ANNUAL REPORT
2013

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ABOUT 2°ii

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TIMELINE

2011

November 2011 – Inception of the 2° Investing concept: conference ‘To save the climate ... change finance?’; organized by Stanislas Dupré, in partnership with Carbon Tracker Initiative and Compta-Durable at the French Institute of Chartered Accountants

2012

June 2012 – First 2°ii Workshop, on ‘Financed Emissions ‘ in partnership with CA-Cheuvreux, with SRI analysts from the financial sector

October 2012 – Official creation of the 2° Investing Initiative by Stanislas Dupré and Hugues Chenet

December 2012 – 2°ii first report release + launch conference at Caisse des Dépôts - ‘Connecting the dots between climate goals, portfolio allocation and financial regulation’.

2013

April 2013 – Conference ‘Carbon Bubble and Financing the Energy Transition’ at the National Assembly, in partnership with Carbon Tracker Initiative, IEA, OECD and HSBC.

June 2013 – 2°ii approaches and recommendations quoted in the National Debate on Energy Transition final Report

July 2013 – Launch conference of the ‘From financed emissions to long-term investing metrics’ report, in partnership with ADEME, AFD, Caisse des Dépôts, French Ministry of Environment, and with the support of UNEP-Fi and ABC

November 2013 – 2°ii concretizes its first step in China with 3 presentations during the Sustainable Finance Week in Beijing.

WORK STREAMS

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OPERATIONAL REPORT

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LETTER FROM THE PRESIDENT

On behalf of the Board of Administrators of 2°ii, I am pleased to present this first annual report, for the year 2013 of the association. I would first like to commend the work of the team of the association, including Stanislas Dupré (Executive Director) and Hugues Chenet (Scientific Director), who gave us new milestones in 2013, participating in debates and achieving or contributing to the work and studies to deepen and support the ideas on which this project was built.

I want to thank our members, whether individual members engaged on our themes and interested in our work, who bring us very diverse views and approaches, or member organisations, which also represent a wide variety of stakeholders! I also especially thank the ADEME, the French Ministry of Environment (CGDD), the French Development Bank (AFD), the Commissariat Général à la Stratégie et à la Prospective (CGSP) and the Caisse des Dépôts, all French public entities, who in 2013 funded most of the activities of the association.

We endeavour to establish appropriate governance for such a non-profit association composed of various members and many partners. Each member is welcome to contribute and 2°ii is intended to be a particularly open organisation, which spawns partnerships and exchanges with other actors on related topics, focusing on creative networking, for the benefit of integration of climate constraints in both financial institutions’ investment strategies and financial regulation.

Jean-Pierre Sicard,
President of the 2° Investing Initiative
Immediate policy incentives for financial capital allocation in the economy are largely ignored by policymakers. Our analysis suggests that policy provides little to no finance-sector specific incentives to finance the transition to a low-carbon economy. The Renewable Energy Network REN21 database of renewable energy policies lists exactly one such policy in their depository, by the Central Bank of Fiji. Whereas initiatives are underway to develop policies in the United States and Europe, China is host to the only major financial center that has begun to integrate climate incentives into financial regulation. In fact, our analysis suggests that financial regulation in particular is increasingly creating new barriers for climate-friendly investments. An in-depth review and innovative ideas on how financial regulatory tools can be aligned with climate policy goals is therefore needed.

The challenge involves both moving out of high-carbon and into low-carbon assets. Aligning financial markets with low-carbon investment roadmaps, like those developed by the IEA and others, will require both significant high-carbon assets divestment and reinvestment in climate-friendly assets, in the energy sector, but also in transport, infrastructure, and other high-carbon industries. The kind of challenges involved in moving out of high-carbon financing are not the same as moving into low-carbon financing, and intelligent and creative solutions need to be found for both challenges. A major obstacle to reallocation relates to the lack of conceptual framework and metrics to assess the ‘climate-friendliness’ of investment portfolios.

