The Institutional Investors Group on Climate Change

PRESS RELEASE
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Investors call on cement companies to address business-critical contribution to climate change

London: A group of investors are today calling on leading European construction material firms to take necessary steps to secure their future in the face of climate change. This includes committing to achieve net zero emissions no later than 2050. The investors are acting as members of the Institutional Investors Group on Climate Change (IIGCC) and participants in Climate Action 100+, a global shareholder engagement initiative involving more than 320 investors with over $33 trillion in assets collectively under management.

The measures they expect the companies to take are set out in '*Investor Expectations of Companies in the Construction Materials Sector*', published by IIGCC. This has been sent to Chairs of the board for CRH, LafargeHolcim (Lafarge) and HeidelbergCement, in addition to Saint-Gobain by the investors, with accompanying letters setting out the steps most applicable for each company[1].

As the most widely used construction material globally, cement is the source of 7 percent of all global man-made carbon dioxide emissions[2]. If the cement industry were a country, it would be the third largest global emitter, behind only China and the US.

The investor signatories to the letters include RPMI Railpen, Hermes EOS[3], BNP Paribas Asset Management, Aberdeen Standard Investments, the Local Authority Pension Fund Forum, Ethos Foundation, Trusteam Finance, Sarasin & Partners, Degroof Petercam Asset Management and Nykredit Asset Management, given their involvement in European engagement with the sector through Climate Action 100+. Together they collectively have or represent over $2 trillion in assets, assets under management and under advice.

Developed in line with the goals of Climate Action 100+, the report will also inform investor engagement with other construction material firms on the initiative's global list of 161 focus companies. The expectations shared cover the steps investors expect companies to take to manage climate risks and accelerate action to decarbonise in line with the goals of the Paris Agreement. The construction materials industry is exposed to both transition and physical risks resulting from climate change. This is especially acute for companies that manufacture cement.

"The cement sector needs to dramatically reduce the contribution it makes to climate change. Delaying or avoiding this challenge is not an option. This is ultimately a business-critical issue for the sector," explains **Stephanie Pfeifer, CEO, Institutional Investors Group on Climate Change and a member of the Climate Action 100+ global steering committee.** "Major economies such as the UK and France are increasingly adopting economy-wide net zero emission targets. The cement sector needs to get ahead of the profound transformation their sector faces by addressing barriers to decarbonisation in the short- to medium-term if companies are to secure their future."

Governments have committed to limiting global warming to well below 2°C with ratification of the Paris Agreement. In line with subsequent policy and market responses, the cement sector will be exposed to significant risks if it fails to anticipate and keep pace with necessary reductions in greenhouse gas emissions.

Companies that are not yet sufficiently pursuing new technologies and approaches to maximise emissions reductions from cement production and use risk being left behind or significantly disadvantaged as construction methods change.

Key details set out in the *'Investor Expectations'* include:

- **Greenhouse gas emission reductions:** Companies should commit to becoming carbon neutral by 2050, meaning that they should achieve net zero carbon dioxide emissions by this date. Companies are expected to set short-, medium- and long-term targets to reach this goal. The targets should be science-based, meaning that they are in line with the decarbonisation required to keep global temperatures well below 2°C warming, with the ambition of 1.5°C warming and these targets should be externally assured.
- **Public policy transparency and advocacy for the Paris Agreement:** Investors expect that companies engage with policy makers to support cost-effective measures to mitigate climate change and an orderly transition to a low-carbon economy.
- **Implementation of a strong governance framework:** This includes assigning specific responsibility for climate change to a board committee or board member, to oversee climate risk or broader sustainability topics.
- **Disclosure:** Provide enhanced corporate disclosure in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

"As last year's report from the IPCC clearly highlighted, on climate the stakes are high and time is short," adds **Jocelyn Brown, Senior Investment Manager Sustainable Ownership, RPMI Railpen** and one of the lead authors of the investor expectations report. "The construction materials industry needs a significant change in business-as-usual practices to align to a two degrees trajectory in line with the Paris Agreement. These investor expectations highlight good practice, and others in the sector are encouraged to follow their example to avoid the consequences of increased scrutiny from their shareholders."

