



August 2021

Climate change and investing: key concepts

Part two of a Pental series explaining the implications of climate-related issues for businesses and investors.

Find part one here: <http://pend.al/climatechangeuide>

Climate change and investing

NASA declared 2020 the hottest year on record, setting a new grim milestone. The seven hottest years on record have now all occurred since 2014.

As tangible climate change becomes evident, there are implications for businesses and investors.

The first of this two-part series explored how climate change presents risks and opportunities for business, how these risks can be mitigated, and the factors driving climate risk management.

This second part outlines climate change as an investment risk, requiring consideration in company analysis and portfolio construction.

We discuss strategies to mitigate climate-related investment risks, including direct engagement with corporates.

We also detail ways to invest in a climate-aware manner, providing guidance for assessing a fund manager's climate-related capabilities.



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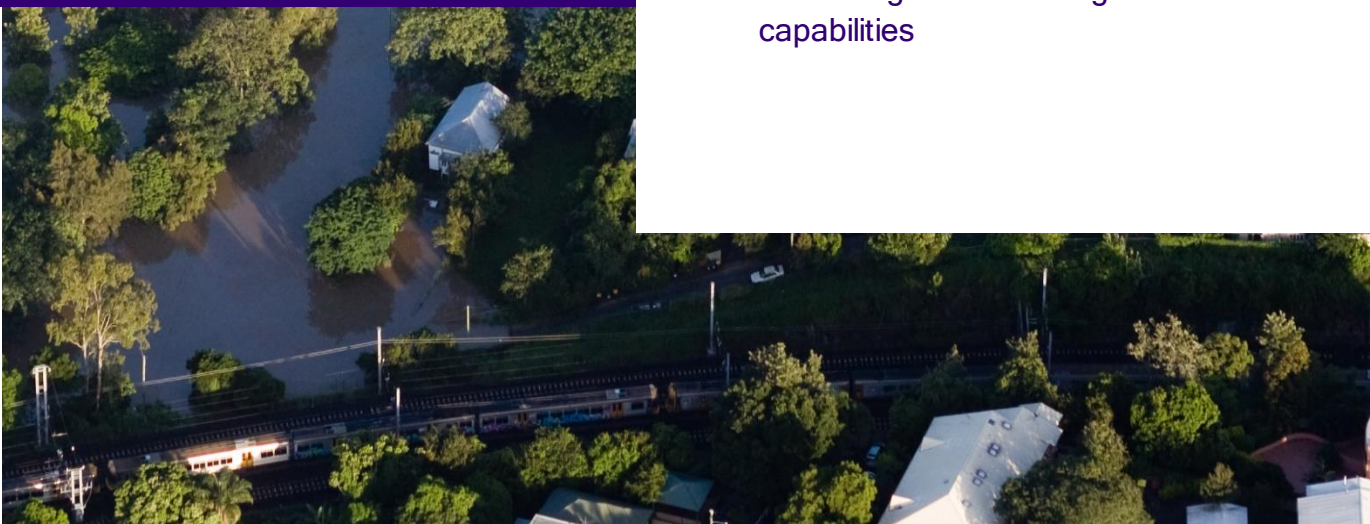
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Introduction

In the first part of this series, [Climate Change and Business: Key Concepts](#), we explained how human activity has resulted in significantly more heat-trapping greenhouse gases in the atmosphere, driving changes to the climate at a rate so fast that ecosystems will not have the ability to adapt. Rapid climatic change brings disruptive forces in nature and places enormous stress on ecosystems around the world. This will disrupt economic and societal systems.

We introduced the concepts of “physical” (eg from extreme weather or rising sea levels) and “transition” (ie transitioning to a low carbon economy) climate-related risks and opportunities. We outlined how these impact businesses. Climate-related risks and opportunities faced by companies and real assets have clear implications for investments.

In this second and final part of our series, we explain how investors can integrate climate change into decision making, build resilient portfolios and ultimately protect value by investing in a climate-aware manner.

Understanding the climate risks investee companies face – and how they are managing these risks or pursuing opportunities – should be a part of a fund manager’s investment process. Integrating these factors into decision making in a meaningful way requires new skillsets. In this report we discuss how climate change can be considered in stock evaluation and portfolio construction, as well as the role engagement can play to support risk management.

We highlight ways of investing in a climate-aware manner to meet differing investor objectives. Some approaches suit investors most interested in protecting and enhancing value. Others suit investors who may have sustainability or positive, real-world impact as an additional objective alongside returns.

