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INVESTOR CLIMATE ACTION PLANS (ICAPs)

GUIDANCE ON USING THE EXPECTATIONS LADDER

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Glossary of terms

AFOLU: Agriculture, Forestry and Other Land Use

AIGCC: Asia Investor Group on Climate Change

AOA: UN-Convened Net-Zero Asset Owner Alliance

APRA: Australian Prudential Regulation Authority

AUM: Assets Under Management

CDP: Formerly the 'Carbon Disclosure Project'

FCA: Financial Conduct Authority

GFANZ: Glasgow Finance Alliance for Net Zero

GHG: Greenhouse Gases

IA: The Investor Agenda

ICAPs: Investor Climate Action Plans

IGCC: Investor Group on Climate Change

IIGCC: Institutional Investors Group on Climate Change

ILO: International Labor Organization

IPCC: Intergovernmental Panel on Climate Change

NGFS: Network of Central Banks and Supervisors for Greening the Financial System

NZ Alliances: Refers to the investor net zero alliances: NZAM, PAII and AOA

NZAM: Net Zero Asset Managers initiative, coordinated by AIGCC, CDP, Ceres, IGCC, IIGCC & PRI

PCAF: Partnership for Carbon Accounting Financials

PRA: Prudential Regulation Authority

PRI/ UNPRI: Principles for Responsible Investment

RtZ: Race to Zero

SBTi: Science Based Targets initiative

TCFD: Taskforce on Climate-related Financial Disclosures

TPI: Transition Pathways Initiative

UNEP FI: United Nations Environment Programme Finance Initiative

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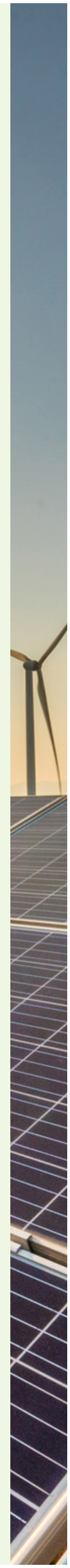


INTRODUCTION
THE INVESTOR AGENDA

The Investor Agenda is the largest global collaboration of investor networks made up of seven major groups: the Asia Investor Group on Climate Change (AIGCC), CDP, Ceres, the Investor Group on Climate Change (IGCC), the Institutional Investors Group on Climate Change (IIGCC), the UN Principles for Responsible Investment (UN-PRI) and the UN Environmental Programme Finance Initiative (UNEP FI). We are working together to mobilize the broader investment community to act on the climate crisis and advocate collectively for public policies that accelerate the investor transition to a net zero emissions economy. The Investor Agenda aims to set a unifying, comprehensive common leadership agenda that elevates the best investor practices and guidance in four interlocking areas of action: investment, corporate engagement, policy advocacy and investor disclosure, and also on governance as a cross-cutting theme (see Box 1).

Together, the four focus areas in the box below constitute the structure of Investor Climate Action Plans (ICAPs). The Investor Agenda partners have identified Governance as a *cross-cutting theme* underlying these four areas to ensure that all climate-related considerations are embedded in investors' top-down governance arrangements.

The Investor Agenda Key Focus Areas

Investment

Managing systemic climate risks in investor portfolios and enabling the transition by shifting capital to value-creating businesses set to succeed in a net-zero future.

Corporate Engagement

Engaging companies to drive and demonstrate real progress in line with a 1.5ºC future.

Policy Advocacy

Advocating for policies aligned with delivering a just transition to a net-zero economy by 2050 or sooner, including setting national emissions reductions targets for 2030 which are aligned with the goal of limiting global temperature rise to 1.5°C.

Investor Disclosure

Enhancing investor disclosure to help stakeholders track investor action in line with a 1.5ºC pathway.

Cross-cutting theme

Governance

Implementing an effective climate governance structure and strategy to ensure that investors properly assess and act on climate-related risks and opportunities, and set and report on related climate goals and targets.

THE INVESTOR CLIMATE ACTION PLANS (ICAPs) EXPECTATIONS LADDER

The Investor Agenda has developed the ICAPs Expectations Ladder which sets out its joint expectations of investors across the interlocking focus areas. The Expectations Ladder establishes the dimensions of a comprehensive climate action plan for investors, at whatever stage they are at in the process of integrating climate change risks and opportunities into their activities. It allows investors to begin to assess where they currently sit on their net zero journey and to identify the actions they might take to strengthen their approach.

This Guidance has been produced to help investors interpret the ICAPs Expectations Ladder and to inform climate strategy. It helps investors to self-assess where they are on the Ladder, understand the main actions they can take to strengthen their approach, communicate this information to colleagues, and navigate a growing number of climate-related initiatives and reporting expectations. The Guidance includes a set of resources to inform the development of ICAPs. This is not intended to be a comprehensive list of all tools and guidance, but rather provide an indication of the resources available.

The ICAPs Expectations Ladder (the Ladder) equips investors to act on climate change by providing a single, comprehensive, and overarching framework that draws together existing resources on investment, corporate engagement, policy advocacy, investor disclosure and governance. It may be used alongside other key resources and is methodology agnostic. Investors can use the Ladder in several ways, including by:

- Assessing their current approach to managing climate change risk and opportunity.
- Publishing a standalone ICAP.
- Embedding elements of the ICAPs into their climate change strategies and disclosures.
- Communicating their current activities and plans to stakeholders.

What is an Investor Climate Action Plan?

An Investor Climate Action Plan, often referred to as a climate transition plan, is a set of goals, actions, and accountability mechanisms to align an organization's business activities with a pathway for GHG emissions consistent with reaching net zero by 2050 at the latest. The ambition for the pathway to be consistent with a maximum global temperature increase of 1.5°C above pre-industrial levels, with low or no overshoot. As more companies and investors publish transition plans, the ICAPs Expectations Ladder and this Guidance can help investors develop and issue action plans. These action plans should detail the steps investors plan to take in each of the Investor Agenda focus areas. The ICAPs framework also provides a model for ensuring that investors' plans are consistent and comparable and that they include decision useful information for clients, regulators, and other stakeholders.

Climate commitments are meaningless without plans and actions. Therefore, every investor needs high-ambition ICAPs that underpin commitments and lay out action steps, including how they are going to reach short and medium-term targets.

The ICAPs Expectations Ladder is designed to be relevant to all institutional investors, including asset owners and both active and passive asset managers. The approach that different institutional investors take to tackle climate change will be driven by factors such as their size, their position in the investment chain, their legal duties and obligations, the needs and interests of their clients and beneficiaries, asset allocation and investment strategies, and their investment time horizons. To help this diverse set of investors evaluate progress toward the ambition of net zero carbon emissions, the Ladder establishes four tiers of sequential accomplishment, from those beginning to think about climate change (Tier 4) to the investors who have made net-zero commitments and are well along the path to setting and implementing science-based targets (Tier 1).

The ICAPs Expectations Ladder recognizes that certain elements may not be relevant for each investor (e.g., the investor might not have listed equity investments, the investor may not delegate investment management). An investor may decide that a specific action is not relevant or appropriate to its net-zero strategy.

The ICAPs Expectations Ladder is not a reporting framework, but rather a self-assessment tool for investors to evaluate their current position and identify where further progress is needed. Investors are not expected to publish a formal stand-alone report explaining how they perform against each of the Ladder's expectations. They can use a variety of public reporting channels to explain how they implement elements of the Ladder, including integrated reports, management disclosure, climate transition plans, stewardship policies, TCFD reporting, the PRI signatory reporting and assessment process, and/or the CDP reporting and assessment process as outlined in the CDP Climate Change Questionnaire for Financial Services (see Appendix 1).

CLIMBING THE ICAPs EXPECTATIONS LADDER: HOW TO (SELF-) ASSESS AN INVESTOR'S ICAPs TIER & PROGRESS ACROSS TIERS

Across each of the ICAPs focus areas, there are underlying sub-focus areas that outline recommended actions for investors. Within the corporate engagement focus area for instance, there are sub-focus areas on collective/collaborative engagement, bilateral engagement, escalation tactics and shareholder engagement. To achieve a certain tier in a sub-focus area, an investor must have already implemented most or all the expectations of that tier.

Once an investor has determined the tier they are in for each sub-focus area, they can then aggregate up to establish the tier they are in across each of the overall focus areas. For example, within corporate engagement, if an investor is considered Tier 2 on two of the sub-focus areas and Tier 1 on one of the sub-focus areas, the investor would be considered Tier 2 for the corporate engagement overall. This means that an investor can reach a certain tier for an overall focus area only if they have achieved that tier in all of its sub-focus areas. A few sub-focus areas cut across several tiers. For example, the sub-focus area of collective/collaborative engagement has a combined Tier 2 and Tier 1. An investor can consider themselves the higher of the tiers if they have implemented the recommended actions of the combined tiers.

To heighten ambition and progress, investors are encouraged to continually assess what tier they are in across the focus areas and work towards progressing to a higher tier. To create accountability and momentum towards net zero, investors should set timelines for fulfilling all expectations in a tier and for moving up higher tiers of ambition.

The ICAPs Expectations Ladder recognizes that certain elements may not be relevant (e.g., the investor might not have listed equity investments, the investor may not delegate investment management) or the investor may decide that a specific action is not relevant to or appropriate to its net-zero strategy. For that reason, it is only expected that an investor meets the recommendations and requirements that apply. It is also relevant to note that investors should assess each focus area separately, as they can sit in different tiers in different focus areas. For example, an investor may be Tier 2 on Investment, Tier 2 on Corporate Engagement and Tier 1 on Policy Advocacy. For greater accountability and transparency in the market, the Investor Agenda encourages investors to publicly disclose their ICAPs and indicate where they are across the expectations ladder. The Investor Agenda considers a gold standard ICAP to be Tier 1 across all the focus areas as well as publicly disclosed.

Structure of the ICAPs Expectations Ladder

Investment

Tier 4	Tier 3	Tier 2	Tier 1
Strategy, Risk Management, Asset Allocation	Strategy, Risk Management, Asset Allocation, Additional Target Setting	Strategy, Risk Management, Asset Allocation, Additional Target Setting	Strategy, Risk Management, Asset Allocation, Additional Target Setting

Corporate Engagement

Tier 4	Tier 3	Tier 2	Tier 1
Collective/Collaborative Engagement, Bilateral Engagement, Corporate Escalation and shareholder engagement	Collective/Collaborative Engagement, Bilateral Engagement, Corporate Escalation and shareholder engagement	Collective/Collaborative Engagement, Bilateral Engagement, Corporate Escalation and shareholder	Collective/Collaborative Engagement, Bilateral Engagement, Bilateral Engagement, Corporate Escalation and shareholder engagement

● Focus Area ● Tier ● Sub-focus Area

1

INVESTMENT

Managing systemic climate risks in investor portfolios and enabling the transition by shifting capital to value-creating businesses set to succeed in a net-zero future.

Investor Climate Action Plans

- Investment
- Corporate Engagement
- Policy Advocacy
- Investor Disclosure

To achieve the goals of the Paris Agreement and limit global temperature rise to no more than 1.5°C above pre-industrial levels, a significant increase in the level of new investment in low-carbon technologies and energy efficiency is necessary. This represents an opportunity for investors to invest in innovative and cutting edge low-carbon advances and technologies. It is also necessary to reduce emissions associated with investments, and, in particular, to eliminate all fossil fuel investments that are not consistent with science-based pathways for achieving 1.5°C alignment[1]. The Investor Agenda encourages investors to make low-carbon investments and to publish policies on the phase out of investments in unabated fossil fuels including thermal coal, oil and gas (all major contributors to global greenhouse gas emissions and associated heating)[2], and to consider stewardship escalation strategies to rapidly shift corporate behavior across the economy. Investors should also integrate climate change into their long-term investment decision-making process and portfolio analysis, which will assist them in capturing investment opportunities.

Net-zero alignment assessment, scenario analysis, climate change risk assessment and reporting continue to mature rapidly. There are asset classes where progress and guidance has been rapid and there are other areas – including derivatives, commodity markets and private markets generally – where robust methodologies continue to develop. As a general rule, investors meet the requirements for a particular tier by taking the specified action for all the asset classes, sectors, or geographies where appropriate tools and methodologies are available[3]. Investors should be prepared to identify those asset classes, sectors, or geographies where progress is limited by the absence of appropriate tools or methodologies.

1 A number of organizations have undertaken and plan to undertake work on transition finance. Please see the resources on risk management and asset allocation at the end of this section for further information

2 Examples of this type of policy include Allianz's Statement on Oil and Gas Business Models. See 'Allianz reinforces its commitment to net-zero strategy' (29.04.2022): https://www.allianz.com/en/press/news/commitment/environment/220429_Allianz-reinforces-its-commitment-to-net-zero-strategy.html. On global heating, see 'Climate change widespread, rapid, and intensifying – IPCC' (09.08.2021): https://www.ipcc.ch/2021/08/09/ar6-wg1-20210809-pr/

3 Tools and methodologies endorsed by the Investor Agenda are included in the Resources at the end of this section. They are intended to be indicative of the tools available but are not an exhaustive list

In Focus: Just Transition

The concept of the just transition informs the Investor Agenda's work, including the ICAPs Expectations Ladder and this Guidance document.

Investors need to be part of the planning for a just transition for workers and communities reliant on fossil fuels and other highly impacted sectors for employment and economic growth[4]. As the world's economy responds to the climate crisis and transitions away from fossil fuel-based energy systems, labor markets will transform. The concept recognizes that while the transition to a net-zero emissions economy will provide many benefits, there will also be transitional challenges for workers, communities, and countries, particularly those who heavily rely on fossil fuel reserves to fuel their economies or as a source of employment.

The Net Zero Investment Framework (NZIF) recommends that investors assess companies against a just transition criteria, to understand if "the company considers the impacts from transitioning to a lower carbon business model on its workers and communities"[5].

There are a number of strategic motivations for investor action on a just transition, including broadening the understanding of systemic risks, reinvigorating fiduciary duty, recognizing material value chain drivers, uncovering investment opportunities and contributing to societal goals. What this means in practice is that investors should integrate consideration of workers' and human rights in their investment strategies, capital allocation decisions, corporate engagement, and policy advocacy. In the specific context of the net-zero transition, it requires companies not only to transform their business models to reduce carbon emissions but also to ensure that the workers, consumers and communities in which they operate are not left behind in the move from the old (transition out) towards the new (transition in) business model in line with the ILO's Guidelines for a Just Transition[6], the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

Integrating the just transition into decision-making on the net-zero transition is essential. For the net-zero transition to happen at the pace needed, it needs to be fair and needs to be accepted and supported by society. Investors cannot deliver on their commitments to the net-zero transition without addressing the social consequences of this transition. Furthermore, addressing these consequences is central to managing the investment risks and maximizing the investment opportunities associated with the net-zero transition.

Investors can make just transition a part of their core operating practices in 5 key areas, all of which align to the ICAPs. Some examples include:

ICAPs Focus Area	Sub-focus Area	Investor Action for Just Transition
Investment	Strategy	When reviewing and setting climate strategy, investors should also assess the social (e.g. employment) impacts of the transition and pursue a dialogue with workers or key intermediaries to integrate just transition factors into investment policies and allocate capital towards risk adjusted investment opportunities that support just transition outcomes.
	Asset Allocation	Social impacts should inform allocation strategies for climate investment across all asset classes, including listed equities, bonds, private equity and real assets.
Corporate Engagement	–	Just transition factors should be in investor expectations for companies when requesting disclosure, transition planning, benchmarking performance, and pressing for improvement.
Policy Advocacy	–	Investors should always ensure just transition is a part of policy dialogue at sub-national, national, and international levels, which will help to reduce uncertainty and speculation in capital markets.
Governance	Skills assessment	Investors need to ensure that all staff, including the Board and senior management, understand the just transition factors and/or receive training on just transition, which can lead to developing frameworks and responsibility for managing a just transition.

4 'Why a just transition is crucial for effective climate action': https://www.unpri.org/inevitable-policy-response/why-a-just-transition-is-crucial-for-effective-climate-action/4785.article

5 Net Zero Investment Framework (NZIF): Net Zero Investment Framework Implementation Guide (page 17)

6 'User's manual to the ILO's Guidelines for a just transition towards environmentally sustainable economies and societies for all:' https://www.ilo.org/actrav/pubs/WCMS_826060/lang--en/index.htm; ITUC (2021) 'The Green Jobs Advantage: How Climate-Friendly Investments Are Better Job Creators': https://www.ituc-csi.org/the-green-jobs-advantage

Risk management

The process of establishing a climate action plan and climate change policy generally starts with developing an understanding of the investor's exposure to climate-related risks and opportunities. This may include starting at the portfolio level and engaging individual fund managers to require systematic integration of climate risk and opportunity metrics into reporting and strategies. Investors have tended to start with measuring their carbon footprint or assessing portfolio-level carbon exposure (see for example the methodologies and tools listed at the end of the Investment section) and then, at the same time or later, moving towards the use of more sophisticated risk assessment and management tools, such as scenario analysis. Scenario analysis is to actively bring climate considerations into the investment and stewardship process, and, most importantly, into strategic planning decisions at the board and investment level.

