

## Better Information, Better Investments

Case studies from global investors on how CDP data and services support smarter investment decision-making



# Foreword

Over 800 institutional investors with assets of US\$100 trillion ask companies to disclose environmental information through CDP. The investors request vital information on corporate approaches to global challenges such as climate change, water scarcity and deforestation. But what do the investors actually do with all that information?



*What is clear is that across all these investors, CDP data has become an important part of a holistic approach to understanding future risk and opportunity.*

The case studies in this book aim to answer this question by shining a light on the processes of several different types of investors, all of whom are using CDP's data and award-winning analysis as part of their investment process.

For some it is about building climate into their risk management, for others the emphasis is on opportunity. There is also a wide variety of individual criteria and metrics that prove useful to these investors from corporate CO<sub>2</sub> emissions to corporate climate governance or to sector-wide benchmarks on environmental performance.

As the world strives to implement the Paris Agreement, and restrict global temperature rises below 2°C, investors face a pressing challenge to align their portfolios with the transition to a low carbon economy. Being able to measure and monitor the environmental performance of their holdings, and where necessary to act on these issues, is a vital part of meeting that challenge, and CDP data enables this to happen. Access to structured, comparable and consistent data and its importance in investment decision making has been given further emphasis by the launch of the Task Force on Climate-related Financial Disclosures (TCFD).

The diversity of the investors featured in this booklet is especially striking. The case studies include asset owners and investment managers, large and small funds, those with mainstream strategies and those with more specific ethical or public mandates. What is clear is that across all these investors, CDP data has become an important part of a holistic approach to understanding future risk and opportunity.

When companies hear that investors care, that drives action, and helps us to see improved behavior and ultimately more sustainable markets.

I hope many investors can read these case studies and learn from these leaders in the field.

**Rick Stathers**  
Head of Investor Initiatives

## Better Information, Better Investments

Case studies from global investors on how CDP data and services support smarter investment decision-making

**04 Executive Summary**

**06 CalPERS**

Helping the largest pension fund in the US set climate priorities.

**08 Environment Agency Pension Fund**

Normalizing the disclosure investors require to make sensible decisions.

**10 Neuberger Berman**

A divining rod for where to dig.

**13 Schroders**

CDP data helps us build a clearer investment picture.

**16 Boston Common Asset Management**

From engagement to education – three ways CDP helps us.

**18 New York State Common Retirement Fund**

Using CDP data to establish a low emission index.

**20 KLP**

Uniquely global dataset helps even in passive investments.

**22 NEST**

Making climate awareness a default option.

# Executive Summary

From portfolio building to policy setting, indexes to insurance, engagements to education, it is clear from the seven case studies in this book that there are many innovative ways that investors are putting financially-material environmental data at the heart of decision making.

Just some of the most common ways CDP data is being used by the case study investors include:

- ▼ **As part of ESG analysis:** Practically all the investors in this booklet undertake environmental, social and governance (ESG) analysis on their portfolio holdings and cite CDP data as a crucial part of this, and as a foundation for the wider ESG research industry.
- ▼ **As a reason to engage:** Whether companies are failing to disclose to CDP, or if their responses have room for improvement, the CDP questionnaire is a valuable hook that investors use to engage with companies and better understand their management approaches.
- ▼ **As part of sector-wide research:** Several investors point to the tailored data and benchmarks in CDP's award-winning sector research reports as useful additions to their understanding of risk and opportunity in specific sectors.
- ▼ **As a foundation for in-house products and strategies:** Several of the case studies use CDP as part of undertaking a carbon footprint of their portfolio or, in the case of New York State Common Retirement Fund, as part of creating an innovative Low Emission Index to help it reduce its investments in high-emitting companies.

Of course all investors are different, so it is little surprise that each investor finds different parts of what CDP does useful. For example, some of the case study investors explain that the data itself is most significant to them – enabling them to compare environmental performance across companies in a standardized, quantitative way. By contrast, others highlight the free text answers in the CDP questionnaire as the most valuable way to get insights into a company's environmental management.

Despite the range of approaches and styles covered by the case study investors, two fundamental aspects of CDP's data tended to be cited by most as the reason CDP stands apart. One reason is the commercial neutrality of CDP's data, helping investors to trust the information they get. Second, the "uniquely global" (as KLP put it) nature of the CDP dataset means that investors can judge corporate environmental performance along its whole supply chain in a way that national government-based datasets cannot emulate.

This booklet is primarily aimed at helping investors who do not currently use CDP data or research within their process to do so. With that in mind, we also pull out below "Seven tips and techniques for using CDP" from the seven case studies in this booklet. We hope these will be useful in sharing best practice and catalyzing usage as CDP continues to refine and improve the tools it provides.

# Seven tips and techniques for using CDP

## Picking future winners and losers

Investors such as **Schroders** highlight how CDP's data can sit alongside fundamental financial analysis to give investors a more holistic picture of a company's future returns. They give the example of an investment in Norwegian aluminum firm Norsk Hydro, explaining how in an energy-intensive industry the significant use of clean hydropower disclosed in their CDP questionnaire and forward-looking strategy in this area, set them apart from competitors.

## Informing policy

Investors such as the **Environment Agency Pension Fund (EAPF)** highlight how CDP can contribute to the formation of climate-related policies for investors. In the case of EAPF, it helped them create their highly acclaimed [Policy to Address the Impacts of Climate Change](#) committing the fund to run its assets in accordance with the UN-agreed principles of preventing global temperatures from rising by more than 2°C.

## Carbon footprints and engagement priorities

Many investors use CDP data to help assess the carbon footprint of their portfolio, i.e. to understand the total GHG emissions of their holdings relative to annual revenue. In its case study, **CalPERS** reveals how it has used this exercise to prioritize companies to engage with on climate risk, creating a list of 100 'Systemically Important Carbon Emitters' responsible for 75% of their portfolio's emissions.

