

# Thinking Ahead Institute

## Reporting and communication

Part of a series of articles from the investing for tomorrow working group



## Investing for tomorrow working group

This document has been written by members of the Thinking Ahead Group 2.0 (Tim Hodgson and Samar Khanna) following the research and discussion conducted by the Thinking Ahead Institute's investing for tomorrow (IFT) working group. The authors are very grateful to the members of the working group for their input and guidance but stress that the authors alone are responsible for any errors of omission or commission in this paper.

The key objective of this working group is to produce research outputs that can usefully guide investors to establish and set a pathway to achieve their climate ambitions. Beyond this, we hope the outputs help them to become a driving force in transforming the global economy to be compatible with the 1.5C climate target.

The members of this working group are as follows:

- Jyoti Banerjee (North Star Transition)
- Adrian Benedict (Fidelity International)
- Kate Bromley (QIC)
- James Burgess (BTPS)
- Tracy Burton (Coronation)
- Jeff Chee (Willis Towers Watson)
- Helen Christie (Uninvest)
- Tom Cullen (S&P Dow Jones Indices)
- Ed Evers (Ninety One)
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- Philip Greenheld (QSuper)
- Arthur Grigoryants (RWC)
- James Harris (CQSM)
- Michael Jabs (Kraft Heinz Pension)
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- Alison Loat (OPTrust)
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- Herschel Pant (AXA IM)
- Jeroen Rijk (PGB Pensioendiensten)
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- Leo Taglieri (Barclays Pension)
- Lucy Thomas (NSW Treasury Corporation)
- Adrian Trollor (NSW Treasury Corporation)
- Nacho Valinani (Pensions Caixa 30)
- Jaco van der Walt (RBC Global Asset Management)
- Sarah Wilson (Nuveen)
- Debra Woida (Willis Towers Watson)

## In short,



This paper explores the sixth step in the TAI six-step action plan: to develop reporting and communication frameworks to help asset owners measure progress against climate ambition.

A climate report is your communication to your stakeholders - a way to manage their expectations. A climate report is a means to prioritise and structure metrics, a framework to measure progress against climate goals to better inform future decision-making.

In this paper, we discuss broad principles that lay the foundation of a well-constructed framework, propose a straw-model reporting template of our own, examine the current state of climate data and analytics, and

highlight areas for future development. We provide the necessary tools and insights to build a reporting framework best suited to your context and needs, keeping you on track to achieve your climate objectives.

## Reporting frameworks

The first five steps of the six-step climate action plan explore how organisations should i) refresh their identity, vision, and purpose, ii) develop climate beliefs, iii) decide their level of climate ambition, iv) apply any of 32 suggested actions to implement their ambition, and v) adopt 3D mandates and total portfolio thinking. In the sixth step, we propose a framework to help you capture the results of the climate actions and strategies that you developed in your journey and to assess if those endeavours have been 'worth it.' As more investors are signing up to net-zero commitments, the need for reporting frameworks, like the one discussed in this paper, is rising.

Communicating your climate efforts to your stakeholders reassures and encourages them to stay the course in what will be a long and difficult transition to your climate goals. Measuring progress against goals enables accountability, avoids complacency, and sets guardrails to check for greenwashing/overclaiming.

## Introducing the E-CART framework:

The Thinking Ahead Institute’s 1.5°C investing working group released a report in 2020 ([Climate dashboard reporting](#)), containing principles to construct a climate impact dashboard and a worked example. We build on that foundation and propose a climate reporting template comprised of five climate categories which we believe effectively summarise an organisation’s climate actions and intentions. We introduce the E-CART<sup>1</sup> framework:

<p><b>Engagement</b></p>	<p>These metrics capture actions within the direct control of the asset owner and can be grouped into three categories: (1) signalling that impact matters (eg number of public statements made over the year, number of staff in collaborative initiatives etc), (2) engagement to influence an investee company’s actions (eg investment staff sitting on boards of [X%] of investee companies, number of letters written, number of resolutions tabled at AGMs etc), and (3) growing new or undersupplied capital markets (eg X% of portfolio providing primary capital, \$Y m of primary investment in zero/low carbon energy over 12m etc)</p>
<p><b>Carbon footprint</b></p>	<p>These metrics convey total portfolio carbon emissions and/or carbon emissions intensity eg scope 1, 2 and 3 emissions*, carbon emissions/US\$ invested, weighted average carbon intensity. They have the benefits of simplicity and relevance (absolute emissions must fall) but are backward looking.</p>
<p><b>Alignment</b></p>	<p>These metrics provide information on the level of alignment of portfolio companies against plausible pathways to achieve stated climate objectives eg implied temperature rise, % of Paris-aligned assets, science-based emissions reduction targets. They have the benefit of being forward looking but the disadvantage of being reliant on assumptions about the unknown.</p>
<p><b>Real world impact</b></p>	<p>These metrics provide evidence to demonstrate contribution to emission reductions in the real economy eg % revenues from low/zero carbon energy, estimated % revenues aligned to EU taxonomy, estimated greenhouse gas emissions mitigated etc. They are usefully actionable but suffer from narrow coverage.</p>

<sup>1</sup> This framework excludes a potential sixth category of physical risk. For some organisations, such as insurers and banks, this would be essential to include. From an investment perspective we are assuming that physical risks are best picked up through risk to earnings, and are therefore captured by the other categories.

<b>Transition risk</b>	These metrics show potential financial sensitivity to risks and opportunities associated with a transition to a 1.5C world eg Climate Value-at-Risk, Earnings-at-risk. They generally provide broad coverage but are not so actionable.
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**\*Scope 1:** All direct emissions from sources owned or controlled by company  
**Scope 2:** Indirect emissions from company’s purchased electricity, heat and energy  
**Scope 3:** All other indirect emissions from activities of company from sources they don’t control

How did we arrive at these five categories? Figure 1 provides a summary of our approach where climate metrics are appraised against certain data criteria. Those metrics which convey similar information, possess comparable characteristics and face similar limitations are placed in the same category.

**Figure 1: characteristics of E-CART categories**

	Engagement	Carbon footprint	Alignment	“Real world”	Transition risk
Forward looking	Green	Red	Green	Yellow	Green
Decision useful	Green	Red	Yellow	Yellow	Green
Robust	Yellow	Yellow	Red	Yellow	Yellow
Broad coverage	Red	Yellow	Green	Red	Green
Actionable	Yellow	Green	Yellow	Green	Red

**Forward looking:** consider likely direction of travel and credibility of stated plans/efforts to align  
**Decision useful:** allow comparison of companies and portfolios, track progress over time, incentivise transition  
**Robust:** analytically rigorous, consistent with climate science  
**Broad coverage:** multi-asset, multi-sector, multiple use cases  
**Actionable:** transparent methodology, feasible to calculate

Before we discuss the framework in more detail, we acknowledge that this is new territory for all of us. We expect our proposed template to evolve as data availability, climate strategies and thinking progress. In this regard, the categories we define are neither mutually exclusive nor exhaustive. Furthermore, the E-CART report is not meant to be ‘one-size-fits-all’, this template should be adapted to meet investor’s requirements and context. In fact, the E-CART framework has already evolved since it was first conceived. Some investors have adapted it to a simpler version called the CART framework and have opted to report engagement efforts with their narrative. Others have expanded our proposed framework to CARPET - adding Physical risk as a category as they believe it deserves to be emphasised. These are all valid and acceptable interpretations of our template. For the purposes of this paper, we will continue to discuss the E-CART framework.

Now that we have identified the broad categories which constitute a comprehensive climate report, we build on this framework by applying it to an organisational context. The working group believes that certain categories of the E-CART framework become relatively more important to track and report based on an organisation’s climate ambition. (Paper two of the IFT working group, [Our house is on fire?! Should we do something?](#), discusses the climate ambition spectrum in more detail).