Measuring portfolio alignment to net-zero

Investors require a framework to determine the alignment of a company, industry or an entire investment portfolio with net-zero goals. Tools such as the NZIF, AOA Target Setting Protocol[8], and the SBTi Finance Net-Zero Guide[9] all provide useful frameworks for portfolio alignment assessment and metrics to enable investors to assess the position of their assets or portfolios on the path to net-zero. Climate Action 100+ Net Zero Company benchmark, SBTi, and the Transition Pathways Initiative assessments tools also provide some metrics relevant to assessing certain company and industry alignment. By using metrics that are comparable, an investor should be able to allocate capital more effectively to support the attainment of targets, and engage with companies to facilitate emissions reductions, or changes in business strategy, where a business model is incompatible with a low carbon transition.

For investors in Tiers 3 and 4 of the Investment sub-focus area (*Measuring portfolio alignment to net-zero goals*) of the ICAPs Expectations Ladder, this might mean using simple binary indicators (off-track/on-track) to measure alignment of their investments against net-zero targets. More advanced investors should consider using tools, such as the Climate Action 100+ company benchmark[10], to report the degree of deviation of investments from sectoral or geographical benchmarks, and consider potential additional metrics linked to capital expenditure, carbon adjusted return on capital, executive compensation, and long-term incentive plan design.

8 AOA Target Setting Protocol: https://www.unepfi.org/net-zero-alliance/resources/alliance-2025-target-setting-protocol/

9 SBTi Finance Net-Zero Guide: https://sciencebasedtargets.org/net-zero-for-financial-institutions

10 Climate Action 100+ Company Benchmark: https://www.climateaction100.org/net-zero-company-benchmark/ Basel Committee on Banking Supervision (2021), 'Climate-related risk drivers and their transmission channels:' https://www.bis.org/bcbs/publ/d517.pdf

Asset allocation

As part of the process of achieving net-zero goals, investors need to increase the level of investment in low carbon activities, clean energy, and nature-based solutions while also reducing investment in emissions intensive activities and engaging with firms that have the strongest potential to decarbonize the energy system. There are a growing number of taxonomies and frameworks for assessing whether an investment can be classified as clean energy, low carbon, or net-zero compliant. The European Union's Sustainable Finance Taxonomy[11] and associated benchmark regulations[12] have already set new expectations for sustainability and climate alignment reporting by investors and other financial services sector actors. Similar taxonomies are being developed in other jurisdictions, with Australia, New Zealand, China, ASEAN, South Korea and Singapore, amongst others, all developing a form of sustainable finance taxonomy. There are also a number of initiatives to find common ground between these national/regional taxonomies, including at the International Sustainability Standards Board[13].

"The Investor Agenda encourages investors to commit to phasing out their investments in thermal coal activities"

(specifically thermal coal mining and coal-fired power generation) in line with credible 1.5ºC-aligned emissions pathways. However, the Investor Agenda has not defined formal thresholds for these exclusions. Investors (specifically thermal coal mining and coal-fired power generation) in line with credible 1.5°C-aligned emissions pathways such as the IEA 2050 Net Zero Roadmap[14]. However, the Investor Agenda has not defined formal thresholds for exclusions of coal or other fossil fuels, or the scale of capital reallocation required into clean energy. Fossil fuel phase-out and asset retirement strategies will be region and technology specific. There is also ongoing work underway on defining transition finance and managed phase out plans for high emitting assets. Beyond coal, investors are increasingly setting expectations for the oil and gas sector, including work on the responsible retirement of potential stranded assets and ending investments in certain types of new oil and gas assets[15]. A more systematic focus on fossil fuel-related emissions extends to fossil fuel value chains, from petrochemicals[16] to plastic waste[17], and demand reduction strategies[18].

"The requirement to integrate climate-related risks and opportunities into portfolio analysis and in the investment decision-making processes will inform investment strategy across asset classes."

In response to climate risk scenario analysis and other forward-looking climate strategies, investors may decide to reduce or exit their holdings in fossil fuel companies. Alternatively, the results of climate risk scenario analysis and portfolio alignment efforts may also lead investors to engage with high emitting companies to encourage corporate strategies that align these businesses with achieving the goals of the Paris Agreement while continuing to create shareholder value. The discussion below explains how ICAPs can be useful in a number of core asset classes and then highlights useful tools and methodologies to help get started. Listed equity remains a focus for stewardship and net zero portfolio alignment strategies. This guidance considers additional asset classes where new approaches to climate target setting and implementation are still evolving.

11 European Union's Sustainable Finance Taxonomy: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en

12 'EU labels for benchmarks (climate, ESG) and benchmarks' ESG disclosures': https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-climate-benchmarks-and-benchmarks-esg-disclosures_en#:~:text=In%20order%20for%20benchmarks%20to,of%20the%20investable%20universe%2C%20they

13 'IFRS Foundation announces International Sustainability Standards Board, consolidation with CDSB and VRF, and publication of prototype disclosure requirements' (03.11.2021): https://www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes/

14 IEA (2021) 'Net Zero by 2050 A Roadmap for the Global Energy Sector': https://www.iea.org/reports/net-zero-by-2050

15 Allianz Statement on Oil and Gas Business Models: https://www.allianz.com/content/dam/onemarketing/azcom/Allianz_com/responsibility/documents/Allianz-Statement-oil-gas-business-models.pdf

16 Bauer, F. et al (2022) 'Petrochemicals and Climate Change: Tracing Globally Growing Emissions and Key Blind Spots in a Fossil-Based Industry': https://lucris.lub.lu.se/ws/portalfiles/portal/117494791/Petrochemicals_climate_change_review_web.pdf

17 'Investor Call for a Global Treaty on Plastic Pollution' (2022): https://static1.squarespace.com/static/59a706d4f5e2319b70240ef9/t/621ff5cd7913f30029bd0f6e/1646261710444/AsYouSow+Investor+Call+for+a+Global+Plastics+Treaty+at+UNEA+5.2_20220302.pdf

18 'Emergency measures can quickly cut global oil demand by 2.7 million barrels a day, reducing the risk of a damaging supply crunch' (18.03.2022): https://www.iea.org/news/emergency-measures-can-quickly-cut-global-oil-demand-by-2-7-million-barrels-a-day-reducing-the-risk-of-a-damaging-supply-crunch

Fixed income

Stewardship teams in many investment organizations cover both equities and bonds, yet more strategic decision making on climate change, including elements of the ICAPs framework are not yet a systematic part of fixed income climate strategy. A number of methodologies for climate target setting for bond investors provide guidance on how to begin[19]. Beyond portfolio carbon accounting and reweighting strategies, bond investors wield important stewardship tools to support company dialogues. Bonds need to be refinanced, and refinancing can be withheld. This creates potential leverage for bond investors. Equity, on the other hand, is permanent capital. Refusal to participate in refinancing the rollover of company bonds and issuer specific divestment are potentially effective escalation tools to encourage companies to be responsive to investor expectations on robust climate transition plans. Sector and industry-specific exclusions may be challenging to implement in practice, but the threat of divesting a specific issuer's bonds or refusal to refinance corporate debt may, in some cases, have a positive influence on issuers' climate action. Bond investors can consider engagement during investor roadshows, at the time of debt reissuance and in collaboration with other bond investors[20].

Private equity

Private equity investors are well equipped to draw on elements of the Expectations Ladder through the investment lifecycle. A series of public guidance documents[21] indicate that private equity GPs (General Partners) and LPs (Limited Partners) are moving towards greater consistency in integrating this asset class into their climate action plans. For direct investors – who acquire companies via a number of ownership structures – from passive, minority positions up to 100% control, there are a number of opportunities to engage with investee companies. Depending on the type of ownership structure and the investment time horizon, there are opportunities for direct private equity investors to better integrate climate metrics and targets. This can happen during the pre-acquisition and due diligence phase of an investment; during ownership; and at exit.

With the ability to identify and select portfolio companies and assets, direct investors are well positioned to incorporate climate change considerations in processes from deal origination, throughout due diligence and when executing on a deal. GPs and LPs can use this process to better understand each other's climate goals and to align on expectations for engagement and intended outcomes at exit. Each investor will have different levels of ambition and readiness to bring climate related data and targets into their process, so the descriptions below provide examples that will vary based on investor type and jurisdiction. In particular, GPs often manage multiple funds at the same time and each fund does not necessarily have its own standalone climate policy, so systematic integration of climate change considerations remains a challenge.

During the pre-acquisition phase, direct investors may choose to focus on measuring portfolio emissions and setting emissions reduction targets; establishing a formal policy on integrating climate change into investment analysis and decision-making; increasing investments in appropriate clean energy and climate solutions, and in 1.5°C-aligned companies; and conducting scenario analysis and climate due diligence to inform investment decisions. During the due diligence process, investors can identify opportunities for engaging investee companies and establish clear expectations for climate performance and monitoring in their deal documentation and business planning. Market conditions mean that GPs may not always be in a position to introduce additional performance metrics for target companies but this option can be considered, particularly at companies operating in high impact sectors such as energy, power utilities and transport.

19 https://www.parisalignedinvestment.org/media/2021/03/PAII_Net-Zero-Investment-Framework-1.0_Implementation-Guide.pdf; and PCAF: https://carbonaccountingfinancials.com/standard

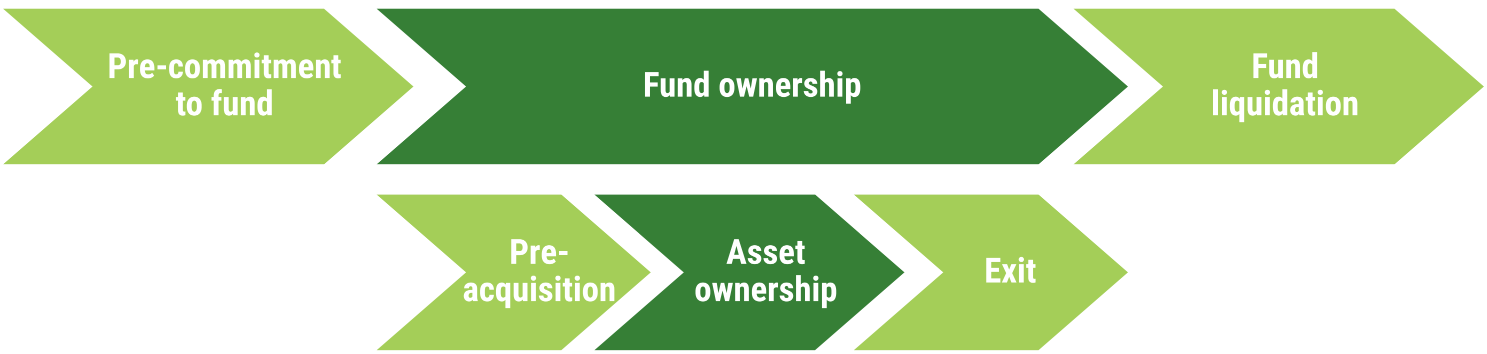
20 World Bank Group (2018). Incorporating Environmental, Social and Governance (ESG) Factors into Fixed Income Investment, p.10. Available online at: http://documents.worldbank.org/curated/en/913961524150628959/pdf/125442-REPL-PUBLIC-Incorporating-ESG-Factors-into-Fixed-IncomeInvestment-Final-April26-LowRes.pdf

21 'SBTi (2022) 'Private equity sector science-based target guidance': https://sciencebasedtargets.org/resources/files/SBTi-Private-Equity-Sector-Guidance.pdf; 'Greenhouse gas accounting and reporting for the private equity sector' (2022): https://www.erm.com/news/initiative-climat-international-publishes-new-standard-for-ghg-accounting-and-reporting-in-private-equity/

During the ownership phase, direct investors can engage directly with company management and boards to encourage better governance of climate-related targets, management and disclosure of greenhouse gas emissions, physical climate risks and business strategy linked to a 1.5°C transition, where relevant. GPs who have board seats can use these positions to actively engage with management teams to ensure climate is on the strategic planning agenda.

At exit, direct investors can focus on a consistent process for assessing the climate performance of investee companies, and on metrics for disclosing this performance. Investors can also address strategic exit considerations regarding climate change that may have arisen during the ownership phase. For example, where management teams do not have climate-related expertise or GPs have observed gaps in strategic planning on climate targets, these areas for improvement can be highlighted for further work by future owners.

Figure 1: ICAPs can be considered throughout three distinct phases of the investment lifecycle for direct and indirect private equity investors, as illustrated above.



Infrastructure

Infrastructure investors are essential to achieving the net zero targets and a just climate transition across markets, and particularly in developing economies[22]. As the world's largest infrastructure investors and the pension funds who provide capital to these firms increase their climate ambition and begin to report against net zero pledges, the ICAPs framework can provide a useful tool to structure this process.

22 'Climate Infrastructure Investing: Risks and Opportunities for Unlisted Renewables' (2022): https://www.iea.org/reports/climate-infrastructure-investing-risks-and-opportunities-for-unlisted-renewables

Finance for climate solutions and innovation

Investments in climate solutions, needed in nearly every sector to reach net-zero emissions for the global economy by 2050, can help investors mitigate the systemic risks of climate change, hedge against risks to their carbon intensive investments, and reap opportunities for diversification and strong returns as the world economy transitions. Climate solutions can be capital intensive and range from mature and scalable solutions to new technologies in areas such as carbon capture, hydrogen-fuel, and bioenergy, which will be necessary for a resilient transition to net zero.

There are a variety of approaches to scaling up investments in climate solutions that can be undertaken. The Net Zero Investment Framework proposes setting "a <10-year goal for allocation to climate solutions representing a percentage of revenues or capex from AUM (based on EU taxonomy mitigation criteria), increasing over time, in line with investment trajectories based on a net zero pathway[23]."

In Focus: New York State Common Retirement Fund's Climate Finance Commitment

The New York State Common Retirement Fund (the Fund), one of the largest public pension funds in the US and recently valued at around $279.7 billion, has long been a cutting-edge sustainable investment leader. In 2020, in order to protect the fund's long-term value, the Fund adopted an ambitious goal to transition its portfolio to net-zero greenhouse gas emissions by 2040. This pledge is the natural extension of the Fund's groundbreaking 2019 Climate Action Plan[24], which takes a comprehensive, multi-faceted approach to addressing climate-change related investment risk and capitalizing on opportunities in the low-carbon economy.

The Plan calls for creating a formal, multi-asset-class Sustainable Investment & Climate Solutions (SICS) program with dedicated staff to pursue climate solution investments and for doubling investments in SICS from $10 billion to $20 billion across all asset classes. The Fund's April 2021 Progress Report on the Climate Action Plan describes recent SICS investments including an approximately $300 million commitment to Copenhagen Infrastructure Partners IV. This investment will focus on renewable assets, including onshore and offshore wind and solar, as well as climate infrastructure assets that support renewable power. In December 2021, the Fund announced a new allocation and investment of $2 billion in the FTSE Russell's Russell 1000 TPI Climate Transition Index (CTI), within its internally managed public equity portfolio.

As investors commit larger portions of their funds to climate solutions, de-risking mechanisms are a necessary component to scaling the needed capital. De-risking investments in climate solutions can be achieved via public-private partnerships (shared/split ownership of large infrastructure investments), as well as through blended finance structures (combining public and private capital to promote investments in emerging markets). At the G20, public sector support for clean energy continues to lag far behind global fossil fuel subsidies[25], but more government policy alignment with climate goals could support investors to shift the balance in favor of clean energy. Blended finance may be one of the most important ways to "tip the scales", making assets like sustainable infrastructure in emerging markets investable by largescale, mainstream capital. Instruments like guarantees, insurance, currency hedging, technical assistance grants and first loss capital from development agencies, development banks and forward-leaning foundations are crowding in commercial investment for developing countries. Clean energy, urban resilience and sustainable land-use can all benefit.

23 https://www.parisalignedinvestment.org/

Corporate CAPEX alignment with climate pledges

Alongside increasing investments in climate solutions, investors must also engage their portfolio companies to ensure their capital expenditure (CAPEX) spending is aligned with what is needed to transition to a net zero pathway and enable the required CAPEX investment into the solutions needed to decarbonize their broader sector in a timely manner. Companies will increasingly need to think holistically and ensure their capital allocation decisions reflect their climate and related ESG commitments as the net zero transition intensifies and increasing stakeholder pressure is put on companies[26]. Indicator 6, 'Capital Expenditure' of the Climate Action 100+ Net Zero Company Benchmark[27] outlines useful indicators to assess if a portfolio companies CAPEX investment is aligned with a net zero economy. From 2022, CDP's questionnaire will collect this data from disclosing companies.

26 'Powerful investor group finds net zero pledges distant and hollow' (22.03.2022): https://www.ft.com/content/12fd1c09-61fb-444e-a9cc-0b50fe0ea411

27 https://www.climateaction100.org/net-zero-company-benchmark/

Additional target-setting considerations

Once risks and opportunities have been identified and familiarity gained with scenario analysis, investors should set targets for decarbonization and real economy impact. Setting achievable and consistent targets is often one of the most challenging actions for investors. Nevertheless, target setting is essential to jump-start action and ensure that climate plans inform strategic planning. Targets are also a tool to maintain accountability and to enable investors to measure their own progress. Target-setting for investor climate action should focus on setting targets related to reducing greenhouse gas (GHG) emissions in the real economy consistent with the best available science.

Targets should focus on emissions reductions that are consistent with achieving a given temperature outcome trajectory such as 2ºC, well below 2ºC (or 1.7ºC) or preferably 1.5ºC, as referred to in the Paris Agreement. "Net-zero by 2050 or sooner" is a widely used short-hand term for emissions reduction alignment targets in line with 1.5ºC of warming. For targets to be useful, intermediate shorter-term targets are needed. Near term targets that align with existing strategic planning and incentive plan design allow the investment managers, asset owners and other stakeholders to track progress towards long-term targets and to ensure that action is built into existing corporate governance systems. In terms of best practice, the Investor Agenda recommends that a long-term net-zero target be supplemented by shorter-term and intermediate targets set at five yearly intervals.