Finally, we provide guidance to support investors and advisers in assessing a fund manager’s capabilities when it comes to managing climate-related investment risks, or offering quality climate-aware investment solutions.

Climate-aware investing approaches

When it comes to climate-aware investing there are three overarching approaches an investor can take. These approaches seek to meet different investing objectives.

The first, an ESG integration approach, focuses on the potential impact on financial value – in other words the impact of climate change on the company.

The second emphasises sustainability and the company's contribution to climate change, ie the negative impact of the company on climate change, for example via its carbon emissions.

The third approach focuses on potential for the company to support positive climate outcomes, or impact.

The first approach represents a strict value-based approach.

The latter two align with an investor's values, such as a desire to avoid associations with negative impacts or to address climate change in addition to generating returns.

1 ESG integration

This approach suits investors most concerned with mitigating any material investment risk from environmental, social or governance (ESG) issues, of which climate can be one. Fund managers applying this approach seek to determine how climate change issues – whether they be physical and transition risks or opportunities – will impact a company or portfolio's risk/return profile. Climate change is treated as a factor to be integrated into the core investment processes of stock analysis and portfolio construction.

2 Sustainability

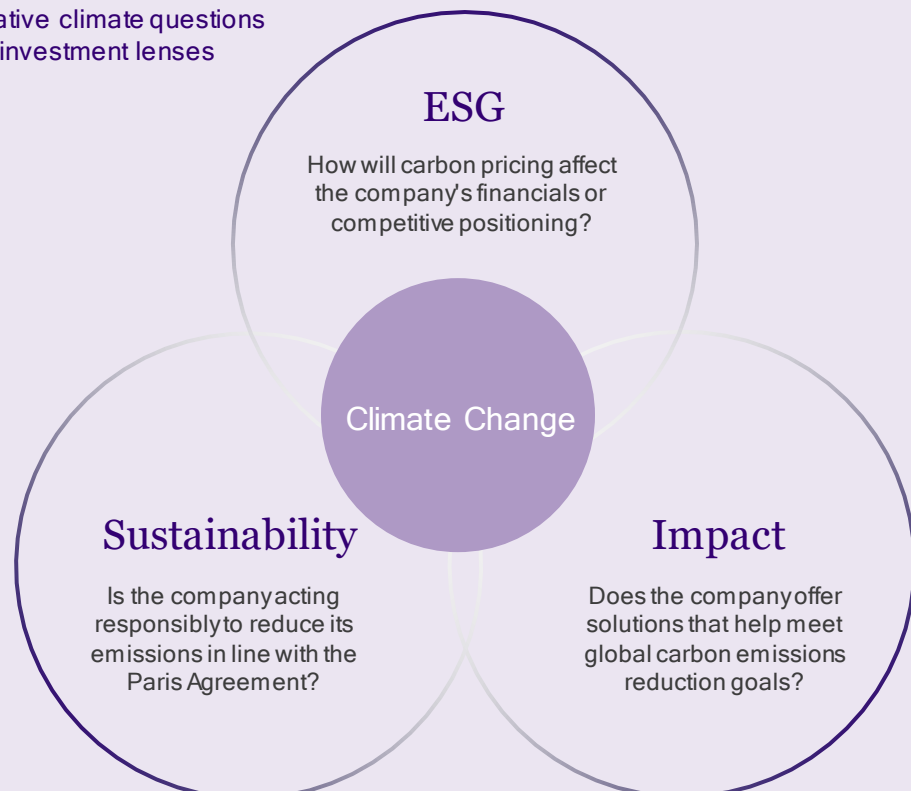
A sustainable investment approach to climate change can take several forms but primarily considers a company's impact on climate change. Objectives centre on avoiding heavy carbon emitters or seeking out leading companies actively reducing emissions or those offering lower carbon products and services. Strategies applied within this approach include exclusionary screens, positive tilting and thematic investing.

3 Impact

Some investors wish to allocate capital in a way that not only secures financial returns but measurably contributes to solutions supporting climate mitigation or adaptation – in other words, climate-focused impact investing. A fixed income impact investment strategy, for example, might construct a portfolio of bonds where the proceeds are used to finance a green project such as renewable energy or retrofitting buildings to improve energy efficiency. An equity impact strategy may focus on holding shares in companies where the core business offers climate-positive products or services, such as sustainable transport or renewable energy. It could also be a solutions-focused thematic fund such as an energy transition fund.

