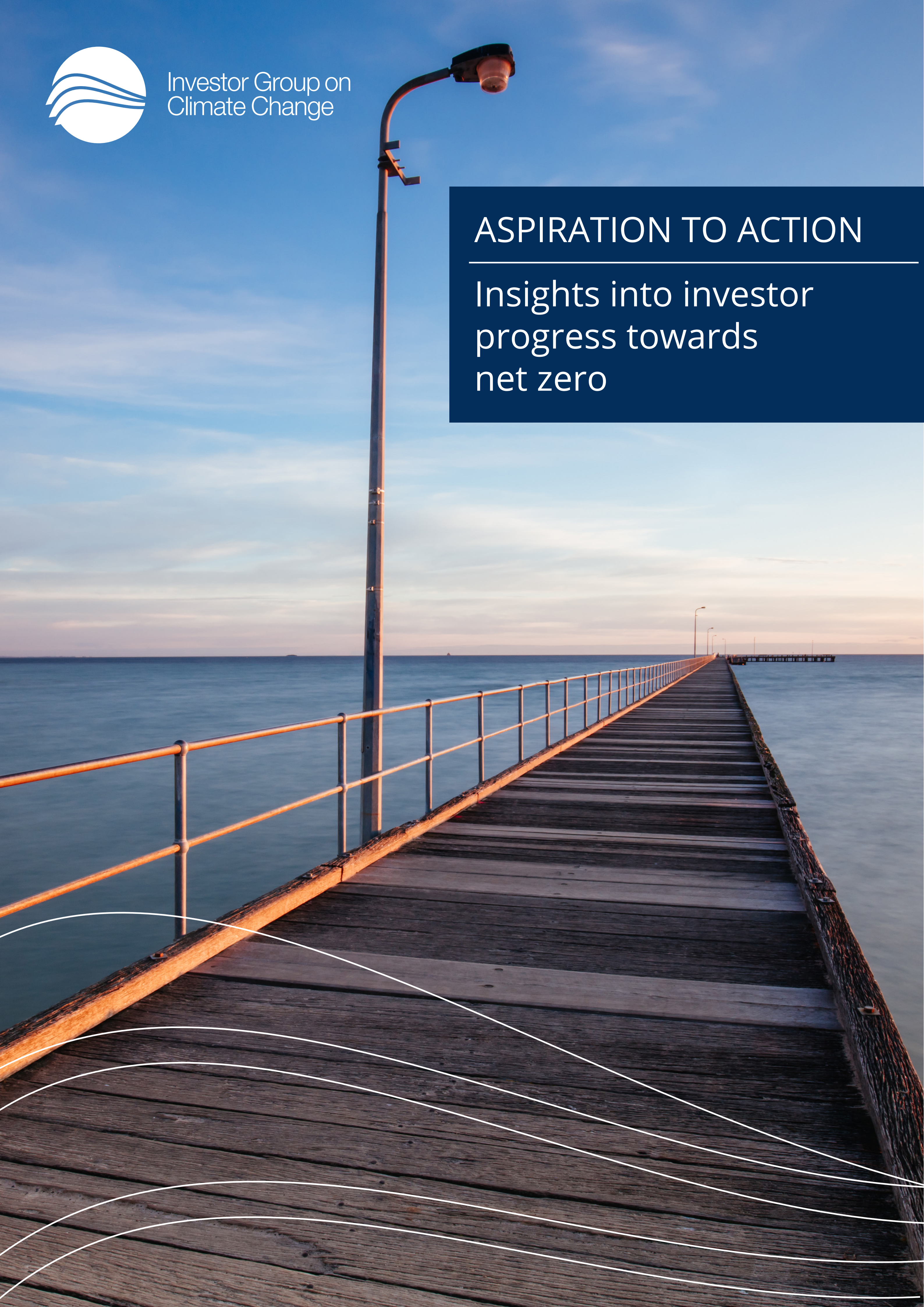
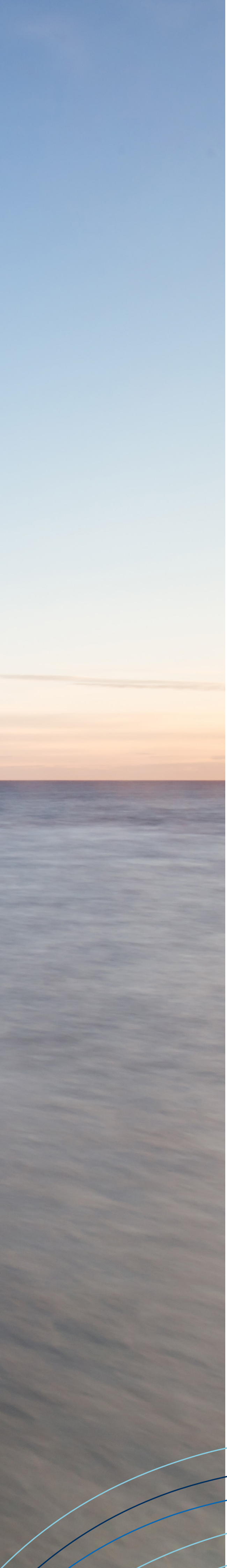
Investor Group on Climate Change

ASPIRATION TO ACTION

Insights into investor progress towards net zero





About the Investor Group on Climate Change

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. IGCC represents investors with total funds under management of over $2 trillion in Australia and New Zealand and $20 trillion around the world. IGCC members cover over 7.5 million people in Australia and New Zealand.

www.igcc.org.au

Acknowledgements

IGCC would like to thank the members of the IGCC Transition to Zero Carbon Working Group who developed this guide, and in particular the Working Group Chair Nicole Bradford, Global Head of Responsible Investment at Cbus Super Fund, for their valuable time and expertise. We would also like to thank all IGCC members who responded to the survey and provided further input over the course of developing the final roadmap.

August 2021

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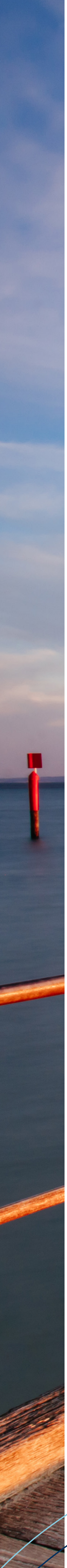


EXECUTIVE SUMMARY

Over the past two years, 2020 and 2021, we've seen the world in the grip of a pandemic with a goal to vaccinate the global population. Meanwhile, another race has been in progress - the urgency to act on climate change continues to accelerate. Countries, companies and investors alike continue to set ambitious targets for net zero emissions as we head for COP26 in November 2021.

The Investor Group on Climate Change (IGCC) has undertaken this annual study since 2017 to gather investor insights on how the market is defining and investing in climate-aligned opportunities, and the 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$3.1 trillion total assets under management globally surveyed in June 2021. 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.

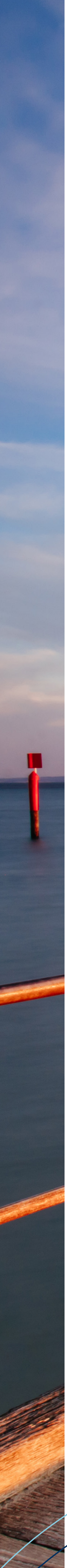
New climate frameworks are being embraced by investors that enable portfolio alignment to the Paris Agreement. Coupled with ambitious net zero emissions targets, investors now have the confidence using these tools to also set interim targets to help guide emissions reductions in the short to medium term. Work now needs to progress on implementing these aspirations into tangible requirements in investment mandates.

New tools and scenario analysis also continue to evolve to support measurement of the climate transition. This is evident through the work investors are undertaking at the portfolio level, although, physical risk assessment is still lagging. Pleasingly, investors continue to increase their focus on the social dimension.

Respondents continue to find opportunities to investment in climate-aligned solutions. However, against a backdrop of global ambition, the ongoing policy uncertainty in Australia, and to a lesser extent New Zealand, continues to be the key barrier to allocating further capital to invest in climate solutions. Seventy percent of investors highlighted policy uncertainty as a key barrier to investment, up from around thirty percent in the last survey.

While we are seeing positive progress in New Zealand's mandatory climate disclosure policy and a significant uptick in the quantity of investor climate disclosures, the overall number of disclosures continues to lag expectations, suggesting the need for mandatory climate reporting disclosure in Australia.

So, as we look ahead towards COP26, 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 highlights investor insights into these and other 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 new international climate frameworks.

New tools that provide guidance and transition pathways on aligning portfolios to net zero emissions have seen a rapid uptake by investors. This should result in converting aspirations to actions in the coming years.

Interim targets are emerging as a key component of a paris-aligned portfolio.

Net zero commitments have quickly become the expectation. Interim targets are becoming the new requirement to demonstrate genuine Paris-aligned commitments.

Policy remains a key barrier.

For five years now, policy has been the constant headline issue as a key barrier to capitalise on climate investment opportunities in Australia.

Climate disclosures are up but continue to lag expectations.

Despite a global climate reporting framework being available for several years, investors continue to underwhelm on disclosure, suggesting the need for regulation.

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. With the report in its fifth year, we can gain further insights into emerging trends.

During June 2021, 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 since 2017, and most recently captured in the *2020 Net Zero Investment Survey*[1]. With each new iteration of the survey, the inclusion of year-on-year data allows for further trend analysis of key issues.

This year, a total of 50 participants representing over AU$3.1 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 expanded the questions to reflect the increase in global expectations and how this may affect investor approaches to climate change in this region.

