Investor Group on Climate Change

2020 NET ZERO INVESTMENT SURVEY

The Investor Group on Climate Change (IGCC) is a collaboration of Australian and New Zealand institutional investors focused on the impact of climate change on investments. The IGCC represents investors with total funds under management of over $2 trillion. IGCC members cover over 7.5 million people in Australia and New Zealand. IGCC aims to encourage government policies and investment practices that address the risks and opportunities of climate change.

www.igcc.org.au

Acknowledgements

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September 2020

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EXECUTIVE SUMMARY

At the start of 2020, Australia was in the grip of a sustained drought and unprecedented bushfires. Globally, momentum on climate change was accelerating as the effects of global warming became increasingly apparent.

But as the coronavirus swept across the world, it quickly became apparent that 2020 would require a different kind of resilience as both the health and community effects of the virus, and the economic impacts of measures taken to contain it, re-shaped our economies and our way of life. Against that context, climate change has remained a key area of focus for governments, for business and for investors. And the allocation of capital into net zero emissions solutions has remained strong, even in the time of Covid.

The Investor Group on Climate Change (IGCC) has undertaken this study annually since 2017 to gather investor insights on how the market is defining and investing in climate-aligned opportunities, and what barriers to increased investment they continue to face.

The report provides the collective views of Australian and New Zealand investors with funds representing over AU$1.5tn in assets under management surveyed during August 2020. These investors include superannuation funds, asset managers and sovereign wealth funds.

The headline insights presented in this report provide a snapshot of current investor sentiment, highlighting some of the factors driving investor thinking and behaviour as they seek to respond to climate change risks and pursue emerging net zero investment opportunities.

Appetite for climate-aligned and net zero investment continues to be strong across all regions and asset classes. This is against a backdrop of ongoing policy uncertainty and lack of appropriate opportunities identified year on year as key barriers to investment.

The previous trends identified around greater portfolio-wide alignment and integration of climate into mainstream investor practice has accelerated during 2020. Investors are taking a whole-of-portfolio, more strategic approach to climate change with less reliance on socially responsible investment options and ad-hoc approaches to implementation.

Investors are also increasingly setting aspirational net zero emission targets and commitments. Nevertheless, work needs to progress from ambition to integration through increased fund manager mandates.

Investors are readily embracing the need to consider broader impacts that investments have on society and the environment as a whole. COVID-19 may have been one catalyst highlighting how institutional investors are connected to the real economy.

And pleasingly, more broadly COVID-19 has had minimal impact on investor action on climate change. They're just getting on with it.

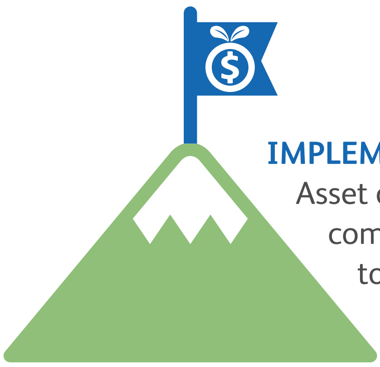
So as we look ahead to the post-COVID investment environment, how are institutional investors thinking about the opportunities and the challenges of investing in net zero emissions? What tools are investors using and how are they allocating capital across different asset classes? And how will investors respond to ongoing policy uncertainty? This report sets out investor insights into these and related issues on climate investment in Australia and New Zealand.

HEADLINE INSIGHTS

HOW INSTITUTIONAL INVESTORS ARE THINKING ABOUT CLIMATE CHANGE INVESTMENT OPPORTUNITIES AND CHALLENGES

INVESTORS ARE EMBRACING UNIVERSAL OWNERSHIP: Investors are looking to define and measure climate investments through impact and outcomes. Understanding is increasing on how climate-related investments benefit broader society and investment returns are connected to a sustainable global economy.

THE NET ZERO COMMITMENT IS BEING NORMALISED: Portfolio-wide net zero emission targets are fast becoming the norm. Investors are setting aspirational portfolio commitments and then moving to asset class detail later.



IMPLEMENTATION NEEDS TO CATCH UP WITH ASPIRATION: Asset owners are setting high aspirations on climate commitments. Integration of these ambitions are now needed to flow through into investment mandates with fund managers. Good signs of progress are starting to emerge.

CLIMATE CHANGE HAS TAKEN ON A STRATEGIC FOCUS: Climate change is shifting out of socially responsible investment options and becoming entrenched in portfolio wide investment strategies. Strategic focus continued during 2020 with limited impact seen from the COVID-19 pandemic.

1 METHODOLOGY

This report looks to provide deeper insight into the preferences for current and future investment in climate-aligned solutions and perceived barriers for investment by asset owners and fund managers in Australia and New Zealand. In its fourth year, we are now able to gain further insights into emerging trends.

During August 2020, IGCC surveyed institutional investors regarding current and future appetite for climate change-aligned investments.

This survey seeks to capture the evolution of investor thinking on approaches to transition to a net zero carbon global economy; climate-aligned investment opportunities; how and where institutional investors are deploying capital, what solutions are emerging across asset classes and what the challenges are.

The questions were modelled on the previous surveys conducted by IGCC in 2017, 2018 and 2019, as most recently captured in the 2019 report *Accelerating Change: Capital Growth in Climate Solutions*.[1] With each new iteration of the survey, the inclusion of year on year data also allows for further trend analysis of key issues.

This year, a total of 38 participants representing over AU$1.5 trillion responded to the survey, with insights gathered from a mix of asset owners and managers active in Australia and New Zealand. Additional qualitative information was also sought to enable participants to provide further depth to their responses.

The questions focused on a range of topics including the methodology and definitions used to define climate-aligned investments, current implementation of net zero investment strategies across both markets and asset classes, targets, measurement and monitoring of impacts and barriers to investment.

This year we also examined the COVID-19 pandemic and how this may have affected investor approaches to climate change during this period.

AllianceBernstein
Columbia University Climate Collaboration

In September 2019, AllianceBernstein announced a first-of-its-kind collaboration with Columbia University's Earth Institute, home to the Lamont-Doherty Earth Observatory, a world-renowned earth and climate science research center. In this truly joint effort, AllianceBernstein is now working with leading scientists in the field of climate change to develop and refine a research-based curriculum focused on climate risk and investment performance, entitled "Climate Science and Portfolio Risk".

