SRI Charter Annex
Ircantec’s Climate Policy
October 2021
Annex

Ircantec’s Climate Policy

Ircantec’s climate action falls within its inter-generational solidarity values, the aim being to preserve the environment for present and future generations while helping to support the energy and ecological transition (EET), and by accompanying job creation in the “green economy” sector.

Ircantec’s responsible investor approach (also referred to as “SRI approach”) was launched in 2009 and built on in 2016 with the signature of the Paris Call following COP21.

In light of the climate emergency, Ircantec is stepping up its commitments to assign its reserves to the emission reduction pathway in line with a 1.5°C scenario, in keeping with recent forecasts made by the Intergovernmental Panel on Climate Change (IPCC) (August 2021 report), which stressed the urgent need to significantly and sustainably reduce greenhouse gas emissions to limit global warming; and the International Energy Agency (IEA) which underlined the need to cease developing the exploitation of fossil fuels in order to achieve the 1.5°C scenario.

In this context, Ircantec wishes to take up the best possible practices and is committed to adopting the most stringent standards which will enable it to reduce its corporate portfolio’s emissions. The Institution is also committed to applying the fossil fuel exclusion thresholds set out in European indexes aligned with the Paris Agreement - the “Paris-aligned Benchmark - PAB” - by 2024, based on a strategy to phase out fossil fuels by 2030.

The 4 structural focuses of Ircantec’s climate approach are maintained and improved:

- **Measure**: The Institution is committed to calculating its carbon footprint on a yearly basis and, ultimately, to significantly reducing this footprint. It will commit as of the end of 2021 to reducing its emissions in accordance with the implementing decree of Article 29 of the Energy-Climate Act, which requires the publication of a quantitative target by 2030 on limiting global warming.

- **Commitment**: Through its collaborative engagement, Ircantec is working alongside other investors to promote the EET. It is also improving dialogue with asset management companies on climate issues and aims at encouraging them to support the EET through the active exercise of voting rights. The voting policy has been updated to include all commitments made under this climate policy, while ensuring that it supports a fair transition.

- **Financing**: Ircantec is committed to increasing the proportion of its reserves dedicated to financing the EET across all asset classes.

- **Communication**: as part of its responsible investor approach, Ircantec wishes to improve its transparency on the effectiveness of its commitments, far beyond its annual sustainability report which is compliant with ESG reporting standards.

Reducing reserve portfolio emissions to follow a 1.5°C pathway

In compliance with the implementing decree of Article 29 of the Energy-Climate Act, and in line with its commitment to assign its reserves to a pathway towards a 1.5°C scenario, Ircantec is committed to reducing the emissions of its corporate portfolio (shares and bonds) by 7% per year on average until 2050 (with 2021 as the reference year). The 7% reduction objective, with zero or limited overshooting, is a result of the pathway to the IPCC’s 1.5°C decarbonisation scenario.

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This commitment aims at supporting the transition by preventing the portfolio from only shifting to low-emission sectors.

Furthermore, Ircantec will ensure, as it has done since 2017, that it reduces the temperature of its sovereign securities portfolio by preferring, whenever possible, allocations to States that are most in line with the Paris Agreement. In terms of allocations, particular attention will be paid to countries stepping up their ambitions.

Financing the ecological and energy transition

The EET investment policy launched in 2016 aims at:

- Promoting energy saving through network efficiency, smart distribution, equipment energy efficiency, etc.,
- Developing renewable energies,
- Supporting innovative solutions such as electricity storage, green hydrogen options, etc.

These investments are primarily made using dedicated funds invested in green bonds or public shares as well as through investments in private shares.

The proportion of Ircantec’s reserves dedicated to financing the EET has continued to increase and stood at over 15% of its reserves at the end of December 2020 (around €2bn).

Ircantec aims at stepping up its financing commitment and has set the target of financing the EET with at least 20% of its reserves by 2024, representing an additional financing of over €1bn in support of the transition.

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2 Scope 1: direct emissions from fixed installations owned or controlled by the company. Scope 2: indirect emissions associated with production. Scope 3: all other emissions (from the purchase of products and services, waste, the transport of goods, business travel, etc.).

