SPECIAL REPORT

The investor guide to climate collaboration

From COP26 to net zero

LSEG

PRI Principles for Responsible Investment

. . . for the majority of institutional investors around the world that are just beginning to engage in these processes, the number of initiatives in the market can be a source of confusion.

This Guide . . . aims to clearly summarise the different initiatives, put them in context, and help institutional investors understand which of them are most relevant to their needs and priorities.

Contents

The net-zero transition imperative

Why every investor needs to read this guide

Climate action is accelerating. As the world emerges from the shadow of the COVID pandemic, governments, business and the financial world are refocusing on the greatest threat to the wellbeing of humanity and to the ecosystems on which we depend.

Before the pandemic emerged in early 2020, enormous activity was underway ahead of the crucial COP26 climate talks, originally due to take place in Glasgow in November 2020. That summit, now taking place in November 2021, is expected to see countries agree to the next steps on the path to deliver net-zero global emissions by 2050. Investors increasingly recognise the threat posed by climate change to the global economy, and therefore to their ability to meet the needs of their beneficiaries over the decades to come. Many now recognise the enormous opportunity for economic growth and investment returns presented by the transition to net-zero emissions. They understand the imperative to engage with the companies in which they invest, and the policymakers who write the laws, to ensure that both groups respond appropriately to the threats and opportunities involved.

One result has been the development of a number of initiatives designed to help investors collaborate in these efforts, some of which are complementary and some which have overlapping objectives and constituencies.

Collaborative investor initiatives provide the tools, frameworks and platforms to structure action on climate, and enable investors to learn from one another and develop consensus on best practice. It is therefore important to understand and navigate these initiatives. This guide summarises eight of these.

Collaborative investor initiatives

The first three of these investor campaigns have, in the run-up to the COP26 talks, been endorsed by the UN. However, all eight are making vital contributions to addressing climate change within the financial sector and the broader economy.

RACE TO ZERO

The UNFCCC-convened **Race to Zero** is a global campaign to rally leadership and support from businesses, cities, regions, and investors for a healthy, resilient, zero-carbon recovery that prevents future threats, creates decent jobs and unlocks inclusive, sustainable growth. It brings together a coalition of leading net-zero initiatives, representing 454 cities, 23 regions, 1,397 businesses, 74 of the biggest investors, and 569 universities.

THE UN-CONVENED NET-ZERO ASSET OWNER ALLIANCE

The UN-convened Net-Zero Asset Owner Alliance, launched by UNEP FI and the PRI, requires signatories to commit to moving their portfolios to net-zero by 2050. Thirty-three investors, with $5.1 trillion in assets, had joined the initiative as of the end of 2020. The UN Secretary-General António Guterres has described The UN-convened Net-Zero Asset Owner Alliance as the "gold standard" of net-zero commitments. It is an official partner of Race to Zero.

NET ZERO ASSET MANAGERS INITIATIVE

The newest platform, the **Net Zero Asset Managers initiative**, launched by AIGCC, IGCC, IIGCC, Ceres, CDP and the PRI, brings together 30 investment managers that commit to help their asset owner clients decarbonise by 2050. It is an official partner of Race to Zero.

Climate Action 100+

Climate Action 100+ is the longest established. It was founded in 2017 to align investor engagement to encourage the world's largest emitting companies to take action on climate change. It is backed by 545 institutional investors with $52 trillion under management. It also interconnects with the Transition Pathway Initiative (*see* Frameworks and Tools).

The **Investor Agenda** is an alliance of seven global and regional investor groups that provides a platform for investors to show their support for the Paris Agreement. It provides investors with a set of actions they can take, covering investment, engagement, disclosure, and policy advocacy. It counts 1,200 investors as signatories.

The **Initiative Climat International** brings together those private equity firms which are actively promoting climate action within their portfolios.

INVESTOR DECARBONISATION INITIATIVE

Campaign group ShareAction's **Investor Decarbonisation Initiative** aims to catalyse corporate climate action.

PARIS ALIGNED INVESTMENT INITIATIVE

The **Paris Aligned Investment Initiative** has drawn up a set of best-practice approaches and actions to enable asset managers and asset owners align investment portfolios with Paris and net-zero emissions.

For the majority of institutional investors around the world that are just beginning to engage in these processes, the number of initiatives in the market can be a source of confusion.

This guide, produced by the Principles for Responsible Investment and London Stock Exchange Group, aims to clearly summarise the different initiatives, put them in context, and help institutional investors understand which of them are most relevant to their needs and priorities.

In addition, it reviews key tools and frameworks, such as the Science Based Targets initiative and the Net Zero Investment Framework, that investors can use to help them better understand and manage climate risk and opportunity.

Investor action on climate change

The financial sector and the investment community will play a central role in the global response to climate change and supporting the transition to a net-zero economy. In November 2020 Mark Carney—the Prime Minister's Finance Advisor for COP26—launched a private finance strategy to ensure that every financial decision takes climate change into account.

The private finance agenda rests on four pillars: the three Rs of comprehensive climate reporting, a transformation in climate risk management, and the mainstreaming of climate returns; and one M—new markets to mobilise private capital.

Dr Mark Carney
Prime Minister's Finance Adviser
for COP26 and UN Special Envoy
on Climate Action and Finance

So how should investors respond to climate change?

The PRI provides extensive guidance to help signatories and other investors put in place the policies, processes

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A four-step approach to implementing a climate change response

INVESTMENT PROCESS

Climate change policy

Climate change strategy

Integration throughout investment process

ENGAGEMENT

Corporate/bilateral

Collaborative

Policy advocacy

Liaising with investment consultants

DISCLOSURE

Aligning with TCFD recommendations

Identifying and filling climate reporting gaps

Implementing emerging best practice

TARGET-SETTING

Setting 1.5°C emissions targets

Investment in climate solutions providers

Reduction of exposure to carbon-intensive assets

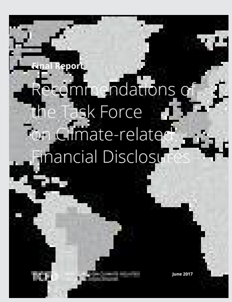
Investment process

While there is no 'one-size-fits-all' approach to integrating ESG factors such as climate change into investment processes, investors typically begin by revising their investment policies to ensure their approach is aligned with the expectations of their beneficiaries.

They should then develop an investment strategy that incorporates climate change by, for example, embedding the issue into the investor's strategic asset allocation, and considering investing in climate solutions and reducing exposure to high-carbon assets.

