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# CLIMATE CHANGE REPORT

## 2024



PLEASE CONSIDER THE ENVIRONMENT BEFORE PRINTING.

> **BNY** | INVESTMENTS



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This report applies to Insight Investment Management (Global) Limited, Insight Investment Management (Europe) Limited, Insight Investment International Limited and Insight North America LLC, collectively known as "Insight".

Our role is to support our clients in meeting their investment objectives. We aim to do so by overseeing our clients' capital in a responsible manner, and by creating value for our clients as specified in our agreements with them. Our activity will be consistent with regulatory requirements and with the investment mandates and terms agreed with our clients. Any exclusions applied by us are subject to our investment mandate with the client and this report will not amend any client contract or product documentations.

Where clients mandate us to do so and where the investment type allows it, we intend to follow the approach set out in this report for segregated and pooled discretionary-managed portfolios.

When acting for our clients, we have formal rights and informal influence and act in a way consistent with our fiduciary obligations. We conduct stewardship activity in the form of engagement with entities in order to inform our understanding of issuers, and to encourage them to manage and mitigate risks more effectively where we believe action is warranted to protect the value of our clients' investments. For further details, please refer to our Stewardship Policy.

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# 1 Introduction



## CEO STATEMENT



**Abdallah Nauphal,**  
**Chief Executive Officer**

Insight seeks to prioritise the certainty of meeting clients' objectives above all else, rather than maximising returns and minimising volatility.

Climate change presents a challenge to delivering such certainty. This was illustrated again last year, when record temperatures in the second half of 2023 surpassed almost all expectations and confidence intervals; and extreme weather events punctuated the calendar from wildfires in Greece and Canada to flooding in Madagascar, Mozambique and Malawi.

Climate change requires our attention as we seek to navigate the issues to fulfil our fiduciary obligation to our clients. It is unique in terms of its complexity, uncertainty and scope for material value creation and destruction. To protect our clients' interests we need to consider how climate

change could impact their investments, and to ensure portfolios remain resilient. However, stating the exact quantum and timings of the potential impacts with any accuracy remains a huge challenge.

At Insight, we focus on rational, evidence-based investment decision-making. This first depends on a clear understanding of the issues. For this, you need relevant data and rigorous analysis to understand what matters and why. Our Prime climate risk ratings aim to highlight climate-related risks and opportunities for corporate issuers; climate change features on our credit analysts' checklist when considering corporate default risks. Also, we have encouraged the development of frameworks such as the TCFD to maximise transparency in disclosures regarding climate change and its impact.

The majority of our clients expect us to reflect the material financial risks presented by climate change. Some ask us to manage investments with specific climate-related goals. In 2023 we made progress in a number of relevant areas. We have:

- demonstrated progress against interim net-zero goals<sup>1</sup> (which apply to a specified portion of UK-managed assets), on metrics such as financed emissions disclosure, target-setting and reductions;
- evolved two European-domiciled strategies in our Responsible Horizons range to align them with the transition to net zero, encompassing historical emissions performance and forward-looking targets;
- supported the development of consistent industry standards for the measurement of emissions and net-zero alignment in important asset classes such as sovereign bonds, collateralised loan obligations (CLOs) and impact bonds;
- engaged with counterparty financial institutions, seeking to understand their plans to transition to a low-carbon economy and manage climate-related risks within their lending activities; and
- continued dialogue on net zero with the UK government and participated in the UN-supported PRI's collaborative engagement pilot with Australia.

As we increase the sophistication of our approach to addressing climate risk, we are developing our ability to measure climate-related risks in esoteric sub-asset classes of the bond market, and an approach for understanding net-zero alignment at a sovereign level.

**I hope this report helps you to understand our commitment to making improvements to our processes and structures to ensure Insight navigates uncertainty while delivering the best outcomes for our clients.**

<sup>1</sup> [Insight Investment's net-zero pledge](#), 31 May 2022, Insight.

## Insight's summary TCFD-aligned disclosures

Governance	
The Board's role in oversight  see pages 7-8, 25	Insight's Board retains overall oversight of material climate-related issues that can pose strategic or operational risks and opportunities to Insight's business and our clients.
Management's role in assessing climate-related risks and opportunities  see pages 7-9	Authority is delegated from the Board to the Executive Management Committee (EMC), and in turn the Global Chief Risk Officer, who chairs our Climate Change Resilience Committee (CCRC). This Committee maintains regular oversight of Insight's response to climate change from investment to firm level, reports to both the EMC and the Board, and is supported by the Climate Change Technical Working Group.
Strategy	
Climate-related risks and opportunities  see pages 11-18	In 2023 we continued to develop our in-house tools, capabilities and knowledge with regard to climate-related risks and opportunities. This included expansion of two Responsible Horizons strategies to align with a net-zero trajectory; and continuing to improve asset-class coverage of climate data and understanding of asset-class, geographical and sector-specific risks and opportunities.
Impact on Insight's business, strategy and financial planning  see pages 10, 47-48	As a fixed income asset manager, climate change poses particular risks and opportunities to Insight's business. A significant share of our assets under management are investment grade and the performance of the instruments is driven by interest rates as well as credit risks. Understanding both the macro (particularly inflationary) and micro impacts of climate change risk is key to understanding the performance of the instruments and portfolios that we manage.  Insight has significant experience of managing inflation and interest rate risks given the importance of liability-driven investment strategies to our business, and these risks were discussed in a number of key governance forums in 2023.  The low-carbon transition presents important opportunities for our client base, particularly allocation to new product offerings and climate solutions such as credible green bonds. As these instruments assume a growing share of many investor strategies, understanding associated emissions (and emissions savings) linked to these instruments will be key.
Risk management	
Climate-related risks and opportunities  see pages 28-34	Our in-house tools, including our proprietary Prime architecture, help us measure and respond to climate-related risks and opportunities within investments. Similarly, our scenario analysis capacities have evolved over the past two years to better measure and understand the implications of plausible climate scenarios for the assets we manage, and to develop risk-management strategies accordingly.
Impact on Insight's business, strategy and financial planning  see pages 26-28	We discuss plausible climate-related impacts on both the investments we make on behalf of our clients as well as risks to Insight as a business within the CCRC, and by extension the Insight Responsibility Oversight Committee (IROC) and Board meetings. The Climate Change Technical Working Group – which includes a diverse range of stakeholders encompassing investment risk, responsible investment, operations and legal/compliance functions – also explores these issues on a monthly basis.
Organisational resilience under a 2°C or lower scenario  see page 10	Our CCRC, chaired by the Global Chief Risk Officer, assesses organisational readiness under alternative physical or transitional climate scenarios. Topics discussed have included organisational net-zero target progress and the implications of accelerated low-carbon transition for Insight's business and our clients' investments.
Opportunities	
Resource efficiency  see pages 44-46	Insight has made strong progress in reducing emissions associated with business travel, our largest source of Scope 3 emissions after financed emissions. We are in the process of developing 2030 targets for business travel emissions reduction tied to new business travel policies that will allow us to continue to reduce the impact of business travel and maximise the use of sustainable transport options whilst our business continues to grow.  We are also working with our parent company to explore wider opportunities for resource efficiency and reducing the impact of our operations.
Markets	
see pages 13-24	As we have seen in recent years, the path to net zero taken by governments will not be uniform (or even linear) in many cases. Nonetheless, the rapid expansion of low-carbon investment opportunities across a range of regions presents strong opportunities for growth of Insight's business and our clients' assets. Tailoring our investment approach to the unique opportunity set of each market is key.
Products and services	
see pages 22-24	The transition to net zero creates demand for new products and services in support of our clients' journeys. Leveraging our existing expertise in risk management solutions allows us to tailor our product offerings to increasingly bespoke requests for portfolio construction and investment objectives.

# COMPLIANCE STATEMENT



**Mark Stancombe,**  
**Global Chief Risk Officer**

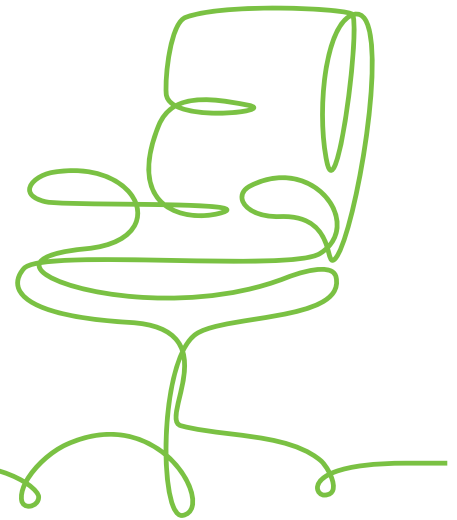
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This Group Report synthesises our disclosure in accordance with the recommendations of the Taskforce for Climate-Related Financial Disclosures (TCFD). We have set out above how we have complied with the TCFD compliance summary.

This report links to the Entity-level reporting requirements under the FCA's PS 21/24 Enhancing climate-related financial disclosures by asset managers, life insurers and FCA-related pension providers (PS 21/24). Relevant in-scope entities include Insight Investment Management (Global) Limited and Insight Investment International Limited.



# 2 Governance



## INSIGHT BOARD AND EXECUTIVE OVERSIGHT OF CLIMATE CHANGE

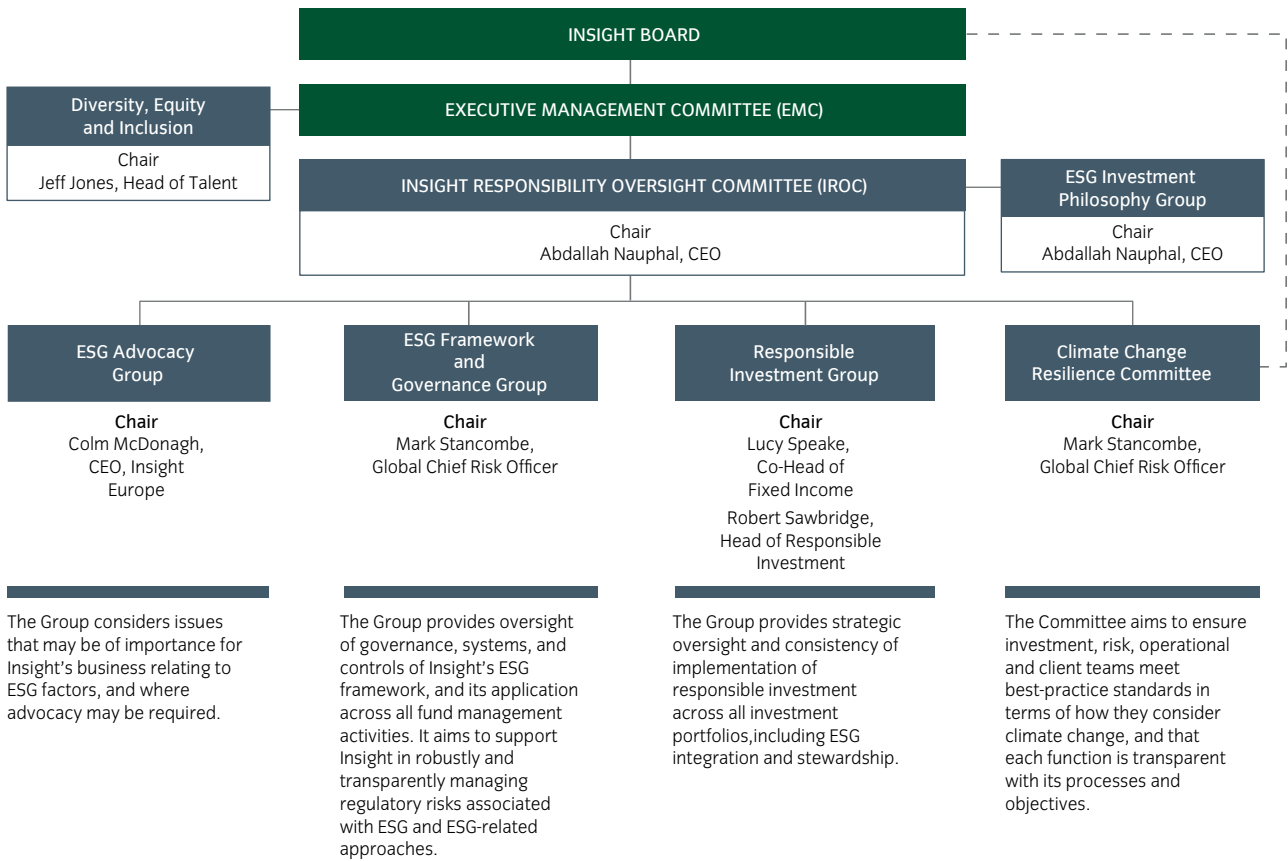
In this section, we explain our governance structure and the organisations responsible for climate change. The groups' oversight ranges from broad strategy to specific implementation of climate change-related factors within investment portfolios.

Governance of Insight is carried out through Insight's Board of Directors. The Board has legal and regulatory responsibility for all aspects of the business and ancillary activities of the various legal entities within Insight. The governance structure ensures oversight of our entire investment, operational, and business activities. As a part of this, understanding and managing the risks and opportunities of climate change are a core part of the Board's responsibility.

The Executive Management Committee (EMC) is the key business management committee for the company, and its subsidiaries are responsible for investment, strategy,

execution, operational management, and finance. The Insight Responsibility Oversight Committee (IROC), a subcommittee of the EMC, has responsibility for the oversight of responsible investment. The IROC is chaired by the CEO and acts as the principal governance group for responsible investment in the firm with oversight and accountability across investment, commercial development, and communications activities as well as for the corporate social responsibility (CSR) programme. The purpose of the IROC is to set the strategic priorities and apply appropriate oversight to ensure responsible investment performance aligns with Insight's organisational objectives. The IROC's focus includes oversight and accountability for climate strategy and policy, as well as overseeing investment and operational activities.

Insight's governance structure





# CLIMATE CHANGE RESILIENCE COMMITTEE

The Climate Change Resilience Committee (CCRC) is chaired by the Global Chief Risk Officer, Mark Stancombe, who has overall senior manager responsibility for the management of climate change-related risks, opportunities and policy. This includes both investment and operational activities. The CCRC is delegated in authority by the Board and EMC, as our key governance body for managing climate change risks. The CCRC reports to the Board twice a year, and the IROC on a monthly basis.

The purpose of the CCRC is to ensure investment, risk, operational and client teams meet best-practice standards for how they consider climate change and that each of the functions are transparent with their processes and objectives. Voting members include representatives from the responsible investment, risk, client service and legal teams. The CCRC's focus is at a firm-wide level and includes oversight of:

- **Implementation:** The integration of climate change risk factors, where necessary, into decision-making processes, platforms, and procedures. Approval and monitoring of net-zero strategy for both the firm itself and its investments alongside other targets and progress towards environmental commitments that link to climate change

- **Stewardship:** Monitoring of our climate change stewardship, including engagement and resulting action. Work with the Group (BNY) to further develop climate strategy and commitments
- **Regulation:** Oversight and control of firm and portfolio-level climate change transparency including TCFD-aligned reporting and stress testing, where necessary
- **Governance:** Monitoring activities of relevant teams for their management of climate change risk issues. Regular communication and reporting back to the Board and IROC, including the recommendation of appropriate governance on climate risk, including remuneration. Oversee the delivery of climate training to all employees and the Board.

The Group is supported by the Climate Change Technical Working Group, which is responsible for the delivery of actions and agenda items for the CCRC, encompassing investment risk management, climate data management and reporting, target-setting and monitoring progress as well as the evolution of Insight's asset class climate integration and product portfolio to align with our net-zero commitments.

# 3 Strategy



## HOW INSIGHT APPROACHES CLIMATE CHANGE

At Insight, we believe that the management of relevant and material risks, including those related to responsible investment and climate change, can be important drivers of value for our business and investment portfolios.

Climate-related topics including mitigation, adaptation, and the transition to a more sustainable energy system are likely to reshape the global economy. Indeed, the impacts of climate change on the financial services industry are already

materialising. As a global asset manager, we are impacted by the divergence of regional policies and regulations addressing sustainable investment and climate change. We have also experienced an enhanced focus on responsible and sustainable investment activities from our clients and a wide range of stakeholders.

While we consider a variety of climate-related impacts to our business, we have summarised the key impacts below.

