



# 2° INVESTING INITIATIVE ANNUAL REPORT 2016

**CONTINUING THE CLIMB:  
MOVING TOWARDS IMPACT**

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## About 2°ii

THE LEADING GLOBAL THINK TANK ON CLIMATE-RELATED METRICS AND POLICIES IN FINANCIAL MARKETS WITH OFFICES IN NEW YORK CITY, PARIS, LONDON, AND BERLIN

4 partnerships with regulators and policymakers

First global investor award co-organized with FR government

+100 investors using the 2°C portfolio tool

IMPACT



+1 new research report every month

+90 presentations in conferences

+4000 subscribers to our newsletters

ACTIVITIES



1 million regranted to research partners

75% growth in budget 2015-2016

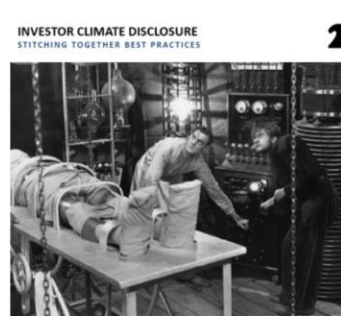
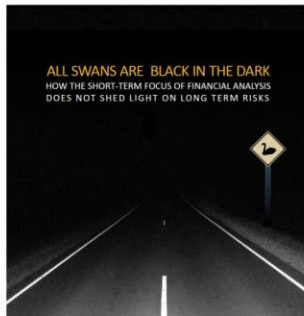
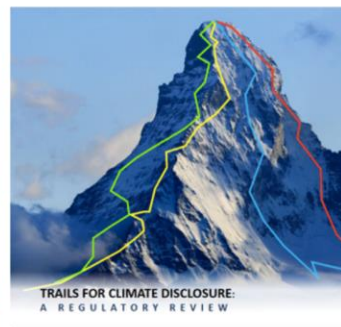
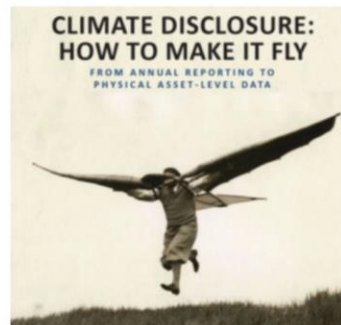
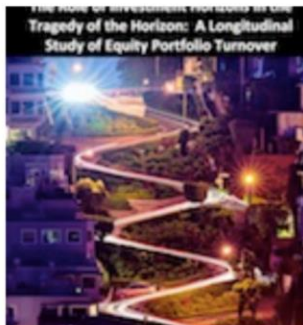
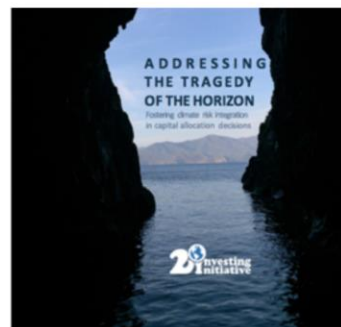
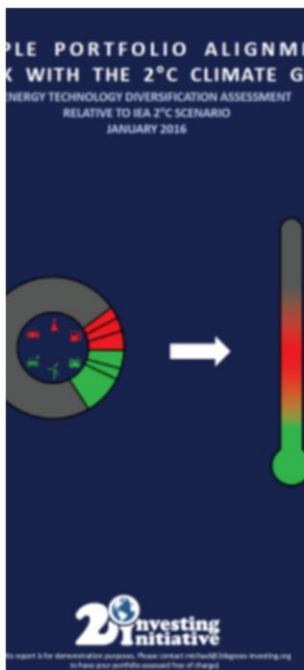
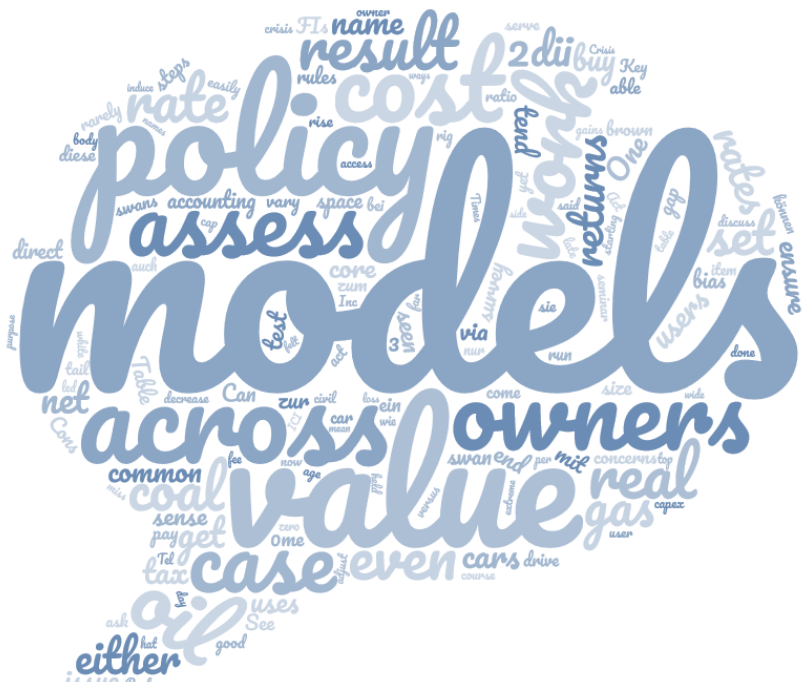
+40 research partners across all stakeholder groups

OPERATIONS



2016 IN IMAGES AND TEXT

In 2016, we published 14 reports, in addition to a series of policy notes and briefings. That is an average of over one report per month. The images below capture the cover pages of these reports, with the word cloud on the right representing the key words in our thinking: models, policy, assess, value, owners, to name but a few. We disseminated our research at over 90 events as speakers, an average of almost 2 per week, in addition to over 1,000 bilateral meetings in the year.



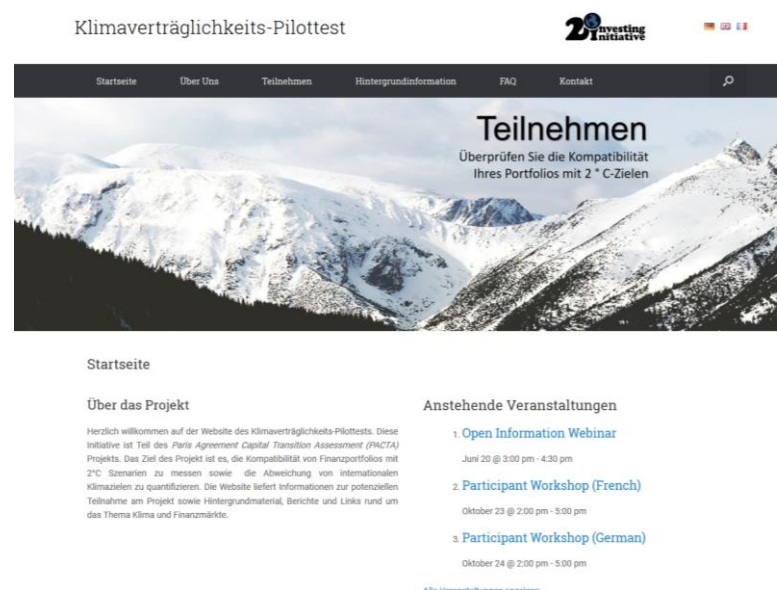
## 2016 PROJECTS

## Partnerships with financial regulators



In September 2016, we organized our first 2° Investing Initiative retreat in Piana, Corsica, bringing together climate policymakers, treasuries, central banks and financial supervisory authorities, large institutional investors, data providers, and civil society. The workshop developed targeted roadmaps for monitoring capital misallocation and financial risk relative to climate goals by financial supervisors, measuring the contribution of the financial sector to climate goals, and overcoming the *Tragedy of the Horizons*

