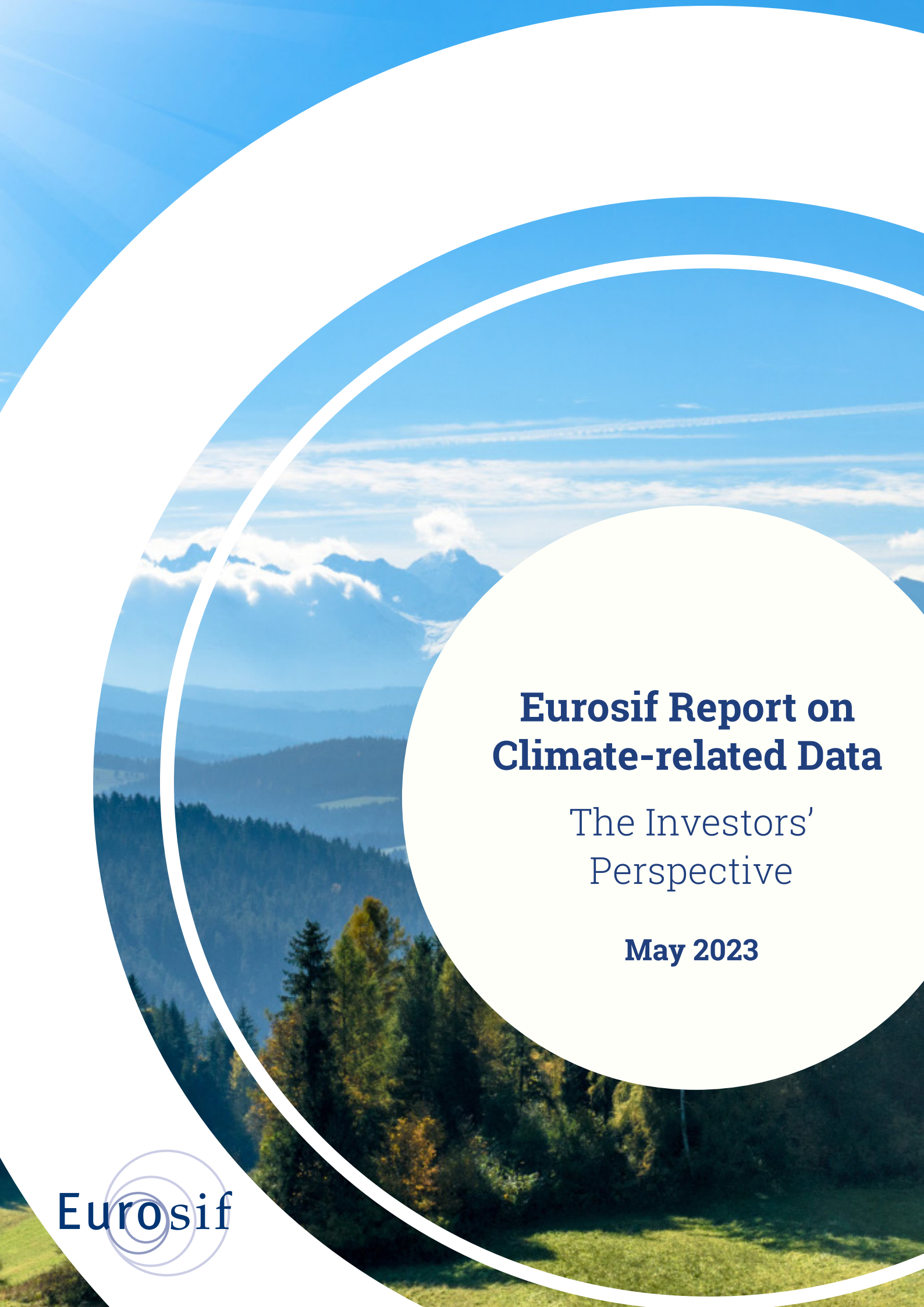


Eurosif Report on Climate-related Data

The Investors' Perspective

May 2023

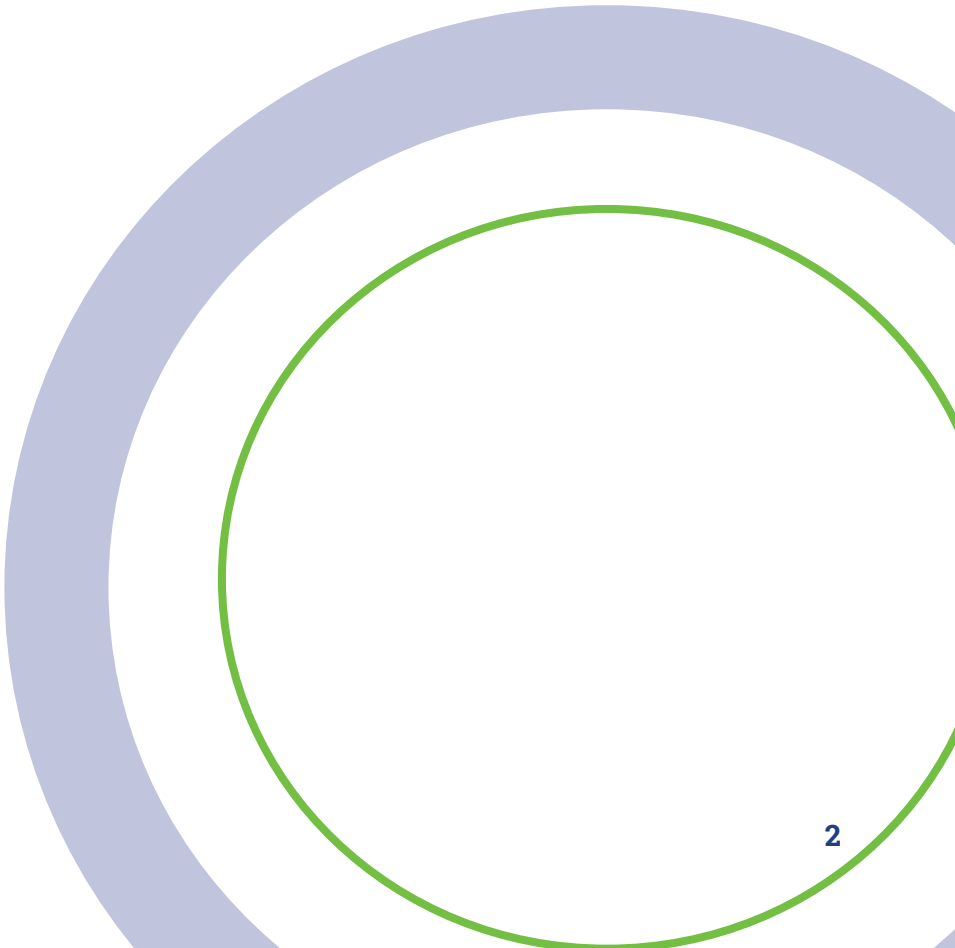
Eurosif

About Eurosif – The European Sustainable Investment Forum

Eurosif is the leading pan-European association promoting Sustainable Finance at the European level – encompassing the EU, the wider European Economic Area (EEA), and the United Kingdom (UK). Eurosif is a partnership comprised of Europe-based national Sustainable Investment Fora (SIFs). Each of the SIFs has a broad and diverse membership including asset managers, institutional investors, index providers and ESG research & analytics providers.

Our activities involve contributing substantively to public policy and conducting research that enables a better understanding of sustainable investment and the obstacles encountered by sustainability-oriented investors. Eurosif and its members are committed to the growth and integrity of meaningful sustainable investment flows and support the ambition of European policymakers in enabling a fully transparent sustainable investment market through appropriate and well-designed regulation and industry practice.

Our mission is to promote sustainable development through financial markets by supporting the financing through private and public capital of investments that make a measurable contribution to the sustainable development goals set by the United Nations, the European Union and other European countries.



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Executive Summary

Eurosif supports and informs the ongoing regulatory initiatives that aim to increase the availability, quality, reliability and comparability of climate-related information for investors. To do so, Eurosif conducted a quantitative survey and additional qualitative interviews among asset managers and owners operating in Europe. This study focuses on their current use of, and requirements regarding, climate-related information, for the purposes of its integration and consideration in their investment processes.

According to the responses received during this study, the use of climate-related information in investment processes is now a matter of course. However, the breadth and depth of its integration into investment processes varies. Most asset managers and owners look at climate-related information from a risk and impact perspective. Next to exclusion strategies, among the most widely used approaches for integrating climate-related information in investment processes are screenings and assessments based on GHG emissions and general information about investees' climate strategy. Less prominent are forward-looking metrics such as climate targets and transition plans.

The main sources of information are corporate reports and data from external service providers. In both cases, asset managers and owners consider the transparency and understandability of underlying calculation methods – plus research processes and sources for data from external providers – to be of the utmost importance. Generally, survey participants expressed a strong need for more widely available, particularly forward-looking, climate-related information. Next to the issue of insufficient data coverage and the related costs, asset managers and owners struggle to find reliable forward-looking indicators – which would be necessary to effectively identify and manage climate-related risks and opportunities in their portfolios. One of the most overarching requests is the establishment of a standardised disclosure framework for climate and sustainability-related information to foster comparability and quality of corporate disclosures. In addition to that, the development of at least some more standardised, forward-looking data points is desired.

Based on the findings of this study, to better support asset managers' and owners' requirements regarding climate-related data and information, EU policymakers should:

1. Continue to promote better availability, quality and comparability of company-reported climate-related information via ongoing regulatory initiatives such as the develop-ment of European Sustainability Reporting Standards (ESRS) and while doing so;
2. Strive for ambitious sustainability-related corporate reporting standards based on a double materiality approach, covering corporate value chains and including for-ward-looking information such as climate targets and transition pathways;
3. Introduce transparency requirements for external data and ratings providers regarding their methodologies, research processes and data sources; and
4. Support collaboration with the scientific community and the development of accurate, science-based climate-related indicators with a focus on forward-looking metrics.

Although climate change is already likely to be one of the most standardised ESG investment topics, asset managers and owners operating in Europe still face various information related challenges. It is therefore likely that many of this study's results – and by extension recommendations – are trans-ferable to other ESG investment topics.

1. Introduction

Climate change poses one of the most pressing global challenges. Its mitigation requires a financial system that actively supports the shift towards a sustainable economy. Capital flows need to be redirected towards greener economic activities while incentivising the transformation of high impact sectors. Asset managers and owners are increasingly considering climate-related factors when making investment decisions to reduce financial risks, improve climate-related impacts and ensure the long-term value of their portfolios. To achieve these objectives, they need widely available, high quality and decision-useful climate-related information from investee companies. Their corresponding data and information needs have significantly increased in recent years but cannot be fully satisfied yet from a data supply point of view.

