

Embedding net zero targets into a net zero strategy: Eurizon Capital

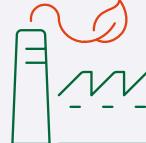
Background

Recognising that the financial community has a major role to play in accelerating the transition by directing capital towards more sustainable business models in the medium and long term, Eurizon Capital SGR (“Eurizon” or “we”) was the first Italian asset manager to join the Net Zero Asset Managers initiative (NZAM) in November 2021.

In this case study, authored and provided by Eurizon, we outline the target setting process undertaken at Eurizon, how we utilised the Net Zero Investment Framework, and the progress we have made towards these net zero targets.

Our targets

We published our net zero targets a year after joining NZAM, drawing on the Paris Aligned Investment Initiative’s Net Zero Investment Framework as the underlying framework. The targets are outlined in the table below.

Target	Our commitment
Target 1 - Asset Level Alignment	 <p>We identified a “Portfolio in Scope” of 67.5 billion euro, equivalent to 15.39% of our AUM as at 31 December 2021, which will be managed with the aim of achieving climate neutrality by 2050, thereby undertaking to include over time up to 100% of our assets.</p>
Target 2 - Portfolio Reference Level	 <p>We aim to reduce by 50% the intensity of Scope 1 and Scope 2 greenhouse gas emissions of the “Portfolio in Scope” by 2030. We aim to include Scope 3 emissions when data quality and availability become more robust.</p>
Target 3 - Stewardship	 <p>We aim to carry out engagement activities with 48 companies by 2025 (representing 70% of the emissions financed by the “Portfolio in Scope”) and another 107 companies by 2030 (up to 90% of financed emissions).</p>
Target 4 - Climate Solutions	 <p>We have committed to increasing the portion of our total AUM invested in Green Bonds from 1.53% to around 4% by 2025.</p>

From theory to practice: How we set out targets

At first, we set a portion of AUM to be managed in line with a net zero pathway (the “Portfolio in Scope”) and the baseline year of the analysis.

We selected listed equities and corporate fixed income to be included in the Portfolio in Scope as, at the time, these asset classes benefitted from more robust and established methodologies.

Sovereigns, as well as derivatives and investments in private markets, have been temporarily excluded from the analysis given the lack of consolidated methodologies. We remain committed to monitoring market best practices and evolving methodologies with the aim of including additional asset classes over time.

As a result, the Portfolio in Scope amounted to c. EUR 67.5 billion, representing 15.39% of the Eurizon Asset Management Division’s AUM at the baseline year (which was set at 2019-year end in line with best practices).

Having defined the Portfolio in Scope and set the baseline year, we proceeded to define the four targets recommended by the Paris Aligned Investment Initiative’s Net Zero Investment Framework (NZIF), which has been implemented by many of our peers, as well. It illustrates the target setting process and was accompanied by the support from IIGCC in addressing our questions along the way.

The development of criteria to assess the degree of alignment of issuers

We have made use of the six criteria suggested by NZIF to analyse investee companies’ degree of alignment to a net zero pathway:

- Ambition:** Several metrics were used to assess the “Ambition” criterion, taking into consideration the quality, granularity, and availability of data from the following data providers: CA100+, SBTi, Net Zero Tracker, MSCI, Alliance Signatories (NZAMI, NZBA, NZAO).
- Targets:** Data on short-, medium- and long-term GHG emissions reduction targets were sourced from the following providers, depending on the quality, granularity and availability of the data: CA100+ and SBTi.
- Emissions performance:** Quantitative data on the emission level intensity compared to previously defined targets were used, leveraging MSCI data.
- Disclosure:** Information regarding the publication of emissions level data was leveraged from two data providers, TPI and MSCI, taking into account the quality, granularity and availability of the data.
- Decarbonisation strategy:** Metrics on the presence of a strategic plan to achieve emissions reduction targets were used, using data from CA100+ and TPI according to their quality, granularity, and availability.
- Capital expenditures:** Metrics on investment in innovative solutions that contribute to the net zero objective (e.g., capital expenditure aligned with the Paris Agreement’s objective of limiting global warming to 1.5° Celsius) were used, leveraging data from CA100+ and TPI.