### Impacts of climate change on Insight's business, strategy and financial planning

<b>Integrating climate change within investment processes</b>	We continue to strengthen our investment processes to integrate climate-related risks and opportunities across the relevant asset classes in which we invest, subject to our mandates. We have invested in responsible investment resources, data, and enabling technology to improve our climate-related risk management and responsible investment capabilities. We expanded both our ESG research team and the volume of our output in 2023 with new hires and thematic research exploring climate-related risks to credit.
<b>Products and services</b>	We continue to see client preferences evolve with regard to climate and net-zero integration into both segregated and pooled mandates. The development of new climate-related products, services, and offerings represents a significant opportunity in several markets and customer segments.
<b>Supply chain and/or value chain</b>	Vendor due diligence may be supported by our parent company which has developed standards for certain suppliers, including standards relating to supplier conduct and risk management.
<b>Adaptation and mitigation activities</b>	Our CCRC discusses material risks to Insight's operations from climate-related extreme weather and associated mitigation planning.
<b>Operations</b>	We have undertaken analysis of our operational locations and their exposure to transition risks and physical impacts of climate change.
<b>Acquisitions or divestments</b>	We have discussed the impact of acquisitions and divestments on the climate risk profile of Insight's business within the CCRC, as well as implications for our emissions metrics.
<b>Access to capital</b>	Insight's ultimate parent undertaking is Bank of New York Mellon Corporation and hence climate change does not have a direct impact on its access to capital.

# CLIMATE CHANGE RISKS AND OPPORTUNITIES IN INVESTMENTS

**Climate change is a pervasive issue that may affect the financial performance of many of the investments that we manage.**

Climate-related issues have the potential to influence at both a micro level (e.g., the physical risk impacts on a specific company) or a macro level (e.g., the impact of climate-related policy on global interest rates). Understanding the transmission mechanisms of climate risks into potential investment risks is key to Insight's responsibility to our clients.

As an asset manager focused predominantly on fixed income, the relevance of climate risks in our investment portfolios will vary across asset class type and, crucially, maturity. Yet in our fiduciary role as investors for our clients, we need to understand the materiality of risks across different time horizons and to balance those risks with return expectations alongside the investment and impact preferences of our clients.

For example, when we consider climate change risk, it has a high level of emphasis in decisions made in our 'buy-and-maintain' credit portfolios, which seek to hold fixed income investments, typically over the long term, until they mature. This stands in contrast to an active credit portfolio, which looks to buy and sell bonds in the market to generate a shorter-term return, where portfolio turnover will be much higher and holding periods for individual securities are usually shorter. This points to the nuances around integration and the complexity of considerations for investors under different timescales.

While responsible investment has traditionally focused on shareholders and their influence over management decisions, fixed income assets are the foundation of many investors' portfolios and dominate global financial markets. Bondholder engagement is thus an increasingly important focus of climate change integration, and Insight has been collaborating with bodies such as the UN-supported Principles for Responsible Investment (PRI) and the Institutional Investors Group on Climate Change (IIGCC) for some time to establish best practice in this area.

Similarly, as the largest fixed income asset class, sovereign issuers have key influence on the climate outcomes of portfolios, both directly and indirectly. As lenders to corporations and governments, fixed income investors can help finance activities that contribute to climate change solutions, mitigation and management, and divert financing to avoid damaging activities. These activities are expected to become increasingly important in the coming decades as the focus of investors shifts from portfolio-level emissions reductions in isolation to strategies that help deliver decarbonisation in the real economy and the enabling policy environment for net zero.

# INSIGHT INVESTMENT – UNIVERSITY OF OXFORD GREENING FINANCE PRIZE

## RESEARCH PRIZE FOR GREEN FINANCE



## SEPARATING INVESTMENT REALITIES FROM THE RHETORIC

We believe that we must advance collective understanding of the relationship between commercial activity and environmental change. At this time of significant evolution in markets and investment practice, it is vitally important to act on evidence and ensure that we pursue rational investment decision-making that will deliver long term sustainable outcomes. This requires scientific scrutiny to identify the investment realities from the rhetoric.

In our view, rigorous academic research is essential to this. Researchers play an important role in ensuring the proper functioning of markets, not only in areas of innovation in nascent fields, but also by encouraging accountability and transparency among issuers and investors.

Before making investment decisions with assets that our clients have entrusted us to manage on their behalf, we seek understanding by conducting rigorous analysis to support our efforts to invest consistently and in a precise way.

In our view, decisions relating to environmental factors and sustainability are integral to quality investment decision-making and should be treated no differently. We must better understand how environmental change influences finance and investment, and how economic and financial systems can contribute to achieving global environmental sustainability.

To attain this understanding, the investment management industry urgently needs a broad and deep bank of academic evidence on the implications of incorporating environmental factors in investment decision making. This is essential to ensure the delivery of sustainable financial returns for investors and to make progress on environmental goals.

To support this, starting in 2023, Insight Investment funded the University of Oxford to deliver a Greening Finance Prize aimed at individuals or organisations in the not-for profit academic research sector. It seeks to encourage and recognise outstanding academic research which supports expansion of the available material which ultimately underpins the proper functioning of financial markets and the evidence required for long term investment decision making for clients.

The Prize is run by the University of Oxford, judged by a panel of independent experts and supported by 16 responsible investment networks responsible for nominations. It seeks to recognise research that demonstrates rigorous financial analysis and which has practical applications for investment managers while drawing attention to the academic work which helps society to better understand how environmental change influences finance and investment, and how economic and financial systems can contribute to achieving global environmental sustainability.

As well as a general prize for outstanding research, from 2024 the Prize Panel will assess specific research conducted within fixed income, through the Green Finance Fixed Income Paper Prize, which is for research papers that examine the role environmental sustainability plays in fixed income investing. Areas include, but are not limited to, the following: ESG factors that are financially material for fixed income investors, instrument versus portfolio-level financial performance, the role of labelled bond issuance, bondholder engagement; asset-class distinctions (e.g., corporate versus sovereign investments), bond duration and investment time horizons and their relevance to ESG, and approaches to management of data/disclosure gaps.

Further details of the Prize can be found [here](#), and 2023 winners are listed [here](#).

**NEW FOR 2023: MARKET ADVOCACY ON GREEN BOND CARBON FOOTPRINTING**

In 2023, Insight published research exploring methodologies to estimate the carbon footprint of green bonds and highlighting the need for industry standardisation.

Green bonds are a type of impact bond, with proceeds dedicated to financing green projects with positive environmental outcomes, typically targeting climate mitigation activities including renewable energy. However, there is no standard methodology to estimate the carbon footprint of these bonds – the footprint of the parent company issuer often being quite high relative to that of the actual projects being funded. Without better carbon footprint data it is difficult to incorporate such bonds into strategies pursuing outcomes linked to carbon emissions set as net-zero goals. This needs to be addressed as green bonds are a key tool for investors to finance decarbonisation goals.

We propose an approach that builds on a standard from the Partnership for Carbon Accounting Financials (PCAF) noting that once the carbon footprint of green bonds is estimated, the carbon footprint of the issuer's conventional debt needs to be adjusted to avoid underreporting emissions.

A standardised approach, with sufficient coverage, would lead to benefits for investors, issuers and policymakers pursuing wider sustainability objectives. We therefore encourage issuers to disclose the carbon footprint associated with projects financed by green bonds using widely accepted industry standards and believe this would be best achieved by an update to the International Capital Market Association (ICMA) Green Bond Principles guidance to issuers.

We are also seeking to encourage collaborative industry groups to agree and establish a standard: this may mean further work on the PCAF standard so that it can be practically applied or updating the GHG Protocol. Even if the options today are imperfect, choosing and applying an estimation methodology means investors will more closely reflect the reality of carbon footprints in their portfolios.

## INTEGRATING CLIMATE CHANGE RISKS AND OPPORTUNITIES WITHIN OUR INVESTMENT PROCESSES

**There are two key categories of risk related to climate change: transition and physical risks.**

Where we have sufficient data to address these issues, we aim to help mitigate them in relevant client portfolios alongside reducing the impact of portfolios with respect to climate change, while making the most of the opportunities presented by the transition to net zero.

However, Insight invests in a broad range of fixed income and other asset classes where data coverage remains a real barrier

to achieving effective analysis of climate risks and opportunities. In some cases, such as derivatives, there continues to be a debate as to the relevance of carbon linkage to the underlying. As such, on the following pages we describe our standard processes for considering climate risk in asset classes where assessment techniques are established. We will continue to develop our processes and reporting as data availability and assessment techniques evolve.

## Climate change integration by key asset class

Asset class	Detail
Corporates (investment grade, emerging market, high yield)	Whilst climate change is a factor in the environmental pillar of our overall Prime ESG ratings, the primary mechanism for considering climate risk in our corporate debt investment process has been the incorporation of our Prime climate risk ratings into our proprietary landmine checklist.
Sovereign	Our Prime sovereign ESG ratings aim to highlight key ESG risks – and alignment with the United Nations Sustainable Development Goals (SDGs) – for 126 countries, based on extensive global data and qualitative research by Insight's portfolio managers and analysts. In 2024, we are looking to assess net-zero alignment criteria for sovereigns.
Secured finance (ABS/CMBS/CLOs)	After development and testing in 2023, in 2024, we have transitioned from issuer surveys to an analyst-driven scorecard to assess climate and wider ESG risks within ABS. We have also undertaken work to model financed emissions associated with ABS deals (focusing initially on mortgage-backed securities and auto deals) as well as collateralised loan obligations. We are also participating in the PCAF Securitised and Structured Products Working Group, which is developing standards for financed emissions disclosure.
Multi-asset	Our multi-asset management style is different to our single-asset approaches in that it is highly dependent on derivatives to achieve market exposures. Climate change considerations are embedded within our approach in multiple ways including the increasing use of ESG screened equity indices to avoid some of the most environmentally sensitive exposures as well as growing opportunities within green infrastructure, supported by active engagement.
US municipal bonds	In 2023 we developed a new Prime ESG methodology for municipals, leveraging both Insight analysis as well as external data. This allows us to assess physical and transitional risk exposure of municipal investments.

Our Responsible Investment Group is tasked with the governance of integration of climate change factors into the investment process. This group maintains a scorecard which seeks to assess, in our view, the maturity of climate change integration by asset class.

Below we outline in more detail the way climate risks are integrated into core asset classes and strategies.

## CORPORATE DEBT

### Climate change risks are already impacting the value of corporate fixed income securities.

We are seeing this with value destruction today from the physical effects of climate change (e.g., wildfires causing the default of investment grade utilities) and the market beginning to price, in places, the transitional effect of stranded assets in climate-material sectors (e.g., spread premiums in the coal industry). This, combined with the increasing availability of climate-related data and the wide range of financial instruments available in this asset class, means that climate risks and opportunities are relevant and material to corporate debt investing.

#### LANDMINE CHECKLIST

Whilst climate change is a factor in the environmental pillar of our overall Prime ESG ratings, the primary mechanism for considering climate risk in our corporate debt investment process has been the incorporation of our Prime climate risk

ratings into our proprietary landmine checklist. This is a crucial step in our fundamental analysis process for avoiding downgrades and minimising default risk in corporate debt portfolios and is designed to test for issues that can cause an unexpected deterioration in an issuer's credit quality.

Since 2021, the checklist includes the Prime climate risk rating as a discrete factor, meaning that climate considerations are now an explicit part of fundamental credit analysis for corporate bonds, subject to data availability and relevance for the specific strategy, as outlined in the relevant procedures.

#### PRIME CLIMATE RISK RATINGS

The Prime climate risk ratings are applied to corporate entities and aim to highlight key climate risks. They are based on extensive raw data, which are applied to generate scores for 15 key issues across a range of themes, which are categorised as either physical or transition risks. These cover c.16,800 issuers, drawing from c.200 individual data inputs<sup>2</sup>.

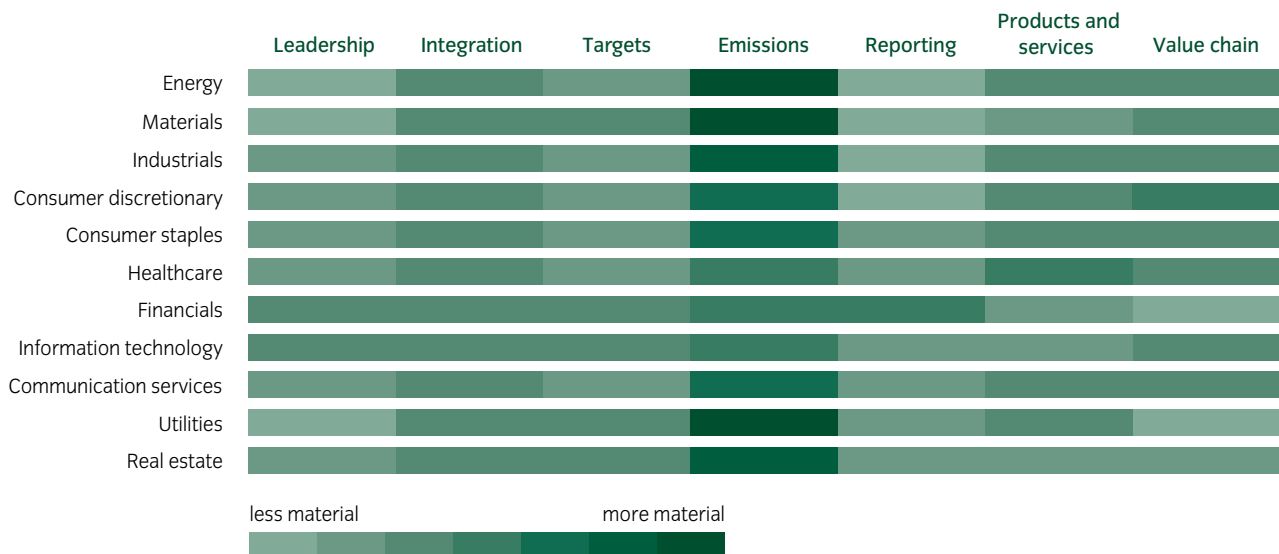
<sup>2</sup> As at 31 March 2024.

Our portfolio managers and analysts overlay their expertise on to this data with the aim of ensuring a focus on the material risks of default and downgrade by issuers. In 2024, we have been evaluating changes to our sector materiality weightings for specific ESG factors together with our credit analysts to ensure this is aligned with our current views.

## ADDITIONAL DATA FOR CORPORATE BOND PORTFOLIOS

Whilst our proprietary Prime climate risk ratings provide the central pillar of our data and research on climate change risk for corporates, the data landscape is continuously shifting, and we integrate a number of other metrics for specific portfolios as well as considering some of them at a portfolio level for our NZAM commitments.

Sector weightings and materiality of transition climate risks<sup>3</sup>



### KEY FOCUS: BUY AND MAINTAIN CORPORATE BOND PORTFOLIOS

The Scope 1 and 2 carbon intensity of our flagship pooled strategic credit portfolio has fallen by around 21% over the past two years, relative to a global benchmark reduction of 6.8%. In our strategic credit portfolios, we utilised the output of our Prime climate risk framework, alongside more qualitative, analyst-led outputs to materially reduce holdings that, in our view, are more carbon-intensive and exposed to material forward-looking climate risks, without impairing the risk/return characteristics of the portfolios.

Understanding the overall alignment of holdings with a net-zero trajectory is increasingly important for many clients – particularly the credibility of transition plans and existing targets. For such portfolios forward planning is essential, particularly as the quality and depth of carbon emissions data is evolving. Taking expected future carbon into consideration is becoming increasingly important when designing the most optimal mix of issuers and bonds to deliver net-zero alignment of portfolios.

With capital allocation plans and climate regulation developing rapidly, we also think it is important to continue to educate clients and have dedicated significant resources to including a greater focus on climate in our client training sessions and other client interactions. This supported more detailed climate reporting encompassing forward-looking carbon metrics which aim to help clients understand the profile of the investments they are making.

<sup>3</sup> Source: Insight. For illustrative purposes only. As at 31 December 2023. These are based on Insight analysts' qualitative assessments and are subject to change.

# SOVEREIGN DEBT

## Sovereign issuers are exposed to the long-term effects of climate change.

For sovereign bonds this is especially the case for physical risks, given their issuers' location specificity, which will likely lead to downgrades of the most exposed countries over time. Transition risks are also very relevant for countries with a high level of dependency on the carbon economy or those that must adopt significant spending on adaptation and mitigation.

