Climate Change Position Statement 2024

Introduction and governance

The Nedgroup Investments Climate Change Position Statement takes guidance from the Nedbank Group Ltd ("Nedbank") Climate Change Position Statement and Energy Policy, while taking into consideration the context of asset management and investment activities across varying asset classes and geographies.

The Nedbank Wealth Responsible Investment Committee is tasked with overseeing the review and formalisation of this policy and the underlying principles. The organisation of this committee falls under the scope of the Head of Responsible Investment and Head of Investments for Nedgroup Investments.

Internal stakeholders to this position statement include:

- The Nedgroup Investments Divisional Committee.
- The Nedgroup Investments Investment Management Committee.
- The Nedbank executive Sustainability Risk Committee.
- The Nedbank board Sustainability and Climate Resilience Committee.

Summary of Nedbank's Climate Change Position Statement

Nedbank aims to be at the forefront of managing climate change risks and financing innovative solutions in ways that are sensitive and flexible to the specific contexts and markets in which it operates, guided by the overarching ambition of achieving net zero by 2050.

Nedbank's Climate Change Position embodies the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement principles. It emphasizes the urgent need to limit global warming to well below 2°C, ideally to 1.5°C, to prevent catastrophic climate change. The bank adopts a science-based approach to balance emissions and removals, aiming for net-zero emissions by 2050. This strategy is crucial for socioeconomic development, ensuring a just transition that supports local contexts and markets.

Nedbank is committed to leading in managing climate change risks and financing innovative solutions. Its initiatives are guided by the UN Sustainable Development Goals (SDGs) and focus on providing clean energy, water, sanitation, and climate-resilient infrastructure. By setting science-based targets and transparent reporting practices, Nedbank aims to align its leadership behaviours with the spirit of its climate change position, driving progress towards a sustainable and resilient future.

Summary of Nedbank's Energy Policy

The energy policy builds on the Nedbank Climate Change Position Statement, committing to align business strategies with the Paris Agreement. Recognizing the need for full decarbonization of the global energy system by mid-century, the policy guides the transition away from fossil fuels while accelerating efforts to finance non-fossil energy solutions to support socioeconomic development and build resilience to climate change.

The energy policy includes commitments such as not financing new thermal coal mines outside South Africa from 1st January 2025, managing financed emissions to achieve glidepath commitments, and scaling up investments in renewable energy. The policy aims for zero exposure to fossil fuel activities by 2045, supporting the transition to a zero-carbon energy system.

The full suite of Nedbank's public documentation can be found here: **Nedbank Integrated Reporting suite**

Our Best of Breed™ and third-party model

With the entirety of our assets managed by third party investment managers, our approach to responsible investment and climate change takes into consideration the various mandates that have been designed around the unique investment philosophies of our boutique and multi-manager partners.

Alongside some of our sweeping commitments and ambitions, a key intervention for us is around progressing the effort across our network of asset managers. Our approach to climate change centres on regularly engaging with our partner managers and guiding the development of our strategies in such a way that is harmonious with our own goals and that of our partners.

Our annual responsible investment review looks to capture the key climate-related risks and opportunities as identified by our partners, this helps us to discern their areas of focus and are supplemented by RI-dedicated sessions that allow us to better determine their areas of materiality.

Regarding our passive strategies, although we are early in our climate-related activity for these assets, the aim is to utilise the data points and metrics identified in this policy statement to better capture portfolio risks and inform collaborative engagement activities.

The scientific backdrop

As an asset management firm, we recognize the critical importance of addressing climate change and its impacts on our global economy and environment. Recent data underscores the urgency of this issue. At the time of formalising this policy, global temperatures have risen approximately 1.2°C above pre-industrial levels[1]. According to the Intergovernmental Panel on Climate Change (IPCC) this increase has already led to significant changes in weather patterns, sea levels, and the frequency of extreme weather events[2].

The IPCC has highlighted the necessity of limiting global warming to 1.5°C above pre-industrial levels by 2100 to avoid the most catastrophic impacts of climate change. Achieving this target requires immediate and substantial reductions in greenhouse gas emissions. According to the Climate Action Tracker research consortium the planet is on target for warming of about 2.7C by the end of the century. Pathways to limit warming to 1.5°C with no or limited overshoot involve reducing global emissions by approximately 43% from 2019 levels by 2030[3]. This ambitious goal demands coordinated global efforts and significant investments in renewable energy, energy efficiency, and sustainable practices.

