2°investing initiative

2022 ANNUAL REPORT

Thinking finance in

A SUSTAINABLE WAY

2022

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“2022, year of impact”

HELENE LANIER, CEO

- **How would you describe the year 2022 in terms of sustainable finance?**

The year of sustainable finance ended with the COP 27 on climate and the COP 15 on biodiversity, both of which reminded us of the central role of the financial sector in the implementation of societal transformations, ensuring both the mitigation of climate change and biodiversity loss, but also the adaptation to their consequences. 2022 has been marked by dramatic climatic events worldwide, including severe heat waves in Africa and Europe, floods in India and Pakistan, and hurricane bombs in North America. While civil society’s awareness seems to be accelerating, progress in the financial sector is not as rapid. Even if notable progress has been made, particularly for emerging countries that are often the most severely affected, we still seem far from the progress expected to contain global warming to 1.5°C. The financial sector must make much more substantial efforts to play its role fully. At 2DII, **we believe that 2022 is a year of necessary progress**, but it is mainly insufficient, given the urgency of the actions to be taken.

While civil society’s awareness seems to be accelerating, progress in the financial sector is not as rapid.

- **What do you see as the main challenges for sustainable finance in the upcoming years?**

In our opinion, the main challenge for the years to come is the massification of impact finance. Indeed, to meet the 2050 carbon neutrality targets, financial flows must be much larger and more qualitative. To guarantee an orderly transition and maintain financial stability, investors must invest massively in projects that contribute to limiting climate change and conserving biodiversity. This is the meaning of the call made by many NGOs to move «from millions to billions». This massification should also make it possible to direct investment flows toward the most vulnerable countries. But beyond volumes, the quality of financial flows must also be improved. Critics of ESG ratings have highlighted the importance of focusing on the impact of investments. Massification and densification seem to be the two essential conditions for achieving the climate and environmental objectives of the financial sector in the years to come.

To meet the 2050 carbon neutrality targets, financial flows must be much larger and more qualitative.

After 10 years of existence, how does 2DII intend to position itself to accelerate the transition of the financial sector?

First of all, we look at the progress made with great enthusiasm. Thanks to the action of the 2DII teams and other structures like ours, sustainable finance has gone from being a niche to a central concern for all actors. The involvement of 2DII in elaborating the French and European regulations has primarily contributed to this movement. And the tools and methodologies which have been developed constitute a fertile heritage for the future.

To accelerate the progress, 2DII has redefined its strategic orientations in 2022 and intends to create more coherence between the subjects studied until now. Impact will be a strong axis of our research, weaving products, actors, and their practices together.

Transition plans and impact products will be the focus of our work. We also want to create links between financial sectors. Too much research is still focused on investment practices, which needs to be complemented by studies of banking institutions or insurance companies. We also intend to create a continuum between micro- and macro-financial studies, to highlight best practices for a transition involving public and private actors. Finally, coherence will be at the heart of our research on biodiversity: we are constantly concerned about not recreating silos between these closely related subjects. We wish to advocate for a global environmental approach associating climate and environmental issues.

> Transition plans and impact products will be the focus of our work.

End of term review
(2020-2023)

ROBIN EDME, CHAIRMAN OF THE BOARD (JUNE 2020-JULY 2023)

2012-2022: Ten years on! At the end of 2012, I managed to persuade the General Commissioner for Sustainable Development at the French Ministry of the Environment to provide financial support for the association, convinced that it had a major role to play in radically transforming the financial markets in favour of a world more respectful of the environment. To receive this grant, we had to draw up the Association's bylaws, and we've come a long way since then!

From a strictly French think tank at the outset, even if the issues to be addressed were international, 2 Degrees Investing Initiative quickly became, under the impetus of its founders, an international organisation in terms of its concerns, its teams, its locations, and its members.

I have devoted the last three years to stabilising practices, creating a dedicated development structure to compensate for the eventual departure of the founders and, more broadly, putting in place internal control tools to stabilise the running of an organisation that has grown from 2 to 20 people.

2022 was also the year in which we made a major shift by **entrusting the development of PACTA to an international association (RMI) and selling Asset Resolution, which has since become Asset Impact, to GRESB**, in recognition of the fact that our expertise lay in developing proofs of concept rather than managing them once they had been launched. These successful transfers would not have been possible without the essential contribution of and collaborative synergy with our Treasurer.

The arrival of a new Managing Director in June 2022, after six months of interim management on my part, has enabled us to consolidate what had been started, to smooth out our operating methods by recreating a team spirit, and to restore a dynamic that brings new ideas.

What remains to be done is, of course, immense, given the huge climate challenge, in its broad sense, that faces us. In 2023, we will have to define our strategy while continuing to make our mark, because the competitive landscape has changed radically in 10 years. We will also need to put in place a governance structure that is commensurate with our new challenges, diversifying and enriching it in terms of the contributions of each of our directors, their international representation and our eco-system.

In 2023, we will have to define our strategy while continuing to make our mark, because the competitive landscape has changed radically in 10 years.

CHAPTER 01

Mission, engagements & values

2° Investing Initiative (2DII) is a think tank specialised in sustainable finance. It proposes concrete tools to enable all actors in the sector, financial institutions, regulators, and public and private investors to transition to a carbon-neutral economic model. Since 2013, at the forefront of climate finance and sustainable investment, 2DII has conducted one of the largest research programmes in Europe.

From its offices in Europe and the Americas, 2DII is active in developed countries and emerging markets, with active research projects in Latin America, Asia, and Africa.

2DII extends and pursues this ambition towards biodiversity's impact and conservation.

PART I

Mission: in the beginning, there was the climate

2° Investing Initiative was born from the will to fight climate change with financial tools. Naturally, climate change, its evolutions, its risks, and the stakes constitute the backbone of the action of 2DII and the mission it gave itself. Therefore, the mission of 2DII is based on the 5 different pillars.

Putting climate issues on the financial policy agenda

2DII helped draft the preliminary version of France's groundbreaking Article 173, which was part of France's 2015 "Energy Transition for Green Growth" law -ven before the Task Force on Climate-Related Financial Disclosures (TCFD) issued its recommendations.

