PRESS RELEASE

Investors expect steel sector to secure its future with action on climate change

- *Global investors set out how steel sector must decarbonise in line with goals of Paris Agreement.*

- *Expectations will support investor engagement with leading steel companies through Climate Action 100+ initiative.*

London: A global network of more than 250 institutional investors, representing assets worth over $30 trillion[1], has set out expectations of the actions the steel sector needs to take to safeguard its future in the face of climate change. The report published today suggests that steel companies must significantly scale up investment in technologies that will enable them to decarbonise operations in line with the goals of the Paris Agreement.

Produced by the Institutional Investors Group on Climate Change (IIGCC) with lead authors Aegon Asset Management and Kempen Capital Management, the report – *Investor Expectations of Steel Companies* – is published on behalf of the four investor networks that make up the Global Investor Coalition on Climate Change (GIC).

As an energy intensive sector, global steel production accounts for 7% of global greenhouse gas emissions. Governments have committed to limiting global warming to well below 2°C with ratification of the Paris Agreement. In line with subsequent policy and market responses, steel companies will be exposed to significant risks if they fail to anticipate and keep pace with necessary reductions in greenhouse gas emissions.

If it is to ensure alignment with global climate commitments, the steel sector as a whole will need to reduce its overall emissions by at least 31%, and emissions intensity by 55% by 2050[2]. A recent report by the Energy Transition Commission also demonstrates how decarbonisation of steel production is both attainable and comparatively low cost[3].

Over 70% of the world's steelmakers already face a price on their carbon emissions, while Schroders has suggested the steel sector could see profits fall by 80% if higher carbon prices emerge[4]. Record prices recently set by the EU Emissions Trading System highlight that knock-on implications for the steel sector will increasingly be felt. Carbon pricing is also only one of a range of factors, which also include technology and market changes, that compound the case for investment and innovation to ensure that the steel sector remains 'fit for the future'.

Investors set out a framework of expectations and supplementary questions in the report, on how companies need to manage climate risks and accelerate action to decarbonise in line with the goals of the Paris Agreement. The three investor expectations are:

- **Transition planning:** Take action to reduce greenhouse gas emissions across the value chain, consistent with the Paris Agreement's goal.
- **Governance:** Clearly define board and management governance processes to ensure adequate oversight of climate-related risk and the strategic implications of planning for a transition consistent with 2°C and efforts to pursue 1.5°C.

- **Disclosure:** Provide enhanced corporate disclosure in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) to enable investors to test the robustness of the company's business plans against a range of climate scenarios, including well below 2°C, and improve investment decision-making.

Developed in line with the goals of Climate Action 100+, the report will help inform constructive global investor engagement with steel companies on the initiative's list of 161 focus companies[5].

The expectations set out have been developed in line with recommendations made by the TCFD, led by Michael Bloomberg and supported by Mark Carney as Chair of the Financial Stability Board[6].

Stephanie Pfeifer, CEO, Institutional Investors Group on Climate Change, explains**:** "*The steel sector still needs to reduce its greenhouse gas emissions dramatically and this will only happen with significant technological innovation. This can be expected to be a key focus of investor engagement in shaping the robust, responsive and resilient business strategies required in the face of climate change."*

There are clear examples of necessary innovation and pilot projects underway across the sector and significant energy efficiency improvements have been made to date. Nonetheless, analysis shows no steel companies have set necessary long-term emission intensity targets through to 2030 and beyond.

Stephanie Maier, Climate Action 100+ Steering Committee member and Director Responsible Investment, HSBC Global Asset Management adds: *"The challenges of decarbonising steel production are well understood and by no means insignificant. We are now starting to see targeted R&D delivering exciting developments such as a pilot to produce fossil fuel free steel. A smarter circular economy approach to the way the steel is made and used also offers huge potential to deliver financially within a transition to a lower carbon economy. We encourage greater cross-sector collaboration on R&D and innovation to drive decarbonisation operationally and along the value chain."*

Lars Dijkstra, CIO, Kempen Capital Management, a Dutch asset management firm with $60bn of client funds under management: "*As a long-term shareholder, we firmly believe in a fiduciary responsibility asset managers have towards their clients to help companies in carbon-intensive sectors, which they invest in, to go through the energy transition. Steel, one of the most carbon-intensive sectors in the world, has been one of our focus sectors in engagement with companies on the risks and opportunities of climate change.*

"According to the Science Based Targets Initiative, which develops sectoral decarbonization pathways for companies in different sectors using the IEA 2°C Scenario as a reference, by 2050 the steel sector will need to reduce its gross emissions by 31 percent and emissions intensity by 55 percent by 2050. It is essential for investors to be able to understand the underlying transformation of the sector necessary to achieve these ambitious goals and encourage companies in the right direction."