The curriculum integrates deep analysis of how climate change implications can affect an issuer's risks and opportunities and therefore its economic and financial outcomes in portfolios. AllianceBernstein's collaboration with the Earth Institute has helped their investment teams better assess investments for risks and opportunities arising from climate change, engage more effectively with companies and ultimately improve outcomes for our clients. It is equally important to note, however, that the collaboration has also helped academic and scientific partners think through how to translate their work, findings and programming into formats that facilitate real-word decisions in business and finance that address the complex challenges presented by climate change.

http://www.alliancebernstein.com.au/

2 DEFINING CLIMATE-ALIGNED INVESTMENT

Investors are looking to define and measure climate investments through impact and outcomes. A broad range of methodologies continue to be used depending on the asset class, but there is a shift from using methodologies purely for integration and benchmarking, towards defining how investments benefit broader society. An ongoing trend to watch is the emergence of the EU and similar sustainable finance taxonomies.

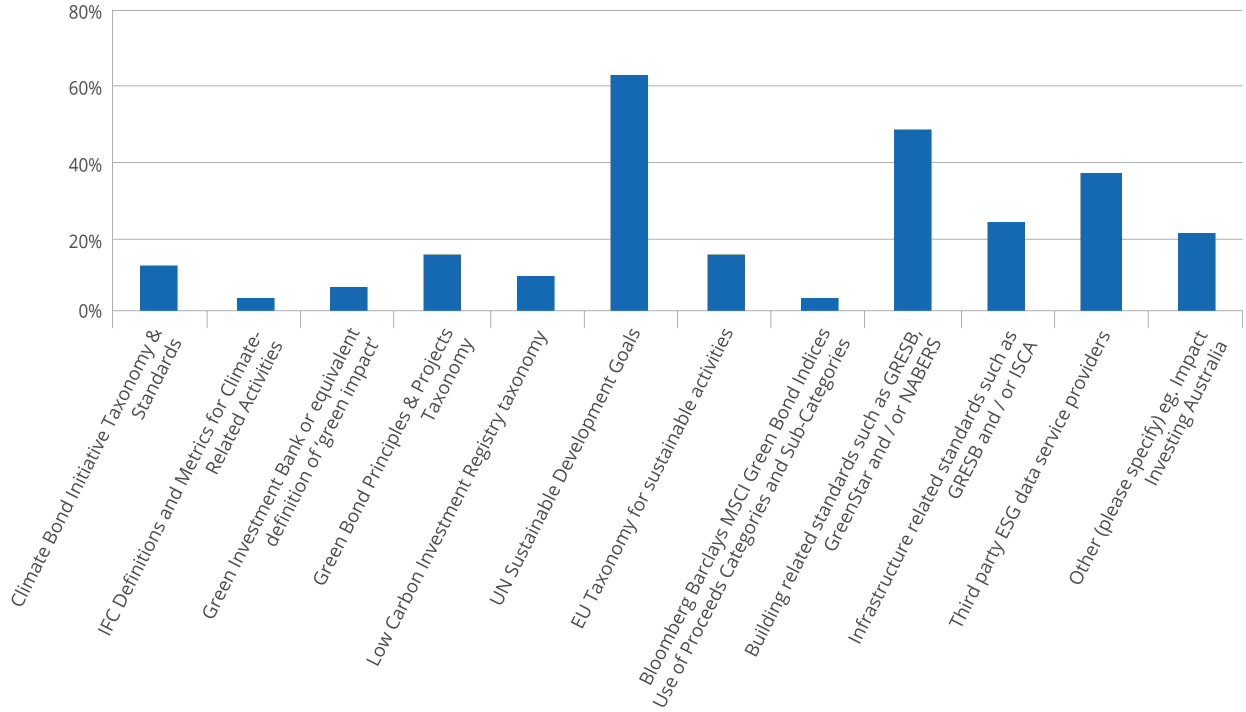
A diverse range of methodologies continue to be used to define net zero carbon or climate-aligned investment, although the trend has shifted towards impact and outcomes through frameworks such as the Sustainable Development Goals (SDGs) (Figure 1). This category doubled in support from last year with over 60% of respondents now indicating they use this framework. The maturation of institutional investors in Australia and New Zealand seeking to connect investment portfolios with real world outcomes may be driving this trend, coupled with better tools to measure outcomes.

The EU sustainable finance taxonomy is a new category introduced in 2020. Given it's mandated by regulation and broad applicability across asset classes it's one to watch as a preferred methodology. In addition, sustainable finance taxonomies are emerging in Australia and New Zealand, as well as a number of regional markets.

Investors are embracing the concept of 'Universal Ownership',[2] that investment returns are connected to a sustainable global economy. How an investor deploys capital needs to consider the broader societal and environmental outcomes to ensure long term sustainable returns for the end member beneficiaries. This may reflect the sheer size and FUM growth of investors coupled with an increase in sophistication, societal and regulatory pressure. The SDGs provide a global framework to do this along with the better tools to define and measure outcomes.

This philosophy is also reflected in the adoption of sustainable finance roadmaps by many countries and regions globally. At the time of writing, New Zealand has produced its Interim Report 2019[3] with a final due in November 2020. Australia is on the verge of releasing its Interim Report.[4] These initiatives will continue to reinforce and enhance the drive towards outcome and impact based methodologies.

Figure 1. Methodologies used to define climate-aligned or low carbon investments



Since 2018, we have seen a trend for methodologies specific to asset classes or products rather than one methodology applied to a multi asset portfolio. In response to this, the survey this year included property and infrastructure tools such as GRESB,[5] NABERS,[6] Green Star[7] and ISCA.[8] The use of these tools have significant support from investors, particularly for property related assets.

The Climate Bonds Initiative Standard has waned since its peak in 2019, which may simply reflect a reduction in climate bonds issued during 2020 and the uptake of pandemic and catastrophe bonds, time will only tell.

What remains clear and consistent across our annual survey is the ongoing importance of using a credible methodology to define net zero or climate-aligned investments. But we are also seeing a rapid shift in methodologies being used.

Cbus

Managing Climate Transition Risk in Systematic Strategies

Cbus is implementing a sophisticated and data driven approach to address climate transition risk in our internal quantitative strategies.

Cbus Low Carbon Transition (LCT) enhanced Global Value (GV) alternative beta strategy uses value factors as well as other complementary factors to drive risk adjusted returns. A forward-looking climate transition risk metric, an LCT score created by MSCI, is integrated as a factor in the portfolio construction process.

LCT scores comprise five categories: Solutions, Neutral, Transition Operational, Transition Product and Asset Stranding. A penalty weighting is applied to the Transition Operational and Product scores. The score is standardised within-regions to reflect regional climate transition policy differences while preserving comparison across sub-industries.

