CITY OF LONDON

THE GLOBAL CITY

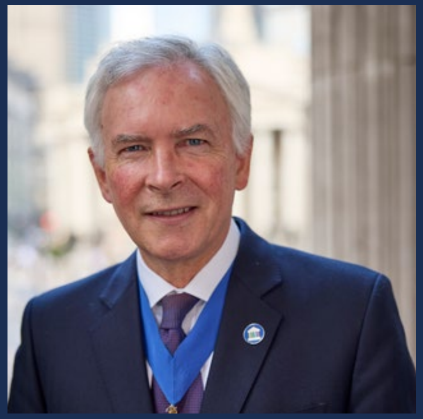
In association with

KPMG

CASE STUDY CATALOGUE 2023

How Financial Services are helping to deliver a Just Transition

Foreword



Nicholas Lyons
The Rt Hon. The Lord Mayor of the City of London

Dr Kay Swinburne
Vice Chair of Financial Services at KPMG UK

Transitioning to a net zero carbon economy is one of the most profound challenges that international governments and businesses have faced.

Perhaps one of the most complex yet necessary parts of the transition is ensuring that the race to net zero does not become a zero-sum game. Any transition must be a 'Just Transition', one that is fair, inclusive and leaves no one behind, and one that has a positive and measurable outcome for communities throughout the world.

While climate and environmental issues have received greater attention in recent years, addressing the socio-economic consequences of climate change remains essential. We must maximise the social and economic opportunities of climate action, while minimising and managing the negative effects on people and nature. We must ensure that companies can build on the great work they have done addressing global warming concerns by making sure the necessary shift to net zero is inclusive and becomes an example of where environmental and social issues overlap.

That is why the theme for this year's net zero Delivery Summit is 'Financing a Just Transition', an opportunity to discuss this challenge and how economies can deliver – and crucially, finance – both environmental and social innovations. The challenge may seem intimidating, but we cannot afford to delay action. This catalogue has example after example of how it can be done, and how it is already being done.

This work comes after our successful **Finance for Impact** initiative last year – started by my predecessor Vincent Keaveny. The City of London Corporation partnered with KPMG to create a set of industry-led recommendations to advance finance for social impact, and with the Impact Investing Institute to launch the Just Transition Finance Challenge.

I am pleased to carry on this vital work with this catalogue of case studies, collated in association with KPMG, which showcases how our Financial Services industries are facilitating a Just Transition in the UK and in the rest of the world. Whether it is affordable housing, sustainable infrastructure, climate disaster response, sustainable food production, or tackling fuel poverty, this report shows that a Just Transition is possible and can make a fundamental difference to people's lives and the world.

The topic of a Just Transition is not new, having been embedded in the 2015 Paris Agreement to ensure protection of labour and human rights in the transition to a green economy and society. And the Financial Services sector has an essential role to play in helping realise this. According to the UN High Level Climate Action Champions, the private sector could deliver up to 70% of total investments to reach net zero goals, mobilising the trillions of dollars necessary for a Just Transition.

Against this backdrop, and building on the **industry-led set of priorities** KPMG developed with the City of London Corporation as part of the Finance for Impact initiative, we are delighted to present this catalogue of case studies from industry leaders that showcase practical examples of how finance and Financial Services firms are helping to deliver against the critical elements of a Just Transition.

The catalogue spans geographies, financial sub-sectors, and focus. From addressing energy efficiency, fuel poverty and affordable housing in the UK; and integrating indigenous rights risks into renewable energy investments; to developing low carbon infrastructure that reduces transport emissions and delivers increased access to education and skills in Brazil. And from community owned wind turbines in Wales; and sustainably managing the food needs through the transformation of food systems and agriculture; to an innovative insurance mechanism to increase the funding capacity of a disaster relief agency globally.

Each case study offers a unique insight into how Financial Services can contribute to a Just Transition while at the same time generating financial returns. Alongside descriptions of how each project has or is being delivered, it's fantastic to be able to share learnings and advice from each of the firms' showcased initiatives. These include the importance of stakeholder engagement, and the role of public and private collaboration, overcoming challenges around the inconsistency of disclosures, the availability of data, and the measurement of impact and, importantly, the need for perseverance and agility in adapting to change throughout a project. Many of these challenges aren't necessarily new but by aligning them to practical examples of how firms have overcome them, these case studies offer hugely helpful insight for others to learn from.

We are incredibly grateful to the firms showcasing their work and sharing their experience in this catalogue. We hope this collection encourages even more Financial Services firms to play a key role in helping deliver a Just Transition. As illustrated by these case studies, there is a wealth of best practice emerging across the Financial Services sector and moving from commitments to action is essential for accelerating progress in the coming years.

Executive Summary

BACKGROUND
THE FINANCE FOR IMPACT INITIATIVE

The [Finance for Impact Initiative] was launched by the City of London Corporation to further strengthen the City of London and the UK as a global sustainable finance hub, advance enabling frameworks and mobilise capital for sustainable investments that contribute towards achieving the UN sustainable development goals.

As part of this Initiative, KPMG developed an industry-led set of recommendations for scaling finance that delivers positive and measurable outcomes for people and communities, as well as the planet; and the Impact Investing Institute launched the Just Transition Finance Challenge – a coalition of investors committed to aligning capital with a fair and inclusive transition to net zero.

The aim was to elevate the 'S' alongside the 'E' in ESG.

INDUSTRY-LED RECOMMENDATIONS TO ADVANCE FINANCE FOR SOCIAL IMPACT

KPMG gathered feedback and insights from over 70 Financial Services organisations as well as broader industry stakeholders, with the intention of supporting firms to be more ambitious in integrating social considerations into sustainable finance strategies, alongside environmental ones.

The resulting recommendations covered nine key themes, as well as priority areas to accelerate progress.

These included:

- **setting a clear strategy that incorporates a baseline materiality assessment and aligns to broader governance and culture**
- **leveraging influence and asset stewardship to help companies raise the bar on impact**
- **driving towards consolidation of frameworks and alignment in international standards**
- **using data and metrics available despite a lack of standardisation and clarity when it comes to measuring impact**
- **improving transparency and consistency in disclosures**
- **collaborating with industry peers and engage widely with stakeholders including customers, policy makers and beneficiaries.**

OBJECTIVE
MOVING FROM THEORY TO ACTION IN DELIVERING A JUST TRANSITION

The concept of Just Transition links the 'E' and the 'S' in ESG, highlighting areas of social intervention to be considered and managed as economies shift towards being climate neutral.

Building on the industry-led recommendations developed as part of the Finance for Impact Initiative, KPMG and the City of London Corporation have collated this catalogue of case studies to showcase practical examples of how finance and Financial Services firms are moving from ambition to action across both environmental and social impact, and helping to deliver a Just Transition:

- **maximising the social and economic opportunities of climate action, while minimising and managing the challenges**
- **ensuring the path to decarbonisation considers the social impacts on people and communities**
- **greening economies in a way that is as fair and inclusive as possible.**

Executive Summary

APPROACH
EXAMPLES OF BEST PRACTICE THAT SPAN GEOGRAPHIES, SECTOR & FOCUS

The catalogue includes examples from different Financial Services sub-sectors across the UK, emerging markets, and other jurisdictions globally, and showcases a wide variety of activities and approach in terms of how firms are delivering a Just Transition:

1. **A sustainability-linked loan to improve the energy efficiency of homes in Wales by bringing down energy costs and tackling fuel poverty**

2. **An investment in a leading provider of energy efficiency and low carbon services to reduce fuel poverty in the UK**

3. **Lending for co-operative community owned wind turbines to reduce energy costs and CO_2 emissions in Wales**

4. **A guarantee issuer supporting the funding of a metro line in Brazil to improve access to education, reduce inequalities while also improving air pollution and greenhouse gas emissions**

5. **Developing a sustainable infrastructure strategy to provide debt capital to renewable energy projects that include measurable social objectives in emerging markets**

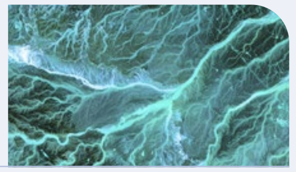
6. **Supporting the world's largest coal exporting port on Australia's east coast to decarbonise operations and diversify while managing impacts on the local community and protecting regional prosperity**

7. **An investment strategy mobilising capital towards areas that are critical to the transition of food systems – including land use and agriculture – while also ensuring sustainable food consumption and access to nutrition for all**

8. **An investment framework to analyse companies' indigenous rights practices, particularly for land demand related to wind and solar generation**

9. **An insurance mechanism to increase humanitarian funding relief for climate related disasters globally**

10. **An investor initiative designed to align more capital with a fair and inclusive transition to net zero**



In each case study, it is clear Just Transition considerations are core to the intervention and investment, and the collection also illustrates a variety of examples for using influence and engagement to drive greater environmental and social impact.