Figure 2: The Net Zero Asset Owner Alliance's four-part target setting approach provides an example of how large asset owners in Tier 1 of the Expectations Ladder are approaching the target setting and reporting process. Source: Target Setting Protocol.

Short-term targets for 1.5°C aligned, net-zero world by 2050 with real-world impacts

Engagement targets

- **Engage with 20 companies** focusing on those with highest owned emissions or those responsible for combined 65% owned emissions in portfolio (either directly, collectively, or via asset manager).
- **Contribute to:**
  - **Asset Manager Engagement:** Each member to participate in at least one engagement led by the Alliance.
  - **Alliance positions:** Each member, where possible, to participate in Alliance position paper creation.

Sector targets

- Intensity-based/absolute-reductions on all material sectors.
- Scope 3 to be included wherever possible.
- Sector specific intensity KPIs recommended.
- Sectoral Decarbonization Pathways used to set targets.

Sub-portfolio (later portfolio) emission targets

- 22 to 32% CO_2e reduction by 2025 (per IPCC 1.5°C SR scenarious) on equity and debt to listed corporates, infrastructure, and with the same reduction or CRREM national pathways for real estate.
- 49 to 65% CO_2e reduction by 2030 (per IPCC 1.5°C SR scenarious).
- Covers portfolio emissions Scope 1 & 2, tracking of Scope 3.
- Absolute or intensity-based reduction KPIs.

Financing transition targets

- Reporting progress on a climate-positive trend for all Alliance members internally to the Alliance; an individual public quantitative progress target is optional for members.
- Contribution to Alliance's financing transition sub-work tracks, for example, supporting activities to provide greater transparency, build solutions or enhance climate solution reporting.

Figure 3: PAII Net Zero Investment Framework approach for setting objectives and targets at the portfolio and asset class level for asset owners or managers in Tier 1 of the Expectations Ladder.

Portfolio level, top-down reference targets in line with science-based net zero pathways

- A < 10-year CO_2e emission reduction target (scope 1+2*) covering listed equity, fixed income, real estate

  Expressed in absolute or intensity terms (CO_2e/$mn invested)

- A < 10-year goal for allocation to climate solutions representing a percentage of revenues or capex from AUM (based on EU taxonomy mitigation criteria)

- Measure current absolute emissions & emissions intensity of the portfolio *and* allocation to climate solutions.
- *Scope 3 to be phased in over time; Scope 3 targets set and measured separately.
- Assess global, sector and regional pathways (as far as current pathay development allows). Set additional targets (optional)
- Demonstrate how targets have been determined & meet absolute emissions reductions (accounting for non-relevant variables) and investment trajectories over time
- Review and revise targets every 5 years

Asset class level, bottom-up target and objective in line with science-based net zero pathways

- A 5-year goal for increasing % AUM invested in assets in material sectors that are:
  i) net zero, or meeting criteria to be considered
  ii) 'aligned'
  iii) 'aligning' to net zero

- A minimum coverage threshold of 70% of emissions in material sectors are either:
  i) net zero,
  ii) aligned, or subject of direct or collective engagement and stewardship actions.

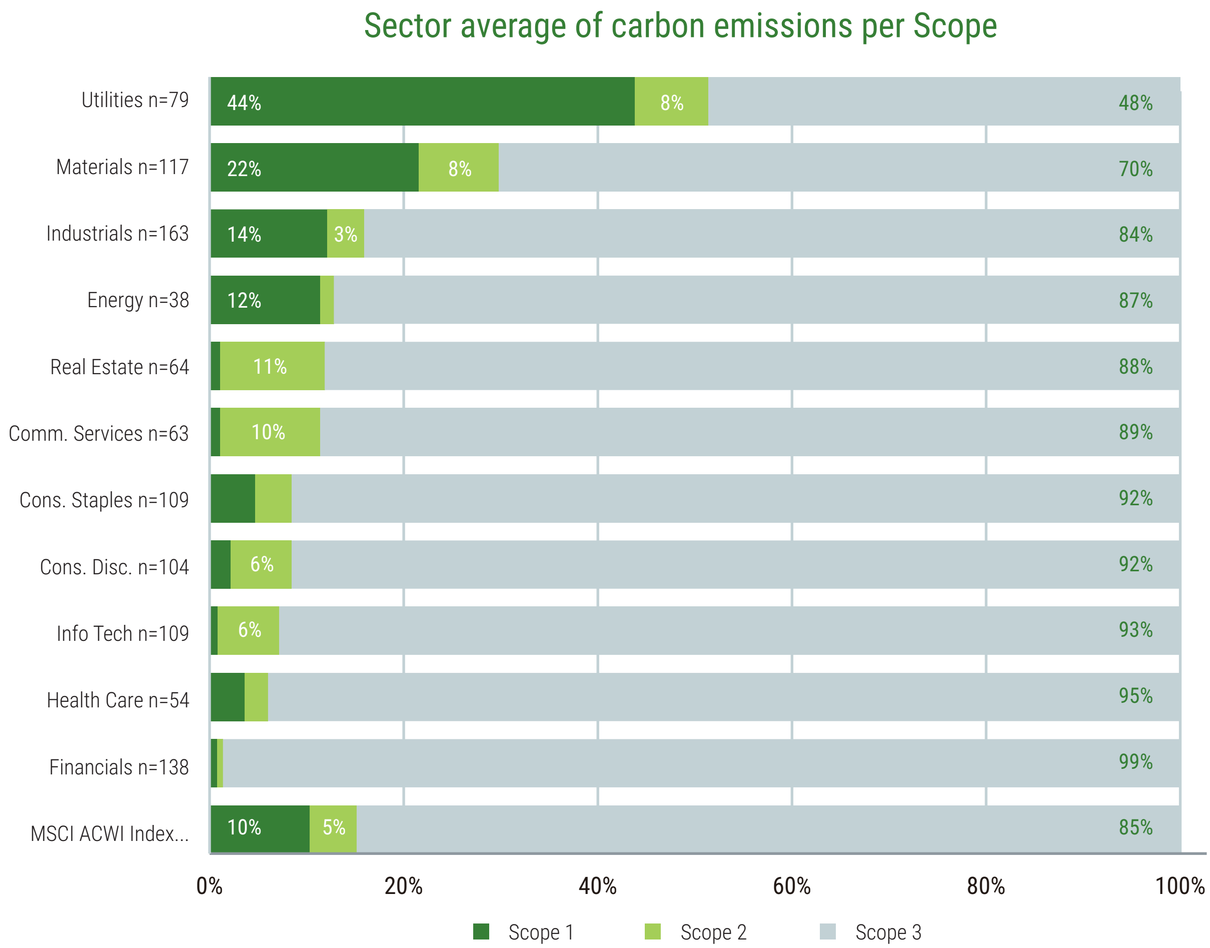
- Assess the current proportion of assets already
  i) net zero,
  ii) aligned,
  iii) aligning,
  iv) not aligned/transitioning.
- Increase alignment target towards the goal of 100% of assets to be
  i) net zero, or
  ii) aligned, by 2040
- Determine the maximum extent to which portfolio construction can be adjusted and the rate at which assets are expected to respond to engagement strategies.
- Increase threshold target to at least 90% by 2030, at the latest. Disclose the proportion of assets considered:
  i) net zero, and
  ii) aligned, separately to assets under engagement/stewardship.

Initially, targets can be set for industries, asset classes and financial instruments with clear methodologies including public equities, corporate debt, auto loans and mortgages[28], infrastructure and real estate. Additional methodologies remain under development, including those for sovereign debt, private equity and infrastructure. Generally, investors start by setting targets for the Scope 1 and 2 emissions of a company, industry, or portfolio assets, including Scope 3 emissions where these are a significant portion of a sector emissions profile, such as in energy or finance[29].

28 https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard-exec-summary.pdf

29 'Which Scope 3 Emissions Will the SEC Deem 'Material'?' (28.04.2022): https://www.msci.com/www/blog-posts/which-scope-3-emissions-will/03153333292. The US SEC indicates that large listed companies will likely be "required to disclose GHG emissions from upstream and downstream activities in its value chain (Scope 3), if material or if the registrant has set a GHG emissions target or goal that includes Scope 3 emissions. See 'SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors' (21.03.2022): https://www.sec.gov/news/press-release/2022-46

Figure 4: MSCI diagram illustrates the importance of including Scope 3 emissions when planning emissions targets and creating action plans, both internally and at investee companies.



As investors move towards Tiers 1 and 2 of the ICAPs Expectations Ladder, they should establish net-zero aligned targets for high impact sectors and they should also set targets for increasing their investments in appropriate clean energy and climate solution opportunities (such as those being defined in national and regional taxonomies, such as those listed in the Selected Resources below).

Sector pathways and real economy impacts

Investors need to be willing to engage with different sectors of the economy to meaningfully manage their own portfolio alignment targets. It will be impossible for investors to meet their targets if the underlying portfolio companies and assets in different sectors of the economy are not transitioning rapidly to a low carbon business model. This includes prioritizing the highest emitting sectors in their portfolios for analysis and engagement. A clear position should be developed on engaging high emitting investments (including adopting a formal fossil fuel policy), consistent with any climate pledges made. More recently the International Energy Agency (IEA) Roadmap to Net Zero has set out a clear scenario necessitating rapid phase out of a number of fossil fuel related activities. Therefore, investors should adopt a robust and science-based policy for the organization in relation to fossil fuel phase out. This policy may also recognize the need for a just transition in countries or regions where there is significant dependence on thermal coal power or mining and reflect regional differences in speed of phase out consistent with 1.5°C scenarios.

The most important sectors of the economy for an investor to engage with will depend on their own portfolio holdings and relationships, transition plan and targets, and the regional context in which they operate and invest. To align portfolios to net-zero pathways, investors need to collect both top-down and bottom-up information on companies. Top-down information includes data provided by the scientific community on what the technologically and economically feasible pathways are for each sector of the economy and region. Bottom-up information is typically provided by industry groups on what is technologically and economically feasible. This information forms the overall picture of sectors across the portfolio. This then needs to be assessed for an investor to set a portfolio alignment target.

Once sector level emissions are understood and relevant subsector targets are set, investors can look to engage companies in the portfolio to understand the key risks and financing opportunities. Finally, investors should supplement these investment-related emission reduction targets with engagement targets with the companies and other entities that they hold.

In Focus: Sector Pathway case study on Asian utilities

Due to their carbon-intensive nature, Asian electric utilities are of particular concern since they contribute around 23 percent of global carbon emissions and have a young asset age profile of around 13 years (vs an average economic lifetime of 40 years). AIGCC launched an Asian Utilities Engagement Program, supported by 13 investors representing over $8.8trn in assets under management, in 2021.

Given regional differences in historical emissions and development stages, the Paris Agreement includes the principle of common but differentiated responsibilities, whereby developed nations are expected to reduce emissions more ambitiously. A fair share approach to carbon budgets would require faster decarbonization of companies in developed regions.

Globally recognized regional and sector pathways are vital for investor engagement with utilities. For example, to discern whether forward looking business plans are aligned with achieving the Paris Agreement, investors can work with companies so that their own scenario analyses are in line with these scenarios to allow for consistency and comparability of risk assessments between issuers. The below reference scenarios were extracted from AIGCC's Investor Expectations for Asian Electric Utilities with updates.

Transition Pathway Initiatives (TPI)

TPI has adopted the Sector Decarbonization Approach (SDA), which takes a sector-by-sector approach, comparing companies within each sector against each other and against sector-specific benchmarks to establish whether the performance of a company is aligned with international emissions targets. While companies will have different initial emissions intensities, a fundamental tenet of the SDA approach is that all companies in a sector are required to converge to the average emissions intensity in 2050.

TPI recently published regional pathways for utilities- in its analysis, to align with 1.5°C, utilities in OECD countries must reach net zero by 2035, while those in non-OECD countries by 2040. Carbon performance assessment of electricity utilities using regional benchmarks can be downloaded from its online tool.

31 UN-convened Net-Zero Asset Owner Alliance and the European Climate Foundation, the One Earth Climate Model (OECM): https://www.unepfi.org/publications/one-earth-climate-model-sectoral-pathways-to-net-zero-emissions/

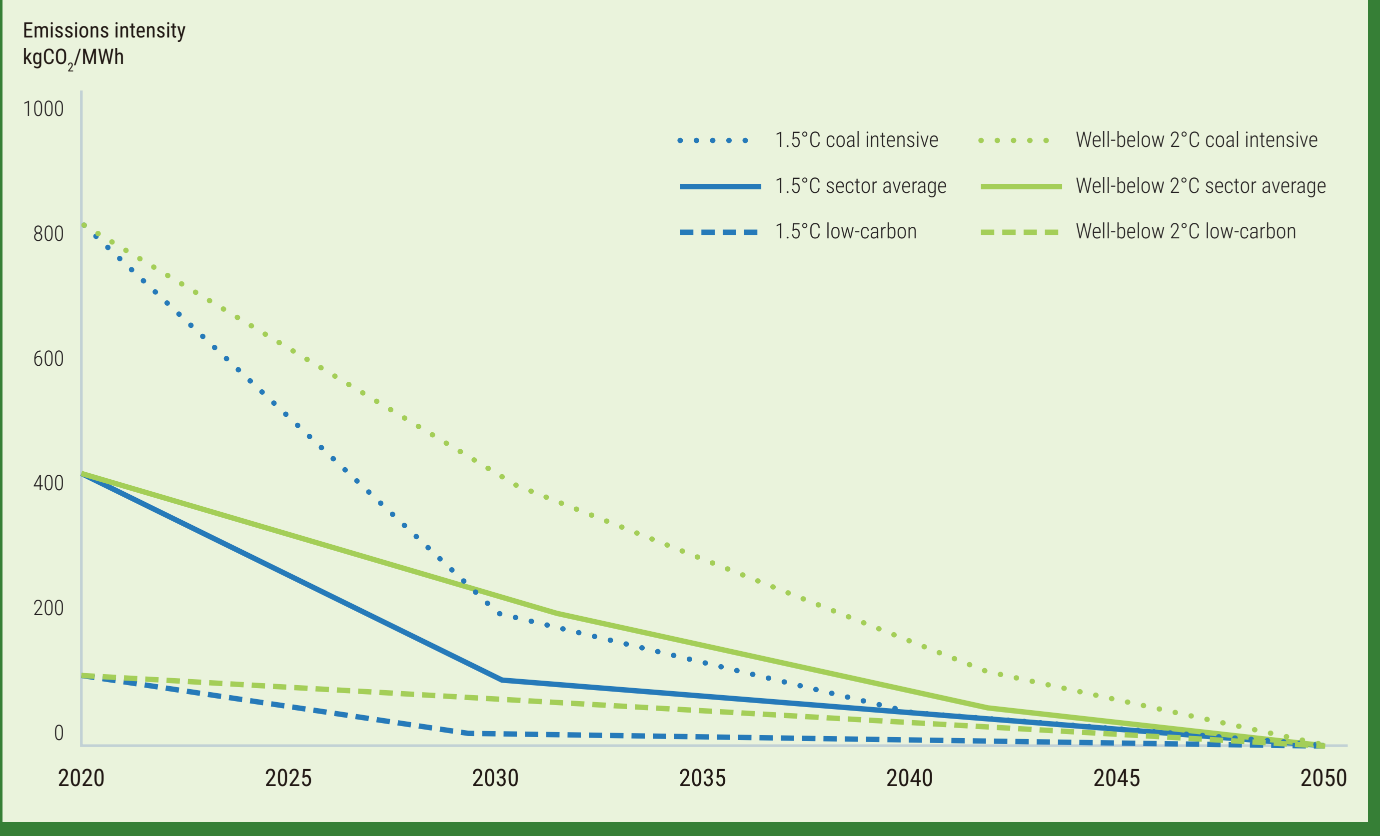
Science Based Target initiative (SBTi)

SBTi allocates carbon budgets to companies via two approaches:

- Convergence, where companies within a sector reduce their emissions intensity to converge at a common value at some point in the future; and
- Contraction, where companies reduce their absolute emissions at the same rate as the emissions reduction required by the global carbon budget. Companies can use the SBTi target setting tool to determine their individual emissions targets.

Using the former approach, SBTi calculates that to meet a 1.5°C scenario, emissions intensity from power generation would have to decrease 76% from 2020 to 2030, reaching 0.1 tCO_2/MWh in 2030.

