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UN-convened Net-Zero
Asset Owner Alliance

Executive Summary

Advancing Delivery on Decarbonisation Targets

The second progress report of the
Net-zero Asset Owner Alliance

September 2022

In partnership with:





Message from the Steering Group

Climate change is increasingly being recognised as an existential crisis for the planet and its people. The surge in droughts, floods, and other climate-related natural disasters brings home in a tragically powerful way the truth of what climate scientists have long been saying. In the second part of the Sixth Assessment Report, released in February of this year, the Intergovernmental Panel on Climate Change (IPCC) warns that: “global warming, reaching 1.5°C in the near-term, would cause unavoidable increases in multiple climate hazards and present multiple risks to ecosystems and humans”.

Nevertheless, the IPCC also asserts, with high confidence, that although not all threats can be eliminated, “near-term actions that limit global warming to close to 1.5°C would substantially reduce projected losses and damages related to climate change in human systems and ecosystems”. This is both an opportunity to be seized and a responsibility to be assumed. The very future of the financial system depends precisely on it taking responsibility for emissions facilitated through investment, underwriting, and lending.

As providers of capital to enterprises, asset owners are uniquely placed to influence company behaviour and create momentum for the decarbonisation of the real economy. Unleashing this potential for ambitious, macro-level change has been the goal of the UN-convened Net-Zero Asset Owner Alliance since its inception in 2019—and it remains its driving mission to this day.

The Alliance’s members not only recognise this responsibility but are also seizing the opportunity to transform the finance industry in order to build a net-zero economy. The Alliance has exercised leadership by advocating for scaling blended finance for investment into climate solutions,



by clarifying the ‘rules of the game’ in stewardship, and by introducing new layers of accountability. The latter relies extensively on the Alliance’s robust target-setting approach.

In January 2022, the Alliance released the second edition of its Target Setting Protocol, which included even more ambitious emission reduction ranges for 2025 intermediate targets and covered additional asset classes. The Alliance’s membership moved immediately to its implementation, with all 42 members due to submit their targets doing so and with two more members doing so ahead of time. This puts members on track to achieve net-zero emissions by 2050 across their portfolios. The high ambition level, combined with the near-term nature of these targets is precisely what the finance sector needs more of.

However, the finance sector actors cannot achieve this alone. This is why in the run-up to the 27th session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC), the Alliance calls on governments to implement well-designed carbon prices as a broad-based incentive for cost-effective decarbonisation across sectors, and as a strong step towards meeting their Nationally Determined Contributions (NDCs) under the Paris Agreement. With the support of its strategic advisors, WWF and Global Optimism, the Alliance is also urging policymakers to prioritise the mandating of climate-related financial disclosures for companies. In this way, investors can take fully informed decisions, aware of their responsibility to both the financial system and the climate.

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Executive summary

The Alliance's activities are characterised by a combination of ambition, leadership, and an abiding commitment to collaboration. As this report reveals, recent years have witnessed a growing number of asset owners embrace their role as agents of change. Over the last year, the Alliance's membership has risen to 74 institutional investors. This translates to combined pool of assets under management (AUM) worth US\$10.6 trillion. Support and guidance offered by the Alliance is helping to ensure that each and every one of these asset owners is on a trajectory towards reducing the emissions facilitated through their investment, underwriting, and lending activities.

Targets play a fundamental role in both directing and accelerating members' respective embrace of net zero. Targets push those that set them to take specific actions and realise specific goals within an agreed timeline. They also provide a mechanism for demonstrating progress and credibility to external audiences. Given the vital function of target setting, the Alliance's publication of an updated iteration of its Target Setting Protocol in January 2022 marks a significant landmark. The Protocol's second edition raises the level of ambition for 2025 emission-reduction targets as well as incorporating additional asset classes.

The Alliance expects all members to adopt intermediate targets within 12 months of joining. Under the Alliance's Accountability Mechanism, members must 'follow guidance or explain'. Failure to comply will result in a request for clarification and ultimately, should the need arise, in delisting. The Alliance has yet to be required to take such a step.

In 2022, the number of Alliance members setting short-term targets reached 44, collectively accounting for US\$7.1 trillion in assets under management. This is up from 29 members in 2021, with a corresponding increase in AUM of US\$2.5 trillion. The group which set sub-portfolio targets has also risen, reaching 41 members and more than doubling the total AUM under such targets to US\$3.3 trillion (up from US\$1.5 trillion last year).

