



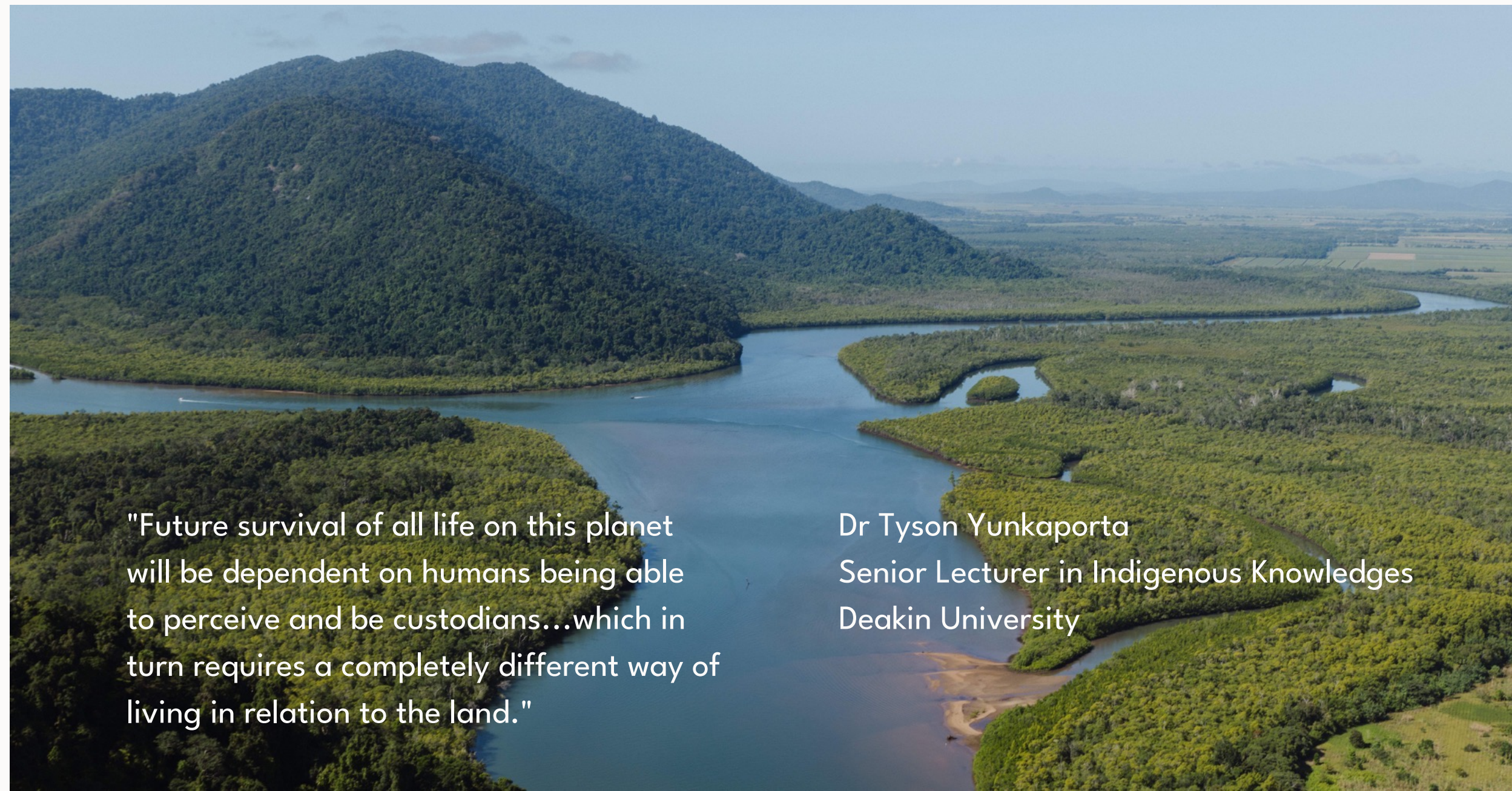
Investor
Group on
Climate
Change



Decarbonisation Investment Solutions for Sectors

A discussion paper on
Sector Transition Plans
and their importance
to investors.

We acknowledge Australia's traditional custodians, and pay respect to Elders past, present and future.



