ONE PLANET SUMMIT

SOVEREIGN WEALTH FUNDS

The One Planet Sovereign Wealth Fund Framework

6 JULY **2018**

INTRODUCTION

Following the adoption of the 2015 Paris Agreement in which parties committed collectively to mitigate the effects of climate change, the One Planet Summit (the "Summit") was held on 12 December 2017, which was followed by the Climate Finance Day.

Given both their influence and long-term investment horizons, Sovereign Wealth Funds ("SWFs") are in a unique position to promote long-term value creation and sustainable market outcomes. Accordingly, the "One Planet Sovereign Wealth Fund Working Group" was established at the Summit in order to accelerate efforts to integrate the opportunities in the transition to a low greenhouse gas emissions economy ("low-emissions economy"), and address the risks related to climate change in the management of large, long-term and diversified asset pools.

The six founding One Planet SWF Working Group members committed to: **(a)** developing an environmental, social and governance framework (the "Framework") to address climate change issues, including the development of methods and indicators that can inform investors' priorities as shareholders and participants in financial markets; and **(b)** publishing the Framework, methods and indicators in 2018. This initiative is championed by President Emmanuel Macron of France.

This document constitutes the One Planet SWF Working Group's Framework. It is the outcome of consultations among the founding members and with other institutional investors who are working towards the integration of climate change issues in the asset management sector.

Taking into account the diversity of mandates and legal contexts of the members, the Framework recommendations are voluntary. The physical and transition risks stemming from climate change entail a number of financial implications. As action on climate change accelerates, the transition to a low-emissions economy presents opportunities in terms of markets, investments, business models and innovation.

The economic impacts of climate change on specific markets and regions are complex, varied and uncertain, which means that the timing and extent of such impacts are difficult to predict.

Climate outcomes may also affect company performance over time. Investors need to understand the extent to which investee companies are exposed to climate-related risks, which are best prepared to manage these risks, and which are positioned to capture the opportunities in the markets' transition to a more sustainable future.

The One Planet SWF Working Group's Framework seeks to promote better informed decisions, thereby contributing to a smooth transition to a more sustainable, low-emissions economy. Accordingly, the One Planet SWF Working Group hopes that other long-term institutional investors will be able to make use of this Framework in the execution of their mandates and investment objectives.

AIMS AND OBJECTIVES

Climate change implies risks – ranging from physical impacts to regulatory shifts and technology disruption – to a wide range of assets. On the other hand, anticipating the global policy and market responses to climate change and the transition to a low-emissions economy also creates new investment opportunities. Long-term investors can play a role in supporting such a transition by promoting common methods for climate-related disclosure, analysis and investment decision-making to use in accordance with their individual mandates. These methods should improve the quality of climate-related financial information and thereby support the assessment of climate risks, which will ultimately help investors to allocate long-term capital more efficiently. By extension, this could contribute to shifting the trajectory of the world economy towards long-term sustainable growth and help avert catastrophic risks to the planet.

PURPOSE

The purpose of the Framework is to accelerate the integration of climate change analysis into the management of large, long-term and diversified asset pools.
To improve the resilience and sustainable growth of these pools, the Framework aims to help SWFs to:

- **foster** a shared understanding of key principles, methodologies and indicators related to climate change;
- **identify** climate-related risks and opportunities in their investments; and
- **enhance** their investment decision-making frameworks to better inform their priorities as investors and participants in financial markets.

This initiative is championed by **President Emmanuel Macron of France**

Principle 1: **Alignment**

Build climate change considerations, which are aligned with the SWFs' investment horizons, into decision-making.

Principle 2: **Ownership**

Encourage companies to address material climate change issues in their governance, business strategy and planning, risk management and public reporting to promote value creation.

Principle 3: **Integration**

Integrate the consideration of climate change-related risks and opportunities into investment management to improve the resilience of long-term investment portfolios.

Voluntary Action

The adoption of the Framework is voluntary and non-binding. It is designed to promote best practice and a shared mindset among SWFs and their stakeholders.

The Framework has been developed to accommodate countries at different levels of economic development. It is subject to domestic provisions, legal and regulatory requirements, and the SWFs' specific mandates.

