Investment Leadership Programme

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PRI Principles for Responsible Investment

UN-convened Net-Zero Asset Owner Alliance

Credible Ambition, Immediate Action

The first progress report of the UN-convened Net-Zero Asset Owner Alliance

October 2021

In partnership with:

WWF

GLOBAL OPTIMISM

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Alliance members

- Akademiker Pension
- alecta
- Allianz
- AMF
- African Risk Capacity
- AVIVA
- AXA
- Bayerische Versorgungskammer
- BNP PARIBAS CARDIF
- BTPS
- CDPQ
- Caisse des Dépôts Groupe
- CalPERS
- cbus super fund
- The Church Commissioners for England
- The Church of England Pensions Board
- CNP assurances
- Dai-ichi Life Group
- Danica Pension
- David Rockefeller Fund
- RAFP Retraite additionnelle de la Fonction publique
- Folksam
- FRR Fonds de Reserve pour les Retraites
- GENERALI
- HanseMerkur
- KENFO
- Legal & General
- Lægernes Pension
- M&G
- Meiji Yasuda
- Munich RE
- Nippon Life Insurance Company
- Nordea Life and Pension
- P+
- Pension Insurance Corporation
- PensionDanmark
- Pensioenfonds Detailhandel
- PFA Mere til dig
- Phoenix Group
- pka
- Prudential
- QBE
- Rothesay
- SCOR The Art & Science of Risk
- Societe Generale Assurances
- St. James's Place Wealth Management
- Sparkassen Versicherung
- storebrand
- Sumitomo Life
- Swiss Re
- the co-operators A Better Place For You
- Univest Company Unilever
- UNIQA
- UNJSPF United Nations Joint Staff Pension Fund
- Wespath Benefits | Investments
- ZURICH

Contents

Acronyms

ACWI	All Country World Index
ALM	Asset and Liability Management
AOA	Asset Owner Alliance
AO	Asset Owner
AR6	Sixth Assessment Report
AUM	Assets Under Management
CA100+	Climate Action 100+
CDR	Carbon Dioxide Removal
CEO	Chief Executive Officer
CO_2	Carbon Dioxide
CO_2e	Carbon Dioxide Equivalent
COP	Conference of the Parties
COP26	Twenty-sixth session of the Conference of the Parties to the UNFCCC
CRREM	Carbon Risk Real Estate Monitor
DFI	Development Financial Institution
ECF	European Climate Foundation
ESG	Environmental, Social and Governance
ETC	Energy Transition Commission
EU	European Union
GFANZ	Glasgow Financial Alliance for Net Zero
GHG	Greenhouse Gas
GICS	Global Industry Classification Standard
GRI	Global Reporting Initiative
IAASA	International Institute for Applied Systems Analysis
ICAPs	Investor Climate Action Plans
ICT	Information and Communications Technology
IEA	International Energy Agency
IIGCC	Institutional Investors Group on Climate Change
IPCC	Intergovernmental Panel on Climate Change
IPSF	International Platform for Sustainable Finance
METI	Ministry of Economy, Trade and Industry
MDBs	Multilateral Development Banks
MRV	Monitoring, Reporting and Verification

NACE	Nomenclature statistique des activités économique dans la Communauté européene (Statistical classification of economic activities in the European Community)
NDCs	Nationally Determined Contributions
NET	Negative Emissions Technologies
NZ	Net Zero
NZAOA	Net-Zero Asset Owner Alliance
NZE	Net-Zero Emissions
NZ2050	Net Zero 2050
PACTA	Paris Agreement Capital Transition Assessment
PAT	Portfolio Alignment Team
PCAF	Partnership for Carbon Accounting Financials
PE	Private Equity
PIK	Potsdam Institute for Climate Impact Research
PRI	Principles for Responsible Investment
SAB	Scientific Advisory Body
SAM	Selection, Appointment and Monitoring
SBTi	Science Based Targets Initiative
SFDR	Sustainable Finance Disclosure Regulation
SR1.5	Special Report on 1.5°C
TCFD	Task Force on Climate-Related Financial Disclosures
TSVCM	Taskforce on Scaling Voluntary Carbon Markets
UK	United Kingdom
UN	United Nations
UNEP	UN Environment Programme
UNEP FI	UN Environment Programme Finance Initiative
UNFCCC	United Nations Framework Convention on Climate Change
USA	United States of America
US$	United States Dollar
UTS	University of Technology Sydney
WEF	World Economic Forum
WEO	World Economic Outlook

The First Alliance Progress Report

The Alliance is proud to launch the First Alliance Progress Report. This report covers the actions, activities and achievements of the Alliance and its members since its establishment in September 2019.[1] We acknowledge that the Alliance is operating within a global ecosystem comprised of governments, other financial institutions, corporates and individuals, and it is only by working together that we can achieve our collective goal. We are pleased to launch this report ahead of the UNFCCC COP26 milestone. We hope that our actions and commitments help to support a growing momentum for private sector actors and governments alike, in addressing climate change and enabling real-economy transition towards a world on a 1.5°C pathway.

Foreword

This is the decade to combat climate change. Since the Climate Action Summit of the United Nations Secretary General in September 2019, the number of commitments to net zero has grown impressively. Today, approximately 61% of the world's countries and 20% of all major companies have made a net-zero pledge of some kind. These commitments are like a loaded spring, signalling that policy, industry and financial leaders across the globe are poised for drastic action.

Drastic action is needed now. The August 2021 release of the IPCC Working Group I contribution to the Sixth Assessment Report (AR6) shows how we teeter on the edge, ready to plunge forward into destruction, or about-face and bring emissions to a screeching halt.

We know commitments can catapult action—but commitments alone do not guarantee progress—actions are needed. We must seize this opportunity, harnessing the potential in the wealth of net-zero commitments to ensure that they lead to real-world action and change. This starts with unprecedented transparency and cooperation to address the economic and policy hurdles that are standing in the way of decarbonising our economic system.

Asset owners have a key role to play in this collaborative effort as they have the power to shift capital flows to help building the net-zero economy. This is precisely why the 2019 Summit saw the launch of the UN-convened Net-Zero Asset Owner Alliance as a founding member of the then Climate Ambition Alliance. The Alliance was the first of its kind, inspiring similar commitments from banks, insurers, asset managers and others.

The members of the Net-Zero Asset Owner Alliance have set a compelling example for this global collaboration. They have delivered a clear framework for how a dedicated group of actors can turn ambitious long-terms commitments into interim targets that lead to clear actions today and real-world outcomes. This is a blueprint for others to follow.

Since 2019, over 100 investment professionals in the Asset Owner Alliance have come together to advance the 2025 Inaugural Target Setting Protocol, which ensures each Alliance member can set its own concrete and science-based targets. Likewise, the Alliance partnered with climate modelers to apply science-based analysis to members' portfolios through the One Earth Climate Model. It joined others in asking the International Energy Agency (IEA) to publish a net-zero scenario. It called on global asset managers to provide and scale-up blended finance solutions, and it engaged industry leading asset managers on the need to represent climate risk not just as a financial risk, but as an existential risk to the businesses of their asset owner clients. Members have also engaged policymakers in support of complementing governmental net-zero goals with concrete short-term roadmaps, including publishing a robust position paper arguing for the rapid ramp-up of carbon pricing schemes to correct the market failure of the unpriced externalities of greenhouse gas (GHG) emissions. So, after commitment came action, and we need more because this journey has only just begun.

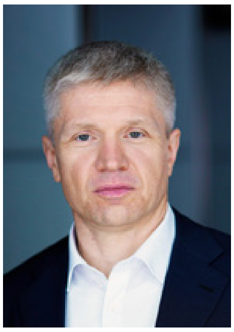
However, it is a good moment to reflect on what has been achieved so far. The following progress report, published ahead of the much-awaited 26th session of the United Nations Framework Convention on Climate Change Conference of Parties (UNFCCC COP26), expounds on all this work—and more. Covering the Alliance's activities from September 2019 to September 2021, this report details the ambitions, challenges and successes of the Alliance as an organisation, but also of its members. It also provides insights into the first ever science based, short-term decarbonisation targets set by Alliance members.

We are proud to work with experts and leaders in the UN-convened Net-Zero Asset Owner Alliance, and we are encouraged by the accomplishments detailed in this progress report. But the urgency of the climate crisis and the scale of action needed to achieve net zero does not allow for complacency. Together with other net-zero initiatives, Alliance members must forge ahead with bold action and innovative partnerships to advance real-world transition in support of a net-zero future. As financial actors we need to continue to share and leverage our knowledge and experience moving financial markets to engage companies, sectors and asset managers on the rapid action needed to empower this future. We must also create a virtuous cycle between the private sector and governments. Engagement can, and should, include meaningful dialogue with legislators focused on the rapid implementation of climate policy.

We must continue to advance transparent and challenging discussions with all stakeholders, turning commitments and engagement into real-world outcomes. To do so, we encourage all asset owners concerned about climate change to commit your portfolios to alignment with a 1.5°C trajectory and to join the UN-convened Net-Zero Asset Owner Alliance. Together we can work to ensure a brighter future.

Hiro Mizuno

Special Envoy of UN Secretary-General in Innovative Finance and Sustainable Investments.



Günther Thallinger

Board Member Allianz SE & Chair UN-convened Net-Zero Asset Owner Alliance

Executive summary

Climate change presents unprecedented risks to our lives and livelihoods, as well as to our businesses and economies. The risks posed across all sectors are real, existential and threaten the stability of our economies and financial systems if not appropriately addressed or integrated into business plans and strategies. As we approach the UNFCCC COP26, the role of the financial sector in achieving global low carbon transition ambitions has been spotlighted, calls to action have been amplified and ambition has been raised by many asset owners joining the fight against dangerous climate change.

In September 2019, at the Secretary General's Climate Action Summit, the United Nations-Convened Net-Zero Asset Owner Alliance was launched. This international collaboration of asset owners was convened by the UN Environment Programme Finance Initiative (UNEP FI) and the Principles for Responsible Investment (PRI) to respond to Article 2.1c of the UN Paris Climate Agreement and enable financial flows to support the transition to net-zero CO_2 emissions economies by 2050. In advance of COP26, this inaugural UN-convened Net-Zero Asset Owner Alliance Progress Report highlights the key actions, achievements and milestones ahead for the Alliance and its members.

The Alliance and its members are committed to supporting the global transition to net zero, through aligning their investment portfolios to a net-zero GHG emissions trajectory by 2050. The report highlights how asset owners are uniquely placed to engage with asset managers, corporates and policymakers and to develop strategies for fund allocation and transition, conducive to a 1.5°C world (scenarios defined by the IPCC AR6 Working Group I report).

Members of the Alliance have collaboratively set industry standards, developed guidance, and published net-zero position papers to support asset owners interested in playing their part towards the net-zero transition. These include the 2025 Alliance Target Setting Protocol, which guides how individual members will set science-based emission reduction targets, achievable in the next five years, informed by IPCC 1.5°C no and low overshoot pathways.

This report summarises how Alliance members have set targets according to the Protocol. In some instances targets exceed recommended thresholds, in some instances they fall short. Details are found throughout the report, a brief summary includes:

- Sub-portfolio targets which are on the high-end, or beyond, the recommended range of -16 to -29%;
- Sector targets set by just 4 asset owners based on sector specific pathways;

- Engagement targets which cover a vast number of KPIs and demonstrate both high end and low end of ambition; and
- Climate solutions financing amounting to 4% of AUM by asset owner (expected to grow annually).

The Alliance's work goes further and is organized across four Tracks, the progress of which is captured in the respective chapters of this report (MRV, Financing Transition, Engagement and Policy). Across these Tracks, the Alliance supports members in engaging effectively and collaboratively with corporates and industries, building investment opportunities, advocating for supportive public policy environments to drive low carbon transition, and implementing Monitoring, Reporting and Verification (MRV), accountability and transparency mechanisms to deliver real-world impacts.

Alongside these Tracks, the Alliance recognises that to align with net-zero targets, asset owners must carefully balance scientific ambition, active ownership engagement, and divestment constraints, with individual responsibilities, risk profiles, the decarbonisation trends of the global economy, and market opportunities specific to each Alliance member and their unique market environment.

Acknowledging the progress that has been made, the report also highlights the distance left to go, and the imminent call for urgent and meaningful action. The Alliance is committed to strengthening its work with stakeholders and industry leaders, as well as with world-class science and research partners, to ensure that asset owners are driven by science-based targets and support other sectors to do the same.

Only if we work together—across all sectors of the economy and society—will we drive the convergence needed by all actors to deliver a net-zero world by 2050, or sooner. A net-zero transition will require ambitious commitments, the redirection of capital flows and policy incentives—but most importantly concrete actions by all—to ensure necessary changes can be made at speed. This report maps the pathway and next steps to be collectively taken by the Alliance and its members in the months and years ahead.

56 Investors with
US$ 9.3 trillion AUMs
are now in the Alliance

29 Investors with
US$ 4.6 trillion AUMs
have now set targets for attainment by 2025

US$ 1.5 trillion AUMs
are now in motion towards a 1.5°C aligned target by 2025

"Code red for humanity"

Our urgent call to action

On 9 August 2021, the IPCC AR6 Working Group I report provided the damning but expected warning that GHG emissions from fossil fuel burning and deforestation are choking our planet and putting billions of people at immediate risk.

A growing number of changes to our climate system are becoming irreversible, and if the global community does not abruptly change course, we will not achieve the global objective of limiting temperature change to below 2°C striving for 1.5°C. We, asset owners, therefore, are in danger of also failing in our commitment to transition our investment portfolios to net-zero GHG emissions by 2050 if the global economy does not move with us.

