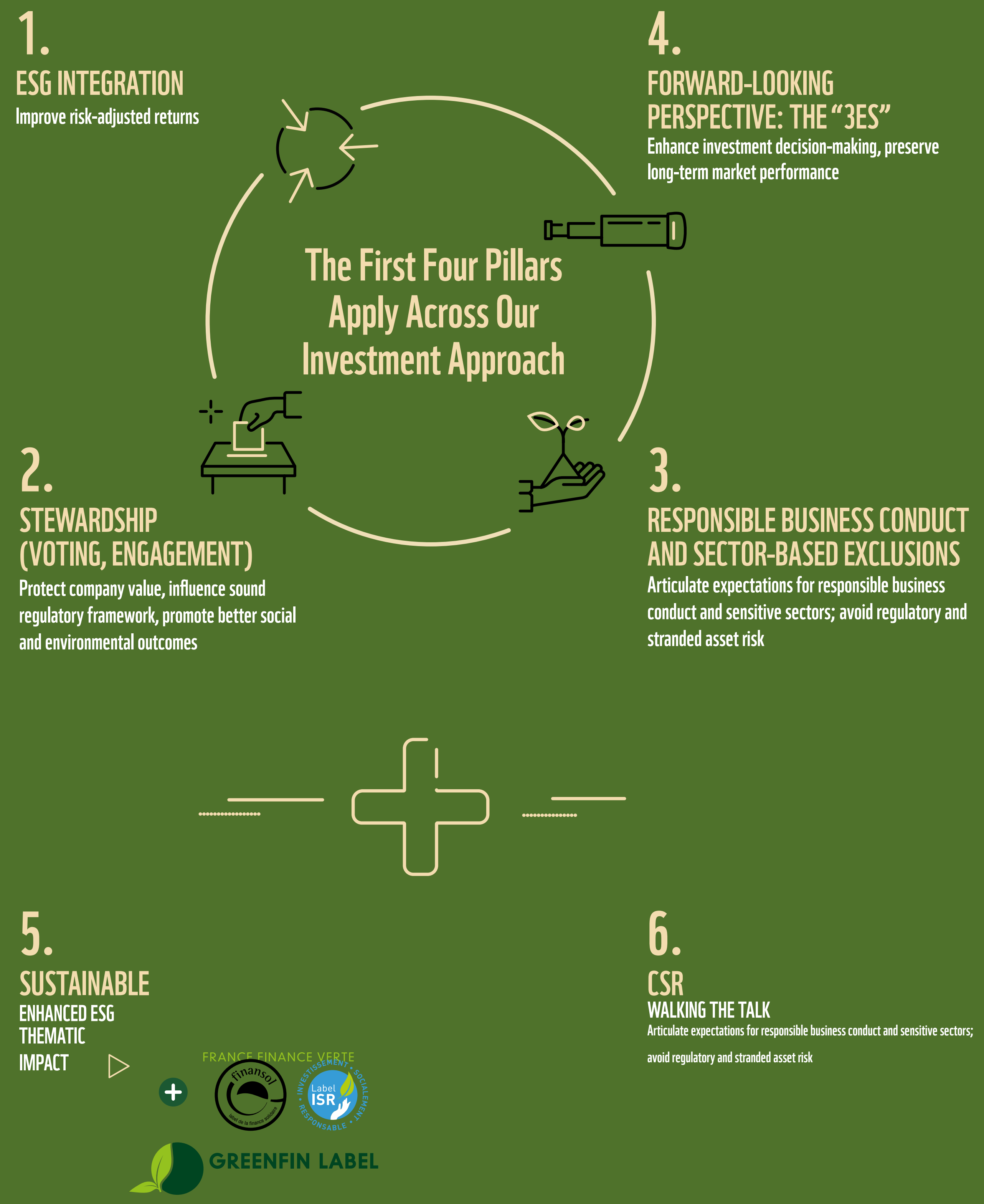


FIGURE 1: SIX PILLARS OF BNPP AM GLOBAL SUSTAINABILITY STRATEGY22

22 F5EE3377-26CE-4DFD-B770-DBD29323D78B (bnpparibas-am.com)

The BNPP AM Responsible Business Conduct Policy[23] is based on sector policies for sensitive sectors as well as the UN Global Compact Principles and OECD Guidelines for Multinational Enterprises. Screening of potential investments against these criteria results in: 1) an exclusion list of issuers that are associated with breaches of UN Global Compact Principles and/or mandatory requirements related to sensitive sectors and 2) a watchlist of issuers that are at risk of breaching the BNPP AM policy standards with whom BNPP AM engages to encourage improvements. The sector policies for BNPP AM include an exclusion on coal mining and coal fired power companies that plan to add to their capacity. The policy also excludes companies that do not have a strategy to exit thermal coal activities, and power generators that still have coal capacity in their generation mix, in 2030 for European Union and OECD countries and in 2040 for the rest of the world. For oil and gas, BNPP AM excludes companies with more than 10% of their activities in unconventional oil and gas and/or more than 10% of their activities from the Arctic region.

To align its portfolio with net zero commitments, BNPP AM's Net Zero Roadmap is based on 10 commitments:

1. Reducing the carbon footprint of its investments in scope by 30% by 2025, and by 50% by 2030 (against a 2019 baseline).
2. Aligning its investments in scope with net zero, targeting 60% of in-scope investments to be in companies Achieving, Aligned or Aligning with Net Zero by 2030, growing to 100% by 2040 (further details below).
3. Exiting coal by 2030 in European Union and OECD countries and by 2040 in the rest of the world.
4. Increasing investments in climate and environmentally themed solutions.
5. Engaging with clients on their transition towards net zero investing.
6. Voting for corporate climate action and for corporates to achieve net zero emissions by 2050 or sooner.
7. Engaging with companies on net zero.
8. Advocating for net zero-aligned national and international climate policies.
9. Reducing its operational footprint, improving its energy efficiency and using more green energy.
10. Reporting on its progress to stakeholders.

23 D8E2B165-C94F-413E-BE2E-154B83BD4E9B (bnpparibas-am.com)