Roelie van Wijk, Global Head of Responsible Business & Public Affairs, Aegon, a global investment management firm with €370bn of client funds under management, adds: *"We observe that many ESG issues cannot be solved at company level, but need to be addressed at industry level. For these types of issues, investors can act as 'stewards of the commons' – working together, not only with other investors, but with stakeholders industry-wide, an approach that was followed in developing this paper. We would like to see more of this type of engagement and have been proud to contribute to this work."*

While the report will be widely used by individual investors, its publication by the GIC does not entail that each investor member endorses or will implement it framework provided for engagement.

– Ends –

<u>Notes for Editors</u>

The report is the latest in a series of sector focused guides produced to support investor engagement with key sectors to curb carbon asset and climate risk. It joins existing guides addressing engagement with oil & gas, mining, utilities and automotive sector companies.

1. Figure of over $30 trillion represents the collective sum of assets under management represented by the collective investor membership of the organisations that are part of the Global Investor Coalition on Climate Change.

2. Sectoral Decarbonisation Approach Report, Science Based Targets (2015), (https://sciencebasedtargets.org/wp-content/uploads/2015/05/Sectoral-Decarbonization-Approach-Report.pdf).

3. Mission Possible: Reaching Net-Zero Carbon Emissions From Harder-To-Abate Sectors By Mid-Century, Energy Transitions Economy (2018), (http://www.energy-transitions.org/mission-possible).

4. Schroders (2017), Schroders unveils climate change investment model, (https://www.schroders.com/en/media-relations/newsroom/all_news_releases/schroders-unveils-climate-change-investment-model) & Nerves of Steel, CDP (2016), (https://www.cdp.net/en/investor/sector-research/steel-report).

5. Climate Action 100+ is a five-year initiative led by investors to engage many of the world's largest greenhouse gas emitters and companies across all sectors of the global economy that have significant opportunities to drive the clean energy transition and achieve the goals of the Paris Agreement. Investors are calling on companies to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures. For more information, visit: www.ClimateAction100.org and follow: @ActOnClimate100.

About GIC: The Global Investor Coalition on Climate Change (GIC) is a joint initiative of four regional groups that represent investors on climate change and the transition to a low-carbon economy: AIGCC (Asia), Ceres (North America), IGCC (Australia/NZ) and IIGCC (Europe).

The **Institutional Investors Group on Climate Change (IIGCC)** is the European forum for investor collaboration on climate change and the voice of investors taking action for a prosperous, low-carbon future. IIGCC has more than 160 members, mainly pension funds and asset managers, across 11 countries, with over €21 trillion assets under management. IIGCC's mission is to mobilise capital for the low-carbon transition by collaborating with business, policymakers and fellow investors. IIGCC works to support and help define the public policies, investment practices and corporate behaviours that address the long-term risks and opportunities associated with climate change. For more information, visit www.iigcc.org and @iigccnews.

The Asia Investor Group on Climate Change (AIGCC) is an initiative to create awareness among Asia's asset owners and financial institutions about the risks and opportunities associated with climate change and low-carbon investing. With 25 members and $1.8trn in assets under management, AIGCC provides capacity for investors to share best practice and to collaborate on investment activity, credit analysis, risk management, engagement and policy. With a strong international profile and significant network, AIGCC represents the Asian investor perspective in the evolving global discussions on climate change and the transition to a greener economy. For more information, visit www.aigcc.net and @AIGCC_Update.

Ceres is a sustainability nonprofit organization working with the most influential investors and companies in North America to build leadership and drive solutions throughout the economy. The Ceres Investor Network on Climate Risk and Sustainability comprises more than 160 institutional investors, collectively managing more than $25 trillion in assets, advancing leading investment practices, corporate engagement strategies and policy solutions to build an equitable, sustainable global economy and planet. For more information, visit www.ceres.org and follow @CeresNews.

The Investor Group on Climate Change (IGCC) is a collaboration of Australian and New Zealand institutional investors and advisors, managing over A$2 trillion in assets under management and focusing on the impact that climate change has on the financial value of investments. IGCC aims to encourage government policies and investment practices that address the risks and opportunities of climate change. www.igcc.org.au. For more information, visit www.igcc.org.au and @IGCC_Update.