



Principles for
Responsible
Investment



FINANCE
UNEP INITIATIVE

THE NET-ZERO ASSET OWNER ALLIANCE

FAQ

The Alliance commitment:

'The members of the Alliance commit 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, taking into account the best available scientific knowledge including the findings of the IPCC, and regularly reporting on progress, including establishing intermediate targets every five years in line with Paris Agreement Article 4.9.

In order to enable members to meet their fiduciary duty to manage risks and achieve target returns, this Commitment must be embedded in a holistic ESG approach, incorporating but not limited to, climate change, and must emphasize GHG emissions reduction outcomes in the real economy.

Members will seek to reach this Commitment, especially through advocating for, and engaging on, corporate and industry action, as well as public policies, for a low-carbon transition of economic sectors in line with science and under consideration of associated social impacts.

This Commitment is made in the expectation that governments will follow through on their own commitments to ensure the objectives of the Paris Agreement are met.'

PART 1:

Understanding what the
commitment entails

1. What is meant by transitioning investment portfolios to net-zero greenhouse gas (GHG) emissions by 2050?

This sentence contains the essence of the commitment. In the portfolio context, transition means that asset owners commit to gradually reducing the overall emissions contained in their portfolio to be aligned with the Paris Agreement (Art. 2.1c). In doing so, they assist, incentivise and require portfolio companies to embark on 'decarbonisation' pathways of a scale and pace consistent with a 1.5°C objective of the Paris Agreement. Once these companies start to transition towards low-carbon business models, the asset owner will automatically see its portfolio 'decarbonise' as well.

2. Which GHGs are covered?

According to the IPCC's Special Report on 1.5°C (SR15), limiting global warming to 1.5°C requires reaching net-zero CO₂ emissions no later than 2050. This is accompanied by rapid declines in other non-CO₂ greenhouse gas (GHG) emissions. We envision tracking of all GHGs. Reporting against CO₂ is required, reporting against

non-CO₂ GHGs is encouraged and its mandatory inclusion will be considered in the future.

3. What asset classes are covered by the commitment?

The commitment covers all asset classes*, implementation will focus in the beginning on the following asset classes: Listed equities, Fixed income, Private equity, Infrastructure, Real estate, and Mortgages. All proprietary portfolios, both internally and externally managed, are covered. As discussed under Question 2, all types of GHGs should be tracked where possible.

**Certain asset classes present nuanced challenges, often lacking methodologies for estimating and accounting of a carbon footprint. This includes, amongst others, sovereign bonds and derivatives. The Alliance's technical working group will explore the inclusion of these asset classes.*

4. Does the commitment require that asset owners divest all their emissions-intensive assets?

No. While an asset owner retains full discretion as to which assets it holds, the commitment requires the asset owner to take measures which bring about portfolio decarbonisation and ultimately deliver a net-zero portfolio by 2050 in ways that will be as conducive as possible to GHG emissions reduction in the real economy.

5. Can the commitment be fulfilled through pledging funds to 'green', 'low-carbon' finance?

The commitment focuses specifically on the transition of portfolios towards net-zero emissions by 2050. The main focus lies on assisting economic sectors in their decarbonisation efforts (which in scale and design will have to correspond to scientific requirements) and consequently help portfolios shift, too. Low carbon investment is encouraged, but is unlikely to constitute the

sole activity, as the commitment focuses on portfolio-wide and cross-sector decarbonisation.

6. Why does the commitment prominently refer to company engagement as a means of implementation?

It remains the responsibility of asset owners to decide which (range of) tools (such as strategic asset allocation, low carbon investment and divestment) are best suited to implement the net-zero target in their complete portfolio. However, given the nature of the commitment, it is our conviction that engagement is an obvious and necessary component to ensure that the global economy, individual sectors and ultimately companies set out on transition pathways which deliver the necessary emission reductions needed to keep global warming to 1.5°C. That is why the Alliance has a strong focus on 'advocating and engaging on a low carbon transition' and will seek to align with existing efforts for joint climate engagement such as Climate Action 100+.