Integrating climate change throughout the investment process requires climate change featuring in the selection, appointment and monitoring of external investment managers. The recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) can help investors think about climate risk and opportunity within their governance, strategy, risk management and target-setting processes, as well as helping to inform disclosure (*see* Section C: Disclosure).

ADDITIONAL RESOURCES



Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

Engagement

One of the most direct routes to delivering real-world impact is through engagement with corporate management and their boards. Engagement can also impact returns where companies who respond positively to engagement and address ESG themes may deliver improved returns.*

Regarding climate change, this can involve engaging with company management to ensure that they are taking effective action to ensure the business is well-positioned to respond to risks and opportunities linked to climate change, including the physical effects of a changing climate and those related to the policy and market implications of the net-zero transition.

Engagement can also involve working collaboratively with other investors to achieve structured engagement outcomes that aim to make a company more resilient to climate-related risks or better placed to exploit associated opportunities. This collaboration is a main subject of this guide.

Collaboration can involve investors sharing best practice and learning from the experiences of their peers regarding climate change. But it is particularly powerful when it is applied to engagement with companies and policymakers. By working together, investors can amplify their voices, share resources and more effectively drive change.

Different collaborative engagements will be appropriate for different investors, depending on their investment strategies, needs, objectives, levels of resourcing and their approach to climate risk and opportunity.

*See, for example, Elroy Dimson, University of Cambridge and London Business School, Oguzhan Karakas, Boston College, Xi Li, Temple University (2015), "Active Ownership", Review of Financial Studies (RFS), Volume 28, Issue 12, pp. 3225-3268, 2015.

Disclosure

Investors should disclose their climate-related polices, actions and impacts, as well as requiring disclosure from portfolio companies and asset owners.

A number of investors have calculated and reported the carbon footprint of their portfolios, but current leading practice involves TCFD implementation. The Task Force recommends that investors (and companies) disclose their governance, strategy, risk management and metrics and targets relating to climate change.

The PRI's Reporting & Assessment framework, which sets out the disclosures required by signatories, is now aligned with the TCFD's 11 recommendations. Since 2020, it is mandatory for PRI signatories to disclosure those indicators relating to climate governance and strategy. From the 2021 reporting cycle, indicators on climate risk management and metrics and targets will be unassessed—voluntary to report on and disclose. They will in time become core indicators that are mandatory to report against and disclose.

Target-setting

Commitments should be backed with high-level quantitative targets. They should apply to investment processes and outcomes, engagement processes and outcomes and, of course, they should be subject to disclosure. These should be aligned with the objectives of the Paris Agreement to hold global warming to well below 2°C, while pursuing efforts to limit the increase to 1.5°C.

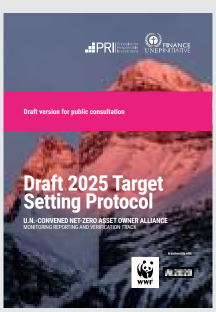
Aligning investment strategy with a decarbonisation pathway that is consistent with under 1.5 degrees of warming is complex, and guidance and best practice is fast evolving. Such alignment involves a number of assumptions including decarbonisation pathways by industry, how to measure and apply forward-looking data, dealing with large data gaps, and the respective roles of engagement and divestment.

As well as including targets for reducing emissions, investors should consider goals for increasing investments in companies, technologies and other assets that will drive the green economy and help achieve net-zero transition, delivering real-world impact, and which will help build economic and societal resilience to the impacts of a changing climate.

Leading investor-relevant frameworks are summarised in this document (*see* Frameworks and Tools). They include The UN-convened Net-Zero Asset Owners Alliance's [2025 Target Setting Protocol], the IIGCC's Net Zero Investment Framework, and the Science-based Targets initiative's [financial sector guidance.]

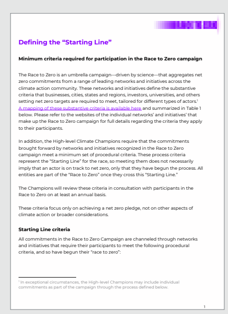
Specifically, the Race to Zero initiative has drawn up, as part of its [minimum criteria for participation in the campaign], a list of questions that organisations should consider when setting net-zero targets. These cover, among other things: the scope of the target; its timing; residual emissions and the use of offsets; equity; future uncertainties, such as reliance on technologies that do not yet exist; dependence on other actors; and governance arrangements.*