2ii supported the Swiss government in building on Paris Agreement Art. 2.1, publishing a guide for voluntary climate reporting (*Stitching together Best Practice*) and advising on benchmarks and voluntary reporting standards for Swiss pension funds and insurance companies. On this basis, the Swiss government launched an initiative with the support of the Swiss pension funds and insurance Associations for 2017 that involves a voluntary climate goal alignment test for all Swiss pension funds and insurance companies.



2ii launched two partnerships with European financial supervisory authorities in 2016 involving the monitoring and assessment of capital misallocation relative to climate goals among insurance companies and pension funds. We also launched a partnership with Ceres in the United States to assess US insurance companies. The partnership is funded by the European Commission LIFE grant under the *Paris Agreement Capital Transition Assessment (PACTA)* project, starting in 2017.



## 2° Invest Award

**Objective of the awards.** During the 4<sup>th</sup> edition of the COP21 Business Dialogue on the 10<sup>th</sup> of June 2016, the Minister of Environment, Energy and the Sea officially launched the *International Award on Investor Climate-Related Disclosures*. The launch was reiterated during the June 2016 London Climate & Business Summit. Building on the spirit of the French energy transition law and the momentum of COP21, the award constitutes a complementary and voluntary government-led initiative, designed to foster innovation and promote existing best-practice in climate disclosure aligned with Article 173-VI of the Energy Transition for Green Growth Law.

In this context, the objective of the award's 2016 edition is threefold:

- It serves as preparation for those investors planning to showcase and/or improve their methodologies and disclosure in the next reporting cycle;
- It gives investors the opportunity to receive feedback on their current reporting and potential pathways for improvement; and
- It has been designed in order to provide some food for thought to the various organizations (private sector working groups, investors coalitions, governments, standardization organizations) involved in the development of guidance for financial institutions.



### Governance

The award was launched by the French Minister of Environment, Energy and the Sea and 2° Investing Initiative, in close collaboration with the French Treasury. An independent jury composed of four constituent groups – investor coalitions, members of Parliament, public administration officials and NGOs – and chaired by Minister of Environment Ségolène Royal was set up. 2° Investing Initiative participated as secretariat and contributed with technical support during the process.

### Evaluation criteria

The evaluation criteria were set up to capture the climate-related guidelines provided by the implementation decree of Article 173. Four areas of disclosure were identified and assessed through a total of 24 criteria. The four areas were: i.) climate strategy, ii.) alignment with climate goals, iii.) exposure to climate risk and iv.) communication to clients and beneficiaries. To allow for full visibility across practices, no weighting of the criteria was done. The criteria were submitted for public consultation and publicly available during the whole application process.

### Facts & figures

A total 30 of financial institutions submitted their applications, 26 of which were based in Europe (87%). 7 financial institutions were awarded: AXA and TPT Retirement Solutions for “best global reporting” due to their good performance across all climate-related areas, ACTIAM for best climate strategy, Australian Ethical and Ircantec for best reporting on alignment with climate goals, the Environment Agency Pension Fund for best reporting on exposure to climate risks and Local Government Super was runner-up for best engagement. Special mentions for other good practices were given by the chair of the jury. No award was granted in the communication category as no best practice emerged from the award.



Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

Swiss Confederation

Federal Office for the Environment FOEN

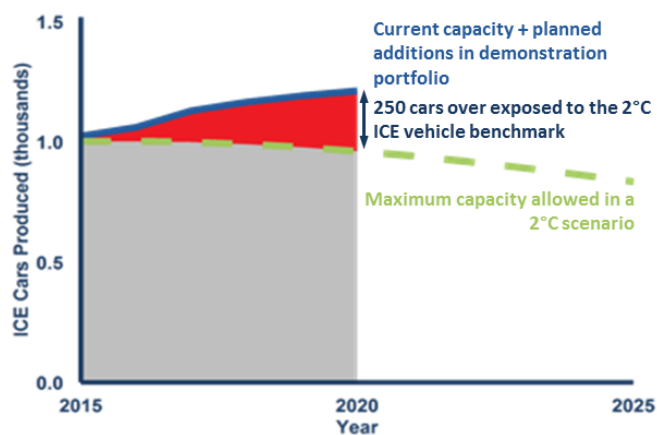


## SEI Metrics project and 2°C Portfolio test

2016 saw the official launch of our free and open-source portfolio test for listed equity portfolios. Over 100 institutional investors around the world have signed up to test their portfolios, including large asset managers, pension funds, insurance companies, banks, and sovereign wealth funds. Since its launch, over 2,000 portfolios have been tested for 2°C alignment with over \$3 trillion in assets under management.