## Analyzing water risk

Water management is an increasingly material consideration and investors such as **Boston Common Asset Management** explain how the data in CDP's Water questionnaires provide valuable insights. Criteria like total water withdrawals, discharges and water usage targets are all highlighted by different case study investors.

## Smart support for smaller funds

Both large and relatively small funds, such as **KLP**, are increasingly using CDP's sector reports to complement their own research. The ranking of companies and detailed criteria are proving especially helpful for smaller funds as it enables them to talk to their clients and/or fund managers about best in class methodologies for assessing a company's climate management.

## X marks the spot

Investors such as **Neuberger Berman (NB)** highlight how CDP data can work alongside other research and analysis. NB explain that CDP information often acts like a divining rod does for discovering water, i.e. it tells a investor where it is they need to dig for more information. NB give an insightful example of their research into the electric utilities sector and how CDP data helped identify which companies they then chose to find more granular technical detail on.

## A platform for collaborative action

Global environmental challenges such as climate change are too big for any one investor to tackle alone and many investors use CDP as a place to launch collaborative action for mutual benefit. For example, **New York State Common Retirement Fund** explain how they joined CDP's [Carbon Action Initiative](#) – a collaborative engagement backed by over 300 investors to accelerate emission reduction and energy efficiency in companies.

# CalPERS

## Helping the largest pension fund in the US set climate priorities.



The California Public Employees' Retirement System (CalPERS) manages the largest public pension fund in the US, with over \$300bn in assets. CalPERS is a founding signatory to the UN-supported Principles for Responsible Investment and a widely acknowledged leader in sustainable investment. In 2016 the fund adopted a new strategic plan which looks towards 2046 when full implementation of the Paris Accord's goals are due to be achieved.



*We can't model out of thin air. We need the information and it is CDP's data that underpins all our analysis.*



### CDP data helps with growing part of portfolio analysis

*"As long-term owners of corporations, our role is to ensure that company strategies are in line with ours on areas such as climate risk. CDP's data is very useful in helping us do this efficiently and effectively"* explains Anne Simpson, Investment Director, Sustainability at CalPERS. She continues, *"Mapping a company's carbon footprint, or the emissions it produces, and measuring its progress in this area is an important and growing part of our portfolio analysis."*

In 2015, to help meet this challenge, CalPERS took the carbon footprint of its Global Public Equities Portfolio with CDP being the source of much of the data.

Simpson explains, *"We developed a method of carbon footprinting that blends data from three different commercial providers, but we can't model out of thin air. We need the information and it is CDP's data that underpins all our analysis."*

CalPERS asks all companies that it invests in to complete CDP's questionnaire for their carbon and water use.

### Using climate analysis to set priorities

Perhaps the most startling finding from the carbon footprint exercise was that out of the 10,000 companies in CalPERS' portfolio, just 340 are responsible for 75% of the emissions.

Based on these findings, CalPERS has selected 100 of these high-emitting global companies and categorized them as 'Systemically Important Carbon Emitters' (SICE). The Fund argues that these 100 companies should be subject to mandatory reporting requirements as they pose risk to the wider economy through their emissions. These emitters fall across several sectors including Basic Resources, Chemicals, Construction & Materials, Food & Beverage, Industrial Goods & Services, Oil & Gas and Travel and Leisure Utilities.

The SICE list has given CalPERS a sharp focus, as these 100 large emitters are now seen as priority firms to engage with. Simpson says that this prioritization is an important step forward for CalPERS and is grateful that CDP's work has enabled it.

*"CDP's data helps us understand whether companies are committed to aligning their emissions with global targets,"* says Simpson *"For example, 33% by value of CalPERS' holdings publicly report their absolute GHG reduction targets to CDP. So we know that the total carbon emissions reduction pledged by these companies would reduce CalPERS public equity emissions by 6%<sup>1</sup>".* The fund can also look to CDP's sector research reports to see which companies are managing or not managing the transition to a low carbon economy.



CalPERS used CDP data to take a carbon footprint which helped identify priorities for engagement on carbon risk.

### Aiming for zero

CalPERS plans to work with fellow asset owners to engage the 100 SICE companies and drive the 50% figure to zero. *“We have the ability to drive this down between us”* says Simpson. *“Over the long-term, investors are saying to these companies that we want them to align their business strategy with the Paris Agreement”*.

CalPERS also plans to roll out its carbon footprint exercise to other parts of its portfolio in the coming years, including real assets and, ultimately, to its total fund. It says that CDP’s data will be extremely valuable for this and a key part of tracking progress.

CalPERS’ new investment strategy also includes a focus on water risk, which includes both rising oceans and water shortages, and CDP data is set to play an important role in the analysis that CalPERS does in this area to ensure they can measure and manage this risk.



*CDP has moved the needle on carbon reporting in the past decade and given us the opportunity to tackle it effectively and measure progress.*

### Role for regulators

Simpson adds that the role of regulators is essential and she wants more policymakers to study CDP’s criteria and methodologies. She explains, *“CDP has moved the needle on carbon reporting in the past decade and given us the opportunity to tackle it effectively and measure progress. But we also argue that there is a need for a wider policy framework of mandatory reporting of relevant risks for investors to bodies like the Financial Stability Board (FSB) and others.”*

*“The first part of our work is around advocacy. We need a policy framework that will price in this externality. We need to be advocates for market reforms which will price this risk in a better way”*

**More information:**  
[www.calpers.ca.gov](http://www.calpers.ca.gov)

<sup>1</sup> <https://www.calpers.ca.gov/docs/board-agendas/201511/invest/item11a-01.pdf>

# Environment Agency Pension Fund

## Normalizing the disclosure investors require to make sensible decisions.

### Environment Agency Pension Fund

The Environment Agency Pension Fund (EAPF) is a public pension scheme in the UK with over 40,000 members and assets of about £3 billion. Although relatively small in terms of assets under management, EAPF is well known for punching above its weight when it comes to responsible investment winning multiple awards for its ESG implementation and quality of its climate change reporting.