Alliance members are also demonstrating leadership through their direct engagement with companies. Such conversations are having a material effect. The number of investees adopting science-based targets, for example, has more than tripled in the last year (up from 35 in 2021 to 122 in 2022). An increase in similar engagements with fellow asset managers is also occurring.

But engagement is not just about individual interactions. The Alliance also has a vision for helping create a clear, consistent policy environment to accelerate the net-zero transition. To this end, it has published a variety of policy-oriented discussion papers and position statements over the last 12 months. These offer in-depth looks into topics as varied as the energy security crisis, carbon pricing, and climate risk disclosure, among others.

The abiding message of this report is that a net-zero future remains possible. However, success depends on practical action, at scale, and urgently. Case studies from Allianz, Danica Partners, Dai-ichi Life, CalPERS, and Swiss Re demonstrate what is already being achieved. More must follow. The Alliance, together with its partners, will pull every lever at its disposal to ensure they do.

Special Outlook: COP27

The 2021 NDC Synthesis Report prepared by UN Climate Change showed that countries are far away from the level of ambition needed to achieve the Paris Agreement goals. The decision taken at COP26, requiring all countries to submit stronger plans on an annual basis, thus provides a reinforcing mechanism to enable greater accountability and transparency.

The UNFCCC COP27 conference is taking place in 2022 in Sharm el-Sheikh, Egypt. In advance of the first global stocktake in 2023—one of the centerpieces of the Paris Agreement's increased ambition mechanism—COP27 represents what is likely to be the final opportunity to take global collective action on the climate crisis and achieve net-zero emissions across the economy in line with the Paris Agreement.

Alongside the pursuit of long-term climate objectives, the world must find ways to urgently address the trilemma of energy security, cost-of-living, and climate crises. Therefore, we need a whole-of-society, whole-of-economy, whole-of-finance just transition to net zero. Governments must convene in Sharm el-Sheikh to swiftly embed the global scientific consensus in submitting and implementing their ratcheted NDCs, while placing disproportionately affected regions and communities in the center of their action plans.

Ahead of COP27, the Alliance calls on governments to urgently ensure the following:

- 1. Deliver enhanced NDCs with stronger ambition and details for implementation:** ensure that 2030 targets are aligned with the global goal of limiting temperature rise to 1.5°C. Countries without 1.5-aligned emissions pledges need to revise and strengthen 2030 targets by COP27. The Alliance believes that credible longer-term ambition must be aligned with immediate actions and intermediate, near-term decarbonisation targets, ideally reviewed and set every five years. This is why all Alliance members are required to set intermediate targets in line with Article 4.9 of the Paris Agreement.
- 2. Implement long-term domestic policies that enable the just transition towards a net-zero emissions economy:** countries must detail an actionable plan, in the long and short term, of how decarbonisation targets will be achieved, specifying the policy instruments to be deployed, as well as their timeline and scale. The Alliance argues in its Position Paper on Governmental Carbon Pricing (NZAOA 2022c) that to effectively reconcile energy security and net-zero commitments, countries should consider putting forth a well-designed carbon price and implementing the full and equitable phaseout of fossil fuel subsidies.
- 3. Continue to reform existing finance and investment policy frameworks so that they direct investment towards net-zero goals, ensuring long-term policy clarity and direction:** a clear, consistent, and enabling policy environment is critical to the viability of the transition to net zero. Policy implementation will help minimise risks to the real economy and to the financial system, while engendering real economy emission reduction investment outcomes. Priority measures include mandating comparable, interoperable and decision-useful climate-related financial disclosures for companies and financial institutions aligned with international standards.

4. **Address the urgent needs of EMDEs for adaptation and resilience:** developed countries should work on mobilising both public and private climate finance required to unlock higher levels of ambition in developing countries' NDCs and to support and strengthen local capacities for adaptation and resilience against worsening climate impacts. As has been advocated by the Alliance, governments and multilateral development banks should scale-up blended finance vehicles targeting investments in EMDEs for the transition of the real-economy.
5. **Enhance the necessary institutional arrangements and capacity to advance monitoring, reporting, review, and enforcement of effective policy implementation:** while governments are organised in different ways, common elements could include the following measures: dedicating independent climate change bodies with mandates to steer and coordinate climate policy; scaling capabilities to monitor, evaluate, and advise on community climate policy progress; and delivering systems and structures for consulting affected communities in policy design and implementation.



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