OVERCOMING CHALLENGES
LEARNINGS & ADVICE FOR INDUSTRY

In sharing their case studies, all the contributing organisations include some of the challenges they experienced. Many of these align with those highlighted as part of the Finance for Impact work such as the inconsistency of disclosures, the availability of data, and lack of clarity in measuring impact.

Importantly however, firms also outline their learnings and advice in overcoming these challenges as well as insight into how some of the recommendations are being implemented in practice.

For example:

- **Prioritising coordination and collaboration with stakeholders, with particular emphasis on public / private sector relationships**
- **Clearly articulating and agreeing a strategy which also aligns to stakeholder values**
- **Building in agility into business planning to accommodate evolution in best practice**
- **Taking a pragmatic approach to setting KPIs supported by baseline data and benchmarking**
- **Aligning, where possible, with existing international standards and frameworks**
- **Being responsive to refining improvement targets throughout a project**
- **Emphasising the importance of transparency in reporting and knowledge sharing.**

The intention is that this catalogue of case studies will serve as examples of best practice so as to continue to push the dial on moving industry forward, as well as offering helpful insight in order to realise the multiplier effect of more financial institutions aligning activities and investments with Just Transition principles.

Contents

LLOYDS BANK
Adra Housing

ENERGY EFFICIENCY & AFFORDABLE HOUSING
BANKING
UK

OBJECTIVE

Lloyds Bank is part of Lloyds Banking Group and underpinning its purpose is a desire to build an inclusive and sustainable society. Access to quality housing is a fundamental human need with affordable and stable homes giving people a foundation on which they can thrive. Lloyds Banking Group is the biggest supporter of social housing in the UK and, over the last five years, across all of its brands it has delivered approximately £15 billion of new financing to the sector, and approximately £3.4 billion of ESG finance delivered since 2021.

Lloyds Bank is an adopter of the **Sustainability Reporting Standard (SRS) for Social Housing**, a voluntary ESG reporting framework, and it has representation on the governance board. Since the launch in 2021, there are over 120 adopters and endorsers of this sector-specific sustainability reporting framework, which covers 42 ESG criteria, where the ultimate aim is to increase the level of ESG investment into the sector.

One of the more recent examples of Lloyds Bank's ESG-linked funding is the £40 million new sustainability-linked loan to Adra Housing – North Wales' largest housing association, providing more than 7,000 homes to 15,000 residents and employing over 350 people. Adra is in an influential position to make a significant positive impact on people's lives and its surrounding environment, and to make a substantial difference to the reduction of carbon emissions in Wales. Adra is committed to improving its environmental credentials, strengthening its social impact, and ensuring it has robust governance processes in place to support it in doing so.

DESCRIPTION

Adra invests to improve the energy efficiency of its existing homes to reduce its environmental impact as well as costs for tenants. Trained property inspectors assess energy efficiency during inspections and follow a 'fabric first' approach to decarbonisation by ensuring the suitability of properties to receive retrofitting of new carbon reducing technologies.

Adra's social value priorities focus on four areas – keeping spend local; creating work opportunities for tenants; measuring social value and using this information to make decisions; and protecting and promoting the Welsh language.

Lloyds Bank was mandated as a new funder, providing an additional £40 million as a sustainability-linked loan. This aligns to the Loan Markets Association's Sustainability-Linked Loan Principles (LMA SLLPs) to ensure consistency and integrity of the product across the market.

Lloyds Bank worked with Adra's finance and sustainability teams to establish credible and realistic ESG-linked annual key performance indicator (KPI) targets, in line with the LMA SLLPs. On delivery of these, Adra would secure an interest margin discount on its funding.

The KPIs consisted of:

1. Retrofitting **450 homes** to improve energy efficiency and Standard Assessment Procedure score by a minimum of **8%**
2. Increasing the percentage of homes built to **EPC A** standards - going beyond current regulations
3. Directly supporting **350 people** within the community into work and employment

LLOYDS BANK
Adra Housing

ENERGY EFFICIENCY & AFFORDABLE HOUSING
BANKING
UK

ADVICE FOR INDUSTRY

Funders need to be pragmatic when looking to set KPIs, in the context of the currently challenging macroenvironment, whilst ensuring the sustainability-linked loan remains robust and maintains its integrity.

Data is key to unlocking ESG finance, as well as a clearly articulated sustainability strategy which is embedded across the organisation.

Lloyds Bank is proud of this transaction and its support for Adra, as the vision and values of the two firms are aligned to address the current issues of the housing sector: supply, accessibility and sustainability. This transaction also demonstrates that sustainability and ESG finance is not just reserved for the larger organisations with dedicated sustainability teams and significant resources, and that sustainability is not directly correlated with the size of the business.

OUTCOMES & IMPACTS

Adra is one of only seven associations in Wales to adopt the industry-led SRS for Social Housing. Adra's SRS Report was used to formulate and establish the potential ESG-linked KPIs, establishing the baseline data to set targets and providing peer benchmark information.

With 450 homes being retrofitted over the life of the revolving credit facility, this will help to tackle fuel poverty by reducing energy costs for residents. The sustainability-linked loan will also drive increased ambition to deliver new affordable homes across North Wales to combat the current housing crisis, as well as supporting Adra's residents through the cost of living crisis through work and employment.

Between 2015-2021, Adra created around £52 million of social value through a range of initiatives, including by supporting the local supply chain, using sustainable products and materials, supporting the local economy and supporting its customers to improve their health and wellbeing. Adra commissioned external consultants to quantify its social value contribution by using the Housing Association Charitable Trust (HACT) measures and Welsh Themes, Outcomes and Measures (TOMs), which measure the perceptions of value from different interventions.

Recognising the challenges faced by many to meet decarbonisation targets and the associated skills gap, Adra has led on the establishment of a new Decarbonisation Centre of Excellence at Penygroes in Gwynedd. This is the first of its kind in the UK and has so far seen an investment of over £1.2 million through the Welsh Government, Gwynedd Council and Adra matched funding.

LEARNINGS

The key to structuring a sustainability-linked loan in line with the LMA SLLPs is to agree a suite of ESG-linked KPIs which are material to the client's corporate plan, and that are also stretching, ambitious and beyond the normal course of business.

The voluntary sustainability reporting framework, the SRS, was used to formulate the potential material KPI themes across the ESG agenda. The SRS also provides historic and baseline data, as well as helping with peer benchmarking to substantiate that the KPIs are stretching and ambitious. As part of this transaction, Lloyds Bank sought to establish and incorporate KPIs which align to both the environment and social impacts of the organisation, and which have strong outcomes for Adra's residents.

The other challenge was setting annual improving targets which were deemed realistically ambitious, without creating additional reporting burden on the business. The final KPIs will be reported on an annual basis via a Sustainability Compliance Certificate, which will be verified by the company's auditors.

BRIDGES FUND MANAGEMENT

Bridges Evergreen & AgilityEco:
Tackling fuel poverty and reducing emissions

ENERGY EFFICIENCY & FUEL POVERTY
ASSET MANAGEMENT
UK

OBJECTIVE

In 2019, Bridges Fund Management invested in **AgilityEco** – a leading provider of fuel poverty, energy efficiency and low carbon services to vulnerable households across the UK – via Evergreen, its patient capital vehicle.

Bridges Evergreen – like all Bridges funds – has clear impact goals to back assets that contribute to solutions for people and the planet. Bridges particularly targets businesses where increased positive impacts on both climate and underserved communities go hand-in-hand with attractive financial returns – a 'lockstep' considered to be a critical feature of Just Transition investments.

AgilityEco clearly met these goals – it plans and delivers innovative services with practical support on energy efficiency, utility bills, household finances and vulnerability – and had been searching for an investor with similar values and a social impact ethos to help achieve its long-term growth plan, whilst placing strong importance on parallel environmental considerations.

Fuel poverty is a significant challenge in the UK, **affecting over 10% of households** – and this has only been exacerbated by the recent energy price increases driven by the ongoing conflict in Ukraine. Even with the extension of the Government's Energy Price Guarantee (limiting average domestic bills to £2,500) until June 2023, AgilityEco's services continue to be vital for many households. Long term, AgilityEco has a key role to play in improving the efficiency of fuel-poor homes and preparing Britain's homes for net zero: recent research suggests that there is currently an £18 billion funding gap in ensuring these homes have a minimum energy efficiency rating of C by 2030 (at the current rate of progress, this will not be achieved until 2065).

> "Fuel poverty is a significant challenge in the UK, affecting over 10% of households."