One complexity identified was ensuring that cheap companies didn't become 'climate value traps' and be captured by the model. Asset Stranding stocks are constrained to zero weight to mitigate this risk.

To maintain the value exposure of the portfolio, the relative weights of other factor groups required adjustment. These changes did not materially impact expected returns. Whilst the focus is on managing climate transition risk, a 20-30% reduction in carbon intensity is also expected compared with the base case (without LCT scores) and below the index (MSCI ACWI ex-Au).

This approach is easily replicated and will be integrated across other internal quantitative strategies.

https://www.cbussuper.com.au/

UniSuper
Global Environmental Opportunities Option

As a not-for-profit super fund dedicated for people working in higher education and research sectors, UniSuper's members are actively engaged on climate change issues.

Since 2012 UniSuper has offered an option to members that invest in companies that deliver solutions or products focusing on clean energy, energy efficiency, clean water, waste/pollution control and green building. This option, Global Environmental Opportunities (GEO), has had strong returns and is one of UniSuper's most popular single sector options with over AU$1.6bn of funds invested (Sept. 2020).

This portfolio is managed by the UniSuper Investments team, using revenue data from MSCI's Sustainable Impacts metrics as well as Bloomberg New Energy Finance to identify eligible companies. As this option is looking for solutions, the carbon footprint for the GEO option is fairly high compared to other options. It is important to note that many of the companies included in this option are in green products manufacturing which can be carbon intensive and the long-term objective of producing these products is to reduce carbon emission throughout the lifetime of these products usage. For example: solar panel manufacturers will have high carbon emission in its processes, but its clean energy products will assist the end-users to be more energy efficient and able to avoid/reduce carbon emission.

https://www.unisuper.com.au/

Carbon footprint, transition and physical risk metrics

Carbon footprint metrics continue to be a focus for measuring emissions and are likely to increase in importance as investors start to set emission reduction targets. Listed equities are the easiest and most common asset class to measure. Private markets investments can pose challenges to both asset owners and fund managers alike that rely on information from underlying investments. However, tools such as GRESB can assist for property and infrastructure asset classes with ongoing work required in private equity. The next challenge for investors will be selecting which carbon footprint metric is most appropriate to measure emissions reduction. Future surveys will focus on this issue.

The 2019 report suggested that climate metrics will likely become more sophisticated assessing climate 'transition risk' and 'physical risk' in addition to carbon footprints. This year's survey tested that assumption.

The results indicate a significant focus on transition risk, potentially reflecting the increasing number and quality of assessment tools available, particularly for equities (Figure 2). Real estate also ranked well, which is not surprising for this region, with a strong focus on net zero commitments by 2030 and earlier.

It does appear that investors are prioritising transition risk and still working through the issues associated with assessing and managing physical risk (Figure 3). Property and infrastructure are the exception.

Figure 2. Asset classes where investors have undertaken a climate aligned transition analysis

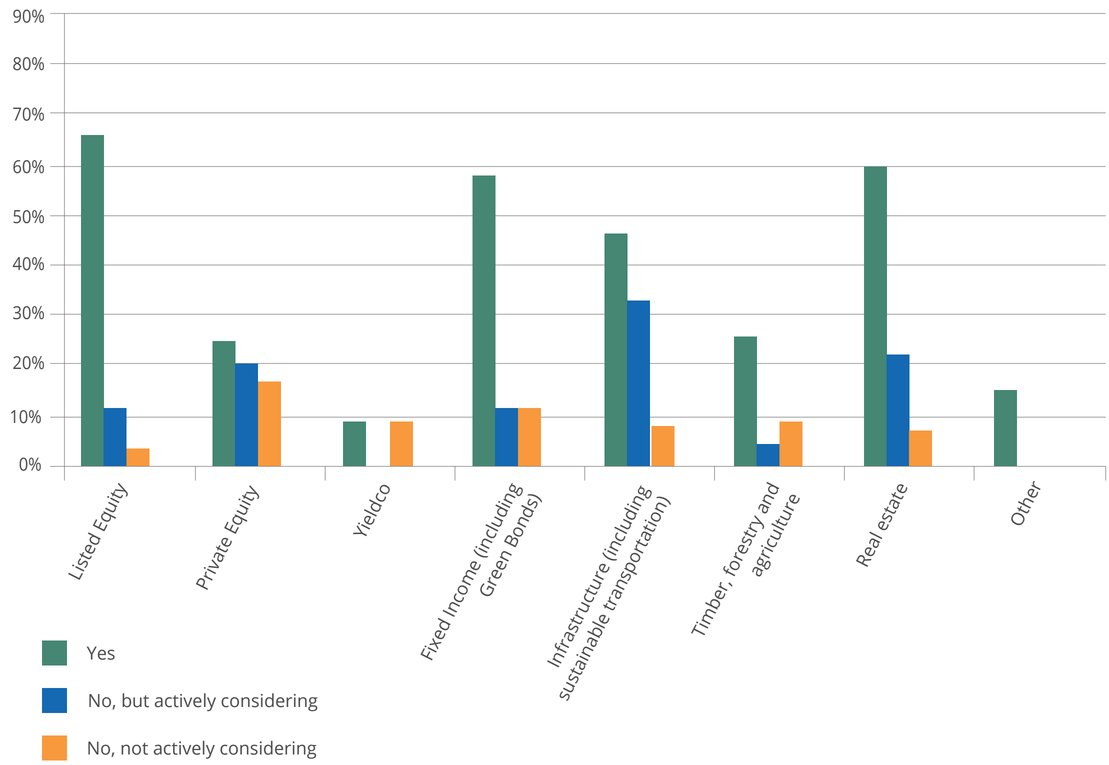
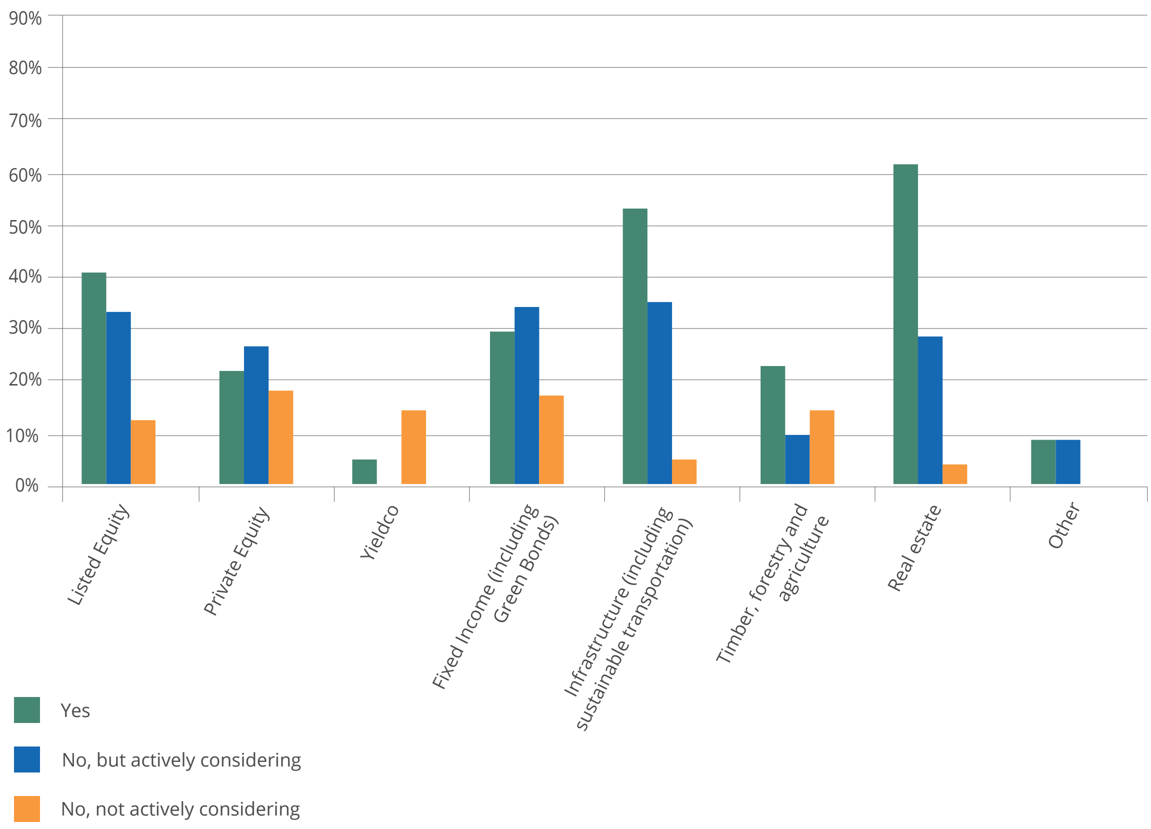