Faith Ward, Chief Responsible Investment and Risk Officer at EAPF, explains that over the 14 years she has worked there the emergence of CDP has transformed the fund's ability to access the data it requires to implement its investment strategy.

*stakeholders when putting together this new policy," explains Ward, "And CDP was a very useful contributor to this process, providing a wide network of expertise and helping us think about how to set clear goals for the decarbonization of our fund underpinned by quality disclosure".*

### Historic changes

Ward explains, "When I started working with the fund around 2002 it was very challenging to get the disclosure we needed to make sensible decisions. Most fund managers did not go beyond asking which companies we wanted to exclude. But CDP has helped normalize the disclosure of corporate ESG data, especially on climate change." She cites increasing regulation as another catalyst for better disclosure and adds that, "In jurisdictions like the US where there is no mandatory requirement CDP continues to really help drive environmental data disclosure."

The improvements in mainstreaming of corporate environmental disclosure has allowed EAPF to take a strategic fund-wide approach to managing its environmental impacts, including publishing its highly-acclaimed [Policy to Address the Impacts of Climate Change](#) in October 2015. This policy meant EAPF became one of the first pension schemes to run its assets in accordance with the UN-agreed principles of preventing global temperatures from rising by more than 2°C. "We consulted several

### An asset owner driving change along the value chain

All the assets of the EAPF fund are selected by external fund managers, thus EAPF places great importance and high levels of time and energy into recruiting and supervising fund managers who have the skills needed to consider environment-related issues across all asset classes. "We ask current and prospective fund managers what data sources they use in their investment process and would respond positively to those who can show they use CDP data. The CDP dataset empowers us to talk to fund managers constructively about the opportunities and challenges in different companies and in different asset classes."

She adds, "CDP's sector reports are also a great help. The rankings and results in those benchmarks help us, in a sense, to be more intelligent clients. We can go to our fund managers and speak on a level about the methodologies they use to assess a companies climate management. For smaller funds such as ourselves, or lay trustees, that is very helpful."

In jurisdictions like the US where there is no mandatory requirement CDP continues to really help drive environmental data disclosure



CDP consulted with Environment Agency Pension Fund on the formation of their highly-acclaimed Policy to Address the Impacts of Climate Change.



*CDP's sector reports are also a great help. The rankings and results in those benchmarks help us, in a sense, to be more intelligent clients.*



EAPF also asks fund managers to engage underlying companies on its behalf to improve the extent of a specific company's disclosure to CDP. For example, the fund recently engaged with leading insulation manufacturer Kingspan and Chinese energy company China Longyuan around the quality of the environmental data they disclosed to CDP. In both cases, reports Ward, the fund has not only seen the quality of their disclosure improve, but also improvements in the overall carbon management at both corporate entities.

EAPF also encourages its portfolio companies to disclose to CDP Water and Forests where relevant, and have successfully engaged with the likes of Tesco to complete the CDP Forests questionnaire.

### **Measuring the fund's environmental footprint**

EAPF undertakes environmental footprinting of its active equities and bond portfolios, and CDP data is a key part of the methodology for this exercise. This exercise is slightly wider than measuring just the carbon footprint as it includes a company's supply chain and waste outputs – and much of this data is found in CDP questionnaires.

Ward adds, *"Our environmental footprint continues to improve. In 2016 for example, our active equities were found to be 10.9% more environmentally efficient per*

*million pounds invested than the market average. One of the reasons for this is the improvements in the scope and accuracy of the data we are able to access"*.

### **Looking to the future**

The challenge of normalizing the disclosure of environmental data continues.

*"Looking to the future," concludes Ward, "We believe it is very important that CDP aligns with the likes of the French Ministry for the Environment and Michael Bloomberg's Task Force on Climate-related Financial Disclosures to ensure investors have broadly aligned disclosures from companies on material environmental factors."*

Just as CDP helped revolutionize corporate disclosure in the last decade, a new challenge presents itself in the coming years.

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**More information:**  
[www.eapf.org.uk](http://www.eapf.org.uk)

# Neuberger Berman

## A divining rod for where to dig.



Based in New York, Neuberger Berman (NB) is a private, independent, employee-owned investment manager investing approximately \$255 billion in equities, fixed income, private equity and hedge fund portfolios. NB has always been a pioneer in ESG integration and first began applying “avoidance screens” in 1942. In 1989, the firm launched one of the first socially responsive investment teams. Today, the firm’s Socially Responsive Investment (SRI) group and Emerging Markets Debt (EMD) team are industry leaders in ESG integration.

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*The SRI team finds that the thoroughness with which a company completes their CDP questionnaire can be a useful proxy for understanding how well a company is managed.*

### Twin track investment approach

Neuberger Berman is continually striving to improve its ESG credentials believing that responsible investing is not only key to sustainability but also that utilizing an ESG approach has a positive effect on long-term investment performance. In 2012, NB established a Principles for Responsible Investment Advisory Committee (PRI Committee) headed by Chief Investment Officer Joe Amato and other representatives from across the company. In June 2012, with the help of the Committee, NB became a signatory of the Principles for Responsible Investment (PRI).

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The firm has been a member of CDP since 2004 and all the teams at NB have access to CDP data. The information plays an especially important role in the Neuberger Berman Socially Responsive Fund.

