

ISS-Ethix 

## Climate Solutions

# Carbon Footprint Report 2018: *OPM - Global Equity Fund*

---

ISS-Ethix Climate Solutions

<http://www.issgovernance.com/esg>

© 2018 ISS-Ethix

## Table of contents

Executive Summary .....	4
1. Introduction .....	5
2. Key trends in the global market .....	6
2.1 The Paris Agreement and Conferences of Parties (COP22 and COP23) .....	6
2.2 Progress on Decarbonisation Efforts .....	6
2.3 Disclosure, Reporting Standards and Frameworks .....	7
3. Carbon Footprint Findings .....	8
Appendix 1 - Carbon Footprint Description and Methodology .....	14
General Approach .....	14
Intensity Metrics .....	15
Explanatory power and limitations .....	16
Appendix 2: Contact .....	18

# HIGHLIGHTS

**3,130 tCO<sub>2</sub>e**

The 2017 Scope 1 & 2 financed emissions (tCO<sub>2</sub>e) of the *Global Equity Fund* compared with 37,695 tCO<sub>2</sub>e for the URTH Index benchmark.

**14,295 tCO<sub>2</sub>e**

The 2017 Scope 1, 2 & 3 financed emissions (tCO<sub>2</sub>e) of the *Global Equity Fund* compared with 152,934 tCO<sub>2</sub>e for the URTH Index benchmark.

**95%**

Of companies in the *Global Equity Fund* disclose their emissions, compared to 74% in the URTH Index benchmark.

**15%**

Is the contribution to overall emissions by the highest emitter of the portfolio, Continental AG.

**92%**

Is the amount that the *Global Equity Fund* is less emissions- intense than the URTH Index benchmark.

**36%**

With an allocation of 21%, the consumer staples sector is the biggest contributor (36%) to the *Global Equity Fund* emissions.

## Executive Summary

ISS-Ethix Climate Solutions assessed the climate impact of OPM's *Global Equity Fund* as of 31<sup>st</sup> December 2017. In this assessment, the Scope 1 & 2 financed emissions were 3,130 tCO<sub>2</sub>e for the *Global Equity Fund*, and 37,695 tCO<sub>2</sub>e for the URTH Index benchmark.

The outperformance of the portfolio in relation to the benchmark can be explained primarily by the lack of investments into the emission-intensive utility sector and, to a lesser extent, materials and energy sectors.

**92%**  
Less emission intense  
than the benchmark

**95%**  
Of companies in the  
*Global Equity Fund*  
report emissions

The largest contributors to the emissions of the portfolio are Continental AG, 3M and Pepsico, which are responsible for 15%, 11% and 9% of the emissions, respectively.

## 1. Introduction

The following assessment is the annual review of the companies in the OPM *Global Equity Fund*, benchmarked against the URTH Index.

In Section 2, the key themes and trends in the sustainable finance universe in relation to climate change are reviewed, analysed and discussed. Recent and overarching global initiatives such as the Taskforce on Climate-Related Financial Disclosures (TCFD), the Paris Agreement and scenario analysis have a significant impact on climate-related topics within investment, and so they are useful to include in the overall analysis. An understanding of these themes ensures that investors are best placed to make informed decisions regarding their approach to climate change issues.

Section 3 covers the findings from the Carbon Footprint assessment.

The report concludes with Section 4, covering opportunities for next steps. Reading this report is an important first step in increasing knowledge and understanding of climate related issues, but moving forward, there are practical steps that investors can take.

In the Appendix, introductions, explanations and methodologies of the carbon footprint assessment can be found.

## 2. Key trends in the global market

This section highlights the major trends that have occurred throughout 2017 in the climate and investment field. It includes initiatives and trends that might have taken place prior to 2017, but experienced new milestones or updates during the year. The topics covered include specific events that have taken place with their respective outcomes, alongside themes around governance and regulation, a significant influencer of climate and investment market behaviour.

### 2.1 The Paris Agreement and Conferences of Parties (COP22 and COP23)

Two years on from the Paris Agreement at COP21, the international climate change scene has moved on significantly. Since the landmark event in 2015, there have been two further COPs focused on global approaches to, and national government strategies for, climate change. These come in conjunction with other events including the annual New York climate week and the December 2017 One Planet conference hosted by France President Emmanuel Macron in Paris.

Having entered into force on November 4<sup>th</sup>, 2016 with 55 Parties accounting for 55% of total global greenhouse gas (GHG) emissions, the Paris Agreement (as of January 2018) stands at 172 ratified parties. Having achieved global ratification, the focus of COP events and global climate discussions is now fully focused on the 'how'. This 'how' deals with countries putting their Nationally Determined Contributions<sup>1</sup> (NDCs) into action and the extent to which the aggregation of those NDCs contribute towards the 2 degrees target. This was demonstrated at COP22 in Marrakech and COP23 in Bonn, with discussions on the Paris "rulebook", which establishes the technical rules and processes required to fulfil the Paris Agreement, with the deadline for the finalised rulebook being COP24 in late 2018. The question for countries to answer during COP22 and COP23 was the extent to which they are meeting their NDCs covering two aspects – financing climate change mitigation (such as through green investment vehicles) and implementing carbon emissions reductions (including changes in national energy policy for example).

