Investor Group on Climate Change

The State of Net Zero Investment 2025

Analysis of $4.2 Trillion Managed on Behalf of Australians

Published April 2025

About the Investor Group on Climate Change.

We are the leading network for Australian and New Zealand investors to understand and respond to the risks and opportunities of climate change.

Our members include our countries' largest superannuation and retail funds, specialist investors and advisory groups.

They are custodians of the retirement funds and savings for more than 15.8 million Australians and millions more New Zealanders.

Our members manage nearly $40 trillion in global assets, and over $4.5 trillion locally.

About This Report

Our Annual State of Net Zero report is Australia's most credible and comprehensive analysis of institutional investors' net zero investment practices.

This year's edition is based on survey responses from 65 firms managing AU$4.2 trillion on behalf of Australian beneficiaries. Approximately 80% of survey respondents are IGCC members.

The report is organised around the key focus areas used in the globally recognised investor framework on climate action – the Investor Climate Action Plan Expectations Ladder (ICAPs): Investment, Corporate Engagement, Policy Advocacy, Disclosure, and Governance. We have also included a chapter focusing on Physical Climate Risk and Resilience, given the need for rapid investor action in this area.

Acknowledgments

IGCC's Investor Engagement Manager – Marwa Curran – led this project with input from across IGCC. Other authors include Lisa Caripis, Duncan Paterson, Max Hamra, Richard Proudlove, Bethany Richards and Michael Bones. Edited by Rachael Millar, IGCC's Senior Communications Manager.

Lonergan Research provided survey data collection and management. Special thanks to the members and non-members who respond to our yearly survey. Your data shows IGCC, policymakers and other stakeholders the industry's progress and suggests what is needed to accelerate action.

The report's lead sponsor is ISS STOXX, and case study sponsorships are from Pathzero and JANA. We are deeply grateful for their support.

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01: A Message from Our CEO

Rebecca Mikula-Wright
CEO, IGCC & AIGCC

Since 2017, IGCC's State of Net Zero report has served as the definitive annual snapshot of how Australia's institutional investors are responding to climate change.

As the investment landscape evolves, so too has this report – tracking the progress, challenges, and strategic shifts that define the sector's approach to managing climate-related risks and opportunities. While the report primarily captures investment management, progress ultimately lies in an increase in the amount of capital funding sustainable economic activity and a decrease in real-world emissions. We hope the transparency provided in this report is a step towards this goal.

This year's findings come at a critical time. Investors are navigating an environment more complex than ever before. Globally, shifting tides – including the politicisation of climate in the United States – are creating new challenges for climate-focused investment strategies. Meanwhile, Australia's regulatory landscape is evolving, with incoming mandatory climate disclosure requirements driving greater – and much needed – transparency through clear, data-backed reporting on emissions, governance, risk management and strategy related to climate-related risks and opportunities.
At the same time, the physical damages from climate change are making headlines with increasing frequency, underscoring the reality that climate risk is no longer an abstract concern – rather, it is actively shaping investment strategies, influencing capital allocation, and redefining long-term risk management. For investors, these factors present a dual challenge: ensuring portfolios are resilient to both regulatory and market shifts while also delivering stable, long-term returns to beneficiaries.

Despite these headwinds, this year's findings show that Australia's institutional investors remain firmly attuned to the risks and opportunities of climate change – and how they align with their fiduciary responsibilities. Investors are making progress across key climate practice indicators, even in a turbulent landscape. Net zero commitments remain strong, engagement strategies are maturing, and policy advocacy – while still a less widely adopted tool – is gaining traction. This resilience demonstrates that climate remains central to investment decision-making. Investors recognise that a well-managed transition presents significant opportunities for long-term value creation.

Notably, the report highlights the growing importance of physical risks. With Australia's unique exposure to extreme climate events – ranging from bushfires to flooding – investors are increasingly integrating physical climate risk considerations into their investment processes. Encouragingly, this is translating into more concrete action, with many investors now not only identifying risks but also implementing strategies to manage them. The shift from risk identification to active risk management is a crucial step in ensuring the stability of portfolios and the broader economy.

As we reflect on the findings of this year's report, one thing is clear: the investment community cannot afford to lose momentum. The challenges ahead are significant, but so too are the opportunities. IGCC remains committed to supporting investors in their climate strategies, providing the insights, connections, and collaborative frameworks needed to navigate this evolving landscape. We look forward to continuing to work alongside our members to ensure that the investment sector remains steadfast in its response – managing risks, seizing opportunities, and contributing to an orderly, fair, and well-planned transition to a resilient, net zero economy.

A Message from Our Sponsor

Till Jung
Global Head of ESG at ISS STOXX

At ISS STOXX, we believe that high-quality data, analytics and actionable insights empower investors to build for long-term and sustainable growth.

I'd like to thank the Investor Group on Climate Change (IGCC) for their long-standing work in ensuring investors in Australia and New Zealand have the information they need to understand and respond to the risks & opportunities climate change brings.

The State of Net Zero Investment Report is a crucial annual benchmark review by, and for, institutional investors to understand peer practices and progress on climate considerations.

The survey results presented in this report shine a light on investment tools and practices deployed in Australia by institutional investors to achieve Net Zero ambitions: from commitments made, to types of analysis used, and ways investors implement stewardship practices.

Bringing together the views of investment practitioners makes this report an important source of information for market participants in 2025 to help see through the noise and focus on the essentials: understand how investors are engaged in the transitioning of key economic sectors to a low carbon economy; and draw meaningful conclusions on the basis of a clear understanding of short, medium and long-term risks posed by climate change to portfolio companies. Through this understanding, investors will be achieving outcomes that will ultimately protect beneficiaries' returns from the impacts of climate change.

Thank you to all investors who participated in the survey, and the IGCC team for their hard work in collating and curating the results.

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

03: Climate Practice Indicators

For the past five years, IGCC has tracked the climate performance of the Australian investment market using a set of headline Climate Practice Indicators (CPIs). These indicators outline some of the actions investors must take for Australia to achieve an orderly transition to net zero by 2050.

In September 2024, IGCC distributed its annual State of Net Zero survey to Australian institutional investors, including global investors with operations in Australia.

The survey received responses from a total of 65 investors, consisting of 22 asset owners and 43 asset managers, with a combined global AUM of A$47 trillion and A$4.2 trillion managed on behalf of Australian beneficiaries.

It is important to note that 80% of the sample consists of IGCC members. Based on our understanding of the market, IGCC's membership reflects a group of larger, relatively climate-progressive investors.

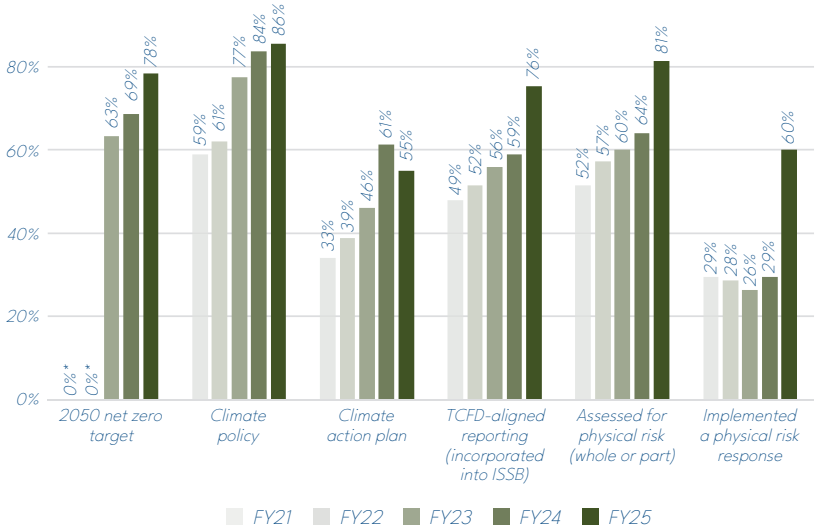
The survey results show investors have made progress across all key CPIs despite global and regulatory headwinds, demonstrating their commitment to climate action. The results also show they are increasingly focused on addressing physical climate risks.

Investors Are Navigating an Increasingly Complex Environment

Climate-aware investors are currently facing unprecedented challenges in integrating net zero practices into their investment strategies. The risks of climate change have never been clearer, with the impact of climate-related natural disasters dominating global headlines. At the same time, a resurgent anti-ESG movement in the United States is creating legislative obstacles to sensible climate action, while regulatory approaches in other markets risk stifling ambition, despite best intentions.

This year's CPI results reflect the influence of these competing forces.

Climate Practice Indicators: IGCC Member Progress Analysis 2020–2024 – All Investors



Investors Remain Attuned to Climate Risk on Returns

Consistently strong year-on-year results for '2050 net zero targets' and 'climate policies' in the State of Net Zero survey show that investors remain highly aware of climate risks and the impact of these risks on their ability to deliver stable, long-term returns for beneficiaries.

A significant increase in physical risk assessments – and related responses – also demonstrates investors' growing focus on addressing immediate physical climate risks. Importantly, more investors are moving beyond risk identification to actively implementing strategies to manage those risks. This shift reflects the need to both mitigate and adapt to physical climate risks – an ongoing priority for IGCC.

Climate Transparency and Disclosure Have Plateaued

Investors continue to show strong levels of climate ambition and are starting to address previously underrepresented areas like physical risk management. Our latest survey highlights areas that need more attention, however.

Notably, levels of climate transparency and the disclosure of climate action plans have plateaued, and in some cases – decreased. Qualitative responses from the surveyed investors suggest this slowdown stems partly from a 'wait and see' approach as investors await further climate transparency guidance from local policymakers. Australia's upcoming election is probably influencing this as well. Investors consistently point to climate policy instability as a major barrier to investing in climate solutions. Pre-election messaging has heightened concerns about a return to the 'climate wars', reinforcing the need for clear and consistent government policies on climate.

A prolonged slowdown in disclosing climate action plans could undermine stakeholder confidence at a time when demonstrating progress is essential. Nevertheless, Australia's regulatory landscape has evolved significantly in recent years. As investor transition planning requirements become clearer, investor confidence in communicating their climate strategies should strengthen.

The following chapters explore these CPI findings and describe other key areas shaping climate investment in Australia.

**Not measured in FY21.*

04: Focus on Physical Climate Risk and Resilience

As global temperatures rise, extreme weather events will become more frequent and intense. Even under low-emissions scenarios, severe physical climate events will increase worldwide before the end of the century.[8]

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.[9]

Despite this, most investors have yet to assess both physical and transition risks through a holistic, integrated approach. As a recent EDHEC-Risk Climate Impact Institute paper highlights, physical and transition costs are two sides of the same valuation coin: the greater the transition effort, the smaller the expected physical damages – and vice versa.[10]

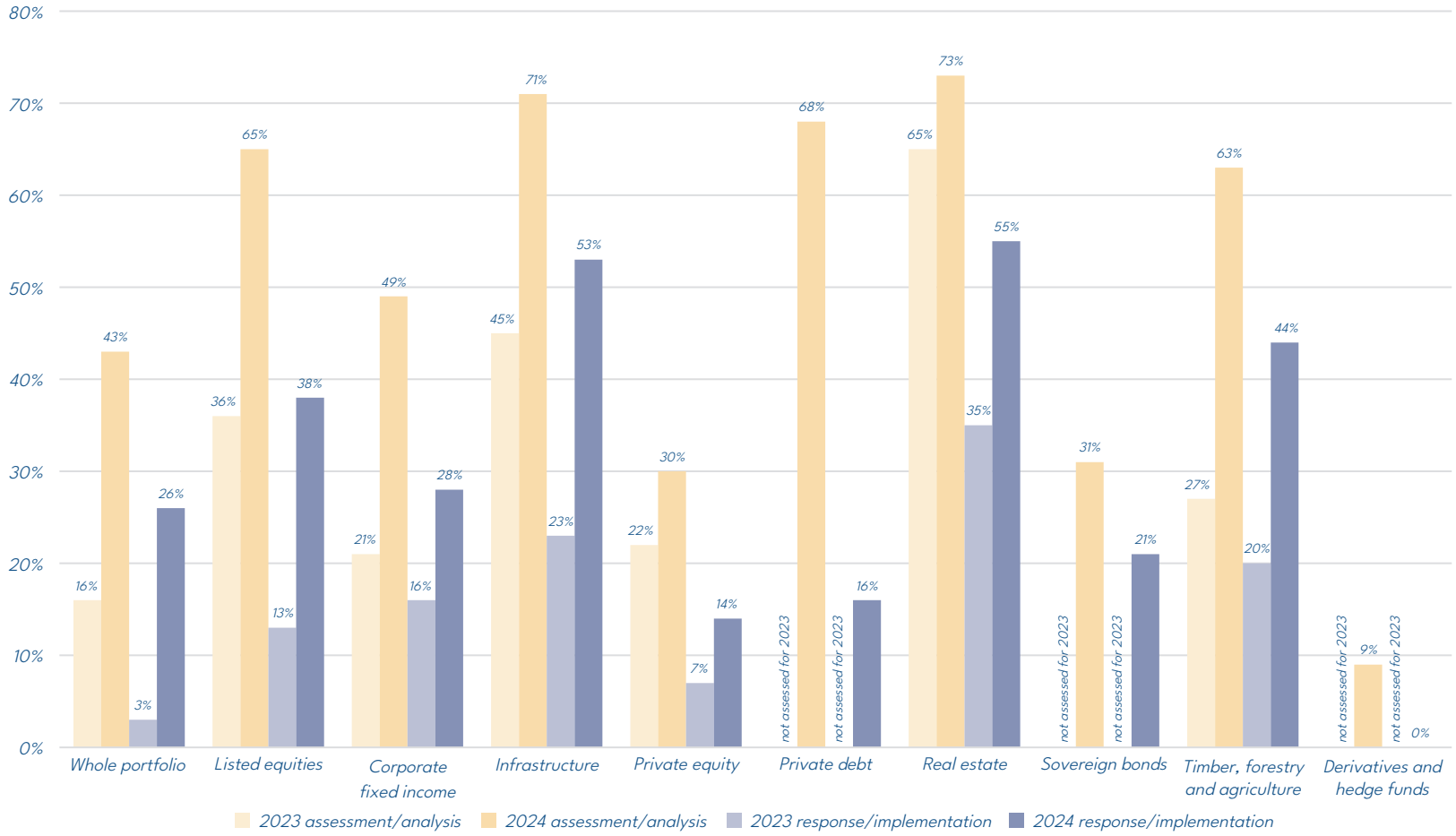
8 IPCC Sixth Assessment Report (2022). Chapter 16: "Key risks across sectors and regions". Intergovernmental Panel on Climate Change. https://www.ipcc.ch/report/ar6/wg2/chapter/chapter-16/
9 Deloitte (2021). "Special report: Update to the economic costs of natural disasters in Australia". https://shorturl.at/bjuIE
10 EDHEC-Risk Climate Impact Institute (July 2024). "An EDHEC-Risk Climate Impact Institute Publication How Does Climate Risk Affect Global Equity Valuations? A Novel Approach". https://climateimpact.edhec.edu/sites/ercii/files/pdf/ercii_publication_how_does_climate_risk_affect_equity_valuations.pdf

Physical Climate Risk Assessment in Investor Portfolios

Australia's new climate disclosure requirements – under the Australian Accounting Standards Board's Standard AASB S2 – require investors to disclose an analysis of different climate scenarios and describe the resilience of their strategy and business model under those scenarios. As part of these requirements, they must disclose adaptation and resilience strategies to manage the physical risks that they identify.

Physical climate risk assessment is far less mature than transition risk assessment, however. Investors face significant challenges, including data quality and availability, as well as the difficulty of translating physical climate risk data into investment decision-useful insights. These challenges are compounded by the inherent uncertainties in

Physical climate risk and resilience: assessment and response



Percentages reflected in each asset class are based on the total number of number of investors invested in the asset class as disclosed in survey.

climate models, especially when downscaling to local levels, which can lead to significant variability and uncertainties in risk assessment.[11]

Despite these challenges, investors have significantly expanded their physical climate risk and resilience practices. Assessment across all asset classes increased by an average of 23%,[12] with whole-portfolio assessments up to 43%, from 16% in 2023. Investors are also increasingly implementing a variety of responses to build resilience into their portfolios, with a 23% increase in responses implemented at the whole-portfolio level, and an average 19% increase across asset classes.

Consistent with last year's findings, Real Estate and Infrastructure remain the asset classes where the most action is being taken by investors on physical risk assessments and response implementation. Over two-thirds of investors in these asset classes have conducted physical climate risk assessments (73% and 71% respectively), and more than half have implemented a response.

Private Equity remains the least assessed asset class, with under one-third of investors assessing for physical climate risks (22% in 2023 and 30% in 2024), and only 14% implementing a response.

Corporate Fixed Income saw notable progress, doubling its assessment rate from 21% in 2023 to 49% in 2024. Despite this, response implementation in this asset class increased only moderately, reaching 28% in 2024 from 16% in 2023.

Real Assets remain the primary focus of investors' physical risk and resilience efforts. These assets are typically long-term, fixed-location investments, making them highly exposed to location-specific climate hazards. They also represent significant capital commitments, meaning any damage or disruption carries a substantial financial impact. Additionally, Real Assets tend to have more accessible data compared to other asset classes, giving investors better visibility and influence to implement resilience measures.

Physical climate risks are material to investor portfolios, as demonstrated by the fact that 60% of investors undertaking a physical risk assessment across their whole portfolio also implement a response to the identified risks. Investors who have not started to assess their portfolios for physical risks are less likely to be prepared to respond to them.

Currently, most investors do not disclose their physical climate risk assessments. Given that AASB S2 requires transparency on the analysis and management of identified physical climate risks, however, disclosure levels are expected to rise in the coming years.

11 UNSW Sydney (September 2024). "Challenges, limitations and risks associated with climate-related physical risk disclosure". https://www.unsw.edu.au/news/2024/09/challenges-limitations-and-risks-associated-with-climate-related-physical-risk

12 The 2024 survey includes additional asset classes that were not assessed in previous years e.g. derivatives and hedge funds. These are not included in the calculation.