If your climate ambitions are to meet regulatory requirements, manage climate risk or decarbonise portfolios, then the priority metrics for you will be carbon footprint and transition risk. If your aim is to change the climate trajectory, then your focus is on system-level outcomes. In this case, engagement, 'real world' impact and alignment metrics are more useful. In other words, the importance of tracking carbon footprint metrics decreases as your climate ambition increases.

Using your organisation's climate ambition to prioritise climate metrics allows you to channel limited resources. Figure 2 summarises the relative importance of climate metrics in reporting against ambition.

Figure 2: relative importance of E-CART metrics in reporting against ambition

	Engagement	Carbon footprint	Alignment	"Real world"	Transition risk
Comply with regulation	Red	Green	Yellow	Red	Light Green
Climate risk management	Yellow	Light Green	Yellow	Red	Green
Net zero portfolio	Yellow	Light Green	Green	Red	Yellow
Net zero economy	Light Green	Red	Green	Light Green	Yellow
Net negative economy	Green	Red	Light Green	Green	Yellow

**Current state of climate data and analytics**

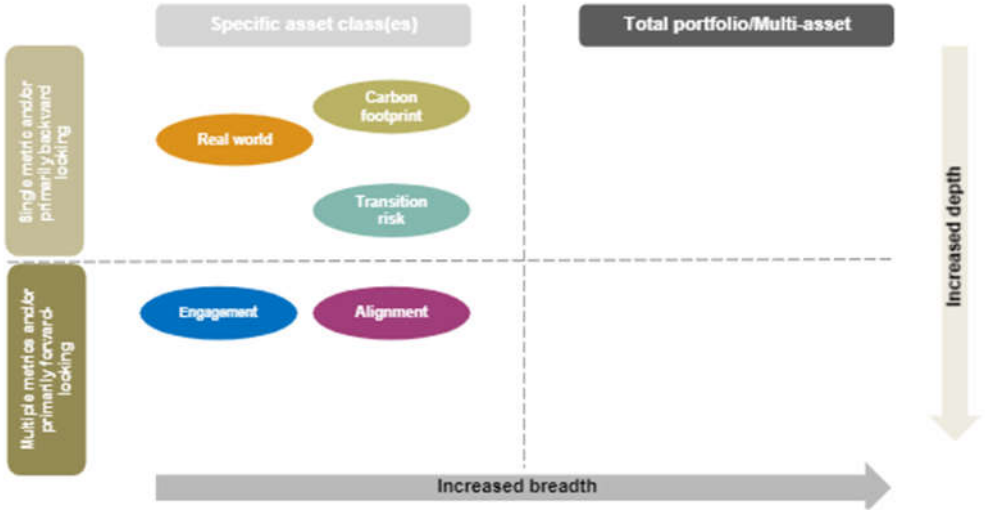
A survey of the working group members concluded that there is much scope for improvement in the current climate metrics and analytics (see appendix for survey results). We report the high-level findings below:

- Climate metrics are largely restricted to single and liquid asset classes (eg listed equities and corporate debt). Methodologies are not applied consistently to cover multiple asset classes
- Metrics are mostly based on historical data rather than being based on forward looking data
- There are no standardised benchmarks and climate scenarios in the industry; forward-looking analytics are subject to numerous assumptions which are subject to bias
- Carbon footprint metrics are imprecise. Scope 1, 2 and 3 emissions lack accurate measurements and robust methodologies. This is especially true for scope 3 emissions, which form the largest and most important component of total carbon emissions
- Quantifying engagement, alignment and 'real-world' impact metrics is challenging given the complex, adaptive, ecosystem in which we operate.



The schematic shown in figure 3 below provides a visual representation of our discussion above. We assess the metrics in the E-CART framework along the two dimensions of breadth and depth. Breadth represents the degree/quality of data coverage and whether they span multiple asset classes. Depth asks if the data are backward-looking or forward-looking, and if they comprise a single metric or multiple metrics. As you can see in the diagram below, climate metrics are currently lacking in both their breadth and depth.