Some key figures on our tools

MY FAIR MONEY

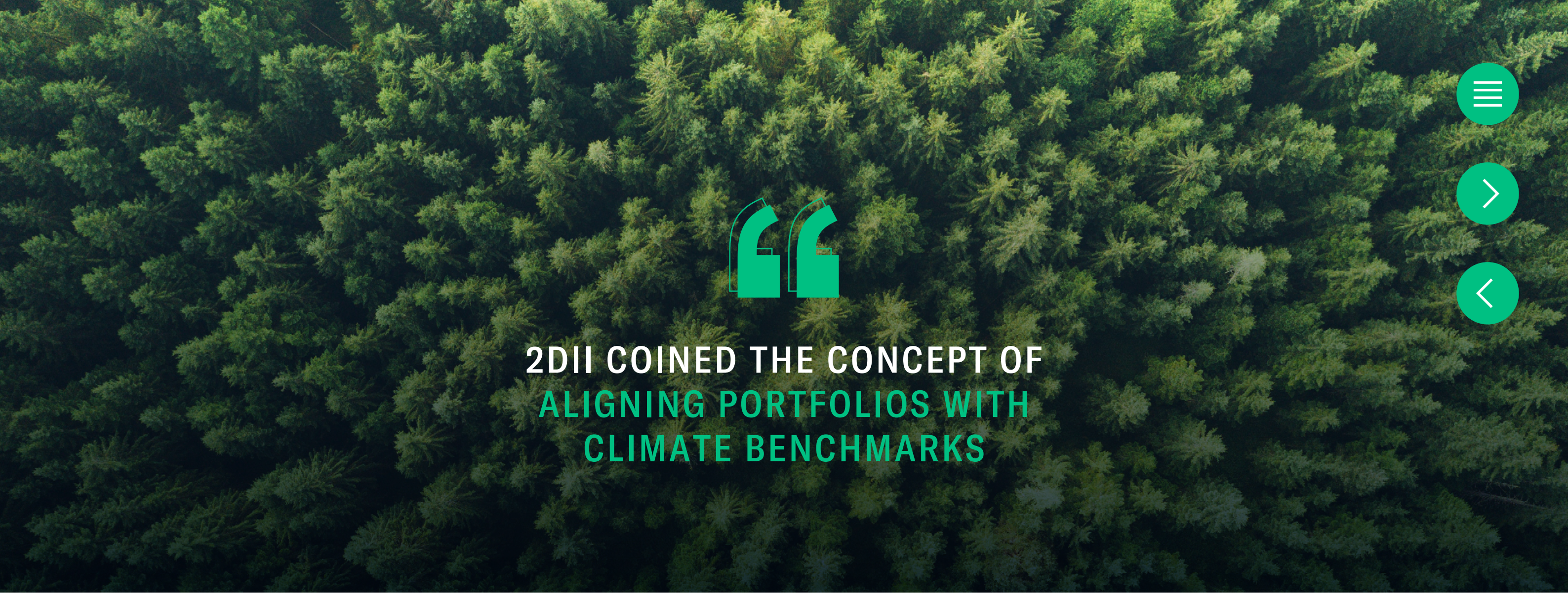
over **20,000** unique visitors since launch

PACTA

used by more than **3,000** financial institutions since launch

600 portfolio alignment analyses conducted monthly

Collaborating with government institutions across Latin America, Africa and SE Asia



2DII COINED THE CONCEPT OF ALIGNING PORTFOLIOS WITH CLIMATE BENCHMARKS

Coining the concept of aligning financial portfolios with climate goals

With the launch of the Paris Agreement Capital Transition Assessment (PACTA[1]) climate scenario analysis methodology, 2DII coined the concept of aligning portfolios with climate benchmarks. PACTA has since been used by more than 3,000 FIs around the globe, with more than 600 portfolio alignment analyses conducted monthly. The concept of aligning financial portfolios with climate objectives has also been embedded in EU regulations and the Task Force on Climate-Related Financial Disclosures (TCFD).

Empowering consumers to align their investments with their environmental convictions

As part of its Retail Investing Programme, in 2020, 2DII launched the first non-commercial resource platform for sustainably-minded retail investors, **MyFairMoney**, with over 20,000 unique visitors since launch. The platform acts as an independent, unbiased source for retail investors and financial advisors alike, comprising educational materials, a fund database rated by ESG criteria, and a suitability questionnaire. This tool is now available to investors across Europe in English, French, German, Greek, and Czech. It forms a core part of 2DII's efforts to leverage retail investors' convictions – and savings – to shift financial flows towards more sustainable activities.

Helping financial institutions (FIs) develop science-based impact climate action strategies

To date, there is still limited understanding of how financial industry practices can contribute directly to impact – GHG emissions reductions – in the real economy, going beyond traditional strategies of portfolio ESG alignment. 2DII's Impact Programme is addressing this knowledge gap by developing free, open-source tools, such as a Climate Impact Management System to guide FIs in setting up science-based impact climate contribution strategies. In parallel, 2DII is leading the Evidence for Impact Working Group in collaboration with 30 leading FIs, 10 NGOs, and academic institutions to develop, test, and propose new solutions for the financial industry to contribute to the energy transition.

Extending our research fields to emerging markets to adapt our work to their needs

Through its work in emerging markets, 2DII is collaborating with government and financial institutions across Latin America, Africa, and Southeast Asia on capacity building, climate scenario analysis, and risk management issues. Specific research topics are developed to take into account the importance of economic development and emphasise the prominent role of adaptative measures in these countries.

[1] Press release on Transfer Stewardship of PACTA to RMI

PART II

2DII, a stakeholder dedicated to sustainable finance

Since its creation, 2DII has been firmly committed to mobilising and directing financial flows toward more responsible projects to align the sector with the Paris Agreement objectives and promote the transition towards fair, sustainable, and carbon-neutral economic models. To this end, the think tank invests in various activities to promote sustainable finance practices and policies.

Research & analysis

2DII conducts research and analysis on a variety of crucial sustainable finance topics. Climate risk management, transition plans, adaptation to climate change, retail and institutional impact investment, and methodological support to FIs are some issues on which 2DII identifies trends, opportunities, and challenges.

Regulation & transition

Through its profession and deep understanding of sustainable finance issues, 2DII advocates and acts in favour of better reading and adopting regulations by professionals.

The think tank bridges the gap between legislators, supervisors, and financial institutions, through the various working groups to which it belongs to guarantee clarity, good practices, and efficiency of the regulatory provisions, whether future or in force. The ultimate goal is to drive and support a massive industry transition.

Awareness

2DII organises and animates online workshops to educate the stakeholders of the financial sector, whether they are institutions or individuals, in France and abroad. These meetings are an opportunity to exchange and understand the achievements and progress to be made in terms of education, awareness, and understanding of sustainable finance issues. **MyFairMoney**, a platform for savers on the one hand, and financial advisors and portfolio managers on the other, aims to shed new light on the financial products held by individual savers and to assist «financial distributors» in identifying the impact of their portfolios.

Collaboration & partnership

Involved in different consortiums and think tanks, 2DII collaborates with other organisations (ministerial agencies, sectoral associations, and NGOs) to promote and foster collective intelligence. Thus, 2DII is part of the Finance ClimAct, LEVEL EEI, and works with local entities of WWF.

PART III

4 core values

Independent

2DII collaborates with various actors in the financial ecosystem and receives support from public and private organisations. The think tank is, therefore, keen to **maintain a position of independence** about the various interlocutors.

Innovation and solution-oriented

Resolutely driven by the desire to answer the pressing climate challenges, we strive to provide **trailblazer, practical, and innovative solutions**.

Pragmatic and science-based

Our work results from research based on **practical and scientific methodologies** in close cooperation with top-ranking academic partners.

Collective intelligence and general interest

We believe in the strength of the group, which is why we work with profiles from all walks of life to **create intelligence that serves everyone**.

CHAPTER 02

Key figures & highlights

Major events and achievements highlighted in the year 2022.

More than

10

ongoing grants in 2022 2DII France

13

reports conducted and published on 2DII France's website

Events

Retail Investing Programme

The retail team organised and/or was a key stakeholder of more than **50 events** (webinars, roundtables, conferences - with LEVEL EEI as a core conference for retail, and public policy interventions, e.g. consultations or briefings)

Green Talk

by La Place Fintech, Institut de la Finance Durable (formerly Finance for Tomorrow), and 2DII

REPLAY

Emerging markets

4 reports related to emerging markets work research.