Below is an example of the alignment analysis performed on company X of the Portfolio in Scope:

Company	CA100+ focus list	High/Low Impact Sector	Criterion 1	Criterion 2	Criterion 3	Criterion 4	Criterion 5	Criterion 6	Alignment
Company X	Yes	High Impact	Yes	Yes	Yes	Yes	Partial	No	Aligning towards a Net Zero Pathway

Engagement: Planning and prioritisation

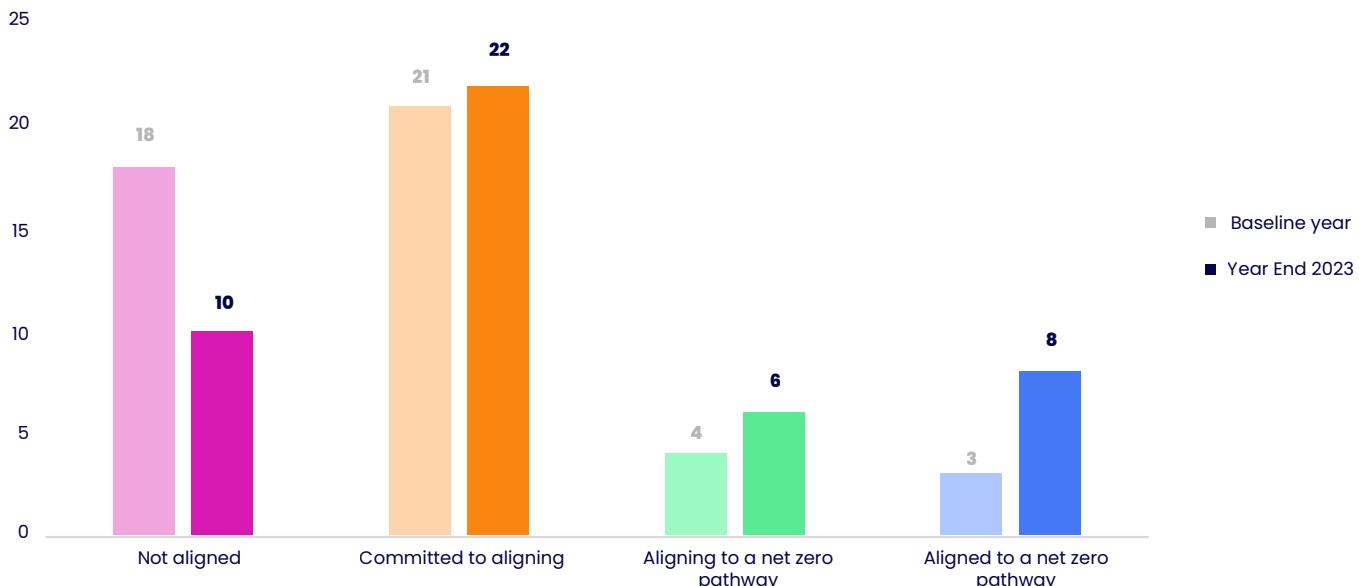
We have developed an internal net zero stewardship strategy, encouraging companies to undertake processes to decarbonise their businesses and progressively align with a net zero pathway through the implementation of appropriate strategies. We have identified those companies representing 70% and 90% of the emissions financed by the Portfolio in Scope (in the baseline year) to engage with by 2025 and 2030, respectively. Overall, 155 companies have been identified and we have set out a process to prioritise the dialogues. The factors considered include:

- GHG emissions** – Higher priority was given to portfolio companies representing the highest share of financed emissions
- Progress to date** – Higher priority was given to companies that have not yet defined a decarbonisation process with objectives and investment plans in line with ‘Net Zero’
- Jurisdiction** – Feasibility of implementing the engagement was acknowledged, including recognising the issuer’s country of residence
- Future GHG emissions** – Higher priority was given to companies that may increase their emissions levels in the future
- Addressing critical thematic issues** – Higher priority was given to those issuers that are involved in controversial activities (e.g. thermal coal or Oil &Gas extraction from oil sands).