Figure 3: the breadth and depth of metrics in the E-CART framework



The challenges to the current state of climate data and analytics should not discourage organisations from taking climate action. Investors can still achieve a lot within the current data landscape. The working group acknowledges that rapid progress is being made in this field. Organisations are increasingly using the power of technology and collaboration to establish new standards and benchmarks, build robust methodologies, advance measurement techniques, and improve transparency. We invoke the ethos of the group once again – “we do what we can with what we’ve got.”

**Potential areas of development in climate data and analytics**

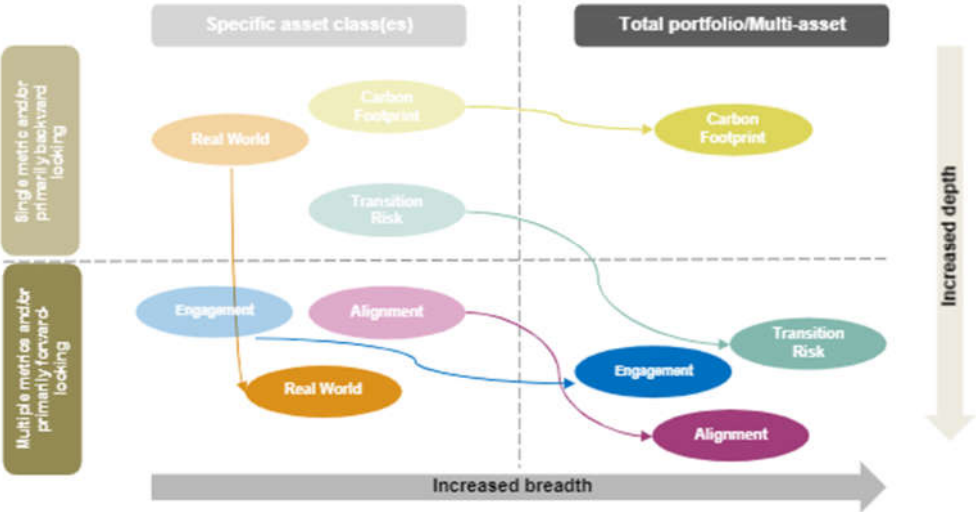
As far as increasing future breadth and depth is concerned, we summarise potential avenues of development in the table below:

	Ideas to increase breadth	Ideas to increase depth
<b>Engagement</b>	Extend methodologies to cover non-corporate assets like private assets, sovereign debt	Create industry standards for signalling and qualitative metrics  Expand number of metrics to capture intention

<b>Carbon footprint</b>	Multi-asset carbon measurement beyond corporate assets with a consistent methodology Broader availability of scope 1, 2 and (in particular) 3 data	Improved estimation of scope 3 emissions where reported not available Methodologies to address double counting  Attribution of emissions between equity and debt of the same issuer
<b>Alignment</b>	Availability, quality and validation of emissions targets Methodologies for non-corporate assets  Aggregating alignment measures within and across asset classes	Wider range of metrics for assessing alignment Key characteristics of scenarios for assessing “proximity” to WB2C  Broaden coverage and increase granularity of alignment scenarios
<b>Real world</b>		Define robust methodologies for “emissions mitigated”  Agree baselines/counterfactuals for assessing real world contribution  Quantification of systemic (physical) risks  Develop metrics for negative impact/contribution Translation of impact into financial terms  Clarify cases where investors can claim intentionality, eg only where ambition extends to system level outcomes
<b>Transition risk</b>	Build standardised methodologies/scenarios to build comparable risk metrics  Extension of existing methodologies to a broader security universe consistently	Consideration of issues beyond carbon price exposure  Bottom-up (company/asset level) assessment of transition risk  More detailed supply chain analysis  Expression of transition risk in more conventional risk language  Linkage between alignment and (lack of) transition risk



The diagram below is a visual representation of how we envisage the future state of data and analytics,



### Progressing our communication principles

The investing for tomorrow working group released a paper titled [Climate dashboard reporting](#) in 2020 in which they proposed eight guiding principles for investors wanting to report their climate impact. We revisit these principles in the light of the climate action plan and provide comments on how these principles have progressed. The eight guiding principles are:

1. **The purpose of the impact report should be stated clearly:** Organisations choose their level of ambition in step three of the climate action plan, from complying with regulation through climate risk management to aligning with a climate outcome. This should be clearly stated at the outset of any climate report to help manage the reader’s expectations.
2. **The milestones or interim targets should be clearly defined (level and timescale):** A narrow focus on reporting short-term metrics might create shallow/expedient solutions and short cuts that might prove counterproductive over the long term – some key climate solutions are expected to take decades to come to fruition. A balanced report should track long-term metrics, complemented by short-term sub-goals to meet those multi-decade aspirations.
3. **The actions taken to achieve targets should be documented (the investor’s contribution):** engagement metrics capture how their activities contribute to the impact in investee companies as discussed above. These can be supplemented by qualitative narrative, but investors should be careful about overclaiming when they cannot prove causality.
4. **The metrics/evidence reported should allow simple assessment of progress, or not, towards targets (the investee company’s impact):** here we are interested in the progress of both the portfolio companies and the whole economy in reducing emissions. We have not made progress if our portfolio’s carbon emissions fall over the year simply because we have changed the portfolio to hold lower carbon intensity companies. Similarly, an investee company reporting a 10% reduction in emissions does not represent progress if

this is due to falling market share. Consequently, we are likely to need both absolute emissions and carbon intensity metrics, and perhaps others, to understand the true story.

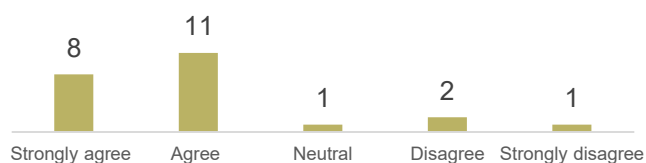
5. **The complexity of climate requires multiple, complimentary metrics to be shown:** there is no single metric that can fully capture the multidimensional nature of climate impacts. In constructing a climate impact dashboard, we suggest investors strike a balance between backward looking and forward looking metrics; use as few metrics as possible, but not too few; and consider using qualitative metrics as well as quantitative. Further, we note that there is often a trade-off between validity (high objectivity, low uncertainty) and materiality (a change in this metric suggests a significant difference in outcome). The classic example is past performance returns, which are valid (completely objective) but not material (say nothing about future returns).
6. **Be transparent about any limitations/challenges inherent in what is being reported upon:** many current climate metrics have low validity. One example is implied temperature rise (or portfolio warming potential). This calls for care to be used when reporting, and for the limitations of metrics to be explicitly acknowledged. Highlighting these limitations can help manage stakeholder expectations.
7. **The impact dashboard is incomplete without a supporting narrative:** a narrative equips a reader to interpret metrics and build relationships between metrics. This enables a reader/stakeholder to draw conclusions in line with your organisation's expectations, which is important to keep stakeholders invested in your climate journey.
8. **Be open to evolving the dashboard overtime:** it is not possible to future-proof a climate report, as our understanding and the data and analytics will evolve rapidly. We will therefore need to evolve our reporting through time to keep pace with these developments as well as evolving stakeholder and regulatory requirements and changing organisational needs.

## The end is just the beginning

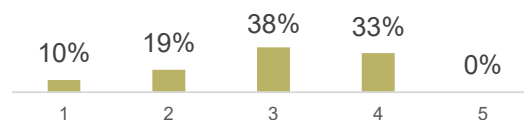
Having discussed climate reporting and communications, we bring our six-step climate action plan to a close. The climate action plan is meant to be iterative. Organisations should continue their climate journey by reverting to step one and working their way through each step again, employing the information they gained from their previous action plan. This will help them build pathways more aligned to their climate goals and will enable them to elevate their climate ambition. The climate action plan will continuously evolve as the investment industry transforms in response to sustainability demands and the race to net-zero. We appreciate there is a lot of work implied by our six-step action plan but the climate is going to change anyway. So the choice is really between being pro-active and being re-active with respect to addressing climate change. We are not sure which path will involve less work, but we are confident that being proactive gives your organisation a better chance of success.