As part of its commitments, BNPP AM uses a proprietary NZ:AAA Framework. The NZ:AAA (Achieving, Aligned or Aligning) framework to measure the alignment of its investments in corporates[24]. This framework is based in the Paris Aligned Investment Initiative (PAII) Net Zero Investment Framework and categorises companies based on whether they are a) Achieving net zero b) Aligned to a net zero pathway c) Aligning towards a net zero pathway or d) Not aligned. BNPP AM aims for 60% of its corporate investments (equity and fixed income) in scope of its net zero commitment to fall into NZ:AAA categories by 2030 and 100% by 2040.

BNPP AM lays out its investee expectations through voting on net zero commitments, decarbonisation plans including short- and medium-term targets, and disclosures of GHG emissions. One of the ways BNPP AM engages with companies on climate change is through their membership in Climate Action 100+[25] (CA100+), where BNPP AM serves as lead or co-lead investor with ten companies in CA100+, and actively supports 10 other dialogues. BNPP AM also engages regulators to ensure any policy advocacy is supportive of achieving global net zero emissions by 2050 or sooner. Lastly, BNPP AM engages with its clients on net zero through regular communications and exchanges on BNPP AM's net zero strategy, educational and training tools, and thought leadership pieces.

In addition, BNPP AM is committed to continue providing clients with investment solutions that focus on companies positively contributing to the transition towards a more sustainable economy. BNPP AM's Environmental Strategies Group manages a series of thematic sustainable equity active strategies dedicated to energy transition and ecosystem restoration. As of 31 December 2023, BNPP AM manages EUR 15.6 billion in Paris-Aligned Benchmarks and Climate Transition Benchmarks passive strategies. In 2023, it created a new private assets business unit to bring together its range of activities in this area and launched the Climate Impact Infrastructure Debt fund. It allows clients to invest in renewable energy, clean mobility, and circular economy, including new sectors such as batteries, hydrogen, and carbon capture. Early in 2024, BNP Paribas Asset Management brought to market a new equity strategy: the Global Net Zero Transition strategy, where it applies the NZ:AAA framework (mentioned above) with a just transition lens focusing on engagement to source companies within the MSCI All Country World Index.

