



Investor
Group on
Climate
Change



Financing Australia's Corporate Climate Transition

Capital Alignment Principles
for Corporate Decarbonisation

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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 Australia and New Zealand's 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

This report provides investors with guidance to support their engagement with companies on aligning capital allocation decisions with climate goals. It sets out a **principles-based framework** to assist investors in evaluating whether companies are sourcing, managing, and deploying capital in ways that support their transition strategies, and engaging with stakeholders to stimulate and enable transition aligned allocation. The framework also aims to help companies integrate climate goals into capital allocation structures to deliver real-world decarbonisation outcomes.

Key elements of this report are structured as follows:

- **Challenges and Key Findings:** Outlines the overarching challenge of aligning capital allocation with climate goals, summarises key research findings and insights from interviews, and provides guidance for investors, including assessment results from 12 major Australian companies in high-emitting sectors.
- **Guiding Principles:** A set of seven Guiding Principles developed by Pollination and IGCC for assessing company capital allocation, organised across four areas — Capital Sourcing, Capital Management, Capital Deployment, and Enabling Activities. Each principle includes signposts, illustrative indicators, and international best practice case studies to support investors in evaluating company alignment with net zero goals.
- **Appendices:** Includes a **Company Evaluation Matrix** to qualitatively assess alignment of capital allocation activities with transition ambitions, and an **Engagement Framework** providing structured questions for investors to guide engagement with companies towards transition-aligned capital sourcing, management, deployment, and enabling activities.

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01: Executive Summary

There is growing interest amongst investors in understanding how companies align their capital allocation with climate-related goals. The way companies source, manage and deploy capital, and undertake associated enabling activities, and underpins their success in pursuing their transition to net zero.¹

By understanding core principles rather than assuming a one-size-fits all solution, investors can determine whether capital is being directed in a way that aligns with transition goals within a particular company or sector context.

This report outlines a principles-based framework to help investors assess and engage on capital allocation disclosures. It is informed by global and regional case studies, interviews with investors, company executives and other stakeholders, as well as evaluation of disclosures from 12 major Australian companies in high-emitting sectors.

¹ Defined as no net contribution to global greenhouse gas levels by 2050 or earlier based on IEA Net Zero by 2050.

How To Use This Report

This report examines how Australian corporates are financing the transition across their capital allocation decisions. Its purpose is to support constructive investor engagement with companies on transition-aligned capital allocation.

Key elements of this report are structured as follows:

- **Executive Summary and Introduction:** The overall challenge, key research findings, guidance for investors and summary results from the ASX-listed company assessments.
- **Guiding Principles:** A set of Guiding Principles developed by Pollination and IGCC to assist investors in evaluating company capital allocation. The results from assessing 12 ASX-listed companies against the framework are outlined. Each principle features signposts, illustrative indicators, and a global best practice case study.
- **Appendices:** A Company Evaluation Matrix and Engagement Framework based on the Guiding Principles to support investors and companies in working towards transition-aligned capital sourcing, management, deployment and enabling activities.

The Challenge

If global economies are to meet the goals of the Paris Agreement, companies must back Paris-aligned transition commitments with capital.

A growing number of Australian corporates have announced climate targets (66% of ASX200 companies have made a net zero commitment),² however, few have adequately integrated climate into their capital allocation processes or allocated sufficient capital (Capex) or operational (Opex) expenditure to meet their climate commitments.³ There remains a significant investment gap between ambition and action.

There is limited guidance available to help companies and their investors understand how to align capital allocation with their transition goals. Disclosure is often prioritised, reducing action to meeting compliance expectations rather than determining what effective capital allocation looks like in practice. Current analysis often focuses on how much money is spent, without interrogating whether capital is being sourced, managed, and deployed in ways that are coherent, effective, and aligned with the transition.

Achieving meaningful emissions reductions at scale will likely require significant capital investment. Yet shareholders typically also expect optimised short-term financial returns.

This dichotomy between achieving both short- and long-term system outcomes is a challenge for investors and companies alike. Both are presented with conflicting asks — on the one hand to ensure credible investment in the transition for the benefit of long-term beneficiaries and shareholders facing system level risk, and on the other hand to optimise short-term returns and sustained profitability within a strict boundary.

Yet businesses are accustomed to integrating a range of considerations into decision-making beyond immediate profitability. Risks and opportunities such as market volatility, regulatory compliance, reputational risk, technological change, social licence or strategic positioning are currently factored into strategic and business planning processes.

This report aims to address these challenges and enable further incorporation of transition goals into company decision-making. It looks to support investors, boards, companies, and broader stakeholders with a structured set of principles on which to build mutual understanding about the key considerations and potential trade-offs transition-aligned capital allocation entails.

² ACSI, 'Promises, Pathways, Performance: Climate reporting in the ASX200' (2024).

³ Note: There is currently no nationwide data analysing the proportion of ASX200 companies integrating climate into their capital allocation processes, or quantum of Capex and Opex allocated by Australian companies to deliver on their climate goals. ACSI provides some analysis, 'Promises, Pathways, Performance: Climate reporting in the ASX200' (2024), on how many ASX200 companies disclosed how climate change is considered when evaluating their financial performance and position (58 or 29% of ASX200 companies) and number of companies disclosing the use of an internal carbon price (41 companies or 24% of ASX200 companies).

Insights From Stakeholder Interviews

Key observations from interviews with institutional investors, proxy advisors, board directors, company executives, and climate finance experts were:

- Embedding climate considerations into capital allocation decisions is now considered best practice for transition planning. Most stakeholders see this as part of core business, with net zero goals being considered within long term capital decisions.
- There is no ‘one-size-fits-all’ approach to integrating climate considerations into capital allocation. Approaches to how capital is sourced, managed, and deployed, and associated enabling activities are undertaken, vary widely across companies and sectors.
- Assessing the quality, assumptions and integration of climate considerations into capital allocation is essential for investors to evaluate company alignment with the net zero transition.
- Improving the level of disclosure will help investors to effectively scrutinise the quality and credibility of steps relevant to ensure adequate capital allocation for company climate transition plans.

- Clearly integrating climate considerations into capital allocation frameworks can help transition activities compete effectively for capital. More informed decision-making helps drive long-term value, for example by ensuring that investment in short-term outcomes does not increase long-term risk (e.g. stranded asset risk).
- Even with ‘best practice’ capital allocation, some transition investments remain commercially unviable under current market conditions. In these cases, regulatory and policy support play a vital role in shaping market incentives, de-risking investments, and enabling a pipeline of credible, financeable transition projects across the economy. The limited availability of investible opportunities was also outlined as a key challenge by respondents.

This research also prompted the question: ‘should traditional assumptions regarding risk and return be re-examined in industries undergoing structural transition?’.

In the context of a clear need for companies to invest in the transition, investors might consider the implications of emphasising short-term financial returns as a priority over early capital investment to address longer term climate impacts and opportunities.

A New Framework for Investors

This report introduces the **Capital Allocation Alignment Framework**, based on seven Guiding Principles. These help investors and corporates assess whether a company’s capital allocation practices support delivery of its climate strategy. (See Figure 1). The Principles are organised across four areas of activity: Capital Sourcing, Capital Management, Capital Deployment, and Enabling Activities.

The Framework was developed on the basis that effective capital allocation cannot be reduced to a checklist. Instead, it should be tailored to reflect the specific climate risks, sectoral dynamics, and strategic contexts of each company. The Guiding Principles are designed to support informed decision-making and effective investor engagement.

To operationalise these principles, we have developed two practical tools:

1. **Evaluation Matrix** (see Appendix A): A qualitative assessment framework based on the principles. It outlines how investors can evaluate alignment of capital allocation activities with a company’s transition ambitions and targets. This has been tested through evaluation of 12 ASX-listed companies.
2. **Engagement Framework** (see Appendix B): A structured set of questions, based on the principles, to support investor engagement with companies on these topics.

These Framework components are designed for practical application, not as a compliance tool, but as a flexible structure to inform engagement and support improved company practice over time.

Figure 1: Summary of guiding principles for transition-aligned capital allocation

CAPITAL SOURCING

How is transition capital financed?

PRINCIPLES:

1. **Capital is sourced and raised in ways that support delivery of net zero transition outcomes** (e.g. through internal cash flow decision making or external sources such as sustainability-linked debt or blended finance)

CAPITAL MANAGEMENT PROCESSES

How is capital being managed?

PRINCIPLES:

1. A **credible climate strategy** exists to steer capital allocation (including targets, transition plan, risk analysis and governance)
2. Capital management approach **clearly embeds** climate risk and opportunities **into investment decision-making processes**
3. **Disclosure** of capital allocation management processes is **clear and sufficient** to understand why allocation is consistent with company targets and transition plans

CAPITAL DEPLOYMENT

What activities are being invested in?

PRINCIPLES:

1. The company is **shifting capital away from non-transition-aligned investments (such as fossil fuels)**
2. The company is **directing capital towards transition activities aligned to the company's transition action plan** (e.g. activities targeted at existing businesses, growth businesses and innovation businesses)

ENABLING ACTIVITIES

How is transition-aligned capital enabled?

PRINCIPLES:

1. **Activities beyond capital allocation stimulate and enable transition aligned allocation** (e.g. industry and policy engagement)

Looking Ahead

Investors play a critical role in holding companies accountable for translating their climate ambitions into informed capital decisions. Doing so will require clearer expectations, more focused engagement, and better tools for assessing alignment.

This report aims to support that work by offering a credible, principles-based approach to evaluating whether companies are positioning capital in a way that supports long-term climate outcomes.

Insights From Company Analysis

To test our approach, we evaluated the capital allocation practices of 12 major ASX listed Australian companies against the principles using the Evaluation Matrix (see Appendix A). The companies we assessed operate in a range of high-emitting sectors (transport, energy, resources, consumer goods and industry/manufacturing) and have unique transition requirements. They therefore take various capital allocation approaches.

The results (Figure 2) show these companies represent a range of transition levels, capital planning practices and governance approaches, although the majority have some evidence of commitment to the transition across their capital allocation. Most still have room to improve, and there were several clear laggards. None scored high alignment across all categories, with only one company meeting high alignment in more than 50% of criteria. Three companies had low alignment across 50% or more criteria.