ADDITIONAL RESOURCES



The UN-convened Net-Zero Asset Owners Alliance 2025 Target Setting Protocol

Science-based Targets initiative financial sector guidance



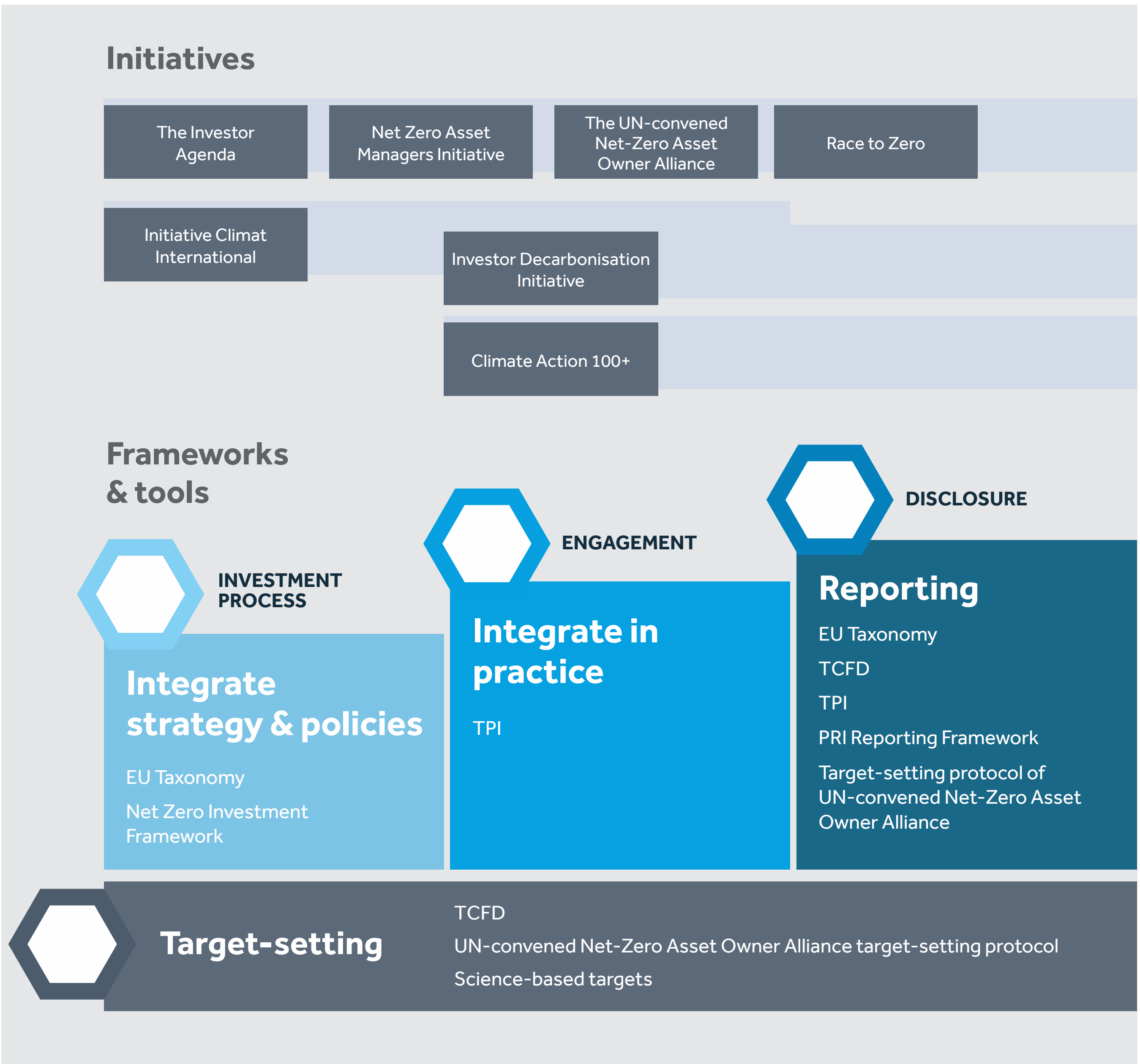
Race to Zero minimum criteria for participation in the campaign

*Avoided emissions, or the reduction of greenhouse gas emissions compared to a business-as-usual baseline, can not be used to meet net-zero commitments and should not be used to offset the scope 1, 2, and 3 emissions associated with financial institution portfolios and loanbooks. Avoided emissions do not count towards science-based targets.

Investors playing their part

Following the PRI's three-stage approach will enable investors to align their activities with the goals of the Paris Agreement and play their part in the net-zero transition.

As investors move forward in implementing their response to climate change, the following stepped stages may prove helpful.



While this sequence may be appropriate for some investors, others will take the steps in a different order, or undertake them in parallel. There is no 'one-size-fits-all' approach to drawing up and implementing a climate change strategy.

The rest of this guide provides further depth on the main collaborative investor initiatives, as well as frameworks and tools, that investors can use to address climate change in their investments and work with other stakeholders to align investment and stewardship objectives with the transition to a net-zero carbon global economy.

The 1.5 degree imperative

The Paris Agreement aims to respond to the threat posed by climate change by "[H]olding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change."

Since the agreement was signed in 2015, scientific evidence of the likely impacts of a temperature rise of 2°C has built a growing consensus that efforts must be directed towards staying below the lower threshold. That consensus was underpinned by a landmark special report produced in 2018 by the Intergovernmental Panel on Climate Change, Global Warming of 1.5°C.

This more ambitious objective is increasingly reflected in government policy, corporate plans, and the various collaborative initiatives that are emerging to bring business and investors together to address climate. Previously, some investor initiatives focused on alignment with staying under 2°C of average warming, but this has now moved to 1.5°C. The UN-convened Net-Zero Asset Owner Alliance, the Net Zero Asset Manager Alliance, and Climate Action 100+ all reference a 1.5°C objective, as do key tools such as the Science Based Targets initiative.

However, translating a temperature target into investment strategy is complex. Rather than relying solely on divesting high-emitting assets, it will likely require investors to also engage at the policy and system level to ensure an economy-wide net-zero transition.

The COP26 Private Finance Strategy

The COP26 Private Finance Strategy, led by Dr Mark Carney, the UK Prime Minister's Finance Adviser for COP26 and UN Special Envoy for Climate Action and Finance, sets out a comprehensive framework to help ensure that every professional financial decision takes climate change into account. It includes actions for the financial sector, including asset owners and managers, to ensure they can manage the risks and take advantage of the opportunities as we transition to a net-zero economy.

The framework is built on four pillars, Dr Carney's Three Rs: reporting, risk management and returns, and one M—mobilisation. For investors, the main actions are as follows:

Reporting

Investors should adopt the recommendations of the TCFD regarding climate risk disclosure, including asking their portfolio companies to disclose information in line with TCFD recommendations.

Risk management

Investors should assess the resilience of portfolio companies to climate risks and conduct scenario analysis using Network for Greening the Financial System scenarios to understand company—and portfolio—level exposures. They should also expect portfolio companies to disclose the resilience of their business models to different climate-related risks and pathways.

Returns

Investors should ask portfolio companies for transition plans for net zero and assess their credibility. Transition plans should make clear how companies will combine reducing their direct emissions with the use of offsets as part of their transition plans to reach net zero, and the timeframe to achieve these targets. Investors should also measure the alignment of their portfolios with the transition to net zero, and they should make their own commitments to net-zero emissions.

Mobilisation

The strategy includes a fourth element—mobilisation—focused on building the market structures, such as carbon offset markets and investment platforms, that will be required to increase private finance investment in developing and emerging economies.

These four steps provide investors with a high-level roadmap for action on net zero. Pursuing action on these four elements will put them on a pathway towards contributing to the goals of the Paris Agreement and playing their part in the net-zero transition.

For more information
See Building a Private Finance System for Net Zero

The investor initiatives

COP26 investor initiatives

- **Race to Zero**
- **The UN-convened Net-Zero Asset Owner Alliance**
- **Net Zero Asset Managers initiative**

COP26 INITIATIVES

Race to Zero

Convener(s)	Race to Zero is officially backed by the UN Framework Convention on Climate Change (UNFCCC) secretariat and led by the COP26 High-level Champions for Climate Action, Nigel Topping and Gonzalo Muñoz. The campaign is publicly endorsed by, amongst others, the UN Secretary General, UNFCCC Executive Secretary, COP26 President and by UN Special Envoy for Climate Action and Finance Mark Carney.
Type, number and signatures, AUM	It brings together a coalition of leading net-zero initiatives, representing **454 cities, 23 regions, 1,397 businesses, 74 of the biggest investors and 569 universities.** These 'real economy' actors join **120 countries** in the Climate Ambition Alliance, the largest ever alliance committed to achieving net-zero carbon emissions by 2050. These actors collectively cover nearly 25% of global carbon dioxide emissions and over 50% of GDP.
Objectives	Race To Zero is a global campaign to rally leadership and support from businesses, cities, regions, and investors for a healthy, resilient, zero carbon recovery that prevents future threats, creates decent jobs, and unlocks inclusive, sustainable growth. The initiative aims to build momentum around the shift to a decarbonised economy ahead of COP26. This, the organisers say, "will send governments a resounding signal that business, cities, regions and investors are united in meeting the Paris goals and creating a more inclusive and resilient economy".

