

The Taskforce for Climate-Related Financial Disclosures (TCFD) is a globally recognised disclosure framework developed by the Financial Stability Board.

The TCFD reporting framework is vitally important in understanding how companies are managing climate-related risks. It is designed to provide “decision-useful” disclosure of information on climate-related risks and opportunities to allow better integration of the financial impacts of climate change into the investment process. Reflecting this, Martin Currie is a public supporter of TCFD and has joined Climate Action 100+ (CA100+), where one of the objectives is to encourage disclosure using the TCFD framework. We also support CDP and participate in the CDP non-disclosure campaign to encourage disclosures through this framework.

A framework for dialogue

Martin Currie has engaged with various companies to encourage them to use this framework and has also participated in an assessment of climate reporting standards led by the Financial Reporting Council (FRC).

TCFD reporting provides a fundamental framework for engagement with companies, shaping the dialogue on climate change around four key areas of disclosure and how it relates to Martin Currie as an asset manager:

1. Governance – ‘Disclose the organisation’s governance around climate-related risks and opportunities’

Our overall approach is overseen by the Stewardship & ESG Council and co-ordinated through our ESG Working Group. Climate change forms part of our assessment of the material risks and opportunities that companies face in generating sustainable returns over the long term and as such is embedded into our investment process. Our sustainability and ESG-related work is fully integrated into our investment process, considering factors including climate change when analysing the investment case for a company. All stock research is required to consider the material and relevant governance and sustainability factors that could impact the ability of the company to generate sustainable returns.

2. Strategy – ‘Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning where such information is material’

We have worked extensively over the last few years to develop a model that allows us to assess the sensitivity of companies to carbon costs as well as the sensitivity for overall portfolios. This has been a collaboration between the investment teams to share ideas and best practice as this has evolved. In addition, we produce a carbon footprint for portfolios, looking at both overall emissions as well as carbon intensity, which identifies the overall profile and main contributors to a portfolio’s carbon footprint. With an increasing number of companies announcing net zero ambitions, we are also looking at the substance behind these ambitions and the extent to which companies are setting out science-based targets (SBT). Tools such as the Transition Pathway Initiative (TPI) also help identify the degree to which companies are aligned with the transition to a lower-carbon economy. We continue to explore tools to help us with broader scenario testing including the PRI’s Inevitable Policy Response, International Energy Agency’s (IEA) Net Zero scenario and the Network for Greening the Financial System (NGFS) scenarios. Our sustainability and ESG-related work is fully integrated into our investment process, considering factors including climate change when analysing the investment case for a company

3. Risk Management – ‘Disclose how the organisation identifies, assesses, and manages climate-related risks’

As active owners we look for companies to identify, manage and disclose material risks and opportunities. Climate change forms part of an assessment of the material risks and opportunities that companies face in generating sustainable returns over the long term and as such is embedded into the investment process. We use both company disclosed and estimated data to help us identify and manage climate-related risks. This includes carbon footprint and weighted average carbon intensity as well as the work that we have been doing on carbon cost analysis which looks across the company value chain. We also analyse the extent to which company ambitions and targets are aligned with the ambitions of the Paris Agreement and encourage companies to set SBTs. We believe that the TCFD framework is a robust framework for disclosure of climate-related risks and opportunities and, as such, we encourage companies to adopt this approach. We also support CDP and participate in the CDP non-disclosure campaign to encourage disclosures through this framework. We are an investor signatory to CA100+ and are the lead investor on one of the target companies.



4. Metrics & Targets – ‘Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material’

We have worked extensively over the course of the last few years to produce a framework that allows us to make an assessment of the carbon cost sensitivity for each of the companies that we invest in as well as overall portfolios. This has been a collaboration between the investment teams to share ideas and best practice as this has evolved. This provides an opportunity to assess the potential impact of different carbon pricing regimes. In addition, we produce a carbon footprint for portfolios, looking at both overall emissions as well as carbon intensity, which identifies the overall profile and main contributors to a portfolio’s carbon footprint. With an increasing number of companies announcing net zero ambitions, we are also looking at the substance behind these ambitions and the extent to which companies are setting out SBTs. Tools such as the TPI also help identify the degree to which companies held are aligned with the transition to a lower-carbon economy. We continue to explore tools to help us with broader scenario testing including the PRI’s Inevitable Policy Response. Our sustainability and ESG-related work is fully integrated into our investment process, considering factors including climate change when analysing the investment case for a company.

Martin Currie’s approach

Martin Currie sets out its overall approach to climate change in its Responsible Investment Policy and PRI transparency report and includes specific considerations of climate change risk in its proprietary ESG framework.

Analysis includes the extent to which companies understand, manage and mitigate the risks presented by climate change and equally how they embrace the opportunities that may be presented.

As such climate change forms part of our assessment of the material risks and opportunities that companies face in generating sustainable returns over the long term and is embedded into our investment process.

Transition climate risks that are considered include:

- The likely required regulatory changes necessary to address climate change - for example, the potential for clearer pricing on carbon.
- The impact of technological change - for example, the changes in demand for products and services.
- The impact of changes to consumption patterns - for example, changes in consumer demand for products.

The extent and exposure to physical risk, for example, availability of water and the potential for supply chain disruption, also form part of the overall assessment and we recognise that for many companies, these may be indirect effects that, for example, lie in their supply chains. As bottom-up investors, the potential materiality of these impacts is considered for each of the businesses concerned.

The transition to a lower carbon economy also creates opportunities in many areas. These include:

- Reduced operating costs through more efficient use of resources.
- Opportunities for new products and technologies to support the change in the energy mix.
- Development of new products and services to meet potential changes in consumption patterns, and
- Adaptation opportunities presented by the need for companies to build resilience into their operations.

We have been analysing climate risk in portfolios for some time and our proprietary carbon cost analysis tool helps us understand the sensitivity and potential impact of carbon pricing on a company’s earnings and market cap. This helps us to better understand the future impact of climate and energy policy changes on companies and portfolios. Furthermore, additional resources from MSCI, ISS and S&P TruCost, our ESG data providers, are being explored to look at scenario analysis.

Tools such as the TPI help identify the degree to which companies in higher-emitting sectors are aligned with the transition to a lower-carbon economy. There is also continued exploration of tools to help with broader scenario testing, including the PRI’s Inevitable Policy Response framework and access to the (IEA) scenarios.

Martin Currie Investment Management Limited, registered in Scotland (no SC066107) **Martin Currie Inc**, incorporated in New York and having a UK branch registered in Scotland (no SF000300), 5 Morrison Street, Edinburgh EH3 8BH. Tel: (44) 131 229 5252 Fax: (44) 131 222 2532 www.martincurrie.com. Both companies are authorised and regulated by the Financial Conduct Authority. Martin Currie Inc, 280 Park Avenue, New York, NY 10017 is also registered with the Securities Exchange Commission. Please note that calls to the above number and any other communications may be recorded.