"Future survival of all life on this planet will be dependent on humans being able to perceive and be custodians...which in turn requires a completely different way of living in relation to the land."

Dr Tyson Yunkaporta
Senior Lecturer in Indigenous Knowledges
Deakin University



Investors' Custodial Role and the Path to Net Zero

As the custodians of trillion of dollars in retirement funds, investors have a fiduciary duty to deliver long-term returns for their beneficiaries that are commensurate with the level of risk taken.

- Climate change is the biggest systemic risk to the long-term returns of IGCC's members beneficiaries.
- The economy must decarbonise in a rapid, orderly, and fair manner to protect the retirement savings of millions of people.
- That's why investors support Sector Transition Plans — to help them deliver economy-wide capital allocations that better align with necessary climate mitigation and adaptation goals.

Part 1: A Sector Pathway Primer



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The Government Has Started to Develop Climate Pathways for Key Economic Sectors

“IGCC has long advocated for detailed sectoral decarbonisation plans to underpin investment and support the deployment of capital toward the economic opportunities of a net zero global economy, and I’ve listened.

“Last month I announced the development of the sectoral decarbonisation plans will be a key priority of the government over the next years.

These plans will be vital for attracting billions in investment to Australia’s decarbonisation, by providing industry and investors with certainty.”

Chris Bowen MP
Minister for Climate and Energy
IGCC Summit, August 2023



Sector Plans will play a crucial role in building Australia's common understanding of what must be done to achieve a just and orderly transition to net zero emissions.



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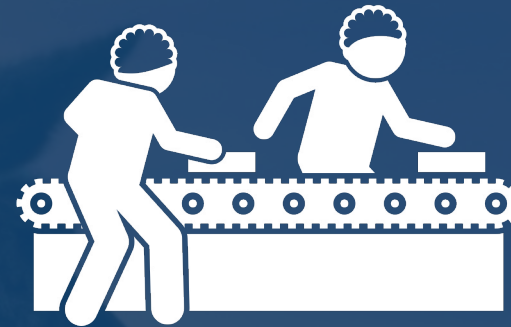
Six Key Sectors to Decarbonise

01



Electricity and
Energy

02



Industry

03



The Built
Environment

04



Agriculture
and Land

05



Transport

06



Resources



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- Different sectors will go at different speeds in the race to net zero emissions.
- Each sector needs different policies to deliver least cost abatement.
- All sectors' efforts must add up to national objectives.

Actionable Pathways Will:

- 01 Drive economic growth** and attract investment in net zero transition opportunities
- 02 Help investors** by avoiding stranded assets, and allow them to allocate capital confidently, remain invested in assets that need capital to transition, and provide clear signals on green investments
- 03 Help Companies** develop better transition plans and allocate capital to climate solutions
- 04 Build a common understanding** among government, the public, companies and investors by clarifying the collective task ahead to achieve net zero emissions
- 05 Minimise disorder and maximise agency** by empowering Australia to take advantage of the global race in clean energy and adaptation
- 06 Support a just and orderly transition** by assisting workforce and skills planning, and investment in transition regions

The global transition is accelerating but is going to be disorderly.
Sector Pathways will minimise disorder in Australia. They will help us smooth
decarbonisation in Australia and take advantage of opportunities.



What Sector Pathways Are Not



- 01 Just another scenario to consider
- 02 Fixed-forever prescriptions of the future
- 03 Changing how responsibilities for climate action are allocated
- 04 A replacement for the Safeguard Mechanism
- 05 An excuse for delay

An aerial photograph of a dirt road crossing a wide river in a dry, scrubby landscape. The road is a light brown color and runs vertically through the center of the image. A white SUV is driving across the road, crossing the river. The surrounding terrain is covered with sparse, green and brown vegetation. In the background, there are several flat-topped mountains under a clear sky. The overall scene is a rugged, natural environment.