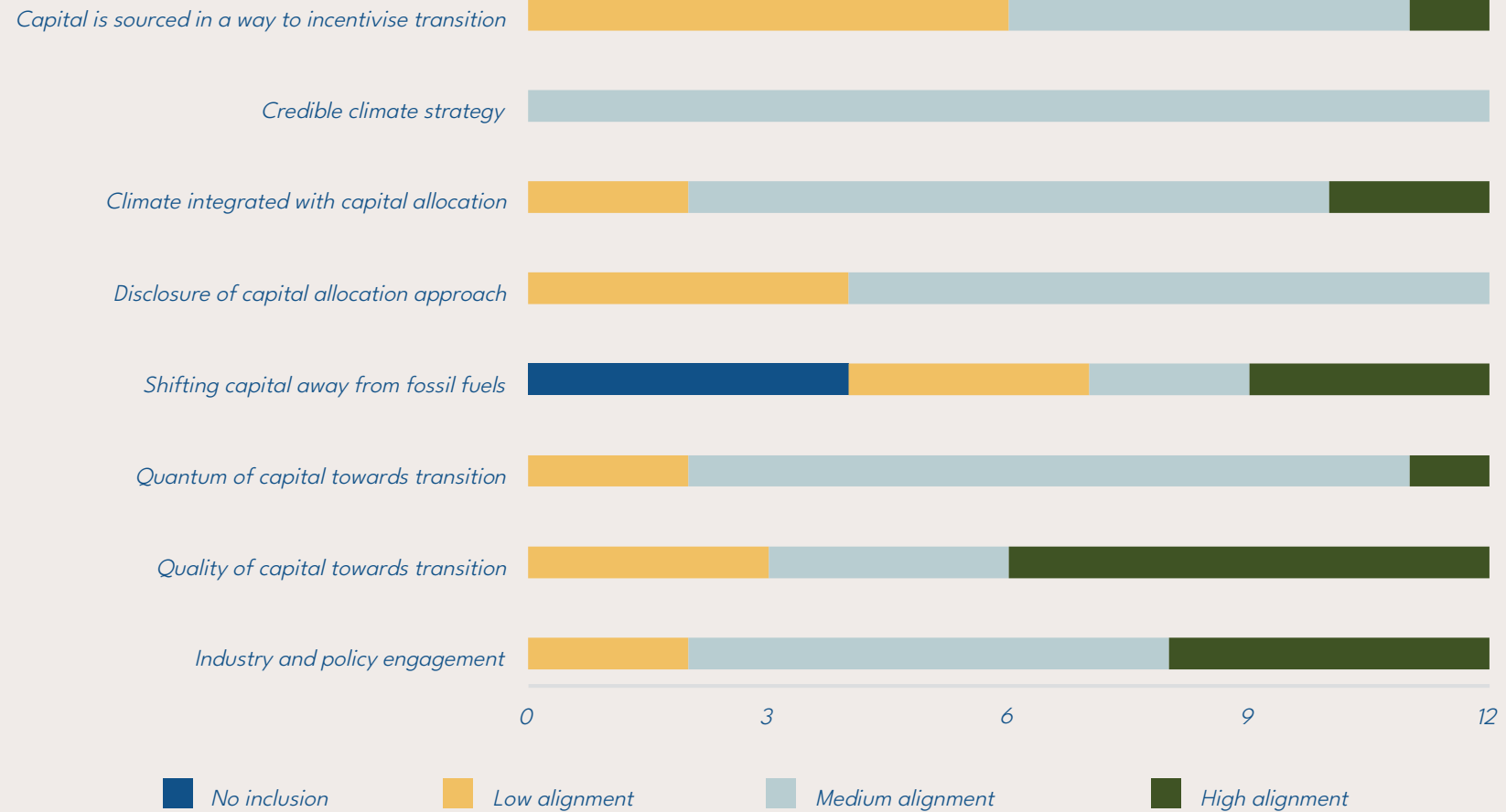
Key insights included:

- **Capital deployment:** 75% of companies had medium or high alignment in the quality and mix of transition investment types across existing operations, growth, and innovation. Only one met the high alignment criteria on actual capital quantity,

which requires significant commitments to both current and future expenditure. Three out of eight companies in fossil fuel driven sectors had low alignment with the phase down of capital towards fossil fuels.

- **Capital management:** 10 out of 12 companies had medium- or high-alignment scores for their application of capital allocation tools which integrated climate considerations. However, all companies could improve the information granularity in disclosures, with one third having low-alignment.
- **Capital sources:** 50% of companies had leveraged transition-aligned capital sources in some way, such as linked debt or blended finance. It is worth noting that interviews indicated appropriate capital sourcing is one lever which contributes towards climate-aligned capital allocation, rather than alignment with a prescriptive 'best practice' approach.
- **Enabling activities:** One-third of companies showed evidence of best practice in enabling activities, which included collaborative actions such as joint investments and strategic partnerships, as well as transparent lobbying that shaped supportive conditions for sector decarbonisation.

Figure 2: Overview of company assessment against 'Capital Allocation' Guiding Principles



Note: Company ratings for the above chart are based on assessment of alignment with the 'Capital Allocation' Guiding Principles. Detailed evaluation criteria are provided in the Evaluation Matrix included in Appendix A.

02: Introduction

Capital allocation is one of the most powerful levers available to Australian companies in delivering on their climate commitments. Yet, despite a growing number of net zero pledges, a persistent gap between ambition and investment remains.

Many Australian corporates are still in the early stages of embedding climate considerations into their financial systems and decision-making processes. Investors and stakeholders increasingly expect evidence of how capital is being mobilised, not just what a company plans to do, but how it funds and prioritises the transition. In Australia, this challenge has been compounded by structural constraints, including a relatively emissions-intensive economy, high capital cost of decarbonisation technologies, and uncertainty in policy and market signals. The pressure to reduce emissions while meeting financial performance expectations is growing. The question is no longer if climate should shape capital allocation, but how.

Investors are increasingly expecting companies with transition plans to embed those plans into capital sourcing, management, and deployment. Figure 3 illustrates how

investment decisions might change when capital allocation effectively incorporates long term considerations under broader system level value, rather than short term isolated investment criteria.

However, investors also continue to ask for optimised short-term financial returns in a highly benchmarked market. This means that companies are increasingly presented with conflicting asks; on one hand to manage capital in the name of long-term investors facing system-level risk, and on the other hand to manage capital to optimise short-term returns within company-level performance constraints.

While there is no simple answer to this issue, this report aims to support the investor and the executive community by providing a structured set of principles on which to build mutual understanding of considerations and potential trade-offs, if any, that transition-aligned capital allocation may involve.

Figure 3: How investment decisions might change when capital allocation is transition-aligned



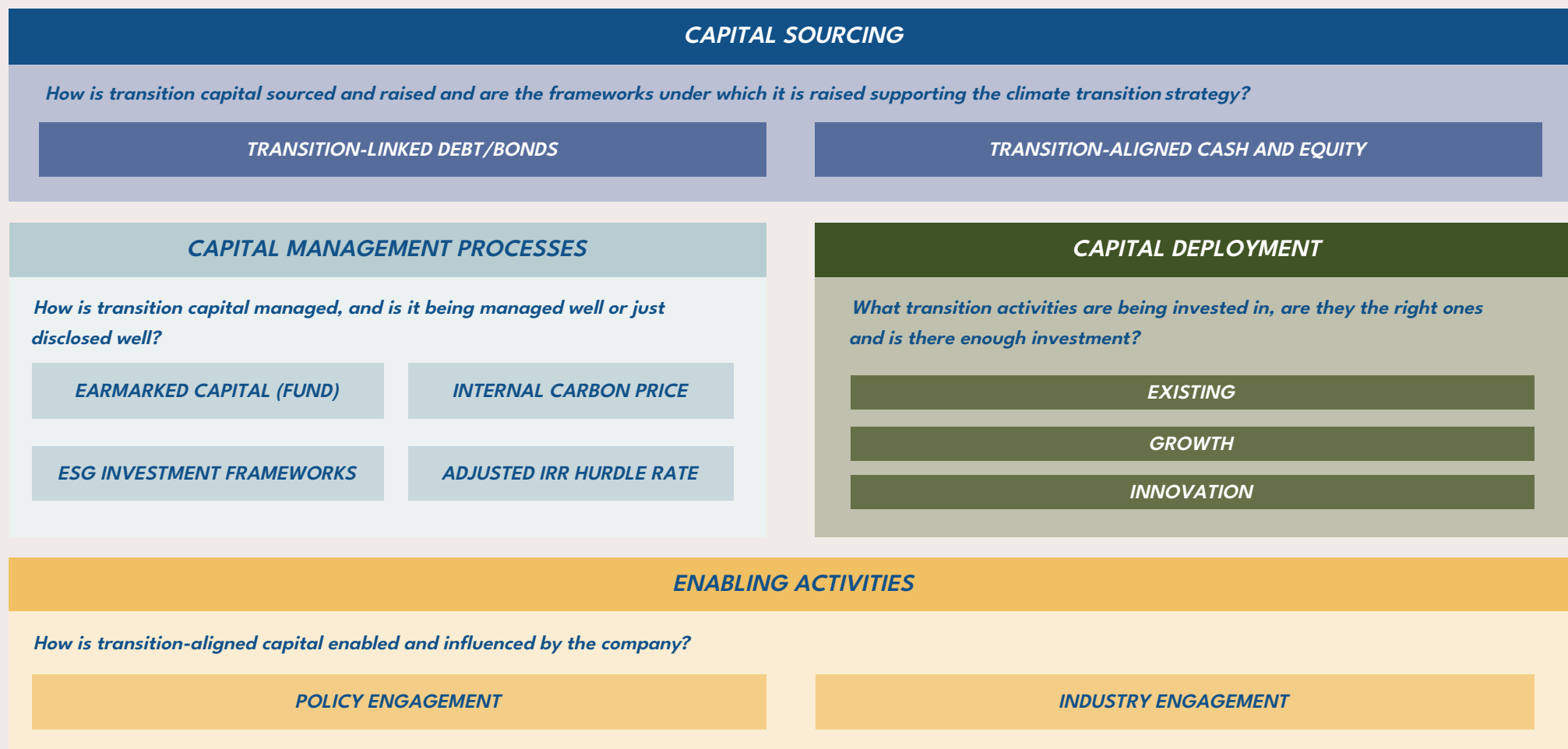
This paper draws on a capital allocation landscape map that identifies four interrelated buckets through which companies engage with capital. These include:

1. **Capital Sourcing:** Directing internal cash reserves and securing new external funding to advance business and climate goals.
2. **Capital Management:** Leveraging capital management instruments that incorporate climate in assessing investment priorities and managing risk.
3. **Capital Deployment:** Allocating resources to projects or activities that deliver on transition goals.
4. **Capital Enabling Activities:** Shaping the broader environment through industry collaboration and climate-aligned policy engagement.

This map is based on the Climate Policy Initiative's Corporate Climate Finance Playbook (2023),⁴ which is recognised as a leading industry paper and was helpful in framing the design of the principles. Figure 4 visualises these key buckets (sourcing, management, deployment, and enabling environment) and outlines key questions investors might ask to evaluate whether capital allocation is transition-aligned.

⁴ <https://www.climatepolicyinitiative.org/wp-content/uploads/2023/09/2023-corporate-climate-finance-playbook.pdf>.

Figure 4: Map of capital allocation landscape



Beyond Decarbonisation

While this paper primarily focuses on financing decarbonisation, we acknowledge the importance of adaptation and resilience in the broader climate finance landscape. This paper's core intent is to support the mobilisation of capital toward emissions reduction to meet net zero targets.

In our expert interviews, adaptation and resilience emerged as increasingly relevant themes. However, it was widely recognised that it is a distinct area, with its own risk frameworks, instruments and applications. Given its complexity and growing importance, adaptation and resilience would benefit from dedicated analysis, a task we see as essential but outside the primary focus of this paper.

03: Guiding Principles for Companies and Investors

Integrating climate considerations into capital allocation is no longer a forward-looking ambition — it is an urgent and necessary shift for companies seeking to meet their transition goals.

Our analysis suggests that there is no standardised approach to embedding climate into capital allocation. Climate-aligned capital allocation inevitably involves a degree of subjectivity and commercial nuance, with variance depending on a company's internal structure, the stage of its transition plan and the sector in which it operates. However, several common principles can guide companies toward more credible, transparent, and effective practice.

In this report, we set out a series of Guiding Principles (Figure 5) for assessing the climate alignment of corporate capital allocation across the four capital allocation buckets: Capital Sourcing, Capital Management, Capital Deployment, and Enabling Environment.

These principles have been informed by:

- A number of in-depth interviews with investors, proxy advisors, board directors, executives, and climate finance experts
- A detailed review of climate-related capital allocation disclosures and practices across twelve major ASX-listed Australian companies (see Evaluation Matrix in Appendix)
- Case studies of global best practice

Many existing frameworks focus primarily on what companies disclose (i.e. the presence or absence of information). For example, the Australian Sustainability Reporting Standards ([AASB S2](#)) will provide Australia's first mandatory blueprint for what climate information must be disclosed by Australian corporates.