Insight's sovereign debt exposure is largely achieved through risk management, or LDI strategies, and accounts for c.60% of Insight's AUM<sup>4</sup>. The majority of these strategies are managed for UK pension schemes with liabilities extending decades into the future. These liabilities are discounted using a gilt rate and risk management is largely achieved via matching instruments in the form of gilts. In 2023, a number of our clients highlighted concerns regarding the trajectory of UK climate policy and sought to better understand escalation mechanisms available in the event the UK continues to reduce the ambition of existing climate policy frameworks. We have explored these in some detail internally and continue to emphasise to the government the importance of consistent and evidence-based policy decisions on behalf of our clients. Our collaborative engagement efforts under the UN PRI Australia pilot, as well as efforts to support greater industry standardisation on net-zero alignment of sovereign bond holdings, will play a critical role in dialogue with governments (including the UK) in 2024.

Climate change risks are theoretically highly relevant (the typical time horizon for investments is long) but on a practical basis can have more limited impact on the ability of clients to achieve required outcomes in the context of government bonds held for liability matching. For example, gilts are not immune from climate change risk, but where they are held to match changes in the present value of a pension scheme's liabilities, they present less direct risk to investment outcomes

than other sovereign bonds, such as those which trade with a credit spread premium and hence default risk – particularly those in emerging markets. Nonetheless, the importance of measuring and demonstrating the materiality of these factors to our clients is key, and more detail is provided in Section 4 (Scenario Analysis).

More broadly, we consider climate change issues as part of the overall ESG analysis which Insight conducts on sovereign issuers described below.

## PRIME SOVEREIGN ESG RATINGS

The Prime sovereign ESG ratings aim to highlight key ESG risks – and alignment with the United Nations Sustainable Development Goals (SDGs) – for 126 countries, based on extensive global data and qualitative research by Insight's portfolio managers and analysts.

The risk ratings focus on ESG factors that we believe to have relevance to debt repayment and credit metrics, while the impact ratings focus on ESG factors related to the all-round good governance and sustainable development of a country.

A range of environmental, social and governance themes are covered by the ratings and include climate-related factors and associated SDGs. Prime sovereign ESG risk ratings are used to help our sovereign analysts and portfolio managers to consider all known material ESG risks, including climate change, in their investment decisions and to identify potential issues for constructive dialogue with sovereign debt issuers.

The sovereign ESG impact scores, which underpin the Prime impact ratings, are provided to analysts and portfolio managers to inform mandates with impact-focused guidelines and objectives. Sovereign issuers may be excluded where they do not meet a mandate's requirements.

<sup>4</sup> As at 31 December 2023. AUM are represented by the value of cash securities and other economic exposure managed for clients. Figures shown in GBP. Reflects the AUM of Insight, the corporate brand for certain companies operated by Insight Investment Management Limited (IIML). Insight includes, among others, Insight Investment Management (Global) Limited (IIMG), Insight Investment International Limited (IIL), Insight Investment Management (Europe) Limited (IIMEL) and Insight North America LLC (INA), each of which provides asset management services.



## LIABILITY-DRIVEN INVESTMENT (LDI)

LDI is a risk-management solution rather than a standalone asset class. LDI funds are focused on minimising unrewarded risk and maximising certainty of investment outcomes. One typical characteristic is a reliance on mid to long-duration bonds for liability-matching purposes. Whilst this can provide greater resilience to climate change than, for example, equity strategies (bonds being prioritised in companies' capital structure in response to external shocks), it also means long-term exposure within portfolios to the risks and opportunities presented by climate change.

The assets employed by LDI strategies typically fall into three broad categories of investment:

- high-quality bonds (mainly UK gilts and increasingly investment grade corporate bonds) used to hedge risks and generate potential for additional returns;
- derivatives (including interest rate swaps, inflation swaps, and bonds on repo) to hedge risks and provide synthetic exposure to markets; and

- collateral waterfall assets (including asset-backed securities and money market funds) used to generate potential for additional returns and convertible to cash to support collateral requirements for derivative positions.

The application of ESG integration to individual strategies or funds used within collateral waterfalls is conducted by the investment teams running those strategies. We continue to investigate whether there is a case for more holistic climate risk management for pension schemes and how that could be achieved. In the meantime, our focus for our UK LDI clients is on ensuring climate risk is effectively managed at a counterparty level – both through the effective monitoring of, and engagement with, banking counterparties. We also seek to aid transparency around carbon exposure in LDI solutions by working in the market on some of the harder-to-solve areas like carbon accounting for sovereigns and derivatives.

## SECURED FINANCE AND ASSET-BACKED SECURITIES (ABS)

**The physical effects of climate change can be relevant for certain secured finance and ABS given the location-specific nature of many underlying assets.**

We continue to evaluate how we might undertake analysis of the transitional and physical climate risks to asset-backed securities. Currently climate change is not considered as a discrete risk factor but rather as part of the overall fundamental analysis undertaken on both the originators and, where applicable and possible, the underlying collateral.

In undertaking our fundamental assessment, we examine the list of individual holdings and potential exposure to sectors, countries or issuers that may indicate climate change risks. We divide the asset class into three broad segments: residential and consumer, commercial and secured

corporates. The climate change analysis that is possible will vary between these segments given the different natures of the underlying collateral and varying availability of good quality data.

However, many secured finance assets lack data on climate risks. We have raised this issue in meetings hosted by the International Capital Markets Association in recent years, resulting in proposed sustainability indicators for asset-backed securities<sup>5</sup>. These included greenhouse gas emissions metrics and information on physical climate change risks.

In the meantime, we are working to address data gaps in ABS transactions, including the use of estimated emissions data and assessing the wider ESG profile of transactions through materiality-weighted scorecards to analyse credit-relevant ESG factors associated with transactions and underlying collateral.

## US MUNICIPAL BONDS

Historically seen as a ‘safe haven’ asset class, exposure to climate risks is growing, and becoming increasingly material. At the same time, municipals can be a significant source of positive impact and climate solutions.

Climate-related risks leading to material financial declines for municipal bond issuers are rare, but expected to rise in the future, driven by the increasing exposure of issuers to the physical risks of climate change and given the location-specific nature of the asset class. Analysis of historical issuance suggests that markets have generally failed to price climate-related risks, with near-identical yields for similar long-dated revenue bonds funding infrastructure projects regardless of whether these are located in areas of high physical climate risk exposure – or lower risk exposure. In Insight’s opinion, this points to mispricing of emerging climate risks to the asset class.

We view climate risks as a natural extension of credit risk analysis for municipals and overhauled our ESG risk and impact methodology for municipals in 2023 to align this with our Prime methodology. This leverages third-party data alongside Insight analyst inputs, reflecting the relatively low levels of direct climate data disclosures by issuers. Our methodology looks at both absolute exposures to physical and transitional climate risks (for example, municipalities with a high dependence on fossil fuel revenues or located in low-lying areas subject to frequent extreme weather events), but also capacities to manage and mitigate these risks.

## MULTI-ASSET

**Our flagship multi-asset approach, Insight’s broad opportunities strategy, follows a global macro approach targeting long-term growth through dynamic asset allocation across a broad range of asset classes.**

Our multi-asset management style is different to our single-asset approaches in that it is highly dependent on derivatives to achieve market exposures. Climate change considerations

are embedded within our approach in multiple ways including the increasing use of ESG screened equity index exposures to avoid some of the most environmentally sensitive exposures as well as growing opportunities within green infrastructure, supported by active engagement. The majority of our infrastructure holdings are in renewable energy producers.

# ENGAGEMENT AND STEWARDSHIP

**Engagement is an important tool in managing the climate-related risks of our clients' investments and encouraging better practices at investee companies.**

Engagement on climate-related issues is conducted by both the credit analysts and Responsible Investment Team (and in some cases the portfolio managers), who may use the Prime corporate ESG ratings and Prime climate risk ratings to help identify targets for engagement based off weaknesses vs peers or shortfalls in best practice when it comes to managing risks. We then engage with selected companies directly and sometimes on a collaborative basis alongside other stakeholders.

Stewardship activity is tracked on internal systems and every engagement with a corporate or sovereign issuer is captured within a template. We have separate templates for

fundamental and ESG engagements. We also closely monitor the performance of our counterparty banks from a climate perspective and increased this focus in 2023 through our counterparty engagement programme. We have engaged with our core trading counterparties on climate risk management in lending practices and thermal coal exposure, following assessment and benchmarking the responses. We have adopted a similar engagement and escalation process for our counterparty engagement programme.

Given its systemic importance, climate change is a thematic component of our engagement programme in 2024, with an initial focus on the issuers that represent the greatest proportion of Insight's total financed emissions (within the assets under management in scope of our net-zero commitment).

For further examples of stewardship activity related to climate change, please see [Insight's Responsible Stewardship Report 2024](#).

### CASE STUDY: Collaborative engagement across government: participating in a federal engagement as part of the PRI Australia pilot

- Background:** As part of the PRI's collaborative engagement pilot, Insight participated in an engagement with the Australian Office of Financial Management (AOFM) and Treasury focusing on the inaugural federal green bond programme and the government's Sustainable Finance Strategy.

Australia was selected for the pilot on the basis of high transition risk, deep and liquid domestic capital markets and renewed climate policy momentum.
- Engagement:** Insight engaged with the AOFM's Head of Sustainable Finance and the director of the Budget Strategy and Policy department in the Commonwealth Treasury in September 2023 to discuss Australia's intention to develop a green bond framework, issuance of its inaugural green bond in mid-2024; and wider plans regarding climate policy implementation and climate finance.

Three broad themes the programme seeks to address are climate mitigation, resilience and biodiversity restoration.

There were differing views from PRI group members on whether proceeds from green issuance should be made available for financing fossil fuel and/or generation 'transition' projects given the risk of greenwashing but also recognising the structural importance of fossil fuels to the Australian economy (although if they were to be included, alignment with the ICMA Transition Finance Handbook or CBI Transition Principles ought to be in place).

Alignment with the Climate Bonds Initiative Taxonomy was also recommended in the absence of the final Australian Sustainable Finance Taxonomy.

The Treasury flagged that it could be challenging to prioritise a single, large bond issuance that is at least in line with the 10-year benchmark that PRI group members felt would help manage liquidity challenges in the green bond market. The AOFM indicated that this issuance programme is likely to remain a relatively small share of the upcoming debt issuance.

The AOFM and Treasury are exploring the inclusion of critical-minerals development and processing (trade-offs between contribution of these activities to domestic emissions versus their potential contribution to international low-carbon value chains); and concerns that some of these minerals becoming inputs for defence applications that may risk exclusion from ESG-labelled funds. Insight fed back that we would expect to see clear delineation of any minerals projects on the basis of end-use (e.g., green versus defence versus other applications).

- Outcome:** Insight has participated in follow-up meetings with the Treasury focusing on implementation of the Sustainable Finance Strategy, plans for whole-of-government climate-related financial disclosure and updates to Australia's emissions targets under the Paris Agreement.

As part of the pilot, we have also participated in engagements with the Department of Industry, Science and Resources; the Department of Climate Change, Energy, the Environment and Water; and national regulatory authorities focusing on whole-of-government implementation of Australia's climate policy and ongoing development of the revised 2035 emissions reduction plan.

The green bond framework for Australia was published in December 2023, and we were pleased to see many elements the collaborative engagement had advocated for reflected in the final framework, in particular a clearly defined use-of-proceeds, tight lookback period and inclusion of nature and biodiversity restoration activities.

### CASE STUDY: Engaging with the UK DMO on green gilt issuance and other sustainability topics

- **Background:** Insight engages regularly with the UK DMO given Insight's large client base of UK pension schemes, which invest heavily in UK government bonds (gilts).
- **Engagement:** Insight engaged with the DMO and HMT in May and June 2023 to follow up previous engagements where Insight raised several issues related to green gilt issuance and other sustainability topics, including the following.
  - We encouraged the DMO to increase the frequency of impact reporting on green gilts from every two years to once a year. Their response made clear this is unlikely in the near term.
  - We explained Insight's concerns regarding the UK's ability to meet its net-zero targets given the current policy environment, which is a key assessment consideration of the quality of green gilts by Insight. Specific concerns included approval for a new coal mine in Cumbria and the lack of a green industrial policy to support transitioning companies.
  - We explained that uncertainty over institutional investors' fiduciary duty presented challenges for allocations to green gilts. The DMO said it was aware of this before the issuance of green gilts, but given the success of the issuance they did not view this uncertainty as a problem. We reiterated that it remained a problem, with strong views being expressed in the market. We explained that it would be helpful if the government could clarify how trustees' fiduciary duties apply to increase comfort in allocating to green and other impact bonds.
  - We discussed the government's plans for green issuance, with the government reaffirming its commitment to the Green Financing Programme with plans to issue £10 billion of green gilts in the 2023-2024 financial year. We asked if there were any further developments regarding the DMO's intentions to issue sustainability-linked bonds. The DMO set out obstacles, and given the focus on liquidity, we expect green gilts to remain the focus for the time being.
- **Outcome:** We were not entirely satisfied with the outcome of the engagement in relation to the frequency of impact reporting, which was an element in the downgrade of the UK government's green gilt from dark green to light green under Insight's impact bond assessment framework in 2022 (see Section 7 for more details). Insight will continue its ongoing engagement with the DMO on a wide range of issues, including ESG topics.

## REGULATION

### ADVOCACY

There are many regulatory requirements relating to climate and ESG-related disclosures. We regularly review any proposals to change these requirements, or to introduce new ones, to ensure that we remain compliant.

We also seek to engage and take action to influence policy in this area. Specific areas in which Insight has taken action, where we believe doing so is in the interests of our clients include:

- **Engaging with the UK government on key issues related to green finance:** We continued our ongoing engagements with the UK government. This included dialogue on its green gilt issuance and questions on approach to net zero. We have also written to the Office of the Prime Minister and Department for Energy Security and Net Zero, outlining

growing concerns from our clients regarding sectoral net zero policy implementation plans in the UK. Additionally, we will be participating in Department of Work and Pensions roundtables on the topic of fiduciary duty in 2024.

- **Highlighting key issues to the UK Transition Plan Taskforce (TPT) on its disclosure framework:** TPT published a consultation on its disclosure framework and implementation guidance for the private sector. Insight provided detailed feedback on the draft asset manager guidance.
- **Participating in a consultation to assess sovereign debt issuers on climate change:** The Assessing Sovereign Climate-Related Opportunities and Risks (ASCOR) initiative issued a consultation outlining a common basis to assess individual countries' climate change approaches, and seeking to reinforce public disclosures to help investors to

understand action and progress. We responded to the consultation and attended a workshop for practitioners together with major issuers. We are very supportive of this initiative and provided detailed feedback on the indicators.

- **Responding to FCA proposals on sustainability disclosure requirements (SDR) and investment labels:**

The FCA issued a consultation proposing sustainability labels for funds marketed to retail investors. We responded to the consultation in early 2023 and fed in our key views to the Investment Association. We were broadly supportive of the proposals but raised a number of issues that we felt were necessary to make this work for certain asset classes such as fixed income. This included the need to permit funds to invest into more than one type of sustainability investment and still receive a label. The FCA published a policy statement in November 2023 setting out the final SDR rules. We were pleased that the FCA took on board industry feedback in creating a robust regime. In particular, we were pleased with the introduction of a new ‘Sustainability Mixed Goals’ label, which was one of our primary feedback points. This allows for products to be

invested into more than one sustainability labelled category and still receive a sustainability label, while disclosing the percentage of assets in each labelled category.

- **Providing input to ESMA consultation on SFDR revisions to principal adverse impacts (PAIs) and disclosures:**

ESMA consulted on revising existing disclosures, revising PAIs to include social factors and clarifying treatment of derivatives. We responded to this consultation and fed into EFAMA feedback on this.

- **Providing feedback to the European Commission review on SFDR:**

Unlike the ESMA review on SFDR (see above) which was focused on select detailed rules, the Commission’s review aimed to look at SFDR overall and from a high-level perspective. In order to tackle greenwashing risk they put forward ideas for different labelling regimes. We were pleased that the European Commission was opened to a labelling regime not too dissimilar to that of other jurisdictions, including the UK and US. We responded to the consultation and were vocal in some trade associations’ discussions on this topic.

For further examples of advocacy activity related to climate change, please see [Insight’s Responsible Stewardship Report 2024](#).