Ingrid Dyott, Portfolio Manager of the \$2.5 billion Neuberger Berman Socially Responsive Fund, says, “Our team uses CDP data on emissions, water and forestry as part of the bottom-up ESG analysis we conduct on all companies in our portfolio.” In particular, the SRI team finds that the thoroughness with which a company completes their CDP questionnaire can be a useful proxy for understanding how well a company is managed.

Dyott says, “The way in which questionnaire answers are completed – both data and

*free text – tell our team a lot. It’s pretty crucial because if they can’t show that they’ve systems in place to manage their environmental challenges then it suggests that management may not be up to standard in other areas too.”* Dyott gives examples of criteria such as whether climate change is integrated into business strategy, and whether there is board level oversight, as places where CDP data can flag potential issues for investors.

It is not just about spotting risks for NB either. “The way a company completes their CDP questionnaire can also be an affirmation for us - so if we have an opinion that management is good and they affirm that that’s right in their CDP response, it may create an opportunity for us in our investments” says Dyott.

### Helping understand where to dig

CDP is not the only source of sustainability data that Dyott’s team uses, but they find that some of the detailed criteria in CDP’s questionnaire, especially on emissions, help them understand which companies might need further investigation.

One example the team offers is their review of the electric utilities sector. When analyzing utilities companies, indicators such as levels of ‘greenhouse gas emission/megawatt hour’ can help identify how efficiently a company is operating compared with peers. Dyott explains, “CDP data is not the whole



In sectors such as electric utilities, CDP data helps Neuberger Berman pinpoint assets where more granular research is required.

*story but it highlights where we need to go more granular. So in the case of gas utilities the high-level answers on GHGs give us the ability to pinpoint which companies we should then find out more about, for example going to the EPA to get plant level data”.*

In that sense, the CDP data can act like a diving rod does for discovering water; it tells the investor where it is they need to dig for more information.

### **Data is not the be all and end all**

CDP questionnaires also give valuable context, explains Dyott.

She argues that investors cannot always assume that high emissions automatically mean a poorly managed company. Dyott explains, *“For us, we don’t reach conclusions solely on absolute or relative data. We need to know context. So for example, a company may have high emissions but this may be because of a recent acquisition or because they currently have facilities that they plan to close down or retrofit etc..”* Thus, she states, one of the real value-adds of the CDP questionnaire is the chance it gives to companies to comment on what is going on and why they may have, for example, not met a target.

Dyott explains that CDP’s [sector research reports](#) also provide a valuable industry-wide viewpoint for their corporate analysis. *“These benchmarks help provide a big industry perspective and the standardized approach is a vital framework for comparing peers that, again, give us a better sense of where to drill down and so enable us to form our own conclusions.”*

### **Water data becoming essential**

Portfolio managers may also use CDP’s water data in their investment analysis looking at criteria such as a company’s total water withdrawals, discharges, disposal and water usage and targets in areas of water stress.

An example is a US-based semi-conductor manufacturer which they analyzed and where water management was a key issue. *“We noted that the company had set out aggressive water targets”,* explains Dyott, *“But they weren’t on track to meet them. We engaged on this issue and the company explained that the ambitious targets were set primarily to catalyze water efficiency measures internally, especially in chip design.”*

This helped reassure Dyott about the management in place on this issue and what sort of enabling tools and technologies were in place in regards to water conservation. The company also explained their intention to close down inefficient facilities in their global supply chain. CDP responses will be one of the prime tools that she uses to monitor the company's progress on this going forward.

*"Water is an area of growing importance and CDP is by far the most robust single point of data on both water and forests," says Dyott, "Though I hope that many more companies start to provide CDP with their water data because too few do at present" she concludes.*

## **A decade of data**

Reflecting on over a decade of membership with CDP, Dyott says that CDP has helped to streamline research efforts as it is a single repository for much of the emissions data that they require.

Dyott argues that, of course things are not perfect and that she'd like to see more assured data, more companies reporting on water and deforestation and that the way CDP collects Scope 3 data will be consistent with its other emissions data. But most importantly, they plan to continue to use CDP data and urge as many companies as possible to complete the questionnaire so that they and other investors can more easily invest in sustainable, well-managed companies.

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**More information:**  
[www.nb.com](http://www.nb.com)

# Schroders

## CDP data helps us build a clearer investment picture.



Schroders is a global asset manager with £375 billion of assets under management and offices in 27 countries. It is a mainstream investor focused on creating long-term value for its clients.

Andy Howard, Head of Sustainable Research at the firm, says that CDP's data is at the core of much of the climate research done by Schroders. He says, *"The argument that climate change can affect value and that something must be done about it is broadly accepted, but CDP data provides the bridge that enables investors to get from there to actually doing something about it"*

### Distinguishing winners and losers with climate data

Howard explains that the company specific data in CDP's questionnaires provides vital information to help an investor such as Schroders analyze and differentiate companies likely to provide a better investment over the long term. He cites factors such as how likely a company is to change its business model, its emission targets and its climate strategy as typical examples of the valuable data contained in a CDP questionnaire.

*"We want to know how exposed a particular business is to the changing context on climate and what it is practically doing to make the changes required; including its targets, timeframes and the extent of its ambition. Good CDP responses tend to include much of that information"* explains Howard.

He says that one challenge they face as investors is that there is little historical experience through which to examine the effects of tougher climate policies. There is no precedent for the scale of change that lies ahead if governments remain committed to limiting temperature rises to even close to two degrees.

He gives the example of the aluminum industry: *"Aluminum is an industry that uses a lot of power and therefore is vulnerable to a changing context, such as the introduction of carbon pricing. Critically too, smelters are located all over the world and use power from a wide range of sources. As a result, introducing more stringent pricing for carbon emissions will have very different effects on the costs of different companies, potentially completely reshaping the industry cost curve. Our analysis suggests that companies like Norsk Hydro or Alcoa, which rely heavily on hydropower rather than coal, will be beneficiaries if the economics of that industry are reshaped by climate policy. CDP allows us to look at that kind of detail and also to assess the likelihood that better placed companies will remain on that path."* He says that this sort of analysis, applied alongside financial data and the spectrum of other measures typically found in investor toolkits, helps strengthen insights and build conviction.