### 2.2 Progress on Decarbonisation Efforts

Three underlying levers exist to address low-carbon objectives: *improving energy efficiency, reducing carbon intensity of electricity and the end-use of energy by corporates*. Progress in key technologies needed for the low-carbon transition as tracked by the International Energy Agency (IEA)<sup>2</sup> has so far been insufficient, with many sectors currently failing to develop or deploy the necessary technologies.

One tool considered important for decarbonisation efforts is carbon pricing. In practical terms, carbon pricing can take two overarching forms (with hybrids often utilised) – a carbon tax and cap-and-trade system. In Europe, the EU Emissions Trading System (ETS) is used as a continent-wide cap-and-trade scheme, with national carbon taxes in countries such as France and the UK. Due to the influence of the UK, Brexit is seen as a risk to the stability and pricing levels of the ETS.

---

<sup>1</sup> NDCs are the commitments of countries, specifying their contribution towards achieving the international climate goal

<sup>2</sup> [http://www.oecd-ilibrary.org/energy/iea-technology-roadmaps\\_22182837](http://www.oecd-ilibrary.org/energy/iea-technology-roadmaps_22182837)

### 2.3 Disclosure, Reporting Standards and Frameworks

Having previously been viewed as a laggard, the financial sector is now seeing an unprecedented commitment to climate leadership by taking prominent roles in international climate initiatives. The topic of climate change and investment is gathering increasing attention from stakeholders and the primary ask to the financial sector is to provide transparency on climate risk and impact by means of disclosure. Figure 1 below shows a selection of the main initiatives in the field.

Location	Initiative	Description	Owner	Requirement	Status
Global	Task Force on Climate-related Financial Disclosure (TCFD)	Voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors and other stakeholders.	Self-governance	Voluntary	In place
	Portfolio Decarbonization Coalition (PDC)	Coalition of investors committing to decarbonizing their investment portfolios	Self-governance	Voluntary	In place
	Montréal Pledge	The Pledge formalizes commitment to the PDC, mobilizing investors to measure, disclose and reduce their footprints.	Self-governance	Voluntary	In place
	ISO 14097	Framework and principles for assessing and reporting investments and financing activities linked to climate change.	Self-governance	Voluntary	Expected
	Asset Owners Disclosure Project (AODP)	A ranking of climate financial disclosures of pension funds, insurers, sovereign wealth funds and endowments.	Civil Society	Voluntary	In place
Europe (EU)	IORP II	EU pensions directive with specific content on climate change requirements.	Regulator	Mandatory	In place
	High Level Expert Group (HLEG)	A body of 20 experts advising the European Commission on how to better integrate sustainability considerations in the EU's financial policy framework.	Regulator	TBD	Expected
France	Article 173 of the Energy Transition Law	Legislation on mandatory carbon disclosure requirements for listed companies and carbon reporting for institutional investors.	Regulator	Mandatory	In place
California	Climate Risk Carbon Initiative	Initiative to evaluate the degree to which California investors are impacted by effects of climate change on the economy.	Regulator	Voluntary	In place
Sweden	National Pension (AP) funds	Co-ordination of carbon footprint reporting for portfolios within the AP funds.	Self-governance	Voluntary	In place
Switzerland	Ministry of the Environment (FOEN)	Report by the FOEN to Swiss pension funds and insurers testing the climate compatibility of portfolios.	Regulator	Voluntary	Announced
Netherlands	Platform Carbon Accounting Financials (PCAF)	Collaboration of 12 Dutch financial institutions to develop an accounting methodology for emissions.	Self-governance	Voluntary	In place

Figure 1 - Climate change and investment initiatives<sup>3</sup>

<sup>3</sup> Source: ISS-Ethix Climate Solutions

## Carbon Footprint Analysis:

## OPM Global Equity Fund

## Benchmark:

## URTH Index

## Key Data

Total Investment Analyzed (USD)	309,383,631
---------------------------------	-------------

	OPM Global Equity Fund	URTH Index	Difference
Total Emissions Scope 1&2 (tCO <sub>2</sub> e)	3,130	37,695	34,565
Total Emissions Scope 1,2 & 3 (tCO <sub>2</sub> e)	14,295	152,934	138,639
Percentage of Disclosing Holdings	94.9%	74.2%	21 p.p.*
Emissions (tCO <sub>2</sub> e) per million USD Invested	10.1	121.8	91.7%
Weighted Average Carbon Intensity (tCO <sub>2</sub> e) / Revenue USD Million	28.2	198.5	85.8%
Financed Emissions (tCO <sub>2</sub> e) / Financed Revenue USD Million	25.9	225.4	88.5%

\*p.p. - Percentage Points

The burning of fossil fuels contributes to the increase of carbon dioxide in the atmosphere, which causes Climate Change. By investing in a company, you also finance the emission of greenhouse gases. The OPM Global Equity Fund is associated with greenhouse gas emissions of 3,130 tonnes per year (Scope 1 & 2). The same amount invested in the URTH Index yields emissions of 37,695 tonnes per year (Scope 1 & 2).

Unless stated otherwise, the emissions used in this assessment are Scope 1 & 2 emissions that were reported in 2016, for the financial year 2015. In order calculate ownership %, ISS-Ethix Climate Solutions used the market cap data for each company from the same date as holdings assessed.