From Assessment to Action: Investing in Resilience Against Physical Climate Risks

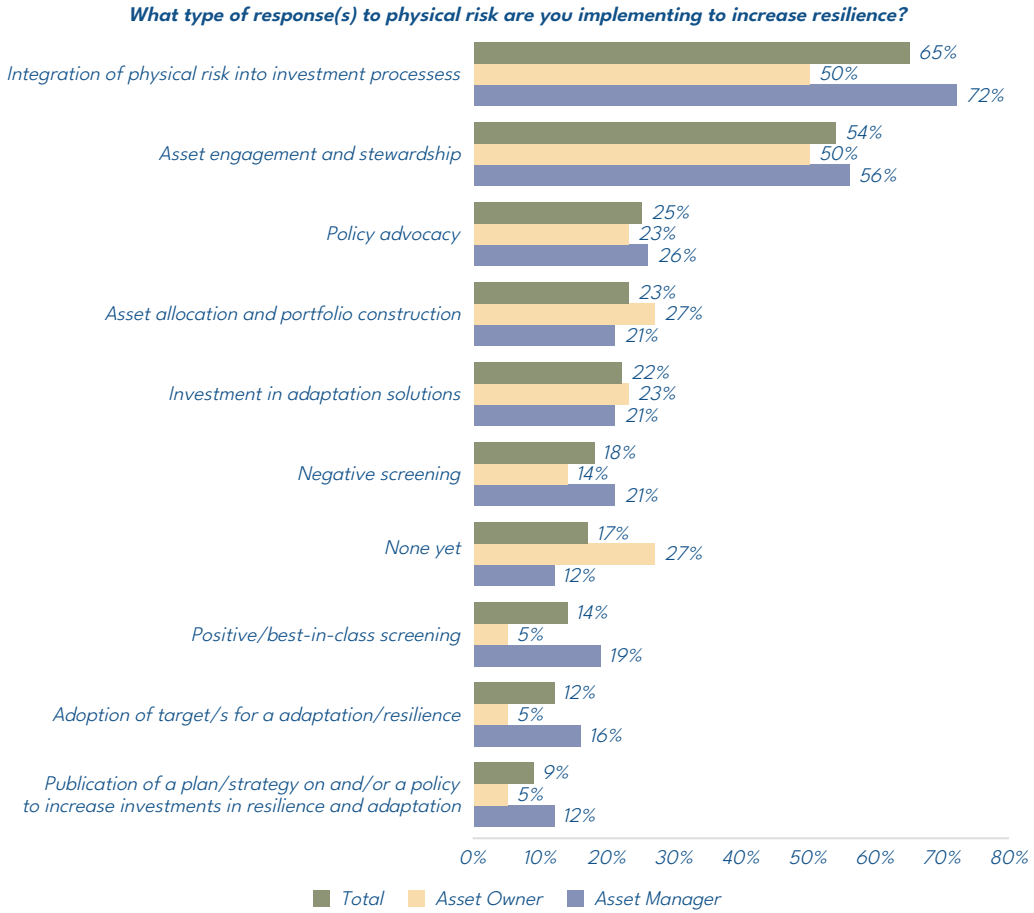
The outputs of climate risk assessments help investors develop effective risk management frameworks, inform asset valuations, identify physical climate risk hotspots in their portfolio, and respond accordingly.

Our findings show that most investors rely on two primary approaches to increase the resilience of their portfolios:

1. **Integrating physical risk into investment processes:** This approach typically includes conducting detailed asset-level vulnerability assessments, highlighting high-risk regions or asset classes, and integrating these assessments into financial models (e.g., adjusting asset valuations). Other actions include diversification of investments to mitigate the concentration of physical climate risks in any one asset class or region, and/or implementing risk reduction mechanisms, such as insurance or improving the resilience of investments.
2. **Asset engagement and stewardship:** Our research into investors' corporate engagement activities shows that 'physical climate risk, resilience and adaptation' is one of the top three areas of engagement with investee companies (see Chapter 6 'Corporate Engagement'). For more detail on investor expectations of companies' physical climate risk management and resilience, refer to guidance developed by IGCC's sub-working group here.[13]

The proportion of investors using negative screening remains stable compared to last year, with almost one-fifth of investors (18%) using this approach to manage physical climate risks and strengthen portfolio resilience. However, fewer than one-tenth of investors have published a plan, strategy or policy to scale investments in resilience and adaptation – making it the least adopted response for the second year in a row.

Policy advocacy also remains underutilised as a response to physical risk. Only one-quarter of investors actively engage in policy advocacy on this issue, despite identifying improved approaches to physical risk as a key policy priority for government action (see Chapter 7 'Policy & Advocacy').



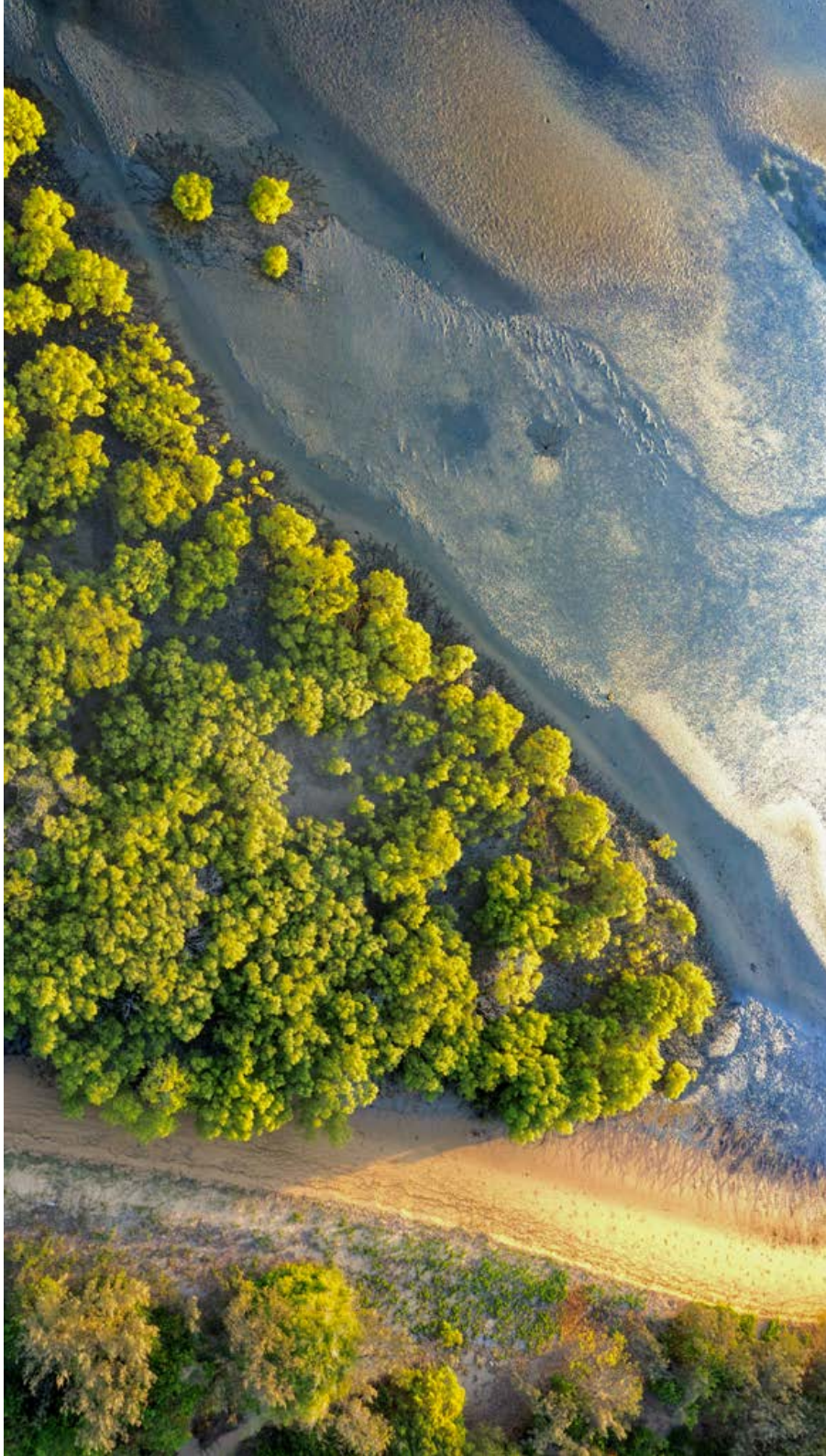
13 IGCC (October 2024). "Investor expectations of companies' physical climate risk management and resilience (pilot version)". Investor Group on Climate Change. https://igcc.org.au/wp-content/uploads/2024/09/Draft-expectations-draft-final.pdf

Looking Forward: Scaling Up Capital for Adaptation and Resilience

Institutional investors are increasingly integrating physical climate risk into their investment processes. Asset engagement and stewardship strategies are also becoming more mainstream. While progress is being made, many investors still struggle to formalise their approach at an organisational level to scale up investment in climate adaptation and resilience.

A key concern is that systematically screening out high-risk investments could drive capital flight from vulnerable regions and sectors, as highlighted in IGCC's *Activating Private Capital for Climate Adaptation (2024) report*.[14] This issue is particularly relevant for Australia, which faces greater exposure to physical climate risks than many other markets. Reflecting this, 62% of respondents identified Australia as the nation where they most actively consider physical climate risk, followed by North America.

Governments and institutional investors must work together to scale up investment in adaptation and resilience. As universal owners with exposure to whole economies, investors' returns to beneficiaries are closely tied to the broader economic growth – or contraction – of the markets in which they operate.



14 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

05: Practice Area: Investment

Investors are facing growing regulatory and market expectations to manage the material climate-related risks and opportunities relevant to their investments. As the Australian Prudential Regulation Authority (APRA) recently noted:

> *"Stakeholder expectations are rising, and APRA is committed to ensuring that the institutions it regulates take a strategic and risk-based approach to managing climate-related risks in a proportionate manner."*[15]

This chapter examines how investors integrate climate into their investment decisions by setting long- and mid-term climate targets and developing policies on climate and fossil fuels.

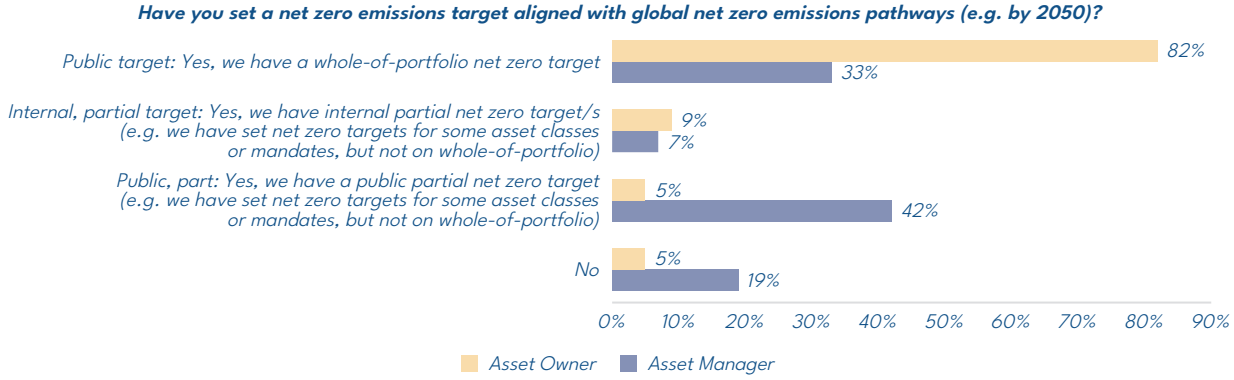
15 "APRA releases survey results assessing management of risks associated with climate change in the financial sector", media release (13 November 2024).

Climate Targets: Net Zero by 2050

Public, long-term 'net zero by 2050' targets are quickly becoming standard practice amongst Australia's institutional investors, as they look to signal their commitment to climate action.

More than three-quarters of survey respondents have publicly committed to a net zero target by 2050, covering all or part of their portfolio. Notably, in 2024 significantly more asset owners had declared a target covering their whole portfolio, now up to 82% from 68% in 2023. An additional 9% of asset owners set internal-only targets, while only 5% reported having no long-term target at all.

In contrast, around one in five surveyed asset managers (19%) do not have a long-term target. This gap may reflect competing demands from a globally dispersed client base, including markets experiencing anti-ESG sentiment. Asset owners with net zero targets may need to formalise their climate expectations of external managers, as only 14% of asset owners currently incorporate net zero commitments into their Investment Management Agreements with external managers.



Climate Targets: Interim

Interim targets (e.g. 2030) add credibility to investors' net zero targets by prompting immediate action and ensuring closer monitoring of progress to ensure they are on track to achieve their long-term climate ambitions. Global net zero initiatives – including the Paris Aligned Asset Owners (PAAO) initiative and the Net Zero Asset Managers (NZAM) – make interim targets a key component of the target-setting process for participating investors.

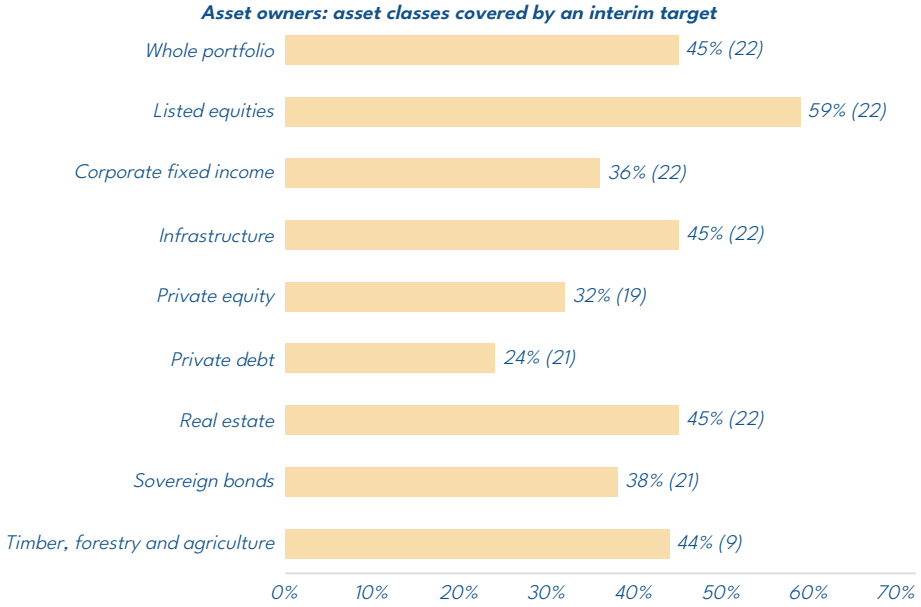
Nearly three-quarters (72%) of respondents have set an interim target over at least part of their portfolio (i.e., in select asset classes). This reflects a steady upward trend from 40% in 2022 and 57% in 2023.

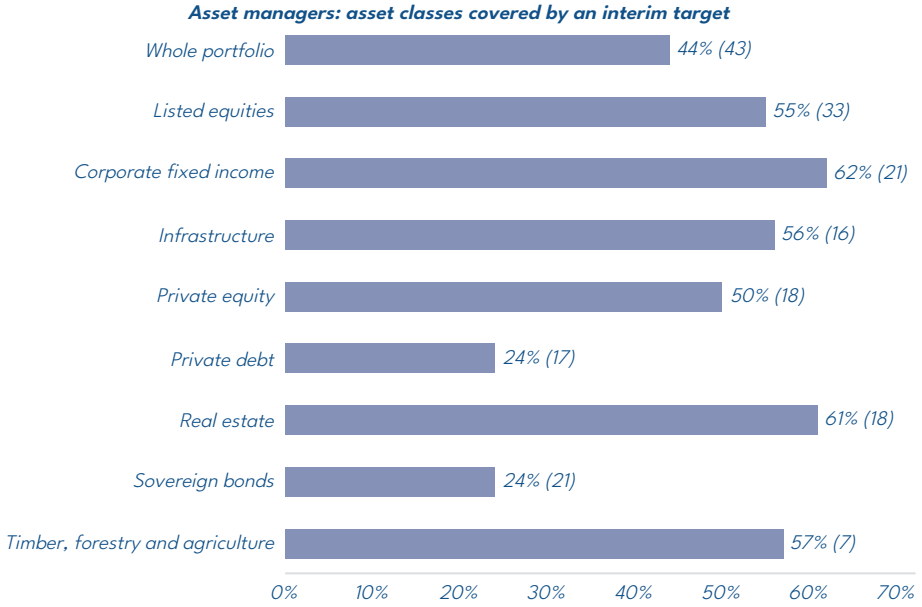
Transparency remains a challenge, however. One in three asset owners and one in four asset managers with an interim target have not made those targets public.

Asset owners are increasingly setting interim targets in the following asset classes:

- Listed Equity (up from 40% in 2023 to 59%);
- Real Estate (unchanged from 2023 at 45%);
- Infrastructure (up from 40% in 2023 to 45%);
- Corporate Fixed Income (up from 30% in 2023 to 36%); and
- Sovereign Bonds (up from 30% in 2023 to 38%).

While these increases are encouraging, asset owners still lag behind asset managers in setting interim targets in almost all asset classes. This is not a universal trend, however. Asset owners are more likely to apply interim targets on Listed Equities. This finding may be because the climate performance of this asset class is more transparent compared to other asset classes. Interim targets set by asset owners signal an expectation that managers establish their own targets and strategies to carry out more immediate actions to manage the material climate risks to their investments.





The percentage represents the proportion of respondents invested in this asset class that have an interim target. The total number invested in this asset class is displayed in brackets.

Beware of Potential Blind Spots

ISS STOXX

Sponsored Real World Example: ISS STOXX

Emissions performance against targets is a key aspect of a company transition plan's credibility. A sharp deviation in reported emissions from the anticipated trajectory originally implied by longer-term targets might be cause for concern.

