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ACCELERATING NET ZERO AMBITION

BNP PARIBAS
ASSET MANAGEMENT

The sustainable investor for a changing world

BNP PARIBAS
ASSET MANAGEMENT

FOREWORD

The world is changing dramatically, driven in large part by three interlinked secular sustainability challenges – climate change, ecosystem degradation and inequality. To address these societal-scale problems, significant disruption to current industrial economies will be required. Indeed, the scale of necessary change is unprecedented in human history.

For investors, navigating this changing landscape will require them to reposition their portfolios for sustainable growth. This means investing for resilience in line with the just transition to a low carbon economy, but also using capital allocation and stewardship as means of promoting the outcomes needed to avoid the systemic risks posed by a changing climate, biodiversity loss and rising inequalities.

For the investors managing trillions in capital which have committed to net zero, this will not be an easy undertaking. It likely requires significant reformation of existing investment processes and new ways of thinking about portfolio management. Bold leadership is required to guide the way forward.

Today many investors have committed to net zero but lack clarity on what to do next. The case studies compiled in this report are meant to serve as a guide, providing inspiration and insight even for investors already well on their way toward net zero.

At BNPP AM our Net Zero Roadmap outlines our strategy for aligning our practices and portfolios with a low carbon future. Not finding any measurement solutions available which provided us with the tool we needed to track our progress holistically, we built the NZ:AAA methodology which is highlighted in this report. Thus far our commitment covers 50% of assets under management, and we aim to extend this to 100% in due course, and welcome collaboration with our clients and peers on this topic in the years to come.

We remain firmly committed to delivering long-term sustainable returns to our clients in this world in transition and hope this report provides useful insights for those who are embarking on this journey alongside us.

Jane Ambachtsheer

**Global Head of Sustainability
at BNP Paribas Asset Management**

NEW YORK CITY COMPTROLLER
BRAD LANDER

FOREWORD

The climate crisis is not "coming," it's already here. The summer of 2023 was the hottest ever on earth. Floods, wildfires, and heat waves have become commonplace across the globe. Without bold action, they will become more frequent and more catastrophic in the coming years and decades – with profound consequences for our communities, our economies, and our portfolios.

That's what we mean when we say climate risk is financial risk.

The investors featured in this report recognize the need for ambitious action – and are already taking it. As universal investors invested broadly across the global economy, we have nowhere to hide from the impacts of climate change. We have a clear and pressing responsibility to reduce emissions financed by our investments, and to underwrite improvements that address the systemic risk that climate change poses to our portfolios and our planet.

This report highlights the concrete actions that a number of "high ambition" investors are taking toward this end. It builds upon recommendations of the UN's High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities and shows what that work looks like in practice.

New York City's pension funds are proud to be among these high ambition actors. Through our divestment from publicly-traded fossil fuel reserve owners, active engagement with our asset managers and portfolio companies to push for sciencebased targets and diligent follow-through, and our recently-adopted Net Zero Implementation Plans, we are pushing hard toward the goal of achieving net zero greenhouse gas emissions by 2040 and significantly expanding our investments in climate solutions.

We are pleased to co-sponsor this report with BNP Paribas Asset Management and Climate and Nature. We hope that other investors will learn from these case studies, and in turn lead the way toward investments, consistent with fiduciary duties, in the decarbonization, mitigation and adaptation needed to reduce and eventually reverse climate change.

Together, we can and must achieve the emission reductions – not just in our portfolios, but in the real world – that are necessary to prevent climate change from destroying trillions of dollars of economic value, prematurely ending millions of lives, and fundamentally and irreversibly altering the natural world that all life depends on.

With high ambition for collective action on the timetable required,

Brad Lander

New York City Comptroller

Climate and Nature Solutions

FOREWORD

It is no secret that our window to stop the worst impacts of climate change is closing. In Canada, the scale of last year's wildfire season was something we'd never seen before, triggering evacuations of entire cities and introducing us to fires so hot they create their own thunderstorms. Smoke from our fires turned the skies of New York City a dystopian orange and drifted as far as Florida. In the end, 18.5 million hectares of land burned – an area larger than Greece.

We know what to do about this: the actions agreed to at COP20 in Dubai to triple renewables, and double energy efficiency by 2030 while moving to phase out fossil fuels are clear. Governments at all levels must take the lead, but there's no denying that we simply won't get to net-zero emissions by 2050 without strong and measurable commitments by companies and financial institutions.