INVESTOR CLIMATE ACTION PLAN (ICAP) FRAMEWORK

The ICAP resources are designed to help investors navigate and make sense of the wide variety of existing tools and frameworks so they can appropriately plan their actions on climate change. ICAPs will provide investors with guidance to support them, no matter where the organisation is in its journey, to:

- Begin the journey towards implementing their own climate actions and, eventually, establishing and achieving their own net zero goals.
- Rapidly accelerate their actions in support of a global net zero emissions economy by 2050 or sooner.

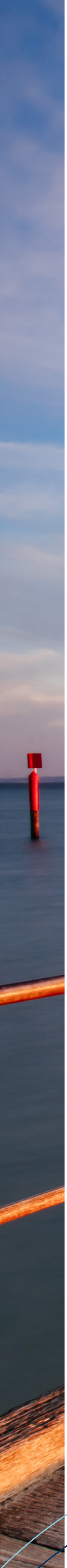
The ICAP Expectations Ladder

This sets out a summary of actions over four tiers denoting progress on climate action in five focus areas applicable to all investors. The recommended actions are neutral in terms of tools, approaches, and initiatives, and are meant to serve as a 'self-assessment checklist' to find where progress has been made and where advancement is needed.

The ICAP Guidance Document

The accompanying ICAPs Guidance enables investors to interpret the ICAPs Expectations Ladder. It helps investors self-assess where they are on the ladder, to understand the specific climate actions they can take to strengthen their approach and make further progress.

Find out more



2 CLIMATE-ALIGNED INVESTMENT

Investors are leaning towards climate specific frameworks. Other methodologies continue to be used for specific asset classes, but there is a definite shift from using methodologies purely for integration and benchmarking, towards frameworks that provide guidance on portfolio alignment with the Paris Agreement.

There has been a definite shift in the last year towards new international frameworks that provide a pathway to implementing net zero emissions commitments across portfolios. Investors are primarily coalescing around the Paris Aligned Investment Initiative[2] supported by the four global climate related investor networks.[3] 40% of respondents indicated they are now using this framework (Figure 1), along with over 10% using either the UN-convened Asset Owners Alliance Target Setting Protocol[4] or the Net Zero Asset Managers Initiative[5].

These frameworks were new to the survey in 2021, and provide an applied approach to support implementation of the Sustainable Development Goals (SDGs) and the Paris Agreement. This provides strong evidence of the necessity for practical tools to establish a foundation for investors to make portfolio-wide net zero commitments, shape strategies, implement transition plans and measure alignment with the Paris Agreement[6]. Whilst multiple new initiatives have emerged in the last year, we are starting to see some synthesis around the role each of these frameworks provide in supporting investors with practical information to guide portfolios to net zero emissions.

It is yet to be seen what the role of the EU Sustainable Finance Taxonomy[7] will play in this discussion. Its European focus may limit uptake in this region, recognising that sustainable finance taxonomies are emerging in other regional markets, including Australia and New Zealand. It may become a useful tool, as part of these broader frameworks, to help measure portfolio alignment with climate investments, to demonstrate long term sustainable returns for the end member beneficiaries.

PARIS ALIGNED INVESTMENT INITIATIVE

The Paris Aligned Investment Initiative is an investor practice program designed so that asset owners and asset managers have a one-stop-shop to commit to achieving net zero emissions by 2050 or sooner and begin implementing the goal across their portfolios. It includes both statements of high ambition and practical tools and resources for implementing a climate change response.

The initiative currently consists of the following elements:

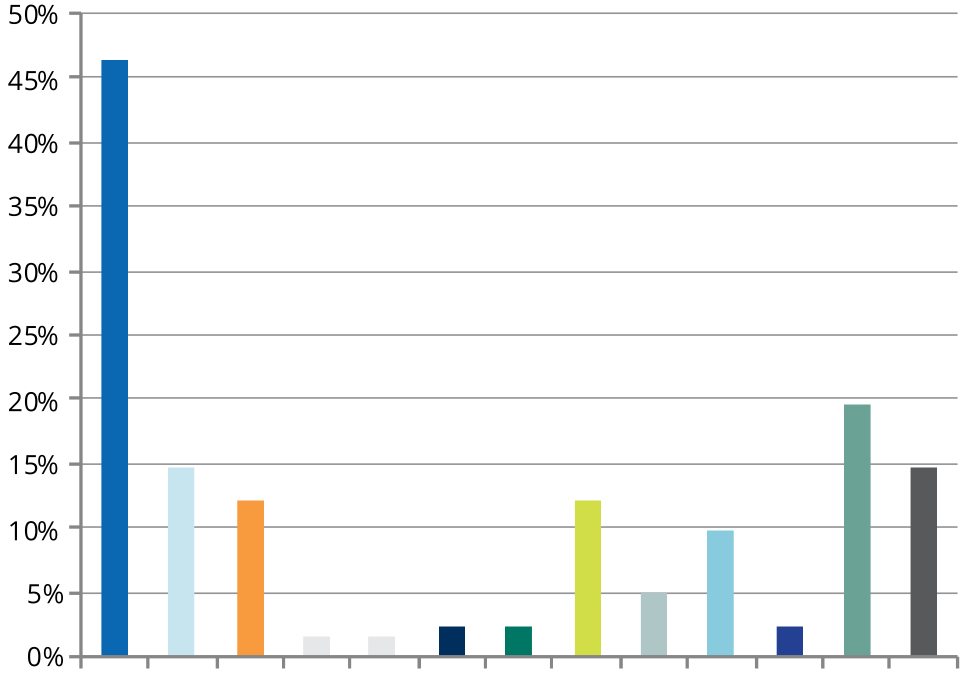
- **Net Zero Investment Framework**
  The framework is designed to help investors define strategies, measure alignment and transition portfolios to net zero. It sets out the components for an effective net zero investment strategy, with recommendations on the key actions and methodologies available. The Framework can be used by asset owners and asset managers, considering their different mandates and starting points.

- **Paris Aligned Asset Owner Commitment**
  Under this public-facing commitment, asset owners pledge to undertake a series of steps towards achieving net zero by 2050 and having a real-world impact on emissions reductions.

Find out more

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. We continue to see a rapid shift in methodologies being developed and used.

Figure 1. Methodologies used to define climate-aligned or net zero investments.



- Paris Aligned Investment Initiative
- Net Zero Asset Owners Alliance
- Net Zero Asset Managers Initiative
- Climate Bond Initiative Taxonomy & Standards
- IFC Definitions and Metrics for Climate-Related Activities
- Green Investment Bank or equivalent definition of 'green impact'
- Green Bond Principles & Projects Taxonomy
- UN Sustainable Development Goals
- EU Taxonomy for sustainable activities or other national taxonomy framework
- Building related standards such as GRESB, GreenStar and / or NABERS
- Infrastructure related standards such as GRESB and / or ISCA
- Third party ESG data service providers or indices categorisations.
- Other
- Zero

MERCER CASE STUDY

Mercer Analysis to Support Net-Zero Target Setting

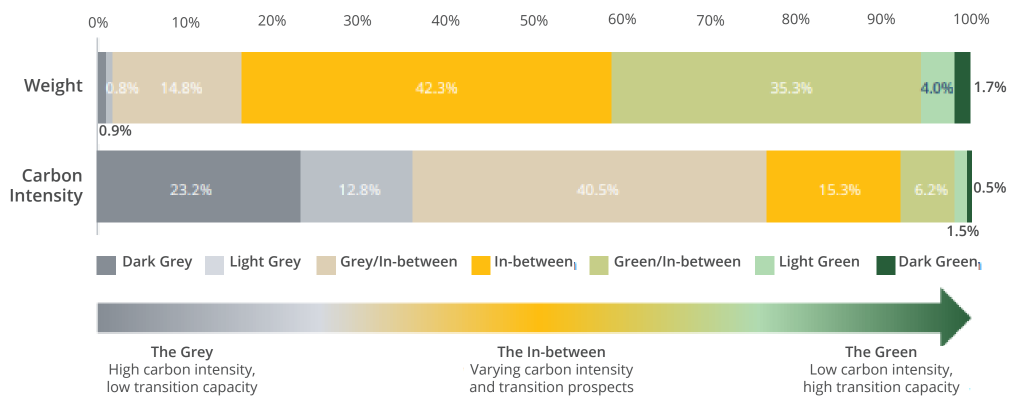
In early 2021, Mercer committed to achieving net zero absolute portfolio carbon emissions[8] by 2050 for its Australian Funds, including the Mercer-managed investment options within Mercer Super. To achieve this, Mercer expects to reduce absolute portfolio carbon emissions by 45 per cent from 2020 baseline levels by 2030.

Mercer has developed an Analytics for Climate Transition (ACT) tool, which provides a 'bottom up' company level perspective across asset classes. ACT draws on multiple third- party metrics covering company level emissions, transition capacity and green revenues, which Mercer has selected and weighted to provide a single transition capacity assessment for portfolios on a spectrum — going from 'grey', high carbon and low-transition investments, to the 'green', those already low carbon or are climate solutions, and the many companies in the middle, the 'in-between' with varying transition capacities.

ACT is helping to identify where the highest carbon intensity risks lie, including the potential for stranded asset risk in the dark grey companies, and where the next decade's emissions reductions can best be achieved by portfolio weight and still deliver on investment objectives. The results at an asset class, sector, investment manager and company level are supporting the investment management team as they work closely with appointed investment managers to make ongoing integration, active ownership and investment allocation decisions for a well-informed, staged transition approach.