AI Surge vs. the Climate Transition

Aggressive investment in data centres and servers to deliver AI applications has not yet dented the climate ambitions of the largest technology companies. Five of the 'Magnificent Seven' have committed to a Net Zero target by 2050 or earlier. These companies also have the largest carbon footprints within the group.

Four of the 'Seven' have interim GHG emissions targets covering scopes 1, 2, and 3. However, none of these companies has disclosed the methodology used to define its scope 3 target.

All but one of the 'Seven' has quantitative and qualitative decarbonisation actions in place. Yet more details could be available on the decarbonisation levers, these levers' future quantitative impacts on and contributions to the companies' overall emissions reduction targets, and the financial capabilities or capital applied to the decarbonisation strategies.

Targets, Projections and Historical Trends

For certain of the 'Seven,' the recent rise in scope 2 emissions now requires a much steeper pace of reduction to meet goals out to 2030 and beyond. For example, one of the 'Seven' has seen a sharp spike in total GHG emissions since 2019, potentially undermining the credibility of 2030 goals in the absence of more aggressive mitigation steps.

Further, large technology companies have relied on financial instruments such as renewable energy certificates (RECs) to reduce their carbon footprints. The purchase of RECs can create the appropriate incentive to add clean energy to the electrical grid, but the clean energy's additionality (i.e., whether it would have been built without the REC) is difficult to determine and may lead to accusations of greenwashing. The risk of greenwashing might increase if the physical consumption of electricity is clearly using more fossil-fuel-sourced generation, as evidenced by reported location-based emissions.

An alternative to RECs is renewed interest in nuclear power obtained through power purchase agreements or other means. However, nuclear power comes with its own challenges. It can take multiple years to restart an idle nuclear facility and even longer to bring a new plant online. Nuclear power is thus not a short-term strategy for emissions reduction.

In addition, nuclear energy is a non-renewable resource, given the finite supply of fuel (primarily uranium). Unlike true renewables, nuclear energy also carries a significant social cost in the form of high perceived risk of a harmful incident.

More Aggressive Mitigation Efforts May Become Necessary

Using the 'Magnificent Seven' as a proxy, it does not appear that rapid growth in AI adoption and its attendant electricity consumption has derailed the alignment of the largest technology companies with Net Zero emissions targets. Nevertheless, recent reported emissions have departed from expected trajectories, and progress against targets may demand more aggressive mitigation measures in the next few years.

For more insights, go to the ISS STOXX annual global outlook report *Actionable Insights: Top ESG Themes in 2025*.

Climate Targets: Asset Alignment

Asset alignment targets shift investor focus from simply decarbonising portfolios to aligning their assets with a net zero pathway, supporting broader economic decarbonisation. Since investors rarely control the emissions of their holdings, they rely on stewardship and asset selection to drive change and reduce investment risks.

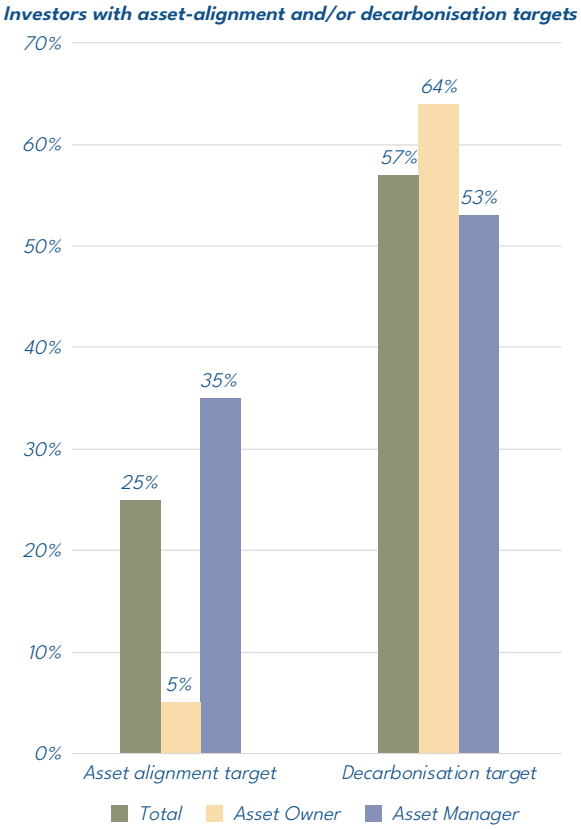
In broad terms, investors with asset alignment targets use criteria to inform asset selection, engage with investees, and make use of stewardship tools such as proxy voting and shareholder resolutions. **See Box 2** for examples from the Net Zero Investment Framework.

Box 2: NZIF asset alignment criteria for listed equity and corporate fixed income[16]

- **Long term goal** consistent with the global goal of net zero by 2050
- **Science-based targets** (both short and medium term)
- **Emissions disclosures** (scope 1, scope 2 and material scope 3)
- **Decarbonisation plan** setting out measures to achieve targets
- **Emissions performance** consistent with a relevant net zero pathway
- **Capital expenditure** consistent with a relevant net zero pathway

As in the previous year, asset managers (35%) continue to adopt asset alignment targets more readily than asset owners (5%). This difference likely reflects asset managers' more active role in asset selection and stewardship, compared to their asset owner clients. This cannot entirely account for the results, however, as Australian superannuation funds are starting to build out their in-house investment management teams and capabilities.

Another explanation may be that more asset managers than asset owners surveyed are signatories to an international net zero initiative. As a result, they are more likely to be using the Net Zero Investment Framework (NZIF) methodology for target setting, for which asset alignment is central.



Overall, survey respondents more commonly set decarbonisation targets than asset alignment targets, which is in line with historical trends among asset owners and asset managers in other markets.[17,18]

Now that asset alignment criteria exist for a wide range of asset classes[19] – combined with a growing emphasis on the importance of real-economy decarbonisation to effectively manage climate-related investment risks – we expect more investors to adopt asset alignment assessment and targets alongside decarbonisation targets.

16 PAII (June 2024). "NZIF 2.0: The Net Zero Investment Framework", pg 28. Paris Aligned Asset Owners. https://www.parisalignedassetowners.org/media/2024/06/PAII_NZIF-2.0_240624_Final.pdf
17 Paris Aligned Asset Owners (2023). "2023 Progress Report", p15. https://www.parisalignedassetowners.org/media/2024/07/PAAO-2023-Progress-Report.pdf
18 Net Zero Asset Managers (2024). "2024 Target Disclosures Report", p14. https://www.netzeroassetmanagers.org/media/2024/07/NZAM_Target-Disclosures-Report-2024.pdf
19 The Net Zero Investment Framework (NZIF) now covers listed equities & corporate fixed income, sovereign bonds, real estate, infrastructure, private equity and private debt.

Why should investors set a combination of target types?[20]

The Net Zero Investment Framework recommends setting four objectives and targets, which jointly promote an approach that contributes to real economy decarbonisation.

- **An asset alignment target:** A short-term (five-year) target will improve the alignment of portfolio assets to a net zero pathway.
- **An engagement target:** This encourages investors to engage with their highest-emitting assets, with a view to improving their alignment to a net zero pathway.
- **A decarbonisation reference objective:** This tracks the effectiveness of an investor's net zero strategies and targets in reducing overall portfolio emissions over the medium to long term (under 10 years).
- **An allocation to climate solutions objective:** This supports increased investment in companies and technologies that reduce emissions over the medium to long term, in line with net zero strategies (under 10 years).

20 PAII (June 2024). "NZIF 2.0: The Net Zero Investment Framework". Paris Aligned Asset Owners. https://www.parisalignedassetowners.org/media/2024/06/PAII_NZIF-2.0_240624_Final.pdf

Climate Investment Strategies

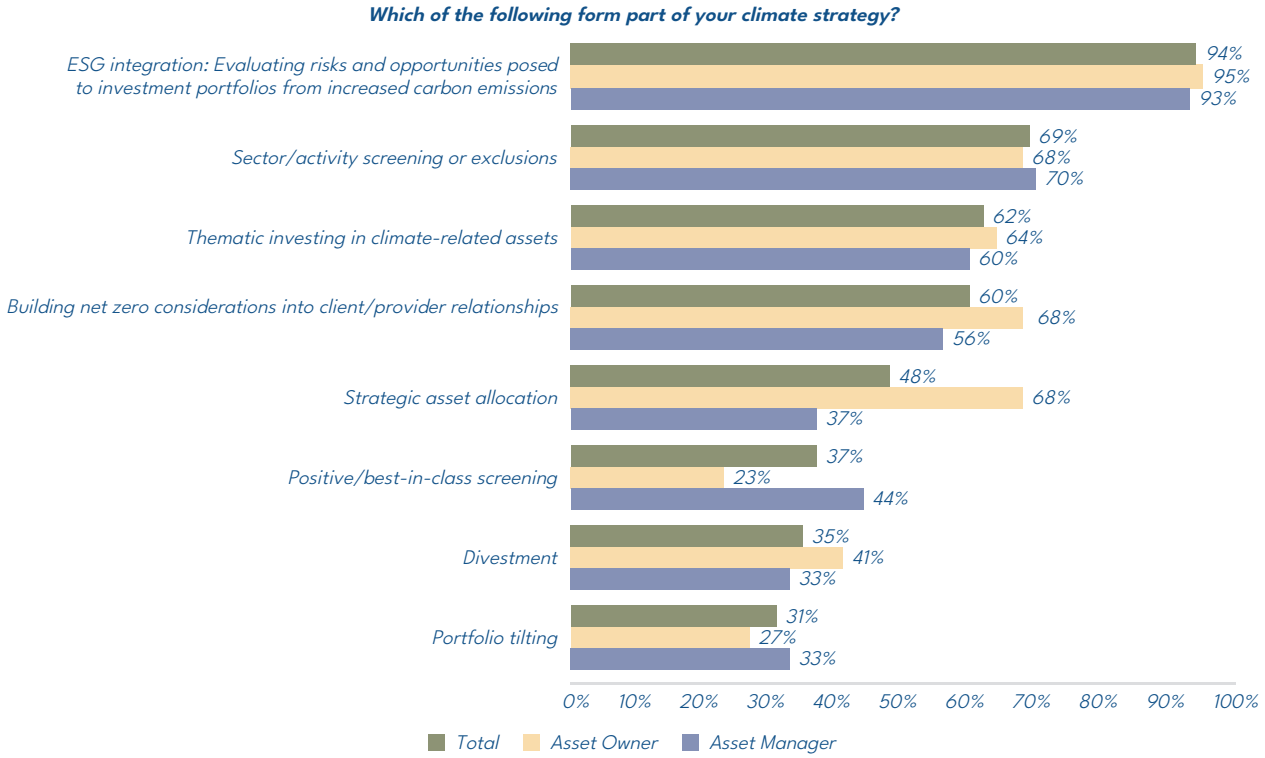
There are several ways that investors can adjust their investment strategies to work towards achieving their climate targets. It is important to note that climate investment strategies are only one type of tool available to investors to manage climate risks and opportunities. Chapter 6 ('Corporate Engagement') and Chapter 7 ('Policy & Advocacy') address stewardship tools, including corporate engagement and policy and advocacy efforts.

Nearly all asset managers (93%) and asset owners (95%) reported they are integrating climate risks and opportunities into general investment practices, an increase on 73% and 82% respectively in 2023. This bodes well for investors covered by Australia's mandatory climate-related financial disclosure regime, as AASB S2 is focused on disclosures relating to how reporting entities identify and manage material climate risks and opportunities.

AASB S2 also requires reporting entities to use scenario analysis to assess the resilience of their strategy and business model. Three-quarters of investors surveyed (82% of asset owners and 65% of asset managers) currently use scenario analysis to assess their portfolio for transition risks – i.e., financial impacts on investments resulting from the shift to a low-carbon economy. An uplift in performance will be required to meet the requirements of Australia's new disclosure laws. Refer to Chapter 8 ('Disclosure') for more on scenario analysis.

There was a notable rise in the proportion of asset owners using strategic asset allocation to implement their climate strategy between 2023 (41%) and 2024 (68%). Conversely, fewer asset owners (68%) reported using exclusions and negative screening compared to 2023 (82%). However, negative screening remains a common feature of investment climate strategies, with results for asset managers remaining largely unchanged.

Overall, our findings show that investors are implementing an array of approaches to inform their climate investment strategy, with the most common being the integration of ESG risks and opportunities into portfolios, as well as sector/activity screening or exclusions. Portfolio tilting and divestment are the least common approaches reported.

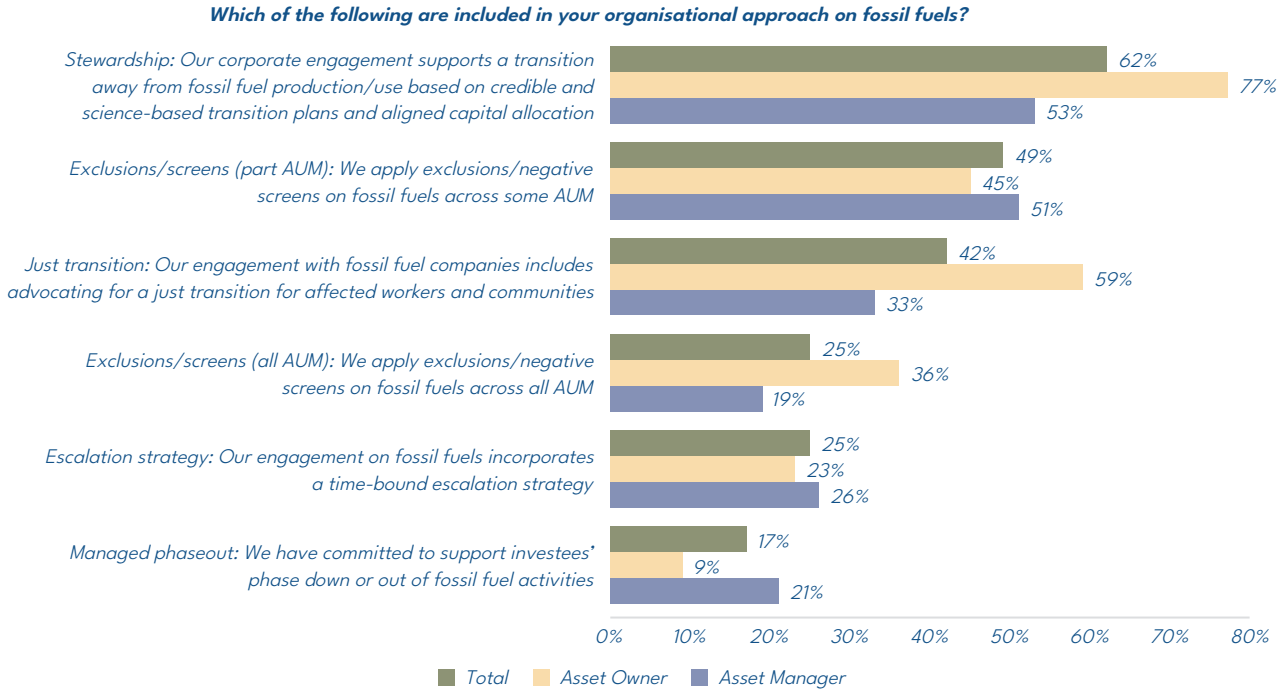


Fossil Fuel Investment Positions

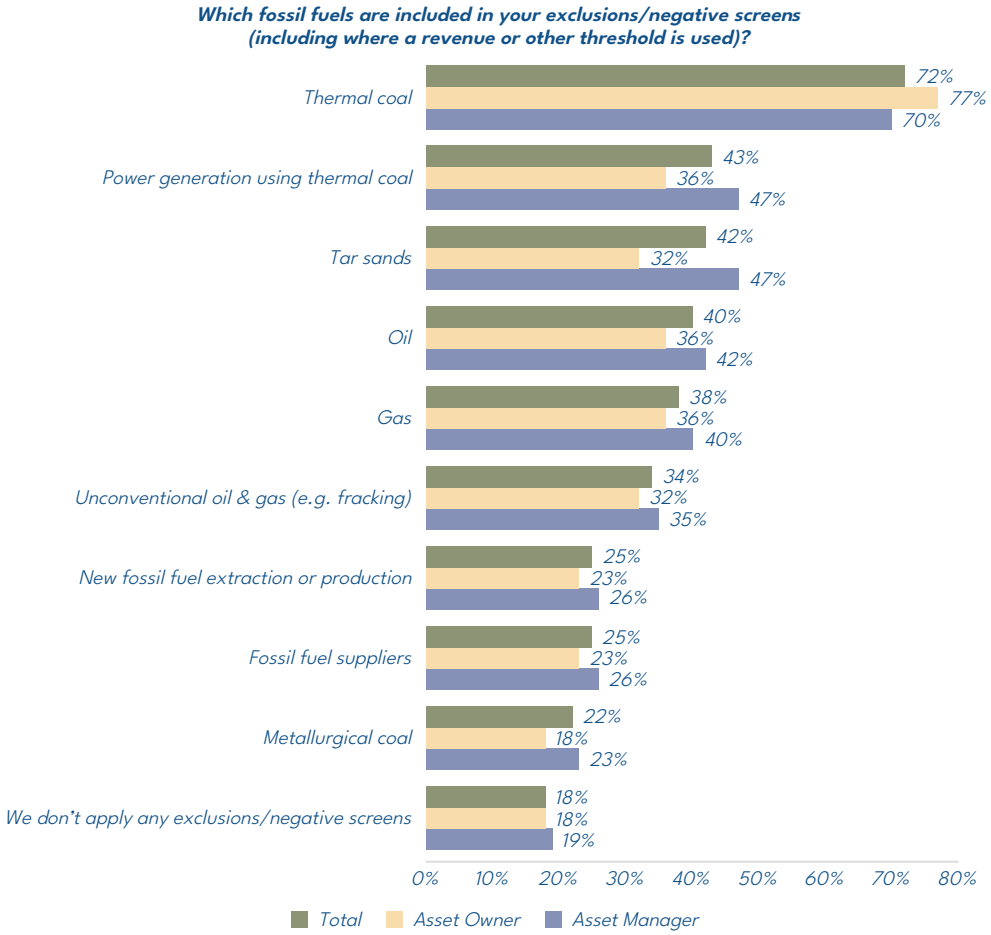
A formal fossil fuel investment strategy plays a key role in an investor's approach to climate.[21] Almost 90% of investors now apply some form of dedicated approach to fossil fuel investments, either through exclusions/negative screening or a specialised approach to stewardship.