In some cases an investment strategy may end up as a hybrid of the above. Some may primarily take an ESG integration approach, but still wish to apply an exclusionary screen for companies that are heavy emitters, reflecting both risk and sustainability considerations. Others may combine a sustainability-based investment approach with elements of impact investing.

Three illustrative climate questions under three investment lenses



Integration of climate risk in investment processes

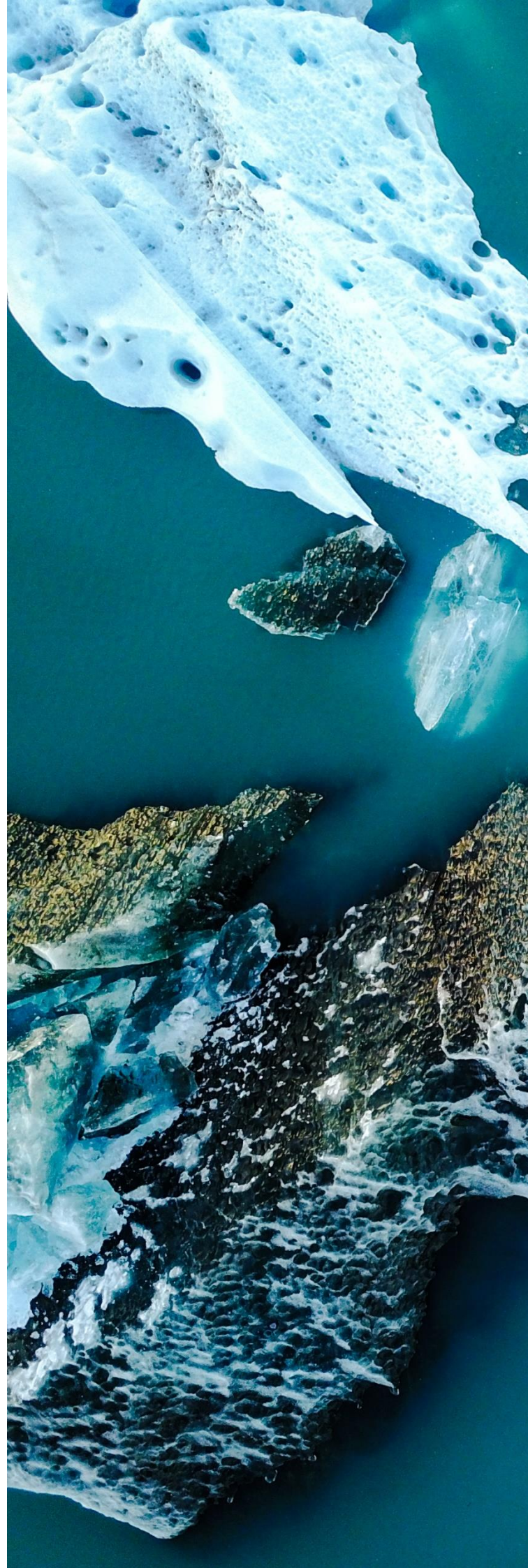
Transition risks

We have observed increasing international climate policy focus on activities to limit average global warming to below 2°C. To achieve this, we expect national emission reduction targets will be increasingly tightened. This represents long-term financial security risks to energy market-exposed companies and carbon-intensive industries as economies seek to transition to low-carbon alternatives.

At a company level, capital allocation decisions that have not taken into account the long-term regulatory, technological and market risks from addressing climate change may be exposed to shocks to future cash flow and subsequent asset values.

Risks from decarbonisation are pervasive, affecting multiple sectors as the economy reorients toward low-carbon industries, energy efficiency and new technology. Considerable uncertainty remains regarding the long-term decarbonisation pathway. Energy sector strategies will continue to evolve, shaped by policy and technological developments, consumer responses and the arrival of disruptive business models.

We see investors increasingly evaluating and pricing risks and capturing opportunities emerging from the transition to a low carbon economy. These range from integrating risks in valuations to investors seeking out companies or projects that actively participate in the transition.





Example: How the transition will impact BlueScope Steel

BlueScope Steel (BSL) remains one of the most emissions-intensive stocks on the ASX, due to its steel-making activities. Steel-making accounts for some 8% of global emissions from human activities.

As a globally traded commodity, changing carbon prices anywhere in the world can affect competitive dynamics between steel producers. BlueScope's global operating footprint means it is exposed to climate policy changes in each of its operating jurisdictions, not just Australia. A "shadow carbon price mechanism" has been in use by the company for large capital investments since 2018.