To improve the situation and enable better integration of climate-related considerations into investment decisions, several initiatives and policy efforts have been established in recent years:

- At the international level: the International Sustainability Reporting Board's (ISSB's) sustainability and climate-related disclosure standards; the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD); or non-profit initiatives such as the Global Reporting Initiative (GRI) standards or the Carbon Disclosure Project (CDP).
- At the European level, the most prominent regional initiative is the ongoing development of the European Sustainability Reporting Standards (ESRS).

All these initiatives aim to increase the availability, quality, reliability and comparability of climate-related information for investors. The aim is to provide the basis for investors to better evaluate the climate-related performance of companies and to better integrate these considerations into their investment strategies.

To support this process, Eurosif conducted a quantitative survey and additional qualitative interviews among asset managers and owners operating in Europe, to better understand their current usage of, and requirements regarding, climate-related information. This work also aimed to identify the decision-useful climate-related information investors need and to formulate concrete recommendations for policymakers to enable better availability of this information.

2. Methodology and Data

This study's first objective is to gain deeper insights into asset managers' and asset owners' current usage of climate-related data and their related requirements in their investment processes. The study adopts both a risk and an impact perspective: which climate-related information is considered most relevant for decision-making? What are asset managers' and asset owners' main challenges, expectations and perceived trends regarding climate-related data and information?

This study's second objective is to derive from the findings concrete recommendations for action for EU policymakers and market practitioners.

To achieve these objectives, Eurosif conducted a quantitative survey and additional qualitative interviews with a wide range of financial industry practitioners (asset managers, pension funds, banks…) with operations in EU member states and/or in European countries applying relevant EU regulations (see Fig. 1 below). The global geographical coverage of respondents' operations can be found in Fig. 2 below. The respondents' size in terms of assets owned or under management ranged from less than €50 million to more than €500 billion (see Fig. 3 below).

The quantitative, anonymous survey was conducted between September and November 2022. The survey, annexed to this report, consisted of 49 questions divided into four thematic areas: (1) Data sources, use of data and analysis of data; (2) forward-looking indicators; (3) analysis of companies' net-zero targets and target-setting at portfolio level; and (4) regulatory interventions.

In total, 37 responses to the survey were received. Given the objectives and scope of the study described above, 4 responses were excluded, as only responses received from financial market participants were considered in the following analyses.

The following graphs illustrate the distribution of size, type and geographical coverage of the 33 respondents that were included in the study:

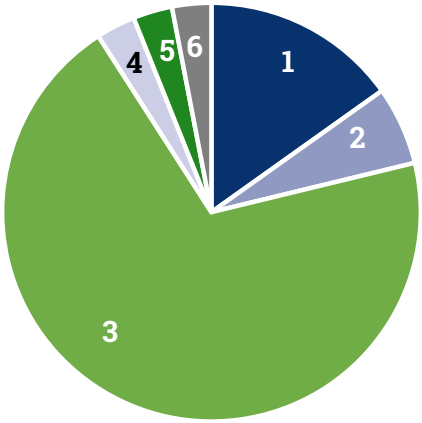


Fig. 1: Distribution of the 33 respondents by type of financial market actor.

1: Bank — 15% (5)
2: Insurance/reinsurance company — 6% (2)
3: Asset management company — 70% (23)
4: Pension fund — 3% (1)
5: Foundation — 3% (1)
6: Private equity / venture capital firm — 3% (1)

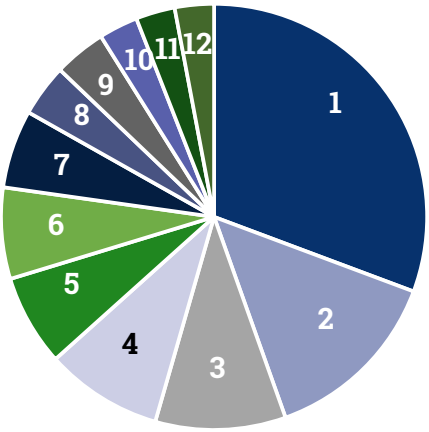


Fig. 2: Global geographical coverage of respondents' operations.

1: EU — 94% (31)
2: Switzerland — 42% (14)
3: UK — 30% (10)
4: Asia — 27% (9)
5: US — 21% (7)
6: Canada— 21% (7)
7: Norway— 18% (6)
8: Liechtenstein — 12% (4)
9: Central & South America— 12% (4)
10: Iceland — 9% (3)
11: Africa — 9% (3)
12: Oceania — 9% (3)

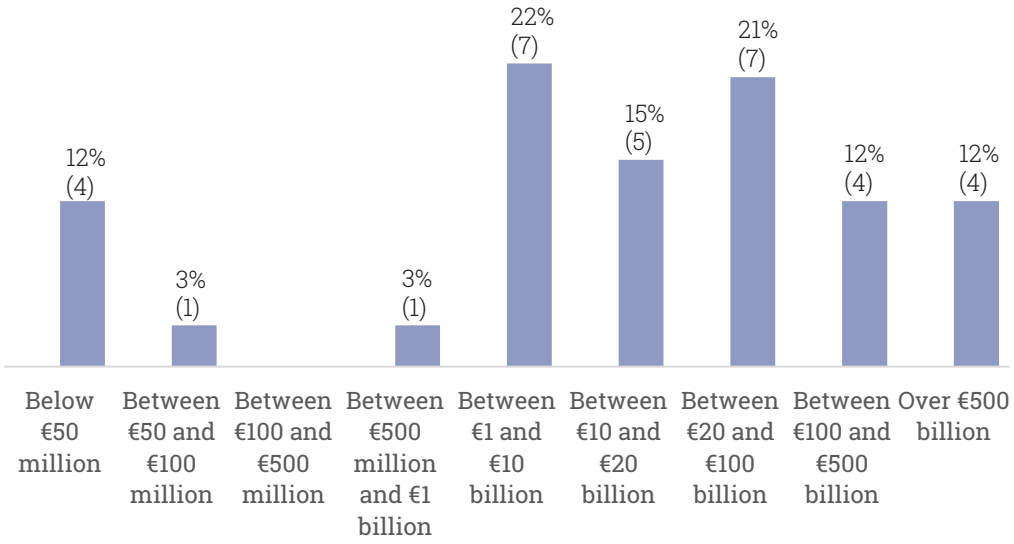


Fig. 3: Distribution of respondents by size (assets owned or managed).

In addition to the survey, 18 in-depth interviews were conducted with financial industry professionals, most of them working for asset management firms in ESG and sustainability-related roles. Some of the experts interviewed also responded to the quantitative survey. In these cases, the qualitative interviews served to gather more detailed background information and understanding. The questions asked during the qualitative interviews were adjusted based on the type of financial market the participant represented, the role and expertise of the person interviewed and the initial answers provided in the quantitative survey.

The following chapter presents the main results and findings. Finally, the last chapter discusses concrete recommendations for market practitioners and EU policymakers derived from these findings.

3. Results

3.1. Data availability, quality, sources, and utilisation

Based on the responses received via the survey and the conducted interviews, this first chapter aims to illustrate asset managers' and asset owners' current practices regarding the consideration and integration of climate-related aspects in investment strategies and decisions.

It provides an overview of how investors source climate-related data, how they perceive data availability and quality, how they analyse existing information and how they integrate climate-related considerations into their investment decisions.

Climate-related approaches in investment decisions

Within the survey sample, the most used approaches (based on the selection presented in Fig. 4) of integrating climate-related considerations into investment decisions were, by order of frequency:

1. Exclusions of certain sectors or companies;
2. Analysis of companies' overall business models, environmental/climate policies, targets and investment plans;
3. Engaging with investee companies and measuring their progress; and
4. Screening companies based on their level of GHG emissions.

Exclusions, used by 85% of respondents, are a rather traditional and comparatively easy to implement approach to integrating climate-related considerations into investment decisions. Exclusions are perceived as useful by some participants to the study, amid regulatory uncertainty and a lack of a common definition of sustainable investment. They can also be applied in passive investment strategies.

82% of respondents reported analysing each investee's overall business model, environmental and climate policy, targets and investment plans. This form of detailed analysis is considered a necessary step to understand whether a company is on a pathway towards climate neutrality and to understand and assess its (resilience to) climate-related risks and impacts. Feedback received via the qualitative interviews indicates that an increasing number of asset managers consider climate change-related risks and impacts in conjunction with other environmental issues.

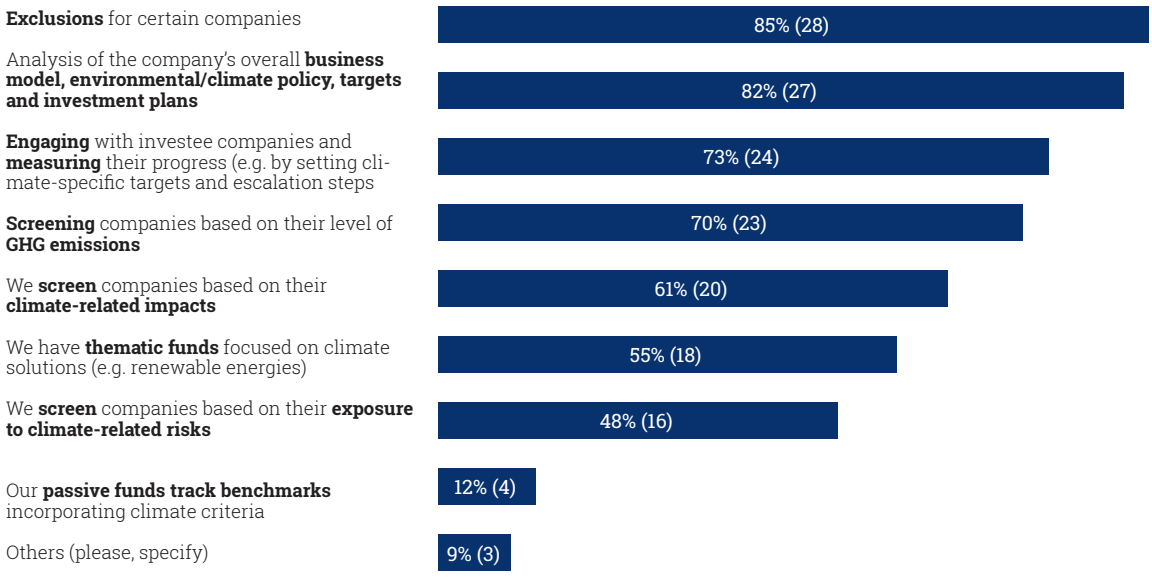


Fig. 4: Strategies for integrating climate-related considerations into investment decisions.

73% of the respondents cited engagement with investee companies as a way to encourage and monitor their progress towards net-zero. Respondents consider engagement to be a particularly promising approach for companies from the utilities and other high environmental-impact sectors. According to them, the potential to realise positive investor impact via a targeted reduction of investee companies' negative impacts is particularly high. On this point, larger asset managers note that it is not feasible to engage with all investee companies in their portfolio. Consequently, they tend to focus their engagement efforts on companies assessed as having a particularly high transition potential.