## SUPPORTING CLIMATE OUTCOMES FOR OUR CLIENTS

Beyond merely considering climate risks as part of their core investment approach, some of our clients are looking to pursue other outcomes alongside financial targets. Demand for investment strategies that aim for positive environmental and/or social outcomes is growing, and the supply of investments that promise to contribute to such outcomes – such as green and social bonds – has surged in recent years. These trends mean the scope for investment strategies that seek to tackle climate change is growing.

We operate a number of mandates across both pooled and segregated formats which embed climate and other environmental considerations within their investment guidelines, and we have worked hard with our clients to reflect their requirements in portfolio construction. Many of the ideas are derived from those in place in our Responsible Horizons strategies, which seek to reflect market-leading practices in all areas pertaining to sustainability – particularly around climate.

### COMMON APPROACHES TO CLIMATE IN INSIGHT PORTFOLIOS

- Exclusions
- Positive tilting
- Sustainable investing
- Impact investing

There is a growing focus on using financial tools to achieve positive environmental impacts and encourage a low-carbon economy, alongside generating a financial return. As climate issues have become more pertinent, so the investment opportunities have expanded in this area. We support clients that want their investments to achieve a positive environmental and/or social impact alongside financial returns, with outcomes generally achieved through investing in use-of-proceeds bonds, impact and improving issuers, as described below.

## IMPACT INVESTING

Most of our integration processes focus on ensuring that relevant ESG risks are considered as part of the investment process. However, for mandates with a sustainability and impact emphasis, there can also be an additional focus within the mandate considering the impact of investments on the environment and/or society.

We have identified three opportunity sets to achieve impact: impact bonds, impact issuers and improving issuers. Below we outline our impact assessment frameworks used to analyse these instruments and their applicability as sustainable investments.



### IMPACT BONDS

Use-of-proceeds bonds verified by Insight's impact bond assessment framework, with clear social and/or environmental benefits



### IMPACT ISSUERS

Issuers' revenue aligned to UN SDGs or EU taxonomy as verified by Insight's impact assessment framework



### IMPROVING ISSUERS

Issuers with core investment plans aligned to EU taxonomy, as verified by Insight's impact assessment framework

Green bonds

Sustainability bonds

Social bonds

Revenue alignment

Alignment of operational and capital expenditures

### Impact bonds

Once seen as a niche, seed-stage asset class, use-of-proceeds bonds (which Insight also refers to as 'impact bonds') have matured to become an undeniably viable addition to portfolios in their own right.

Green bonds dominate the impact bond issuance market, including bonds promising to finance projects that will enable the transition to a net-zero economy and help to tackle climate change, such as renewable energy projects, energy efficiency projects and green buildings. Impact bonds typically offer key

performance indicators (KPIs) such as annual greenhouse gas emissions avoided or the annual renewable energy generation.

We believe it is important that, rather than accepting green labels, we conduct due diligence to understand the true impact these investments are likely to make and to avoid greenwashing. We assess impact bonds on a bond-by-bond basis. Each impact bond will be given a red, light green or dark green rating.

For more information on Insight's impact bond assessment framework, and our approach to other ways to pursue impact investment in fixed income markets, please see [Insight's Responsible Stewardship Report 2024](#).



## RESPONSIBLE HORIZONS

We recognise that many clients are increasingly wishing to adopt solutions that focus on additional sustainability outcomes. For clients seeking bespoke sustainability criteria, we have significant experience in implementing a wide range of bespoke portfolios and manage customised solutions with specific carbon targets, impact themes and exclusions lists.

Our Responsible Horizons fund range has been designed for investors that are looking to invest in sustainable businesses that will stand the test of time and may wish to achieve a positive environmental or social impact. For this reason, we have created a clear set of qualification criteria for Insight strategies which have been specifically designed for investors seeking sustainable or impact outcomes. To qualify as a Responsible Horizons strategy, each investment portfolio will reflect the following blend of responsible investment criteria:

- Emphasise the best and avoid the worst performers on ESG issues, based on research powered by Insight Prime.
- Reflect long-term themes, such as climate change and social inequality.
- Avoid investments with a negative impact, such as tobacco producers.

- Apply a higher hurdle for environmentally sensitive industries, such as those involved in conventional oil and gas activities.
- Provide transparency on the application of Insight proprietary ratings and key ESG performance indicators through customised reporting.

In addition to these criteria, specific strategies may also reflect additional guidelines which we believe reflect best practice in responsible investment for the investment category and financial and non-financial outcomes targeted in each case. We also support a range of segregated responsible investment solutions that reflect individually customised environmental and social characteristics. Please contact one of our team to discuss tailoring to your requirements.

We expect Responsible Horizons strategies to reflect our view of best practice in responsible investment and as such we continuously seek to further develop ESG data, responsible investment approaches and our approach to engagement to enable us to offer a varied range of solutions for clients. We are committed to continuous improvement, innovation, and collaboration with asset owners and the asset management industry to ensure the most effective approach to investment and sustainability.

### NEW FOR 2023

#### Net-zero targets for Responsible Horizons

Two of the Responsible Horizons strategies now embed a net-zero by 2050 target in their approach by applying the following:

- a minimum allocation to companies which are at least committed to a net-zero target,
- a carbon intensity level well below the benchmark, and
- an increased minimum allocation to sustainable investments and impact bonds.

Currently, the Responsible Horizons Euro Corporate Bond and Responsible Horizons Multi-Sector Credit strategies apply such criteria. Investors can find more details in the relevant documents for each strategy.

### RESPONSIBLE HORIZONS EM DEBT IMPACT STRATEGY

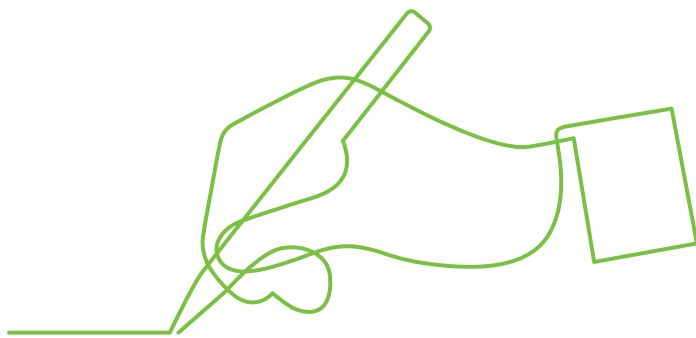
In January 2023, we launched the Responsible Horizons EM Debt Impact strategy, with a dual objective of tangible, measurable impact and attractive financial returns.

The strategy considers the People, Planet and Prosperity themes, each mapped to the UN SDGs. Every investment (except those held for hedging or liquidity purposes) must pass our impact assessment frameworks analysing ESG performance, impact alignment, and impact reporting. We aim, where appropriate, to assign relevant KPIs for each holding to track their impact performance over time.

We seek out investments that we believe exhibit good value, both in terms of financials and impact. We are 'best ideas' investors, focussing on issuer selection and country evaluation, believing fundamentals ultimately drive both long-term returns and an issuer's environmental and/or social impact.



# 4 Risk management



Insight’s Board is responsible for climate-related risk management, which is integrated into our overall enterprise risk management processes.

Throughout 2023, we maintained the following Climate Change and ESG Risk Appetite statements with defined metrics used to monitor risk management at Insight’s IROC and CCRC. Insight’s appetite for climate change risk is low.

## Insight’s Climate Risk Appetite Statements and Metrics

Statements	EMC Owner	Metrics	Green (low risk)	Amber (medium risk)	Red (high risk)
1. Insight honours all commitments made as a signatory to the Net Zero Asset Managers initiative	Abdallah Nauphal, CEO	Metrics: Sovereigns	CCPI: High/very high	n/a	<High
			Climate Action Tracker: almost sufficient/ sufficient	n/a	<Almost sufficient
		Corporates – Scope 1 and 2 WACI	-30% by 2025	-28% by 2025	<-28% by 2025
		Implied temperature rise	1.95C by 2030	2.0C by 2030	>2.0C by 2030
		Proportion of financed emissions engaged	50% by 2023 70% by 2025	45% by 2023 65% by 2025	<45% by 2023 <65% by 2025
2. Insight will reduce or mitigate physical risks to it as business	Abdallah Nauphal, CEO	Source: CCRC Any material escalations to the Board pertaining to Insight’s (non-investment risk) climate change exposure	<1	n/a	>1

We consider climate risks from several aspects, including across transition and physical risk categories, assessment of impacts, probability of occurrence, and over various timescales. We have summarised the key climate-related risks to our business below.

#### Climate-related risk matrix

Policy and legal risks	Detail	Impact (Low/ Medium/ High)	Probability	Timescale	Operational or Investment	Mitigating actions
Risk of insufficient financial and human resource and awareness of requirement relative to increased climate-related data collection, monitoring and reporting need.	Climate change monitoring and reporting is increasingly incurring additional costs for firms and investors. For asset managers, this may entail significant increase in operating costs that may be difficult to pass on to clients.	Medium	High	0-5 years	Both	Disciplined review process and cost screening of data providers
Risk of commercial, regulatory and legislative ESG and climate divergence across jurisdictions.	As a global business, regulatory divergence is a key risk, as highlighted in our scenario analysis. Higher transaction costs, supply chain disruption and regulatory compliance costs are the likely result.	High	High	0-5 years	Both	Advocate for regulatory consistency where possible
Risk of increased ESG and climate related litigation.	Significant increase in the volume and scale of climate-related regulations and legal actions leading to heightened litigation risks for both Insight and our underlying investments on behalf of clients.	High	Medium	0-5 years	Both	For issuers – additional greenwashing checks  For Insight – robust oversight of processes by Investment Framework Group

Technology risks	Detail	Impact (Low/ Medium/ High)	Probability	Timescale	Operational or Investment	Mitigating actions
Risk of rapid and disruptive shifts in technology cost curves (e.g., battery chemistry, electric vehicle technology, electricity demand management through artificial intelligence).	Technology learning rates and progress are subject to significant uncertainties, with the potential for rapid and disruptive breakthroughs leading to risks of asset stranding.	High	High	0-10 years	Investments	Responsible Investment Team supports investment team with specialist research

Market risks	Detail	Impact (Low/ Medium/ High)	Probability	Timescale	Operational or Investment	Mitigating actions
Risk of divergence between consumer preference and regulatory intent.	As the costs of low-carbon transition rise, consumer behaviour may increasingly be at odds with the regulatory regimes applied to support net-zero alignment (e.g., supply of electric vehicles outstripping end demand).	Medium	High	0-10 years	Investment	N/A
Risk of shifting policy objectives undermining the case for net-zero investment.	Net-zero pledges, targets and capital and operational plans made by Insight and the companies it invests in are made on the assumption that governments will deliver on the pledges made under the Paris Agreement. Shifting policy priorities, or a lack of clarity from policymakers, will deter investment over time.	High	High	0-10 years	Investment	Advocate for consistent and evidence-based policy making
Direct financial impacts of climate change on market volatility.	Climate change is a systemic risk, albeit one that has had limited impact on asset prices to date. As the risk of a disorderly transition increases, so too does the risk of increased volatility and rapid repricing. This may negatively impact client portfolio value and introduce revenue volatility for Insight.	Medium	High	0-10 years	Both	Scenario analysis to understand impacts of volatility on portfolio performance

Reputational risks	Detail	Impact (Low/ Medium/ High)	Probability	Timescale	Operational or Investment	Mitigating actions
Risk of changing consumer or client perceptions.	Changing consumer or client perceptions around contributions to climate change is a key risk for asset managers, given the role we play in financing both low-carbon and established industrial activities.	Medium	High	0-5 years	Both	Ensure ongoing dialogue with clients to understand sustainability preferences

Physical risks	Detail	Impact (Low/ Medium/ High)	Probability	Timescale	Operational or Investment	Mitigating actions
Risk of acute physical risks.	Acute physical risks are expected to increase in both frequency and severity. Idiosyncratic (issuer-specific) exposures are expected to be increasingly material, particularly where issuers lack geographical or revenue diversification that hedges against acute risks.	High	High	0-10 years	Investments	Explore materiality of risks using third-party and embed into proprietary ratings
Risk of chronic physical risks.	Chronic physical risks such as drought or sea-level rise are also expected to increase in both frequency and severity. Whilst idiosyncratic risk exposures will remain relevant, over time many of these risks will become increasingly systemic in nature and could have significant second-order impacts (e.g., supply-chain disruption).	Medium	Medium	10+ years	Investments	Explore additional scenarios where relevant to investment performance

## SCENARIO ANALYSIS

Scenario analysis is crucial to the TCFD framework to encourage asset managers to consider climate risks to both their clients' investments and their overall business model.

However, it must be noted that the term of most of our corporate bond holdings is sufficiently short that the vast majority will not be subject to the climate risk identified unless those positions are rolled into new securities from the same issuer with longer tenors. As such, we do not necessarily have 'risk today' in the same way that an equity investor might, due to the net present value approach to pricing; but we do

potentially have 'risk tomorrow', which is useful for us to understand. There is, of course, the potential that 'risk tomorrow' is brought forward to today by early policy responses or litigation.

Notwithstanding the above, scenario analysis complements our existing frameworks for resilient long-term investment risk management, including regular stress testing of our portfolios against risks such as significant or rapid increases in interest rates, and can similarly help inform management responses to these risks. In the following sections, we summarise the results of our enterprise-level climate scenario analysis.

# INTRODUCTION

Scenario analysis allows Insight to better understand climate risk within our clients' portfolios and the potential macro impacts to our business.

To address both of these issues, Insight modelled two distinct asset types, corporates and sovereigns, that comprise the majority of our AUM and where data availability was sufficient for relevant analysis to take place.

Sovereign bonds (predominantly UK gilts) in our London-managed LDI portfolios are the single largest asset class that we manage on behalf of our clients. Within these investments Insight has large exposure to (nominal and real) interest rates via the UK government bond yield curve. As yields rise, the value of these instruments falls, and vice versa. Owing to the

maturity profile of the government bonds we hold, this effect is more pronounced for changes to long-term yields.

For corporate bonds, which comprise the majority of our remaining AUM, nearly all AUM is actively managed albeit within the mandates given to us by clients<sup>5</sup>. While an equity investor might discount climate-related changes to future cashflows to arrive at a VaR, we believe fixed income investors should focus more on credit risk and interest rate risk, which are more relevant factors. Nevertheless, when deciding between investment in one of two bonds with otherwise similar characteristics, a VaR can serve as a useful proxy for the investment's exposure to climate related risks and opportunities, particularly in the long term, for the sake of comparison. It is in this spirit that we consider the VaR of our corporate holdings<sup>6</sup>.

# SCENARIO SELECTION

Scenarios should be plausible, distinctive, consistent, relevant, and challenging.

Balancing the nuances highlighted earlier in conducting our scenario analysis, Insight used the Network for Greening the Financial System (NGFS) scenarios, which we believe are currently the industry gold standard. It is important to note that these are standardised stress-tests and do not necessarily represent Insight's own perception of a central case as we look to test resilience under a range of scenarios. The outputs from the NGFS scenarios consider transition risks and chronic physical risks across the following portfolios:

1. Liability-driven investment: two representative benchmarks (nominal and real)
2. Actively managed sovereign bond fund
3. Discretionary managed buy-and-maintain corporate bond fund

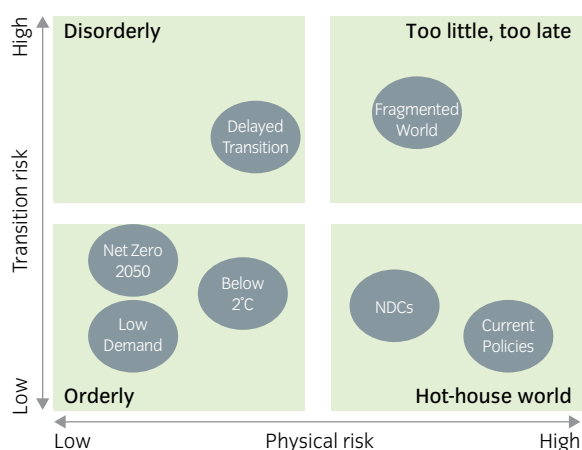
Insight modelled outcomes based on the following seven scenarios as this provided a broad scope for the analysis:

- Current Policies (Low transition risk, high physical risk)
- Net Zero 2050 (High transition risk, low physical risk)
- Fragmented World (High transition risk, high physical risk)
- Below 2°C (High transition risk, moderate physical risk)
- Delayed Transition (High transition risk, high physical risk)
- Nationally Determined Contributions (NDCs) (Low transition risk, low physical risk)
- Low Demand (High transition risk, low physical risk)
- An additional bespoke physical risk scenario: 'Bespoke Physical Risk Scenario – Higher for Longer', drawing on academic research.