One of the main barriers to capital reallocation are investment processes themselves. The debate around the energy transition largely focuses on the technological and economic constraints to moving towards a low-carbon economy. At the same time, the investment processes determining capital allocation in the economy are increasingly appearing as a barrier by itself:

- On the one hand, long-term risks and opportunities (including climate related ones) are off the radar screen due to short term risk assessment frameworks,
- On the other hand many investments frameworks are based on allocation rules disconnected from any forward-looking risk analysis. In particular, the practice of ‘benchmark index investing’ and the artificial shortening of investment horizons are reducing the availability and increasing the cost of capital to climate-friendly investments.
2°ii welcomes two types of members: Organisations and Individuals.

Members are placed within the six following categories: Investors, Issuers (companies and territorial authorities), Associations of general interest, Public and government organisations, Research and Expertise Organisations, and Individuals.

As of 31 December 2013, our association consists of 19 member organisations and 50 individual members, most of whom are serving in financial institutions (banks, asset management, private equity, brokerage, etc.). Some other members are experts from different fields (consulting, accounting, extra-financial analysis, etc.), either researchers (economy, climate economics), or public servants. Two of our members are Members of the European Parliament (former Ministers of Environment in their respective countries).

**List of members**
(legal persons, as of 31 Dec. 2013)

- Association Bilan Carbone (ABC)
- Bank Track
- Beyond Financials
- Bio Intelligence Service
- Carbone 4
- Carbon Tracker
- Caisse des Dépôts (CDC)
- Centre International de Recherche sur l’Environnement et le Développement (CIRED)
- Compta Durable
- Ethical Investors Services
- Forum pour l’Investissement Responsable (FIR)
- Inrate
- Pair Conseil - Les cahiers de l’épargne
- Profundo
- Rainforest Action Network
- Réseau Action Climat - France
- South Pole Carbon
- Sustain
- Trucost
Goverance

The 2° Investing Initiative is directed by a Board of Administrators, represented by a Bureau. The Bureau is composed of the President and the Treasurer, elected by the Board. Members are affiliated in 6 categories (Investors, Issuers [companies and territorial authorities], Associations of general interest, Public and government organisations, Research and Expertise organisations, Individuals) represented by an administrator to the Board. The first Board was elected on the 15th of April 2013.

Members of the Board

CIRED, represented by Jean-Charles Hourcade, Director of research at CNRS and Director of Studies at the EHESS. CIRED is elected in the “Research and Expertise organisations” section.

Caisse des Dépôts (CDC), represented by Thomas Sanchez, Sustainability projects manager, Innovation Sustainability Dpt. CDC is a Benefactor Member, elected in the “Investors” section.

BankTrack, represented by Yann Louvel, Head of the Climate and Energy Campaign. BankTrack is elected in the “Associations of general interest” section.


Hervé Guez, Head of SRI Research at Mirova, Natixis AM. Hervé Guez is elected in the “Individual Members” section, and has been elected Treasurer by the Board.

Jean-Pierre Sicard, Managing Director of CDC Climat, President and founder of Novethic. Founding member of the Association, Jean-Pierre Sicard has been elected President by the Board.

Funding

2° Investing Initiative is a non-for-profit membership organisation. In this regards, 2°ii receives membership contributions, grants and donations.

2013 funding: 276 k€

The main part (72%) of 2013 funding comes from grants of French public institutions (ADEME, Caisse des Dépôts, Agence Française de Développement, Commissariat Général à la Stratégie et à la Prospective), half of which directly supporting our “Financed Emissions” study.

- Membership [Investors]*
- Membership [Individuals and small organisations]
- Grants – France
- Grants / sponsorship – Other countries

*The membership fee from the Caisse des Dépôts is formally accounted as an operating grant.

The full consolidated financial statements audited by E.Magnier / SIRIS are available upon request.
Stanislas Dupré, Executive Director, initiated the 2° Investing Initiative. Previously Stanislas Dupré was Executive Director of the CSR consultancy Utopies (with Caisses d’Epargne, ADEME, WWF, Friends of the Earth). In 2010, he authored a book on the role of financial institutions in Stanislas has been working on 2° investing topics.he energy transition. Stanislas is non-executive director of a green private equity fund (NEF-CEM).