Figure 3. Asset classes where investors have undertaken a physical risk or resilience analysis



Local Government Super
Carbon Footprint and ESG Risk Reporting

Local Government Super (LGS) considers climate change risk as one of the most important issues facing the fund. LGS' Responsible Investment approach uses a combination of negative screening to limit exposure to companies with high carbon emissions and positive screening to identify low carbon investment opportunities. LGS believe that this will allow the fund to minimise potential risks across the investment portfolio, maximise member returns and make a difference to society.

LGS publishes, on a biannual basis, Carbon Footprint and ESG Risk reports which contains a comprehensive assessment of sustainable and responsible investment practices to raise awareness about how LGS manage their members' retirement savings.

The Carbon Footprint[9] report is assessed to monitor key metrics such as the Weighted Average Carbon Intensity (metric recommended by the TCFD) and carbon emission figures for both our Australian and international equity portfolios. These metrics are also compared against benchmark and historical emissions.

The ESG Risk report[10] is assessed to monitor key metrics such as the overall ESG Quality score and ESG company rating distribution for both our Australian and international equity portfolios. These metrics are also compared against benchmark and/or historical values.

https://www.lgsuper.com.au/

Lendlease

1.5 Degree-aligned Real Assets

The Lendlease vision is to live in a world warmed by no more than 1.5ºC and to be responsible for creating measured social value on the journey.

As a fund manager of real estate assets, Lendlease has always integrated Environmental, Social and Governance considerations into the operation of its portfolios. To remain a leader in this space, the business and its funds are establishing net zero carbon in operation targets for our funds and portfolios. Lendlease aim to be net zero carbon in operation for Scope 1 & 2 by 2025, use 100% renewable electricity before 2030 and collaborate with tenants to transition to renewable electricity by 2040, to achieve absolute zero carbon.

Timing for achieving Net Zero Carbon in operation

2021: Lendlease International Towers Sydney Trust (LLITST) – already net zero carbon in operation (Climate Active)

2021: Lendlease One International Towers Sydney Trust (LLOITST) – already net zero carbon in operation (Climate Active)

2021: Lendlease APPF Industrial

2025: Lendlease APPF Commercial

2025-30: Lendlease Retail Funds are working through Net Zero Carbon Roadmaps, aligned with achieving Net Zero Carbon in operation by 2025

https://www.lendlease.com/au/

3 INVESTMENT ACTIVITY

Investor appetite for climate solutions remains strong for investment strategy with investors allocating capital across a broad range of asset classes. While asset class specific strategies still dominate, socially responsible investment options are on the wane for use in climate strategies reflecting the sight towards integration and mainstreaming. Asset owner and manager views on climate investment mandates are converging.

The trend since 2018 continues with appetite for investment in climate-aligned or net zero solutions (Figure 4). Investors continue to be active across all regions. However, there has been a slight decrease across all markets (Figure 5). There could be many reasons for this, including a general lower appetite for actively seeking climate-aligned opportunities during COVID-19. Emerging markets continue to be a potential source of opportunities compared with 2017.

Figure 4. Proportion of investors implementing climate aligned or low carbon strategies