### CDP data feeds into many areas of investment decisions

For a large global investor such as Schroders, there are numerous ways that CDP's data might help in an investment decision.

*"For example, in both equities and corporate bonds we might use analysis of this data to help mitigate downside risk"*, says Howard. He gives the example of the sugarcane industry in Brazil that, due to degradation of land through over-farming, led the Schroders team to be concerned about the viability of the business, especially with more volatile weather likely to degrade the land further over time. Thus a decision was made to buy insurance to hedge against risks caused by the physical impacts of climate change.

*The argument that climate change can affect value and that something must be done about it is broadly accepted, but CDP data provides the bridge that enables investors to get from there to actually doing something about it.*



CDP data helped Schroders identify the use of hydropower by Norwegian firm Norsk Hydro as a key element of their analysis of the aluminum sector.

Howard adds that CDP's [quarterly sector reports](#) are also very useful. *"It is not so much the opinions expressed in these reports that are helpful to us, but the process and methodologies they undertake to get to their conclusions. It might, for example, give us an idea of a different way to look at a company and that is as important as the data itself".* He continues, *"We're looking to go beyond standard practices so anything that helps us to achieve more insight than our peers is valuable and CDP sector reports can help do that".*

### **Self-reporting and independent nature of CDP are key**

Howard also explains that the self-reporting aspect of CDP responses is extremely valuable. *"It's unusual to get data and inputs from the horse's mouth like this. Even if there are mistakes or missing elements in there, it's very helpful to get such information direct rather than via a third party who might put their own spin on it."*

CDP data is the foundation for much of the climate analysis done by the wider ESG research industry according to Howard. *"If there was no CDP data then a lot of the other players in the market would not have the data they require to provide their services".*

*"What sets CDP apart", he continues, "is that they are not a commercial research firm and they don't have an axe to grind. So their neutrality means that investors can trust that they are really trying to figure out the best way to be a conduit for environmental information and not assert themselves for the purposes of making money or lobbying for a particular change."*

### **Water and forests**

Howard adds that while it is the emissions data that he finds most comprehensive and comparable, Schroders also finds CDP's water and forests data a useful value-add in their process. While narrower and less developed than its climate information, CDP's water data provides investors with a much deeper understanding of companies' exposure to water risks and their mitigation efforts than is available from other sources such as CSR reports.

For example, Schroders worked with CDP on a white paper which highlights that deforestation risk associated with soy has been overlooked by most companies. He adds that the CDP Water questionnaire can often provide the best insights into how companies manage their water risks.

## Engagement

Schroders is an active engager of its portfolio companies – seeing the process as a useful way to better understand and maximize value in companies they invest in. Being sensitive to the effects of climate change does not mean we will never invest in carbon intensive companies. When we do so, we arm ourselves as fully as possible with information on the risks companies face, the steps they are taking and the gaps in our analysis of either. CDP provides an important source of information to help us understand the context, status and opportunities facing industries and companies.

## Going beyond carbon footprint

Howard notes that the issue of climate change and what it means to investors has developed significantly since COP15 in Copenhagen. However, the tools investors use to quantify this data have to a large extent not changed and there is a lack of creative thinking around how to use tools available. He explains, *“Too often the question is still ‘how do we find a better way to do carbon footprinting’, rather than ‘what are we trying to do with this data?’ There’s not much point in answering the wrong question more accurately if it leads you to the wrong conclusions.”*

Howard says that there is a need for investors to think about what they are trying to quantify and compare, while using the tools already available. *“CDP is in a great position to lead this debate and share their knowledge”,* he continues, *“It’s a hungry, empty space and we are looking forward to working with CDP and the rest of the industry to further improve the depth, breadth and quality of data available to investment analysts.”*

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### More information: [www.schroders.com](http://www.schroders.com)

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# Boston Common Asset Management

## From engagement to education – three ways CDP helps us.



Boston Common Asset Management is a global investment manager with more than US\$2 billion in assets under management. The firm has a long-term investment horizon, and is widely acclaimed within the responsible investment community for their integration of environmental, social and governance (ESG) factors into their investment process. Boston Common has been a CDP signatory since 2004 and a CDP investor member since 2012. Geeta Aiyer, the firm's Founder, also sits on the Governing Board of the UN-supported Principles for Responsible Investment (PRI).

What is clear is that across all these investors, CDP data has become an important part of a holistic approach to understanding future risk and opportunity.

### A key part of the engagement strategy

There are three key ways that Boston Common uses CDP data.

The first is during company engagement. Boston Common believes that reporting to CDP is an essential first step for all companies to assess and manage their carbon and water risks – and therefore advises firms that do not respond to CDP to do so. Boston Common has engaged companies from all sectors across the globe regarding CDP from Europe and the US to Asia including India, Japan, Singapore and South Korea.

Steven Heim, Managing Director and Director of ESG Research at Boston Common explains, *“For us, CDP provides a critical platform for qualitative and quantitative assessment of a company's carbon footprints and water risk management. The CDP questionnaires include details on governance at board level and long-term strategy, and really provide great insight into how a company is managing risks.”*

One example of how Boston Common uses CDP disclosure for engagement is with VF Corporation – a global apparel company and the parent company of Timberland and North Face. Constantina Bichta, Manager of ESG Research explains, *“VF Corporation is one*

*of the biggest cotton buyers in the world. However, cotton is a very water intensive product and this is becoming an increasingly critical issue for the apparel sector. Yet they weren't responding to the CDP water questionnaire. We were concerned that without robust water management strategies VF was exposed to a number of business risks. In 2015 VF Corporation responded for the first time to the CDP water questionnaire, and we have now been able to better understand its strategies and benchmark its water management against industry leaders.”*

### An internal yard stick

Alongside using CDP data to measure, monitor and manage the performance of companies in its portfolio, Boston Common uses CDP data to assess the carbon footprint of its portfolio strategies and monitor their own environmental performance.

