Investor Group on Climate Change

The State of Net Zero Investment 2025

Analysis of $4.2 Trillion Managed on Behalf of Australians

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02: Executive Summary

Investors Continue to Prioritise Climate Action to Protect Long-Term Returns

Australia's institutional investors are navigating an increasingly complex landscape, shaped by rising anti-ESG sentiment in the U.S., the rollout of local mandatory climate disclosure laws starting this year, and the escalating financial impacts of extreme weather events like Cyclone Alfred and volatile energy prices. Despite these challenges, this year's survey results show investors continue to demonstrate progress across key climate practice areas – as well as in areas previously underrepresented like physical climate risk management.

Notably, 80% of respondents consider climate risks in their investment decision-making and 75% note they are driven by their fiduciary duty to do so – double the proportion from 2023 (37%). This implies a growing recognition that their legal obligation to safeguard long-term returns for beneficiaries includes managing climate-related financial risks. By integrating climate considerations, investors are aligning with their duty to protect portfolios from emerging risks whilst positioning for opportunities in the transition to a low-carbon economy.

The economic case for investing in climate action has been recently emphasised in a report by Boston Consulting Group: the cost of inaction could significantly reduce global GDP, whereas proactive mitigation efforts require a relatively small share of GDP while helping to safeguard long-term economic stability.[1] Economic stability is essential for investors, as it supports asset values, reduces systemic risks, and ensures sustainable financial returns for beneficiaries over time.

1 BCG (March 2025). "Landing the Economic Case for Climate Action with Decision Makers." Boston Consulting Group. https://www.bcg.com/publications/2025/investing-in-climate-action

Progress Across Climate Commitments, Risk Management, Company Engagement and Policy Influence

This year's findings demonstrate that investors are making progress across their investment practices, governance structures, and corporate engagement and policy advocacy efforts. Key developments include:

- **Strengthening climate commitments**
  - **Net zero by 2050:** Over three-quarters of respondents have publicly committed to a net zero by 2050 target, with a notable increase in asset owners setting targets covering their entire portfolio (now up to 82% from 68% in 2023).
  - **Interim targets:** 72% of respondents have established interim targets for at least part of their portfolio, up from 57% in 2023.
  - **Climate investment strategies:** Almost all asset managers (93%) and asset owners (95%) report integrating climate risks and opportunities into general investment practices – up from 68% and 82% in 2023 respectively.
- **Greater management of physical climate risks**
  - Whole-of-portfolio physical climate risk assessment increased to 43%, up from 16% in 2023.
  - Across all asset classes, assessments grew by an average of 23%.
  - Importantly, 60% of investors conducting assessments have implemented a response to the identified risks.
- **Corporate engagement progresses from commitments to action**
  - A significant proportion of investors are engaging companies on decarbonisation strategies (83%), targets (80%), and physical climate risk, resilience and adaptation (74%).
  - Investors are increasingly moving beyond direct engagement to building system thinking into engagement initiatives, with the aim of converting climate commitments into real-world outcomes.
- **Clearer stance on fossil fuel investments**
  - Almost 90% of investors now apply dedicated strategies to address fossil fuel investments, either through exclusions/ negative screening or specialised stewardship.
  - There has been a notable rise in investors incorporating reference to fossil fuels and other high-emitting assets into their investment policies, up from 43% in 2023 to 69% in 2024.
- **Policy advocacy is gaining momentum**
  - Investors are using their influence to drive policy reforms that support financial stability and economic resilience.
  - In 2024, 89% of respondents engaged in climate finance-related policy advocacy.

Six Focus Areas Could Drive Significant Progress in Capital Markets

These advances reflect a growing understanding that climate action is crucial to maintaining financial stability, but further progress is needed to accelerate the transition to a low-carbon economy while safeguarding beneficiary returns.

Our analysis identifies six focus areas to drive faster progress in managing material climate risks and realising opportunities in capital markets.

1. **Continue Strengthening Climate Policy Frameworks to Provide Stability for Investment**

   Background: Long-term policy stability and visibility are essential for investors, especially super funds and investment managers focused on generating long-term returns for beneficiaries. Since the launch of the State of Net Zero survey in 2017, investors have consistently highlighted policy and regulatory uncertainty as a major barrier to climate investment in Australia.