Correlation between alignment and engagement

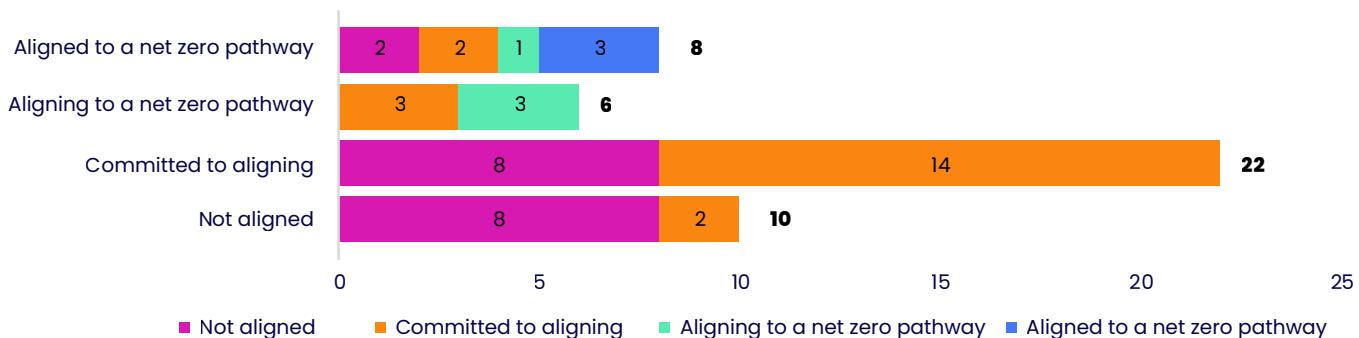
One year after beginning the net zero stewardship activities, we analysed how targeted issuers (46 companies) that have been already engaged and are included under Target 3) had progressed on their alignment pathway.

The graph below shows the targeted issuers alignment in the baseline year (2019) vs. the end of 2023:



Source: Eurizon elaboration

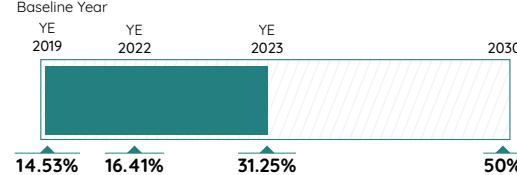
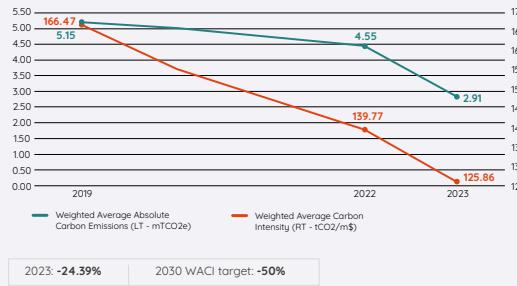
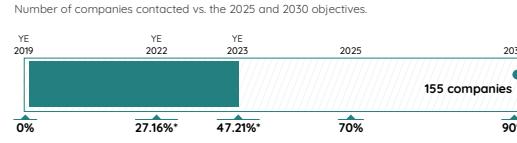
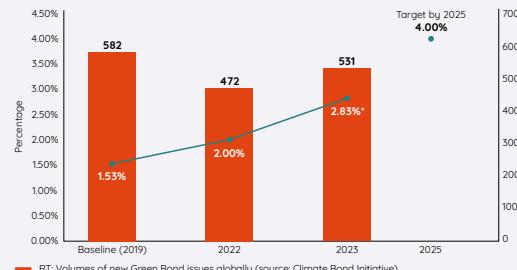
As shown in the following graph of December 2023, the issuers' distribution has changed. The colours of the bars indicate which category an asset belonged to in the baseline year, showing how many of the portfolio's assets have moved up NZIF's alignment maturity scale. For example, of the 18 issuers that were "Not aligned" at the end of the baseline year, 8 still belong to the same category while 8 have moved to the "Committed to aligning" and 2 to the "Aligned to a net zero pathway" category.