However, as one investor observed, “disclosure is a good foundation, but we are now beyond disclosure.” These Guiding Principles are intended to support investors and other stakeholders in assessing these disclosures. They aim to inform how one can assess the “why, what and how” of capital allocation, evaluating not just the availability of information, but the credibility, effectiveness and strategic alignment of capital allocation decisions. In this spirit, the principles aim to support both assessing the quality of

disclosure and interrogating whether the structures, processes, and financial instruments used are truly fit for purpose to deliver real-world decarbonisation outcomes.

Each Guiding Principle is accompanied by:

- The overall signposts (target outcomes) of the principle
- A series of illustrative indicators to guide assessment against each principle
- Where relevant, case studies showcasing international examples of good practice

These principles are designed to be practical and outcomes-based, not only enabling investors to interrogate capital alignment with climate commitments but also helping companies benchmark and strengthen their own capital allocation strategies to better support the transition.

Figure 5: Summary of guiding principles for transition-aligned capital allocation

CAPITAL SOURCING

How is transition capital financed?

PRINCIPLES:

1. **Capital is sourced and raised in ways that support delivery of net zero transition outcomes** (e.g. through internal cash flow decision making or external sources such as sustainability-linked debt or blended finance)

CAPITAL MANAGEMENT PROCESSES

How is capital being managed?

PRINCIPLES:

1. A **credible climate strategy** exists to steer capital allocation (including targets, transition plan, risk analysis and governance)
2. Capital management approach **clearly embeds** climate risk and opportunities **into investment decision-making processes**
3. **Disclosure** of capital allocation management processes is **clear and sufficient** to understand why allocation is consistent with company targets and transition plans

CAPITAL DEPLOYMENT

What activities are being invested in?

PRINCIPLES:

1. The company is **shifting capital away from non-transition-aligned investments (such as fossil fuels)**
2. The company is **directing capital towards transition activities aligned to the company's transition action plan** (e.g. activities targeted at existing businesses, growth businesses and innovation businesses)

ENABLING ACTIVITIES

How is transition-aligned capital enabled?

PRINCIPLES:

1. **Activities beyond capital allocation stimulate and enable transition aligned allocation** (e.g. industry and policy engagement)

3.1 Capital Sourcing — How is Transition Capital Sourced?

Effective climate-aligned capital allocation starts with *how capital is sourced*.

This includes both how companies source capital internally and how they raise capital externally through debt or equity instruments. The assessments in this report focused more heavily on capital raising. However, investors might also consider how decisions about sourcing from internal capital, such as retained earnings or excess cash, align with decarbonisation priorities. Clear communication of decisions over dividend payouts and shareholder buybacks, as opposed to funds being used for reinvestment, can be important in helping investors assess how a company makes investment decisions.

The design and intent of capital raising instruments with decarbonisation outcomes can shape internal incentives and send powerful signals to markets and stakeholders. Whether embedding climate considerations through debt or equity, the terms on which capital is accessed can create or undermine pathways to and accountability for decarbonisation.

Debt is the most common example of capital raising instruments that can effectively drive transition outcomes, primarily through sustainability-linked loans (SLLs)⁵ and green bonds.⁶ While these instruments alone are not definitive evidence of a company employing an authentic capital strategy for transition, when used appropriately, they can play a powerful role in incentivising climate-related investments and unlocking concessional finance opportunities.

The following principle focuses primarily on debt instruments. While equity is another mechanism for raising capital, it is less commonly used to directly finance corporate climate transition outcomes. Nonetheless, equity can play a complementary role, particularly in capital-intensive or early-stage transition investments.

PRINCIPLE 1:

Capital is sourced and raised in ways that support delivery of net zero transition outcomes (e.g. through internal cash flow decision making or external sources such as sustainability-linked debt or blended finance)

By embedding climate goals directly into capital raising activities, companies can align financial strategy with transition ambition from the outset. When designed with integrity, transition-aligned capital raising instruments, such as SLLs, green bonds or blended finance solutions,⁷ can support prioritisation of decarbonisation investment, enable access to concessional finance, improve transparency, and enhance accountability for delivering on transition outcomes.

Sustainable capital raising instruments can present a strategic opportunity. In a company's climate risk assessment, access to sustainable finance may be recognised as a transition enabler that can lower the cost of capital and unlock new funding sources. Leveraging these instruments can also act as a signal to investors of leadership and commitment to the net zero transition.

However, not all companies or sectors are suitable candidates for green or sustainability-linked finance. Before encouraging such instruments, investors might evaluate the industry and its decarbonisation pathway, scope and control of GHG emissions and assets, debt levels and financial resilience, and the maturity of relevant technologies.

Critically, investors might ask: Why is the company issuing this instrument? Is it to finance genuine climate investments, or generate reputational capital without real decarbonisation impact? When sustainability-linked instruments are misused, for example, by linking KPIs to immaterial metrics or for funding business-as-usual projects, they risk undermining trust and perpetuating greenwashing.

⁵ Instruments whose financial characteristics (e.g., interest rates) vary depending on the issuer's performance against predefined sustainability KPIs, which can include climate-related targets such as GHG reductions.

⁶ Debt instruments where the proceeds are earmarked for environmental projects. These must meet eligibility criteria, typically aligned with taxonomies or standards like the Climate Bonds Standard, and undergo verification for use of proceeds.

⁷ Accessing concessional finance from public sources.

Investor: “If used incorrectly, sometimes sustainability-linked loans are a red flag.”

This principle encourages investors to look beyond the label and critically assess the substance of capital raising activities.

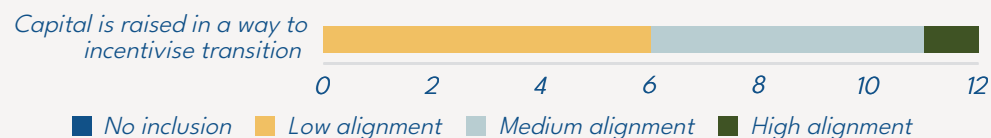
Effective green and sustainability-linked instruments are grounded in a company’s transition strategy, tied to robust climate-related KPIs, and supported by strong governance frameworks. This includes:

- **Robust KPIs:** Clear, results-based metrics that align with the company’s transition plan, covering both short and long-term decarbonisation goals, and the most material GHG emissions.
- **Meaningful incentives and penalties:** Instruments might include rate step-ups or step-downs based on KPI performance, calibrated to ensure material behavioural change and accountability.
- **Strong governance and verification:** A transparent governance structure, external verification, and MRV systems ensure credibility and minimise reputational risk. Published green lending frameworks can be used to communicate these structures and processes.
- **Appropriate use of proceeds:** Proceeds might be used to support the company’s climate transition pathway and/or specific decarbonisation investments.
- **Third-party certification:** Certification from credible organisations, such as the Climate Bonds Initiative, can enhance market confidence and reduce greenwashing risks.

Insights for Investors

In our review of 12 Australian companies, only half had a transition-aligned capital raising instrument (e.g. SLL) or stated an intention to raise capital in a transition-aligned way. Where companies did have an SLL or other instrument, there was insufficient public information to assess the quality of the instrument, for example, due to limited disclosures on the underlying framework and annual impact reporting. Only one company demonstrated best practice aligned with this principle, disclosing a Green Finance Framework that guides its capital raising strategy and individual instruments that link KPIs to the company’s climate targets.

Figure 6: Company assessment against Principle 1



Signpost	Illustrative quality indicators
<p>Capital sourcing and raising instruments (such as green and sustainability-linked bonds and loans) might be leveraged to support near- and long-term decarbonisation in line with the transition plan, not just financial returns.</p>	<p>Overall capital sourcing:</p> <ul style="list-style-type: none"> • Company publicly expresses an intention or a commitment to pursue sustainability financing (e.g. acknowledgement of it being a climate opportunity in climate risk analysis and/or explicit commitment to raise green capital) • A substantial amount of capital sourcing and raising instruments are geared towards transition outcomes, not just financial outcomes • Published Green Framework is developed in alignment with independent standards, such as the 2021 Green Bond Principles, Green Bond Standard and 2021 Green Loan Principles, Building Resilience Taxonomy, or ASFI Sustainable Finance Taxonomy <p>Transition-aligned capital raising instruments:</p> <ul style="list-style-type: none"> • The company leverages capital raising instruments (debt and equity) that are embedded with transition criteria/incentives, or blended finance has been pursued to improve the ROI of decarbonisation investments • Climate KPIs support near- and long-term decarbonisation and are tied to the company's most material emissions • Use of proceeds must be specific, align with the company's climate transition pathway and align with a mitigation hierarchy • Clear incentives for compliance or penalties for non-compliance (e.g. adjusted rates or penalties) that are appropriately weighted to drive behaviour change and materiality of climate risks • Robust governance framework and measuring, reporting and verification to track KPIs and to ensure transparency and accountability • Evidence that investments include other criteria to reduce significant environmental harm or negative social impact • Detailed process for project evaluation and selection, and management of proceeds • External verification (e.g. Climate Bonds Standard, MSCI, Sustainalytics, CICERO) helps ensure credibility and reduce greenwashing risk • Independent third-party opinions (e.g. from Sustainalytics) validate the credibility of capital raising instruments • Use of blended finance or concessional funding (e.g. government loans) shows proactive support for transition-aligned investment

Case Study For Capital Sourcing (Principle 1):



Ørsted, a global leader in renewable energy, has pioneered the use of green and sustainability-linked financing to support its transition from fossil fuels to renewables. Since 2017, Ørsted has committed to issuing all new bonds in a green format, with outstanding green bonds now accounting for over 80% of its total bond portfolio.

Green Finance Framework: Ørsted's funding strategy is governed by its Green Finance Framework, which was updated in May 2022, aligns with the 2021 Green Bond Principles and Green Loan Principles, and is designed to be consistent with the anticipated EU Green Bond Standard and EU taxonomy. The framework enables Ørsted to issue green bonds, green loans, and other debt instruments exclusively for projects that meet strict environmental criteria. Eligible projects now include offshore wind, onshore wind, and solar PV developments. The Green Finance framework has received the highest rating

("dark green shading") from CICERO Shades of Green (a global green bond framework assessment methodology), reflecting its alignment with best practice. Ørsted's green finance is governed by a cross-functional Sustainability Committee, ensuring all allocations align with its Green Finance Framework and EU taxonomy. Proceeds are tracked in a dedicated account, with annual public reporting and external assurance to guarantee transparency and compliance.

Green Finance Impact Report: Ørsted publishes an annual Green Bond Impact Report, detailing the allocation of proceeds and the environmental impacts of funded projects, such as avoided CO₂ emissions, renewable energy generated, and the number of people powered by these projects. It provides investors with clear, audited data on the environmental benefits achieved through Ørsted's green financing.

Figure 7: Ørsted's Green Loan Book

Lender	Project	Facility amount EURm	Amount drawn EURm	Capacity MW	Energy generation 2024 GWh	Avoided emissions Thousand tonnes, CO ₂ e/year ↕
Eksfin	Hornsea 3	525	282	2,852	–	173
EIB	Borkum Riffgrund 3	800	–	913	–	–

Eksfin

In March 2024, we signed a GBP term loan facility agreement on the equivalent of EUR 525 million with Eksfin, tied to the purchase of two transformer platforms for the Hornsea 3 Offshore Wind Farm.

EIB

In July 2024, we signed the second EUR 400 million loan tranche under a total agreement of EUR 1.2 billion with the EIB, aligned with the RePowerEU initiative supporting Europe's energy transition.



3.2 Capital Management — How is Capital Being Managed?

Capital management is a defining issue for companies navigating the twin goals of business success and climate transition. ‘How’ capital is allocated, governed and deployed has a direct impact on whether a company delivers both financial performance and meaningful climate outcomes. There is a core challenge for Australian companies: how to design capital management processes that not only deliver returns but also drive decarbonisation, aligned with the company’s climate strategy and long-term value creation.

