

# S&P Global Sustainable1 Investor Client Council

## Agenda & Briefings



H2 2023, 14:30-17:30 Local Time



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## Introduction and Welcome

Dear Council Members,

On behalf of S&P Global, it is my great pleasure to welcome you to our second S&P Global Sustainable1 North American Investor Client Council ('Investor Council'). For those of you who are joining us for the first time, welcome! We are honored to have you join this collaborative community of industry experts and like-minded professionals who share our passion for sustainability.

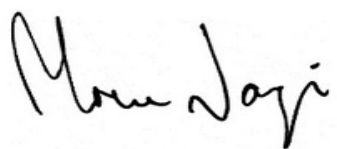
As our Council continues to grow, and after a very successful H1 2023 round of events, we are delighted to bring our community back together. Our goal continues to be striving for a more sustainable future, and we believe that your input and expertise will help us provide you with the tools and data you need to get there.

In our first meeting, we discussed the landscape of ESG risk and impact as well as the trending topic of biodiversity and nature. Our team has since been working internally to use your valuable input to continue enhancing our solutions. We are happy to welcome back the community and hope this meeting will also allow for more collaboration, not only with our teams, but also for the community we hope to build as we work towards our sustainability goals.

Should you have any questions, comments, or concerns, please kindly reach out to our Council Secretary, Myrna Ghanem at [myrna.ghanem@spglobal.com](mailto:myrna.ghanem@spglobal.com). We hope you will find your membership of the Investor Council a rewarding and valuable experience – as we work together towards a more sustainable future.

Thank you again for your participation and a very warm welcome (back) to our expert community.

Sincerely,



Mona Naqvi  
Chair of the Investor Client Council

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**S&P Global**

## S&P Global Sustainable1 Investor Client Council 2023 Council Meeting Guidelines

*The S&P Global Sustainable1 Investor Council (“Investor Council”) is a community of renowned industry experts, who meet regularly to discuss business challenges and opportunities arising from sustainability issues. Its members provide S&P Global with invaluable insights and expertise inform best practices and deepen our firm’s understanding to better serve the evolving needs of the market through the creation of relevant products and services.*

The below Guidelines are established to ensure all members are engaged in conversations that are legally appropriate while promoting the sharing of insights and expertise relevant to the success of the Investor Council.

Each member of the Investor Council shall hold all information shared with and in connection with the Investor Council in strict confidence. Each member of the Investor Council shall only share such information with any persons or entities who are members of the Investor Council and shall only share such information with any persons or entities who have executed the appropriate Investor Council NDA with S&P Global.

S&P Global Sustainable1 produces a company’s S&P Global ESG Score in accordance with its published methodology. S&P Global is committed to the independence and objectivity of its products and services and has policies in place to help maintain an appropriate separation between its different business units, including S&P Global Sustainable1 which develops S&P Global ESG Scores. For the avoidance of doubt, the Investor Council shall not be involved and shall not influence or attempt to influence S&P Global Sustainable1’s methodologies, policies, or practices in connection with the S&P Global ESG Score and its related operations. Further, all parties involved with the Investor Council understand that any business relationships any Investor Council member has with S&P Global, and vice-versa, are separate and distinct from the Investor Council.

By participating in the Investor Council, each member of the Investor Council understands and agrees to these Guidelines.

Please contact S&P Global Sustainable1 Legal via Mona Naqvi ([mona.naqvi@spglobal.com](mailto:mona.naqvi@spglobal.com)), Myrna Ghanem ([myrna.ghanem@spglobal.com](mailto:myrna.ghanem@spglobal.com)), or the Investor Council Admin ([InvestorClientCouncilAdmin@spglobal.com](mailto:InvestorClientCouncilAdmin@spglobal.com)) if you have any questions about the application of this guidance.



Permitted	Not Permitted
<ul style="list-style-type: none"> <li>✓ Discuss public or non-commercial matters: <ul style="list-style-type: none"> <li>- market trends;</li> <li>- perspectives on ESG regulation;</li> <li>- industry studies</li> <li>- best practices</li> <li>- high-level product development evolution thought processes and concepts</li> </ul> </li> <li>✓ S&amp;P Product launches or expansions, including standardized models and analytics, to the extent presented by S&amp;P Global Sustainable in connection with the Investor Council</li> </ul>	<ul style="list-style-type: none"> <li>✗ Discuss <b>non-public</b>: <ul style="list-style-type: none"> <li>- Pricing/commercial policy</li> <li>- Marketing efforts</li> <li>- Specific or granular cost information</li> <li>- Particular customers or vendors</li> </ul> </li> <li>- No discussion on specificities of scores or methodologies except to the extent already publicly disclosed</li> </ul>
<ul style="list-style-type: none"> <li>✓ Set an agenda for each meeting and review with Legal if any questions.</li> </ul>	<ul style="list-style-type: none"> <li>✗ Discuss specifics of how market trends affect each company or examples of customers</li> <li>✗ Discuss product pipeline ideas, methodology changes, specific business strategies, specific intended developments, trade secrets, or know-how</li> </ul>
<ul style="list-style-type: none"> <li>✓ Raise any concerns about discussion topics at a meeting. If discussions continue, leave the meeting and ensure that your departure is recorded in writing. Report any concerns to Legal.</li> </ul>	<ul style="list-style-type: none"> <li>✗ Allow any departures or deviations from the stated agenda.</li> <li>✗ Allow analytical employees to attend without appropriate legal and compliance review and approval</li> </ul>
<ul style="list-style-type: none"> <li>✓ Remember all written communications (including emails and notebooks) may be disclosable to a regulatory or legal authority (including without limitation a competition authority).</li> <li>✓ Ensure the legitimate professional objective behind discussions is clear in any written communications.</li> </ul>	<ul style="list-style-type: none"> <li>✗ Apply different standards of behaviour to information sharing in a less formal or social setting.</li> </ul>
<ul style="list-style-type: none"> <li>✓ Ensure discussions are accurately recorded.</li> </ul>	<ul style="list-style-type: none"> <li>✗ Use language which could be misinterpreted.</li> <li>✗ Use language that is factually incorrect</li> </ul>