24 https://docfinder.bnpparibas-am.com/api/files/F5EE3377-26CE-4DFD-B770-DBD29323D78B
25 Climate Action 100+

BAILLIE GIFFORD ASSET MANAGEMENT

Baillie Gifford is a UK-based independently owned global investment management firm. It is a signatory to both the Principles for Responsible Investment (PRI) and Net Zero Asset Manager Initiative (NZAM).

Baillie Gifford's approach to net zero committed portfolios relies on stewardship and engaging with investee companies[26]. This contrasts with an approach that implements a high bar for exclusions that align with global best practices. The AM produces a TCFD Aligned report, in line with the UK regulations, and has policies on Stewardship Principles and Guidelines, Statement of climate-related intent and ambition, Environmental Policy, ESG integration, Exclusion policy and Proxy voting guidelines to guide its investment decisions.

For its operational emissions, the AM has a stated goal to achieve net-zero emissions across its Scope 1, Scope 2, and operational Scope 3 categories by 2040[27]. In terms of Energy Transition, the ambition statement states that Baillie Gifford will not generally impose firmwide activity-based exclusions (though these are available for some funds) but all fossil fuel-related holdings will be subject to rigorous research and engagement. For relevant funds, Baillie Gifford's strategy to manage the risks and opportunities associated with the energy transition involves a mix of:

1. Opportunity-focused approach: i.e. a positive selection of companies that form part of climate solutions.
2. Transition and engagement with GHG-intensive companies in their portfolios to encourage better environmental practices.

Thus Baillie Gifford does not typically undertake exclusionary screening to remove high-emission sectors. The exclusion policies are applied to sectors like Controversial weapons, Cannabis, and some strategy and/or fund-specific exclusions[28] which can include fossil fuels for some funds. Divestment is undertaken only in case an existing holding breaches these sector-based exclusions and norms-based evaluations. In the case of threshold violation, the AM engages with the company to discuss its direction of travel.

ESG risk metrics are incorporated through the investment managers to manage the emerging risks across the portfolio. The AM has a dedicated team of climate change experts who provide this data. Additionally, the AM has an exceptions-based reporting mechanism which aims to identify portfolios that exceed established climate risk thresholds. The AM Assurance Group (ESGAG) monitors such ESG risk metrics.

The threshold for exception based reporting for fossil fuels is defined as:

> Portfolios with a fossil fuel exposure as a percentage of the portfolio's total AUM invested in companies deriving at least 5 percent of their revenues from fossil fuel activities. Baillie Gifford defines fossil fuel activities as thermal coal mining and sale; thermal coal power generation and; oil and gas extraction and production, refining, pipelines and transportation, petrochemicals, distribution and retail, and equipment and services[29].

The ESGAG can subsequently escalate the issue in consultation with the ESG Oversight Group to either the Equity or Multi Asset and Fixed Income Investment Risk committees, who will then escalate issues to the Group Risk Committee.