The investors recognise the steps HeidelbergCement in particular has taken in already having committed to meeting key aspects of the investor expectations outlined[4]. CRH, Lafarge and Saint-Gobain have been encouraged to follow suit, given the significant role they play as European-based multinationals, with investors making clear the need for the companies to set net zero emission targets, as HeidelbergCement already have.

"Construction materials companies may ultimately risk divestment and lack of access to capital as an increasing number of investors seek to exclude highly carbon-intensive sectors from their portfolios to meet their own decarbonization plans," explains **Vincent Kaufmann, CEO Ethos Foundation,** "Thus, investors expect construction materials companies to substantially increase the R&D budgets available for research into decarbonizing cement production."

Indian cement producer Dalmia Cement has set out one of the most ambitious visions by a company in the sector, to be carbon negative by 2040. There is however no single route currently available to achieve deep-decarbonisation of the cement industry. A range of approaches will need to be pursued concurrently.

"Construction Material will be crucial to achieve Carbon Neutrality in 2050," adds **Claire Berthier, Head of SRI, Trusteam Finance**. "Not only by diminishing direct CO2 emission but also by providing their customers products that will accelerate the transition to a lower-carbon economy. Constructive dialogue can lead to promotion of good practices for catching these opportunities".

IIGCC is one of the founding partner organisations behind Climate Action 100+ and helps deliver investor engagement through the initiative across Europe in collaboration with investor participants.

The investor expectations report is endorsed by other investor networks that make up the Global Investor Coalition on Climate Change (GIC). Including IIGCC, together they represent more than 250 institutional investors globally, representing assets worth over $30 trillion[5].

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Notes for Editors

The report is the latest in a series of sector-focused guides to support investor engagement with key sectors to curb carbon asset and climate risk. It joins existing guides addressing engagement with steel, oil & gas, mining, utilities and automotive sector companies.

1. These firms are the focus of engagement given their inclusion in the Climate Action 100+ focus list of 161 companies globally. These companies have been selected given the scale of their overall greenhouse gas emissions and/or role they play as global companies with significant opportunity to drive the clean energy transition. See here for the full list of companies. **Importantly Saint-Gobain don't produce cement,** but are a leading manufacturer of construction sector materials and were included in engagement on this basis (in line with their status on the Climate Action 100+ focus list).

2. International Energy Agency: Technology Roadmap – Low-Carbon Transition in the Cement Industry, April 2018.

3. Hermes EOS are signatories on behalf of its investment clients.

4. In May 2019 and in part as a result of engagement with investors through Climate Action 100+, HeidelbergCement become the first cement producer to bring its emission reduction targets in line with the goals of the Paris Agreement (see here). In March the company, following successful engagement with Climate Action 100+ investors also committed to undertake a full review of lobbying activity related to climate change (see p72 of annual report here).

5. Figure of over $30 trillion represents the collective sum of assets under management represented by the collective investor membership of the organisations that are part of the Global Investor Coalition on Climate Change. While the report will be widely used by individual investors, its publication by the GIC does not entail that each investor member endorses or will implement the framework provided for engagement.

About

IIGCC: The Institutional Investors Group on Climate Change (IIGCC) is the European forum for investor collaboration on climate change and the voice of investors taking action for a prosperous, low-carbon future. IIGCC has 170 members, mainly pension funds and asset managers, across 11 countries, with over €23 trillion assets under management. IIGCC's mission is to mobilise capital for the low carbon transition and to ensure resilience to the impacts of a changing climate by collaborating with business, policy makers and fellow investors.

Climate Action 100+: Climate Action 100+ is a five-year initiative led by investors to engage many of the world's largest greenhouse gas emitters and companies across all sectors of the global economy that have significant opportunities to drive the clean energy transition and achieve the goals of the Paris Agreement. Investors are calling on companies to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures. For more information, visit: www.ClimateAction100.org and follow: @ActOnClimate100.

GIC: The Global Investor Coalition on Climate Change (GIC) is a joint initiative of four regional groups that represent investors on climate change and the transition to a low-carbon economy: AIGCC (Asia), Ceres (North America), IGCC (Australia/NZ) and IIGCC (Europe).