## Summary of 10 Largest Portfolio Companies

Company	Sector	Portfolio Weight	Data Source	% of Total Emissions	Financed Emission (tCO <sub>2</sub> e)
ROCHE HOLDING AG-GENUSSCH	Health Care	2.82%	CSR	0.93%	29.2
CONTINENTAL AG	Consumer Discretionary	2.75%	CDP	15.32%	479.6
UNILEVER NV-CVA	Consumer Staples	2.73%	CSR	2.79%	87.3
KAO CORP	Consumer Staples	2.72%	CDP	8.36%	261.6
L'OREAL	Consumer Staples	2.69%	CDP	0.26%	8.1
JOHNSON & JOHNSON	Health Care	2.69%	CDP	0.85%	26.5
SAP SE	Information Technology	2.69%	CDP	0.29%	9.1
COLGATE-PALMOLIVE CO	Consumer Staples	2.68%	CDP	2.15%	67.3
ABBOTT LABORATORIES	Health Care	2.66%	CSR	2.66%	83.2
APPLE INC	Information Technology	2.66%	CDP	0.02%	0.7



# Climate Solutions

## Carbon Footprint Analysis

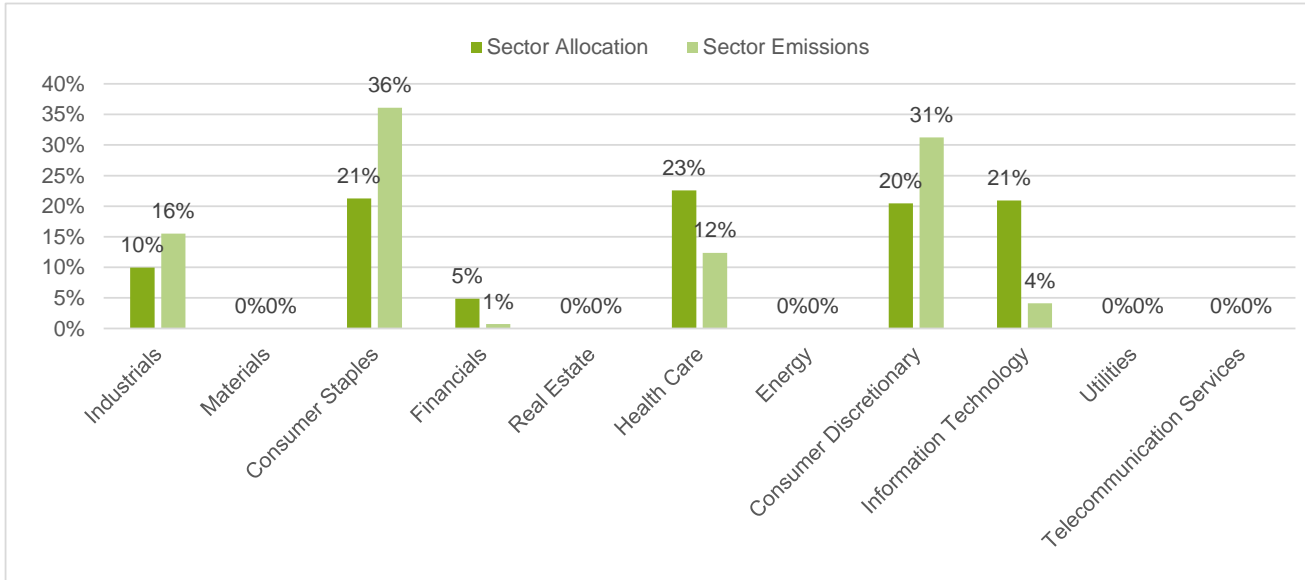
## OPM Global Equity Fund

Benchmark:

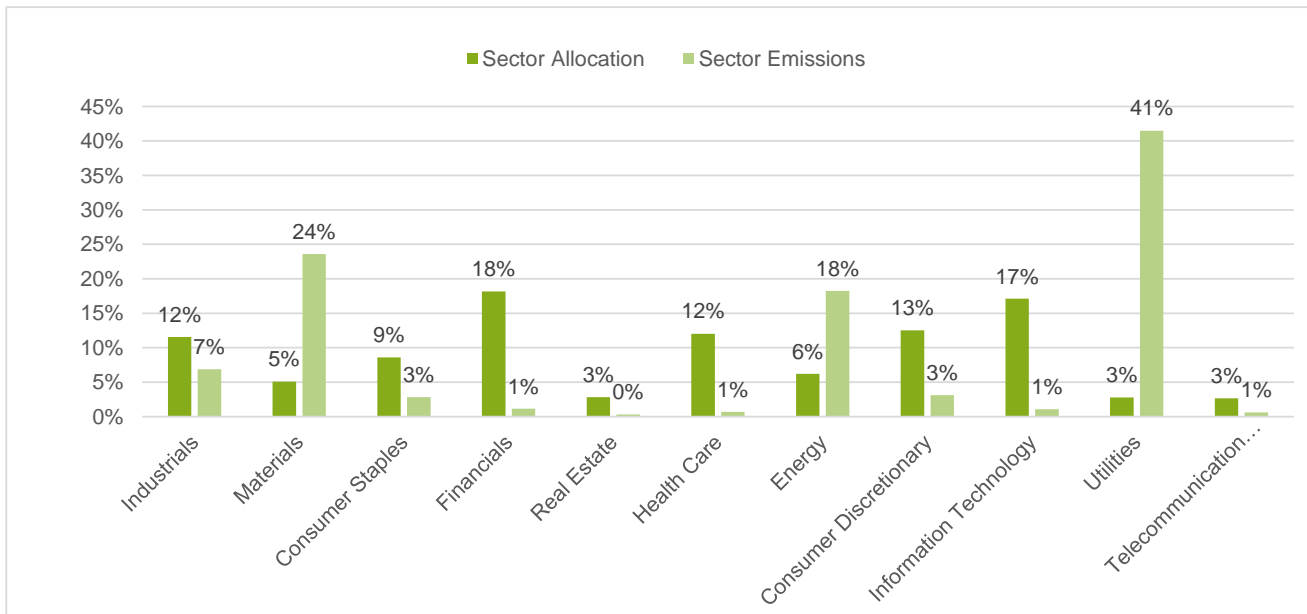
URTH Index

### Sector Analysis

The greenhouse gas emissions of OPM Global Equity Fund stem from different sectors. The light coloured bar shows what percentage of total emissions stems from what sector. The dark coloured bar shows what percentage of OPM Global Equity Fund is invested in what sector. You can see that certain sectors are much more greenhouse gas intensive than others.



In comparison, the sector allocation and the emission allocation of URTH Index can be found below.



# Climate Solutions

## Carbon Footprint Analysis

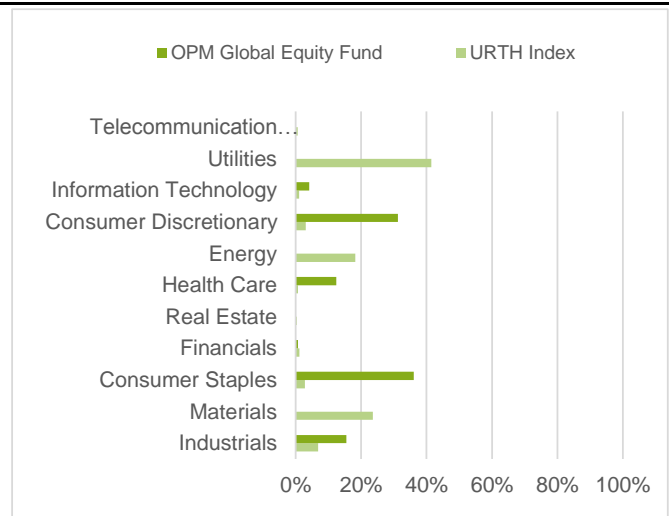
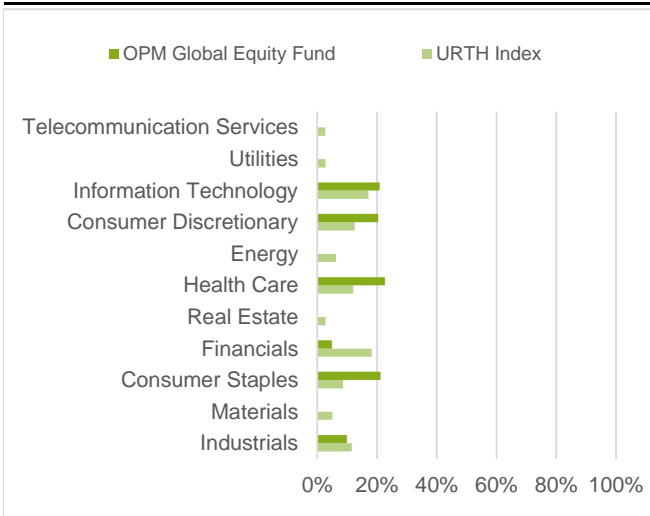
## OPM Global Equity Fund

Benchmark:

URTH Index

Sector Allocation

Sector Emissions

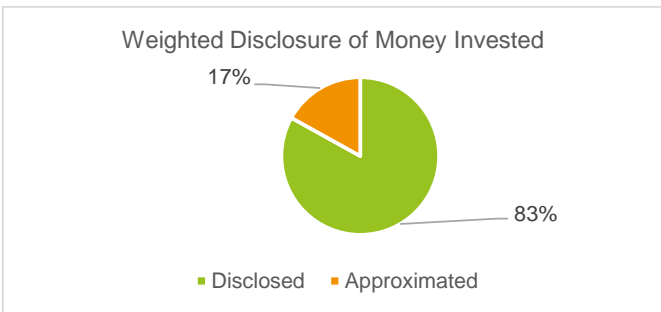
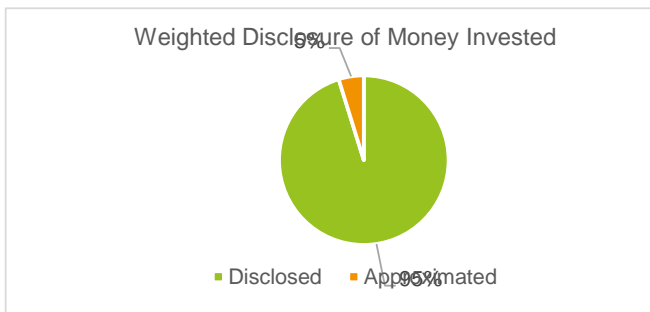
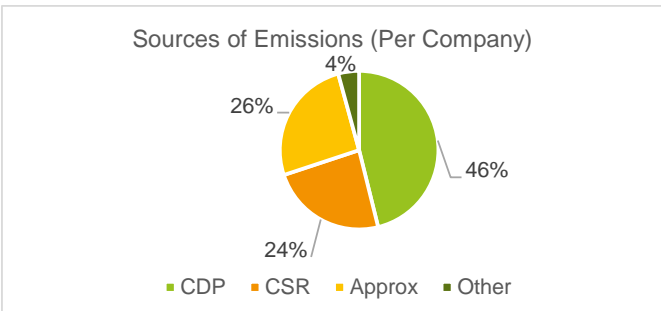
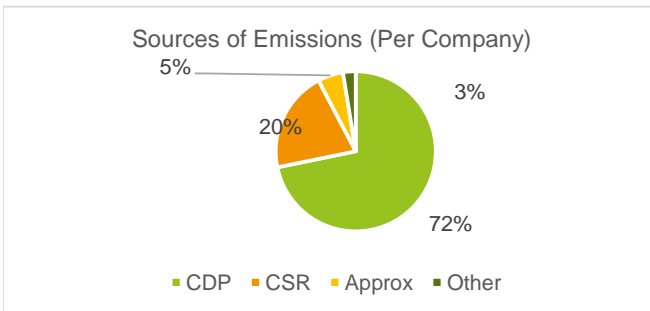