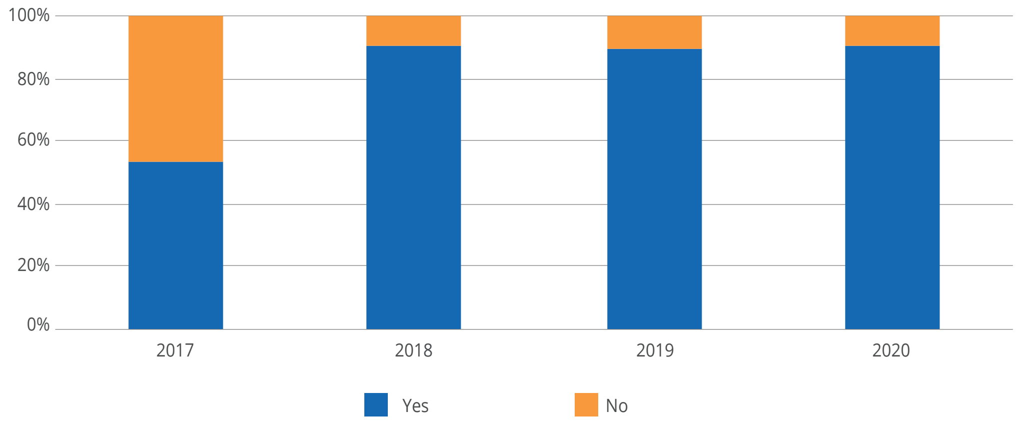
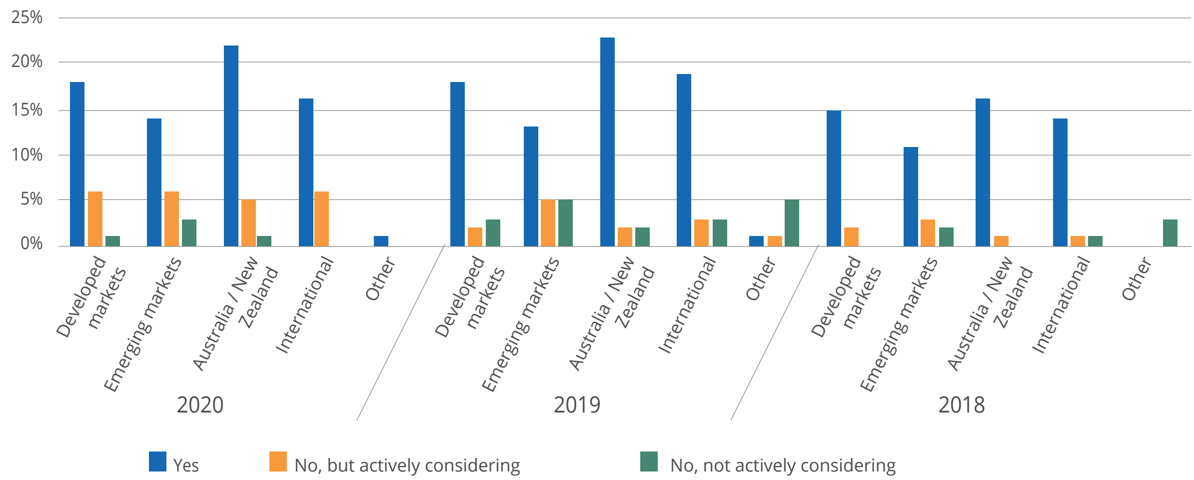


Figure 5. Markets in which investors are currently active or considering climate aligned or low carbon investments



Which asset classes and investment options are considered favourable for climate-aligned investment?

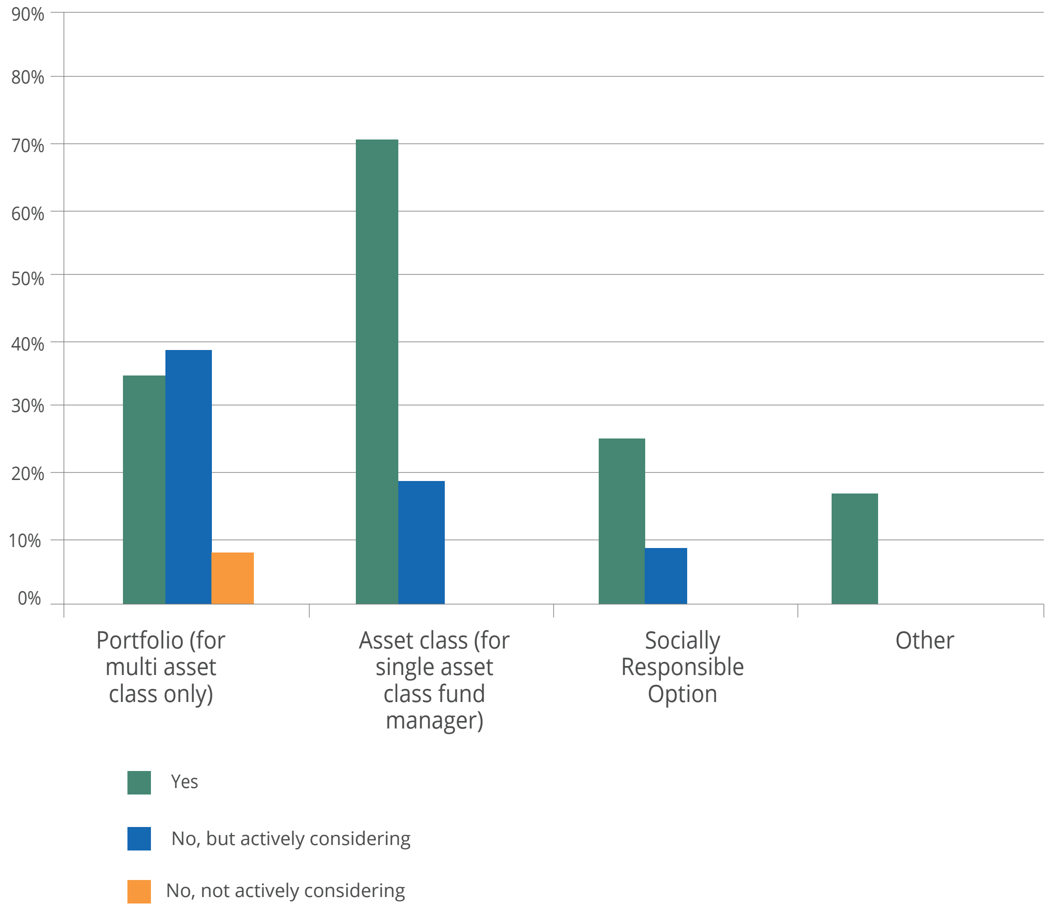
Investment in climate solutions activity continues to grow across a wide range of asset classes.

This trend continues in 2020, with investors still allocating capital across a broad range of asset classes, albeit slightly down from 2019 (Figure 6). Allocations are potentially being driven by deliberate climate strategies and not one-off, ad hoc climate-aligned investments. Investors continue to be active in both public and private markets.

Figure 6. Asset classes in which investors are currently active or considering climate-aligned investments

Survey findings in 2019 suggested that climate change investments were primarily in the domain of socially responsible investment options closely followed by individual asset classes. This was one to watch to see trends if climate investments would go mainstream, and the trend is promising. Whilst asset class specific strategies still dominate, socially responsible investment options are on the wane for use in climate strategies (Figure 7). Whilst a slight decline from last year for 'portfolio', 'actively considering' is high. One to watch again next year.

