



Guidance for infrastructure assets

Complement to the Net Zero
Investment Framework

Supported by



Investor
Group on
Climate
Change

Produced by

IIGCC

Contents

- Introduction..... 3
- Implementation of the guidance in the context of NZAM and PAAO initiatives..... 4
- Summary..... 5
- Implementation guide 6
 - Set the scope..... 6
 - Assess the alignment of assets..... 6
 - Operational assets..... 6
 - Greenfield assets 8
- Set targets 9
- Actions to align portfolios and achieve targets..... 10
 - A. Portfolio construction..... 10
 - B. Investment / management 10
 - C. Engagement and stewardship 11

DISCLAIMER: All written materials, communications, surveys and initiatives undertaken by IIGCC are designed solely to support investors in understanding risks and opportunities associated with climate change and take action to address them. Our work is conducted in accordance with all relevant laws, including data protection, competition laws and acting in concert rules. These materials serve as a guidance only and must not be used for competing companies to reach anticompetitive agreements. IIGCC’s materials and services to members do not include financial, legal or investment advice.



Introduction

The Net Zero Investment Framework (the Framework) aims to provide a consistent basis for asset owners and asset managers to measure and manage portfolios towards the goal of achieving global net zero emissions by 2050 or sooner. It originally covered four asset classes: listed equity and corporate fixed income, sovereign bonds and real estate.

In July 2022, IIGCC has published a consultation paper to present a new component for the Framework, providing guidance on aligning and managing infrastructure portfolios with the goal of achieving global net zero emissions by 2050 or sooner. During the four-week consultation period, IIGCC received twenty-three written responses, sixteen of which came from investors. A summary of stakeholder feedback can be seen here.

The final guidance expands and enhances the Framework by providing methodologies and approaches for the alignment of infrastructure assets. This methodology has been developed to support investors to include infrastructure assets within their net zero commitment, targets and strategy.

Asset owners and asset managers that are signatories to Paris Aligned Asset Owners and Net Zero Asset Managers initiatives are encouraged to utilise this methodology to meet the requirements of these net zero commitment initiatives.

The infrastructure component set out below is designed to be integrated with the broader recommendations of the Framework. Please note that Framework components that apply across an entire portfolio or at firm level and should be part of a comprehensive approach to investor action, such as governance, strategic asset allocation, policy advocacy and stakeholder engagement, are not reproduced in this document.

The Framework also provides recommendations regarding methodologies, management and strategies that are cross cutting, such as parameters for net zero scenarios, emissions accounting, and approach to the use of offsets that are absent from this document. The infrastructure components should therefore be read in conjunction with the Net Zero Investment Framework.

NZIF outlines a best practice methodology for investors to include infrastructure assets into their net zero targets. IIGCC encourages investor signatories to initiatives such as NZAM and PAAO to adopt the guidance and methodology as best practice, but investors are ultimately accountable for disclosing against their targets and being transparent as part of their net zero commitments. It is a foundational principle of how IIGCC and its members work together that the choice to adopt guidance, best practice tools or tactics prepared by IIGCC is always at the ultimate discretion of individual signatories based on their own decision making. The aim is to provide a framework that can be used by asset owners and asset managers, all of whom will have differing mandates and starting points from which they make their own decisions. In that context, the Framework should be used on an 'implement or explain' basis to take account of differing contexts, strategies and aims and the fact that jurisdiction, regulation and best practice will determine the approach that can be taken by a particular signatory.

The IIGCC and its members are committed to complying with all laws and regulations that apply to them, including antitrust and other regulatory laws and regulations and the restrictions on information exchange and other collaborative engagement that said laws and regulations impose. On this basis, while the information listed in the Framework, Methodologies and Guidance would assist members with their assessments, the IIGCC recognises that companies cannot disclose information that is not publicly available and is considered to be competitively sensitive information by such company.

This guidance has been produced by IIGCC, with the support of AIGCC and IGCC.