7. What is meant by 'portfolios'?

The commitment covers all (proprietary) portfolios of the asset owner. There might be a sequence in which specific portfolio segments will be addressed first (guided by a prioritisation of the most material sectors, GHG emissions-wise), but the ultimate objective is to align all portfolios by 2050.

8. What is meant by 'transition of economic sectors in line with science and under consideration of societal impacts'?

In light of the Paris Agreement, it is clear that the need for decarbonisation is urgent and must align to the best available scientific input. Although all action on climate is welcome, it is necessary to determine if and/or how any given measure ultimately delivers emission reductions that by and large correspond to what is scientifically needed.

Further, it is also clear that the impacts of climate change are not isolated and can spread across regions, markets and societies. It is therefore necessary to implement the Alliance Commitment via

a holistic approach measuring and considering risks and opportunities across Environment, Social, and Governance realms. In particular, attention needs to be placed on the societal impacts that the low-carbon transition might have (i.e. 'just transition').

9. What does the 'net-zero GHG by 2050' target mean?

It specifies Art 2.1c from an asset owner's perspective and constitutes the long-term portfolio decarbonisation target in line with the Paris Agreement objective of limiting the global mean temperature increase to 1.5°C by the end of the century relative to pre-industrial levels.

10. How does the 'intermediary target setting' until 2050 work and how can intermediate targets be set?

Intermediary target setting will occur at portfolio level to ensure that portfolios decarbonise in a timely and gradual manner. In order to achieve this, asset owners will need to set intermediate targets in line with Article 4.9 of the Paris Agreement (for 2025, 2030, 2040). Given the above-mentioned transition focus, it is necessary to create milestones to determine progress towards the long-term goal.

In principle, the Alliance is methodology-agnostic, as long as target-setting and reporting efforts are sufficiently transparent and comparable across Alliance members. The Alliance will need to consider emerging methodologies for target setting (such as SBT FI and InvECAT) and reporting as well as assessment of pathways (such as TPI). Further application of any such approaches are subject to further discussions within the Alliance.

11. Is there a uniform approach to 'regular progress reporting'?

Yes. Annually, the Alliance will complete an 'ongoing, informal and qualitative stock-take' aimed at: i) qualitatively and continuously tracking transition progress, ii) informing the agenda, focus and interventions of the Alliance, and iii) informing the Alliance's annual progress report. To the extent possible this will build on asset owners' disclosures in response to the Recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), in particular disclosures in response to Pillar 4 of the TCFD framework on 'target-setting'.

12. What are the anticipated timelines for quantitative, portfolio-level reporting and other major milestones?

Asset owners will begin to take action immediately, including engaging with portfolio companies. Asset owners set targets at portfolio level to ensure that portfolios decarbonise in a timely and gradual manner. In order to achieve this, asset owners will need to set intermediate targets in line with Article 4.9 of the Paris Agreement (for 2025, 2030, 2040). Over the next 3 years all asset owners in the Alliance will have to perform the following actions:

1. Portfolio baseline assessments carried out & disclosed*
2. Climate strategies & action plans, including trajectories, developed
3. *By December 2023* - Disclosure of first quantitative report (to be paired with first global stocktake under Paris Agreement Article 14.2)

**The use of the term 'disclosure' refers to the issuing of publicly available reports and other information.*

PART 2:

Understanding the
benefits of the Alliance

1. How will such a commitment influence risks confronting an asset owner?

Climate change poses a variety of risks for institutional investors, be these risks of physical, economic or regulatory nature (see, for example, PRI's work on the Inevitable Policy Response, and UNEP FI's work on investor adoption of the recommendations of the Task Force on Climate-Related Financial Disclosures). While there still is uncertainty as to how these risks can and/or will play out in detail, the Alliance commitment defines an additional portfolio objective ('net-zero' by 2050) and as such serves as a springboard for addressing these risks at portfolio level, which can give a more holistic risk perspective and ultimately impact risk-selection. As stated previously, the commitment also serves as a springboard for the development of transition pathways by the invested assets which ultimately serve the purpose of mitigating climate change-related risks at asset level.