DESCRIPTION

From the outset, Bridges and AgilityEco worked collaboratively to scale the business and maximise its impact.

As with all new portfolio companies, Bridges helped the company articulate and measure its core impact thesis. In line with Just Transition goals, Bridges also measures the wider sustainability performance of every investment. A materiality approach ensures no significant impacts are overlooked; and at a minimum, the manager helps its investees better measure their carbon footprint and manage their employment and supply chain impacts. Bridges encourages its companies to use stakeholder feedback and engagement mechanisms, such as surveying, amplifying voices and generating insights. In addition, to ensure all significant impacts are appropriately managed, Bridges identifies an impact lead at the company, as well as a board-level champion of impact.

More broadly, Bridges provided advice, expertise and guidance on AgilityEco's acquisition of a significant minority stake in **Alto Energy** (a leading UK heat pumps business), enabling the support of even more vulnerable households in the transition towards decarbonisation. A B Corporation[1] itself, Bridges also supported AgilityEco through the B Corporation certification process in 2023. It has embraced ESG and impact management practices, in enabling it to create and publish a public annual impact report (now in its third edition), and to analyse and improve its impact performance and practices.

In parallel, AgilityEco expanded its senior management team – including the introduction of Sharon Johnson as COO, now CEO, and Anthony Dear as CFO – and launched a new People Strategy.

> "AgilityEco's impressive growth demonstrates a clear need for its vital services."

1 Companies which have been verified to meet high standards of social and environmental performance, transparency, and accountability. **https://bcorporation.uk/b-corp-certification**

BRIDGES FUND MANAGEMENT

Bridges Evergreen & AgilityEco:
Tackling fuel poverty and reducing emissions

ENERGY EFFICIENCY & FUEL POVERTY
ASSET MANAGEMENT
UK

OUTCOMES & IMPACTS

AgilityEco is making a significant contribution towards a Just Transition by tackling fuel poverty. With both people and planet at the heart of its mission, it is also becoming a key voice in the conversation on energy and net zero.

From 2021-22,
AgilityEco provided almost

99,000 ENERGY EFFICIENCY MEASURES

such as insulation and heating improvements.

Over their lifetime, these measures will abate

513,700 TONNES OF CO_2 EMISSIONS

and save 2,322,000 MWh of otherwise wasted energy, a significant contribution to environmental action.

AgilityEco's work also has a meaningful impact on individual lives: in 2021/2022 the company supported over

45,500 VULNERABLE HOUSEHOLDS

across the UK, creating an estimated

£168.6 MILLION
TOTAL LIFETIME BILL SAVINGS

and helping individuals escape fuel poverty.

Its services also contribute to the good health of household residents and are estimated to have saved the healthcare system

£7.7 MILLION

while also supporting 788 jobs in local companies, social enterprises and charities.

At an enterprise level,
AgilityEco's growth has been impressive, with

242% REVENUE & 240% EBITDA

growth between 2019 and 2021 – demonstrating a clear need for its vital services.

Additionally, with the support of Bridges' investment and impact teams, **AgilityEco implemented a new Diversity & Inclusion strategy which has seen increased employee engagement to 74% in 2022 vs. 69% in 2021** and provided a platform for stakeholders to share feedback and insights for further action.

LEARNINGS

Building a team to deliver the future of the business: Bridges worked closely with the founders to enable them to step back from operational involvement in a managed way that ensured no disruption to the business. This was a collaborative, carefully planned transition that took 18 months to execute and was delivered successfully.

Increasing accessibility and affordability of all energy efficiency technologies: This required AgilityEco to liaise closely and collaboratively with Government and funding/housing providers to build programmes that are financially viable, operationally achievable and deliver on the requirements of those people most in need.

Measuring and managing impact: By improving impact measurement, transparency and reporting, AgilityEco was able to have better conversations with new customers and suppliers.

ADVICE FOR INDUSTRY

Perhaps the most critical part of Just Transition investing is to identify businesses that have both environmental and social impacts 'baked in' to the business model – so there's a clear lockstep between commercial performance and better outcomes for people and planet. AgilityEco is a great example of this.

Finding the right funding solution is also key: the Evergreen model meant that Bridges was able to tailor the capital structure to the business's specific requirements. The patient ownership approach means that it can be completely flexible around exit horizons, while the focus on internal rate of return (rather than money multiple) allows Bridges to continue investing in the business throughout its ownership period.

Finally, it's vital that the investor and the management team are strongly aligned on the mission and values of the business. This helps to ensure that the business remains focused on its Just Transition goals as well as its commercial performance.

TRIODOS BANK
Awel Y Gwrhyd CIC

WIND POWER & COMMUNITY ENGAGEMENT
BANKING
UK

OBJECTIVE

Triodos Bank only lends to projects that have an overt social or environmental goal, and has been supporting community owned renewable energy projects in the UK since 1995. Awel Y Gwrhyd CIC owns and operates two modern wind turbines. It is the trading arm of a locally owned community benefit society, which in turn was created by Awel Aman Tawe, a community energy charity formed in 1998 to make a difference to the lives of people at the top of the Swansea and Amman Valleys.

The two wind turbines are located in a former coal mining community, and with the cessation of that activity, people embraced the idea of a community owned asset that would benefit them all. Due to low average income levels, the initiative was structured on a co-operative basis to allow everyone to have an affordable stake.

The project was in planning and discussion for over 10 years before being ready to secure finance. Funds were provided at the outset by a community share issue (about 10% of the requirement), loan finance from Triodos and interim funding form the Welsh Government, latterly refinanced by Triodos.

DESCRIPTION

Triodos undertook its normal full due diligence and stress testing as it would for any project of this nature, also looking closely at the technology being deployed to assess its quality and longevity and the protocols around ongoing maintenance. An important element of this process is to understand the make up and capabilities of the community group along with their ability and willingness to identify their blind spots and address them.

The Just Transition nature of this is inherent at its core being a community renewable energy project, and is a clear mission fit for Triodos, since it has been committed to supporting the growth of renewable energy generating assets since the 1980s and which has a very strong focus on supporting community energy projects.

Profits generated are utilised to support the charity in tackling fuel poverty, developing various community schemes including a new community focused Zero-Carbon Arts, Education and Enterprise Centre, as well as investing in other community renewable energy projects including 179kW of solar on seven local community buildings.

> "The power of local communities to drive forward transition initiatives should not be underestimated, and this is an inspiring example of that. However, it is crucial for that energy to be channelled strategically, and pragmatically supported by technical and financial know-how, to ensure the best chance of success."

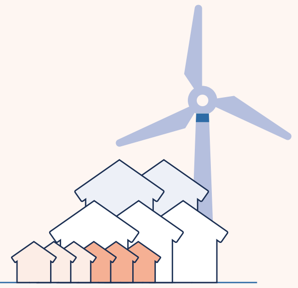
TRIODOS BANK

Awel Y Gwrhyd CIC

WIND POWER & COMMUNITY ENGAGEMENT
BANKING
UK

OUTCOMES & IMPACTS

The wind turbines have the capacity to power **OVER 2,000 HOMES** with clean energy.



Over the lifetime of the project, the financial support provided in this way could exceed £3 million.

Over their expected two-decade life span, it's expected the wind turbines will save over **230,000 TONNES OF CO_2**

Through Awel Y Gwrhyd CIC's connections to the community energy charity, the project is able to provide education about the challenges of climate change, support the transitioning to a low carbon economy, and contribute to the local economy.

Local jobs were created or maintained by the use of local contractors for the site preparation, installation, and maintenance of the turbines.

The project has been delivered successfully and with considerable community engagement and support and continues to be well managed. The project has generally outperformed projected generation levels and is seen an exemplar of how to deliver sustainable energy to a diverse local community.

LEARNINGS

The project faced many challenges during its development, and it is a testament to its directors that they persevered against many odds and succeeded. The project faced the same challenges as any wind farm development in agreeing land rights, gaining planning permission and connecting to the grid.

The project took such a long time to develop because it lacked funding, and whenever it was able to access a small grant, the money was soon spent on essential aspects of the project and attention would again return to gaining more funding. The directors became adept at building relationships with key people in the industry who provided advice and support, including substantial amounts of pro bono legal work. Planning permissions had to be refreshed more than once as the technology had moved on. Several finance sources were explored before they were able to raise enough funds. Finally, all the pieces came together, and the project was able to be built, resulting in a well-deserved community celebration.

ADVICE FOR INDUSTRY

The ability to spot the group's capabilities, determination, and willingness to learn was critical to the success of the project. Triodos was able to share its knowledge of the renewable energy sector with the group and support and challenge it on its plans. On many occasions over the course of several years, the success of the project appeared in doubt, as subsidy mechanisms came and went, and wind turbine technology progressed. A good relationship amongst all parties involved was vital to ensure that lessons were learned and that the project progressed in the right direction. Persistence paid off, and we are proud to have played a role in such a ground-breaking scheme.