Find out more

Transition assessment: Example diversified portfolio



Source: Mercer, with underlying metrics from MSCI ESG Research and ISS

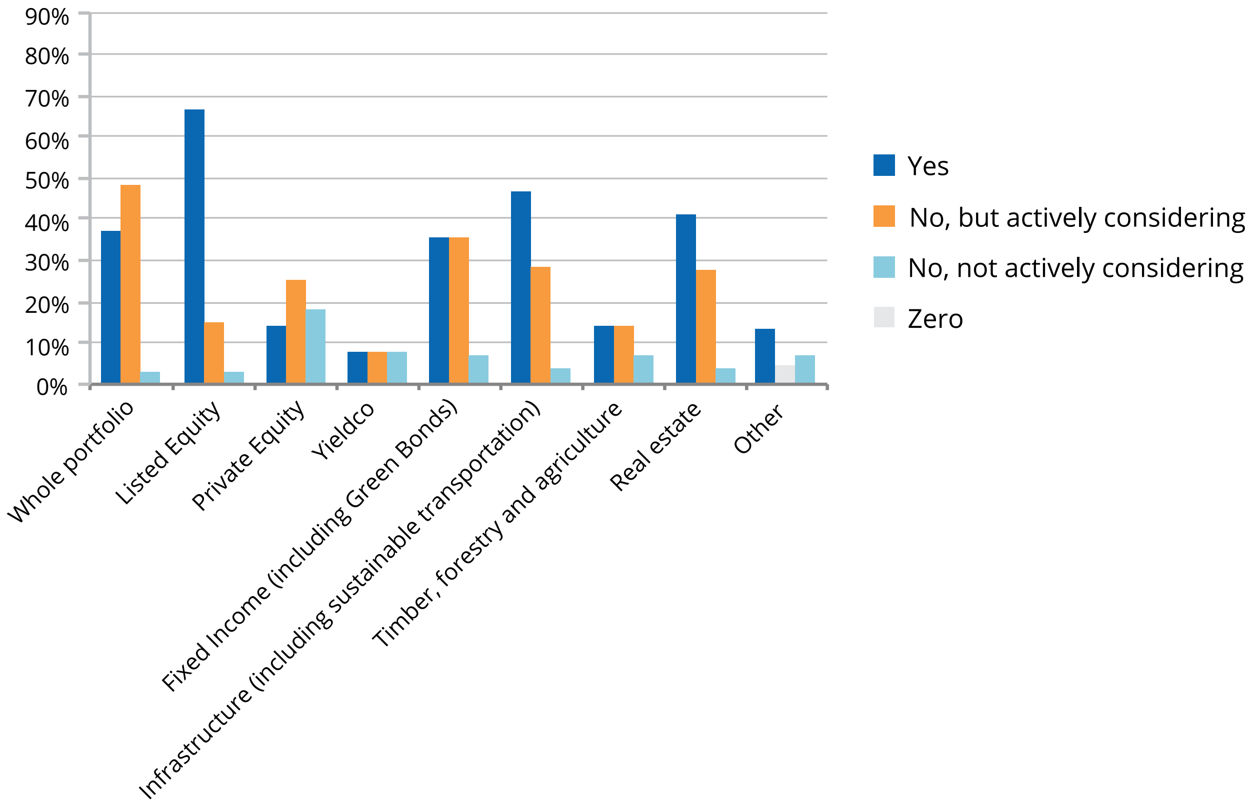
Carbon footprint, transition and physical risk metrics

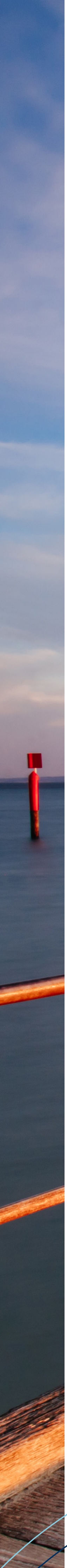
Measurement continues to be an important area of focus and will continue as investors track portfolio alignment against their emission reduction targets. To better capture this trend, a whole portfolio response was included in the survey in addition to the standard asset classes. Nearly 40% of respondents indicated they have undertaken a climate-related transition analysis across the whole portfolio, with almost 50% indicating they are actively considering (Figure 2). This also supports the rapid uptake in frameworks, with investors considering a more holistic approach to climate transition now that better tools, such as scenario analysis, are available for portfolios.

Equities analysis by investors continues to be a strong performer at 67% when it comes to measurement and is likely a reflection of the number and longevity of existing tools to assess this asset class. Over 40% of participants are undertaking climate analysis of property and infrastructure assets, likely supported by tools such as GRESB. Obtaining information from underlying investments in private equity continues to remain a challenge.

Respondents indicate they are also starting to measure scope 3 emissions with 50% actively considering. Given data availability, this is likely to be in public listed equities in the first instance. However it is a pleasing development, and we expect to see this increase over time as company disclosure improves and investors become more comfortable with the data.

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





INTERNATIONAL ENERGY AGENCY (IEA) NET ZERO EMISSIONS (NZE) BY 2050 SCENARIOS

Given growing commitments to net-zero by 2050, the NZE is a valuable resource for investors and companies alike. It provides a significantly more ambitious decarbonization pathway than other IEA scenarios, and tests assumptions that may impact the energy mix to 2050 e.g., the development and uptake of carbon capture, utilization and storage (CCUS).

To compliment the analysis undertaken by IEA a comparison between NZE and a subset of Intergovernmental Panel on Climate Change (IPCC) scenarios finds that NZE global primary coal supply is below or equivalent to the IPCC average to 2050, and NZE gas supply is above the IPCC average to the early 2030s and then below to 2050.

Find out more

NETWORK FOR GREENING THE FINANCIAL SYSTEM (NGFS) CLIMATE SCENARIOS

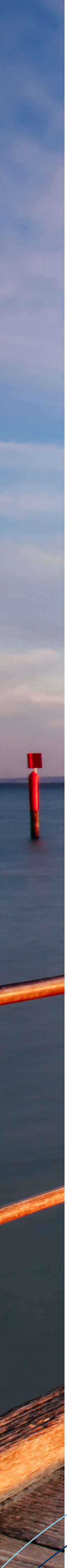
The Central Banks and Supervisors Network for Greening the Financial System (NGFS) is a group of central banks and supervisors established in 2017 to enhance the role of the financial system to manage the systemic risks posed by climate change and to mobilize capital for green and low-carbon investments.

To identify, quantify and mitigate climate risks to the economy, the financial system and the safety and soundness of financial firms, the NGFS published its first set of climate scenarios in June 2020 (NGFS scenarios). The NGFS scenarios and guide to scenario analysis provide a common starting point for analysing climate risks to the economy and financial system. The NGFS scenarios are categorised into groups – Orderly, Disorderly and Hot house world.

Find out more

Responses suggest little change to physical risk assessments across asset classes from last year, including equities, fixed income, infrastructure and real estate. The question then arises, why are investors stagnating on physical risk and do they have the right tools? Or is the investor focus on the transition side, with physical risk to follow closely behind? Although, the new addition of 'whole portfolio' analysis has a surprise result, with nearly 50% of participants indicating they are actively considering a portfolio wide physical risk assessment, with just over 25% indicating they have already undertaken this assessment (Figure 3). The uptake could be in anticipation of new tools under development from initiatives such as the Coalition for Climate Resilient Investment (CCRI).[9] Investors have clearly demonstrated that if the right tools are developed, they will embrace them.

In a suite of adaptation commitments in early 2021, the Australian Government agreed to work with investors and the international community to better consider physical climate risks and create resilient investment solutions by joining the CCRI the global Adaptation Action Coalition (AAC) and committed to developing a new National Climate Resilience and Adaptation Strategy. The Australian Government has also committed to a new Australian Climate Service, which will support better planning and preparedness for climate and natural hazards. These along with newly developed frameworks such as the Climate Measurement Standards Initiative[9] will better aid investors with the data, tools and frameworks available to conduct physical risk assessments across their portfolios and develop adaptation solutions.



COALITION FOR CLIMATE RESILIENT INVESTMENT (CCRI)

The CCRI aims to create a more resilient global financial industry in which key incentive structures foster an accurate pricing of physical climate risks (PCRs) in investment decision-making, resulting in more resilient economies and communities across the world.