Figure 7. Asset classes in which investors are currently active or considering green investments (2020)



AustralianSuper
Pathways to a Low Carbon Portfolio

AustralianSuper supports the consensus scientific view that the world economy needs to generate net zero emissions by 2050 to meet the goals of the Paris Agreement.

AustralianSuper has undertaken significant analysis to understand the emissions profile of their portfolios and actions needed to support the broad-based economic transition necessary to manage climate change. This helps to focus actions so that AustralianSuper can have a greater influence on climate change outcomes.

Energy transition involves shifting away from coal and other fossil fuel-related energy generation to renewables. A large part of the work undertaken in the ESG and Stewardship program, is to use the fund’s ownership rights to help influence energy transition in the companies invested in.

Business transition requires a business process transition where company operations become net zero by 2050. AustralianSuper advocates for and supports broad-based business and economic transition via direct company engagement and collaborative investor initiatives such as Climate Action 100+ and the Australian Industry Energy Transitions Initiative.

As a large investor of capital, AustralianSuper can lower carbon intensity by allocating capital to emissions companies. AustralianSuper currently invests in a range of renewable energy projects across markets with plans to invest over $1 billion in the sector.

AustralianSuper has made significant progress in reducing the carbon intensity of its portfolios. The fund’s TCFD aligned climate change report outlines the actions being taken to manage the low carbon transition and measures progress on key carbon footprint and physical risk assessment metrics.

https://www.australiansuper.com/

Do investment mandates reflect investor appetite for green investments?

Asset owner and manager views on climate investment mandates are converging.

The 2020 survey suggests asset owners are more realistic around specific net zero carbon or climate solution investment mandates than we have seen in previous years. One-quarter of asset owners indicated they have dedicated climate mandates with fund managers.

Fund managers results have been consistent year on year. Client mandates that have specified climate related obligations primarily fall within 0-25% (Figure 8). This captures climate investments, exclusions and also reporting obligations such as TCFD. An additional question for asset owners this year now aligns with this view (Figure 9).

Whilst asset owners are increasingly big on climate aspiration, more work is to be done to leverage this value chain. What gets mandated gets managed. Asset owners need to use this mechanism and work with fund managers to support implementation of their climate commitments.

Figure 8. Proportion of fund manager clients that have explicit climate related requirements in investment mandates

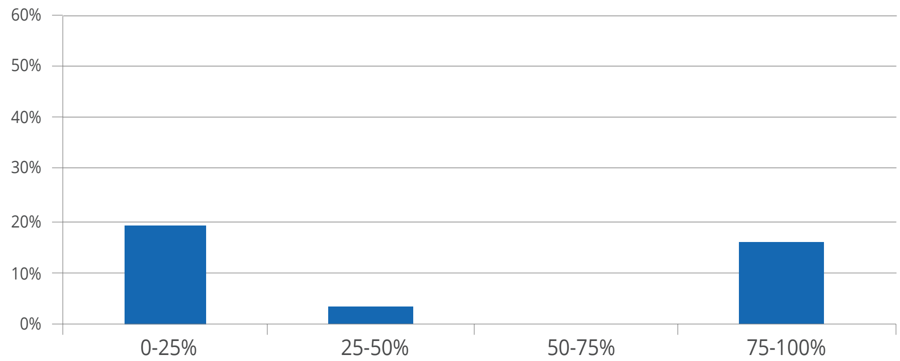
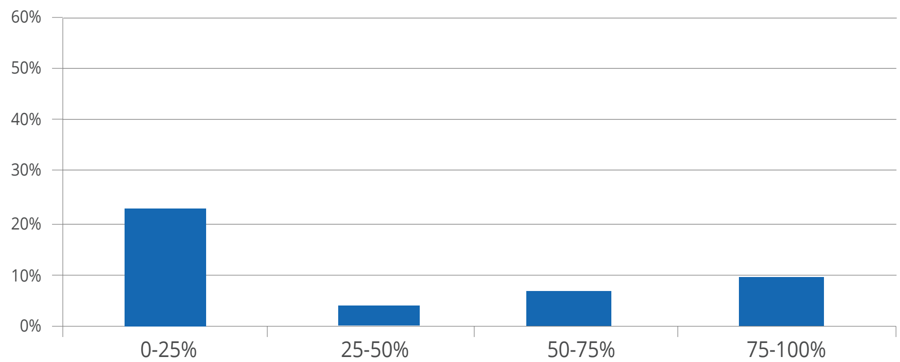


Figure 9. Proportion of asset owner investment mandates with external fund managers that have explicit climate related requirements



New Forests
Implementing TCFD-aligned Management in the Forestry Asset Class

New Forests’ Climate Disclosure Report 2020 documents the company’s risk management and climate-aligned investment activities in line with the TCFD recommendations. Importantly, the report balances how New Forests manages climate-related considerations in its own business and how they are seeking to align their asset management practices with the recommendations.

For example, New Forests promotes climate resilience by combining top-down investment strategy considerations with a bottom-up approach for asset management. Since publication of the report, New Forests has completed a pilot program to integrate the TCFD throughout its Australia and New Zealand forestry portfolio and will roll out the approach globally over the coming year. A key aspect of the TCFD alignment project is improving upon the existing risk management process to ensure both physical and transition risks are consistently identified as well as pairing the risk process with identification of potential benefits.

Similarly, the project includes the development and implementation of a consistent scenario analysis and resilience assessment process. New Forests’ report and pilot project indicate within the forestry asset class there is an opportunity for fund managers to facilitate TCFD alignment through strong strategy and governance practices while working with local property managers and portfolio companies to ensure climate-related risk processes, targets, and metrics are fully embedded into operational strategy.

https://newforests.com.au/

The social dimension

Investors continue to consider the social dimensions of climate change. Alignment of investment with the UN Sustainable Development Goals (SDGs) is the preferred approach.

The trend for investors to focus on the social dimension of climate change continues. Investors are considering issues spanning the transition away from coal across to decent work in the new renewable economy. SDGs are the preferred framework for this assessment.

It's likely given the preference for the SDGs in the methodology section earlier that investors are using one framework to capture all elements related to the climate change thematic. This could explain the lower focus on just transition in 2020.