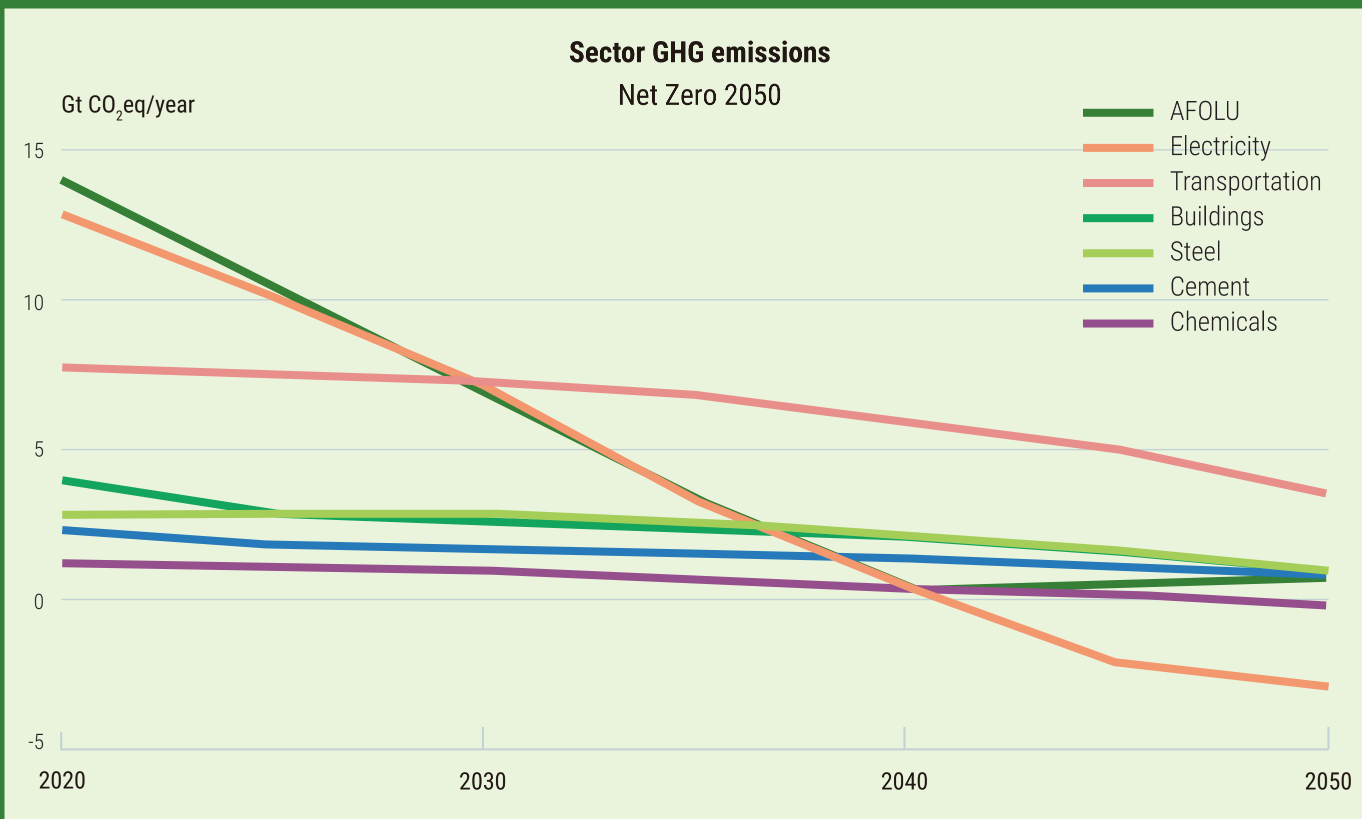
Emissions intensities of utilities using SBTi Target Setting Tool for coal-intensive utilities



Source: Science-Based Target initiative (SBTi)

The Central Banks and Supervisors Network for Greening the Financial System (NGFS)

NGFS published its latest set of climate scenarios in 2021, exploring scenarios of an orderly transition (global warming of 1.5-2°C), a disorderly transition (global warming of 2-3°C), and a hot house world (global warming of 3°C+). A downscaling methodology was developed to assess the potential implications of the scenarios for 132 countries. Pathways for different sectors were also outlined:



Source: NGFS Climate Scenarios for Central Banks and Supervisors (June 2021, p.14)

One Earth Climate Model (OECM)

Commissioned by the UN-convened Net-Zero Asset Owner Alliance and the European Climate Foundation, the One Earth Climate Model (OECM) provides a comprehensive roadmap for sectoral decarbonization. By clearly defining scope 3 emissions, while avoiding double-counting, the model and the latest results offer detailed and standardized net-zero pathways for 12 industry sectors[31]. The OECM is an integrated energy assessment model with which net-zero targets can be developed, based on science, for all major industries in a granularity and with the key performance indicators (KPI) required to make short-, mid-, and long-term investment decisions. The 1.5 ˚C-directed emissions pathways are based no- or low-overshoot scenarios, as defined by the Intergovernmental Panel on Climate Change (IPCC). This means that a carbon budget overshoot is avoided, and that the CO_2 already released is not assumed to be 'removed' by unproven technologies still under development, such as carbon capture and storage (CCS). This model can inform robust investor scenario analysis and strategies.

Selected Resources

Investment Focus Area	Description	Tools, Methodologies and Resources
Strategy	**Investment Policy** These resources provide an overview of how an investor can develop a responsible investment policy. Investors who are more advanced may focus on refining their position on topics such as thermal coal or Just Transition (see below).	AIGCC (2018), *Integrating Climate Change into Investment Strategy: A Guide for Investors* https://www.aigcc.net/wp-content/uploads/2020/07/AIGCC-CC-Guide-Design-Final.pdf AOA (UN-Convened Net Zero Asset Owner Alliance) (2020), *Alliance Thermal Coal Position* https://www.unepfi.org/publications/aoapublication/alliance-thermal-coal-position/ PRI (2018), *An Introduction to Responsible Investment: Policy, Structure and Process* https://www.unpri.org/download?ac=10224 PRI (2018), *What is Responsible Investment?* https://www.unpri.org/download?ac=10223 PRI (2020), *An Introduction to Responsible Investment: Climate Change for Asset Owners* https://www.unpri.org/an-introduction-to-responsible-investment/an-introduction-to-responsible-investment-climate-change-for-asset-owners/5981.article PRI (2018), *Asset owner strategy guide: How to craft an investment strategy - Principles for Responsible Investment* https://www.unpri.org/download?ac=4336
	Just Transition These resources provide guidance to investors, seeking to incorporate just transition principles into their climate related investment strategy.	Business & Human Rights Resource Centre (2019): *Fast & Fair Renewable Energy Investments: A Practical Guide for Investors* https://old.business-humanrights.org/en/fast-fair-renewable-energy-a-practical-guide-for-investors Ceres (2020), *Practices for Just, Sustainable and Equitable Development of Clean Energy* https://www.ceres.org/resources/reports/practices-just-sustainable-and-equitable-development-clean-energy Grantham Research Institute on Climate Change and the Environment (LSE), Harvard Kennedy School Initiative for Responsible Investment, PRI and ITUC (2018), *Climate Change and the Just Transition: A Guide for Investors* https://www.unpri.org/download?ac=9452 Grantham Research Institute on Climate Change and the Environment (LSE), Centre for Climate Change, Economics and Policy, Initiative for Responsible Investment, Harvard Kennedy School Initiative for Responsible Investment (2018), *Investing in a just transition – Why investors need to integrate a social dimension into their climate strategies and how they could take action* https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2018/06/Robins-et-al_Investing-in-a-Just-Transition.pdf IGCC (2021), *Empowering Communities: How Investors can Support an Equitable Transition to Net-Zero* https://igcc.org.au/wp-content/uploads/2021/07/IGCC-Investors-role-in-an-Equitable-Transition-to-net-zero-emissions_FINAL-150720211-copy.pdf IGCC (2017), *Coal, Carbon and the Community: An Investor Guide to a Just Transition* https://igcc.org.au/wp-content/uploads/2020/06/Coal-Carbon-and-Community_FINAL.pdf ILO (2015), *Guidelines for a Just Transition Towards Environmentally Sustainable Economies and Societies for All* https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_432859.pdf PRI (2020), *Just Transition Investor Statement* https://www.unpri.org/download?ac=10382 Robins et al (2018), *Investing in a just transition: Why investors need to integrate a social dimension into their climate strategies and how they could take action* https://www.lse.ac.uk/granthaminstitute/publication/investing-in-a-just-transition-why-investors-need-to-integrate-a-social-dimension-into-their-climate-strategies-and-how-they-could-take-action/

Investment Focus Area	Description	Tools, Methodologies and Resources
Strategy	Nature & Biodiversity	ACSI (2021), *'Biodiversity - Unlocking natural capital value for investors'* https://acsi.org.au/research-reports/biodiversity-unlocking-natural-capital-value-for-investors/ CDSB (2021), *CDSB Framework Application guidance for biodiversity-related disclosures* https://www.cdsb.net/biodiversity Ceres (2022), *Evaluating the Use of Carbon Credits* https://www.ceres.org/resources/reports/evaluating-use-carbon-credits OECD (2020), *A Comprehensive Overview of Global Biodiversity Finance* https://www.oecd.org/environment/resources/biodiversity/report-a-comprehensive-overview-of-global-biodiversity-finance.pdf OMFIF (2020), *Protect nature, protect the economy. How the financial sector can safeguard biodiversity* https://www.omfif.org/spi-dec2020/ PRI (2021), *'Mapping natural capital hotspots of depletion'*: https://www.unpri.org/pri-blog/mapping-natural-capital-hotspots-of-depletion/7666.article PRI, *'Investor Action on Biodiversity: discussion paper:'* https://www.unpri.org/download?ac=11357 TNFD, *Developing and delivering a risk management and disclosure framework for organisations to report and act on evolving nature-related risks* *https://tnfd.global/* UNEP FI, *Agricultural lending* https://www.unepfi.org/nature/ncfa/natural-capital-credit-risk-assessment-in-agricultural-lending/ UNEP FI, *Beyond 'business as usual': biodiversity targets and finance* https://www.unepfi.org/publications/banking-publications/beyond-business-as-usual-biodiversity-targets-and-finance/ UNEP FI, *Nature-positive finance guidance* https://www.unepfi.org/publications/new-nature-positive-finance-guidance/ WWF & PWC (2020), *Nature is too big to fail. Biodiversity: the next frontier in financial risk management* https://www.wwf.ch/sites/default/files/doc-2020-01/Nature%20is%20too%20big%20to%20fail_EN_web.pdf
	Adaptation & Resilience	AIGCC (2021), *Riding the Wave of Physical Risk- A compendium of tools and service providers for investors in Asia* https://www.aigcc.net/wp-content/uploads/2021/10/AIGCC_Riding-the-wave-of-physical-risks_2021_FINAL.pdf CGFI (2021), *Discussion paper: "aligning finance with climate-resilient development"* https://www.cgfi.ac.uk/2021/11/discussion-paper-aligning-finance-with-climate-resilient-development/ IIGCC (2020), *'Understanding physical climate risks and opportunities – a guide for investors'* https://www.iigcc.org/resource/understanding-physical-climate-risks-and-opportunities-a-guide-for-investors/ Sustainable Land Use, *Good Growth Partnership* https://goodgrowthpartnership.com/ *The GEF* https://www.thegef.org/projects-operations/projects/9264
	Water	European Commission, commissioned by the Swiss Federal Office for the Environment (2020), *An Investor Guide on Basin Water Security Engagement: Aligning with SDG 6* https://www.bafu.admin.ch/dam/bafu/en/dokumente/wirtschaft-konsum/externe-studien-berichte/an-investor-guide-on-basin-water-security-engagement-aligning-with-sdg6.pdf.download.pdf/Report_Water_Alignment.pdf Valuing water initiative https://valuingwaterinitiative.org/ UNEP FI, *The Sustainable Blue Economy Finance Principles* https://www.unepfi.org/blue-finance/the-principles/ UNEP FI, *Turning the tide: how to finance a sustainable ocean recovery* https://www.unepfi.org/publications/turning-the-tide/ UNEP FI, *The Rising Tide: Mapping Ocean Finance for a New Decade* https://www.unepfi.org/publications/rising-tide/ UNEP FI, *Sustainable Blue Economy* https://www.unepfi.org/blue-finance/

Investment Focus Area	Description	Tools, Methodologies and Resources
	Deforestation	CDP (2020), *Global Forests Report* https://www.cdp.net/en/research/global-reports/global-forests-report-2020 Ceres, *Engagement initiative—Food Emissions 50* https://www.ceres.org/climate/ambition2030/food#investor-resources UNEP FI, *Drought stress testing* https://www.unepfi.org/nature/ncfa/drought-stress-testing-tool/ UNEP FI, *Natural capital protocol – finance sector* https://www.unepfi.org/nature/ncfa/natural-capital-protocol-finance-sector-supplement/
Risk management	**Carbon accounting** These resources provide guidance on measuring carbon emissions.	Greenhouse Gas Protocol (2004), *The GHG Protocol, Corporate Accounting and Reporting Standard* https://ghgprotocol.org/corporate-standard Greenhouse Gas Protocol (2015), *GHG Protocol: Scope 2 Guidance* https://ghgprotocol.org/scope_2_guidance Partnership for Carbon Accounting Financials (PCAF) https://carbonaccountingfinancials.com/ UNEP FI (2021), *The Climate Risk Landscape: Mapping Climate-related Financial Risk Assessment Methodologies* https://www.unepfi.org/wordpress/wp-content/uploads/2021/02/UNEP-FI-The-Climate-Risk-Landscape.pdf
	Scenario analysis These resources provide guidance on climate scenario analysis.	AOA (UN-Convened Net Zero Asset Owner Alliance) (2021), *Inaugural 2025 Target Setting Protocol, Scenario Chapter* https://www.unepfi.org/wordpress/wp-content/uploads/2021/01/Alliance-Target-Setting-Protocol-2021.pdf Climate Financial Risk Forum (2020), *Climate Financial Risk Forum Guide 2020: Scenario Analysis Chapter. June 2020* https://www.fca.org.uk/publication/corporate/climate-financial-risk-forum-guide-2020-scenario-analysis-chapter.pdf Intergovernmental Panel on Climate Change (IPCC) (2018), *Special Report: Global Warming of 1.5ºC* https://www.ipcc.ch/sr15/ IIGCC (2019), *Navigating Climate Scenario Analysis – A Guide for Institutional Investors* https://www.iigcc.org/resource/navigating-climate-scenario-analysis-a-guide-for-institutional-investors/ NGFS (2020), *Guide to Climate Scenario Analysis for Central Banks and Supervisors* https://www.ngfs.net/sites/default/files/medias/documents/ngfs_guide_scenario_analysis_final.pdf PRI (2021), *The Inevitable Policy Response* https://www.unpri.org/inevitable-policy-response/what-is-the-inevitable-policy-response/4787.article TCFD (2020), *Guidance on Scenario Analysis for Non-Financial Companies* https://www.fsb-tcfd.org/publications/#scenario-analysis UNEP FI (2019), *Changing Course: A Comprehensive Investor Guide to Scenario-Based Methods for Climate Risk Assessment* https://www.unepfi.org/publications/investment-publications/changing-course-a-comprehensive-investor-guide-to-scenario based-methods-for-climate-risk-assessment-in-response-to-the-tcfd/ UNEP FI (2019), *Changing Course: Real Estate – TCFD Pilot Project Report and Investor Guide to Scenario Based Climate Risk Assessment in Real Estate Portfolios* https://www.unepfi.org/publications/changing-course-real-estate-tcfd-pilot-project-report-and-investor-guide-to-scenario-based-climate-risk-assessment-in-real-estate-portfolios/ UNEP-FI (2022), *One Earth Climate Model: sectoral pathways to net-zero emissions* https://www.unepfi.org/publications/one-earth-climate-model-sectoral-pathways-to-net-zero-emissions/ UNEP FI (2021), *The Climate Risk Landscape: A Comprehensive Overview of Climate Risk Assessment Methodologies* https://www.unepfi.org/wordpress/wp-content/uploads/2021/02/UNEP-FI-The-Climate-Risk-Landscape.pdf The PRI website (https://www.unpri.org/climate-change/providers-of-scenario-analysis-and-climate-risk-metrics/9135.article) provides a list of the public and service provider scenario analysis tools supported by PRI. The PRI website also provides a table of reference scenarios, including details of the maximum temperature rise envisaged under the scenario, the year of peak emissions and the year in which net-zero is expected to be achieved.