We need governments, policymakers, corporations and financiers to make the hard changes required by science to align and achieve the 1.5°C pathway, and we must start today.

This is our simple, urgent call to action to all parties.

Introduction

> **"Portfolio decarbonisation is not an end goal in itself, but a tool to achieve decarbonisation of the global economy and ensure the green transition in a timely manner."**
>
> **The Alliance**

The UN-convened Net-Zero Asset Owner Alliance is a growing international group of institutional investors delivering on a bold commitment to transition their investment portfolios to net-zero GHG emissions by 2050. Representing 56 institutional investors with a combined US$ 9.3 trillion assets under management (AUM) as of 20 October 2021, the Alliance demonstrates united investor action to align portfolios to a maximum global mean temperature rise of 1.5°C above pre-industrial levels, taking into account the best available scientific knowledge including the findings of the IPCC based on no/low overshoot scenarios after (P1–P3), and addressing Article 2.1c of the Paris Agreement committing all government signatories to "Making financial flows consistent with a pathway towards low greenhouse gas emissions and climate resilient development".[2]

Two years after its foundation in September 2019 at the United Nations Secretary General's Climate Action Summit and ahead of the UNFCCC COP26 in Glasgow (31 October–12 November 2021), the Alliance is proud to present its first progress report which aims to:

- Qualitatively track transition progress;
- Inform the public on the agenda, focus and actions taken by the Alliance; and
- Summarize the 2025 intermediary targets set by asset owners in line with the Alliance's 2025 Target Setting Protocol and in line with Article 4.9 of the Paris Agreement.

Since the establishment of the Alliance, a tremendous amount of collaborative work has been achieved by asset owner representatives, who dedicate a significant part of their time to making the Alliance a leading initiative in transitioning our economies to a more sustainable model. However, it is ultimately the decarbonisation of the global economy that will truly demonstrate the Alliance's success. Portfolio decarbonisation is not an end goal in itself, but a tool to achieve the decarbonisation of the global economy and ensure the green transition in a timely manner.

Irrespective of the Alliance's progress to date, a huge amount of work is still in front of us, including:

- Extending the scope of the 2025 Target Setting Protocol to further advance targets and related actions to enable members to meet the Alliance's commitment to net zero by 2050;
- Engaging with other financial actors (asset owners, managers, banks, insurers and stock exchanges) worldwide to transition their activities to align with net-zero pathways including through the GFANZ initiative;
- Continuing the dialogue with scientists on the latest advances in climate science, especially in the context of the IPCC AR6, to ensure a rigorous, robust, transparent and science-based decarbonisation approach to net-zero transition across all sectors;
- Engaging further with relevant investee companies to strengthen their ambition and capacities to adopt strategies aligned with a 1.5°C pathway; and
- Continuing to call on governments to implement public policies that promote the transition to a globally decarbonised economy by 2050.

Key highlights

09/21

The Alliance Position on the Role of Negative Emission

This position paper presents the basis for scaling carbon dioxide removal (CDR) solutions, including a mix of land-based carbon sinks, nature-based solutions and technological carbon removal approaches, which are essential for alignment to a 1.5°C pathway.

07/21

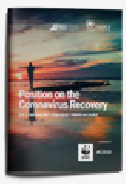
Discussion Paper on Governmental Carbon Pricing

This discussion paper recommends strengthening current carbon-pricing instruments and regulations across the global economy.

01/21

Inaugural 2025 Target Setting Protocol

The Protocol explicitly sets out how individual Alliance members will set short-term 2025 targets.



01/21

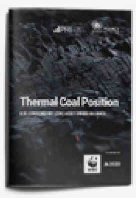
The Alliance Position on the Coronavirus Recovery

This position paper presents the imperative to ensure that pandemic recovery packages and government spending programs are aligned with 1.5°C policies.

12/20

Sectoral Pathways to Net-Zero Emissions

This rigorous analysis represents the first-ever allocation of emissions to financial sector classifications—a key requirement for informed financial decision making.



11/20

The Alliance Thermal Coal Position

This Alliance position paper presents the basis for transitioning away from supporting the growth in thermal coal capacity.

Theory of change

Asset owners have a unique role to play in today's financial landscape and in the fight to limit global climate change. They have long-term horizons and invest across a wide range of asset classes and sectors. As such, they are acutely vulnerable to the systemic disruptions that climate change will cause in ecosystems, societies and economies. They also have a key role to play in catalysing decarbonisation of the real economy as well as in boosting climate-resilience and accelerating the energy transition by providing the capital necessary for business transformation. As the real economy aligns with a 1.5°C trajectory, so too will investment portfolios. As such asset owners have a strong motivation to collaborate and engage with the real economy because climate change is a global challenge that must be addressed at a global level.

Investor impact—The Alliance commitment and contribution to real-world outcomes

In general, investors have stewardship rights and responsibilities to ensure that boards of companies are accountable for their oversight of financial capital as well as environmental, social or governance (ESG) parameters applied in the day-to-day running of investee companies (Legal Framework for Impact, 2021). Investors also have an impact on companies' access to capital and can influence the management of assets they invest in or finance. This in turn has a direct impact on the real economy. Investor impact can therefore be described as the impact an investor's activity has on a company's activity, project or asset which in turns leads to measurable outcomes in the real world.

The important role of institutional investors and financial markets in limiting global warming is widely recognised. Achieving the commitment set out in Article 2.1c of the Paris Agreement would require a combination of allocating capital differently across the economy to assist the decarbonisation of individual companies particularly in hard-to-abate sectors, alongside driving change in individual company behaviours across all economic sectors.

The net-zero commitment made by each member of the Alliance has several distinguishing features, including a strong emphasis on emission reductions in the real economy. Transformation in the real economy is essential if we are to reach the ambitions set in the Paris Agreement. Holding a large proportion of low-carbon assets or divesting out of high-emitting ones will not be enough, since other institutional investors with lower climate ambition and engagement efforts will continue to invest in these assets with limited real-economy impact. Alliance members have come together not only in an effort to reduce emissions from our investment portfolios but also to ensure that these efforts lead to measurable outcomes in the real economy, also contributing to lower investment risks and creating new investment opportunities.

Based on existing literature, the following factors influence the likelihood of creating impact: the level of control over the investee company, reaching critical mass by investors coming together, the size and recognition of the investor taking action, how easily an investor's action can be offset by other investors, the cost for the company of the requested reform by the investor, the investee's previous experience with sustainability issues and its reputational concerns, and finally, the liquidity of the market. The Alliance seeks to draw on the most effective, legally compliant strategies to enable change and to benchmark progress, demonstrating the capacity of investors to drive real-world emission reductions.

Limitations of voluntary industry action

Each Alliance Member has its own unique characteristics which must be carefully considered in the investment process. Asset and liability management (ALM) constraints, regulation, market conditions, risk-return appetite and investment objectives all differ between members and regions. This will impact how investment portfolios can be changed and which strategies and mechanisms can be implemented.

As such, each member will select strategies and use mechanisms that, based on their own unique profile, will contribute to the commitment and objectives of the asset owner. The freedom for each member to select and implement its respective strategy is important to avoid breach of antitrust laws and regulations. Hence, it is not the role of the Alliance to set descriptive restrictions or control the strategies deployed by each member.

Such an approach also ensures that members can select engagement strategies suitable to them with view to the requirements of applicable regulatory laws and regulations. Transparent reporting will become important and members must demonstrate how their strategies to reduce portfolio emissions also contribute to real-world impact, acknowledging that this impact may still be difficult to measure or disclose.

The Alliance recognises that there is currently limited empirical evidence showing how investor climate pledges, strategies and actions contribute to emission reductions in the real economy. This is partly due to methodological uncertainty as well as the relatively short period over which such investor activities have been undertaken. There are several mechanisms and strategies available for investors wanting to reduce the emissions intensity or absolute emissions profile of their investment portfolios. It is, however, important to understand the difference between reducing emissions in an investment portfolio and reducing emissions in the real economy. While all these mechanisms and strategies may contribute to lowering investment risks, meeting customer demands or supporting climate targets, they do not contribute equally to lowering emissions in the real economy.

Although progress has been made in recent years, translating complex climate models into investment portfolios is not straight forward. The limited availability of reliable data is a key issue which provides for asymmetrical information and challenges for investment decision making. The significant increase in climate risk mitigation strategies, regulatory measures and disclosure requirements are all important and contribute to a better understanding of financial stability. However, relying on these measures to actively contribute to emission reductions in the real economy is highly uncertain and the empirical evidence is limited. This does not mean that these measures are not worthwhile or necessary. Investors have other objectives and restrictions to consider that go beyond real-world impact, and all strategies and mechanisms asset owners have available (engagement, capital reallocation, investing in climate solutions etc.) will contribute to improving the long-term risk-return characteristics of the portfolio.

While significant issues, limitations and constraints exist and we are yet to have all the answers, it is the Alliance's belief that progress is more important than perfection and there is no time to wait. As methodologies and data availability improve, strategies will be refined and adjusted.

Alliance overview

Our Ambition

All Alliance members sign the below commitment at CEO-level:

The members of the Alliance commit to transitioning their investment portfolios to net-zero 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 approach, incorporating but not limited to, climate change, and must emphasize 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.

Only asset owners who commit to decarbonising their portfolios in line with the Alliance ambition and align their engagements accordingly, are permitted to participate in the Alliance. Alliance members therefore lead by example, and do not ask of real-economy companies what they do not ask of themselves.

The Alliance structure

The Alliance is UN-convened, asset owner-led and civil society supported. Its secretariat is provided by the United Nations Environment Programme Finance Initiative (UNEP FI) and the Principles for Responsible Investment (PRI). WWF and Global Optimism, an initiative led by Christiana Figueres, former UNFCCC Executive Secretary, are strategic advisers of the Alliance. While the following scientific institutions further advise the Alliance through the Scientific Advisory Body (SAB):

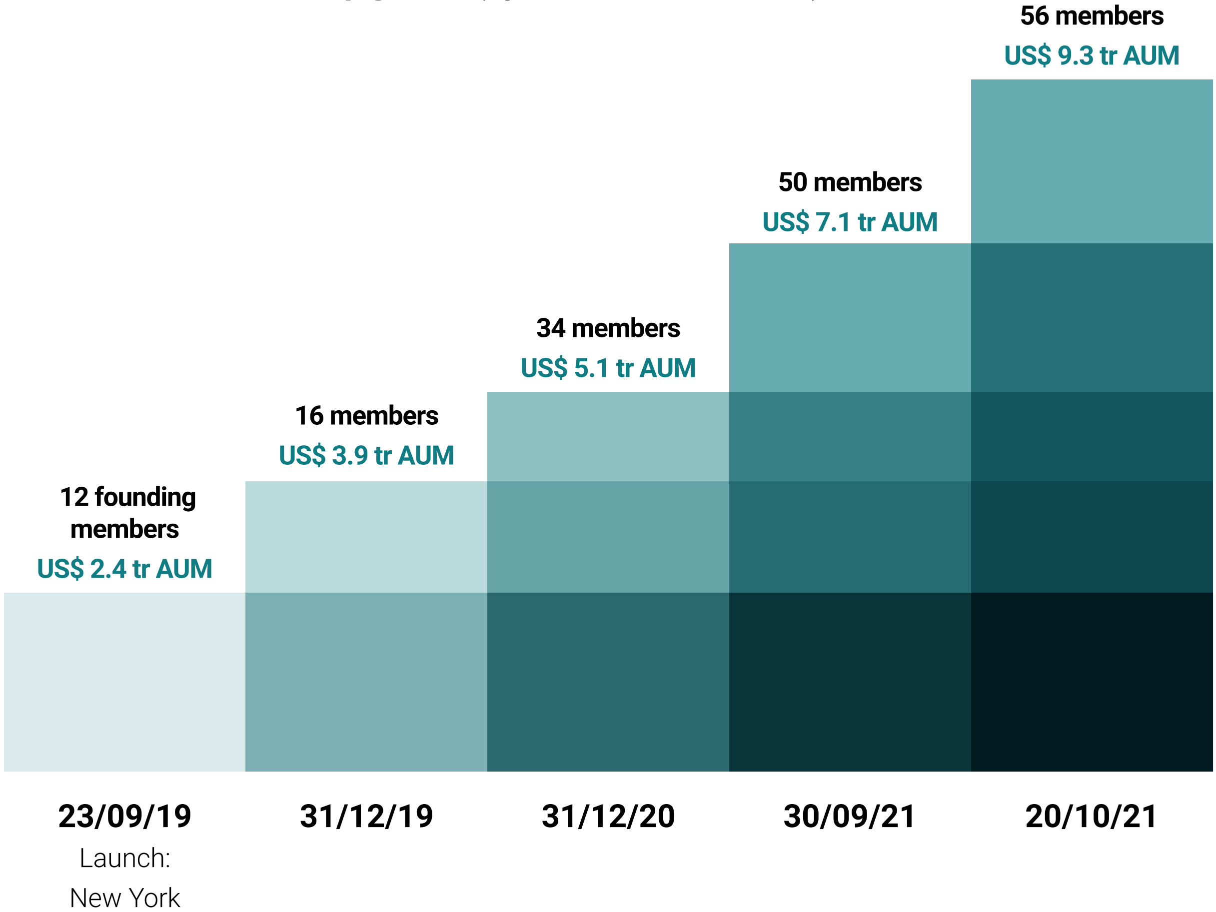
- International Institute for Applied Systems Analysis (IAASA)
- United Nations Environment Programme (UNEP)
- University of Technology Sydney (UTS)
- Potsdam Institute for Climate Impact Research (PIK)

The diagram on page 25 provides an overview of the full Alliance structure.