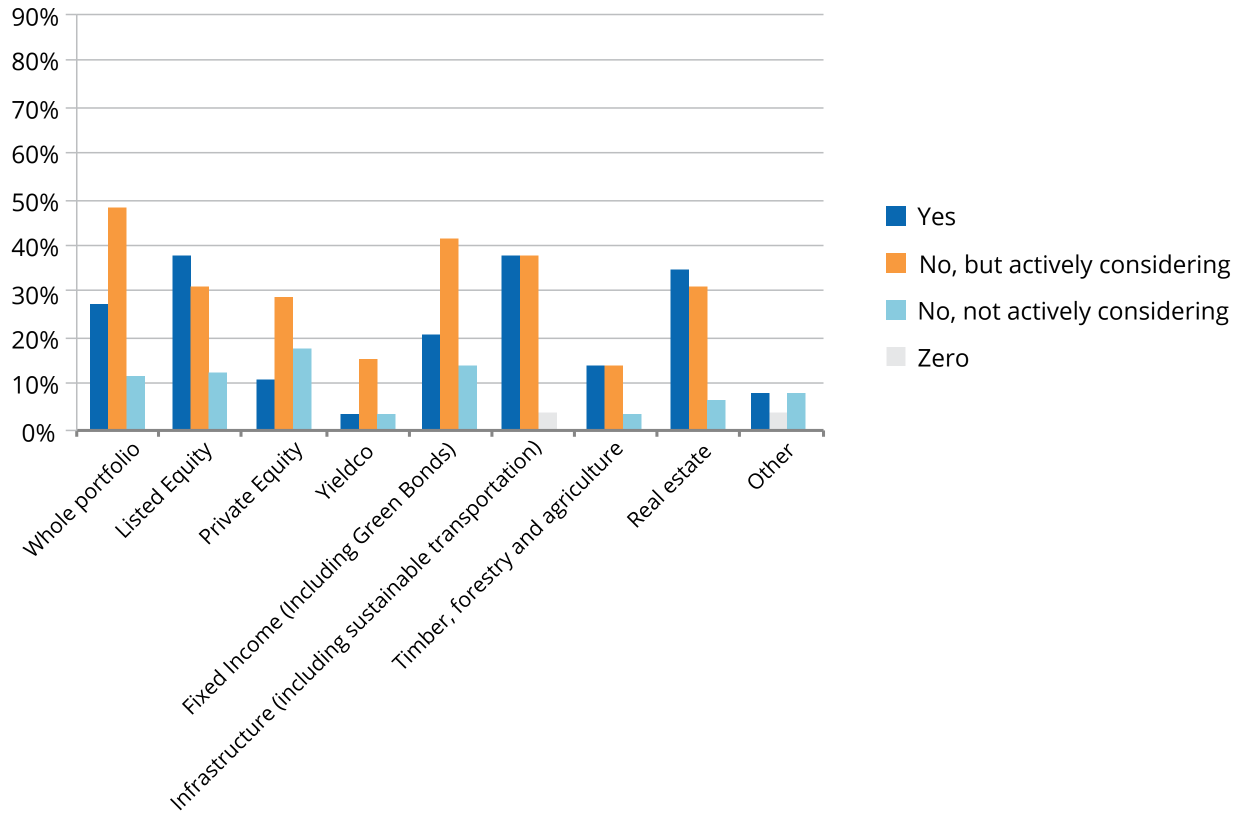
The initiative aims to mobilise the global private financial industry, in partnership with key public stakeholders, to develop practical solutions for the pricing of PCRs into investment decision-making. It is focused on deliverables designed to address key challenges in the investment value chain, including:

- An investment prioritisation tool for national decision-making
- A pricing model for the interpretation of climate data in cash flow modelling practices
- A taxonomy for the development of resilience bonds

These tools will provide the foundation towards the creation of investment funds that encourage wider investment in resilient infrastructure based upon the use of CCRI's methodologies for assessing PCRs.

Find out more

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



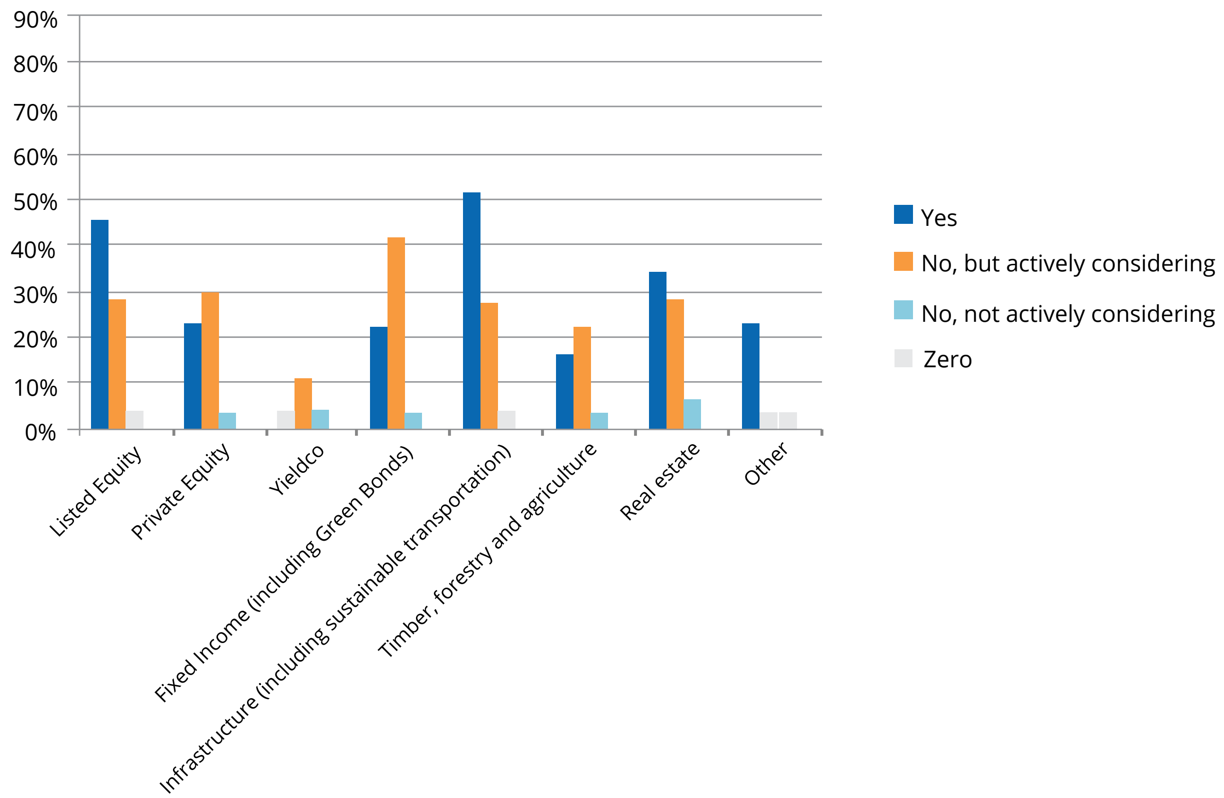
3

INVESTMENT ACTIVITY

Investors continue to allocate capital towards climate solutions across a broad range of asset classes and across all regions. Investment mandates continue to be an opportunity for asset owners to drive much needed change with asset managers.

There is ongoing appetite for investment in climate-aligned solutions that contribute to a net zero economy, with investors continuing to actively seek investments across all asset classes (Figure 4). Investors continue to be active in both public and private markets.

Figure 4. Asset classes in which investors are currently active or considering net zero, climate-aligned or low carbon investments.



CBUS CASE STUDY

Cbus awards $240 million climate solutions equity mandate

Cbus Super, Australia's leading building and construction industry super fund, awarded a AU$240 million mandate to Impax Asset Management, focusing on investing in opportunities arising from the transition to a more sustainable global economy and the safeguarding of member savings from climate related risks.

This mandate will contribute to the Fund's Climate Change Roadmap commitment to portfolio- wide net zero emissions by 2050 and an important interim target of 45% absolute reduction in carbon emissions by 2030. It demonstrates Cbus' commitment to members to investing sustainably while also focusing on financial returns.

Focused on climate mitigation and adaptation, the mandate is managed using the Impax Climate Strategy, a global equities strategy investing in companies providing solutions to the challenges around climate change. All portfolio companies are aligned with the Paris Agreement and are positioned to provide significant net CO_2 savings.

Find out more

ALLIANCEBERNSTEIN CASE STUDY

AB Green Managed Volatility Equities (MVE) Fund

AB Green Managed Volatility Equities (MVE) Fund aims to have a positive impact on the environment by targeting a carbon–neutral portfolio while also seeking to deliver attractive investment returns for equity investors. The fund targets low-volatility stocks which tend to also have lower emissions with reduced downside risk. During stock selection for Green MVE, we apply a carbon price to the emissions of the underlying companies, thereby favouring companies with lower emissions. The 'price of carbon' for a stock is a measure of the cost to offset all the carbon that an investor's ownership in that stock produces. This involves calculating the carbon emissions that a stock is accountable for from burning fossil fuels (scope 1), the consumption of electricity (scope 2) and the fossil fuels they extract and sell. A carbon price is applied to determine the carbon cost for each stock.

For example, applying a carbon price of AU$22 per tonne means that a AU$100 investment in Air New Zealand would require $4.3 per annum to offset the airline's carbon emissions but it would cost less than 1c per annum to offset the emissions from a AU$100 investment in CSL. At the same carbon price, a AU$100 investment in the S&P/ASX 300 would cost around 56c per year to offset the carbon emissions*.[10]

By doing this, the emissions associated with the portfolio can be reduced to 90% less than those of the index. We believe lowering the portfolio's carbon footprint can be achieved by offsetting the remaining 10% of emissions through third-party arrangements.

We also engage with companies on our proprietary TCFD analysis and how the cost of carbon affects our investment decisions and incentivises them to reduce their emissions.

We believe that Green MVE may deliver benefits to multiple stakeholders. First, it seeks to deliver a carbon neutral portfolio. Second, the investment objectives to outperform the index with reduced downside risk can be attractive to many financial investors. Third, by putting an explicit price on carbon AB can send a clear price signal to Australian companies. Finally, to the best of our knowledge this innovative approach to green investing is a first in Australia.[11]

[Find out more]

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

Investment in climate solutions activity has stabilised across most asset classes.

The number of respondents investing in climate-aligned solutions has stabilised across most asset classes, although there has been an increase in infrastructure, likely driven by renewables (Figure 5). Despite this, there is a pleasing increase in participants actively considering investing across the majority of asset classes, including listed equities, private equities, fixed income, timber, forestry & agriculture, real estate.

Increasing competition may become a factor in coming years as investors find it challenging to find new climate-related opportunities in various asset classes, particularly private markets, although large government post-Covid stimulus packages may increase investment flow.