Implementation of the guidance in the context of NZAM and PAAO initiatives

This methodology has been developed to support investors to include infrastructure assets within their net zero commitment, targets and strategy.

Asset owners and asset managers that are signatories to [Paris Aligned Asset Owners](#) and [Net Zero Asset Managers](#) initiatives are encouraged to utilise this methodology to meet the requirements of these net zero commitment initiatives.

Timeframes for implementation by existing signatories:

- Existing signatories, particularly infrastructure specialists, are recommended to set or update their net zero targets to include infrastructure assets within 18 months of the publication of this guidance (March 2023).
- Existing signatories with multi-asset portfolios may need to prioritise the development of new strategies for certain asset classes, such as infrastructure and private equity. However, there is an expectation that all signatories show evidence of progress towards implementing the guidance within 12 months, with the goal of formal inclusion into targets within 18 months.

Target setting:

The methodology provides flexibility for investors to set their targets based on the type of investment and investment objectives. For example:

- Infrastructure specialist asset managers, with only infrastructure holdings, are expected to focus on setting a portfolio coverage target. Additionally, they are encouraged to report scope 1 and 2, and material scope 3 GHG emissions, their allocation to climate solutions and provide forecasts of potential emissions reductions to enable asset owners to set portfolio level targets.
- The portfolio alignment target is the central target for this methodology. The portfolio decarbonisation reference target and the allocation to a climate solutions goal have been included in this methodology for investors with multi-asset portfolios, to incorporate infrastructure into their broader net zero target setting. However, these are optional for infrastructure specialists.

- For fund of funds, the methodology recommends that asset owners and asset managers aim to invest exclusively with firms or fund managers who are themselves setting targets, by 2030 at the latest. There is likely value in asset owners and asset managers continuing to work with managers who are in the process of setting relevant net zero targets.
- The Net Zero Investment Framework recognises the challenges related to pursuing net zero ambitions in emerging markets, particularly as it relates to applying decarbonisation pathways for infrastructure assets. The criteria proposed to assess the alignment of infrastructure assets should reflect differentiated national or regional pathways where possible so that the context of different countries can be considered.
- The infrastructure component abides by the same 'implement or explain' approach as the rest of the Framework. This allows investors to account for matters relating to fiduciary duty and for flexibility in specific contexts where some elements of the Framework may not be applicable.



Summary of recommendations

Assessment of assets

- Set scope for assessment
- Assess and score assets against performance criteria
- Assess potential for integration into climate solutions targets
- Prioritise carbon-based energy and transport assets for engagement

Alignment Metrics (M) and Targets (T)

- M.** Capture whole-life embodied carbon assessed through current and forward-looking alignment criteria:
- Long-term goal for the asset to be net zero emissions by 2050
 - Short- and medium-term targets for scope 1, 2 and material scope 3 emissions in line with science based 'net zero' pathway
 - Current and forecast scope 1, 2 and material scope 3 emissions performance level¹
 - Disclosure of scope 1 and 2 emissions, and disclosure of material scope 3
 - Development and implementation decarbonisation strategy for scope 1, 2 and material scope 3 emissions
 - Governance/management responsibility for targets/decarbonisation plan
 - Related but specific criteria for assessment of greenfield assets
- T.** Increase % AUM in net zero, aligned or aligning assets - 5-year goal
- T.** For new assets where the GP has significant influence, progressively aim for 100% of operational assets to be classified as 'aligned' or 'net zero' by 2030
- T.** Set <10-year target for increasing % climate solutions/AUM or capex from AUM

Implementation

A Portfolio construction

- Screen and set alignment criteria for new investments
- Achieve an increasing proportion of assets aligned to a net zero pathway by setting targets and implementing decarbonisation strategies

B Investment / management

- Define and implement a net zero investment strategy and set portfolio/fund level targets and objectives
- Direct engagement / management to establish timebound KPIs for emissions measurement, disclosure and target setting

C Engagement

- Collaborative stewardship / engagement with escalation strategy based on alignment criteria
- Collective or direct engagement should immediately target carbon-based energy and transport assets

¹ In this context, although the same criteria are used, expectations for aligning and aligned assets are different. An aligned asset would need to see emissions decline consistent with targets set to converge an asset with a net zero pathway. To be considered aligning, an asset would only be expected to compile and disclose emissions and targets.

