



# Setting asset level targets using the Net Zero Investment Framework: Comgest

## Background

This case study, authored and provided by Comgest, details the organisation's approach to asset level targets.

Comgest is an equity-focused asset manager with a quality growth investment philosophy that has guided our portfolios consistently for the past three decades. As long-term investors, understanding our investee companies' climate profiles is a key element of our investment process. It strengthens our research and informs our engagement on material climate issues which, in turn, helps us deliver durable earnings to our clients.

In 2022, we became signatories to the Net Zero Asset Managers (NZAM) initiative and in 2023, set our initial climate targets across 100% of our listed equity assets under management (AUM). Our ESG team worked closely with our investment team when establishing these targets, agreeing that they would help us navigate climate-related risks and opportunities, respond to current and upcoming regulations, and satisfy client requirements.

## Implementing the Net Zero Investment Framework

When it came to selecting a target setting methodology, it was important for us to match high standards for quality with flexibility and pragmatism. We recognise that the climate challenge ahead is immense and we need to pull multiple levers to contribute to real-economy decarbonisation, including supporting the scale of climate solutions. The 'dashboard' approach provided by the Net Zero Investment Framework (NZIF), focusing on several targets instead of one, was the key element that pushed us to select it.

At this stage, Comgest has set two climate targets using the NZIF guidelines: an **engagement threshold** and a **portfolio coverage target** (asset alignment target). We see these targets as complementary: assessing companies' alignment allows us to identify engagement priorities and asks, and engaging with companies allows us to better monitor climate alignment progress and contribute to improving companies' climate profiles.

## Comgest's climate targets and roadmap

ENGAGEMENT THRESHOLD	Baseline		NZAM accepted threshold		Ambition
	30% of financed emissions were subject to individual or collaborative engagement.	43% of financed emissions were subject to individual or collaborative engagement.	70% of financed emissions are subject to individual or collaborative engagement (if not already assessed as achieving net zero or aligned).	2025	As per NZIF, 90% of financed emissions are subject to individual or collaborative engagement (if not already assessed as achieving net zero or aligned).
PORTFOLIO COVERAGE TARGET	2022	2023	2027	2030	2040
	Baseline		NZAM accepted target	NZAM accepted target	Ambition
	35% of our listed-equity AUM is considered: <ul style="list-style-type: none"><li>- Achieving net zero</li><li>- Aligned</li><li>- Aligning</li></ul>	48% of our listed-equity AUM is considered: <ul style="list-style-type: none"><li>- Achieving net zero</li><li>- Aligned</li><li>- Aligning</li></ul>	50% of our listed-equity AUM is considered: <ul style="list-style-type: none"><li>- Achieving net zero</li><li>- Aligned</li><li>- Aligning</li></ul>	50% of our listed-equity AUM, in material sectors, is considered: <ul style="list-style-type: none"><li>- Achieving net zero</li><li>- Aligned</li></ul>	As per NZIF, 100% of our listed-equity AUM is considered: <ul style="list-style-type: none"><li>- Achieving net zero</li><li>- Aligned</li></ul>

Source: Comgest, 31 December 2023.

## Engagement threshold

Active ownership is central to our responsible investment approach and climate strategy. As long-term investors managing high conviction concentrated portfolios, we aim to develop strong relationships with our companies. Regarding climate, we prioritise investee companies that represent the highest share of our financed emissions and which are least advanced on their climate alignment. Our target is to engage companies that represent 70% of our financed emissions by 2025. In pursuit of this target, we take the following steps:

### 1. Calculate Comgest's financed emissions on an annual basis

To calculate financed emissions, we use MSCI carbon emissions data and financial data (Enterprise Value Including Cash) and consider all three scopes of emissions. The data used is either reported or estimated. Including scope 3 data (even if estimated) allows us to have a more comprehensive view of companies' risks and impacts and ensure highest emitting actors and most at risk actors are targeted for engagement.

### 2. Establish a climate engagement priority list on an annual basis

We select the companies that represent 70% of our financed emissions which are not considered to have reached the 'aligned' status yet<sup>1</sup>. This represents approximately 30 companies. This list is shared with our ESG Analysts and Company Analysts.

### 3. Engagement and monitoring throughout the year

ESG Analysts and Company Analysts lead the engagement efforts throughout the year and progress is measured on a quarterly basis. Prior to an engagement starting, the ESG team can prepare a 'climate engagement sheet' that summarises a company's climate profile as well as engagement asks. These asks are notably derived from gaps found against key frameworks, including Climate Action 100+'s Net Zero Company Benchmark, IIGCC's Investor Expectations of Corporate Transition Plans, and Transition Pathway Initiative's Management Quality. The climate engagement sheets also summarises past climate engagement activities and outcomes, as well as past significant climate votes.

### 4. Reporting and transparency

At the end of the year, we check the engagement status of all companies on our priority list and report the share of financed emissions we have engaged in our Annual Sustainability Report. Our investment style generally leads to low portfolio rotation on an annual basis, ensuring continuity in our engagement activities. Out of the 28 companies on our 2024 climate engagement priority list, 23 were already present on our 2023 list. Updating our list of companies representing 70% of our financed emissions on an annual basis ensures that we always focus engagement resources on highest emitters for which climate is an important topic.

## Asset alignment target (or portfolio coverage target)

Assessing the alignment of assets is a necessary step to better understand companies' material climate-related risks and opportunities as well as the robustness of their climate transition plans. Using NZIF's alignment criteria has allowed us to systematise alignment assessment across all invested companies<sup>2</sup>. To carry out this annual alignment assessment we use publicly available sources such as SBTi and Climate Action 100+ (CA100+), as well as external data providers such as CDP and MSCI. The data points we use to assess each NZIF criteria are mapped out in the table below:

---

<sup>1</sup> Further details on how we assess companies' climate alignment is detailed below.