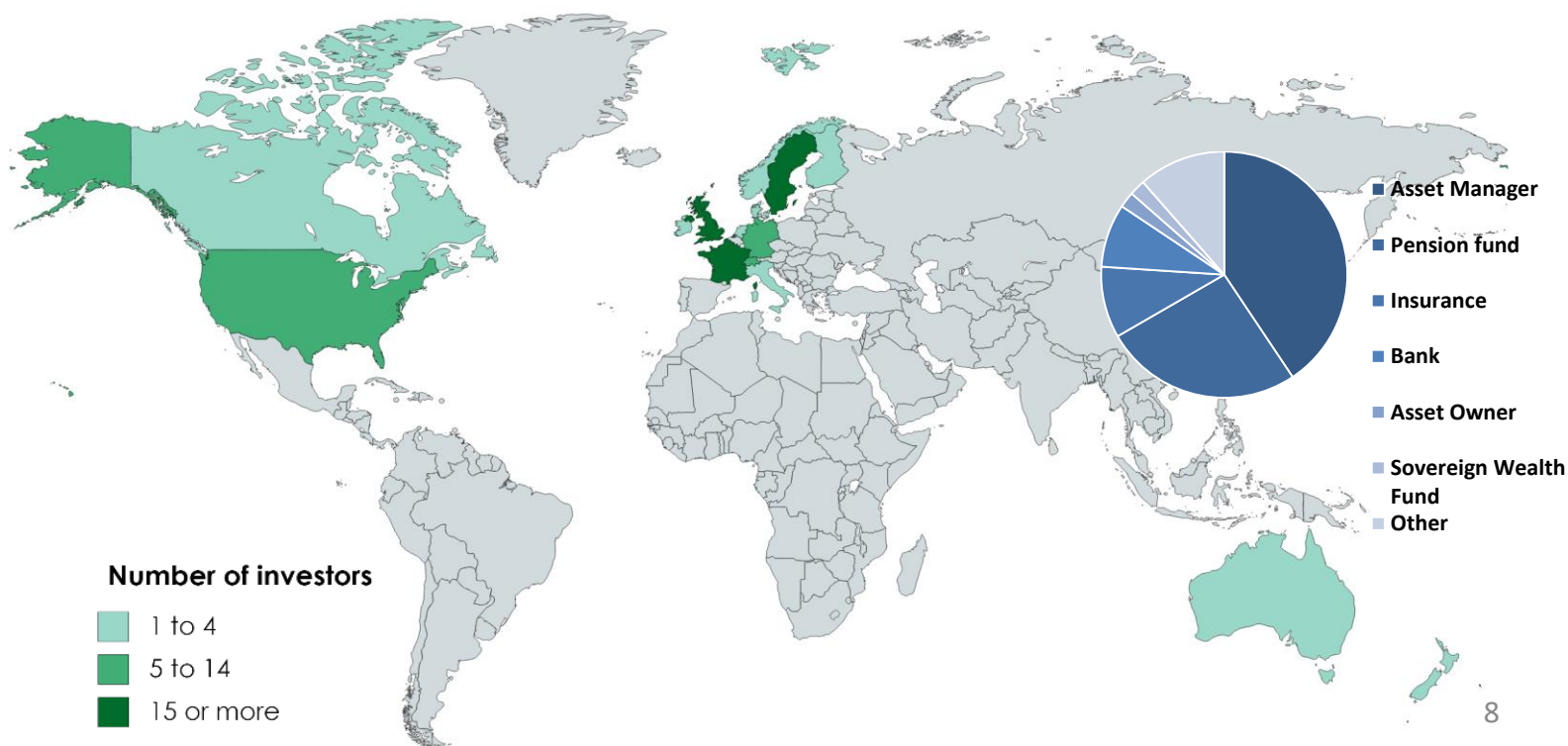
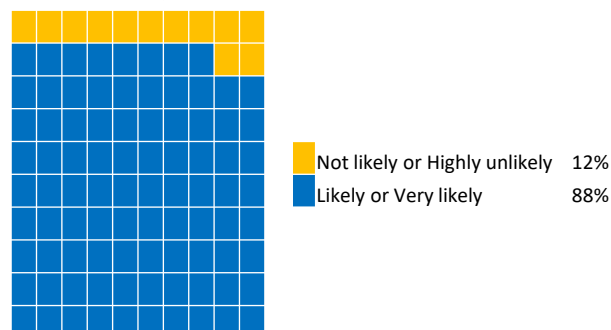
The model involves a comparison of key sectoral and technology trends across the energy, power, and transport sectors, with an extension to industry planned in 2017. It compares the exposure of a portfolio to both current and planned capacity, production, and investment plans to 2°C scenarios, mapped to specific asset classes and geographies (see excerpt chart from briefing below) – with geography and stock market specific calculation outputs. More information on the model can be found at <http://seimetrics.org>. The model development was funded by the EC H2020 program as part of the *Sustainable Energy Investing Metrics* project.

Of the 25% of surveyed investors involved in the road-test, 88% said they were likely or very likely to use the assessment in portfolio management, engagement, and / or investment mandate design. In 2017, the model will be expanded to corporate bonds and credit, as well as a broader range of sectors.



Source: 2i, based on WardsAuto/ AutoForecast Solutions and IEA

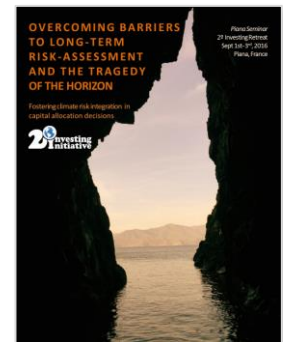
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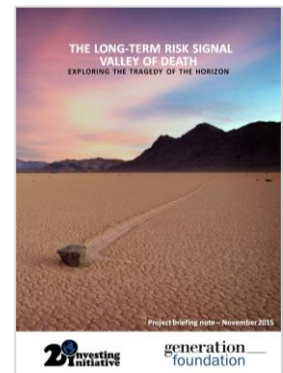
## Tragedy of the Horizon

A key challenge to assessing long-term and climate-related risks involves what Mark Carney, the Governor of the Bank of England, called “the tragedy of the horizon”. Long-term liabilities and assets face a ‘valley of death’ in terms of the time horizons underlying capital allocation decisions in financial markets. As a response, we have initiated the ‘Tragedy of the Horizon’ research program to quantify time horizons in the investment chain and elevate long-term risk assessments in financial markets.

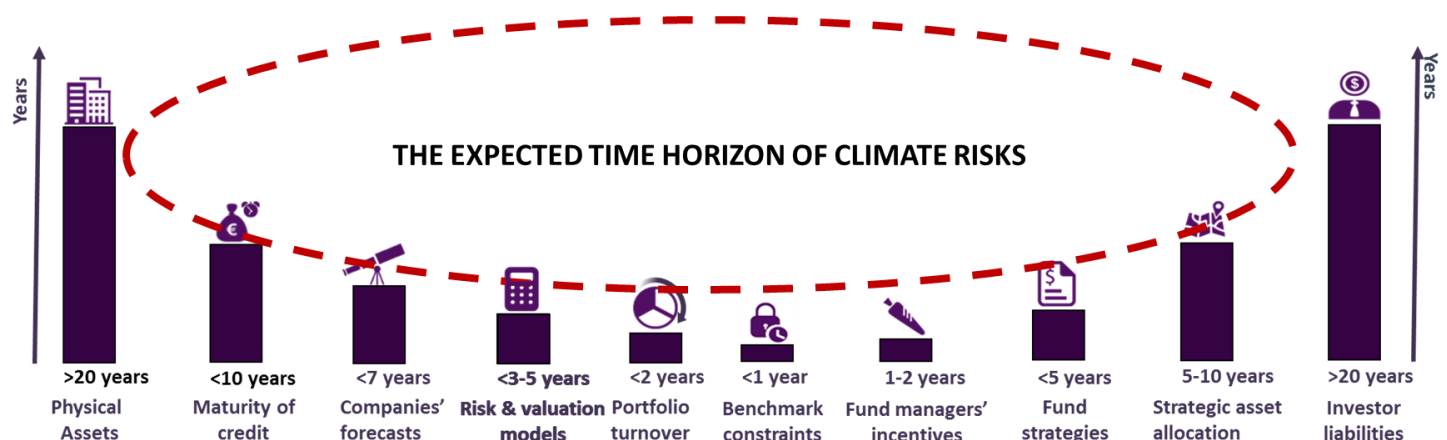
**Key publication: *Overcoming Barriers To Long-term Risk-assessment And The Tragedy Of The Horizon, 2dii Sep 16*** – This document is the ‘enhanced’ minutes of the informal working group that took place during the Piana seminar in September 2016. It includes background material on the topic, information on the actions initiated by 2Dii after the seminar, and a description of the suggested follow-ups. The paper was drafted as part of a working group of participants from e.g. the German Financial Supervisory Authority, the Bank of England



**Key publication: *The Long-term Risk Signal Valley Of Death – Exploring The Tragedy Of The Horizon, 2Dii/Generation Foundation, Nov 2016***. This short paper describes the time horizon mismatch across the entire investment chain. The key conclusion is that long term risks are financially material on both ends of the investment chain: for long term physical assets (e.g. power plants) and long asset owners. However, financial intermediaries (banks, asset managers, analysts, etc.) have much shorter time horizons creating a mismatch of time frames regarding the financial materiality of risk.