Implementation guide

This implementation guide has been developed to support investors to include infrastructure assets within their net zero commitment, targets and strategy. The following sections outline the actions required to assess the alignment of infrastructure assets and transition a portfolio towards net zero and deliver impact over time. The recommended process laid out below is consistent with the Net Zero Investment Framework, to ensure investors follow a consistent approach across all five asset classes covered by the framework.

Set the scope

- Infrastructure as an asset class should be broadly defined to incorporate equity and debt exposure held through direct or co-investments, listed and unlisted infrastructure funds, project finance or passive investments². It typically includes greenfield and brownfield investments in economic and social infrastructure.
- Potential crossover with other asset classes is high, which is why investors will need to assess which guidance methodology is most appropriate

Assess the alignment of assets

Operational assets

For operational assets, investors should determine where an asset sits on the alignment maturity scale from achieving net zero to not aligned, using the following six criteria:

1. **Ambition:** Long-term goal for the asset to be net zero emissions by 2050 or sooner
2. **Targets:** Short- and medium-term targets for scope 1, 2 and material scope 3 emissions in line with science based 'net zero' pathway. These may be absolute, or intensity based:
 - a. Where available, a sectoral decarbonisation / carbon budget approach should be used
 - b. Minimum for other assets is a global or regional average pathway

3. **Emissions performance:** Current and forecast emissions performance (scope 1, 2 and material scope 3) relative to target or net zero benchmark/pathway, or an asset's science-based target³
4. **Disclosure:** Disclosure of scope 1 and 2 emissions, and disclosure of material scope 3 within a reasonable timeframe and in line with regulatory requirements where applicable or the PCAF standard
5. **Decarbonisation strategy:** Development and implementation of a quantified plan setting out the measures towards a decarbonisation strategy for scope 1, 2, and material scope 3 emissions
6. **Climate Governance:** Governance/management responsibility for targets / decarbonisation plan

Alignment maturity scale for operation assets:

- **Achieving net zero:** If an asset is achieving the listed criteria and already has an emissions intensity of the 'net zero' level required for its sector in 2050
- **Aligned:** An asset achieving all listed criteria, but not yet achieving the required emissions intensity
- **Aligning:** Where an asset has initial criteria 1, 2, 4 and 6 in place, it can be considered 'aligning' to a net zero pathway. Alternatively, where an asset compiles and discloses its emissions performance level relative to the relevant science-based net zero decarbonisation pathway for the sector, it can also be considered 'aligning' (criteria 3).
- **Committed to Aligning:** An asset that has complied with criteria 1 by setting a clear goal to achieve net zero emissions by 2050.
- **Not aligned:** All other assets.

Greenfield assets

For greenfield assets, the highest status that can be achieved is 'aligning'. For this, operational criteria 1, 2, 5 and 6 must all be met along with the following:

- The asset will be or is being constructed in a way that is designed to deliver an asset that can be aligned to a net zero pathway, including consideration of whole lifecycle emissions to minimise embodied emissions and avoid carbon lock-in
- There is a decarbonisation or management strategy to minimise emissions in the construction phase

² Green infrastructure is not in scope of this guidance.

³ In this context, although the same criteria are used, expectations for aligning and aligned assets are different. An aligned asset would need to see emissions decline consistent with targets set to converge an asset with a net zero pathway. To be considered aligning, an asset would only be expected to compile and disclose emissions and targets.

