



Australian Climate Transition Index



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The ACT Index is an exciting market leading development, mobilising the increasing scale of impact investment to benefit Australian companies leading the emissions transition. As the first forward-looking index in the Australian market, it gives investors the capacity to analyse the climate risk profile of their ASX portfolios. At the same time, it gives emissions-focused companies a powerful incentive to accelerate their decarbonisation efforts.”

Ian Learmonth,
CEO, CEFC

The Australian Climate Transition Index – the ACT Index – is the first Australian equities index with a specific focus on climate transition and decarbonisation. It brings together the increasing scale of impact investors with Australian companies who are leading the emissions transition. The Index will have an initial investment volume of \$140 million, with the potential to grow as more investors seek exposure over time.

¹ CEFC internal analysis

The investors

The ACT Index focuses on ASX 300 companies – the 300 largest listed entities in Australia. These companies are responsible for 40 per cent¹ of national emissions and have the potential to make a substantial contribution to Australia’s emissions profile.

The ACT Index seeks to identify some 100 Australian companies from within the ASX 300 which are likely to perform well in a world undergoing a 2°C transition.

The Index was developed through a two-year collaboration between BNP Paribas, ClimateWorks Australia, sustainability analysts ISS ESG and the Monash University Centre for Quantitative Finance and Investment Strategies.

BNP Paribas issued a series of equity-linked green bonds totalling A\$140million, with the CEFC committing \$60 million as a cornerstone investor, alongside First State Super and QBE Insurance. The bonds are linked to the ACT Index.

The BNP Paribas issuance reflects a similar issuance by the European Investment Bank (EIB), via the Tera Neva project. The EIC issuance was supported by BNP Paribas and sustainability analysts Vigeo, to support investment in the Ethical Europe Climate Care Index.

CEFC investment rationale

The CEFC has a unique role to increase investment in Australia's transition to lower emissions. Our support for the ACT Index is another important demonstration of our commitment to lead the market, putting our capital to work in new areas, building investor confidence and accelerating solutions to difficult problems.

The scale of the emissions challenge suggests Australia requires significant new investment across the economy. While changes in investment patterns are evident in some sectors of the economy, in other areas the transition to lower emissions is yet to begin in earnest. In order to meet net zero 2050 targets, ClimateWorks Australia estimates that ASX companies will need to halve their emissions every decade between now and 2050.

In this context, the CEFC is pleased to work with BNP Paribas and our co-investors in supporting the development of the ACT Index, capitalising on the important intellectual property developed by ClimateWorks Australia, a Canberra based ISS ESG team and Monash University.

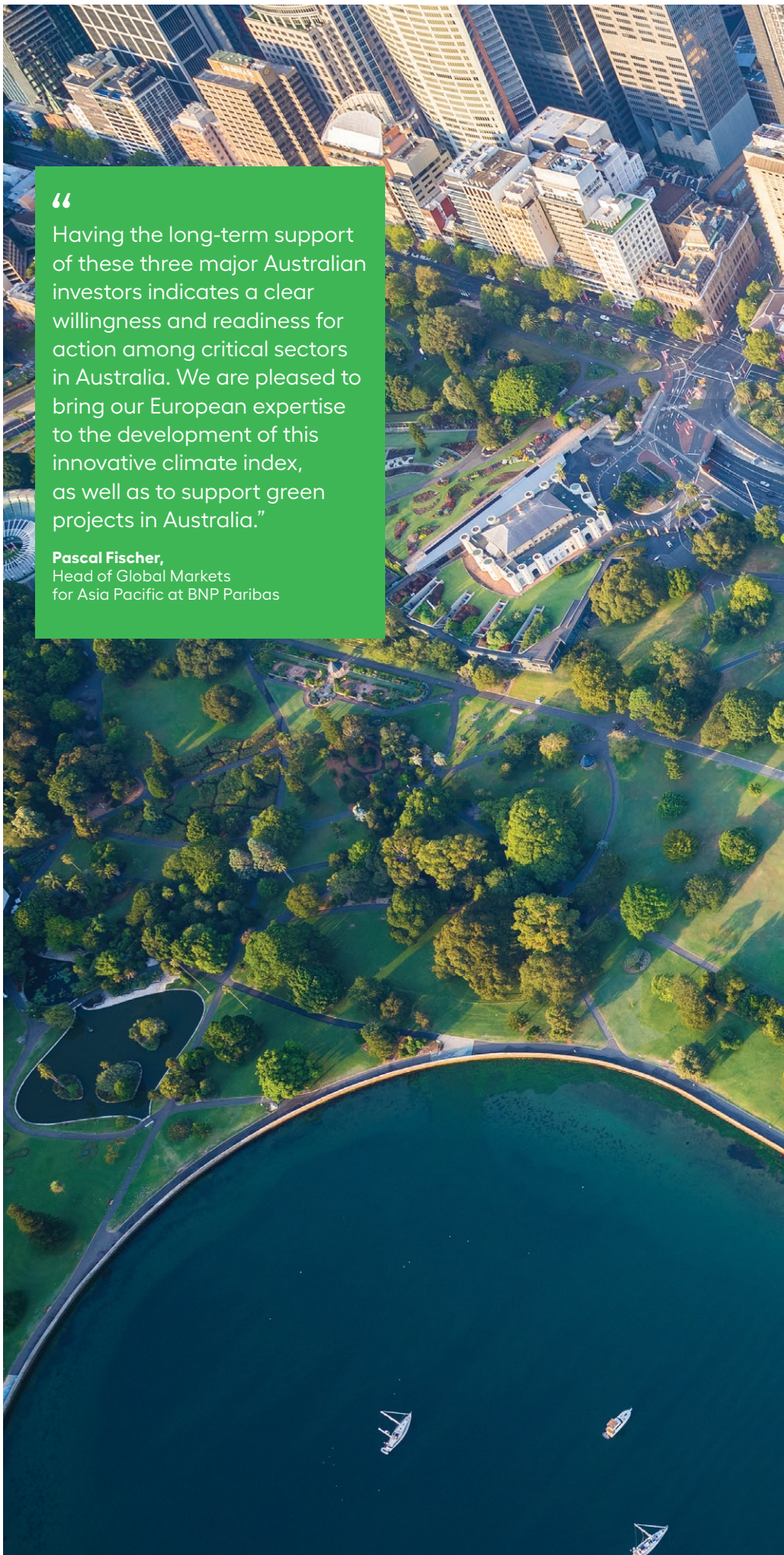
The ACT Index methodology is the first comprehensive methodology of its kind in the Australian market, and potentially globally. As a specialist investor, we appreciate that Australian companies lack access to suitable tools to enable them to pursue and achieve an ambitious carbon transition. And while companies highlight their positive climate-based initiatives, many do not have a holistic plan that covers their current and future products and services, as well as their operating model.