Investment Focus Area	Description	Tools, Methodologies and Resources
Risk management	**Portfolio climate risk management** These resources describe portfolio risk management approaches for different asset classes and investor types.	For a range of examples of how investors are approaching portfolio climate risk management, see the Portfolio Climate Risk Management Case studies published by AIGCC, Ceres, IGCC and IIGCC: https://www.ceres.org/resources/reports/portfolio-climate-risk-management Other resources: Climate Financial Risk Forum (2020), *Climate Financial Risk Forum Guide 2020: Risk Management Chapter* https://www.fca.org.uk/publication/corporate/climate-financial-risk-forum-guide-2020-risk-management-chapter.pdf Portfolio Alignment Team (2020), *Measuring Portfolio Alignment* https://www.tcfdhub.org/wp-content/uploads/2020/10/PAT-Report-20201109-Final.pdf PRI (2020), *An Introduction to Responsible Investment: Climate Change for Asset Owners* https://www.unpri.org/an-introduction-to-responsible-investment/an-introduction-to-responsible-investment-climate-change-for-asset-owners/5981.article PRI (2020), *TCFD for Private Equity General Partners: Technical Guide* https://www.unpri.org/private-equity/tcfd-for-private-equity-general-partners/5546.article PRI (2021), *Inevitable Policy Response* https://www.unpri.org/sustainability-issues/climate-change/inevitable-policy-response UNEP FI (2019), *Changing Course: A Comprehensive Investor Guide to Scenario-Based Methods for Climate Risk Assessment* https://www.unepfi.org/publications/investment-publications/changing-course-a-comprehensive-investor-guide-to-scenario-based-methods-for-climate-risk-assessment-in-response-to-the-tcfd/
	Company and sectoral assessment methodologies	2 Degrees Investing Initiative https://2degrees-investing.org/resource/company-analysis-and-engagement/ Carbon Tracker Initiative https://carbontracker.org/company-profiles/ CDP company responses https://www.cdp.net/en/responses Climate Action 100+ Net Zero Company Benchmark https://www.climateaction100.org/ Science-based Targets Initiative https://sciencebasedtargets.org/sectors Transition Pathway Initiative https://www.transitionpathwayinitiative.org/ UNEP-FI, *One Earth Climate Model: sectoral pathways to net zero emissions:* https://www.unepfi.org/publications/one-earth-climate-model-sectoral-pathways-to-net-zero-emissions/ UNEP FI (2021), *The Climate Risk Landscape: Mapping Climate-related Financial Risk Assessment Methodologies* https://www.unepfi.org/publications/banking-publications/the-climate-risk-landscape/
	Impact	PRI, Freshfields Bruckhaus Deringer, UNEP FI, *generation foundation (2021), A Legal Framework for Impact: Sustainability impact in investor decision-making* https://www.unpri.org/policy/a-legal-framework-for-impact UNEP FI (2018), *Positive Impact Initiative (PII)* https://www.unepfi.org/wordpress/wp-content/uploads/2018/10/PI-Flyer-2019.pdf UNEP F1 (2018), *Rethinking Impact to finance the SDGs* https://www.unepfi.org/wordpress/wp-content/uploads/2018/11/Rethinking-Impact-to-Finance-the-SDGs.pdf UNEP FI, *Investment Portfolio Impact Analysis Tool* https://www.unepfi.org/publications/positive-impact-publications/investment-portfolio-impact-analysis-tool/ UNEP FI, *Corporate Impact Analysis Tool* https://www.unepfi.org/publications/positive-impact-publications/corporate-impact-tool/

Investment Focus Area	Description	Tools, Methodologies and Resources
Asset allocation	**Taxonomies** This identifies national and regional taxonomies that have been developed or are in the course of being developed for sustainable finance.	• Australia https://www.asfi.org.au/taxonomy • China http://www.pbc.gov.cn/en/3688110/3688172/4157443/4239595/index.html • European Union https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en • Japan https://www.meti.go.jp/english/press/2020/0916_001.html • Malaysia https://www.bnm.gov.my/documents/20124/938039/Climate+Change+and+Principle-based+Taxonomy.pdf • New Zealand https://www.theaotearoacircle.nz/sustainablefinance • Singapore https://www.mas.gov.sg/search?q=green%20transition%20taxonomy • United Kingdom https://www.greenfinanceinstitute.co.uk/programmes/uk-green-taxonomy-gtag/
	Clean energy and low carbon opportunities and phasing out investment in thermal coal These resources provide direction on how to ramp up investment in low carbon companies, products, and projects in multiple asset classes.	IIGCC (2022), *Climate Investment Roadmap: A tool to help investors accelerate the energy transition through investment and engagement,* https://www.iigcc.org/resource/climate-investment-roadmap-a-tool-to-help-investors-accelerate-the-energy-transition-through-investment-and-engagement/ AIGCC (2021), *Asia's Net-Zero Energy Investment Potential* https://www.aigcc.net/wp-content/uploads/2021/03/March-2021_-Asias-Net-Zero-Energy-Investment-Potential-English.pdf Climate Bonds Initiative (2021), *Climate Bonds Taxonomy* https://www.climatebonds.net/standard/taxonomy Climate Investment Coalition (2021), *Best Practice Case Studies* https://www.climateinvestmentcoalition.org/best-practice IGCC (2020), *Net Zero Investment Report* https://igcc.org.au/wp-content/uploads/2020/10/Oct2020__Final-IGCC-Net-Zero-Investment-Report.pdf IGCC (2018), *Investing in Climate Solutions for New Zealand* https://igcc.org.au/wp-content/uploads/2020/06/IGCC-NZ-report-final.pdf PRI (2018), *How to Invest in the Low Carbon Economy* https://www.unpri.org/climate-change/how-to-invest-in-the-low-carbon-economy/3210.article%C2%A0%C2%A0 PRI (2020), *Testing the Taxonomy: insights from the PRI Taxonomy Practitioners Group* https://www.unpri.org/eu-taxonomy-alignment-case-studies/testing-the-taxonomy-insights-from-the-pri-taxonomy-practitioners-group/6409.article PRI (2021), *Strategic Asset Allocation Guidance and Case Studies* https://www.unpri.org/investment-tools/asset-owner-resources/strategy-policy-and-strategic-asset-allocation PRI (2021), *Inevitable Policy Response: Implications for Strategic Asset Allocation* https://www.unpri.org/inevitable-policy-response-archive/implications-for-strategic-asset-allocation/5191.article Convergence Project, (2020), *How to Mobilize Private Investment At Scale in Blended Finance,* https://www.convergence.finance/resource/3cpgfofIUn2QY8rFEV2IFt/view NZAOA, Cambridge Associates, Clean Energy Ventures, Essex Investment Management (2021), *Equity Investing in Climate Solutions,* https://www.intentionalendowments.org/webinar_equity_climate_investing UNEP FI (2021), *Scaling Blended Finance*, https://www.unepfi.org/publications/scaling-blended-finance/

Investment Focus Area	Description	Tools, Methodologies and Resources
	Net-zero/1.5°C aligned Target setting For investors in Tier 1 and for some investors in Tier 2, these resources will provide guidance on how to ratchet up the ambition to setting net-zero targets.	AOA (2021), *Inaugural 2025 Target Setting Protocol* https://www.unepfi.org/wordpress/wp-content/uploads/2021/01/Alliance-Target-Setting-Protocol-2021.pdf CDP (2021), *CDP Temperature Ratings* https://www.cdp.net/en/investor/temperature-ratings IGCC (2020), *Zero Emissions/Sustainable Returns: Strategies for Achieving Net Zero Emissions* https://igcc.org.au/wp-content/uploads/2020/06/Feb2020_IGCC-Zero-Emissions_FINAL-2.pdf IGCC (2021), *Climate League 2030* https://climateleague.org.au/ Paris Aligned Investment Initiative (2021), *Net Zero Investment Framework: Implementation Guide* https://www.parisalignedinvestment.org/media/2021/03/PAII-Net-Zero-Investment-Framework_Implementation-Guide.pdf Race to Zero (2021), *Race to Zero Minimum Criteria* https://racetozero.unfccc.int/wp-content/uploads/2021/04/Race-to-Zero-Criteria-2.0.pdf Science Based Targets Initiative (2020), *Financial Sector Science-Based Targets Guidance. Pilot Version* https://sciencebasedtargets.org/resources/files/Financial-Sector-Science-Based-Targets-Guidance.pdf UNEP FI (2020), *Beyond 'Business as Usual': Biodiversity Targets and Finance* https://www.unepfi.org/publications/banking-publications/beyond-business-as-usual-biodiversity-targets-and-finance/
	Private equity These resources describe target-setting guidance and portfolio management related to private equity.	SBTi (2021), *Private equity sector science-based target guidance* https://sciencebasedtargets.org/resources/files/SBTi-Private-Equity-Sector-Guidance.pdf Paris Aligned Investment Initiative (2021), *Net Zero Investment Framework: Implementation Guide* https://www.parisalignedinvestment.org/media/2021/03/PAII-Net-Zero-Investment-Framework_Implementation-Guide.pdf

2

CORPORATE ENGAGEMENT

Engaging companies to drive and demonstrate real progress in line with a 1.5°c future.

Investors can directly influence corporate practices and performance on climate change. Part of this process will include requesting more consistent corporate reporting on climate disclosure, climate transition plans and related metrics, including greenhouse gas emissions alongside capital efficiency, capital allocation alignment, carbon-adjusted return on capital and other conventional measures of corporate financial performance. Collectively and individually, they have an essential role to play in accelerating the real economy transition to net-zero. Investors can leverage their influence to drive the boards and senior management of companies to take action to reduce GHG emissions across the value chain, consistent with the goals of the Paris Agreement.

The scope of Corporate Engagement is defined broadly. It includes:

- All assets and all asset classes, including but not limited to public equities, corporate fixed income, private equity, infrastructure, and sovereigns.
- Bilateral (i.e., individual engagement between a single investor and a company) and collective engagement (i.e., where more than one investor is involved), noting in particular the Investor Agenda's explicit support for the Climate Action 100+ initiative, the CDP Disclosure Request and the CDP Non-Disclosure Campaign.
- The full range of influencing strategies including letter-writing, individual and collective dialogue, the use of the formal rights granted to investors (e.g., proxy voting rights, formal AGM statements, the rights to nominate new board members, and to take a formal role or governance position in certain private equity structures), media and communications, public advocacy and investment decision-making.
- The full range of actions and outcomes that might be sought, including climate related disclosures, climate governance processes, decarbonization strategies, capital expenditures, and climate-related targets and outcomes.

Investor Climate Action Plans

Investment

Corporate Engagement

Policy Advocacy

Investor Disclosure

The Climate Action 100+ Net Zero Company Benchmark assessments highlight the significant gaps that corporations will need to address to meet investor expectations on climate change. Notably that companies set net zero by 2050 aligned science-based targets across short, medium and long-term timeframes that incorporate material Scope 3 emissions, disclose the strategies and actions they are taking to decarbonize, and align capital with net zero ambitions.

Company engagement strategies are driven by a range of factors, including the profile of the company and industry sector, the company's approach to climate change, its responsiveness to engagement, the investor's active ownership approach and the regional context. In many cases, multiple investors may be working on engagement with a company.

Investors – individually or collectively – may choose to engage, for example, by:

- Requesting disclosure of environmental data
- Holding meetings with companies
- Conducting investor/company roundtables
- Asking a question at a company earnings call or Annual General Meeting (AGM)
- Making a statement at a company AGM
- Writing a public letter to the company
- Supporting shareholder resolutions on climate change risks and opportunities
- Voting for the removal of directors who have failed in their accountability of climate change risk
- Voting against reports, accounts and company led resolutions
- Making joint statements with the company
- Submitting resolutions at a shareholder meeting

The Investor Agenda has not defined the level of corporate engagement – in terms of the intensity of the engagement activities, or the coverage in terms of number of companies or the assets under management – considered sufficient to meet the requirements of each Tier. It recognizes that such assessments will be driven by each investor's resources, asset mix, investments, and climate change strategy[32].

Collective/collaborative engagement

Collective and collaborative engagement is where more than one investor is involved in the dialogue with a company. Collaborative engagement enables investors to share knowledge, good practice relevant to their specific structure and business model and build consensus on industry-specific standards. Collective engagement initiatives can also build pressure on companies, sectors and governments in a way that may not be possible for every individual investor. Companies have also often welcomed this format of engagement as there are aligned expectations from the investor group.

Bilateral engagement

Bilateral engagement is individual engagement between a single investor and a company. The bilateral engagement element of the ICAPs Expectations Ladder suggests that, for an investor to be in Tiers 1 or 2, most of the companies in the portfolio need to have or be committed to 1.5°C-aligned business strategies. To achieve this, Tier 1 and 2 investors need to engage actively with a significant number of companies in their portfolio. For example, the Net Zero Investment Framework suggests that a minimum level of at least 70% of portfolio emissions should either already meet net-zero alignment criteria or be targeted as part of engagement strategy in high impact sectors.

32 Norges Bank, for example, has regular dialogues with around 1,000 companies, which make up around two-thirds of the total value of their equity portfolio. Alongside these engagements, they publish expectations and positions which are relevant to all portfolio companies and engage with individual companies on strategic priorities and specific issues. See: https://www.nbim.no/en/the-fund/responsible-investment/ownership/

Corporate escalation and shareholder engagement

Investors are encouraged to establish and publish an escalation strategy that explains the actions they will take if a company is not responsive to their engagement or to their net-zero alignment criteria/asks including clear timeframes for underweighting or divestment should engagement not be successful. The specific escalation strategy or strategies will depend on the context, on the engagement strategies that have previously been adopted, and on the short and long-term goals of the engagement initiative.

In listed equities, climate-related shareholder resolutions and proxy voting – which includes decisions on whether to support specific resolutions, the filing or co-filing of resolutions, and the calling of AGMs – are recognized as important engagement and escalation strategies. Examples of such resolutions include those that encourage better corporate disclosures of climate-related information, those that encourage a company to address material and systemic climate risks and opportunities and those that encourage a company to align their business strategies with 1.5 or 2°C pathways and issue transition plans. The ICAPs Expectations Ladder signals the type of resolutions that investors should generally support for each of the Tiers. In addition to climate change-specific resolutions (i.e., where the resolution itself is focused on a specific aspect of a company's climate change performance), investors may also use their views on a company's climate change performance to inform their votes on, for example, a company's report and accounts or a company's directors.

Finally, many jurisdictions have formal rules around engagement and proxy voting. Each investor must, therefore, be responsible for obtaining its own legal advice pertaining to shareholder voting and company engagement strategies, and for ensuring that they are in compliance with regulatory requirements in the jurisdictions in which the engagement is taking place.

Selected Resources

Corporate Engagement Area	Description	Tools, Methodologies and Resources
Collaborative/ collective engagement	**Collaboration resources and frameworks**	AOA (2022), *The Future of Investor Engagement*: https://www.unepfi.org/news/industries/investment/change-rules-of-the-game-asks-10-4trn-net-zero-asset-owner-alliance-in-new-paper-on-investor-action/ AIGCC (2020), *Investor Expectations of Asian Electric Utilities Companies* https://www.aigcc.net/wp-content/uploads/2020/12/Asia-Utilities-IE-final.pdf AOA (2021), *Inaugural 2025 Target Setting Protocol, Engagement Chapter* https://www.unepfi.org/wordpress/wp-content/uploads/2021/01/Alliance-Target-Setting-Protocol-2021.pdf CDP Investor Signatory Disclosure Request https://www.cdp.net/en/investor/request-environmental-information CDP Non-disclosure Campaign https://www.cdp.net/en/investor/engage-with-companies/non-disclosure-campaign CDP Science Based Targets Campaign https://www.cdp.net/en/investor/engage-with-companies/cdp-science-based-targets-campaign Ceres Climate and Sustainability Shareholder Database https://www.ceres.org/resources/tools/climate-and-sustainability-shareholder-resolutions-database Climate Action 100+ http=s://www.climateaction100.org/ Paris Aligned Investment Initiative (2021), *Net-Zero Investment Framework: Implementation Guide* https://www.parisalignedinvestment.org/media/2021/03/PAII-Net-Zero-Investment-Framework_Implementation-Guide.pdf PRI Collaboration Platform https://collaborate.unpri.org/
Bilateral engagement	**Stewardship practices and processes**	Ceres (2020), *Roadmap 2030: A 10-year action plan for sustainable business leadership* https://roadmap2030.ceres.org/ IIGCC (2022), *Net Zero Stewardship Toolkit* https://www.iigcc.org/download/iigcc-net-zero-stewardship-toolkit/?wpdmdl=5708&refresh=6268be09145651651031561 IIGCC (2022), *Corporate Climate Transition Plans: A guide to investor expectations* https://igcc.org.au/wp-content/uploads/2022/03/IGCC-corporate-transition-plan-investor-expectations.pdf Paris Aligned Investment Initiative (2021), *Net-Zero Investment Framework: Implementation Guide* https://www.parisalignedinvestment.org/media/2021/03/PAII-Net-Zero-Investment-Framework_Implementation-Guide.pdf UN-PRI (2022), *Climate transition plan votes: investor briefing* https://www.unpri.org/stewardship/climate-transition-plan-votes-investor-briefing/9096.article UN-PRI (2021) *Making voting count: principle-based voting on shareholder resolutions* https://www.unpri.org/stewardship/making-voting-count-principle-based-voting-on-shareholder-resolutions/7311.article PRI (2019), *Active Ownership 2.0* https://www.unpri.org/stewardship/active-ownership-20-the-evolution-stewardship-urgently-needs/5124.article
Corporate escalation and shareholder engagement	**Engaging with shareholders and companies to ensure action on climate**	AOA (2021), *Elevating Climate Diligence on Proxy Voting Approaches: A Foundation for Asset Owner Engagement of Asset Managers* https://www.unepfi.org/wordpress/wp-content/uploads/2021/04/16-Elevating-Climate-Diligence-2.pdf Ceres (2020), *Lead from the Top: Building Sustainability Competence On Corporate Boards* https://www.ceres.org/resources/reports/lead-from-the-top Ceres, *Climate and Sustainability Shareholder Resolutions Database* https://www.ceres.org/resources/tools/climate-and-sustainability-shareholder-resolutions-database PRI, *Shareholder Resolution Database* https://collaborate.unpri.org/shareholder-resolution Say on Climate https://www.sayonclimate.org/ ShareAction guidance on proxy voting https://api.shareaction.org/resources/reports/ShareAction-Voting-Matters-2021.pdf Proposal for Nature Action 100+: https://thedocs.worldbank.org/en/doc/7ae2689073927054515c5d4df5d2b997-0430012021/original/Nature-Action-100.pdf

3

POLICY ADVOCACY

Advocating for policies aligned with delivering a just transition to a net-zero economy by 2050 or sooner.

The case for investors to engage on climate change and sustainable finance policy is clear. Advocacy for policy frameworks that unlock investment opportunities and scale up capital flows in low-carbon assets, adaptation measures, and ensure a just transition for affected workers and communities is essential in tackling the climate crisis and protecting long-term returns. Investors bring a unique voice and perspective to the policy-making process, both directly in their own right and in terms of the levers they have over companies and their own lobbying practices.