The average size of the Paris team has been **10 employees in 2022**

PACTA & Asset Resolution: strategic transfers that mark a turning point for 2DII

ROBIN EDME, CHAIRMAN OF THE BOARD

Within its 10th anniversary, 2DII has begun a new phase of strategic development with the sale of PACTA and Asset Resolution. These activities, both launched and developed by 2DII France, are **now in maturity**. Indeed, the first, the PACTA climate scenario analysis methodology – **designed in partnership with more than 50 financial actors**, such as the Principles for Responsible Investment, University of Zurich, and Frankfurt School of Finance, to name a few - helps FIs and regulators to assess the alignment of portfolios with climate benchmarks and steer towards a net-zero pathway. Which has been a huge success so far! **More than 3,000 FIs and 90 countries used the tool!**

On the other hand, Asset Resolution, now Asset Impact, was conceived as a mission-driven specialist provider of climate data and analytics used, again, by FIs to set the global economy on a path toward net-zero emissions. We take a huge proud for **having institutions among the world's largest banks and consultancies**. Today, their transfer will allow 2DII to continue and mobilise its efforts on new stakes and to develop in order to remain faithful to its DNA: being a pioneer and tracing new trails in other fields. We approach this new Chapter confidently and enthusiastically to move new lines in the financial sector!

> Their transfer will allow 2DII to continue and mobilise its efforts on new stakes.

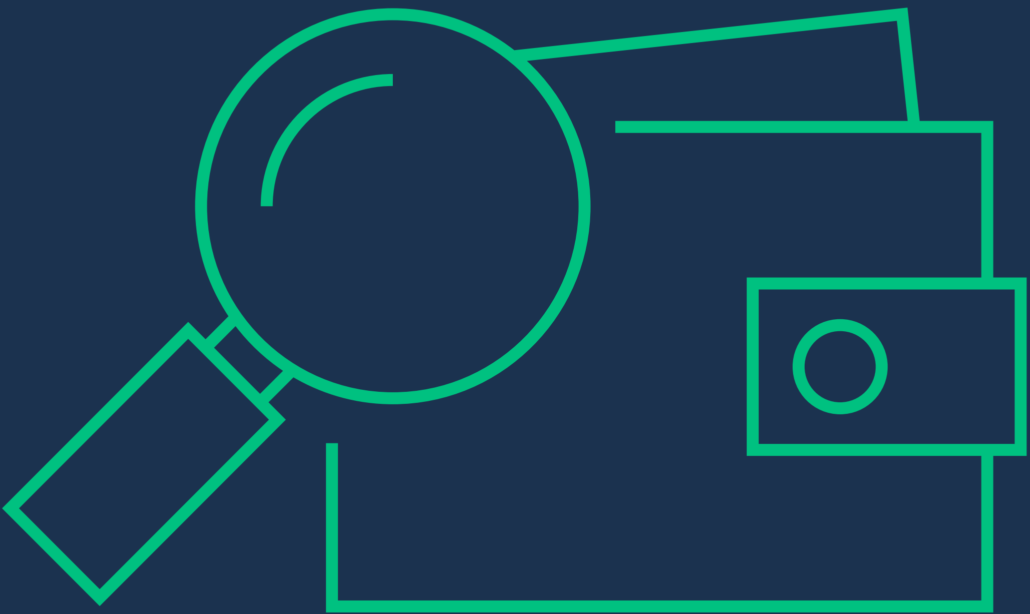
About the transfers

2018	Foundation of **PACTA** & **Asset Resolution** (by 2DII)
8 JUNE, 2022	**PACTA** transferred to RMI
SEPT. 2022	**Asset Resolution (now Asset Impact)** sold to GRESB BV

[2] Press release on Asset Resolution acquisition by GRESB BV.
[3] Press release on Transfer Stewardship of PACTA to RMI

2DII at the heart of the climate finance ecosystem

Expertise and independence make the 2° Investing Initiative a privileged partner collaborating with a diversity of organisations and proposing actions on the entire value chain of the financial ecosystem.



PART I

2DII, the think tank between watch and advocacy

2DII is committed to carrying out in-depth work upstream of the conception and the marketing of financial assets to guarantee transparency and good practices. This is the reason why, in 2022, 2DII continued to operate at the centre of the evolving sustainable finance agenda toward regulators and FIs.

We released leading research to inform regulatory design and oversight. We adopt a variety of tactics and strategies to ensure our voice is heard in policy dialogue – from working with policymakers and financial regulators to releasing hard-hitting research designed to shift the dial on the imperative to act, to engaging with wider stakeholders through innovative mechanisms.

In terms of working with policymakers and financial regulators, 2DII provided training sessions on retail investor sustainability motivations and sustainable investment strategies to ACPR, and following the release of our paper **Fighting greenwashing... what do we really need?** 2DII's work was a notable input in greenwashing risk thinking in the finance sector.

2DII continues to advocate effectively to the Commission in relation to its sustainable finance policymaking. In September, we participated in a roundtable discussion with **the Commission and members of the Finance ClimAct consortium** to discuss the current state of play in relation to sustainability preferences of retail clients. And we have provided our input to a number of position papers, policy recommendations, etc. aimed at the Commission and developed by the network of civil society organisations focused on EU sustainable finance developments.

2DII's research released during 2022 includes:

FIGHTING GREENWASHING... WHAT DO WE REALLY NEED?

A review of the legislative and regulatory framework applicable to environmental impact claims of financial products and concrete propositions to fight greenwashing more efficiently.

READ

INTEGRATING CLIENT PREFERENCES FOR SUSTAINABLE INVESTMENT INTO FINANCIAL INSTITUTION LEGAL DUTIES... STILL A WAY TO GO

A review of progress towards integrating client preferences for sustainable investment into financial institution legal duties during financial advice and ongoing management of client investments.

READ

JUMPING THE BARRIERS TO SUSTAINABLE RETAIL INVESTMENT IN FRANCE

A presentation of demand, supply and distribution frictions and recommendations to move forward.

READ

PART II

2DII and the retail investing market: a proactive, concerted, and fair approach

QUANTITATIVE SURVEYS CONDUCTED IN 9 EU COUNTRIES

FIELD RESEARCH CONDUCTED IN 6 EU COUNTRIES

OVER 250 MYSTERY SHOPPING VISITS

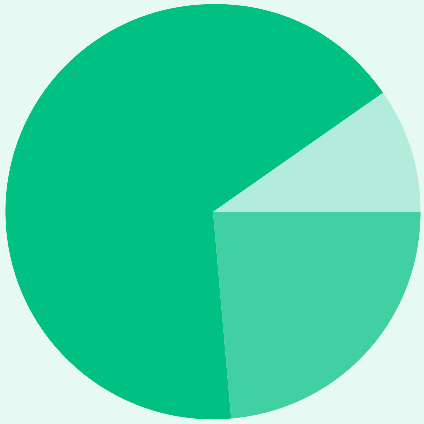
We are convinced that financial assets held by European households, and more specifically the individual savings, constitute a powerful lever of action in favour of the transition of the economies towards a low-carbon model. Since 2018, 2DII has managed to raise over EUR 6M in funding to develop one of the largest cutting-edge research programmes on sustainable retail investing. Our approach completes the action carried out with the local and international regulators and is based on scientific research, allowing one to anticipate and identify the trends, risks, and market opportunities.