## Appendix – polling results

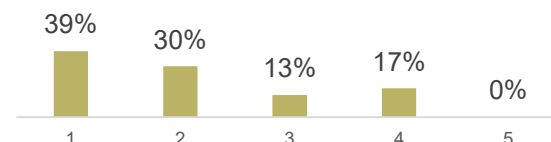
Effective reporting against a climate ambition will be difficult without dramatic change in quality of data  
[23 votes | score +1.0]



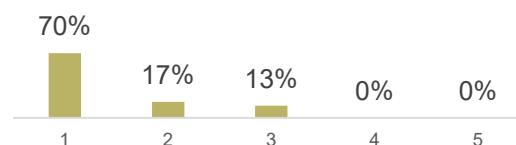
Extent of climate reporting: Carbon footprint (1 = no reporting, 5 = achieved perfect reporting)  
[23 votes | average 2.9]



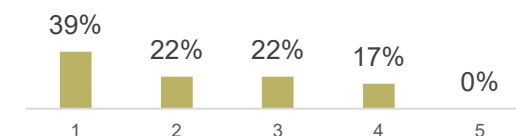
Extent of climate reporting: Alignment of portfolio to carbon targets (forward looking) (1 = no reporting, 5 = achieved perfect reporting)  
[23 votes | average 2.1]



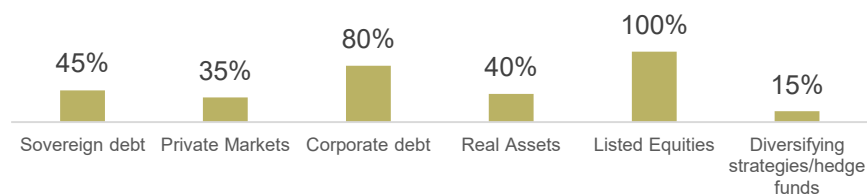
Extent of climate reporting: Real-world impact (1 = no reporting, 5 = achieved perfect reporting)  
[23 votes | average 1.4]



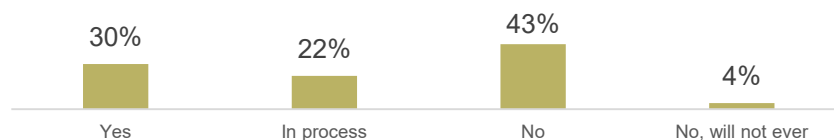
Extent of climate reporting: Transition risk (1 = no reporting, 5 = achieved perfect reporting)  
[23 votes | average 2.2]



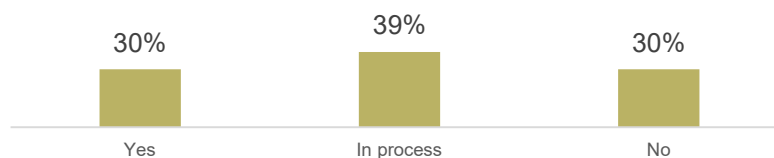
Assets incorporated into reporting framework  
[20 votes]



Carried out climate reporting across a multi-asset portfolio?  
[23 votes]



Adopted forward-looking metrics in their climate reporting framework  
[23 votes]



## Limitations of reliance

### Limitations of reliance – Thinking Ahead Group 2.0

This document has been written by members of the Thinking Ahead Group 2.0. Their role is to identify and develop new investment thinking and opportunities not naturally covered under mainstream research. They seek to encourage new ways of seeing the investment environment in ways that add value to our clients.

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## About the Thinking Ahead Institute

*Mobilising capital for a sustainable future.*

Since establishment in 2015, over 60 investment organisations have collaborated to bring this vision to light through designing fit-for-purpose investment strategies; better organisational effectiveness and strengthened stakeholder legitimacy.

Led by Tim Hodgson, Roger Urwin and Marisa Hall, our global not-for-profit research and innovation hub connects our members from around the investment world to harnesses the power of collective thought leadership and bring these ideas to life. Our members influence the research agenda and participate in working groups and events and have access to proprietary tools and a unique research library.

### Join the Thinking Ahead Institute

We seek collaboration with like-minded organisations to achieve our vision, so for more information about us please contact:

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