Hugues Chenet, Scientific Director, co-founded the 2° Investing Initiative. Previously, Hugues Chenet worked as a sustainability expert for OTC Conseil (finance and management consultancy), where he developed and headed the Sustainability Team oriented at the financial sector. In 2011 he authored a study for ADEME on valuation of climate change in financial analysis. Hugues holds a PhD in Geophysics and worked in academia for 7 years (Institute of Earth Physics of Paris [IPGP], Japan Aerospace Exploration Agency [JAXA]).

All along 2013, the 2°ii Team benefited from the contribution of:

Ulf Clerwall, Senior Economist

Jakob Thomae, Research Intern (Sc. Po Paris), Financed Emissions

Thomas Roulleau, Volunteer, SMEs and Energy Transition

Guylaine Déniel, Intern (Dauphine Univ.), Corporate reporting

Hassan Cerhozi, Research Intern (Sc. Po Paris), Energy financing

Julia Ribourdouille, Volunteer, Communication and Fundraising

Ald Kimelman, Research Intern (Yale), Energy Policies

Imène Maharzi, Volunteer, Private Equity and Energy Transition

During its first year, the 2° Investing Initiative built a strong network of partners, among its member organisations and other stakeholders who contributed to the projects of the association, via financial or technical support.
The 2° Investing Framework

The 2° Investing Initiative is developing a conceptual framework based on three components:
1. Processes: Removing barriers to decarbonisation within the investment practices
2. Metrics: Developing metrics and tools to measure the climate-friendliness of financial portfolios
3. Regulation: Mobilizing policy incentives to shift private capital towards climate-friendly investment

Publications

2° Investing Processes
- Carbon Boomerang: The Landscape of Climate Litigation Risk for Companies and Investors – Concept Note (09/2013)
- Winning the Long Game: Implications of Using Benchmarks for Long-Term & Climate Financing – Concept Note (10/2013)

2° Investing Metrics

2° Investing Regulation
- Tax incentives on savings interests: implications for long-term and green financing – Concept Note (10/2013)
WORKING PAPERS

Carbon Boomerang: The Landscape of Climate Litigation Risk for Companies and Investors – Concept Note (09/2013)
This short note describes how the project aims to provide an update on litigation risk in the U.S. and worldwide, and to analyse the associated potential financial risk for investors. It focuses on the various logical allocation types of GHG emissions, which will possibly bring new ideas to the COP21 concerning the responsibility of states versus companies.

Winning the Long Game: Implications of Using Benchmarks for Long-Term & Climate Financing – Concept Note (10/2013)
The note describes how the massive use of cap-weighted indices as investment guideline can have significant consequences on the sector allocation of portfolios. The project aims to discuss the possible solutions in collaboration with stakeholders (investors, AM, index providers, public authorities, etc.).

This working paper provides a typology of GHG-emissions risks that could impact the value of investments in and financing of GHG-intensive assets. It reviews the definition and conceptual framework associated with the term ‘GHG-emissions risk’ and then maps the various types of risks that fall under this category.

CONFERENCES

Carbon Bubble and Financing the Energy Transition, at the French National Assembly, hosted by Arnaud Leroy, Member of the French Parliament, Secretary of the National Assembly’s Sustainable Development Commission (6 speakers, 100 participants, 04/2013)
**2° INVESTING METRICS**

*What are 2° Investing Metrics?*

The central idea is to define what a sustainable asset and a sustainable investment portfolio are in front of the Climate Change challenge, and to develop an assessment framework in order to allow financial institutions to measure their ‘performance’ and set progress targets vis-à-vis climate and energy-efficiency goals. As the global target consists in limiting global warming to +2°C, we call these indicators 2° Investing Metrics.

The 2° Investing Metrics approach builds on several key concepts such as ‘carbon budget’, ‘locked-in emissions’, ‘climate scenarios’, ‘future investment needs’, ‘financed GHG emissions’ and ‘long-term investing’. Our goal is to reconcile these different approaches and make them work together.