### Agenda and Subject Briefs

Please see below for access to the document.



## S&P Global Sustainable1 Investor Client Council

### SESSION AGENDA

**13.30 – 14.00: Registration & Refreshments**

**14.00 – 14.20: Welcoming Remarks**

Martina Cheung, President of S&P Global Ratings and Sponsor of S&P Global Sustainable1  
Chris Heusler, President of S&P Global Sustainable1

**14.20 – 14.30: Purpose & Objectives**

Mona Naqvi, Chair of the Investor Client Council

**14.30 – 15.30: Green Financing & Second Party Opinions (See Attached Briefing)**

*Examining best practices in second party opinions & other related measures to reduce greenwashing in green finance.*

- The role and purpose of SPOs in the market for sustainability linked loans
- S&P Global's approach to second party opinions (re: Shades of Green)

**15.30 – 15.45: Break**

**15.45 – 17.00: Climate & Paris-Aligned Indexes (See Attached Briefing)**

*Identifying a common global standard for climate benchmarks to concentrate assets, boost liquidity & support the low carbon transition*

- Exploring the broadest common denominator for global climate index adoption
- The risk-impact trade off associated with tracking error vs. active share
- S&P Global's approach to Paris-aligned benchmarks

**17.00 – 17.20: Open Forum: The Road to COP28, Challenges, Regulations and More**

*Open discussion on current challenges, plans, expectations, and hopes for COP28, and any other items Members wish to bring to the table*

**17.20 – 17.30: Concluding Remarks**

Mona Naqvi, Chair of the Investor Client Council

**17.30 – 20.30: Networking Reception, Drinks & Food**

# SUBJECT BRIEFING

## Green Financing & Second Party Opinions

*Examining best practices in second party opinions & other related measures to reduce greenwashing in green finance.*

### Background

Over the past decade, public and private **climate financing** has seen tremendous momentum, with a cumulative \$4.8 trillion in climate finance committed between 2011-2020 (see CPI's 'Global Landscape of Climate Finance, a Decade of Data'). Much of this momentum has been driven by substantial growth in the **green bond market**, which provides capital for environmentally beneficial projects consistent with a long-term, near-zero carbon future. However, supporting already-green activities is *not enough* to effectively decarbonize the entire global economy. Unlocking capital for high-emitting entities or activities that may not have a long-term role or clear path to near-zero, but could make substantial contributions to emissions reductions, will be critical to achieving a **Paris-aligned transition**. Yet the transition finance market remains nascent and different approaches continue to bear risks of greenwashing, carbon lock-in, and lack of transparency and disclosure.

### Our Approach

We recently launched the **Shades of Green assessments methodology** that applies for green bond assessments. It includes six shades to illustrate the full spectrum of climate transition, and we plan to apply this same approach for our entity transition assessments that are under development. On the top end of our shading scale, a **Dark Green** shading indicates an activity that already aligns with a near-zero carbon future and builds in climate resiliency. In contrast, **Light Green** indicates an activity that significantly reduces greenhouse gas emissions but that does not shift underlying infrastructure away from fossil fuels. **Red** indicates activities that are significantly harmful to the climate, such as new fossil fuel infrastructure. Through our entity transition assessment, we would provide an opinion on an entity's climate transition contribution and credibility of future transition plans. We would assess the entity's current climate transition status (including applying shades to its revenue and operating expenditures), as well as evaluate the ambition, relevance, and achievability of its future transition plans (including applying shades to its capital/R&D expenditures). We would intend for this assessment to be a practical decision-making tool for investors, lenders and public authorities, as well as for exchanges that are pushing forward the green/transition equity concepts (e.g., Nasdaq, LSEG, and WFE).

### Pre-Read Materials

"Analytical Approach: Shades Of Green Assessments"

### Detailed Questions

1. How can we encourage more transition finance? What level of transparency gives investors enough comfort? How can we move beyond the partial stigma of being labelled a company in transition?
2. How would you define green equity? What identifiers or information is important? How do the different exchange approaches to green equity (LSEG, Nasdaq, WFE) fit with this?
3. Is it more important to understand where a company is on their journey, or where they are headed? Or what balance of both current status and future direction is important?
4. Are there commonalities in the nascent green equity market with how the green bond market developed? What lessons can we learn from the green bond market evolution?
5. What sources of information feed into your decision making on green and transition investments?
6. How do you engage with companies in transition? What is important in your follow up with them?
7. How can we avoid adding unnecessarily to the reporting burdening of companies in transition, but gain the transparency needed for investment decisions?
8. Will regulatory developments support more transition financing?



