

**PENSIONS FOR
PURPOSE**



Paris Alignment Forum

Launch event: IIGCC and the NET ZERO Investment Framework

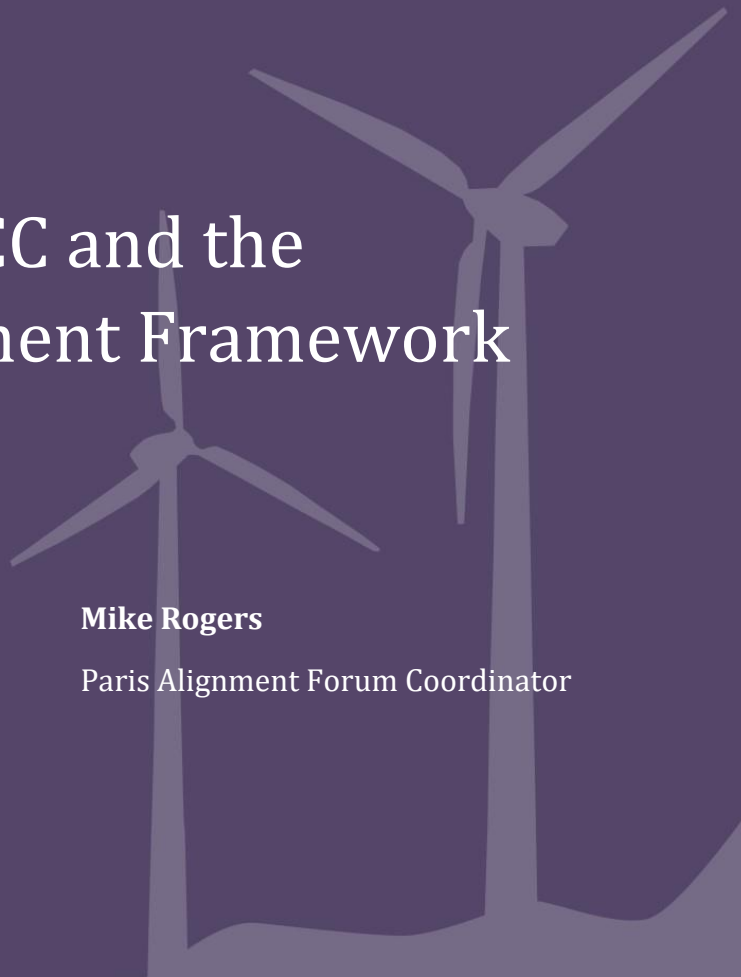
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The Paris Alignment Forum



Climate action has gained significant momentum among pension funds and other asset owners over the past twelve months. This has been spurred on by changing regulations and new mandatory TCFD-aligned climate disclosures across the economy by 2025. Yet many pension funds are struggling to find the most effective way to change their investment strategies to move towards Paris-Aligned or net-zero goals without conflicting with their fiduciary responsibilities. At the same time, across the investment chain, all parties are setting goals but we need to make sure that we are speaking in the same language and with the same universal aims to make this shift purposeful.

Pensions for Purpose facilitate informed and helpful conversation on this important topic. In just a few weeks our Paris Alignment Forum has grown to more than 140 members and brings together stakeholders including pension funds, independent advisers, asset managers, consultants, lawyers, government representatives and climate experts. We run a schedule of quarterly events including:

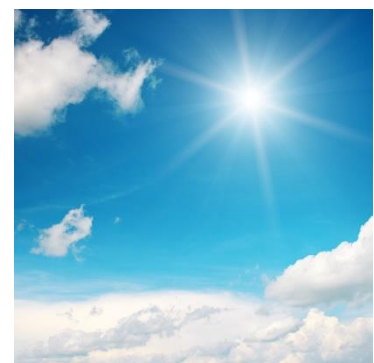
- Keynote presentations to all members with subsequent small group discussions
- Training opportunities
- Peer-to-peer meetings for pension funds and other asset owners to share experiences, discuss challenges and learn from each other
- Opportunities to connect with climate action experts such as the IIGCC
- Signposting to relevant content on our platform
- Afternoon tea small group discussions
- Quarterly newsletters with relevant updates and information.

Our launch event took place on 13 April 2020.

Launch Event - The IIGCC net zero framework

We were delighted to welcome 70 attendees for this on-line event, drawn from a diverse range of backgrounds including asset owners, independent advisers, trustees and asset managers.

The keynote address was given by Daisy Streatfield, Programme Director at the Institutional Investors Group on Climate Change (IIGCC). This was followed by a lively and constructive Q&A session and breakout room discussions. The debate concluded with a call to action from UK charity Make My Money Matter, who are engaging with pension fund members on climate risk. Charlotte Tyrwhitt-Drake, CEO of Pensions for Purpose, closed the session. This paper summarises the key insights from the discussion.