In addition, investors have no shared framework with which to assess company performance around emissions to support equity decisions. This can be contrasted with the debt markets where green bond frameworks are now well established.

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Having the long-term support of these three major Australian investors indicates a clear willingness and readiness for action among critical sectors in Australia. We are pleased to bring our European expertise to the development of this innovative climate index, as well as to support green projects in Australia.”

Pascal Fischer,
Head of Global Markets
for Asia Pacific at BNP Paribas





The investor perspective

There is a distinct lack of climate-focused equity investment products in Australia.

In fact, the Investor Group on Climate Change found that at the end of 2019, some 50 per cent of investors in Australia and New Zealand identified this factor as the single largest inhibitor to growing carbon focussed investment.

In addition to the low proportion of suitable products and platforms, capital allocation is further constrained by the lack of skills and methodologies to evaluate climate mitigation strategies at the company level which can be explained by a different level of disclosures in climate change strategies among listed companies.

Reflecting CEFC market engagement around progress on climate transition, the ACT Index is designed to:

1

Meet an established and growing mandate among investors to invest in climate transition

2

Respond to investors demand for innovative investment products, aligned with key risk and return requirements

3

Enable greater engagement between investors and companies around emissions reduction.



The company perspective

Australian companies lack access to suitable tools to enable them to pursue and achieve an ambitious carbon transition.

And while companies highlight their positive climate-based initiatives, many do not have a holistic plan that covers their current and future products and services, as well as their operating model.

The existing approach to emissions data collection at the individual ASX-listed company level is mainly static, with a focus on historical performance to date. With no focus on mid-term decarbonisation plans, companies and investors lack information on what needs to be done to achieve the climate transition, with a risk that investors may be mis-pricing equity risk.

The ACT Index can help align the interests of equity investors and senior management by providing a mechanism and language for both groups to assess progress around decarbonisation.

As the ACT Index evolves over time, companies are expected to improve their performance in the Index as they:

1

Develop and transition to more green products and services and invest in research and development

2

Provide more detail on their strategies for mitigating carbon and energy use risks, in response to initiatives such as the TCFD

3

Invest in clean energy technologies and apply available technological innovations to adapt their business operations and reduce their emissions.

Tera Neva

In 2015, BNP Paribas launched Tera Neva, to develop the sustainable structured investment market in Europe.

Tera Neva secured EUR 500 million in funds from 12 institutional investors for a Climate Awareness Bond issued by the European Investment Bank and linked to the Ethical Europe Climate Care Equity Index.

The Tera Neva initiative reflects investors' growing interest in combining financial performance with impact investing. It shows investors' willingness to reduce the impact of their portfolio on climate change, finance energy efficient projects in Europe and beyond, and also to invest in companies with a robust energy transition strategy.

The Australian Climate Transition Index adopts a similar index-linked model to Tera Neva. The Ethical Europe Climate Care Index includes 30 equities selected on independently assessed financial and sustainability criteria.