# SUBJECT BRIEFING

## Climate & Paris-Aligned Indexes

*Identifying a common global standard for climate benchmarks to concentrate assets, boost liquidity & support the low carbon transition.*

### Background

Over the past several years the focus on Net-Zero has intensified. Subsequently, the link between net zero and the economy has become increasingly important. This was made evident by the creation of a global coalition of leading financial institutions in the Glasgow Financial Alliance for Net Zero (GFANZ). As investors continue to commit to transition their portfolios to net-zero, the tools required to achieve such a goal are critical.

### Our Approach

The path to net zero looks different to each investor and the tools being utilized also vary. We believe our Climate Solutions help mitigate the risks as well as address the opportunities of transitioning to a net zero economy. Yet the adoption of systematic Net-Zero strategies has been slow to gain traction across institutions worldwide. As we look to bridge the gap between Net-Zero commitments and the capital flows into Net-Zero index strategies, it is essential that we explore what commonalities exist across regions and institutions that would make adoption of such Net-Zero benchmarks a universal trend.

### Pre-Read Materials

[360° of Climate – Indices for Every Objective – Education | S&P Dow Jones Indices \(spglobal.com\)](#)

[dashboard-climate-esg-index.pdf \(spglobal.com\)](#)

S&P Paris Aligned and Climate Transition Indices Methodology: [Table of Contents \(spglobal.com\)](#)

### Detailed Questions

1. While Net Zero commitments, reduction in fossil fuel financing, carbon reduction and other climate goals have all been made totaling \$70 Trillion of commitments by global investors, we have not seen this transition to low carbon or net zero constructs; what will help move investors to broader adoption of these climate focused indices?
2. Is there a need for a universal standard for low carbon/net-zero investing from a methodology standpoint? Or are all investors in need of a bespoke approach to implementing their climate strategies?
3. Do you have to be net zero or is low carbon sufficient? In theory, regulations, technology and innovation will move the world towards net zero, so are investors comfortable to take a low carbon position now and ride the wave to net zero, while also using corporate engagement?
4. What is more important to investors, adhering to the benchmarks or meeting climate goals?
  - Has any consideration been given to changing Reference or Performance benchmarks to reflect climate considerations?
  - Would changing the benchmark be the first hurdle to overcome or is changing the investment strategy implemented first?
5. How material is a broader index eco-system to investors' decision making on benchmarks? For example, is it imperative to have listed Options and Futures on these indices? Is the availability of ETFs materially relevant?
6. Are we losing the forest for the trees by focussing on specific impacts versus the big picture?
  - Is complexity getting in the way (too many sources of data, too many measurements) or will the market only accept the perfect silver bullet (e.g. Paris-Aligned)?

<ul style="list-style-type: none"> <li>▪ Transition Pathway Model (Trucost)</li> <li>▪ Physical Risk Scores (Trucost)</li> <li>▪ GHG Emission and Emissions Disclosure Dataset (Trucost)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Green-to-Brown Share Dataset (Trucost)</li> <li>▪ Fossil Fuel Reserve Dataset (Trucost)</li> <li>▪ Power Generation Dataset (Trucost)</li> </ul>	<ul style="list-style-type: none"> <li>▪ S&amp;P Global Trucost Sector Revenues Dataset (Trucost)</li> <li>▪ Biodiversity dataset (Sustainable1)</li> <li>▪ SDG dataset</li> <li>▪ ESG data</li> </ul>
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- Is good good enough, or do we need to strive for perfect?
7. What will ultimately drive broad acceptance of climate benchmarks and the implementation of these benchmarks for quantifying climate risks for investors?

# Green Equity and Transition Finance: Building Trust and Supporting Growth

*Examining the obstacles investors face in decision-making on green and transition investments and what we can do to support the development of these markets.*

## Background

Over the past decade, public and private climate financing has seen tremendous momentum, with a cumulative \$4.8 trillion in climate finance committed between 2011-2020 (see CPI's 'Global Landscape of Climate Finance, a Decade of Data'). Much of this momentum has been driven by substantial growth in the green bond market, which provides capital for environmentally beneficial projects consistent with a long-term, near-zero carbon future. However, supporting already-green activities is not enough to effectively decarbonize the entire global economy. Unlocking capital for high-emitting entities or activities that may not have a long-term role or clear path to near-zero, but could make substantial contributions to emissions reductions, will be critical to achieving a Paris-aligned transition. Yet the transition finance market remains nascent and different approaches continue to bear risks of greenwashing, carbon lock-in, and lack of transparency and disclosure.