Part 2 : Sector Pathways & Investors

How Investors Will Use Sector Pathways

Understanding emission reduction goals at national, sector and sub-sector levels

Understanding economic and energy drivers

Identifying and assessing potential investment risks and opportunities in real assets

Improving decision-making about investments in listed companies

Enabling better evaluation and management of portfolio climate change risks

Meeting regulatory climate change requirements

Supporting companies in their climate change transition

Engaging with governments on climate change policy

Eight Investor Expectations and Design Principles for Sector Pathways

Paris-aligned - 1.5C

Credible and internationally comparable

Informed by deep consultation

Transparent



Comprehensive including climate damages

Action-oriented

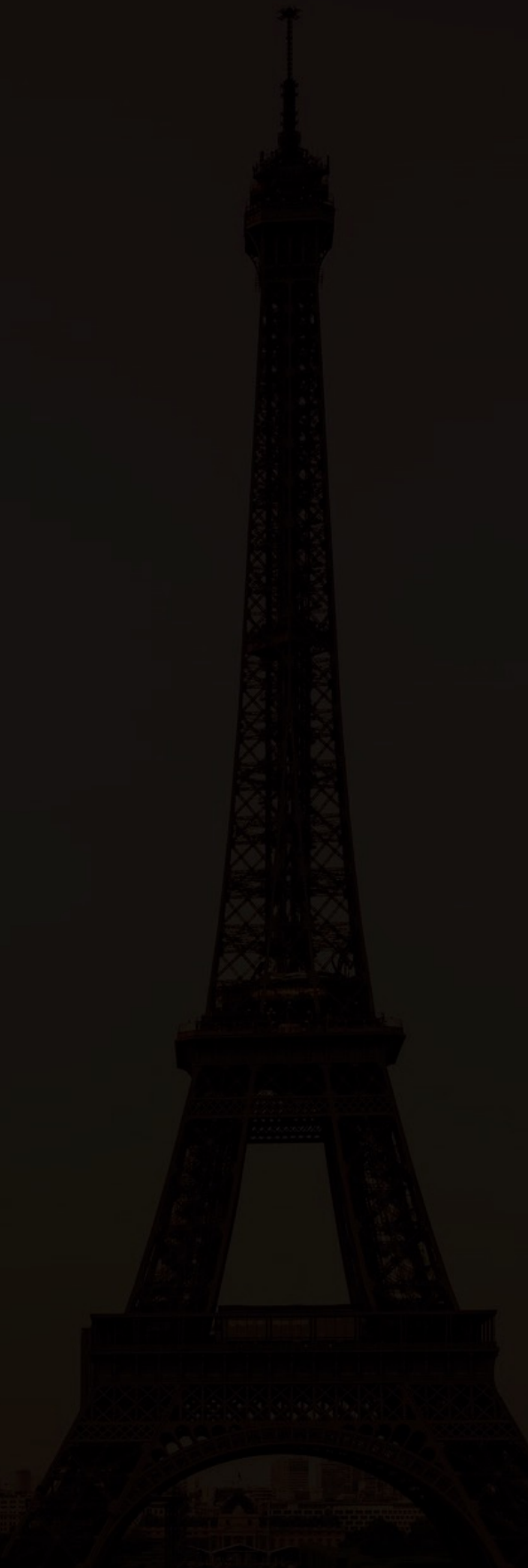
Dynamic - Updated every 5 years

Consider sensitivities and uncertainty

1 Paris-aligned

We need to allocate the decarbonisation task among sectors in accordance with a national emissions budget that contributes to limiting global temperature rise to 1.5 degrees.

A key focus of sector transition pathways is to share the decarbonisation task across different parts of the economy on a least cost basis.



2 Credible

- Ensure the elements of each pathway are consistent with its stated objectives
- Comparable to international sector-based transition pathways
- Developed by whole of government, informed by independent advice from Climate Change Authority
- Integrate top-down macro perspectives and bottom-up approaches
- Take into account how sectors interact