The results are summarised in the following sections. For further information or methodological details, please contact us.

<sup>5</sup> Or has a degree of manager discretion regarding the management of risks and opportunities, pertaining to (but not limited to) climate.

<sup>6</sup> Via a representative long-dated portfolio.

NGFS climate scenarios framework<sup>7</sup>

## NETWORK FOR GREENING THE FINANCIAL SYSTEM (NGFS) SCENARIO UPDATES AND IMPLICATIONS FOR SCENARIO ANALYSIS

Following Insight's previous Climate Change Report, the NGFS scenarios saw another major update in November 2023. The updated scenarios contained revised GDP and population growth projections, incorporation of updated country policy pledges, improved sectoral granularity and technology price assumptions within mitigation cost estimates.

- Transition pathways now reflect climate policy delays and the energy price shocks associated with the war in Ukraine.
- Modelling of acute physical risks has been expanded with the addition of droughts and heatwaves and increased geographical granularity.

As with the previous scenarios, climate change transition shocks are split into transition only and fiscal policy shocks. Fiscal revenues from carbon pricing were again assumed to be recycled with higher government investment (50%) and public debt disbursement (50%) although other recycling options were modelled for disorderly net-zero scenarios.

In all cases a sharp carbon price increase triggers a sharp increase in inflation followed by a gradual return to baseline. GDP impacts are highly heterogeneous across countries – but are closely linked to the energy intensity of GDP production or required carbon price levels. In practice this highlights the

limitations of scenario analysis, as both fiscal shocks, carbon revenue recycling and monetary policy responses are modelled on a linear basis and do not account for short-term volatilities, price and currency changes that drive market risks and partially inform monetary responses. Broad assumptions for tax recycling and policy responses do not account for differences in economic structure and policy mandates for governments and central banks.

Similarly, the modelling assumptions do not account for business cycles – in practice, climate risks pose significantly larger risks to Insight's business and investments if these occur during periods of economic stress or dislocation. Nonetheless, the magnitude of possible shocks under plausible transition scenarios points to the importance of mainstreaming climate scenario analysis within investment risk management.

### SCENARIO ANALYSIS: INTEREST RATE RISK – USING NIGEM OUTPUTS, INSIGHT MODELLED CHANGES IN THE VALUE OF LDI PORTFOLIOS FROM 2024 TO 2074.

Changes in the nominal and real value of gilt benchmarks for LDI portfolios were modelled, with future cashflows discounted. The collection of nominal and real LDI portfolios is broadly representative of Insight's LDI book of business.

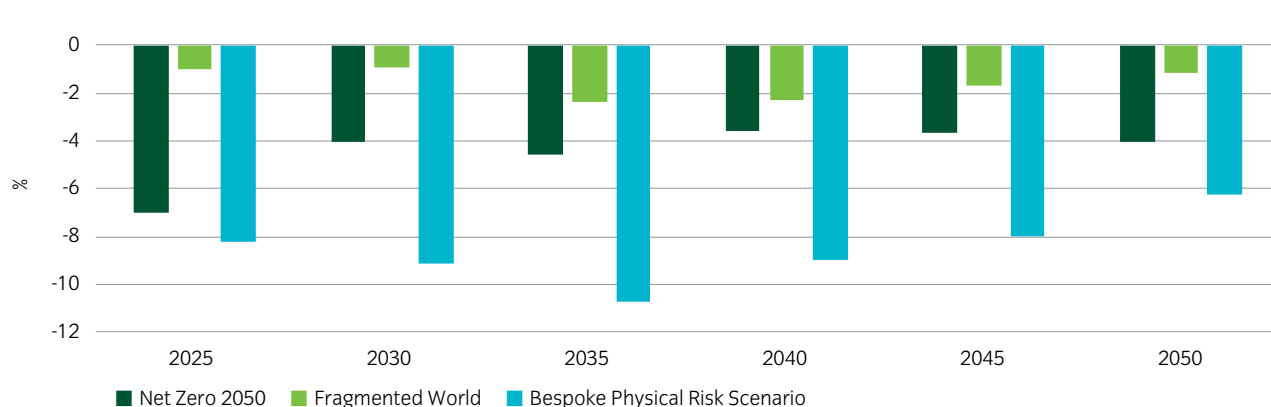
Provided that they had not matured, cashflows of bonds held in future years were discounted similarly given their maturity and the constructed yield curve in that year. Climate policy and physical risk driven inflationary pressures are assumed to elicit a central bank policy response in the form of higher interest rates.

While conceptually more complex than a VaR, this output provides a more relevant metric; one which is closely related to AUM valuation changes, and which are sensitive to the specific maturity profile of Insight's gilt investments.

The modelled change in the value of the all gilt holdings was determined each year between 2024 and 2074. In addition to the NGFS scenarios, we also added a bespoke physical risk-driven inflation scenario drawing on recent peer-reviewed academic research on the impacts of climate change on core inflation across countries – in this case, the UK economy<sup>8</sup>.

<sup>7</sup> Source: Network for Greening the Financial System, 2023.

<sup>8</sup> Kotz, M., Kuik, F., Lis, E. et al. Global warming and heat extremes to enhance inflationary pressures; Communications Earth & Environment 5, 116 (2024). <https://doi.org/10.1038/s43247-023-01173-x>

Projected difference in the real value of LDI gilt benchmarks – relative to the base scenario<sup>9</sup>

As with previous exercises, the largest impacts occur at the shorter end for rapid transition scenarios, typically moderating after around 10 years. Over time, the relative impact of climate transition shocks on AUM falls as the nominal and real rate curves evolve – with large stresses at the short end dropping off before an eventual pull to par that takes hold beyond 30 years.

The exception here are the two high physical risk scenarios – ‘Delayed Transition’ and ‘Bespoke Physical Risk Scenario – Higher for Longer’, where negative impacts on the value of the portfolio persist to around 2050. A similar trend is seen under the ‘Fragmented World’ scenario, albeit the impact on portfolio value is much more limited.

Net Zero 2050 results in an initial negative shock to the value of the portfolio, as tightening policy leads to yields in excess of 7% through ‘greenflation’ that subsequently moderates after 2028. In practice, this is a high impact, low probability scenario, as government policy action that results in such sharp increases in borrowing costs is unlikely to be sustained in the short term.

More plausible risks are seen in the ‘Bespoke Physical Risk Scenario’, where the physical impacts of climate change take hold – and drive up food, housing, supply chain and insurance costs substantially into the second half of the 2030s, meaning value destruction is sustained. The ‘Current Policies’ and ‘Delayed Transition’ scenarios mirror this effect to a lesser extent, with more enduring negative impacts on the portfolio.

A superficial reading of some results would suggest that less aggressive climate policy trajectories could impose lower mark-to-market risks on Insight’s LDI book, but this obscures

the macroeconomic risks arising from the physical impacts of climate change – which the NGFS projects as significantly outweighing transition risks under all scenarios during the 2050-2100 period (up to 20% reduction in trend GDP by 2100 under current policies).

Long-term climate risk presents a wider risk to Insight’s business model and our clients’ investments under all scenarios – but applying this to the LDI book (where duration plays a key role in the overall risk profile) highlights some of the limitations of climate scenario analysis. Whilst the NGFS scenarios have recently been refreshed to incorporate more granular modelling of climate transition risks and monetary policy responses (see below), modelling of acute and chronic physical climate risks continues to develop, as reflected in our bespoke analysis. We also recognise that gilts are not the only component of LDI strategies and are working to include other key assets in future scenario analysis.

Damage costs (to GDP) have been estimated under the revised NGFS scenarios, but the relationship between physical risks and interest rate shifts has been less explored, hence our inclusion of a bespoke scenario. There is a growing body of evidence on the relationship between transition risk and upwards inflationary pressures (‘greenflation’) particularly where this results in significantly increased governmental, capital and infrastructure spending. At the same time, physical risks are likely to manifest as rising climate related damages and uncertainty, leading to reduced productivity growth and increased precautionary savings. This could increase downward pressure on interest rates in the future, limiting the future effectiveness of monetary policy<sup>10</sup>.

<sup>9</sup> Source: Insight and NiGEM.

<sup>10</sup> See ECB (2022) *The Effects of Climate Change on the Natural Rate of Interest: A Critical Survey*.

## WIDER SOVEREIGN BOND HOLDINGS

In addition to gilt holdings within our LDI strategies, we also explored the impact of the NGFS scenarios on wider sovereign bond holdings.

A representative portfolio containing debt issued by UK, US, Canada, Germany, Switzerland, Japan, China, and Australia government bonds was also modelled, and the cashflows were discounted by the respective government yield curves in 2023. Climate-related shocks to different parts of the yield curve (as modelled using 2023 data) were determined for these sovereigns.

As described in the previous section, assumptions around an earlier policy response led to bigger shocks at shorter tenors. Yield shocks under all scenarios are initially more pronounced than last year – largely reflecting updates to the NGFS scenarios – but tended to decay over time.

On a country-by-country basis, China and Australia have significant negative valuation impacts overall, with larger increases in the yield curves of these countries. As heavily fossil-fuel dependent, trade-intensive economies it is unsurprising that a rapid transition scenario imposes the highest toll. The US is also subject to significant yield increases on an unweighted basis, but the relatively short-dated nature of the bonds held in the portfolio dampens the negative effect.

Taken together, these model results support the signal that an orderly transition minimises negative impacts, but yield shocks are significant under all scenarios and some degree of climate-driven inflation is a long-term structural challenge to Insight's assets.

## SCENARIO ANALYSIS: MACROECONOMIC RISKS

Using the NGFS scenarios, we also went beyond interest rate shocks to explore the wider macroeconomic impacts of climate change on sovereign creditworthiness.

To better reflect the nuances of interest rate risks versus credit and macroeconomic risks within climate scenario analysis, we undertook an analysis of UK GDP at risk under different NGFS scenarios; in this case, versus a counterfactual growth scenario with no chronic physical risk damages to GDP. Chronic physical risk is calculated under the NGFS scenarios by estimating the impact of temperature change and precipitation levels on labour and agricultural productivity levels as well as capital appreciation. As such, the estimates do not account for non-market effects of physical risk (such as behaviour change), rising sea levels, conflict or climatic tipping points.

Taking these factors into account, we can see that physical impacts of climate change are already having a detrimental impact on growth potential for the UK, through the channel of reduced productivity, albeit at present the quantum of that impact is relatively limited. Whilst impacts are relatively

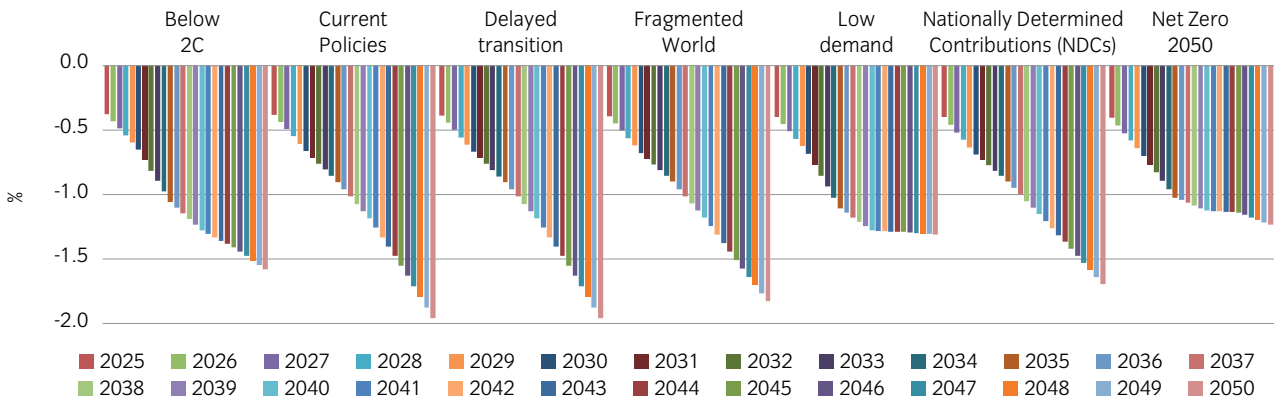
uniform across all scenarios in 2025, we begin to see significant divergence from 2030, with the Current Policies, Delayed Transition and Fragmented World scenarios pointing to significant loss of growth potential in the 2030s. Rapid transition scenarios (Low Demand and Net Zero 2050) by contrast see negative impacts on growth moderate over time as temperature changes stabilise.

This points to some of the practical challenges of climate change for policymakers and central banks; forceful, near-term action to tackle climate change will imply some degree of disruption to monetary policy through climate-driven 'greenflation' – but helps minimise the impacts of physical risk on the wider economy.

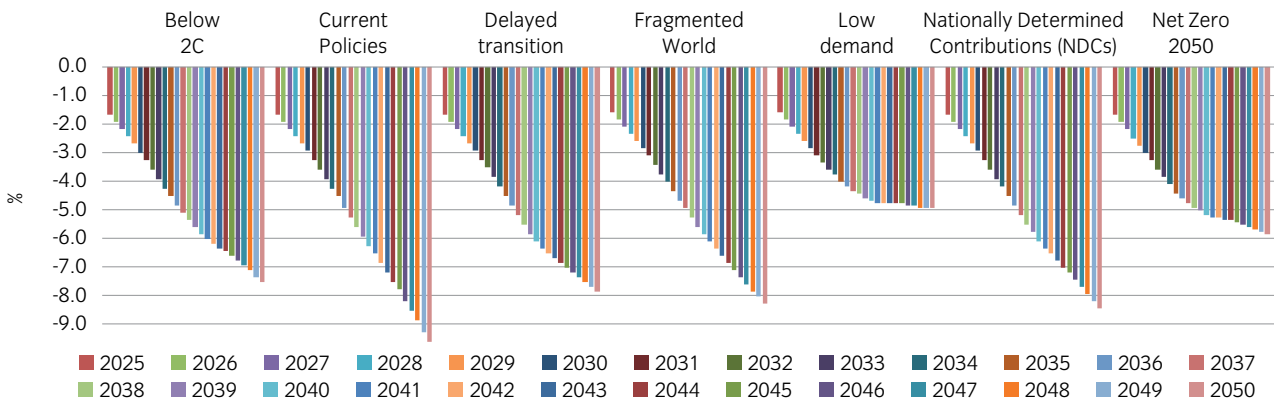
We also undertook a comparative analysis for the Indian economy to highlight specific challenges for emerging markets, which points to much more significant impacts in loss of growth under all scenarios; given India today is on the lowest investment grade rating from Fitch and Moody's, the scope for further deterioration of the credit profile (assuming all other factors are equal) is strong.



Reduction in annual UK GDP linked to chronic physical risk scenario (versus counterfactual)<sup>11</sup>



Reduction in annual Indian GDP linked to chronic physical risk scenario (versus counterfactual)<sup>12</sup>



## SCENARIO ANALYSIS: GLOBAL CORPORATE BENCHMARK

For corporate bonds we used the MSCI CVaR portfolio-analysis tool to conduct scenario analysis.

The yield-curve construction is comparable to our approach for sovereigns; however, the output considers the impact of policy risks (which reflects aggregated emissions data), technology opportunity, and physical risks, on future cashflows until 2080. This climate VaR is apportioned to equity and outstanding debt. A model portfolio is constructed in a comparable way to the actively managed sovereign bond portfolio, with today's nominal weights and maturity profile.

Policy risk contributes the largest component of the portfolio's climate VaR (CVaR) in disorderly scenarios. In particular, under the Disorderly Net Zero scenario, higher transition costs

emerge due to policy misalignment between sectors. Under Delayed Transition, policy risks amplify significantly after 2030, resulting in the second-largest shock to the portfolio.

Scope 2 emissions contributed the most to the total policy cost in both scenarios, reflecting the influence of the energy mix on climate VaR. While policy risk had the largest impact on the oil and gas sector (with high Scope 1 emissions) on an unweighted basis, the portfolio has low exposure to this sector, and therefore this has only a small impact overall. This is a function of the long-term focus of buy-and-maintain management but also the active decarbonisation of the book. On the other hand, insurance and telecommunications, where this portfolio has a large exposure, each contributed materially to the overall climate VaR.