**Key events: *Exploring the Tragedy of the Horizon events in London, Paris, Corsica, and New York***. Industry events included 5 workshops with the equity research and credit ratings industry convening over 100 participants from 27 firms, two conferences on time horizons in financial analysis featuring senior attendees from across the investment chain, and the aforementioned Piana seminar with investment leaders and regulators.



2016 saw the official launch of the Energy Transition Risk project (ET Risk), a EUR2.2 million project involving S&P Market Intelligence, S&P Dow Jones Indices, Oxford University, Kepler-Cheuvreux, CO-Firm, I4CE, and the Carbon Tracker Initiative. The project seeks to develop the toolbox of energy transition risk assessment – reference scenarios for financial analysis including a 2°C scenario analysis, ET risk data, as well as financial models. The project is funded by the European Commission H2020 programme.



### 1. TRANSITION SCENARIOS

The consortium will develop and publicly release two transition risk scenarios, the first representing a ‘soft’ transition extending current and planned policies and technological trends (e.g. an IEA NPS trajectory), and the second representing an ambitious scenario that expands on the data from the IEA 450S /2DS, the project’s asset level data work (see number 2), and relevant third-party literature. The project will also explore more accelerated decarbonization scenarios.

### 2. COMPANY & FINANCIAL DATA

Oxford Smith School and 2° Investing Initiative will jointly consolidate and analyze asset level information across six energy-relevant sectors (power, automotive, steel, cement, aircraft, shipping), including an assessment of committed emissions and the ability to potentially ‘unlock’ such emissions (e.g. reducing load factors).

### 3. VALUATION AND RISK MODELS

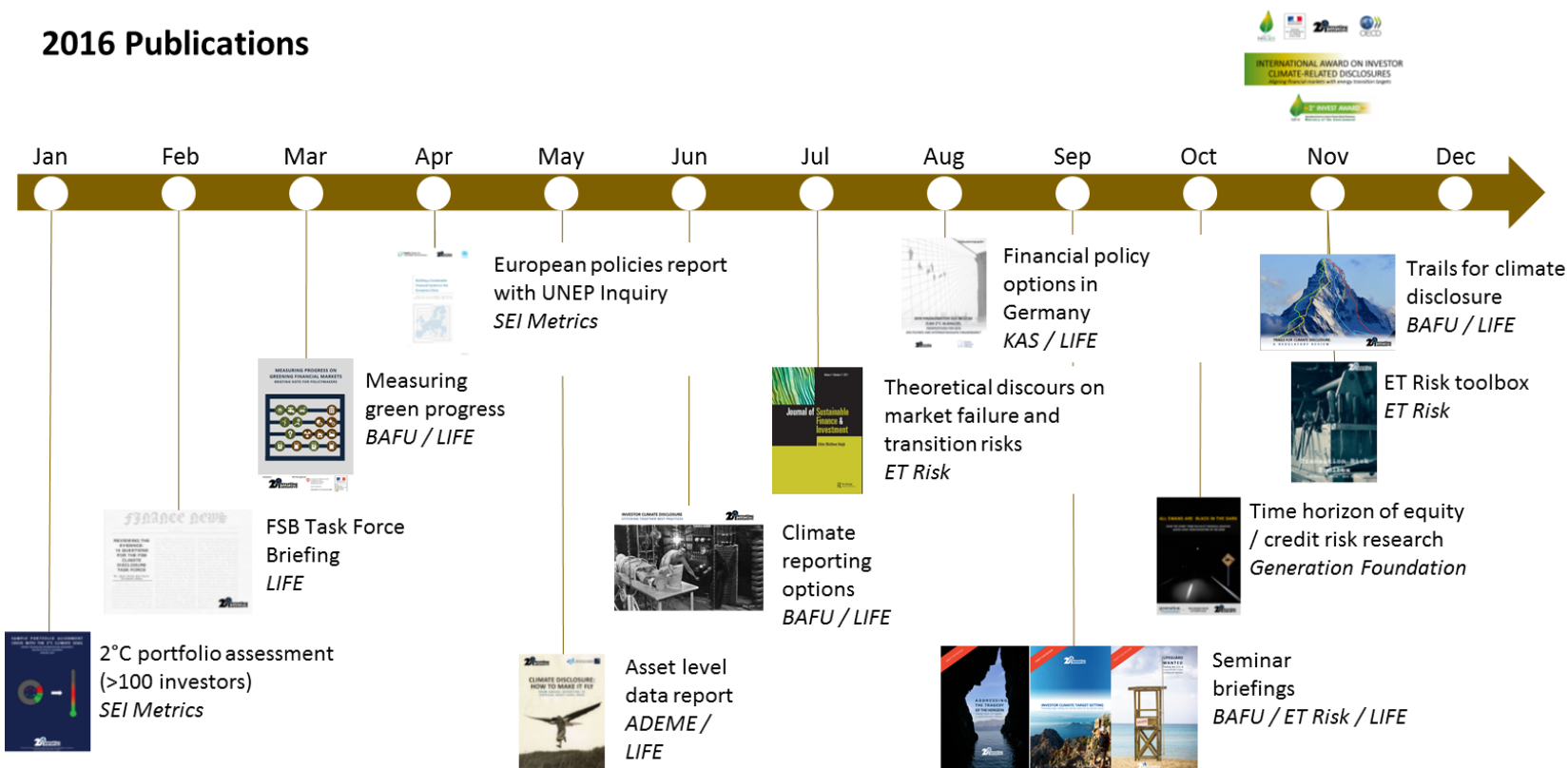
- a) **2°C portfolio assessment – 2° Investing Initiative.** 2° Investing Initiative will seek to integrate the project results into their 2°C alignment model and portfolio tool and analytics developed as part of the SEI metrics project.
- b) **ClimateXcellence Model – The CO-Firm.** This company risk model comprises detailed modeling steps to assess how risk factors impact margins and capital expenditure viability at the company level.
- c) **Valuation models – Kepler Cheuvreux.** The above impact on climate- and energy-related changes to company margins and cash flows can be used to feed discounted cash flow and other valuation models of financial analysts. Kepler Cheuvreux will pilot this application as part of their equity research.
- d) **Credit risk rating models – S&P Global.** The results of the project will be used by S&P Global to determine if there is a material impact on a company’s creditworthiness. S&P Dow Jones Indices, a S&P Global Division, will explore the potential for developing indices integrating transition risk

We published 14 reports in 2016, in partnership with over 20 different organizations in Europe and the United States, across a wide range of issues, including financial policies, climate disclosure options, benchmarking financial portfolios to climate goals, the *tragedy of the horizons*, asset level data, and options for the FSB Task Force on Climate-Related Financial Disclosures.