PIMCO
Engaging Through New Bond Issuance

The global bond market is almost double the size of the equity market (US$114 trillion vs US$69 trillion)[11] and PIMCO believes fixed income as an asset class is unparalleled in its ability to drive meaningful action to address climate change risks. As long term investors, PIMCO sees the value in partnering through several rounds of bond issuance, encouraging issuers to advance their own sustainability goals and ultimately issue a green bond or even a bond linked to the United Nations' (UN) Sustainable Development Goals (SDGs). One example of PIMCO's engagement approach was with European utility Enel.

Enel is an energy transition leader that has demonstrated a clear focus on renewables and support of the science-based 2030 CO2 intensity target of 125g CO2/kWh by 2030 vs 296g in 2019. This target is classified by the Science-based Target Initiative as consistent with a 'well-below 2°C' future. In addition, Enel has signed the 'Business Ambition for 1.5°C commitment'.[12]

PIMCO engaged with Enel through the UN Global Compact (UNGC) and through PIMCO's credit research interaction for several years on their commitment to renewables and more recently through their participation in the UNGC symposium.

At the end of 2019, Enel issued a five-year "General Purpose SDG-linked Bond" in U.S. dollars (followed, later in the year, by a multi-tranche bond of the same type in Euros) a first of its kind instrument where proceeds are used for general corporate purposes and future coupon payments are linked to their renewable growth strategy (25 basis point coupon step-up if sustainability targets are not achieved).

www.pimco.com[13]

Setting targets for green investments

Investors are setting aspirational portfolio wide net zero emission commitments with more likely to follow in the coming year. Climate reporting and disclosure is slightly down on last year but the trend remains strong.

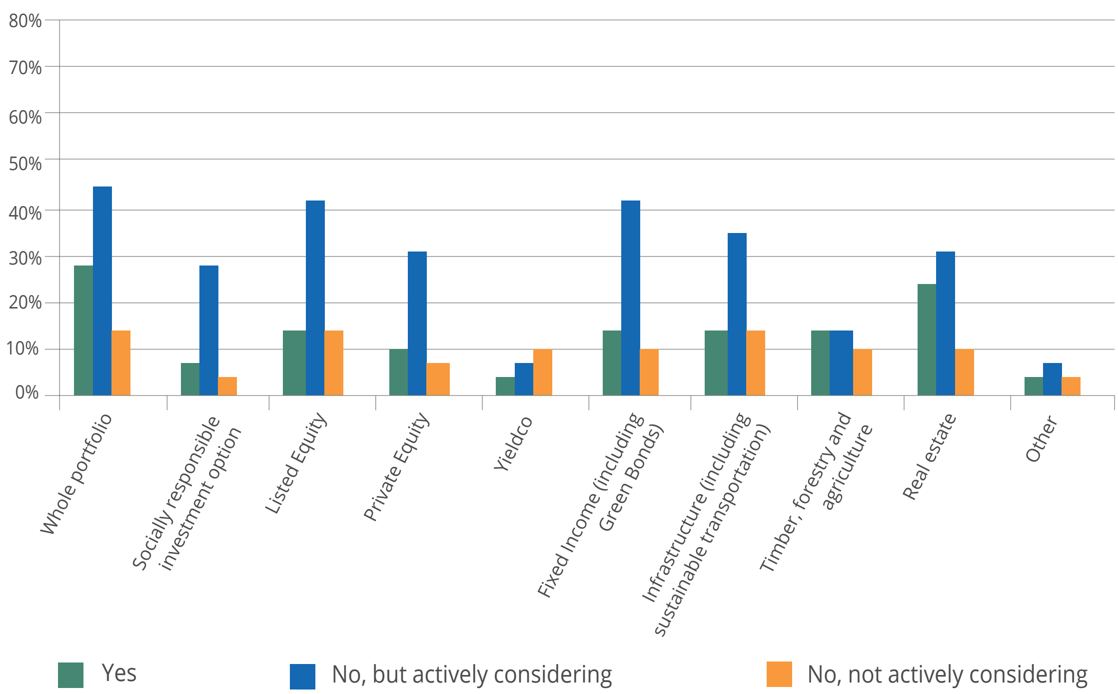
This year the survey was more granular on target setting and commitments following the momentum seen in the 2019 report. Questions were split between net zero emissions targets and investment related targets.

Nearly 30% of respondents have made portfolio wide commitments to net zero emissions by 2050 with another 40% actively considering (Figure 10). Most investors that have made commitments are going public. A low number of investors are also implementing targets at the asset class level with real estate, as expected, the most active. There remains a growing appetite to consider setting targets across asset classes.

For climate investment related targets, portfolio wide and asset classes sit at or under 20%, and like net zero commitments, investors are actively considering.

TCFD reporting will be one to watch with a slight decline in investors using this framework for climate related reporting. It's unclear the rationale for these unlikely results given reprotign trends are up across the industry. This could be indicative of the spread of investors responding to the survey in 2020 versus 2019.

Figure 10. Proportion of investors setting a net zero emissions target by 2050



ISS ESG

The Australian Climate Transition Index (ACT Index)

The Australian Climate Transition (ACT) Index[14] is the first forward looking index using multiple climate transition scenarios for the Australian economy. The index seeks to identify Australian listed companies likely to perform well in a net zero emissions future. The scoring and assessment methodology was developed in close collaboration between ISS ESG, ClimateWorks Australia, Monash University's Centre for Quantitative Finance and BNP Paribas.

The index centres on a unique scoring process using five climate transition scenarios from ClimateWorks Australia's[15] Decarbonisation Futures project and ESG data from ISS ESG.

	Emissions outcome	**Trajectory**	**Key drivers**	**Key disruptions**
2°C Deploy	2°C	Sufficient	Strong policy, supportive (not disruptive) technology and little social change	• Maximum Electric Vehicles (EVs) • Maximum Forestry • Carbon Capture and Storage (CCS) allowed
2°C Innovate domestically	2°C	Sufficient	Notably strong acceleration of technology (all technology disruptions)	Strong uptake in Australia of: • Autonomous & Electric Vehicles (EVs) • Renewable electricity • Circular economy
2°C Innovate globally	2°C	Sufficient	Notably strong acceleration of technology, including abroad	In addition to key disruptions from 2°C Innovate domestically' scenario, this scenario considers a global adoption of circular economy
2°C Delayed action	~2°C	Insufficient, then rapid	Initial inaction until 2030, followed by a strong and disruptive response	Incremental, then all remaining
1.5°C All-in	1.5°C	Rapid	Disruptive technology and supportive policies and social drivers	All

For each climate scenario, a company has a score based on its climate transition risks and opportunities. An overall score per company is then calculated using a weighted average of each score. The index is dynamic using quarterly rebalancing, six-monthly updates of the ESG data and scenario weights and biennial updates of the underlying scenarios based on potential policy, technology and social disruptions.