J.P. MORGAN

Acciona - São Paulo Metro Line 6

SUSTAINABLE TRANSPORTATION & REDUCING INEQUALITIES
BANKING
EMERGING MARKETS

OBJECTIVE

In August 2022, J.P. Morgan acted as guarantee issuer and Development Finance Structuring Agent (DFSA) for the syndicated letter of credit for Acciona, a leading global company in rail and metro development. The transaction will support funding the construction of the São Paulo Metro Line 6, the largest public-private infrastructure project under development (in terms of funding) in Latin America. The Brazilian Development Bank (BNDES) provided a facility of BRL 6.9 billion (approximately $1.3 billion), with J.P. Morgan guaranteeing BRL 283 million (approximately $54 million).

In conjunction with the transaction, J.P. Morgan Development Finance Institution (JPM DFI) helped Acciona establish a development impact measuring and monitoring framework with specific targets related to infrastructure development, environmental sustainability, and job creation.

The project is anticipated to reduce inequalities between people living in peripheral areas and the São Paulo city centre, while limiting air pollution and greenhouse gas emissions.

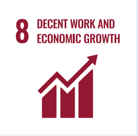
The construction of the metro line is expected to contribute to reducing the use of personal cars while providing an energy-efficient and inclusive means of transportation to thousands of people. The project is expected to contribute to the United Nations **Sustainable Development Goals** (SDGs) that spans both environmental and social objectives.

DESCRIPTION

When mandated as DFSA on a transaction, J.P. Morgan helps clients measure and disclose their anticipated development impact and create a framework for impact reporting. Through the application of its methodology, developed in consultation with official development institutions, JPM DFI has helped Acciona to define specific, forward-looking development impact targets on transportation, employment, climate action, and gender equality.

JPM DFI assessed the transaction to contribute to several SDG targets, including:

Target 4.3: Ensure equal access for all women and men to affordable and quality education



Target 8.5: Achieve full and productive employment and decent work for all men and women

Target 9.1: Develop quality, reliable, sustainable, and resilient infrastructure

Target 10.2: Empower and promote social, economic, and political inclusion of all

Target 11.2: Provide access to safe, affordable, accessible, and sustainable transport systems for all

Target 11.6: Reduce the adverse per capita environmental impact of cities

Target 13.2: Integrate climate change measures into national policies, strategies, and planning

Target 17.16: Enhance the Global Partnership for Sustainable Development to support the achievement of the SDGs

Target 17.17: Encourage and promote effective public, public-private and civil society partnerships

J.P. MORGAN

Acciona - São Paulo Metro Line 6

OUTCOMES & IMPACTS

The project consists of the construction of an approximately

15 KM LONG METRO LINE

connecting

15 STATIONS

Upon completion, the São Paulo Metro Line 6 is anticipated to have a capacity of over

600,000 PASSENGERS A DAY

which will improve mobility for the

260,000 INHABITANTS OF BRASILÂNDIA

a low-income neighbourhood of the metropolis.

Dubbed the 'University Line', Line 6 is anticipated to become a key transport option for students and will also connect several neighborhoods, including low-income ones, with areas in the city where University faculties are located thereby improving access to education.

The project is expected to create

9,000 JOBS DURING CONSTRUCTION

and provide

120,000 HOURS OF TECHNICAL TRAINING

to employees of the construction sites and to people from the local communities.

Upon completion, the project is anticipated to create

800 JOBS

for the metro line operations.

Acciona is anticipated to increase the percentage of women employed in the construction sector in the project to

OVER 15%

The new metro line aims at reducing the use of personal cars, with estimated annual fuel savings of approximately

60 million LITRES PER YEAR

thereby diminishing air pollution.

The project is anticipated to decrease the total energy consumption of the rail system by

109 tons OF CO_2 PER YEAR

by using trains that have regenerative traction systems.

These expected outputs and outcomes showcase the willingness of Acciona to contribute to the greening of the local economy in a socially inclusive way. Acciona has committed to report annually on its development outputs.

LEARNINGS

To finance the project, BNDES provided a facility of BRL 6.9 billion, approximately 50% of which has been guaranteed by senior letter of credits provided by 11 banks. The successful coordination of stakeholders is an example of how public and private sources can collaborate to foster development impact in emerging economies.

ADVICE FOR INDUSTRY

Acciona and its metro development is an example of how projects in emerging economies can reach conjointly social and environmental impact. Public and private collaboration is crucial to achieving sustainable development in emerging economies and to unlock and mobilise capital towards the SDGs.

BLUEORCHARD

Supporting climate-conscious infrastructure projects in emerging markets: BlueOrchard Sustainable Infrastructure Strategy

SUSTAINABLE INFRASTRUCTURE & SOCIAL CONSIDERATIONS

ASSET MANAGEMENT

EMERGING MARKETS

OBJECTIVE

BlueOrchard's Sustainable Infrastructure Strategy ("the Strategy") aims to finance sustainable infrastructure projects in emerging markets, contributing to the **Sustainable Development Goals** (SDGs) and with a core focus on climate mitigation and a Just Transition. The Strategy provides debt capital to projects in the renewable energy, energy infrastructure and energy efficiency, digital infrastructure and sustainable transport sectors.

The Strategy seeks to integrate Just Transition elements through its loan facilities:

1. **Climate and environmental action objectives (SDG 7 & SDG 13): Reduction of greenhouse gas emissions through the decarbonisation of electricity generation and transportation systems**
   - Increase a country's clean energy generation and reduce its dependence on fossil fuels
   - Reduce greenhouse gas emissions for transportation of people or goods
2. **Social objectives (SDG 8, SDG 9 & SDG 11): Foster job creation and improve vital access to telecommunication networks, bridging the gap between rural and urban communities**
   - Improve accessibility and affordability of data services for populations with none or unreliable coverage, enabling digital-driven impact (e.g. financial inclusion)
   - Create temporary and permanent local jobs for involved communities
   - Improve access to decarbonised transportation systems
3. **Prevent harm to stakeholders and maximise community engagement via a rigorous ESG framework applied to each project**

   The Strategy supports projects and companies in emerging markets in any country eligible for Official Development Assistance across Sub-Saharan Africa, Asia and Latin America.

7 AFFORDABLE AND CLEAN ENERGY

13 CLIMATE ACTION

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

11 SUSTAINABLE CITIES AND COMMUNITIES

DESCRIPTION

As an impact manager, with over 20 years of experience in promoting financial inclusion across emerging markets, BlueOrchard strongly believes that climate action cannot be isolated from social considerations. BlueOrchard has developed a bespoke, stringent impact and ESG framework, **the B.Impact™ Framework** (the Framework), that is fully integrated within the investment processes, in order to ensure that the Strategy's impact objectives are met and that the environmental and social risks are well assessed and mitigated.

The Framework provides a tool for assessing ESG risk and practices and the impact potential of an investment. The Framework also provides a materiality assessment and mapping of an investment's impact KPIs to the relevant SDGs it contributes to. The Framework has been designed to align with, inter alia, the International Finance Corporation Performance Standards, Operating Principles for Impact Management, Impact Management Project and RepRisk.

The Framework is fully integrated within BlueOrchard's due diligence and investment decision processes and results in a set of legally binding ESG and impact remediation actions and recommendations for each project, summarised in an Environmental and Social Action Plan (ESAP). The ESAP establishes clear deliverables, along with the parties responsible for their achievement and a contractual timeline for completion. Measurement and monitoring form an integral part of our approach, which entails the setting of key performance indicators which are legally binding, regular data collection and review, and transparent reporting of the impact performance versus the project's impact objectives.

BlueOrchard partners with like-minded investors to enhance risk mitigation and maximise impact. One such recent example is a senior loan extended by a fund managed by BlueOrchard to Africa Mobile Networks, a company rolling out low-cost mobile phone telecommunication towers across rural villages in Africa. On this transaction, BlueOrchard partnered with FinnFund, the Finish development finance institution, to enable more capital to be deployed and support the company's growth.

