INVESTOR EXPECTATIONS ON CLIMATE CHANGE FOR AIRLINES AND AEROSPACE COMPANIES

February 2020

As long-term investors, we recognize the threat of climate change to our investments and view fulfillment of the Paris Agreement’s goal to hold global average temperature rise to “well below 2°C above preindustrial levels” as an imperative. Aviation is a carbon-intensive mode of transportation and is projected to grow rapidly in the 21st century. While this presents opportunities for aviation investors and companies, the accompanying increase in greenhouse emissions also heightens climate change-related risks.¹ These include:

- **Transition Risks:**
  - *Regulatory:* Although current company, government, and voluntary industry-wide emissions targets are welcome,² they will not align the sector with the net-zero world envisioned by the Paris Agreement.³ As a result, governments are likely to impose stronger emissions reduction measures on airlines and aerospace companies as the gap between the level of action needed to keep global warming to safe levels becomes more apparent.⁴
  - *Reputational:* Airlines and aerospace companies may face a backlash from their consumers, investors, or other stakeholders if they, or the organizations they support, are perceived to be making insufficient efforts to reduce their emissions. The recent growth of the no-fly movements in Europe demonstrate that this is a risk that aviation companies are already confronting.⁵
  - *Legal:* Airlines and aerospace companies could face growing legal risks as legal notions of company responsibility for climate change evolve. As just one example, some oil and gas majors have already faced lawsuits alleging that they misled investors and the public on climate change, despite knowing the risks.⁶

- **Physical risks:** Airline and aerospace companies that are unprepared for the projected physical impacts of climate change—including everything from airport flooding to increases in clear-air turbulence⁷—could face severe consequences to assets, service and overall viability.

We have developed the investor expectations below as guiding standards to support airline and aerospace companies in managing climate-related risks and proactively positioning themselves for the transition to a low-carbon economy. We view these actions as vital to those with a fiduciary responsibility for other people’s long-term investments and support their implementation.

Produced by the United Nations-supported Principles for Responsible Investment (PRI), with input from investors engaging airlines and aerospace companies via the Climate Action 100+.⁸

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² E.g., efficiency and CO₂ targets set by the International Civil Aviation Organization (ICAO), International Air Transport Association (IATA), and the Air Transport Action Group (ATAG). This includes the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).
³ https://www.icao.int/Meetings/A40/Documents/WP/wp_561_en.pdf
⁵ https://www.unpri.org/climate-change/what-is-the-inevitable-policy-response/4787.article?adredir=1&adredir=1
⁸ https://www.ft.com/content/24e12688-f482-11e8-9623-d79981e729f
⁹ http://www.climateaction100.org/
INVESTOR EXPECTATIONS:

As long-term institutional investors, we expect airlines and aerospace companies to:

1. Implement a strong governance framework which clearly articulates the board’s accountability and oversight of climate change risks and opportunities. This should entail:
   - Nominating a board member or board committee with explicit responsibility for oversight of the climate change policy; and
   - Incorporating climate change risks and opportunities into company strategy.

2. Establish and disclose robust transition plans consistent with the goals of the Paris Agreement. These should:
   - Include short-, medium-, and long-term targets and timelines for reaching net-zero emissions by 2050;
   - Cover emissions reductions throughout the value chain (Scope 1, 2, and 3);
   - Not rely solely on carbon offsets or alignment with current government and voluntary industry-wide targets aimed at addressing aviation emissions; and
   - Conduct scenario analyses to assess the robustness of company business plans against a range of climate scenarios, including a 1.5°C global warming scenario.

3. Establish and disclose robust strategies, resources, and programs for:
   - The development, use, scaling, and commercialization of sustainable alternative aviation fuels and technologies with substantially lower carbon emissions relative to conventional aviation fuels; and
   - Operational and technical efficiency improvements (recognizing that efficiency improvements alone will not guarantee absolute emissions reductions in the future).

4. Provide strong corporate disclosure in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).10

5. Lobby transparently and consistently with the Paris Agreement.

In accordance with investor expectations statements on climate change lobbying set out by the PRI,11 IIGCC12, and Ceres13, this means:
   - lobbying consistently with the Paris Agreement and supporting ambitious climate policy;
   - establishing robust governance procedures on climate lobbying;
   - acting when it is determined that the lobbying activities of either the company or one of its trade associations are not aligned with ambitious climate policies; and
   - being transparent about the company’s lobbying activities via appropriate disclosures.