## Our Approach

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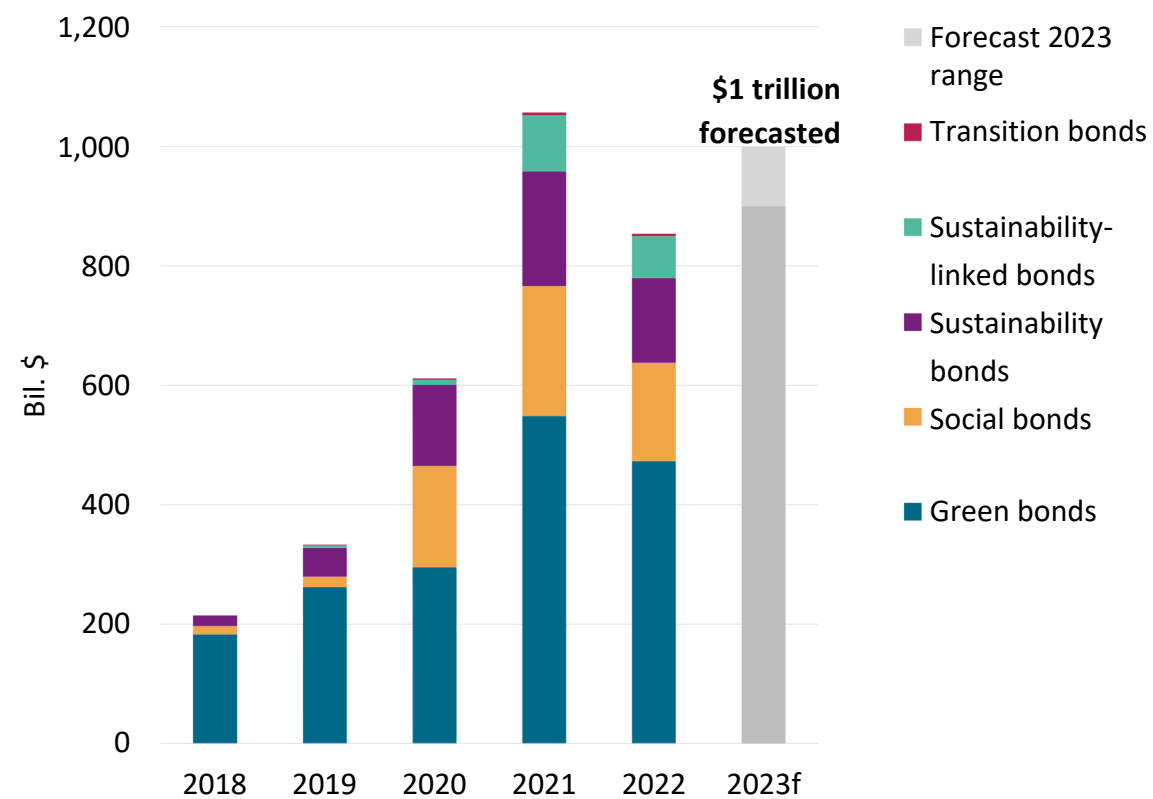
Through our entity transition assessment, we would provide an opinion on an entity's climate transition contribution and credibility of future transition plans. We would assess the entity's current climate transition status (including applying shades to its revenue and operating expenditures), as well as evaluate the ambition, relevance, and achievability of its future transition plans (including applying shades to its capital/R&D expenditures). We would intend for this assessment to be a practical decision-making tool for investors, lenders and public authorities, as well as for exchanges that are pushing forward the green/transition equity concepts (e.g., Nasdaq, LSEG, and WFE).



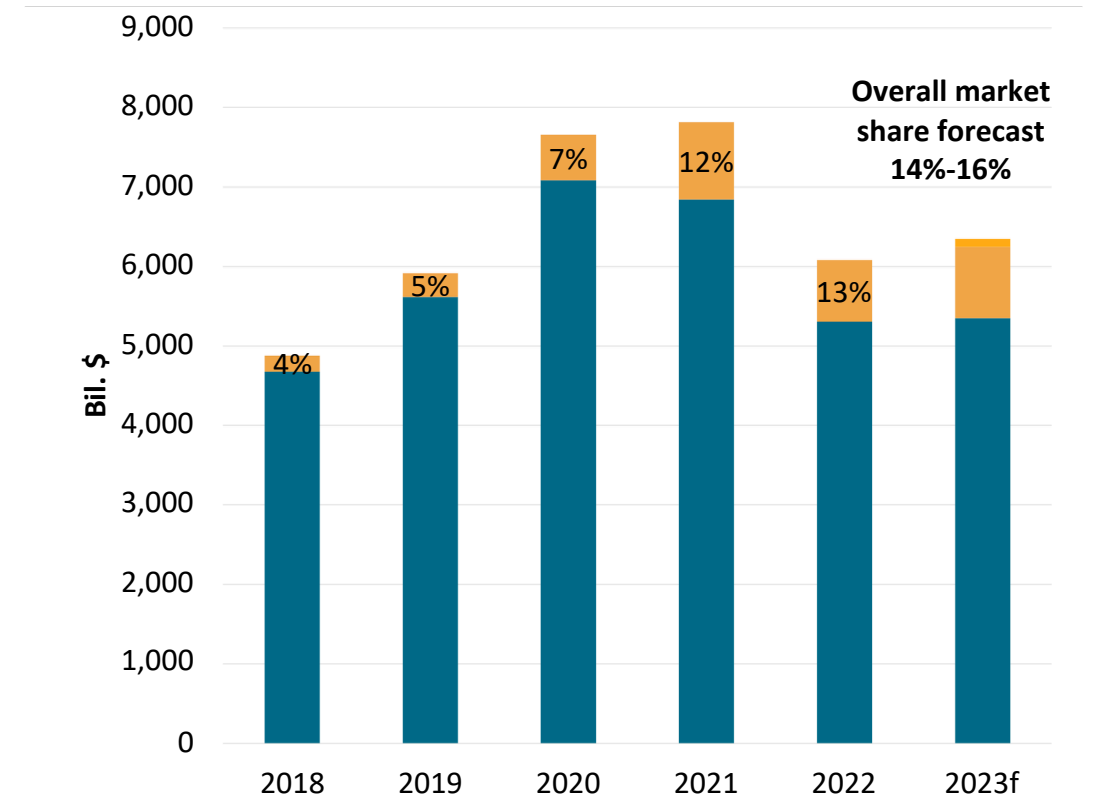
# Global Sustainable Debt Outlook

Issuance volume grows and represents larger share of overall bond market

## Sustainable Debt Annual Issuance



## Sustainable Debt Market Share



Note: Excludes structured finance and sovereign issuance. Sources: Environmental Finance Bond Database, S&P Global Ratings. Copyright © 2023 by Standard and Poor's Financial Services LLC. All rights reserved.