<sup>11, 12</sup> Source: Insight and NiGEM.

Scope 3 emissions see the most significant increase in value at risk under the Net Zero by 2050 or Below 2°C transition scenarios, with much of this driven by VaR in the auto sector value chain; suppliers in this sector tend to be highly specialised and diversification under rapid transition could prove costly and disruptive. Food and staples retailing, energy, transport, utilities and materials also had significant levels of VaR under the 1.5°C and 2°C aligned scenarios.

Technology opportunities had a low impact on the overall climate VaR, but a more pronounced positive impact than our previous assessment, reflecting the increasing competitiveness of low-carbon technologies under all scenarios.

The physical risk component of VaR (which estimates the costs of business disruption and asset damage from acute and chronic events, based on location- and sector-specific vulnerability assessments) was dominated by coastal flooding and extreme heat (reflecting the geographical concentration of issuers), with the energy, real estate and materials sectors having the highest VaR.

Energy sector exposures were driven by a handful of issuers, suggesting there are opportunities to partially mitigate this risk within existing sector allocations.

In addition to running the VaR analysis for an active portfolio, we also ran this analysis for a live buy-and-maintain portfolio, finding slightly lower VAR estimates than the benchmark (VAR of -3.5% under a Fragmented World scenario versus -4.2% for the benchmark) – see Table 1 below:

It is important to emphasise that forecasting climate impacts is highly complex, and different approaches can yield a range of results. We are careful to consider these results as indicative modelling only that helps inform deeper issuer-level research and engagement on climate-related financial risks. We do not rely on VaR model outputs for portfolio decisions – partly because of the volatility in outputs we see from data providers but also because we believe the assumptions inherent in this approach doesn't necessarily take into account the structural seniority of debt over equity in the capital structure of most firms.

Table 1: Climate VaR within the Insight sample buy-and-maintain corporate bond benchmark<sup>13</sup>

Climate VaR component	Net Zero 2050 (1.5C)	Fragmented World (>2C)	Below 2C (<2C)	Delayed Transition (>2C)	Hot House World (>3C)	Low Demand (1.5C)
Scope 1	-1.80%	-1.97%	-0.07%	-0.86%	-0.10%	-0.73%
Scope 2	-0.01%	-0.06%	0.00%	0.00%	0.00%	-0.01%
Scope 3	-1.03%	-1.81%	-0.01%	-0.02%	0.00%	-0.18%
Technological Opportunities	0.01%	0.02%	0.00%	0.01%	0.00%	0.01%
Total Policy Risk	-2.18%	-3.82%	-0.08%	-0.88%	-0.11%	-0.91%
Physical Risk	-0.37%	-0.37%	-0.37%	-0.37%	-0.37%	-0.37%
Climate VaR	-3.20%	-4.20%	-0.45%	-1.25%	-0.48%	-1.28%

## CONCLUSIONS

Scenario analysis still has flaws when it comes to incorporating the outputs into investment decision-making. For the corporate VaR data, the changes in output compared to Insight's 2023 report (with VaR estimates nearly halving as a result of methodological changes from our data vendor) points to the emerging science of climate scenario analysis and the complexities of forecasting under high uncertainty.

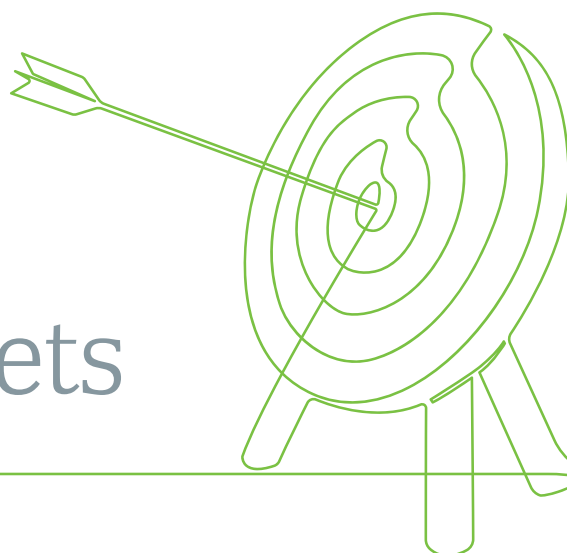
However, it remains useful for determining some 'big picture' implications for our business as well as highlighting where

potential risks may exist. In particular, it reinforces the perception that financially material climate risks are likely to emerge far sooner than anticipated, and prove more disruptive than previously thought.

Inflationary pressures from climate change ('greenflation') are a long-term challenge for Insight under all scenarios and one we are increasingly seeking to better understand from an investment risk perspective.

<sup>13</sup> For this assessment we are reliant on the quality of approach from MSCI. It is our view that different climate scenarios should produce a dispersion of physical VaR values, and to date this is not captured in the vendor's assessment. We acknowledge that the vendor has a plan for methodological enhancements to support this. We continue to engage with MSCI on this point and expect to reflect the results of the physical VaR more fully in a future disclosure.

# 5 Metrics and targets



## INSIGHT'S BUSINESS: AN OVERVIEW

Insight's business mix is dominated by two main categories – risk management solutions (c.60%) and fixed income strategies (c.30%).

Derivative and liability exposures make up a significant proportion of the solutions that we manage meaning that our physical assets held on behalf of clients is materially lower.

Below we explore climate change metrics for the physical component of our book of business – particularly our largest holdings: UK gilts and corporate bonds. The holdings and exposures discussed in this report are assets managed by Insight on behalf of our clients.

## MEASURING THE CLIMATE IMPACT OF INSIGHT'S UK SOVEREIGN EXPOSURE

Physical index-linked and nominal gilt exposure, which is held to match pension scheme liabilities, represents the core of Insight's total physical AUM.

### CARBON EMISSIONS OF GILTS

There is a lack of standardisation when it comes to how emissions should be accounted for in the case of government bonds. Below, we have calculated absolute emissions along with two intensity-based metrics – carbon footprint and weighted average carbon intensity (WACI). For sovereign

bonds, this is carbon footprint per £m invested and WACI is expressed as tonnes of CO<sub>2</sub>e per GK\$ UK PPP-adjusted GDP<sup>14</sup>. For gilts, data is only available for Scope 1 and 2 emissions (emissions produced within the UK). Provisional UK territorial emissions for 2023 were 384.2 megatonnes of CO<sub>2</sub>e, a 5.4% decrease year on year. An increase in Insight's financed emissions attributable to gilts year on year is thus driven by an increase in the market value of these holdings year on year, and thus a higher proportional share of the UK's territorial emissions.

Table 2: Gilt carbon emissions metrics<sup>15</sup>

	Weighted average carbon intensity (WACI) (t CO <sub>2</sub> e/GK\$m GDP)	Carbon footprint (market value of gilts in issuance) (t CO <sub>2</sub> e/\$m)	Absolute emissions (market value of gilts £m/ market value of gilts in issuance £m x t CO <sub>2</sub> e)	PCAF financed emissions (\$m holdings/\$GDP PPP x t CO <sub>2</sub> e)
Scope 1 emissions (territorial)	99.2	129.9	35,447,006	27,070,554

<sup>14</sup> GK\$ = international \$ – the unit of PPP-adjusted GDP.

<sup>15</sup> Data on UK emissions is sourced from the UK government website (provisional UK greenhouse gas emissions national statistics); GDP figures from the IMF and ONS; and gilts in issuance are sourced from the DMO website and converted by Insight from nominal to market value. Based on provisional 2023 figures, published in March 2024.

## ALIGNMENT OF GILTS WITH GLOBAL WARMING TARGETS

Implied temperature rise (ITR) metrics are fast becoming a popular tool for assessing alignment of financial instruments with global warming targets. An ITR is used to assess how an issuer is likely to perform with respect to an allocated carbon budget under a certain temperature scenario and therefore how 'aligned' it is to that temperature. No standardised approach currently exists for sovereigns in this regard, although most ITR metrics are heavily dependent on targets that have been set.

In the case of the UK, the government has set out a net-zero pathway, which aims to limit the global temperature rise to below 1.5°C by 2050. Whilst we previously assessed the UK as aligned to net zero on this basis given there was policy evidence to demonstrate the delivery of this target, we are considering whether this assessment remains appropriate in light of a weakening in policy commitments.

We note the UK saw significant falls in international climate policy rankings. This included receiving an 'insufficient' ranking

from Climate Action Tracker (CAT). CAT cited a lack of clear strategies in the electricity, land use, agriculture and buildings sectors as well as an overreliance on technological solutions such as carbon capture and storage. Accordingly, we have increased our policy advocacy activities with the UK government, emphasising the importance of clear and consistent climate policy.

2024/2025 is a critical year for climate policy as countries begin to prepare updated nationally determined contributions under the Paris Agreement, and are reiterating the importance of clear sectoral transition plans in our interactions with the UK government.

We have also been part of the IIGCC Sovereign Bonds and Country Pathways Working Group that is in the process of developing guidance and best practice with respect to better understanding sovereign net-zero alignment, including updates to the IIGCC Net Zero Investment Framework.

# MEASURING THE CLIMATE IMPACT OF INSIGHT'S CORPORATE DEBT EXPOSURE

After gilts and index-linked gilts, the next biggest asset class is corporate bonds. The vast majority of these assets are held in discretionary managed strategies in which we have the choice over which securities to hold. In this section, we analyse the assets invested in corporate securities to understand the nature of Insight's carbon exposure in these securities.

## OVERALL CARBON ASSESSMENT OF CORPORATES

Below we set out some summary metrics of the carbon data relating to Insight's corporate bond holdings. The 'weighted

average where known' column computes the sum-product of the weights and carbon emissions and assumes zero emissions from the issuers without data coverage. The degree of data coverage is also indicated, and the normalised figure scales up the carbon figure by assuming the non-covered assets have the same average carbon emissions as the covered assets.

In line with PCAF guidance, Insight's financed emissions for corporate bonds are calculated on a book value basis. This produces slightly higher emissions intensity (circa 10%) than calculating on a market value basis – but provides a more stable measure of financed emissions in a context of fluctuating interest rates and yields.

Table 3: Insight's corporate debt and equity carbon emissions metrics

Weighted average carbon intensity (tonnes of CO <sub>2</sub> e/£m revenue)	Weighted average, where known	Normalised	Coverage
Scope 1 and 2	165.1	171.2	96%
Scope 3	613.5	648.9	95%

Carbon footprint (tonnes of CO <sub>2</sub> e/£m EVIC)	Weighted average, where known	Normalised	Coverage
Scope 1 and 2	44.3	54.9	81%
Scope 3	266.6	331.9	80%

Absolute emissions (Megatonnes of CO <sub>2</sub> e)	Weighted average, where known	Normalised	Coverage
Scope 1 and 2	4.8	5.9	81%
Scope 3	28.4	35.4	80%

Comparing results year-on-year with December 2022, we see that Scope 1 and 2 emissions have risen slightly on a weighted average intensity basis. This is because of corporate action, where Insight has inherited a number of US mandates with structurally higher carbon exposures – largely driven by utilities – whilst the core European-managed portfolio has continued to decarbonise (see information on Insight's net-zero pledge here). At the same time, Scope 3 intensity and absolute emissions have fallen. This reflects the complexity of GHG accounting methodologies at the portfolio level – revenue-based intensity measures being subject to greater volatility as a result of shifting market conditions.

Although our assessment does not currently include allocations to money market instruments (which would further increase the bias to banks in the sector mix and which we report on separately below), Insight's corporate bond and equity holdings are dominated by financials, and there is a structural bias away from higher impact sectors, notably basic materials and energy, utilities and industrials. This is not altogether surprising as it replicates global fixed income indices which are tilted towards financials due to issuance needs in the sector. Yet when one splits the carbon impact by sector and by scope, one can start to see the significance of this sector split the importance of banks and financials to climate outcomes.

Looking at the differences in Scope 1 and 2 emissions year on year, we can see the rise is driven primarily by an increase in operational emissions from utilities – with other sectors demonstrating progress on decarbonisation of direct emissions, and particularly on Scope 3 data. This is particularly notable in the case of financials.

Table 4: WACI (tCO<sub>2</sub>/£m revenue) contributors split by sector

Sector	Scope 1 and 2 (2023)	Scope 3 (2023)	Share of holdings
Basics and Energy	35	169	7%
Utilities	102	68	11%
Financials	2	136	33%
Industrials	11	126	11%
Consumer	7	52	12%
Technology, media and telecommunications	3	23	12%
Healthcare	1	19	6%
Property	3	11	5%
Diversified	1	9	<1%
Total	165	614	

Whilst Scope 1 and 2 emissions are dominated by utilities, Scope 3 emissions are largely driven by energy, financials and utilities. Perhaps the most visible aspect of the table above is that despite a relatively small (5%) allocation overall to energy, it has by far the largest Scope 3 emissions contribution.

Overall, this data highlights the need to continue to push for clearer disclosure by companies and data providers of how Scope 3 emissions are modelled and to ensure, as we work with clients, that we avoid the unintended consequences of emissions targets linked only to Scope 1 and 2 emissions. Priorities for 2024 include further engagement with utilities on transition plans to lower operational emissions, as well as continued engagement with banking counterparties to further reduce the Scope 3 emissions of financials. It is important to also consider emerging sources of emissions, for example the

technology, media and telecommunications sector, which has a moderate emissions profile in 2023 but could grow significantly in future years as data consumption rates rapidly expand.

### CARBON TRAJECTORY OF INSIGHT'S CORPORATE EXPOSURES

While the detail above gives reasonable visibility into the footprint of our investments today, a more holistic approach considers the current emissions alongside the expected emissions trajectory between now and 2050 (and beyond). To understand the longer-term impact of Insight's corporate holdings on the climate, in many respects, this is the more important climate metric to optimise. There are multiple ways that we consider carbon on a forward-looking basis and we look at some of these below.

#### Science-based target commitments

Science-based targets are company-level targets that have been set in-line with the requirements of the latest climate science to meet the goals of the Paris Agreement.

Around 46% of Insight's corporate holdings have set, or are committed to setting, near-term science-based targets. A third have already set (and have had verified by the Science Based Targets initiative, or SBTi) their near-term targets. The breakdown is described below.

With respect to measuring the commitment of held companies to net zero, 21% of Insight's corporate bond AUM is in companies who have disclosed to SBTi that they are committed to achieving net zero.

Table 5: SBTi commitments

Target	% of Insight's corporate AUM
1.5°C or Well-below 2°C	32%
2°C	2%
Committed to setting a target	12%
Not covered	55%

Table 6: Net-zero commitments

Net-zero committed	% of Insight's corporate AUM
Yes	21%
No	26%
Not covered	54%

### IMPLIED TEMPERATURE RISE (ITR) METRICS

As described above, implied temperature rise metrics are an alignment methodology which convert a company's projected future emissions pathway relative to a science-based benchmark into a temperature outcome that would likely result if all companies globally exhibited the same emissions undershoot/overshoot versus their company-specific carbon budget. Taking into account Scope 1, 2 and 3 emissions (using MSCI methodology), the overall portfolio temperature is 2.0°C; partitioned as below by emissions scope (see Table 9). We note that MSCI has made updates to its methodology in 2024, which is likely to influence results next year and may require rebasing.

Table 7: Insight's corporate debt and equity ITR metrics

Emissions	ITR °C	Coverage
Scope 1, 2 and 3	2.0	91%
Scope 1	2.3	91%
Scope 2	2.0	91%
Scope 3	2.0	91%

## INSIGHT'S PRIME CLIMATE RISK FRAMEWORK

In addition to market-standard metrics, Insight has produced a quantitative model which harnesses the most useful elements of each of the aforementioned methodologies (and others that are not discussed above). The Prime climate risk ratings form part of the credit research process for selecting corporate portfolios. The model has two pillars: transition risk and physical risk, and the worst of the two pillars forms the overall rating. The performance of Insight's corporate AUM (and the coverage of the model) is summarised in Table 8. Year on year, we see a downwards trend in climate risk ratings, largely attributable to Insight's inheritance of additional assets in 2023 rather than a deterioration of underlying performance.