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**STUDIES**


This study landscaped the current state-of-the-art of ‘financed emissions’ methodologies and identifies the possible ways to better inform and integrate climate and energy transition goals in the investment decisions. This project is the first step of our research programme on 2° Investing Metrics.

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**RESEARCH**

We developed a 3-year R&D programme aiming to create a ‘climate-friendliness’ assessment framework and relevant indicators for investors and policy makers. The programme is organised around the 5 following PhD topics that will start in 2014:

1. Development and adaptation of 2° investment scenarios for financial institutions
2. Measuring the climate performance of companies
3. Measuring the climate performance of financial institutions
4. Materiality of climate risks for the financial sector
5. Financial performance of “2° Investment”

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**WORKING GROUPS**

*SMEs, Innovation and Financing the Energy Transition. How to assess the contribution of SME and innovation portfolios in financing the energy transition? [2013-2014]*

Inventory of existing practices, development of an exploratory methodological framework. Gathers Private Equity firms, public banks and environment/energy agencies.

*The future of corporate reporting: from GHG accounting to climate performance. What is the carbon/climate data investors will demand from companies in 2020? [2013-2014]*

Prospective analysis of the data needed by investors regarding climate and carbon questions. Proposition of new ‘advanced’ indicators for key sectors. The working group consists of a dozen companies and another sub-group of ten financial analysts.

Contributions to:

- **GHG Protocol / UNEP-FI** Guidelines for the accounting and reporting of GHG emissions by financial intermediaries [2013-2016]
- **ADEME / ORSE / ABC** Guidelines for GHG accounting in the Finance Sector [2013-2014]

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**WORKSHOPS and CONFERENCES**

*From Financed Emissions to Long-Term Investing Metrics*

Launch conference (15 speakers, 120 participants, 07/2013) + 6 Workshops with practitioners and authors of methodologies; demonstration of tools, software and databases

*Carbon Footprint and Financed Emissions, with CA-Cheuvreux*

Preparatory workshop with financial analysts (06/2012), and public conference (14 speakers, 60 participants, 09/2012)
2° INVESTING REGULATION

Why 2° Investing regulations?
We view the challenge of ‘greening’ financial policies as a question of 2° Investing Regulation. To date, policy designed to drive the transition to a low-carbon economy has largely been limited to ‘industrial’ / ‘economic’ policies focused on changing the risk/return profile of ‘green’ projects and assets. Incentives specific to the financial system however have largely been ignored. This is problematic for three reasons. Firstly, there is evidence that the current nature of financial regulation is in fact actively providing disincentives for low-carbon climate-friendly investment, notably in the form of the new prudential frameworks. Second, the opportunity to engage financial regulatory instruments by policy-makers to mobilise private capital for climate-friendly investments is under-utilised. Such policies should complement industry incentives, especially as they may in many cases be more efficient. Finally, investment barriers (see 2° investment processes) are creating obstacles to climate-friendly investment that regulation should address.

STUDIES

Connecting the Dots Between Climate Goals, Portfolio Allocation and Financial Regulation – Report (12/2012)
In this report, the 2°ii proposes to create a financial environment that promotes financing and investing in coherence with +2°C climate pathways. New tools and new rules must be mapped out, connecting existing regulatory frameworks with emerging performance and risk assessment practices. The report raises two questions:
• How is the contribution of an investment portfolio to financing the energy transition and the long term to be measured?
• How should both methodologies and rules that place these indicators and environmental constraints at the heart of daily practices and decision process of investment and financing be built?

WORKING PAPERS

Tax Incentives on Savings Interests. What are the effects on long-term financing and the Transition to a Low-Carbon Economy? – Concept Note (FR: 10/2013)
This project aims to analyse how households and companies’ savings are currently financing the productive economy, and how they could finance the energy transition. The final study will investigate possible evolutions of current fiscal regimes (France).

This paper proposes an overview on the range of instruments available to policymakers to align the financial sector with 2° investment scenarios. It opens the way to more research on qualitative and quantitative research on the mechanisms of individual tools and their impact, in order to assess the real potential of these tools to form a part of a 2° investing policy framework in the next years.

