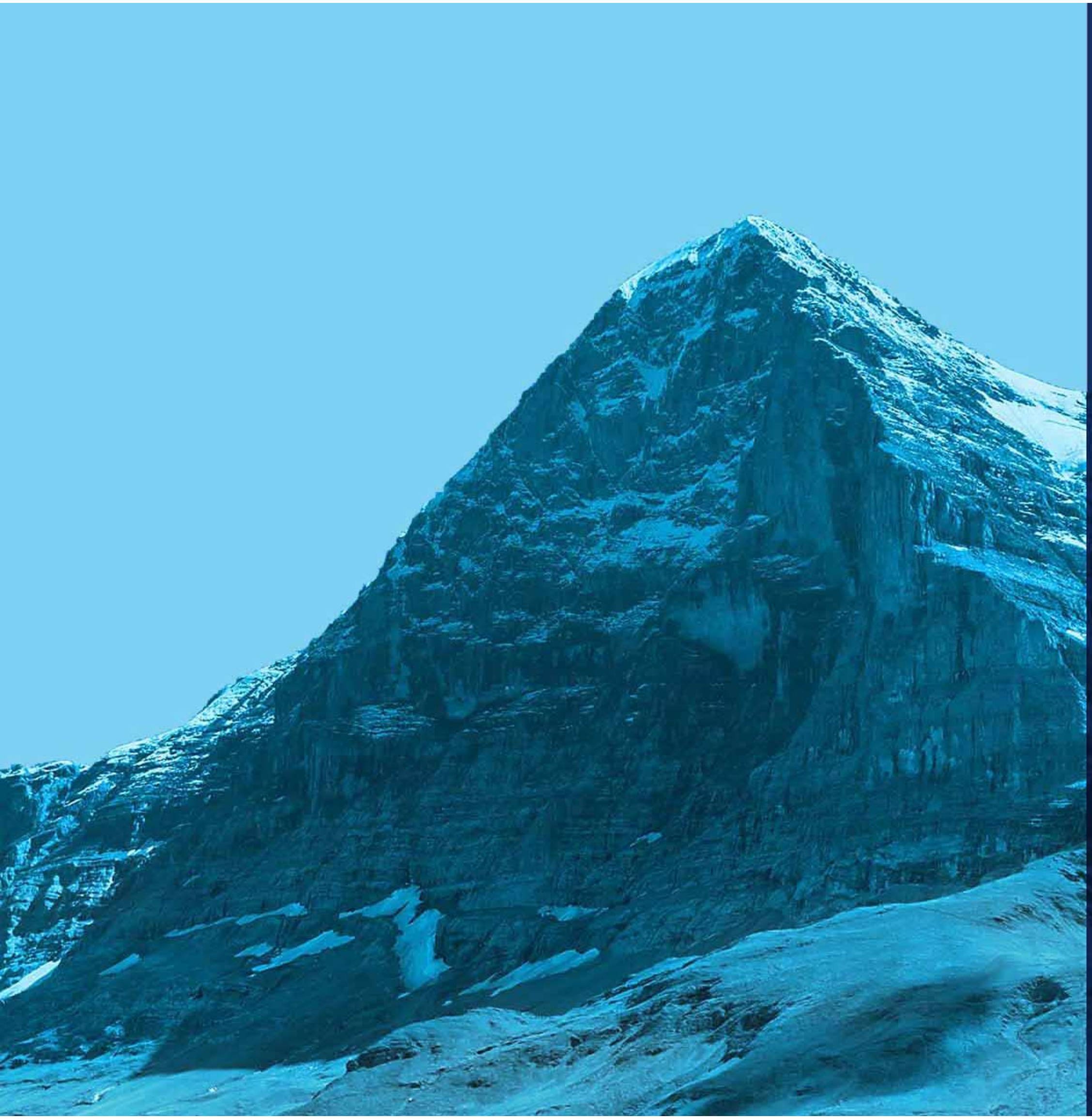


Twelve Capital – Climate Impact Investing

Twelve's Litmus Test - a different perspective on ESG

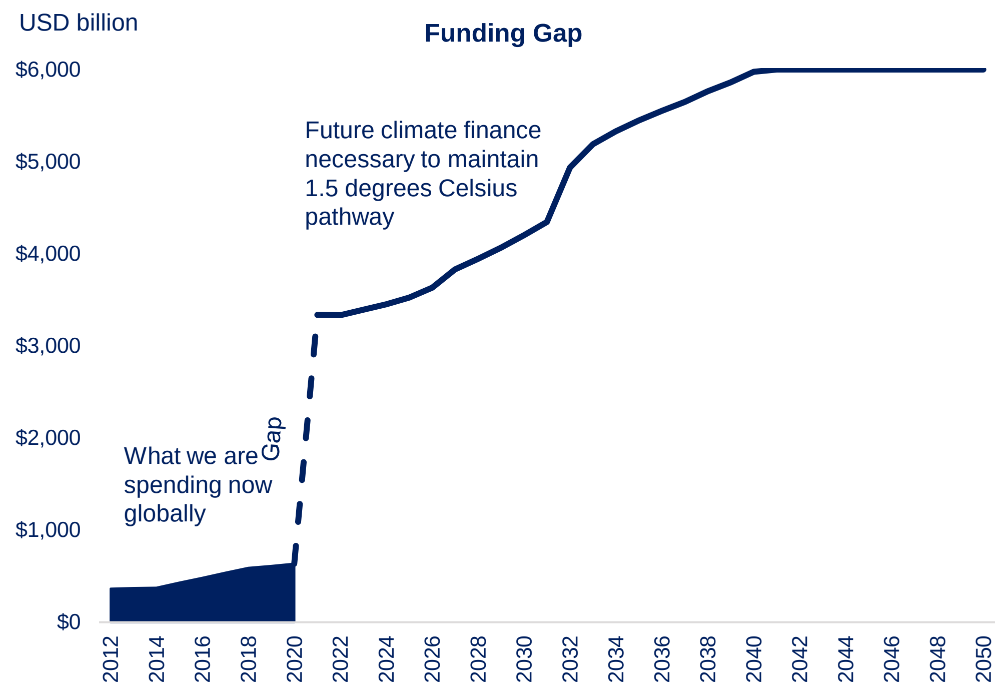
April 2022

The financial industry is paramount towards delivering on net-zero

"Up until today there was not enough money in the world to fund the transition. And this is a watershed. So now, it's [about] plugging it in."
(Mark Carney, COP26, 04/11/2021)

Financial institutions are needed to close the funding gap

- Capital flows need to shift from high to low carbon activities.
- In order to reach the Paris Agreement target and for the world to be net-zero by 2050, around USD 90 trillion of infrastructure investment is required over the next 15 years alone (or roughly USD 4.1 trillion each year by 2030), according to the Intergovernmental Panel on Climate Change.
- In 2020, only USD 632 billion was invested globally and governments bore the majority (51% of it). This funding gap needs to be urgently addressed and cannot be put on the public sector alone. Financial institutions are needed to fund the fight against climate change. There is a huge investment gap that governments cannot fill.
- To put that in relation, total assets of global financial institutions reached an amount of USD 404 trillion by the end of 2019, according to Statista.



Tracked climate finance flows and estimates for what's needed until 2050.

Source: Climate Policy Initiative. (10 February 2022). Global Landscape of Climate Finance 2021. CPI.

Twelve's Litmus Test analyses how money is steered

A different perspective on ESG with Twelve's Litmus Test to see how money is steered towards low carbon activities

- When looking at the financial industry, Twelve Capital believes that looking at the traditional ESG factors is good, but only a first step. ESG is a very widely used and well-known framework, but the urgency of climate action will increasingly force companies to look beyond traditional ESG aspects.
- Twelve Capital thus goes this extra mile and takes a step further by not only relying on ESG data alone, but by conducting an in-house "Litmus Test" on companies' emission and transition efforts.
- With this test, Twelve Capital is able to assess how a company is steering their capital, be it on the investing side, the loan book and/or the underwriting side.
- The core of the "Litmus Test" is a thorough questionnaire which is sent to selected (re-)insurance companies, banks, asset managers and fintech/insurtech companies to analyse the company's practices, ambitions and plans to become a climate-friendly institution.

Source: Twelve Capital.

Twelve's Litmus Test - a different perspective on ESG
Summary

Twelve's Litmus Test provides a different perspective on ESG, to see how money is steered towards low carbon activities.

The core of the "Litmus Test" is a thorough questionnaire with the three parts on the right.