Steel is generally considered a "hard-to-abate" sector. There are insufficient proven, commercial technologies to make deep cuts in emissions while meeting the world's growing demand for steel, in both economic development and climate adaptation. Even with maximisation of steel recycling, production of new steel will be required in the future at similar levels to today.

BlueScope is attentive to climate transition risks in the sector and continues to pursue incremental emission reductions (targeting 12% emissions intensity reduction on 2018 levels by 2030).

BlueScope is also exploring step-change technologies (such as carbon capture and replacing coal with hydrogen) in collaboration with partners across the global steel value chain including iron ore producers like BHP and Rio Tinto.

The strategic priority of this work has been affirmed with the creation of a new role, Chief Executive Climate Change, which aims to provide a longer term, whole-of-business view of emission-reduction opportunities. We expect this to result in an abatement technology roadmap similar to those at BHP and Rio Tinto. This should support more ambitious emission reduction targets.

For companies such as BlueScope, major capital investment decision points often provide the greatest opportunity to easily implement emission-reduction options.

BlueScope is assessing abatement measures that could be incorporated in the forthcoming relining of the Port Kembla blast furnace (expected investment of \$700-800 million), such as enabling different raw material mixes and energy recovery opportunities.

This work includes planning for integration of emerging technologies as they become technically and commercially viable.

Physical risks

The latest Intergovernmental Panel on Climate Change (IPCC) report confirms increasing consensus with regard to measurable climate change impacts at the global level, including:

- Increasing average temperatures and increasing drought
- Hot extremes and more intense and frequent heavy rainfall events in many regions
- More intense weather events (fires, cyclone/hurricane-triggered inundation, storm surges, marine heatwaves)

Physical impacts of climate change will continue to materialise even in the best-case low-carbon transition scenario. Evidence suggests climate change impacts are progressing more rapidly than previously thought, bringing some company risks forward to short-to-medium term timeframes. It is likely that these risks will be factored into asset values in advance of physical changes being realised, as the market becomes increasingly aware of the climate impacts and outlook.

Impacts upon business already observed include operational disruptions, increasing repair and insurance costs, supply chain delays and asset impairment.

Features of companies and issuers at heightened risk from the physical risks of climate change:

Geographic factors

Single location or multiple locations in high risk zones. All sites in similar climatic zones facing similar projections (eg operations in bushfire prone regions on multiple continents).

Reliance on climatic conditions

Earnings already (or potentially) impacted by seasonal fluctuations/weather eg agriculture, insurance, tourism.

Dependence on suppliers already exposed to seasonal fluctuations/weather, eg food manufacturers or retailers.

Interdependency considerations

Risks in a company's value chain, leading to supply or access disruptions.

A company's critical inputs (eg raw materials or key components) may be at risk leading to production disruptions.

A company's host communities may be vulnerable to physical risks of climate change disrupting local labour availability or operational health and safety issues from working in extreme weather conditions.

Strategic and operational factors

Lack of product diversification or a product suite where all products are exposed to physical impacts.

Cyclical business where climate-related disruption could impact project development or product delivery timetable.

Lack of pricing power to pass on increased costs.

Competitors are differently exposed or prepared for climate change eg marine heatwaves impacting aquaculture in some jurisdictions.

Example: Salmon producers and physical risks

Climate change-induced impacts of concern to salmon producers include increasing ocean temperatures, ocean acidification and sea-level rise. These impacts are leading to increased salinity, reduced dissolved oxygen levels, sea lice outbreaks and increasing algal and jellyfish blooms. All these factors will adversely influence salmon growth, survival rates and husbandry.

Extreme weather events such as marine heatwaves and storm surges will increase in frequency as climate change progresses, contributing to fish stress and mass mortality events. In Australia's salmon-growing regions, warmer waters over the past three years have resulted in significant fish loss, slower salmon growth and increased pathogen outbreaks, resulting in supply constraints.

These adverse impacts of climate change have impacted listed aquaculture companies. In Australia, Huon Aquaculture Group reported impacts to growing conditions from a moon jellyfish bloom and extended increased water temperatures. In 2017-18 Tassal Group announced elevated mortality rates in Macquarie Harbour due to challenging summer conditions; material impacts were forecast to the 2H18 harvest due to warmer weather in 2H17.