CONFERENCES

Connecting the Dots between Climate Goals, Portfolio Allocation and Financial Regulation, in partnership with Caisse des Dépôts.
Launch conference. This event celebrated both the launch of 2°ii first report, and the launch of the 2° Investing Initiative itself, created in October 2012 (10 speakers, 100 participants, 12/2012).

The 2° Investing Initiative was created in October 2012, hence its first accounting period runs from November 1st, 2012 to December 31st, 2013. The resources of 2°ii during this first year of operating were obtained continuously until the end of 2013. Some grants started during the last Quarter and were split pro rata related expenses between 2013 and 2014. Fundraising work during the year included a search for suitable funding opportunities with charitable foundations in Europe and in the USA. Funding approaches resulting from this search are expected to concretise in 2014. The expenses structure reflects the research and expertise activity of the association, the largest item being related to staff cost, at 67% of the total.

### RESOURCES

<table>
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<th>(in Euros)</th>
<th>Audited resources (1-Nov-2012 / 31-Dec-2013)</th>
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<tr>
<td>Membership fees</td>
<td>2,540</td>
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<tr>
<td>Operating grants</td>
<td>273,748</td>
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<td><strong>Total</strong></td>
<td>276,288</td>
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</table>

### EXPENSES

<table>
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<tr>
<th>(in Euros)</th>
<th>Audited expenses (1-Nov-2012 / 31-Dec-2013)</th>
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</thead>
<tbody>
<tr>
<td>Non stored purchases</td>
<td>41,381</td>
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<tr>
<td>External services</td>
<td>15,889</td>
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<td>Other external services</td>
<td>29,438</td>
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<tr>
<td>Taxes and similar payments</td>
<td>5,907</td>
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<tr>
<td>Wages and salaries</td>
<td>119,297</td>
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<td>Social contributions</td>
<td>45,291</td>
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<td>Other staff costs</td>
<td>2,518</td>
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<tr>
<td>Amortisation</td>
<td>175</td>
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<tr>
<td>Other charges</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>259,898</td>
</tr>
</tbody>
</table>

The full consolidated financial statements audited by E.Magnier / SiRIS are available upon request.
From November 2012 to December 2013, 2°ii was invited to contribute to 19 conferences and workshops

- TEDx Nantes, "Greening the Financial Regulation to Fund the Energy Transition" (22 Jan. 2013, Nantes)
- UNEP open staff meeting (6 March 2013, Paris)
- GHG Protocol workshop on financed emissions measurement, JP Morgan Chase (26 Feb. 2013, NYC)
- Seminar / training Climate Action Network France (March 2013, Paris)
- Finance Watch Conference, roundtable on Long-Term Finance (23 Apr. 2013, Brussels)
- RESPONDER workshop 'Changing the Finance System to enable the transition to a Sustainable Economy' (14-15 May 2013, Brussels)
- Carbon Tracker Initiative - European Climate Foundation conference: "Unburnable carbon 2013: Wasted capital and stranded assets" (30 May 2013, Brussels)
- HEC EDD Conference : "Socially Responsible Investment, Climate and Energy Transition" (18 June 2013, Paris)
- Climate KIC Summer School Training on “Climate and Public Policies” (July 19 2013, Paris)
- First ADEME Colloquium on GHG Reporting, workshop on low carbon economy (9 Oct. 2013, Paris)
- European Environmental Bureau Annual Conference (18 Oct. 2013, Brussels)
- Sustainable Finance Week in China, UNEP FI – BSR seminar "Managing Social and Environmental Risks for Financial Success" (11 Nov. 2013, Beijing)
- 2°ii presentation at the “Beijing Green Drinks” (12 Nov. 2013, Beijing)
- 2°ii & MSCI workshop on ”Measuring the carbon impact of financial sector: From financed emissions methodologies to long-term investing metrics” (14 Nov. 2013, Beijing)
- Round-table of the student Sciences Po Energy Association (SPEA) (29 Nov. 2013, Paris)
- EurObserv’ER 2013-2016 Project Ad Hoc Committee Meeting on investment indicators, Frankfurt School of Finance & Management (11 Dec. 2013, Frankfurt)
10 Dec. 2012
Launch conference of our first report “Connecting the Dots between Climate Goals, Portfolio Allocation and Financial Regulation”, in partnership with Caisse des Dépôts. [100 participants]

