

Net Zero Asset Managers initiative: Progress Report and new signatory announcement - FAQs

1. What are you announcing today?

- 43 asset managers share first interim targets for the proportion of assets managed in line with achieving net zero by 2050, and set shorter term targets for reducing emissions within their investments
- Signatories disclose that 35% of their total assets under management, totalling USD 4.2 trillion out of a possible USD 11.9 trillion, is being managed in line with achieving net zero by 2050
- A record 92 new asset managers representing USD 10.8 trillion in assets join initiative, bringing the total to 220 investors managing USD 57.4 trillion
- Network partners managing the initiative set out expectations on fossil fuel investment, asking signatories to adopt robust and science-based policies aligned with a 1.5°C scenario

2. Why is there variation in the targets set?

The Net Zero Asset Managers initiative covers a wide range of managers (type, size, asset class mix, geography). This is a key driver in variability among proportions declared. In terms of the targets, we see reasonably good comparability in the sense that the vast majority are using one of three methodologies and setting targets consistent with these methodologies, generally using an emissions reduction or portfolio coverage approach, or combination of the two. However, this was the first ever disclosure process and we will certainly be taking steps to improve comparability of key information provided in the future where possible.

3. Is the fair share metric sufficient? Should asset managers be doing more?

The global 50% reduction referred to in the commitment represents the global average emissions reduction required. A target that can be considered 'fair share' can depend on various factors. These will vary depending on the sectoral and regional exposure of the portfolios and speed of associated decarbonisation expected in line with science-based scenarios. We see examples of asset managers in the disclosing group who have targets both above and below the 50% for this reason. Where asset managers are globally diversified and managing large complex portfolios, it follows that targets would be close to the average which is generally the case across the disclosures. There are still challenges for asset managers in the availability of data and granularity of scenarios to adjust targets appropriately. In this context we are broadly encouraged by the overall consistency of the ambition, in line with the net zero goal, use of science-based 1.5°C scenarios to derive targets, and intention of many asset managers to broaden scope of targets and review and update going forward.

4. Why have more asset managers not committed to 100%?

Eleven signatories were already able to commit 100% of their AUM. Several others that were not able to commit 100% at this time provided information on plans to increase their proportions of assets to be managed in line with net zero, and subject to interim targets, in the near term. This

is consistent with the expectation of the initiative that percentage of AUM committed to be managed in line with net zero will increase over time to reach 100%.

Trends in the disclosures show that generally smaller asset managers and those specialising in sustainable investment were able to include a higher proportion of AUM initially. The percentage of AUM committed initially also varies depending on the business model, asset class mix, and maturity of strategies, data and tools available to asset managers.

Some asset managers have a single or limited pool of clients, who already have net zero commitments which means that products and strategies are already in place or more straightforward to agree. For managers with large numbers of institutional clients or with significant retail funds with large numbers of unit holders, several disclosures noted that transitioning strategies and products to be managed in line with net zero can be more challenging and result in much lower proportions of the total being feasible to commit initially. It was also noted by managers that some clients and regions are further ahead than others in their consideration of climate as a financial risk which consequently affects the speed of uptake of net zero strategies.

For many asset managers a key constraint identified is the absence of methodologies for accounting for certain types of asset, or measuring alignment to net zero. Several managers noted that this was the case for derivatives, cash, private equity, green bonds, sovereign bonds, covered bonds and structured products among others. There are a number of efforts supported by the Network Partners and individual managers to address these gaps in methodologies, which will allow a broader range of asset classes to be included in the near future.

Similarly, data quality and availability is a further challenge which was noted by several asset managers. Many asset managers have noted that they have included strategies, funds and geographies where data quality and availability was sufficient to underpin robust science-based target setting and are continuing to make efforts to gather relevant data to enable setting of additional targets or broadening the scope of current targets going forward.

A number of asset managers also highlighted the challenges of an evolving regulatory environment precipitating their conservative approach, for example the on-going discussions of the European Commission on the regulatory standards for the Sustainable Finance Disclosure Regulation (SFDR) and upcoming revision of the climate transition and Paris aligned benchmark methodologies (CTB/PAB).

We are unable to comment further on individual asset managers' targets – any specific questions relating to why a particular organisation has taken a certain approach should be shared with them directly.

5. What methodologies have asset managers used in setting their targets?

All disclosing signatories provided information on the interim targets that have been set in relation to the proportion of assets being managed in line with net zero initially, including the science-based scenarios used to determine these targets. The overwhelming majority (41/43) have used one, or a combination, of the three endorsed target setting methodologies:

- Paris Aligned Investment Initiative⁴ Net Zero Investment Framework (24 signatories)
- Science Based Targets Initiative for Financial Institutions (8)
- Net Zero Asset Owner Alliance Target Setting Protocol (2)
- Combination (7)
- Own/Other methodology (2)

All three methodologies are underpinned by science-based pathways for achieving emissions reductions and expect asset managers to set targets consistent with a net zero decarbonisation pathway. All three expect asset managers to set one or more targets relating to achievement of portfolio decarbonisation, designed to incentivise real economy decarbonisation.