The Integrity Matters report, produced by the UN High Level Expert Group just over a year ago laid out clearly the kind of detail and ambition required. We set out ten practical recommendations — the bright stars that should guide the setting and attaining of net zero targets. We make it clear that non-state actors require not only long-term pledges but also short-term science-based targets as well as detailed transition plans showing immediate emissions reductions and capital expenditures aligned with their net zero pathway.

What happens in this decade will be decisive and leaders everywhere must join the drive to net zero. It's particularly important that leaders in the financial sector step up. They can help unlock the scale of capital needed to build renewable energy systems and support a just transition as we phase out fossil fuels. And the financial sector is uniquely positioned to help businesses of all kinds reduce their emissions at the pace we need.

While we know where we need to land, we're all learning how to get there together. Many financial institutions are doing the work to provide examples we can all learn from. They want a cleaner future. They understand the need to mitigate climate risk and they are seized with the multi-trillion dollar opportunity of building a lowemissions economy. By highlighting some of their efforts here, we hope to inspire their colleagues to join in and speed up the transition.

Our challenge is simple: we have to move faster to protect as much of the natural world for our children as is still possible. There's no time to waste.

The Honourable Catherine Mc Kenna

Chair, UN High-Level Expert Group on Net-Zero Emissions; former Canadian Minister of Environment and Climate Change; CEO, Climate and Nature Solutions

RECOMMENDATION 1: **ANNOUNCING A NET ZERO PLEDGE**

A net zero pledge should be made publicly by the leadership of the non-state actor and represent a fair share of the needed global climate mitigation effort. The pledge should contain interim targets (including targets for 2025, 2030 and 2035) and plans to reach net zero in line with IPCC or IEA net zero greenhouse gas emissions modelled pathways that limit warming to 1.5°C with no or limited overshoot, and with global emissions declining by at least 50% by 2030, reaching net zero by 2050 or sooner.[1]

According to this recommendation, a net zero pledge should represent a 'fair share' of the global climate mitigation effort. The term 'fair share' is typically used to inform the Nationally Determined Contributions (NDCs) developed by state actors and refers to what is required to reduce carbon emissions based on historical and projected emissions trajectories. Dozens of studies have pointed to different methods of estimating 'fairness'[2].

For financial institutions, determining their fair share is not straightforward. Indeed, this requires an understanding of current and projected portfolio emissions by sector and region, and reasonable science-based scenario(s) to compare against the financial institution's portfolio trajectory. The TCFD Portfolio Alignment Team (PAT) outlined existing best practices in calculating portfolio alignment with net zero trajectories known as Implied Temperature Rise (ITR) measures[3]. However, the complexity of this calculation and the uncertainty around the many approaches to alignment measures has led many financial institutions to rely on reasonable proxies when setting commitments.

For instance, Robeco has set "a 30% reduction [target for its portfolio carbon footprint] (tons of CO_2e per invested million EUR) by 2025, relative to 2019, with the ambition to reach 50% by 2030 and net zero by 2050." It intends "to set asset alignment targets when data and methodology are more mature."[4] This cautionary approach makes sense given the uncertainties around ITR measurement. A 50% reduction in portfolio emissions by 2030 also makes sense insofar as it aligns generally with IPCC analysis which indicates that such a level of carbon reduction is required globally[5].

1 Integrity Matters Report
2 Fair share | Climate Action Tracker
3 Measuring Portfolio Alignment: Technical Report (2021) - TCFD Knowledge Hub (tcfdhub.org)
4 Robeco – The Net Zero Asset Managers initiative
5 The evidence is clear: the time for action is now. We can halve emissions by 2030. — IPCC

RECOMMENDATION 2: **SETTING NET ZERO TARGETS**

Non-state actors must have short-, medium- and long-term absolute emissions reduction targets and, where appropriate, relative emissions reduction targets across their value chain that are at least consistent with the latest IPCC net zero greenhouse gas emissions modelled pathways that limit warming to 1.5°C with no or limited overshoot, and where global emissions decline at least 50% below 2020 levels by 2030, reaching net zero by 2050 or sooner.

In addition to setting targets which are aligned with the long-term global goal – net zero emissions by 2050 – financial institutions should set short-term targets which generally align with this trajectory. As for complying with recommendation 1 above, to set short-term targets, financial institutions need to understand: their current and projected portfolio emissions by sector and region and; science-based scenario(s) to compare against the portfolio trajectory. However, as mentioned above, the complexity of this calculation has led many financial institutions to rely on reasonable proxies when setting commitments.