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Over time, we expect the Australian Climate Transition Index to secure increased investor interest, complemented by greater participation by ASX 300 companies. This can send a clear signal to the market that there is an emerging pool of capital dedicated to companies that are either supporting the climate transition, or well equipped to adapt to the transition.”

Rory Lonergan,
Executive Director, CEFC

ACT Index methodology

The purpose of the ACT Index is to determine which companies included in the ASX 300 are best positioned to embrace climate transition and achieve net zero emissions by 2050.

This forward-looking approach contrasts with existing reporting regimes which have built in lag, and wide disparity in how corporates assess their progress in the climate transition agenda.

The ASX Index methodology provides a new approach to these shortcomings, considering each company on a standalone basis and in comparison with its peers. Assessment is conducted across four quadrants:

1

Current product and services

The main driver of the overall Index assessment, this focuses on the company's current core business, and how its products and services are likely to be impacted by a transition to low carbon economy, drawing on the work of ClimateWorks Australia.

2

Carbon intensity mitigation strategy

Assesses the company's strategy to manage its carbon intensity and operational emissions in the future, including whether it has the capacity, and is taking active steps to, adjust its operations when viewed through the climate change lens.

3

Products and services mitigation strategy

Focuses on whether the company is committed to reducing its exposure to climate transition risks in the future by adjusting its existing product offering and developing new green products and services.

4

Operations exposure

Analyses the company's carbon exposure caused by its existing business operations (e.g. its Scope 1 and 2 emissions)

Index selection criteria

ASX 300 companies will be included on the ACT Index based on their performance against select criteria:

1

Scenario analysis: Includes five climate scenarios for Australia, including balanced decarbonisation, local and global innovation, delayed action and stretch 1.5 degrees.

2

Detailed sector analysis: Including technology, policy and social disruptions

3

Company data: Robust company specific data, both qualitative and quantitative, on current status and future strategy

4

Financial analysis: Minimisation of financial risks such as liquidity and volatility

Emissions measures

Reflecting the CEFC's focus on renewable energy, energy efficiency and low emissions technologies, the ACT Index methodology will take into account a range of emissions reduction initiatives being pursued by ASX 300 companies.

These will include energy efficiency and process improvements, the transition to low carbon electricity, electrification of company processes, including the use of electric vehicles, fuel switching to renewable energy and the use of non-energy emissions reductions, including carbon forestry.

Decarbonisation Futures

The ACT Index draws on research into dynamic climate transition scenarios detailed in the 2020 *Decarbonisation Futures* report. Developed by ClimateWorks Australia, *Decarbonisation Futures* includes a guide to priority technologies, deployment pathways and benchmarks for achieving net zero emissions.

It notes that major corporations, investors and governments in Australia and globally are already moving to align their strategies with the goal of net zero emissions by mid-century or earlier. In addition, by mid-2019, almost one-sixth of global GDP was covered by a net zero emissions target by or before 2050.

Key actions for businesses include setting targets for operations and supply chains; bringing forward asset replacement investments with net-zero ready versions; shifting products and services towards low-carbon options; creating new business models to accelerate the uptake of low emissions technologies and increased investor engagement.

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Aligning with the Paris climate goals requires technology uptake to be significantly accelerated compared to current trends. Widespread, rapid deployment of mature technologies can achieve much of what is needed this decade and can accelerate immediately, while substantial investment in research, development and commercialisation can close the gap to zero emissions across sectors.”

Decarbonisation Futures

ISS ESG

The ACT Index will be supported by analysis from the Australian-based team of ISS ESG.

Founded in 1985, the Institutional Shareholder Services group of companies (ISS) supports investors and companies build for long-term and sustainable growth by providing high-quality data, analytics and insight. Its ESG solutions enable investors to develop and integrate responsible investing policies and practices, engage on responsible investment issues, and monitor portfolio company practices through screening solutions.

It also provides climate data, analytics, and advisory services to help financial market participants understand, measure, and act on climate-related risks across all asset classes. In addition, ESG solutions cover corporate and country ESG research and ratings enabling its clients to identify material social and environmental risks and opportunities.

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We are delighted to contribute to this innovative project by providing ISS ESG's market-leading data and analysis, in the context of the dynamic climate transition scenarios, to determine the extent to which Australian companies are prepared to transition to a low carbon economy, and to the mitigation approach related to these transition risks and opportunities.”

Marija Kramer,
Head of ISS ESG

About the CEFC

The CEFC has a unique role to increase investment in Australia's transition to lower emissions. With the backing of the Australian Government, we invest to lead the market, operating with commercial rigour to address some of Australia's toughest emissions challenges – in agriculture, energy generation and storage, infrastructure, property, transport and waste. We're also proud to back Australia's cleantech entrepreneurs through the Clean Energy Innovation Fund, and invest in the development of Australia's hydrogen potential through the Advancing Hydrogen Fund. With \$10 billion to invest on behalf of the Australian Government, we work to deliver a positive return for taxpayers across our portfolio.

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