The SBTi has three options – sectoral decarbonisation, portfolio coverage, temperature metric. The NZIF and AOA protocol expect a combination of targets to ensure both overall decarbonisation and measures. NZIF includes portfolio decarbonisation and asset level alignment, while AOA includes sector targets for four high impact sectors. Both also expect engagement targets and targets in relation to investment in climate solutions, although these are additional to the minimum requirements of the Net Zero Asset Managers initiative commitment.

6. Does this risk encouraging asset managers to divest from the higher emitting companies rather than engaging with them to drive progress towards net zero?

Engaging with companies and encourage them to set out credible transition plans outlining how they will deliver on their net zero commitments is an important part of the role that investors can play in driving towards net zero. As part of the engagement process, investors need to scrutinise companies' plans and then engage and vote accordingly. Where companies are not proactive in publishing credible plans which demonstrate that they are aligned or aligning with net zero, or where sufficient progress is not being made, divestment is one of the options that companies have at their disposal, but we wouldn't expect to see an overall increase in divestment as a result of this commitment. Many managers are prioritising engagement and stewardship to deliver portfolio emissions reductions, in line with the endorsed methodologies and approach of the initiative, such as the PAII Net Zero Investment Framework.

7. What is the Net Zero Asset Managers initiative?

The Net Zero Asset Managers initiative is a group of international asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius; and to supporting investing aligned with net zero emissions by 2050 or sooner.

It is designed to mobilise action by the asset management industry to drive the transition to net zero and deliver the ambitious action and investment strategies that will be necessary to achieve

the goal of net zero emissions. It also provides a forum to share best practice and overcome barriers to aligning investments to that net zero goal. More information can be found [here](#).

8. Who are the signatories?

The signatories are a range of asset managers from around the world who are all committed to the goal of a net zero future. Our 220 signatories to date manage over USD 57 trillion of assets.

9. What do signatories commit to?

A signatory commits to support the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°Celsius. It also commits to support investing aligned with net zero emissions by 2050 or sooner. Please see the commitment in full [here](#).

10. How does this go beyond what asset managers are already doing?

Several asset managers are taking forward actions that relate to elements of the commitment. But the Net Zero Asset Managers initiative is a step change. It requires those actions, such as engagement, to be in line with the net zero goal and anticipates increasing the scope of assets being managed in line with the net zero goal until 100% is reached. Asset managers will also have to report on their actions and update their targets regularly bringing transparency and accountability to this action.

11. If only a proportion of assets is being managed in line with net zero, surely this just means business as usual? Isn't this just greenwashing?

The commitment recognises that asset managers are managers not owners. They have limited jurisdiction to make ex-ante decisions on much of their AUM. However, the commitment ensures that asset managers will have to work with their clients and are expected to ratchet up the proportion of assets managed in line with net zero goals. The commitment also ensures that several important actions – such as stewardship and policy advocacy - are comprehensively implemented. Combined with the reporting components of the commitment, we are ensuring this means real action not just empty statements.

12. How does Net Zero Asset Managers work with other net zero initiatives for investors?

A number of initiatives supporting investor action towards net zero are accredited by the UN Race to Zero campaign. These include the Net Zero Asset Managers, the Paris Aligned Investment Initiative and the UN Convened Net Zero Asset Owners Alliance. All accredited initiatives share a common objective in relation to achieving net zero global GHG emissions by 2050 or sooner, and signatories of these initiatives will have to meet the Race to Zero criteria including managing portfolios towards net zero emissions and setting interim targets by 2030 or sooner. However, each initiative has its own governance structure and approach to supporting signatories. The initiatives collaborate and share best practice through their involvement in the Glasgow Financial Alliance for Net Zero (GFANZ), convened by Mark Carney, UN Special Envoy on Climate Action and Finance, to facilitate coordination between all net zero initiatives focussed on the financial sector.

13. What are the expectations of signatories in relation to coal and other fossil fuels?

In September 2021, Network Partners introduced a position on coal and other fossil fuel investment for the initiative. This position sets an expectation that signatories should adopt a science-based policy on investment in fossil fuels for the organisation as a whole. In relation to the assets under management they have committed to manage in line with net zero, this policy should be consistent with one of the positions of the Net Zero Asset Managers initiative affiliated organisations.