Investors will also welcome greater clarity on climate-aligned investment products and labelling from regions such as the EU, which are now imposing regulations on these matters. This will help investors understand if what they are investing in really is Paris-aligned.

Figure 5. Asset classes in which investors are currently active or considering climate-aligned investments.

AUSTRALIANSUPER CASE STUDY

Driving the transition to clean energy through innovative infrastructure investments

AustralianSuper currently invests more than AU$1billion in renewable energy projects across markets in its infrastructure portfolio and expects this allocation to grow over time.

AustralianSuper has been investing in Generate Capital since December 2019. Generate Capital is an investment platform specialising in distributed energy and sustainable infrastructure through its infrastructure-as-a-service model.

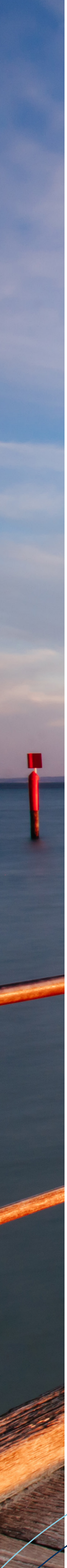
Generate Capital owns and operates more than 2,000 assets globally with a value of around US$2 billion. The company builds, owns, operates and finances solutions for clean energy, water, waste and transportation.

AustralianSuper's Head of Infrastructure Nik Kemp said: "Generate is a market leader, with an innovative business model that successfully leverages growing global demand for sustainable infrastructure solutions. Investing in Generate provides both an attractive investment return for our members and fosters the development of new sustainability focused technology which is making a real impact on the global transition to clean energy."

Generate is one of the largest owners and operators of behind-the-meter battery storage, community and rooftop solar, energy efficiency retrofits, biogas facilities, electric buses and hydrogen-electric vehicle fleets in North America.

In July 2021, AustralianSuper and a consortium of investors participated in a AU$2 billion equity raising to enable Generate to accelerate and expand its reach across new sectors and regions to meet the increasing demands for sustainable infrastructure and climate solutions.

Find out more



Do investment mandates reflect investor appetite for green investments?

Investment mandates are still catching up to climate aspirations.

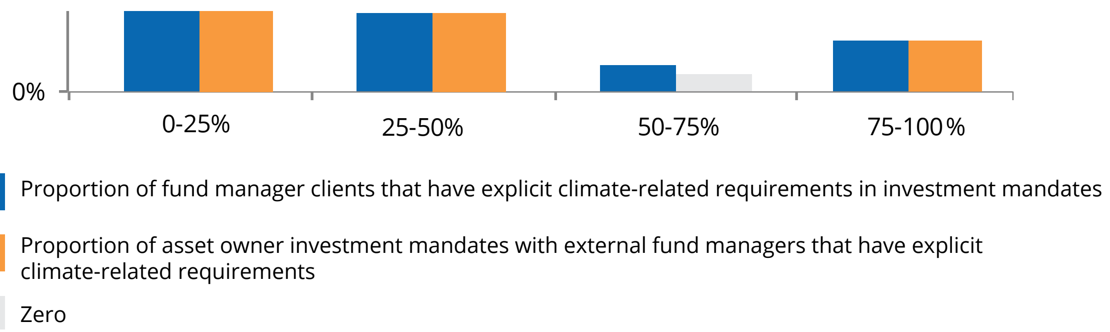
There hasn't been a significant shift in asset owners requiring investment mandates to include aspirations on climate goals or specific investment in solutions compared with 2020 (Figure 6). This could align with the stabilisation seen in the survey on climate-related investments. Asset owners may also be focusing on portfolio target setting and transition pathways to net zero with the advent of new frameworks.

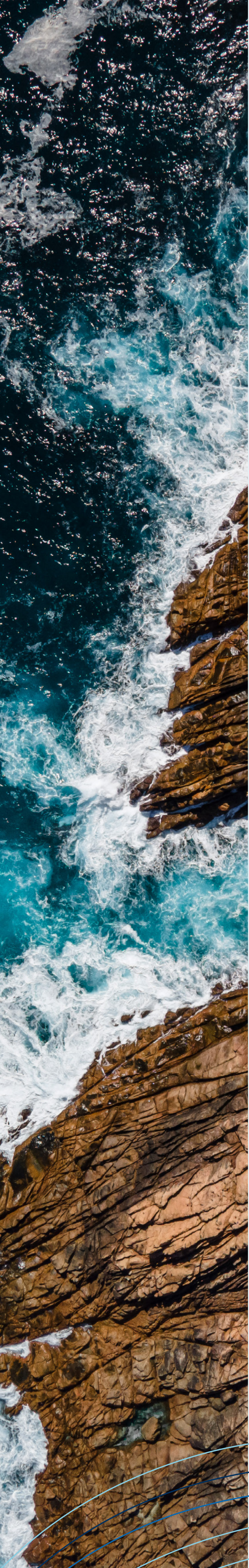
Fund manager survey responses are similar with asset owners (Figure 6). As we see a tightening of sustainable finance disclosure requirements, there will be more clarity over what genuine climate transition products are, which should translate to a general uplift across investment mandates.

Reflective of 2020, asset owners are increasingly big on climate aspiration, however more work is to be done to translate aspiration to action. Asset owners need to better align their commitments with implementation and it's critical to mandate these requirements if change is to effect and influence change.

What isn't clear from this survey is which asset classes are seeing climate translate to action in mandates. In 2022, the question will be re-focused on asset classes to provide further clarity in this area.

Figure 6. Proportion of asset owner investment mandates with external fund managers that have explicit climate-related requirements and proportion of fund manager clients that have explicit climate-related requirements in investment mandates.





AWARE SUPER CASE STUDY

Investing to make a positive difference

At Aware Super, we aim to invest directly in projects and businesses that contribute to a better future for all Australians. Not only do we look for investments that offer strong returns, but we also believe our investments can be sustainable, support employment, foster innovation and contribute to a more productive economy – now and in the future. We know climate change requires urgent global attention and action.

We've committed to transitioning our investment portfolio to carbon neutrality, achieving net zero emissions by 2050. As part of our Climate Change Portfolio Transition Plan we have, among other initiatives, committed to proactively investing in renewable energy and technologies to support a low carbon transition. This led to us investing in Snowtown 2, one of the largest wind farms in Australia. Sitting in the Barunga and Hummocks Ranges in South Australia, it has been operational since 2014. The project created approximately 200 jobs during construction and employs 15 people. Snowtown 2 is a 180-turbine wind farm with an installed capacity of 270 megawatts and generates enough electricity to power around 140,000 households. From December 2019 to 30 June 2020, our investment in Snowtown 2 has contributed to the avoidance of 285,791 tonnes of CO^2 emissions (Source: Palisade). Returns to members come from a long-term contract with Origin Energy.

Find out more

NEW FORESTS CASE STUDY

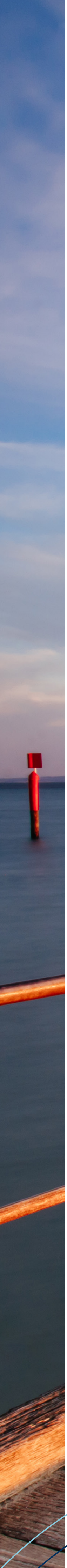
New Zealand Emissions Trading System—creating value for forestry Investments towards net zero emissions

New Forests is a global investment manager offering high-impact strategies in sustainable forestry and related sectors, with approximately US$4.5 billion in assets under management across 1 million hectares (2.4 million acres) of investments. New Forests participates in regulated and voluntary carbon markets in the United States, Australia, New Zealand, and Southeast Asia.

New Forests participates in the New Zealand Emissions Trading Scheme (ETS), which was established in 2008 to support the country's 2050 emission reduction targets. At the time of writing, the price of New Zealand Units (NZUs) traded in the ETS has risen to US$33. New Forest owners can participate in the ETS, creating opportunities for managing assets for sustainable timber production as well as climate mitigation and creating new investment opportunities in reforestation. NZU value can result in increased cash flows relative to timber-only management scenarios, including increasing returns for greenfield projects by approximately 400 to 600 basis points. Market evidence also indicates that land values in New Zealand have started to internalise the climate mitigation opportunity, which, combined with rising carbon prices, further incentivises investment in native revegetation, regenerative agricultural practices, and markets for soil carbon sequestration. New Forests has sold over NZ$35 million worth of NZUs and is actively looking at opportunities to establish greenfield plantations and to invest in native species restoration on marginal land.

A world in which the carbon price reaches US$100 per tonne could see substantial areas of forests and land valued primarily for their conservation value. Carbon asset value in land use could be trillions of dollars globally by 2030 and beyond, which would be capitalised into land and forest values.