ADDITIONAL INSIGHTS INTO CLIMATE-RELATED RISKS AND OPPORTUNITIES

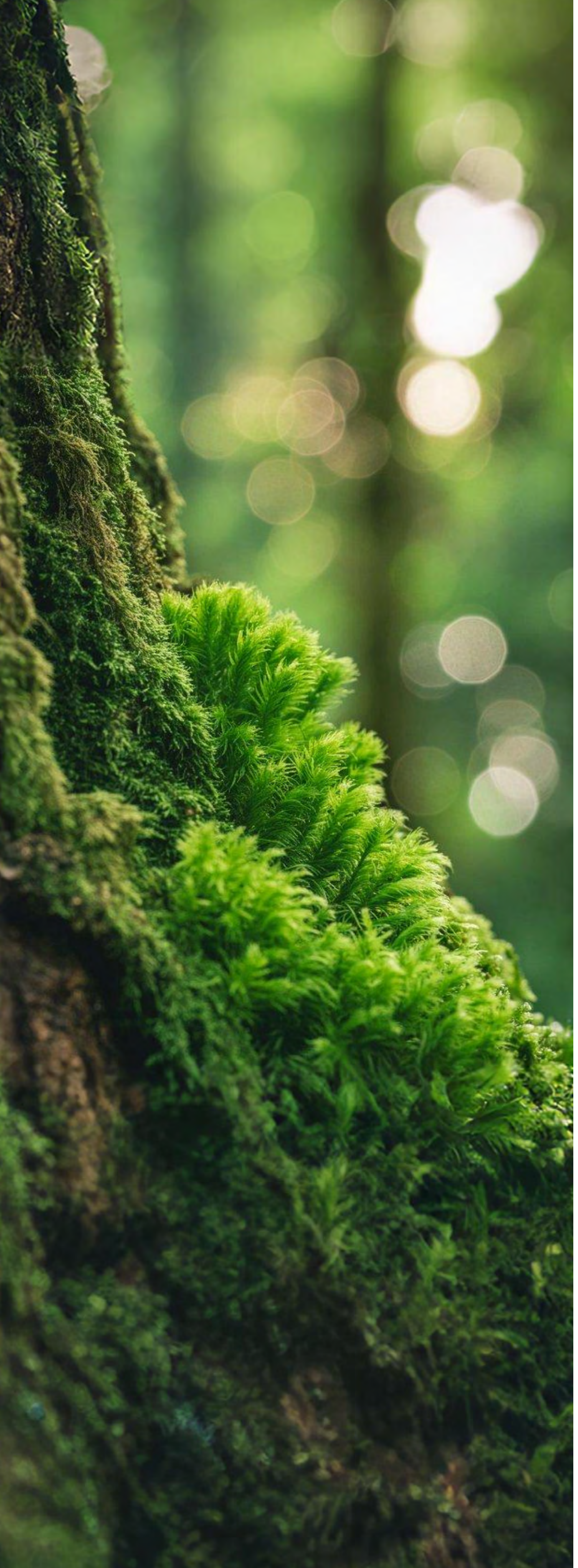
As at 31 December 2022

METRIC	BAILLIE GIFFORD	MSCI ACWI
EXPOSURE TO 'CLIMATE MATERIAL' SECTORS		
% of total AUM invested in companies in climate-material sectors	23	34
EXPOSURE TO FOSSIL FUELS		
% of total AUM invested in companies with > 5% revenues from Oil and/or gas activities	2.0	9.5
% of total AUM invested in companies with > 5% revenues thermal coal mining and sale	0.3	0.4
% of total AUM invested in companies with > 5% revenues from thermal coal power generation	0.0	1.3

FIGURE 2: BAILLIE GIFFORD METRICS ON INSIGHTS INTO CLIMATE-RELATED RISKS AND OPPORTUNITIES

26 Active investment: fuelling the energy transition | Baillie Gifford
27 https://www.bailliegifford.com/en/uk/individual-investors/literature-library/corporate-governance/statement-of-climate-related-intent-and-ambition/
28 https://www.bailliegifford.com/en/uk/individual-investors/literature-library/corporate-governance/Exclusion-Policy-2024/

29 https://www.bailliegifford.com/en/uk/individual-investors/literature-library/corporate-governance/baillie-gifford-co-tcfd-climate-report/



The AM utilises a mix of both quantitative and qualitative methods, with often a preference for qualitative assessment of investments. While quantitative methods can have a one size fits all exclusionary effect, qualitative assessments allow for more contextualised engagement. This is aided by Scenario analysis (use of the Network for Greening the Financial System's (NGFS) scenarios) research.

Baillie Gifford's strategy for engaging with companies is research-driven and patient, emphasising the cultivation of long-term relationships with company leadership, placing the ownership of achieving transition on a company's board. Baillie Gifford has an in-house management of voting rights, and has limited reliance on external proxy advisors. The dedicated voting team works alongside investment teams to ensure that voting decisions are in line with the investment process. Baille Gifford shares detailed quarterly voting reports to clients and publishes high level voting information on its website[30][31].

The research process at Baillie Gifford incorporates a climate framework (climate audit), where each investment is evaluated for its climate positioning relative to its peers and industry standards. In funds that have a climate objective, there is a preference for companies demonstrating leadership in sustainability practices or showing significant improvement. Baillie Gifford's climate assessments leverage both in-house expertise and external insights to identify companies with the best practices and those positioning for a sustainable future.

