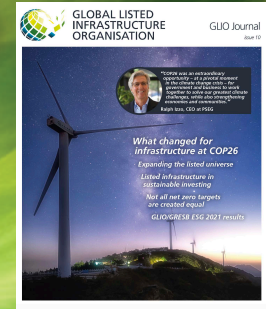


Not all net zero targets are created equal



By Andrew **MAPLE-BROWN** & Georgia **HALL**

Our active engagement with companies in the global listed infrastructure universe has highlighted some interesting facts about their net zero targets. Around 80% of our portfolio companies have some variety of net zero target, which appears to be a good result, but the devil is in the detail.

We believe active engagement, as opposed to divestment, is critical to decarbonization.

Many companies in the global listed infrastructure universe have thorough plans towards net zero, are executing on those plans and are achieving extraordinary feats and ambitious targets. Others have considerable work to do in these areas. When we drill down on the targets and commitments under their decarbonization plan, we sometimes find discrepancies between statement and reality.

Infrastructure is key to accomplishing net zero targets

As long-dated assets providing essential services to society, global listed infrastructure assets underpin our existence, whether through the provision of electricity and water, roads, airports or communications. To achieve the long-term temperature goal of the Paris Agreement, that is, net zero emissions by mid-century, we need to see the timely and rapid decarbonization of the

world's infrastructure, most especially on energy and its end uses which, according to the World Resources Institute, contribute to approximately 75% of global greenhouse gas (GHG) emissions.

The focus of our emissions' analysis and climate-related engagement is directed at electric and multi-utilities and energy infrastructure companies. We've seen good progress, with some water utilities not far off reaching net zero emissions, and some electric utilities tracking nicely towards their interim target to reduce emissions by 80% by 2030. We need to continue making them accountable to their statements.

That is why we believe active engagement, as opposed to divestment, is critical to decarbonization – after all, the world can live without tobacco companies, but we can't live without electric and water utilities.

Many companies were not open to the prospect of obtaining third-party accreditation such as the SBTi – but this has completely changed over the past 12 months.

Targets – taking a closer look

Aside from contributing to inferior environmental outcomes, any disconnect between statement and intent on net zero carries inherent risk. For us, it is important to gauge the materiality of emissions reduction targets, the extent to which the company is mitigating climate change-related risks and pursuing the opportunities a low-carbon economy has to offer.

In our engagements with companies, we look for:

- **Alignment** – ambitiousness of the target in line with the long-term temperature goal of the Paris Agreement, time frames and unit of measurement.
- **Coverage** – whether a target covers all business operations, subsidiaries, and geographies and the validity of the baseline year.
- **Scopes** – which emissions scopes are captured and whether the target is limited to CO₂ or other greenhouse gas emissions, such as methane emissions.
- **Real emissions versus offsets** – the extent to which real economy emissions are being managed downwards, whether offset measures are heavily relied on and/or ‘emissions avoided’ are factored in.
- **Accreditation and standards** – if accreditation has been achieved, for example, through the Science-Based Targets Initiative (SBTi) and the reporting methodology is aligned to reporting frameworks such as the GHG Protocol.
- **Progress and performance** – if the company has a demonstrable track-record of emissions reduction over time, prior to any emissions reduction announcements.
- **Detailed implementation** – whether the target is backed up by detailed plan with a meaningful interim target, and the extent to which executive management is accountable and incentivized to achieve the stated objectives. >

Assessing improvements in company disclosure

Insights from the GLIO/GRESB ESG Index

Robust, comprehensive and decision-ready ESG disclosure is integral to high-quality research and analysis. At the same time, disclosure can also help drive ESG progress and performance within companies themselves because “what gets measured, gets managed”.

Once ESG disclosure makes its way into annual reporting, investors can assume it has passed under the eyes of executive management and board directors for approval. This can help drive ESG topics higher on the company agenda.

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The GLIO/GRESB ESG Index provides a useful source of information on the quality of global listed infrastructure companies’ ESG disclosures, and whether or not improvements are being made. The GLIO/GRESB ESG Index uses GRESB scores and ratings for com-

pany environmental, social and governance disclosures, and provides an aggregate score that can be compared over time and among sector peers.

The index illustrates the rate of improvement we are seeing among electric utilities and energy transportation and storage companies. Generally, the ESG scores for electric utilities have improved meaningfully between 2018 and 2021, with companies such as Avista Corporation, CMS Energy and Edison International leading the way.

For energy transportation and storage, the average score within the sector group has improved to 64 in 2021, from a low of 43 in 2018. Strong disclosure practices can be seen at Snam, ONEOK and Enbridge. From our perspective, these two sectors have made great strides in areas such as value chain greenhouse emissions, climate change scenario analysis, policy and political lobbying expenditures.

There has been a notable plateau in the average ESG scores for toll roads, airports and passenger rail. This is not necessarily an indication of poor ESG performance, but possibly a reflection of less impetus to improve ESG disclosures compared to the energy and electricity infrastructure sectors, which have been subject to intensive stakeholder pressure on issues such as climate change and emissions.

Understandably, the average ESG score for airport companies regressed in 2020 and 2021 from a high of 63 in 2019. Having engaged with several airports over the past 12 months, we have found many have had to scale back their ESG reporting and initiatives due to the challenges brought by COVID-19.

Why the focus on methane?

In August 2021, the Intergovernmental Panel on Climate Change (IPCC) released its Sixth Assessment Report, calling for an increased focus on tackling human-induced methane emissions to help steer the world towards the long-term temperature goal of the Paris Agreement.