Alliance members

The Alliance is a collaborative initiative. In order to ensure organisational alignment and meaningful actions, all asset owners, whatever their size, country or seniority, are invited to participate in bi-monthly meetings, encouraged to participate to the various Tracks, and encouraged to take leadership roles in the Tracks.

The Alliance membership growth (by AUM as at 20/10/21)



Alliance members recognise that our commitment document alone is not sufficient, that members must work collectively to develop methodologies, guidance for ourselves, as well as collectively agree and advocate key messages to other bodies (e.g. corporates, asset managers, key international agencies and policymakers). Therefore, Alliance members join Tracks, which develop positions and guidance, which is then agreed by the Alliance as a whole. Members are expected to follow this guidance or explain why their circumstances might be different. This ensures that leadership behaviors are adopted across all Alliance members and that the Alliance continues to advance its positioning based on agreement among the members. Decisions taken by the Steering Group (such as the adoption of the Target Setting Protocol) thereafter apply to all members.

The Alliance's work is organized in four substantive Tracks (Monitoring, Reporting and Verification, Financing Transition, Engagement and Policy) and two supporting Tracks (Communications and Recruitment). MRV is the back-bone of the Alliance striving to ensure credibility, accountability and transparency among members and within the Alliance, while Financing, Engagement and Policy are the 'implementation axis' of the Alliance developing, advocating for and advancing change. The remainder of this report details progress under these Tracks. Participation in these Tracks is where the bulk of learning exchange takes place. In addition, 'Sub-Tracks' form within the Tracks to take on distinct topics, read more about these in the following chapters of the report.

Each Track:

- Is led by asset owners (e.g. "Track Leads");
- Is made up of asset owner representatives who volunteer part of their time;
- Is assisted by the Alliance secretariat: UNEP FI and PRI;
- Is advised by the Alliance Scientific Advisers and Strategic and Scientific Partners;
- Defines, implements and assesses its annual work program in a collaborative way;
- Reports to the Steering Group;
- Can create Sub-Tracks if necessary; and
- Includes between 40 to 150 Alliance member staff.

Alliance Steering Group

Shortly after the establishment of the Alliance in September 2019, the Inaugural Steering Group was formed of the 7 founding members. The Steering Group is composed of C-suite level executives from member organisations as well as convening organisations. Elected every two years by all asset owners, the Steering Group convenes quarterly and sets the strategic direction of the Alliance. The Chairperson of the Alliance is elected by the Steering Group members. Strategic Advisors, WWF and Global Optimism as noted above, advise the Steering Group in its regular meetings. All Principals meet quarterly to discuss key strategic elements of the Alliance. Elections will be held end of 2021 for the next Steering Group which will encompass five members representing the 5 major regions of the world.

The Steering Group is assisted by the Representative Group. The Representative Group convenes weekly for updates on the work of each of the Alliance Tracks and to take non-strategic decisions. The Alliance's Representative Group members are delegated representatives of the Steering Group members.

Inaugural Steering Group

Institution	Principal	Responsibilities
Allianz	Günther Thallinger CIO	Chairperson, Steering Group Member
CalPERS	Anne Simpson Managing Investment Director for Board, Governance & Sustainability	Steering Group Member
Caisse des Dépôts	Joel Prohin CIO	Steering Group Member
Caisse des dépôts et placement du Québec	Charles Émond President and CEO	Steering Group Member
Folksam group	Michael Kjeller CIO	Steering Group Member
PensionDanmark	Torben Moger Pedersen CEO	Steering Group Member
SwissRe	Guido Fürer CIO	Steering Group Member
Principles for Responsible Investment	Fiona Reynolds CEO	Steering Group Member
UNEP Finance Initiative	Eric Usher Head	Steering Group Member

Collaborators and supporters

The Alliance collaborates with the Partnership for Carbon Accounting Financials (PCAF) and the Science Based Targets Initiative (SBTi) Finance project to advance industry alignment on accounting and target setting respectively, and is recognised as a Tier 1 initiative[3] by the Investor Agenda, contributing its resources to Tier 1 elements of the Investor Climate Action Plans (ICAPs).

To date, the Alliance is supported by the Intentional Endowments Network (IEN), the French Insurance Federation (FFA, Federation Français de l'Assurance), the German Insurance Associations (GDV, Gesamtverband der Deutschen Versicherungswirtschaft e.V.) and the Swiss Insurance Association (SVV Schweizerischer Versicherungsverband).

Steering Group

5 AO Steering Group Members					2 UN Affiliated Conveners	
Asia Pacific	Europe	America	Africa	Non regional	UNEP FI (head)	PRI (CEO)

Advisory Group

Strategic advisory body: Global Optimism, WWF	**Strategic advisory body:** PIK, IIASA, UNEP, RMI, UTS

Secretariat

UNEP Finance Initiative	PRI

2021 Tracks and underlying working groups

MRV Track	Financing Track	Engagement Track	Policy Track
Data and Targets	Vehicles and Instruments	Asset Managers	
Infrastructure	Asset Classes and Sectors	Corporate	
Real Estate	Climate Solutions Reporting	Positions	
Reporting	Benchmarks		
Scenarios			
Sectors			
Sovereign Debt			
Target Setting			
Warming Methodologies			

Collaborators
SBTi-Finance & PCAF

AOA Members

Supporters
IEN, GDV, VBDO

Individual five-year targets

A core component of the Alliance is its Inaugural 2025 Target Setting Protocol. All Alliance members are expected to issue five-year decarbonisation targets and additional targets on Engagement, Sector Decarbonisation and Financing. This report is the first-ever aggregation of such targets. To date, members have set targets as referenced in this report. Members should use IPCC 1.5°C no and low overshoot pathways to inform their targets.

Individual Target Publication: Alliance members are required to publish their individual targets within 12 months of joining. Alliance members have full control of the level of detail when publicising their individual targets but are required to submit detailed templates to the Alliance secretariat for aggregation.

Aggregate Target Reporting: Alliance members are required to report details of their individual targets to the Alliance secretariat within 12 months of joining, unless the Alliance reporting period is within three months of their joining (thus, targets should be communicated within maximum 15 months). Reporting is collected annually on an individual basis and made public in an anonymised aggregate form.

As of 30 June 2021 (the cut off date for this report), 29 members were due to report the details of their targets to the Alliance internally and publish their targets in the public domain. Twenty-nine Alliance members have submitted details of their targets to the Alliance (see column second from right), and 27 have disclosed their targets to the public (see links in far-right column). The Alliance secretariat is working with individual members to establish remediation plans to ensure all members are in full compliance where this may not currently be the case:

	Member	Country	Type	Latest AUM accounting provided to AOA secretariat (billion US$)	Target Data provided to AOA for aggregation in Progress Report	Link to individual disclosure of intermediary targets
1	AkademikerPension	Denmark	Corp. pension/super/retire/provident	23.2	Yes	Link
2	Alecta Pensionsforsakring	Sweden	Corp. pension/super/retire/provident	132.6	Yes	Link
3	Allianz SE	Germany	Insurance company	966.0	Yes	Link
4	AMF	Sweden	Corp. pension/super/retire/provident	92.4	Yes	Link
5	Aviva Plc	United Kingdom	Insurance company	501.0	Yes	Link
6	AXA Group	France	Insurance company	634.0	Yes	Link
7	CalPERS	United States	Non Corp. pension/super/retire/provident	470.0	Yes	Not publicly disclosed to-date
8	Caisse des Dépôts	France	Sovereign Wealth Fund or government control fund	263.0	Yes	Link
9	CDPQ	Canada	Non Corp. pension/super/retire/provident	315.0		Link
10	Church Commissioners for England	United Kingdom	Endowment/Corp. pension/super/retire/provident	13.3	Yes	Link
11	Church of England Pensions Board	United Kingdom		4.5	Yes	Link
12	CNP	France	Insurance company	377.0	Yes	Link
13	Danica Pension	Denmark	Non Corp. pension/super/retire/provident	75.6	Yes	Link
14	David Rockefeller Fund	United States		0.1	Yes	Link

15	ERAFP	France	Non Corp. pension/super/retire/provident	47.3	Yes	Link
16	Folksam	Sweden	Insurance company	64.6	Yes	Link
17	FRR	France	SWF or govmt control fund	30.4		Link
18	Generali Group	Italy	Insurance company	411.0	Yes	Link
19	Kenfo	Germany	SWF or govmt control fund	26.5	Yes	Link
20	Munich Re	Germany	Insurance company	298.0	Yes	Link
21	Nordea Life & Pensions	Sweden	Insurance company	46.9	Yes	Link
22	PensionDanmark	Denmark	Non Corp. pension/super/retire/provident	48.5	Yes	Link
23	PFA	Denmark	Corp. pension/super/retire/provident	88.1	Yes	Link
24	SCOR SE	France	Insurance company	24.5	Yes	Link
25	Storebrand ASA	Norway	Insurance company	120.6	Yes	Link
26	Swiss Re Ltd.	Switzerland	Insurance company	121.0	Yes	Link
27	UN Joint Staff Pension Fund	United States	Non Corp. pension/super/retire/provident	87.3	Yes	Link
28	Wespath Benefits and Investments	United States	Non Corp. pension/super/retire/provident	30.0	Yes	Link
29	Zurich Insurance Group	Switzerland	Insurance company	200.0	Yes	Link

For further information, this page hosts links to all public announcements on Alliance members' targets and is updated regularly.

In addition, one additional target was submitted which is in alignment with Alliance Protocol expectations, but was submitted well ahead of the expected publication date for the member and is therefore not included in the aggregation:

30	Dai-ichi Life Insurance Company	Japan	Insurance company	357.0	Template available, not aggregated	Link

Aggregated targets

Alliance members progress in their target setting by first making a commitment across their whole portfolio to reach net zero by 2050, then within 12 months of joining are expected to issue 4-distinct target types (sub-portfolio, engagement, sector and financing).

All target data is presented as of 13 October 2021

56 Investors with **US$ 9.3 trillion** AUMs

are now in the Alliance

- All are committed to net zero & 1.5°C aligned portfolios by 2050

29 Investors with **US$ 4.6 trillion** AUMs[4]

have now set targets for attainment by 2025

- 27 targets of the 29 are in alignment with Alliance requirements (see page 26)
- The remaining 27 investors will set their first intermediary target in 2022

US$ 1.5 trillion AUMs[4]

are now in motion towards a 1.5°C aligned target by 2025

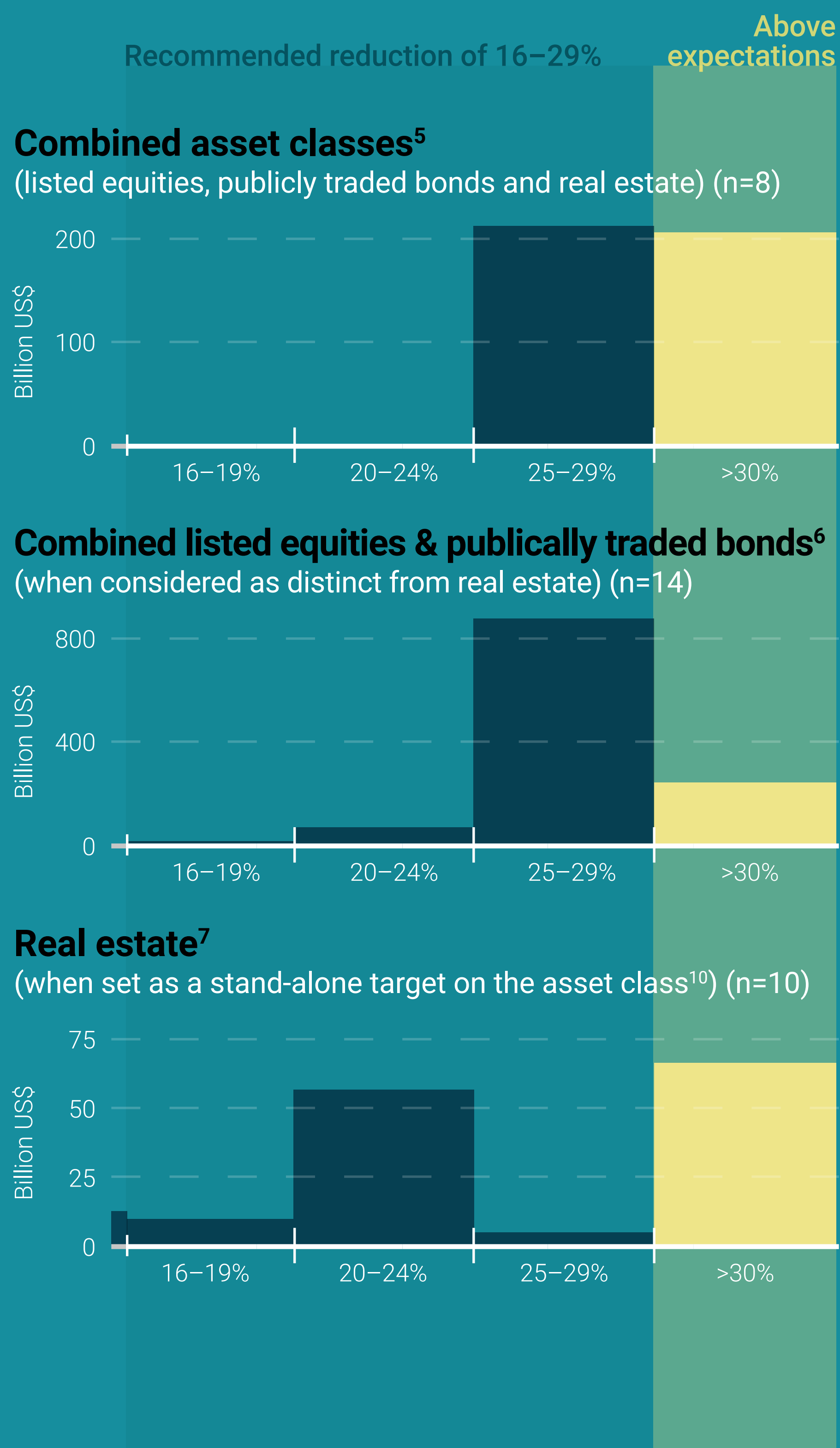
- Covering the near entirety of listed equity, corporate bonds and real estate holdings
- As methods for additional asset classes are finalized AUMs in motion will increase accordingly

Sub-portfolio targets

Alliance members are asked to set 'sub-portfolio' targets, later 'portfolio' targets when all asset classes have robust methodologies (at present sub-portfolio methodologies exist for listed equity, publicly traded corporate bonds and real estate, with infrastructure and other asset classes to be covered according to protocol timeline).