Heim explains, *“We have used CDP data as a key part of measuring the carbon footprint of our portfolio. This is useful as not only has it shown our carbon footprint is significantly smaller than that of major indices, but more importantly it has shown us which companies in our portfolios are the highest GHG emitters.”*

Heim goes on, *“This led to extensive discussions with French companies Veolia*



The details on governance and strategy in a CDP response often provide valuable insights to the Boston Common Asset Management team.

*and Air Liquide about their carbon footprints and how they work to help other companies reduce emissions. This is part of our 'eco-efficiency' initiative that we are rolling out with companies to reduce their energy and water use, and eliminate waste, as a next step for companies and investors seeking to address climate change."*

As an investor seeking to understand their net climate benefits or impacts, CDP data on a company's impact on its supply chain is proving increasingly valuable.

### **Educating others**

The third way that Boston Common uses CDP data and services is as part of their work to educate companies on the material importance of sustainability issues.

For example, Boston Common have presented on a CDP webinar with Latin American companies to explain why water is an important issue for investors and how the CDP Water questionnaire can be a practical part of managing it.

In November 2016 Lauren Compere, Managing Director and Director of Shareowner Engagement presented to a group of over 20 companies in Japan. She shared how global investors use CDP data and how it can be used as an internal management tool to better manage energy and water in both direct operations and in their supply chain. She encouraged companies to improve their disclosure on these key risks by integrating their CDP responses into their other sustainability and integrated reports.

*"When companies hear that investors are concerned, that drives action, and helps us to see improved behavior and ultimately more sustainable returns", concludes Heim.*

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**More information:**  
[www.bostoncommonasset.com](http://www.bostoncommonasset.com)

# New York State Common Retirement Fund:

## Using CDP data to establish a low emission index.



The New York State Common Retirement Fund is the third largest public pension fund in the U.S., with an estimated \$184.5 billion in assets. The CRF was one of the first U.S. pension funds to become a CDP Investor Signatory in 2004 and has been a leader in sustainable investment for over a decade. The CRF has developed broad strategies to address climate-related investment risk by seeking sustainable investments, persuading corporations in the Fund's portfolio to adopt better environmental policies, and urging regulators to support strong policy actions.

**The emissions profile of the Risk Aware Low Emissions investment is 74% below its benchmark.**

### A low carbon investment strategy

As part of measuring and, in time, reducing its climate risk, the CRF undertook a carbon footprint review and found that its global equity portfolio has a 15% lower emissions profile than its benchmark (75% Russell 3000/25% MSCI ACWI).

However, the CRF has gone much further than just taking this baseline measurement.

In December 2015, New York State Comptroller and Fund Trustee Thomas P. DiNapoli announced a new investment strategy, a \$2 billion custom Risk Aware Low Emissions (RALE) index, at the Paris COP21. Created in partnership with Goldman Sachs Asset Management, the RALE index underweights investments in companies that are large contributors to carbon emissions, and increases investments in companies that are lower emitters, while closely tracking the return of its benchmark, the Russell 1000. The emissions profile of the RALE investment is 74% below its benchmark.

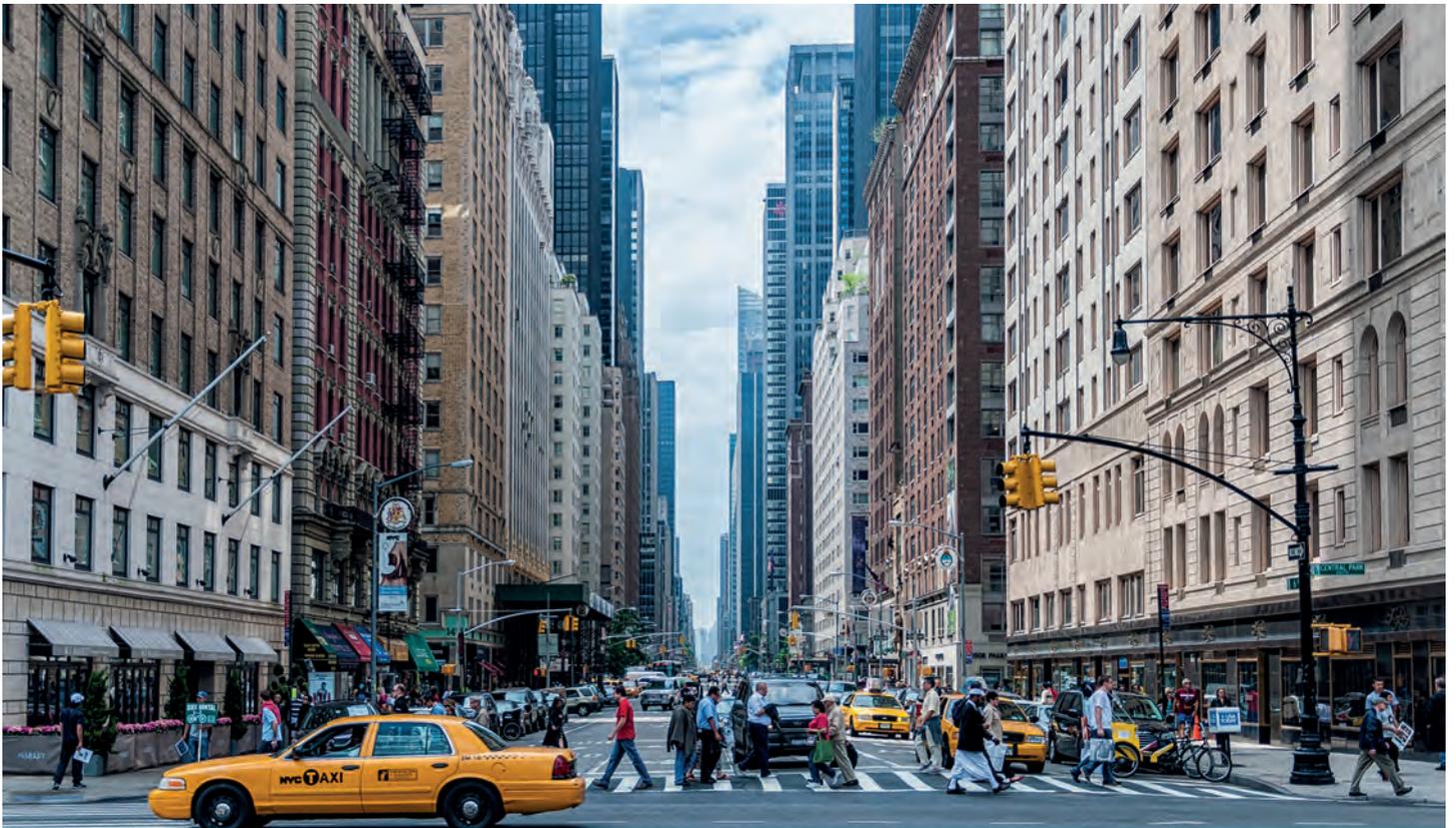
Comptroller DiNapoli explains, *"Low carbon, sustainable investments are key to our future. Our pension fund has long-supported climate aware strategies. The Index is an important part of our strategy to help protect the Fund's investments, and an approach that we can expand across all asset classes."*