The survey results further demonstrate that the screening of companies based on quantitative data regarding their greenhouse gas (GHG) emissions plays an important role in climate-related investment decisions. 70% of respondents use this approach for assessing companies they consider investing in.

Additionally, 20 out of 33 respondents (61%) state that they screen companies based on their climate-related impacts, indicating that asset managers and owners operating in Europe are not only interested in minimising climate-related financial risks but also the climate-related impacts of their portfolios. These results underline the importance of ensuring that all sustainability-related finance and corporate reporting initiatives and frameworks are based on a double materiality approach.

Main sources of climate-related data

The present study also aimed to identify the main sources of climate-related data and information for asset managers and owners operating in Europe, as these constitute the basis for any analysis and investment approach. The financial experts interviewed primarily and equally rely on:

- data sourced from multiple external providers;
- data that is publicly available (e.g., via free databases); and
- data reported by investee companies through sustainability reports.

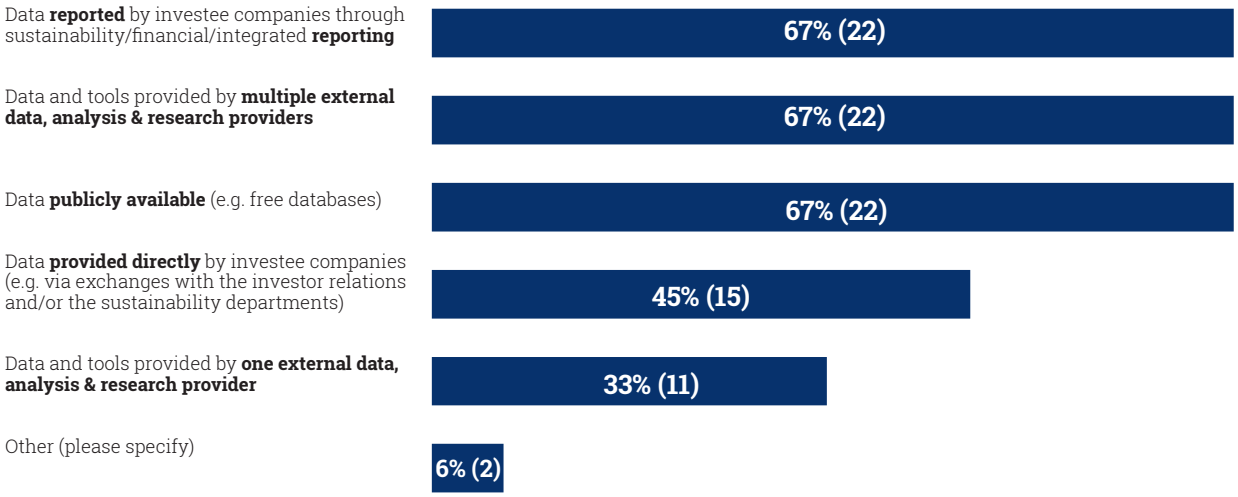


Fig. 5: Sources of climate-related data on investee companies.

Regarding external data providers, it is noteworthy that 100% of the survey participants receive climate-related data and information from at least one such provider. The vast majority (67%) receives relevant data from multiple providers simultaneously. These findings emphasise the prominent role external data and research providers play in the climate-related, and more broadly, the sustainable investment, ecosystems. Most interviewed experts even stated that they do not believe that better corporate reporting of climate-related data in the future would significantly reduce financial market participants' reliance on external data providers. The predominant view was that these entities will continue to play an important role by sourcing data from companies' reports and producing 'off-the-shelf' analytics and data sets for investors.

Nevertheless, interviewed experts considered that data directly reported by companies through sustainability or integrated reporting, or so-called "raw data" is particularly useful. The quantity and quality of the information provided by companies is expected to increase once the corresponding standardised disclosure and reporting frameworks are established. This should, in turn, also improve the information provided by external data providers.

Methodologies to process climate-related data

Given the relevance of external data providers as sources of climate-related information, it is important to understand how asset managers and owners process the information obtained from these entities in their investment processes.

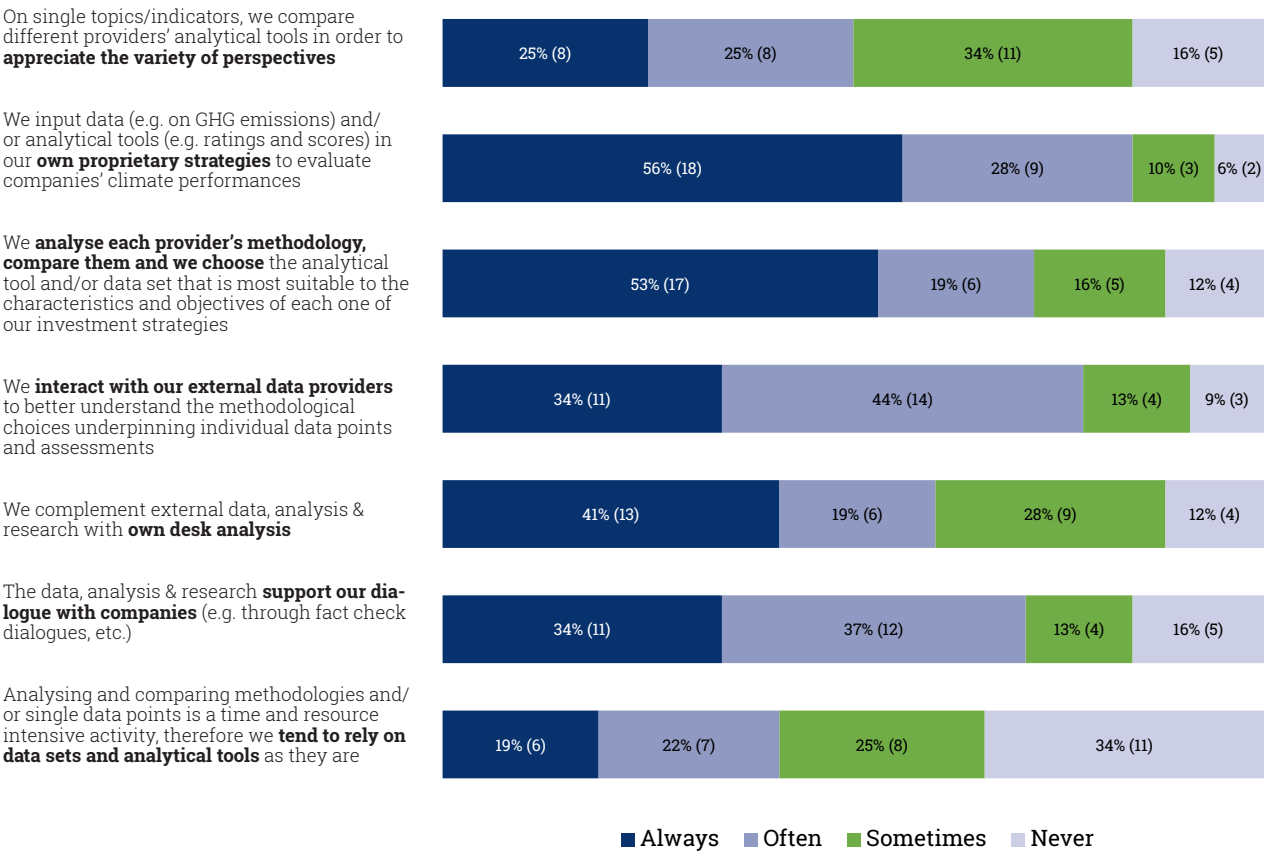


Fig. 6: Strategies for processing climate-related information provided by external data providers.

Overall, most survey participants tend to input data obtained from external providers into their own proprietary analytic models to evaluate companies' climate-related performance. This approach is particularly common in the assessment of companies' net-zero targets and transition plans. The application of proprietary analytic models allows asset managers and owners to develop their own views of the companies in question. It is, however, also described as a rather lengthy and costly process that involves the aggregation and integration of data from different providers. The challenges regarding the creation of proprietary models that efficiently integrate data based on different methodologies by different external providers was a recurring theme discussed during the qualitative interviews.

Only a small proportion of respondents, usually from smaller firms with fewer resources, stated that they regularly rely on external data sets and analytical tools without any further internal processing. At the other end of the spectrum, more sophisticated investment strategies involve the analysis and combination of different external data sets and their integration with further, internal research.

The results of this study further confirm the widespread use of dialogues and engagements with investee companies as a means for asset managers and owners operating in Europe to reinforce, complement and fact-check existing information regarding those companies. Interviewed experts perceive company dialogues as an important way to obtain more precise information on climate-related topics that are more relevant to their investment strategies.

