

7 Climate Solutions Investment Targets (2 pages)

The overall focus of the Alliance is to align investment portfolios towards a net-zero world and to finance the net-zero transition. The Alliance's Transition Financing Track's efforts contribute to increasing the scale, pace, and geographic reach of financing the net-zero transition through the following objectives:

- Creating an enabling environment to finance the net-zero transition by engaging with service providers to develop tools and instruments that support investment portfolio steering and transparency
- Contributing to financing the net-zero transition, e.g. in emerging markets and 'technologies of tomorrow', through de-risking activities, and identifying and addressing barriers
- Providing guidance on investing that supports target setting and transparency on the financing of climate solutions.

As asset owners have a fiduciary responsibility to achieve a given level of risk/ return, climate solution investments are required to be as economically viable as other investments. The Alliance therefore strives to collaborate with all stakeholders e.g., public finance institutions like development finance institutions and multilateral development banks, policy makers, asset managers, philanthropy and other stakeholders to work on de-risking mechanisms and enlarging the supply of climate solution investment opportunities.

7.1 Introduction and definition of Climate Solutions Investments (CSI)

To enable consistency across the Alliance's membership, a definition for "climate solutions investments" has been established, taking into account publicly available definitions:

Climate solutions investments are investments in economic activities considered to contribute to climate change mitigation (including transition enabling) and adaptation, in alignment with existing climate related-sustainability taxonomies and other generally acknowledged climate-related frameworks.¹

The Alliance explicitly considers net-zero transition enabling investments as high impact investments, which substantially contribute to the net-zero transition e.g. high voltage direct current transmission lines, smart grids, electric battery plants, etc.

Climate solutions are critical to fulfilling net-zero commitments and transition finance plans in conjunction with the activities covered by the three other NZAOA objectives outlined in the NZAOA target setting protocol (i.e., engagement, sectors, and 'sub-portfolio' targets).

These investments strongly support an orderly transition of the economic system. In financing the Net-Zero Transition, the CSI can strongly contribute to accelerating the real economy's transition by allocating capital in companies, financial instruments, and projects to limit climate change, foster the transition to a low-carbon energy and promote sustainability.

In addressing climate change adaptation, the CSI sets out to reduce the risk of adverse impacts from climate change, especially climate hazards. Examples of CSI for adaptation include building defenses to protect against sea-level rise or planting more heat-resistant crops.

Within the activities that substantially contribute to climate change, taxonomies like for instance the EU Taxonomy define two classification categories:

¹ The Alliance provides respective guidance for its members via a separate internal document

Transition activities: These correspond to activities for which low-carbon alternatives are unavailable. They must contribute to climate change mitigation and pathways that keep global warming in line with the NZAOA's 1.5C no/low overshoot net-zero commitments. Transitional activities only qualify, where the following criteria are met:

- there are no technologically feasible low-carbon alternatives;
- GHG emission levels correspond to the best performance in the sector or industry; and
- the activity does not lead to carbon lock-in or hamper the development and deployment of low-carbon alternatives.

Enabling activities: These activities make a substantial contribution to climate change mitigation or adaptation, but they cannot lead to a 'lock-in' of assets for this would undermine long-term environmental goals. Examples of eligible enabling activities: supplying equipment for the construction of solar PV panels, manufacturing low carbon technologies, storing electricity).

Climate solution investments can be pursued through several channels and most of AO's asset classes:

- Green revenues

These can also be referred to as the green revenue proportion generated by investing in companies whose activities/ products contribute to climate solutions in accordance with local authorities' taxonomies. In this case, the investment amount is the sum of the exposure in green revenue shares in the invested companies.

- Green assets

The climate solutions investments consists of green assets in compliance with the existing guidelines defined by recognized international bodies such as the International Capital Market Association (ICMA), Green Bond Principles (GBPs), the Climate Bond Initiative (CBI), the Loan Syndications and Trading Association (LSTA) Green Loan principles, and others.

7.2 How to set a target

Climate solution investment targets foster that Alliance members use the resources and capacities available to them to grow net-zero solutions also in their investment portfolios. Alliance members **should** build on their network of governments, asset managers, industry, and other stakeholders to contribute to this overarching target. Asset owners **shall** support the growth of climate solution investments as defined above, in line with the domestic context and supportive of aspirations of national governments towards the goal of limiting global warming to 1.5C on no/low overshoot trajectories.

All Alliance members **shall**:

- **annually report to the Alliance Secretariat their climate solutions investments.** It is expected that this demonstrates a positive trend in climate solutions investments over time.

In addition to the above, to setting a climate solutions investment target, members **shall**:

- make active contributions to the Alliance's Transition Financing Track's sub-working or consultation groups
- conduct a credible assessment that the economic activities contributing to the objectives of the investment do not cause significant harm to people and the environment.²

It is optional for members to set a quantitative target on climate solutions investments. The below table summarises requirements for members.

² In line with existing applicable frameworks for example the EU Taxonomy or Canada's Climate Investment Taxonomy Framework

	All Alliance members	Alliance members setting a Climate Solutions Investment Target
Reporting Climate Solutions Investments to the Alliance	Yes	Yes
Setting a target to contribute to the Transition Financing Track	optional	Yes
Setting a quantitative target on Climate Solutions Investments	optional	optional

Many frameworks exist and NZAOA members should take into consideration this guidance in choosing an investment that qualifies as a Climate Solutions Investment (CSI).

7.3 Metrics

Climate solutions investments are captured in US\$ assets under management. Furthermore, the Track develops content and guidance via several established sub-working groups and a more ad-hoc format, called consultation groups. Actively contributing to these groups is a prerequisite for Alliance members to achieve their climate solutions investment targets. This includes active contribution to delivering content, i.e. for example:

- Dial-in regularly to the Track and sub-working group calls
- Actively contribute to Track and sub-working group calls by asking questions, proposing ideas, raising concerns, preparing and presenting content
- Share best practices from your area of expertise and insights, e.g. other relevant stakeholders, initiatives, publications, projects, connections, and events, with sub-working group
- Actively contribute to knowledge exchange and the drafting process of internal guidance as well as public publications by drafting sections, reviewing drafts, asking questions, providing ideas and constructive feedback
- Drive, shape, and raise ideas for projects, objectives, and the Alliance work plan.

7.4 Reporting

All Alliance members **shall**:

- **annually report their climate solutions investments to the Alliance Secretariat.** It is expected that this demonstrates a positive trend in climate solutions investments over time.

The reporting on Climate Solutions Investments shall include the following metrics:

- US\$ assets under management of climate solutions investments portfolio, with an asset class breakdown;
- optional: report split of climate solutions investments in OECD and non-OECD countries.