   Survey insights: In 2024, 44% of investors cited policy or regulatory uncertainty as a barrier to climate-related investment – a significant decline from 2021 (69%), but still the second-largest obstacle. The persistence of policy uncertainty makes it difficult for investors to navigate a clear, cost-effective path to net zero. Different views on how Australia should transition – particularly in the energy sector – may be contributing to investor hesitation, underscoring that bipartisan policy cooperation would support the long-term confidence that helps investors deploy capital into Australian projects.

   Recommendation: While policy progress has boosted market sentiment, investors continuing to cite uncertainty as a barrier underscores the need for further action. To maintain investment momentum, policymakers should continue working closely with investors to strengthen Australia's climate policy framework, aligning it with science-based targets to provide long-term certainty and financial market alignment with net zero goals.

2. **Translate Surging Investor Interest into Capital Deployment at Scale**

   Background: Investor appetite for climate solutions is growing, but the policy environment must do more than provide stability – it must actively enable and attract capital. A lack of investment-ready opportunities with the right risk-return profile remains a major barrier, with the proportion of investors concerned about a lack of suitable opportunities jumping 13 percentage points to 61% in 2024. This highlights the need for targeted incentives and stronger collaboration between policymakers and investors to unlock capital deployment at scale.

Survey insights: Interest in climate solutions is surging. Renewables – solar, wind, and hydro – remained the top opportunity for investors at 63% (up from 47% in 2023). Investor appetite remains low in the blue economy (9%), nuclear power (14%) and carbon capture & storage (22%).

Despite growing interest in climate solutions, formal commitments or targets to scale up investment have risen only modestly, from 50% in 2023 to 53% in 2024. This gap suggests that while investors are increasingly drawn to these opportunities, policy settings may not yet be providing the necessary conditions to translate interest into action.

Recommendation: To bridge the gap between investor interest and capital deployment, policymakers must actively shape an enabling investment environment. IGCC urges the next Australian government to continue delivering on investors' key policy priorities (**see Box 1**).

Box 1: Key policy priorities for investors in 2025:

- Phasing out fossil fuel subsidies (61%) to remove market distortions and drive capital into low-emissions alternatives.
- Scaling up funding for climate technologies (61%) to accelerate commercialisation and deployment.
- Setting 1.5˚C-aligned sector pathways and a strong national 2035 NDC (61% and 57%) to provide clear long-term investment signals.
- Improving carbon pricing mechanisms (59%) to create stronger incentives for emissions reduction.
- Expanding public-private financing mechanisms for resilience (46%) to address growing concerns about physical climate risks and extreme weather events.
- Strengthening policies on climate risk and resilience (35%) to ensure investors can manage and mitigate exposure to climate-related risks.

3. **Private Investment is Key to Funding Adaptation Solutions and Safeguarding the Economy from Physical Climate Risk**

Background: Physical climate risks are financial risks, and climate-related disasters are becoming more frequent and severe. In Australia, these events could cost $73 billion by 2060 under a low-emissions scenario, with potential losses reaching $94 billion under a high-emissions scenario.[2] Investors increasingly recognise the need to assess and manage these risks to protect the retirement savings of their members and maintain financial stability.

Survey insights: Investors have significantly increased their assessment of physical risk, rising from 16% in 2023 to 43% in 2024. This trend is expected to continue with the rollout of Australia's mandatory climate disclosures this year. Additionally, 60% of investors who have assessed their physical risks have implemented responses to mitigate them. Notably, however, only 22% of investors have invested in adaptation solutions.

Recommendation: These results highlight the broader adaptation financing gap, estimated at between $US194 and $US266 billion annually globally[3], which will grow as the physical impacts of climate change intensify. Governments alone cannot bridge this gap – private investors have an important role to play by protecting their assets and investing in adaptation solutions. IGCC's *Activating Private Investment in Adaptation report*[4] outlines how investors can achieve this by collaborating with governments, corporations, and other stakeholders. Investors that are not considering physical risks and opportunities may face a significant competitive disadvantage.

4. **A Focus on Systems Stewardship Will Help Drive Real-World Emission Reductions**

Background: Traditional stewardship has focused on company engagement and proxy voting. While most of Australia's largest corporate emitters now disclose climate transition plans, further emissions reductions often rely on emerging 'sunrise' technologies. Investors increasingly recognise that direct engagement alone is insufficient. To accelerate decarbonisation, they are adopting a 'systems stewardship' approach – considering a company's broader operating environment with a view to overcoming systemic barriers. Policy advocacy is one key tool in this strategy.

Survey insights: Over half of investors (52%) now engage across a company's value chain, and 89% engage in some form of policy engagement, suggesting investors are already engaging with some key system stakeholders.