3 The following are defined as high-impact sectors (NACE classification): Agriculture, Forestry and fishing, Mining and quarrying, Manufacturing, Electricity, gas, steam and air-conditioning supply, Water supply, Sewerage, Waste treatment and remediation, Construction, Wholesale and retail trade, Repair of motor vehicles and motorcycles, Transporting and storage, Real estate activities.
Fossil fuel exclusion policy

In 2016, Ircantec took measures to divest from some high-emission sectors and to redirect its funds towards investments in favour of the EET. As such, it has already excluded:

- Companies deriving more than 10% of total revenue from coal extraction or coal-based energy production;
- Specialised companies from the oil and gas sector whose business model is focused on exploration and production;
- Shares of non-European integrated oil companies whose investments are not compatible with a 2°C strategy;
- Unearmarked bonds of companies in the oil sector whose investment expenditure are not compatible with a 2°C strategy;

In light of the climate emergency, Ircantec has decided to strengthen its fossil fuel exclusion policy as of 2022.

Thermal coal

According to the International Energy Agency (IEA), coal is the fossil fuel that has most contributed to global warming: at the end of 2018, aggregate CO₂ emissions from coal combustion were responsible for a proportion equivalent to 0.3°C of the total 1°C increase in average annual surface temperatures compared with pre-industrial levels. Although oil has taken coal’s place as the leading source of energy since the 1960s, it is still today the main cause of greenhouse gas emissions in the world, through the activities included in its value chain.

Exclusions related to coal concern the use of coal as an energy source, that is essentially electricity generation and heat and electricity cogeneration, and not as a material.

The following exclusions will apply as from the 1st quarter of 2022:

- **Relative threshold**: exclusion of any company deriving more than 5% of total revenue from thermal coal (mining companies and energy-producing companies);
- **Absolute thresholds**: exclusion of any company producing more than 10Mt of thermal coal per year or having a coal-fired power generation capacity exceeding 5GW.

However, these exclusions do not apply to companies that have adopted a credible plan to exit coal⁴ by 2030 worldwide.

These thresholds are completed by the exclusion of:

- Any company developing or contributing to new projects in the thermal coal sector (mines or coal-fired plants),
- Any partners to this industry (notably infrastructures such as port terminals, railways dedicated to coal transportation) deriving more than 5% of total revenue from thermal coal or participating in new projects⁵.

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⁴ Particular attention will be paid to companies’ coal exit commitment plans. These exit plans must include commitments to close sites and not to sell thermal coal-related activities. Ircantec will take full measure of these criteria in its shareholder activism policy so as to ensure employees in this sector affected by the EET are supported and retrained.

⁵ Global Coal Exit List (GCEL) – published by the NGO Urgewald (latest version in October 2021).
Moreover, the growth of the unconventional energy sector, particularly due to the supply of shale oil from the United States, which has a more significant impact in terms of greenhouse gas emissions, puts the achievement of the Paris Agreement at risk.

In reference to these scientific recommendations, new exclusion thresholds will be applied by Ircantec as from 2022:

- Exclusion of any company developing new projects in unconventional energy or increasing its capacities in the unconventional energy sector.
- Exclusion of any company producing more than 10 million barrels of oil and gas per year. Companies deriving more than 30% of production from unconventional oil and gas are also excluded. These exclusions do not apply to companies which have adopted a credible and detailed plan to exit the unconventional sector by 2030.

While waiting for a better access to data on the financing of unconventional energy to establish an exclusion policy, Ircantec will initiate a shareholder dialogue to rally all portfolio financial actors around the adoption of credible and detailed plans to exit the unconventional sector.

However, these exclusions do not apply to any green bonds issued by companies committed to exiting unconventional fossil fuels by 2024 worldwide.

Ircantec is also committed to applying the exclusion thresholds in European indexes aligned with the Paris Agreement - the “Paris-aligned Benchmark (PAB)” by 2024, i.e. to excluding all companies deriving more than 1% of total revenue from thermal-coal activities (exploration or processing), save for those having adopted a credible exit plan by 2030. Absolute exclusion thresholds may also be reviewed.

An exception will also be applied to green bonds issued by a company that meets divestment conditions, provided that the company is committed to exiting thermal coal by 2030 worldwide.

Ircantec is committed to achieving zero thermal coal exposure of its portfolio by 2030 worldwide.

Oil and gas

The special report published by the IPCC in 2018 on global warming of 1.5°C emphasizes that between 2020 and 2050, primary energy from oil must decrease in most scenarios, by around -39 to -77%, while that from natural gas must decrease by around -13 to -62%. In the 4 mitigation strategies set out by the IPCC in order to reduce net emissions to achieve a pathway that limits warming to 1.5°C (without overshooting or minimal overshooting), the proportion of fossil fuels must be significantly reduced.