Policy measures relating to corporate and other disclosures should also ensure that investors can take full account of the risks and opportunities presented by climate change in their decision-making, thereby maximizing their ability to generate sustainable returns and create long-term value. Within the real economy, investor action on corporate engagement can (and does) achieve significant progress, but often policy and regulation are the only route to achieving sector-wide change by addressing market failures and fragmentation.

Investor Climate Action Plans

- Investment
- Corporate Engagement
- **Policy Advocacy**
- Investor Disclosure

Investor statements

Investors may begin their policy advocacy by working with other investors, through supporting investor-backed statements and calls for action on climate change. Investors in Tiers 1 and 2 on Policy Advocacy will also support investor backed statements, particularly those such as the annual Global Investor Statement to Governments on the Climate Crisis that aim to achieve net-zero by 2050 or sooner, with credible interim targets.

The investor role in lobbying and policy engagement

Investors are a key influence on policymakers and, therefore, policy engagement by investors is an important extension of these investors' responsibilities and fiduciary duties to their beneficiaries. Policy engagement may be carried out directly by the investor, collectively with other investors or through supporting industry bodies, think tanks and civil society organizations. Investors should ensure that all lobbying activities - both their own lobbying and the lobbying carried out on their behalf by others, whether directed at the legislative or regulatory level - are aligned with the goals of the Paris Agreement[33]. Investors in Tier 1 for Policy Advocacy should require partner organizations, such as trade associations and industry bodies, to align their lobbying with the goals of the Paris Agreement. Investors should also assess whether their political contributions are aligned with their 1.5°C objectives and the longer-term goals of the Paris Agreement. These investors should also be prepared to withdraw their memberships and support if these partner organizations do not comply with this requirement. If an investor believes there is value in ongoing engagement to influence positions on climate, then it should disclose its participation or membership with partner organizations, clearly state if it is not aligned to 1.5°C and explain how they ensure their activities as part of the partner organization is consistent with their 1.5°C objectives.

Approaches to advocacy

Climate policy engagement can focus on various levels of government. This includes global engagement, aimed at international supranational bodies and intergovernmental formations such as the G7 and G20, the UNFCCC (United Nations Framework Convention on Climate Change), the international financial regulatory bodies, including the Bank for International Settlements, the Financial Stability Board, the ISSB (International Sustainability Standards Board), and the (IOSCO (International Organization of Securities Commissions)), among others, to the regional (e.g. the European Union), the national – both legislative and regulatory – and finally the state/province/municipal level. Institutional investors have support in their international climate policy engagement via the Investor Agenda's policy working group. Investor advocacy on priority climate change policies and regulations at a number of regional, national and sub-national levels is generally led by the relevant regional Founding Partner under Country Policy Groups or conducted in collaboration with other industry associations. In addition, where appropriate the Founding Partners coordinate global investor voices via the policy working group in order to engage on regional, national, or local policy issues outside of their jurisdiction, but which have global relevance – for example, the SEC climate disclosure rule proposal in the US, and the EU's green taxonomy.

Different jurisdictions have different rules on the role that investors and other private sector actors can play in the policy process, and on how they can engage. In broad terms, investors can engage at all levels through:

- Meetings and correspondence with:
  a) Government officials leading climate and sustainable finance policy/regulation development or negotiation processes
  b) Legislative actors, including governing and opposition parties, and political decisionmakers including Ministers or elected representatives
  c) Technical secretariat staff preparing underpinning evidence bases and analysis.
- Publishing research (or funding external bodies to conduct research) and reports that set out the case for policy action on climate change.
- Media and public outreach calling for policy action on climate change.
- Responding to public consultations (e.g. through making formal submissions, through giving evidence).
- Joining government-led expert or advisory groups to discuss and propose technical recommendations.
- Convening or participating in public seminars and events on climate, energy, or sustainable finance related policy discussions.
- Working with other investors, through supporting investor-backed statements, letters and calls for action on climate change (see the examples in the Selected Resources below).

33 UN-PRI (2022), The investor case for responsible political engagement: https://www.unpri.org/governance-issues/the-investor-case-for-responsible-political-engagement/9366.article

Policy engagement for small and large investors

All investors can engage with policymakers and regulators to encourage the development of policies aligned with delivering a just transition to a net-zero economy. The example actions listed above are applicable to both large and small investors. Large asset owners and asset managers may have more direct lines of communication with policymakers and regulators. However, that does not mean that small investors cannot be influential. Many small investors are leading voices in industry bodies and private voluntary initiatives that can place pressure on governments to take more ambitious action on climate. Beyond direct policy engagement, investors with fewer in-house policy resources can support sign-on letters, submit template responses to regulatory consultations, and explicitly back industry policy briefings and calls to action.

Large numbers of investors, both large and small, working together on policy advocacy can be effective in driving forward change, particularly when underpinned by clear evidence and aligned with wider policy goals and objectives. This is detailed in our example on the Investor Agenda's 2021 Global Investor Statement to Governments below.

The Investor Agenda Global Investor Statement 2021

Every year, the Investor Agenda Founding Partners (AIGCC, CDP, Ceres, IGCC, IIGCC, PRI and UNEP FI) launch a Global Investor Statement with investor signatories that urges governments around the world to rapidly develop and implement priority policy actions that will enable them to invest the trillions needed to respond to the climate crisis.

In 2021, the Investor Agenda recruited 733 institutional investors with US $52 trillion in AUM to sign on to the 2021 Global Investor Statement to Governments on the Climate Crisis released ahead of COP26. Signatories included some of the world's largest investors including State Street Global Advisors, Amundi, Legal & General Investment Management, UBS Asset Management, Sumitomo Mitsui Trust Asset Management, Aberdeen Standard Investments, Aviva Plc, BNP Paribas Asset Management and Allianz Global Investors. In addition, signatories also included some of the smallest investors, and represented a broad cross-section of regions globally.

Many of the key policy asks in the Statement were reflected in policy outcomes from COP26 and wider announcements at the end of 2021, including increased climate risk disclosure mandates, increasingly ambitious NDCs (Nationally Determined Contributions), and the UK's roadmap towards mandatory net zero transition plans. In the past, the Statement has been recognized publicly by figures including the UN Secretary General, and Executive Secretary of the UNFCCC. The 2021 Statement has also influenced wider policy developments including the US Securities and Exchange Commission's proposed climate disclosure rule launched in March 2022, which specifically namechecked the Statement. This allowed all signatories of the Statement, including smaller investors, to effectively advocate for policy change globally.

Selected Resources

Policy Advocacy Area	Description	Tools, Methodologies and Resources
Investor Statements	Investor Agenda and partners' key statements and calls to action are detailed here, outlining examples of policy calls available to investors.	A list of statements and calls to action, from the Investor Agenda and its founding partners can be found at https://theinvestoragenda.org/focus-areas/policy-advocacy/. Some recent examples include: (October 2021) *Letter to METI on Strategic Energy Plan* (October 2021) *Letter to FSA on Climate Disclosure* (June 2021) *Global Investor Statement to Governments on the Climate Crisis* (April 2021) *Letter to US Policymakers on the Climate Crisis* (March 2021) *Letter on the Strategic Energy Plan Review to Minister Hiroshi Kajiyama of Japan* (December 2020) *Statement on High Climate Ambition in the EU's 2030 Target and Sustainable Recovery package* (November 2020) *Call for the United States to rejoin the Paris Agreement* (May 2020) *Investor Statement to EU leaders on Sustainable Recovery from COVID-19* PRI (2021), *Sustainable Land Use* https://www.unpri.org/sustainability-issues/environmental-social-and-governance-issues/environmental-issues/sustainable-land-use Race to Zero (2021), *FINANCIAL SECTOR COMMITMENT LETTER ON ELIMINATING COMMODITY-DRIVEN DEFORESTATION* https://racetozero.unfccc.int/wp-content/uploads/2021/11/DFF-Commitment-Letter-.pdf
Company Lobbying	**Corporate Lobbying Expectations**	Ceres (2020), *Blueprint for Responsible Policy Engagement on Climate Change* https://www.ceres.org/resources/reports/blueprint-responsible-policy-engagement-climate-change IIGCC (2018), *Investor Expectations on Corporate Lobbying* https://www.iigcc.org/resource/investor-expectations-on-corporate-lobbying/ PRI (2018), *Converging on Climate Lobbying* https://www.unpri.org/Uploads/g/v/q/PRI_Converging_on_climate_lobbying.pdf PRI (2022), *The investor case for responsible political engagement* https://www.unpri.org/governance-issues/the-investor-case-for-responsible-political-engagement/9366.article Responsible Lobbying (2020), *Responsible Lobbying: An Evaluation Framework* https://static1.squarespace.com/static/5e85df904eec2417de2b4800/t/5ef1e5fd5d6e1015f5b171ef/1592911361771/The Responsible-Lobbying-Framework_v-June2020.pdf IEA, *Responsible Climate Lobbying: The Global Standard* https://climate-lobbying.com/

Investment Focus Area	Description	Tools, Methodologies and Resources
Investor Advocacy	**Investor Lobbying Expectations and Calls to Action**	AOA (2021), *Inaugural 2025 Target Setting Protocol* https://www.unepfi.org/wordpress/wp-content/uploads/2021/01/Alliance-Target-Setting-Protocol-2021.pdf Ceres (2020), *Addressing Climate as a Systemic Risk: A Call to Action for U.S. Financial Regulators* https://www.ceres.org/news-center/press-releases/sweeping-new-report-provides-us-financial-regulators-key-action-steps IGCC (2019), *Policies for a Resilient Net Zero Emissions Economy* https://igcc.org.au/wp-content/uploads/2020/06/Policies-for-a-resilient-economy_FINALa.pdf IGCC (2020), *Mapping Australia's Net-Zero Investment Potential* https://igcc.org.au/wp-content/uploads/2020/10/121020_IGCC-Report_Net-Zero-Investment-Opportunity.pdf PRI (2021), *Policy Briefing: The Road to COP26* https://www.unpri.org/download?ac=15081 PRI (2020), *How Government and Investors Can Deliver Net-zero in the UK* https://dwtyzx6upklss.cloudfront.net/Uploads/f/n/k/pri2020howgovernmentandinvestorscandelivernetzerointheuk_916363.pdf PRI (2020), *How Government and Investors Can Deliver Net-zero in the US* https://dwtyzx6upklss.cloudfront.net/Uploads/p/a/s/pri_usnetzerobriefing2020_42586.pdf PRI (2021), *Delivering Net Zero Emissions in Japan* https://dwtyzx6upklss.cloudfront.net/Uploads/t/e/i/pri_netzerobriefing2021japan_583956.pdf PRI (2021), *Delivering Carbon Neutrality in China* https://dwtyzx6upklss.cloudfront.net/Uploads/g/n/f/pri_netzerobriefing2021_china_6734.pdf PRI (2021), *Responsible Investment Policy Database* https://www.unpri.org/policy/regulation-database PRI and the London Stock Exchange Group (2021), *The Investor Guide to Climate Collaboration: From COP26 to Net-Zero* https://www.unpri.org/climate-change/the-investor-guide-to-climate-collaboration-from-cop26-to-net-zero/7236.article PRI, *UNEP-FI & Generation Foundation A Legal Framework for Impact* https://www.unpri.org/policy/a-legal-framework-for-impact UNEP FI and PRI (2019), *A Legal Framework for Impact* https://www.unpri.org/policy/a-legal-framework-for-impact UNEP FI and PRI (2019), *Fiduciary Duty in the 21st Century. Final Report* https://www.unpri.org/download?ac=9792 UNEP FI, *A legal framework for impact: sustainability impact in investor decision-making* https://www.unepfi.org/publications/a-legal-framework-for-impact-sustainability-impact-in-investor-decision-making/

4

INVESTOR DISCLOSURE

Enhancing investor disclosure to help stakeholders track investor action in line with a 1.5°c pathway.

Robust and comprehensive disclosures by investors enable clients, beneficiaries, and other stakeholders to understand how climate-related risks and opportunities are being assessed and managed by investors. These disclosures increase the demand for more consistent, comparable, and reliable disclosure of climate-related information by companies and other entities. Quality disclosures by companies and by investors are an important step in enabling market forces to drive the efficient allocation of capital and to support a planned transition to a net-zero emissions economy.

Many investors already report on aspects of their performance through the PRI reporting framework and/or the CDP Financial Services Questionnaire. Appendix 1 of this report maps these two frameworks against the ICAPs Expectations Ladder, identifying those areas where existing disclosures can support reporting against the Ladder.

Investor Climate Action Plans

Investment

Corporate Engagement

Policy Advocacy

Investor Disclosure

Commitments, objectives and targets

For disclosure to enable investor accountability, investors should publish information on their commitments as a first step. Investors in Tiers 2 and 3 will go beyond this to share portfolio objectives and targets. Over time, investors should report progress against any targets set. Investors in Tier 1 should provide quantitative targets that are aligned to net-zero. These investors should also provide detailed analysis describing the progress they have made against these targets.

Carbon emissions and portfolio assessment

Investors in Tier 3 will have begun to publish carbon emissions and portfolio emissions data using methodologies discussed in the Investments section above. Investors in Tiers 1 and 2 will have expanded their disclosures to cover the entirety of their portfolios.

Greenhouse gas emissions disclosure will also be increasingly sophisticated and include details of scenario analysis undertaken and assumptions on technology deployment, including Carbon Capture and Storage (CSS) and other experimental technologies[34].

TCFD alignment and assessment of disclosure

The Task Force on Climate-related Financial Disclosures (TCFD) provides recommendations for climate-related disclosures to enable better understanding of the financial implications to climate change. Many investors already disclose in alignment with TCFD recommendations, either through publishing relevant information in their own reports and/or through reporting through the PRI's Reporting and Assessment Framework and/or through CDP's Financial Services Questionnaire. TCFD requirements and the ICAPs Expectations Ladder's Investor Disclosure focus areas are similar but not identical. Investors seeking to report actions against the Ladder's Investor Disclosure focus areas would need to ensure their climate activities are consistent with the TCFD recommendations and have a special focus on activities that are forward looking (e.g., target setting and climate scenario planning). Some activities focused on systemic climate risk abatement such as climate policy advocacy and investment in climate solutions, which may not be explicitly included in the TCFD framework, can also be reported as actions in this focus area.

The TCFD Framework is structured with four widely adoptable recommendations, each tied to a pillar that aligns with the ICAPs framework:

1. **Governance:**
   describe the organization's governance around climate-related risk and opportunities.
2. **Strategy:**
   disclose the actual and potential impacts of climate-related risks and opportunities on the organization's business, strategy, and financial planning where such information is material.
3. **Risk Management:**
   disclose how the organization identifies, assesses, and manages climate-related risks.
4. **Metrics & Targets:**
   disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

ICAPs and associated targets go beyond TCFD reporting expectation to include policy engagement and stewardship activities across asset classes. The TCFD's recent update includes reference to transition plans, and the ICAPs framework can inform investors' actions to develop robust climate transition plans, as this becomes regulatory requirement in more markets.

34 For further discussion on this topic, see the Net Zero Asset Owner Alliance position paper on the role of negative emissions technology in achieving climate alignment for asset owners: https://www.unepfi.org/publications/the-role-of-negative-emissions-in-achieving-climate-alignment-for-asset-owners/

Selected Resources

Investor Disclosure Area	Description	Tools, Methodologies and Resources
All	**Relevant Investor Disclosure Frameworks and Tools**	AIGCC (2018), *Building on the Base: TCFD Disclosures in Asia* https://www.aigcc.net/wp-content/uploads/2020/07/AIGCC_Building-on-the-base_TCFD-Disclosure-in-Asia_FINAL-1.pdf AIGCC (2017), *Transparency in Transition: A Guide to Investor Disclosure on Climate Change* https://www.aigcc.net/wp-content/uploads/2020/07/AIGCC_IGCC-TRANSPARENCY-in-TRANSITION-FINAL.pdf CDP (2021), *Climate Change Questionnaire: Financial Services* https://www.cdp.net/en/guidance PRI, *Reporting and Assessment Framework* https://www.unpri.org/signatories/reporting-and-assessment Task Force on Climate-Related Financial Disclosures (TCFD) *https://www.fsb-tcfd.org/* Appendix 1 of this report presents a mapping of (a) the PRI Reporting and Assessment Framework and (b) the CDP Climate Change Questionnaire 2021: Financial Services against the ICAPs Expectations Ladder

5

GOVERNANCE

Institutional investors have an obligation (often referred to as fiduciary duty) to act in the best financial interests of their beneficiaries.

It is agreed that failing to consider all long-term investment value drivers, including ESG issues, is a failure of fiduciary duty.

While the case for action to address the climate crisis is clear, investors need to ensure that the actions and decisions they take are underpinned by robust decision making and governance frameworks. These decision-making and governance frameworks – the policies, accountability mechanisms, planning and evaluation processes, reporting and skills assessment processes identified in the ICAPs Expectations Ladder – guide organizational decision-making and action, and ensure that these decisions and actions are aligned with the investor's fiduciary duty. They also ensure that the commitments made by the organization – on investment, on corporate engagement, on policy advocacy, on investor disclosure – are effectively implemented and translated into concrete action.