2. How might future asset selection be influenced?

Based in the belief that the global economy needs to transition to low-carbon business models, it is likely that such assets which are neither willing nor able to develop and implement transition pathways run a higher risk of becoming stranded, and therefore will become less attractive to asset owners who have committed to transition their portfolio to net-zero by 2050.

3. Will such a commitment influence cross asset interdependencies?

Given the interdependent nature of our economy, economic sectors are usually not able to arrive at a fully fledged decarbonisation without ensuing action in/from other sectors. In case of lack of or insufficient transition efforts, asset owners will ultimately face the decision whether they wish to continue to hold assets which negatively influence other assets in the portfolio.

4. Will joining such a commitment enable new customer growth?

Acknowledging different sentiments towards climate change continue to exist, we operate under the assumption that new customer groups are arising with clearer expectations towards businesses and their impact on E, S, and G issues. The sooner asset owners address these expectations and reflect them in their individual strategies, the better they can position themselves positively towards these groups. In essence, we believe there is a clear first mover advantage in joining the Alliance.

5. Is joining such a commitment in line with future regulation?

We are currently experiencing exponential growth in ESG regulation across the globe. While it historically was more issuer-focused, financial institutions and, in particular, investors are increasingly coming under the focus and scrutiny of regulators. The more cohesive and convincing voluntary actions/commitments by asset

owners are, the higher the likelihood that they can serve as blueprints for potentially forthcoming regulation.

6. Investment risk: if we are targeting a net-zero world, but that world does not emerge, do we create 'unnecessary' investment risks in our portfolios?

We believe that the financial risks from abrupt policy changes and the physical impacts of unabated climate change pose the potentially most disruptive risks of the coming decades. We believe that transitioning our portfolios to low-carbon pathways by transitioning the business models of the companies on our portfolios to low-carbon pathways is the best risk-mitigation strategy that as investors—individually or collectively—we can put in place.

PART 3:

Set up of the Alliance

1. How does the Alliance interlink with other climate initiatives in the financial sector?

The Alliance rests very much on the shared and far-reaching commitment to decarbonise portfolios in line with science. This will help streamline and bolster ongoing efforts within the financial sector community (such as CA100+, InvECAT, SBTi, etc.) by creating a common and overarching objective. The Alliance does not seek to duplicate activities and will address how to best support and contribute to suitable ongoing efforts upon its installation.

2. How does the commitment influence ongoing engagement efforts?

By sharing a common and concrete portfolio-level commitment, engagement efforts can become more targeted and increase in efficiency. Rather than engaging on helpful, but potentially diverse climate issues (ranging from increased disclosure, strategy development and/or specific management decisions), a shared commitment will foster 'one voice' from asset owners, specifically focusing on the development of long-term climate strategies (transition pathways). It will also increase efficiency and prevent inefficiencies from parallel engagement efforts.

3. What are the roles of UNEP FI and PRI?

UNEP FI and the UN-supported PRI are jointly convening the Alliance. UNEP FI and PRI will provide expert global input and draw on their investor convening abilities and relationship with the UN.

4. What are the roles of civil society actors?

Mission 2020, convened by former UNFCCC Executive Secretary, Christiana Figueres, and WWF will provide strategic advice as NGO actors, joining in an advisory capacity.

5. Will there be a public communication and, if yes, is this done by the Alliance or by every asset owner individually?

There will be a public announcement from the Alliance in September at the UN Secretary-General's Climate Action Summit. Individual communications can/have to be done by the asset owners themselves. In other words; there will be no communication by the Alliance on behalf of the asset owners to its portfolio companies or to the general public on its investment practices. The secretariat will be responsible for general communications and the annual publication.

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