These changes are driving companies to adapt their operations. Tassal Group's proactive management responses to climate change includes: a research partnership with Deakin University to understand mechanisms behind thermal tolerance in fish stock; a selective breeding program; more frequent net washing; venturation (a technique to improve dissolved oxygen levels in the water); and feed management practices. While these adaptation efforts provide greater resilience to climate change effects, we note increased operational costs and limits to adaptation options in the likelihood that climate change impacts intensify.

High-energy offshore farming reduces some of the risks faced by sites closer to shore, including reduced disease transmission due to reduced fish densities and ease of management of parasitic spread due to the relative isolation of offshore locations. However, offshore farming increases capital costs and elevates vulnerability to extreme weather.

Climatic changes are expected to impact competitive dynamics in export markets, for example, Tasmania's relative positioning versus Norway (where oceans are colder due to its latitude).

Considerations for portfolio construction

Climate considerations at the portfolio level can be different from factoring in climate risk at the company/issuer or sector level, requiring these considerations to be embedded in the portfolio construction process as well.

When reducing potential exposure to climate risk across a portfolio, managers may face other implications such as a higher tracking error compared to a benchmark if entire sectors or stocks significant to an index are avoided, among other things.

While it may be unsurprising to some given the varied nature of climate-related risks, it is often under-appreciated that concentrations of risks in a portfolio need to be analysed differently in light of climate change.

Portfolio managers should be thinking of climate risks in aggregate and cumulatively across the portfolio, along with implications for investments remaining within an agreed risk appetite. The challenge can be identifying how these come to bear at the portfolio level. It is more straightforward looking at single stocks or issuers.





Transition risk

When thinking of fossil fuel exposure, a portfolio manager may have made an active decision not to invest in thermal coal mining companies after assessing their potential to become stranded assets. But the portfolio may still include value chain exposure to coal, for example via investments in rail companies that rely on hauling coal to ports, or mining services companies with contracts mostly tied to coal miners. This requires sufficient look-through to the individual businesses to determine the risk in aggregate.

Physical risk

Managing climate-related physical risks at the portfolio level requires careful consideration.

Traditionally it's been straightforward for investors to diversify away from a region—they simply invest in another market. But if the intention is to reduce exposure to physical climate risks by diversifying across geographies, the diversification must also be climate aware.

Specifically, it's not geographic boundaries that are important but the climatic zones in which assets or operations are located, how the climate may evolve in these zones in the future and whether investment decisions will indeed reduce concentration risk. For example, climatic zones that each face a greater likelihood of being impacted by tropical cyclones, bushfires or sea level rise and may be present across multiple geographic regions.

As corporate disclosures and climate data improves, identification of physical risk concentrations of this kind should become more readily available.

System level risk

Interlinkages across socio-economic systems and underlying investments are another consideration in portfolio construction.

For example, a long-term drought impacting regional Australia might prompt portfolio managers to consider how lower agricultural productivity could impact rural incomes, the flow-on effect to regional REITs or the lending books at a bank exposed to regional areas.

When investing globally and across asset classes, portfolio managers should consider economic and market exposure to climate risks that present secular headwinds at a country level.

For example, economies that depend on fossil fuels may face headwinds while those making progress on the transition to a low-carbon economy may benefit from tailwinds. This may even have implications for currency rates and government bonds.

Sustainable investing

Climate-aware sustainable investing approaches typically focus on reducing absolute or relative contribution to climate change-causing emissions at the issuer or portfolio level. The aim is to do this in the interest of the planet and society.

One approach is to apply exclusionary (or negative) screens. For example coal mining is a common exclusion (and increasingly oil and gas) due to the fossil fuel sector's significant contribution to carbon emissions. Other approaches may exclude securities based on metrics such as carbon-intensity or climate performance relative to sector peers.

Another strategy is to focus on what's in the portfolio. For example actively seeking out companies or issuers that are focused on reducing emissions; those offering lower carbon products and services; or those that perform better on climate-related metrics. This may be done by overweighting (or tilting) to these securities in a portfolio.

There can also be climate-related thematic sustainable funds. These typically involve a portfolio constructed around a theme such as green buildings, water security or clean technology. Some themes may be aligned to a UN Sustainable Development Goal such as "affordable and clean energy" (goal seven).

The expectation is the fund can generate returns by being positioned positively to leverage climate-related opportunities, or to benefit society and the environment by addressing climate change. Depending on the extent to which they are focused on outcomes, thematic funds may be considered an impact investment approach (see also section below, "Contributing to positive outcomes").