US$ 1.5 trillion[4]

in listed equity, corporate bonds, and real estate holdings under Alliance-aligned targets



A special note on sub-portfolio targets

The IPCC Special Report on Global Warming of 1.5°C reviewed hundreds of climate scenarios eventually defining 90 scenarios as “1.5°C” or “1.5°C compatible”.[9] The Alliance further reviewed these scenarios and limited the band by removing scenarios which overshot a 2°C ceiling. The resulting scenarios then provided an interquartile range of a -16% to -29% reduction needed in GHG emissions by 2025 from a 2020 baseline. As of 2019, at the time of writing the Inaugural Alliance 2025 Target Setting Protocol, this was the best available science. Asset owners (assuming their portfolio reflects average GHG content of the global economy) that are reducing their emissions in line with this band, particularly on the upper end of it, are acting in line with the best available and most ambitious science, and are leading the way in aligning to science-based targets.

Sector-specific targets

Sector targets are currently recommended for 7 hard-to-abate sectors as prioritised by the Alliance (Oil & Gas, Utilities, Steel, Transportation incl. heavy and light duty road, Shipping and Aviation). Sector targets required detailed information on output and production KPIs, the Alliance encourages this disclosure from corporates.

The Alliance is aware that presently few sector-specific targets have been set and that over time more sector-specific targets should be established. The Alliance is working to address gaps in data that currently provide barriers to sector-specific target setting.

Oil & Gas Targets[9]

0 µ4 29

Asset owners that have set specific
Oil & Gas reduction targets

US$ 24.6 billion
AUM in the Oil & Gas sector for which a specific sectoral decarbonisation target exists

15% µ23% 33%

Average target reduction across the Oil & Gas sector

Utilities Targets[10]

0 µ4 29

Asset owners that have set specific
Utilities reduction targets

US$ 27.5 billion
AUM in the Utilities sector for which a specific sectoral decarbonisation target exists

17% µ29% 35%

Average target reduction across the Utilities sector

Steel or Cement Targets[11]

0 μ2 29

Asset owners that have set specific **Steel or Cement** reduction targets

US$ 104 million

AUM in the Steel or Cement sector for which a specific sectoral decarbonisation target exists

10% μ-15% 20%

Average target reduction across the Steel or Cement sector

Transportation Targets[12]

0 μ2 29

Asset owners that have set specific **Transportation reduction targets**

US$ 563 million

AUM in the Transportation sector(s) for which a specific sectoral decarbonisation target exists

15% μ20% 30%

Average target reduction across the Transportation sector(s)

Target note:

The Alliance asks members setting sector-specific targets to consider aviation, shipping, as well as heavy and light duty road when setting Transportation targets. Given the small share of asset owners who set such targets in this first year, the four subsectors have been aggregated under ‘transportation targets’.

MRV Track: Developing methodologies for robust portfolio-level target setting and reporting

The focus of the Alliance's Monitoring Reporting and Verification (MRV) Track is to establish a science-led approach for target setting, monitoring and reporting. The result is described in the Alliance's 2025 Target Setting Protocol. The first version of this document was released in January 2021. The continuing aim of the MRV Track is to further advance the Target Setting Protocol on an annual basis by adding additional asset classes such as infrastructure and sovereign debt, achieving greater granularity in metrics and specification of approach to the asset classes already in scope.

This MRV Track also enables Alliance members to monitor and report on their targets by providing necessary status reporting documents. This information enables the Alliance to report on an aggregated basis on its collective achievements. Additionally, this Track works to actively position the Alliance in methodology discussions and continue the advancement of methodological approaches to target setting, monitoring and reporting on progress as well as driving convergence in temperature alignment and standardisation of data. The work is carried out by nine distinct Sub-Tracks (see table below).

MRV Track: Nine Sub-Tracks		
Warming Methodologies	Target Setting	Reporting
Real Estate	Infrastructure	Sovereign Debt
Scenarios	Sectors	Data and Targets

AMF: Alliance members support small asset owners

In December 2020, AMF decided on new climate targets for 2025, following the structure of the Target Setting Protocol. We introduced a strict carbon budget which caps the amount of absolute CO_2 emissions from our investments in equities, bonds and real estate. Our aim is that CO_2 emissions from all our portfolio companies should show an average reduction equivalent to 25% or more from 2019 to 2025. Furthermore, we decided on a structured engagement policy for the 20 companies with the highest CO_2 emissions in our portfolio, corresponding to approximately 50% of our total CO_2 emissions. In addition, we specifically focus on 40 companies in which we have major influence. We will engage with them with the clear expectations that they should report on their climate footprint and set climate related targets in line with the targets of the Paris Climate Agreement. This includes companies where we participate in the work of the nomination committee, as well as our direct investments in real estate and infrastructure companies.

The challenge has been to address the core priority of the Alliance: to invest and support real-world transition towards a low-carbon economy, alongside setting relevant targets that can be integrated into investment strategies. As a rather small asset owner, with limited own resources, we have truly valued the open dialogue and cooperation with all Alliance members and the secretariat.

It was clear for us from the beginning that our ambition above all is to achieve the goal of net-zero emissions by owning companies that are reducing their emissions over time, and not to only invest in businesses that already have low emissions today.

Setting bold targets is only the beginning of integrating climate aspects into asset management processes. We have worked on building up an internal governance structure, integrating carbon emissions into our strategic asset allocation process as well as into our due diligence and investment analysis. Our 2025 targets are complemented by a number of other key performance indicators, for example on carbon intensity and further policies on high emission sectors.

The Alliance 2025 Target Setting Protocol

The MRV Track provides science-based recommendations for portfolio alignment with net-zero targets across asset classes and sectors. The Alliance aims to drive real-world impact, primarily through engagement with corporates and policymakers as well as contributing capital required to finance the transition, but it is crucial that Alliance members reflect this ambition in their own portfolios in a robust manner. Setting their own targets provides real leadership credibility when Alliance members engage with others. The Alliance Target Setting Protocol aims to address its objectives through the recommended four-part target setting structure:

Engagement targets

- Engagement with 20 of highest emitters or those responsible for emissions in portfolio (either Direct, Collective, or via Asset Manager)
- Contribute to:
  - Sector—Engagement with corporates in target sectors.
  - Asset Manager—Each member to participate in at least one engagement with the pre-identified (largest) four Asset Managers.
  - Alliance position papers

AOs to set action targets on policy advocacy

Sector targets

- Intensity-based reductions on Alliance priority Sectors (O&G, Utilities, Steel, and Transport—Aviation, Shipping, Heavy and Light Duty Road).
- Scope 3 to be included wherever possible.
- Sector specific intensity KPIs recommended.
- Sectoral Decarbonization Pathways used to set targets.

1.5°C aligned net-zero world by 2050, with real-world impacts

Sub-portfolio (later portfolio) emission targets

- -16% to -29% CO_2e reduction by 2025 (per IPCC 1.5°C SR scenarios) on Listed Equity and Publically Traded Corporate Debt, with the same recommended for Real Estate and/or CRREM national pathways used.
- Covers Portfolio Emissions Scope 1 & 2, tracking of Scope 3.
- Absolute or intensity-based reduction against 2019 base year recommended.

Financing transition targets

- Report on progress on climate-positive investments.
- Focus on renewable energy in Emerging Markets, Green Buildings, Sustainable Forests, and Green Hydrogen, among others.
- Contribute to activities enlarging the low carbon investment universe and building solutions.

The Protocol aims to address two key objectives:

1. To maximise the impact of communication with external audiences. The Alliance aims to be reliably transparent and proactive in explaining our role, views and how we are addressing key issues and limitations of portfolio decarbonisation beyond our control. Our open approach to communication also means that we seek to learn from and build on external feedback received through public dialogue.
2. To provide a best practices playbook, to guide and support Alliance members in implementing Alliance-wide approaches to achieve the common ambition of net-zero investment portfolios.

Target setting

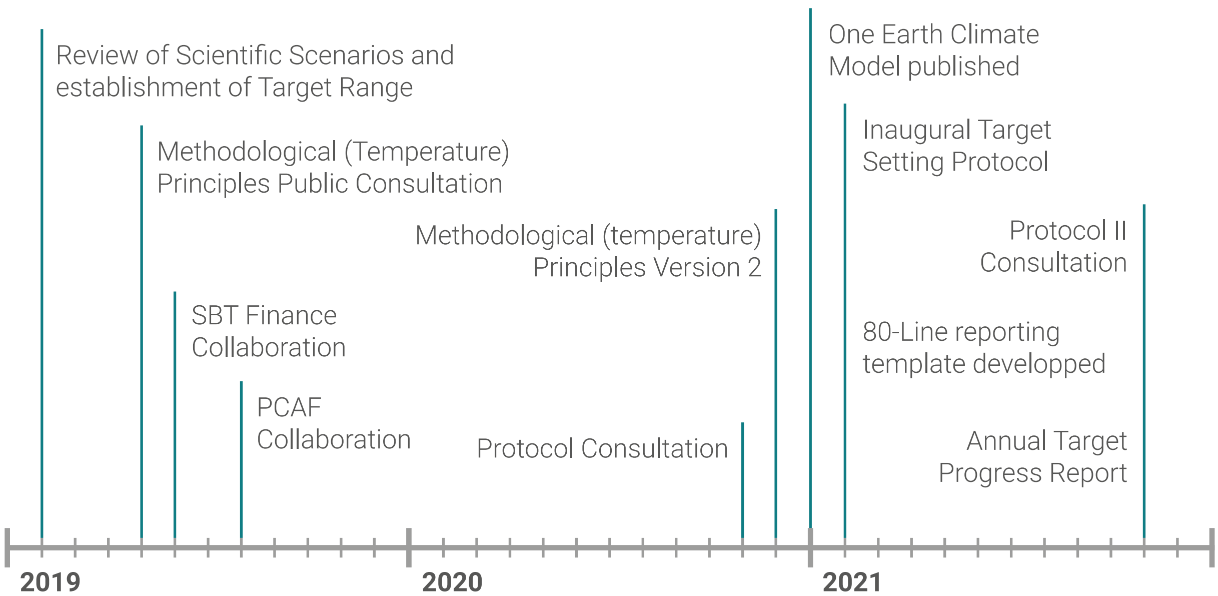
Since its launch, 27 companies have published targets in line with the Protocol and 29 have submitted detailed templates to the Alliance for aggregation. The Protocol is a practical, positive and useful tool to support all asset owners as well as other financial institutions on their journey to achieve net-zero portfolios. At the same time, the Alliance and the Protocol directly benefit from the experience of Alliance members by taking these experiences into account when revising the Protocol.

Target reporting

Each Alliance member is unique and may identify specific levers that exist within their institutions for accelerating decarbonisation in the real world. Members also differ for example in their investment scope, strategies, internal governance structures and current exposure to certain high-emitting sectors. In this way, the Alliance members aim to have "transparent and unique" targets, which suit individual institutions. Although the Alliance includes a wide range of individual targets, it is its aspiration to present them in an aggregated form as shown in this report. Additionally, the Alliance's progress must be traceable, and the Alliance reporting Sub-Track therefore works to establish a flexible yet robust target reporting approach to capture the full breath of the Alliance's impact. This approach builds on existing reporting frameworks, which have been assessed and common considerations taken into account (e.g. PRI, TCFD, GRI, and other frameworks as of 2020).

Progress to date

The MRV Track draws on real-world expertise, meaning those who develop the target setting approach for real estate, corporate bonds or listed equities, also engage in the management of these assets at their respective institutions. The MRV Track also takes a global approach and works to achieve the highest level of ambition, through ensuring practicality whilst achieving targeted outcomes. All content is asset owner developed, voted on by the entire MRV Track, and then forwarded to the Representatives or Principals of the Alliance Steering Group. As a result, the Track has been able to achieve a high number of well-aligned outputs, led by industry leaders and supported by civil society, as catalogued in the timeline below.



alecta

Standing portfolio approach to calculate reduction

Alecta has an active investment strategy based on in-house fundamental analysis. This has resulted in concentrated portfolios where the listed equity portfolio consists of only 115 stocks. As a result of a strong ESG integration process and a focus on finding companies that are perceived as having long-term business models, the portfolio carbon footprint is relatively low. Its level in 2019 was approximately 75% lower than Alecta's ESG-tilted index and 85% lower than MSCI ACWI.