Capital management encompasses the frameworks, governance, processes, and tools that underpin investment decisions throughout a business. Traditionally, it’s about allocating funds to maximise returns, manage risk, and support growth. But alignment with transition outcomes requires more. Investors are increasingly looking for companies to demonstrate how they are integrating climate risks and opportunities into their investment models, hurdle rates, and strategic planning as part of credible transition planning.

For Australian companies, this means evolving the traditional capital management toolkit. Carbon pricing, adjusted investment criteria, transition-linked funding mechanisms, and climate-weighted risk assessments are examples of how climate might be embedded into capital processes.

In this section, we outline three Guiding Principles for aligning capital management with the climate transition that investors might look for. First, the presence of a credible climate strategy to guide investment decisions. Second, capital allocation processes that embed climate risks and opportunities into decision-making frameworks in a transparent and consistent manner. Third, disclosure that provides a clear understanding of how capital allocation is consistent with the company’s transition goals.

PRINCIPLE 2:

A credible climate strategy exists to steer capital allocation (including targets, transition plan, risk analysis and governance)⁸

A company’s ability to align capital with climate outcomes starts with a credible, forward-looking climate strategy. Without one, capital risks being misdirected toward legacy assets, short-term fixes, or initiatives that fall short of driving real decarbonisation. The quality of a company’s climate strategy is therefore not a peripheral issue, but the foundation upon which effective transition capital decisions are built.

A credible climate strategy has two key components:

1. **Robust commitments and targets:** A net zero commitment backed by clear, ambitious targets, with a detailed transition plan that clearly explains how it will achieve its targets. A robust transition plan avoids “scattergun” investments and focuses effort on technologies and projects that align with the company’s climate transition pathway.
2. **Climate is integrated into the business:** A robust climate strategy is embedded across corporate governance, investment decision making and enterprise risk management, rather than sitting adjacent to them. This ensures that decisions related to climate become a part of the company’s core business. As one investor put it: “a company’s approach to decarbonisation is not separate from its approach to running the business. Getting to net zero is part of the business strategy.”

⁸ Based on CA100+ NZCB scoring from <https://www.climateaction100.org/net-zero-company-benchmark/>.

This includes:

- **Climate scenario analysis that appropriately prices climate risks.** Strong scenario analysis, grounded in transparent, science-based assumptions, enables companies to assess which investments are resilient, which may become stranded, and where additional support or innovation is needed.

Stakeholder interviews highlighted that scenario analysis remains underdeveloped in many corporate settings. Common shortcomings include superficial application, limited integration with core business or investment decisions, and inadequate consideration of material risks — whether physical (extreme weather, water scarcity, rising insurance costs) or transitional (carbon pricing, regulatory shifts, or technology disruption). Increasingly, regulatory frameworks such as the Australian Sustainability Reporting Standards (ASRS) are pressing companies to explicitly connect climate scenarios with financial outcomes. This includes disclosing the assumptions, methodologies, and decision-usefulness of scenario analysis in a transparent, science-based, and defensible manner. Meeting these expectations will be a significant challenge for many organisations, given the current maturity of climate risk assessment processes.

- **Adequate governance in management functions and Board oversight.** Effective alignment of capital allocation with climate strategies is often supported by strong governance structures, including cross-functional coordination and Board-level oversight, rather than operating in parallel.
- **Adequate sustainability and financial literacy across business units.** It is essential to build climate literacy across the business from a corporate risk and opportunity, as well as a business transformation, perspective. This should equip the Board and Executive to understand and appropriately address climate

risks and opportunities, and help sustainability teams to build a business case for decarbonisation investments. Within companies, some investors noted that “there is a mismatch between climate literacy and the ability to build a business case for transition”. Critically, investors may look for signs that companies are resourcing climate literacy and integration, investing in upskilling, empowering sustainability teams, and building systems that enable climate risks and opportunities to be translated into financial terms.

For evaluation against this principle, we recommend investors first refer to international and domestic best practice standards, such as Climate Action 100+ or SBTi, consider alignment with ASRS, and refer to best practice guidance such as [IGCC’s ‘Corporate Climate Transition Plans: A Guide to Investor Expectations’](#).

Insights For Investors

We note that no company scored high alignment due to the Evaluation Matrix’s requirement to achieve ‘Yes, meets all criteria’ for all CA100+ NZCB scores, which while many companies met the majority, none were fully aligned.

Figure 8: Company assessment against Principle 2



Key signposts informing alignment with this principle

Signpost	Illustrative indicators
The company has robust commitments and targets	<p>Science-aligned targets across timeframes</p> <ul style="list-style-type: none"> Publicly disclosed short-, medium-, and long-term emissions reduction targets, aligned with a 1.5°C pathway Targets include Scopes 1, 2, and material Scope 3 emissions Interim targets (e.g. 2025, 2030) are quantified, time-bound, and backed by a clear baseline <p>Credible transition plan to achieve targets</p> <ul style="list-style-type: none"> A credible transition plan that outlines specific decarbonisation levers, technologies, and interventions that are sectorally relevant
Climate is integrated into the business	<p>Climate scenario analysis that appropriately prices climate risks</p> <ul style="list-style-type: none"> Use of science-based, Paris-aligned climate scenarios to test the resilience of the business model under different climate futures (e.g. IEA NZE, NGFS scenarios) Analysis includes both physical risks (e.g. supply chain disruption, water stress, insurance cost escalation) and transition risks (e.g. carbon pricing, regulatory shifts, technology displacement) Outputs of scenario analysis are quantified and financially estimated so they can be integrated into strategic planning, asset valuation, and capital allocation decisions <p>Strong governance across management and Board functions</p> <ul style="list-style-type: none"> Clear Board-level oversight of climate strategy, with climate responsibilities embedded in Board committees or a dedicated sustainability subcommittee Executive leadership held accountable for climate targets through KPIs tied to remuneration and performance reviews Internal climate risk ownership is clearly assigned across the business, including strategy, risk, finance, operations, and legal functions <p>Sustainability and financial cross-literacy across business units</p> <ul style="list-style-type: none"> Evidence of resources and capital commitment towards business climate capabilities (i.e. hiring relevant FTEs, investing in tools, systems and processes to embed climate into operations) Training programs and tools in place to build climate capability across key teams, including finance, procurement, risk, strategy, and operations Evidence of cross-functional collaboration between functions, for example, joint investment committees or climate integration working groups

PRINCIPLE 3:

Capital management approach clearly embeds climate risks and opportunities into investment decision-making processes

Principle 3 focuses on whether companies have developed the management infrastructure and instruments to channel capital toward the full spectrum of decarbonisation opportunities, across existing operations, emerging growth areas, and innovative technologies. A credible approach considers more than a single investment instrument or an *ad hoc* process: it involves a systematic, fit-for-purpose capital management framework that accounts for climate risk and opportunity in every corner of the business.

A key consideration is whether companies are leveraging an appropriate mix of financial instruments to incorporate climate within their capital management frameworks. These instruments can work together to direct capital to the existing growth and innovation activities required to enable transition regardless of technology maturity, financial return and climate impact potential. Individually, the design of these instruments (see the signposts and indicators for each instrument below) can support a climate investment that passes a hurdle rate and ensures prioritisation of the project. Companies should provide reasonable details of how these instruments are designed and used. For example, the number of investments considered, the number and type of investments that pass through, and worked examples or case studies.

Embedding climate considerations into capital decision-making should be done clearly and consistently. This typically requires robust processes to assess value at risk, net present value, and project viability, including under scenarios where physical and transition risks may alter returns. This might also apply to capital and operational expenditure alike, including impairment testing and business-as-usual baselines, and disclosing how investment decisions are screened, prioritised and actioned.

While not a capital allocation instrument, some companies use Opex-based climate investments, such as Power Purchase Agreements (PPAs), offtake contracts or Joint Ventures, to decarbonise without requiring upfront investment in infrastructure. This model is especially effective for Scope 2 emissions, where emissions can be outsourced

to renewable providers, preserving balance sheet flexibility and return on capital. It also enables companies to access clean energy and other abatement options at a lower cost, while focusing investment on core, higher-margin business activities. Good practice could see companies couple this with a robust mitigation strategy (e.g. investing in low-carbon technologies within their operations) and collaboration with external parties to set up the necessary infrastructure (e.g. via offtake contracts to signal demand).

Ultimately, best practice transition alignment is defined not just by how much is invested, but also by how well the capital management system is designed to ensure the right projects are funded across the lifecycle of climate solutions.

Insights For Investors

In our review of 12 companies, all but two had evidence of individual capital allocation instruments designed to direct capital toward climate investments. For those that disclosed evidence of these instruments, internal carbon prices were the most common instrument used to price climate risks into capital management decisions.

Across the companies, higher alignment was scored where there was evidence that the mix of instruments worked together in a way to direct capital towards investments necessary to unlock decarbonisation of existing, growth and innovation areas of the business.

While the level of information disclosed regarding the mechanics of these instruments varied, a more detailed disclosure of what, how, and why these instruments have been used would help investors make more informed judgments about the quality of capital management processes in driving transition investments.

Figure 9: Company assessment against Principle 3



Key signposts informing alignment with this principle

Signpost	Illustrative indicators	
Climate integrated into capital allocation processes with instruments which help direct capital to green and transition activities across all stages of maturity, financial return, and impact, and do not incentivise perverse outcomes	Evidence of a mix of fit-for-purpose capital management instruments (as identified below) that integrate climate considerations into capital management processes, and also ensures this capital can be directed towards existing, growth and innovation business activities.	
Individual capital management instrument guidance		
Earmarked capital (Fund) Provides a centralised, expert-led function with a dedicated pool of capital to help prioritise decarbonisation investments.	<ul style="list-style-type: none">✓ Funds directly linked to climate targets and climate action plan✓ Clear accountability (e.g., dedicated committees, reporting frameworks)✓ Scalability and the ability to attract co-investment or blended finance✓ Clear documentation of Fund assumptions and methodology✓ Performance tracking, where metrics are tied to both climate impacts and ROI	<ul style="list-style-type: none">✗ Underutilisation of Fund monies with low deployment rates✗ Misdirected deployment of Fund monies towards investments with low GHG impacts✗ Lack of integration of Fund within broader capital allocation processes
Internal carbon price (ICP)⁹ Helps embed transition climate risks into investment decisions and prepare for future regulation.	<ul style="list-style-type: none">✓ Robust pricing to optimise transition prioritisation which reflects IPCC pathways, technology and policy by sector/region and is regularly updated✓ Clear documentation of assumptions and methodology in ICP calculations✓ ICP used comprehensively across all investment decisions covering all Scopes✓ Type of ICP (e.g. shadow, internal carbon fee) fit-for-purpose	<ul style="list-style-type: none">✗ Symbolic pricing is not disclosed or too low to influence transition prioritisation✗ ICP set too high above ACCU price may incentivise purchase of offsets over decarbonisation investments✗ Poor integration of ICP into capital allocation processes and fragmented application across business units✗ ICP creates a short-term bias

⁹ Consider reference to existing guidance and frameworks on best practice ICPs, such as the Climate Leaders Coalition's 'Internal Carbon pricing for Decision Makers Playbook' (2025).

Individual capital management instrument guidance

ESG Investment Frameworks

- | | |
|---|---|
| <ul style="list-style-type: none"> ✓ ESG criteria clearly articulated and linked to targets and strategy ✓ ESG criteria integrated across all investment decisions ✓ Influences decision-making (e.g. hurdle, threshold, screening) to deprioritise high emissions activities and prioritise ESG activities with high ROI and/or impact ✓ Informed by best practice principles and aligned to stakeholder needs | <ul style="list-style-type: none"> ✗ Vague metrics with climate targets not specifically called out ✗ Criteria create a short-term bias |
|---|---|

Adjusted IRR hurdle rate

Lowering hurdle rates for climate project can reflect strategic value, long-term risk mitigation or future policy alignment.