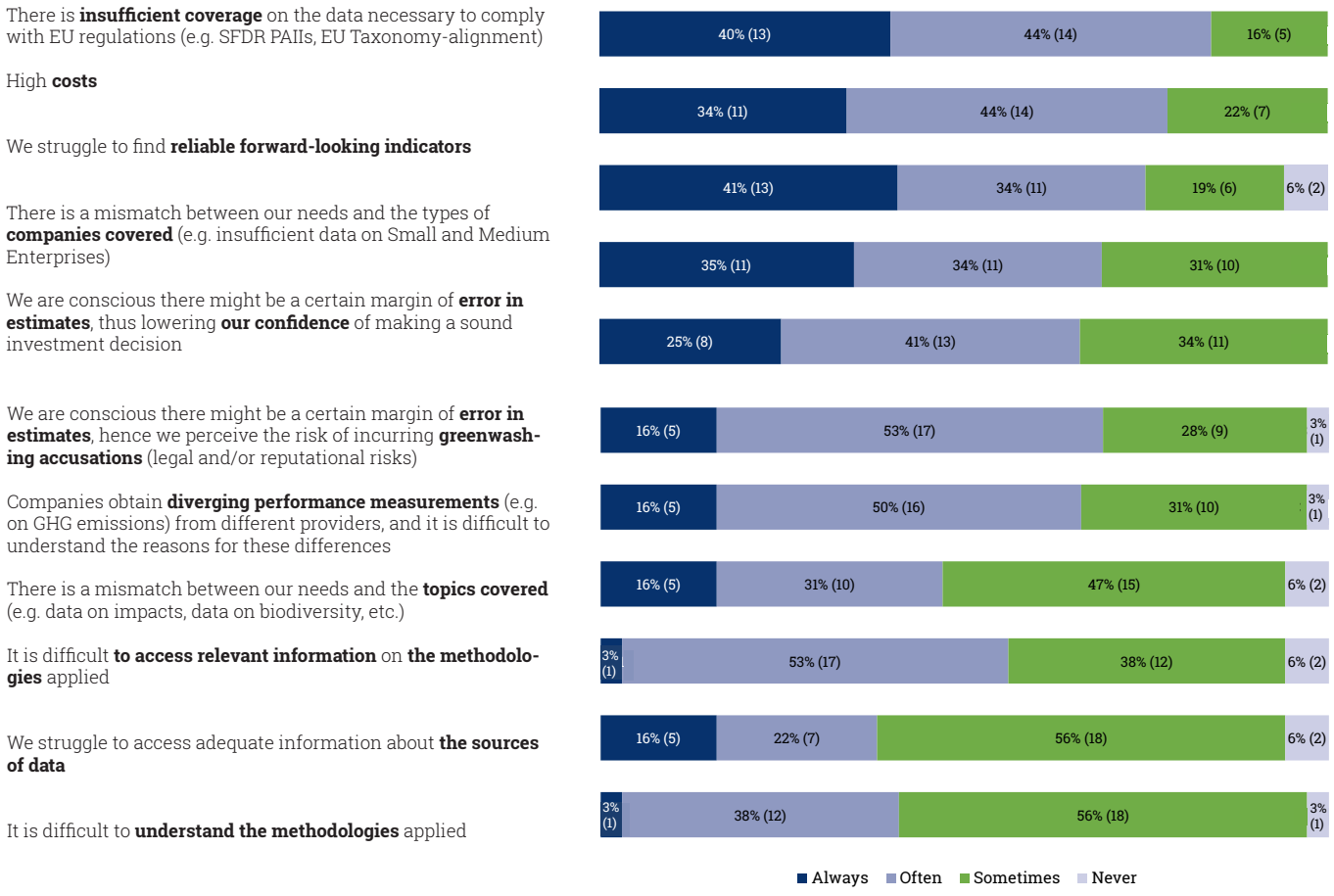


Fig. 7: Challenges faced by asset managers and owners when using climate-related information from external providers.

The graphic above illustrates the most common challenges mentioned by surveyed asset managers and owners when using climate-related information and data from external providers. One of the most frequently mentioned challenges is a lack of data necessary to comply with EU regulations, such as SFDR PAIIs (Principal Adverse Impact indicators) or EU Taxonomy alignment. Some respondents commented that they currently use SFDR-related data merely for compliance reasons and do not consider it to be decision-useful information. However, the responses gathered during the qualitative interviews indicate that this view could change as soon as the coverage and reliability of this data increase.

Another challenge highlighted by many surveyed asset managers and owners is the difficulty in finding reliable forward-looking information. Many still doubt the robustness of forward-looking indicators as their underlying methodologies are often complex and the outcomes seem to vary starkly across data providers. Some established forward-looking metrics from external providers are also perceived as oversimplified and inaccurate. Considerations regarding forward-looking indicators will be analysed in more depth in the next section.

An additional concern amongst industry practitioners is related to the diverging climate-related assessments they obtain for the same company from different data providers, which goes hand in hand with the observations stated above. Surveyed asset managers and owners understand that each data provider analyses and processes information according to their own methodology. It would be useful for them to have more information on the underlying methodologies to better understand the discrepancies and process the climate-related data and indicators provided by these entities. As such, data providers are generally expected to be more transparent regarding their methodologies and research processes. This seems to be particularly relevant for methodology changes which are perceived as frequent. Interviewed industry practitioners complained that methodology changes are not always clearly explained and their effects on results are often not clearly specified. This can be problematic for investors, as changes in companies' climate-related performance data could be the result of actual changes in their performance, but also simply of changes in the data provider's methodology.

The results also show that many surveyed asset managers and owners are conscious that certain margins of error in estimates could lead to less sound investment decisions and increase the risk of running into greenwashing allegations and reputational damage. When asked about the most important aspects taken into consideration when analysing external providers' methodologies, the most common answers were related to GHG estimations. Investors have a strong interest in understanding the proportion of estimates that data providers use in their methodologies and how these estimates are calculated. During the qualitative interviews, some experts stated that they believe that data providers excessively rely on estimates. At the same time, they acknowledged that estimates serve as the best possible remedy for the low availability of company-reported data. Further concerns highlighted by at least some survey participants were uncertainties regarding the sources of data and the consideration of sector-specific considerations in methodologies.

The relationship between asset managers and owners and their external data providers also influences the integration of climate-related information into investment strategies. In fact, many asset managers and owners interact with their providers to obtain clarifications regarding specific data points or sets, especially in case they detect discrepancies from their own analysis or from data disclosed by the company itself.

Additional essential aspects to consider are the availability (Fig. 8) and reliability (Fig. 9) of climate-related information, as these factors directly affect asset managers' and owners' investment strategies and decisions.

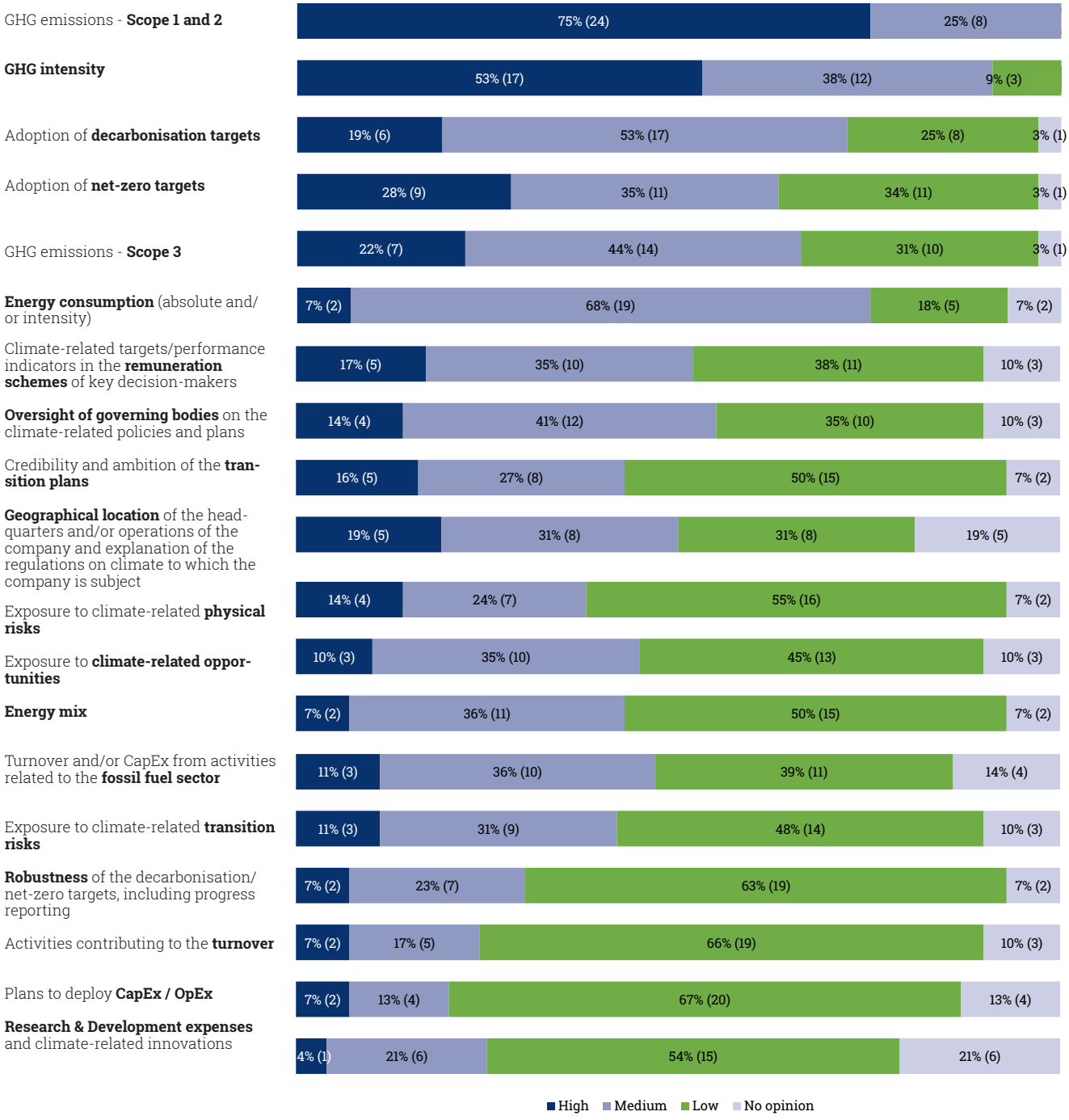


Fig. 8: Availability of climate-related information regarding companies analysed by asset managers and owners.