Highlights of the year include:

- The first ever investor analysis as to the alignment of their financial portfolio with climate goals;
- The first review of the opportunities for asset level data to overcome climate disclosure gaps;
- The mapping of four distinct policy options for climate policymakers and financial supervisory authorities to create climate transparency in financial markets as well as their pros and cons;
- A partnership with the German Conservative Party Konrad Adenauer Foundation on financial policy options for Germany in the context of their 2017 G20 presidency.
- The first comprehensive ‘quantification’ of time horizons in equity and credit risk research;
- Seminar briefings from our Corsica event co-developed with central banks, climate policymakers, investors, data providers, and civil society.
- A mapping of policy options for Europe, co-published with the UNEP Inquiry;
- The development of the *Energy Transition Risk toolbox*, involving scenarios, data, and models.

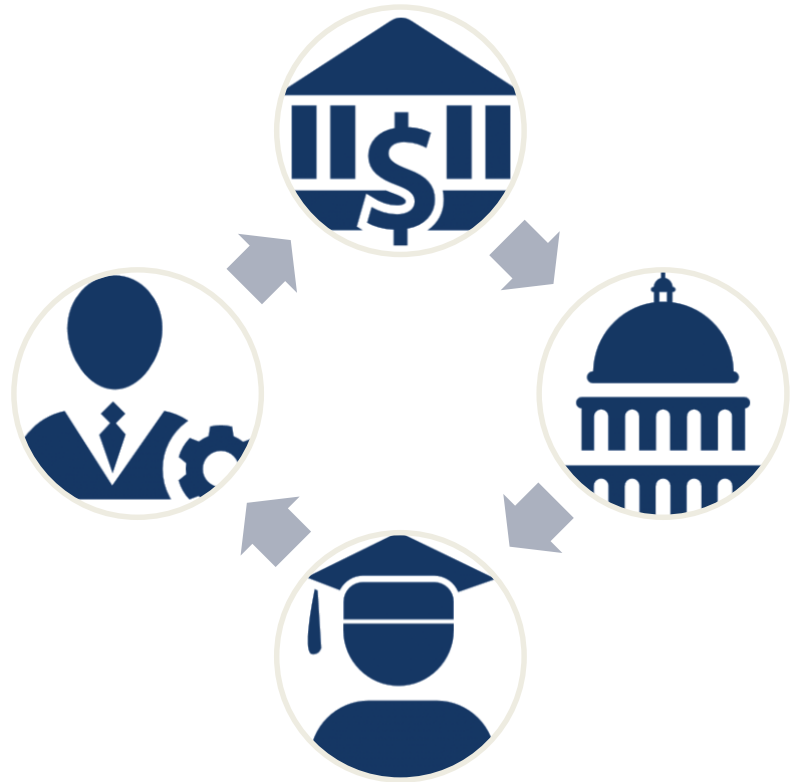
2016 Publications



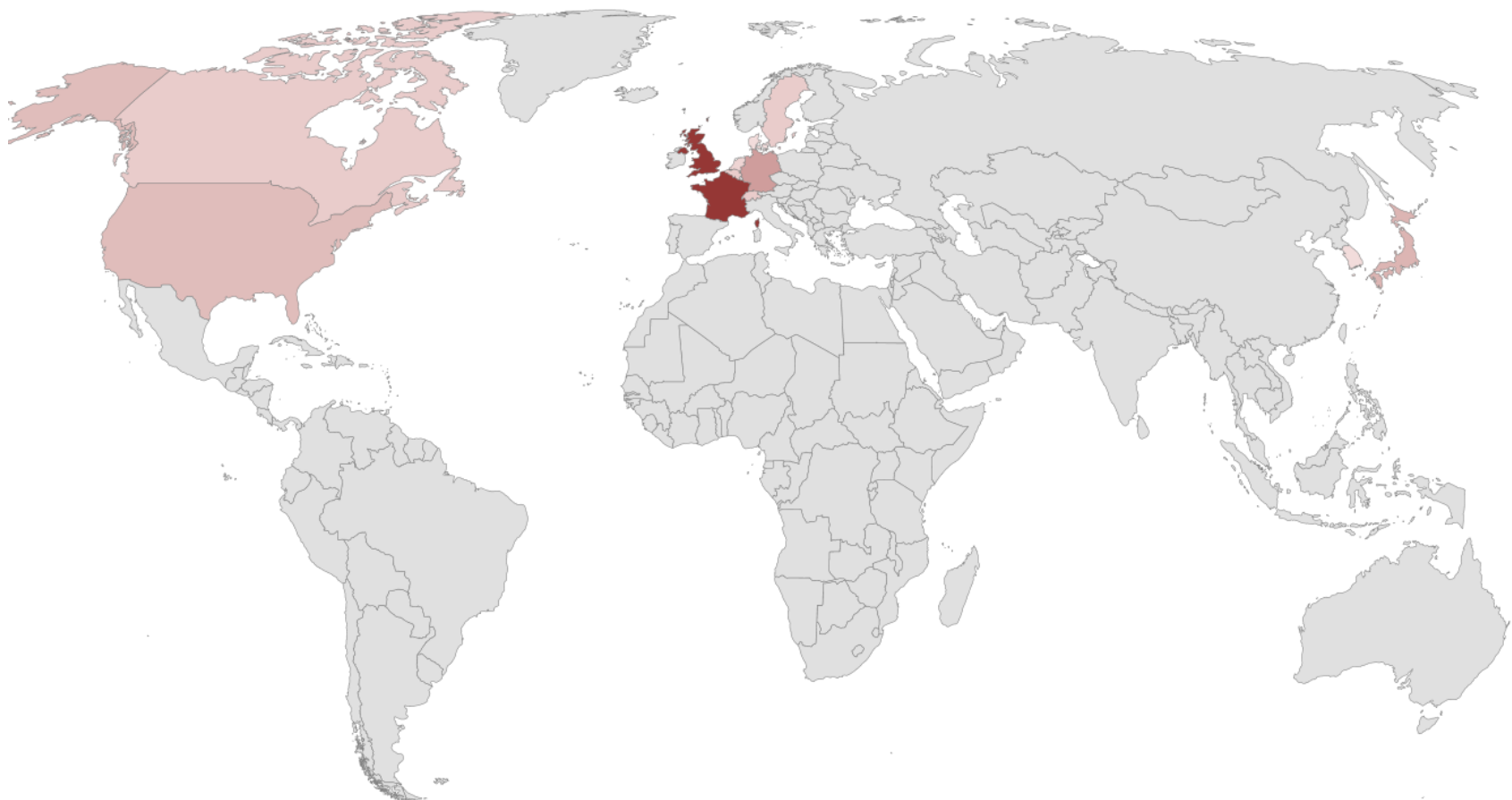
## DISSEMNATION & ACTIVITIES

In 2016, we disseminated our research at over 90 events as speakers, an average of almost 2 per week, with over 4,000 estimated participants. 2ii organized 48 events in 2016, on average almost 1 event per week. Our dissemination activities took us to 12 countries (see map below).