- | | |
|---|---|
| <ul style="list-style-type: none"> ✓ Penalties for high-emission projects and lower IRR for low-emitting projects ✓ Adjusted IRR hurdle rate used comprehensively across all investment decisions and scopes ✓ Rates incentivise investment which reflect sectoral IPCC pathways and are regularly updated ✓ Clear documentation of assumptions and methodology in IRR calculations | <ul style="list-style-type: none"> ✗ No penalties or adjustments linked to emissions ✗ Adjusted IRR hurdle rate used inconsistently across investment decision and scopes ✗ Limited documentation or case studies provided |
|---|---|

PRINCIPLE 4:

Disclosure of capital allocation management processes is **clear and sufficient** to understand why allocation is consistent with company targets and transition plans

Robust disclosure of capital allocation processes is crucial for maintaining investor confidence and promoting market discipline. As companies seek to demonstrate credible climate transition strategies, investors want to see *how* capital is being managed, not just *what* is being spent. This goes beyond headline figures and project announcements. It requires detailed, transparent, and decision-useful information that allows stakeholders to judge whether capital is being allocated in a way that genuinely supports transition outcomes and long-term value creation.

Investors benefit from disclosures that clearly explain the frameworks, processes, assumptions, and accountabilities underpinning capital decisions. Investors want to understand the internal mechanics: who is responsible for decisions, how climate risks and opportunities are priced and prioritised, and whether the governance and tools used, such as internal carbon pricing, are genuinely shaping outcomes. They seek visibility on the quality of capital allocation, not just the quantity.

Disclosures should cover both the *quantitative* and *qualitative* dimensions of capital management. This includes:

- How capital deployment estimates have been derived
- How capital is allocated to specific decarbonisation levers and over what timeframe
- The anticipated emissions abatement per investment
- The governance structures and accountability mechanisms overseeing capital allocation
- Methodologies and assumptions behind tools such as internal carbon pricing or climate scenario analysis
- Practical insights into how the process operates, how many investments have been reviewed, declined, prioritised, and what has been learned

Importantly, investors are seeking comprehensive and balanced information. Omitting details about continued investment in high-carbon assets or limiting disclosure to climate-positive projects risks creating a misleading narrative. Without transparency into trade-offs and exclusions, companies may inadvertently foster perceptions of greenwashing.

Standardised frameworks such as the Australian Sustainability Reporting Standards (ASRS) and the ISSB climate standard are raising the bar for comparability and rigour. However, it is the clarity, granularity, and integrity of company-level disclosures that will ultimately determine if investors can make informed decisions, and ascertain whether capital truly supports net zero transition outcomes.

Insights For Investors

In our review of 12 companies, we found a correlation between the completeness of disclosure and the quality of capital management processes. However, most companies received ‘medium alignment’ as there were disclosure gaps regarding the ‘how’ and ‘why’, not just the ‘what’ of capital allocation. Enhanced disclosure would ensure that capital management processes are described at a more granular level, with detailed information about individual capital management, underlying assumptions and methodologies, and how this has practically impacted the prioritisation of decarbonisation investments.

Figure 10: Company assessment against Principle 4



Key signposts informing alignment with this principle

Signpost	Capital sourcing
General completeness and granularity of information (lack of gaps and depth)	<p>Information related to the company's overarching financing strategy, and individual capital sourcing and raising instruments, as well as information regarding transition-specific capital raising instruments (e.g. sustainability-linked loans, green bonds and blended finance etc.). These include:</p> <ul style="list-style-type: none"> • Quantum or percentage of funding sources that are transition-aligned • Source of capital • Green Finance Framework (published) • Penalties • Governance, oversight and approval processes, and external or third-party review • Eligible use of proceeds criteria, and other environmental and social no significant harm safeguards • KPIs and calibration of performance targets • Measurement, verification and reporting processes • Annual allocation updates providing information related to financed projects, amounts allocated, share of new vs existing projects, and any year-end unallocated balances • Annual impact updates providing GHG emissions reduced and/or avoided due to investments <p>Climate strategy</p> <p>Information related to the company's climate strategy, including:</p> <ul style="list-style-type: none"> • Climate targets • Climate transition action plan • Climate scenario analysis assumptions and methodologies are transparent, consistent, and subject to periodic review • Explicit Board oversight over climate-related risks and opportunities, governance charts detailing Board and executive oversight, Board skills matrix and training schedule detailing climate-related competencies and skills • Information related to the climate-related roles, responsibilities, competencies and training of strategic and operational business units • Capex and/or Opex spend on climate-related FTEs, programs and other resourcing <p>Capital management</p> <ul style="list-style-type: none"> • Capital management framework, governance, processes and objectives • Information on climate-related capital management instruments which direct investment to transition-enabling initiatives, covering objectives, methodology, governance, processes, scope of application to business decisions, and a breakdown of how these instruments are used (including how many investments are considered, how many investments pass through and worked examples or case studies) <p>Capital deployment</p> <ul style="list-style-type: none"> • Amount of past, current and planned capital allocation towards fossil fuels • Public commitments and clear timelines to phase down across all relevant fossil fuel categories • Amount and type of current and planned and/or committed ('earmarked') future transition investment • More specific investment details on material investments, including type of transition activity, projected GHG impact, estimated ROI, and evidence of consideration of environmental harm, negative social impact and unintended consequences

Signpost	Capital sourcing
	<p>Enabling environment</p> <ul style="list-style-type: none"> • Industry engagement: <ul style="list-style-type: none"> ◦ Complete list of industry associations and coalitions, the company's role/nature of involvement (member, signatory, chair, technical lead), related investments, activities, and instances where the company's climate position may misalign with that of the industry association or coalition. ◦ Illustrative case studies or tangible examples of collaborative initiatives (e.g. joint funding of low-carbon pilots, shared infrastructure projects, coordinated R&D), identifying the initiative's objectives, partners, co-investment, activities and progress • Policy engagement: <ul style="list-style-type: none"> ◦ Complete list of lobbying activities (direct or indirect), including the positions the company has taken, relevant policies or regulations lobbied on, and the entities or associations involved. Disclosure includes rationale and how these efforts align with its public climate commitments. ◦ Illustrative case studies or tangible examples of collaborative initiatives (e.g. accessing public co-investment, concessional finance, and government grants or subsidies) to strengthen the business case for decarbonisation projects. They disclose the project's objectives, partners, co-investment, activities, progress and how blended finance may have helped shift projects over hurdle rates or advance climate technologies
Third-party verification for GHGs	<ul style="list-style-type: none"> • The company discloses which scopes (Scope 1, 2, and 3) are subject to third-party assurance and evidence of alignment with GHG Protocol • Methodologies, assumptions, limitations, materiality threshold and emissions factors are disclosed and science-based • The company specifies whether the verification is limited assurance or reasonable assurance, and why that level was chosen • Verifier is independent, reputable and accredited • Verification statement is published and accessible
Alignment with domestic and international reporting frameworks (such as ASRS and ISSB)	<ul style="list-style-type: none"> • Reference to how disclosures align with ISSB, ASRS, TCFD, CA100+ expectations, or other investor frameworks

Case Study for Capital Management (Principles 2, 3 & 4)



Microsoft exemplifies best practices for integrating climate considerations into its capital management systems. Microsoft's climate capital management framework is anchored in two primary components: an internal carbon fee and the Climate Innovation Fund.

These work in tandem to drive Microsoft's sustainability goals. The fee not only holds business units accountable for their emissions but also generates capital that can be reinvested into innovative climate solutions through the fund.

Internal Carbon Fee

Since 2012, Microsoft has implemented an internal carbon fee, charging its business units based on their carbon emissions, including Scope 1, Scope 2, and since 2024, some Scope 3 emissions. This fee incentivises emission reductions and funds sustainability

initiatives across the company. The collected funds support renewable energy purchases, energy efficiency projects, and carbon offset programs.

Climate Innovation Fund

Launched in 2020, the \$1 billion Climate Innovation Fund invests in emerging climate technologies that have early commercial traction and need capital to scale. The fund provides both equity and debt capital to companies developing solutions in areas such as carbon reduction, carbon removal, water conservation, and waste management.

Source: [Microsoft Environmental Sustainability Report 2024](#)

3.3 Capital Deployment — What Activities Are Being Invested In?

Capital deployment is where strategic intent meets real-world impact.

These principles are arguably the most important of all the Guiding Principles when it comes to allocating capital to realise net zero commitments. Current guidance tends to focus on the overall quantum of proposed capital investment. However, effective capital allocation requires a dual focus: both shifting capital *away from* fossil fuels and directing it *towards* net zero-aligned transition activities. A focus on quantity alone risks overlooking the qualitative factors essential for assessing overall credibility.

This section sets out two Guiding Principles for aligning capital deployment with the climate transition.

First, investors may look for evidence that companies are actively shifting capital away from investments not aligned with a net zero pathway. This includes considering both the scale of capital reallocation and the presence of public phase-down commitments, as well as any reinvestment strategies for this capital.

Second, a credible transition approach directs capital towards activities that are demonstrably aligned with the company's transition action plan, ensuring consistency with its stated strategy, decarbonisation targets, and implementation timelines. This includes not only the quantum of investment but also whether there is an appropriate mix of investments to ensure the company is adapting the business model to align with net zero.

PRINCIPLE 5:

The company is **shifting capital away from non-transition aligned investments (such as fossil fuels)**

Phasing out high-carbon investments is considered essential for a credible climate strategy. This principle may be especially relevant for investors assessing companies in fossil fuel-intensive industries, such as oil and gas, utilities, and mining, where the entire business model and revenue are dependent on fossil fuels. This can differ for other sectors (such as manufacturing), where fossil fuel reliance is limited to operational inputs and may be more easily phased out where feasible, low-carbon alternatives are available.

Simply adding green assets without a corresponding reduction in fossil fuel exposure is not sufficient to demonstrate credible alignment with the net zero transition. This could leave companies vulnerable to transition risks, reputational damage, and the financial impact of stranded assets. A genuine shift away from high-carbon investments signals alignment with net zero pathways and evolving investor expectations. Assessment of alignment should consider a range of fossil fuel types. For instance, a company may have a commitment to phase down coal yet also be increasing investment in gas assets beyond what is aligned with a net zero pathway.

Investors should consider the quantified evidence of this strategic shift. For example, a declining share of capital expenditure (Capex) directed toward high-carbon activities, alongside formal phase-down commitments and clear evidence of implementation pathways.

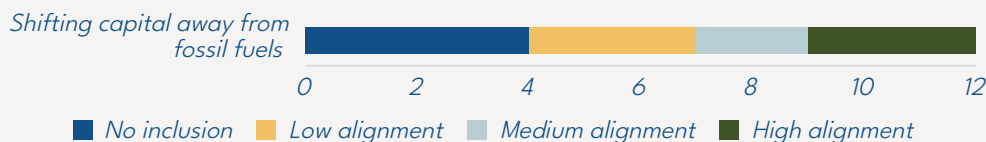
Overall, transparent disclosure of fossil fuel phase-out strategies, Capex reallocation, and any reinvestment plans enhances investor confidence in a company's climate governance and its ability to deliver on long-term transition goals.

Insights For Investors

This principle was only considered for fossil fuel-intensive industries, such as oil and gas, utilities and mining. Several companies were not assessed on this indicator, where fossil fuels were considered an input rather than a revenue driver for the business model.

In our review of the eight companies in sectors where fossil fuels were direct revenue drivers, most scored 'medium' or 'high' alignment. This was due to most companies having partial or 100% phase-down commitments, as well as evidence of capital shifting away from fossil fuel revenue sources. However, three companies received 'low alignment' because their strategies rely on continued fossil fuel demand assumptions. In particular, this included continued significant investment in gas beyond its expected role under a net zero pathway (which includes power system firming, chemical reaction and high-heat delivery formats that are not yet readily electrified at scale — see [IGCC Changing Pathways for Australian Gas](#) for more information).