BLUEORCHARD

Supporting climate-conscious infrastructure projects in emerging markets: BlueOrchard Sustainable Infrastructure Strategy

SUSTAINABLE INFRASTRUCTURE & SOCIAL CONSIDERATIONS

ASSET MANAGEMENT

EMERGING MARKETS

OUTCOMES & IMPACTS

Strategy currently supports four companies contributing to climate action and social impact:

- **Africa Mobile Networks:** A rural telecom tower specialist with over 3,000 towers installed across Sub-Saharan Africa and providing a first mobile coverage to villages
- **CREI Group:** A telecom tower operator strengthening the mobile network coverage in the Philippines
- **ChargeZone:** an operator of electric vehicle (EV) charging infrastructure for electric buses in India
- **U-Solar:** A renewable energy power producer providing solar solutions to Indian corporates to replace high fossil fuel based energy provided by the local grid

As part of the debt financing provided, the Strategy is contributing to measurable impact:

An objective of
10,000 SOLAR-POWERED RURAL TOWERS
are being deployed, and will provide mobile coverage to a population of 35 million people based on BlueOrchard assumptions, and to be verified as sites are being installed.

The deployment of
286 CHARGING POINTS
enables the roll-out of 1,130 electric buses across 5 Indian cities, directly contributing to a reduction in air pollution.

OVER 5,000 TONS
OF GREENHOUSE GAS EMISSIONS
are expected to be saved for each year of operations.

OVER 500 JOBS
WILL BE CREATED OR MAINTAINED
predominantly in local communities.

Each of these investments generates commercially attractive returns to investors, promoting the use of private commercial capital to impactful projects in emerging markets, contributing to the SDGs.

LEARNINGS

One of the key challenges is the availability, reliability and standardisation of data collected at the project level to accurately and holistically monitor the impact achieved. The main solution is to elaborate sensible KPIs that can be tracked easily by the borrower, and that can be audited by external sources.

KPIs that can be tracked can include:

- Number of asset / sites deployed (telecom sites, solar systems, EV charging stations)
- Installed renewable energy capacity
- Clean energy units generated by the Project (in kWh)
- Current full-time employees and employee turnover rate
- Number of mobile beneficiaries

ADVICE FOR INDUSTRY

Bring Just Transition principles into the dialogue at the earliest stage, to ensure that all project stakeholders recognise the value created via a transparent ESG & impact management and measurement framework. Share the outcomes of the monitoring and evaluation with the counterparties to ensure that everyone benefits from the data collected.

MACQUARIE ASSET MANAGEMENT

Supporting a sustainable future for the Port of Newcastle and community

SUSTAINABLE INFRASTRUCTURE & LOCAL COMMUNITY
ASSET MANAGEMENT
OTHER INTERNATIONAL

OBJECTIVE

Port of Newcastle (PoN)[2] is the largest bulk shipping port on Australia's east coast. It has long been a major source of regional economic prosperity with trade worth about AU$37 billion to the national economy each year, and operations at the port underpinning almost 9,000 direct and indirect jobs. It has been exporting coal since 1799 and is the world's largest coal exporting port.

However, as the global energy transition accelerates, so does demand for cleaner fuel sources, and this critical regional asset is seeking to diversify its trade base to secure long-term viability. Crucially, the port aims to bring the people of Newcastle and the Hunter Region of New South Wales, Australia, along with it to create a stronger, more diverse regional economy.

Since 2018, Macquarie Asset Management (MAM) has managed a 50% shareholding in the port on behalf of an Australian-based fund, The Infrastructure Fund (TIF). MAM, in partnership with co-investors, has utilised its investment and development experience across a range of sectors including in green energy technologies and infrastructure, to actively support the board (on which TIF has three director seats including one held by MAM's senior asset manager for PoN) and management team as they seek to decarbonise PoN's operations and diversify revenue streams. As this strategy develops, the port is embedding opportunities to foster improved training, employment and other societal outcomes within its own workforce and community.

2 Port details and numbers included in this case study are available in PoN's 2022 Sustainability Report and on the website at https://www.portofnewcastle.com.au/

DESCRIPTION

MAM has committed to invest and manage its portfolio in line with global net zero emissions by 2040. In alignment, the port delivered a net zero business plan at the end of 2022 and has committed to achieving net zero for scope 1 and 2 emissions and selected scope 3 emissions by 2040. It procures 100% of its energy from renewable sources and provides access to this green energy to all on-site tenants.

As part of PoN's strategy to increase revenues from non-coal trade, MAM is utilising its green investment experience to support the port to establish the 'Clean Energy Precinct' – a 220-hectare site for clean energy products and technologies including renewables and clean fuels, both today and as they evolve.

PoN and its stakeholders see embedding social considerations in its strategy as pivotal to success which has involved:

TALENT AND RETRAINING

Talent and retraining – PoN is investing in the development of future local talent and advancing skillsets. In partnership with the University of Newcastle, PoN aims to create career pathways for students and local jobs that can support long-term prosperity. To date this includes joining with a regional working party to develop and implement a targeted student, parent and teacher immersion programme; entering an MOU with University of Newcastle's Institute for Energy and Resources regarding its work on hydrogen; and providing STEM scholarships for Aboriginal and Torres Strait Island people.

ACTIVE COMMUNITY ENGAGEMENT

Active community engagement – PoN and its stakeholders including MAM, are focused on creating and maintaining relationships between the port and the wider community. Since 2020, PoN has engaged with stakeholders from across industry, community, academia and government, building the Clean Energy Precinct case as pivotal in the region's inclusive clean energy transition. A reinvigorated Community Liaison Group enables continued active communications between the port and wider regional stakeholders to underpin more inclusive outcomes.

MACQUARIE ASSET MANAGEMENT

Supporting a sustainable future for the Port of Newcastle and community

SUSTAINABLE INFRASTRUCTURE & LOCAL COMMUNITY
ASSET MANAGEMENT
OTHER INTERNATIONAL

OUTCOMES & IMPACTS

DECARBONISING THE PORT'S EXISTING OPERATIONS

Power Purchase Agreement (PPA) – in 2020, the port entered a five-year PPA agreement with Iberdrola, directly linked to a local wind farm in New South Wales. This contract covers the port's three embedded electricity networks, powering the port and its tenants with 100% green energy, alongside its tenants operating within its networks. The provision of 100% renewable energy through PoN's embedded networks is an example of how the port can help businesses from start up to medium size decarbonise their operations.

PoN has linked its recent sustainability financing transactions to its business ESG strategy, by selecting Key Performance Indicators (KPI) and targets focused on societal outcomes. For example, one KPI requires the port to diversify its revenue streams to reach 45% from non-fossil fuel commodities by 2030. The creation of a Clean Energy Precinct should help PoN meet this target as well as provide direct employment for the highly skilled workforce that is expected to leave the regional mining sector as the transition crystallises.

SUPPORTING LONG-TERM PROSPERITY OF THE REGION

The dedicated Clean Energy Precinct is currently expected to create thousands of new jobs in the region and increase the gross regional product of the Hunter region by AU$4.2 billion. The Clean Energy Precinct will do this by attracting new investment and trade from exports of energy commodities to the port's existing trading partners, supporting domestic decarbonisation in hard-to-abate sectors, boosting electricity grid efficiency, supporting the development of offshore wind to benefit regional Australia, and providing recycled water and wastewater solutions.

The port was recently nominated for the Port of the Future Award at the World Hydrogen Summit held in May 2023, in recognition of its role in driving the proposed clean energy hub.

LEARNINGS

A major challenge, to date, has been the inherent industry change which is happening on a global scale, and which all stakeholders are facing concurrently. Responding positively requires multi stakeholder partnerships and recognition of the evolving global approach to best practice.

There is a need to be agile in business planning and willing to adapt to these changes as well as to the changing needs of PoN's people and community.

ADVICE FOR INDUSTRY

Define the stakeholder engagement plan up front and maintain it throughout to ensure the process is working towards aligned common objectives of employees, tenants / customers, service providers, government, regulators, unions, industry and educators.

Government partnership is important, particularly when working together on planning frameworks and policies to best enable and drive the clean energy transition at an unprecedented scale.

LOMBARD ODIER

Food systems – investing to restore and nourish our planet

SUSTAINABLE FOOD PRODUCTION & CONSUMPTION
ASSET MANAGEMENT
GLOBAL

OBJECTIVE

While the transition to net zero generally focusses on energy systems, it cannot be achieved without also addressing non-energy emissions - including the transformation of food systems.

Food systems, including their full value chain and the impact on land use, account for as much as [34% of global emissions](). Agriculture is the largest global source of ecosystem degradation and biodiversity loss, the largest water user and a key driver of climate change (see Exhibit 1).

The transformation of food systems to reduce their impact on emissions – and other environmental factors – however, also requires us to take into account the social, cultural and health-related dimensions. We need to **restore or return 1 billion hectares back to nature**, at the same time as minimising the environmental impact of food production, combating price inflation, and ensuring access to nutrition for all.

In 2022, Lombard Odier launched a strategy with the objective of investing in a food system that can meet the nutritional needs of a growing population, within the constraints of planetary boundaries. The strategy seeks to invest in public equities globally that develop and mobilise new forms of healthy and sustainable protein, new agricultural practices, and new delivery models.

