

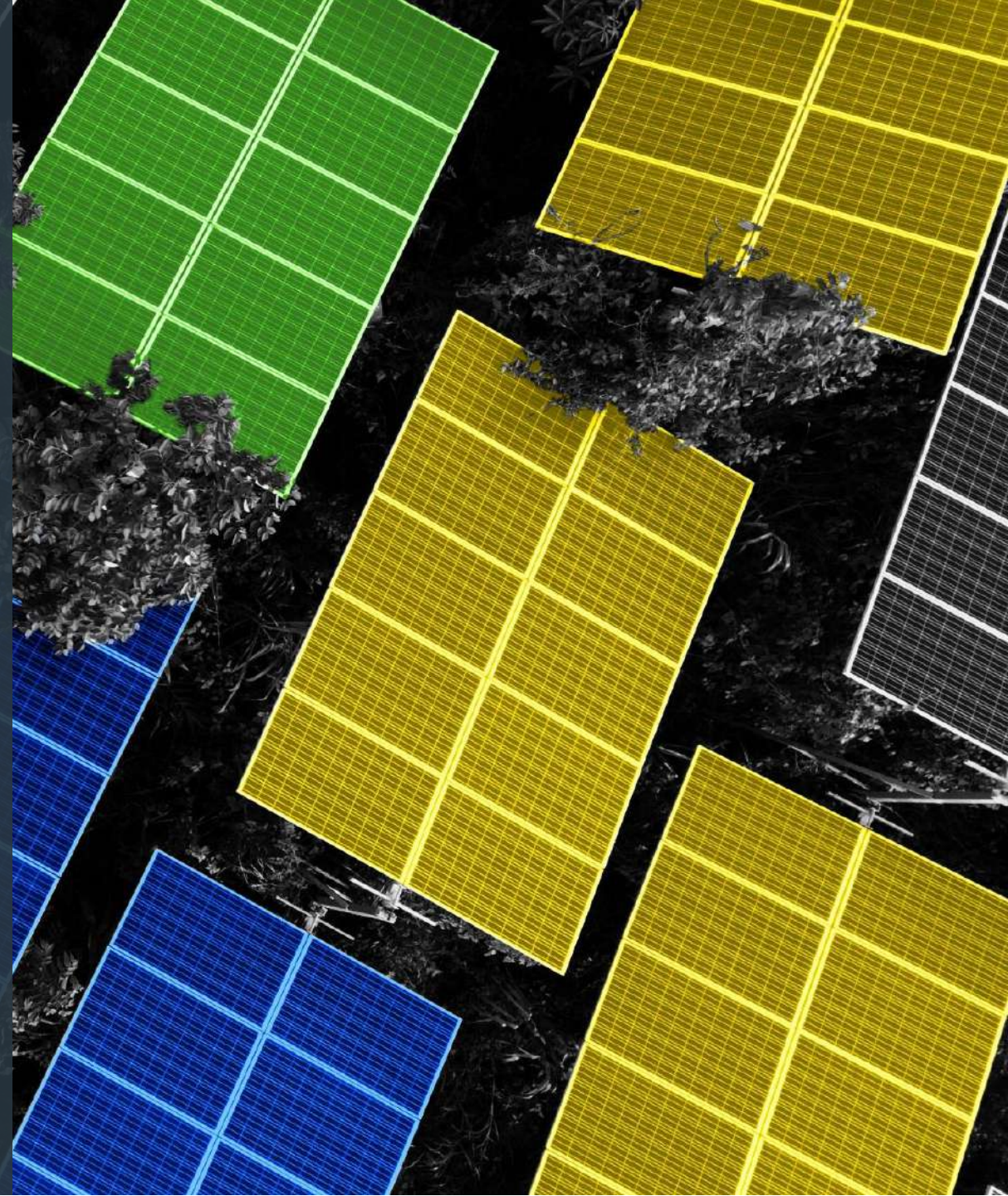
# Unpicking the alphabet soup of climate change