Race to Zero

Commitments required of signatories
(including costs, if applicable)

Organisations must set a net-zero target and be a part of an initiative that meets the requirements of the Race to Zero minimum criteria for joining.

The Race to Zero campaign requires that participating organisations will have:

- Pledged to reach net zero in the 2040s or sooner, or by mid-century at latest;
- Set out a plan, in advance of COP26, explaining what steps will be taken to net zero, especially in the short- to medium-term;
- Taken immediate action towards achieving net-zero emissions; and
- Committed to report progress at least annually.

The campaign also calls for participants to “move towards leadership practices” around issues such as the scope of emissions covered, limited offset use, equity and governance.

More details can be found here.

Benefits of joining the initiative

Joining the campaign enables participants to **adopt a leadership position** on net zero, including a high ambition net-zero target. Race to Zero initiatives will support organisations in implementing a net-zero target and enable them to become part of the main COP26 campaign gathering together net-zero leadership initiatives.

Participation **sends governments a resounding signal that businesses, cities, regions, and the finance sector are united** in meeting the Paris goals and creating a more inclusive and resilient economy.

Contact info

racetozero.unfccc.int

Investors are invited to contact The UN-convened Net-Zero Asset Owners Alliance and/or the Net Zero Asset Managers initiative.

COP26 INITIATIVES

The UN-convened Net-Zero Asset Owner Alliance

THE UN-CONVENED NET-ZERO ASSET OWNER ALLIANCE

Convener(s)	The alliance, which was launched in September 2019, is convened by the UN Environment Programme Finance Initiative (UNEP FI) and the PRI. It is publicly endorsed by the UN Secretary General. The alliance is part of the UNFCCC Race to Zero campaign and It is supported by WWF and Mission 2020.
Type, number and signatures, AUM	**33 asset owner signatories** (as of November 2020) form around the world, managing **$5.1 trillion** in assets.
Objectives	The initiative is focused on aligning portfolios with net zero by 2050 at the latest, consistent with 1.5C, aimed at achieving real-world impact. The alliance aims to “instil in the global investment industry the required level of climate ambition … [and] demonstrate climate leadership and to scale up rapidly to achieve a critical mass of purposeful investors”. It aims to align investment portfolios “to the needs of an economy that is compatible with a stable climate” and “make significant progress towards delivering on Paris Agreement Article 2.1c: ‘Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development’.” The alliance has published a target-setting protocol, which is a first-generation target-setting methodology, for use by the alliance and all asset owners. The methodology was created by asset owners for asset owners, including a public consultation open to PRI’s signatory base and broader stakeholders, in co-ordination with SBTi and the Partnership for Carbon Accounting Financials. The alliance’s work tracks are led by asset owners to support implementation of net-zero targets, including: monitoring, reporting and verification; engagement with asset managers, corporates and sectors; financing transition; and policy advocacy on net zero. The alliance also has a recruitment track to support global diversification of alliance members.

The UN-convened Net-Zero Asset Owner Alliance

Commitments required of signatories

(including costs, if applicable)

Alliance members publicly commit at CEO-level to transitioning their investment portfolios to net-zero GHG emissions by 2050 consistent with a maximum temperature rise of 1.5°C above pre-industrial temperatures.

They are required to set intermediate five-year targets in line with science-based scenarios, embed their commitment in a "holistic ESG approach", and must emphasise GHG reductions in the real economy.

Members are expected to advocate for and engage on corporate and industry action, and public policies, that promote a transition to net zero in line with climate science and with consideration of social impacts.

Specifically, the alliance requires signatories to, over the next three years:

- Carry out and disclose a portfolio baseline assessment;
- Set a 2025 four-part target (by sub-portfolio, sector, engagement and financing) and establish corresponding climate strategies and action plans; and
- Publish, by COP26, a first aggregate target report.

They are also required to annually complete the alliance's informal and qualitative stock-take as well as periodically completing its quantitative assessment questionnaire.

In 2021, alliance members will publish individual targets based on the target-setting protocol. CEO-level involvement and interim 2025 targets are key features of the alliance, with the UN Secretary General describing the alliance's approach as "the gold standard."

Signatories are required to make an annual contribution of €20,000, with a lower fee band available for asset owners with smaller volumes of assets under management

A full list of commitments can be found here.

The UN-convened Net-Zero Asset Owner Alliance

Benefits of joining the initiative

Members work with **like-minded peers** at CEO/CIO, sustainability and investment staff-level to set net-zero targets. Tracks of work to **support implementation** include monitoring, reporting and verification (including co-creation of target-setting methodologies); engagement (with both asset managers and corporates); policy; and financing transition.

The convenors **collaborate with global and regional initiatives and networks** through The Investor Agenda. They stress their intention to work with complementary initiatives, frameworks and tools such as CA100+, InvECAT and SBTi, by "creating a common and overarching objective".

Contact info

www.unepfi.org/net-zero-alliance/

www.unepfi.org/net-zero-alliance/contacts/

www.unepfi.org/wordpress/wp-content/uploads/2019/09/AOAbrochure.pdf

Net Zero Asset Managers initiative

NET-ZERO ASSET MANAGERS INITIATIVE

Convener(s)	The initiative is managed by six investor networks, namely AIGCC, CDP, Ceres, IGCC, IIGCC and the PRI.
Type, number and signatures, AUM	At launch in December 2020, it comprised **30 asset managers**, covering **six regions** globally, who collectively manage **$9 trillion** of assets.
Objectives	The signatories aim to support the goal of net greenhouse gas emissions by 2050 or sooner, by prioritising the achievement of real-economy reductions of emissions within the sectors and companies in which the asset managers invest.
Commitments required of signatories **(including costs, if applicable)**	Signatories commit to: • Support the goal of net-zero emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C • Support investing aligned with net-zero emissions by 2050 or sooner. • Work in partnership with asset owner clients on decarbonisation goals, consistent with an ambition to reach net-zero emissions by 2050 or sooner across all assets under management; • Set an interim target (with a date no later than 2030) for the proportion of assets to be managed in line with the attainment of net-zero emissions by 2050 or sooner; and • Review their interim target at least every five years, with a view to ratcheting up the proportion of assets covered until 100% are included.