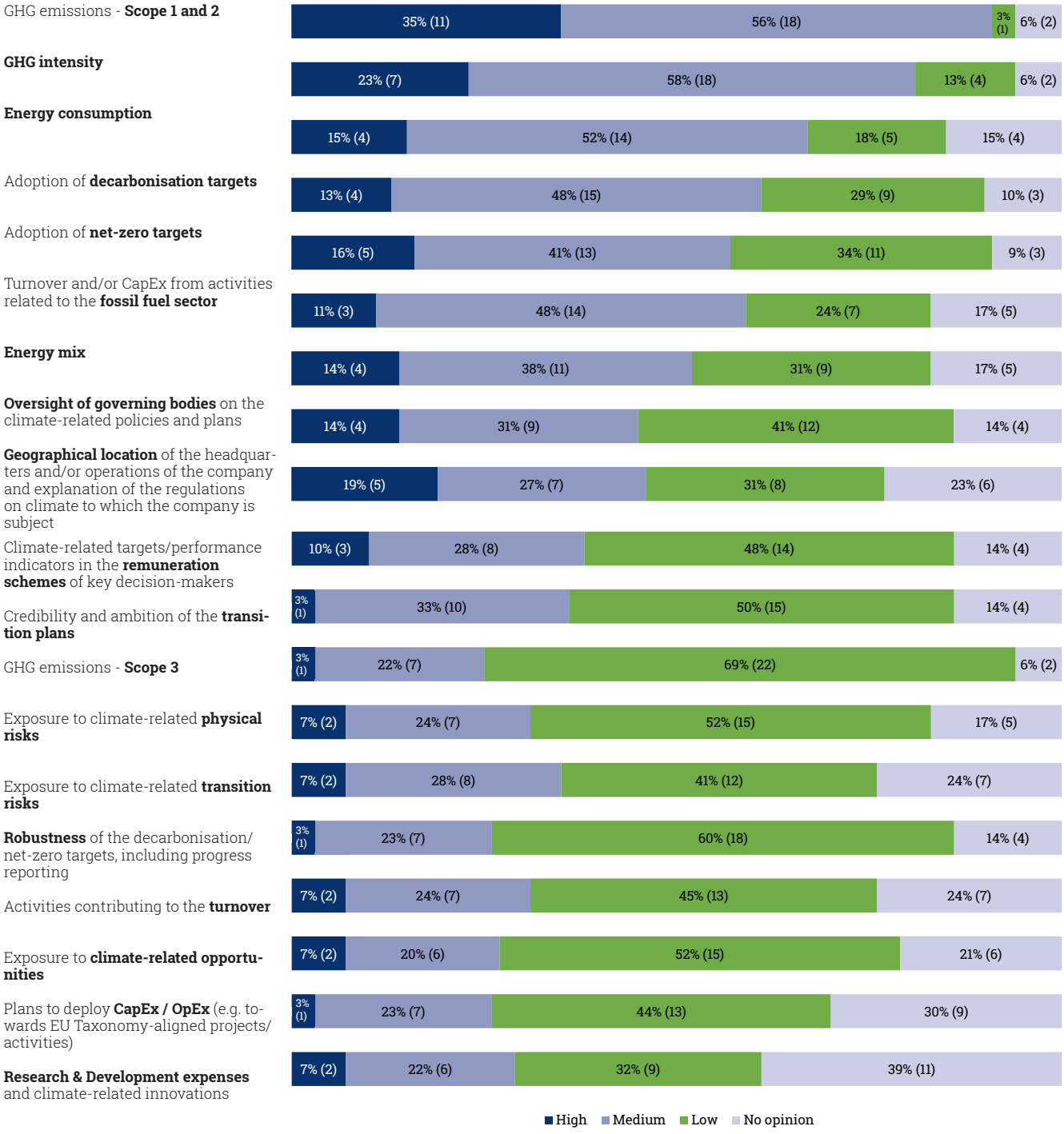
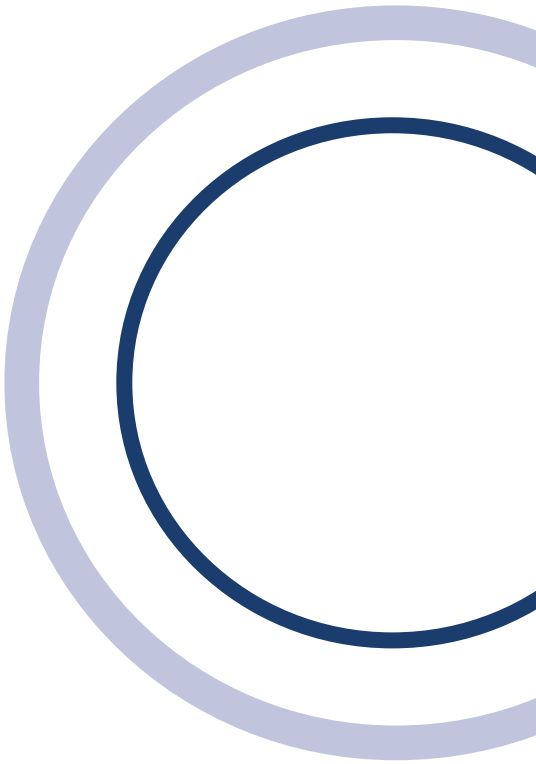


Fig. 9: Quality of climate-related information regarding companies analysed by asset managers and owners.

Screening companies based on their level of GHG emissions is among the most widely used climate-related investment approaches by survey participants. In general, they consider information and data regarding scope 1 and 2 emissions as well as GHG intensities to be largely available and reliable. In contrast, data availability and quality regarding scope 3 emissions are perceived as rather low.[1] While standardised frameworks to measure GHG emissions (including scope 3 emissions) exist[2] , companies do not apply them consistently. Data gaps regarding scope 3 emissions are particularly pronounced and reported data is often not assured. However, improvements are expected as both the Draft European Sustainability Reporting Standards[3] and the International Sustainability Standards Board (ISSB)[4] include requirements regarding the measurement and reporting of scope 3 emissions.

The results also point to the scarcity of reliable data on climate-related physical and transition risks, which are very important from a financial point of view. While investors pay attention to the commitments made by companies in this regard, the availability and reliability of information regarding corporate decarbonisation and net-zero targets as well as transition plans is considered to be rather low. Companies do not tend to disclose further information to support and certify their targets or plans and on how to achieve them, which increases scepticism amongst investors. Investors seem to be more trustful of validated net-zero targets, especially of those backed by the Science-Based Targets initiative (SBTi). Validated targets are accompanied by complementary information such as interim targets and have been subject to scientific review, which increases their credibility. Some interviewees expressed their preference to rely on such validated targets as they are still in the process of developing and finalising their own methodologies to evaluate companies' targets and transition plans.

Data availability and reliability regarding CapEx, OpEx, and investments in R&D are still considered to be particularly low. This information could be useful to assess to what extent companies intend to stick to the targets and transition plans they have committed to.



1. These findings are mirrored in recent academic research, see Busch et al (2022): Corporate carbon performance data: Quo vadis?, https://onlinelibrary.wiley.com/doi/full/10.1111/jiec.13008
2. https://ghgprotocol.org/corporate-value-chain-scope-3-standard
3. https://www.efrag.org/lab6
4. https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf

3.2. Forward-looking indicators

Forward-looking information plays a fundamental role in current investment analysis strategies. Climate-related assessments of companies must consider forward-looking data to forecast their exposure to future trends, such as climate-related risks and opportunities, and to evaluate the robustness of their transition and decarbonisation plans. Forward-looking information allows asset managers and owners to assess the climate-related potential of a company and its adaptation efforts to mitigate physical and transitional risks.

The most frequent objectives cited for using forward-looking indicators are related to scenario analysis, the monitoring of physical and transitional risks, and the mitigation of GHG emissions, including climate-related targets and transition plans. General challenges around sourcing reliable and robust data were already mentioned in the previous chapter. Specifically, regarding forward-looking data, survey participants' main concerns focus on the complexity of the underlying methodologies and the existing divergences between the results that different service providers supply regarding the same company. This chapter will further analyse how asset managers and owners operating in Europe use forward-looking information and indicators, their perceived reliability and the main challenges involved.

A vast majority of respondents (27 out of 33) already use some sort of forward-looking indicators in their investment strategies. However, only a small proportion of them use their own proprietary models and methodologies. These proprietary methodologies obviously differ and depend on the climate-related investment strategy. Some participants opt for modelling information provided by investee companies regarding their reduction paths, while others conduct scenario analyses on the physical climate risks of investee companies. Other respondents, instead of building their own models, gather and analyse data from external providers based on internally defined criteria and requirements. The interviewed experts generally acknowledge challenges around creating single methodologies that can be equally applied to the diverse array of available asset classes.

Several interviewees voiced doubts regarding the reliability of e.g., temperature alignment indicators or net-zero targets, as these are based on complex modelling and long-term predictions. Some stated that they were using such indicators for external reporting purposes, rather than actually informing investment decisions. Both the use of proprietary forward-looking indicators, as well as the use of metrics coming from external providers, pose different challenges, which are presented in Fig. 10 and Fig. 11.

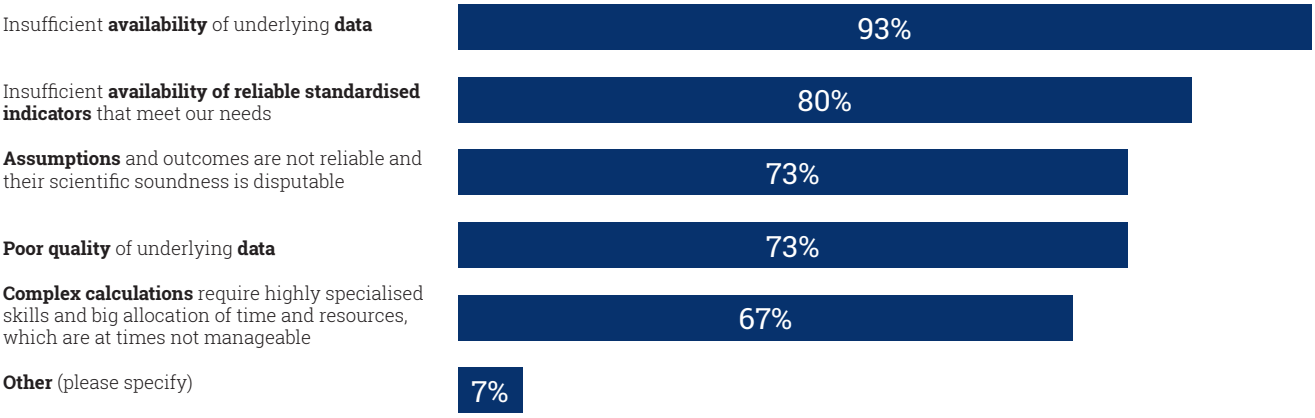


Fig. 10: Challenges cited when using proprietary forward-looking indicators..

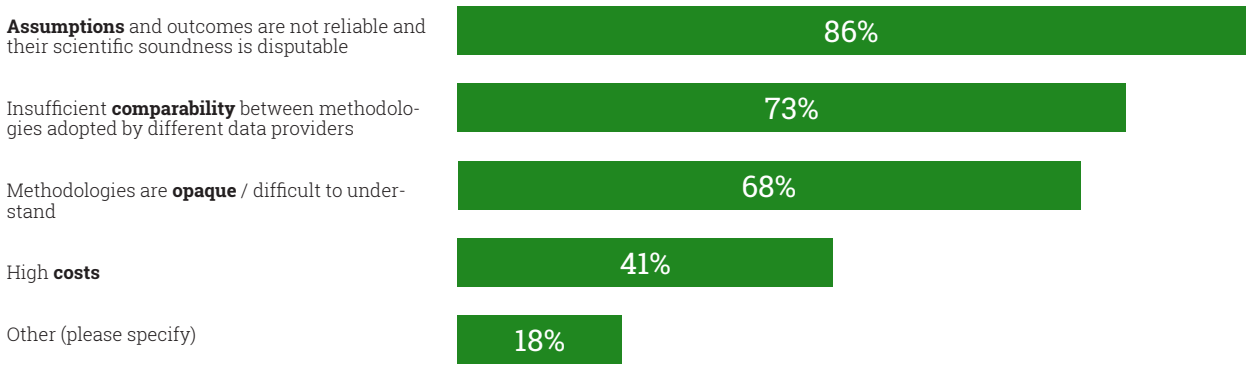


Fig. 11: Challenges cited when using external providers' forward-looking indicators.

Regarding proprietary forward-looking indicators, the main challenges mentioned are related to the low availability and reliability of the underlying data necessary to calculate them. This situation is expected to improve with the roll-out of the corporate disclosure and reporting frameworks currently under development at both the European and international levels. As companies will be required to disclose more relevant and accurate climate-related information, proprietary methodologies are expected to be able to provide better and more precise forward-looking indicators. Interviewees agree that, in the meantime, the best remedy to tackle uncertainty is transparency.