Figure 11: Company assessment against Principle 5



Key signposts informing alignment with this principle

There is evidence of quantified reduction in fossil fuels and other high-carbon investments through phase down activities. This might include several considerations:

- **Size:** Reduced \$ or % of Capex still allocated to high-carbon assets/products, trending downwards over time
- **Climate impact:** The divestment has emissions reduction impacts or increases resilience in alignment with the transition plan, and there is evidence of reinvestment in transition activities
- **Business impact:** The divestment drives financial returns against a value driver and aligns with business risk tolerance
- **Other:** There are no significant environmental harms, negative social impacts, unintended consequences or adverse incentives for divestment, or risk of greenwashing

Company has a public phase down commitment or policies outlining a clear plan to wind down all relevant high-carbon investments, with sector-specific considerations.

PRINCIPLE 6:

The company is directing capital towards transition activities aligned with its transition action plan

Meeting corporate transition goals typically requires targeted capital allocation across a diversified portfolio of transition-aligned activities. Investors might consider how proposed capital investment across the full spectrum of transition-aligned opportunities, from mature low-carbon technologies to emerging innovations and broader systemic enablers, is anchored to the company's transition plan.

Investors might evaluate whether there is quantified evidence that capital is being actively directed toward these transition activities, currently and in future. This quantum should be proportional to a credible transition pathway (the mean proportion of annual Capex invested in transition amongst companies assessed was approximately 6%). Assessments might consider both recent levels of investment and planned or committed investment over relevant timeframes. These might depend on business planning periods and decarbonisation strategies; for instance, many companies have set their 2030 spend targets in line with 2030 decarbonisation commitments.

Our research did not suggest that the proportion of capital expenditure allocated to decarbonisation was, on its own, a useful metric to assess good practice. The proportion of investment that a company deploys may be a function of many specific factors, such as stage in transition strategy or sector type. For example, utilities may have higher-than-average spending levels due to Capex being associated with grid infrastructure. Sectors with lower asset bases or higher Scope 3 emissions may be investing beyond capital expenditures (i.e. into supply chain investments).

A qualitative assessment can determine whether the mix of investments being implemented is fit-for-purpose. Transition-aligned investment occurs where capital is allocated across a mix of existing operations, growth initiatives, and innovation in

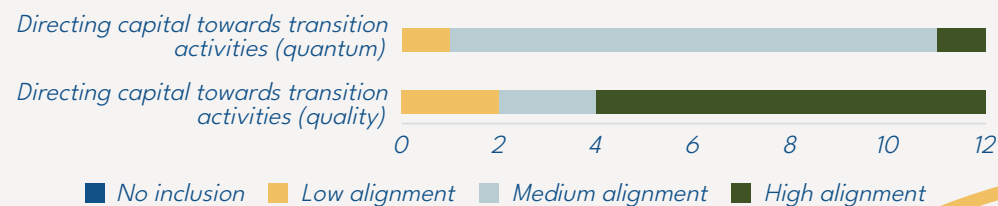
accordance with the business transition plan. For example, fossil fuel intensive companies investing a moderate amount to decarbonise existing operations but not in any areas of climate-aligned revenue growth or innovation may not be future-proofing shareholder value by preparing their business model sufficiently for the transition.

Investors highlighted that companies should provide clear evidence of how investments are meeting both transition goals and financial business returns. Investments in decarbonisation which are closely aligned with a robust, integrated business strategy, will ideally drive long-run system value to the company. However, short run financial returns may not always be maximised under this scenario. If investors are expecting corporates to meet net zero commitments, they might also consider how a balance between short- and long-term outcomes affects their risk versus return analysis.

Insights For Investors

In our review of 12 companies, almost all met at least 'medium-alignment' with capital deployment towards transition activities, both in terms of quantum and the mix of investments. Many companies undertake a healthy mix of investment types across existing business, growth areas and innovation, which met the 'high-alignment' criteria for quality. However few companies met the requirements for 'high-alignment' on the quantum of capital deployment, which required a significant commitment of both current and future capital spend.

Figure 12: Company assessment against Principle 6



Key signposts informing alignment with this principle

There is evidence of a proportional shift of total capital invested towards transition activities and low carbon goods and services. This may include:

- The \$ or % of Capex allocated to low-carbon products, services, and green technologies
- The \$ or % of Capex earmarked towards low-carbon products, services, and green technologies in the future

There is evidence of a mix of investments in transition activities which align to the company transition plan and capital allocation framework, with the following considerations for each investment:

- Type of transition activity, includes investment in green and transition activities for the company's sector, such as:
 - Existing: Decarbonising existing operations, value chains and revenue streams
 - Growth: Expanding revenue streams through low carbon products or new transition-aligned businesses
 - Innovation: Investment in R&D and pilots to support innovative climate solutions
- Climate impact: Material impact that reduces emissions, increases resilience, or accelerates innovation in line with the transition plan
- Business impact: Investment drives financial returns against a value driver and aligns with business risk tolerance
- Other impacts: Does not have any significant environmental harm, negative social impact, unintended consequences or adverse incentives or risk of greenwashing

Case Study for Capital Deployment — Principles 5 and 6



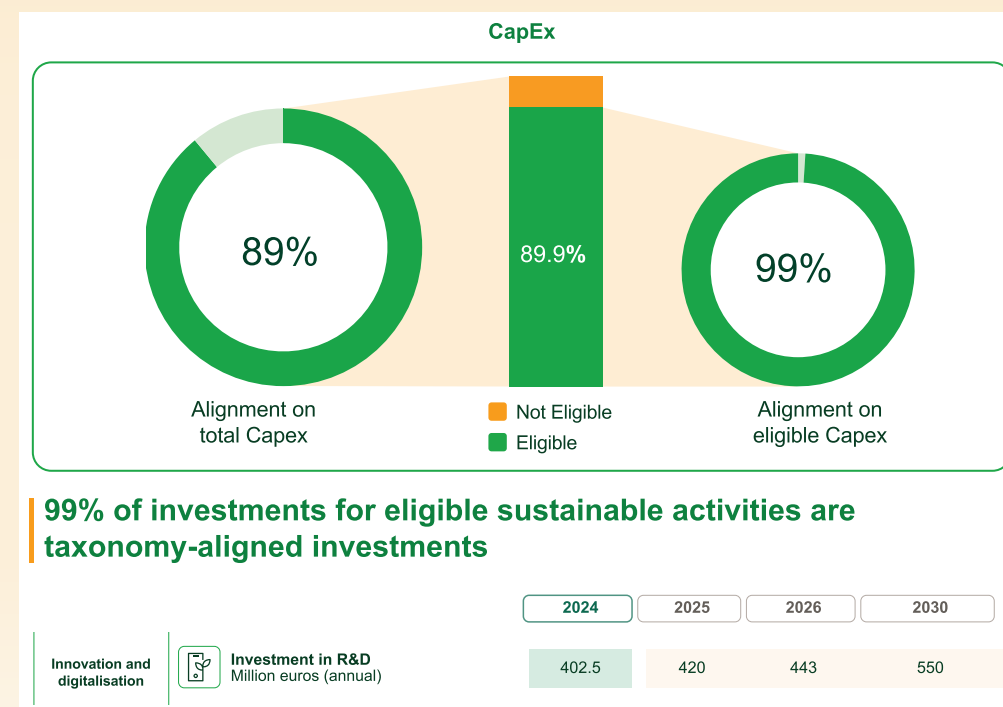
Spanish multinational electric utility, Iberdrola, is a global example of a company with a history of significant fossil fuel revenues, which made significant capital deployment decisions to align their business model with the net zero transition. Iberdrola's capital deployment has actively pivoted its business model away from fossil fuels, with a full phase down of fossil fuel activities and a redeployment of these funds into a range of transition investments.

The company began by phasing out oil- and coal-fired power plants. From 2001, Iberdrola closed 17 coal and fuel oil thermal power stations, eliminating 8,500 MW of thermal capacity. By 2017, Iberdrola announced the complete closure of its coal-fired capacities. As part of this, the company implemented just transition programs to support workers affected by plant closures, offering job guarantees, retraining, and retirement options.

Over this time, Iberdrola focused on redirecting substantial capital into renewables, investing heavily in wind, hydro, solar, and battery storage technologies. Strategic acquisitions, such as the purchase of ScottishPower in the UK and Energy East in the US, expanded its renewable energy footprint. The company's investment plans were €47 billion between 2023 and 2025, and a further €65–75 billion planned for 2026–2030, focused on expanding renewable generation and modernising electricity grids. Iberdrola has invested in landmark projects such as the Baltic Eagle offshore wind farm (476 MW, operational by end of 2024), and large-scale solar developments in the US and Italy.

Combined, these deployment allocations have generated an emissions intensity reduction of 34% since 2020 (reduced by a total of 74% since 2010), with a target to meet Scope 1 and 2 Net Zero by 2030, and full scope Net Zero by 2040.

Figure 13: Alignment of investment plan with the EU Taxonomy



Source: Iberdrola Annual Report 2024, Iberdrola: Pioneering the renewable energy revolution

3.4 Enabling Activities — How Is Transition-Aligned Capital Enabled?

Capital allocation decisions are shaped by a range of external influences, including policy settings, infrastructure, and market dynamics. These external conditions influence the cost, pace, and feasibility of decarbonisation efforts, and ultimately, the flow of capital into climate-aligned solutions.

However, companies are not only shaped by this environment, they also help shape it. Through strategic collaboration, co-investment, policy engagement, and industry leadership, corporates can play an active role in strengthening the enabling conditions for transition. This influence extends beyond direct capital deployment to include the non-financial levers that indirectly accelerate the redirection of capital toward decarbonisation.

PRINCIPLE 7:

Practices beyond capital allocation are used to stimulate and enable transition-aligned investments (e.g. industry and policy engagement)

The following principle focuses on how investors can assess companies' contributions to a more supportive transition landscape through industry and policy engagement. This engagement can be an effective lever to promote better market conditions and improve the pipeline of investible decarbonisation opportunities. In this way, companies can contribute not only to meeting their own transition goals but also to accelerating the net zero transition of the entire economy.

Investor considerations for industry engagement:

- Strategic partnerships and coalitions can be vital for corporates looking to drive decarbonisation outcomes. By co-investing with peers, customers, suppliers, and even competitors, companies can help de-risk and scale emerging technologies that may not be viable for individual firms to pursue on their own. Sector-wide alliances and climate-focused initiatives also enable knowledge sharing, harmonisation of

standards, and collective influence. As a stakeholder shared, “partnerships are great — sharing money, risk and then benefits.”

- Beyond direct investment, corporates can influence the system through participation in industry groups, business-led climate alliances, and standard-setting bodies. These platforms can advance best practice, coordinate transition pathways, and serve as powerful advocates for policy reform. Transparency is key. Companies should disclose relevant case studies of industry collaboration, as well as a full list of coalitions and initiatives in which they participate, to ensure accountability for their affiliations and positions. Ideally, this should be supported by information on the goal and expected outcomes (including key milestones) from these collaborations and partnerships.

Investor considerations for policy engagement:

- Public policy is a critical lever in unlocking transition capital. Governments can help bridge commercial gaps for emerging technologies through subsidies, concessional finance, or public-private partnerships. Companies might therefore actively and constructively engage in the development of policy frameworks that support decarbonisation, whether by participating in pilot programs, accessing grant funding, or collaborating on long-term infrastructure planning.
- Importantly, investors might consider how corporates align their lobbying activities, both direct and through third parties, with their stated climate commitments. Engagement that undermines net zero policy (e.g. opposition to carbon pricing or clean energy standards) erodes credibility and may stall progress across the economy. Companies should publish a comprehensive and itemised disclosure of their lobbying efforts, including indirect lobbying via industry groups, to ensure consistency between their climate goals and their advocacy.
- By helping to shape a more supportive investment environment through collaboration, co-investment, and policy influence, corporates can act as catalysts for change beyond the boundaries of their own operations. These enabling actions are essential for unlocking system-wide capital flows and building the foundations of a net zero economy.