---

<sup>2</sup> Comgest only invests approximately 20% of its listed equity AUM in higher impact companies. Higher impact companies represent companies on the Climate Action 100+ focus list, companies in high impact sectors consistent with Transition Pathway Initiative sectors, banks and real estate.

Criteria	NZIF definition	Data points used in the assessment of the criteria	
Ambition	A long term 2050 goal consistent with achieving global net zero	SBTi	Net zero target committed
		CA100+	1. Net Zero GHG emissions by 2050 (or sooner) ambition
		CDP	C4.2c regarding net-zero target(s)
		MSCI	Net zero target by 2050
Targets	Short- and medium-term emissions reduction target (scope 1, 2 and material scope 3)	SBTi	Near-term target set
		CA100+	3. Medium-term GHG reduction target 4. Short-term GHG reduction target
		CDP	C4.1a regarding absolute emissions target(s) C4.1b regarding emissions intensity target(s)
Disclosure	Disclosure of scope 1, 2 and material scope 3 emissions	CDP	C6.1 regarding scope 1 emissions C6.3 regarding scope 2 emissions C6.5 regarding scope 3 emissions* <i>*Assessment done for higher impact companies, notably checking disclosures of category 1 and 11 and category 15 for banks.</i>
		MSCI	Scope 1 emissions reported Scope 2 emissions reported Scope 3 emissions upstream and downstream reported* <i>*Assessment done for higher impact companies</i>
Decarbonisation strategy	A quantified plan setting out the measures that will be deployed to deliver GHG targets, proportions of revenues that are green and where relevant increases in green revenues	CA100+	5. Decarbonisation strategy
		CDP*	C3.1 regarding 1.5°C aligned transition plans C3.5 regarding spending/revenue aligned to 1.5°C transition C4.5a regarding products/services classified as low carbon C3.3 regarding climate risks/opportunities and strategy C3.4 regarding climate risks/opportunities and financial planning
		Criteria assessed only for higher impact companies. <i>*No direct mapping with CDP questions however the questions highlighted above can assist in assessing this criteria.</i>	
Capital allocation	A clear demonstration that the capital expenditures of the company are consistent with achieve net zero emissions by 2050	CA100+	6. Capital allocation
		CDP*	C3.1 regarding 1.5°C aligned transition plans C3.5 regarding spending/revenue aligned to 1.5°C transition C4.2 regarding targets for R&D investments C9.6 regarding low carbon investments
		Criteria assessed only for higher impact companies. <i>*No direct mapping with CDP questions however the questions highlighted above can assist in assessing this criteria.</i>	

When setting our targets in 2023, we concluded that we did not have a robust enough methodology to assess the NZIF criteria relating to 'Emissions performance'. We decided to take a prudent approach and classify companies in the following three categories: 'aligning' towards a net zero pathway, 'committed to aligning' and 'not aligned'. Consequently, our first five-year target focuses on increasing the portion of AUM invested in 'aligning' companies from 35% in 2022 to 50% in 2027. We are closely monitoring guidance development to assess emissions performance and will work on what data points allow to best assess this criteria in the coming months.

As mentioned above, we carry out this assessment on an annual basis, taking the following steps:

#### **Step 1: Initial assessment**

A first assessment is carried out to determine the alignment of each investee company. The mapping table above forms the basis of an in-house tool to regroup all collected data and facilitate the assessment. The output of this assessment is compared to the previous year's assessment and key elements of progress (or regression) are flagged (i.e. SBTi near-term target approved during the year).

#### **Step 2: Assessment confirmation**

Each alignment assessment is then confirmed by the ESG Analyst and/or Company Analyst as we recognise that companies may be disclosing additional information to what is captured by the data sources cited above.

#### **Step 3: Internal communication & reporting**

Investee companies' alignment status is made available to our investment teams on our in-house 'ESG dashboard'. Additionally, this yearly update of alignment statuses allows us to monitor and report on progress against our target. The share of our AUM invested in 'aligning', 'committed to aligning' and 'not aligned' companies is disclosed in our Annual Sustainability Report.

#### **Concluding remarks**

We are still at the start of our climate journey. Nevertheless, we have already experienced the benefits of having set these two climate targets. The target setting journey itself has been a great way to further train our investment teams on assessing climate-related risks and opportunities while establishing a standard set of metrics and analysis framework. We expect to further refine our assessment of companies' climate performance to be ever more detailed in our engagement asks and contribute to improving companies' climate alignment.

#### **Legal Entity Disclosure**

*Comgest S.A. is a portfolio management company regulated by the Autorité des Marchés Financiers with its registered office at 17, square Edouard VII, 75009 Paris, France*

For Professional/Qualified Investors Only

This document is the property of Comgest and is provided on a confidential basis. It may not be reproduced, republished, distributed, transmitted, displayed or otherwise exploited in any manner, in whole or in part. The information in this document is presented for illustrative purposes only and is not intended to, either explicitly or implicitly, recommend or suggest a specific security or to provide an opinion as to the present or future value or price of such a security. The contents of this document should not be treated as advice in relation to any potential investment. The views expressed in this document are valid at the time of publication only, do not constitute independent investment research and should not be interpreted as investment advice. Investing involves risk including possible loss of principal.

Please refer to our Responsible Investment Policy available on our website for a full description of our ESG integration process.

ESG Quality Levels are assigned following the ESG analysts in-depth review which takes place when a security enters a portfolio. While ESG quality levels cover a large majority of Comgest's assets under management, a Quality Level may not be assigned for all investments, depending on the strategy.