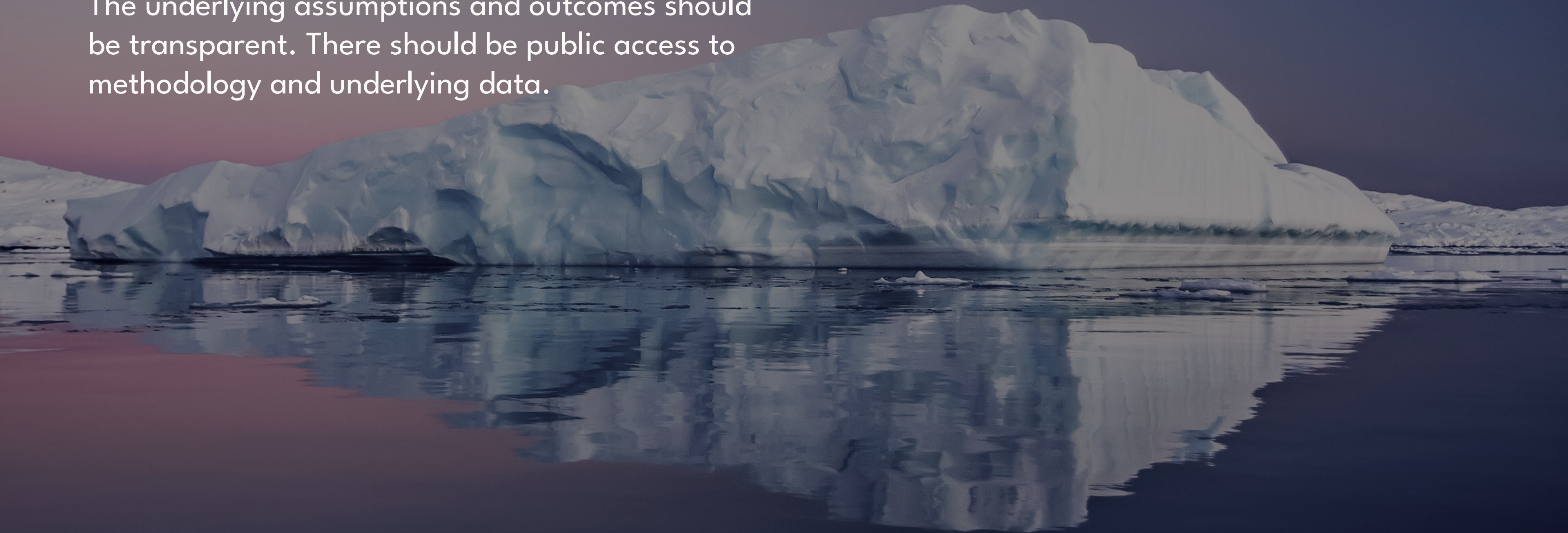
3 Informed by deep consultation

The development of Sector Plans must:

- Engage with investors on capital sources and return expectations
- Seek input from all stakeholders, including First Nations, communities, workers, industry, civil society, academia and investors to ensure credibility and inform assumptions

4 Transparent

The underlying assumptions and outcomes should be transparent. There should be public access to methodology and underlying data.



5 Comprehensive

Evaluate all sectors and sub-sectors. Cover all greenhouse emissions. Express pathways in terms of both absolute- and activity-intensity reduction. Include assessments of physical climate-related impacts.

6

Action-oriented

Identify R&D, investment, social, and just transition needs. Aligning whole of government policies. Specify capital sources and investor return expectations.



7 Updated every five Years

A black and white photograph of an hourglass, with sand falling from the top bulb to the bottom bulb. The hourglass is positioned on the right side of the frame, and its central neck is the focal point. The background is dark, making the glass and the falling sand stand out.

Sector pathways should be updated regularly to reflect changes in science and technology, international developments, and the impacts of domestic policies.

We recommend five-yearly updates in line with the Nationally Determined Contributions of the Paris Agreement.

8 Consider sensitivities and uncertainty

Identify pathway sensitivities to changes in core assumptions, as well as key areas of uncertainty, such as the degree to which Australia will develop new export markets by taking advantage of its renewable energy competitive advantage.



Download the Full Report:

igcc.org.au

About the Investor Group on Climate Change

The Investor Group on Climate Change (IGCC) is a collaboration of Australian and New Zealand institutional investors focused on the impact of climate change on investments. IGCC represents investors with total funds under management of more than \$3 trillion in Australia and New Zealand and \$30 trillion around the world. IGCC members' beneficiaries include more than 7.5 million people in Australia and Aotearoa New Zealand.

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DECARBONISATION INVESTMENT SOLUTIONS FOR SECTORS:

A discussion paper on Sector Transition
Plans and their importance to investors

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