The most commonly excluded fossil fuel-based activities include:

- Thermal coal extraction (72%);
- Thermal coal power generation (43%);
- Tar sands (42%); and
- Oil (40%).



21 GFANZ recommends financial institutions 'establish and apply policies and conditions on priority sectors and activities, such as thermal coal, oil and gas, and deforestation.' See GFANZ (2023) "Financial institution net zero transition plans", p 52–60. https://assets.bbhub.io/company/sites/63/2022/09/Recommendations-and-Guidance-on-Financial-Institution-Net-zero-Transition-Plans-November-2022.pdf



Only 22% of investors applied some kind of exclusion or negative screen to metallurgical coal, although this may increase as green steel becomes more competitive.

In 2024, the percentage of investors applying exclusions/negative screens across all assets under management declined to 25%, reversing the upward trend of previous years (from 26% in 2022 to 38% in 2023). This shift could be explained by investors choosing to use stewardship tools to influence change. For instance, the proportion of investors implementing time-bound escalation strategies in engagement with fossil fuel companies rose from 14% in 2023 to 25% in 2024. Three out of four investors still lack an escalation strategy to support the effectiveness of their fossil fuel-related engagement activities, however.

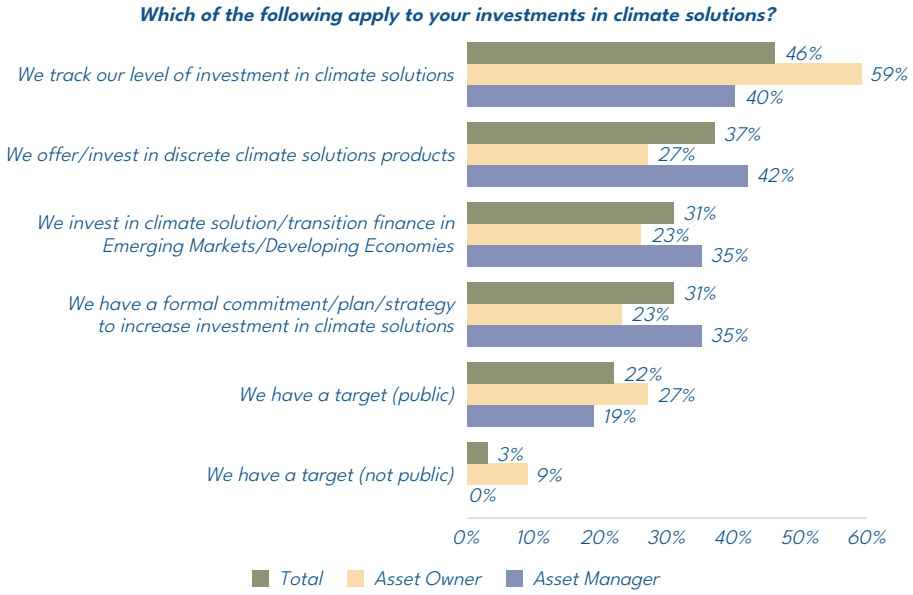
The number of investors advocating for a just transition for affected workers and communities as part of their engagement with fossil companies has doubled. This issue is gaining prominence in line with the progress of the climate transition, highlighted by the establishment of Australia's Net Zero Economy Authority with its investment facilitation mandate.[22] IGCC members have published a guide to help Australian investors evaluate corporate just transition plans. Read the guide here.[23]

22 Net Zero Economy Authority. "Investing in New Industries and Jobs". https://www.netzero.gov.au/our-focus-areas/investing-new-industries-and-jobs
23 IGCC (November 2024). "Investor Expectations for Corporate Just Transition Planning". Investor Group on Climate Change. https://igcc.org.au/wp-content/uploads/2024/10/Investor-Expectations-for-the-Just-Transition.pdf

Investing in Climate Solutions

Australia needs an estimated US$2.4 trillion in energy sector investment by 2050 to meet international climate obligations,[24] creating significant opportunities for investors.

More than half of investors surveyed (53%) now hold formal commitments or targets to increase climate solution investments, a modest increase from 50% in 2023. Unlocking this capital requires Australia to offer competitive risk-return profiles for climate investments, however. For an understanding of how investors perceive Australia's attractiveness for climate solutions investment, see Chapter 7 ('Policy & Advocacy').



24 BloombergNEF (2024). "New Energy Outlook 2024". Australia. https://about.bnef.com/new-energy-outlook/

Financing the Transition in Emerging Markets and Developing Economies

International climate goals will only be met if there are significant emissions reductions in Emerging Markets and Developing Economies (EMDEs), making investment in climate solutions in these regions a global imperative. 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.[25] 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.

At COP29 in Azerbaijan in November 2024, negotiators reached an agreement on a new climate finance target of US$300 billion per year, which falls significantly short of what developing countries had sought. A lot more needs to be done to help investors develop expertise in markets and familiarise themselves with opportunities and financing mechanisms that support clean energy investment in these regions. IGCC has recommended actions to pension and superannuation funds, the Australian government, and the broader development and climate finance sector, to help mobilise Australian capital to these areas.[26] Read the recommendations here.

25 IEA (2023). "Scaling up Private Finance for Clean Energy in Emerging and Developing Economies". International Energy Agency. https://iea.blob.core.windows.net/assets/a48fd497-d479-4d21-8d76-10619ce0a982/ScalingupPrivateFinanceforCleanEnergyinEmergingandDevelopingEconomies.pdf

26 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

Investor Practice in Other Climate-related Areas

Investors increasingly recognise the need to take a holistic and integrated approach to addressing climate risks and opportunities that extends beyond traditional climate change considerations. Climate solutions and transition activities do not occur in isolation, and focused efforts to minimise the environmental impacts of these activities will be critical as the economy transitions towards net zero.

For the last two years, IGCC has asked investors whether they had assessed or integrated a response to address the following areas in their investment practices:

- Circular economy,
- Biodiversity and nature,
- Deforestation.

There has been a modest improvement across all three areas, with asset managers continuing to outperform asset owners. This may stem from client expectations, as almost one in five asset managers reported that these areas are included in Investment Management Agreements with their asset owner clients.

Circular Economy

Adopting circular economy principles helps investors mitigate the climate change and biodiversity risks inherent in a linear, take-make-and-waste economy. The Australian Government's sectoral decarbonisation plans will support this by incorporating circular economy principles across six key sectors: energy, transport, industry, resources, the built environment, and land & agriculture.[27]

The survey found that 22% of respondents have integrated a response to circular economy-related risks and opportunities identified in their assessments, a notable increase from 12% in 2023. This reflects a growing commitment from investors to engage with circular economy principles.

Biodiversity and Nature

Preserving biodiversity is "our strongest natural defence" against the impacts of climate change, according to the United Nations.[28] However, the physical impacts of climate change are expected to damage the natural environment and accelerate biodiversity loss.

Investors can help to slow and reverse biodiversity and nature loss by integrating nature-related risks and opportunities into their climate strategies and investment management processes.

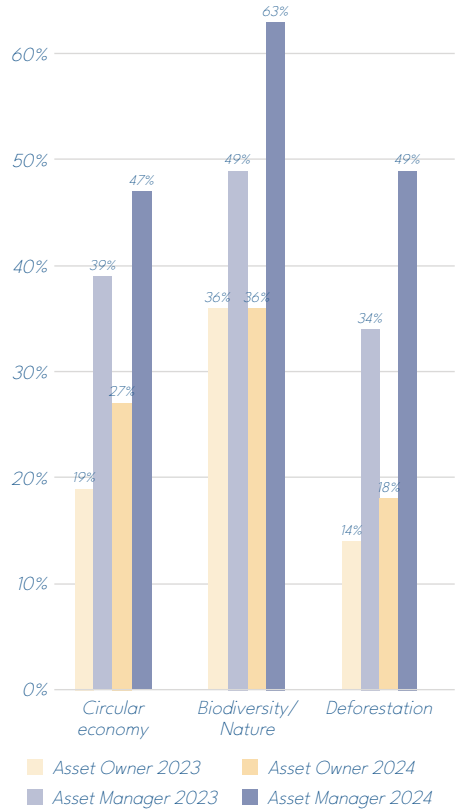
Progress is slow among asset owners, with more than two-thirds (64%) yet to take any action to assess any part of their portfolio for biodiversity and nature-related financial risks and opportunities. RIAA's 'Nature Investor Toolkit'[29] developed in support of the recommendations of the Taskforce on Nature Related Financial Disclosures (TNFD), offers a valuable resource for investors unsure of where to start.

Deforestation

Deforestation sits at the heart of the climate-nature nexus. Forests store carbon and when trees are cleared or burned, they are a significant source of carbon emissions.[30] As such, net zero emissions cannot be achieved without reversing deforestation.

Less than 10% of asset owners report taking action to integrate a response to deforestation risks in their investment strategies, compared with 30% of asset managers. Further analysis shows that more than half of surveyed investors engage with investee companies on biodiversity, nature or deforestation-related risks (45% of asset owners and 63% of asset managers), however.

Investors that have assessed or implemented a response in other climate-related areas



The graph shows the proportion of investors taking any action at all in these climate-related areas (whether assessing risks, implementing a response or both).

27 Yet to be released at the time of publication.
28 United Nations. "Biodiversity – our strongest natural defense against climate change" (webpage). https://www.un.org/en/climatechange/science/climate-issues/biodiversity
29 RIAA. "Nature Investor Toolkit". Responsible Investment Association Australasia. https://responsibleinvestment.org/nature-investor-toolkit/
30 UN Environment Program (July 2024). "How halting deforestation can help counter the climate crisis". https://www.unep.org/news-and-stories/story/how-halting-deforestation-can-help-counter-climate-crisis

06: Practice Area: Corporate Engagement

Climate-related corporate engagement with investee companies is a fundamental tool for investors aiming to fulfil their fiduciary duty to address climate change, alongside activities such as proxy voting. Both asset owners and asset managers engage with companies – either directly or through service providers – to actively manage climate risks and opportunities in their portfolios.

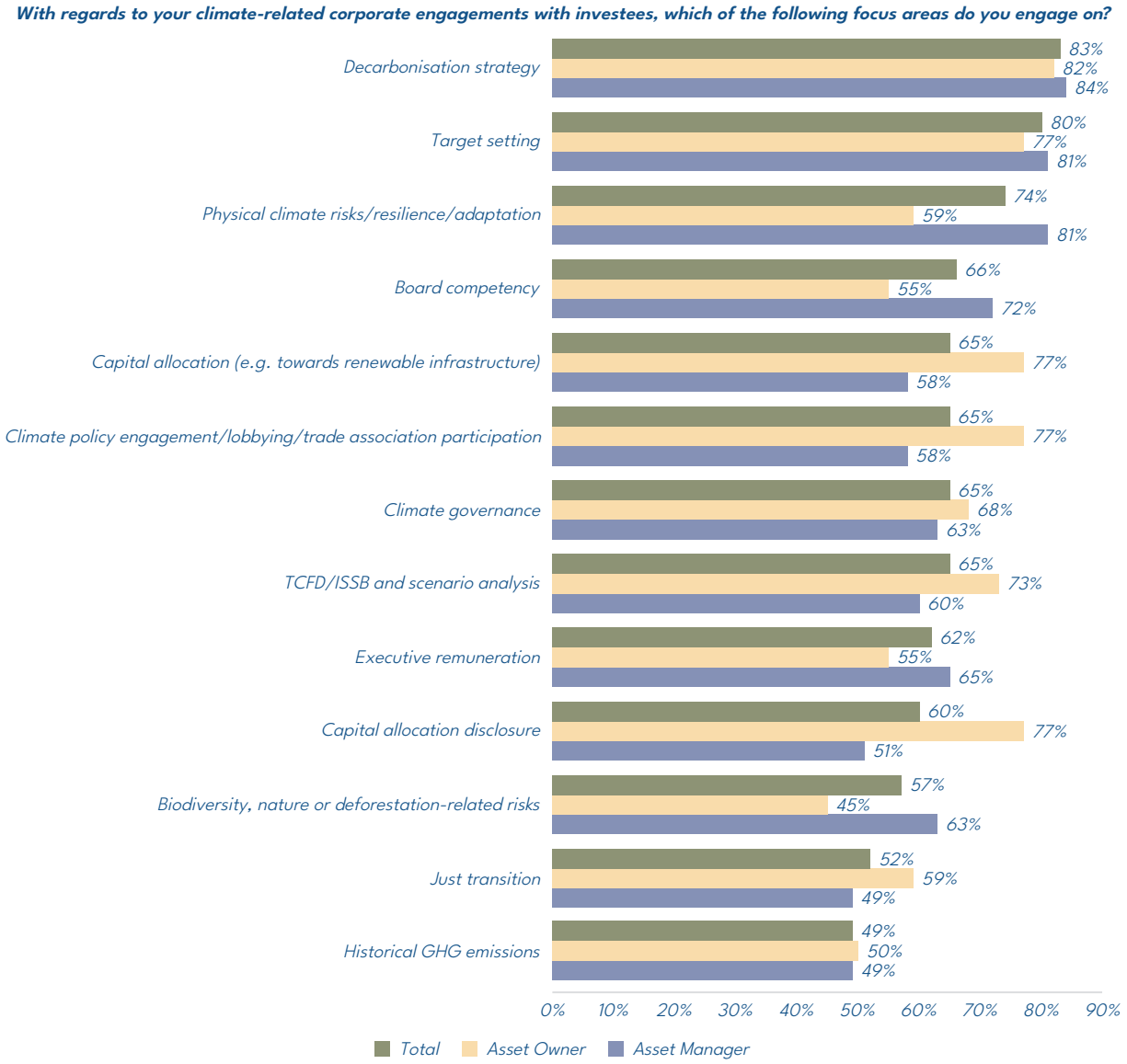
From Corporate Disclosure to Action

Engagement efforts have previously focused on improving company disclosures to support investment decision-making. This year's findings show investors are highly interested in the credibility and adequacy of companies' decarbonisation actions.

A large proportion of respondents are engaging on decarbonisation strategies (83%) and targets (80%), and the capital allocation (65%) and policies (65%) required to realise these commitments. A material proportion of respondents are engaging on climate governance (65%), board competency (66%), and executive remuneration (62%) in the context of climate and company decarbonisation. Asset owners are also strongly focused on investee companies' capital allocation (77%) and policy engagement (also 77%).

Our findings also reveal key differences between asset owners and asset managers on engagement topics. More asset managers (81%) than asset owners (59%) have engaged on physical climate impacts, aiming to address the value-at-risk from severe weather events and to emphasise to companies the importance of building resilience into their operations. Investors – especially asset owners – have also started to consider wider 'system-level' impacts from their portfolio companies, recognising the interconnectedness of climate change, human rights and nature-related risks. For example, 59% of asset owners have engaged on the just transition, compared to 49% of asset managers.

In sum, investors recognise that targets will not be realised without suitable capital deployment and robust corporate governance. They also acknowledge the need for companies to advocate for supportive government policies to provide essential decarbonisation levers and market opportunities. While investors have primarily focused on transitional risks and opportunities in their corporate engagements to date, the need to mitigate physical risks and impacts is now being acknowledged, as the consequences of climate change become more apparent. Refer to Chapter 4 ('Focus on Physical Climate Risk and Resilience').



Comprehensive Natural Capital Risk Assessment: Guiding Stewardship and Engagement Strategies for Investment Portfolios

JANA
DEPTH WITH DIFFERENCE

Sponsored Real World Example: JANA

The **Natural Capital Materiality Assessment**, prepared by JANA for a Large Super Client, outlines a comprehensive approach to evaluating the impacts and risks to nature associated with various investments across all asset classes. The assessment aims to enhance the company's understanding of its natural capital exposure and guide its stewardship and engagement strategies.

Methodology

The methodology for the assessment involves four key steps:

1. **Identifying the largest holdings** in each asset class.
2. **Determining if the industry** generally carries natural capital risk, focusing on industries with high water use, large land footprints, or significant biodiversity impacts.
3. **Selecting investments** for high-level materiality assessment, considering factors such as water use, biodiversity, and pollution.
4. **Choosing the 10 assets** with the highest exposure/impact/risk to natural capital for a deeper dive, providing specific recommendations for stewardship and engagement based on the areas of highest exposure and weakest management or transparency.

Materiality Assessment Scope

The scope of the materiality assessment covers several themes, including water use, water exposures, non-compliances, biodiversity and ecosystems, and pollution. Each theme is evaluated based on specific elements, implications of negative impacts, and data sources. For example, water use is assessed against extraction allowances and any incidents of over-extraction, with data sourced from sustainability reports, annual reports, and ESG Databook disclosures.

Results Summary

The results summary provides a detailed assessment of each asset, including a qualitative score in relation to natural capital impacts/exposures and financial or reputational implications. The summary snapshot categorises natural capital impacts/exposures by asset class, such as Australian Equities, International Equities, Fixed Income, Private Equity, Alternatives, Property, and Infrastructure. Each category is evaluated with a qualitative traffic-light output (red, yellow, green), indicating varying levels of impact or exposure across different asset classes.

Examples

The presentation includes examples of the detailed assessments for various companies and asset classes. For instance, one example highlights a significant natural capital and financial implication for a company due to a remediation spend and contamination issue. Another example details a company's lack of water reduction or recycling targets and the potential impact of water shortages on its financial returns and reputation.