### CDP data is a vital ingredient

Combining independent emissions data reported to CDP with GSAM's proprietary risk-aware optimization methodology, the RALE index aims to substantially reduce the Fund's U.S. equity portfolio's carbon emissions consistent with risk and return expectations. Using the CDP Full Greenhouse Gas Emissions Data Set to fill in gaps from non-reporting companies improves the robustness and reliability of emissions analysis.

### Active company engagement and other initiatives

Under Comptroller DiNapoli's leadership, the Fund has been recognized as a leader for its active engagement with companies on ESG issues, including climate change. CDP data informs the CRF's identification of target sectors and companies for active engagement, which is an integral part of the RALE strategy. The CRF joined CDP's Carbon Action, a joint initiative of 304 investors representing US \$22 trillion, seeking to accelerate company action on emission reduction and energy efficiency. The CRF is committed to asking high carbon emitting companies in its portfolio to take strong action by setting emission reduction targets and investing in emission reduction projects. The CRF has written to companies



New York State Common Retirement Fund used CDP data as part of the creation of a US \$2billion Low Emission Index.

*The CRF will continue to reinforce the message that environmental disclosure through frameworks such as CDP is a vital part of achieving the goals of the Paris Agreement.*

in the Russell 1000 that did not report climate data asking them to disclose to CDP.

The CRF has also provided a leading voice for strong policy and regulatory actions on enhanced corporate climate disclosure, calling for:

- ▼ National policies to level the playing field for investment in solutions to climate change;
- ▼ Eliminating subsidies received by the fossil fuel industry;
- ▼ Pricing carbon emissions; and,
- ▼ Supporting the development and deployment of non-greenhouse gas emitting forms of energy.

The CRF recently joined with 130 other investors worth a combined US \$13trillion in writing to the G20 on these matters.

Most recently, in January 2017, the CRF deepened its climate action by becoming the first major US pension fund to join the Portfolio Decarbonization Coalition - a group co-founded by CDP, UNEP FI and leading investors that has pledged to decarbonize portfolios by over \$600 billion.

Looking forward, the CRF will continue to work with fellow investors and the corporate sector to reinforce the message that environmental disclosure through frameworks such as CDP is a vital part of achieving the goals of the Paris Agreement.

**More information:**  
[www.osc.state.ny.us/pension](http://www.osc.state.ny.us/pension)

## KLP

### Uniquely global dataset helps even in passive investments.



KLP is Norway's largest life insurance company. It manages the pension assets of over 550,000 Norwegians and has over \$70 billion of assets under management. KLP is committed to responsible ownership and to promoting long-term and sustainable value creation. KLP has been a CDP partner since it first launched in the Nordics.

Jeanett Bergan, Head of Responsible Investment at KLP, explains that a significant chunk of KLP's investments follow an index-tracking model, which means that anything that improves general market performance is good for their long-term value. *"If we as active owners improve the performance of CO<sub>2</sub> intensive companies, that will help us secure better returns in the future"*, explains Bergan.

Bergan continues that the company-specific data in CDP's quarterly sector reports are especially helpful in identifying which companies might warrant active stakeholder engagement. In 2015, KLP used CDP's sector reports on the global automobile and electrical utilities sectors as the basis for engagement with other Nordic investors to encourage the companies covered to improve their performance on climate metrics.

#### **CDP helps smaller investors make their voices heard**

According to Bergan, by facilitating collaborative engagements with other investors on climate reporting, CDP helps investors to speak, "with a louder voice than if we were engaging on our own." She continues: *"KLP is a relatively small fund in an international context and it can be more powerful to work with other investors to amplify our impact"*.

#### **A unique source**

Bergan says that the nature of the CDP database is *"uniquely global"* in its provision of emissions data. That means that investors can judge corporate environmental performance along its whole supply chain in a way that national government-based datasets cannot emulate and which she believes gives CDP an important future role as emissions reporting continues to evolve.