In transitioning from greenfield to operational status, an investor needs to ensure scope 1, 2 and 3 emissions data are compiled and disclosed, as well as a target set to maintain aligning status⁴. For both operational and greenfield assets, achieving emissions disclosure (and several other indicators) may take a significant period. Investors will need to use the best available data or estimates to address gaps and engage with companies, users, regulators as relevant to improve disclosure. It will be possible, over time, to credibly benchmark embedded emissions related to steel and concrete with a 1.5° scenario. It will be important for infrastructure investors to incorporate this into their assessment of the value chain.

Investors are expected to work towards their assets achieving these indicators as soon as possible but the expectation is that assets will achieve these indicators progressively, and the targets relating to alignment can be set to take account of the timeframes it may take to achieve these.

Third party verification of an asset’s disclosures associated with the criteria is recommended and should be annual if possible⁵.

Criteria	Net Zero	Aligned	Aligning
1. Long-term goal for the asset to be net zero emissions by 2050 or sooner	Asset with emissions intensity required by the sector and regional pathway for 2050 and whose operational model will maintain this performance	X	X
2. Short- and medium-term targets for scope 1, 2 and material scope 3 emissions in line with science based ‘net zero’ pathway. These may be absolute, or intensity based: a. Where available, a sectoral decarbonisation / carbon budget approach should be used b. Minimum for other assets is a global or regional average pathway		X	X
3. Current and forecast emissions performance (scope 1, 2 and material scope 3) relative to target or net zero benchmark/pathway, or an asset’s science-based target		X	Either: Compile and disclose OR Criteria 1, 2, 4 and 6
4. Disclosure of scope 1 and 2 emissions, and disclosure of material scope 3, in line with regulatory requirements where applicable or the PCAF standard		X	X
5. Development and implementation of a quantified plan setting out a decarbonisation strategy for scope 1, 2, and material scope 3		X	
6. Governance/management responsibility for targets / decarbonisation plan		X	X

4 The most advanced status a greenfield site can reach is aligning. As an asset becomes operational, beyond meeting the required criteria for a greenfield asset to be aligning, an investor would need to ensure that scope 1, 2 and 3 emissions data are compiled and disclosed as well as a target set. Although this is a distinct requirement, the first criteria for greenfield assets to be aligning requires a plan for the lifecycle of the asset to be consistent with net zero. Providing the asset follows the expected trajectory for emissions in the plan, the correct disclosures and establishment of a target should be consistent with aligning status being maintained in operation.

5 Other aspects of asset alignment that are potentially of common interest to infrastructure as well as other asset classes – for example, concerning the use of offsets – will be handled in future guidance for the Net Zero Investment Framework overall.

Set targets

Once an investor carries out the assessment of their infrastructure assets' alignment, they should set targets based on the following recommendations:

- A <5-year portfolio coverage goal for increasing the percentage of AUM invested in assets that are i) achieving net zero or meeting the criteria to be considered ii) 'aligned' or iii) 'aligning' to net zero. This target should increase towards the goal of 100% of assets to be i) 'net zero' or ii) 'aligned' to net zero, by 2040.
- As a subset of this target, for any new assets where the GP has a meaningful influence or control influence⁶, criteria should be achieved progressively, towards the goal of 100% of operational assets to be classified as 'aligned' or 'net zero' by 2030, or, for acquisitions after 2025, within 5 years of investment. For assets in the construction phase, they would need to meet the 'aligning' criteria.

These targets are expected to be set on a fund-by-fund basis by asset managers but may be set as an aggregate for the portfolio if more relevant.

Asset managers with only infrastructure holdings may set only the portfolio coverage target but are expected to disclose scope 1 and 2, and material scope 3 (in line with phase-in) GHG emissions, including data for a relevant baseline year as well as an allocation to climate solutions. They are also encouraged to provide forecasts of potential emissions reductions, to enable asset owners to consider how portfolio level emissions reduction reference targets can be delivered.