This is made possible by a solid and in-depth knowledge of the European retail investor market. In 2022, our particular research activities on retail investor preferences were financed by various funders sharing our view on the relevance to better understand the sustainability preferences and motivations of retail investors, such as **Climate KIC**, **European Climate Initiative**, and the **European Commission** (Life IP, H2020). 2DII has conducted **quantitative surveys in 9 European countries** and conducted, together with in-country partners, **field research in 6 EU countries**. Furthermore, we conducted a series of **over 250 mystery shopping visits** to assess the level of implementation of the new MiFID II requirements. The results will feed the reports to be published in 2023, "Assessing sustainability client preferences ... lost in the maze?", "Questionnaire for assessing sustainability client preferences and motivations", "6 National Country Reports".

Actions in the field in figures

379 MYSTERY VISITS

253 in Germany, Denmark, Estonia, Ireland, Greece, Romania (ESIP)



90 in France (visits straddling 2021 and 2022 - financed by Finance ClimAct)

36 in the Czech Republic (EUKI)

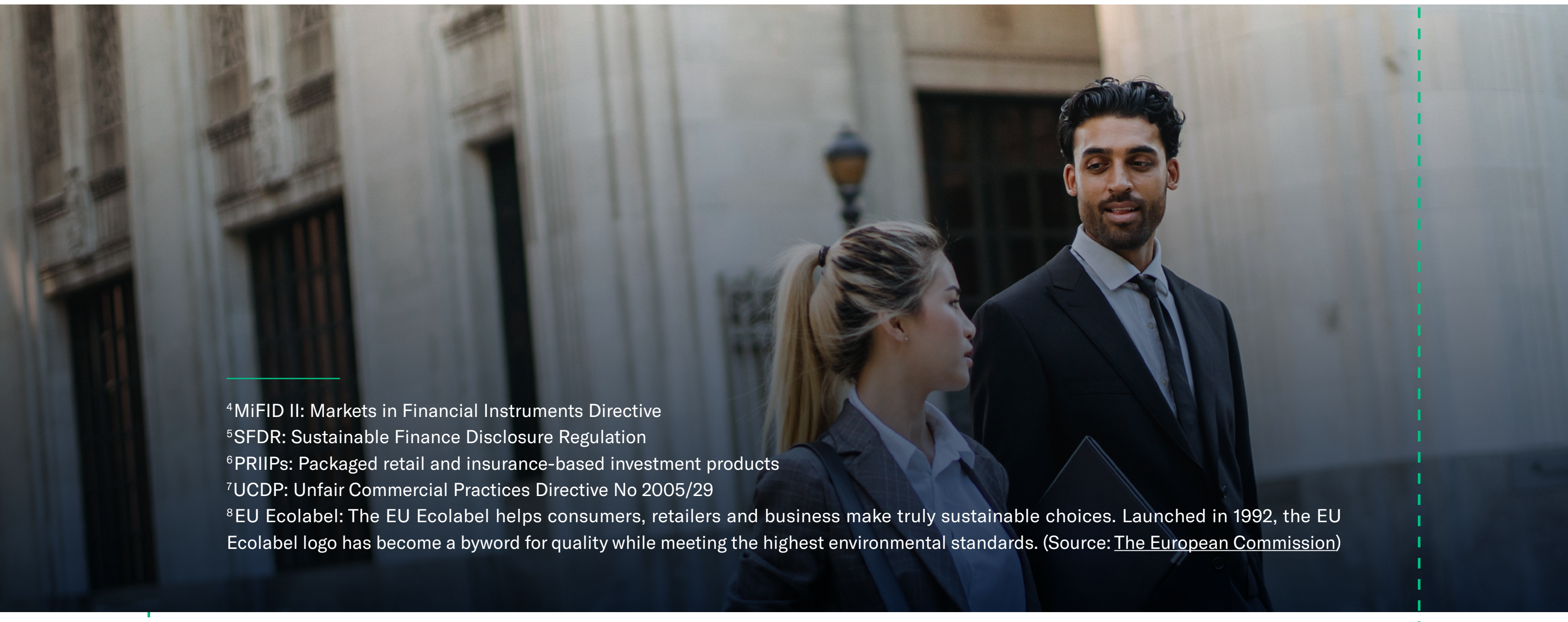
8,400 people surveyed in **8** countries, i.e., **1,000** people/country + 2nd specific survey in Germany with **400** people:

Level EEI funder

Funder ESIP

Funder EUKI

The Retail Investing Research Programme of 2DII is also supposed to extend to the knowledge of professionals in public and private organisations. The objective is to improve existing European legislation and improve operationalisation. This approach benefits the financial actors who, thanks to the data, methodologies, and tools of 2DII, can mitigate their legal and reputational risks in a sensitive societal context of a combined social, economic, and environmental crises. Thus, as recognised and central experts in the field, 2DII team members were involved in various working groups, workshops, and discussion groups regarding the evolving regulatory sustainable finance framework around MiFID II[4], SFDR[5], PRIIPs[6], UCPD[7], EU Ecolabel[8], and others. In this context, 2DII initiated two dedicated multistakeholder working groups on (i) the development of a best-practice suitability questionnaire and guidelines for financial product distributors and (ii) guidelines on impact marketing claims (the fruit of this work will give birth to two powerful tools, **"Questionnaire for assessing sustainability client preferences and motivations"**, **"Guide on environmental impact claims for financial products in France"**).



[4] MiFID II: Markets in Financial Instruments Directive
[5] SFDR: Sustainable Finance Disclosure Regulation
[6] PRIIPs: Packaged retail and insurance-based investment products
[7] UCDP: Unfair Commercial Practices Directive No 2005/29
[8] EU Ecolabel: The EU Ecolabel helps consumers, retailers and business make truly sustainable choices. Launched in 1992, the EU Ecolabel logo has become a byword for quality while meeting the highest environmental standards. (Source: The European Commission)

2DII's Retail Investing Research Programme also develops online tools that provide information, transparency, and guidance to Europe's large retail investor audience. Here, **MyFairMoney** - a platform created in late 2020 - brings the necessary information and tools to integrate sustainability into their investment decisions. It allows individuals to invest in more suitable funds or to evaluate their portfolios thanks to an integrated analysis tool. In 2022, this tool was enriched thanks to funding from the Swiss Federal Office for the Environment, ADEME, GIZ, and the European Commission with new functionalities. This funding hence supported an enlargement of the platform's audience with Czech and Greek translations available (on top of the versions already available in English, French, and German).

PART III

Fleshing out the impact for private financial institutions

In 2022, 2DII is more than ever engaged with private FIs to put flesh on the bones of impact. There is limited understanding of the ultimate impact of climate-related financial practices on greenhouse gas (GHG) emissions reductions in the real economy.

Target achievement is generally measured by the ability of financial institutions to “decarbonise their portfolios” or “align their portfolios with climate goals” in some form – independent of the extent to which this leads to decarbonisation in the economy. While alignment is a valuable strategy for various purposes (e.g., risk management), no evidence exists that it drives effective decarbonisation in the real economy. At a time when we need urgent, immediate action in order to remain well below the 2° limit by the end of the century, the financial sector, in turn, requires frameworks for setting up reliable impact-oriented climate strategies.

To help FIs develop and implement science-based climate contribution strategies, and to answer this challenge, 2DII launched a Climate Impact Management System (hereinafter referred to as CIMS) to assist financial institutions in setting up climate strategies specifically designed to maximise their contribution to climate change mitigation, in October 2021. CIMS provides a clear, step-by-step process for developing, refining, and communicating impactful climate strategies. CIMS proposes a staggered approach to assist the FIs in setting up climate strategies designed to maximise their contribution to climate change mitigation.