Net Zero Asset Managers initiative

To fulfil these commitments, signatories make the following five commitments for those assets managed in line with a 2050 net-zero commitment, pledging to:

- Set interim targets for 2030, consistent with a fair share of the 50% global reduction in CO^2 identified as a requirement in the IPCC special report on global warming of 1.5°C;
- Take account of portfolio Scope 1 and 2 emissions and, to the extent possible, material portfolio Scope 3 emissions;
- Prioritise the achievement of real economy emissions reductions within the sectors and companies in which they invest;
- If using offsets, invest in long-term carbon removal, where there are no technologically and/or financially viable alternatives to eliminate emissions; and
- Create investment products as required that are aligned with net-zero emissions by 2050 and which facilitate increased investment in climate solutions.

For all assets under management, signatories also commit to:

- Provide asset owner clients with information and analytics on net-zero investing and climate risk and opportunity;
- Implement a stewardship and engagement strategy, with a clear escalation and voting policy, consistent with achieving net-zero emissions for all assets under management by 2050;
- Engage with actors key to the investment system including credit rating agencies, auditors, stock exchanges, proxy advisers, investment consultants, and data and service providers to ensure that products and services available to investors are consistent with the aim of achieving global net-zero emissions by 2050; and
- Ensure any relevant direct and indirect policy advocacy they undertake is supportive of achieving global net-zero emissions by 2050.

Finally, signatories commit to publishing disclosures annually in line with the TCFD recommendations, including a climate action plan, and submitting them to the Investor Agenda via partner organisations for review to ensure the approach applied is based on a robust methodology, consistent with the UN Race to Zero criteria, and action is being taken in line with the commitments made.

Net Zero Asset Managers initiative

Benefits of joining the initiative

Signatories demonstrate **sector leadership** and a commitment to a sustainable future. The initiative will also enable collaboration to provide investors with **access to best practice**, **robust and science-based approaches and methodologies**, and **improved data**, through which to deliver these commitments. Asset managers will be supported to develop net-zero strategies and implement net-zero commitments through the programmes of the six founding investor networks.

Contact info

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Other investor Initiatives

OTHER INVESTOR INITIATIVES

Climate Action 100+

Convener(s)	Climate Action 100+ is co-ordinated by five investor networks: AIGCC, Ceres, IGCC, IIGCC and the PRI. It was launched in December 2017 by 225 investors at the One Planet Summit in Paris.
Type, number and signatures, AUM	As of the end of November 2020, **545 institutional investors** with **$52 trillion** under management had joined the initiative.
Objectives	Climate Action 100+ is an investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. It is targeting more than 160 companies, which produce two-thirds of annual global industrial emissions and which are strategically important to the net-zero emissions tranisition. Specifically, Climate Action 100+ engages with company management on behalf of its signatories to request they: • Implement a strong governance framework which articulates the board's accountability and oversight of climate change risk and opportunities; • Take action to reduce greenhouse gas emissions across their value chain, consistent with the Paris Agreement's well below 2°C objective, aiming for 1.5 degrees. This implies the need to move towards net-zero emissions by 2050 or sooner; • Provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Progress is assessed using the CA100+ Net Zero Company Benchmark.

Climate Action 100+

Commitments required of signatories

(costs, if applicable)

Signatories are required to sign the Climate Action 100+ Sign-on Statement.

To join, investors must be:

- An asset owner, an asset manager, or a service provider that is formally representing assets and that typically conducts engagements with companies;
- A member of one of the coordinating investor networks: AIGCC, Ceres, IGCC, IIGCC, or PRI; and
- Able to participate in engagements with focus companies (apart from asset owner supporters, in which case this is encouraged but not mandatory).

The admittance of new participants to the initiative is contingent on the capacity and availability of collaborative engagement groups.

There is no cost to join the initiative, except the time and resources required for engagement with focus companies. Climate Action 100+ is funded by grants from foundations and by the five partner organisations.

Benefits of membership

Climate Action 100+ aims to reduce climate risk across the global economy and encourage companies to seize related opportunities. By collaborating with other investors in engagement with important emitters and large companies involved in the net-zero transition, signatories can benefit from a **louder collective voice** while also pooling **engagement resources**.

Contact info

www.climateaction100.org

info@climateaction100.org

OTHER INVESTOR INITIATIVES

The Investor Agenda

Convener(s)	The Investor agenda has been developed since 2019 by seven founding partners, AIGCC, CDP, Ceres, IGCC, IIGCC, the PRI and the UNEP Finance Initiative.
Type, number and signatures, AUM	The Investor Agenda is not a membership organisation, and is not directly open to investors joining, but is instead a common agenda shared by the seven convenors. Almost **1,200 investors**, managing more than **$35 trillion** in assets, have taken action in one or more of the Investor Agenda focus areas.
Objectives	The agenda aims to "elevat[e] the profile of existing investor actions and initiatives on climate change", and amplify investor calls for governments to implement the Paris Agreement. It provides investors with a set of actions they can take in four focus areas, across investment, corporate engagement, investor disclosure and policy advocacy. The Investor Agenda focuses on two areas: supporting investors in publishing their own Investor Climate Action Plans and convening collaborative climate policy engagement.
Commitments required of signatories **(including costs, if applicable)**	To participate in the Investor Agenda, investors must have taken, or plan to take, action in one or more of the four focus areas: • Investment, for example: setting a net-zero target; making and reporting new low-carbon investments or investment commitments; phasing out investments in thermal coal; and integrating climate change into portfolio analysis and decision-making. • Corporate engagement, for example: signing on to the Climate Action 100+ initiative; supporting the CDP disclosure request; and supporting CDP's campaign against corporate non-disclosure. • Investor disclosure: reporting in line with the TCFD's recommendations.

The Investor Agenda

- Policy advocacy: engaging with national governments and the media in support of policy frameworks that support investment in low-carbon assets, enable investment in adaptation measures, and enact a just transition for affected workers and communities, and which ensure investors take account of climate risks and opportunities.