# Green Equity Listing Developments



Nasdaq Green Equity Designation is attainable for companies that have more than 50 percent of the company's turnover deriving from activities considered green. Turnover derived from fossil fuel activities must be less than 5 percent. In addition, more than 50 percent of the company's investments must be allocated to activities considered green.

Shades of Green, now a part of S&P Global, is an approved reviewer. Reviews involve engagement with the entity and annual alignment checks.



Nasdaq Green Equity Transition Designation is attainable for companies that have more than 50 percent of the company's investments allocated to activities considered green. There is no minimum threshold for turnover from activities considered green, but the company's turnover derived from fossil fuel activities must be less than 50 percent.

Shades of Green, now a part of S&P Global, is an approved reviewer. Reviews involve engagement with the entity and annual alignment checks.



London Stock Exchange's Green Economy Mark was created to help investors and issuers address the narrow view of green equities and facilitate investment. It identifies listed companies and funds that generate over 50% of their total annual revenues from products and services across all industries that contribute to the global Green Economy.















The WFE Green Equity Classification can be offered by exchanges to issuers that meet, at a minimum, the following criteria:

- More than 50% of total annual revenues must be from activities that contribute to the green economy
- Must publicly disclose the taxonomy used to ascertain that revenues are green
- Meets existing listing governance requirements
- Assessment carried out by an exchange-approved reviewer, annually
- Appropriate disclosures relating to how the issuer meets the classification criteria



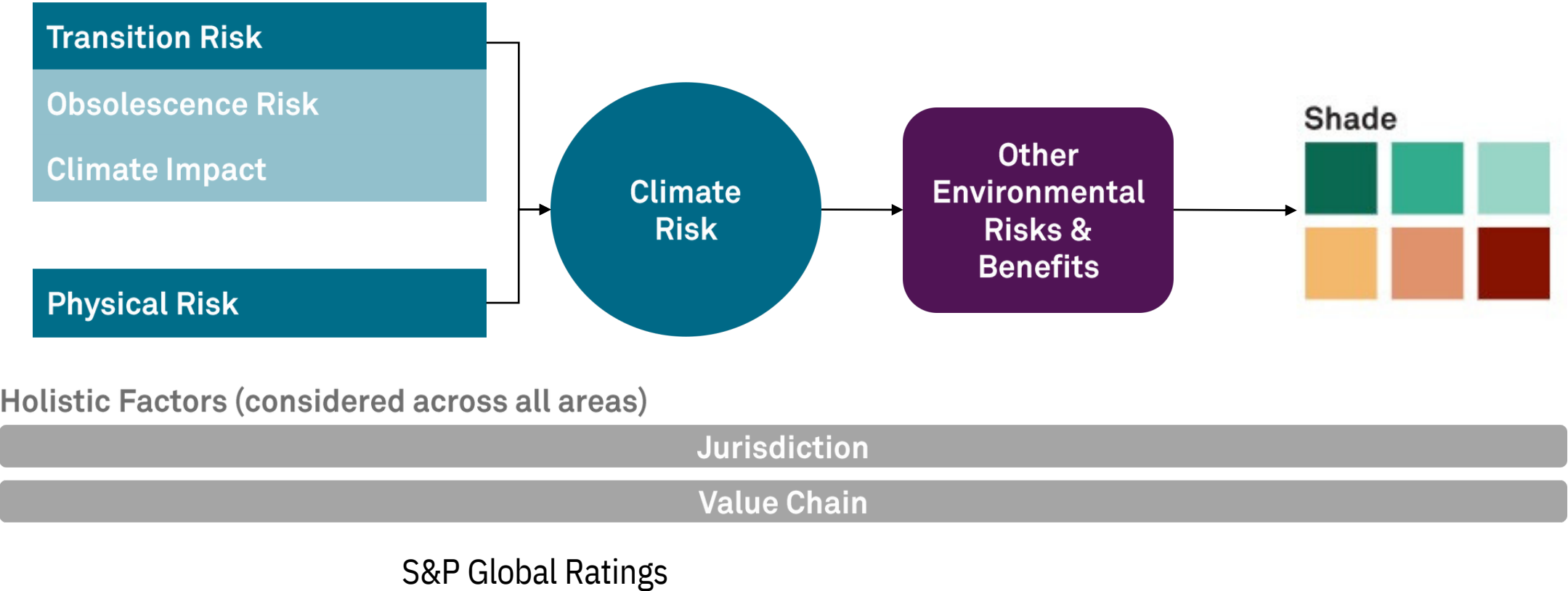
# Shades of Green Methodology

Assessing how consistent is an activity or investment with a low carbon and climate resilient future

