Carbon Yield Insights Report Summarizes Experience of Applying Carbon Yield On Over 55 Green Bond Issuers To Quantify Climate Change Mitigation Impact

New York – 1st October, 2018– Launched in New York at the Sustainable Finance Forum by Affirmative Investment Management (AIM) and ISS-climate, the Carbon Yield Insights Report summarizes the experience of applying the Carbon Yield on over 55 green and sustainability bond issuers over two years, as part of AIM's impact reporting. The issuers combined have financed over 800 projects across 80 countries.

The Carbon Yield initiative—launched in 2016 with support provided through The Rockefeller Foundation's 'Zero Gap' innovative finance portfolio —is one of the first methodologies to present a comparable, quantifiable metric that can be used by a variety of stakeholders, such as issuers, investors and analysts. The methodology looks at the projects financed via a green bond and then allocates to the bond the greenhouse gas emissions (GHG) mitigated based on the projects' capital structure[1].

Since 2008, green bonds have presented a viable potential scalable solution to fund climate change mitigation and adaptation projects – growing to over US$340BN in terms of amount outstanding.[2] The vast majority of green bonds aim to fund mitigation-related activities, making them a powerful tool for supporting the Paris Agreement, the global initiative to limit the human-induced global temperature increase from pre-industrial levels to two degrees Celsius within this century.

The scale of mitigation, however, can vary greatly across green bonds and their funded activities. The Carbon Yield methodology provides transparency and information to investors and policymakers about the climate change mitigation potential of diverse projects to guide allocation of capital to optimize for GHG abatement. Investors can aggregate the Carbon Yields of different bonds in their investment portfolios to obtain a portfolio level Carbon Yield. This can then be communicated to their own investors and other stakeholders as part of their impact reporting. By using the Carbon Yield, investors can ensure that the mitigation impacts of their green bond holdings are being calculated consistently.

The new Carbon Yield Insights Report summarizes the experience and five key findings in applying the Carbon Yield, over a broad range of issuers – from European corporations to multinational development banks – and more importantly, a broad range of funded activities across a breadth of geographies.

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[1] The Carbon Yield enables investors to determine the potential avoided emissions of Green Bonds.

[2] Bloomberg, as of August 2018

Key Findings

1) **Renewable energy generation remains the most prominent sector in high Carbon Yield results** – that is, renewable energy generation results in larger amounts of GHG emissions avoided per $1,000 invested than any other sector. A global comparison of Carbon Yields shows an inherent bias towards renewable energy generation investments, particularly in emerging markets, due to their carbon-intensive grids and heavy reliance on fossil fuels, when looking at the GHG avoidance results alone. Going forward, as the green bond market expands, it may be more appropriate to compare the Carbon Yields within a region or on a peer basis.

2) **Projects targeting energy efficiency show mixed results.** The context in which, and the sector and technology where these efficiencies take place, matters. For some investors, investing in improving energy efficiency in carbon-intensive, fossil-fuel based technologies may be considered a highly impactful strategy and part of a low-carbon transition, while others may find it highly counterproductive in the journey towards a two-degrees future, since the project would make carbon-intensive technologies more competitive and long-lasting. The user of the Carbon Yield data therefore needs to consider the metric in relation to the above – it is not always the case that the larger the number the better.

3) **As a measure of impact on investment – costs matter**. Technology capital and operating costs differ across geographies. Project costs and the green bond investment share of the total project cost are also critical to appropriately allocate impact. Currently this information can be very difficult to ascertain, and the report highlights the importance of this type of data in limiting double counting. The Carbon Yield methodology is unique in its guidance on apportioning impact to fixed income investments and recognizes the role of both equity and debt capital for the activities funded.

4) **Carbon Yield results quality is highly dependent on data accuracy and availability.** There is a considerable variation in issuer reporting and further disclosure, but in the past two years, there has been improvement, and most issuers are interested and willing to engage with investors, such as AIM, to provide better information. The state of reporting would likely improve if more investors showed a greater interest in the results, which includes querying the reported data and requesting information where gaps exist.

5) **GHG emissions footprint data helps contextualise abatement results.** In 2018, AIM and ISS-climate introduced GHG emissions footprint analysis, to supplement the Carbon Yield, a measure of emissions avoidance. This is to help mitigate some of the high baseline effects found in the Carbon Yield – for example, a Swedish green building project may have a low carbon yield, resulting from a smaller differential between project and baseline emissions as buildings are generally built to higher efficiency standards. However, the overall Scope 1 and 2 emission levels may be lower compared with a project in another country yielding higher levels of avoidance due to higher baseline emissions. Both types of information are important.

“Looking ahead, as the green bond market continues to grow, and discussions around further standardisation continue to develop, for example the European Union’s High-Level Expert Group on Sustainable Finance (HLEG), the market remains dependent on voluntary initiatives,” says **Stuart Kinnersley, Co-Founder and Managing Partner, AIM.** “The AIM team is proud to have co-developed and been the first to apply the Carbon Yield. It is a publicly-available methodology aligned with GHG accounting best practice, designed to promote consistency in reporting around GHG abatement for green bonds. As investors we consider sustainability verification and impact reporting as a critical part of our business.”

“It is an honor to be part of pioneering this important methodology” says **Maximilian Horster, Head of ISS-climate.** "Quantitative estimations of the positive climate impact of green investments is key in effectively addressing climate change, through helping investors to identify projects with the highest climate change mitigation potential.”

“We are witnessing the devastating daily consequences of climate change around the world, but the cost of addressing this challenge is staggering. The Rockefeller Foundation is proud to support the development of the Carbon Yield, with the goal of spurring investment in effective, impactful green projects,” says **Saadia Madsbjerg, managing director at The Rockefeller Foundation**.

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Note to editors
About the Carbon Yield methodology: This methodology, supported by The Rockefeller Foundation, was produced as a collaboration between Lion’s Head Global Partners (LHGP), ISS-ESG and Affirmative Investment Management (AIM). The Carbon Yield does not offer investment advice and does not hold views on any specific investment, investment tool or investment strategy. Download the full summary of the Carbon Yield methodology here or visit the official website http://carbonyield.org/ .

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About Affirmative Investment Management (AIM)

Affirmative Investment Management Partners Limited (AIM) is a dedicated green and social bond asset management company. It is an independent, owner managed Private Company established in 2014. AIM comprises of a team of individuals who have been strong advocates and instrumental in the evolution of the green bond market. Creating the original green bond eligibility template, the world's first green bond fund and the longest performance track record in the market place demonstrating no sacrifice to investment return. AIM investments support the 17 UN Sustainable Development Goals and the Climate Change Paris Agreement (UN COP 21) and our approach is a fusion of mainstream portfolio management and sustainability principles. For more information, visit www.affirmativeim.com

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