PRINCIPLES

The members of the One Planet Sovereign Wealth Fund Working Group hereby agree to be guided by the following principles:

Principle 1: **Alignment**

Build climate change considerations, which are aligned with the SWFs' investment horizons, into decision-making.

Principle 1.1
SWFs recognise that climate change will have an impact on financial markets.

As long-term asset owners, it is the responsibility of SWFs to deliver on their mandates through the long-term performance of their investment portfolios. Climate change will have an impact on long-term asset pools. Consequently, the impact of climate change and related governmental and financial responses present investment risks and opportunities for SWFs, whose goals of long-term growth and the protection of intergenerational wealth coincide with the Paris Agreement's objective, namely the protection of the planet for future generations.

SWFs make direct investments and/or hire asset managers to invest on their behalf. Whether they invest directly or through asset managers, SWFs can be exposed to potential climate-related risks to their underlying investments. Similarly, they can benefit from the potential returns on the investment opportunities associated with action on climate change.

Principle 1.2
Due to their long-term investment horizon and diverse investment portfolios, SWFs recognise that climate change presents financial risks and opportunities which should be incorporated into the investment framework.

SWFs are exposed to the risks associated with transitioning to a low-emissions economy and the potential impacts of physical climate change risks.

In general, SWFs hold diversified investments across multiple companies, markets and asset classes. Their investment portfolios potentially contain thousands of underlying individual companies and investments that have broad exposure to climate change-related impacts, including regulatory or policy-related responses. A rise in global temperature in excess of 1.5°C and the resulting impact on the global economy could affect SWFs' ability to deliver long-term returns.

Principle 1.3
In accordance with their respective mandates, SWFs should report on their approach to climate change.

SWFs may integrate reporting on their approach to climate change into their internal and external communications as relevant.

Principle 2: Ownership

Encourage companies to address material climate change issues in their governance, business strategy and planning, risk management and public reporting to promote value creation.

Principle 2.1
SWFs expect company boards to understand the consequences of their business practices for climate emissions and to set clear priorities for the company to address relevant climate change issues.

The long-term financial objective of SWFs is safeguarding and growing their assets. How companies manage the transition and physical risks and opportunities from climate change may drive long-term returns.

Principle 2.2
SWFs expect companies to plan for relevant climate scenarios and incorporate material climate risks in their strategic planning, risk management and reporting.

SWFs may wish to engage with companies as a shareholder to understand:

1. the risks and opportunities associated with the climate change issues that the Paris Agreement is seeking to address;
2. whether companies have devised any related metrics for monitoring such risks and exploring such opportunities; and
3. how this information is incorporated into their business strategies and planning.

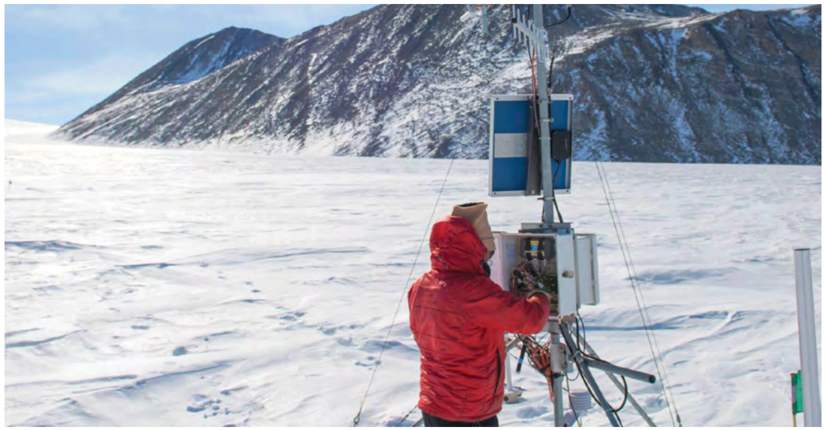
Companies may be at different stages of development depending on their context, market and resources. SWFs should take this into account in their engagement with companies.

Principle 2.3
SWFs encourage public disclosure by companies to understand how climate change may affect their future performance, and what actions they are taking.