Next Steps

The next steps involve selecting assets for a deep dive assessment, focusing on the coverage and robustness of management strategies, transparency of reporting, and compliance reporting. The proposed deep dive scope includes three main areas: water, biodiversity, and pollution and incidents. Finally, JANA offers its proprietary Stewardship Tool as part of the suite of next steps available to the client to engage with its holding companies on the specific exposures and issues identified in this materiality assessment.

Systems Stewardship: Navigating System-Wide Risks and Opportunities

Traditional stewardship has focused on direct company engagement and proxy voting, but investors are increasingly addressing broader systemic barriers through engagement with policymakers, value chain stakeholders, and other key actors. For example, our findings show that over half of investors now engage across a company's value chain, moving beyond traditional direct company engagement (see an example in **Box 3**).

Taking a broader 'systems stewardship' perspective is a central focus of Phase 2 of Climate Action 100+.[31] Rather than replacing traditional methods, systems stewardship complements them by leveraging investors' influence across the economy to drive decarbonisation and accelerate the transition to a low-carbon future. Key examples include policy advocacy and corporate lobbying. Chapter 7 ('Policy & Advocacy') explores the climate policy priorities that investors believe the government should address, while the Climate Action 100+ website offers insights into how European investors are engaging on corporate lobbying.[32]

Box 3: Driving Systemic Change Through Investor Action

Investors are expanding their engagement strategies beyond individual companies, recognising that systemic challenges require broader collaboration. One example is the Steel Purchaser Framework[33] developed by the Institutional Investors Group on Climate Change (IIGCC). This investor-led initiative brings together key stakeholders across the steel value chain, focusing on a crucial leverage point – steel purchasers.

By engaging with major buyers of steel, investors help create a demand signal for low-carbon steel production, incentivising suppliers to transition towards alternative low carbon steel technologies. This approach illustrates how investors can use their influence not only within companies but across entire sectors, to accelerate decarbonisation at scale.

31 IGCC (June 2023). "Climate Action 100+ Announces Second Phase". Investor Group on Climate Change. https://igcc.org.au/climate-action-100-announces-second-phase/
32 Climate Action 100+ (July 2024). "How Climate Action 100+ Supports Making Corporate Lobbying a Force for Good". https://www.climateaction100.org/news/how-climate-action-100-supports-making-corporate-lobbying-a-force-for-good/
33 IIGCC (2023). "Steel Purchaser Framework". Institutional Investor Group on Climate Change. https://www.iigcc.org/resources/iigcc-steel-purchaser-framework-2023

Board Accountability

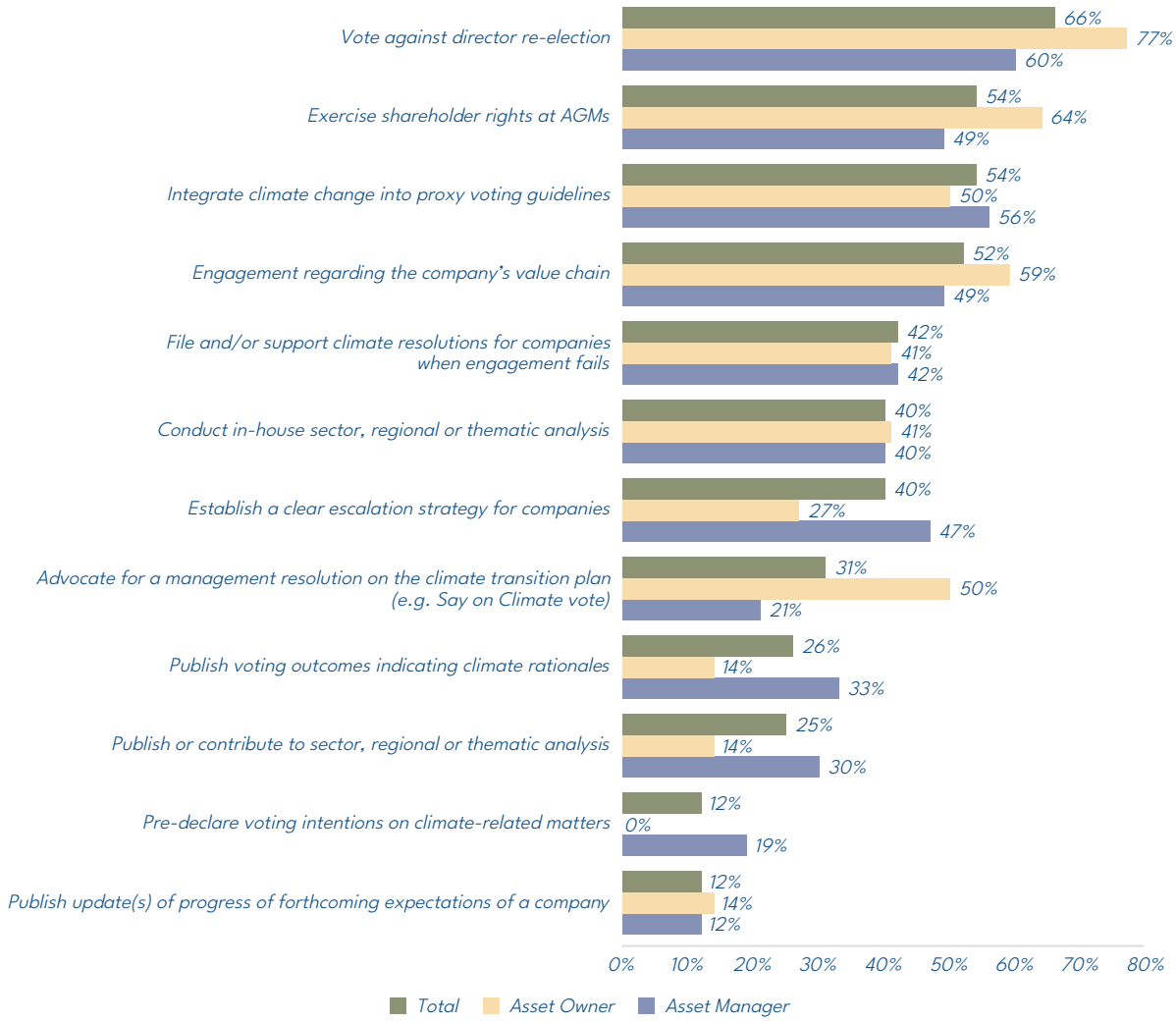
Our findings highlight that investors are exercising ownership rights and emphasising board accountability on climate issues through voting, engagement, and broader systemic strategies.

Examples include:

- **Strengthening climate voting mandates:** 54% of investors are formally integrating climate change into proxy voting guidelines (up from 23% last year), reinforcing their ability to make climate-conscious voting decisions.
- **Increased engagement in "Say on Climate" votes:** Two major Australian companies held 'Say on Climate' votes in 2024, with significant investor input during strategy development.
- **Holding boards accountable:** Investors are using their active ownership rights to ensure directors are managing climate risks effectively. Around two-thirds of respondents (77% of asset owners and 60% of asset managers) indicate they may vote against director re-elections if climate plans fall short.

Active ownership has long been recognised as a cornerstone of responsible investment practice and an important component of investor efforts to manage the material financial implications of climate change in line with their fiduciary duties. Encouraging progress has been made, with corporate engagement evolving to ensure companies are taking material actions to navigate the risks and opportunities associated with climate change – supported by appropriate governance and capital deployment. Yet more remains to be done. Sustained momentum requires deeper engagement, not only with companies, but also with key entities in their value chains.

In relation to climate, which of the following form part of your approach to increase the effectiveness of shareholder and corporate engagement?



07: Practice Area: Policy & Advocacy

Investors play a vital role in shaping the policy landscape, through active engagement with policymakers, regulatory bodies, corporations, and the broader community. By leveraging their position as stewards of capital, investors can advocate for policy reforms that align with long-term financial stability and economic prosperity on behalf of their beneficiaries.

With long-term investment horizons, investors share common goals with governments in areas such as economic growth, sustainability, stability, and societal well-being, positioning them as powerful advocates to influence government policy and help achieve climate goals.[34]

34 The PRI recognises that public policy critically affects the ability of and incentives for institutional investors to generate sustainable returns and create value. It also affects the sustainability and stability of financial markets and of social, environmental and economic systems. See PRI (November 2022). "A Sustainable Finance Policy Engagement Handbook". Principles of Responsible Investment. https://www.unpri.org/download?ac=17538

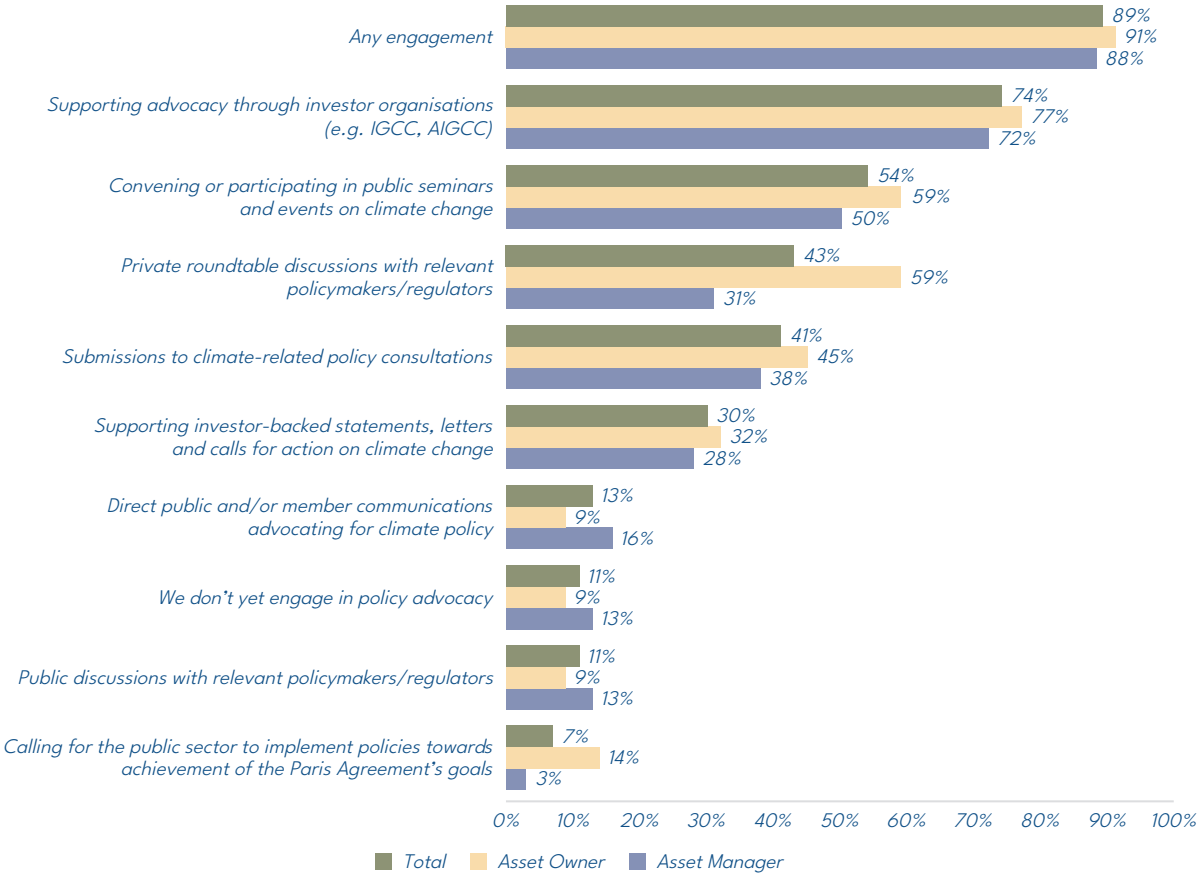
Investor-led Public Policy Engagement

Investors in Australia continue to reinforce their commitment to net zero, navigating and shaping a policy landscape that has seen notable progress but remains insufficient in key areas.

In 2024, 89% of respondents undertook some form of climate finance-related policy advocacy. This significant figure includes investors who are members of organisations like IGCC, which conduct regular engagement with policymakers on behalf of investors. This form of engagement also supports the ask from the Australian Prudential Regulation Authority (APRA) for cost-effective policy engagement activities, including those undertaken "by way of a collective approach".[35]

While over half of investors (54%) report participating in climate-related public events and seminars, under one-third support investor-backed statements. One example of these kinds of initiatives is the Global Investor Statement, which calls for a whole-of-government approach to climate change from countries around the world.

Please indicate any of the following types of policy advocacy you have undertaken over the past 12 months regarding climate change



35 APRA expects an RSE licensee would consider how it uses its influence or investment market presence, including engaging with investees, making public statements, undertaking policy advocacy and voting, to generate value in investments.

How Investors Can Engage in Policy Advocacy

All investors – large and small – can engage with policymakers and regulators to at least some degree. The Investor Climate Action Plan Guidance recommends a few ways that investors can engage on policy advocacy.[36]

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.

36 The Investor Agenda (October 2024). "Investor Climate Action Plans (ICAPs): Guidance on Using the Expectations Ladder". https://theinvestoragenda.org/wp-content/uploads/2021/05/guidance.pdf

Capital Allocation in Australian Climate Solutions

As the financial sector transitions from commitment to action, policy engagement is also evolving to reflect the growing urgency of climate-related financial risks and opportunities.

Investment interest has increased across all climate solutions areas, except in low emissions fuels such as green hydrogen[37], which held steady at 30%.

Renewable energy – including solar, wind and hydro – remains the top investment opportunity for most investors at 63% (up from 47% in 2023). Other leading opportunities include energy storage and green infrastructure, which have moved into second and third place respectively. This pushes nature solutions into sixth place, down from second place in 2023. The most significant increases have been in green infrastructure, energy storage, and green buildings, reflecting a growing investor focus on the sector-specific enablers of a low-carbon economy.

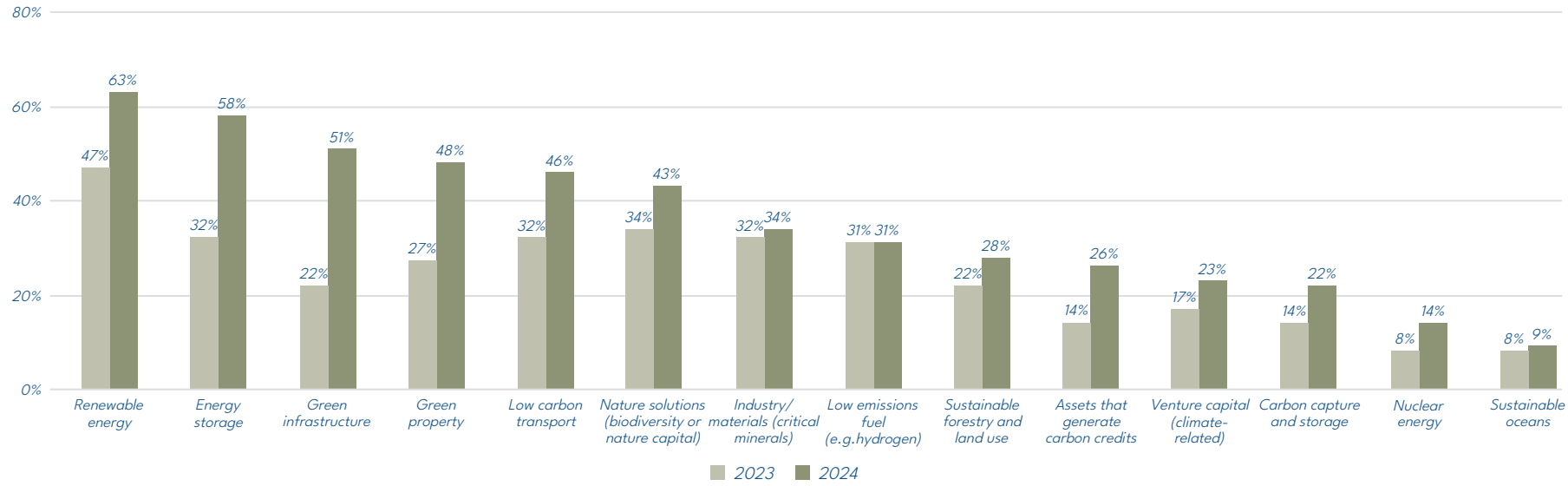
Among the climate solution areas identified, investors are least inclined to support investments in the blue economy (9%), nuclear power (14%) and carbon capture and storage (22%).

This may be attributed to the following factors:

- Blue economy: Investment opportunities in sustainable oceans are less well defined and harder to monetise, which likely makes them less appealing compared to more straightforward climate solutions like renewable energy projects.
- Nuclear: Challenges such as regulatory complexity, supply chain concerns, and the higher cost of capital make nuclear projects less attractive, especially in regions where wind and solar offer much more cost-effective alternatives.
- Carbon capture and storage: A lack of proven commercial viability at scale may hinder investment in carbon capture and storage.

The policy message is clear: stay the course on the renewable energy transition, ensuring sustained momentum and policies that support and are conducive to financing the climate solutions investments needed for a net zero future.

What are the primary opportunities you want to gain exposure to in the near future as part of your climate solutions investment strategy?