BNP Paribas Asset Management[6] (BNPP AM) has made several short-to-medium term (pre-2050) commitments including reducing the carbon footprint of its in-scope investment portfolios by 30% in 2025 and by 50% in 2030 and investing 60% of in-scope assets in net zero Achieving, Aligned or Aligning (NZ:AAA) entities by 2030. While the carbon footprint reductions are in keeping with general guidance on the global carbon reduction requirements (see commentary under recommendation 1), BNPP AM's NZ:AAA commitment adds further rigour to the firm's overall net zero pathway.

Specifically, the NZ:AAA methodology[7] articulates a three-tier framework for assessing for individual issuers their alignment with, or contribution to, net zero pathways. The framework uses temperature alignment methodologies as well as other qualitative assessment elements from SBTi, CDP, CA100+ and TPI to determine if companies are already at net zero (Achieving), aligned with a 1.5C or lower trajectory (Aligned) or aligned with a 2C or lower trajectory (Aligning). The framework allows for investment in solution providers whose products and services are contributing to the net zero transition. For Achieving companies, more than 50% of their revenue is aligned with the EU Taxonomy standards or with the climate-mitigation related Sustainable Development Goals (SDGs). For Aligned companies, this is more than 20% of their revenue.

BNPP AM's multi-dimensional approach offer a compelling template for the next phase of net zero tracking. Granted, concerns over the accuracy of ITR measurement as a means of assessing corporate progress should be considered. This means that any net zero framework that relies on these measures today should be sensitive to changes in the best practice around measurement.

6 BNP Paribas Asset Management – The Net Zero Asset Managers initiative
7 E6A84FBC-4DF0-4506-92A7-721F19394C99 (bnpparibas-am.com)

Moreover, progress against targets should be tracked by reporting entities themselves and third-parties. Already some of the net zero alliances have produced progress reports tracking member commitments so far including NZBA[8] and NZAO[9]. Indeed such progress reports will be important for increasing transparency and accountability around NZ commitments (see Recommendation 8 below).

Table 1: BNP Paribas Asset Management NZ:AAA Framework

Achieving Net Zero	Aligned to Net Zero	Aligning to Net Zero	Not Aligned
• Companies with at least 50% of their turnover aligned with EU Taxonomy Climate Change Mitigation OR • Companies with at least 50% of their turnover aligned with climate-mitigation-linked SDGs and with no more than 20% of their turnover misaligned with any SDGs OR • Companies committed to net zero and whose current carbon performance is at (or close) to the one needed for its sector by 2050 to reach net zero global emissions.	• Companies committed to net zero emissions by 2050 AND that have a carbon reduction target assessed as </=1.5°C OR • Companies with at least 20% of their turnover aligned with EU Taxonomy Climate Change Mitigation OR • Companies with at least 20% of their turnover aligned with climate-mitigation-linked SDGs and with no more than 20% of their turnover misaligned with any SDGs.	• Companies that have a carbon reduction target assessed as below 2°C and not otherwise considered Achieving or Aligned.	• All other companies.

Notes to Table:
UN Sustainable Development Goals (SDG) target numbers: 7.2, 7.3, 7.a, 7.b, 9.4

1.5°C temperature alignment is determined based on a variety of different inputs:
- SBTi or SBTi tool using carbon disclosure project (CDP) data produces a </=1.5°C output for any assessed time frame
- Companies assessed by Transition Pathway Initiative (TPI) as having Management Quality Level 4 with a short & medium or long-term carbon performance at or below 1.5°C
- Companies passing indicator 1 to 6 in the CA100+ benchmark (Structure and Methodologies | Climate Action 100+)

1.5°C to 2.0°C temperature alignment is determined based on a variety of different inputs:
- SBTi or SBTi tool using CDP data produces a </=1.5°C output
- Companies assessed by TPI as having at least a Management Quality Level of 3 with a short, medium or long term carbon performance between 1.5°C and 2°C.