SWFs can encourage companies to be transparent about how they manage the impact of climate change. SWFs and the broader market can, in turn, use such information to identify how climate change may affect a company's financial performance. In addition, SWFs may utilise such information to determine whether companies are taking relevant steps to develop a long-term business strategy to manage the transition to a low-emissions economy.

Principle 2.4
SWFs should encourage the development and adoption of agreed standards and methods that promote the disclosure of material climate-related data.

To make informed investment decisions, SWFs require timely, relevant, accurate and complete climate-related data. SWFs should encourage companies to provide climate-related data based upon standardised methodologies and in a consistent format, for example through the Greenhouse Gas Protocol and the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.



Principle 3: Integration

SWFs should integrate the consideration of climate change-related risks and opportunities into investment management to improve the resilience of long-term investment portfolios.

Taking action to address climate change supports SWFs' investment objectives.

The economic impacts of climate change on specific markets and regions are complex, varied and uncertain, making the timing and extent of such impacts difficult to predict. Significant risks to portfolios exist if markets cannot adapt over a reasonable timeframe. At the aggregate portfolio level, diversification still offers protection, but climate change ultimately presents many risks for which investors will not be rewarded.

SWFs should aim to incorporate climate change considerations in order to improve investment decision-making. This may include integration into allocation decisions, manager selection and valuation.

Principle 3.1
SWFs should identify, assess and manage portfolio risks generated by the expected transition to a low-emissions economy and from the potential physical impacts of climate change.

The scale and pace of the transition to a low-emissions economy are uncertain. Enhanced disclosure on how companies are managing this transition will enable SWFs and the broader market to assess risks and opportunities in a more meaningful way. In particular, climate change risks may affect companies and investments in different ways: for example, through technology disruption, regulation, evolving consumer preferences, and changes to supply and demand.

Risks to investors from the physical effects of climate change will become more material if the aims of the Paris Agreement are not met. Physical climate risks can be event-driven (e.g. cyclone, floods, etc.) or chronic (e.g. due to changes in precipitation and temperature).

Physical risk assessment requires more granular information that captures asset-level data and temporal effects, which can then be used to estimate potential financial impacts based on a set of assumptions or climate scenarios. These data are not readily available, but some of the emerging tools to help companies assess the potential impacts of physical climate-related risks include meteorological mapping and the development of asset-level datasets.

Principle 3.2
SWFs can draw on, and develop, analytical tools to inform portfolio allocation and investment decisions.

Scenario analysis on climate change can be useful to complement traditional financial analysis and to inform decision-making. Scenario analysis is useful to illustrate a range of potential climate outcomes and business sensitivities under different assumptions. At the same time, they do not represent accurate climate projections. SWFs can draw on scenario analysis and other tools to guide portfolio allocation and investment priorities.

The practice of integrating climate change information into valuation processes is in the early stages of development.

Principle 3.3
SWFs should consider investment opportunities that arise from the global effort to address climate change.

Given their long-term horizons, SWFs are particularly well positioned to benefit from investment opportunities arising from global efforts to address climate change. Drivers of opportunities include shifts in demand, technology, policy incentives and the ability to scale climate solutions to mitigate emissions or adapt to climate change.
Consequently, SWFs should consider accelerating investments in companies with clean technologies that enable more efficient resource use, lower emissions and clean energy, according to their financial objectives.

SWFs can develop criteria to identify and filter climate-related opportunities that best fit their investment strategy.

Principle 3.4
SWFs should consider approaches to reducing portfolio exposure to climate-related risks.

Investors may consider options for reducing their exposure to climate-related risks. For example, climate analysis using greenhouse gas emissions data and other climate metrics could be useful in investment selection and weighting across the portfolio with the objective of reducing risk exposures while retaining diversification.

SWFs could consider integrating climate change requirements into manager selection, mandates and investment strategies with the aim of improving resilience to climate risks across the portfolio.

Principle 3.5
SWFs can promote research on issues related to the financial implications of climate change.

SWFs could initiate or support research in areas that can help to increase knowledge and understanding of the financial implications of climate change for markets and investors. Such support could also include the development of climate data analytics. Building a growing body of theoretical and empirical research related to the financial impact of climate change can contribute to well-functioning markets.

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