EdenTree Investment Management Case Study

EdenTree Investment Management Ltd.: Managing investment carbon risk effectively

EdenTree Investment Management Ltd, the UK-based fund manager, became convinced that measuring their funds' carbon intensity would allow them to manage carbon risk more effectively, report to clients more affirmatively, and ultimately to sign the Montreal Pledge. The detailed carbon footprint analysis carried out by South Pole Group delivered an independently verified assurance stamp on portfolio risk for EdenTree's Amity UK Fund.

The context

Climate change is a key component of EdenTree's responsible investment engagement strategy, and has been further strengthened by the fund manager joining IIGCC (Institutional Investors Group on Climate Change), signing the COP21 Paris Pledge, and working collaboratively with other investors on climate change initiatives.

At present, portfolio companies are included and excluded based on EdenTree's negative and positive screens, and most carbon intensive companies are avoided under the fund manager's positive environmental screens. EdenTree has also adopted a House position to exclude companies with exposure to oil sands and Arctic drilling.

The brief

As a key part of their responsible investment strategy, EdenTree wanted to establish the carbon footprint of their leading ethical and responsible funds. The fund manager's clients have become increasingly interested in funds with a low climate change impact or minimal exposure to fossil fuels, and recent stakeholder meetings have been dominated by questions around fossil fuel divestment. EdenTree believed, intuitively, that their Amity UK Fund represented a clear choice for clients interested in low-carbon exposed funds, but wished independently to verify this. Whilst an in-house model provided significant utility, the fund manager decided at an early stage that a third party verification process would provide the overall assurance that they and their clients were looking for.

About the client

EdenTree Investment Management Ltd (EdenTree) is a UK based fund manager and part of the Ecclesiastical Insurance Group founded in 1887. Ecclesiastical Insurance Group is wholly owned by the AllChurches Trust, a UK registered charity that is committed to assist in areas of greatest need and to make grants to a range of good causes.

Ecclesiastical Insurance Group had an ambitious target of giving £50m of distributable profits to AllChurches over three years and is among the largest corporate donors in the UK. Having achieved this target, a new, ambitious target of £100m by 2020 has been set by the Group's Board.

EdenTree manages £2.4bn of assets (at 31 December 2015) and is a pioneer in responsible investment, having launched its first Amity screened fund in 1988. The fund manager now oversees a suite of four screened ethical retail funds in the Amity range, and two specialist funds for charities, applying both negative and positive screens. EdenTree is also a signatory investor to the CDP and a member of IIGCC (Institutional Investors Group on Climate Change).

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"As responsible investors, climate change risk can no longer be ignored. Conducting a portfolio carbon footprint became key in order to understand and manage risks in a carbon constrained world. We are delighted that South Pole conducted our first independent carbon footprint and are excited about the outcome, which showed the Amity UK Fund to be significantly lower in carbon intensity than its relative benchmark. South Pole Group's solution helped us better to understand our climate change risks and to use the results in our engagement with companies contributing the most in terms of emissions to the Fund. It will also help our fund managers in their portfolio decision making."

Neville White
Head of SRI Policy & Research
EdenTree Investment Management Ltd.

The challenge

A measured portfolio footprint is becoming a mandatory requirement in some jurisdictions, and an advantage in EdenTree's home market. The fund manager's due diligence needed to establish that they could achieve the portfolio footprint scientifically and based on verifiable, published data. EdenTree wanted to keep modelling assumptions to a minimum, and to focus mainly on liabilities related to direct emissions from owned sources (Scope 1 emissions) and power generation (Scope II).

The process

EdenTree started by using the Bloomberg portfolio tool to assess the carbon impact of their Amity UK Fund, and to gain data on the key contributors to the intensity of the Fund. The next step was to commission an independent, third party portfolio analysis: EdenTree shortlisted nine key service providers based on methodology, competency, scope and price.

EdenTree finally chose South Pole Group for the Group's global reach as well as their dedicated and specialist expertise in managing climate risk. The size of the universe covered and the methodology used by the Group also provided reassurance to EdenTree. Finally, EdenTree was attracted to the use of South Pole's Climate Transparent Investment Label to show the resource being committed to managing climate risk within the Funds.

The solution

EdenTree chose South Pole Group's portfolio carbon footprint analysis solution to carry out a sophisticated carbon footprint analysis. The solution covered the Amity UK Fund and ensured an independently verified assurance stamp on portfolio risk for EdenTree's range of ethically screened Funds.

South Pole Group's solution delivered the following key benefits for EdenTree

1. **Support for overall climate and responsible investment strategy:** Thanks to the carbon footprint analysis, EdenTree was able to begin to assess the climate impact of its responsible investment Funds.
2. **Management of carbon risk:** EdenTree was able to consider risk thanks to a better understanding of the main stock contributors to low and high carbon intensity within their Amity UK Fund. The analysis provided them with a means to identify and engage with the outliers and influence portfolio construction.
3. **Enhanced reporting:** The analysis provided a basis for EdenTree to report to clients with authority on the portfolio footprint analysis for a discrete fund, the correlation with benchmark, and work towards a reduction in carbon intensity over time. The analysis also provided a detailed breakdown per sector which will help EdenTree assess the risks and instruct future engagements.

Why work with us

Valuable solutions for you

With a long list of satisfied clients, South Pole Group has living proof in its ability to successfully carry out a full spectrum of services for investment climate impact assessment. South Pole Group helps clients meet their needs and prosper while, at the same time, operate in way that helps fight climate change.

Global team

We are a truly global provider of sustainability solutions and services. Our team is made up of over 130 skilled and enthusiastic professionals from over 20 different countries, based in offices spanning 6 continents.

Proven impact

Since 2006, we have measured the climate impact of countless companies, projects and products worldwide. We have screened USD 50 bn+ of investments for their climate impact and we have developed 270+ projects in renewables, energy efficiency, forestry, agriculture, industry and households. Through our efforts, 50 million tonnes of CO_2 have been saved, almost as much as the annual CO_2 emissions of Portugal. We have enabled the production of 35,000 GWh of renewable energy (more than the annual electricity consumption of Denmark), and mobilised over USD 6 bn for clean energy investments in emerging markets. We have protected or restored over 250,000 km^2 of land, about as much as the total land mass of the UK. In total, our projects have helped create almost 20,000 jobs in developing countries and we saved 17,000+ hectares of forest from deforestation, about the size of 24,000 soccer pitches.

Added value

We help you grow with groundbreaking solutions that benefit your business, the environment and society.

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