Benefits of membership	Participating in the Investor Agenda helps to **intensify the effects of individual investors' actions** to address climate change.
Contact info	theinvestoragenda.org **info@theinvestoragenda.org**

Initiative Climat International

Convener(s)	Initiative Climat International (iCI) was launched at COP21 in 2015 by five French private equity firms. Originally known as IC20, firms committed to measure the emissions of their portfolio companies, develop a climate strategy, and publish company data as of 2020. In 2019, PRI endorsed IC20 and became the secretariat for initiative with the intention of growing it internationally, thus leading to the change of name to iCI. France Invest, the French private equity and venture capital association, has supported the initiative since 2018.
Type, number and signatures, AUM	As of January 2021, **80 primarily European private equity firms** had joined the initiative, managing over **$1 trillion** in assets.
Objectives	Recognising that private equity has a vital and unique role to play in driving the transition to a zero-carbon, climate-resilient global economy, iC International is a collaborative initiative for investors who seek to better understand and manage the risks associated with climate change, and ultimately contribute to achieving the objectives of the Paris Agreement.
Commitments required of signatories **(including costs, if applicable)**	Signatories are required to commit to the iCI manifesto, which includes three specific commitments: • To publicly demonstrate a commitment to act on climate change, promoting the initiative among private equity firms; • Integrate climate change into investment processes in line with the objective of the Paris Agreement; and • Actively engage with portfolio companies to reduce their greenhouse gas emissions, contributing to an overall improvement in sustainability performance. Members are not obliged to publicly disclose emissions. There is no membership fee.

Initiative Climat International

Benefits of membership

Members benefit from peer-to-peer learning and collaboration, and best practice and knowledge sharing on a sector and market basis.

They also have access to bespoke tools and guidance developed for private equity, including a framework for assessing the materiality of climate risk, and advanced methodologies for emissions analysis.

iC International is formally recognised as a supporting partner of The Investor Agenda.

Contact info

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OTHER INVESTOR INITIATIVES

Investor Decarbonisation Initiative

Convener(s)	ShareAction set up the Investor Decarbonisation Initiative (IDI) in 2017. The programme currently works in partnership with initiatives led by CDP and The Climate Group and is supported by We Mean Business.
Type, number and signatures, AUM	It includes **120 members**, consisting of a mix of asset owners and asset managers representing around **$2.5 trillion** in assets under management.
Objectives	ShareAction provides investors the tools they need to catalyse further and faster corporate climate action. To date, key asks of corporates have been either a commitment to science-based targets and/or signing up to renewable electricity (through the RE100), energy productivity (EP100), and/or electric mobility (EV100). As of April 2021, IDI will be using investor engagement to move from commitment to action and will switch to a focus on high carbon emission sectors such as transportation and chemicals.
Commitments required of signatories (including costs, if applicable)	Further details are to follow, pending changes in April but the following requirements will remain unchanged. Signatories must: • Make a public commitment as a signatory on the ShareAction website; and • Commit to support coalition letters to corporates throughout the year. No fees are required, as the initiative is supported by philanthropic funds.

Investor Decarbonisation Initiative

Benefits of membership

IDI facilitates **direct engagement** with corporates and an understanding of the decision-making process surrounding climate commitments.

ShareAction **collaborates** with other groups under the We Mean Business umbrella, including the World Business Council on Sustainable Development, The Climate Group, CDP and Ceres. All corporate letters and wins are tracked and shared with the coalition.

Contact info

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IIGCC Paris Aligned Investment Initiative

IIGCC
The Institutional Investors Group on Climate Change

Type, AUM, Convener(s)	Launched in May 2019, the Paris Aligned Investment Initiative (PAII) is a collaboration involving over **70 asset owners** and asset managers managing more than **$16 trillion** in assets, led by IIGCC. APG and the Church of England Pension Board act as co-chairs of PAII and together with six additional asset owners (TPT Retirement Solutions, PKA, PGGM, Brunel Pension Partnership, RPMI Railpen and Lloyds Banking Group Pensions) make up the PAII steering group.

Objectives

PAII was the first initiative to aim to provide consensus on objectives and a clear, transparent set of best practice approaches and actions to enable Paris-aligned/net-zero investment portfolios relevant for the whole industry – asset managers and asset owners.

PAII develops tools and guidance to support asset owners and asset managers to make net-zero commitments and develop strategies to support this goal, namely through the Net Zero Investment Framework. PAII is also focused on providing implementation support to asset owners and asset managers making net-zero commitments and developing net-zero strategies.

To this end, the Paris Aligned Investment Initiative has produced the Net Zero Investment Framework, first of its kind comprehensive guidance on how investors can align to net-zero emissions by 2050.

Commitments required of signatories

(including costs, if applicable)

The PAII Net Zero Investment Framework encourages investors to make commitments and set targets in line with global net zero emissions by 2050. However, participation in the PAII doesn't itself require a net-zero commitment.

The Net Zero Investment Framework itself is publicly available tool at no cost. Participation in the PAII, however, is open only to IIGCC members.

IIGCC Paris Aligned Investment Initiative

Benefits of joining the initiative

Participation in the PAII supports asset owners and managers making net-zero commitments.

The main output of the PAII, to date, is the Net Zero Investment Framework. More than 25 methodologies and tools to support alignment with the Paris Agreement and net-zero emissions were analysed and reviewed by PAII, with only the best-fit approaches included in the framework.

The framework outlines a set of recommended targets, actions and methodologies that can be used to achieve Paris-alignment, and utilises the range of levers available to investors.

IIGCC also carried out portfolio analysis to understand the financial implications of aligning portfolios with the Paris Agreement. Five investors took part in applying the Net Zero Investment Framework, creating Paris-aligned portfolios and then using modelling by Vivid Economics to understand the outcomes of pursuing such a process. The results will be released in March 2021.

Meanwhile, Phase II of the initiative is underway, focusing on:

- Providing **support to asset owners and asset managers** to make net-zero commitments and implement net-zero strategies;
- Expanding the scope of the Net Zero Investment Framework to include two additional asset classes: **infrastructure, private equity**;
- Exploring how investors can **align to the adaptation and resilience goals** of the Paris Agreement;
- Exploring how investors can **increase investment in climate solutions**; and
- **Addressing analytical gaps** where further development of methodologies and approaches is required to support implementation of the Framework, such as around Scope 3 emissions and offsetting.