To aggregate infrastructure into portfolio level emissions reduction reference targets, investors may also set a relevant reference target for overall emissions reduction for infrastructure assets (where possible for absolute emissions relative to a baseline):

- A <5-year (or 2030) portfolio CO₂ emissions reduction reference target. This should include scope 1 and 2 emissions, with scope 3 reported separately in line with phase-in
- A <10-year goal for allocation to climate solutions representing a percentage of revenues or capex from AUM (based on EU taxonomy mitigation criteria), increasing over time, in line with investment trajectories based on a net zero pathway.

Although of secondary importance for infrastructure specialists, the portfolio decarbonisation target and the allocation to climate solutions goal are included above for consistency with other asset classes as they allow managers with a range of asset classes under management to incorporate infrastructure into broader emissions reduction commitments. For infrastructure specialists, they are optional.

⁶ Meaningful influence is defined as a shareholding of 25% or more and board representation.

For fund of funds, the asset owner or asset managers shall aim, by 2030 at the latest, to only invest with firms or fund managers who themselves are setting portfolio coverage targets.

Investors should also include infrastructure assets within scope of their portfolio engagement threshold. Given the scale and impact of energy intensive infrastructure assets, it is additionally recommended that, for infrastructure investments, 100% of carbon-based energy and transport assets are the subject of collective or direct engagement.

All targets should be reviewed and updated at least every 5 years, in line with the existing NZIF guidance.



Actions to align portfolios and achieve targets

This guidance sets out a range of actions investors may wish to take relating to portfolio construction, management, and engagement and stewardship, to increase the alignment of their infrastructure assets and encourage real world emissions reductions.

A Portfolio construction

- **Negative screening:** Assess emissions intensity of the asset including scope 3 and facilitated emissions, and potential for asset to align with net zero pathway; for greenfield assets, this assessment should consider full lifecycle emissions; where assets cannot be aligned, new investment should not be considered
- **Negative screening:** For debt investments, given more limited ability to influence during the holding period, the screening test should be higher, including whether the asset has an alignment target / strategy, or the investor has a reasonable expectation that they can engage the issuer to achieve this
- **Negative screening:** Undertake climate risk assessment and, to the extent possible, assess marginal abatement cost curves, and forecast internal rate of return (IRR) in a net zero scenario and only invest in assets where forecast IRR hurdles can be achievable in these net zero scenarios
- **Positive screening:** Investors should seek to increase exposure in assets that are climate solutions
- **Conduct a Do No Significant Harm assessment:** Where opportunities with credible strategies/ pathways to address harm can be identified and implemented, investment is not precluded.

B Investment / management

- Implement TCFD recommendations and reporting
- Define a net zero investment strategy and set portfolio/fund level targets and objectives
- Assess and disclose current and ongoing scope 1, 2 and 3 emissions, net zero strategy and progress towards delivering against targets
- For open ended funds, it is expected that emissions performance will be reported on an intensity basis. Where investors are setting portfolio level reference targets, a re-baselining policy for emissions intensity should take account of significant changes to fund exposure
- For closed ended funds, where the end of fund date is sooner than the recommended target dates (2030, 2040), an appropriate shorter term end target should be set.

C Engagement and stewardship

- Investors should include infrastructure assets within the scope of the portfolio engagement goal; 100% of carbon-based energy and transport infrastructure assets should immediately be the subject of collective or direct engagement, or management interventions
- Direct engagement / management to establish timebound KPIs for emissions measurement / disclosure, target setting, development, and implementation of strategies, possibly including support through training and knowledge sharing
- Ensure governance and management responsibilities for climate change are defined for each asset/operator, including establishing remuneration linkage
- Collaborative stewardship / engagement with escalation strategy based on achievement of alignment indicators
- For debt holdings, use change/waiver processes to introduce relevant ESG requirements
- Monitoring and reporting on carbon performance and achievement of milestones/actions defined in company strategies
- Engagement of employees, suppliers, regulators and community to ensure a just and effective transition process
- Engagement with suppliers and greenfield developers to advocate for reducing emissions from purchased materials and assets' embodied emissions



ASIA
INVESTOR
GROUP
ON
CLIMATE
CHANGE



Investor
Group on
Climate
Change

IIGCC