Assessments											
	Dark green		Medium green		Light green		Yellow		Orange		Red
Description											
Activities that correspond to the long-term vision of an LCCR future.		Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.		Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.		Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.		Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.		Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.	
Example projects											
 Solar power plants		 Energy efficient buildings		 Hybrid road vehicles		 Health care services		 Conventional steel production		 New oil exploration	

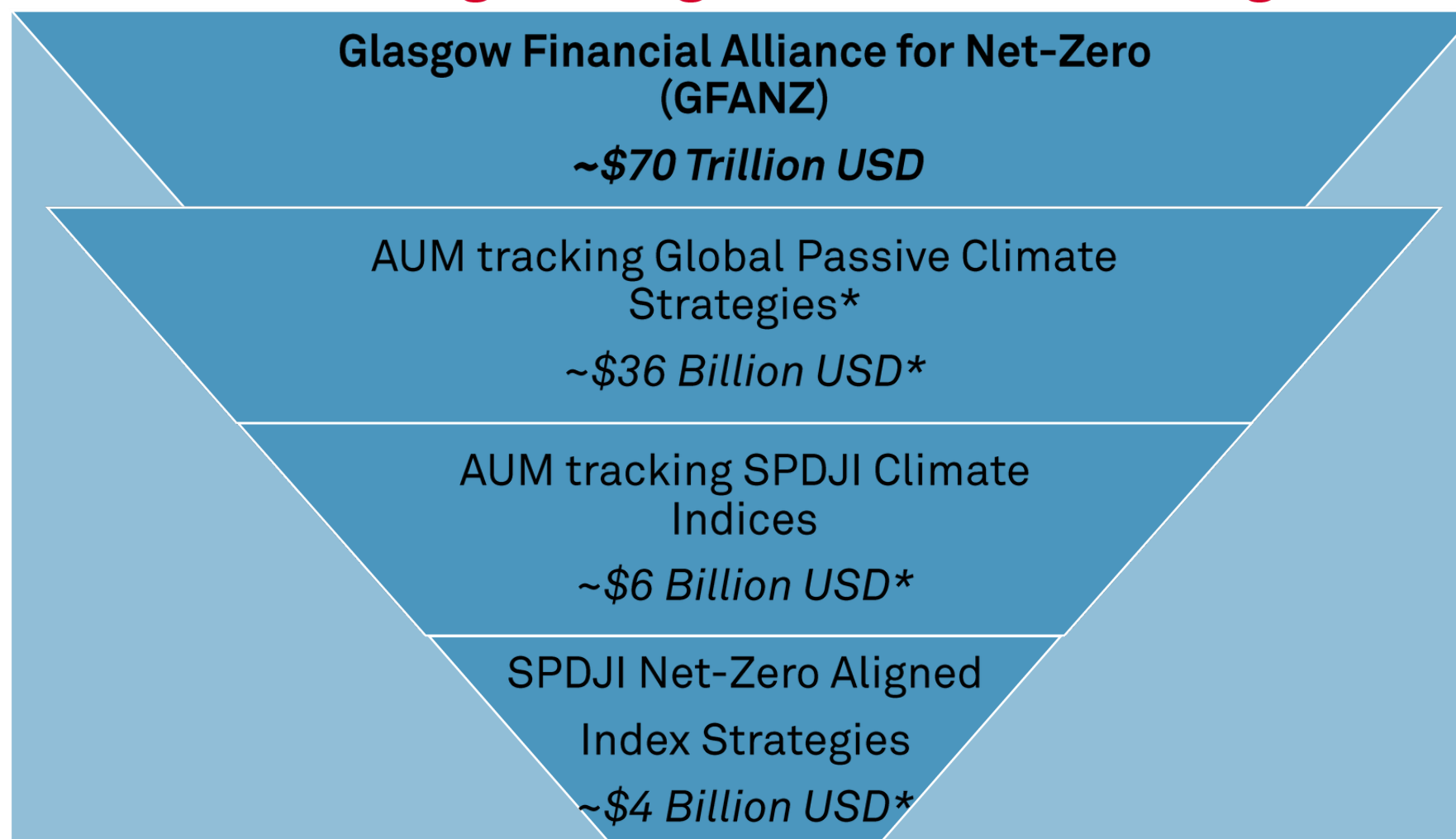
# Shades of Green: Analytical Approach

Key Factors Reviewed When Assessing the Shades of Green For Eligible Green Projects



# Net-Zero Pledges to Net-Zero Investing

## Asset Flows into 1.5 degree Aligned Passive Strategies



\* Source SPDJI as of July 31, 2023

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# The Journey to Net-Zero

## A Range of Climate Solutions Required

Divest	Seek Opportunity	Decarbonise	1.5°C Aligned
<b>Removes exposure to fossil fuel reserves</b>	<b>Exposure to green energy companies</b>	<b>Lower relative carbon footprint</b>	<b>Absolute decarbonisation trajectory aligned with 1.5C</b>
E.g. S&P Fossil Fuel Free Indices	E.g. S&P Global Clean Energy Index	E.g. S&P Carbon Efficient Indices	E.g. S&P Paris Aligned & Climate Transition Indices and S&P Carbon Budget Indices

- Do you have to be net zero or is low carbon sufficient?
- In theory, regulations, technology and innovation will move the world towards net zero, so are investors comfortable to take a low carbon position now and ride the wave to net zero, while also using corporate engagement?