30 https://www.bailliegifford.com/en/uk/individual-investors/literature-library/corporate-governance/our-stewardship-approach-esg-principles-and-guidelines/

31 https://www.bailliegifford.com/en/uk/individual-investors/literature-library/corporate-governance/proxy-voting-guidelines-2024/

MUFG ASSET MANAGEMENT

MUFG Asset Management (MUFG AM) is the global brand of Mitsubishi UFJ Trust and Banking Corporation. The Mitsubishi UFJ Trust and Banking Corporation includes Mitsubishi UFJ Asset Management, Ltd, Mitsubishi UFJ Real Estate Asset Management Co., Mitsubishi UFJ Asset Management (UK), and Mitsubishi UFJ Alternative Investments Co. MUFG AM is a leading asset manager in Asia that is a signatory to both the Principles for Responsible Investment (PRI) and Net Zero Asset Manager Initiative (NZAM), which aims to achieve net zero GHG emissions from investee companies by 2050. MUFG AM's approach to achieve its net zero commitments leans towards engaging with investee companies with a "focus on resolving issues that hinder medium-to-long-term growth with our investees to effect a positive social and environmental impact"[32]. This contrasts with an approach that implements a high bar for exclusions that align with global best practices. While MUFG AM does practice negative screening to exclude investments that are unsuitable from an ESG perspective, the company does not publish a detailed list of which sectors/ activities are excluded.

Stewardship is undertaken by qualified experts in ESG, fund managers and analysts who perform company engagement and proxy voting activities.[33] The engagement is through three approaches: thematic engagement, collaborative engagement, and public engagement. Thematic engagement applies to the top 50 companies selected for engagement based on a number of factors including GHG emissions and investment amounts. Analysts and research officers specialised in the area of sustainability engage these companies with a focus on MUFG AM's four priority themes of climate change, biodiversity, human rights, and health and safety. Collaborative engagement involves engagement with investees through participation in initiatives related to key themes such as IAST APAC and the Access to Nutrition Initiative, with a focus on Climate Action 100+. Public engagement involves making direct and indirect recommendations to stakeholders in government bodies and financial markets to solve sustainability issues.

32 MUFG; Responsible Investment | Asset Management | Mitsubishi UFJ Trust and Banking Corporation

33 MUFG; Policies and Guidelines | Mitsubishi UFJ Financial Group

In order to facilitate an engagement-based approach to sustainability, MUFG has implemented a robust structure and framework to incorporate investee ESG performance into investment decisions. MUFG AM has a dedicated ESG department that sits within the Asset Management Division and is responsible for enhancing ESG integration into investment decision-making processes and conducting discussions with investee companies. Investee ESG assessment is conducted using an in-house ESG Database with external ESG data sources to evaluate companies against two sets of material ESG issues - materiality in terms of society and materiality in terms of MUFG's asset management[34]. Each investee is also assessed in relative comparison to others within the same industry. ESG scores are used for qualitative screening, to reference information for ESG integration, and for analysts to set themes for engagement with investee companies. The evaluation items of the ESG Database are reviewed annually based on trends related to global ESG issues, the external environment and corporate trends.

34 https://safe.tr.mufg.jp/cgi-bin/english/ourservices/management/asset_management_02.cgi?page=mutb_ri_report.pdf

DISCUSSION: CURRENT APPROACHES AND CONSIDERATIONS

The analysis above shows that most AMs tend to use a mix of exclusion policies and stewardship. However, in cases where the AM has a clear preference for stewardship, and have limited exclusion criteria, tracking of progress by investee companies can be challenging. This however can potentially make sure that both real world decarbonisation is achieved along with portfolio level greening.

A strategy that relies heavily on stewardship (without clear exclusion timelines) needs clear, transparent guidelines to ensure the consistent principles across various industry sectors and geographies.Without such criteria, the decision-making process may become inconsistent, undermining the effectiveness of stewardship efforts.

