CLIMATE CHANGE MITIGATION AND YOUR PORTFOLIO

PRACTICAL TOOLS FOR INVESTORS

As companies conduct and disclose climate-related scenario analyses to help them integrate climate change in their strategy and risk management, investors must be equipped to understand and assess those disclosures. In this report, the Invesor Leadership Network aims to help investors better understand the implications of decarbonization pathways that align to the Paris Agreement's ambition of limiting the increase in average global temperature to 1.5°C. This report provides insights and tools to help investors do this vital work and encourage companies to adopt uniform and comparable climate-related disclosures.

Understanding decarbonization scenarios is essential for investors interpreting climate-related financial disclosures, and for companies stress-testing their resilience in a low-carbon pathway.

The Climate Imperative

Leaders in the public and private sectors, including the investment community, must recognize, quantify and manage the physical and transition risks of climate change. The 1.5°C warming scenario, the most ambitious decarbonization pathway still possible, would require stark deviations from business as usual. This makes it useful for stress-testing the resilience of portfolios and business models against transition risk.

10 Key Levers for Economy-wide Decarbonization

While all industries need to decarbonize rapidly to shift to a 1.5°C pathway, how they reduce emissions will vary. To help investors understand the options, we provide a credible 1.5°C trajectory for ten key sectors and, most importantly, ten emission reduction levers that would be required to stabilize the climate. Globally, the sources covered in this report account for more than 80% of CO_2, 80% of methane and 90% of nitrous oxide emissions.

A Practical Guide to assessing 1.5°C Scenario Analyses

Investors can use scenario analysis to assess how an organization may manage risks and opportunities in a range of future environments, and they can use decarbonization scenario analysis to understand the resiliency of a company's strategy and its likely performance in the transition to a zero-carbon economy. While the report touches on transition risk, we focus on a rubric based on three pillars of mature Paris-aligned 1.5°C scenario analysis by corporations and issuers: scenario transparency and credibility; translation to sector impact; and financial and strategic implications.

The path for investors

While the investment community has made tremendous progress in recognizing climate risk, it is still in the early stages of the journey. To lead the industry, investors need to continue to:

- Advocate for more transparency, standardization and comparability in reporting
- Enhance institutional understanding of climate risk
- Incorporate climate mitigation and adaptation into capital allocation
- Support regulation that enables an orderly transition to a low-carbon economy
- Engage with portfolio companies on climate change mitigation.

The world must take bold, well-planned action now. Without steep and rapid reductions in carbon emissions, climate risks will rise over the next decade. The UN Intergovernmental Panel on Climate Change is clear: "There is alarming evidence that important tipping points, leading to irreversible changes in major ecosystems and the planetary climate system, may already have been reached or passed." That said, decarbonization efforts that are too abrupt would cause significant harm to economies and people. A workable model must therefore take all of these factors into consideration.

This is a moment for investors to step up and help lead industry and society towards a better understanding of climate risk and how to manage it, driving action. This report is meant to advance those critical goals.

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