Measuring company-level alignment for CA100+

To help investors drive engagement with companies to pursue climate action, 2DII provides analysis on companies in the utility and automotive sectors that form part of the Climate Action 100+ (CA100+) target group. CA100+ is an investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. The companies include 100 "systemically important emitters," accounting for two-thirds of annual global industrial emissions, alongside more than 60 others with significant opportunity to drive the clean energy transition. As part of CA100+'s Technical Advisory Group, 2DII uses the PACTA portfolio alignment methodology to create alignment profiles of individual companies in the electric utilities and automotive sectors.

Overview of analysis and methodology

Scope

In terms of automotive manufacturing, our analysis for CA100+ covers 14 of the largest international automotive manufacturers. Combined, the companies are estimated to have produced around 54 million vehicles in 2020. In terms of power production, our analysis for CA100+ covers 33 power companies. Combined, these companies have more than 1.1 Terawatt in power capacity, representing around 1/7th of total power capacity.

Capital allocation assessments indicators

The PACTA methodology analyses companies' capital expenditures (CAPEX) and production output relative to a range of climate change scenarios to give investors additional insights on the relative adequacy and alignment of company action with the Paris Agreement goals. These analyses correspond with company disclosures' relative to indicator six in the CA100+ benchmark.

In particular, 2DII provides two indicators for both the power and the automotive sector.

1. **Assessment of the company's 2021 technology mix vs. the sector average**

This indicator assesses the technology mix of the company in 2021 compared to the market in 2021. The analysis is conducted on the technology level, meaning 2DII compares the technology share of the company with the technology share of the sector average. For example, if the market's technology mix consists of 10% electric vehicles, while the company's technology mix consists of 17% electric vehicles, then the company is 'ahead' of the market. Similarly, if the market's technology mix consists for 15% of renewable power, and the company's technology mix consists for 10% of renewable power, then it's significantly behind the market.

Possible assessment outcomes include:

- Behind (>15% negative deviation);
- Slightly Behind (5-15% negative deviation);
- Aligned (+ or - 5%);
- Slightly Ahead (5-15 % positive deviation);
- Ahead (>15% positive deviation).

2. **Comparison of production plans to International Energy Agency (IEA) scenarios**

The companies' forecasted production capacity per technology is compared to technological pathways developed by the IEA. Alignment comparisons are made to three scenarios which represent varying levels of global warming by 2100, in comparison to pre-industrial levels:

- Aligned with a Beyond 2ºC Scenario (B2DS <1.75C),
- Close to a Sustainable Development Scenario (SDS 1.75C-2C)
- Above Sustainable Development Scenario (SDS >2C).

- Significantly above the Sustainable Development Scenario

For each scenario, the IEA has forecasted the speed at which a technology must grow or decline for the world to meet different climate goals. The company's decarbonization responsibilities under these scenarios are based on a market-share approach. For the automotive sector, the three technologies assessed are internal combustion, hybrid and electric engines. For the power sector, the technologies are coal, oil, gas, nuclear, hydro and renewables. The baseline for the analysis is December 2020.

About the PACTA methodology

The PACTA methodology measures the alignment of investments in 8 economic sectors. The methodology is based on comparing what needs to happen in these sectors in terms of decarbonization to what the companies in your portfolio are planning to do in the coming 5 years. The methodology consolidates and aggregates global forward-looking asset-level data (i.e. what are the production plans of a specific manufacturing plant or power plant over the coming five years), based on third-party business intelligence providers up to the level of an ultimate parent company. For investors, the approach allows them to assess the overall alignment of their portfolios with climate scenarios and the Paris Agreement. In 2019, as part of technical support provided to the Climate Action 100+ initiative, 2° Investing Initiative developed company-level assessments, allowing financial institutions and other investors to assess the alignment of individual companies within their portfolio with climate scenarios, which provides the basis for this report. More about the PACTA methodology can be found at transitionmonitor.com.