Companies passing indicator 1 to 3 in the CA100+ benchmark (Structure and Methodologies | Climate Action 100+)
Companies committed to net zero emissions by 2050 and that are below 2°C as per BNPP AM's enhanced ITR (which is currently under development)

8 Net-Zero Banking Alliance 2022 Progress Report – United Nations Environment – Finance Initiative (unepfi.org)
9 Increasing Climate Ambition, Decreasing Emissions: The third progress report of the Net-Zero Asset Owner Alliance – United Nations Environment – Finance Initiative (unepfi.org)

RECOMMENDATION 3: **USING VOLUNTARY CREDITS**

- **Non-state actors must prioritise urgent and deep reduction of emissions across their value chain. High integrity carbon credits in voluntary markets should be used for beyond value chain mitigation but cannot be counted toward a non-state actor's interim emissions reductions required by its net zero pathway.**
- **High-integrity carbon credits are one mechanism to facilitate much- needed financial support towards decarbonizing developing country economies. As best-practice guidelines develop, non-state actors meeting their interim targets on their net zero pathway are strongly encouraged to balance out the rest of their annual unabated emissions by purchasing high-integrity carbon credits.**
- **A high- quality carbon credit should, at a minimum, fit the criteria of additionality (i.e., the mitigation activity would not have happened without the incentive created by the carbon credit revenues) and permanence.**

As best practice guidelines continue to develop, the Net Zero Asset Owners Alliance moved this year to prohibit its members from using carbon offsets to achieve their emissions-reduction targets. Instead, members are required to make true reductions in their emissions — not offset by someone else and credited to their business — and prioritize their investments toward emissions reductions until at least 2030. https://www.unepfi.org/industries/net-zero-asset-owner-alliance-raises-expectations-for-members-real-economy-impact-with-updated-protocol/

Members are encouraged to invest in carbon-removal marketplaces, nature-based solutions, and other negative-emission technologies; but these investments will not be counted toward meeting decarbonization goals.

RECOMMENDATION 4: **CREATING A TRANSITION PLAN**

Non-state actors must publicly disclose comprehensive and actionable net zero transition plans which indicate actions that will be undertaken to meet all targets, as well as align governance and incentive structures, capital expenditures, research and development, skills and human resource development, and public advocacy, while also supporting a just transition. Transition plans should be updated every five years and progress should be reported annually.

The requirements for net zero transition plans by non-state actors will differ by type of entity: cities and regions, corporates and financial institutions. For corporations, "comprehensive and actionable net zero transition plans [are needed] which indicate actions that will be undertaken to meet all targets, with a detailed third-party verification approach and audited accuracy, by sector." In turn, investors striving for net zero should aim to invest in companies which have themselves completed viable transition plans. As few companies have plans that meet the requirements of this recommendation, financial institutions need to rely on alternative methods of verifying corporate plans and monitoring improvements.

To this end, initiatives such as the Transition Pathways Initiative (TPI), the Science Based Targets Initiative (SBTI) and Climate Action 100+ (CA100+) provide a basis for financiers to assess alignment of their portfolios.

In 2023, the New York City Comptroller's office published a Net Zero Implementation Plan for the New York City Employees' Retirement System (NYCERS), New York City Board of Education Retirement System (BERS) and New York City Teachers' Retirement System's (TRS) that focuses on real world decarbonisation. The plan includes:

1. Measurable goals and benchmarks across all investments and operations, a commitment to specific interim emissions reduction targets by asset class, and disclosure of Scope 1, 2, and 3 emissions. The plans set an emissions reduction target for public equity and corporate fixed income portfolios of 32% for Scope 1 and 2 by 2025, of 59% by 2030 for Scope 1, 2 and 3, and of 100% by 2040.
2. Engagement measures that seek to have 70% of Scopes 1 and 2 public equity and corporate fixed income portfolio financed emissions covered by science-based targets by 2025, and 90% (including Scope 3 financed emissions) by 2030; file shareholder resolutions at major banks to hold them accountable for progress on their own net zero commitments; and call on asset managers to set their own net zero goals and plans (by 2025 or 2026).
3. Investment in climate solutions including renewable energy, energy efficiency, pollution prevention, and low-carbon buildings to reach the ultimate goal of USD 50 billion by 2035
4. Building on the funds' historic divestment of fossil fuel reserve owners in public equities by asking all private markets managers to exclude upstream fossil fuel investments.

Allianz released its inaugural Net Zero Transition Plan. To substantiate its long-term net-zero commitments, it set concrete intermediate targets by 2030 to reduce GHG emissions in the Allianz's own business operations, proprietary investment portfolio and P&C insurance business, without using carbon removal offsets. The targets are informed by IPCC 1.5C climate scenarios and credible industry-led approaches, for example, the Target Setting Protocol of the Net-Zero Asset Owner Alliance. This was cited as the "gold standard for credible commitments and transparent targets" by UN Secretary-General António Guterres. The plan details the firm's advocacy for strong climate policy from governments across the globe. The governance structure with oversight for delivering the plan sits at the highest level – at the company's Board of Management.