2 Deloitte (2021). "Special report: Update to the economic costs of natural disasters in Australia." https://shorturl.at/bjuIE
3 United Nations Environment Programme (November 2023). "Adaptation Gap Report 2023: Underfinanced. Underprepared. Inadequate investment and planning on climate adaptation leaves world exposed". https://wedocs.unep.org/handle/20.500.11822/43796
4 IGCC (November 2024). "Activating Private Investment in Adaptation". Investor Group on Climate Change. https://igcc.org.au/wp-content/uploads/2024/10/Activating-Private-Investment-in-Adaptation.pdf

Recommendation: Investors can strengthen corporate engagement by identifying where investor action can have the greatest impact and by targeting key intervention points at a whole economy, sector and company level. This may include engagement with parties beyond value chain and policy stakeholders, such as lenders and technology providers. Investing in critical transition technologies and using public campaigns to build community support are also examples of system-level steps that can accelerate corporate decarbonisation outcomes.

5. **Further Regulatory Guidance is Required on Mandatory Disclosures**

Background: Climate-related disclosure is a vital part of investor action and is critical to market and stakeholder confidence. It enables stakeholders to assess how investors manage climate-related financial risks and opportunities, provides beneficiaries and clients with the ability to compare different approaches to integrating climate considerations, and helps investors enhance their understanding of their exposure to climate-related risks and opportunities. Australia's mandatory climate reporting laws come into effect for the largest asset owners and managers from 1 July 2026.

Survey insights: This year's survey results show that levels of climate transparency – particularly the disclosure of climate action plans – have plateaued, and in some cases, decreased. Qualitative responses from the investors surveyed suggest this slowdown stems partly from a 'wait and see' approach as investors await further guidance from local policymakers on what investors are expected to disclose.

Recommendation: This year's findings suggest that investor anxiety around allegations of greenwashing may have played a part in tempering investor enthusiasm for some voluntary disclosures, as they seek to understand and navigate regulator expectations (see IGCC submission to ASIC here[5]). It is critical that regulatory scrutiny of climate disclosures appropriately acknowledges the special circumstances of investors, reflecting their status as primarily influencing the companies they invest in, rather than having direct control over greenhouse gas emissions themselves. At the same time, investors need to continue their commitment to transparency around climate targets and ambition, sending a strong signal to the market that a fast and fair transition is in the financial interests of investors, their beneficiaries, and the economy as a whole.

6. **Global Action is Required if Global Climate Goals Are to be Achieved**

Background: Climate change is a global challenge. Meeting international climate goals will hinge on significant emissions reductions in Emerging Markets and Developing Economy countries (EMDEs) – among the fastest-growing in terms of greenhouse gas emissions – reinforcing the urgency of scaling investment in climate solutions in these regions. The International Energy Agency estimates that US$2.2 to US$2.8 trillion of clean energy finance per year is needed in EMDEs from the early 2030s to achieve the goals of the Paris Agreement.[6]

Survey insights: One of the most significant findings in this year's survey is that more investors are setting net zero by 2050 targets (86% of asset owners and 74% of asset managers). This ambition is not mirrored in their actions in emerging markets, however. Only 35% of asset managers in Australia – and less than a quarter of asset owners (23%) – are allocating capital to climate solutions or transition finance in EMDEs.

Recommendation: Investing in EMDEs is complex but it also offers significant opportunities for Australian institutional investors[7], particularly as the U.S. signals a shift away from climate leadership. By working with the public sector, investors can develop the expertise and partnerships necessary to unlock capital for EMDE markets and tap into emerging investment opportunities. Strengthening internal capabilities through upskilling and collaboration with colleagues and industry peers can further enhance capacity and confidence in EDME investing.

5 IGCC (January 2025). "Submission: Investors Need Guidance from ASIC on 'Reasonable Grounds' in Climate Reporting. Investor Group on Climate Change. https://igcc.org.au/submission-investors-need-guidance-from-asic-on-reasonable-grounds-in-climate-reporting/
6 IEA (June 2023). "Scaling Up Private Finance for Clean Energy in Emerging Markets and Developing Economies." International Energy Agency. https://www.iea.org/reports/scaling-up-private-finance-for-clean-energy-in-emerging-and-developing-economies
7 IGCC (May 2023). "Mobilising Climate Investment in Emerging Markets." Investor Group on Climate Change. https://igcc.org.au/wp-content/uploads/2023/05/Mobilising-Climate-Investment-in-Emerging-Markets_FINAL.pdf

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