An effective climate governance structure is critical to ensure that an investor properly assesses climate-related risks and opportunities, takes appropriate strategic decisions on how to manage them, and sets and reports on relevant goals and targets. Top-down oversight and buy-in from the Board and senior management is necessary to ensure firm-wide adoption and integration of climate risk. For that reason, the ICAPs framework considers Governance to be a cross-cutting theme that should be integrated across each of the focus areas of the Expectations Ladder.

Investment Policy

A key step in decarbonizing a portfolio is the development and publication of an organization's investment belief and policies which clearly articulate the firm's approach to the management of climate related risks and opportunities. Establishing investment beliefs encourages the Board and senior management to ask important questions, debate priorities and seek advice from industry experts and peers in similar organizations. The process also provides a better understanding of the fund, its beneficiaries, its goals, key challenges for meeting short, medium, and long-term obligations, relevant time horizons for investments, and the risk factors that could impact returns over the fund's life. Consequently, the process of reviewing or formulating investment beliefs is a good moment to evaluate the role of climate analysis in identifying material investment risks and to commit to integrating climate considerations into every aspect of the investment process. As firms move to set net zero and interim 2030 decarbonization targets, investment committees must have oversight and approval of the targets, thus making target setting a component of the Board's work and ensuring accountability. These policies and beliefs must be actively supported and overseen by the Board and senior management to ensure that origination wide uptake is undertaken.

Approaches to advocacy

Climate policy engagement can focus on various levels of government. This includes global engagement, aimed at international supranational bodies and intergovernmental formations such as the G7 and G20, the UNFCCC (United Nations Framework Convention on Climate Change), the international financial regulatory bodies, including the Bank for International Settlements, the Financial Stability Board, the ISSB (International Sustainability Standards Board), and the (IOSCO (International Organization of Securities Commissions)), among others, to the regional (e.g. the European Union), the national – both legislative and regulatory – and finally the state/province/municipal level. Institutional investors have support in their international climate policy engagement via the Investor Agenda's policy working group. Investor advocacy on priority climate change policies and regulations at a number of regional, national and sub-national levels is generally led by the relevant regional Founding Partner under Country Policy Groups or conducted in collaboration with other industry associations. In addition, where appropriate the Founding Partners coordinate global investor voices via the policy working group in order to engage on regional, national, or local policy issues outside of their jurisdiction, but which have global relevance – for example, the SEC climate disclosure rule proposal in the US, and the EU's green taxonomy.

Strategy, planning and evaluation

A strong, comprehensive plan for delivering on an investor's climate-related objectives is a crucial component of an investor's journey to integrate climate risk and opportunity across the organization. Firms should proactively develop these plans to address climate related risks and opportunities, rather than as issues arise. While reacting to crises presents opportunities to jumpstart discussions of ESG issues, it should not be the only time these risks are considered, especially as a crisis response does little to address the roots of problems. These plans should include timelines for review and revision as targets are met and climate risk exposures and best practices emerge and evolve.

Board reporting

The Board of Directors and Board committees should have oversight of all portfolio-related climate risks and opportunities by receiving audited reports using consistent metrics. This includes regularly reviewing climate risks and opportunities, as well as assessing progress against climate-related objectives with a focus on decarbonization targets and avoided emissions targets. Measurement should be focused on reducing investment risk by making real economy change and showing progress towards real economy emissions reductions, not only the rebalancing of portfolios. Progress towards real economy reductions can be tracked by the Climate Action 100+ Net Zero Company Benchmark, an investor tool that assesses the performance of focus companies against the initiative's three high-level goals: emissions reduction, governance, and disclosure. Senior management should review and discuss these reports, ask questions of their service providers and staff, evaluate the progress and success of these initiatives, and periodically consider whether adjustments in strategy and tactics (and potentially service providers) are needed.

Skills Assessment

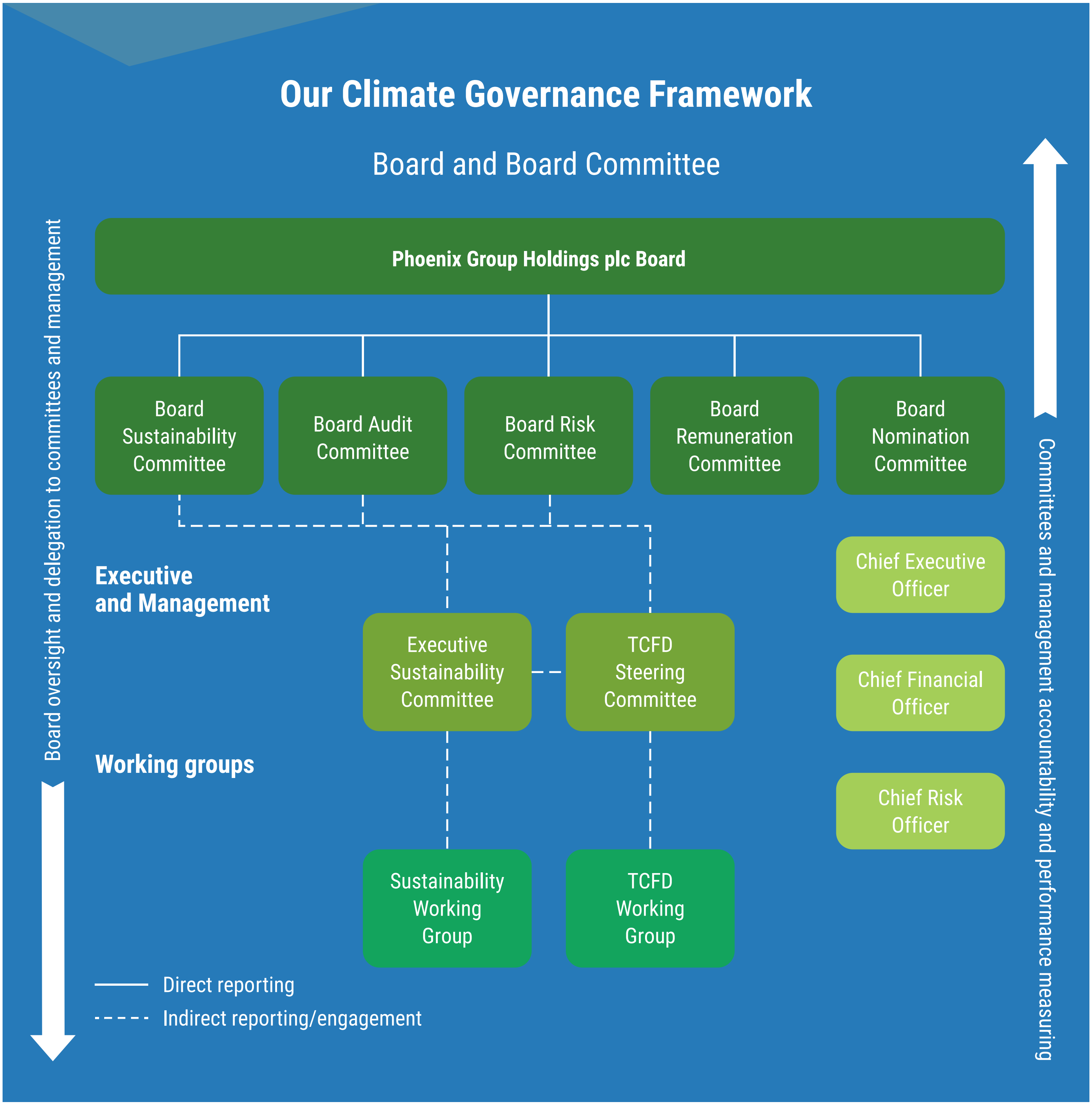
It is increasingly important for staff and management to understand how climate risk affects business strategy and performance. Education and training can be done in-house, preferably in collaboration with experts in relevant aspects of sustainability risks or in offsite sessions conducted by established programs. The competencies and capabilities of the Board, senior management and investment teams should be formally and annually assessed with the results and criteria for assessment disclosed.

Climate strategy governance at Phoenix Group

Phoenix Group is the UK's largest long-term savings and retirement provider with around £310 billion in assets under administration[35]. The Group's standalone climate strategy[36] includes oversight from the Group Board, which is responsible for overall Group strategy. The Group's strategic approach to climate change (including the management of climate related risks and opportunities) is overseen by the Group Board, supported by the Board Sustainability Committee. The Group Board is also responsible for the Group's overall risk appetite and setting risk appetite levels covering business and financial risks. This informs their approach to climate change. The Group Board's approach recognizes that climate impact is a significant matter to be addressed by Phoenix from the top down. As a result, consideration of climate change is embedded within the company's wider corporate governance framework and processes. The Group Board has a Board Committee structure that assists in the discharge of its responsibilities, through delegations within approved terms of reference. Climate related responsibilities are allocated to specific committees based on their overall purpose and remit. During 2021, the Group Board met formally eight times and considered climate change and TCFD on seven occasions, including education sessions and updates on TCFD implementation and climate change from its Board Committee Chairs and management.

35 https://www.thephoenixgroup.com/sites/phoenix-group/files/2022-03/phoenix-group-annual-report-and-accounts-2021-spread-format.pdf

36 https://www.thephoenixgroup.com/sites/phoenix-group/files/phoenix-group/sustainability-and-responsibility/sustainable-report/Climate%20Report%202021.pdf



Source: Phoenix Group Holdings plc's Climate Governance framework, as presented in its 2021 TCFD Report.

Selected Resources

Governance Area	Description	Tools, Methodologies and Resources
ALL	**Governance Framework** The resources provide guidance on how an investor can establish an effective climate governance framework and effectively integrate climate risk considerations into investment decision making.	AIGCC, *Climate Change Training program* https://www.aigcc.net/climate-change-training/ APRA (2021), *Draft Prudential Practice Guide on Climate Change Financial Risks* https://www.apra.gov.au/consultation-on-draft-prudential-practice-guide-on-climate-change-financial-risks Ceres (2019), *Running the Risk: How Corporate Boards Can Oversee Environmental, Social and Governance (ESG) Issues* https://www.ceres.org/resources/reports/running-risk-how-corporate-boards-can-oversee-environmental-social-and-governance Ceres (2018), *Systems Rule: How Board Governance Can Drive Sustainability Performance* https://static1.squarespace.com/static/5143211de4b038607dd318cb/t/5afc5e271ae6cf3092ecd7ed/1526488627169/%20Systems+Rule_Final.pdf IIGCC (2018), *Addressing Climate Risks and Opportunities in the Investment Process* https://www.iigcc.org/resource/addressing-climate-risks-and-opportunities-in-the-investment-process/ FCA & Bank of England PRA (2020), *Climate Risk Forum Guide 2020 Summary* https://www.fca.org.uk/publication/corporate/climate-financial-risk-forum-guide-2020-summary.pdf PRI (2017), *PRI Reporting Framework 2018 Strategy and Governance* https://www.unpri.org/Uploads/e/e/e/2.-SG-CC-2018---final.pdf World Economic Forum (2019), *How to Set Up Effective Climate Governance on Corporate Boards* http://www3.weforum.org/docs/WEF_Creating_effective_climate_governance_on_corporate_boards.pdf PRI (2019), *Investment Consultants and ESG: an Asset Owner Guide* https://www.unpri.org/asset-owner-resources/investment-consultants-and-esg-an-asset-owner-guide/4577.article

APPENDIX 1

Mapping (A) the PRI reporting and assessment framework and (B) the CDP Climate Change questionnaire against the ICAPs expectations ladder investor disclosure area

ICAPs Expectations Ladder - CDP and PRI Disclosure Mapping

Focus Area	Tier	ICAPs Expectations Ladder Point	CDP	PRI	
			CDP Questions	Indicator ID	Type of Indicator
Targets	Tier 4	Measure portfolio carbon footprint	C-FS14.1, C-FS14.1a, C-FS14.1b	ISP 37, ISP 37.1, ISP 38, ISP 38.1	PLUS PLUS PLUS PLUS
	Tier 3	Align portfolio emissions reduction target with domestic policy goals and NDCs	C4.2, C4.2b, C-FS4.1d	ISP 37, ISP 37.1	PLUS PLUS
	Tier 2	Align portfolio emissions reduction target with 1.5°C and global net zero emissions by 2050	C4.1, C4.1a, C4.1b, C4.2b, C4.2c, C-FS4.1d	ISP 37, ISP 37.1	PLUS PLUS
	Tier 1	Align portfolio emissions reduction target with 1.5°C and global net zero emissions by 2050 or sooner. Set intermediate targets every 5 years using recognised methodologies and frameworks for setting, assessing, reporting and verifying performance	C4.1, C4.1a, C4.1b, C4.2b, C4.2c, C-FS14.1b	ISP 37, ISP 37.1	PLUS PLUS

Focus Area		Tier	ICAPs Expectations Ladder Point	CDP	PRI	
				CDP Questions	Indicator ID	Type of Indicator
1 Investment	Strategy	Tier 4	Establish a formal policy on integrating climate change into investment analysis, decision-making, investment manager, and selection and appointment	C-FS3.6, C-FS3.6a, C-FS3.6b, C-FS3.6c, C-FS3.7, C-FS3.7a	ISP 1.1 ISP 28*	CORE CORE
	Risk Management	Tier 4	Undertake portfolio climate risk assessment and regularly monitor portfolio climate risks including physical risks	C2.2, C2.2a, C-FS2.2b, C-FS2.2c, C-FS2.2d, C-FS2.2e	ISP 30, ISP 31, ISP 32, ISP 34, ISP 35, ISP 38, ISP 39	CORE, CORE, PLUS, PLUS, PLUS, PLUS, PLUS
	Asset Allocation	Tier 4	Invest at least part of the portfolio in 2-degrees aligned products	C-FS4.5 C-FS4.5a	ISP 10 ISP 10.1 ISP 37.1	CORE CORE PLUS
	Strategy	Tier 3	Commit to increasing investments in appropriate clean energy and low-carbon opportunities	C-FS14.3 C-FS14.3a C-FS3.6a C-FS12.1c	ISP 37	PLUS
	Risk Management	Tier 3	Conduct a 1.5°C and 2 degree scenario analysis including transition and physical risk, using a recognized methodology. Revise and update this analysis annually	C3.2 C3.2a C3.2b	ISP 33 ISP 33.1	CORE PLUS
	Asset Allocation	Tier 3	Invest part of the portfolio in 1.5°C aligned companies, products, and projects	C-FS14.3 C-FS14.3a C-FS3.6a C-FS12.1c	ISP 10 ISP 10.1 ISP 37.1	CORE CORE PLUS
	Additional Target Setting	Tier 3	Set Scope 1 and 2 decarbonization targets for your own operational emissions	C4.1, C4.1a, C4.1b, C4.1c	ISP 37 ISP 37.1	PLUS PLUS
	Strategy	Tier 2	Establish a formal investment policy on fossil fuels and other high impact activities, that • aligns with a net zero target, • includes an explicit commitment to phase out exposure to fossil fuels (either through engagement or divestment) in line with science-based net zero pathways and • aligns with just transition principles.	C-FS3.6 C-FS3.6a C-FS3.6b C-FS3.6c	ISP 4*	CORE
	Strategy	Tier 2	Develop and start to implement a decarbonisation strategy for at least one portfolio or asset class	C-FS14.3 C-FS14.3a C-FS3.6a C-FS12.1c	ISP 37 ISP 37.1	PLUS PLUS
	Risk Management	Tier 2	Use scenario analysis and stress testing to assess the impacts of physical and transition risks on the portfolio and to inform current and future investment decisions	C3.2, C3.2a, C3.2b	ISP 33 ISP 33.1	CORE PLUS

Focus Area		Tier	ICAPs Expectations Ladder Point	CDP	PRI	
				CDP Questions	Indicator ID	Type of Indicator
	Asset Allocation		Incorporate climate change into strategic asset allocation and invest in 1.5°C aligned- companies, products, and projects in multiple asset classes	C-FS14.3 C-FS14.3a C-FS3.6 C-FS3.6a C-FS3.6b C-FS12.1c	ISP 10 ISP 10.1 ISP 37.1	CORE CORE PLUS
	Additional Target Setting		Implement explicit net-zero aligned targets for clean energy and low carbon investments in each asset class	C-FS14.3 C-FS14.3a C-FS3.6a C-FS12.1c	ISP 37 ISP 37.1	PLUS PLUS
	Additional Target Setting		Set Scope 3 decarbonization targets if they are material i.e. >40% of emissions of underlying assets	C4.1, C4.1a, C4.1b, C4.1c, C-FS4.1d	ISP 37 ISP 37.1	PLUS PLUS
	Strategy	Tier 1	Eliminate all investments in thermal coal, tar sands, and Arctic drilling	C-FS3.6 C-FS3.6b	ISP 4*	CORE
	Strategy	Tier 1	Define a strategy for all high emitting sectors	C-FS3.6, C-FS3.6a, C-FS14.3, C-FS14.3a		
	Risk Management	Tier 1	Explicitly incorporate net zero scenario analysis	C3.2 C3.2a C3.2b	ISP 33, ISP 33.1	CORE PLUS
	Asset Allocation	Tier 1	Invest (and grow the proportion annually) in 1.5°C aligned companies, products, and projects in all asset classes	C-FS14.3 C-FS14.3a C-FS3.6a C-FS12.1c	ISP 10, ISP 10.1 ISP 37.1	CORE CORE PLUS
	Additional Target Setting	Tier 1	Set 1.5°C targets in all asset classes where recognized methodologies exist	C-FS4.1d	ISP 37 ISP 37.1	PLUS PLUS
	Additional Target Setting	Tier 1	Establish net zero-aligned targets for high impact sectors	C4.2 C4.2b C4.2c C-FS4.1d	ISP 37 ISP 37.1	PLUS PLUS
	Additional Target Setting	Tier 1	Set intermediate targets that enable progression and assessment of portfolio emissions reduction	C4.2 C4.2b C-FS4.1d	ISP 37 ISP 37.1	PLUS PLUS