# S&P Global's Solution

## S&P Net-Zero Aligned Climate Indices

Is there a need for a universal standard for low carbon/net-zero investing from a methodology standpoint?

Or are all investors in need of a bespoke approach to implementing their climate strategies?

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			S&P Net Zero 2050 PACT Indices	S&P "Simple" Net Zero 2050 PACT Indices (not currently live)	S&P Net Zero 2050 Carbon Budget Indices
	Net Zero Alignment	Fixed Decarbonisation Pathway	✓	✓	
		Base Year Adjusted Decarbonisation Pathway			✓
		IPCC Report Based	IPCC 2018, with a 1.5°C increase objective with 66% probability*	IPCC 2018, with a 1.5°C increase objective with 66% probability*	IPCC 2021, 1.5°C increase objective with 83% probability
		Carbon Ownership Factor	EVIC	EVIC	Market Cap
		EU PAB/CTB Compliant	✓	✓	
GFANZ**		Forward-Looking (inc. Sectoral Pathways) 1.5°C Alignment	✓		
		Science Based Target Considerations	✓		
	TCFD***	Physical Risk Considerations	✓		
		Transition Risk Considerations (beyond the decarbonisation pathway)	✓		
		Climate opportunity Considerations	✓		
		ESG Score Incorporation	✓		
		Environmental Exclusions	Paris-Aligned only	Paris-Aligned only	
		Social Exclusions	✓	✓	
		Controversy Exclusions	✓	✓	

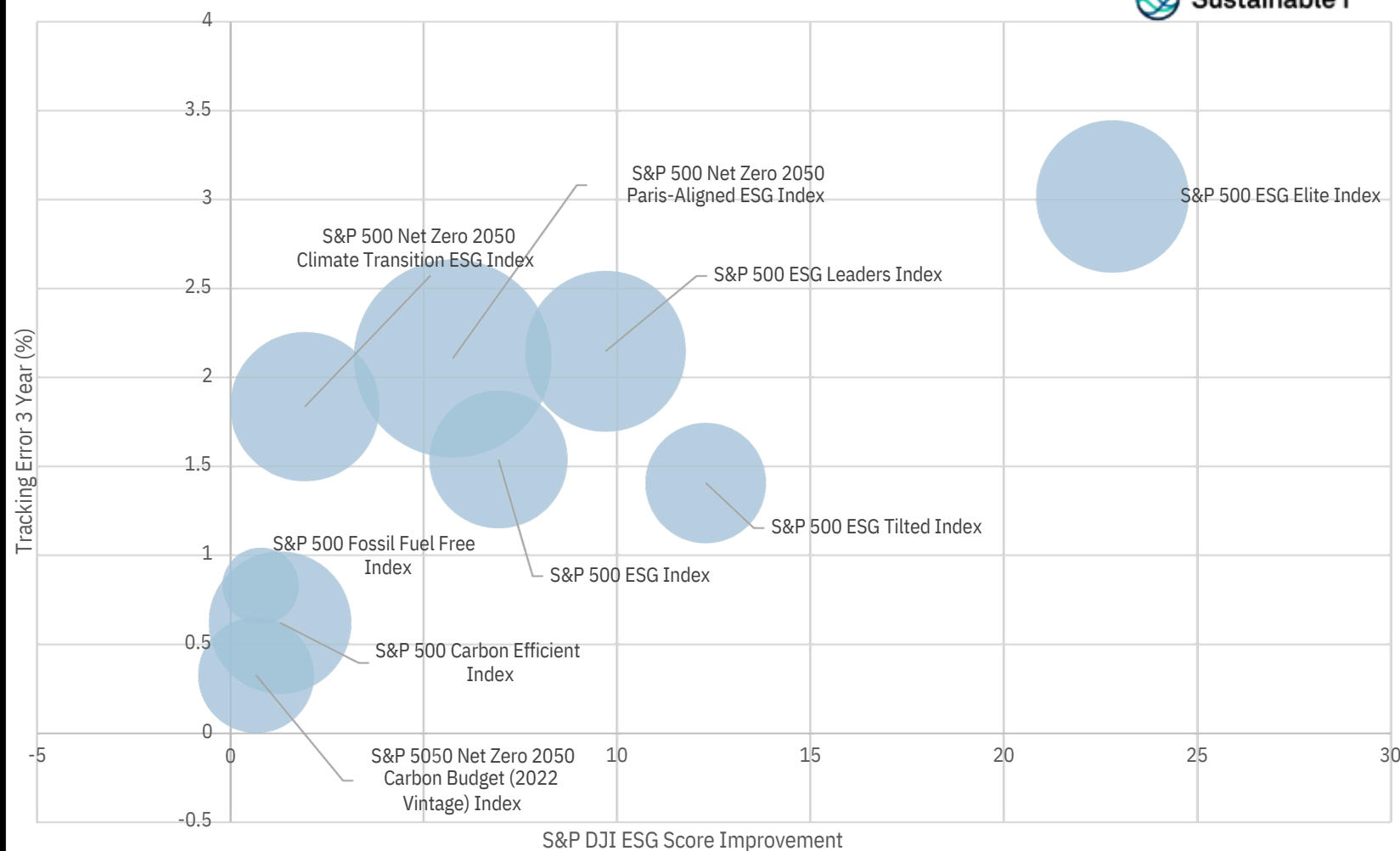
# S&P Global's Solution

## The Journey to Net-Zero Examining the Trade-offs

What is more important to investors, adhering to the benchmarks or meeting climate goals?