The asset management industry needed a target setting methodology that would allow for investments in transition companies in hard-to-abate sectors and avoid a situation where the portfolio managers were divesting in 2024 only to be able to reach a short-term reduction target.

To illustrate the dilemma, if Alecta was to make a typical sized investment in a steel manufacturer, a potential disruptor in carbon-free steel, it would increase the carbon intensity of the portfolio by 40%. So, the room for manoeuvre was quite limited and many investments that are under the radar would threaten the ability to achieve any reduction target.

The solution was to create yearly standing portfolios to calculate yearly reductions. These yearly reductions are then accumulated over the entire 5-year period. With this methodology, Alecta is able to invest in companies that will raise the carbon intensity in the short-term without distorting the target because a company needs to be part of the portfolio for an entire year to be eligible in the reduction calculation.

This method focuses on what Alecta owns, and those companies need to reduce their emissions to reach the 25% reduction target that Alecta has set. Pure divestments will have no effect since those companies will be taken out of the calculation. For transparency reasons, absolute emissions and intensity metrics based on actual holdings will be reported in connection with the standing portfolio metrics.

Science and metrics

The Alliance is committed to supporting the real economy in its transition to a net-zero world while being guided by science. In 2020, the Alliance undertook a thorough review of the IPCC Special Report on 1.5°C (SR1.5) scenarios to establish a quantitative range towards which members could track progress. A range of scientific, academic and technical experts are engaged in and actively contribute to the Alliance's MRV work. These include the members of the Scientific Advisory Body and other partners (see Protocol Section 1.6 for full list). Important collaborators of the Alliance include the SBTi Finance project and the Partnership for Carbon Accounting Financials, with whom the The Alliance has had existing collaborations since its outset and is actively working with to achieve full methodological convergence (see Alliance-SBTi collaboration). Alliance is also actively collaborating with the Portfolio Alignment Team (PAT), UNFCCC COP26 teams and has supported several recommendations of the TCFD regarding metrics and temperature alignment methodologies. In 2020, the Alliance released a call for action in the form of a set of 16 Methodological Principles which, now in its second iteration, aims to drive convergence in the temperature metrics available to asset owners and other financial institutions.[14]

PensionDanmark

The Alliance facilitates new thinking and drives development

Our sub-portfolio targets currently cover listed equities, corporate bonds and real estate, independently or in aggregate. These targets are contributing to pioneering new standards for the measurement and reporting of investment portfolio carbon emissions, as tools to achieve a carbon neutral real economy by 2050 or sooner.

However, when PensionDanmark set out to establish sub-portfolio targets we were faced with challenges concerning the lack of valid emission data. Data coverage for calculating CO_2 emissions from our corporate bond portfolio was initially limited to one third. Efforts to set targets for the new asset classes have therefore been concentrated on gathering valid data and creating assumptions to calculate the carbon intensity of the remaining part of the portfolio as accurately as possible.

After compiling data from different data providers supplemented by the use of logic algorithms, we ended up with coverage for 80% of the corporate bond investments. CO_2 emissions from the remaining 20% were estimated based on the carbon footprint of the data available. It is assumed that the carbon footprint is the same, on average, for all corporate bonds within the same sector and geography. This average was applied to the part of the portfolio for which observations were not available. The distribution has been made based on 12 sectors (according to the Global Industry Classification Standard) and two geographical segments.

PensionDanmark also uses the estimation method on our private equity (PE) portfolio, where the unlisted companies are benchmarked against comparable listed companies included in the MSCI World AC index. The index includes almost 3,000 companies from all over the world and thereby offers a reliable and representative data basis. The carbon footprint is calculated to establish a matrix of 12 sectors and six geographies that is then applied to the companies in the PE portfolio. This method can be easily applied to other asset classes and adapted by other investors, facilitating comparisons across the industry.

Outlook

The MRV Track aims to continue to work with stakeholders to advance target setting methodologies by considering further asset classes, such as infrastructure or sovereign bonds, as well as to achieve greater granularity on sector specific pathways, and report in a detailed way on progress across a wide range of diverse members. It aims to release an annual update to the Alliance's Target Setting Protocol and issue a comprehensive report in 2025 on the progress made against Alliance members' targets.

Cross-Track Collaboration: Sectoral Pathways

For an asset owner invested across a global economy, it is extremely important to have a detailed understanding of climate change impacts, risks and opportunities across regions and economic sectors. Alliance members have committed to working to ensure that the global economy does its best to stay within the global carbon budget for a 1.5°C pathway, in line with the best available science. This means that the decarbonisation plans of each sector should add up to less than or equal to what is required to keep global average temperature change to a maximum of 1.5°C since pre-industrial times. Different sectors can decarbonise at varying rates, and some sectors depend on decarbonisation in other sectors (for example electric transport relies on the decarbonisation of the utility grid).

The Alliance has therefore invested a great deal of energy across all of its Tracks (MRV, Financing Transition, Engagement and Policy) to understand what is needed sector-by-sector. This includes working to engage with and utilise the outcomes of the no/low overshoot IPCC SR1.5 climate scenarios as well as the IEA's net zero 2050 scenario (NZ2050), in addition to commissioning the first ever model to allocate emissions by scope to the NACE/GICS/BICS industry classifications displayed in five-year decarbonisation needs (in partnership with the developers of the UTS Institute for Sustainable Futures' One Earth Climate Model).

In December 2020, the Alliance commissioned the report on Sectoral Pathways to Net-Zero Emissions which was released to the public together with the data tables which give decarbonisation rates per sector on a 5-year basis. It has since been used by some asset owners to set sector-specific targets, evaluated by the SBTi, and included in the latest version of the Paris Agreement Capital Transition Assessment (PACTA). In 2021, UTS, the Alliance and European Climate Foundation (ECF) will release a second, enhanced version, covering all financial sectors, including scope 1, 2 and 3 emissions, showing sectoral and regional interconnections, and including additional regions. UTS is collaborating with Alliance members on various initiatives including CRREM (Carbon Risk Real Estate Monitor), RMI, SYSTEMIQ, SBTi and the Alliance Scientific Advisory Body.

Investments in climate solutions

The Alliance asks members to report the amount of financing they have provided to climate solutions. The definition of climate solutions is defined on page 47 and requires some discretion in application. The Financing Transition Track provides a Guidance Document to the members on defining climate solution investments. The Alliance continues to enhance the criterion by which a climate solution is defined.

0 µ17 29

Asset owners that have communicated this baseline in an aggregable way

4% of total AUM

AUM determined by the asset owner as currently invested in climate solutions (expected to grow annually)

Financing Transition Track: Supplying capital to catalyse the low carbon transition

A pivotal part of Alliance members' efforts to decarbonise existing investment portfolios is supporting the transition to an overall low carbon economy. This includes the financing of sustainable business models, technologies and infrastructure. Alliance members have supported a wide range of activities driving the transition to a sustainable, green economy, for example through:

- Creating transparency on investable solutions via a digital roadmap;
- Enlarging the supply side by establishing multilateral relationships with stakeholders;
- Collaborating with think tanks and initiatives;
- Working on climate solution reporting; and
- Contributing to building transparent, efficient and credible voluntary carbon markets, for example via the collaboration with the Taskforce on Scaling Voluntary Carbon Markets (TSVCM).

To enable a transition of the global economy to net zero in line with 1.5°C relying on low/no overshoot scenarios, financing flows must reach all relevant markets, including the Emerging Markets. Mobilizing capital at scale will require public-private sector collaboration to create solutions and reduce risks for private investors. One key objective of the Alliance is to work with all stakeholders to achieve appropriate risk-return profiles via blended finance.

The main goals of the Financing Transition Track include:

1. Enhancing the supply of climate solution investments by:
    - Collectively working on building new vehicles together with Multilateral Development Banks (MDBs) and Development Financial Institutions (DFIs), governments and asset managers, for example, via blended finance vehicles for scaling climate solution investments as well as considering carbon removal instruments; and
    - Supporting the Policy Track in making climate solutions more financially attractive through more appropriate pricing of externalities.

2. Enhancing transparency on the demand side and with investors by:

    - Screening existing platforms and vehicles;
    - Developing a digital road map;
    - Fostering knowledge and opportunity sharing (while complying with anti-trust regulation), for example on new technologies, analysing carbon removal instruments and others;
    - Understanding general financing needs per sector and per region; and
    - Working together with the sectors, other Alliance tracks (especially the Engagement Track) and other initiatives (e.g. WEF, ETC, RMI, CA100+, other net zero alliances, etc).

3. Growing Alliance members' investments in climate solutions alongside decarbonisation by:

    - Developing a principle-based climate solution investment reporting framework reviewing existing methodologies and criteria, for example the green bond principles, EU taxonomy, real estate certificates and others; and
    - Reporting on progress.

Further investment into climate solutions is required in order to meet the world's climate goals and is explicitly outlined in Article 2 of the Paris Agreement, however the definition of a climate solution investment is not universally agreed. The Alliance definition of a climate solution investment is:

Climate solutions investments are investments in economic activities considered to contribute substantially to climate change mitigation (solutions substantially reducing GHGs by avoiding emissions and/or sequestering CO_2 already in the atmosphere) and/or climate change adaptation (where the activity substantially contributes to enhancing adaptative capacity, strengthening resilience and reducing vulnerability to climate change). Economic activities making a substantial contribution to the first two objectives (climate change mitigation and adaptation) must be assessed to ensure they do not cause significant harm to all remaining environmental or social objectives.

Based on this definition, the three Financing Transition Sub-Tracks focus on:

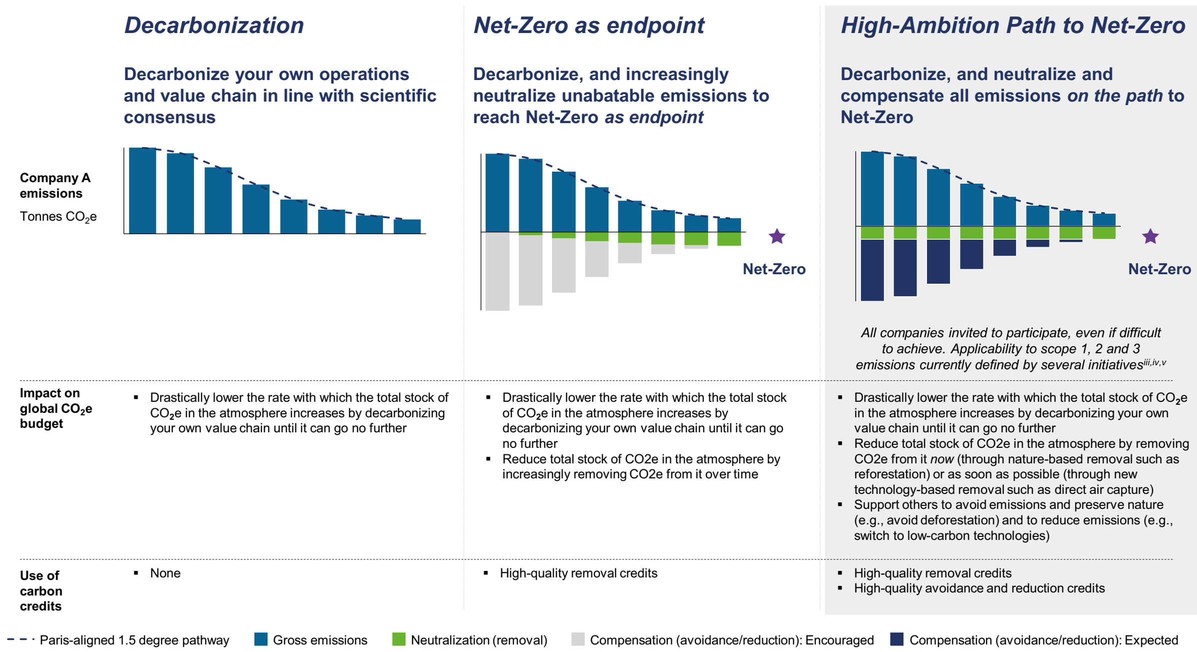
1. Vehicles and Instruments
2. Asset Classes and Sectors
3. Climate Solutions Reporting
4. Climate Benchmarks

Vehicles and Instruments Sub-Track

The primary purpose of this Sub-Track is to support the scaling of investable climate solutions via financial instruments, tools and financial markets.

Sub-Track members have explored CDR technologies as well as voluntary carbon markets and provided input to the Alliance´s work on the Position on the Role of Negative Emissions, which will be followed by more concrete studies of investment opportunities in negative emissions technologies (NETs). The Sub-Track also contributes to the Taskforce on Scaling Voluntary Carbon Markets (TSVCM),[15] initiated by UN Special Envoy for Climate and Finance, Mark Carney.

The Alliance members' position on voluntary carbon markets is in line with the Statement on "High Ambition Path to Net Zero" of six TSVCM leaders, as outlined in the Position on the Role of Negative Emissions. Abatement of 'operational' emissions as well as value chain emissions must be prioritized in the next five to ten years. Compensation via avoidance or reduction credits does not qualify for measuring net-zero portfolio alignment as part of the Alliance target setting. Neutralisation via long-term carbon removal will be needed to reach net zero by 2050, and nascent solutions need to be scaled rapidly.