Focus Area		Tier	ICAPs Expectations Ladder Point	CDP CDP Questions	PRI Indicator ID	PRI Type of Indicator
2 Corporate Engagement	Collective/ Collaborative Engagement	Tier 4	Support collective/collaborative engagement initiatives that encourage better governance, management and disclosure of greenhouse gas emissions and physical climate risks	C-FS12.5	ISP 18 ISP 18.1 ISP 35	CORE PLUS PLUS
	Bilateral Engagement		Engage directly with companies, asset managers, industry forums and other entities to encourage better governance, management and disclosure of greenhouse gas emissions and physical climate risks	C-FS3.6a C-FS12.1c C12.1 C12.1d C-FS12.5	ISP 15 ISP 35	CORE PLUS
	Corporate Escalation and shareholder engagement		Explicitly integrate climate change into proxy voting guidelines	C-FS3.6a C-FS3.7 C-FS3.7a C-FS12.1c C-FS12.2 C-FS12.2a	ISP 35	PLUS
	Collective/ Collaborative Engagement	Tier 3	Actively participate in collective/ collaborative engagement initiatives that encourage companies to establish 1.5°C-aligned business strategies.	C-FS12.5	ISP 18 ISP 18.1 ISP 35	CORE PLUS PLUS
	Bilateral Engagement		Engage with companies to reduce greenhouse gas emissions across their value chains in line with just transition principles and align their public policy activities with the goals of the Paris Agreement (directly or via industry associations/trade bodies)	C-FS3.6a, C-FS12.1c, C12.1, C12.1d, C-FS12.5, C12.3b	ISP 15 ISP 22 ISP 43 ISP 44	CORE PLUS CORE CORE
	Corporate Escalation and shareholder engagement		Establish a clear escalation strategy for companies or other entities that have not responded appropriately to engagement	C-FS3.6a, C-FS12.1c	ISP 19 ISP 20	PLUS CORE
	Collective/ Collaborative Engagement	Tier 2	Lead collective/collaborative engagement initiatives that encourage companies to establish 1.5°C aligned business strategies and publish target companies	C-FS12.5	ISP 18 ISP 18.1 ISP 22 ISP 43 ISP 44	CORE PLUS PLUS CORE CORE
	Collective/ Collaborative Engagement		Support climate resolutions that call on companies to address material and systemic climate risks and opportunities (in situations where the company has shown little commitment to aligning its business strategies with 1.5°C pathways)	C-FS3.6 C-FS3.7 C-FS3.7a C-FS12.1c C-FS12.2 C-FS12.2a	ISP 19 ISP 20 ISP 35	PLUS CORE PLUS
	Bilateral Engagement		Ensure that most of the companies in the portfolio have 1.5°C-aligned business strategies or have committed to establishing such strategies	C-FS14.3a C-FS3.6a C-FS12.1c	ISP 37 ISP 37.1 ISP 38 ISP 44	PLUS PLUS PLUS CORE

Focus Area		Tier	ICAPs Expectations Ladder Point	CDP	PRI	
				CDP Questions	Indicator ID	Type of Indicator
	Bilateral Engagement		Support and/or file climate resolutions at companies whose public policy engagement is not aligned with the goals of the Paris Agreement.	C-FS12.2 C-FS12.2a	ISP 19 ISP 20 ISP 35	PLUS CORE PLUS
	Corporate Escalation and shareholder engagement		Support, file, or co-file climate resolutions at companies who have not responded appropriately to engagement, and vote against directors on climate grounds.	C-FS3.6a C-FS12.1c C-FS12.2 C-FS12.2a	ISP 19 ISP 20 ISP 35	PLUS CORE PLUS
	Collective/ Collaborative Engagement	Tier 1	Lead collective/collaborative engagement initiatives that encourage companies to establish 1.5°C aligned business strategies and publish target companies	C-FS12.5	ISP 18 ISP 18.1 ISP 22 ISP 43 ISP 44	CORE PLUS PLUS CORE CORE
	Collective/ Collaborative Engagement	Tier 1	Support climate resolutions that call on companies to address material and systemic climate risks and opportunities (in situations where the company has shown little commitment to aligning its business strategies with 1.5°C pathways)	C-FS3.6 C-FS3.7 C-FS3.7a C-FS12.1c C-FS12.2 C-FS12.2a	ISP 19 ISP 20 ISP 35	PLUS CORE PLUS
	Bilateral Engagement	Tier 1	Ensure that most of the companies in the portfolio meet 1.5°C-aligned (external) sector-specific benchmarks, taxonomies, or thresholds	C-FS14.3a C-FS3.6a C-FS12.1c	ISP 22 ISP 37 ISP 37.1	PLUS PLUS PLUS
	Bilateral Engagement	Tier 1	Publish detailed voting policy on ESG (focusing on director votes and shareholder resolutions), publish criteria that need to be met for the investor to vote for a company's SOC plan	C-FS3.6a C-FS12.1c C-FS12.2 C-FS12.2a	ISP 12 ISP 12.1	CORE PLUS
	Corporate Escalation and shareholder engagement	Tier 1	Pre-declare voting intentions on ESG defining resolutions and at company laggards	C-FS3.6a C-FS12.1c C-FS12.2 C-FS12.2a	ISP 12.1	PLUS

Focus Area		Tier	ICAPs Expectations Ladder Point	CDP	PRI	
				CDP Questions	Indicator ID	Type of Indicator
3 Corporate Engagement	Investor Statements	Tier 4	Support collaborative investor statements calling on governments to achieve the Paris Agreement's goals, accelerate private sector investment into the net-zero transition in line with just transition principles, and improve climate-related financial reporting	C12.3 C12.3a C-FS12.5	ISP 23.1 ISP 26 ISP 27 ISP 43 ISP 44	CORE CORE CORE CORE CORE
	Lobbying		Ensure that all lobbying activities carried out by the investor are aligned with all the goals of the Paris Agreement	C12.3 C12.3a	ISP 24 ISP 43 ISP 44	CORE CORE CORE
	Advocacy		Participation in regional or global investor network and contributing to the organisation's advocacy activities	C12.3, C12.3a, C12.3b, C12.3c, C-FS12.5	ISP 23	CORE
	Investor Statements	Tier 3	Support collaborative investor statements calling on governments to implement specific policy measures aiming at achieving net zero emissions by 2050: phasing out coal, phasing out fossil fuel subsidies, introducing carbon pricing	C12.3 C12.3a C-FS12.5	ISP 23.1 ISP 43 ISP 44	CORE CORE CORE
	Lobbying		Ensure that all lobbying activities carried out by the investor's trade associations are aligned with the goals of the Paris Agreement	C12.3 C12.3a C12.3b	ISP 23.2 ISP 24 ISP 43 ISP 44	CORE CORE CORE CORE
	Lobbying		Publish trade association memberships and membership fees	C12.3b	ISP 24.1 ISP 25	CORE CORE
	Advocacy		Participate in meetings with governments calling on them to achieve the Paris Agreement’s goals, accelerate private sector investment into the net-zero carbon economy in line with just transition principles, and to institute mandatory climate-related financial reporting	C12.3 C12.3a	ISP 23 ISP 43 ISP 44	CORE CORE CORE
	Investor Statements	Tier 2	Support collaborative investor statements calling on governments to implement specific policy measures aiming at achieving net zero emissions by 2050: phasing out coal, phasing out fossil fuel subsidies, introducing carbon pricing	C12.3 C12.3a C-FS12.5	ISP 23.1 ISP 43 ISP 44	CORE CORE CORE

Focus Area		Tier	ICAPs Expectations Ladder Point	CDP	PRI	
				CDP Questions	Indicator ID	Type of Indicator
	Lobbying		Ensure that all lobbying activities carried out by the investor's trade associations are aligned with the goals of the Paris Agreement	C12.3 C12.3a C12.3b	ISP 23.2 ISP 24 ISP 43 ISP 44	CORE CORE CORE CORE
	Lobbying		Publish trade association memberships and membership fees	C12.3b	ISP 24.1 ISP 25	CORE CORE
	Advocacy		Participate in discussions or meetings with governments – regional, national, sub-national - calling on them to implement policy measures such as phasing out coal, phasing out fossil fuel subsidies, and introducing carbon pricing in line with the goal of achieving net-zero by 2050	C12.3 C12.3a	ISP 23 ISP 26 ISP 43 ISP 44	CORE CORE CORE CORE
	Investor Statements	Tier 1	Support collaborative investor statements calling on governments to implement specific policy measures aiming at achieving net zero emissions by 2050: phasing out coal, phasing out fossil fuel subsidies, introducing carbon pricing	C12.3 C12.3a C-FS12.5	ISP 23.1 ISP 43 ISP 44	CORE CORE CORE
	Lobbying	Tier 1	Review the lobbying activities of all relevant trade associations and industry bodies to ensure that they are in line with the goals of the Paris Agreement. Require the organisation to stop the lobbying otherwise or discontinue membership/support for the organisation	C12.3 C12.3b	ISP 23.2 ISP 24 ISP 43 ISP 44	CORE CORE CORE CORE
	Advocacy	Tier 1	Provide strong public support and play a leading/active role in discussion of sustainable finance policy and regulatory measures to ensure 1.5 degree aligned financial flows	C12.3 C12.3a	ISP 23 ISP 23.1 ISP 26 ISP 27 ISP 43 ISP 44	CORE CORE CORE CORE CORE CORE

Focus Area		Tier	ICAPs Expectations Ladder Point	CDP: CDP Questions	PRI: Indicator ID	PRI: Type of Indicator
4  Disclosure	Commitments, objectives, and targets	Tier 4	Publish a formal statement recognising that climate change presents new and material challenges and requires an organization-wide commitment to integrating related risks and opportunities into investment practice	C2.3 C2.3a	ISP 28 ISP 36	CORE PLUS
	TCFD alignment	Tier 4	Issue a public statement supporting TCFD	C-FS12.5	ISP 27	CORE
		Tier 4	Assess current disclosures against guidance from TCFD and other relevant reporting frameworks	Responding to CDP achieves this	Reporting to PRI achieves this	
		Tier 3	Publish organizational and portfolio objectives/targets on climate change and report on progress against these	Targets and Performance, Portfolio Impact	ISP 37 ISP 37.1 ISP 38, ISP 38.1 ISP 39 ISP 39.1	PLUS PLUS PLUS PLUS PLUS PLUS
		Tier 3	Publish a carbon emissions profile for at least one portfolio or asset class	Portfolio Impact	ISP 37 ISP 37.1 ISP 38.1	PLUS PLUS PLUS
		Tier 3	Publish an assessment of the risks and opportunities presented by climate change to the investment portfolio	Risks and Opportunities	ISP 30 ISP 30.1 ISP 31 ISP 32	CORE CORE CORE PLUS
		Tier 3	Publish information on TCFD recommendations in financial report	Responding to CDP achieves this		
		Tier 3	Publish an assessment of the outcomes and impacts achieved from corporate engagement	Engagement	ISP 22	PLUS
		Tier 2	Publish organizational and portfolio objectives/targets on climate change and report on progress against these	Targets and Performance, Portfolio Impact	ISP 37 ISP 37.1 ISP 38 ISP 38.1 ISP 39 ISP 39.1	PLUS PLUS PLUS PLUS PLUS PLUS
		Tier 2	Publish a detailed account of the analytical methodology and underlying data for calculating the portfolio's emissions profile	Portfolio Impact	ISP 38.1	PLUS
		Tier 2	Publish details of the scenario analysis conducted by the investor, including information on the underlying assumptions and scenarios used	Business Strategy	ISP 33 ISP 33.1	CORE PLUS
		Tier 2	Publish information on TCFD recommendations in financial report	Responding to CDP achieves this		
		Tier 2	Publish an assessment of the outcomes and impacts achieved from policy advocacy	Engagement	ISP 25 ISP 43 ISP 44	CORE CORE CORE

Focus Area		Tier	ICAPs Expectations Ladder Point	CDP	PRI	
				CDP Questions	Indicator ID	Type of Indicator
		Tier 1	Disclose quantitative details of interim net-zero targets and report progress against them	Targets and Performance, Portfolio Impact	ISP 37 ISP 37.1	PLUS PLUS
			Publish a detailed account of the analytical methodology and underlying data for calculating the portfolio's emissions profile	Portfolio Impact	ISP 38.1	PLUS
			Report on the investor's approach to scenario analysis, including details of the assumptions, the data used and the actions taken as a result	Business Strategy	ISP 33 ISP 33.1	CORE PLUS
			Publish information on TCFD recommendations in financial report	Responding to CDP achieves this		
			Publish an independent third-party assessment of the investor's climate change reporting	CDP Scores	ISP 54.1	PLUS

Focus Area		Tier	ICAPs Expectations Ladder Point	CDP	PRI	
				CDP Questions	Indicator ID	Type of Indicator
5 Governance	Policy	Tier 4	Develop investment beliefs or statements of investment policy that define the organization's approach to managing climate risks and opportunities. Explain how this is integral to long-term value creation and to the fiduciary and other duties owed to beneficiaries or clients	C-FS3.6 C-FS3.6a C-FS3.6b C-FS3.6c	ISP 1.1 ISP 27 ISP 28	CORE CORE CORE
	Accountability		Define roles and responsibilities for overseeing and implementing the organisation's commitments on climate change and reporting on the organization's climate performance	C1.1a C1.2 C1.2a	ISP 28 ISP 29	CORE CORE
	Planning and evaluation		Develop a plan for delivering on the organisation's climate-related objectives and for managing the risks and opportunities presented by climate change to the portfolio	C3.1 C3.3 C3.4 C3.5 C3.5a C-FS3.6 C-FS3.6a C-FS3.6b	ISP 28 ISP 29	CORE CORE
	Policy	Tier 3	Ensure that climate change is central to the organisation's strategic plan and that the climate strategy is fully endorsed by the Board	C1.1b C3.1	ISP 28 ISP 29	CORE CORE
	Accountability		Define formal climate change responsibilities in Board and/or Board Committee Terms of Reference and role descriptions	C1.1a	ISP 28	CORE
	Planning and evaluation		Implement processes to review and revise investment strategy as targets are met and climate risks exposures and best practices emerge/evolve	C3.1 C-FS3.6a	ISP 28 ISP 29	CORE CORE
	Board Reporting		Ensure Board and/or Committees regularly review portfolio-related climate risks and opportunities and assess progress against climate-related objectives	C1.1b	ISP 28	CORE
	Skills Assessment		Provide training for staff on climate risks and opportunities and implications for investment portfolios	C1.1d	ISP 29	CORE

Focus Area		Tier	ICAPs Expectations Ladder Point	CDP	PRI	
				CDP Questions	Indicator ID	Type of Indicator
	Policy	Tier 2	Ensure the organization's climate change policies and plans are actively supported by the Board and senior management	C1.1 C1.1a C1.1b C1.2 C1.2a	ISP 28 ISP 29	CORE CORE
	Accountability	Tier 2	Provide adequate resources to ensure the effective implementation of the organization's climate change policies and plans	C1.1d C3.3, C3.4 C3.5, C3.5a	ISP 29	CORE
	Planning and evaluation	Tier 2	Implement processes to review and revise investment strategy as targets are met and climate risks exposures and best practices emerge/evolve	C3.1 C-FS3.6a	ISP 28 ISP 29	CORE CORE
	Board Reporting	Tier 2	Report regularly to the Board and senior management on climate performance and portfolio climate risk exposures	C1.1b C1.2	ISP 29	CORE
	Skills Assessment	Tier 2	Formally assess organizational knowledge and expertise on climate change for the Board, senior management, and investment teams	C1.1d	ISP 29	CORE
	Policy	Tier 1	Ensure the organization's climate change policies and plans are actively supported by the Board and senior management	C1.1, C1.1a, C1.1b, C1.2, C1.2a	ISP 28 ISP 29	CORE CORE
	Accountability	Tier 1	Align achievement of climate-related metrics with executive remuneration and incentives	C1.3 C1.3a	ISP 8 ISP 36	CORE PLUS
	Planning and evaluation	Tier 1	Implement processes to review and revise investment strategy as targets are met and climate risks exposures and best practices emerge/evolve	C3.1 C-FS3.6a	ISP 28 ISP 29	CORE CORE
	Board Reporting	Tier 1	Report regularly to the Board and senior management on climate performance and portfolio climate risk exposures	C1.1b C1.2	ISP 28	CORE
	Skills Assessment	Tier 1	Ensure that the Board has sufficient capabilities and competencies to oversee, assess and manage climate change-related risks and opportunities	C1.1d	ISP 28 ISP 29	CORE CORE

The Investor Agenda is a common leadership agenda on the climate crisis that is unifying, comprehensive, and focused on accelerating investor action for a net-zero emissions economy. The founding partners of The Investor Agenda are seven major groups working with investors: Asia Investor Group on Climate Change, CDP, Ceres, Investor Group on Climate Change, Institutional Investors Group on Climate Change, Principles for Responsible Investment and UNEP Finance Initiative.

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THE INVESTOR AGENDA

ACCELERATING ACTION FOR A NET-ZERO EMISSIONS ECONOMY