The analysis also showed that regulatory reinforcement of fiduciary duties is necessary to embed ESG considerations into asset managers' responsibilities more firmly. The EU's Sustainable Finance Disclosure Regulation (SFDR) serves as an example of integrating environmental safeguards, suggesting a need for explicit regulatory frameworks that address ESG considerations within fiduciary duties comprehensively.

Some asset managers also mentioned the reliance on proxy advisors often introduces potential conflicts or disagreements due to differing recommendations. Ensuring that stewardship decisions are grounded in scientific analysis, aligned with specific ESG targets, and have independent third party validation is critical, especially in a stewardship first approach.

Adding to these challenges are issues like the complexity of company behaviour and resource constraints, particularly for smaller asset managers who may lack the capacity to engage with numerous companies effectively. Often the AM may not have sufficient shareholding to independently influence a company's behaviour.

Here again, the relevance of global coalitions and regulatory practices is highlighted, which aims to provide a common minimum standard amongst all AMs.

Lastly, as mentioned above, the measurement and accountability of stewardship activities remain significant hurdles. Developing transparent reporting and accountability mechanisms can enhance stewardship's impact by providing clear benchmarks for success and identifying areas for improvement.

RECOMMENDATION: PRAGMATIC MIX OF EXCLUSION AND STEWARDSHIP

A pragmatic approach combining both exclusionary measures and proactive stewardship comprises of the following:

1 RESTRICTION ON FOSSIL FUEL FUNDING: AMS SHOULD INSTITUTE ROBUST EXCLUSION POLICY AS A KEY COMPONENT OF THEIR RISK MANAGEMENT AND FIDUCIARY RESPONSIBILITIES. THESE SHOULD INCLUDE:

1. **Robust exclusions for investing in companies that are expanding fossil fuel or fossil fuel based power assets[35]:** Given the importance of phasing out fossil fuels to meet the goals of the Paris Agreement, AMs should exclude companies that are expanding fossil fuel assets. This is even more imperative for coal assets[36], given their high emissions and the availability of alternative renewable energy solutions.
2. **Time bound phaseout of fossil fuels to achieve net zero commitments:** In addition to transitioning the portfolio towards renewable energy, this also includes investee criteria for fossil fuel companies based on whether they align with science-based net zero pathways. Minimum standards for investee companies need to be articulated with a clear time bound engagement plan, including escalation mechanisms in cases where climate transition expectations are not being met.
3. Exclusions for fossil fuel assets that are operating in sensitive areas such as the Arctic and/or unconventional oil & gas[37].

35 https://wwfint.awsassets.panda.org/downloads/wwf-global-energy-policy-framework_1.pdf
36 https://www.wwf.eu/?252494/WWF-briefing-paper-Coal-and-climate
37 https://wwfint.awsassets.panda.org/downloads/wwf_policy_position___the_transition_away_from_oil___gas.pdf

2 COMPREHENSIVE, TIME BOUND TRANSITION PLANS: AMS SHOULD ARTICULATE CLEAR TRANSITION PLANS IN LINE WITH AVAILABLE GUIDANCE AS WELL AS REGULATIONS. THESE SHOULD INCLUDE:

1. **Proactive investor engagement:** Engage with companies for immediate climate action, with milestones set for 2025 and 2030.
2. **Climate-conscious voting directives:** Transparent policy that opposes the re-election of board members of companies heavily reliant on carbon-intensive activities and those not adhering to climate reporting standards like TCFD.
3. **Mid-term ESG disclosure targets:** Have clear, ambitious, and binding mid-term targets and milestones. This includes targets at a portfolio level, and clear disclosure and alignment expectations of their investee companies.
4. **Establishing exit timelines for fossil fuels:** Require companies to set definitive, science-based dates with interim targets to cease operations of coal, oil and gas and unconventional oil and gas extraction methods.
5. **Consequences for non-compliant strategies:** Firms that do not meet the criteria for a low-carbon transition could face shareholder votes against their board members and eventually exclusion.