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Turning talk into action in credit

Rachel Harris, Head of Credit, Equity and ESG Investment Specialists

July 2021





# Unpicking the alphabet soup ...

... of climate change

Clean energy & technology

Climate conscious

Climate solutions

Low carbon

Green bonds

Net zero

TCFD

IPCF

Passive ESG bonds

Fossil fuel exclusions

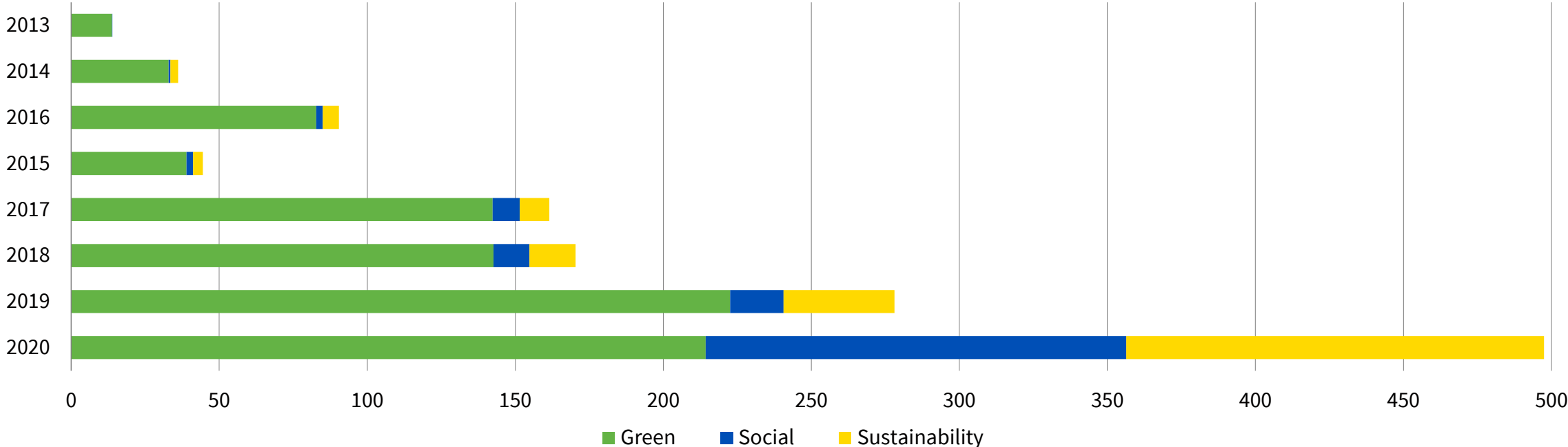
Sustainability-linked bonds



# ESG alphabet soup

## Green, social and sustainable bonds

ESG bond issuance, 2013-2020 (\$, billion)