### Disclosing Companies

The following graphs analyse the amount of companies in the OPM Global Equity Fund and the URTH Index that disclose their emissions.

OPM Global Equity Fund

URTH Index



Carbon Footprint Analysis

OPM Global Equity Fund

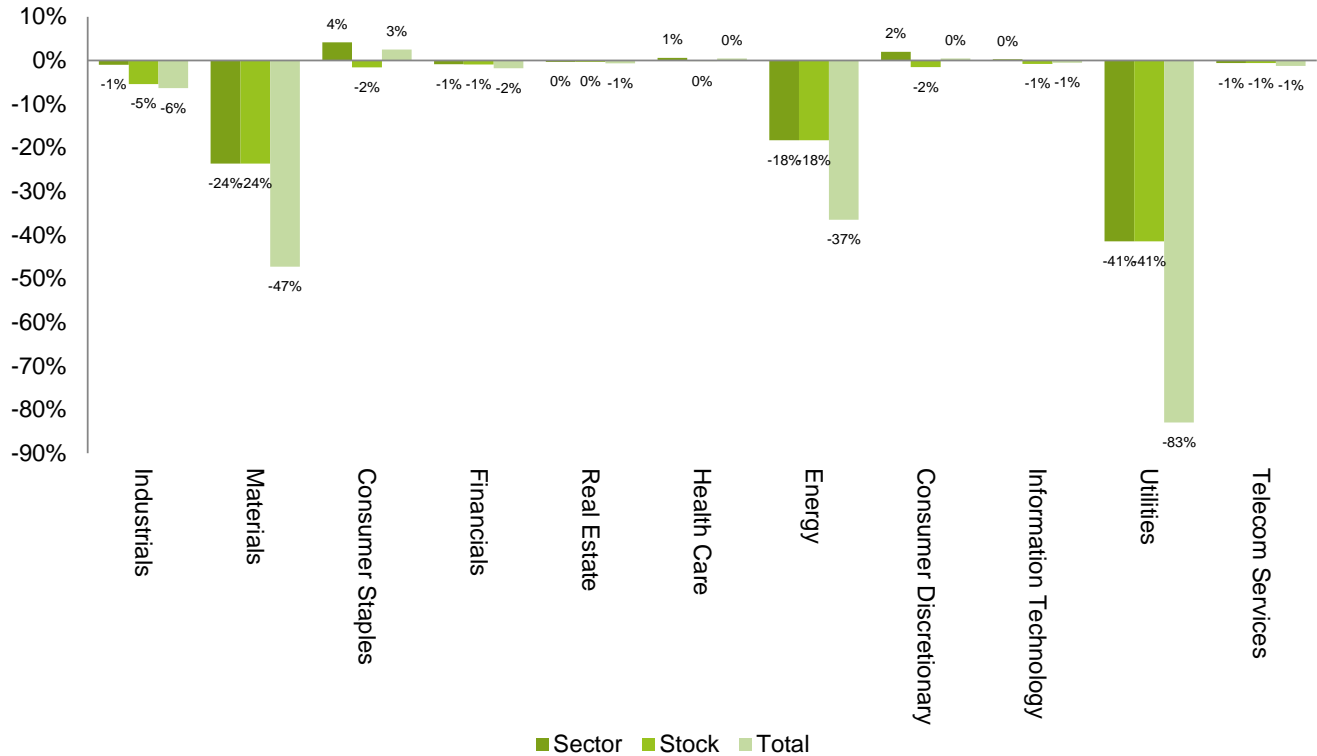
Benchmark:

URTH Index

Attribution Analysis

	Sector Allocation Contribution to Out / Underperformance (tCO <sub>2</sub> e)	Sector Allocation Contribution to Out / Underperformance (%)	Stock Selection Contribution to Out / Underperformance (tCO <sub>2</sub> e)	Stock selection Contribution to Out / Underperformance (%)
Industrials	-361	-1.0%	-2,029	-5.4%
Materials	-8,900	-23.6%	-8,900	-23.6%
Consumer Staples	1,562	4.1%	-607	-1.6%
Financials	-315	-0.8%	-346	-0.9%
Real Estate	-122	-0.3%	-122	-0.3%
Health Care	233	0.6%	-59	-0.2%
Energy	-6,879	-18.3%	-6,879	-18.3%
Consumer Discretionary	747	2.0%	-578	-1.5%
Information Technology	88	0.2%	-290	-0.8%
Utilities	-15,634	-41.5%	-15,634	-41.5%
Telecommunication Services	-235	-0.6%	-235	-0.6%
Cash/Others	-	0.0%	-	0.0%
<b>Total</b>	<b>-29,817</b>	<b>-79.1%</b>	<b>-35,681</b>	<b>-94.7%</b>
		Interaction Effect:	30,932	82.1%
		<b>Portfolio Carbon Outperformance</b>		<b>-34,565 tCO<sub>2</sub>e</b>
		<b>Portfolio Carbon Outperformance (%)</b>		<b>-91.7%</b>
<b>Invested Money</b>		Explanation: The outperformance of the portfolio is based on the effect of over/underweighting certain sectors and selecting more/less carbon intense stocks within each sector for each of the underlying funds. A positive number indicates that the effect increased the greenhouse gas emissions (in tonnes of GHG Emissions) and a negative number indicates a decreasing effect. In this case, the sector weighting of OPM Global Equity Fund helped save 29,817 tonnes of GHG emissions, while the stock selection helped save 35,681 tonnes of GHG emissions versus the benchmark. This explains a 79.1% carbon outperformance through sector weighting and 94.7% carbon outperformance by stock picking.		
Portfolio	309,383,631			
Benchmark	309,383,631			
<b>Total Emissions (tCO<sub>2</sub>e)</b>				
Portfolio	3,130			
Benchmark	37,695			
Difference	-34,565			

Attribution Analysis - Graph



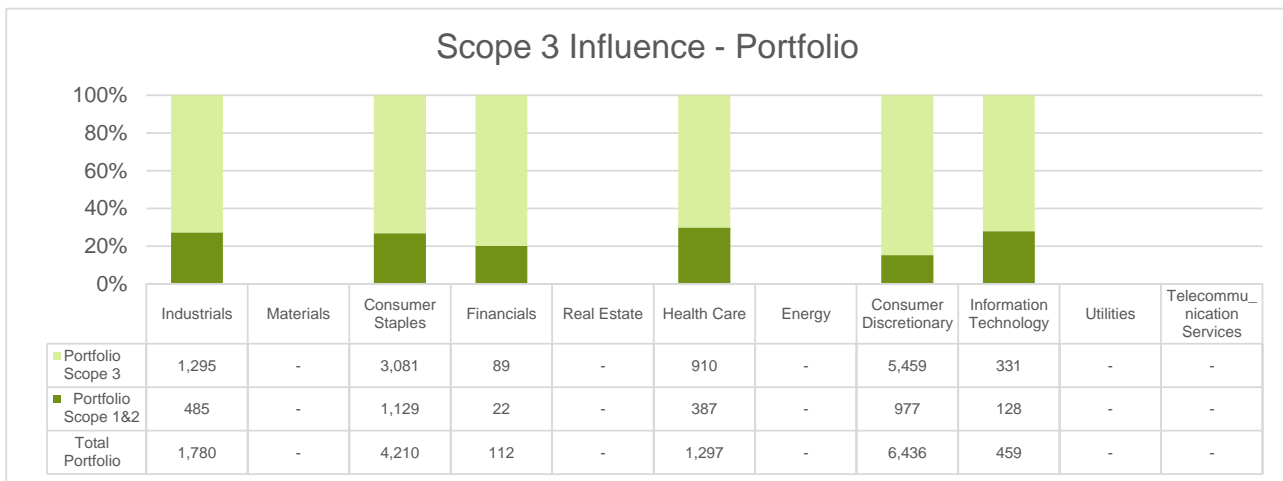
Largest Contributors to Portfolio Emissions

Company	Weight in Portfolio	Financed Emissions (tCO <sub>2</sub> e)	% of Total	Source
CONTINENTAL AG	2.75%	480	15.32%	Disclosed
3M CO	2.62%	345	11.03%	Disclosed
PEPSICO INC	2.63%	272	8.69%	Disclosed
KAO CORP	2.72%	262	8.36%	Disclosed
AUTOLIV INC	2.23%	245	7.83%	Disclosed
NESTLE SA-REG	2.54%	208	6.65%	Disclosed
CVS HEALTH CORP	2.61%	161	5.15%	Disclosed
WALT DISNEY CO/THE	2.58%	87	2.79%	Disclosed
UNILEVER NV-CVA	2.73%	87	2.79%	Disclosed
ABBOTT LABORATORIES	2.66%	83	2.66%	Disclosed