Social considerations formed a critical part of building convictions on the food system transition, and defining which opportunities to invest in. The EAT-Lancet commission on a Planetary Health Diet was taken as a key starting point for the work.

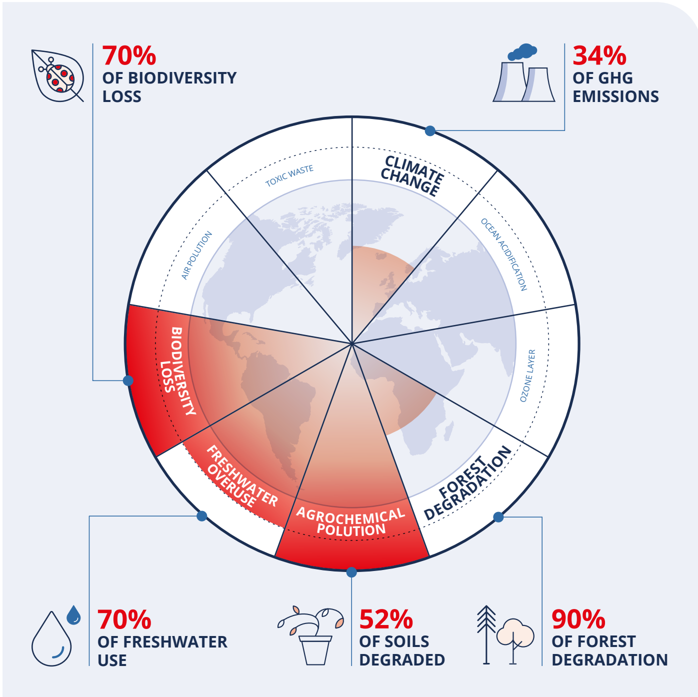


Exhibit 1: Breaches of the planetary boundaries, and the proportion of impacts for which food systems are responsible
LOIM analysis; based on (Rockstrom et al., 2018), (Crippa et al., 2021), (Sumaila et al., 2022), (FAO, 2021), (ELD Initiative, 2015), (World Bank, 2021), and (Campbell et al., 2017).

DESCRIPTION

Lombard Odier's approach to developing a Food Systems investment strategy combined deep expertise and research on the food system, with its unique sustainable investment and stewardship process.

In-depth research and partnerships: Lombard Odier has built a centre of expertise on food and agriculture within its sustainable research team and works in partnership with Systemiq – a systems change company actively engaging across the food system. Lombard Odier also works with academics (including **a partnership with Oxford University**), corporates, policy makers and coalitions (including the **Alliance to end Plastic Waste**, and the **Coalition for Private Investment in Conservation**).

Universe and portfolio construction: Lombard Odier defined the key investment impact themes for the investment strategy based on sustainability-driven inflection points and shifting profit pools (see Exhibit 2). A diversified portfolio is constructed from companies with material exposure to these investment themes, and by screening based on a clear set of financial, environmental and social criteria. For example, health and nutrition are major drivers of the food market with **half of consumers in major markets valuing healthy eating**.

Ongoing engagement and stewardship: Lombard Odier's sustainability research team works alongside portfolio managers to exercise active ownership, engagement and stewardship. It engages closely with companies to understand and set measurable objectives on sustainability related issues and opportunities.

SUSTAINABLE FOOD PRODUCTION	ENABLING SOLUTIONS	SUSTAINABLE FOOD CONSUMPTION
Companies which produce biological and synthetic inputs, and food products	Companies which provide specialised enabling products and services along the chain value	Consumer facing companies which manufacture, retail and serve food
• Aquaculture • Animal feed & health • Fertilisers • Agricultural products • Food additives & ingredients	• Farming & food equipment • Enabling technologies • Food packaging • Life-sciences • Logistics & delivery	• Food manufacturing • Retailers • Restaurants & canteens
$600 billion market in 2030	**$100 billion** market in 2030[3]	**$800 billion** market in 2030
6% CAGR (2021 - 2030)	**14% CAGR** (2021 - 2030)	**14% CAGR** (2021 - 2030)

Exhibit 2: Example investment universe
Source: LOIM analysis. For illustrative purposes only.
3 Enabling solutions projected market size is likely to be underestimated as some sub-themes are not included in this estimate for lack of robust estimations.

LOMBARD ODIER

Food systems – investing to restore and nourish our planet

SUSTAINABLE FOOD PRODUCTION & CONSUMPTION
ASSET MANAGEMENT
GLOBAL

OUTCOMES & IMPACTS

Lombard Odier's strategy actively facilitates the mobilisation of capital towards areas that are critical to the food systems transition. Agriculture, for instance, currently uses around **50% of all habitable land on earth** which comes at a great environmental cost (deforestation, climate change, biodiversity loss, soil degradation). To allow nature to return to a place where it can keep offering stable and valuable ecosystem services, we must return a large share of that agricultural land. At the same time, society needs to ensure a stable and sustainable supply of food for a growing and increasingly affluent population using new agricultural models. The work focuses on identifying opportunities for innovation in protecting yields (and therefore access to nutrition) whilst at the same time making significant environmental sustainability gains.

The strategy focuses on three key impact themes to support access to healthy and nutritious food for a growing population, while staying within planetary boundaries: **(i) sustainable food production, (ii) enabling solutions and (iii) sustainable food consumption.**

One of Lombard Odier's holdings is developing new precision farming equipment which helps farmers globally improve their yields while reducing agricultural chemical use (e.g. fertilizer, pesticides), supporting a transition to a new food system that can feed more people more efficiently.

The transition to sustainable and healthy food systems brings opportunities for investors to capture shifting and emerging profit pools. This will be critical to ensuring further acceleration in private capital flows towards environmentally and socially sustainable investment opportunities.

LEARNINGS

One of the major challenges Lombard Odier faced has been limited data availability. For example, companies typically report on CO_2 emissions and put less emphasis on other social (e.g. relationships with primary producers, healthy & nutritious products) or environmental issues (e.g. land and water-use, biodiversity loss). Lombard Odier overcame this by assessing key sustainability risks at an activity level, and taking a systematic approach to assessing companies based on their participation.

Many potential companies also had a diversified product offering with only a proportion of their portfolio aligned to the transition. Lombard Odier developed a holistic view of companies' activities, and systematically categorised activities (leveraging the EU's 'Do No Significant Harm' principle). If a material part of their portfolio was transition aligned then they were included in the strategy.

In both cases, systematic company research was supplemented with direct company engagement to better understand companies' sustainability initiatives and exposure to key risks.

For professional investor use only. This case study is for illustrative purposes only and does not purport to be recommendation of an investment in, or a comprehensive statement of all of the factors or considerations which may be relevant to an investment in, Lombard Odier's securities. This case study has been selected to illustrate the investment process undertaken by a Manager in respect of a certain type of investment, but may not be representative of any Fund's past or future portfolio of investments as a whole and it should be understood that the case study of itself will not be sufficient to give a clear and balanced view of the investment process undertaken by a Manager or of the composition of the investment portfolio of any Fund now or in the future.

ADVICE FOR INDUSTRY

Food systems are a key example of where environmental and social issues interact in a systematic manner. Investors who are not already starting to understand the associated risks and opportunities of the transition to more sustainable and healthy food systems will be left behind.

Additionally, the transition to a new food system is typically less well defined compared to some other transitions (e.g. energy) and will require changes at all levels of the value chain. It will be critical for other investors to develop their own convictions on the solutions underpinning these changes, and the pace at which they will be adopted.

Investors can collectively help shape a clearer articulation of the future of food systems and there is an opportunity to collectively engage and encourage companies to provide more transparency on their activities and impact. This will help accelerate access to capital for those companies who are protecting access to nutrition and farmer livelihoods whilst also innovating to mitigate negative environmental impacts.

SCHRODERS
Renewable energy investments and indigenous rights risks

RENEWABLE ENERGY & INDIGENOUS RIGHTS
ASSET MANAGEMENT
GLOBAL

OBJECTIVE

Demand for renewable energy continues to grow strongly as society recognises the need to transition to a net zero economy. However, with this will come growth in land demand to accommodate these projects. Wind and solar generation require at least 10 times as much land per unit of power vs. coal- and natural gas-fired plants.[4] There is a notable overlap between land that is ripe for renewable energy generation and land that is held by indigenous communities. Whilst enshrined in international laws, indigenous land rights are often not respected at a national level – either by states or the private sector. Investors should be aware and seek to mitigate the risk of infringing on indigenous rights through investments in renewable energy companies. Inadequate management of community relations can lead to financial risk, for example delayed or cancelled projects, as well as salient human rights impacts.