One emerging trend in climate-aware sustainable investing is to form fund strategies around the climate transition and alignment to the achievement of net zero emissions by 2050 (a key objective of the Paris Agreement). This could be achieved by including only issuers that have set net-zero targets, or if a company's trajectory of emission reductions was in line with net zero.

For example, Danish multinational power company Ørsted is incorporating a climate transition plan into corporate strategy. A pivot to the provision of renewable power is key to its vision.

Ørsted has committed to phasing out its use of coal by 2023. It is converting coal and gas plants to biomass combined heat and power (CHP) systems.

Ørsted has clear and comprehensive targets for emissions reduction and an increase in renewable capacity (increasing its green energy share from 17% in 2006 to 90% in 2020) and is showing progress.



Asset owner focus on Paris-aligned portfolios

Several major Australian superfunds have recently committed to decarbonising their entire portfolios by 2050, making them Paris-aligned by setting reduction targets for carbon intensity and absolute emissions.

Achieving net zero targets will rely on strategies such as directly investing in low-carbon or carbon-positive technologies, divesting certain holdings, engaging with issuers to influence their own transition (directly or via collaborative efforts) and re-weighting portfolios.

The weight of capital behind asset owners making such commitments to decarbonise (now more than \$12 trillion) is likely to put further pressure on companies and issuers to decarbonise in a timely manner. Otherwise they may risk losing capital.

Decarbonising portfolios will support the reduction of portfolio exposure to transition risks. But approaches that focus on carbon-intensive companies and issuers may still under-consider transition risks presenting through their respective supply chains. They will not support management of exposure to physical climate risks within the portfolio.

Nevertheless, since the world needs to move towards a net zero economy, the finance sector's transition to decarbonisation will be essential for any chance of meeting the Paris Agreement's goal of limiting global warming to 2°C. However, decarbonising portfolios alone will not necessarily result in the emissions reductions needed in the real economy to reach net zero. Such approaches should be one tool in the toolbox for climate mitigation alongside tactics such as actively investing in solutions and undertaking effective, outcomes-focused engagement. See also the **Why not just divest?** and **The role for stewardship** sections in this report.

Sustainable investing in action: Pental Horizon Fund

The Pental Horizon Fund (formerly Pental Ethical Share Fund) applies exclusionary screens and a sustainability framework to avoid climate harm while seeking out lower-impact companies. It excludes, among other activities, companies that extract and produce fossil fuels (coal, oil and gas), and those that earn more than 10% revenue

from fossil fuel-powered energy generation. Companies are favoured if their products and services support decarbonisation and climate adaptation.

Details about the Pental Horizon Fund can be found in its PDS on our [website](http://pend.al/horizonfund) at <http://pend.al/horizonfund>.

Why not just divest?

High-profile environmental activist campaigns have put divestment in the spotlight. Is selling out of a carbon-intensive company the best solution? The answer is: “it’s complicated”. If the objective of divestment is to support the reduction of carbon emissions, divestment can have unintended and counterproductive consequences. If the objective is to manage financial risk or support broad-based climate action, divestment offers some benefits but may not be a silver bullet. Consider these factors:

- Stranded asset risk is real. In some cases divestment is warranted to protect returns. This is more likely to be the case for thermal coal, but less so for oil and gas at this stage. This is not only because oil and gas have a greater likelihood of playing a role in the global energy mix for longer than thermal coal. It’s also due to the fact that there are greater uses for these commodities, especially oil, compared with coal.
- Divestment does not necessarily result in changed business practices or support policy change – one of the most significant factors in driving climate action. Campaigning efforts may result in symbolic gestures instead of substantive contribution to climate action.
- Less climate-concerned investors are likely to re-invest in a stock shunned by others. Sovereign-owned fossil fuel entities may increase production to pick up unmet demand. The result may be that emissions don’t stop. Market share may shift to investors such as private equity or sovereign states (such as developing countries) that face less public scrutiny and are less likely to be committed to climate action.
- A shareholding in a company affords investors the opportunity to have a say through voting rights or (for large investors) direct corporate access. Divesting forfeits one’s ability to positively influence corporates in addressing climate change. See also **The role of engagement** below.

Many individuals simply do not want their money invested in sectors that contribute to climate change and its associated social and environmental harm. Financial advisers or fund managers must ultimately respect their clients’ or beneficiaries’ wishes. But it is important to ensure they understand the implications of divesting fossil fuels and are informed of alternative climate-aware investing approaches that may better align to their climate objectives.

Contributing to positive outcomes

Allocating capital to issuers or projects that generate positive climate-related outcomes is another approach for climate-aware investors.

This goes beyond avoiding a portfolio's contribution to climate change or tilting to companies and sectors that may be less impacted by climate risk, or may benefit from the transition.

This approach is particularly important because a net-zero economy will not be achieved without greater investment in climate solutions. To reach net zero by 2050, the International Energy Agency estimates that annual global clean energy investment needs to more than triple to about US\$4 trillion by 2030.

Investing to contribute to positive climate outcomes can fall within sustainable or impact investing approaches. These approaches are typically differentiated by formal sustainability or impact-related investment objectives (alongside any financial objectives), and the extent to which outcomes are systematically measured and monitored. The hurdles will be much higher for an impact product (see also **Impact investing** to the right).

For example, a climate outcomes-focused sustainable investment strategy might consist of a portfolio of equities in low-carbon transportation. The expectation would be that allocating capital to companies supporting the low-carbon transport value chain would help decarbonise the economy, contributing to positive climate outcomes.

An impact-aligned investment strategy example would be a portfolio of bonds that allocate capital to projects in renewable energy, energy efficiency or biodiversity conservation. These may provide investors with transparency, offering confidence that funds are used for their intended purpose and insights into the estimated impact.

How does an equity impact investment strategy target positive climate outcomes? Consider the example below of one of Pental Group's products, the Regnan Global Equity Impact Solutions Fund. The Fund applies a proprietary Regnan taxonomy to target a selection of solutions that address energy transition.

Impact investing

Impact investing can be broadly understood as investments made with the intention to generate positive, measurable social or environmental impact alongside a financial return. Several associations and standards support investors in this work, such as the Global Impact Investing Network (GIIN).

GIIN and its peers emphasise key characteristics of impact investing including "additionality" (investments increase the quantity or quality of outcomes beyond what would have otherwise occurred) and "intentionality" (investments intentionally, not incidentally, contribute to positive outcomes).

Impact investing goes further than climate-aware or climate-aligned investing by providing investors with additional information showing the impact of their investments in the world.

The issue of energy

Since the industrial revolution, the global energy mix has been dominated by fossil fuels. This has significant consequences for the climate and human health on a global scale. Burning fossil fuels accounts for 75% of global greenhouse gas emissions. Air pollution leads to some 7 million premature deaths every year. Shifting to renewable energy sources is essential to decarbonise global energy systems. But in 2019 only 11% of global primary energy was sourced from renewable technologies worldwide. The global share of renewables-based electricity still needs to increase to two-thirds of generation output and 37% of final energy consumption to meet the International Energy Agency's Sustainable Development Scenario.

Solutions

Renewable energy utilities

Renewable energy technologies including solar PV, concentrated solar, onshore and offshore wind, wave and tidal power, together have the potential to reduce carbon dioxide emissions by more than 200 gigatons by 2050. Renewable energy technologies can suffer from reliability issues caused by time of day and weather. But this can be overcome with storage and advanced system design, planning and operation.

The provision of electricity infrastructure may help stimulate economic growth at national, sub-national and household levels. Income and non-income aspects of poverty may improve through opportunities for better education and increased productivity due to electrification of households. In many developing countries renewable energy has provided opportunities for economic development and subsequent poverty alleviation.

New solar, hydro and wind projects offering tens of thousands of megawatts in capacity are in planning or development for Egypt, Botswana, Namibia, Zambia and Angola by 2025.

Energy storage systems

Energy storage systems provide a wide range of technological approaches to managing power supplies for a more resilient energy infrastructure, bringing cost savings to utilities and consumers.

Energy storage systems are able to overcome the biggest limitation to renewable power – intermittent energy production.

The implementation of adequate energy storage systems will allow greater integration of large-scale renewable energy systems.

This is vital, since renewables and fuel-switching would contribute 38% of the necessary reductions in carbon dioxide emissions to reach the International Energy Agency's Sustainable Development Scenario.

There are now five key categories of energy storage systems – batteries, thermal storage, mechanical storage, hydrogen storage and pumped hydropower.



The role of stewardship

Engagement with organisations and voting are important means for fund managers to practice stewardship of their investments. Thanks to the rights and position of ownership (primarily equity, but also debt), investors have the ability to influence the activities or behaviour of investee companies or issuers. Using this influence in investor-company interactions ('engagement') security-holders can seek improved ESG practices or greater consideration of long-term ESG issues in business strategy. Like other ESG issues, climate change can be addressed through stewardship practices.

Engagement can be used as a tool to enhance the management of climate-related risks and opportunities and support emissions reductions. Fund managers can seek to influence better management of climate-related matters and achievement of emissions reductions on the part of the company. Engagement also enables fund managers to deepen their understanding of businesses to support more informed investment decision making.

An active engagement approach (complemented by voting) can be particularly impactful when a fund manager identifies a company or issuer that is exposed to climate-related risks – and has not taken adequate steps to understand, mitigate or disclose those risks.

Rather than selling out of such an investment to avoid risk, active and outcomes-focused engagement can help the company to enhance its climate response.

In addition to engaging with companies *bearing* such risks, fund managers may also benefit from engaging with companies *contributing* to them – especially where these risks are likely to be borne elsewhere in a portfolio.

Along with direct engagement, fund managers can undertake collaborative engagements, joining other institutional investors in engagements or participating via industry initiatives such as Climate Action 100+. Benefitting from pooled knowledge and resources, collaborative engagements can be effective in adding weight to the expectations communicated to companies. For a highly complex and systemic issue such as climate change, working collectively to address a common goal provides a helpful vehicle to address system-level risks.

Engagement example: the a2 Milk Company

We engaged with ASX-listed food and beverage producer a2 Milk Company (A2M).

The company's rapid growth sees it exposed to water security and pollution risks in New Zealand with potential longer-term impacts from the physical risks of climate change.

Its growth has seen corporate disclosure lag the needs of major ESG research houses and other stakeholders.

Engagement with the company provided detailed input to material ESG matters for strategic consideration as well as disclosure requirements.

A2M has since increased resourcing to understand and address these issues. The company is now formally considering climate risks in its supply chain, in line with our long-held view that A2M's material climate risks lie in its supply chain.

Assessing a fund manager's climate capabilities

When selecting a fund manager, it is important to understand how climate risks are embedded in all investment decision making. Also consider the extent to which they have capabilities to support sustainable and impact investing. Characteristics to look for in a fund manager include:

- Demonstrated understanding of the full range of climate-related risks. For example, physical or supply chain risks are often under-considered. This could be evidenced through the manager's annual reporting, investment policy documents or other published materials.
- Resources allocated to climate-related risk measurement, management and reporting. Given the skillsets required to support this, use of specialist ESG expertise and dedicated climate research should be sufficiently in depth for use in decision-making.
- Evidence of stewardship practices, such as regular engagement with investee companies that focus on climate change. Additionally, voting to support climate-related shareholder resolutions where there is a considered rationale.
- Active participation in responsible investment industry initiatives which work to address climate-related investment risks (including systemic risk) and support knowledge building. Some examples include the Principles for Responsible Investment (PRI), Investor Group on Climate Change (IGCC), Responsible Investment Association Australasia (RIAA) and Climate Action 100+.

What is Pental doing?

Learn more about the ways in which Pental manages climate risk in the investments we make on behalf of clients, and the product solutions we offer to support sustainable or impact investment objectives:

- Read Pental's annual Responsible Investment and Stewardship [Report](#)
- Read the Pental Group Climate Change [Statement](#)
- Find out about Pental's dedicated sustainable strategies on our [website](#)
- Find out about Regnan's impact strategies on the Regnan [website](#)
- Speak to a Pental representative

Responsible investing at Pental

Responsible investing is part of our heritage and is a natural extension of our active approach to investments. Investors entrust us with more than \$4 billion in dedicated sustainable and impact strategies.

Pental has a proud 37-year heritage in responsible investing, extending back to the launch of the Pental Sustainable Balanced Fund in 1984.* Since then we have progressively enhanced our consideration of ESG issues in fundamental analysis as well as specific strategies.

Our specialist ESG business Regnan supports our responsible investment capabilities. After a long history together, Pental assumed full ownership of Regnan in 2019, bringing the team under the Pental Group umbrella as an independent business.

Regnan's team of highly experienced ESG research and engagement experts supports Pental through tailored research, analysis and advisory services, and represents Pental in its collective engagement program.

Regnan has expanded its capabilities into investment management, recently launching Regnan Global Equities Impact Solutions Fund and Regnan Credit Impact Trust.



* The fund was launched when Pental was part of the BT Financial Group. Pental Fund Services Limited (previously known as BT Investment Management (Fund Services) Limited) became the responsible entity of this fund in 2007.

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