Table 8: Prime climate risk ratings coverage of Insight's corporate AUM

Prime climate risk rating	Overall
1 (best possible)	3%
2	23%
3	46%
4	13%
5 (worst possible)	2%
No rating	13%
Total	100%

# FOCUS ON INSIGHT'S NET-ZERO OBJECTIVE

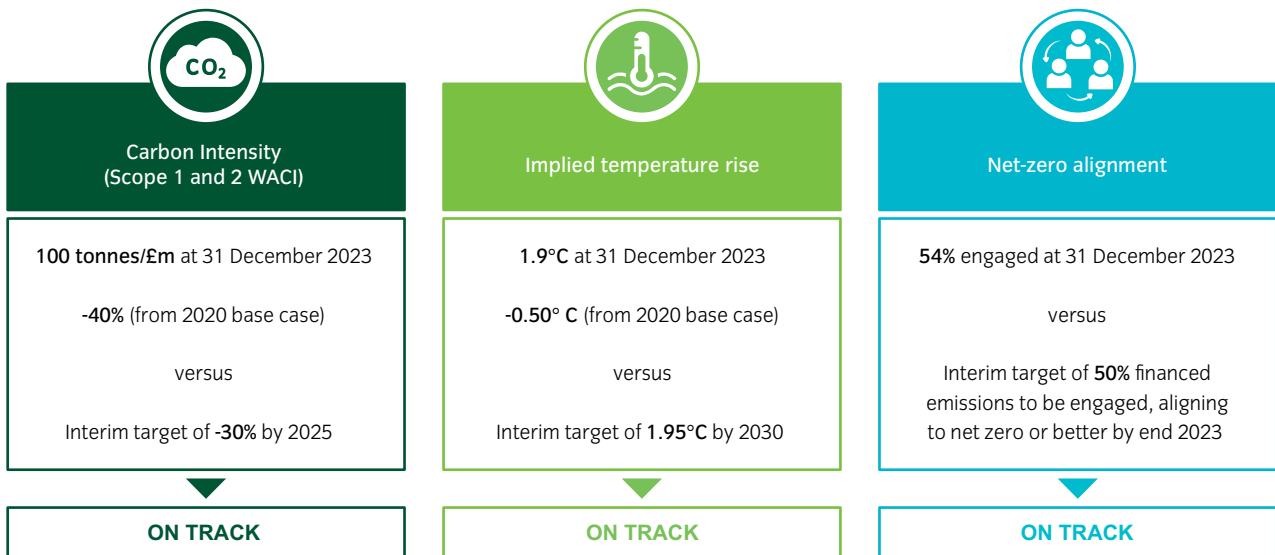
In 2021, we became a signatory to the Net Zero Asset Managers initiative, a group of international asset managers committed to supporting the goal of net-zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C. Initial assets in scope include UK government bond holdings and UK-managed corporate bonds and equities.

Money market instruments, non-UK sovereigns, asset-backed securities, derivatives and corporate bond and equity assets managed outside of the UK are not currently captured in our initial targets.<sup>16</sup>

## INSIGHT'S PROGRESS ON OUR NET-ZERO OBJECTIVES

In 2023, we continued to demonstrate progress in managing the assets in scope for our net-zero commitment towards some of the preliminary objectives we have set out. In that regard, we have achieved the following for the corporate bond and equity assets we manage on a discretionary basis in the UK on behalf of our clients.

1. The weighted average Scope 1 and 2 carbon intensity of holdings has fallen by 40% from a 2020 baseline.
2. The implied temperature rise of these holdings (on a Scope 1, 2 and 3 basis) was 1.9°C down from a 2.4°C baseline in 2020.
3. We have engaged 54% of our financed emissions, exceeding our target of ensuring that at least 50% of our financed emissions were at least aligning to net zero or subject to engagement by year-end 2023.



<sup>16</sup> [Insight Investment's net-zero pledge](#), 31 May 2022, Insight.

## UK GOVERNMENT BOND HOLDINGS

The vast majority of the UK sovereign bonds we hold are for liability-matching purposes for our clients. As UK pension scheme liabilities are discounted using a gilt discount rate, we are unlikely to be able to replace them with another instrument type, absent client instruction to do so.

However, we think it is appropriate for an institution of our size and scale in the asset class to work on behalf of our clients to engage with industry and government bodies to increase the accountability of the UK government in relation to meeting its climate change commitments.

As outlined in previous sections, there is no standard methodology for assessing sovereign net-zero alignment. As part of its net-zero commitment, Insight agreed to follow the guidance set out in the IIGCC Net Zero Investment Framework version 1 and monitor the following metrics to better understand alignment characteristics:

- the Germanwatch CCPI score, targeting an ongoing score of High or Very High; and
- the Climate Action Tracker, which provides independent scientific analysis of sovereign performance with respect to climate action, targeting ongoing alignment with a 1.5°C temperature rise.

We note that the UK government has seen a decline in relative assessments by both organisations. In response, we have increased our advocacy activities to seek detail from the government on measures to address weakening climate policy implementation. At the same time, we are working with partners in the asset management industry to develop portfolio alignment measurement and target-setting sovereign bonds in order to evaluate the UK's relative policy trajectory against other governments. More sovereign alignment data is now available which should enable a higher quality of analysis to be undertaken in this regard and we expect to build this out in 2024.

## CORPORATE BOND AND EQUITY HOLDINGS

In setting our initial objectives, we felt it was important to consider whether our clients were likely to adopt net-zero commitments. Initially, we have focused our objectives only on our UK-managed corporate bond and equity mandates.

Within that, we have set an initial coverage target of a minimum of 75% of these assets, covering mainly UK and European clients where we have better visibility that companies, clients and indeed governments have demonstrated a more transparent net-zero ambition.

Insight has two components to the objectives we have set: portfolio-level decarbonisation objectives, and portfolio-level alignment and engagement targets.

### PORTFOLIO-LEVEL DECARBONISATION OBJECTIVES

Recognising that all possible metrics have advantages and disadvantages, Insight has decided to monitor progress using carbon intensity reduction (measured using Scope 1 and 2 carbon intensity) and portfolio temperature reduction (measured using an implied temperature rise, or ITR, metric) methodologies.

These use current best practice and are subject to data availability; as methodologies and data availability change, we may choose to adapt the data employed, which may lead to changes in both baselines and targets. We will monitor both metrics but it remains unclear which is the most effective primary metric for assessing progress vs objectives; each has its pros and cons.

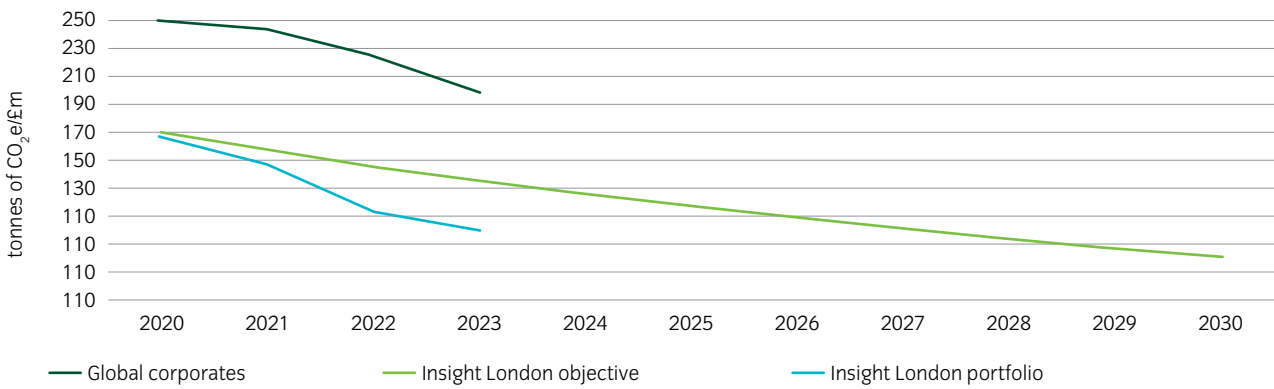
More details on these targets are outlined below. Since setting our net-zero target, the Scope 1 and 2 emissions intensity and implied temperature rise of our in-scope corporates has continued to fall, from 114 tonnes of CO<sub>2</sub>e/\$m in 2022 to 100 tonnes/\$m as at 31 December 2023, and 2.14°C of warming in 2021 to 1.95°C of implied warming in 2023.

It is important to highlight the divergence seen between corporates falling within the scope of Insight's objectives (which have already exceeded the 2025 interim decarbonisation objective) and wider corporate bond holdings (where we have seen an increase in WACI year on year, driven largely by increased output from oil majors and utilities).

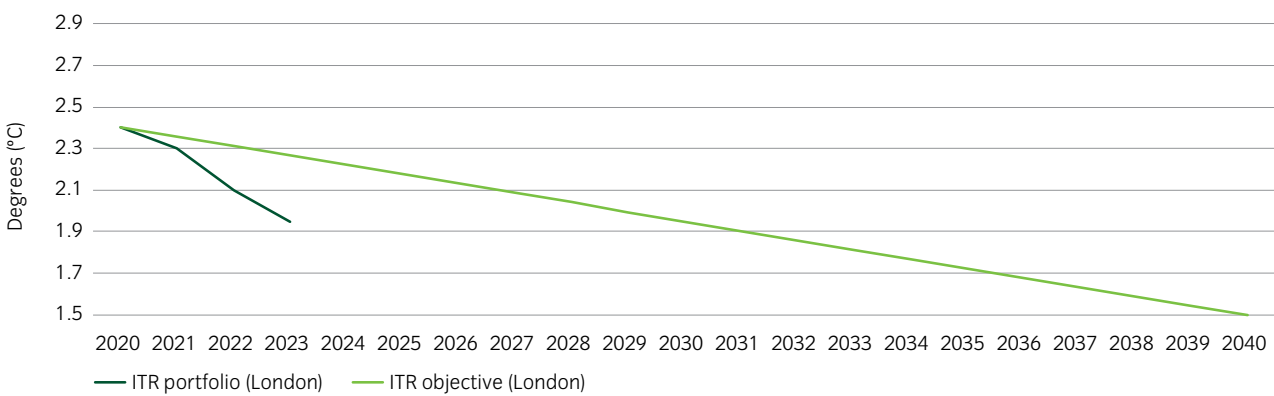
Whilst the WACI of Insight's book still compares favourably against a global credit benchmark (165 t CO<sub>2</sub>e/£ m, versus 199 on a Scope 1 and 2 basis for the comparator index) this highlights the challenges of regulatory and policy divergence across regions for global asset managers.



Insight's corporate bond holdings: Weighted Average Carbon Intensity projection (Scope 1 and 2 emissions only)



Insight's corporate bond holdings: implied temperature rise metrics



## PORTFOLIO-LEVEL ALIGNMENT AND ENGAGEMENT TARGETS

These targets are to ensure that at least 50% of financed emissions for assets in scope are either achieving, aligned with, aligning with, or the subject of engagement with a view to moving into alignment with net zero, by 2023. This target increases to cover 70% of financed emissions by 2025.

Alignment is measured using Insight's in-house Prime net-zero alignment framework, building on methodologies from the Climate Action 100+ benchmark and IIGCC framework, the Transition Pathway Initiative, and the Science Based Targets initiative.

As at December 2023, Insight had engaged with over 50% of its financed emissions for assets in scope on matters relating to climate change and therefore met its 2023 target.

# NEW FOR 2023 – MEASURING THE CLIMATE IMPACT OF OTHER ASSET CLASSES

## RESIDENTIAL MORTGAGE-BACKED SECURITIES

Whilst the lack of standardised disclosures within asset-backed securities (ABS) remains a challenge, Insight has taken steps to assess the financed emissions associated with UK residential mortgage-backed securities, which represent the largest share of our asset-backed securities portfolio.

Our calculation methodology utilises location data on underlying properties within loan portfolios. Localised emissions factors are then produced using local patterns of energy consumption at a postcode level. The share of each loan outstanding is then used to calculate funded emissions attributable to the underlying asset.<sup>17</sup> We have also undertaken additional analysis of non-UK RMBS transactions, auto ABS transactions and CLOs, and plan to report these figures in the future.

Table 9: Insight's UK residential mortgage-backed securities holdings – GHG emission metrics<sup>18</sup>

Metric	Absolute emissions – all deals (t CO2e)	Financed emissions – all deals (t CO2e/£m deal outstanding)	PCAF – Data Quality Score (1 = direct disclosure; 5 = fully estimated)
Scope 1 and 2 emissions	886,987	11,760	5

## MEASURING THE CLIMATE IMPACT OF INSIGHT'S US MUNICIPAL BOND PORTFOLIO

Methodologies for GHG emissions accounting in the US municipal bond space remain nascent, although we note that PCAF is exploring the development of a methodology for financed emissions accounting.

In 2023, Insight developed a new approach for ESG analysis in US municipal bonds under our Prime methodology to include data from an external vendor (ICE) that allows us to measure emissions and physical climate risk exposures. It is important to caveat that this data is estimated based on issuer location, so may not fully reflect the real-world emissions impact of issuers.

Disclosure rates amongst municipal issuers remain low but have shown positive trends (for example disclosure rates to CDP Cities). We present CO2e emissions per capita as a normalising factor, given the municipal book encompasses both corporate-like revenue supported issuers and sovereign-like tax supported. Public power utilities were the largest contributor to the municipal emissions footprint on both a holdings and intensity basis, followed by general purpose municipal issuers.

Table 10: Insight's US municipal bond holdings – GHG emission metrics<sup>19</sup>

Metric	Financed emissions (t CO2e/\$m market value)	Annual CO2e emissions per capita (weighted average)	PCAF – Data Quality Score (1 = direct disclosure; 5 = fully estimated)
Scope 1 and 2 emissions	770,558	15	5

<sup>17</sup> As at 31 March, 2023. Deal-funded emissions are derived from the latest available ONS Subnational Electricity and Gas Consumption Data and combined with RMBS deal data from Intex (location, loan-to-value and loan balance). Funded emissions are then calculated by scaling emissions across loan-to-value and outstanding deal balance.

<sup>18, 19</sup> As at 31 December, 2023.

## MEASURING THE CLIMATE IMPACT OF INSIGHT'S SOVEREIGN BOND PORTFOLIO

In addition to gilt emissions, in 2023 Insight began measuring the emissions impact of our wider sovereign bond holdings. The US, UK, China, Canada and South Africa are the largest contributors to Insight's sovereign footprint on a holdings basis,

whilst South Africa, China, Saudi Arabia and Australia are the largest contributors on an intensity basis. Note that these figures do not include UK gilts held for liability-matching purposes, which were reported earlier in this section.

Table 11: Insight's sovereign bond holdings – GHG emission metrics<sup>20</sup>

Metric	Absolute emissions (t CO <sub>2</sub> e)	Weighted average carbon intensity (tCO <sub>2</sub> e/\$m GDP)	PCAF financed emissions (\$m holdings/\$GDP PPP x t CO <sub>2</sub> e)	PCAF – Data Quality Score (1 = direct disclosure; 5 = fully estimated)
Scope 1 (territorial)	6,871,263	225	3,154,676	5

## MEASURING THE CLIMATE IMPACT OF INSIGHT'S CASH EQUIVALENT EXPOSURES

Another important asset class for Insight is our cash equivalent assets (CDs and CPs). We have not historically reported carbon related disclosure for these holdings due to their nature (many deposits are overnight) and the potential they have to skew to the downside carbon numbers for our broader corporate book

of business (since holdings are mainly in banks, Scope 1 and 2 numbers are typically depressed). However, given the size of our holdings we felt it was important to separately disclose carbon data where we have it available.

Table 12: Insight's cash equivalent holdings – GHG emission metrics<sup>21</sup>

Metric	Absolute emissions (Mt CO <sub>2</sub> e)	Weighted average carbon intensity (tCO <sub>2</sub> e/£m revenue)	Carbon Footprint (t CO <sub>2</sub> e/£m EVIC)	PCAF – Data Quality Score (1 = direct disclosure; 5 = fully estimated)
Scope 1 and 2	0.01	7	0.4	4
Scope 3	1.27	442	67	4

<sup>20, 21</sup> As at 31 December, 2023.

# 6

# Insight's own operations and climate change



In partnership with our parent company BNY, we are committed to monitoring and reducing our own carbon footprint.

Insight is committed to monitoring the impact that we, as a business, have on the environment. This includes both providing and improving the educational resources to employees and working with our parent company, BNY, to help mitigate our operational footprint.