3 REGULATORS AND CENTRAL BANKS: IN ADDITION TO DISCLOSURES, THERE IS A NEED TO MANDATE PHASEOUT TIMELINES FOR FINANCIAL INSTITUTIONS. THIS CAN LEVEL THE PLAYING FIELD, AND ENCOURAGE AMS TO INTEGRATE ENVIRONMENTAL CONSIDERATIONS. TRANSITION PLANNING GUIDELINES SUCH AS THE ONE ISSUED BY SINGAPORE'S MAS CAN FACILITATE THE DEVELOPMENT OF PHASEOUT PLANS ON ASSETS LINKED TO FOSSIL FUELS IN ITS ASSET MANAGEMENT PRACTICES (FOR ITS OWN, PENSION AND THIRD-PARTY PORTIONS AS APPLICABLE).

BOX 3: EXPECTATION IN ENGAGEMENT FRAMEWORK

Recommended engagement processes into more specific expectations that an asset manager should proactively communicate to all relevant investee companies:

1. Publicly disclose GHG emissions
2. Set GHG emissions reduction targets
3. Publish TCFD reports
4. Adopt Science-Based Targets for all energy sector companies, ranging from upstream, midstream to downstream players
5. Commit to appropriate decommissioning plans and rehabilitation of the natural environment
6. Convey expectations on oil and gas producers to stop expansion into oil and gas fields
7. Concurrently to transit into renewables

APPENDICES

APPENDIX 1: ASSET MANAGERS ASSESSED

abrdn
Aegon Asset Management
Allianz Global Investors
Amundi
APG Asset Management
Asset Management One Company Ltd.
Aviva Investors
AXA Investment Managers
Baillie Gifford
BNP Paribas Asset Management
Bosera Funds
China Asset Management Company Ltd.
China Life Asset Management Company Ltd.
China Southern Asset Management Company Ltd.
DWS Group
E Fund Management Company Ltd.
Eastspring Investments
Fidelity International
Fullerton Fund Management Company Ltd.
Harvest Fund Management
HSBC Global Asset Management
Kotak Mahindra Asset Management (Singapore) Pte. Ltd
Legal & General Investment Management
Lion Global Investors Ltd.
M&G Investments
Mitsubishi UFJ Trust and Banking Corporation
Nikko Asset Management
Nomura Asset Management
Nordea Asset Management
Ostrum Asset Management
Pictet Asset Management
Robeco
SBI Funds Management Pte. Ltd.
Schroders
Sumitomo Mitsui Trust Asset Management
UBS Asset Management
Union Investment Group
UOB Asset Management Ltd.
UTI Asset Management Company Ltd

APPENDIX 2: ENERGY TRANSITION FRAMEWORK

Framework Indicators

PURPOSE		
1 RELEVANCE OF SUSTAINABILITY IN ORGANIZATION'S STRATEGY AND INVESTMENT BELIEFS	1	Does the AM identify energy as a key sector for climate change?
	2	Does the AM have specific policy approach(es) for energy transition (or incorporated in climate policy)?
	3	Does the AM recognise the adverse impact of non-renewable energy on the environment and the climate?
	4	Does the AM identify renewable energy as a solution to mitigate climate change?
	5	Does the AM periodically review its energy policies, or has it stated that the last date of the review was within the past 2-4 years?
POLICIES		
2 OIL AND GAS POLICY	6	Does the AM exclude investments in exploration and development of new assets in the oil and gas sector?
	7	Does the AM investment process aim to phase out investments in exploration and development of new assets in the oil and gas sector?
	8	Does the AM exclude investments in companies involved in oil and gas-related activities in or near enough to affect the critical landscapes, such as the arctic?
3 UNCONVENTIONAL FOSSIL FUEL POLICY	9	*Does the AM exclude or require thresholds investments in companies engaging directly in - oil sands activities? - fracked shale oil and gas activities
	10	Does the AM exclude or require thresholds for investments in companies involved directly in unconventional oil/gas infrastructures (e.g. pipelines)?