Next, we saw the Global Methane Pledge, which aims to limit methane emissions by 30% compared with 2020 levels, formalized at COP26. More than 100 countries have signed up to the initiative, which was first proposed by the USA and the EU in September.

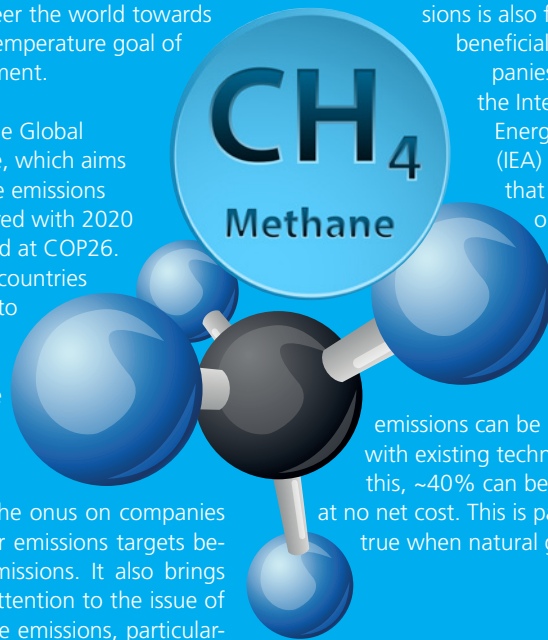
This helps put the onus on companies to broaden their emissions targets beyond carbon emissions. It also brings much-needed attention to the issue of fugitive methane emissions, particularly for the energy sector, which has long relied on the argument that switching from coal to gas is environmentally beneficial owing to gas's lower emissions intensity. This argument only stacks up if fugitive methane emissions are managed to an absolute minimum.

Some facts about methane

- According to the UN Environmental Programme, efforts to mitigate methane emissions over the next ten years could mean the difference between a 2°C and 1.5°C world. To limit global average warming to at least 2°C, methane emissions will need to be ~70% lower than today's levels by 2030.
- Although less prevalent than CO₂, methane is a GHG 86 times more potent than CO₂ over a 20-year period. Compared to CO₂, which has potential to remain in the atmosphere for thousands of years, methane emissions have a rela-

tively short atmospheric life span of around 12 years.

- Aside from the environmental impacts and the need to comply with increasingly stringent regulations, managing fugitive emissions is also financially beneficial for companies. Indeed, the International Energy Agency (IEA) estimates that ~73% of oil and gas methane



emissions can be mitigated with existing technology. Of this, ~40% can be achieved at no net cost. This is particularly true when natural gas prices are high.

The Global Methane Pledge helps put the onus on companies to broaden their emissions targets beyond carbon emissions, and brings much-needed attention to the issue of fugitive methane emissions, particularly for the energy sector.

Learning by engagement

In recent years, we found companies presenting a slide deck to us because they thought it would be a one-way discussion. Many seemed surprised when we had so many questions. Representatives from investor relations used to hold the call, but now we are finding companies are coming more prepared for the level of detail we want by including people responsible for the actual implementation of the work alongside senior management and C-suite representatives.

This is important because we can see how the tone at the top marries up with the work taking place on the ground. Sometimes it doesn't, which is a sign of a disconnect and potential risk.

We've definitely noticed a wind-change in the topics companies are willing to explore, and some level of openness. For example, we found many North American electric and multi-utilities were unwilling to explore the importance of Scope 3 emissions and how these could be managed.

We also found that many companies were not open to the prospect of obtaining third-party accreditation such as the SBTi accreditation. But this has completely changed over the past 12 months. Both areas are becoming a reality for companies, particularly global listed infrastructure, which is heavily regulated and held to high standards among stakeholders.

Staying focused on real net zero targets
The biggest challenge we face is the lack of globally accepted standards or requirements for companies when setting net zero targets. The SBTi is adding rigor, however the take-up pace is slow compared to the rate companies are setting targets, leaving a swath without some form of external and independent accreditation.

From an investment perspective, we believe facilitating the transition to a net zero economy and managing climate-



related risks and opportunities renders better long-term investment outcomes. Through our participation in climate action groups such as Climate Action 100+, we are combining our voice with other investors to drive better practice on these issues. In addition, we recently joined the Net Zero Asset Managers Initiative to for-

mulate our commitment to align the strategy with net zero emissions by 2050.

This means we have a vested interest in making sure investee companies follow through with their emissions reduction commitments and decarbonize in line with net zero. 🌍



Georgia Hall

Georgia Hall joined Maple-Brown Abbott in June 2020 as a dedicated ESG Analyst on the Global Listed Infrastructure team, following two years as a Senior Manager, ESG and Corporate Responsibility at the Commonwealth Bank of Australia, where she was responsible for the Group's Environmental and Social Policy, climate change risk analysis and modern slavery program. Before the Commonwealth Bank, Hall led the Investment Communications team at AMP Capital and worked on the project team to divest \$600 million of "unethical" holdings, the launch of a Sustainable Australian Share fund, and oversaw UNPRI reporting.



Andrew Maple-Brown

Andrew Maple-Brown is Co-Founder & Managing Director of Maple-Brown Abbott Global Listed Infrastructure, which he started with his partners in 2012. Before joining Maple-Brown Abbott he spent 11 years working for Macquarie Group, the remaining five years of which he spent as a Portfolio Manager within their Global Listed Infrastructure team, working in Sydney and New York.