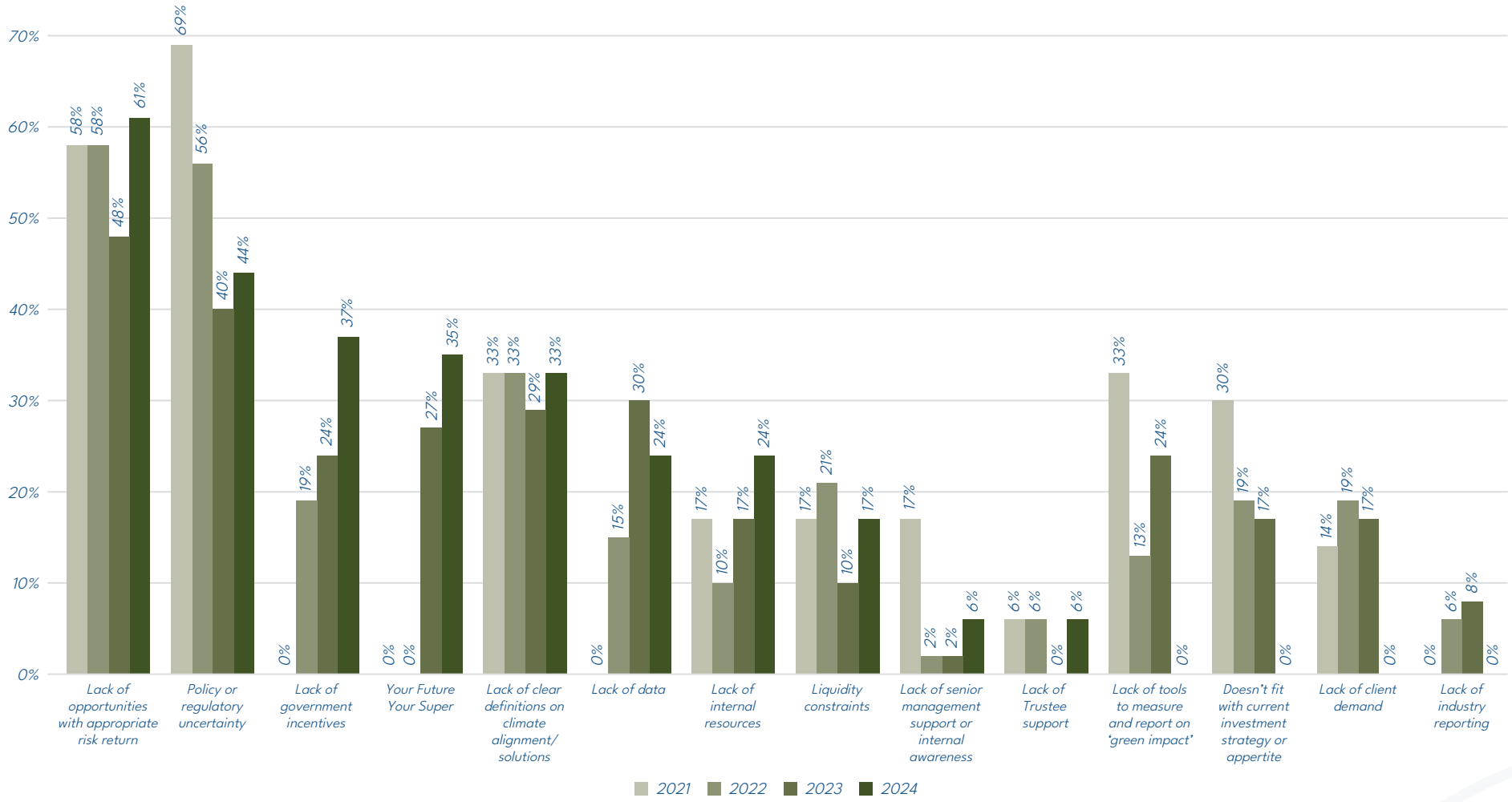
37 Green hydrogen is a complicated investment as it relies upon the electricity input being ultra low-cost and renewable. Many markets around the world are reconsidering its role as an exported/imported fuel source, with high transport costs suggesting it may be most efficiently used locally.

Barriers to Climate-Related Investment

The two biggest barriers to investment in climate solutions have historically been policy uncertainty and a lack of opportunities with the right risk-return profile. These factors often occur in tandem.

While the proportion of survey respondents describing policy uncertainty as a barrier to climate investments has remained relatively stable, there has been a surge in the number of investors that consider a lack of opportunities with appropriate risk-return profiles as a barrier to climate-related investment (up 13% since 2023 to 61%). This is likely because in 2024, the Australian market faced competition from the *Inflation Reduction Act* in the United States. Recent developments suggest that this situation may be changing, given the new administration is actively opposed to climate action. The FMiA in Australia will also provide incentives for local projects. See **Box 4** as an example.

In your view, what are the main barriers to climate solution investments/climate-aligned investments?



Box 4: Future Made in Australia: Incentives for Local Projects

The current federal government has delivered a robust climate policy agenda in this term, culminating with Future Made in Australia (FMiA).[38] This legislative package includes:

- *Production Tax Credits for the Clean Energy Finance Corporation and funding for the other specialist investment vehicles to support climate solutions investment across the capital stack.[39]*
- *The expansion of the Capacity Investment Scheme to 32GW of capacity by 2030, with tenders oversubscribed, helping de-risk private investment and facilitate the financial close of additional capacity.*
- *The National Reconstruction Fund Corporation's support for green critical minerals developments, with further coordination needed on greening energy and resources supply chains, a key focus of FMiA.*
- *The introduction of Climate Related Financial Disclosures into law, reinforcing the trend towards green investment, and requiring both companies and investors to disclose their portfolio emissions.*

Though the Future Made in Australia (FMiA) package aims to provide targeted support for climate-related investments, challenges remain. For example:

- **Investor Front Door:** There is uncertainty within the investment community and among developers about how the Investor Front Door – intended as the central coordination point for FMiA funding – interacts with other government departments and agencies.
- **The Capacity Investment Scheme:** Despite its significant underwriting, the scheme has not fully addressed challenges between project proponents, planning authorities, and environmental protection agencies. For example, it takes an average of 4–5 years for a wind farm in NSW to receive approval, highlighting the long lead times before government incentives translate into tangible investment outcomes. The government, along with the Climate Change Authority, has acknowledged these challenges, with further work anticipated through sectoral decarbonisation plans and the Net Zero by 2050 Plan.

For Australia to maintain a strong position in global markets and supply chains, attracting both local and international investment, policymakers must ensure a stable policy environment with consistent regulatory frameworks that extend beyond political cycles. Long-term policy predictability is essential for an orderly transition to a low-emissions economy, giving businesses and investors the confidence needed for long-term planning and capital allocation.

A systemic policy approach across all levels of government and major climate and environmental agendas is critical to unlocking greater capital flows into domestic net zero aligned investments, as well as climate adaptation and resilience – which is key to reducing climate change impacts. Policy coherence between federal and state governments on initiatives like FMiA, sectoral decarbonisation plans, and various climate, resources, and environmental policies will be a core focus of the Net Zero Australia Plan.

The Australian Sustainable Finance Institute (ASFI) is also working to enhance market clarity through the development of an Australian Taxonomy for green investments.[40] Alongside potential changes to the 'Your Future, Your Super' rules[41], these evolving taxonomies, data standards, and disclosure frameworks will provide investors with the tools necessary to effectively allocate capital to support Australia's economy-wide climate transition.

38 IGCC (April 2024). "Future Made in Australia Announcement is a Step Towards a Competitive Economy". https://igcc.org.au/future-made-in-australia-announcement-is-a-step-towards-a-competitive-economy/
39 IGCC (February 2024). "Landmark Tax Credits to Supercharge Green Investment in Australian Industry". Investor Group on Climate Change. https://igcc.org.au/landmark-tax-credits-to-supercharge-green-investment-in-australian-industry/#:~:text=The%20Investor%20Group%20on%20Climate,increasingly%20powered%20by%20clean%20energy
40 ASFI. "Taxonomy Project". (website). Australian Sustainable Finance Institute. https://www.asfi.org.au/taxonomy
41 APRA. "Your Future, Your Super Frequently Asked Questions". (website). https://www.apra.gov.au/your-future-your-super-frequently-asked-questions

Policy Priorities for Government: Investor Views

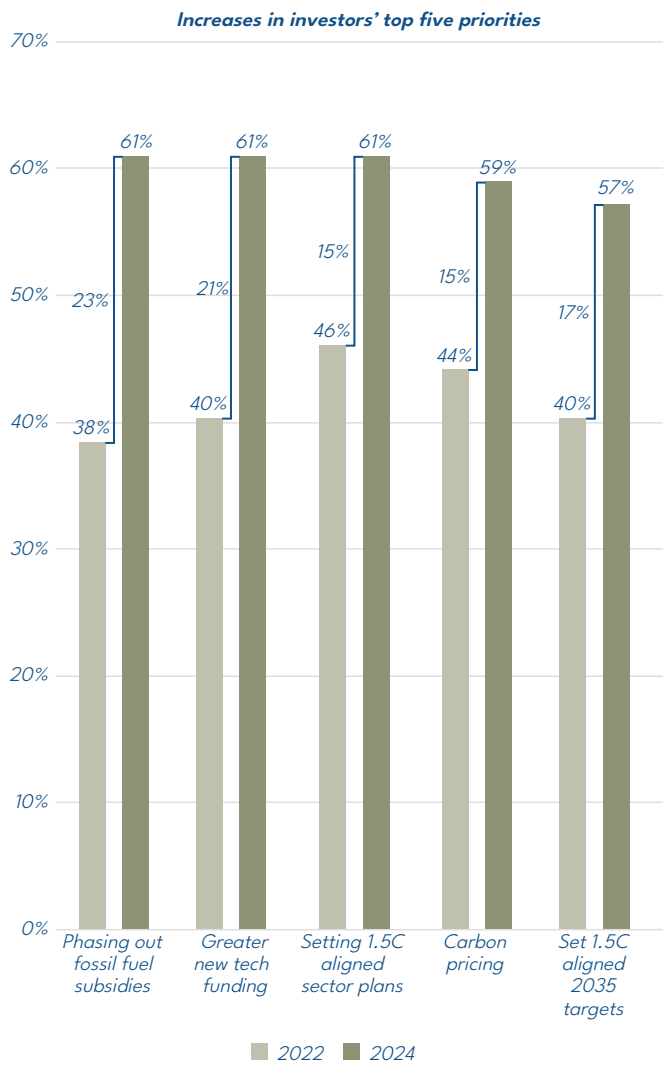
An increasing proportion of investors have nominated the same broad set of policy priorities as in the previous year, except for mandatory climate disclosures, which are now in force. This points to the need for a greater systemic policy response to meet the urgency of the climate challenge.

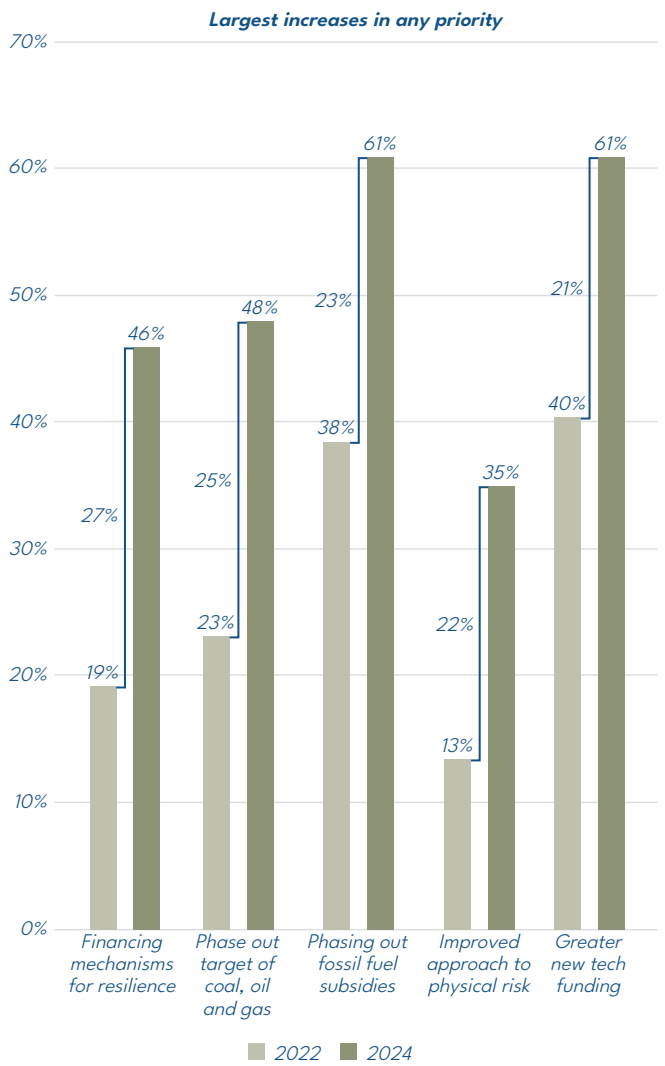
Investors have been clear about their expectations for Australia's next national government for some time, with the same five policy areas deemed as top priorities since 2022:

- Phasing out fossil fuel subsidies (61%, up from 38% in 2022)
- Greater funding to support new climate technologies (61%, up from 40% in 2022);
- Setting 1.5˚C-aligned sector pathways and plans (61%, up from 46% in 2022);
- Improved approach to carbon pricing (59%, up from 44% in 2022); and
- Setting 1.5 aligned national 2035 targets (57%, up from 40% in 2022).

The largest increase in any one policy priority area since 2022 has been in 'public-private financing mechanisms to unlock investment in resilience' (46%, up from 19% in 2022). This is likely because of an increased understanding of the climate-related physical risks that investor portfolios are exposed to from extreme weather events. Similarly, more investors are calling for urgent policy action on physical risk (35%, up from 13% in 2022). Refer to Chapter 4 ('Focus on Physical Climate Risk and Resilience') for investor implementation of physical risk and resilience practices.

Overcoming these systemic policy obstacles is likely to attract more capital into the least-cost pathways to transform Australia into a low-emissions and resilient economy.





08: Practice Area: Disclosure

Climate-related disclosure is a vital part of investor action, bringing portfolio management and stewardship efforts into the public domain. Disclosure enables stakeholders to assess how investors manage climate-related financial risks and opportunities, and provides beneficiaries and clients with the ability to compare different approaches to integrating climate considerations. For investors, preparing disclosures can enhance their understanding of their exposure to climate-related risks and opportunities and can generate strategic insights.

With Australia's mandatory climate reporting laws coming into effect for the largest asset owners and managers from 1 July 2026, disclosure is a key focus. Australia's adoption of the International Sustainability Standards Boards (ISSB) reporting standard, AASB S2, requires annual reporting under the new legislation enacted last year.

Investors have been voluntarily publishing information on climate-related risks and opportunities in their portfolios for several years now.[42] IGCC has been tracking member progress in this area and, encouragingly, has seen steady improvement.

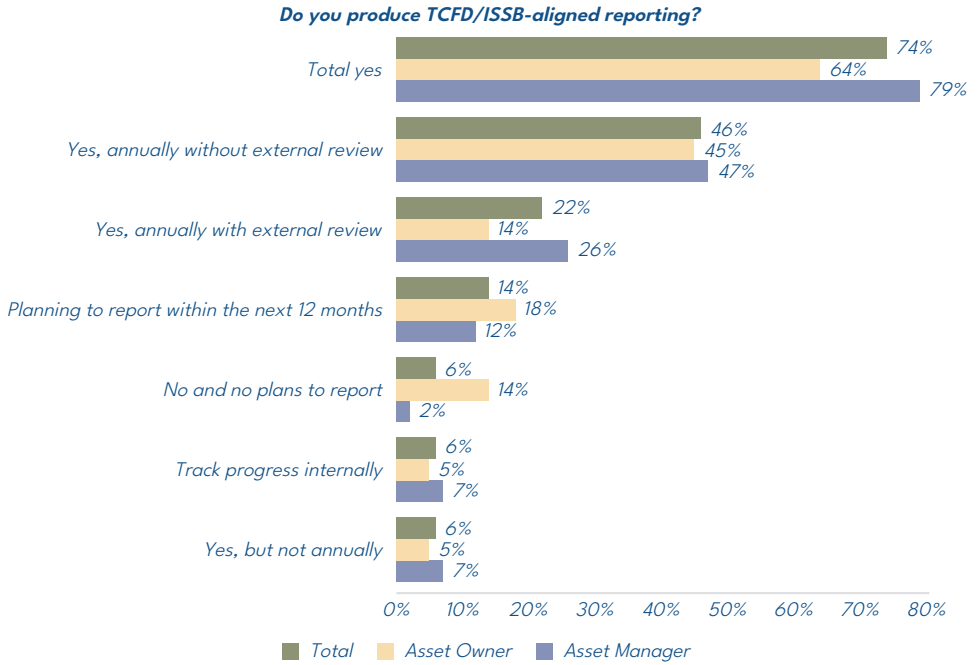
42 TCFD (October 2023). "Task Force on Climate-related Financial Disclosures 2023 Status Report", pp. 26–49. https://assets.bbhub.io/company/sites/60/2023/09/2023-Status-Report.pdf

Climate-Related Financial Disclosures

The Financial Stability Board's Task Force on Climate-Related Disclosures (TCFD) published its recommendations in 2017, and these quickly became the leading framework for voluntary climate reporting. The ISSB has since absorbed this work, and its sustainability standards (IFRS S1 and S2) build on the TCFD recommendations. The Australian standard (AASB S2) largely adopts the international ISSB standard and was published in September 2024.[43]

Since 2022, there has been an increase in the proportion of investors in Australia producing voluntary TCFD-aligned disclosures, from approximately half (53%) in 2022 to three quarters (74%) in 2024. Notably, in 2024, results were largely similar for both investor groups compared to the previous year, when asset managers outperformed asset owners.

While less than a quarter of investors are obtaining external assurance over some or all their climate disclosures, this is more common among asset managers compared to asset owners. The Australian Government has introduced extensive and detailed assurance requirements for its mandatory climate reporting regime, extending to reasonable assurance over all disclosures by 1 July 2030.[44] As a result, we expect to see an increase in the number of investors obtaining assurance on their disclosures in future.



43 In this year's report we continue to refer to "TCFD-aligned" reporting/disclosures. This is because at the time of the survey, the Australian standards had only recently been published and many respondents continued to base their reporting on the TCFD recommendations.

