TASKFORCE FOR CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

APRIL 2021

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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 CA100+, where one of the objectives is to encourage disclosure using the TCFD 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'

Martin Currie's overall approach is overseen by the Head of Stewardship and ESG and co-ordinated through an ESG Working Group. 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. Sustainability and ESG-related work are fully integrated into the 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 ESG 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 developed a proprietary Carbon Value-at-Risk tool that allows us to make an assessment for each of company that Martin Currie invests 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. In addition, 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 is produced each month. With an increasing number of companies announcing net zero ambitions, Martin Currie also looks at the substance behind these ambitions and the extent to which companies are setting out science-based targets. Tools such as the Transition Pathway Initiative (TPI) help identify the degree to which companies held 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 (IPR) framework.

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

As active owners, Martin Currie looks for companies to identify, manage and disclose material risks and opportunities. The process of more formally incorporating climate risk into the investment risk framework is in progress. Both company disclosed and estimated data is used to help identify and manage climate-related risks. This includes carbon footprint and weighted average carbon intensity as well as work on Carbon Value-at-Risk which looks across the company value chain. Martin Currie believes that the TCFD framework is a robust outline for disclosure of climate-related risks and opportunities. Through our engagement, we have encouraged companies to adopt this approach. Martin Currie has also joined Climate Action 100+ as 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'

For most of our portfolios we produce a carbon footprint each month looking at Scope 1 and 2 carbon emissions, including the weighted average carbon intensity, relative to its benchmark. In addition, we look at Carbon Value-at-Risk. For some clients, a more detailed report is produced looking at the individual company contributions by scope and for those clients based in France, a report compliant with Article 173 is produced.

One area of focus is how companies are approaching climate change: the commitments that they are making – for example, net zero; and what scenarios and modelling they are carrying out. Martin Currie recognises that there is not one set transition pathway, but encourages companies to adopt science-based targets and provide sufficient disclosure for investors to make informed decisions. Initiatives such as the Net-Zero Asset Managers Alliance and the Net-Zero Asset Owner Alliance are set to drive increased transparency and frame some of the guidance around metrics and disclosures. Martin Currie is likely to increasingly use these as the scenarios and transition pathways develop and become more established.

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 physical risks associated with climate change - for example, availability of water and the potential for supply chain disruption.

The extent and exposure to physical risk 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 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,
- opportunities presented by the need for companies to build resilience into their operations.

A proprietary sensitivity model is being constructed to look at company and portfolio exposures to carbon pricing and climate change. This has helped identify potential climate VaR metrics and can provide some guidance on sensitivities to different pathways. Furthermore, additional resources from MSCI, our ESG data provider, are being explored to look at scenario analysis.

Martin Currie has also started to look at the IPR in more detail now that underlying forecasts are available and has purchased access to the International Energy Agency (IEA) scenarios as an alternative.