The main concern for asset managers and owners relying on forward-looking indicators from external data providers (which forms the majority of respondents), is the perceived lack of scientific reliability of the underlying assumptions and outcomes of said indicators. Respondents are less concerned about the use of estimates and approximations, which is considered inherent to forward-looking metrics. Surveyed industry practitioners are more sceptical about the reliability of the underlying assumptions, which are perceived as unclear. In this context, interviewed experts highlight the role of the scientific community in supporting the development of more trustworthy and accurate forward-looking, climate-related indicators.

The most used forward-looking climate-related indicators among respondents are Implied Temperature Rise (ITR) metrics and Science Based Targets initiative targets (SBTi). Respondents and interviewees highlighted how ITR metrics are promising but still in an initial stage and require further improvements. For example, participants felt that the complex underlying methodologies, factors and interactions of ITR metrics are condensed in an overly simplistic outcome. According to the respondents, ITR metrics also tend to differ significantly from one data provider to another and the differences are difficult to understand based on available methodology documentation. Surveyed practitioners would welcome the convergence towards a more widely accepted "standard" metric as this would reduce the huge existing differences between providers and portfolio scores currently displayed. Overall, respondents currently see ITR metrics as complementary analytic tools rather than as key elements of climate-related investment decisions.

In general, respondents consider SBTi validated targets a reliable metric on decarbonisation and net-zero strategies – the main reason for this being their scientific basis. The setting of SBTi-validated targets also facilitates comparisons between companies, as they are standardised and comply with minimum requirements ensuring a sufficient level of credibility. SBTi-validated targets are perceived to be more common in larger companies with more (financial and personnel) resources. Their existence is considered less essential for smaller companies, where the climate-related investment strategy is often based on direct dialogues to gather information and assess how they plan on improving their climate-related performance. On the negative side, respondents highlight that SBTi targets are not available for all sectors and are based on modelling and long-term predictions, which always provide scope for improvement.

3.3. Analysis of corporate net-zero targets and target-setting at portfolio level

Net-zero carbon emission targets play a fundamental part in the ongoing green transition of the economy. Companies setting net-zero targets show their commitment to environmental responsibility. At the same time, setting net-zero targets may increase the competitiveness of companies and their capacities to attract green investments. Asset managers are also encouraged to set net-zero targets at portfolio and entity level to contribute to the green transition.

Asset managers and owners consider specific data points when analysing net-zero targets set by investee companies. Fig. 12 and Fig. 13. provide an overview of the perceived availability and quality of different data points on net-zero targets.

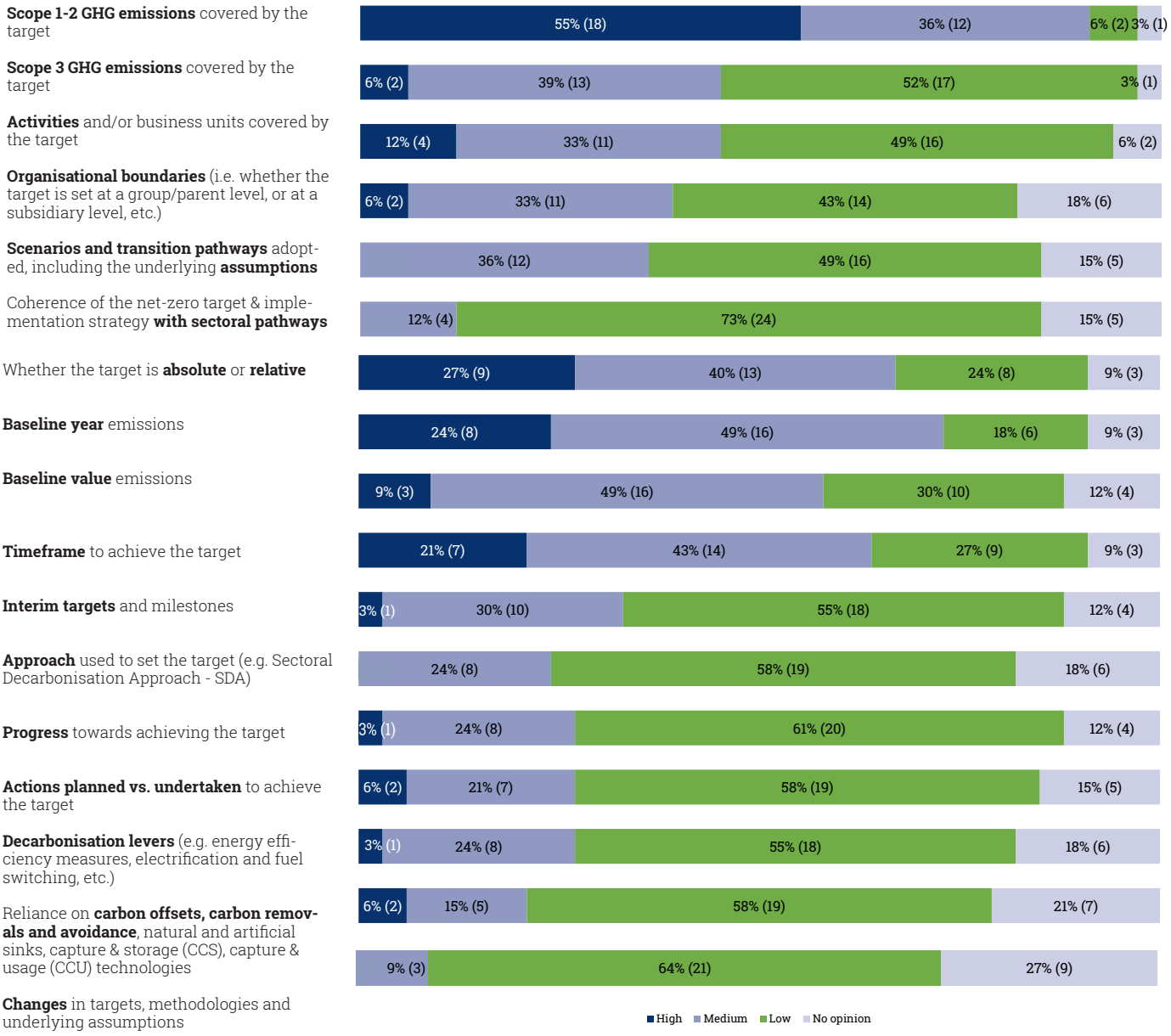


Fig. 12: Perceived availability of data regarding corporate net-zero targets.

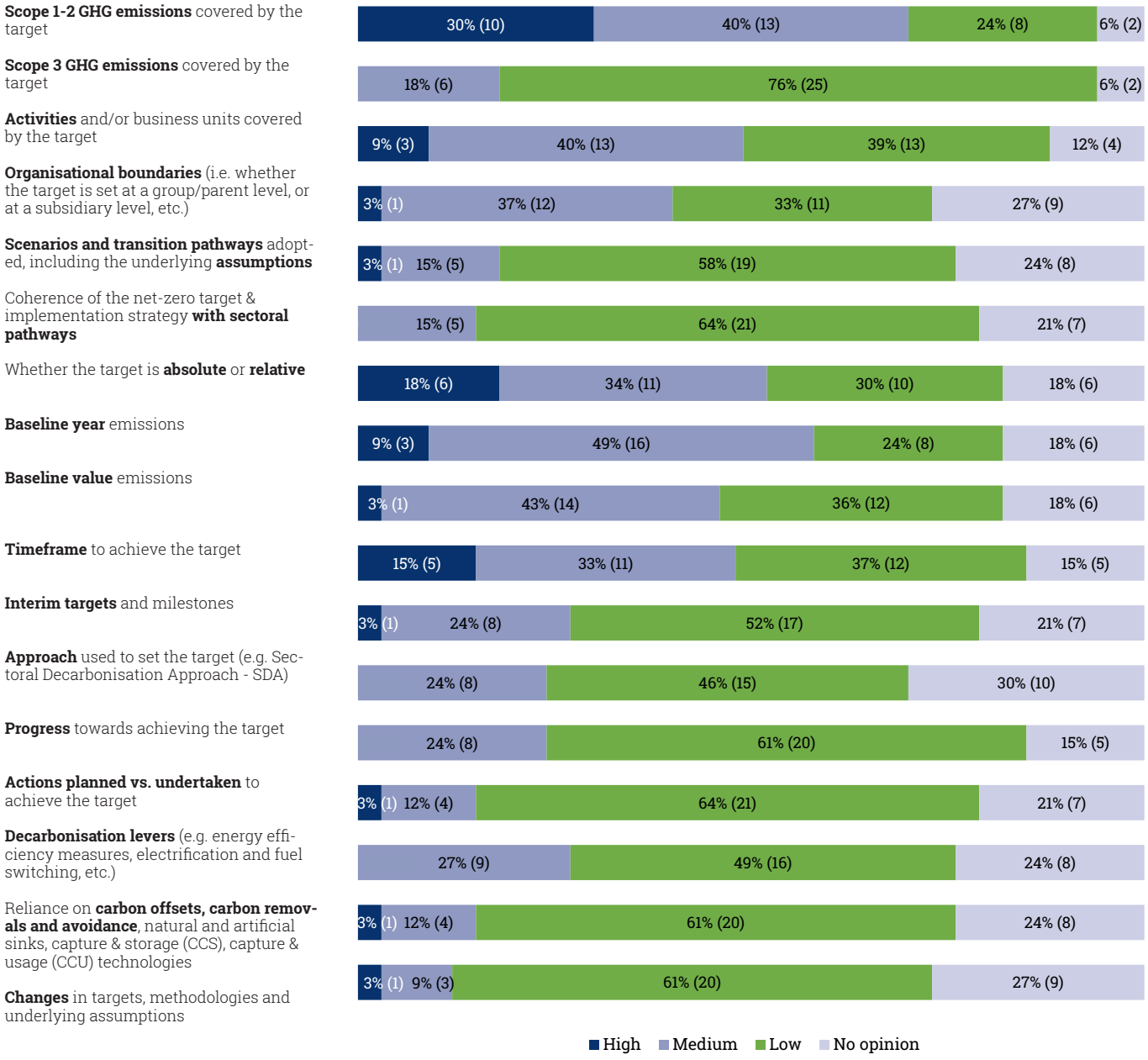


Fig. 13: Perceived quality of data regarding corporate net-zero targets.

While GHG emissions-related data is obviously relevant when analysing net-zero targets and transition plans, industry experts pointed out during the interviews that sometimes they still struggle to identify the information that is most important for them to understand investee's climate targets and transition plans. In this context, the availability and reliability of information regarding scope 1 and 2 GHG emissions covered by the targets is generally perceived as good. Similar to the findings regarding general data availability and reliability described above, they are perceived more negatively for scope 3 emissions covered by corporate net-zero targets. Most asset managers and owners interviewed therefore advocated for more standardised frameworks to measure and report on these emissions.