Reaching net zero emissions by 2050 is a crucial component of this strategy. Net zero means balancing the amount of greenhouse gases emitted with the amount removed from the atmosphere, effectively reducing net emissions to zero[4]. This transition involves a comprehensive overhaul of our energy systems, shifting from fossil fuels to renewable energy sources, enhancing energy efficiency, and implementing carbon capture and storage technologies. Achieving net zero by 2050 is not only vital for mitigating climate change but also presents opportunities for economic growth, job creation, and improved public health through cleaner air and water.

As stewards of our clients' investments, we are committed to integrating climate considerations into our investment oversight. We believe that proactive climate action aligns with our fiduciary duty to manage risks and seize opportunities for sustainable growth. By supporting the transition to a low-carbon economy, we aim to contribute to a resilient and prosperous future for all.

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[1] **World Meteorological Organization (WMO)**

[2] IPCC Sixth Assessment Report

[3] IPCC Sixth Assessment Report

[4] The International Energy Agency

The physical risks of climate change

Physical risks for asset managers commonly play out indirectly via portfolio companies and can have profound implications for asset valuation, operational continuity, and overall financial stability. We highlight some of the physical risks of climate change for consideration by our asset management activities.

Acute Risks
Extreme weather events such as hurricanes, cyclones, floods and wildfires that can cause significant damage to physical assets, disrupt operations, and impact supply chains[5]. Intense and prolonged heatwaves can affect infrastructure, reduce labour productivity, and increase energy demand for cooling[6].

Chronic Risks
Rising sea levels can lead to coastal erosion, increased flooding, and loss of land, while changes in rainfall patterns can result in droughts or excessive rainfall, impacting water availability and agricultural productivity. Long-term rises in average temperatures can affect ecosystems, human health, and the viability of certain industries[7].

The transitional risks of climate change

The transitional risks affecting asset managers is numerous and varied. These risks arise from the shift towards a low-carbon economy and can impact various sectors and investments. Below we provide a few of the key transitional risks, which highlight the importance of proactive climate risk management and the integration of sustainability considerations into investment strategies. By addressing these risks, asset managers can better protect their portfolios and capitalize on opportunities arising from the transition to a low-carbon economy.

Policy and Legal Risks
Regulatory Changes aimed at reducing carbon emissions, such as carbon pricing, emissions trading schemes, and stricter environmental standards, can increase compliance costs and impact the profitability of high-carbon industries. Companies may also face legal challenges related to their environmental practices or failure to disclose climate-related risks[8].

Technology Risks
Technological advancements and adoption of new, low-carbon technologies can render existing technologies obsolete, leading to write-offs and increased costs for companies needing to upgrade their systems. Significant capital investment is required to develop and implement new technologies, which can be a financial burden for companies[9].

Market Risks
Changing Market Dynamics in consumer preferences towards sustainable products and services can affect demand for traditional, carbon-intensive products. The transition to a low-carbon economy can lead to the revaluation of assets, particularly those in fossil fuel industries, resulting in stranded assets and financial losses[10].

Reputational Risks
Companies that fail to adapt to climate change or are perceived as environmentally irresponsible may suffer reputational damage, affecting their brand value, market position, and customer loyalty.

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[5] S&P Global
[6] PWC
[7] PWC
[8] S&P Global
[9] PWC
[10] PWC

Materiality, baselining and glidepaths

Nedgroup Investments will be formalising baseline emissions and forward-looking glidepaths in 2025 as TCFD reporting evolves into IFRS S1 and S2, with a focus on both sustainability and climate-related disclosures. Nedbank's position regarding the prioritisation and phasing of financed emissions, baselining, and net-zero aligned glidepath capabilities for emissions-intense sectors will inform the second evolution of this position statement, and how these are best adopted in asset management.

We have highlighted below three potential climate targets for adoption by our partner managers, taking into consideration 'best fit' for the mandate, the asset class(es), and investment objective of the fund[11].