Contact info

https://www.iigcc.org/our-work/paris-aligned-investment-initiative/

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Investors assembled: **The investor groupings defined**

- **The Asia Investor Group on Climate Change** (AIGCC) is an initiative to create awareness among Asia's asset owners and financial institutions about the risks and opportunities associated with climate change and low-carbon investing. It has 49 members, representing more than $11 trillion in assets under management.

- **CDP**, formerly the Carbon Disclosure Project, is a not-for-profit which runs a global disclosure system to help organisations manage their environmental impacts. It works with investors with assets of $106 trillion to encourage environment disclosure from companies, cities, states and regions.

- **Ceres** is a US-based non-profit which manages a number of networks to promote action on the world's sustainability challenges. Its Investor Network brings together more than 175 institutional investors, managing more than $29 trillion in assets.

- **The Investor Group on Climate Change** (IGCC) is a collaboration of Australian and New Zealand institutional investors focused on the impact of climate change on investments. It represents 76 investors and related service providers, with assets under management of over $2 trillion.

- **The Institutional Investors Group on Climate Change** (IIGCC) is the European membership body for investor collaboration on climate change. It has more than 270 members, mainly pension funds and asset managers, with over €35 trillion in assets under management.

- **The Principles for Responsible Investment** (PRI) is the world's largest investor group promoting responsible investment. Its more than 3,000 signatories, including investors managing more than $103 trillion in assets, commit to incorporating ESG issues into investment practice.

- **UNEP Finance Initiative** (UNEP FI) is a partnership between UN Environment and the global financial sector with the goal of mobilising private sector finance for sustainable development. It works with more than 350 banks, insurers and investors.

Frameworks and tools

In addition to the collaborative initiatives described, there are a number of high-profile frameworks and tools that have been developed to help investors respond to climate change.

Tools developed to primarily address climate risk include:

CDP – formerly known as the Carbon Disclosure Project – runs a global environmental disclosure system that allows companies, cities, states and regions and investors to report their environmental impacts.

It acts on behalf of more than 500 institutional investors, managing $106 trillion in assets, and more than 150 buyers, with $4 trillion in procurement spend, who request that portfolio companies and suppliers disclose investment-relevant information regarding climate change, water security and deforestation.

Last year, more than 9,600 companies, 800 cities and 120 states and regions used the CDP's disclosure platform to do so.

CDP uses these disclosures to score companies, cities and regions on their environmental progress, and maintains one of the world's most comprehensive datasets on environmental action.

www.cdp.net

INEVITABLE POLICY RESPONSE

Launched by the PRI, the Inevitable Policy Response (IPR) is a pioneering project which aims to prepare investors for the risks to their investments posed by an abrupt and disruptive near-term policy response to climate change.

The project has commissioned research from consultancies Vivid Economics and Energy Transition Advisors to assess the likely macroeconomic, equity market and land-use impacts of a suite of policies, expected to be enacted in the mid-2020s, that will aim to decisively address climate change.

That work has led to a Forecast Policy Scenario which models the impacts of forecasted policies on the real economy up to 2050. These include changes to energy demand (oil, gas, coal), transport, food prices, crop yields and rates of deforestation.

→ **www.unpri.org/sustainability-issues/climate-change/inevitable-policy-response**

PARTNERSHIP FOR CARBON ACCOUNTING FINANCIALS

The Partnership for Carbon Accounting Financials (PCAF) is a global partnership of financial institutions that is developing a harmonised approach to assess and disclose carbon emissions associated with their loans and investments.

In November 2020, it published its Global GHG Accounting and Reporting Standard for the Financial Industry. It provides methods to measure financed emissions of six asset classes: listed equity and corporate bonds, business loans and unlisted equity, project finance, commercial real estate, mortgages and motor vehicle loans.

As part of the PCAF initiative, 86 financial institutions, representing $17.5 trillion in total assets, have committed to measuring and reporting the greenhouse gas emissions associated with loans and investments.

Although it has its roots in the banking sector, it is also open to investors, and The UN-convened Net-Zero Asset Owner Alliance is represented on its steering committee.

→ **https://carbonaccountingfinancials.com/standard**

Principles for Responsible Investment

Reporting and Assessment Framework

PRI signatories are required to report on their responsible investment activities annually, using the PRI's Reporting & Assessment Framework. This online tool comprises five overall modules, and six covering specific asset classes.

The Investment and Stewardship Policy module includes 19 indicators on climate change, which are aligned to the 11 recommendations set out in the TCFD. They are designed to be straightforward to report against and to enable peer comparisons. While reporting these indicators is voluntary for signatories in the 2021 reporting cycle, they will become 'core' indicators, making them mandatory to report against and disclose.

www.unpri.org/signatories/reporting-and-assessment

THE POWERING PAST COAL ALLIANCE

The Powering Past Coal Alliance (PPCA) is a coalition of national and sub-national governments, businesses and organisations working to advance the transition from unabated coal power generation to clean energy.

Its PPCA Declaration commits signatories to work towards phasing out coal-fired power plants in the OECD by 2030, and by 2050 in the rest of the world.

It invites financial institutions, including investors, to sign up to the PPCA Finance Principles, which require, among other things, signatories to make no new investments in unabated coal-fired power and advocate for the phase-out of existing capacity.

https://poweringpastcoal.org/about/finance-taskforce

The G20's Financial Stability Board set up the Task Force on Climate-related Financial Disclosures (TCFD) in 2015 to help identify the information needed by investors, lenders and insurers to appropriately assess and price climate risk and opportunity.

In 2017, it published voluntary recommendations for climate-related financial disclosures from companies and investors. These disclosures are structured around governance, strategy, risk management and metrics and targets.

In its 2020 Progress Report, the TCFD said that more than 1,500 organisations around the world have expressed support for its recommendations, with many beginning to implement them in their disclosures. In November 2020, the UK government became the first jurisdiction to announce plans to make TCFD-aligned disclosures mandatory, by 2025.

www.fsb-tcfd.org/

The Transition Pathway Initiative (TPI) is a global, asset-owner led initiative which assesses companies' preparedness for the transition to a net-zero economy. The TPI data also underpins the CA100+ Net-Zero Company Benchmark.

Working with its data partner FTSE Russell, the TPI uses public information to evaluate companies' management of their greenhouse gas emissions and climate risks and opportunities, and assesses their expected future carbon performance compared with national and international targets.

It makes the results of this analysis available online, through a publicly-available tool hosted by its academic partner, the Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science.

Investors backing the TPI have committed to use this analysis to inform their investment research, in engagement with portfolio companies, and in tracking manager's holdings.

www.transitionpathwayinitiative.org

Support tools

The following tools have been developed to primarily support alignment with climate goals.