Schroders' sustainable investment team has published a piece of research on this topic – highlighting the underappreciated interplay of renewable energy and indigenous rights, and outlining a toolkit for investors to assess project and company exposure to such risks. This assessment toolkit has since been applied to some of Schroders' largest holdings with renewable energy exposure and will form the basis of a set of engagements.

4 J. Val Zalk and J. Behrens, "The spatial extent of renewable and non-renewable power generation: A review and meta-analysis of power densities and their application in the U.S.," Energy Policy, vol. 123, pp. 83-91, 2018.

DESCRIPTION

Schroders developed a proprietary framework for analysing the depth and quality of a company's practices on indigenous rights. This focuses on: the content of human rights policies; risk assessment quality; processes for sensitive consultation of local communities; grievance handling and remediation; and efforts to track effectiveness of activities. This is put in the context of exposure to indigenous rights risks, facilitated through geospatial tools like Landscope and LandMark.

Schroders' proprietary framework was informed by the World Benchmarking Alliance's Corporate Human Rights Benchmark methodology, the Business & Human Rights Resource Centre's Renewable Energy and Human Rights Benchmark methodology, and the underlying principles within the United Nations Declaration of Indigenous Peoples and the International Labour Organization's Indigenous and Tribal Peoples Convention 169. Application requires in-depth analysis of company communications and disclosures on human rights, specifically indigenous rights. This may come from sustainability reports and corresponding webpages, human rights reports, community engagement policies, and fact-finding conversations with companies.

A company is attributed a 'full', 'partial' or 'no' alignment against each criteria within the framework, which then culminates in an ultimate overall score for quality of practice. Schroders will then direct engagements with companies for the blind spots in the assessment.

> "Disregarding the rights of local communities and Indigenous populations in the race to a decarbonised economy by 2050, in particular those impacted by the boom in the extraction of the minerals needed for the transition, and by land-intensive renewable energy projects, is short-sighted."
>
> - Letter to United Nations Framework Convention on Climate Change and COP27 Nations from Business & Human Rights Resource Centre and Indigenous Peoples Rights International

SCHRODERS
Renewable energy investments and indigenous rights risks

RENEWABLE ENERGY & INDIGENOUS RIGHTS
ASSET MANAGEMENT
GLOBAL

OUTCOMES & IMPACTS

Raise the profile of indigenous rights risks associated with the energy transition within Schroders. Help investors anticipate financial risks to companies including litigative action, revocation of licenses, withdrawal of project financing and reputational risk.

Establishing a co-ordinated set of engagements of renewable energy companies on this topic to improve action in this area in line with best practice. These engagements will be carried out over the coming months and will align with the objectives within Schroders' **Engagement Blueprint**.

For 2023, Schroders expanded its objectives for companies on the Just Transition. These are:

- For relevant sectors, identify the key social impacts of companies' climate transition plans, policies and adaptation measures, across both the operations and the wider value chain, and include implications for human rights, human capital management, and diversity and inclusion.
- Engage constructively with impacted local communities and indigenous groups, applying the principle of Free, Prior and Informed Consent (FPIC).
- Set out how the company plans to consult and support impacted workers, such as facilitating a smooth transition to new jobs or providing reskilling/upskilling opportunities.
- Where phase-out or divestment from certain activities or markets forms part of the company's climate transition plan, set out how the company is considering, and mitigating impacts on, affected stakeholders where possible.

LEARNINGS

The issue in question is highly localised and context dependent. Gaining an insight into how exposed a company is to indigenous rights risks is difficult as a third party given that data around indigenous held land is patchy and, particularly when investing as a traditional public equity or debt investor, the granularity of specific project locations is not always available. Tools are available such as LandMark and Landscope to help estimate project or company exposure, but it is difficult to do on-the-ground reconnaissance and stakeholder engagement.

It is not common practice for renewable energy companies to proactively disclose their policies and processes around indigenous rights in a formal way. Some industry leaders are providing comprehensive detail, but in many cases companies may be undertaking measures but not actively communicating this to investors. As a result, analysing the extent of company practice from the outside may be limited. This can be addressed in part through 1-1 engagements with the companies to provide more information and to encourage more proactive disclosure.

ADVICE FOR INDUSTRY

Literature and narrative around the Just Transition tends to focus more heavily on the labour impacts of moving toward a greener economy – for example the need for reskilling workforces in traditional industries lest they be excluded from job opportunities going forward. Even the nod to the Just Transition in the Paris Agreement explicitly focuses on the creation of decent work.

However, there is a much broader range of social impacts that need to be considered. These include: human rights impacts associated with the energy transition, such as encroachment on indigenous and community rights. Increasingly there are case studies of where such issues are filtering through to a company's bottom line. Therefore, given the inherent social imperative, as well as the increasingly financial implications of mismanagement, investors would be prudent to pay more attention to the human rights issues intertwined with renewable energy expansion.

INTERNATIONAL FEDERATION OF RED CROSS AND RED CRESCENT SOCIETIES

Innovative Finance for the Disaster Response Emergency Fund

CLIMATE DISASTER & HUMANITARIAN RESPONSE
INSURANCE
GLOBAL

OBJECTIVE

Established in 1985, the International Federation of Red Cross and Red Crescent Societies (IFRC) Disaster Response Emergency Fund (DREF) is the simplest, fastest, and most transparent way for National Red Cross and Red Crescent Societies (National Societies) to access reliable international, short-term emergency funding for local community-based action in all kinds of disasters, when needs exceed the resources available at the national level.

Since its inception, more than 210 million people in crisis worldwide have benefited from DREF support and in 2021 CHF 40.6 million was allocated to reach 12 million people in 88 countries.

Response to climate-related disasters stands at 63% of these total allocations, but traditional donations are not keeping pace with the anticipated increase in frequency and magnitude of climate-induced disasters and humanitarian needs.

IFRC's ambition is to scale DREF to CHF 100 million per year by 2025 to close the gap between available funds and growing international needs.

Aligned with this ambition, IFRC has partnered with Aon and the Centre for Disaster Protection (CDP) to structure an innovative insurance mechanism that uses commercial insurance markets to leverage the contributions of traditional donors to increase the capacity of the DREF for responding to disasters.

While direct contributions to the DREF will always remain necessary, the insurance adds on as a contingency financing layer. Through the insurance mechanism, instead of putting up money to fund disaster responses, donors pay the premium. This stretches the value of their contributions and transfers the risk of excessive natural hazards to the private sector and ensures funds for response are available in a timely and reliable manner even in periods of excessive or unanticipated demand.

DESCRIPTION

Aon engaged with the reinsurance market to develop the insurance and design a structure that considered IFRC's strategic ambitions and the DREF's changing underlying risk profile and operational requirements, without introducing any forced changes to the DREF's current operational process. Leveraging its technical expertise, market knowledge and experience, Aon conducted a robust process to obtain competitive commercial terms of reinsurance capacity for the humanitarian sector.

The CDP supported the product design exercise and operations planning by providing an independent technical review of the insurance design and cost-benefit analysis, including a commentary on the implementation and risk factors. The CDP assessed the insurance is well-placed and is both cost and operationally efficient to maximise the humanitarian impact while minimising the risk of fund exhaustion in extreme years.

The insurance product directly benefits four critical humanitarian stakeholders:

1. **Pre-agreed financing provides greater certainty for local actors assisting vulnerable communities in times of volatility.**
2. **Insurance enhances the IFRC network's capacity to better address extreme scenarios.**
3. **A new opportunity for insurers to address the gap by supporting the humanitarian sector.**
4. **Transferring risk from stretched public balance sheets and smoothing donor budgets and planning.**

INTERNATIONAL FEDERATION OF RED CROSS AND RED CRESCENT SOCIETIES

Innovative Finance for the Disaster Response Emergency Fund

CLIMATE DISASTER & HUMANITARIAN RESPONSE

INSURANCE

GLOBAL

OUTCOMES & IMPACTS

The project expands on DREF capacity as an established model of localisation with no intermediaries, leading to higher cost-efficiency.

The proposed insurance policy will replenish the DREF for natural hazards – so that when DREF's allocations in responding to disasters in Overseas Development Assistance countries exceeds a pre-determined amount, the insurance policy would top up the DREF.

Presently, the insurance is structured to provide up to an additional CHF 20 million in exceptional years of unforeseen allocation requests, increasing the DREF's ability to respond to more disaster events and reach approximately 6 million more vulnerable individuals.

For IFRC, insurance ensures the sustainable development of DREF's capacity to deliver at scale and with greater impact. National Societies can reliably access DREF funding without interruptions to its operations in providing a variety of humanitarian services – in disaster risk management, emergency response, public health, and social services – and support the development goals of the public authorities in those countries.

