

"Implementing the Paris Aligned Investment Initiative"

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A blog by Karen Shackleton and John Donovan



Global industry collaboration to implement the Paris Aligned Investment Initiative

Four investor networks are supporting investors with the Paris Alignment Investor Initiative. This aims to maximise the contribution that asset owners and asset managers make in tackling climate change and achieving net-zero emissions by 2050.

Globally, more than 110 asset owners and asset managers are involved in the initiative with assets of over USD33 trillion. The four investor networks driving this are IGCC (Australia and New Zealand), IIGCC (Europe), Ceres (North America) and AIGCC (Asia). Together they have identified best practice methodologies for measuring alignment, transitioning portfolios and taking action to drive the transition to net zero.

A key milestone was the publication of the Net Zero Investment Framework 1.0. This provides the first-ever practical blueprint for investors to maximise the contribution they make in tackling climate change. In April, the IIGCC presented the Framework to an influential group of asset owners and asset managers at Pensions for Purpose's Paris Alignment Forum event. As described below, the framework was received very positively by members of the forum, recognising though that there are many challenges ahead.

A solid foundation

Asset owners and asset managers said that the framework provided useful building blocks for moving a pension fund towards net zero. There was a recognition that this was a work in progress and that it would evolve over time, and an observation that 1.5 degrees is achievable, but this is a major challenge and will require both individual and collective action.

The framework was a catalyst for the dialogue to commence on an issue that could have been put in the 'too difficult to deal with' category. The one criticism of the framework was that it focused on what was measurable today, whereas the regulations were pushing beyond that. This could lead to a potential disconnect between reporting and actions.

Getting the balance right: long term targets are too slow, but data is lacking for short-term targets

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While pension funds were willing to set long-term targets, there was a recognition that shorter-term targets (milestones) were also necessary, particularly since the typical timeframe considered by pensions committees was 2-5 years. Some public sector funds were setting percentage reduction targets but for many targets are still being debated by pensions committees.

Pension funds were finding it challenging balancing member demands to divest, versus a desire to think more strategically about moving towards a net-zero approach. Companies in which they invested tended to set long-term targets, but there was no granularity in terms of how they could get there and the shorter-term goals, which made it difficult to discern the good from the bad. Other challenges related to data consistency, and how practically to invest in climate solutions. The issue of scope 3 reporting was a further challenge.

Lots of uncertainty about how actual investment strategies need to change

For certain asset classes, moving to a net-zero strategy was challenging, and asset owners are still unsure how to address this. Pension funds are digesting how to make this work, how to balance the financial goals of the pension

fund alongside the climate goals. Different metrics were being used in different asset classes, which made asset allocation even more challenging. Concerns were also raised about a net-zero strategy potentially resulting in selling certain groups of stocks which could cause market distortions.

Asset managers are tilting portfolios and engaging more

Paris alignment means that asset managers are introducing positive tilts to strategies that up until now have been optimised solely to traditional financial risk/return goals. Introducing a climate risk and return dimension changes the optimal portfolio resulting in tilts away from standard allocations.

At the same time, there was recognition that tilting portfolios is just one in an armoury of tools to achieve Paris alignment. There is a huge increase in managers employing stewardship and engagement techniques to drive the climate strategy forward. Some are considering engagement targets. Generally, there was recognition that engagement plays a critical role in moving a pension fund towards net zero although there are concerns around how it can be measured and attributed particularly as one investor's engagement positively influences outcomes for all investors.

Environmental reporting is in its infancy and needs to develop

There was a sense that it was still early days for environmental reporting. Challenges included supply chain data problems. This was an area that could see further improvement as net-zero strategies begin to get implemented by pension funds.

In summary, there is overwhelming support for the Net Zero Investment Framework 1.0 from asset owners and asset managers but also a recognition that more needs to be done, including encouraging more to adopt the framework as well as building it out to cover all asset classes.

To join the conversation at the Pensions for Purpose Paris Alignment Forum, please sign up [here](#). Membership of the forum is free of charge.

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