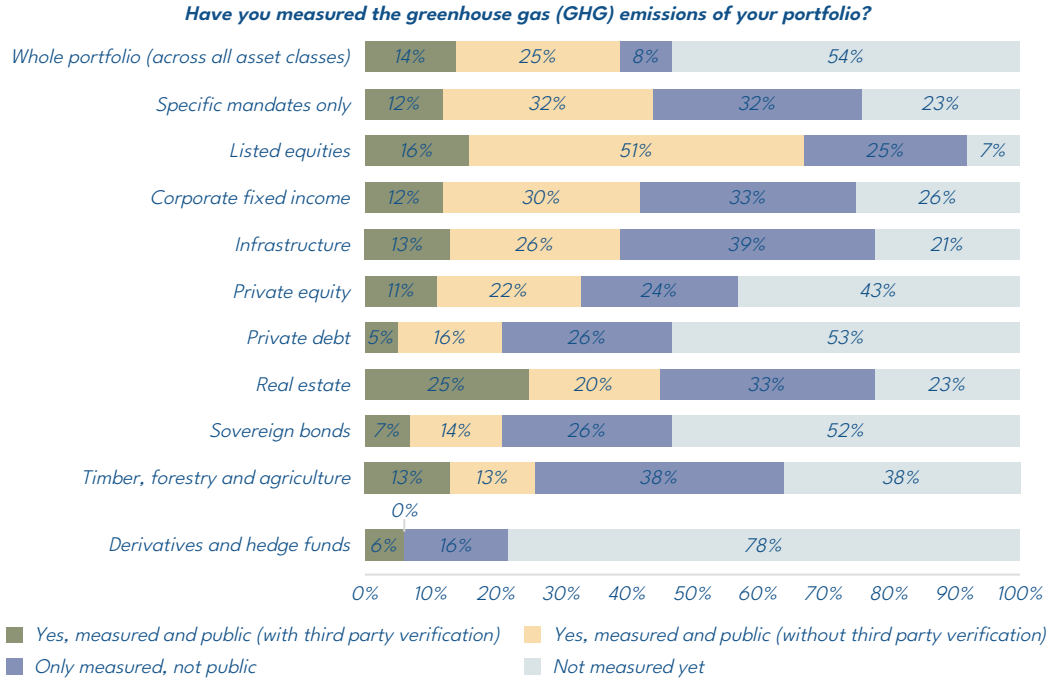
44 The AUASB has set out the phasing in timetable for assurance over mandatory climate-related disclosures. See AUASB (January 2025). "Climate and Sustainability Assurance Requirements Approved". Australian Government Auditing and Assurance Standards Board. https://auasb.gov.au/news/climate-and-sustainability-assurance-requirements-approved

Portfolio GHG Emissions Measurement

Measuring emissions is critical to an investor's ability to track progress towards targets and to identify whether efforts are effective. Under the AASB Standard, investors will be required to disclose:

- material scope 1, scope 2 and scope 3 emissions associated with their portfolio ("financed emissions"),
- the methodology used to calculate these emissions; and,
- the amount and proportion of assets under management (AUM) covered by the disclosure.

Investors must also provide an explanation for any AUM excluded from their financed emissions disclosure. Rates of financed emissions disclosure currently vary across traditional asset classes, with Listed Equities the most common (67%), followed by Real Estate (45%). Disclosure rates are lower in alternative asset classes (33% for Private Equity and 21% for Private Debt), reflecting the challenge in obtaining and estimating the data for these asset classes.



As in previous years, few investors are disclosing any investee scope 3 emissions. For example, for Listed Equities – the asset class with the highest rate of disclosure – about one-third of investors (33%) disclosed some investee scope 3 emissions. When IGCC convened asset owner members to discuss some of the challenges in this area, they identified two key barriers: low levels of disclosure by companies and a lack of confidence in third-party estimations.[45]

Data availability and quality should improve through Australia's mandatory disclosure laws. In the interim, IGCC has produced a report summarising these discussions, which offers some suggestions as to how investors might approach disclosure of the scope 3 emissions associated with their investments. Read the report here.

Even fewer investors are seeking assurance of any financed emissions disclosures. Real Estate (25%) and Listed Equity (16%) continue to be the asset classes most likely to be assured by external verifiers. However, even in those cases, assurance rates are low (and for scope 3 emissions in these asset classes they are even lower, at 15% and 9% respectively). This may be due to the high costs associated with obtaining assurance and the levels of uncertainty in the estimations involved.

This situation is likely to evolve given that Australia's mandatory climate reporting regime is currently calling for investors to obtain assurance over their disclosures – including their financed emissions – when they publish this information.

45 IGCC (March 2024). "Uses and Limitation of Investee Scope 3 Emissions". Investor Group on Climate Change. https://igcc.org.au/wp-content/uploads/2024/03/2024-IGCC-Scope-3-Emissions-Paper.pdf

Collaboration Unlocks Quality Data for Aware Super

Pathzero

Sponsored Real World Example: Pathzero

In 2022, Aware Super sought to refine its understanding of climate-related risks within its unlisted portfolio. While many funds still depend on partial or approximate estimates, Aware Super took a more collaborative approach – one that integrated external fund managers, underlying companies, and real estate assets into a unified, transparent system.

Through its partnership with Pathzero, the fund has taken significant strides toward adopting real, entity-level data for enhanced risk visibility.

Bringing All Parties Together

Aware Super began by asking fund managers to share whatever emissions information they possessed – whether broad estimates or more detailed asset-level figures – then worked closely with them to improve accuracy over time. Pathzero's platform accommodates both approaches, offering integrated calculation tools as well as compatibility with existing systems. Fund managers can upload data once and easily share it with multiple limited partners (LPs), minimising redundancies and fostering consistency throughout the investment chain.

This centralised framework has become integral to Aware Super's climate strategy. Instead of relying on fragmented data sources, the fund can now identify and monitor potential vulnerabilities more precisely. Each reporting cycle refines the data, gradually shifting from proxy-based estimates to robust, verifiable information.

Evidence of Progress

This collaborative model's success is evident in Aware Super's Partnership for Carbon Accounting Financials (PCAF) data quality scores, which improved significantly over a single year.

Initial results show that from FY23 to FY24, the fund's **overall score** improved from approximately **2.9 to 2.2**. Notably, the **private equity asset class** – a historically challenging area – saw its score improve from around **3.7 to 2.9.**

Liza McDonald, Head of Responsible Investment at Aware Super, said "Aware Super has seen a marked improvement in data quality in the unlisted portfolio, thanks to our targeted engagement strategy focusing on emissions data quality and the participation of our external fund managers on the Pathzero platform."

These improvements underscore how real, entity-reported data, when supported by the right tools and cooperative relationships, can elevate the way superannuation funds evaluate climate exposures.

Looking Ahead

As expectations for comprehensive emissions reporting continue to rise, Aware Super's success highlights the advantages of forging strong partnerships across every level of the investment chain. The Pathzero platform plays a central role in this process, enabling ongoing data refinements that inform risk management, scenario analysis, and broader governance efforts. With each new cycle, Aware Super becomes better positioned to address evolving regulatory demands and deliver transparent, high-quality outcomes for its stakeholders.

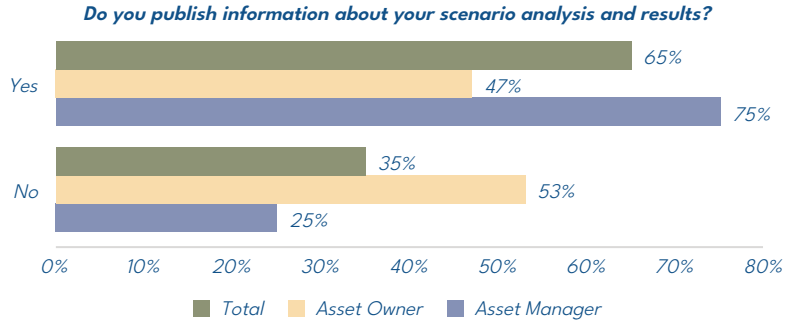
For more information, please visit pathzero.com

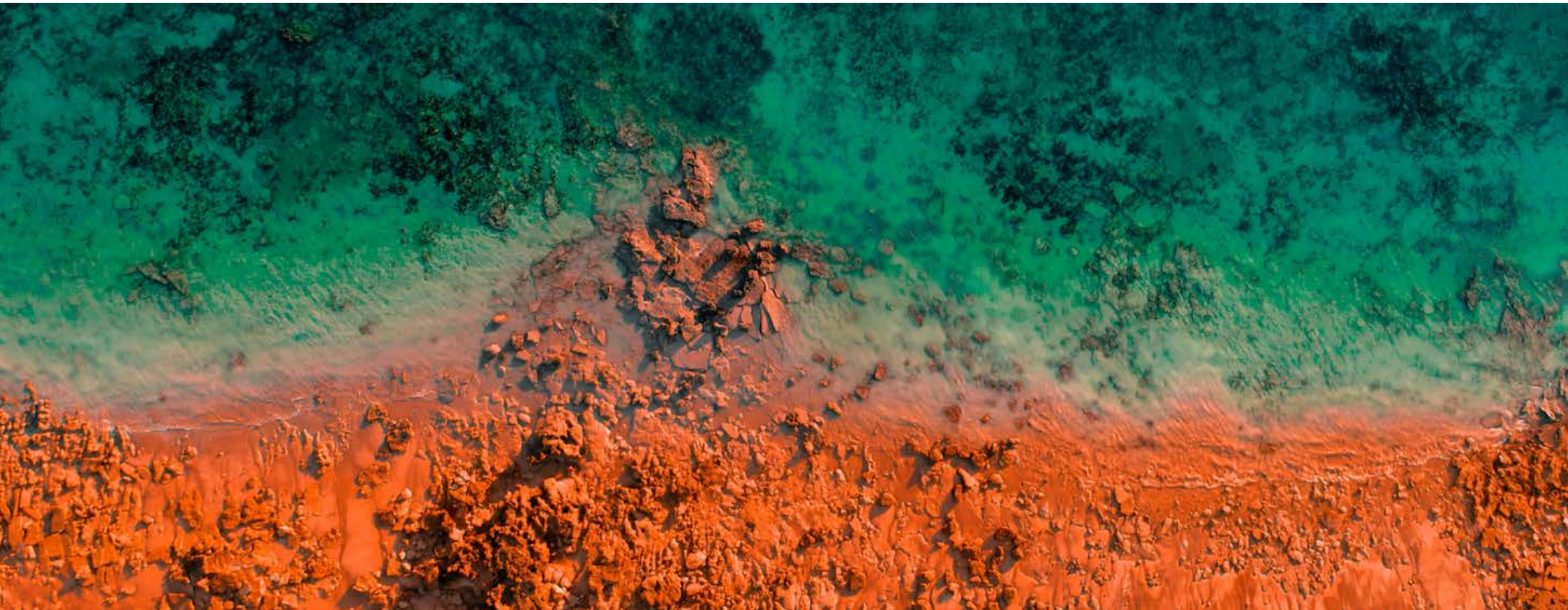
Scenario Analysis

Scenario analysis is a key tool for identifying and managing climate-related risks and opportunities. It is also a core disclosure required under the AASB S2 Standard.

Reporting entities will need to disclose a range of related information about how and when their analysis was carried out, including the details, rationale, and key assumptions that underlie the scenarios used. Reporting entities will also need to disclose information about the results of their analysis, including their assessment of resilience to climate risks (both transition and physical risks), their capacity to respond, and the implications of the analysis for their business model and strategy.

Almost two-thirds of the 78% of investors using scenario analysis currently publish some information about their analyses or results. We expect to see this number grow as investors prepare to meet mandatory reporting obligations.





Investor Climate Transition Plans

Under the Australian climate-disclosure standard (AASB S2), it is not mandatory to have a transition plan, but an entity that does have a transition plan is required to disclose it. The Australian Treasury will consult on regulatory guidance for transition planning in 2025.[46]

Globally, there is increasing focus on transition plans among intergovernmental fora from the G20 through to the Network for Greening the Financial System (NGFS) collaboration of central banks.[47] This indicates a growing market expectation that any entity serious about managing climate risks and opportunities will have a climate transition plan.

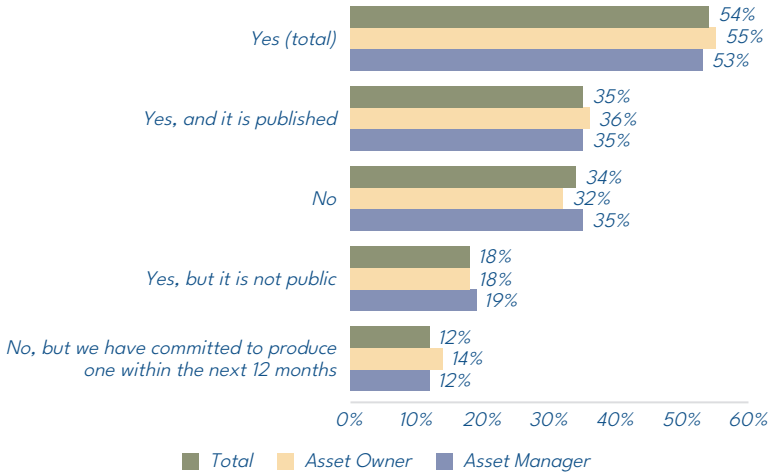
According to our results, 54% of investors have a transition plan, and 35% have made their plan publicly available, with results similar for both asset owners and asset managers. This finding mirrors APRA's *2024 Self-Assessment Survey*, which found that superannuation entities outperformed organisations in the insurance and banking sectors when it came to preparing a transition plan: 50% of superannuation funds reported they had a transition plan, compared to only 35% of banks and 15% of insurers.[48]

Overall, these results have decreased slightly compared to 2023. This may reflect an emerging hesitance to apply the label of 'transition plan' in the absence of clear regulatory guidance on what these plans need to entail for investors.

Concerningly, around one-third of investors surveyed do not intend to produce a transition plan within the next twelve months, up from 19% in 2023. Though these investors could be waiting for official regulatory guidance before making efforts to develop a plan, those who do not intend to produce one at all might find themselves at a disadvantage compared to their peers. As APRA has pointed out:

> *"A credible transition plan can be an effective communication and strategy document for financial entities, as it links broader entity strategy and the management of climate risks."*[49]

Do you have a transition plan for achieving your net zero objectives (e.g. an Investor Climate Action Plan (ICAP) roadmap or climate transition plan)?



46 Australian Government The Treasury (June 2024). "Sustainable Finance Roadmap". https://treasury.gov.au/sites/default/files/2024-06/p2024-536290.pdf
47 International Transition Planning Network (April 2024). "The opportunity of global consistency on transition plans"; NGFS, "NGFS publishes a package of reports relating to transition plans", media release. https://itpn.global/the-opportunity-of-global-consistency-on-transition-plans/
48 APRA (2024). "Climate Risk Self-Assessment Survey 2024". Australian Prudential Regulation Authority. https://www.apra.gov.au/climate-risk-self-assessment-survey-2024
49 APRA (2024). "Climate Risk Self-Assessment Survey 2024". Australian Prudential Regulation Authority. https://www.apra.gov.au/climate-risk-self-assessment-survey-2024

09: Practice Area: Governance

Robust investor governance practices aimed at safeguarding and enhancing the long-term value of retirement savings play a vital role in demonstrating how investors are delivering on their fiduciary responsibilities.

Growing evidence shows that climate change threatens the value of retirement savings, reinforcing the responsibility of boards and senior management to address these risks. Effective risk management requires leadership that sets clear accountability structures and encourages employees to diligently assess and manage the impact of climate risks on the organisation's business, strategy, and investments.

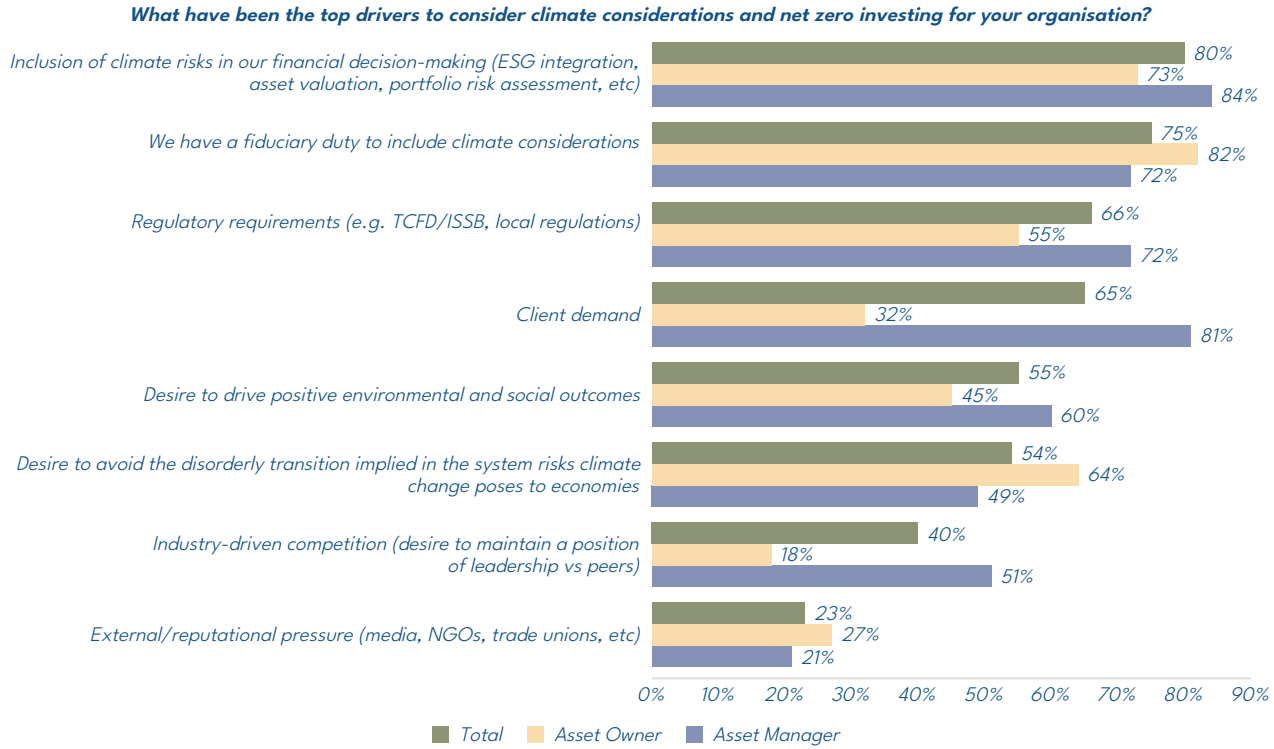
This chapter explores the key motivators, structures, and actions Australian investors are using to establish this clear 'tone from the top'.