Furthermore, in its report titled “Net Zero by 2050: A Roadmap for the Global Energy Sector” published in May 2021, the IEA concluded that investment should be limited to maintaining production from existing oil and natural gas reserves, without exploiting new reserves.

6 See Annex - Definition of unconventional fossil fuels
7 Global Oil & Gas Exit List (GOCEL) – to be published in November 2021 by NGO Urgewald.
8 Global Oil & Gas Exit List (GOCEL) – to be published in November 2021 by NGO Urgewald. MMboe: Millions of Barrels of Oil Equivalent.
9 Financing means any investment activity in shares/bonds, credit activity, structuring of shares and bonds issues, or insurance coverage.
By 2024, Ircantec commits to:

- **Applying the exclusion thresholds** in European indexes aligned with the Paris Agreement, the “Paris-aligned Benchmark - PAB”, i.e. to excluding all companies deriving more than 10% of total revenue from oil or 50% for gas. However, these exclusions do not apply to companies which have adopted a credible plan to reduce their emissions in line with a 1.5°C scenario;

- Divesting from all companies launching new conventional oil and gas projects (exploration, production, transport) or contributing to (equipment, services) the development of new projects;

- Divesting from all companies whose production is related to unconventional activities and which do not have a credible phase out plan.

By 2030, Ircantec is committed to achieving zero exposure to any company in the oil and gas sector that has not adopted a credible plan to reduce its emissions in line with a 1.5°C scenario.

**Strengthening shareholder activism through the voting policy:**

In keeping with its new climate policy, Ircantec has now integrated all of its commitments into its voting policy to encourage companies to apply the best standards regarding the energy and ecological transition. This new voting policy will apply as from the 2022 voting campaign.

**Ircantec expects that its invested companies:**

- Adopt a strategy enabling them to comply with the scenario limiting global warming to 1.5°C approved by the Science Based Targets initiative or align with a pathway to decarbonising greenhouse gas emissions by 7% per year on average in accordance with the IPCC’s 1.5°C scenario pathway.

- Set quantitative objectives to reduce CO₂ emissions for all scopes of companies in high climate impact sectors.

- **Introduce intermediate targets** (short, medium and long terms) to ensure sufficient reduction of greenhouse gas emissions to achieve 1.5°C global warming scenarios.

- For companies involved in coal extraction, production and exploitation activities, implement a 2030 coal phase out plan, along with a plan to convert activities¹⁰ and retrain employees.

Ircantec will also ensure **regular votes are introduced on the implementation of companies’ climate strategy and on the steady publication of climate strategy updates** in accordance with the recommendations of the Task Force on Climate-related Disclosure (TCFD).

**Particular attention will be paid to controversial practices¹¹:**

- Companies developing, financing¹² or contributing (equipment) to new coal projects (mines, plants, infrastructures) or buying existing assets.

- Companies developing or financing new unconventional projects or increasing their capacity in the unconventional sector.

- Companies exploiting unconventional reserves.

- Companies initiating or financing new conventional projects (exploration, production, transport) or contributing (equipment, services) to the development of new projects.

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¹⁰ Closure of production sites and not sale of activities to other stakeholders, which would not be considered a strong exit plan.

¹¹ Depending on the implementation of Ircantec’s new climate policy, some controversial practices set out in this policy may potentially no longer be found in the Institution’s portfolio.

¹² Financing means any credit activity, structuring of shares and bond issues or insurance coverage.
Since 2018, Ircantec has closely monitored its shareholder activism using a Focus List comprised of its 20 largest contributions, its 5 largest emitters and its 5 largest holders of stranded assets. This list now also includes its main investments in financial companies involved in controversial practices such as thermal coal and unconventional energies, which have not made an phase out commitment.

In the context of its voting policy, Ircantec will continue to support a fair transition to ensure it accompanies employees in sectors impacted by the EET. Ircantec is a signatory to the “Investors’ Statement to support a fair transition in climate change”. An energy and ecological transition developed to ensure social cohesion and support to employees is a priority topic for Ircantec and the Institution will continue to work on this topic. Thus, during general meetings, particular attention will be paid to convert activities related to fossil fuels and not only sell or stop at these activities.