Source: TSVCM Statement on High Ambition Path to Net Zero

Another important focus has been the Call to Action to Asset Managers on Climate Blended Finance Vehicles. Work is needed to build and advance these vehicles to scale-up investments in climate solutions to ensure that capital flows to required projects for a net-zero transition. The Alliance concludes that blended finance is one of the most efficient instruments to de-risk investments in climate solutions in markets that to date face difficulties to attract sufficient institutional investor capital. This could for example be the case for renewable energy infrastructure in developing countries and more generally for new technologies which have not yet matured to scale through the traditional financial markets.

The call to asset managers has so far resulted in 17 applications of blended finance vehicles focusing on climate solution investments in different sectors and regions, as well as across the asset classes of private debt and equity. In a first round of review, seven applications were shortlisted, with five considered as meeting the criteria of the call with a specific focus on developing countries. These vehicles have been presented by the asset managers to the Alliance members in a workshop. An earlier workshop together with Convergence,[16] a global network for blended finance, was arranged in the first half of 2021. An ongoing collaboration with Convergence is planned.

A Scaling Blended Finance Discussion Paper Position Paper will be published soon with public engagement questions to initiate a dialogue and collaboration with and between donors, DFIs, MDBs, asset managers, asset owners and other relevant stakeholders, to scale blended finance vehicles with a focus on emerging markets. The paper addresses various challenges including lack of access to data, low deployment, lack of appropriate vehicles as well as lack of capacity and expertise among stakeholders. Suggested solutions are proposed by Alliance members, underpinned by the conviction that such changes can enhance the scale-up of investments needed for a net-zero transition.

Finally, the Sub-Track has kicked off discussions and studies of climate index benchmarks[17] to analyse and better understand if these benchmarks are in line with the Alliance ambition and target setting. For both active and passive investors, benchmarks could help transition investment portfolios to net zero and in parallel push the financial market towards transitioning companies.

Asset Classes and Sectors Sub-Track

This Sub-Track aims to address the lack of transparency of investable climate solutions. Combining existing information on climate solutions and their economics, paired with data around bankability, a digital platform in the form of a public good will feature possible climate solutions and enable (institutional) investors to build better understanding, helping to trigger inflows into maturing technologies and solutions and harnessing new investment opportunities. A tender has been published calling for data and information providers to contribute to this effort. Selected applicants will be called to jointly work on the implementation of the platform.

The Sub-Track partnered with the MRV Real Estate Sub-Track and connected real estate experts across the members to work on sector-specific content relevant to enhancing decarbonisation efforts in real estate across investment portfolios. This group also contributed to the update of the Alliance's 2025 Target Setting Protocol version 2.0.

Climate Solutions Reporting Sub-Track

While reporting against the EU Taxonomy will be largely adopted by many members of the Alliance based in the EU, this will not be universal across the Alliance given its global nature. For the Alliance to report investment in climate solutions in an aggregated way, the Climate Solutions Reporting Sub-Track was requested to develop a template for investors to report in an aligned way.

A questionnaire showed that most Sub-Track members do not currently review or report on climate solutions portfolio alignment in a systematic way, and those that do, use different tools and classification systems. Several members noted that they will use the EU Taxonomy when it becomes a legal requirement.

As a result, the Sub-Track has developed the following:

1. Guidance on reporting of climate solutions

The Sub-Track has developed guidance to explore climate solutions reporting (available to members only). This will be a living document and updated regularly given the fast pace of change in this space. This reporting could also be used to report on opportunities as required by Taskforce for Climate-related Financial Disclosure (TCFD).

This guidance:

- Outlines the primary regulatory and industry-based taxonomies (e.g. EU Taxonomy, Green Bond Principles, Climate Bond Initiative) and the applicability criteria for investments in each climate solution theme;
- Outlines what sectors (NACE and GICS) potentially applicable investments can fall within to help aid identification of climate solution investments;
- Presents a case study on how for listed equity and bonds, a climate solution reporting framework could be established based on reported revenue streams (more case studies to be included over time); and
- Outlines existing and upcoming regulation in the area of climate solutions reporting, e.g. Sustainable Finance Disclosure Regulation (SFDR).

2. Aggregated reporting themes for climate solutions

Based on the above, the Sub-Track has identified the commonality between different taxonomies and suggests that Alliance members report their climate solution investments under seven themes: Energy, Pollution Waste & Water, Sustainable Land & Marine, Transportation, Manufacturing & Industry, Buildings and ICT.

Alliance members are also encouraged to report applicable investments by asset class. This will be very important in learning the ways in which financing flows into various sectors and asset classes and it is envisioned that this intelligence will support target setting and enable better portfolio decision making.

In addition, the Sub-Track is establishing a relationship with the International Platform for Sustainable Finance (IPSF), given its important role in establishing common principles for global taxonomies.

Net Zero Asset Owner Alliance—Climate Solution Investments Report

Reporting Currency is US$		Investor:	
AUM (in mn US$):	to be filled	Time Stamp:	XX–XX–202X

	Asset Class										
Climate Solution Theme	Listed Equity	Listed Corporate Debt	Sovereign Debt (issued green bond)	Private Debt	Private Equity & Venture Capital	Infrastruc-ture	Direct Real Estate	Indirect Real Estate (e.g. REITs)	Forestry	Farmland	Other (e.g. Hedge Funds, Commodities, etc.)
Energy							N/A		N/A	N/A	
Pollution, Waste & Water							N/A		N/A	N/A	
Sustainable Land & Marine							N/A				
Transportation							N/A	N/A	N/A	N/A	
Manufacturing & Industry							N/A	N/A			
Buildings									N/A	N/A	
ICT									N/A	N/A	
In case a sector split is not possible please add the total per asset class											
Total	0	0	0	0	0	0	0	0	0	0	0
Certified "Green" Investments / incl. climate resilient bonds											
Transition Investments (bonds, infrastructure)											
Total	0	0	0	0	0	0	0	0	0	0	0

Outlook

Looking forward, the Financing Transition Track will focus further on enlarging the scale, pace and geographic reach of net zero compatible investment solutions and technologies. The Track will work towards refining our guidance and framework based on feedback from Alliance members, including further developing:

- Regular updates to the guidance booklet;
- Guidance on 'impact metrics' for climate solutions reporting;
- Guidance on areas of limited consensus, e.g. green buildings;
- The scale of climate solution investments including transition investment for the Developing Economies; and
- Guidance on a financing transition target.

Social and gendered impacts of decarbonisation:

Investment in decarbonisation within and outside of company value chains is essential for realising a net-zero world. Whole industries and sectors will likely be transformed on the pathway to net zero. The real-world impact of decarbonisation will go beyond mitigating temperature change and will result in social, economic and other environmental impacts that must be accounted for in business decision making. These are often brought into context when ESG is integrated into investment decision making processes.

In taking social impacts (the 'S' of ESG) into account, it is essential that the road to net zero respects diversity and inclusion and ensures gender equality. Women's equal and meaningful participation in climate-related planning, policymaking and implementation will ensure that the benefits of the net-zero transition serve all groups of the population and society, in all countries, ensuring that those most vulnerable are not left behind and inequalities are not further exacerbated.[18]

Furthermore, transitioning to a low carbon world will reduce the risks faced by women and other groups most vulnerable to climate change impacts, since the burden of climate change often disproportionately effects women and poorer communities (the majority of the world's poor are women[19]).

Engagement targets

Engagement is an essential activity in achieving real world decarbonisation as described in the next chapter. Therefore, of the four types of Alliance target, Engagement targets are mandatory. The following summarises the targets set.

In total 27 members set Engagement targets (N=27)

Collaborative engagements supported by the asset owner (for example via CA100+) (n=19)

10 μ34 200

Bilateral engagements contributing to net zero executed by the asset owner directly (n=16)

6 μ25 117

Bilateral engagements contributing to net zero with delegated execution to an asset manager through an explicit request[24] (n=8)

5 μ37 200

SBTi aligned targets or having committed to net zero before 2050 following asset owner engagement[25] (n=9)

15 μ123 641

Targeted contributions to Alliance positions (n=12)

0 μ4 5

Expected to have an SBTi-approved target following engagement (n=5)

0 μ35 100

Asset managers engaged on climate change policies and practices in collaboration with the Alliance (n=11)

0 μ9 10

Asset managers engaged on climate change policies and practices on a bilateral basis (n=13)

2 μ21 105

Targeted individual contributions to net-zero position papers published outside the Alliance (n=8)

1 μ3 5

Note: The x-axis represents the range of target values provided from lowest to highest value, while the average indicated is a simple average.

Engagement Track: Accelerating outcomes in the real economy

The four channels for engagement

Why we need more than just corporate engagement

The most widely known form of engagement is corporate engagement, whereby investors push for positive change through direct discussion with individual companies. Corporate engagement helps drive incremental improvement and accountability of companies on issues ranging from board diversity to environmental footprint.

The more ambitious the changes asked of companies by investors, the more difficult it is to secure corporate commitments. This is because such change usually entails fundamental and complex actions, which may be difficult to realise in today's business environment. Therefore, ambitious demands, such as asking a company in a hard-to-abate sector to align with a 1.5°C pathway, need to be supported by action from investors and other stakeholders that demonstrate that this change to the business environment is imminent and threatening.

Supporting such change requires clear alignment of investors' own activities to support economic and regulatory actions towards net zero. It is also imperative that financial actors increase their engagement with industry sectors, asset managers, and policymakers to support the real economy in its transition.

In order to accelerate the transition to a net-zero economy and society, the Alliance members must focus on real-world outcomes. As outlined in the Alliance's 2025 Target Setting Protocol, engagement is the primary tool for this effort and divestment should be a last resort. Divestment does not achieve the objectives of protecting investee businesses or broader society from the worst effects of climate change or contributing to the wider transformation needed to limit global warming to 1.5°C. Use of members' ownership and debt purchasing power is required.

Since the Alliance, and the financial community more broadly, is asking companies to prepare for a carbon constrained world, we must ensure that this vision is realised. This requires innovative and urgent action through existing engagement channels, especially policy engagement, and creative thinking about new initiatives that align economic incentives for a net-zero economy.

Alliance members have contributed to the four primary channels of engagement: corporate, sector, asset manager and policy. While the Alliance is supportive of all these channels of engagement, the majority of our joint member resources are focused on asset manager and policy engagement as areas that are uniquely relevant and suited to asset owners.

Corporate engagement

Engaging with companies in Alliance members' portfolios remains a key means for members to steward their own assets and represent their long-term climate interests. To be efficient and effective, members are encouraged to opt for collaborative engagement wherever possible and to be selective in pursuing bilateral corporate engagements where they see distinct value in doing so. As such, all members are encouraged to join Climate Action 100+ (CA100+) and to publicly support and use the CA100+ net-zero company benchmarking initiative. For portfolio companies that are currently not covered by CA100+ or other initiatives, the Alliance provides networking opportunities to help members facilitate collaborative engagement. The Alliance Engagement Track also provides briefing materials to help members effectively represent the Alliance's ambitions in driving significant and immediate climate action through corporate engagements.

Sector and value chain engagement

Sector and value chain engagements are still relatively new and are convened by investor networks within CA100+, such as Ceres and the Institutional Investors Group on Climate Change (IIGCC), or by organizations such as the World Economic Forum (WEF). Asset owners, whose portfolios reflect the global economy, play a key role in convening and contributing to these dialogues. Sector and value chain engagement can facilitate a systemic understanding of the barriers and opportunities to transition to net-zero emissions. They are also a means for investors to refine their portfolio strategies and inform their policy positions. A key lesson from these activities is the need for clear and concrete proposals to align incentives through policy actions to make net zero feasible across sectors and value chains. Alliance members are encouraged to participate and represent the Alliance's 1.5°C commitment in these dialogues wherever possible.

Asset manager engagement

Asset managers are powerful stewards of asset owners' long-term interests. They choose the companies in their portfolios, conduct corporate engagements, cast votes on directors and climate resolutions, and influence the economic system through lobbying and discourse. This means that asset managers are one of the most active participants across the engagement community. Not only are asset managers allocating resources to the companies they see as likely winners of a shifting economic landscape, they are also encouraging portfolio companies to prepare for expected changes to the regulatory landscape. Through their own policy actions and public discourse, they can influence the broader business community and help shape the policy environment.

> **"For asset owners in the Alliance, climate risk is not only financial risk, it is also existential risk."**
>
> **The Alliance**

Although it is a natural fit for asset managers to see climate risk as investment risk, this perspective alone is not sufficient to represent the long-term interests of their institutional asset owner clients. For asset owners, climate risk is not only financial risk, it is also existential risk. Asset owners' core business, whether securing a safe world for pensioners to retire into or offering a breadth of insurance offerings, is threatened by unabated climate change. Engaging with asset managers to strengthen their understanding of the extent of this concern from their clients and ensure that they are properly representing it through their portfolio steering, stewardship and public discourse, requires proactive asset owner to asset manager engagement.

For Alliance members, asset owner to asset manager engagement is critical. Within the Engagement Track there is therefore an active, member-led, asset manager engagement channel for collective member engagement action, as detailed below.

All Alliance members are encouraged to take part in one or all of the workstreams under the asset manager engagement channel. For more details, see the asset manager engagement channel co-leads article here.