Source: Bloomberg, Morgan Stanley, as of 31 December 2020

# All companies will be impacted by climate change

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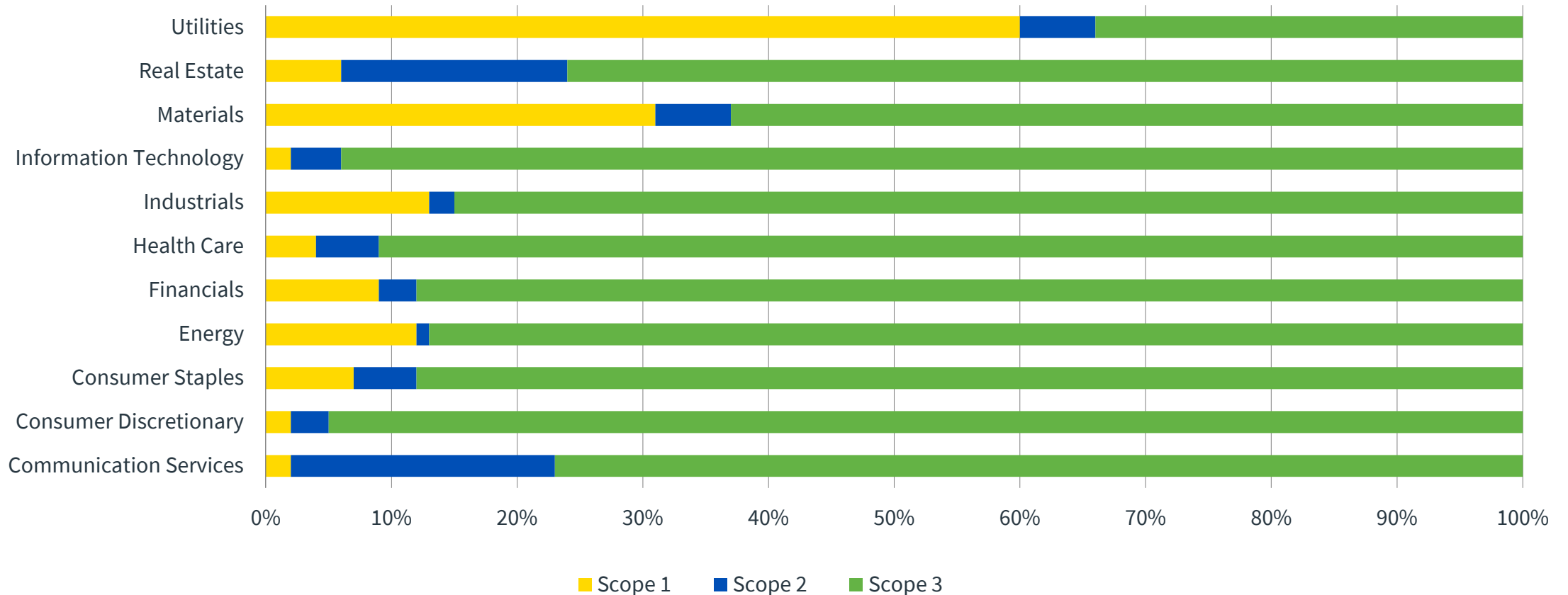


2.18	-0.16	-0.84
9.90	-0.10	-1.00
14.40	-0.40	-2.70
9.35	-0.75	-7.43
11.60	-0.60	-4.92
0.09	-0.02	-18.18
6.00	-0.45	-6.98
90.50	-1.75	-3.35
6.50	-0.25	-3.70
5.30	-0.55	-9.40
138.50	-4.50	-3.15
10.00	-0.30	-2.91
6.30	-0.80	-11.27
11.00	0.00	0.00



# All companies will be impacted by climate change

## Emissions by sector value chain



Source: Aviva Investors, CDP, based on 2019 CDP data

# Climate transition in credit

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## Opportunity to take advantage of market inefficiencies

### Look beyond emissions

Assess both the decarbonisation and physical impact risks across industries

### Seek additional alpha sources

From the divergence in performance of companies not prepared for the transition

### Drive positive climate outcomes

A firm-wide climate engagement programme bolstered by a robust escalation process

**“For our engagement approach to have impact, it must be accompanied by a robust escalation process, including the ultimate sanction of divestment.”**

Mirza Baig

Global Head of ESG Research and Stewardship, Aviva Investors

# Key takeaways

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**1**

Green bonds alone **will not create a net zero portfolio**

**2**

**All companies are impacted** by climate change

**3**

**Be active** in the face of climate change

# Key risks

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The value of an investment and any income from it can go down as well as up and can fluctuate in response to changes in currency exchange rates. Investors may not get back the original amount invested.

The Strategy uses derivatives, these can be complex and highly volatile. Derivatives may not perform as expected meaning the Strategy may suffer significant losses.

Certain assets held in the Strategy could be hard to value or to sell at a desired time or at a price considered to be fair (especially in large quantities), and as a result their prices could be very volatile.