POLICIES

4 COAL EXTRACTION/ REFINING POLICY	11	Does the AM have a paris aligned (science-based) target to divest coal related assets?
	12	Does the AM exclude investments in companies that engage in new/ expansion in thermal coal extraction or processing?
	13	Does the AM require investee companies in integrated mining to phase out of all thermal coal extraction or processing in line with science-based guidance?
	14	Does the AM exclude or require thresholds for investments in companies involved in physical coal trading?
	14A	Is the asset manager working towards the replacement of existing coal-fired power plants through engagement and investment approaches?
5 COAL POWER GENERATION POLICY	15	Does the AM exclude investments in companies involved in new/ expansion of thermal coal power generation capacity?
	16	Does the AM exclude investments in companies with significant (>30% of revenue or generation capacity) exposure to activities related to thermal coal power generation?
	17	Does the AM require companies in the integrated energy sector to phase out all thermal coal power generation and distribution in line with science-based guidance?
6 RENEWABLE ENERGY POLICY	18	Does the AM disclose the fraction of its AUM invested in renewable energy/disclose the portfolio energy mix?
	19	Does the AM require investee companies to assess and mitigate nature related risks (eg. water, biodiversity, deforestation) when financing energy/ green energy/ renewable energy projects?
	20	Does the AM require investee companies to assess, mitigate impact of renewable energy projects on local communities and their social and economic wellbeing.

POLICIES

7 CROSSCUTTING CLIMATE ENERGY POLICY	21	Does the AM exclude or require thresholds for investments in companies exposed to key biodiversity areas, protected areas and species (including e.g. IUCN Cat I-IV, WHS, Ramsar Wetlands, CITES, KBA)?
	22	Does the AM require relevant investee companies to publicly disclose GHG emissions (Including Scope 3)?
	23	Does the AM require all investee companies in exploration, extractive and energy sectors to provide a public TCFD report?
	24	Does the AM require all investee companies in exploration, extractive and energy sectors, including those in energy-related support, midstream and downstream services to set science-based targets (e.g. decarbonization in line with Paris Agreement)?
	25	Does the AM require all relevant investee companies to commit to appropriate decommissioning plans and rehabilitation of the natural environment?
	26	Does the AM have and disclose a transition plan? (a credible transition strategy includes commitments on both absolute and relative carbon reduction targets in scope 1, 2, and 3 emissions)
	27	Does the AM require transition plans from investee companies directly or indirectly engaging in energy sectors activities?

PROCESSES

7 ACTIVE OWNERSHIP	28	Does the AM have expectations on oil/gas producers to stop expansion into oil/gas fields?
	29	Does the AM have expectations on oil/gas producers to transition to renewables?
	29A	Does the AM engage with stakeholders along the value chain of relevant investee companies to facilitate acceleration in energy transition?
	29B	Disclose voting records on energy expansion issues

PEOPLE

8 GOVERNANCE AND SKILLS	30	Does the AM provide training to its staff on energy sector policies and implementation processes?
	31	Is senior management responsible for the implementation of the AM's energy transition policies?

PRODUCT		
9 PHASEOUT AND CLEAN TECH	32	Does the AM consider managed phaseout a critical part of it's net-zero strategy?
	33	Does the AM disclose allocation to early retirement of high-emitting assets?
	34	Does the AM have a disclosed framework to evaluate companies adopting clean energy technologies the asset manager would invest in?
	35	Does the AM offer thematic investment products investing in companies accelerating energy transition/and green energy infrastructure (ie energy efficient products, cleaner alternatives/ retrofit/fuel switch, wide implementation of new technologies quickly etc.) ?
	35A	Does the A&M apply its sustainable energy policies to their passive investments products?
	35B	Does the AM apply sustainable energy policies to their fixed income products?
	35C	Does the AM have a policy regarding new debt/primary market financing with respect to fossil fuel expansion?

PORTFOLIO		
10 RISK ASSESSMENT	36	Does the AM disclose the ESG evaluation and risk management methodology for investments in the renewable sector?
	37	Does the AM conduct and disclose the outcomes of energy-related risk assessments or scenario analysis (e.g. IEA scenarios) at the portfolio level?
9 METRICS AND TARGETS	38	Does the AM disclose past and future expected performance in key energy sectors in its portfolio (energy use, renewables, exploration & extraction), including past and future trend of Total Energy Supply (TPES)?

WWF

Working to sustain the natural world for the benefit of people and wildlife.

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