IFRC Under-Secretary General Nena Stoiljkovic has pointed out that the private sector can engage in ways that drive social impact as well as profits. Donor governments can multiply the impact and reach of their donor contributions and lead change for the sector by creating enabling financial frameworks for humanitarian assistance.

> "We have an incredible opportunity to demonstrate how private sector solutions can help meet pressing humanitarian challenges and development needs globally by delivering greater efficiency and effectiveness."
>
> - IFRC Under-Secretary General Nena Stoiljkovic

LEARNINGS

While humanitarian needs demand new opportunities and conditions to mobilise private capital and resources at scale, it is paramount that the approach and products developed are in line with the IFRC's principles. It's important to strike the right balance between risks and rewards and be alert to conflicts of interest, value for money, and ethical questions.

A critical challenge was developing a shared value partnership between all stakeholders. The IFRC was prepared to take extra time to develop the product due to the nuances of establishing mutual understandings, aligning goals, and making compromises with the commercial partners.

The IFRC ensures transparency and inclusivity in the development process to minimise certain risks, including political risks for donors and reputational risks to IFRC, and abate differences in business practices, objectives, and managing its respective stakeholders.

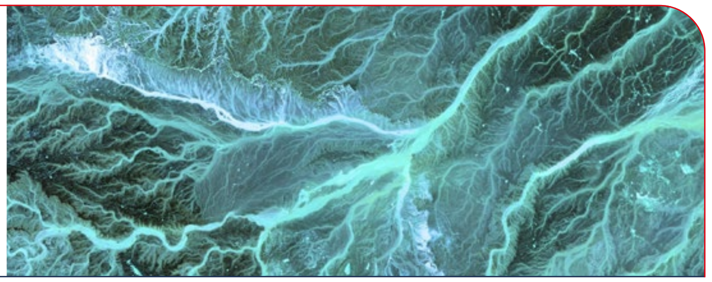
ADVICE FOR INDUSTRY

It is important to have impartial expert assessments of the approach and product development to ensure it meets both the moral standards as well as cost and operational efficiency to maximise the humanitarian impact. The CDP vetted and endorsed the IFRC process in its value for money assessment and highlighted that the design process was inclusive and transparent between all internal stakeholders and donors, as well as from the market and broker perspective. CDP considered this the best practice expected in all solutions of this kind in the humanitarian sector.

IMPACT INVESTING INSTITUTE

The Just Transition Finance Challenge: A market building initiative aligning capital with a fair and inclusive transition to net zero

ENVIRONMENTAL ADVANCEMENTS & SOCIAL OUTCOMES
ASSET MANAGEMENT
GLOBAL



OBJECTIVE

The Just Transition Finance Challenge, convened by the Impact Investing Institute, is a coalition of 21 investors (asset managers and owners) who jointly control over £4 trillion of assets and are committed to investing for a fair and inclusive transition to net zero globally. The Challenge is supported by the City of London Corporation.

The Challenge was launched to help asset managers and asset owners respond to growing demand for investment products and solutions that deliver on the three elements of a Just Transition, as defined by the G7-backed Impact Taskforce:

Advancing climate and environmental action - for example, greenhouse gas emission mitigation, reduction and removal

Improving socio-economic distribution and equity - for example, inclusive opportunities for decent jobs

Increasing community voice - for example, through engagement and dialogue with affected communities that are often excluded and marginalised

DESCRIPTION

The Just Transition Finance Challenge is producing practical tools and creating a global community of practice for Just Transition finance.

The first product is the Just Transition Criteria: a practical framework, including example disclosures and key performance indicators, to help the £2.2 trillion of sustainable funds (ref: Morningstar) incorporate delivery of social outcomes. It also helps asset owners – such as pension funds – align their investment portfolios with a fair and inclusive transition.

The Criteria provide a common frame of reference for financial institutions to identify what 'good' looks like when it comes to Just Transition outcomes. The Criteria draw from – and are designed to be interoperable with – global reporting standards and frameworks, and are applicable across geographies, investment strategies and asset classes.

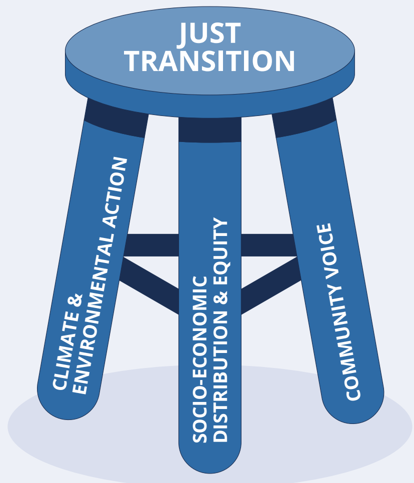
The Challenge also has a specific focus on supporting a Just Transition in the Global South, bringing together catalytic capital providers (development finance institutions, multilateral development banks, foundations) and investors themselves based in the Global South.

In addition, the Impact Investing Institute are exploring launching a label for Just Transition-aligned financing products to further catalyse the development and launch of investment propositions that benefit people, the planet and communities.

> "The Just Transition Criteria are a practical framework helping asset managers and owners align their environmental and social investment objectives."

THE THREE JUST TRANSITION ELEMENTS

To advance a Just Transition, actions must meet all three of the integrated Just Transition Elements.



IMPACT INVESTING INSTITUTE

The Just Transition Finance Challenge: A market building initiative aligning capital with a fair and inclusive transition to net zero

ENVIRONMENTAL ADVANCEMENTS & SOCIAL OUTCOMES
ASSET MANAGEMENT
GLOBAL

OUTCOMES & IMPACTS

Through its guidance and peer-learning, the Just Transition Finance Challenge has helped leading asset managers and asset owners to align investments with Just Transition outcomes.

The Challenge is catalysing more investment that delivers for people, the planet and communities. The recently published Just Transition Criteria are now being used by leading financial institutions to design investment strategies that deliver Just Transition outcomes. Asset owners are using them as a common frame of reference to identify the investments products and solutions that are most likely to deliver on their environmental and social impact objectives. In addition, investors are making use of the practical set of tools and resources provided by the Criteria to reflect the voice of local communities in their investments – an increasing priority for many financial institutions.

JUST TRANSITION FINANCE CHALLENGE

"The current momentum moving capital towards impact needs to be accelerated. A concerted and urgent effort by all actors is required to move funding – using relevant instruments and vehicles – into the SDGs and transition to a net zero world in which no one is left behind."

- G7 Impact Taskforce: Mobilising Institutional Capital Towards the SDGs and a Just Transition

LEARNINGS

To be effective, market building initiatives need to be additional and respond to the specific needs of actors targeted. This has meant close collaboration with key players and initiatives around the work, across the finance, business, foundation, impact and NGO sectors, and a focus on areas that move the market forward. These include, for example, upcoming research and guidance on how to reflect the voice of communities that will be affected by transition investments.

As investors, the founding participants in the Just Transition Finance Challenge recognise that adopting a Just Transition approach, which puts the needs of people and communities at its heart, is key to ensuring no one gets marginalised or left behind by the move to net zero. This approach is necessary not just because it is equitable and inclusive, but because a lack of public buy-in and participation will delay or even prevent necessary action. In short, the transition to net zero will not be successful if it is not just.

ADVICE FOR INDUSTRY

All financial institutions can, and should, take action to align their products and investments with the Just Transition – from asset managers and owners, to development finance institutions and banks. Actions taken by each institution will have an impact; together, there can be a significant multiplier effect. The Just Transition Criteria support this movement by providing needed industry consensus in aligning investments with the three elements of a Just Transition – climate and environmental action; socio-economic distribution and equity; and community voice.

At the same time, the approach recognises that different institutions will have different starting points and priorities when it comes to the Just Transition. The Challenge therefore focuses on providing practical tools and case studies that help each type of financial actor adopt the pathway that will be most impactful for them, by leveraging, for example, their existing reporting and disclosures processes.

About the Global City campaign

The Global City campaign is The City of London Corporation's overarching initiative to promote the UK as a world-leading international financial centre. It showcases the UK as a great place for financial and professional services firms to invest, locate and grow.

Where content clearly supports these promotional aims it should be considered for The Global City positioning.

theglobalcity.uk

In association with

About the City of London Corporation

The City of London Corporation is the governing body of the Square Mile dedicated to a vibrant and thriving City, supporting a diverse and sustainable London within a globally successful UK.

We aim to:

– Contribute to a flourishing society

– Support a thriving economy

– Shape outstanding environments

By strengthening the connections, capacity and character of the City, London and the UK for the benefit of people who live, work and visit here:

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