Find out more

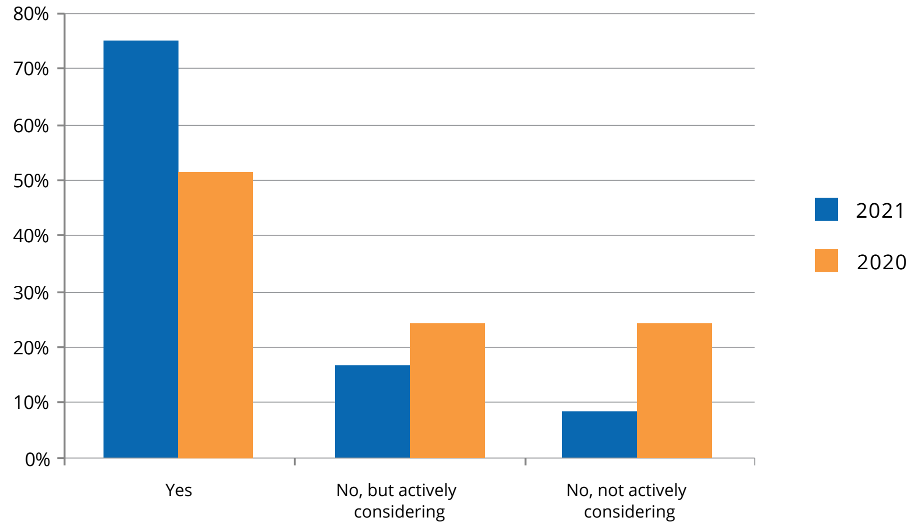


The social dimension

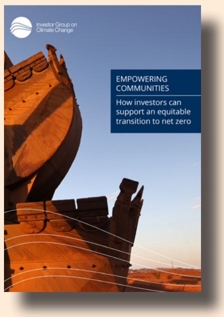
Investors have increased their focus on the social dimensions of climate change. The UN Sustainable Development Goals (SDGs) continue to be the preferred framework.

The trend for investors to focus on the social dimension of climate change has increased to 75%, up 24% from 2020 (Figures 7). As the implications of decarbonising the economy becomes clearer, investors are more aware of the impact communities face with the need to transition, as well as the opportunities this creates. New research such as the IGCC's *Empowering Communities: How investors can support an equitable transition to net zero*[12] help investors clarify their role and actions to more effectively manage the challenges of the transition away from fossil fuels to decent work in the renewable economy.

Figure 7. Consideration of social issues by investors in 2021 and 2020.



INVESTOR'S ROLE IN AN EQUITABLE TRANSITION TO NET ZERO



The IGCC report *Empowering Communities: How investors can support an equitable transition to net zero,* released in July 2021, details the opportunities and challenges for investors in helping ensure a just transition for those communities that are currently economically tied to fossil fuel industries. Critically, it provides an actionable toolkit and recommendations for investors to integrate just transition considerations across operations and investments.

The net zero emissions transition is inevitable and represents a huge opportunity to create new jobs and boost economic growth, but only for those countries that get ahead of the curve, the report finds. Governments, companies, investors and all other stakeholders must act to minimise hardship for affected workers in fossil fuel sectors and communities where jobs will be lost, and ensure they are not overly disadvantaged or left behind.

The report also emphasises failing to take meaningful action on climate change is anticipated to pose greater economic, social and environmental costs than the investment required to achieve net zero carbon emissions by 2050.

[Find out more]

Setting targets for green investments

Investors continue to set portfolio-wide and asset classes net zero emission commitments, with interim targets fast becoming the next step in portfolio alignment.

Over 40% of respondents have made portfolio-wide commitments to net zero emissions by 2050 (Figure 8), up from 27% in 2020 (Figure 9). The majority of investors are now going public with these commitments, bolstered by the support from initiatives such as the Net Zero Asset Managers initiative.[13] Portfolio-wide targets may be seen as easier than at the asset class level, as it may provide multi-asset class investors greater flexibility on pathways to decarbonisation. Although, the results suggest investors have converted their appetite in 2020 to action in 2021, with more participants also setting targets at the asset class level.

Interim emission reduction targets are quickly catching up with longer term targets. In our first year of data gathering in 2017, 30% of participants indicated targets had been set at the portfolio level, although some of these are still internal (Figure 10). There are also a number of investors 'actively considering' interim commitments across all asset classes, so one to watch for next year.

NET ZERO ASSET MANAGERS INITIATIVE

The Net Zero Asset Managers initiative is an international group of asset managers committed to galvanising the asset management industry to commit to a goal of net zero emissions by 2050 or sooner, through net zero-aligned investing, in line with global efforts to limit warming to 1.5 degrees Celsius.

As of August 2021, there are 128 signatories representing US$43 trillion in assets under management.

Find out more

On the flipside, a significant portion of respondents, around 60%, have also indicated that fossil fuel divestment and exclusions are now part of investor strategies. It will be interesting to see how investors balance over time their approach to decarbonisation and strong focus on engagement with strategies such as exclusions. This will be particularly relevant when considering investing in new fossil fuel activities, especially following the recommendations of the most recent International Energy Agency (IEA) Net Zero by 2050 report that highlighted there can be no investment in new fossil fuel supply projects if we are to meet our collective 2050 net zero goal.[14]

Investor accountability is now on the radar with considerations on executive remuneration and links to climate metrics. A surprising 40% of respondents indicated their organisations are actively considering this matter, with 10% already linking remuneration to climate-related actions. This approach would provide alignment to what investors are asking of their companies and assets.

Figure 8. Proportion of investors setting a net zero emissions target by 2050 (2021).

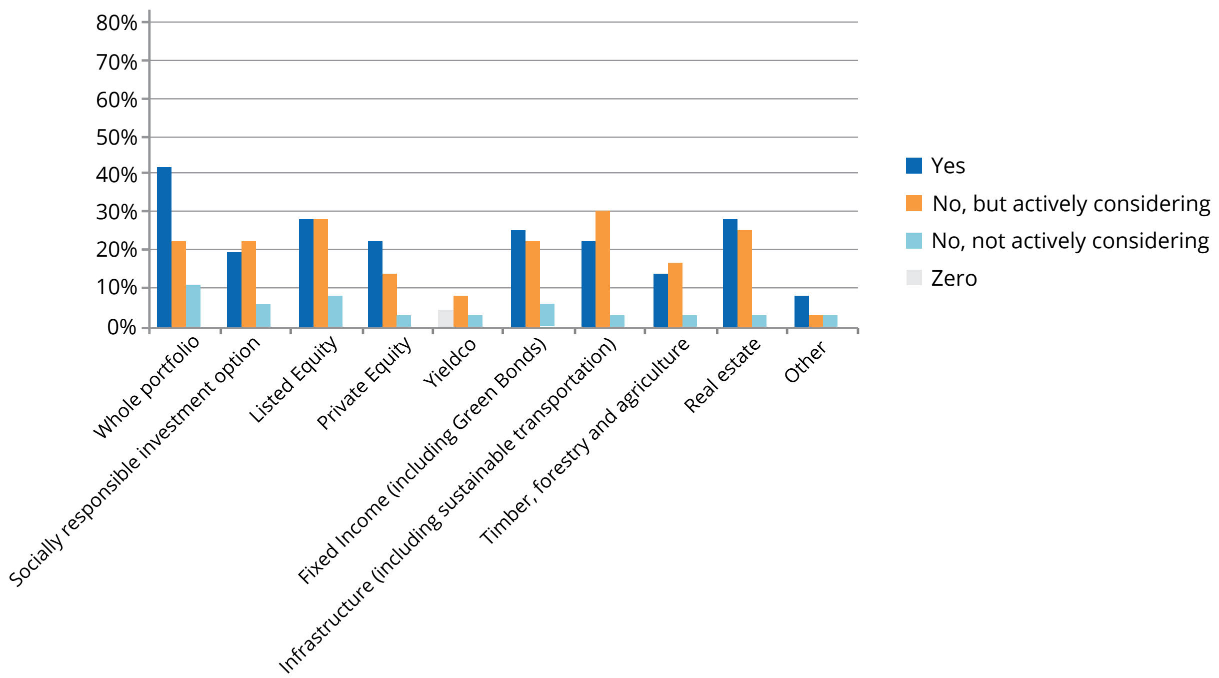


Figure 9. Proportion of investors setting a net zero emissions target by 2050 (2020).