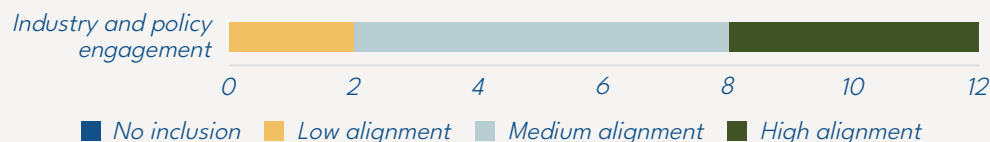
Insights For Investors

Our review of 12 companies against this principle reveals that strong alignment with an enabling climate environment was not just characterised by positive lobbying or climate thought leadership, but by tangible, collaborative action, particularly where companies were actively co-investing in decarbonisation projects alongside industry peers and government.

High-performing companies demonstrated alignment through:

- **Joint investment in industry-wide decarbonisation initiatives**, particularly those that involve shared infrastructure or R&D across competitors or supply chain partners.
- **Use of public funding mechanisms**, such as CEFC or ARENA grants, concessional finance, or participation in the ACCU scheme to de-risk and scale low-carbon technologies or marginal-return projects.
- **Strategic collaboration across the value chain**, where each party brings unique strengths, for example, utilities entering into power purchase agreements (PPAs) while relying on infrastructure partners to deliver renewable generation capacity.
- **Partnering with government** to overcome regulatory barriers, share costs, and improve the financial viability of critical transition-enabling projects.
- On the **policy influence and lobbying front**, companies that demonstrated best practice were those that embrace **radical transparency**, disclose the full extent of their direct and indirect lobbying activities, and are clearly aligning those efforts with their stated climate strategies and a Paris-aligned transition pathway.
- These leaders not only influenced the external environment in ways that supported their own transition but also helped **shape the broader market conditions** needed to accelerate decarbonisation across their sectors.

Figure 14: Company assessment against guiding Principle 7



Key signposts informing alignment with this principle

Industry engagement which enhances collaboration and promotes industry-wide decarbonisation (e.g. industry thought leadership, coalitions and investment vehicles)

- The company plays a leadership role in industry coalitions, decarbonisation alliances, or joint investment vehicles aimed at advancing climate-aligned solutions. Participation is active and outcome-oriented, not symbolic.
- The company can provide case studies or tangible examples of collaborative initiatives (e.g. joint funding of low-carbon pilots, shared infrastructure projects, coordinated R&D) that have contributed to the development or scaling of transition-enabling technologies or practices.
- The company discloses a complete list of industry associations and coalitions, with clarity on the nature of involvement (member, signatory, chairing, technical lead, etc.) and alignment of each group's stated positions with climate science.
- There is no evidence of participation in industry associations that advocate against climate action, either directly or indirectly. If legacy affiliations exist, the company provides justification or a clear plan to disengage.

Policy engagement which advocates for state and federal policies to incentivise a net zero economy (e.g. lobbying, government subsidies and grants) and enhance the availability of climate technologies crucial to company decarbonisation

- The company strategically accesses public co-investment, concessional finance, and government grants or subsidies to strengthen the business case for decarbonisation projects, especially those with longer paybacks or marginal returns. It discloses how these instruments have helped shift projects over hurdle rates or advance climate technologies.
- The company engages in direct lobbying or public policy advocacy that supports ambitious, science-aligned climate policies — such as carbon pricing, emissions standards, or subsidies for clean energy and low-carbon technologies. This includes active engagement in public consultations, submissions to government processes, and participation in climate policy roundtables.
- The company provides a complete, itemised list of its direct and indirect lobbying activities, including the positions it has taken, relevant policies or regulations lobbied on, and the entities or associations involved. Disclosure includes rationale and how these efforts align with its public climate commitments.
- The company advocates for reforms that ease the implementation of low-carbon technologies, such as improved permitting processes, infrastructure planning, and workforce development for transition industries.
- The company performs well on reputable third-party platforms such as the [InfluenceMap Lobbying](#) and [Climate Policy Engagement Scorecard](#), which assesses alignment between corporate lobbying and climate goals.

Case Study for Enabling Environment (Principle 7)



Schneider Electric is a French multinational global leader in energy management and automation, recognised for its strong financial performance and pioneering role in sustainability and climate action.

Policy Engagement: Schneider Electric actively supports ambitious climate policies and regulations in key markets such as the EU, US, and Japan, aligning its advocacy with the Paris Agreement's 1.5°C target. The company's integrated report highlights its commitment to transparently tracking progress against 11 global ESG commitments, which include policy engagement and climate advocacy. Schneider's leadership in sustainability has earned it top rankings as the world's most sustainable company by Corporate Knights and TIME/Statista, underscoring its influence in shaping policy discussions.

Industry Engagement: Schneider Electric collaborates extensively with customers, suppliers, and industry partners to drive sector-wide decarbonisation. Notably, the company's 2024 annual report details how its energy-efficient products, software, and services have helped customers save and avoid 679 million tCO₂e since 2018. Through its Zero Carbon Project, Schneider engaged its top 1,000 suppliers, achieving a 40% reduction in supplier emissions by the end of 2024. Additionally, Schneider has provided clean and reliable electricity access to over 53.4 million people, surpassing its own target, and trained more than 824,000 individuals in energy management, supporting workforce development for the green transition.

Source: [Schneider Electric Annual report and Accounts 2024](#)

04: Looking Forward

The Guiding Principles in this report aim to facilitate more focused and constructive conversations between investors and companies regarding capital allocation.

They provide a framework for assessing whether corporate activities align with stated transition strategies and offer boards a useful lens to evaluate whether capital is being directed in ways that reinforce long-term climate goals.

At this pivotal moment for climate action, corporate capital allocation aligned with the global net zero transition is central to achieving Australia's climate goals. Credible climate leaders are embedding net zero commitments into the core of their capital management, with decisions guided by robust strategies and transparent processes that effectively prioritise investments. Transition-aligned capital allocation does not need to be merely a technical exercise; it can increasingly be a marker of strategic foresight and long-term business resilience in a rapidly evolving economic landscape.

Looking ahead, Australian corporates that exhibit best practice transition planning and associated capital allocation may be positioning themselves as global pacesetters and potentially gaining first mover market advantage. Delivering on this ambition will require ongoing collaboration between boards, executive teams, investors, regulators, and policymakers. As tools, standards and stakeholder expectations mature, investors can assess how capital allocation practices evolve — and whether they meaningfully support both long-term value creation and net zero transition outcomes.

The report also presented the challenge companies face in balancing the need to invest in the transition with meeting expectations on financial returns. Investing in a resilient business model and maximising short term financial returns may not always be feasible. Risk and return considerations may need to be adjusted. There is a call to action for investors and corporates to consider ROI demands in the context of the criticality of net zero to ensure a sustainable future economy.

There also remains a clear role for policy and regulation. Effective climate integration must be achieved in the context of companies maintaining financial viability. Government intervention is critical to ensure corporates make decisions that drive net zero outcomes and price in social costs. Policy funding through blended finance and other policy levers can effectively address the gap which enables private investments to meet corporate investment criteria.

Finally, this report did not consider adaptation investments, instead focusing on the role that effective capital allocation practices have in facilitating decarbonisation and achieving the transition. As physical risks escalate, adapting to these challenges will become an essential investment area for businesses, warranting further exploration beyond this report.

05: Appendix A. Company Evaluation Matrix

For the company evaluation, we used the following Evaluation Matrix designed alongside the Guiding Principles.

Capital Sourcing Principles	High-Alignment	Medium-Alignment	Low-Alignment
<p>Capital is sourced and raised in ways that support delivery of net zero transition outcomes (e.g. through internal cash flow decision making or external sources such as sustainability-linked debt or blended finance).</p>	<ul style="list-style-type: none"> • The company leverages capital raising instruments (debt and equity) that are embedded with transition criteria/incentives, or blended finance has been pursued to improve the ROI of decarbonisation investments. • Capital raising instruments are designed to finance both near-term and long-term decarbonisation activities in alignment with the company's transition plan. • Where transition capital raising instruments are leveraged, they have high integrity, indicated through robust KPIs, incentives for compliance or penalties for non-compliance (e.g. adjusted rates or penalties), include measurement, reporting and verification to track KPIs and/or other criteria to ensure investments do not have any significant environmental harm or negative social impact. 	<ul style="list-style-type: none"> • The company leverages limited capital raising instruments (debt and equity) with embedded transition criteria/incentives, and limited blended finance has been pursued to improve the ROI of decarbonisation investments. • Capital raising instruments partially support both near-term and long-term decarbonisation but may prioritise lower-impact/high-returns. • Where transition capital raising instruments are leveraged, they have moderate integrity, indicated through limited or patchy KPIs, limited, inconsistent or weakly enforced incentives for compliance or penalties for non-compliance (e.g. adjusted rates or penalties), include measurement, reporting and verification to track KPIs and/or limited criteria to ensure investments do not have any significant environmental harm or negative social impact. 	<ul style="list-style-type: none"> • Capital raising instruments are primarily structured for financial returns with no capital raising instruments (debt and equity) embedded with transition criteria/incentives, and no blended finance has been pursued to improve the ROI of decarbonisation investments. • Capital raising instruments do not support alignment with the company's transition plan. • Where transition capital raising instruments are leveraged, they have 'low' integrity, which might be indicated through no KPIs, no incentives for compliance or penalties for non-compliance (e.g. adjusted rates or penalties), a lack of measurement, reporting and verification to track KPIs and/or no criteria to ensure investments do not have any significant environmental harm or negative social impact.