In its first application, the index is used as a return engine for an innovative new green bond by BNP Paribas. The hybrid BNP Paribas Green Bond has already been taken up by some of the leading responsible investors in Australia, including the Clean Energy Finance Corporation, Aware Super and QBE.

https://www.issgovernance.com/esg/

4 BARRIERS TO INVESTMENT

Climate policy uncertainty has returned as a key barrier for investors. A lack of appropriate investment opportunities continues to provide challenges for investors to easily deploy capital.

Investors consider policy uncertainty and practical investment challenges as the key barriers this year, with over 40% of investors signalling them as issues (Figure 11). Whilst the response from some investors is the 'wait and see approach', delaying their investments particularly for large private investments in infrastructure, other investors continue to deploy their capital offshore. Its likely investors do both.

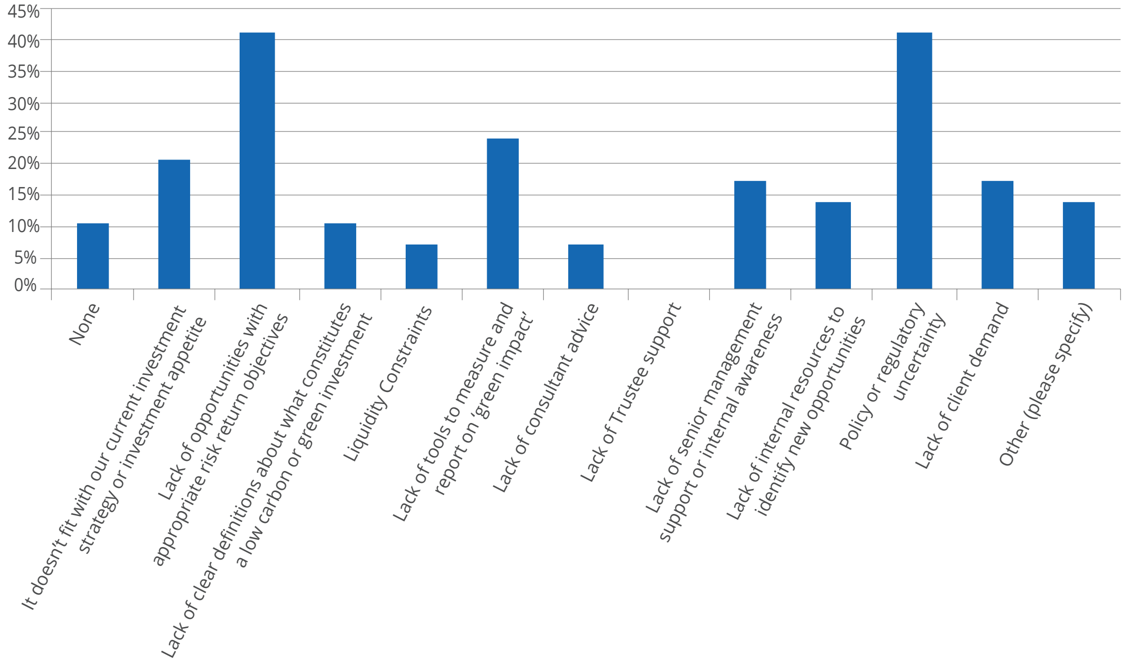
Similar to 2019, engagement continues to be a key approach by investors in response to policy uncertainty. Australia particularly has a very active engagement market with many investors committed to projects like the Climate Action 100+.[16]

New Zealand is moving forward with a cohesive climate policy, there is some movement in Australia on both these key challenges. The Federal Government's Low Emissions Technology Statement and Technology Investment Roadmap are steps towards accelerating a number of the emerging technologies needed to reach net zero emissions across energy, farming and heavy industry.

Although the government's technology regime remains predominantly focused on policy to guide taxpayer investment, even more important is developing a climate and energy policy framework that ensures private capital is deployed into the commercialisation and deployment of these technologies.

The Technology Investment Roadmap is not a substitute for a coherent national climate policy framework for the entire economy and a clear target for net zero emissions by 2050. A credible national framework to achieve net zero emissions across the economy would enhance the necessary market signal for institutional investors to accelerate their support for an orderly transition in Australia.

Figure 11. Perceived barriers to increasing climate-aligned investment



Understanding the impact of COVID-19

Climate change is now entrenched enough in investment strategies with limited impact seen from the COVID-19 pandemic on climate-aligned investment.

The coronavirus pandemic represents not only an unprecedented global health crisis, but has resulted in devastating economic and social impacts for communities around the world. It's touched every person and market across the global economy.

Despite this and impacts to global markets, when it comes to climate change investors are just getting on with it. Nearly 70% have signalled that the pandemic has had no impact on progressing climate change investments or developing climate aligned solutions. Where a COVID impact has been felt is on liquidity with Australian asset owners focusing on building up cash reserves to support member withdrawal[17] and capital raisings.

Surprisingly, a small number of investors consider that Covid-19 has resulted in a potentially positive impact to their approach to climate change. Several asset owners have set climate commitments (Aware Super, Cbus, HESTA and UniSuper). Other respondents suggested that investment focus has been redirected away from GDP demand linked infrastructure assets to more stable contracted assets such as renewables and social and affordable housing.

5 CONCLUSION

IGCC has been undertaking this survey for a number of years now, with the intent of gauging how investors are approaching climate-aligned investment, where they are allocating capital and what barriers or challenges they face when investing in climate solutions.

This year, the 2020 survey was undertaken in the midst of unprecedented circumstances, with the global COVID-19 pandemic still sweeping through communities and economies and in the wake of the devastating bushfires of the summer of 2019-2020. Resilience would appear to be the watchword of 2020.

For all of this, it appears that investors remain focused on pursuing net zero investment, are continuing to work across their value chain to set targets and design investment solutions.

The trends of integration, mainstreaming and increased appetite for climate ambition have continued to grow. Investors are setting more ambitious portfolio-wide targets, even as their ability to implement continues to develop. And the COVID pandemic has not deferred investor appetite for climate investment, but rather has redirected it towards recovery, resilience and projects which deliver broader social outcomes.

IGCC will continue to support growing appetite among institutional investors for climate-aligned investments, and to work with our members to develop investable solutions to facilitate the transition to a resilient, net zero emissions economy.

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