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9 E.g., efficiency and CO2 targets set by the International Civil Aviation Organization (ICAO), International Air Transport Association (IATA), and the Air Transport Action Group (ATAG). This includes the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).
10 https://www.fsb-tcfd.org/publications/
12 https://www.iigcc.org/download/investor-expectations-on-corporate-lobbying/?wpdmdl=1830&refresh=5d2ede3616ae81563352630
The following 122 institutional investors with $5.96 trillion in collective assets under management\(^{14}\) have signed this statement:

- Aargauische Pensionskasse (APK), Switzerland
- Aberdeen Standard Investments
- Achmea Investment Management
- Adrian Dominican Sisters, Portfolio Advisory Board
- AIF Capital Limited
- Anesvad Foundation
- AP4 - Fourth Swedish National Pension Fund
- APG Asset Management
- ASR Asset Management
- AustralianSuper
- Avaron Asset Management
- AXA Investment Managers
- Batirente
- Bernische Lehrerversicherungskasse, Switzerland
- Bernische Pensionskasse BPK, Switzerland
- BlueBay Asset Management LLP
- Bon Secours Mercy Health
- Boston Common Asset Management
- BPL Pensioen
- Brunel Pension Partnership

\(^{14}\) Calculated by aggregating the signatory investors’ stated assets under management. Because the signatories include asset owners, asset managers, and service providers, some double counting in this figure is possible.
Caisse de pension des sociétés Hewlett-Packard en Suisse, Switzerland

Caisse de pensions de l'Etat de Vaud (CPEV), Switzerland

Caisse de pensions ECA-RP, Switzerland

Caisse de prév. des Fonctionnaires de Police & des Etablissements Pénitentiaires, Switzerland

Caisse de Prévoyance de l'Etat de Genève (CPEG), Switzerland

Caisse de Prévoyance des Interprètes de Conférence (CPIC), Switzerland

Caisse de prévoyance du personnel de l'Etat du Valais (CPVAL), Switzerland

Caisse intercommunale de pensions (CIP), Switzerland

Caisse paritaire de prévoyance de l'industrie et de la construction (CPPIC), Switzerland

CalPERS

CANDRIAM

CAP Prévoyance, Switzerland

CCAP Caisse Cantonale d'Assurance Populaire, Switzerland

Christian Super

Church Commissioners for England

Church of England Pensions Board

CIEPP - Caisse Inter-Entreprises de Prévoyance Professionnelle, Switzerland

Congregation of St. Joseph
Dana Investment Advisors

Daughters of Charity, Province of St. Louise

Devon Funds Management

Dignity Health

ECO Advisors

EFG Asset Management

Environment Agency Pension Fund

Epoch Investment Partners Inc

Etablissement Cantonal d'Assurance (ECA VAUD), Switzerland

Ethical Partners Funds Management

Ethos Foundation, Switzerland

fair-finance Vorsorgekasse AG

fairpointe capital

Fondation de la métallurgie vaudoise du bâtiment (FMVB), Switzerland

Fondation de prévoyance Artes & Comoedia, Switzerland

Fondation de prévoyance du Groupe BNP PARIBAS en Suisse, Switzerland

Fondation Leenaards, Switzerland

Fonds interprofessionnel de prévoyance (FIP), Switzerland

Friends Fiduciary Corporation

Gestion FÉRIQUE

Groupama Asset Management
GVA Gebäudeversicherung des Kantons St. Gallen, Switzerland

Hexavest

Insight Investment

Ircantec

ISGAM AG

Jesuit Committee on Investment Responsibility

Jesuits of the USA Central and Southern Province

JLens Investor Network

Karner Blue Capital, LLC

KLP

Länsförsäkringar AB

MAIF

Mercy Investment Services, Inc.

Minnesota State Board of Investment

MP Pension

Nest Sammelstiftung, Switzerland

Niederösterreichische Vorsorgekasse AG

Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC)

Ostrum AM

P+, Pension for Akademikere

Pensionskasse Bank CIC (Schweiz), Switzerland
Pensionskasse Basel-Stadt, Switzerland
Pensionskasse Bühler AG Uzwil, Switzerland
Pensionskasse Caritas, Switzerland
Pensionskasse der Basler Kantonalbank, Switzerland
Pensionskasse der Stadt Winterthur, Switzerland
Pensionskasse Pro Infirmis, Switzerland
Pensionskasse Römisch-katholische Landeskirche des Kantons Luzern, Switzerland
Pensionskasse SRG SSR, Switzerland
Pensionskasse Stadt Luzern, Switzerland
Pensionskasse Unia, Switzerland
Prévoyance Santé Valais (PRESV), Switzerland
prévoyance.ne, Switzerland
Profelia Fondation de prévoyance, Switzerland
Prosperita Stiftung für die berufliche Vorsorge, Switzerland
Raiffeisen Capital Management
Rathbone Brothers Plc
Resona Asset Management Co., Ltd.
Retraites Populaires, Switzerland
RRSE (Regroupement pour la Responsabilité Sociale des Entreprises)
SBI Funds Management Private Limited
Secunda Sammelstiftung, Switzerland

SHARE - Shareholder Association for Research & Education

Skandia

Solothurnische Gebäudeversicherung, Switzerland

St. Galler Pensionskasse, Switzerland

Statewide Super

Stiftung Abendrot, Switzerland

Strathclyde Pension Fund

Sustainable Insight Capital Management

Systematica Investments

SYZ Asset Management

Terre des hommes, Switzerland

The Local Authority Pension Fund Forum

TRUSTEAM FINANCE

Unfallversicherungskasse des Basler Staatspersonals, Switzerland

Unigestion

Université de Genève (UNIGE), Switzerland

University of Toronto Asset Management Corporation

USS

Vision Super

West Yorkshire Pension Fund