Since 2017 and the formalisation of its engagement policy, Ircantec’s institutional engagement policy has focused on 3 main topics, including the energy and ecological transition: Ircantec has contributed to works and discussions through involvement in various national and international bodies. Ircantec has also taken part in several collaborative initiatives related to the EET:

- Since May 2014, Ircantec has been a signatory of the Principles for Responsible Investment (PRI) set out by the United Nations Environment Programme Finance Initiative (UNEP FI) and the United Nations Global Compact. The network is comprised of 2,100 signatories worldwide, with the aim of developing a more responsible financial system. Ircantec has furthered its commitment to the PRI with the election of the advisor to the Chair of Ircantec’s Board of Trustees as a member of the PRI Board of Directors in 2018.

- The FIR13 (Forum for Responsible Investment) since July 2017: a multi-party organisation founded in 2001 which aims at promoting Socially Responsible Investment. The FIR is comprised of all SRI stakeholders: investors, asset management companies, financial intermediaries, Sustainability rating agencies, investor consultancies, marketplace organisations, trade unions, NGOs, associations as well as industry specialists. Ircantec has confirmed its commitment to the FIR with its participation in the organisation’s Board of Directors.

- The Climate Action 100+ initiative (in association with the PRI), since 2017, in which Ircantec is a member of the Supervisory Committee. The initiative engages the world’s largest carbon emitters on their governance and strategy regarding climate-related risks and opportunities and on the incorporation of the ecological and energy transition’s social aspects.

- The Assessing Low Carbon Transition initiative14, since 2018 (managed by the Carbon Disclosure Project and ADEME) to encourage companies to act appropriately with regard to climate strategy.

In keeping with its shareholder activism, Ircantec will continue to work on collaborative engagement campaigns to encourage companies to implement a strategy that is consistent with the Paris Agreement, to commit to a 2030 coal phase out plan and to adopt best practices in the fossil fuel sector.

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13 https://www.frenchsif.org/isr-esg/
14 https://actinitiative.org/
Reporting on the effectiveness of the Institution's climate commitments

As part of its responsible investor approach, Ircantec aims at being transparent in its communication and its achievements. Ircantec is committed to measuring and communicating its portfolio’s emission reduction and its targets’ achievement in its annual sustainability report.

Ircantec wishes to improve the transparency of its investments by publishing all portfolio securities held by dedicated funds on its website on an annual basis. Ircantec is also committed to publishing the list of companies from which it will divest following the implementation of its exclusion policy and the amounts thus divested.

Definition of unconventional fossil energies

Ircantec defines the following fossil fuels as unconventional:

- **Shale gas and oil.** Found at great depths in rocks that are scarcely permeable and scarcely porous, they are extracted through hydraulic fracturing. This practice raises many issues, including a significant consumption of water and chemicals which can pollute the subsoil, the resulting emission of methane and risks of earthquakes.

- **Oil sands.** They are comprised of a mixture of crude bitumen, sand, mineral clay and water. As such, they are more viscous and cannot be pumped like conventional oil. Producing oil from oil sands requires large quantities of water and energy. Extracting a barrel of oil from oil sands generates over 190 kg of greenhouse gases. It is estimated that, based on its life cycle, the fuel derived from oil sands generates up to 37% more greenhouse gas emissions than fuel from conventional oil.

- **Extra heavy oil, with an API density above 15 degrees.** Due to its composition, its extraction and recovery process, producing extra heavy oil is very energy-intensive and involves high levels of emissions.

- **Deepwater hydrocarbons.** This concerns offshore wells that are 1,500 metres deep or more. Such exploitation is controversial as it is impossible to contain any potential leaks at such depths, which would result in negative environmental impacts.

- **Coal gas.** It is extracted from coal seams, most often using hydraulic fracturing, which raises numerous issues (methane leaks, water contamination, health risks for the local population, etc.).

- **Arctic oil and gas hydrocarbons.** The definition of the Arctic used by Ircantec is AMAP’s (Arctic Monitoring and Assessment Programme): “The terrestrial and marine areas north of the Arctic Circle (66°32’N), and north of parallel 62°N in Asia and parallel 60°N in North America, modified to include the marine areas north of the Aleutian chain, Hudson Bay, and parts of the North Atlantic Ocean including the Labrador Sea”. Potential leaks cannot be mitigated in cold waters and would have a negative impact on the Arctic’s fragile marine and coastal ecosystems. This also contributes towards the development of marine traffic in the area and black carbon emissions limit the region’s ability to reflect solar rays and thereby limit climate change attenuation.
Source: AMAP, Geographical Coverage, 1998 Assessment Report