Has any consideration been given to changing Reference or Performance benchmarks to reflect climate considerations? Would changing the benchmark be the first hurdle to overcome or is changing the investment strategy implemented first?

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Source: S&P Dow Jones Indices LLC. Index levels data from June 30, 2018 to June 30, 2023. Tracking error provided for the S&P 500 Net Zero 2050 Carbon Budget (2022 Vintage) Index is the 63-day tracking error. Weighted average carbon intensity data as of June 30, 2023. Bubble area denotes fossil fuel reserves reduction. The S&P 500 Carbon Efficient Index was launched Oct. 22, 2018. The S&P 500 Net Zero 2050 Paris-Aligned ESG Index and S&P 500 Net Zero 2050 Climate Transition ESG Index were launched June 1, 2020. The S&P 500 Net Zero 2050 Carbon Budget (2022 Vintage) Index was launched July 25, 2022. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.



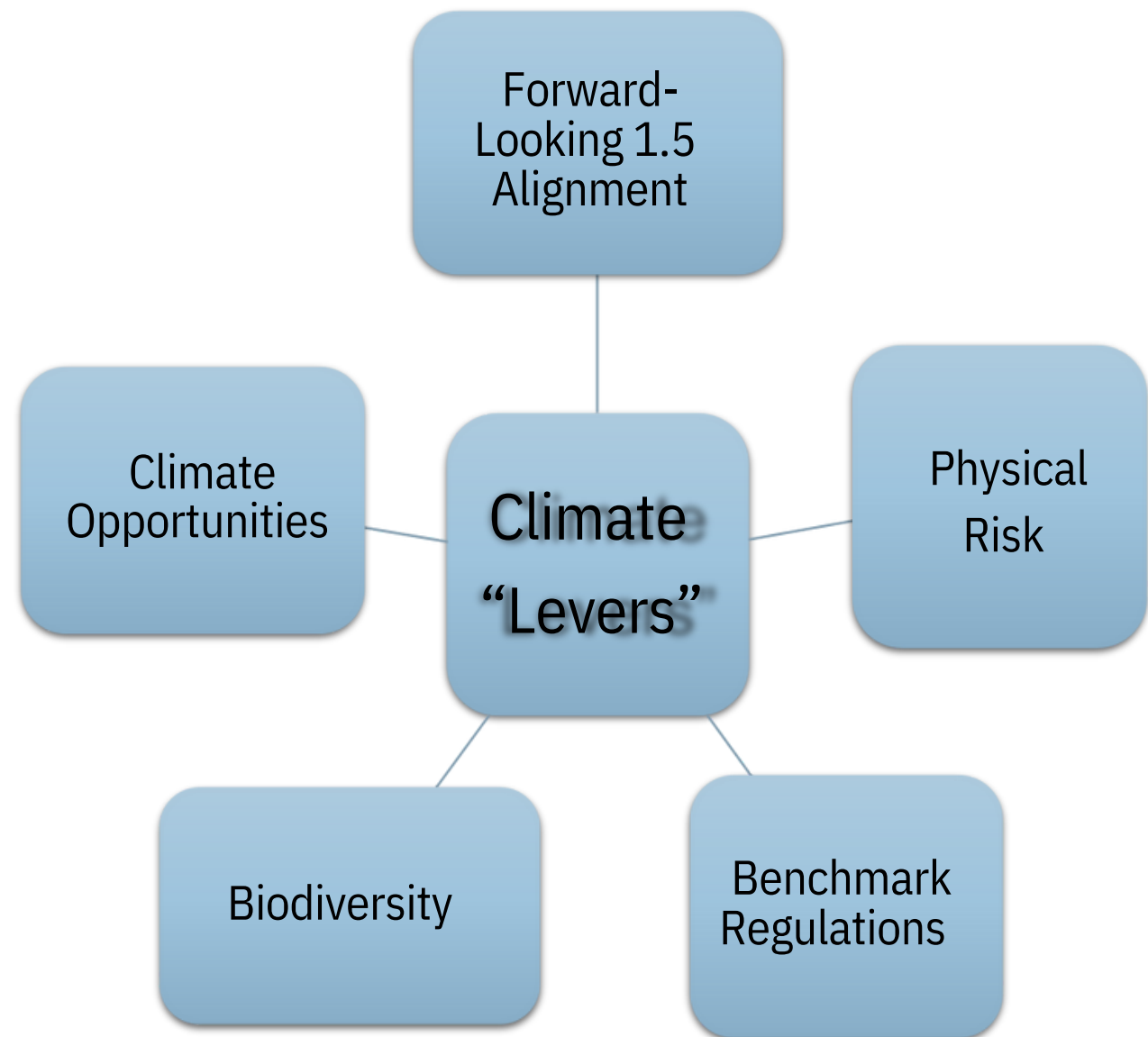
# S&P Global's Solution

## Net-Zero Index Considerations

### Climate “Levers”

Is complexity getting in the way (too many sources of data, too many measurements), or will the market only accept the perfect silver bullet (e.g. Paris-Aligned)?

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Source: SPDJI

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# S&P Global's Solution

## Net-Zero Index Considerations

### Portfolio "Levers"

What will ultimately drive broad acceptance of climate benchmarks and the implementation of these benchmarks for quantifying climate risks for investors?

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Source: SPDJI

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