The results summarised in the charts show that while some relevant data points are generally available, their perceived reliability is sometimes rather low. Some good examples of this are:

- activities and business units covered by the target;
- scenarios and transition pathways (including the underlying assumptions);
- coherence of the net-zero targets and implementation strategy with sectoral pathways;
- interim targets and milestones; progress made towards achieving the target;
- actions planned vs. undertaken;
- decarbonisation levers;
- reliance on carbon offsets;
- changes to the targets.

The results show that corporate reporting of net-zero target-related information must still significantly increase to better meet investors' corresponding data needs. Regulators and standard setters should further promote the standardisation of methodologies for measuring and reporting net-zero targets-related information as this would foster comparability and help create a more level-playing field.

Regarding changes in corporate net-zero targets, many of the interviewed experts expressed the opinion that companies should not hesitate to modify targets that are assessed as not achievable. Surveyed asset managers and owners are aware that there are continuous changes in scientific knowledge, technological innovations and the general economic background. Therefore, according to surveyed participants, the targets and transition plans of companies can and should also be altered. What is considered most important is companies' transparent communication and explanation of changes to investors and other relevant stakeholders. This seems particularly important for companies operating in sectors with significant R&D financing needs and rather long innovation investment cycles (e.g. the chemical industry).

52% of respondents stated that their own organisations have already set net-zero targets at the entity level or were planning to set them in the near future. The remaining 48% stated that their organisations were either still considering setting such targets, planning to decarbonise their portfolio by other means, or still unsure. Only 46% of respondents confirmed that their organisations have already set net-zero targets at the portfolio level or were planning to set one in the short/mid-term.

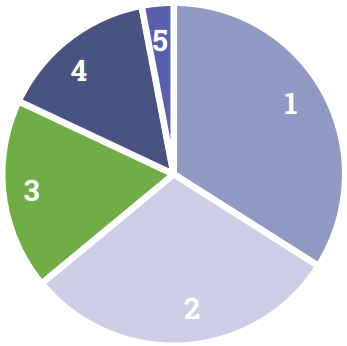


Fig. 14: Respondents' net-zero targets at the entity level.

1: Yes — 34% (11)
2: Not yet, but the decision is under consideration — 30% (10)
3: Not yet, but we already decided to set a target in 1-5 years — 18% (6)
4: No, we have plans to decarbonise our portfolios by using other means — 15% (5)
5: We do not know / we are not convinced yet — 3% (1)

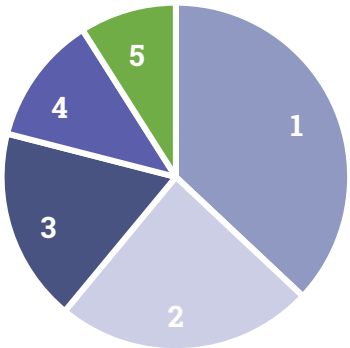


Fig. 15: Respondents' net-zero targets at the portfolio level.

1: Yes — 37% (12)
2: Not yet, but the decision is under consideration — 24% (8)
3: No, we have plans to decarbonise the portfolio by using other means — 18% (6)
4: We do not know / we are not convinced yet — 12% (4)
5: Not yet, but we already decided to set a target in 1-5 years — 9% (3)

Respondents consider setting net-zero targets at the entity level to be comparatively easy, as corresponding standards and methodologies exist. The most considerable obstacle to setting net-zero targets at the portfolio level appears to be a heavy reliance on investee companies. According to the experts interviewed, the most important and necessary first step for implementing net-zero targets at the portfolio level is the setting of such targets by investee companies themselves. Surveyed asset managers and owners reported to rather focus their corresponding engagement efforts on companies in which they are most heavily invested and/or which are assessed as having a particularly high transition potential.

Another aspect mentioned was that net-zero methodologies do not yet exist for all asset classes. Setting net-zero targets at the portfolio-level is generally considered to be more complex, as each investment product has its own characteristics and these can also change over time. Further challenges mentioned were again data availability and comparability across e.g., different asset classes, regions, types of companies, sectors (EU vs. US; equity and derivatives, etc.).

3.4. Regulatory interventions to improve the effectiveness of climate-related investment decisions

This last chapter illustrates the asset managers' and owners' perceptions and expectations of the current regulatory developments. Their practical perspectives and inputs are essential to analyse the suitability and potential for improvement of current regulatory initiatives. In the European Union, sustainable finance regulation has significantly reshaped the financial and investment landscape. The financial industry's expertise, concerns and (data) needs are relevant and should advise policymakers in the next regulatory steps forward to give sustainable finance and the green transition a more efficient and coherent framework.

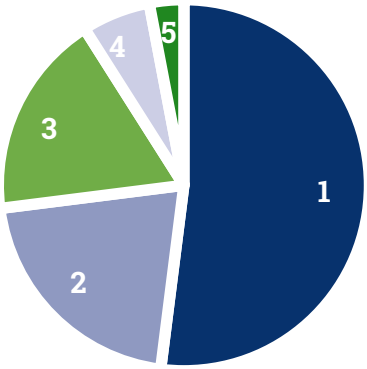
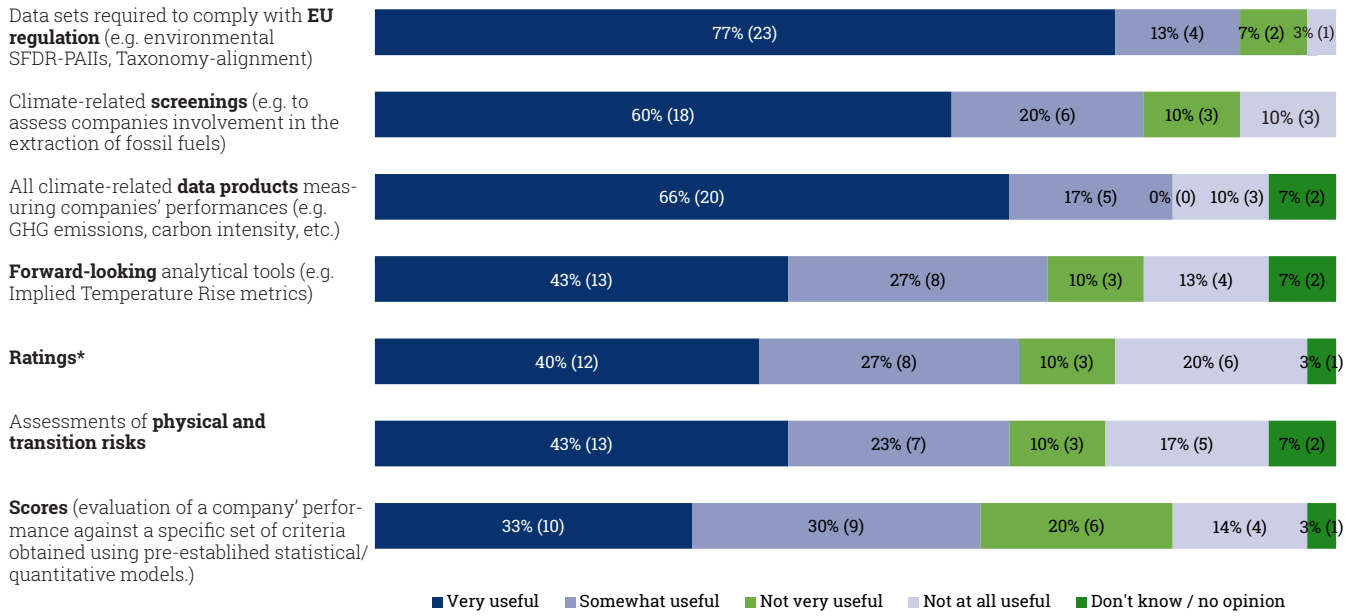


Fig. 16: "Regulatory interventions would help address the challenges regarding external providers' data, analysis & research on climate" – distribution of responses.

1: Yes, regulation could contribute to solve some problems, but it needs to be accompanied by adequate efforts to improve market practices of multiple actors (e.g. companies reporting on peformances, data providers improving the sophistication of climate tools, etc.) — 52% (17)
2: Regulation would be more helpful in other areas rather than in the data market (e.g. strengthen the reporting requirements for companies, or clarify some existing EU regulations, such as the calculation rules of the SFDR-PAIIs and the Taxonomy alignment)— 21% (7)
3: Yes, regulation would be helpful— 18% (6)
4: Don't know/No opinion — 6% (2)
5: We do not see the necessity at this stage of reg ulatory interventions, as we think the market will naturally evolve and improve with time— 3% (1)

91% of respondents agreed that some sort of regulatory intervention would be required or at least helpful to address some of the main challenges identified throughout this report. The distribution of responses displayed in Fig. 16 highlights the widespread view that any necessary regulation must be accompanied by adequate efforts to improve the market practices of multiple actors.



*Ratings: evaluation of a company's performance against a specific set of criteria composed of quantitative models and qualitative analysis; ratings may incorporate analytical judgement or opinions and are usually accompanied by analyst reports explaining the outcome of their evaluation)

Fig. 17: Perceived usefulness of regulating different types of climate-related data, analytical tools & research products of external providers.

Survey respondents highlighted they would find it helpful if data sets required to comply with EU regulation were regulated; this pertains to data regarding environmental SFDR-PAIIs or EU-Taxonomy alignment. During the qualitative interviews, many experts indicated that they are currently interested in such external data sets primarily for compliance reasons. Once reported by companies, this information is expected to be more relevant and useful for their actual investment strategies and decisions. The differing implementation timelines of the different pieces of the current EU sustainable finance regulatory framework and related obligations to companies and financial market participants have led to some regulatory misalignments and mismatches. Practitioners hope that these discrepancies will be progressively fixed and the necessary adjustments put in place.

More broadly, surveyed asset managers and owners would also appreciate a regulation of data providers offering climate-related screenings and performance measurement products. Their main concerns centre around the lack of transparency on the methodologies of these products. Survey participants do appreciate the variety of perspectives offered by different data providers, but deeper insights into the underlying methodologies would help them to more efficiently identify those data sets that best meet their needs. In relation to this, one interviewee suggested introducing transparency obligations for research providers towards evaluated companies, enabling companies to access their own scorings and results for different indicators. According to this expert, this would contribute to having more targeted conversations between companies and investors, but also allow companies to suggest improvements to providers' data or even methods and to better understand how research providers assess their climate-related risks and impacts.

At the same time, interviewed experts also acknowledge that the added value of using information from several external data providers builds upon the variety and diversity of their modelling. In this context, one-size-fits-all regulatory approaches would likely be counterproductive to maintaining this level of diversity as well as the level of detail and specificity that currently characterises many data products. Respondents further agree that fixed common rules on methodologies would likely hinder innovation and that very stringent requirements could drive up costs and thereby make sustainable investment approaches less competitive.