Drivers of Investor Governance Practices

Various factors drive climate-aligned governance practices in investor organisations. 'Top-down' drivers include those stemming from regulatory requirements, industry standards, or government policies, whereas 'bottom-up' drivers arise from within the organisation, such as investment beliefs, industry competition, client or beneficiary demand, and a commitment to positive environmental and social outcomes.

Top-down drivers are playing a growing role in pushing investors to advance their climate-related activities and processes. Notably, more investors now identify 'regulatory requirements' as a key driver, up from 47% in 2023 to 66% in 2024. Additionally, three-quarters of investors acknowledged that they have 'a fiduciary duty to include climate considerations', almost double the proportion from 2023 (37%).

The most notable increases in bottom-up drivers include 'industry-driven competition', which more than doubled from last year (40%, up from 19%), and the 'integration of climate risks into financial decision-making' (80%, up from 66%). 'Client demand' also experienced a steady increase from last year.



Over half of respondents (55%) indicated that the 'desire to drive positive environmental and social outcomes' is a key driver for considering climate and net zero investing, with more asset managers reporting this than asset owners.

With the AASB S2 climate reporting standard now incorporated into Australia's *Corporations Act*, investors have dialled up their governance practices. However, while regulation provides the structure for transparency and accountability, investors' duty to continuously evaluate both financial and non-financial risks should not depend on regulatory requirements alone.

A deeper analysis of the 34% of investors who did not identify 'regulatory requirements' as a key driver revealed that they viewed a 'fiduciary duty to include climate considerations' and 'the inclusion of climate risks in financial decision-making' as significant factors for integrating climate considerations into their operations. Additionally, the 'inclusion of climate risks in financial decision-making' emerged as a primary motivator for 80% of investors to take climate risks into account.

The landscape for Australian investors is becoming more competitive, with Australian superannuation funds vying to attract and retain members. As the pool of superannuation capital continues to grow, so too does the competition among asset managers to score substantial superfund mandates. Investors who regard climate risk considerations as integral to their fiduciary duty and risk management – rather than merely a compliance exercise – can benefit from these efforts by attracting and retaining more clients and members.

Climate-Related Governance Structures

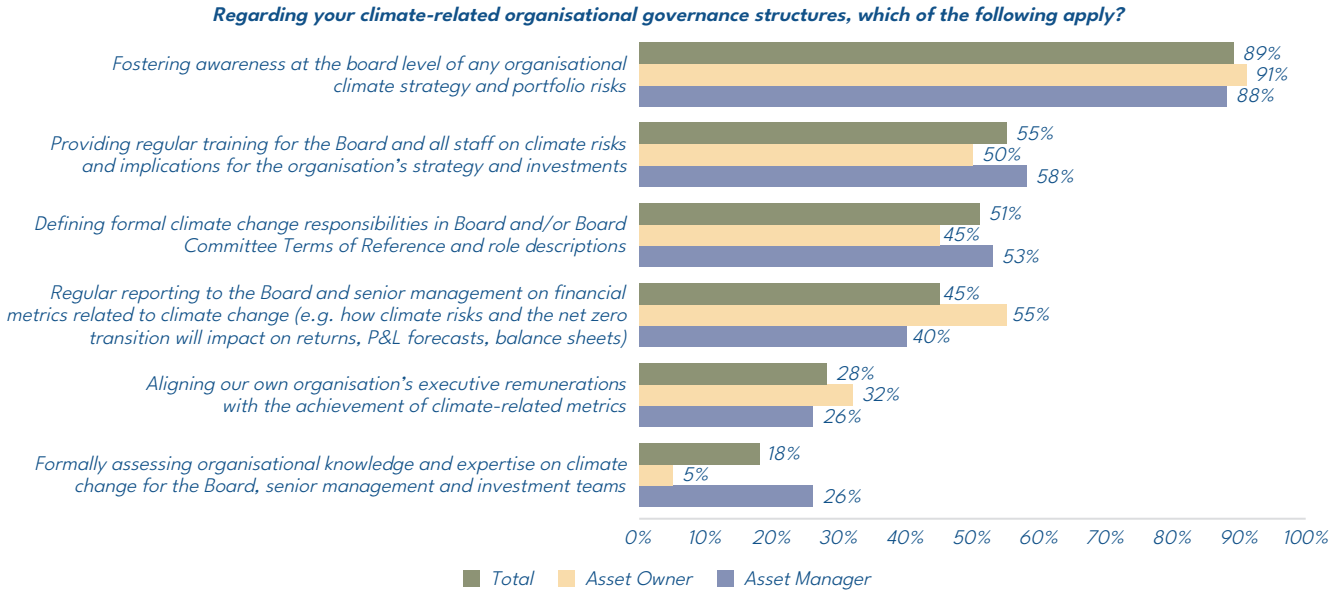
Climate governance structures reflect the rules and processes that businesses employ to manage climate-related risks. This includes how management reports to the board, as well as how and when the board is informed of climate-related issues.

Climate-related risks materialise largely in investment portfolios and are collectively substantial enough to destabilise the economy if investors lack adequate risk management frameworks. Consequently, there is growing pressure on investor boards and senior management to embed climate considerations into their governance structures.

Almost all investors (89%) are 'fostering awareness at the board level of any organisational climate-related strategy and portfolio risks'. The largest increase compared to last year is in 'regular training on climate risks and implications provided to the board and all staff' (55% in 2024, up from 46% 2023).

The number of investors 'defining formal board roles with climate change responsibilities' has consistently increased over the past three years. In 2024, for the first time, more than half of investors (51%) have 'formalised climate responsibilities in board-level job descriptions'.

Asset owners continue to take the lead in formalising climate-related governance structures overall, but fall behind in the practice of 'formally assessing organisational knowledge and expertise on climate change', which appears to be a bigger focus for asset managers. The 'formal assessment of climate change expertise and knowledge' remains the least common practice for both asset owners and asset managers.



A minority of investors (28%) are 'aligning executive remuneration to climate-related metrics' and just under half are 'reporting regularly to the board on climate-related financial metrics'. APRA's *Climate Risk Self-Assessment Survey 2024* revealed a similar finding.[50] The survey found that 70% of superannuation organisations either had variable remuneration in place that did not include climate targets, or did not have a variable remuneration plan at all. This indicates that it is not common practice for entities to link senior leaders' variable remuneration plans to climate-related targets. A report by IGCC guides those looking to incentivise climate action at investee companies through executive remuneration.[51] Read the report here.

Investors are increasingly recognising the need for regular staff training to enhance their understanding of climate-related risks and opportunities. There is a stronger focus on establishing governance structures that enable effective oversight of these risks, with a focus on formalising board-level accountability and responsibilities.

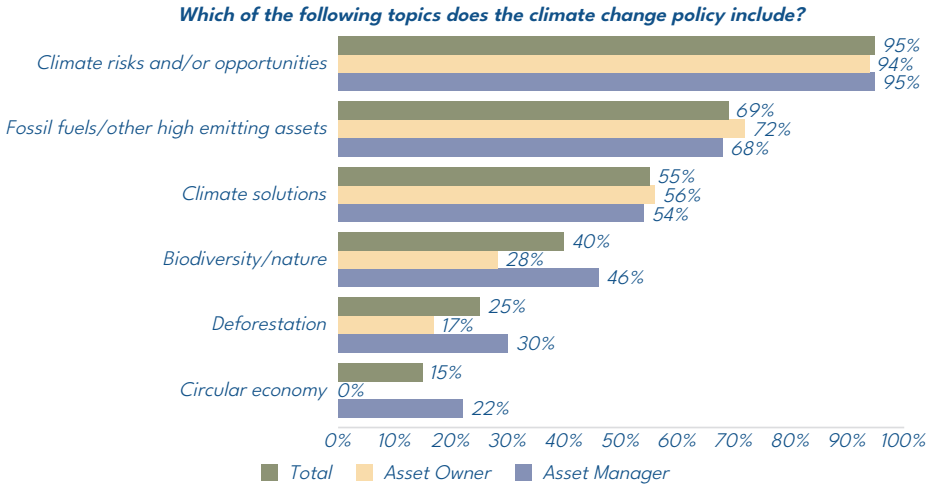
Nonetheless, there is still room to improve investor governance structures to show that boards, senior management, and investment teams have the expertise and knowledge required to address climate challenges effectively.

50 APRA (2024). "Climate Risk Self-Assessment Survey 2024". Australian Prudential Regulation Authority. https://www.apra.gov.au/climate-risk-self-assessment-survey-2024
51 IGCC (November 2024). "Incentivising Climate Action with Executive Remuneration in Australia". Investor Group on Climate Change. https://igcc.org.au/wp-content/uploads/2024/11/IGCC-Executive-Remuneration-Report.pdf

Climate Investment Policies

Investment policies offer an opportunity for investors to formalise and embed responsible investment considerations into their organisation's processes and structures. The inclusion of climate considerations within an investment policy can help to guide investors on how they should handle climate issues on behalf of their clients and beneficiaries, and can demonstrate the organisation's approach to climate risks and opportunities to regulators and other key stakeholders.

Policies often reference the regulatory requirements or fiduciary responsibilities guiding the organisation[52] and are usually approved by the board or investment committee. Policies also commonly feature governance elements such as delegation of authority and internal reporting structures and requirements.



Topics Addressed by Climate Policies

Since 2023, climate investment policies have increased across all areas.

A few noteworthy findings in 2024 include:

- **Climate risks and opportunities:** Almost all respondents (95%) incorporate climate risks and opportunities into their investment policies, with a high degree of alignment between asset manager and asset owners.
- **Fossil fuels and other high-emitting assets:** The most notable rise was in the incorporation of 'fossil fuels and other high-emitting assets,' with 69% of investors formalising their approach in 2024, up from 43% in 2023, highlighting that over half of the surveyed investors have strengthened their stance on high-emitting assets in the past year.
- **Biodiversity/nature and deforestation:** Investors are increasingly outlining their approach to biodiversity/nature and deforestation issues, evidenced by the jump in the proportion of investors stating that their climate change policy refers to 'biodiversity/nature' (from only 17% in 2023, to 40% in 2024).
- **Climate solutions:** 2024 marked the first time that 'climate solutions' was added as a topic to the survey. The responses show that slightly more than half of investors are developing policies that entail an approach to investing in climate solutions.

The upward trend in these results highlights the increasing formalisation of climate strategies and underscores a shared recognition among asset managers and asset owners of the financial materiality of climate-related risks.

Despite this alignment, differences remain in addressing nature-related topics – such as biodiversity and deforestation – and the circular economy, with asset managers leading the way in integrating these areas into their policies.

The inclusion of nature-related areas in climate investment policies signals a shift from a values-based perspective to recognising the material financial risks of environmental degradation and biodiversity loss. This shift may also reflect the emergence and development of topic-specific disclosure frameworks, primarily the Taskforce on Nature-related Financial Disclosures (TNFD), which provide investors with tools to incorporate nature into decision-making. Refer to Chapter 5 ('Investment') for more on investor progress in nature-related areas.

Detailed analysis of this year's data shows some additional climate investment policy-related correlations worth noting:

- **Climate solutions targets aligned with investment policies:** Over one-third of investors with a climate investment policy that incorporates climate solutions have also set climate solutions targets. This highlights a clear alignment between strategic intent (climate investment policy) and operational implementation (target setting) within the investment process.
- **Executive compensation linked to climate metrics:** A strong correlation exists between having a climate investment policy and aligning executive compensation with climate-related metrics. Notably, 94% of investors that tie executive pay to climate metrics have also developed a formal climate investment policy.

52 PRI. "Policy, structure and process." Principles for Responsible Investment. https://www.unpri.org/download?ac=10224

10: Conclusion

This year's State of Net Zero report shows that investor ambition on climate remains strong despite persistent challenges. Most investors now have climate policies and net zero targets in support of their fiduciary duty to beneficiaries, stewardship practices are shifting beyond transparency toward driving real-world action, and constructive engagement is contributing to a more consistent federal policy approach.

There has also been strong progress in previously underrepresented areas of investor practice, particularly relating to adaptation, with this year's report identifying a significant increase in the proportion of investors looking both at physical risk assessment and the implementation of approaches to manage that risk. Systems thinking is also offering opportunities for stewardship practices to be conducted more efficiently, as investors look to engage with broader supply chains in addition to their conversations with individual companies.

Climate investment is an ever-evolving field, however, and there are considerable opportunities for more work from the finance sector. While more investors are including nature-related issues in their climate policies, this shift has been slow to translate into portfolio-level assessments of biodiversity and nature-related financial risks and opportunities. Our findings also identify opportunities to better align the stewardship practices of asset owners and their asset manager clients.

Our report highlights the important role local regulation plays regarding investor action on climate. Over the past year, a suite of new government policies on climate disclosure has been introduced in Australia. While this is a positive development, it has likely contributed to the temporary plateau in reported disclosure and transition planning reflected in our findings this year. As investors adapt to evolving guidelines, climate transparency is expected to strengthen in the coming years.

At a time when the importance of taking immediate climate action is clearer than ever, regulatory uncertainty is once again surfacing. In the United States, anti-ESG groups are challenging collaborative climate investor initiatives, and in many cases, rejecting the fundamental science that underpins action on climate.

Market turbulence creates uncertainty but also presents investors with opportunities to identify new areas of value. Renewables now offer the lowest-cost electricity in many markets, and climate solutions are providing compelling investment stories across a range of sectors.

It is critical that these investments consider their impacts on regional communities reliant on high-emitting industries, however, and address the development needs of our broader region. The social license for climate action is currently being challenged, with disinformation threatening public support. The best response is a clear investor commitment to a just transition, something recognised in this year's survey with a doubling of investors advocating on this topic. *Climate Action Pays Off* – IGCC's campaign showcasing the positive impacts of the climate transition on jobs and communities – demonstrates one way investors can actively help build social licence for climate action.

IGCC's State of Net Zero report offers readers access to high-level information on the progress of climate investment in Australia, demonstrating that more investors than ever are taking action to ensure that their beneficiaries' interests are protected by early and appropriate action on climate. It also provides a valuable resource to industry practitioners looking to dive more deeply into the content. We look forward to engaging with our members and stakeholders in the coming months as we explore how this report can support their own work.

11: Appendix: Methodology

Since 2017, IGCC has been leading research efforts to deliver a comprehensive analysis of climate stewardship practices embraced by investors in Australia. Our objective is to uncover the key barriers and challenges that investors encounter in their pursuit of climate-aligned investment activities, while also identifying significant trends in climate stewardship practices.

In September 2024, IGCC distributed its annual State of Net Zero survey to Australian institutional investors including global investors with operations in Australia.

The research findings allow IGCC to better support Australian investors as they navigate and enhance their stewardship practices in line with their responsibilities and fiduciary duties to their beneficiaries.

The term 'investors' is used throughout the report and refers to the collective responses of asset managers and asset owners combined. Wealth managers and fund managers are captured under the term 'asset managers' throughout the report.

Respondents

The survey received responses from a total of 65 investors, consisting of 22 asset owners and 43 asset managers, with a combined global AUM of A$47 trillion and A$4.2 trillion managed on behalf of Australian beneficiaries.

It is important to note that 80% of the sample consists of IGCC members. Based on our understanding of the market, the IGCC membership reflects a larger group of relatively more climate-progressive investors.

The Survey

The survey comprised both open and closed questions grouped into six key areas listed below:

1. Corporate Engagement;
2. Climate Solutions;
3. Physical Risk and Resilience;
4. Reporting and Governance;
5. Climate Related Areas; and
6. Barriers to climate investing.

Each year, an internal panel reviews the survey questions to ensure they remain relevant and aligned with global best practices in stewardship, as well as internationally recognised investor guidance and frameworks, namely:

- The Net Zero Investment Framework 2.0; and
- The Investor Climate Acton Plan Expectations Ladder (ICAPs).

Results and Analysis

All data collated is handled in accordance with IGCCs Privacy Policy. IGCC partners with Lonergan Research who provide the platform for data collection and quantitative data analysis. Lonergan Research is bound by the Research Society Code of Professional Behaviour and the *Privacy Act*.

All findings and data in the report are reported in aggregate, and individual organisational responses remain strictly confidential. It is important to note the results in the report are based solely on the responses provided and IGCC have not audited or verified the self-reported data.

The report is structured into five core chapters that align with the ICAPs focus areas: Investment, Corporate Engagement, Policy Advocacy, and Disclosure, with Governance also as a cross-cutting theme.

We have also included a chapter on Physical Risk & Resilience, as it is a key area for IGCC and its members, as outlined in IGCC's Road to Resilience strategy.

The State of Net Zero survey is also conducted in Asia by AIGCC, and in New Zealand by our partners Mindful Money with resulting reports.

Real-World Examples

The 2025 State of Net Zero Report is supported by a select group of IGCC's service provider members. These members have provided real world examples that are intended to illustrate how investors are accessing good quality information and applying it in their investment processes to manage climate risks and opportunities.

Where possible, examples are provided in sections of the report where they add colour to the survey's findings.

Examples have been only lightly copy-edited for readability. IGCC is happy to introduce readers to case study authors for more details on the content of those case studies.

Investor Group on Climate Change

Contact +61 2 8974 1160 Email Website Linkedin