During the first phase of CIMS, through the joint report with WWF-Singapore, 2DII explored what driving transition entailed for Asian financial institutions towards impactful climate actions, and how potential barriers can be lifted.Indeed, most of their impact strategies are hampered by limitations, some of which have been identified by respondents, others inferred by the authors from the survey responses. Regarding this challenge, the transition process is a phase in that 2DII can support FIs successfully. Yet, in 2022, during the second phase of implementation of the CIMS, 2DII benefited from the support of the Latin-American FIs under the UK PACT Project, which allowed to realise significant progress in this field (see the insert in Chapter IV Section 1). When 2DII stares at climate change through the lens of the FIs, knowing that the financial sector itself can be defined as a risk allocator, the sector can head up the transition path and immensely contribute to communities’ mitigation projects by flowing the financial resources to created investee portfolios and enabling people to invest in cutting-edge solutions.

CHAPTER 04

Emerging markets: when sustainable finance is key

2022 was a transformational year for the Emerging markets team. The focus was on developing a new strategy and identity, departing from the premise that the climate journeys from emerging market economies are hardly comparable to those from developed countries. Emerging economies have generally experienced a more non-linear evolution and have started their climate journey more recently when compared to advanced markets.

PART I

Emerging markets, a year of transformation

2DII believes that providing an integrated solution where the measure of a portfolio's climate alignment goes hand in hand with the identification of climate actions and impact measurement of these actions is therefore crucial for emerging markets.

Thanks to its funders, the International Climate Initiative (IKI)[9], UK PACT, the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), and the International Finance Corporation (IFC), 2DII continued to expand its work in 2022. In addition to these, the team continued to work closely and exchanged knowledge with other global think tanks, consultants, government entities, and associations in the regions where we operate, with new connections at Multilateral Development Banks and Development Finance Institutions. This allows 2DII to stay afloat with new developments and continue to expand our footprint worldwide.

During the year, the think tank continued to work with FIs, supervisors, and governments in emerging markets via projects related to our Climate Impact Management System (CIMS) Methodology, engagement strategies, and scenario analysis in Latin America and Asia. The scenario analysis projects were implemented via the PACTA[10] (Paris Agreement Capital Transition Assessment) tool, which was transferred to the Rocky Mountain Institute (RMI) in June 2022. In collaboration, 2DII and RMI successfully completed PACTA analysis in Colombia, Brazil, and Malaysia.

[9]This project is part of the International Climate Initiative (IKI). The Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) supports this initiative on the basis of a decision adopted by the German Bundestag.
[10]Press release on Transfer Stewardship of PACTA to RMI

- In **Colombia**, in collaboration with UniAndes and funded by UK Pact country programme in Colombia, 2DII was able to work with 7 insurance companies in the implementation of the CIMS I(Climate Impact Management System) methodology. 2DII assisted these insurance companies in developing a climate action plan designed to maximise their contribution to climate change mitigation.

- In **Malaysia**, in collaboration with WWF Malaysia and funded by the UK Pact country programme in Malaysia, 2DII implemented a PACTA and climate stress testing exercise. 2DII worked with four Malaysian institutional investors (public pension funds and sovereign wealth funds). In doing so, 2DII and WWF delivered climate alignment and climate risk analyses for 4 public institutional investors, who collectively cover ~USD366.5 billion of assets under management. In addition, 2DII and WWF imparted technical and methodological knowledge to build capacity on climate-related finance metrics and the interactions between them. Leaving the public beneficiaries with additional skills in their toolkit to 1) address financial climate change risks and 2) identify how FIs can aid in tackling climate change in the real economy.

- In **Brazil**, 2DII has received co-funding from the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and the International Climate Initiative (IKI)[11], to work along with the Brazilian supervisor authority (CVM) on a PACTA coordinated project (PACTA COP) that concluded in 2022. The project aimed to measure the alignment of the Brazilian Asset Management sector with the Paris Agreement Goals.

[11]This project is part of the International Climate Initiative (IKI). The Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) supports this initiative on the basis of a decision adopted by the German Bundestag.

PART II

Emerging Markets: how to better assess the risk?

2DII's representatives at the COP 27, which included Edgi De Los Santos Jiménez, Director of Emerging Markets at 2DII, were able to meet with a variety of interlocutors and (financial) players, to explore ideas and to discuss future collaboration, all with the intention to take our mission forward.

Meetings such as the COP offer a real avenue of possibilities. It is clear that public financing will not suffice to tackle the climate challenges ahead, which strengthens our desire to partner with private investors and stakeholders. While the intergovernmental negotiations gave mixed results, the big strength of such COP meetings is its convening power to launch new cooperation between all sorts of actors - states, banks, regulators, private companies, MDBs, and DFIs.

During COP 27's Finance Day, our CEO, Hélène Lanier, discussed the notion of impact finance and the tools that are available for the different actors. Hélène introduced our internally developed physical risk assessment tool specially developed for low-income and middle-income economies. **The Physical Risks Assessment and Capacity building (PRAC) methodology** analyses a chain of impacts from climate hazards to the banking sector through real economy sectors, relying on the three core components of a physical risk assessment: **climate hazards, asset exposure, and asset vulnerability to such hazards**. Implementing the methodology will require, for each combination of hazard and sector, to assess and rate five variables:

- The climate hazard stemming from climate change (e.g. heatwaves)
- The exposure of the real economy sector (e.g. agriculture) to the climate hazard
- The vulnerability of the real economy sector to the climate hazard
- The exposure of the banking sector to the real economy sector
- The vulnerability of the banking sector to disruption of the real economy sector

The initial version of the PRAC methodology focuses on a limited number of climate hazards and real economy sectors, and on direct transmission channels. Later development of the PRAC methodology will focus on extending the analysis to cover further climate hazards and real economy sectors, and to cover indirect transmission channels. The next step is to pilot-test the methodology in different regions and make the results publicly available. Thanks to its funders, the International Climate Initiative (IKI)[12], UK PACT, the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), and the International Finance Corporation (IFC), 2DII will continue to expand its work in 2023 and beyond.

[12]This project is part of the International Climate Initiative (IKI). The Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) supports this initiative on the basis of a decision adopted by the German Bundestag.

PART III

Greening the emerging markets, a long race to run

As part of the new strategy, the team is focused on the topic of Adaptation/Resilience in the emerging economies. Climate Change is a pressing issue. These economies are hit the hardest, and they do not have the capacity to withstand the physical and financial ramifications of climate change.

Our goal is to develop a framework that could help them explore the best options available to "adapt". The team is focused on learning more about the regional specificities and their challenges. Thinking beyond 2023 and in the years ahead, we will continue to address the gaps we see, be at the forefront of new developments in the region, and raise questions that help develop the critical thinking needed to advance the agenda. 2DII's mission to help close the gap in regions that are especially vulnerable to the physical and transition risks associated with climate change, **helping them to integrate climate considerations and align their financial markets with the Paris Agreement goals**, is far from done, and we look positively ahead. Step by step, day by day... Greening the emerging markets' economies is not a sprint, it's a marathon.