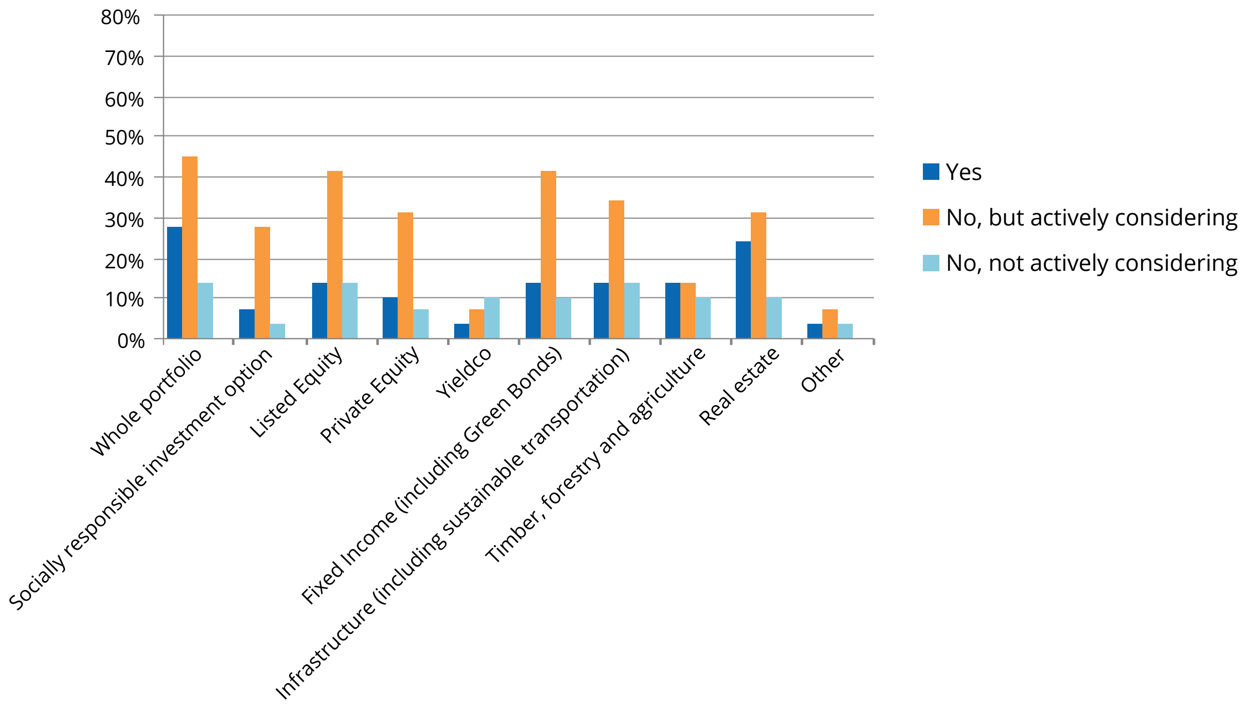
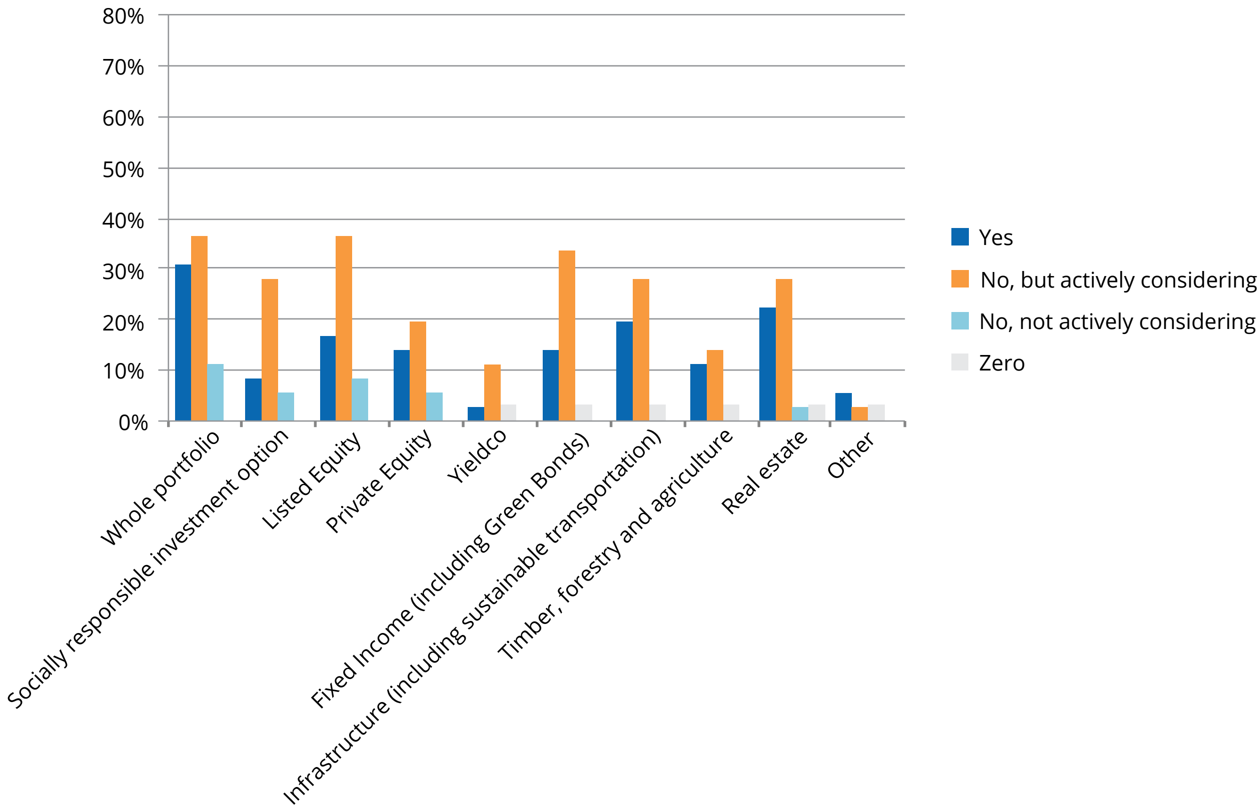


Figure 10. Proportion of investors that have have committed to actions that continue to reduce emission reduction targets (2021).



CLIMATE LEAGUE 2030

Launched by IGCC in 2020, Climate League 2030 is a ten-year, private sector-focused initiative to support and act towards a goal of reducing Australia's annual greenhouse gas emissions in line with the Paris Agreement. Investors, companies and businesses have committed actions that will continue to reduce annual greenhouse gas emissions by at least a further 230 million tonnes by 2030. Participants are asked to demonstrate their interim goals, targets and actions, which shows their collective role in national emissions reductions and that it will not come at the expense of/cost the economy.

As of 2021 there are 20 participating investors, representing AU$910 billion under management.

Find out more

MORRISON & CO CASE STUDY

Morrison & Co fund Utilities Trust of Australia (UTA) targets Net Zero by 2050

As a leader in responsible investment, Morrison & Co believes that a strong ESG focus is consistent with our investment objectives and our responsibilities to investors. We believe that carbon emissions arising through investee entities have the potential to adversely affect the financial performance of those investments over the long term, as well as contributing to the harmful global effects of climate change.

In 2018, Morrison & Co developed a Responsible Investment Strategy for the Utilities Trust of Australia (UTA) which identified the Fund's ESG ambitions and established a vision for the fund to be recognised as a global leader in responsible infrastructure investment. Its recently updated strategy requires that ESG targets, including carbon emission reduction goals, are established.

Following significant engagement with the UTA board on the fund's forecast carbon emissions trajectory to 2050, Morrison & Co set out a series of new decarbonisation goals for UTA, in April 2021:

- Net zero by 2050. Reduce absolute scope 1 and 2 carbon emissions of whole portfolio to zero by 2050.
- 50% reduction in emissions intensity by 2030. Reduce the fund's scope 1 and 2 carbon emissions per dollar invested (Net Asset Value) by 50% by 2030 from a 2019 baseline.
- Investee entities to set net zero targets. Use the fund's ownership influence and board representation to seek to have each of the fund's investee entities adopt carbon emissions reduction strategies on a basis that is consistent with achieving net zero by no later than 2050.

Morrison & Co maintains an ESG Data Book and publishes an annual Sustainability Report for the fund to ensure that key ESG metrics and performance at the asset, sector and portfolio-level are readily available to unit holders and their advisors.

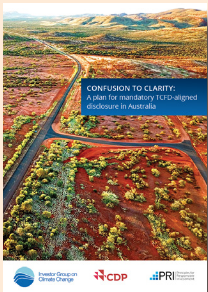
Find out more

Transparency and disclosure on climate change

Climate reporting and disclosure continues to lag expectations which suggests the need for mandatory reporting.

A significant uptick from 2020 shows that the majority of respondents are now reporting against the Taskforce for Climate-related Financial Disclosures (TCFD) recommendations, at 55%, up from 38% last year. While this represents a 45% increase in disclosure against the TCFD recommendations from in 2020 levels, the total number of TCFD disclosures is still too low and the need to push investors to disclose is critical. This challenge may reflect the divide between readily available information in publicly listed equities compared to private markets, which continues to play catch up with less developed data availability. It is likely these results will shift at an increasing rate as requirements such as APRA climate change guidelines continue to encourage superannuation funds to make better disclosures, which will have a flow on effect across the value chain, and regulations increasing transparency across financial institutions in Asia, Europe Latin America and North America develop.

MANDATORY TCFD IN AUSTRALIA



Confusion to clarity: A plan for mandatory TCFD-aligned disclosure in Australia, details actions regulators and the Federal Government can take to build on existing work to ensure there is consistent and comparable reporting from companies, investors, banks and insurers.

The plan, published in June 2021 by IGCC, CDP and the Principles for Responsible Investment, with input and support from many investors and wider industry, sets out the global and Australian state of play on disclosures and builds the case for phasing in mandatory TCFD-aligned reporting in Australia. It highlights rapid international developments where many jurisdictions are addressing gaps in voluntary disclosure, removing complexity by moving to robust and comprehensive mandatory TCFD-aligned frameworks for companies and investors alike, including New Zealand, the United Kingdom and Hong Kong among others. The Plan proposes implementation be guided by a joint taskforce including representatives from investors, business and the major accounting bodies under the oversight of the Council of Financial Regulators.

Find out more

S&P GLOBAL CASE STUDY

S&P Global TCFD Report 2021

S&P Global continues to lead in the commitment to a sustainable environment with the announcement of ambitious targets to reduce the company's global environmental impact, while also promoting accountability through transparent public disclosure of our reduction efforts. In February 2021, S&P Global announced the plan to achieve net-zero emissions by 2040, ten years earlier than the Paris Climate Agreement Objective. S&P Global has set short term milestones, committing to a 25% reduction in emissions by 2025. These targets were validated by the Science Based Targets (SBT) initiative and are consistent with reductions required to keep global warming to 1.5°C. S&P Global commits that 81% of suppliers will have SBTs by 2025.

S&P Global integrates both transition and physical climate-related risks and opportunities into the larger enterprise strategy to fuel innovation and promote sustainable business best practices. As part of the company's effort to bring climate change considerations into its decision-making process, S&P Global, as disclosed in its 2020 Taskforce for Climate-Related Financial Disclosures (TCFD) report, became one of the first companies to introduce a carbon-adjusted earnings per share metric into its financial reporting. The measure—calculated based on the theoretical cost per share of the tons of CO2 in each period subtracted from regular earnings per share—provides greater transparency into the cost of carbon emissions from company operations and strengthen strategic decision making with long-term, resilient operations in mind.