1. Sectoral Decarbonization Approach (SDA): Emissions-based physical intensity targets are set for key sectors of real estate, power generation, cement, pulp and paper, transport, iron, and steel.
2. Portfolio Coverage Approach (PCA): Engagement targets are set to have a pre-determined portion of portfolio companies setting science-based targets, that ultimately seeks a linear path to 100 percent portfolio coverage by 2040.
3. Temperature Rating Approach (TRA): Capturing the current temperature rating of portfolios and taking action to align these with long-term temperature goals, by engaging with portfolio companies to set ambitious targets.

Portfolio alignment and data points

As a preface to this section, we endeavour to advance our climate ambitions as our understanding evolves and the data improves in such a way that we may confidently draw actionable conclusions. We welcome the trend suggesting that climate metrics are already becoming more robust and standardised across our portfolio companies and the ESG data providers we utilise.

An optimal way to incorporate net zero into an asset management strategy is to commit to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C. To support investing aligned with this, in our view involves:

- Prioritising the achievement of real economy emission reductions, taking account of material portfolio scope 3 emissions.
- Setting interim targets and reviewing these at least every five years.
- Taking each asset in the portfolio through the following stages: measurement, target setting, implementation, monitoring and reporting.

We have identified the below climate-related data metrics as central to measuring and tracking our investments, as pertains to both portfolio-level data and investee company-level data. These data points are consistently recorded and reconsidered for their relevance in our responsible investment framework.

Metric
Financed scope 1 and 2 emissions (tCO2e / $m invested)
Financed Scope 3 emissions (tCO2e / $m invested)
Weighted average carbon intensity (CO2e / $m sales)
Fossil fuels sector exposure (%)
Exposure to fossil fuel-based revenues (%)
Exposure to green revenues (%)
Green to fossil fuel-based revenue ratio
Market value tied to coal companies (%)
Market value tied to oil and gas companies (%)
Fund implied temperature rise (ITR) (°C)
Position weighted contribution to portfolio implied temperature rise (°C)
Portfolio companies implied temperature rise (°C)
Portfolio companies' adoption of science-based decarbonisation targets (%)

See Annex 1 for full definitions

[11] Science-Based Target Initiative

Green to fossil fuel-based revenue ratio

The IEA's 2023 World Energy Investment report highlights that for every dollar invested in fossil fuels, about 1.7 dollars are now going into clean energy[12]. This ratio has increased significantly over the past five years, indicating a growing emphasis on renewable energy investments.

The IEA provides guidance on the necessary investment ratios to achieve climate goals. According to their analysis, the ratio of investment in low-carbon energy supply to fossil fuels needs to increase significantly. By 2030, the ratio should be around 4:1, meaning for every dollar invested in fossil fuels, four dollars should be invested in low-carbon energy. This ratio is expected to rise further to about 6:1 by 2040 and 10:1 by 2050[13].

This substantial shift in investment is crucial to transitioning to a sustainable energy system and meeting global climate targets, and hence we have included data metrics such as the 'green-to-fossil fuel-based revenue ratio' in our portfolio-level tracking.

Fund implied temperature rise

Recent research suggests that very few investment funds are currently aligned with the 1.5°C or 2°C global warming scenarios set by the Paris Agreement[14], with the number decreasing in recent years to below 16%[15]. These lower numbers can be attributed to several factors, including lack of data standardisation, data limitations, investor focus, and regulatory and policy gaps across regions.

As part of our enterprise risk management framework, Nedgroup Investments currently have set thresholds across three major pillars of Fund ESG Ratings, Climate Change, and Controversies (i.e. controversial weapon exposure). Regarding Climate Change, our aggregated assets target a positive green to fossil-fuel based revenue ratio and a declining implied temperature rise.

These metrics are periodically under review and stretched in their ambition, we aim to advance our climate goals as our understanding progresses and the data improves in such a way that we may confidently draw more decisive and actionable pathways.

Fund implied temperate rises can be influenced by portfolio repositioning, moving between carbon intensive and low impact sectors, updated company reports regarding greenhouse gas emissions, and revised strategies that capture corporate climate ambitions and subsequent glidepaths.