85 questionnaires sent out (as at writing)

71 (>80%) answers received (email or phone call)

63 financial institutions included in this analysis only (no fintech)

Investments – 57% have an investment target

- 57% (or 36 of 63) of companies have an investment target. However, only 30% apply a reduction number
- Even more, only one company has set a reduction target for its investment portfolio of 7% annually, aligned with the Paris goals
- Further, only 40% of the analysed companies know the amount of greenhouse gas emissions of their investment portfolio
- However, 74% of the analysed insurance companies have an engagement process with their investee with the goal of reducing their GHG emissions
- *Twelve Capital expects that in the near future companies will more and more measure the emissions of the investment portfolio and thus clear targets will be set*

Underwriting – Almost no targets seen

- Only one insurance company out of the 38 analysed has already set a reduction target for their underwriting book. This indicates that setting targets on the liability side is still at its infancy stage
- However, almost 50% of the analysed insurance companies stated that they have planned to measure and disclose the greenhouse gas emissions of their underwriting book in the near future
- *Twelve Capital expects that the underwriting side will take a big step towards climate transition in the next two years, driven by the Net Zero Insurance Alliance*

Operations – 25% have a net-zero commitment

- Operational emissions (Scope 1, 2 and some areas of Scope 3) of financial institutions are negligible compared to the emissions of the balance sheet
- Around 70% (or 45 of 63) of the companies have set some kind of environmental friendly policies; from specific numeric targets to unspecific targets like exchanging light bulbs and using less printing paper
- However, only about a forth (or 17 of 63) of the considered financial institutions have stated a net-zero commitment of their operational emissions
- *Twelve Capital expects that more and more companies will set and/or update a operational emission reduction target*

Contact / Disclaimer

Contact
Contact Twelve Capital

Twelve Capital AG
Dufourstrasse 101
8008 Zurich, Schwitzerland
Tel.: +41 (0)44 5000 120

Twelve Capital (UK) Ltd
Moss House, 15-16 Brook's Mews
London W1K 4DS, Great Britain
Tel.: +44 (0)203 856 6760

Twelve Capital (DE) GmbH
Theatinerstraße 11
80333 Munich, Germany
Tel.: +49 (0)89 839316 111

info@twelvecapital.com
www.twelvecapital.com

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Twelve Capital AG
Dufourstrasse 101
8008 Zurich, Switzerland
+41 (0)44 5000 120

Twelve Capital (DE) GmbH
Theatinerstrasse 11
80333 Munich, Germany

Twelve Capital (UK) Ltd
Moss House
15-16 Brook's Mews
London, W1K 4DS, UK

www.twelvecapital.com   info@twelvecapital.com