2ii engages regularly with all key stakeholders, with over 1,000 bilateral meetings or calls in 2016. Of these, ~25% involved NGOs / think tanks, ~25% financial institutions, ~20 policymakers and international policy organizations, ~15% data and index providers / consultancies, and ~15% meetings or calls with project partners.



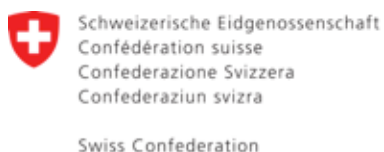
# of events   
1 22



## MAIN PARTNERS



### Governmental organizations



Federal Office for the Environment FOEN

United Nations  
Framework Convention on  
Climate Change



Agence de l'Environnement  
et de la Maîtrise de l'Energie



### Financial institutions



### Research



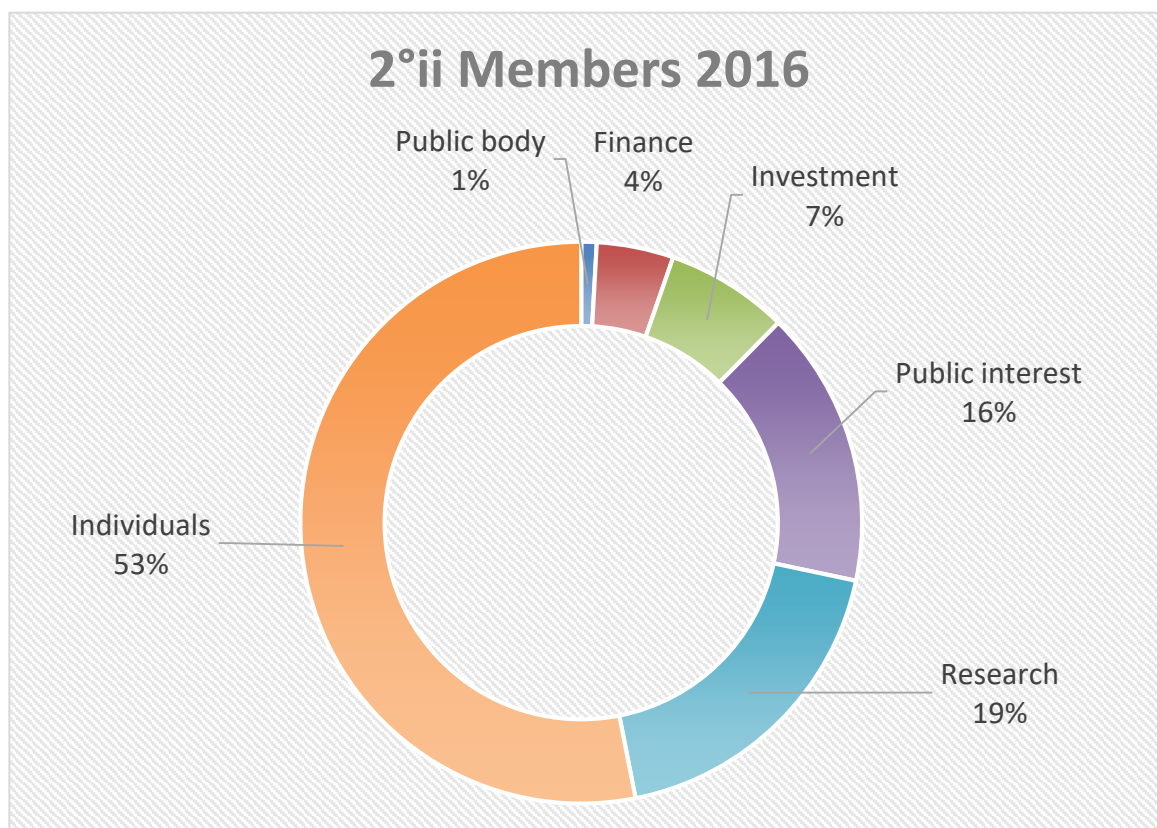
### NGOs and investors coalitions



# OPERATIONAL REPORT

# MEMBERS

Our association consists of more than 40 legal persons and 60 individual members, most of whom work in financial institutions (banks, asset management, private equity, brokerage, etc.). Other members are experts from different fields (consulting, accounting, extra-financial analysis, etc.), researchers (economy, climate economics), or public servants. Two of our members are Members of the European Parliament and former Ministers of Environment in their respective countries.



## List of members

- Allianz
- Bilan Carbone
- Audencia Business School
- AXA
- Bank TRack
- Beyond Financials
- BIO Intelligence Service
- Cabinet Huglo Lepage
- Caisse des dépôts
- Carbon 4
- Carbon Tracker
- CDC
- CGDD/MEDDE
- CIRED
- Climates Bonds Initiative
- CIC
- Ecoact
- Ethical Investors Services
- Ethifinance
- Etho Capital
- Eurosif
- HSBC France
- I-CARE-Consult
- IDDRI
- IFC – Institut de Formation Carbone
- INRATE
- Investnews
- Oxford University / Smith School
- Profundo
- Rainforest Action Climat
- RCCEF Réseau Action-Climat France
- South Pole Group
- Neutral Investments
- Sustain / Luxembourg
- Trucost
- Wildlife Works



# GOVERNANCE

The 2° Investing Initiative (French entity) is directed by a Board of Administrators elected by the members, represented by a Bureau (President and the Treasurer). Five categories of members are represented on the board (investors, NGOs, governmental organizations, research organizations, and individuals). The first Board was elected in 2013. The US entity appointed a first temporary board in 2015, composed of individuals. The German entity launched in 2016 with a Board of individuals. While in personal capacity, the Board's members reflect the range of stakeholders core to the work of 2ii (investors, NGOs, governmental organizations, research organizations, and individuals). The three entities are affiliated: they implement the same work program, and pool their resources and incomes.