Source: Eurizon elaboration

Progress as of 31/12/2023

At the beginning of 2024, we published a '**Net Zero Progress Report**'¹ on a voluntary basis, showing the progress against its commitments at year-end 2023:

Target	2023 progress	Baseline Year
Target 1 – Asset Level Alignment	<p>The % AUM of the Portfolio in Scope that is considered at least equal to "Aligning to a net zero pathway" increased from 14.53% at the baseline year to 31.25% in December 2023. To date, no company is assessed as "Achieving Net Zero".</p>	 <p>Source: Eurizon elaboration.</p>
Target 2 – Portfolio Reference Level	<p>As part of Target 2, we monitor the performance of the Portfolio in Scope's Weighted Average Carbon Intensity (WACI). The WACI of the Portfolio in Scope was 125.86 tCO2/m\$ in December 2023 compared to 166.47 tCO2/m\$ in 2019, recording a 24.39% reduction. We aim to reduce the WACI of its Portfolio in Scope by 50% by 2030 vs the baseline year.</p> <p>The graph below shows both the performance of the WACI compared to the Baseline Year (2019) as well as the trend of the absolute average emissions of the Portfolio in Scope, which decreased from 5.15 mtCO2e to 2.91 mtCO2e.²</p>	 <p>Source: Eurizon elaboration.</p>
Target 3 – Stewardship	<p>In the context of Target 3, since joining NZAM at the end of December 2023, we have engaged with issuers responsible for 47.21% of the finance emissions of the Portfolio in Scope through bilateral and collective engagement actions (46 issuers).</p>	 <p>Source: Eurizon elaboration.</p>
Target 4 – Climate Solutions	<p>At year-end 2023, investments in Green Bonds grew to 2.83% of the total AUM, although new issue volumes were below expectations globally.</p>	 <p>Source: Eurizon elaboration.</p> <p>* As of December 2023, the figure considers the amounts invested in both Green Bonds and Sustainability Bonds.</p>

¹ <https://www.eurizoncapital.com/-/media/Project/Eurizon/EurizonPortals/EurizonPortal/Files/Sustainability/ENG/Net-Zero-Progress-Report-2023-EN.pdf>

² WACI is an intensity-based metric calculated relative to an issuer's revenues in Euro; absolute emissions are expressed as tons of CO2e.

Challenges and lessons learned

Since we became a signatory of NZAM, we have experienced significant progress in the degree of alignment towards net zero of the issuers included in the Portfolio in Scope. However, there are several challenges for the financial industry.

Lessons learned

Changes require time even for the most “virtuous” companies, and the effects of decarbonisation or energy transition plans require medium- to long-term timeframes; this is due to both ordinary business management reasons (e.g., investments planning, project set up, etc.) as well as regulatory issues (e.g., speed of permits).

In this context, monitoring and ongoing engagement activities over time is essential to encourage the companies to align themselves with a net zero pathway.

Over the last year, it can be observed that more awareness is shown by companies (especially in Europe) on issues related to the energy transition. This is increasingly becoming integral to business strategies/levers and no longer a marginal or temporary project. Furthermore, companies have been more willing to provide data, to organise dedicated meetings, and to submit targets for validation, where possible.

Dialogues are based on building a long-lasting relationship with investee companies since changes will take time. Thus, our stewardship approach and related actions and expectations are focused on the medium- to long-term.

Challenges

- **Methodologies:** As of today, due to the lack of robust methodologies, specific asset classes/ products (such as sovereign debt, derivatives, and private markets) are excluded from the Portfolio in Scope and will be considered in the future, subject to the development of robust methodologies. Furthermore, institutional and retail mandates remain subject to clients' own instructions.
- **Data:** Data availability, as well as data quality and verification are essential in order to avoid (i) conflicting information between different data sources and (ii) data provision at “parent company level” only and not at “subsidiary” level.
- **Effort:** Finally, the high number of companies to contact has to be considered, as well as their different geographies; investors should develop an engagement approach that aims to maximise the impact they can have on the decarbonisation of their portfolios.

Disclaimer:

Nothing in this document should be intended neither as investment research or as a marketing communication, nor a recommendation or suggestion, express or implied, with respect to an investment strategy concerning the financial instruments managed or issued, nor a solicitation or offer, investment, legal, tax or other advice.

The opinions, forecasts or estimates contained herein are made with reference only to the date of preparation, and there can be no assurance that results or any future events will be consistent with the opinions, forecasts or estimates contained herein. The information provided and opinions contained are based on sources believed to be reliable and in good faith. However, no representation or warranty, express or implied, is made by Eurizon Capital SGR S.p.A. as to the accuracy, completeness or fairness of the information provided.

Any information contained in the present document may, after the date of its preparation, be subject to modification or updating.