Net zero carbon policy – Portfolio emissions

WHEB's commitment to NZC investment portfolios

WHEB Asset Management is fully committed to supporting the global goal of net zero carbon[i] (NZC) emissions by 2050 at the latest, in line with global efforts to limit warming to 1.5ºC[ii]. WHEB set out its policy on becoming a NZC business in our own operations in 2019[iii].

We are also committed to investing in ways that are aligned with the goal of NZC emissions by 2050 at the latest. The core objective of WHEB's investment strategy is to invest in companies that are enabling the transition to a zero carbon and more sustainable world. We do this by investing in companies that supply products and services that help to reduce carbon emissions and support sustainability throughout the economy[iv]. In addition, these companies also need to reduce their own carbon emissions. This document sets out our policy for achieving NZC emissions in our investment portfolios[v]. This commitment applies to 100% of the assets invested in WHEB investment strategies.

Specifically, WHEB commits to:

1. Work in **partnership with asset owner clients** on decarbonisation goals, consistent with an ambition to reach NZC emissions by 2050 at the latest.
2. Implement a **stewardship and engagement strategy** that delivers on our commitment to align WHEB investment strategies with NZC emissions by 2050 at the latest.
3. Set **interim targets** that are consistent with the carbon emission reductions set out in the IPCC's special report on global warming of 1.5ºC[vi].
4. Take account of portfolio **Scope 1 and Scope 2 emissions** and, to the extent possible, material portfolio Scope 3 emissions.
5. **Review interim targets** at least every five years considering the latest scientific understanding of climate change and WHEB's progress in reducing portfolio carbon emissions.
6. **Undertake policy advocacy** in support of achieving NZC emissions by 2050 at the latest.
7. **Publish an annual report** on progress towards our interim targets as well as on wider work in managing both climate related risks and policy engagement on climate change.

Goals	Target year
85% of financed scope 1+2 emissions covered by a NZC target of 2050 or sooner	2025
100% of financed scope 1+2 emissions covered by a NZC target of 2050 or sooner	2028
15% reduction in absolute portfolio emissions compared to a 2019 baseline	2025
7.6% portfolio company level absolute reductions year-on-year	2030
50% reduction in portfolio company emissions by 2030	2030

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Interim targets

- **Investee NZC commitments**

In 2020 WHEB committed to ensuring that, by 2025, 50% of our portfolio would have set a net-zero carbon (“NZC”) target for 2050 or earlier. By 2030, the ambition was that 100% of the portfolio would have such a commitment. As of December 2022, we found that 54% of WHEB’s portfolio companies have announced a NZC commitment, with 90% of those companies with targets already approved, or committed to having them approved, by the Science Based Targets initiative.

A large majority of the portfolio’s Scope 1 and Scope 2 emissions come from a small number of companies. The top 5 emitting companies at the end of 2022 accounted for over 75% of the entire portfolio’s emissions. Therefore, we have updated our strategy to target these high emitters. Our latest objective is for 85% of the financed emissions[vii] to be covered by a NZC target by 2025, and 100% of financed emissions to be covered by a NZC target by 2028, brought forward from 2030[viii,ix].

- **Additional carbon reduction goals**

In addition to securing specific NZC commitments from investee companies, we have also set an absolute carbon emissions reduction target for 2030. The target is to achieve absolute carbon reductions from portfolio companies that are consistent with the 50% global reduction in carbon emissions that is considered necessary achieve global NZC emissions by 2050[x,xi]. We will differentiate between portfolio emission reductions achieved through divestment of high emitting companies, and actual real-world year-on-year reductions accomplished by those portfolio companies still held in the portfolio. By 2025 we are hoping to achieve a 15% reduction in the absolute portfolio emissions when compared to a 2019 baseline. Even more ambitious is our target for portfolio companies to reduce their absolute carbon emissions by 7.6% each year to 2030. This level of reduction is what is needed to limit global warming to the 1.5°C goal of the Paris Agreement[xii].

- **Collaborations and partnerships**

WHEB has been an active contributor to several collaborative investor initiatives to accelerate action to tackle climate change. This includes work with the Institutional Investors Group on Climate Change (IIGCC), Net Zero Asset Manager’s Initiative, Climate Action 100+, the UN-PRI and others. We plan to continue to work with these groups and others in developing and applying robust methodologies and frameworks to accelerate the transition to a zero carbon global economy.

We recognise also that our commitments are to a significant extent based on the expectation that governments will follow through on their commitment to ensure that the objectives of the Paris Agreement are met, and in the context of legal duties to clients and unless otherwise prohibited by law.

[i] The term ‘carbon’ is used throughout this document to refer to anthropogenic emissions of all greenhouse gases

[ii] https://www.ipcc.ch/site/assets/uploads/sites/2/2019/06/SR15_Full_Report_Low_Res.pdf

[iii] https://www.whebgroup.com/assets/files/uploads/202004-nzc-policy-operational-emissions.pdf

[iv] For the avoidance of doubt, WHEB investment strategies do not, have not and will not invest in companies 1) planning new fossil fuel production or power infrastructure, 2) deriving significant (more than 5%) revenues from fossil fuel or power generation sales or 3) producing fossil fuels or generating more than 5GW of captive power from fossil fuels.

[v] Investment portfolio carbon emissions are considered as part of WHEB’s investment process which is subject to a clearly defined process. WHEB’s own operational emissions, by contrast, are subject to operational decision-making taken by the business and are covered in a separate policy (ibid).

[vi] The IPCC special report on global warming of 1.5°C confirmed that human-caused emissions of CO2 need to decline by approximately 45% from 2010 levels by 2030 to restrict the global average temperature rise to 1.5°C. Because CO2 emissions continued to rise from 2010-2019, this implies a 50% reduction in CO2 emissions from 2019 levels by 2030.

[vii] “Financed emissions” refer to the emissions associated with WHEB’s specific level of investment in the investee company.

[viii] Covering just Scope 1 and Scope 2 emissions. We will include Scope 3 emissions once robust data becomes available.

[ix] The new financed emissions target will be more volatile as it depends on the enterprise value of the portfolio company, as well as the value of our holding in the company, both of which are constantly changing. Consequently, we use a rolling 12-month average of the financed emissions data point to provide a clearer trend.

[x] It is important to note that this does not mean that all companies across the portfolio will necessarily have achieved the target reduction in carbon emissions. It is, however, a commitment that, taking into account sectoral and geographical biases inherent in our investment strategies, emission reductions across the portfolio will be consistent with the global reduction target.

[xi] We do not consider carbon offsetting to be an appropriate tool for achieving NZC emissions at investment portfolio level. Carbon offsets should, in our view, only ever be used as a last resort to offset residual carbon emissions that cannot otherwise be eliminated. We are supportive of carbon offsets being used in this way by investee companies.

[xii] https://www.unep.org/news-and-stories/press-release/cut-global-emissions-76-percent-every-year-next-decade-meet-15degc

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