Capital Management Principles	High-Alignment	Medium-Alignment	Low-Alignment
Credible climate strategy* to steer capital allocation (Based on CA100+ NZCB Score)*	Robust Climate Strategy All rated 'Yes' for NZCB Criteria: <ul style="list-style-type: none"> • Targets: NZCB Criteria across 1–4, climate targets • Transition plan: NZCB Criteria 5, decarbonisation strategy 	Robust Climate Strategy Mix of 'Yes', 'Partial' and 'No' ratings for NZCB Criteria: <ul style="list-style-type: none"> • Targets: Mix of NZCB across 1–4 rated "Yes", 'Partial' and 'No' covering climate targets • Transition plan: NZCB Criteria 5, decarbonisation strategy 	Robust Climate Strategy All rated 'No' for NZCB Criteria: <ul style="list-style-type: none"> • Targets: NZCB Criteria across 1–4, climate targets • Transition plan: NZCB Criteria 5, decarbonisation strategy
	Climate Is Integrated into the Business All rated 'Yes' for NZCB Criteria: <ul style="list-style-type: none"> • Scenario analysis: NZCB Criteria 10.2, climate-scenario planning • Governance: NZCB Criteria 8, governance • Adequate sustainability and financial cross-literacy across business units 	Climate Is Integrated into the Business Mix of 'Yes', 'Partial' and 'No' ratings for NZCB Criteria: <ul style="list-style-type: none"> • Scenario analysis: NZCB Criteria 10.2, climate-scenario planning • Governance: NZCB Criteria 8, governance • Some sustainability and financial cross-literacy across business units 	Climate Is Integrated into the Business All rated 'No' for NZCB Criteria: <ul style="list-style-type: none"> • Scenario analysis: NZCB Criteria 10.2, climate-scenario planning • Governance: NZCB Criteria 8, governance • Limited sustainability and financial cross-literacy across business units
Capital management approach clearly embeds climate risk and opportunities into investment decision-making processes	<p>Climate is integrated into all capital decisions (e.g. information on how climate is costed in, information on investments assessed, outcomes and case studies).</p> <p>Mix of climate-related capital instruments where individual instruments appear fit-for-purpose (see 'Instrument Considerations') in directing capital towards green and transition activities across all stages of maturity, financial return, and impacts do not cause any significant environmental harm and meets minimum social safeguards.</p>	<p>Climate considerations are acknowledged in some decision-making but not systematically integrated across all capital decisions.</p> <p>Some climate-related capital instruments but no dedicated transition capital instruments. Individual instruments are partially aligned with green and transition finance objectives but may have gaps in coverage across maturity stages, financial return expectations, or impact.</p> <p>May incentivise adverse outcomes but has some safeguards to ensure the investment does not cause any significant environmental harm and meets minimum social safeguards.</p>	<p>Climate is not meaningfully integrated into capital decisions.</p> <p>No dedicated transition capital instruments, or limited instruments that do not appear to be fit-for-purpose (see 'Instrument Considerations') in directing capital towards green and transition activities across all stages of maturity, financial return, and impact.</p> <p>Likely to incentivise adverse outcomes and does not have any safeguards to ensure investments do not cause any significant environmental harm and meet minimum social safeguards.</p>

Capital Management Principles	High-Alignment	Medium-Alignment	Low-Alignment
Disclosure of capital allocation management processes is clear and sufficient to understand why allocation is consistent with company targets and transition plans	<p>High levels of completeness and granularity of information (lack of gaps and depth).</p> <p>Signals alignment or intention to align with ASRS and ISSB.</p> <p>Capital estimates supported by robust rationale/ calculation methodology, and where possible capital expenditure is broken down by key activities with supporting timelines, anticipated ROI/expenditure and potential GHG abatement.</p>	<p>Moderate levels of completeness and granularity of information (some gaps and lack of depth).</p> <p>No alignment but stated intention to align with ASRS and ISSB in the future.</p> <p>Capital estimates supported by some rationale/ calculation methodology, but methodological gaps remain.</p>	<p>Low levels of completeness and granularity of information (significant gaps and no depth).</p> <p>No alignment or intention to align with ASRS and ISSB.</p> <p>Does not appear to be a clear rationale/ calculation methodology for capital estimates.</p>

Capital Deployment Principles	High-Alignment	Medium-Alignment	Low-Alignment
The company is shifting capital away from non-transition-aligned investments (such as fossil fuels)	<p>Evidence of quantified reduction in fossil fuels and other high-carbon investments</p> <p>Size: Reduced \$ or % of capital expenditure (Capex) still allocated to high-carbon assets/products, trending downwards over time.</p> <p>Climate impact: Divestment has quantified emissions reduction impact (GHG) or increases resilience in alignment with the transition plan.</p> <p>Business impact: Divestment has quantified financial returns (\$).</p> <p>Other impacts: Consideration of whether divestment has environmental harm, negative social impact, unintended consequences or adverse incentives for divestment or risk of greenwashing (see IGCC discussion paper <i>When Selling Emissions-Intensive Assets Doesn't Reduce Climate Risk</i> for information on the unintended consequences of investment).</p>	<p>Evidence of quantified reduction in fossil fuels and other high-carbon investments</p> <p>Size: Some reduction in \$ or % of capital expenditure (Capex) still allocated to high-carbon assets/products, pace is slow or inconsistent.</p> <p>Climate impact: Divestment has some quantified emissions reduction impact (GHG) or increases resilience in alignment with the transition plan.</p> <p>Business impact: Divestment has some quantified financial returns (\$).</p> <p>Other impacts: Some consideration of environmental harm, negative social impact, unintended consequences or adverse incentives for divestment or risk of greenwashing.</p>	<p>Evidence of quantified reduction in fossil fuels and other high-carbon investments</p> <p>Size: No meaningful reduction in capital allocation to high-carbon assets/products, or spending remains stable or increasing.</p> <p>Climate impact: Divestment has no quantified emissions reduction impact (GHG) or increases resilience in alignment with the transition plan.</p> <p>Business impact: Divestment has no quantified financial returns (\$).</p> <p>Other impacts: No consideration of environmental harm, negative social impact, unintended consequences or adverse incentives for divestment or risk of greenwashing.</p>
	Public phase down commitment or policies outlining a clear plan to wind down high-carbon investments, with sector-specific considerations, and evidence of reinvestment in transition activities.	Company has an intent to phase down high-carbon investments but lacks a clear, time-bound plan.	No public commitment or policy to phase down fossil fuel investments.

Capital Deployment Principles	High-Alignment	Medium-Alignment	Low-Alignment
<p>The company is directing capital towards transition activities aligned to the company's transition action plan (green and transition activities), including climate solutions, low-carbon products and/or green investments</p>	<p>Evidence of quantified increase in investment in transition activities</p> <p>Significant \$ or % of capital allocated to low-carbon products, services, and green technologies (FY and historically).</p> <p>Significant \$ or % of capital earmarked towards low-carbon products, services, and green technologies in the future.</p>	<p>Evidence of quantified increase in investment in transition activities</p> <p>Some \$ or % of capital allocated to low-carbon products, services, and green technologies (FY and historically).</p> <p>Some \$ or % of capital earmarked towards low-carbon products, services, and green technologies in the future</p>	<p>Evidence of quantified increase in investment in transition activities</p> <p>Insignificant \$ or % of capital allocated to low-carbon products, services, and green technologies (FY and historically).</p> <p>No or insignificant \$ or % of capital earmarked towards low-carbon products, services, and green technologies in the future.</p>
	<p>Mix of investments in transition activities which align to transition plan and capital allocation framework</p> <p>Considering the following for each investment:</p> <p>Type of transition activity: Evidence of mix of investment into transition initiatives across existing business, growth channels and/or innovation.</p> <p>Climate impact: Investment has quantified emissions reduction impact (GHG) or increases resilience in alignment with the transition plan.</p> <p>Business impact: Investment has quantified financial returns (\$).</p> <p>Other impacts: Consideration of environmental harm, negative social impact, unintended consequences or adverse incentives or risk of greenwashing.</p>	<p>Mix of investments in transition activities which align to transition plan and capital allocation framework</p> <p>Considering the following for each investment:</p> <p>Type of transition activity: Evidence of some but ad hoc investment into transition initiatives across existing business, growth channels and/or innovation.</p> <p>Climate impact: Investment has some quantified emissions reduction impact (GHG) or increases resilience in alignment with the transition plan.</p> <p>Business impact: Some investments generate financial returns and align with risk tolerance but lack a clear link to long-term business strategy or face uncertainty regarding financial viability.</p> <p>Other impacts: Some consideration of environmental harm, negative social impact, unintended consequences or adverse incentives for divestment or risk of greenwashing.</p>	<p>Mix of investments in transition activities which align to transition plan and capital allocation framework</p> <p>Considering the following for each investment:</p> <p>Type of transition activity: Evidence of limited investment into transition initiatives across existing business, growth channels and/or innovation.</p> <p>Climate impact: Investment has no quantified emissions reduction impact (GHG) or increases resilience in alignment with the transition plan.</p> <p>Business impact: Investments has no quantified financial returns (\$).</p> <p>Other impacts: No consideration of environmental harm, negative social impact, unintended consequences or adverse incentives for divestment or risk of greenwashing.</p>

Enabling Activities	High Alignment	Medium Alignment	Low Alignment
<p>Activities beyond capital allocation stimulate and enable transition aligned allocation (e.g. industry & policy engagement)</p>	<p>Industry engagement is strategic, involving leadership in coalitions, investment vehicles, and collaborative industry decarbonisation, evidenced by case studies. No evidence of counter-climate industry associations. Supported by high score on InfluenceMap Scorecard.</p> <p>Policy engagement is proactive, with direct advocacy and lobbying to shape regulatory environments supporting net-zero goals, and capitalising on government subsidies and grants to de-risk or improve the business case for decarbonisation investments. Supported by high score on InfluenceMap Scorecard.</p>	<p>Industry engagement is reactive rather than proactive (e.g. participation in discussions but limited leadership or concrete collaborative industry decarbonisation activities). No evidence of counter-climate industry associations. Supported by partial score on InfluenceMap Scorecard.</p> <p>Policy engagement is inconsistent, where the company supports net-zero policies in principle but does not actively advocate or lobby or capitalise on government subsidies and grants to de-risk or improve the business case for decarbonisation investments. Supported by partial score on InfluenceMap Scorecard.</p>	<p>Industry engagement is passive, where the company is not involved in sector-wide transition initiatives, coalitions or collaborative decarbonisation activities. Some evidence of counter-climate industry associations. Supported by low score on InfluenceMap Scorecard.</p> <p>Policy engagement is absent or misaligned, with no efforts to advocate for or examples of advocating against policies that incentivise transition investments, or capitalize on government subsidies and grants to de-risk or improve the business case for decarbonisation investments. Supported by low score on InfluenceMap Scorecard.</p>

06: Appendix B. Engagement Framework

The following Engagement Framework provides a step-by-step process for investors to engage with companies on how capital is being sourced, managed, deployed and enabled to support climate outcomes.

DISCLOSURE

STEP 0: DISCLOSURE

Is there enough information available to evaluate the company against the capital allocation principles?

Has the company provided information (the why, what and how) on its overall climate strategy, capital allocation in relation to this strategy, and how this capital is being managed, to help investors make an informed judgement as to the credibility of this capital allocation?

IF NO: Identify disclosure gaps and advocate for these to be filled as relevant.

CAPITAL ALLOCATION PRINCIPLES

STEP 1: THE WHY

Does the company have a robust climate transition strategy in place?

Has it committed to ambitious short, medium and long-term emissions targets?
Is there a clear and credible decarbonisation pathway in place to achieve those targets?
Is there evidence of integration of the climate strategy into key business functions?

IF NO: Advocate for strengthening company's climate strategy in line with best practice guidance on the net zero transition.

STEP 2: THE WHAT

Is the company directing capital in line with a credible transition plan, including:

1. Where relevant, shifting away from non-transition aligned investments such as fossil fuels?
2. Directing capital towards activities aligned to the company's transition action plan?

Is there evidence of quantified reductions through phase down activities?
Does the company have public phase down commitments or policies?
Is there evidence of quantified increase in transition activities?
Is there a mix of investments which drive existing, growth and innovation business value?
Is there investment in a business model which is aligned with the transition?

IF NO: Focus engagement advocating for company's capital allocation to shift both **away from** fossil fuels and high-carbon investment and **towards** transition activities.

STEP 3: THE HOW

Is capital being sourced in a way that supports delivery of transition outcomes?

Does the company leverage any capital through instruments which are structured to support decarb.?
Does the company leverage blended finance to enable investment?

Does the capital management approach embed climate risk and opportunities into investment decision-making processes?

Is climate integrated into all capital decisions and the company capital management framework?
Is there an appropriate mix of capital management instruments which appear fit-for-purpose?
Does the company consider safeguards and/or how to not incentivise adverse outcomes?

Do practices beyond capital allocation stimulate and enable transition-aligned investments?

Is there evidence of industry engagement which enhances collaboration and industry-wide decarbonisation?

Is there evidence of policy engagement which advocates for policies to incentivise a net zero economy and facilitate availability of key transition technologies relevant to the company's decarbonisation?

IF NO: Focus engagement on advocating for company to enhance the way that it approaches and discloses on its capital allocation. This includes the use of an appropriate and fit-for-purpose range of (1) capital raising instruments, (2) capital management instruments and (3) industry and policy engagement, all of which incentivise and enable transition-aligned investments.

07: Disclaimer

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