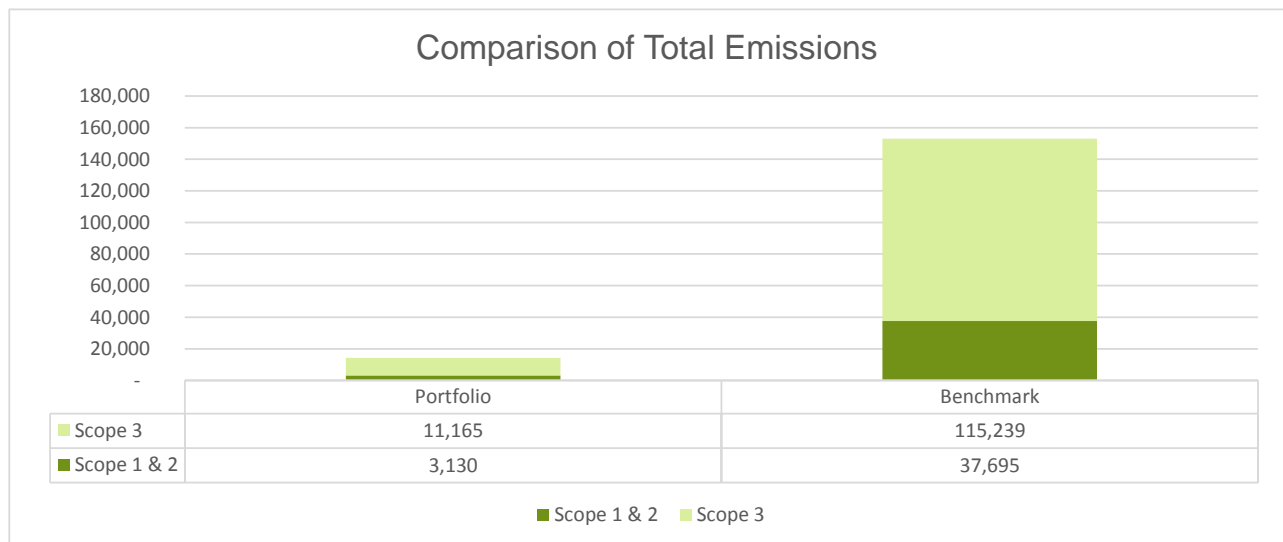
**Scope 3 Overview**

The following section provides a top-down approximation of the financed Scope 3 emissions from each sector. The purpose of this analysis is to give an order of magnitude of the emissions in the portfolio on a sector level, and should not be used as a basis for comparing two individual companies.

The following graph shows the financed Scope 1&2 emissions, in relation to the Scope 3 emissions of the portfolio.



The graph below compares the total emissions (including Scope 1, Scope 2 and Scope 3) between portfolio and benchmark



## Appendix 1 - Carbon Footprint Description and Methodology

Investing in carbon-intensive companies through public equity, private equity, debt instruments or other investment vehicles, means participating in the extraction and usage of fossil fuels and the attendant GHG emissions of these companies. Some institutional and many individual investors remain unaware of the level of their exposure to high GHG emitting companies, and that by investing, they have a voice in the future of these investee companies.

The investment GHG footprint provides the basis for constructing or optimizing an investment portfolio based on GHG exposure, as well as reporting and positioning an investment product or house towards stakeholders concerned about carbon. It is easily replicable at intervals for measuring progress on portfolio climate impact.

### General Approach

To conduct a carbon footprint analysis, an understanding of GHG emissions is essential. The definition is based on the GHG Protocol which splits emissions into three scopes: Scope 1, Scope 2 and Scope 3:

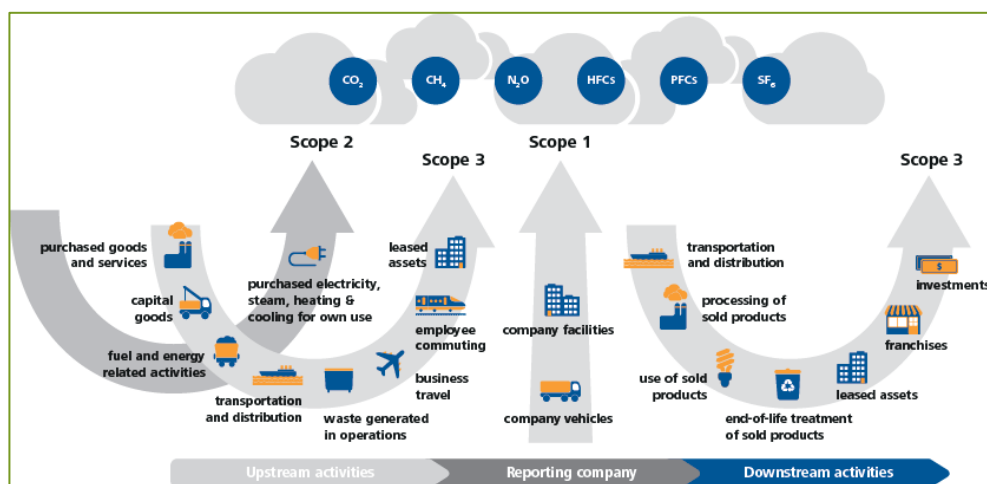


Figure 2 - GHG protocol breakdown of Scopes 1, 2 and 3<sup>4</sup>

As shown in Figure 4, CO<sub>2</sub> is not the only GHG, with others including (but not limited to) methane and nitrous oxide are also extremely impactful on the environment. Due to the high level of CO<sub>2</sub> compared with other GHGs, for calculations, the impact of all other GHGs are converted to CO<sub>2</sub> and as such is labelled as CO<sub>2</sub>e (carbon dioxide equivalent).