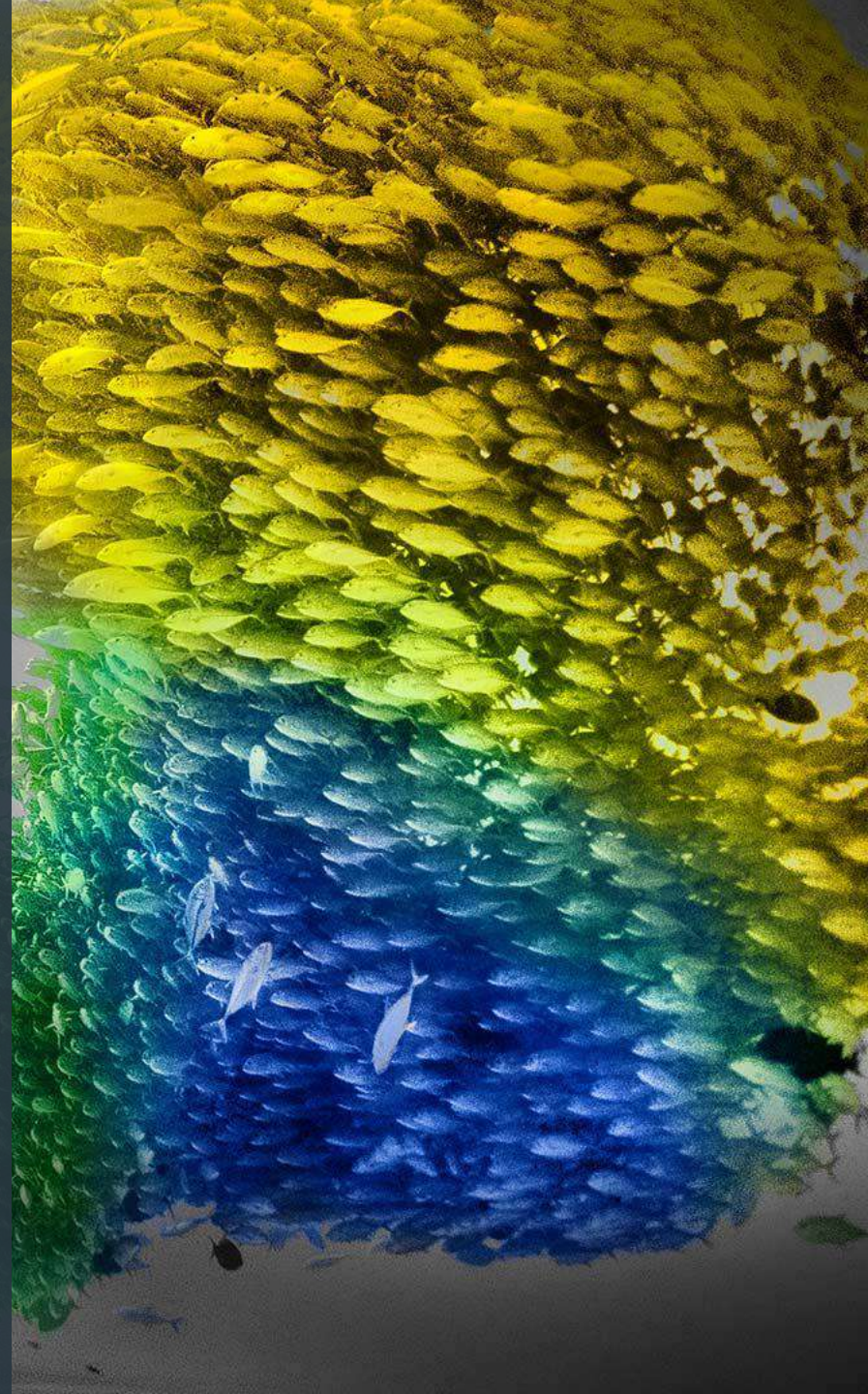
Bond values are affected by changes in interest rates and the bond issuer's creditworthiness. Bonds that offer the potential for a higher income typically have a greater risk of default.