Keynote address - Net Zero Investment Framework 1.0

Daisy Streatfield, IIGCC

The Institutional Investors' Group on Climate Change (IIGCC) is the European membership body for investor collaboration on climate change. With over 300 asset owners and managers in 22 countries the network represents around £35tn trillion in assets. The IIGCC worked with three other investor networks to establish the Net Zero Investor Framework, the first-ever practical blueprint for investors to maximise the contribution they make in tackling climate change.

The aims of the framework are to translate the goals of the Paris Agreement into practical guidance; establish a common understanding of effective approaches and methodologies; support the de-carbonisation of the real economy and minimise the negative impact of climate change; and to enable all investors to maximise their efforts to achieve their climate goals. It can be used by both asset owners such as pension funds and by asset managers and covers the five components shown in the graphic.

The presentation and excerpts from Daisy's keynote address can be found here. Click here for more information about the [Net Zero Investor Framework](#)

Five components of the Net Zero Investor Framework

Governance and strategy

Objectives and targets

Strategic asset allocation

Asset class alignment

Advocacy and engagement

Q&A Session - Net Zero Investment Framework 1.0



Daisy's keynote was followed by a lively discussion which covered a wide range of topics. For example, some participants felt that achieving net zero and limiting global temperature increases to 1.5C is an almost overwhelming challenge and others asked whether it is possible. Others countered that some IPCC scenarios show that it is possible and there was a consensus that setting Paris-aligned targets is a necessary first step.

Other topics covered in the Q&A included the need for better data, particularly around scope 3 emissions (indirect emissions excluding electricity/heating etc). Linked to this was the need for both long-term and short-term targets; and if short-term targets are to be effective, good data is needed.

The role of index-tracking managers was addressed noting that in their case, portfolio optimisation incorporating climate change is about index design. The buy and hold nature of many passive mandates means that engagement and a suitable exclusions policy are particularly important.



Breakout groups - pressing questions for asset owners and asset managers

The breakout discussions provided a lively opportunity to share experience and challenge thinking in a number of areas:



Q1: Is the IIGCC framework helpful for a pension fund wishing to move towards a net zero investment strategy?

*A CATALYST FOR
SOMETHING THAT MIGHT
OTHERWISE BE IN THE
"TOO-DIFFICULT"-BOX*

The consensus view was 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 that 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.



Q2: Which targets and objectives are you/your pension fund clients considering? What challenges do you anticipate in achieving these targets, and should the industry become more aligned in terms of targets

*THERE IS A NEED FOR SHORTER
TERM AS WELL AS LONG TERM
TARGETS*

Whilst 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.





Q3: How might a net zero strategy change a pension fund's strategic asset allocation?

*STRATEGIC ASSET ALLOCATION
COULD HELP DRIVE MARKETS TO
NET ZERO*

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.



Q4: How are asset managers adapting their portfolios to be aligned with net zero?

*OPTIMISE PORTFOLIOS
FOR CLIMATE IMPACT AS
WELL AS RISK AND
RETURN*

Asset managers are introducing positive tilts to strategies that up until now have been optimised to financial risk/return goals. There was an increased focus on stewardship and engagement to drive the climate strategy forward. Some are even considering engagement targets. Generally, there was recognition that engagement plays a critical role in moving a pension fund towards net zero.



Q5: How are asset managers reporting on environmental progress and how might this be improved?

*MORE WORK IS NEEDED
ON REPORTING
STANDARDS,
PARTICULARLY IN
ALTERNATIVE ASSET
SPACE AND SCOPE 3
EMISSIONS*

There was a sense that it was still early days for environmental reporting. Challenges included supply chain data problems. In particular scope 3 reporting is a key area where rapid improvement is needed. This was an area that could see further improvement as net zero strategies begin to get implemented by pension funds.



Conclusions



We would like to thank Daisy for her presentation, and the IIGCC for the work that they have put into the Net Zero Investor Framework. We were also appreciative of all our table moderators from our sponsor, Invesco. Not least though, we would like to thank all those who participated on the day and who provided valuable insight and feedback.

It seems clear that the challenges of achieving Net Zero are significant but not insurmountable. Our inaugural meeting was a tangible demonstration that the entire investment chain from asset owners, advisors, consultants, government representatives and asset managers is committed to setting targets and achieving change. We are all embarking on an important journey and the Forum enables our industry to bring together our best thinking in this area.

For further events like this please see our April newsletter [here](#).

If you are not already a member and you would like to find out more about the Paris Alignment forum, click [here](#). If you would like to apply for free membership and access to similar events, click [here](#)

Please contact mike.rogers@pensionsforpurpose.com if you would like to discuss other ways that you might contribute to the Forum including sponsorship opportunities.

Pensions for Purpose

Pensions for Purpose exists as a bridge between asset managers, pension funds and their professional advisers, to encourage the flow of capital towards impact investment. Our aim is to empower pension funds to seek positive impact opportunities and mitigate negative impact risks.