Our asks of asset managers

Deep dive: The Alliance's asset manager engagement

The clearest way for asset owners to enhance their asset manager alignment is to expand the ambition and scope of their asks. Asset owners may ask for:

1. Commitment of entire portfolios to 1.5°C degree alignment and net zero by 2050, preferably through an established framework like the Net-Zero Asset Manager Initiative;

2. Engagement and stewardship of all portfolio companies to decarbonise as far as feasible within today's policy environment;

3. Active use of public discourse to encourage the business community and policy-makers to build a legislative and regulatory environment conducive to a 1.5°C world;

4. Allocation of assets towards companies that are well-positioned for the transition to net zero and development of strategies to fund the transition; and

5. Cooperation with Alliance members to expand viable opportunities to finance the transition to net zero by collaborating on the expansion of the 1.5°C aligned investable universe. Some examples of collaboration to date can be found in the Chapter 8: Financing Transition Track.

In addition, the asset manager engagement channel is compiling guidelines to help asset owner members select, appoint and monitor asset managers that have robust climate proxy voting, engagement and public discourse approaches. The asset manager engagement channel published its guide on proxy voting, Elevating Climate Diligence on Proxy Voting Approaches: A foundation for Asset Owner Engagement of Asset Managers, and other materials are shared internally as working documents for Alliance members.

Asset manager engagement process and workstreams

Alliance members engage collaboratively with asset managers on the above five asks. Additionally, because climate stewardship is still evolving, collaborative conversations are leveraged with asset managers to develop and create expectations and guidelines to support members integrate climate expectations into their own processes for asset manager engagement, monitoring and evaluation.

In practice this work is undertaken through three complementary workstreams:

Workstream 1: Focuses on engagement conducted by the Alliance members collaboratively with global asset managers. Its purpose is to advance the Alliance's 1.5°C commitment and to strengthen amplified and accelerated climate action by asset managers. Through these engagements Alliance members gain valuable insights into the practical realities, both obstacles and opportunities, facing asset managers attempting to align with net zero. These insights are then shared with other asset owner members and taken into Workstream 2.

Workstream 1 example: collaborative engagement with asset manager

Our first collaborative engagements focused on the proxy voting practices of large asset managers and how they support broader climate ambitions and stewardship strategies. These engagements, initiated in mid-2020, focused on the importance of evaluating climate voting decisions based on clear principles relating to the merit of the proposals. This focus differed from the existing practice of many asset managers, who would at times point to productive engagement with a company as a justification for not supporting resolutions with which they found merit. Through these conversations, we were part of the investor chorus which continues to encourage asset managers to adopt a public commitment to a merit-based policy for evaluating shareholder proposals. We also identified the topic of proxy voting relating to climate as an area needing further development by asset owners in broader climate stewardship discussions with their asset managers.

Workstream 2: Through collaborative engagement with asset managers, peer asset owners, and other industry actors, members develop materials that capture climate expectations and guidelines for crucial stewardship approaches. Once desired expectations and guidelines are identified and clearly laid out, the asset manager engagement channel shares the guidance with all Alliance members for their implementation via Workstream 3.

Workstream 2 example: developing proxy voting guidelines

We identified the need for greater clarity on net zero aligned proxy voting through our engagement with asset managers and industry collaborators. This prompted the development of a set of expectations and guidelines that asset owners should use to hold their asset managers accountable. These public guidelines make clear that climate resolutions should be considered based on the merit of their request, and that asset managers should report the governance, assessment criteria and rationale that guide their climate voting programs transparently. The guidelines were complemented with multiple workshops and resources exclusive to Alliance members, detailing how they could integrate these principles into their asset manager management team's selection, appointment and monitoring (SAM) processes.

Workstream 3: Operational peer support is facilitated among Alliance members to assist with the implementation and integration of the net-zero expectations identified in Workstream 1 and advanced under Workstream 2. This includes building them into Alliance members' asset manager SAM processes.

Workstream 3 example: Alliance members setting internal and external expectations

Alliance members with different portfolio manager approaches were able to take meaningful action on the above proxy voting principles. Zurich updated their in-house voting policy related to votes on directors and evaluation of shareholder climate proposals. Wespath initiated a systematic evaluation of their asset managers, sharing expectations on proxy voting broadly and engaging in focused dialogue with asset managers with the highest exposure to carbon intensive portfolio companies. Wespath's evaluation of climate voting practices of asset managers will apply to both new managers bidding for business and existing mandates.

In addition, two Alliance members have publicly stated their expectation that all external asset managers stewarding their assets must have their own net-zero commitments. First, in May 2021, Nordea Life & Pension announced that by 2024 at the latest all asset managers must have committed to a net-zero target in line with a 1.5°C scenario in order to manage assets on their behalf. Details of Nordea Life & Pension's statement can be seen here. Second, in June 2021, Storebrand sent a letter to all its **external** asset managers **with funds available to Storebrand's** pension saving customers. The letter outlined the expectation that the asset manager must: commit to have net-zero emissions in their investments by 2050; include intermediate targets to get there; actively engage companies on these targets; and actively work to preserve biodiversity. The full details of Storebrand's expectations can be downloaded here.

These interlocking workstreams are creating a competitive environment where asset managers champion climate leadership, not only as a competitive advantage, but as a competitive necessity when bidding for asset owners' business. The Alliance believes that asset owners' signalling to asset managers that alignment with net zero is a competitive necessity will have broader ripple effects by encouraging innovation, ambition and action related to climate change in both the asset manager community and the wider investment sector, translating to broader momentum towards net zero in the real economy.

Policy engagement via positions

All members are encouraged to be vocal on their support for a rapid, resilient and just transition to a decarbonised world. It is insufficient to solely focus on actions taken by the financial services sector, or voluntary corporate action in carbon intensive sectors or to address emissions within current policy frameworks. To get to net zero, Alliance members must therefore use their influence to call on all actors to implement incentives, through legislation and regulation, making net-zero ambitions economically and socially viable for companies, sectors and citizens.

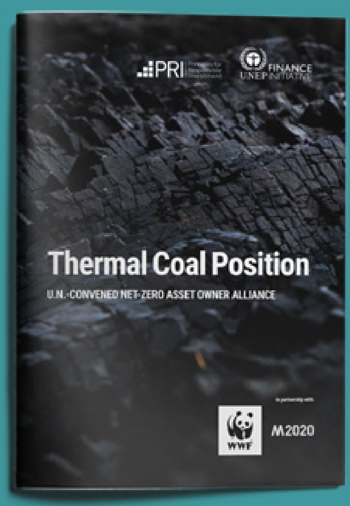
In addition to individual member action and work under the Policy Track detailed in the final chapter, engagement through positions is a key strategic focus for the Alliance. Asset owners hold a unique vantage point in the finance community as stewards of portfolios that reflect the global economy. Consequently, building on what members learn from their own policy positioning and corporate, sector and value chain engagements, there is an active engagement Sub-Track focusing on publishing Alliance positions relevant to the real economy.

The Alliance 2025 Target Setting Protocol encourages members to be involved in developing these Alliance positions and to mirror the resulting analysis in their own institutional policy positions. Member positions are expected to support policies that accelerate GHG emission reductions, e.g. The Alliance Position on Thermal Coal and The Alliance Position on the Role of Negative Emissions. This work is supported by Alliance members, the Alliance Partners and the recently convened Scientific Advisory Body (SAB).

The Alliance Position on Thermal Coal

The Thermal Coal Position focuses on three principles:

- No further thermal coal power plants should be financed, insured, built, developed or planned;
- There should be an immediate cancellation of all new thermal coal projects, including thermal coal plants, coal mines and related infrastructure that are in pre-construction phase; and
- There should be a phase-out of all unabated existing coal-fired electricity generation in accordance with 1.5°C pathways, including phase outs of most thermal coal assets by 2030 for industrialized countries and a full phase out globally by 2040.



The position complemented these three principles with specific asks of policymakers to strengthen incentivisation and implementation of these principles in the real economy.

Outlook

The Engagement Track continues to pair new Alliance members with more experienced ones, and to support the ongoing, necessary and ambitious work of CA100+ and other reputable, ambitious climate engagement coalitions. The Alliance openly calls on investors conducting climate engagements that are in need of an asset owner perspective with clear and ambitious net-zero targets, to make use of our globally diverse membership to contribute statements of support for increased ambition and action towards net zero.

The asset manager engagement activities will continue to be a cornerstone of the Engagement Track's efforts, with a strong focus on collaboratively raising climate expectations with global asset managers, and continuing to equip members with materials and guidelines to support the integration of climate considerations into all SAM processes.

A call to policymakers

196
Governments

It will not be possible to realise the above asset owner ambitions without changes in the underlying economy, which will need to be supported by policy action. The Alliance calls upon all policymakers, national and regional governments, to align policy and actions with 1.5°C compatible pathways, particularly those 196 governments that drafted and signed the Paris Climate Agreement. These governments gave financial entities their mandate to align financial flows under Article 2.1c, and Alliance members aim to align with this mandate to the best of their abilities but will require an enabling policy environment to do so.

Our future depends on collective action by all parties.

2
Positions issued

Carbon Pricing

Advocating for strengthened carbon pricing regulations and instruments, the Alliance published the discussion paper on Governmental Carbon Pricing delivered to G7 and G20 policymakers.

Letter to the IEA

The Alliance published a letter to the IEA calling for a new NZ2050 scenario to inform global target setting, engagement and policy dialogue.

Policy Track: Working with policymakers to create a mutually supportive environment

Supportive public policy is critical to the viability of a net-zero transition. Without determined action on the climate crisis by governments, neither investors nor any other group of stakeholders will be able to engage in the transition towards a 1.5°C aligned world.

Yet the private sector, including investors, can play an important role in raising government awareness and making the business case for getting back on track with the Paris Agreement and achieving climate neutrality by the middle of the century. The Alliance's Policy Track seeks to amplify investor voices to realise these goals.

To be influential on climate and energy policy, asset owners need to send the right messages, to the right people, at the right time, and in the right way. This means rigorous prioritisation and detailed stakeholder mapping to assess who makes decisions and who has the influence to accelerate change—in short, backing up statements with actions that will encourage policy implementation.

Public policy approach

The Policy Track launched in February 2020 and decided to focus on five priority markets where its member-base had the most portfolio exposure or which were critical to achieving global emission reduction targets: China, EU, Japan, the United States of America (USA), and the United Kingdom (UK). For these markets, PRI developed country roadmaps in consultation with the Policy Track of the Alliance and with the support of the Inevitable Policy Response programme.

As an asset-owner only initiative, actively supported by senior executives within investor member organisations, the Alliance looks to complement existing initiatives by prioritising:

1. **Near-term accountability for countries' net zero by 2050 targets.** Policy frameworks over the next five to ten years will matter more to financial markets than mid-century climate neutrality commitments. As such, a high priority for this year will be a clearer near to mid-term trajectory for national emission reduction plans

and Nationally Determined Contributions (NDCs) in the USA, China, Japan, EU, UK, Canada and Australia. NDCs should include near-term, economy-wide decarbonisation targets that are clearly aligned with net zero by 2050 and 1.5°C GHG trajectories.

2. **Mobilisation of asset owner support for carbon pricing.** Putting a price on carbon is essential to realising the net-zero transition. Economic modelling suggests that a price of US$ 80–150 per tonne in major emitters by 2030 will be needed to set economies on a 1.5°C pathway. Yet, currently carbon pricing schemes are in place in only a limited number of markets, and even in markets where schemes are operational, the effective price of carbon across the economy (e.g. power versus agriculture) varies considerably. Amplifying asset owner voices to governments on carbon pricing as well as supporting policy developments in the EU and other leading markets is a high priority.

3. **Raising the profile of investor efforts to end deforestation.** Around a one-fourth of global emissions come from changes in land use. Reversing trends on historic loss of forest cover and shifting to afforestation is one of the key large-scale options for negative emissions. Leveraging China's presidency of the UN Biodiversity Conference (COP15) and supporting existing investor initiatives are key priorities.

4. **Financial system policy change:** Priorities include mandatory TCFD reporting and net-zero transition plans by G20 countries and the world's corporations ahead of UNFCCC COP26, fiduciary duty, and encouraging Paris Agreement-consistent accounting.

Examples of Alliance policy engagement

Examples of the Alliance's policy engagement include: amplifying asset owner voices on the need for climate considerations to be at the heart of a sustainable recovery to the coronavirus pandemic; climate policy engagement in Japan and China; and with the IEA on its World Economic Outlook.

Alliance advocacy for a sustainable recovery

The onset of the global COVID-19 pandemic had devastating impacts on lives, livelihoods and economies. Once the immediate health crisis from the first wave began to stabilise, the Alliance sought to support efforts to align recovery plans with the Paris Agreement, including a special focus on prioritising the most vulnerable and avoiding further lock-in of past high carbon models which amplify risk to human health, financial stability and the climate.

As part of the response, the Alliance published its reactive statement at the end of March 2020, followed by an article from Günther Thallinger and Nick Robbins, and a position paper on the economic recovery from the pandemic. In parallel, the Alliance engaged governments and political leaders, and the Alliance members and PRI helped mobilise over 80 investor CEOs to sign onto Pascal Canfin's Green Recovery Alliance, which became influential within the European Parliament and EU in shaping the European coronavirus recovery package.

Advocating for a carbon price

In July 2021, the Alliance released the Discussion Paper on Governmental Carbon Pricing which elaborated recommendations for strengthening current carbon-pricing instruments and regulations across the global economy. Explicit mechanisms for escalating a binding carbon-price floor and ceiling are detailed in this paper, which was delivered to G7 and G20 policymakers. The discussion paper suggests current carbon prices need to almost treble by 2030 to achieve net zero, while also considering the imperative of a just transition.