Featured Publications in 2022

MAKING THE CLIMATE TRANSITION BLOOM: DEVELOPING AN IMPACT-DRIVEN, PARIS ALIGNED INVESTMENT FUND IN LATIN AMERICA

Funded by: International Climate Initiative (IKI) supported by the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU), based on a decision of the German Bundestag

Cooperation between 2 Degrees Investing Initiative (2DII) and Rocky Mountain Institute (RMI)

Publication Date: December 2022

- There is an imperative for asset managers to exercise their fiduciary duty to investors by managing climate change risks and to play an active role in fulfilling the Paris Agreement objectives of making capital flows consistent with a pathway towards stabilising global temperatures to well below 2oC.
- 2DII and RMI have been working since 2021 with leading Latin American asset manager SURA Investment Management to develop a Paris-aligned investment fund concept in a Latin American context.
- Such a fund would seek to contribute to the decarbonisation of investment portfolios for institutional investors, as well as to promote the decarbonisation of key industrial sectors by allocating capital to companies that are aligned with below 2oC sectoral decarbonisation pathways, measured using the PACTA methodology, which uses 5 years forward-looking data on the capital commitments of companies.
- But it is not enough to compose a fund from the small number of companies that are pure players in green technologies or that are already aligned in their capital investments. It is necessary for investors to take an active role in driving the transition of existing industries, especially in the contexts of emerging markets, where the decarbonisation of the economy should be understood from a different perspective, recognising the dependence on fossil fuels as an export and source of public budgeting.
- For this purpose, a joint research project was carried out to evaluate 200 Latin American issuers according to their alignment with below 2° scenarios, as well as their commitments and decarbonisation plans. The results point that 1) there remains a significant gap in data disclosure, 2) that although there are some companies with ambitious plans and leading practices, the general market still has room to advance on their transition, and 3) that it is possible to build equity and corporate bonds portfolios with issuers that are demonstrating a transition plan, but there should be a focus on engagement with companies to influence a low carbon direction on the economy together with the most relevant players in the region.
- The asset manager would therefore also contribute to driving an industrial transition in Latin America by engaging directly with high-emitting companies to request credible transition plans and increase their capital commitments to low carbon technologies.
- Whilst the aim would be to work with companies to make a transition, certain issuer activities that are damaging to both climate and biodiversity in the LatAm context, such as deforestation, would be excluded or subject to monitoring, taking into account that deforestation and changes in land use are central for the decarbonisation of the region.
- By engaging with investee companies and bond issuers to align their climate performance and capital commitments with below 2oC decarbonisation pathways, the fund would seek to contribute to CO2 emissions reductions in the real economy.

DEBT FOR ADAPTATION SWAP MECHANISMS

Funded by: International Climate Initiative (IKI) supported by the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU), based on a decision of the German Bundestag

2 Degrees Investing Initiative (2DII)

Publication Date: December 2022

Low-income countries (LICs) are facing two challenges reinforcing each other in a doom loop:

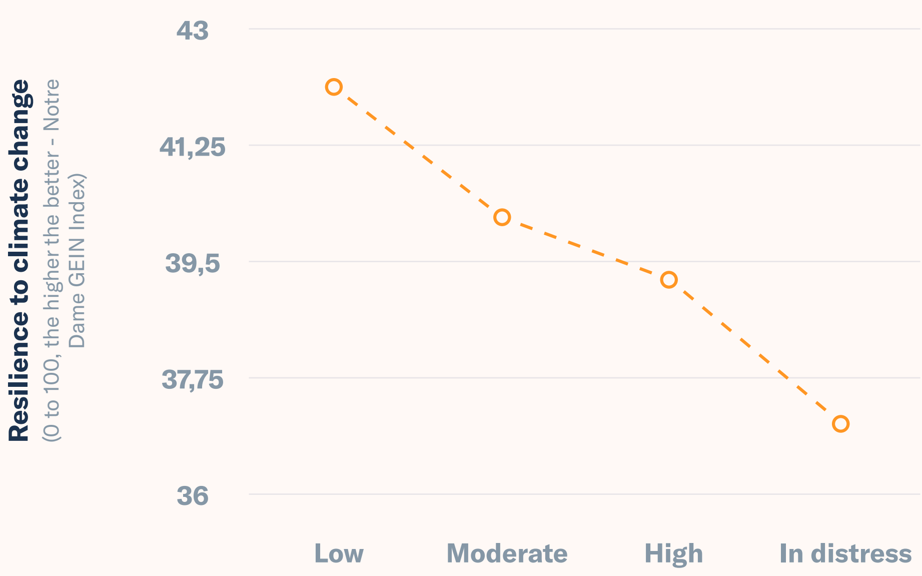
- many LICs are at high risk of debt distress, resulting from a long trend of debt increase and the negative impacts of Covid on GDP and governments revenue.
- most LICs are poorly resilient to climate change, due to both climate hazards being stronger in the Global South than in the Global North and to a lack of capacity of LICs to face them.

Debt distress impedes LICs from investing in required adaptation measures, while a lack of resilience to climate change fuels debt unsustainability. We observe a strong correlation between the risk of external debt distress in low-income countries and their lack of resilience to climate change impacts.

2DII is currently undertaking research on how debt of LICs could be swapped against investments in adaptation measures to fight back both crises at the same time. So-called Debt-for-Adaptation swaps are promising tools, under certain conditions, to free up fiscal space for adaptation investments. They also constitute a way to operationalise, in an efficient and timely manner, the Loss and Damage agenda which COP 27 put on the table.

Debt sustainability and climate change resilience of LICs

(average GAIN index of low-income countries categorised based on their different external debt risk profiles)



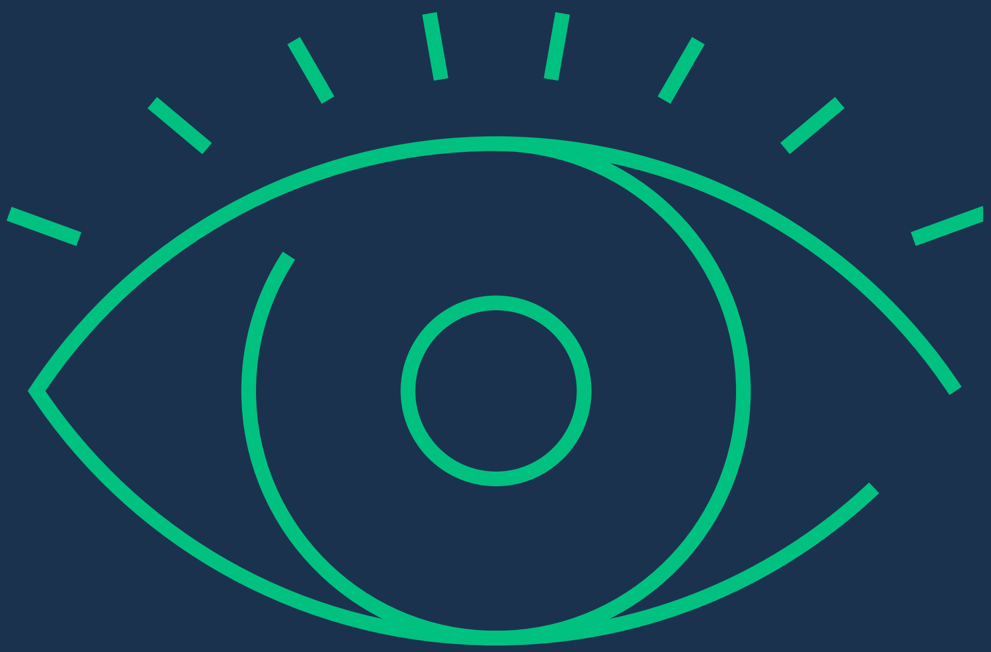
Risk of external debt distress

(based on World Bank-IMF Debt Sustainability Analysis most recent data)

CHAPTER 05

2023 outlook

At the threshold of a new phase of its development, 2DII begins this turning point with the deep conviction that the commitments in favour of the climate and, more widely, of the environment must be accompanied by concrete actions. So, 2023 will be a year of implementation of strategic actions and expansion.