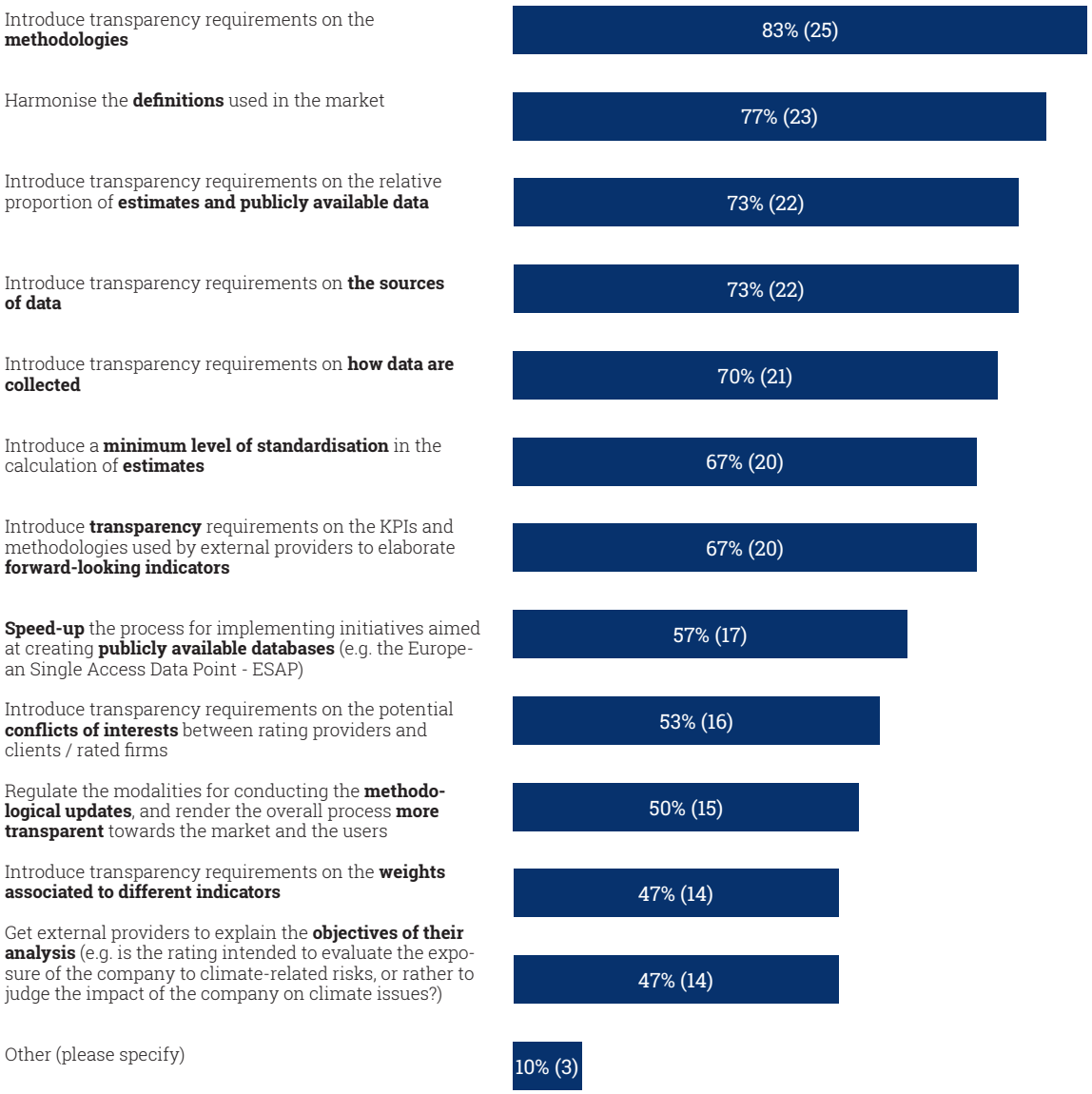


Fig. 18: Preferred regulatory measures to improve the reliability and quality of external providers' data, analytical tools & research products focusing on climate.

Therefore, the most cited preferred regulatory measures to improve the reliability and quality of external providers' climate-related data, analytical tools and research products, revolve around introducing transparency requirements regarding methodologies, research and data collection processes, as well as data sources (cf. Fig. 18).

All interviewees were very welcoming of the Directives on Corporate Sustainability Reporting (CSRD) and Corporate Sustainable Due Diligence (CSDDD). Once both regulations are fully implemented, the availability and reliability of data are expected to progressively improve. As corporate reporting requirements will be put in place, these will also accelerate convergence towards common practices. Survey participants believe that this will also enable external data providers to design better methodologies and provide better ratings and data sets to investors. At the same time, asset managers and owners will themselves be able to carry out more accurate analyses of investee companies. Other much-awaited developments are the increasing availability of data on Taxonomy alignment and SFDR PAIIs. Generally, industry practitioners advocate for more regulatory harmonisation globally, as most of their firms operate in more than one jurisdiction.

Asset managers and owners also acknowledge the existence of areas or topics for which their expertise and practices are still immature (e.g. biodiversity). In such cases, many believe that it would be better for the market to first test and provide solutions that could then be built upon by regulation. At the same time, the financial industry seems to be aware of the need to build internal skills and capabilities to understand and interpret corresponding information and data.

4. Summary and policy recommendations

The present study examined asset managers' and asset owners' operating in Europe's current use of and requirements regarding climate-related information for the purpose of its integration and consideration in their investment processes.

Based on a quantitative survey conducted among asset managers and owners and additional qualitative interviews with financial industry professionals, most of them working for asset management firms in ESG- and sustainability-related roles, the main findings can be summarised as follows:

Usage of climate-related information in investment processes:

- While the use of climate-related information in investment processes is now a matter of course, the breadth and depth of its integration into investment decisions and processes varies.
- Most study participants look at climate-related information from a risk and impact perspective.
- Next to exclusion strategies, among the most used approaches for integrating climate-related information in investment processes are screenings – for example, based on sector or business involvements, levels of GHG emissions, or climate-related risks or impacts.
- Less prominent are forward-looking metrics such as climate targets and transition plans.
- The main climate-related information sources used by asset managers and owners are corporate reporting and data sourced from external service providers.
- Study participants either integrate this information into proprietary models or use standard models provided by external agencies.
- Dialogues and engagements with investees serve as important additional channels to source climate-related information from companies but also to pursue climate-related investment objectives.

Requirements regarding climate-related information in investment processes:

- Study participants expressed a strong need for decision-useful climate-related information and data that serves to inform actual investment decisions.
- Company-reported "raw data" (e.g. on GHG emissions) is considered to be particularly valuable but processed data from external providers (e.g., climate-related ratings or scores) is also appreciated.
- In both cases, study participants consider the transparency and understandability of underlying calculation methods (plus research processes and sources for data from external providers) to be of the utmost importance.
- Study participants are particularly interested in forward-looking information and metrics to be able to identify and manage climate-related risks and opportunities in their portfolios. However, they currently struggle to find reliable forward-looking indicators.
- A fundamental baseline requirement for decision-useful climate-related data points is that they are widely available (e.g. high coverage also for small- and mid-caps, across regions and asset classes).
- Asset managers and owners participating in the study expressed a general desire for at least some more standardised and comparable data points, particularly forward-looking ones.

These findings provide the basis for the following concrete, high-level recommendations. These recommendations are primarily targeted at EU policymakers and standard setters and address the question of how asset managers' and owners' requirements regarding climate-related data and information can be better served, focusing on the two main sources of information mentioned in this survey: company-reported information and data provided by external agencies.

Although climate change is likely one of the most standardised ESG investment topics, with some established metrics and reporting standards already in place, investors still face various related information challenges. It is therefore likely that many of this study's results – and by extension recommendations – are transferable to other ESG investment topics.

4.1. Recommendations regarding company-reported climate-related information and data

Continue to promote better availability, quality, and comparability of climate-related corporate information and data.

Climate-related information disclosed by companies is considered to be particularly useful to enable informed investment decisions by investors. Improved climate-related corporate reporting would in turn also enhance the quality of external providers' products using this data. Related ongoing regulatory initiatives such as the development of climate-related European Sustainability Reporting Standards (ESRS) in the context of the Corporate Sustainability Reporting Directive (CSRD) should be pursued with full force. Harmonised reporting standards – including standardised provisions for the calculation methods of key data points (such as GHG emissions according to the GHG Protocol) would significantly improve the comparability of climate-related information across companies and industries. In this context, policymakers should strive for the greatest possible interoperability between the ESRS and the Climate-related Disclosures standards developed by the International Sustainability Standards Board (ISSB).

Aiming for ambitious disclosure standards based on a double materiality approach that covers climate targets and transition plans as well as the corporate value.

Study participants have clearly expressed the need for a wide range of decision-useful data points to inform their investment decisions both from a climate-related risk and impact perspective. They are supportive of the double materiality approach proposed in the ESRS, which includes both ESG factors that could have a material impact on companies' financial performance and their material impacts on sustainability factors (people and/or the environment). This perspective is considered important to enable a holistic understanding of companies' climate-related performance.

Study participants are looking for comprehensive climate-related information that particularly also covers companies' value chains and future climate-related projections. Policymakers should therefore maintain the current level of ambition for the ESRS. Corporate climate-related disclosure obligations must cover the value chain – including standardised reporting on scope 3 emissions. Furthermore, the disclosure of forward-looking information, such as climate-related targets, risks, opportunities and transition plans should be strengthened. This would allow investors to better assess companies' alignment with global climate goals, their preparedness for the transition to a low-carbon economy as well as the potential impact of different climate scenarios on their financial performance. Reporting requirements regarding corporate climate targets and transition plans could also incentivise companies to improve their actual performance in these regards and to, for example, set science-based emission reduction targets aligned with the Paris Agreement.

4.2. Recommendations regarding climate-related information and data from external providers

Improve external providers' transparency regarding methodologies, research processes, and data sources.

Asset managers and asset owners who participated in the study had a clear preference regarding regulatory measures to improve the reliability and quality of external data providers' climate-related information: the introduction of transparency requirements regarding their methodologies, research processes and data sources. The forthcoming legislative proposal on ESG rating providers, expected to be presented by the European Commission by end June 2023, constitutes a great opportunity to address this.

Support the development of accurate, science-based climate-related indicators with a focus on forward-looking metrics.

Study participants voiced strong concerns, particularly regarding the scientific soundness and reliability of some forward-looking climate-related metrics currently available from external data providers. In this context, interviewed experts highlighted the role of the scientific community in supporting the development of more trustworthy and accurate forward-looking metrics. EU policymakers should proactively support the involvement of the scientific community and the development of accurate, science-based climate-related indicators with a focus on forward-looking metrics.

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