# Thank you

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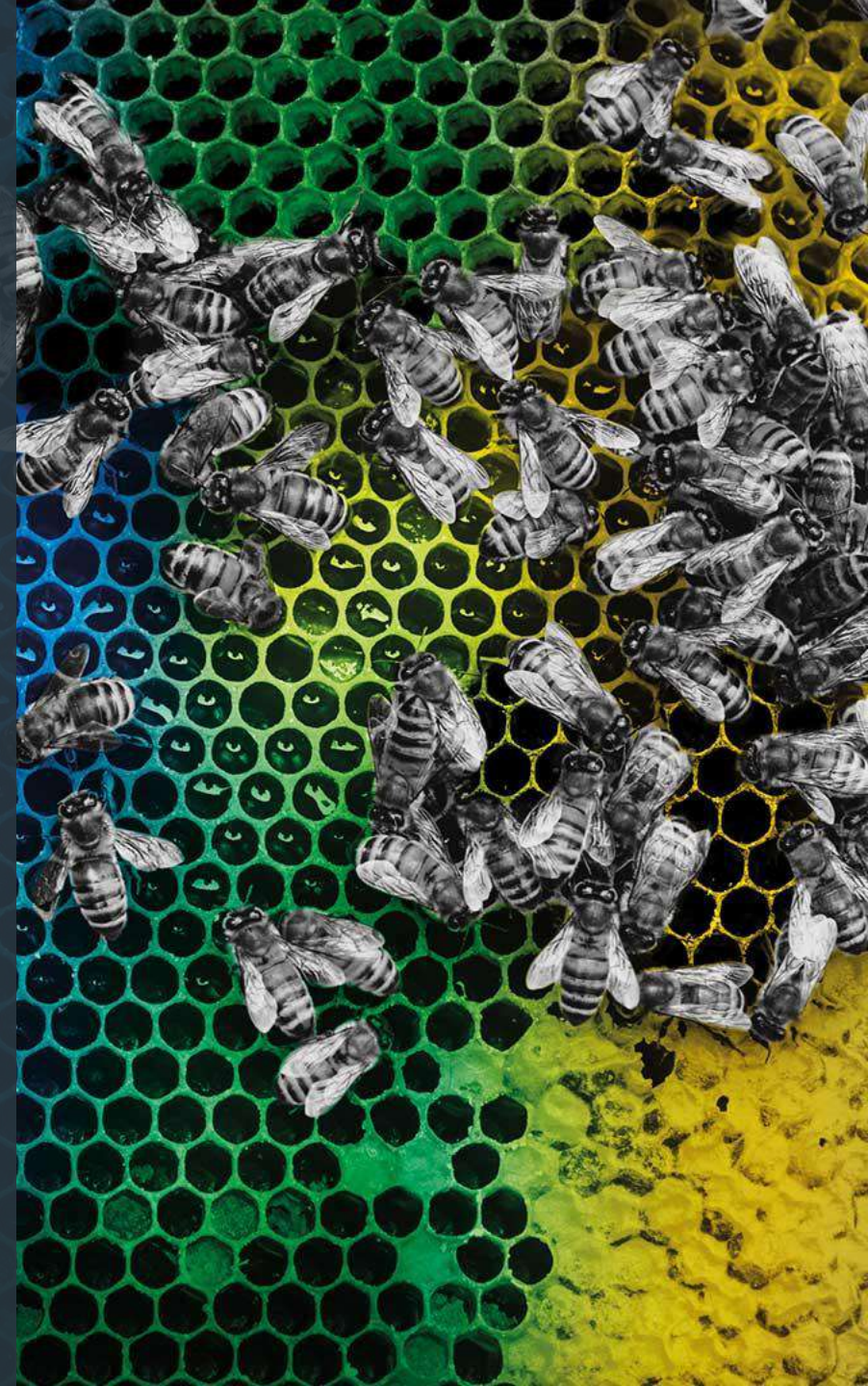
[avivainvestors.com](https://www.avivainvestors.com)