PART I

Let's walk the talk!

In the sustainable finance area, the focus shifted from mere climate-change mitigation focus to a more general perspective encompassing **adaptation needs, nature finance, innovation, and just transition**. This trend mirrored in our organisation: from the cutting-edge think tank, we became one of the several organisations competing fiercely for grants. Our governance and organisation evolved drastically, and some flagship tools were transferred. However, thanks to our highly committed mission-driven staff and strong adaptation measures, we managed to keep our structure up and running and delivered due work packages to our partners. After a turmoil period of risk mitigation and adaptation, the time has come now to think about the resilience factors of 2DII. Resilience does not mean doing things exactly how they used to be in the past, but rather analysing our environment and using **accurate levers to create a sustainable and impactful structure**.

Our values, our staff, and our expertise are a legacy we shall use to rebound and create conditions for sustainability and impact. This implies we will need to get out of our comfort zone and sometimes tweak our practices, but we cannot miss the train. As a team, we can be proud of the ambitious strategic plan we built together. High ambitions from the board and the staff combined with significant investments create a tailored momentum to bring 2DII to a new Chapter. **Let's walk the talk!**

To embody and implement its vision, 2DII's strategy lies in 3 core elements:

PEOPLE

People are the greatest asset of a think tank. We must attract and retain the best people and create the conditions to generate new, high-quality ideas.

RELY ON MODERNIZED SUPPORTING FUNCTIONS TO MAXIMIZE QUALITY AND HIGH-VALUE RESEARCH ACTIVITIES

EXPERTISE

This qualifies us best but must also be renewed and maintained at all times. In the face of multiple crises and profound changes in society, the role of a think tank is to be continuously vigilant to anticipate the issues and developments of tomorrow.

LEVERAGE LEGACY TO REAFFIRM PIONEERING POSITION OF MATURE STREAMS AND DEVELOP NEW RESEARCH AREAS, ADJACENT TO OUR CORE COMPETENCIES

FINANCE

This is the guarantee of our independence and our survival. Making finance sustainable requires the sustainability of our financial model.

DIVERSIFY FUNDING SOURCES TO ANCHOR 2DII IN A LONGER-TERM PERSPECTIVE

PART II

A word from a key partner

INTERVIEW WITH MATHIEU GARNERO, PROJECT DIRECTOR AT ADEME

- **The Finance ClimAct initiative aims to mobilise financial players to speed up the transition to a low-carbon economy. Where do we now stand?**

Indeed, the Finance ClimAct project was launched in 2019 at the same time as the Green Deal and the initial work on the Commission's sustainable finance strategy, including the initial reports from the Technical Expert Group. Through its LIFE programme, the European Commission financed a French consortium to fully support the implementation of this strategy as well as France's strategy to transform the financial ecosystem. Today, we are two thirds of the way there, with many free, open-access tools, methods and studies that make it easier to take dual materiality into account in the management of financial institutions and to include all stakeholders: companies, supervisors and investors. These include, in particular: the PACTA sectoral alignment measurement tool; the INVEEST energy efficiency training programme; the ACT assessment of transition plans; the CTH, which centralises and analyses 29-LEC reports; investor information with MyFairMoney; sectoral transition plans for industry; and the sustainable finance observatory, which analyses climate commitments and the transformation of the financial centre.

- **What encouraging progress has been made at the local, European and international level?**

On the positive side, the European Commission has shown great tenacity and perseverance in its objectives. Despite the Covid crisis and the war in Ukraine with its consequences for energy, Europe has continued to stay the course with the Fit for 55 package of measures, which is our guiding force today. At the international level, one source of great hope is in the creation of the GFANZ and the determination to standardise forms of net-zero commitment by type of financial player: institutional investors, asset managers, banks, insurance companies, etc. At the local level, the recovery plan and France 2030 have provided financial resources of several billion euros to decarbonise our industry and thus contribute to the success of the SNBC.

> We are still a long way from achieving real change.

On the other hand, we are still a long way from achieving real change. The taxonomy is the subject of debate following its extension to controversial activities; the question of transition is still poorly defined, and certain texts such as the SFDR raise many questions of interpretation. Internationally, ESG is turning into a political divide, and geopolitical and energy price tensions are driving a lot of short-term investment in fossil fuel infrastructure, which is detrimental to the fight against climate change.

- **What are ADEME's priorities for sustainable finance in the coming years?**

From the outset, ADEME's objective on this issue has been twofold: to enable the financial sector to make a real contribution in this area, and to ensure the credibility of the climate commitments made by all players. We started out with a rather vague and unstandardised framework: ESG ratings, non-harmonised climate reports, misleading claims and greenwashing. Over the next few years, the aim is to step up efforts to halt funding for projects that compromise our ability to comply with the Paris Agreement, and also to systematically introduce and implement transition plans for all key sectors. These plans, audited by independent third-party bodies, must be central to the dialogue and to the financing and investment choices of financial institutions committed to net zero.

- **In what way is an initiative such as Finance ClimAct, of which 2DII is a stakeholder, more relevant than ever in this context of climate emergency?**

We are in the crucial decade for compliance with the Paris Agreement, with greenhouse gas emissions continuing to rise. At the current rate, we are on track to exceed +1.5°C by 2030, whereas this was a target for 2100! The sustainable finance strategy began with a major reporting component: taxonomy, CSRD, SFDR. With Finance ClimAct, ADEME, 2DII and the rest of the consortium have a front-row seat to observe what works and what doesn't in an approach based primarily on transparency and voluntary action. Now it's time to step up the pace and provide finance with a framework comparable to that required of other sectors under the Fit for 55 framework: i.e. regulate, outlaw, (dis)incentivise, etc. We cannot rely solely on the goodwill of private players, even if dialogue with them is essential. It's up to us to make these proposals to the Commission.

- **To conclude, how do you see the year 2023?**

2023 will undoubtedly be a year of transparency, with the initial taxonomy reports from companies, full 29-LEC reports and Pillar 3 reports from banks. It'll be an opportunity to compare commitments and actions!

PART III

"Creating long term value and impact"

DAMO MENON, STRATEGIC ADVISOR SUSTAINABILITY AND CLIMATE FINANCE, NEW YORK

In the short 10+ years of its existence, 2° Investing Initiative (2DII) France, has carved a solid name for itself and stands tall among international, non-profit think tanks. Workstreams are organised along the lines of its four core objectives, that of aligning financial portfolios with the Paris Agreement goals; working with governments and policymakers to help align regulatory frameworks with climate objectives; enabling the financial sector to drive the transition to a low-carbon economy, and last but not the least, supporting retail investors who want to make **a positive climate impact** with their money.