Employees across the business are involved in committees which contribute to how Insight operates as a company, including our Insight Cares Committee, Diversity Equity and Inclusion (DEI) Committee and Affinity Groups. We have incorporated an ESG focus into all employees' objectives, encouraging employees to consider how their role can contribute to our approach to ESG. With respect to our operational carbon footprint specifically, this is analysed and considered by the Climate Change Resilience Committee.

At a group level, BNY has achieved carbon neutrality in its operations in every year since 2015. As outlined in our previous report, the refurbishments of our Head Office incorporated several energy and waste saving/efficiency initiatives. We continue to work with our parent company to understand how we can further mitigate our emissions profile.

Below we set out the operational carbon footprint of our business using data which is taken from our parent and audited externally at the BNY group level. We have also included our Scope 3 emissions from air travel in this report. We are currently reviewing our approach to business travel emissions, as detailed below. We try to limit our business travel, with all employees (excluding members of the EMC) required to submit a business case for approval prior to any travel being booked.

However, we continue to consider our approach to business travel emissions in light of the information gathered. As part of

our vendor management process, we are looking to engage our supply chain in ESG issues, initially focusing on new suppliers. We expect our suppliers to work toward improving their environmental footprint through relevant governance and disclosure mechanisms, such as disclosure to CDP and against the TCFD framework. Going forward, we will look to work with our parent to understand how we can further mitigate our emissions profile.

## INSIGHT'S OPERATIONS

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Insight rents space from BNY offices in various locations globally. Emissions calculations have been made by allocating a proportion of BNY emissions to Insight based on the space (measured by square feet) that Insight occupies. This proportion includes an allocation of shared space (e.g., canteen, reception).

The figures in this report include Insight's office space in Boston and San Francisco, which were not included in the 2021 figures. Insight's presence in these locations is due to the integration of Mellon Investments strategies, which occurred in Q4 2021. Pune emissions have not been included as Insight does not directly employ staff in this location. Location-based Scope 2 emissions have fallen year on year, partially reflecting grid decarbonisation in our operating locations, whilst Scope 1 emissions have fallen, so the emissions needing to be offset from Scope 1 and 2 have also fallen.

Scope 3 business travel emissions have risen slightly year on year (2.7%) reflecting a larger volume of flights in 2023. In 2024, Insight is exploring introducing a new 2030 business travel emissions budget that will seek to deliver emissions reductions from our business travel per employee. It is intended that this will be introduced alongside a new travel policy that will support the use of sustainable transport alternatives and lower emissions impact per kilometre travelled.

## Summary of Insight's emissions and methodology

All units in tonnes of carbon dioxide equivalent (t CO<sub>2</sub>e)

Methodology		2023	2022	2021
Scope 1		43	46	68
Scope 2	Market-based	0	0	30
	Location-based	583	731	570
Total Gross Scope 1 and 2	Market-based	43	46	98
Offsets		(43)	(46)	(98)
Total Net Scope 1 and 2		0	0	0
Scope 3: Business travel (Air travel)		746	720	

The following notes provide further background to Insight's operational emissions figures:

1. Insight's Scope 1 emissions include emissions from tracked use of fuel oil, refrigerant, and natural gas. BNY calculates the entire Scope 1 emissions for all facilities and allocates in proportion the quantity **matching square feet occupied by Insight** at a given location (with the exception of San Francisco and Boston, where this was done on percentage of headcount). Emissions from data centres are also included.
2. Scope 2 Market-based includes emissions from electricity and steam. BNY purchases renewable energy credits (RECs) that cover electricity use globally.
3. Location-based Scope 2 electricity emissions are tracked or estimated for BNY's real estate footprint. Insight's location-based Scope 2 emissions are calculated based on electricity used in facilities occupied by Insight and proportioned based on **square feet occupied by Insight** at a given location.
4. Emissions not covered by renewable energy as listed above (Scope 1 oil, refrigerants, and natural gas emissions, as well as Scope 2 steam and electricity emissions in minor locations) are offset through carbon offsets, including India solar projects, Mexico afforestation projects and landfill gas capture in the US.
5. Air travel emissions data (Scope 3 business travel) was sourced from Amex. The calculations follow the taxonomy of flights and emissions factors outlined by UK DEFRA for national and international air travel.
6. The differences in location-based energy emissions versus Insight's Streamlined Energy and Carbon Reporting (SECR) figures pertain to the wider pool of operations presented here (i.e., Insight's non-UK operations are included).

We also explored the exposure of our operations to physical risks of climate change. This points to localised water stress as the most material source of risk for our Denver operations and BNY's Pune facilities. Nonetheless, extreme heat risks are also elevated across many of our operations. We have discussed the implications of these figures for Insight's organisational resilience in the face of increasingly frequent and severe physical climate risks and will be developing a response to these risks in the course of 2024.

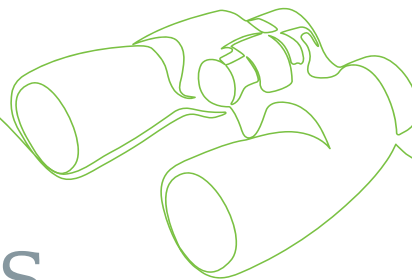
Summary of Insight's operating locations and physical climate risk exposures (0 = low risk, 5 =highest risk)

Insight operations	Water stress (WRI Aqeduct)	Riverine flood risk (WRI Aqeduct)	Extreme heat (GFDRR GeoNode)	Wildfire risk (Fire Weather Index)	Drought risk (WRI Aqeduct)
London	3	1	3	1	3
Manchester	2	1	2	1	3
Frankfurt	3	1	3	1	3
Dublin	2	1	2	0	3
Sydney	4	3	0	1	2
San Francisco	2	3	1	1	1
New York	0	1	3	1	2
Boston	2	2	3	1	1
Pittsburgh	2	1	3	1	2
Tokyo	3	1	3	1	2
Singapore	0	1	3	0	3
Pune	4	3	3	2	1



# 7

## Next steps



### INCREASING OUR MACRO STEWARDSHIP ACTIVITIES

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The sovereign and corporate bonds held in our representative portfolios continue to have exposure to transitional climate risks, whilst the physical impacts of climate change increasingly come into view. Improvements in data and modelling challenge the perception that the latter will occur over longer timescales, whilst rising market and regulatory fragmentation present challenges for a coherent response to climate change – both for our efforts to assess and respond to the financial risks it poses, and our activity on behalf of clients seeking to fulfil other obligations such as net-zero goals.

For an asset manager with a global footprint, this requires a nuanced approach, seeking to engage where we feel we can most effectively represent the interests of our clients. This could entail engagement with regulators, standard-setters and industry associations, for example – and we have significantly increased our efforts in the development of common industry standards and models for effective engagement beyond corporates in 2023. Similarly, our banking counterparty engagement programme allows us to engage constructively on integration of climate issues within lending and investment activities.

### FOCUS ON SOVEREIGNS – AND THE ENABLING ENVIRONMENT FOR NET ZERO

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Our net-zero goals assume progressive adoption of net-zero goals amongst both the entities in which we invest and our clients; if neither occurs this poses a risk to the attainment of these objectives as well as long-term systemic risks to the investments we make.

This report highlights the growing challenges of net-zero alignment for global asset managers. Political divergence, outdated legal and regulatory frameworks, and certain potentially important asset classes have been 'left behind'. With countries tasked with developing second-generation climate pledges next year, the focus on the enabling policy environment for net zero is expected to intensify. Constructive, two-way dialogue with sovereigns can be a valuable mechanism to articulate our clients' needs to sovereign issuers and ensure risks are adequately mitigated through predictable policy pathways.

### EXPANDING ASSET-CLASS COVERAGE AND INTEGRATION – WHERE MATERIAL

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As a signatory to the Net Zero Asset Managers initiative, Insight is committed to expanding the scope of our AUM covered by a net-zero target. There has been progress to date, but delivering emissions reductions within Insight's assets under management will become incrementally more challenging over time as the focus for fixed income managers shifts to demonstrating decarbonisation in the real economy. Meeting these goals will require meaningful action in asset classes that have hitherto proven difficult to influence.

At the same time, Insight has a responsibility to our clients to provide an evidence base for our investment decisions and, where necessary, to prioritise the reality of climate-related investment risks over rhetoric. Some asset classes such as secured finance have exposure to these risks at the margins but significant mitigants in their structuring, for example. Being transparent with clients on the risk assessment processes we undertake – and where risks may or may not be material – is key.

## CLARIFYING CLIENT EXPECTATIONS ON CLIMATE INTEGRATION – AND THE TRADE-OFFS

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As highlighted throughout this report, maximising certainty of investment outcomes for our clients in a context of climate change requires engaging with complexity, particularly potential trade-offs between short-term performance and long-term risk mitigation. To date, climate integration and net-zero alignment has incurred little to no performance

penalty – but this looks likely to change as the global carbon budget tightens. Deeper dialogue with clients on their financial and non-financial investment objectives, and the time horizons for achieving these, will be key.

Legal clarification on asset owners' fiduciary duty relating to climate change will be a powerful driver of climate action and we are encouraged by recent policy measures from the UK government and the Financial Markets and Law Commission in this area. We plan to increase engagement with the UK and other jurisdictions on this topic in 2024.





# Appendices

## MATERIAL DEVIATIONS (TO ALIGN WITH ENTITY-LEVEL REPORTS FOR IN-SCOPE INSIGHT LEGAL ENTITIES)

Insight is a leading global asset manager responsible for assets across LDI, fixed income, currency, multi-asset and absolute return strategies. It should be noted that the metrics and targets provided in this report are aggregated at the Insight Investment group level. We may seek to disaggregate entity-level data in the future.

Additionally, the Metrics and Targets provided in this report include:

- A continuing divergence in emissions intensity between assets managed by Insight North America and assets managed by our FCA-regulated entities that are within the scope of the FCA requirements in PS 21/24, namely Insight Investment Management (Global) Limited and Insight Investment International Limited.
- Higher emissions intensity from Insight North America-managed utilities and oil and gas positions were the key driver of this differential.
- UK-managed assets covered by our net-zero target saw a decline in Scope 1 and 2 emissions intensity from 114 tonnes of CO<sub>2</sub>e/\$m in 2022 to 100 tonnes/\$m as at 31 December 2023, and 2.14°C of warming in 2021 to 1.95°C of implied warming in 2023.
- This compares with a weighted average carbon intensity (WACI) of 165 tCO<sub>2</sub>e/£m for Insight's corporate holdings overall.
- Whilst the WACI of Insight's book still compares favourably against a global credit benchmark (199 on a Scope 1 and 2 basis for the comparator index) this highlights the challenges of regulatory and policy divergence across regions for global asset managers.

## POLICIES AND SUPPORTING DOCUMENTS

This report sets out our current approach to climate change and therefore acts as a de facto climate change policy document.

In addition, we operate certain other climate-related policies as set out below – some of which apply on a firmwide basis:

- [Responsible Investment Policy](#)
- [Stewardship Policy](#)
- [Insight's thermal coal position](#)
- [Exclusions policy for corporate and sovereign fixed income in the Responsible Horizons fund range](#)

More information on Insight's governance structure and policies in the context of stewardship is provided in our annual responsible stewardship report.

## IMPORTANT INFORMATION

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### RISK DISCLOSURES

**Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.**

The performance results shown, whether net or gross of investment management fees, reflect the reinvestment of dividends and/or income and other earnings. Any gross of fees performance does not include fees, taxes and charges and these can have a material detrimental effect on the performance of an investment. Taxes and costs incurred when purchasing, holding, converting or selling any investment, will impact returns. Costs may increase or decrease as a result of certain currency conversions, such as currency hedging, and exchange rate fluctuations.

Any target performance aims are not a guarantee, may not be achieved and a capital loss may occur. The scenarios presented are an estimate of future performance based on evidence from the past on how the value of this investment varies over time, and/or prevailing market conditions and are not an exact indicator. They are speculative in nature and are only an estimate. What you will get will vary depending on how the market performs and how long you keep the investment/product. Strategies which have a higher performance aim generally take more risk to achieve this and so have a greater potential for the returns to be significantly different than expected.

Any projections or forecasts contained herein are based upon certain assumptions considered reasonable. Projections are speculative in nature and some or all of the assumptions underlying the projections may not materialise or vary significantly from the actual results. Accordingly, the projections are only an estimate.

Portfolio holdings are subject to change, for information only and are not investment recommendations.

### Forward looking statements

This report may contain forward-looking statements with respect to the financial condition, performance and position, strategy, results of operations and businesses. Such statements and forecasts involve risk and uncertainty and may not be a reliable indicator of future performance. Forward-looking statements are based on numerous assumptions, risks, and uncertainties, which may change over time and speak only as of the date they are made. Actual results could differ materially from those anticipated in forward-looking statements and future results could differ materially from historical performance. Nothing in this report should be construed as a forecast, estimate or projection of future financial performance and we assume no duty to you with respect to any forward-looking statements (or any reliance on them) and do not undertake to update you with respect to any such forward-looking statements.

### Third party data and general limitations/exclusions

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### Caution about climate metrics and data required for climate reporting

There are many significant uncertainties, assumptions and judgements underlying climate metrics that limit the extent to which climate metrics are reliable. Climate metrics and data (including data required to report climate-related risks and opportunities and their potential impacts), the models, scenarios used to create them and the measurement technologies, analytical methodologies and services that support them are at a relatively early stage and developing. Accordingly, there are limitations with respect to data and analysis techniques, which should be considered. Scenarios are not forecasts and are not predictions of future outcomes. Like any modelling, the further out the projection, the greater the uncertainties.

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### ESG

- **Investment type:** The application and overall influence of ESG approaches may differ, potentially materially, across asset classes, geographies, sectors, specific investments or portfolios due to the nature of the specific securities and instruments available, the wide range of ESG factors which may be applied and ESG industry practices applicable in a particular investable universe.
- **Integration:** The integration of ESG factors refers to the inclusion of ESG risk factors alongside financial risk factors in investment analysis and research to judge the fair value of a particular investment and may also include the monitoring and reporting of such risks within a portfolio. Integrating ESG factors in this way will not typically restrict the potential investable universe, but rather aims to ensure that what we believe to be relevant and material ESG risks are taken into account by analysts and/or portfolio managers in their decision-making, alongside other relevant and material financial risks.
- **Ratings:** The use and influence of our ESG ratings in specific investment strategies will vary, potentially significantly, depending on a number of factors including the nature of the asset class and the structure of the investment mandate involved. For an investment portfolio with a financial objective, and without specific ESG or sustainability objectives, a high or low ESG rating may not automatically lead to a buy or sell decision: the rating will be one factor among others that may help a portfolio manager in evaluating potential investments consistently.
- **Engagement activity:** The applicability of Insight firm level ESG engagement activity and the outcomes of this activity relating to buy, hold and sell decisions made within specific investment strategies will vary, potentially significantly, depending on the nature of the asset class and the structure of the investment mandate involved.
- **Reporting:** The ESG approach shown is indicative and there is no guarantee that the specific approach will be applied across the whole portfolio.

Performance/quality: The influence of ESG criteria on the overall risk and return characteristics of a portfolio is likely to vary over time depending on the investment universe, investment strategy and objective and the influence of ESG factors directly applicable on valuations which will vary over time.

- **Costs:** The costs described will have an impact on the amount of the investment and expected returns.
- **Forward looking commitments and related targets:** Where we are required to provide details of forward-looking targets in line with commitments to external organizations, e.g. Net Zero Asset Managers Initiative, these goals are aspirational and defined to the extent that we are able and in accordance with the third party guidance provided. As such we do not guarantee that we will meet them in whole or in part or that the guidance will not evolve over time. Assumptions will vary, but include whether the investable universe evolves to make suitable investments available to us over time and the approval of our clients to allow us to align their assets with goals in the context of the implications for their investments and issues such as their fiduciary duty to beneficiaries.

Insight applies a wide range of customized ESG criteria to mandates which are tailored to reflect individual client requirements. Individual investor experience will vary depending on the investment strategy, investment objectives and the specific ESG criteria applicable to a Fund or portfolio. Please refer to the investment management agreement or offering documents such as the prospectus, Key Investor Information Document (KIID/KID) or the latest Report and Accounts which can be found at [www.insightinvestment.com](http://www.insightinvestment.com) and where applicable information in the following link for mandates in scope of certain EU sustainability regulations <https://www.insightinvestment.com/regulatory-home/sustainability-regulations/>; alternatively, speak to your main point of contact in order to obtain details of specific ESG parameters applicable to your investment.

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### Institutional Business Development

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