# Appendix

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# Green, social and sustainable bonds – key points

Bond type	Definition	Core components			
		1 Use of proceeds	2 Project evaluation and selection	3 Management of proceeds	4 Reporting
<b>Green</b>	Enable capital-raising and investment for new and existing projects with environmental benefits	Green projects that contribute to environmental objectives	The same process applies across types	The same principles apply on managing the proceeds	The same reporting requirements apply
<b>Social</b>	Proceeds used to finance new and existing projects with positive social outcomes	Social projects that aim to address or mitigate a specific social issue and/or achieve positive social outcomes	The same process applies across types	The same principles apply on managing the proceeds	The same reporting requirements apply
<b>Sustainability</b>	Proceeds exclusively used to finance or refinance a combination of both green and social projects	Green and/or social projects, as defined by the Green Bond Principles or Social Bond Principles	The same process applies across types	The same principles apply on managing the proceeds	The same reporting requirements apply



# Sustainability-linked bonds – key points

Core components						
Bond type	Definition	1 Selection of KPIs	2 Calibration of SPTs	3 Bond characteristics	4 Reporting	5 Verification
<b>Sustainability-linked</b>	<p>The bond's financial and/or structural characteristics can vary depending on whether the issuer achieves predefined sustainability/ESG objectives within a predefined timeline.</p> <p>The proceeds of SLBs are intended to be used for general purposes.</p>	<p>The key performance indicators (KPIs) should be material to the issuer's core sustainability and business strategy, address relevant ESG challenges of the industry sector and be under management's control</p>	<p>The sustainability performance targets (SPTs) should be ambitious:</p> <ul style="list-style-type: none"> <li>• Represent a material improvement and be beyond "business as usual";</li> <li>• Where possible be compared to a benchmark or external reference;</li> <li>• Be consistent with the issuer's overall sustainability / ESG strategy;</li> <li>• Be determined on a predefined timeline, set before (or concurrently with) the issuance of the bond.</li> </ul>	<p>The SLB must include a financial and/or structural impact if the KPI doesn't reach its target by the predefined date.</p> <p>The most common is a coupon variation, but other impacts can be considered. The impact should be "commensurate and meaningful".</p>	<p>At least annual, publicly accessible reporting on progress against the targets.</p>	<p>As opposed to the pre-issuance external review, which is recommended, post-issuance verification is a necessary element of SLBs.</p>

# CBI principles for climate transition bonds

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Align with **zero carbon by 2050** and nearly halving emissions by 2030

Be **led by scientific experts** and not be entity- or country-specific

Be sure that **credible transition goals and pathways don't count as offsets**

Include assessment of current and expected **technologies that can be used to determine decarbonisation pathway**

Be **backed by operating metrics** rather than commitment or pledge

# Biography

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## **Rachel Harris**

Head of Credit, Equity and ESG Investment Specialists

Joined Aviva Investors in 2019

Joined the industry in 1995

### **Main responsibilities**

Rachel is a senior investment director and leads the Credit, Equity and ESG Investment Specialist team. Her team works closely with the credit and equity portfolio management teams and ESG team to articulate their investment process, portfolio positioning and investment performance to clients and consultants around the world.

### **Experience and qualifications**

Rachel began her career in Moscow at the Russian investment bank Renaissance Capital before moving back to the UK to focus on selling a variety of fixed income instruments to UK real money managers first at Credit Suisse First Boston and then at the Royal Bank of Scotland. She most recently worked at Janus Henderson Investors as the head of the European Fixed Income Client Portfolio Management team.

Rachel graduated from the University of Cambridge with a degree in Modern and Medieval Languages.



# Important information

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