(Dollars in millions, except per share data)	2020		2019		2018	
	Amount	EPS	Amount	EPS	Amount	EPS
Adjusted Net Income	$2,830	$11.69	$2,352	$9.53	$2,152	$8.50
Less: Estimated Cost of Carbon, net of tax	10	0.04	13	0.05	9	0.03
Carbon Adjusted Net Income	$2,820	$11.65	$2,339	$9.47	$2,143	$8.47
Diluted Weighted Average Shares Outstanding	242.1		246.9		253.2	

The expectations for corporations to act in an increasingly responsible manner from regulators, investors, employees, and key stakeholders called for greater investment, transparency, and diligence to proactively address climate related challenges.

S&P Global's TCFD reports are a testament to the continued focus on proactive disclosure and the company's commitment to promote a sustainable environment. Through promoting sustainability and the data, insights and resources to the market, the company is proud to be part of the global conversation in accelerating the transition to a low-carbon, sustainable and equitable future.

Find out more

4 BARRIERS TO INVESTMENT

Climate policy uncertainty remains a key barrier for investors, along with a lack of appropriate investment opportunities. These barriers continue to provide challenges for investors to easily deploy capital.

Policy uncertainty among respondents has been a key issue since commencement of this survey in 2017, and this year is no exception (Figure 11). 70% of investors highlighted policy uncertainty as a key barrier to investment, up from around 30% in the last survey. Whilst the response from some investors is the 'wait and see approach', delaying their investments particularly for large private investments in infrastructure domestically, other investors continue to deploy their capital offshore. It's likely investors do both.

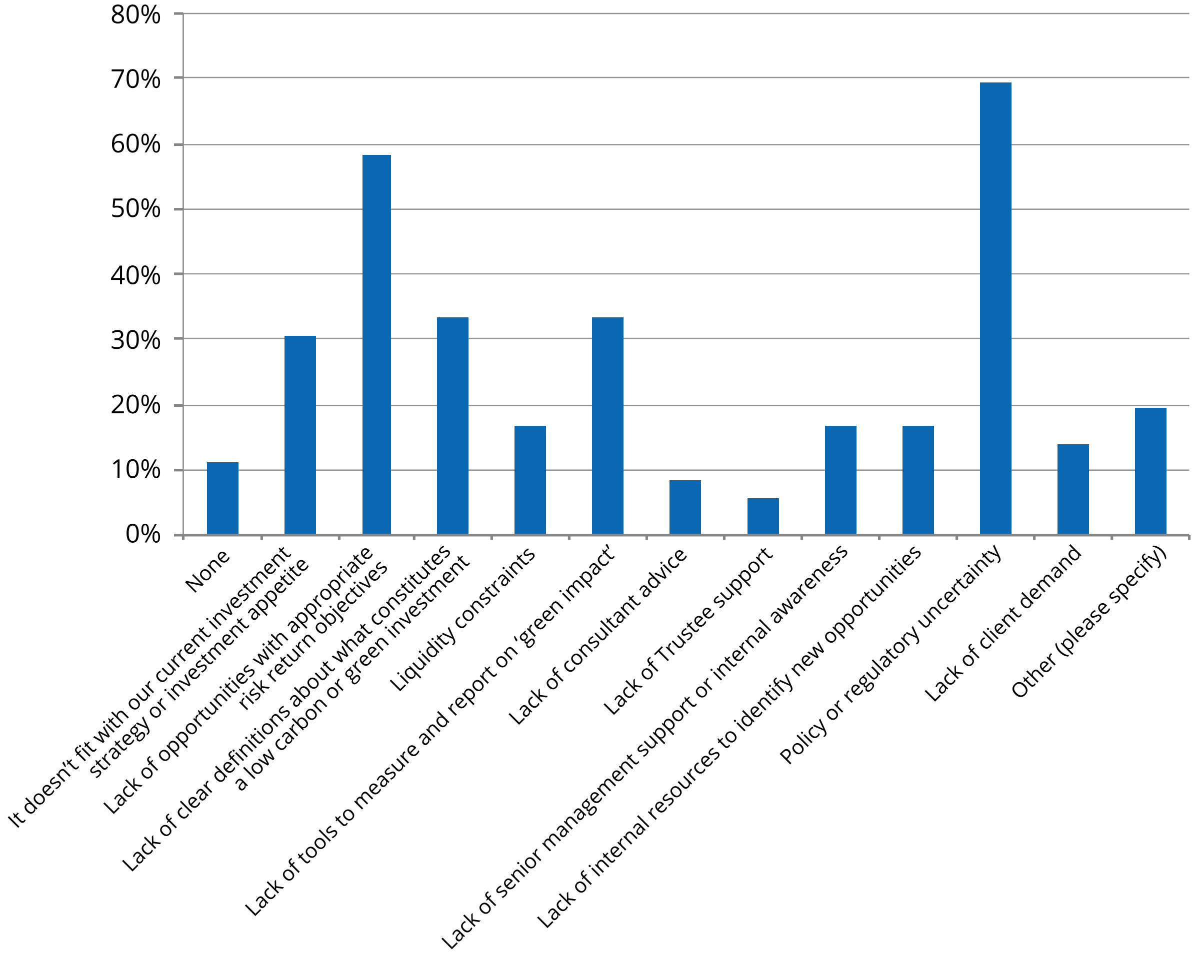
Engagement continues to be a key approach by investors in response to policy uncertainty. Australia particularly has an actively engaged market with many investors committed to projects like the Climate Action 100+[15].

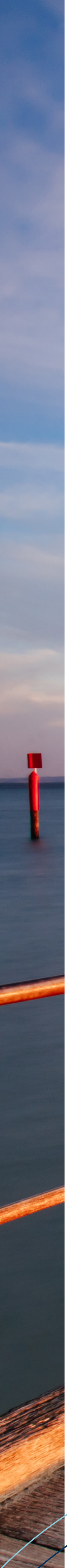
New Zealand is moving forward with a number of important new climate policy signals, including a mandatory climate risk disclosure regime and a revision of the country's 2030 emissions reduction target. There is some movement in Australia such as the Federal Government's Low Emissions Technology Statement and Technology Investment Roadmap, which are steps towards accelerating a number of the emerging technologies needed to reach net zero emissions across energy, farming and heavy industry. Both governments are also developing national adaptation strategies and have started taking positive initial steps to implement policies that can support private sector investment in resilience measures.

The Australian Government's policies remain predominantly focused on guiding taxpayer investment, however what is even more important is developing a climate and energy policy framework that ensures private capital is deployed at scale in net zero and climate resilient investments. Economic modelling for IGCC has shown that Australia would create $63 billion in fresh investment opportunities over the next five years by strengthening climate targets and policies in line with reaching net zero emissions by mid-century[16].

The Australian government's current policies are not a substitute for a coherent national climate policy framework for the entire economy. More credible 2030 emissions targets, a clear goal for net zero emissions by 2050, and the implementation of an investable climate-related financial disclosures regime are needed. A credible national framework to achieve net zero emissions across the economy would provide a greater market signal for institutional investors to accelerate their support for an orderly transition in Australia.

Figure 11. Perceived barriers to increasing climate-aligned investment (2021).





5 CONCLUSION

IGCC has been undertaking this survey for five years now, which provides us insight into the trends in investor progress and their approaches to climate-aligned investment, where they are allocating capital and what barriers or challenges, they face when investing in climate solutions.

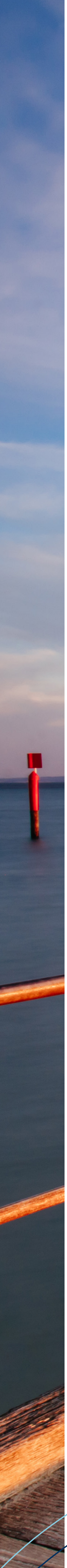
The 2021 survey was conducted during another challenging year, as we continue to feel the effects of the global pandemic, with societal and economic strains being felt everywhere. Despite these challenges, investor sentiment remains strong, focused and centred around pathways and roadmaps to a net zero economy.

What has become clear in the 2021 survey is the shift in investor approaches to how they are implementing this transition in their own portfolios. It is also evident the critical need to establish, plan, and track progress to achieve short-term and interim targets particularly to 2030 or even earlier, to ensure 2050 commitments stay firmly on track.

The trends we have seen in the last few years of accelerated integration, appetite for climate and net zero transition aligned investments, as well as more streamlined approaches to investing in climate solutions continue to increase. With net zero now a baseline for action, interim targets are becoming a key feature of Paris-aligned portfolios, with clear signals that investors are embracing the numerous tools and frameworks to reach such targets.

The lack of coherent and consistent government policy on climate continues to be a major barrier for investors to play an even more significant role in the transition of the economy. However, investors have found how and where they can continue to make positive progress around climate integration in their portfolios, for returns and ultimately for their members, all while ensuring their fiduciary responsibilities are upheld.

IGCC will continue to support the growing appetite among institutional investors for tools, frameworks and resources to assist implementation and acceleration of the transition to net zero through climate-aligned investments. We look forward to working with our members to develop investable solutions to facilitate the transition to a resilient, net zero emissions economy.



ENDNOTES

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2. https://www.parisalignedinvestment.org/media/2021/03/PAII-Net-Zero-Investment-Framework_Implementation-Guide.pdf
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8. Defined as: absolute carbon emissions per $M of FUM, Scope 1&2 emissions for the Mercer Funds in aggregate and all diversified funds.
9. https://resilientinvestment.org/supporting-institutions/
10. *As at June 30, 2021
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