Between the resources in Paris, Berlin, and New York, the relatively small (by global standards) – yet **highly motivated and competent team** – display a consistent, values driven culture, very clearly understand the needs of their key project funders and partners and produce high quality research work and policy briefs independently that have the potential of creating **long term value and impact**.

In the last nearly 10 months that I have been associated with the team on projects, I have seen the exhibition of strong intellectual curiosity at work, unwavering dedication to the mission and purpose, and team collaboration of a high order. From providing detailed inputs on a new investment framework for an emerging market sovereign for setting up an ESG focused fund, to tackling the complex subject matter of the international financial architecture in suggesting practical pathways of accelerating much needed climate adaptation finance at scale for the less developed countries, the depth, breadth and scope of work is remarkable.

> I have seen the exhibition of strong intellectual curiosity at work, unwavering dedication to the mission and purpose

If I were to single out one shining example among the above that I had a good look on and was particularly impressive, it would be the crucial project executed by the team in a short span of just a few weeks, when called upon by the central bank of a prominent less developed country, **to design and deliver a comprehensive course on climate risk & sustainable finance** as part of the capacity building effort for this country's transition roadmap plan of its financial sector.

They make 2DII

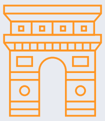
CHAPTER 06

PART I

The team

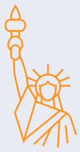
2DII has seen many changes occurred throughout those past 10 years! It started with 2DII France then Germany, New York, Brussels, and London. Today, 2DII is no longer a network and stands on its own as 2DII – with 2DII team members in France, New York and Berlin. With these upheavals, the staff evolved significantly. However, 2022 opened a new area. The PACTA[13] team got transferred to Rocky Mountain Institute and Hélène Lanier became appointed as 2DII Managing Director. The resulting team will give 2DII a strong foundation to focus on its future objectives.

The team is composed of:

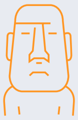


10 people based in France

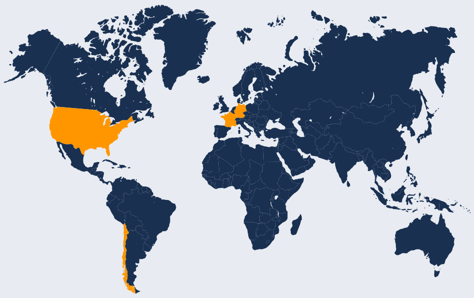
1 person in Berlin



1 person in NY



1 person in Chile



The team is split into different working specialisations that we call Stream...

- Retail
- Policy
- Impact
- Emerging Markets
- Cross-functional

With a diversity of profiles and background!

- Economics,
- Finance
- Law
- Communication
- Admin
- EU Regulation
- Project management

Age in average: **38 y/o**

Average seniority: **1.5 years**

[13] Press release on Transfer Stewardship of PACTA to RMI

Hélène Lanier
MANAGING DIRECTOR
OF 2DII FRANCE

Edgi De Los Santos Jiménez
DIRECTOR OF
EMERGING MARKETS

Mickaël Mangot
CHIEF SCIENTIFIC OFFICER
«RETAIL AND IMPACT INVESTING»

Nicola Stefan Koch
HEAD OF RETAIL INVESTING

Riwan Driouich
SENIOR ANALYST

Javier Sandin
GRANT MANAGER

Noémie Le Peuvedic
PHD RESEARCHER

Gözde Mavili
SENIOR ANALYST

Ana Rivera
DATA ANALYST

Samia Baadj
SENIOR MANAGER

Thierry Santacruz
ANALYST

Maximilien Boyne
ANALYST

David Cooke
LAW AND POLICY LEAD

Carole Dussartre
FINANCIAL AND
ADMIN MANAGER

Laëtitia Kalonji
SENIOR COMMUNICATION
MANAGER

ABOUT THE TEAM

PART II

The Board

The administration board is composed of 4 people:

Robin Edme
PRESIDENT

Diana Acosta-Navas
ADMINISTRATOR

Corinne Lepage
ADMINISTRATOR
On behalf of Mouvement des entrepreneurs de la nouvelle économie

Stéphane Voisin
ADMINISTRATOR
On behalf of Institut Louis Bachelier

2DII has currently

19

members who are either investors, expertise organisations, natural persons or non-profit organisations

In 2022, the Board held

9

meetings

PART III

The Partners

2DII partners with a range of actors in the sustainable finance sector, from governments to FIs and NGOs. We are proud to count as our partners:

Better Finance

Rocky Mountain Institute

Institut de la finance durable (former Finance for Tomorrow)

Institut Louis Bachelier

The French Agency for Ecological Transition (ADEME – Agence de la transition écologique)

General Commission for Sustainable Development (CGDD - Commissariat général au développement durable)

NEC

UNICREDIT

Thanks to our partners since day 1!

2DII is an independent organisation. To ensure its independence, 2DII has benefited from diverse organisations' trust and strategic and financial support, which we thank gratefully.

CHAPTER 07

2022 financial statements

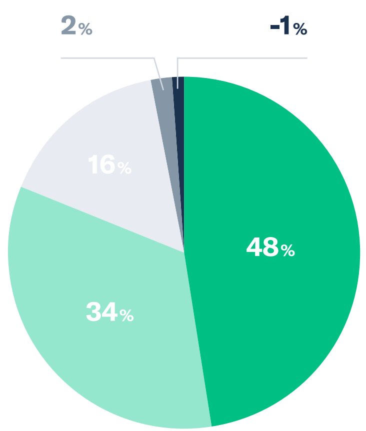
The association generated a profit of + €5,193,030 in 2022 against a profit of +€21,156 in 2021, mainly due to an exceptional income linked to the sale of Asset Resolution. The result before this exceptional income is negative : - €1,431,409.

	2022	2021	Variation
Operating income	2,040,503	4,022,742	-1 982,239
Operating expenses	3 470 452	4,065,277	-594,825
Operating result	**-1,429,949**	**-42,535**	**-1,387,414**
Financial result	-1 460	-625	-835
Exceptional income/expense	6,624,439	64,317	6,560,122
Net result	**+5,193,030**	**+21,156**	**5,171,874**

Source: 2022 Financial statements established by In Extenso

Breakdown of the resources

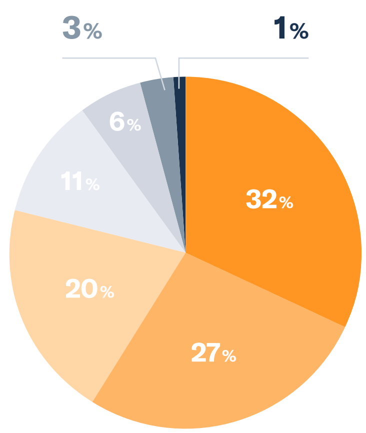
2DII's main resources come from Public funds (48%) such as European programmes and European government, then core fundings (34%) and private fundings (16%).



- Public fundings (EU grants)
- Core fundings
- Private fundings
- Membership
- Others

Breakdown of the expenses

2DII's main expenses cover the operating costs (32%) and staff costs (27%). In 2022, there are exceptional counsel costs (20%) due to the sale of Asset Resolution and a reimbursement to the European Commission (11%).



*Sale of Asset Resolution and others

- Operating costs (excluding staff costs)
- Staff
- Counsel fees*
- Refund EC - INVECAT
- Dedicated funds provision
- Taxes
- Travel