## Members of the Board - France



**Corinne Lepage**  
President



**Stéphane Voisin**  
Treasurer



**Robin Edme**  
CGDD  
French Ministry of the Environment



**Thomas Sanchez**  
Caisse des Dépôts (CDC)



**Jean-Charles Hourcade**  
CIRED



**Yann Louvel**  
BankTrack

## Members of the Board\* – United States



**Clara Vondrich**  
Divest-Invest  
Philanthropy



**Gabriel Thoumi,**  
Climate Advisors



**Daniela Saltzman**  
Generation  
Foundation



**Stanislas Dupré,**  
2° investing  
initiative



**Danielle Spiegel-Feld,**  
NYU Law School



**Stephen Freedman,**  
UBS Wealth  
Management USA



**Jakob Thomä,**  
2° investing  
initiative

## Members of the Board\* – Germany



**Jakob Thomä,**  
2° investing  
initiative



**Karsten Löffler**  
Allianz Climate  
Solutions GmbH  
(ACS)



**Matthias Kopp**  
WWF



**Nicole Röttmer**  
The CO-Firm



**Raphael Schöttler**  
German Finance  
Ministry

\*All members sit on individual capacity

# TEAM

*In 2016, 2° Investing Initiative team was composed of 16 full time employees supported by a cohort of close consultants, interns, advisors, and partners depending on the project.*



**Stanislas Dupré**, Founder and Executive Director of the 2° Investing Initiative. Previously, Stanislas Dupré was Executive Director of the CSR consultancy Utopies after a career as consultant and R&D manager. Stanislas has been working on 2° investing topics since 2007, when he developed the first 'financed emissions' assessment methodology for banks and diversified portfolios (with Caisses d'Epargne, ADEME, WWF, Friends of the Earth). In 2010, he wrote a book on the role of financial institutions in the energy transition. Stanislas is non-executive director of a green private equity fund (NEF-CEM).

## 2016 TEAM MEMBERS



**Jakob Thomä**  
*Germany Director*  
Berlin



**Thomas Braschi**  
*France Director*  
Paris



**Laura Segafredo**  
*US Director*  
New York



**Hugues Chenet**  
*Scientific Director*  
Paris



**Chris Weber**  
*Senior Analyst*  
New York



**Anuschka Hilke**  
*Senior Analyst*  
Paris



**Mona Naqvi**  
*Analyst*  
New York



**Emma Gauthey**  
*Office manager*  
Paris



**Michael Haynes**  
*Analyst*  
Berlin



**Klaus Hagedorn**  
*Analyst*  
Berlin



**Tricia Jamison**  
*Analyst*  
New York



**Laura Ramirez,**  
*Analyst*  
Paris



**Svenja Hector**  
*Analyst*  
Berlin



**Brendan Burke**  
*Analyst*  
New York



**Matthew Alison**  
*Analyst*  
London

## THEY CONTRIBUTED TO OUR WORK IN 2016



**Mark Fulton**  
*Senior Advisor*  
*Energy Transition*  
*Risk project*



**Valéry Lucas-Leclin**  
*Senior Advisor*



**Didier Davydoff**  
*Senior advisor*

# FINANCIAL STATEMENTS

*2° Investing Initiative is a network composed of three affiliated entities: the Paris, New York City, and Berlin-based offices. The three entities are non-profit, non-commercial, membership-based organisations. They are governed by independent boards of directors, but remain affiliated. Accordingly, their work program, as well as financial and human resources are pooled using a network agreement.*

## INCOME

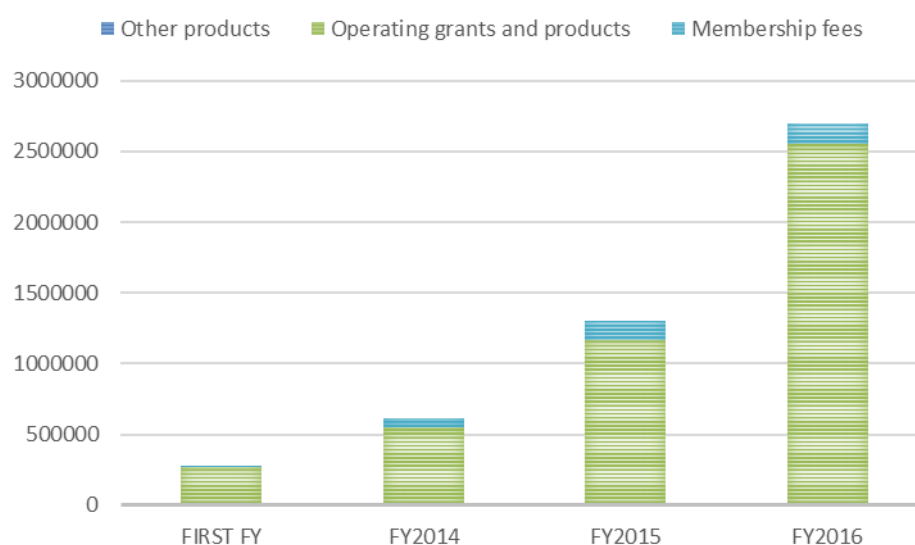
In 2016, 2Dii incomes accounted for in the financial statements have doubled.

This growth is mainly due to increased activity within the second H2020 project led by the 2° Investing Initiative (*Energy Transition Risk project*) and existing projects such as SEI Metrics and Time Horizon.

In 2017, this trend is likely to slow down due to an adjustment of the fundraising strategy to the mid term.

## 2° Investing Initiative income

*Excluding extra-annual funding and regranting*



INCOME	FY2016	FY2015	FY2014	FIRST FY
<b>Membership fees</b>	142 100 €	142 100 €	62 860 €	2 540 €
<b>Operating grants and products</b>	2 552 941 €	1 164 315 €	553 875 €	273 748 €
<b>Other products</b>	755 €		357 €	
<b>Total</b>	<b>2 695 796</b>	<b>1 306 315</b>	<b>617 092 €</b>	<b>276 288 €</b>
Subsidies and regranting related to extra-annual activities	1 791 359 €	1 900 606 €	Not accounted	Not accounted
<b>Total</b>	<b>4 487 155 €</b>	<b>3 349 238 €</b>		

Financial year one: 1/11/2012 to 31/12/2013

The full consolidated financial statements audited by E.Magnier / SiRiS are available upon request.

# FINANCIAL STATEMENTS

## Income breakdown

In 2016, the total incomes of the French entity and therefore the network amount to EUR 2,695,796.

The main (62%) funding source are research grants from the European Commission (H2020 project). In the next year, we expect this ratio to shift significantly to more funding from non-EU sources.

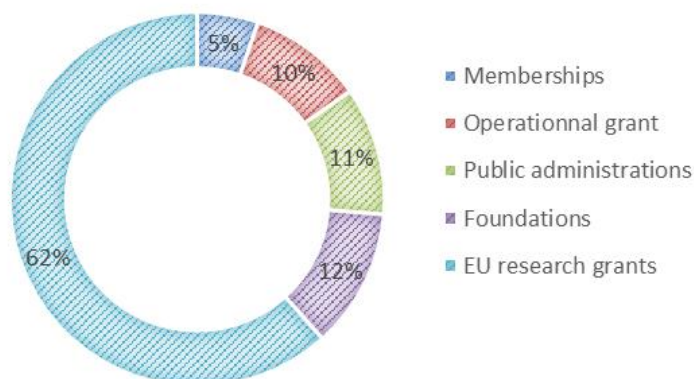
Despite their small share in the overall budget, memberships and operational funding are key for the 2Dii network, as they fund overhead, research innovation, and fundraising;