Xavier Bonnet
CGDD, French Ministry of Ecology

Jean-Paul Nicolai
Head of Economy and Finance Dept, French Strategic Analysis Centre

Hervé Guex
Head of ESG Research, Natixis AM – Mirova

Thierry Philipponnat
Secretary General, Finance Watch

Stéphane Voisin
Head of ESG Research, CA-Cheuvreux

Clément Lecuivre
Head of Strategy and Sustainability, Caisse des Dépôts

Corinne Lepage
Member of the European Parliament

Jean-Pierre Sicard
Deputy-CEO, CDC Climat

Stanislas Dupré
2° Investing Initiative

13 Sept. 2012
Conference on Carbon Footprinting organised Crédit Agricole Cheuvreux in partnership with 2° Investing Initiative. [60 participants]

Jean-Marc Jancovici, Carbone 4
Andrea Smith, Carbon Disclosure Project
Maximilian Horster, Climate Neutral Investments Ltd.

Laura Palmeiro, Danone
Shailendra Mudgal & Oliver Jan, BIO IS
Philippe Spicher, Inrate
Eric Cochard, CA CIB

James Leaton, Carbon Tracker Initiative
Antoine Rose, Climate Principles
Jan Willem van Gelder, Profundo

Stéphane Voisin, CA Cheuvreux
Erwan Créhalet, CA Cheuvreux
Stanislas Dupré, 2° Investing Initiative

25 Apr. 2013
2°ii Conference ”Carbon Bubble and Financing the Energy Transition” at the French National Assembly, hosted by French MP Arnaud Leroy, Secretary of the National Assembly’s Sustainable Development Commission. [100 participants]

We organised a roundtable with:

James Leaton
Research Director, Carbon Tracker Initiative

Nick Robins
Head of Climate Change Centre of Excellence, HSBC

Virginia Marchal
Policy Analyst - green investment, OECD

Stanislas Dupré
Director, 2° Investing Initiative

Dominique Dron
Head of Internministerial Mission Financing the Ecology Transition

4 July 2013
1-day launch event of our report “From financed emissions to long-term investing metrics — State-of-the-art review of GHG emissions accounting for the financial sector”, in partnership with Oddo&Cie, UNEP-FI and Association Bilan Carbone. [120 international participants]

Speakers and moderators:

Jean-Pierre Pinatton
Chairman of the Supervisory Board, Oddo & Cie

Jean-Pierre Sicard
President, 2° Investing Initiative

Stanislas Dupré
Director, 2° Investing Initiative

Jakob Thomae
Project Officer, 2° Investing Initiative

Dominique Dron
Head of Internministerial Mission Financing the Ecology Transition

Hugues Chenet
Scientific Director, 2° Investing Initiative

Romain Morel
Research Fellow, CDC Climat Research

Thomas Sanchez
Energy and Climate Strategic Analysis, Caisse des Dépôts

Jaap Spier
Advocate-General, Supreme Court of the Netherlands; Hon. Prof., Maastricht Univ.

Mark Campanale
Founder & Director, Carbon Tracker Initiative

Jean-Philippe Desmartin
Head of ESG Research, Oddo Securities

Romain Poivet
ADEME

Jérôme Courrier
Sustainable Devt Dpt, Crédit Agricole SA, ORSE

Remco Fischer
Programme Officer, UNEP FI

Franz Knecht
Financed Emissions Project Manager, Vfu

Workshops were organised with practitioners and authors of methodologies + demonstration of tools / software / databases: Camradata/BofAML, Ecofys/ASN, MoneyFootprintSoft., P9XCA, South Pole Carbon, Trucost
WE WANT TO GO THERE

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