*"There are other sources for country-specific data, but CDP is the only one that covers global business"*, she explains. As global businesses in turn account for a major part of global emissions, Bergan adds that this unique global data set and reporting framework should be more closely linked to the work of the United Nations in some way, due to its efforts to reduce global emission and securing the world's climate.

#### **Comparable data is key**

For KLP, CDP's sector-specific reports are also helpful in identifying companies that might provide a better investment in the longer term. *"What we need is comparable information. For that reason, the sector reports are tremendously useful"*, says Bergan. She adds that the benchmarks in those reports help investors to see, for example, which companies have climate risk management built into their governance and strategy, going beyond carbon intensity alone.

*CDP helps investors to speak, with a louder voice than if we were engaging on our own.*



By improving the performance of CO<sub>2</sub> intensive companies, KLP seek to secure better returns from passive investments

*The CDP database is uniquely global... Giving CDP an important future role as emissions reporting continues to evolve.*

KLP finds that companies can be resistant to filling out CDP questionnaires as it can often be very time-consuming. To help address this, KLP hosts workshops together with investee companies to walk them through the process and understand the value of completing the questionnaire. Since becoming a CDP partner, KLP has hosted a workshop every year to help launch the CDP questionnaire response process and provide support to companies.

*“When the sector report comes back and companies find themselves at the bottom of the ranking because they didn’t fill out the questionnaire, then they realize that investors use this data and we see the results”,* Bergan explains.

Looking forward, she says that she would also like to see more companies provide a clearer breakdown of energy use in their operations to highlight how much comes from renewables and how much from fossil fuels. Again, this is an area where CDP could have a big influence.

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**More information:**  
[www.klp.no](http://www.klp.no)

## NEST: Making climate awareness a default option.



NEST is a state-backed workplace pension provider in the UK with approximately four million members and £1.5 billion of assets under management. NEST's AUM and membership is set to grow substantially in the coming years as the UK implements new rules that automatically enroll employees into a workplace pension scheme. The scheme believes that an important part of growing members' money is investing it responsibly and sustainably.

### Data underpins climate risk assessment

*"Climate risk is something we started looking at around three years ago", explains Diandra Soobiah, Head of Responsible Investment at NEST, "And it became clear from our conversations with many stakeholders that climate change was a financial risk we need to take seriously to ensure better risk-adjusted returns for our members. CDP data is an essential part of helping NEST to evaluate both climate risks and opportunities."*

Much of the day-to-day management of NEST's assets is done by fund managers and CDP often features in NEST's manager selection process. *"For example we will ask managers for some mandates where they get their data and would expect them to name CDP as one of the sources to show that climate change gets serious consideration in their process. If they don't know CDP, that would raise a serious flag about whether they manage climate risk,"* says Soobiah. She adds that NEST will now have a clause built into its manager contracts that obliges relevant fund managers to report on climate risk, and that this is likely to involve CDP data.

CDP's data not only helps NEST to identify the largest carbon risks in its portfolio it also provides some focus for NEST's engagements. Soobiah adds, *"For example, the Scheme has engaged with several utilities firms and others to encourage them to report to CDP. Companies know CDP, and we see it as a benchmark standard for corporate environmental reporting."*

### New climate aware fund rewards better performance on climate

In March 2017 NEST invested £130m, around one fifth of its current developed markets equity portfolio, in a Climate Aware World Equity fund managed by UBS.

The fund uses a series of tilts based on a 'glide path model' constructed by UBS and NEST. The glide path model sees the fund invest more heavily in companies that have been identified as making a positive contribution to combating climate change. CDP data is part of the formula that helps UBS assess the climate performance of each company.

Soobiah explains, *"The emissions targets that companies report to CDP help us to assess whether a company is behaving in way that aligns with the path the world requires to keep temperature rises below 2 degrees. The glide path model means we can reward those companies that are on the right path, and reduce our exposure to those that are not"*

Companies know CDP, and we see it as a benchmark standard for corporate environmental reporting.



UK workplace pension scheme NEST has created a Climate Aware Fund that rewards companies investing in renewable energy and on a path to meet the targets of the Paris Agreement.

*The world is changing and it is down to investors like us to support that change. We cannot afford to ignore climate change risks and we have committed to being part of the solution.*

She gives the example of British energy company SSE, which has high levels of emissions but, she argues, ‘Also has significant levels of renewables in their energy pie which means their absolute carbon emissions and carbon intensity are coming down and thus positions them well on the glide path’. She also gives the example of German electric utilities company RWE, which has a big allocation to coal but has extensive plans in place to close down many of its coal-fired plants and re-allocate these resources to wind.

The Climate Aware Fund incorporates qualitative information which includes whether companies disclose to CDP and triggers a process that sees NEST engage with them to encourage better climate disclosure and vote against their audit reports if they do not see change.

The fund is set to grow over time and, innovatively, NEST has decided that younger members - who are more likely to be affected by climate change - will be given a greater exposure to the new fund than older workers. This is because older employees are closer to retirement and less likely to be affected by the transition to a lower-carbon economy.

Soobiah concludes, “*The world is changing and it is down to investors like us to support that change. We cannot afford to ignore climate change risks and we have committed to being part of the solution.*” She says the fund has been especially well received by younger members of the scheme, such as millennials, and this helps with member communications.

Soobiah adds that CDP’s [quarterly sector reports](#) are also very helpful for the fund, commenting, “*When setting up the climate aware fund we referred to the CDP oil and gas report (In the pipeline), and that was a really good checking mechanism for us.*” She says NEST also finds CDP’s water and forestry reporting to be of growing importance though argues they need a larger and more robust dataset in order to fully feed into vehicles such as the Climate Aware Fund.

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**More information:**  
[www.nestpensions.org.uk](http://www.nestpensions.org.uk)



[www.cdp.net](http://www.cdp.net)