<sup>4</sup> Source: GHG Protocol - <http://www.ghgprotocol.org/sites/default/files/ghgp/standards/ghg-protocol-revised.pdf>

The ISS-Ethix Climate Solutions methodology<sup>5</sup> was developed over three years in collaboration with researchers from the Swiss Federal Institute of Technology (ETH Zurich) and includes about 800 sector and subsector-specific models, allowing ISS-Ethix Climate Solutions to calculate the GHG emissions of companies based on those criteria that are most relevant to their line of business. Figure 5 summarises the process:



Figure 3 - ISS-Ethix Climate Solutions carbon footprint methodology

## Intensity Metrics

There are three main metrics used by investors for presenting the results of a carbon footprint. Each metric serves a different purpose and there is currently no standard that unifies investors' efforts.

In this study, ISS-Ethix Climate Solution presents the results with a primary intensity metric of emissions per Euro invested, attributing an investment's share of emissions to the investor. Secondary metrics are provided as well and described below. The first two of which comply with various requirements including the Swedish AP funds, whilst the third is a specific disclosure requirement from the TCFD.

- **Emissions per EUR invested:** This metric displays how many tonnes of CO<sub>2</sub>e an investor is exposed to in relation to the respective ownership in a certain company or portfolio. The metric describes the carbon intensity of an investment amount. A company's share of emissions is determined by the value of shares held / the company's market cap. For this to be accurate, it is important to control for the date of measurement and financial information used.

<sup>5</sup> ISS-Ethix Climate Solutions' unique and powerful approach to measuring the carbon footprint of investment portfolios delivers the largest coverage in the market and high levels of data quality and transparency. The analysis can be both standardized or customized to your specific needs.

$$\frac{\sum_{i=1}^n \frac{\text{Investment into Company}_i}{\text{Market Cap of Company}_i} \times \text{Total Emissions of Company}_i}{\text{Total Investment (Portfolio)}}$$

- Emissions / Revenue:** This metric combines the above emissions / EUR invested approach with a similar logic to determine an investor's share of revenue and subsequently dividing one by the other. By linking to revenue, the metric aims at describing the greenhouse gas efficiency of the underlying companies.

$$\frac{\sum_i^n \frac{\text{Investment into Company}_i}{\text{Market Cap of Company}_i} \times \text{Total Emissions of Company}_i}{\sum_i^n \frac{\text{Investment into Company}_i}{\text{Market Cap of Company}_i} \times \text{Revenue of Company}_i}$$

- Weighted Average Carbon Intensity:** This is a metric derived directly from the TCFD recommendations, which cites it as a key metric for investors to use in their disclosure. The metric calculates a portfolio's exposure to carbon-intensive companies, expressed in tCO<sub>2</sub>e/€m revenue. As stated by the TCFD, "this metric measures exposure to carbon-intensive companies and addresses many of the concerns raised. For example, the metric can be applied across asset classes, is fairly simple to calculate, and does not use investors' proportional share of total equity and, therefore, is not sensitive to share price movements." The TCFD goes on to explain the methodology of the metric – "Scope 1 and Scope 2 GHG emissions are allocated based on portfolio weights (the current value of the investment relative to the current portfolio value), rather than the equity ownership approach. Gross values should be used."

$$\sum_i^n \frac{\text{Investment into Company}_i}{\text{Total Investment (Portfolio)}} \times \frac{\text{Total Emissions of Company}_i}{\text{Total Revenue of Company}_i}$$

### Explanatory power and limitations

The 800 subsector-specific models developed by ISS-Ethix Climate Solutions, with their combination of financial and company information, have been proven to yield highly reliable results. However, extrapolating from reporting companies to non-reporting ones still carries a degree of uncertainty. While any model remains necessarily an approximation, the methodology of ISS-Ethix Climate Solutions provides a robust and improved reduction of such uncertainty and attempts to apply the best possible techniques to deal with today's situation. In the long run, only full and externally verified climate impact disclosure by an ever-increasing number of companies themselves will be able to further eliminate this uncertainty.



A second limitation is the availability of relevant data. The process of analysing the activities of a company is time consuming and presents several challenges, not least of which include interpreting nonstandard reports and a lack of available information. The model is thus always dependent on the quality of the available data.

### ISS-Ethix Climate Solutions' data quality and coverage

- › Largest coverage of companies for the entire investible equity universe (approximately 25,000 companies)
- › Thorough approximation based on 800 sub-sector specific models
- › Largest coverage of Scope 3 data, both on upstream (supply chain) and downstream (product usage) emissions
- › Trust and quality ratings for every data point
- › Multi-asset class coverage – including private equity, all types of fixed income, real estate and infrastructure

## Appendix 2: Contact

**Contact ISS-Ethix Climate Solutions:**

**Dr Maximilian Horster**

[Maximilian.Horster@issethix.com](mailto:Maximilian.Horster@issethix.com)

+ 46 840 374 918

### ABOUT ISS

Founded in 1985 as Institutional Shareholder Services Inc., ISS is the world's leading provider of corporate governance and responsible investment (RI) solutions for asset owners, asset managers, hedge funds, and asset service providers. ISS' solutions include: objective governance research and recommendations; RI data, analytics, advisory and research; end-to-end proxy voting and distribution solutions; turnkey securities class-action claims management (provided by Securities Class Action Services, LLC); and reliable global governance data and modeling tools. Clients rely on ISS' expertise to help them make informed corporate governance and responsible investment decisions. For more information, please visit [www.issgovernance.com](http://www.issgovernance.com).

This document and all of the information contained in it is the property of Institutional Shareholder Services Inc. ("ISS") or its subsidiaries. The Information may not be reproduced or disseminated in whole or in part without prior written permission of ISS. ISS MAKES NO EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION.