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# Session 4B Developments in Green and Transition Finance

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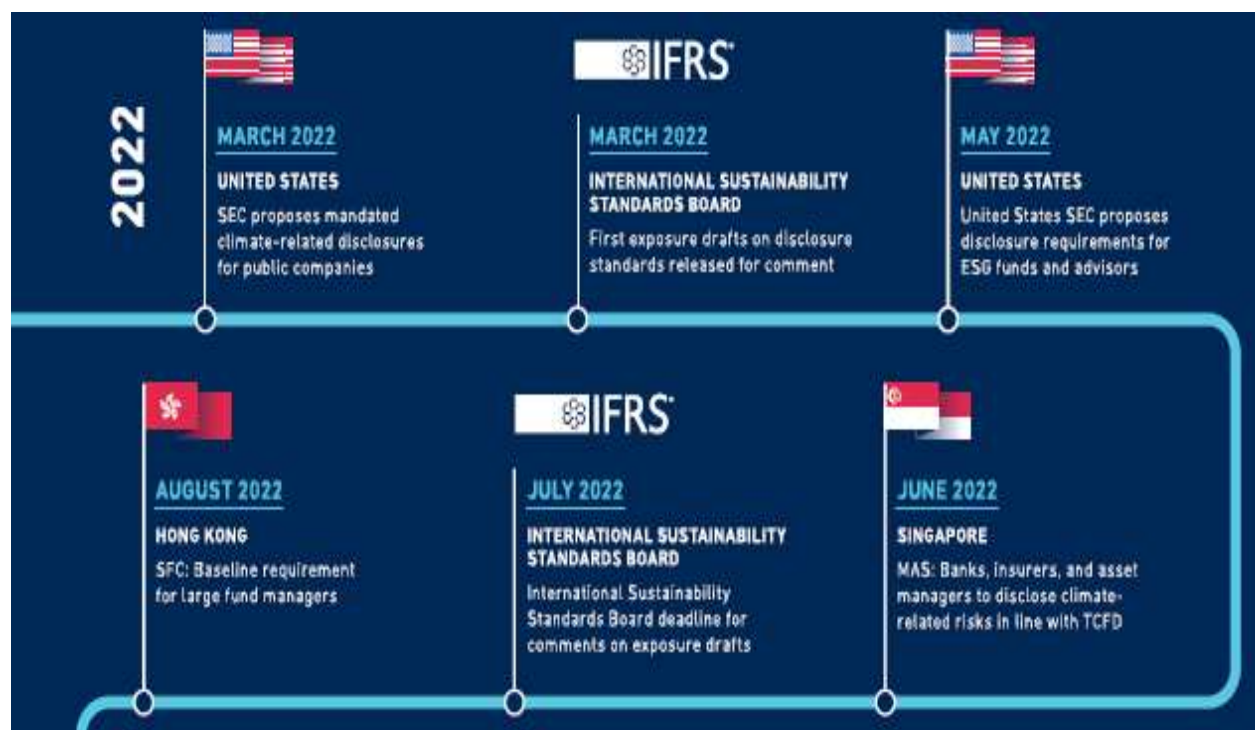
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# Climate change is the most prominent focus of ESG today, but we identify 4 trends that will also matter over the next **12 to 18 months**:

1. A path towards **international standards** around ESG
2. The growing importance of **transition finance in achieving net zero**
3. Greater recognition of **nature-related risks**
4. More focus on the importance of **human capital** in creating value

# The evolving landscape on ESG regulations and disclosure standards - Part 1



Source: State Street. As of June 2022, 'The Future of ESG: supplying the demand'

# The evolving landscape on ESG regulations and disclosure standards – Part 2

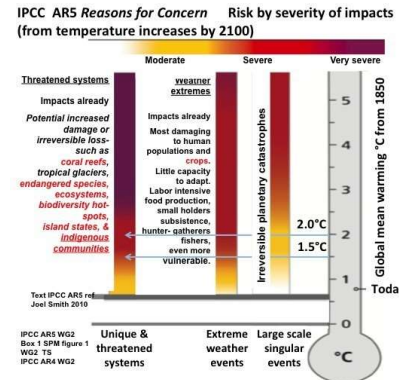


Source: State Street. As of June 2022, 'The future of ESG: supplying the demand'

# Why Should Investors Care About Climate?

Global warming between 1850–1900 and 2010–2019 (°C)		Historical cumulative CO <sub>2</sub> emissions from 1850 to 2019 (GtCO <sub>2</sub> )					
1.07 (0.8–1.3; likely range)		2390 (± 240; likely range)					
Approximate global warming relative to 1850–1900 until temperature limit (°C)*(1)	Additional global warming relative to 2010–2019 until temperature limit (°C)	Estimated remaining carbon budgets from the beginning of 2020 (GtCO <sub>2</sub> )					Variations in reductions in non-CO <sub>2</sub> emissions*(3)
		Likelihood of limiting global warming to temperature limit*(2)					
		17%	33%	50%	67%	83%	
1.5	0.43	900	650	500	400	300	Higher or lower reductions in accompanying non-CO <sub>2</sub> emissions can increase or decrease the values on the left by 220 GtCO <sub>2</sub> or more
1.7	0.63	1450	1050	850	700	550	
2.0	0.93	2300	1700	1350	1150	900	

Source: IPCC, Working Group I report, "Climate Change 2021: the Physical Science Basis" (2021)



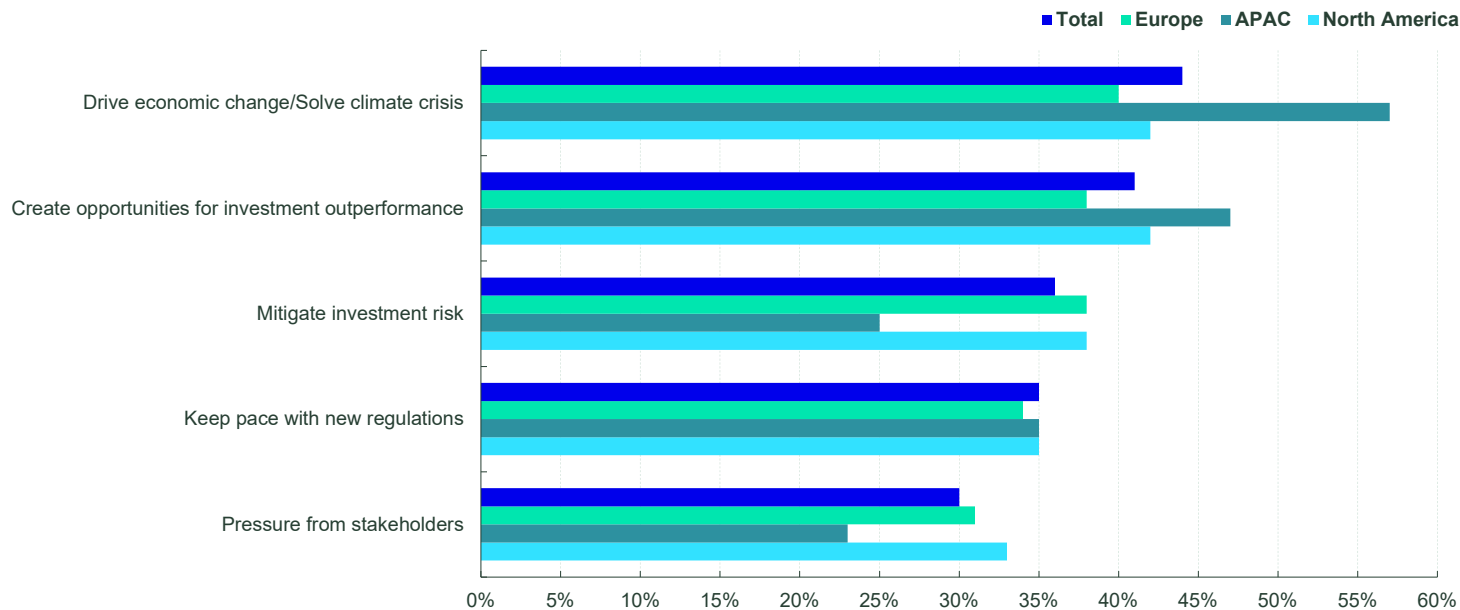
Source: IPCC, Climate Emergency Institute

- The global energy system is undergoing a seismic transition from one based primarily on fossil fuels to one increasingly based on renewable energy sources.
- Declining renewable energy costs are impacting the energy sourcing mix
- Regulations in certain regions are furthering the Low Carbon Transition
- Risks and opportunities related to climate change and the transition to a low-carbon economy are leading to massive capital reallocations.
- Many large institutional investors are signing up for voluntary initiatives such as NZAO and NAZM and are committing to being net zero by 2050

# A Major Change in Sentiment

Ahead of investment opportunity and risk management, investors told us that a desire to solve the climate crisis was a key decision driver.

## What's driving investors to decarbonize their portfolios?

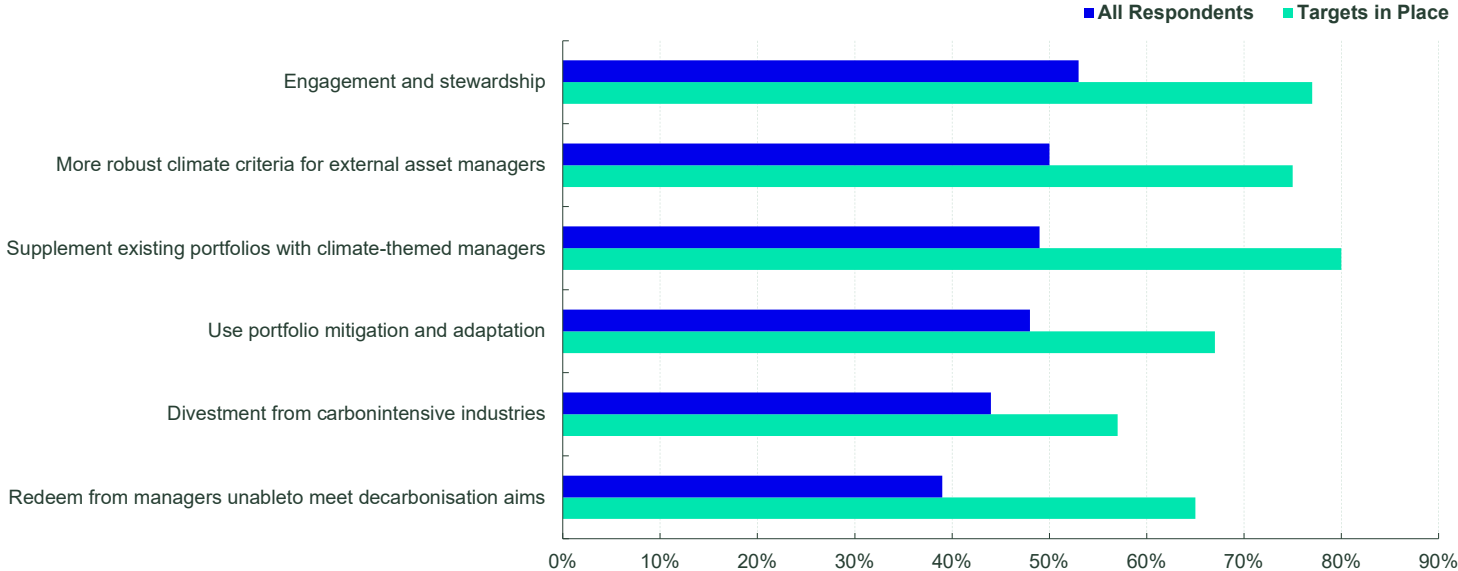


Source: State Street Global Advisors. Q What are the main drivers for your institution to factor climate issues into investment decisions and/or work towards portfolio?

# Many Pathways to Paris

Engagement, asset stewardship and robust climate criteria & credentials are key strategies leading the way to success.

What strategies to address climate and decarbonization do investors rate most highly?



Source: State Street Global Advisors. Q: How important will each of the following strategies be in your institution's efforts to address climate issues and/or decarbonise its equity and fixed income portfolios over the next three years?

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# Spotlight on Bond

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11%

Not making targeted allocations to ESG bonds

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56%

Integrating ESG bonds into existing fixed income strategies

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47%

Moving towards using a standard green / ESG bond index

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24%

Moving towards using a custom benchmark that targets ESG bonds in construction criteria

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Source: State Street Global Advisors. Q: What is your preferred approach to investing in ESG-labelled bonds (i.e. green/ social/sustainability/sustainability-linked bonds)?

Source: State Street Global Advisors. As of 2022. The above information is for illustrative purposes only.



# Align investments with Paris objectives: an example

Mitigation + Adaptation					
<b>Objectives</b>	<b>Minimize</b> Carbon Emission Intensity	<b>Minimize</b> Fossil Fuel Reserves	<b>Minimize</b> Brown Revenues	<b>Maximize</b> Green Bonds & Climate-Aligned Issuers	<b>Build</b> Resilient Portfolio
<b>Metrics</b>	CO <sub>2</sub> Emissions / \$M Revenues	Embedded CO <sub>2</sub> / Per Tonnes of CO <sub>2</sub> Emissions	% Revenues from Extractive Activities	% Invested Green Bonds and Issuers with Revenue Streams in Climate-Aligned Activities	Score on Climate Change Preparedness

Source: State Street Global Advisors. As of 2022. The above information is for illustrative purposes only.

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# Important Disclosures

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