## Expenses breakdown

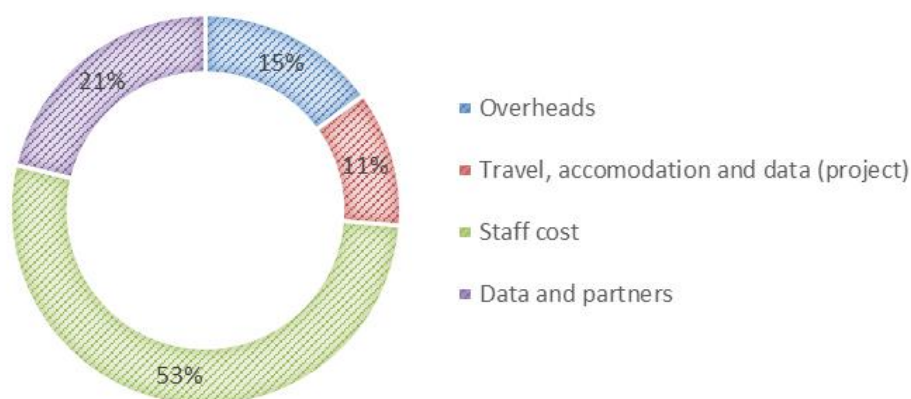
In 2016, the internal expenses for France amount to EUR 2,658,230 euros. The total for the entire 2Dii network has not been audited yet, but is likely to be very close to this sum, as France regrants expenses (which are currently integrated in the French accounts) to the other entities.

The given figure is a tentative breakdown based on information from the budget and not the financial audit. 2° Investing Initiative will publish audited figures by the end of July.

**2° Investing Initiative 2016 incomes breakdown**  
*Excluding extra-annual funding and regranting*



**2° Investing Initiative 2016 expenses breakdown**  
*Excluding extra-annual funding and regranting*



Financial year one: 1/11/2012 to 31/12/2013

The full consolidated financial statements audited by E.Magnier / SiRiS are available upon request.

# FUNDRAISING

*2° Investing Initiative activities are exclusively financed through grants received from governments, philanthropic foundations and private sector players, as well as membership fees from financial institutions.*

## FUNDRAISING CAPACITY

In 2016, 2° Investing Initiative confirmed and extended its fundraising model initiated in 2015. The 2016 budget is mainly based on funding secured in 2014 and 2015.

As fundraising cycles are long (from 5 to 15 months), the association focused on securing long term funding in 2016 and early 2017 .

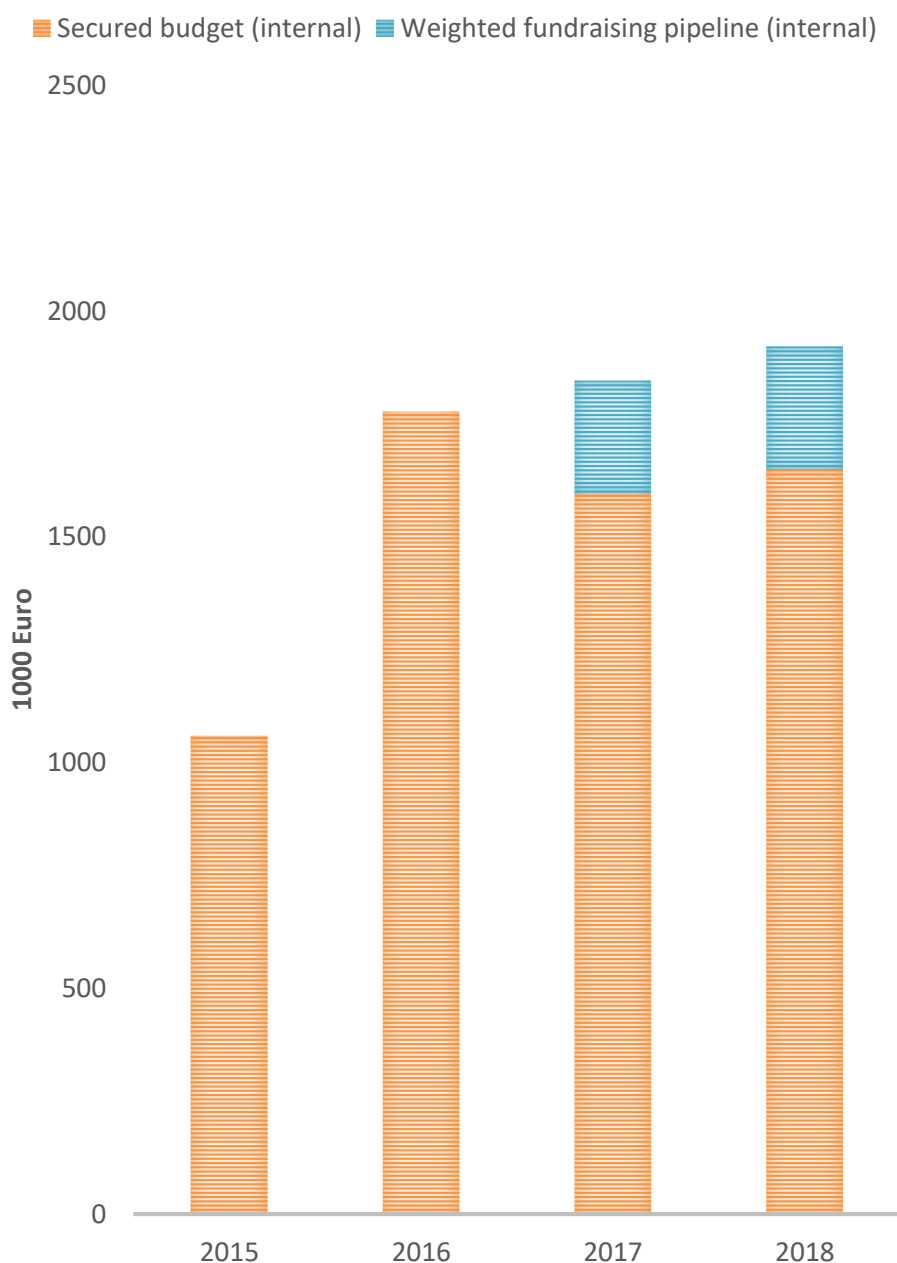
As a result, the secured 2Dii internal budget (blue), not including re-granting to partners, is partly secured for the two coming years (from 2017 to 2018). The weighted fundraising pipe (orange) is likely going to lead to a stabilization of internal activities. However, global activity (including regranting to partners) might decrease if multi-partner project proposals are rejected. Moreover, further funding opportunities may provide for more growth in the coming years. As part of this trend, the association is aiming to diversify its organisational and geographical funding sources.

## RE-GRANTING

In 2016, 2Dii re-granted ~34% to partners. As in previous years, this collaborative approach to fundraising is motivated by the inclusive nature of 2°ii's activities, which strives to avoid duplication and to involve a diversity of stakeholders (non-profit and commercial players).

### 2017-2019 – Perspectives Excluding re-granting

#### BUDGET EVOLUTION 2015-2018





## **CONTACT**

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### **London:**

[40 Bermondsey Street, London SE1 3UD](#)

### **Berlin:**

[Am Kufegraben 6A, 10117 Berlin](#)