The follow-up data point from ITR is the analysis of ITR attribution, which considers the temperature warming alignment of investee companies and their weight within a portfolio, helping to identify positions with the largest contribution to the fund's ITR. The shortcoming of this approach is that larger portfolio holdings that are characteristic of a low carbon footprint, yet carry a higher temperature alignment, would distort the associated carbon risk and climate materiality of the fund. Nonetheless, this is an important metric in gauging our aggregated alignment with our ambitions and informing manager engagement sessions.

Concluding remarks

The Nedgroup Investments Climate Change Position Statement 2024 underscores our unwavering commitment to addressing climate change through responsible investment practices. Guided by the principles of the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement, our strategy aims to be rooted in science, while balancing emissions and removals that are essential for socioeconomic development and a just transition.

As an asset management firm, we recognise the critical importance of addressing climate change and its impacts on our global economy and environment. We are committed to integrating climate considerations into our investment oversight, aligning with our fiduciary duty to manage risks and seize opportunities for sustainable growth. By adhering to these principles and strategies, Nedgroup Investments hopes to lead in managing climate change risks and financing innovative solutions, driving progress towards a sustainable and resilient future.

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[12] International Energy Agency's 2023 World Energy Investment report.

[13] Bloomberg New Energy Finance.

[14] Morningstar Report: Investing in Times of Climate Change

[15] MSCI

Annex 1: Climate-related metric definitions

Financed scope 1+2 emissions (Mt CO2e)	Represents a normalized measure of a fund's contribution to climate change that apportions companies' Scope 1+2 carbon emissions across all outstanding shares and bonds. This figure measures the total annual Scope 1 and 2 carbon emissions (reported or estimated) associated with USD 1 million invested in the fund. It is calculated as the sum of companies' Scope 1+2 carbon emissions weighted by the most recently available enterprise value including cash (EVIC) and by the weight of companies in the fund.
Financed scope 3 emissions (Mt CO2e)	Represents a normalized measure of a fund's contribution to climate change that apportions companies' carbon emissions across all outstanding shares and bonds. This figure measures the total annual Scope 3 emissions (estimated) associated with USD 1 million invested in the fund. It is calculated as the sum of companies' carbon emissions weighted by the most recently available enterprise value including cash (EVIC) and by the weight of companies in the fund.
Weighted average carbon intensity (CO2e / $m sales)	The Weighted Average Scope 1+2 Carbon Intensity measures a fund's exposure to carbon intensive companies. The figure is sum of security weight (normalized) multiplied by the security Scope 1+2 Carbon Intensity.
Fossil fuel sector exposure (%)	The percentage of fund's market value exposed to issuers with an industry tie to fossil fuels (thermal coal, oil and gas), in particular reserve ownership, related revenues and power generation. It does not flag companies providing evidence of owning metallurgical coal reserves.
Exposure to fossil fuel-based revenues (%)	Fund exposure to Fossil Fuel-Based Revenues is the weighted average of each issuer's percent of revenue generated by goods and services, including thermal coal extraction, unconventional and conventional oil and gas extraction, oil refining, as well as revenue from thermal coal-based power generation, liquid fuel-based power generation, or natural gas-based power generation.
Exposure to green revenues (%)	Fund exposure to Green Revenues is the weighted average of each issuer's percent of revenue by goods and services, including alternative energy, energy efficiency, green building, pollution prevention and sustainable water.
Green to fossil fuel revenue ratio	Ratio comparing fund's weighted average green revenue to fund's weighted average fossil fuel-based revenue.
Market value tied to oil and gas companies (%)	The percentage of fund's market value exposed to companies with an industry tie to oil and gas, in particular reserve ownership, oil and gas related revenues and power generation. It does not include companies generating revenues from biofuels.
Market value tied to coal companies (%)	The percentage of fund's market value exposed to companies with an industry tie to thermal coal, in particular reserve ownership, production and power generation.
Fund implied temperature rise (°C)	A fund's Implied Temperature Rise measures, in aggregate, a fund's temperature alignment (in °C) to keeping the world's temperature rise to 2°C by 2100. The calculation uses an aggregated budget approach that compares the sum of financed emission budget overshoot against the sum of financed carbon emission budgets for the underlying portfolio holdings. The total fund carbon emission over/undershoot is then converted to a degree of temperature rise using the science-based ratio approach of Transient Climate Response to Cumulative Carbon Emissions (TCRE).

Source: MSCI

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