Advocacy with the International Energy Agency

The absence of a 1.5°C scenario from IEA has long been a source of concern for responsible investors. The Alliance, in addition to commissioning a 1.5°C sectoral pathway from UTS, also engaged directly with the IEA on the need for a fully developed 1.5°C IEA scenario in the World Economic Outlook. In January 2021, the Alliance published a public statement to the IEA, including recommended key assumptions for an IEA net-zero scenario. The Alliance maintains an active dialogue with the IEA on the development of its net-zero pathway.

The Alliance's asks of the IEA net-zero 2050 scenario

In May 2021, the IEA released a net-zero 2050 scenario (NZE2050), in response to calls from many initiatives, organisations and actors. In a letter published in January 2021, the Alliance called for six key asks:

- Make a 1.5°C aligned NZE2050 scenario central to the World Economic Outlook (WEO).
- This scenario should be calibrated for alignment with a halving of emissions by 2030, in line with the IPCC's findings.
- The NZE2050 scenario should be extended out to 2050, and take a clear-eyed view to the risks of stranding high-carbon infrastructure and reserves as well as the implications for oil and gas developments—specifically including the need for a managed phase-down of production and use, in parallel with actions to support a just transition.
- The scenario should continue to take a precautionary approach to NETs.
- It should build from WEO 2020 to incorporate increased investment into clean alternatives at a pace and scale commensurate with the need to halve emissions by 2030 and achieve net zero by 2050.
- The underlying NZE2050 data should be made available in full detail as with the other scenarios.

The scenario released meets the vast majority of these criteria and the Alliance is pleased to have such a scenario available for target setting, engagement and policy related purposes.

Working with others: advocacy on country NDCs and climate roadmaps

Outside of European markets, the Alliance Policy Track has contributed to the further advancement of PRI's work in China and Japan. In March 2020, Japan submitted an unchanged NDC. With the support of the Alliance and The Investor Agenda, PRI's CEO and Japan office led an engagement effort with the Japanese government including meetings with the Ministry of Finance, Ministry of Economy, Trade and Industry (METI) and Ministry of the Environment, on the need for greater Japanese climate policy ambition. Following the net zero by 2050 announcement by Prime Minister Suga in October 2020, the Alliance and PRI, together with Vivid Economics, developed a climate policy roadmap for Japan. This was presented to PRI's Japan Investor Advisory Group, METI and the Minister of Climate and the Environment for discussion. Meanwhile in China, Mark Carney's speech which called for all G20 countries, including China, to publicly commit to mandatory climate disclosure ahead of UNFCCC COP26 and for Chinese investors to join the Alliance and GFANZ, was published in full by the Chinese state media.

Outlook

In the coming months, the Policy Track will develop additional positions on key topics of utmost importance to the Alliance's goal, and will work to influence the G7 and G20 agendas, as well as engaging in UNFCCC COP26 events. One key outreach topic will be the positioning around carbon pricing. Building on the discussion paper published in July, the Alliance will seek to encourage G20 countries to develop and publish credible emission reduction plans ahead of COP26 or at the earliest possible opportunity, indicating how they will meet recently announced NDC commitments.

Cross-Track collaboration: Policy and MRV Track engagement with TCFD

The importance of TCFD in driving much needed climate disclosures cannot be understated. The Alliance has engaged with the TCFD—as well as the Portfolio Alignment Team—in a number of ways.

First, the Alliance has ensured institutional linkages to UNEP FI and PRI TCFD workstreams. The Alliance MRV Track has a 'warming metrics' Sub-Track which explores the potential for use of 'implied temperature rise' and other warming metrics. It has issued 16 methodological principles for the ideal methodology and accompanying tool. The Alliance issued Version 1 of these principles in April 2020 and consulted on these through early April and May. In October, the Sub-Track brought forward the results of the consultation to the over 35 data and service provider respondents and revised the principles. Using these principles, the MRV Track led the Alliance response to the 2020–2021 TCFD consultation.

Through June–July 2021 TCFD ran a subsequent consultation, and the Policy Track led the Alliance response to this consultation. In both instances the Alliance endorsed and built on the views of both PRI and UNEP FI (issued separately), and presented views from an asset owner perspective, specifically representing the perspective of asset owners committed to 1.5°C alignment.

Ambitions for UNFCCC COP26

Climate change is a truly global challenge that must be tackled at the global level. The UNFCCC COP26 conference, the Paris Climate Change Agreement, as well as the wider intergovernmental architecture of the UNFCCC, provide the structures and channels necessary for a global policy-based response to the climate crisis.

The IPCC in turn provides scientific analysis, distinct and separate from political processes, and informs the global policy response, by making available the best, world-class, unbiased science on climate change through its regular assessment reports.

Keeping science distinct from, but immediately connected to, the political process is smart: to be effective and successful, global climate politics and global climate policy have to be—and can only be—duly informed by our best, common and agreed-upon global knowledge of the crisis and its solutions.

The COVID-19 pandemic has highlighted the crucial role that science plays in understanding global challenges and in finding and implementing the solutions and responses needed by all.

On climate change, governments, unfortunately, have been slow to recognise and respond adequately to science and its warnings. Slow moving climate policy over recent decades has resulted in too much inaction, resulting in too much warming, which already ecosystems, communities and economies around the world are suffering the consequences of. Even today, countries' climate plans under the Paris Agreement, if fully implemented, would lead to a world with close to 3°C of warming since pre-industrial times, representing three times the amount of warming we have already experienced to-date. This is contrary to the commitment to keep global temperature change to well below 2°C, and ideally 1.5°C, that both the science and the Paris Agreement call for.

COP26 is our 26th opportunity to get this right as a global community, let us not fall short for the 26th time.

Governments can and need to convene in Glasgow to start a swift process to fully reflect and incorporate the global scientific consensus and call to action, into their NDCs and industrial strategies.

The Alliance calls on governments to urgently ensure the following:

1. Like our own climate commitments as Asset Owners in the Alliance, country plans must be laser-focused and coherent to deliver net-zero emissions by 2050, ensuring that economies are fully aligned with a GHG trajectory leading to no more than 1.5°C of warming by 2100;
2. Like our own climate commitments as Asset Owners in the Alliance, longer-term ambitions must be aligned with immediate actions and intermediate, near-term decarbonisation targets, ideally reviewed and set every five years;
3. Like our own climate commitments as Asset Owners in the Alliance, countries' emissions reduction strategies must account for emissions that occur in the immediacy of their national territories, but also—and importantly—should consider, and execute on, the extra-territorial emissions that national governments are intricately connected to through, for example, supply chains—particularly around fossil fuels—that they host and at the top of which they sit; and
4. Like our own climate commitments as Asset Owners in the Alliance, national commitments and plans must include details about how, in the long- and shorter-term, decarbonisation targets will be achieved, specifying the economic, investment and policy instruments that Governments are planning to deploy to meet their objectives as well as the corresponding timelines for that deployment.

Alliance members can only move so far ahead of the global economy, we call upon all governments to join us in accelerating the Race to Zero.

Join the movement

The Alliance has demonstrated that early leadership can catalyse ambition from others and translate to real action. Since the establishment of the Alliance, tremendous commitments have been made to net zero from the across the financial system, as well as from real-economy actors and governments. This indicates tremendous will to finally turn the tide on climate change. However now is the time for action. There is still much work to be done. The Alliance must continue to seek out and deploy all levers at its disposal: working with industry groups to ensure the right capital and technology deployments are made in order to hasten the transition to a net-zero economy; working with individual high emitters to help them realise a net-zero transition in their business models; driving the scaling of low carbon solutions; working with asset managers to ensure mandates encompass the right incentives to encourage sustainability outcomes; working with data and service providers to fill the massive gaps in real-economy climate-related data; engaging with policy makers to support mandatory TCFD disclosure, carbon pricing and the realisation of national plans to reach net zero; continuing to advance target setting methodologies, and the consistency of these across jurisdictions and providers; and importantly, continuing to advance targets and accountability.

This journey is long. The path and roadblocks, while becoming clearer, are still emerging. However, marching together we are all much stronger, will cover more ground, and will increase the pace of the transition. Alliance members continually cite that their exchange of knowledge is of utmost value in this ambitious movement.

The Alliance calls on all asset owners to make a net-zero commitment and join the Alliance

Annex 1

Alliance membership not required to have submitted targets by the cut-off date for the current Progress Report

	Member	Country	Type	Latest AUM accounting provided to AOA secretariat (billion US$)	Target Data provided to AOA for aggregation in Progress Report
31	ARC	Bermuda	Insurance company	0.1	Due 2022
32	Bayerische Versorgungskammer	Germany	Non Corp. pension/super/retire/provident	122.2	Due 2022
33	BNP Paribas Cardif	France	Insurance company	202.0	Due 2022
34	BT Pension Scheme	United Kingdom	Corp. pension/super/retire/provident	70.9	Due 2022
35	CBUS Superannuation Fund	Australia	Non Corp. pension/super/retire/provident	49.2	Due 2022
36	Detailhandel	Netherlands	Non Corp. pension/super/retire/provident	36.7	Due 2023*
37	HanseMerkur	Germany	Insurance company	16.6	Due 2022
38	Lægernes Pension	Denmark	Non Corp. pension/super/retire/provident	16.9	Due 2022
39	Legal & General	United Kingdom	Insurance company	139.2	Due 2022
40	M&G (Prudential Assurance Company)	United Kingdom	Insurance company	177.0	Due 2022
41	Meiji Yasuda Life Insurance	Japan	Insurance company	380.7	Due 2023*
42	Nippon Life	Japan	Insurance company	661.3	Due 2023*

43	P + for Akademikere	Denmark	Non Corp. pension/super/retire/provident	23.1	Due 2022
44	Pension Insurance Corporation	United Kingdom	Insurance company	68.3	Due 2022
45	Phoenix Group	United Kingdom	Insurance company	424.0	Due 2022
46	PKA	Denmark	Non Corp. pension/super/retire/provident	54.5	Due 2022
47	Prudential Plc	Hong Kong	Insurance company	128.0	Due 2022
48	QBE Insurance Group Limited	Australia	Insurance company	27.0	Due 2022
49	Rothesay	United Kingdom	Insurance company	83.7	Due 2022
50	Societe Generale Assurances	France	Insurance company	141.0	Due 2022
51	Sparkassenversicherung SV	Germany	Insurance company	36.7	Due 2023*
52	St. James's Place Group	United Kingdom	Insurance company	195.7	Due 2022
53	Sumitomo Life	Japan	Insurance company	320.0	Due 2023*
54	The Co-operators	Canada	Insurance company	9.5	Due 2022
55	UNIQA	Austria	Insurance company	26.0	Due 2023*
56	Univest Company BV (Unilever Pensions)	Netherlands	Corp. pension/super/retire/provident	14.0	Due 2022

*Joined within 3 months of the start of subsequent reporting period.

Endnotes

1 All targets set by Alliance members up to and including 30 June 2021 have been included in this report.

2 Number of members and assets under management are quoted as of date of publication.

3 ICAPs has termed Tier 1 as highest ambition investor climate action initiatives.

4 Against a 31 December 2019 baseline.

5 At present, sub-portfolio targets cover listed equity, publicly traded corporate debt, and real estate. Other asset class types are either under development (e.g. sovereign debt, infrastructure), or not yet under development (e.g. private equity). See Protocol for methodological inclusion plan. This number may or may not overlap with other target types such as sector targets, or those assets under engagement.

6 Against a 31 December 2019 baseline.

7 Against a 31 December 2019 baseline.

8 In several cases real estate targets were given in a disaggregated manner in addition to the combined equity target. Some real estate targets may be outside the 16 to 29% reduction range and still follow 1.5°C pathways as per the CRREM model, this would be the case for example in instances where real estate assets in a given jurisdiction are already more efficient than a global average.

9 1.5°C-consistent pathways refer to pathways with no overshoot, with limited (low) overshoot, and with high overshoot, but that return to 1.5°C by end of the century (2100).

10 As submitted to the Alliance as a sector target. Oil & Gas will also inevitably be covered by majority of submissions under sub-portfolio targets (see next section).

11 Note, only 3 asset owners set both Oil & Gas and Utilities sector targets, 2 additional asset owners set either Oil & Gas or Utilities targets.

12 Only one asset owner set a Steel sector target and one asset owner set a Cement sector target. Aggregated to retain anonymity.

13 Note, one of the two asset owners setting a Transportation target, submitted an individual sub-sector Transportation target for shipping, aviation and automobiles, these have been aggregated.

14 The SBT and Alliance target setting approaches largely converge. The Alliance has taken into consideration some AO-specific elements, whereas SBT Finance caters to a wide range of financial institution types. The Alliance also provides a collective exchange and action platform specifically for asset owners across the topics detailed in all Tracks, while SBTi focuses on methodology development and target verification. The Alliance members are encouraged to have their targets independently verified by SBTi.

15 Taskforce on Scaling Voluntary Carbon Markets.

16 Convergence: global network for blended finance.

17 Climate Benchmarks referring to 2°C or 1.5°C aligned indices.

18 GCS.pdf (unep.org).

19 Introduction to Gender and Climate Change | UNFCCC.

20 It should be noted that across the first three target types there is occasional overlap in the engagement style for the quantity of companies given. For example, an asset owner may have committed to engage 25 companies, and targets the same 25 companies in both collective initiative engagement and (target type 1) individual bilateral engagement (target type 2), another may target a similar set of companies through both individual bilateral engagement (target type 2) and asset manager mandate (target type 3).

21 In this case, the asset owner's target is 25% of portfolio companies, which is 641 portfolio companies. For the purposes of aggregation, the absolute number to which this corresponds is used.

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UN-convened Net-Zero Asset Owner Alliance

unepfi.org/net-zero-alliance/

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