COP26 PRIVATE FINANCE HUB

The Private Finance Hub supports Mark Carney in his capacity as the Prime Minister's Finance Adviser for COP26. Dr Carney launched the Private Finance Strategy to build a framework to ensure that every professional decision takes climate change into account.

The COP26 Private Finance Hub works with the private sector and other stakeholders to support four pillars of work:

- Reporting: improving the quantity, quality and comparability of climate-related disclosures by implementing a common framework built on the TCFD recommendations.
- Risk management: ensuring that the financial sector can measure and manage climate-related financial risks.
- Returns: helping investors identify the opportunities in the transition to net zero and report how their own portfolios are aligned for the transition; and
- Mobilisation: increasing private financial flows to emerging and developing economies, by connecting available capital with investable projects and encouraging new market structures.

Click here for Building a private financial system for net zero: Priorities for private finance for COP26

The EU taxonomy for sustainable activities is an output of the European Commission's action plan on financing sustainable growth, published in March 2018.

The plan called for the establishment of an EU classification system for sustainable economic activities, with the intention of helping investment flow towards activities that contribute to the EU's environmental objectives – with climate change mitigation and adaptation the first objectives addressed.

In March 2020, the EU's Technical Expert Group on sustainable finance published its final report on the design of the Taxonomy, alongside technical screening criteria for 70 climate change mitigation and 68 climate change adaptation activities. In November 2020, the Commission published a draft legal text setting out the climate mitigation and adaptation criteria.

Companies that are required to report information under the scope of the EU's Non-Financial Reporting Directive (NFRD) will have to disclose, from 2022, how and to what extent their activities are aligned with those identified by the Taxonomy. Meanwhile, financial firms offering environmental or sustainable financial products will be required to disclose how and to what extent the underlying investments support Taxonomy-aligned economic activities.

The EU has also established the Platform on sustainable finance, an advisory body, composed of a range of stakeholders, to support the Commission in developing the taxonomy.

Taxonomies can provide a mechanism for measuring exposure to low-carbon products and services, which is a recommended TCFD metric. A number of data, analytics and research firms including FTSE Russell provide capabilities such as green revenues to help investors quantify portfolio exposures to green economy sectors or to EU taxonomy defined activities.

https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en

The framework is an output of the Paris Aligned Investment Initiative (PAII), a collaboration involving over 70 asset owners and asset managers with more than $16 trillion in assets, led by IIGCC. The PAII aims to provide consensus on objectives and a clear, transparent set of best practice approaches and actions to enable Paris-aligned/net-zero investment portfolios relevant for both asset managers and asset owners.

Available as a consultation document, the framework offers what its drafters describe as the "first-ever practical blueprint" to enable investors to become net-zero. It offers a set of recommended actions, metrics and methodologies to help investors align their portfolios with the goals of the Paris Agreement.

Drawn up by the IIGCC's Paris Aligned Investment Initiative, the framework aims to provide a "consistent basis" for Paris alignment by a broad range of investors, based on investors' specific strategies and circumstances. It covers: governance and strategy; setting targets and objectives; strategic asset allocation; asset class alignment; and engagement and advocacy.

Following the consultation process, the finalised Net Zero Investment Framework 1.0 will be published in March 2021.

→ **www.iigcc.org/our-work/paris-aligned-investment-initiative/**

The Science Based Targets initiative (SBTi) is a partnership between CDP, the UN Global Compact, the World Resources Institute and the World Wide Fund for Nature. It has, thus far, mostly focused on non-financial corporates, helping companies set emissions targets that are in line with holding global warming to well below 2°C above pre-industrial levels.

It does that by defining best practice in target-setting, providing technical assistance, and independently assessing and validating individual companies' targets. The SBTi is also developing a science-based standard for setting net-zero targets that aims to address some of the controversies around the use of carbon offsets.

In addition, the SBTi is developing guidance for financial institutions, including asset managers and asset owners.

→ **sciencebasedtargets.org**

THE UN-CONVENED NET-ZERO ASSET OWNER ALLIANCE DRAFT 2025 TARGET SETTING PROTOCOL

The inaugural protocol, published in final form (following a public consultation) in January 2021, sets out the Alliance's four-pillar approach to target setting and reporting for the period 2020 to 2025.

The pillars cover: corporate engagement, sector engagement, portfolio targets and financing transition. The protocol provides a first-generation target-setting methodology developed by asset owners for asset owners.

The protocol sets out how Alliance members are expected to set and disclose portfolio emissions, sector, engagement and transition financing targets.

https://www.unpri.org/download?ac=12319

CONCLUSION

The global response to climate change is set to be a defining driver of the global economy over the coming decades.

Climate science and growing public concern are leading to national and international policymaking and technological advances. New industries are emerging, while existing business models are changing to become aligned with a net-zero future.

Investors recognise that these forces will have profound effects on the performance of the assets in which they invest. Their obligations as fiduciaries mean that they must waste no time in understanding these effects and in beginning to adapt their portfolios in response. This will be a challenging process.

However, deeper investor collaboration on climate is driving coordinated action, with institutional investors emerging as critical catalysts for industrial change achieving steeper, more rapid decarbonisation. Significant resources have already been mobilised to this end with a number of opportunities for collaboration, cross-learning and coordination. The investor initiatives, tools and frameworks set out in this guide can help investors formulate an appropriate response to the challenge of climate change and ensure that investors assess the risks and identify the opportunities involved.

ABOUT

LSEG (London Stock Exchange Group) is more than a diversified global financial markets infrastructure and data business. We are dedicated, open-access partners with a commitment to excellence in delivering the services our customers expect from us. With extensive experience, deep knowledge and worldwide presence across financial markets, we enable businesses and economies around the world to fund innovation, manage risk and create jobs. It's how we've contributed to supporting the financial stability and growth of communities and economies globally for more than 300 years.

Data & Analytics

Our acquisition of Refinitiv means we can provide the breadth and depth of financial data and best-in-class analytics that customers expect—driving innovation and growth across global markets. And our high-performance solutions—from trading, to market surveillance, to wealth solutions and more—help to enhance the performance of our customers. FTSE Russell is a leading global provider of financial indexing, benchmarking and analytic services with more than $16 trillion benchmarked to our indices—and offers an extensive range of data services and research. The combination of Refinitiv and FTSE Russell provides LSEG with leading capabilities in data, analytics, indices and benchmarks

More information: **www.lseg.com**

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

More information: **www.unpri.org**