Temasek, a global investment company, has also identified three pathways to reduce the net carbon emissions attributable to its portfolio on an absolute basis to half of 2010 levels by 2030, and to achieve net zero by 2050. The three pathways, which reflect the systems approach that is needed, are: investing in climate-aligned opportunities in areas such as food, water, waste, energy, materials, clean transportation, and the built environment; enabling carbon negative solutions, which include the establishment of GenZero, an investment platform dedicated to accelerating decarbonisation globally through technology-based solutions, nature-based solutions and the carbon ecosystem; as well as encouraging decarbonisation efforts in our existing portfolio companies.

RECOMMENDATION 5: **PHASING OUT FOSSIL FUELS AND SCALING UP RENEWABLE ENERGY**

All net zero pledges should include specific targets aimed at ending the use of and/or support for fossil fuels in line with IPCC and IEA net zero greenhouse gas emissions modelled pathways that limit warming to 1.5°C with no or limited overshoot, with global emissions declining by at least 50% by 2030, reaching net zero by 2050.

The transition away from fossil fuels must be just for affected communities, workers and all consumers to ensure access to energy, and avoid transference of fossil fuel assets to new owners.

The transition away from fossil fuels must be matched by a fully funded transition toward renewable energy.

Achieving the transition from net zero requires a capital allocation: 1) away from fossil fuels and 2) towards renewables. A massive increase in financing for renewable energy and other low carbon technologies will be needed. It is promising to see recent examples of progress on both fronts.

The Net Zero Asset Owners Alliance (NZAOA), with 86 members across the world representing USD 11 trillion in assets under management, has set expectations about fossil fuel phaseouts for investors, carbon-intensive sectors and policymakers. The alliance calls on oil & gas producers and their customers to set science-based, absolute and intensity-oriented emissions targets covering Scope 1, 2, and 3 GHG emissions that are aligned with 1.5C or limited overshoot scenarios. It calls for more ambitious policies to rapidly reduce oil and gas demand and increase the supply and availability of renewable alternatives. The expectation is that members will develop and align individual oil and gas policies with this position, covering portfolio allocation, stewardship programmes and policy engagement.

To accelerate the green transition, it is clear that more capital needs to be channeled towards the development of sustainable infrastructure, particularly in emerging economies where many such projects lack access to financing. This is a critical part of the equation given growing energy needs and that some 800 million people still lack access to electricity. Pentagreen Capital, a joint venture between HSBC and Temasek, is one such company looking to bridge this gap, particularly in Asia which accounts for half of the world's carbon emissions. The platform aims to catalyse capital flows to finance marginally bankable clean infrastructure projects. At COP28, Temasek also signed a Memorandum of Understanding with Allied Climate Partners, International Finance Corporation, and the Monetary Authority of Singapore, to establish a green investments partnership to increase the bankability of green and sustainable projects in Asia, with an initial focus on Southeast Asia.

Singapore's OCBC bank announced in May[10] that it will stop financing upstream oil and gas projects that received approval for development after 2021 as part of its goal to hit net zero in its financed emissions by 2050. This is in addition to its target to reduce absolute emissions in the oil & gas sector by 35% by 2030 and 95% by 2050 from a 2021 baseline. It has committed more than S$25mn (USD 18.6mn) to decarbonisation efforts across its key markets, to install energy-efficient technology and increase the share of renewables in its energy mix.

Canadian pension plan CDPQ's Climate Strategy aims to triple the value of its low-carbon asset portfolio (from 2017) to C$54 billion by 2025. In addition, the plan has created a C$10 billion 'transition envelope', to decarbonise the heaviest carbon-emitting sectors that are essential to the transition (including raw materials production, transportation and agriculture). CDPQ has almost fully exited from the oil sector (production and refinement), holding only $0.2 billion in assets under active management in 2022 that it intends to divest from this year. It had previously held $8.5 billion in oil assets in a $298.5-billion portfolio in 2017.[11]

RECOMMENDATION 6: **ALIGNING LOBBYING AND ADVOCACY**

Non-state actors must align their external policy and engagement efforts, including membership in trade associations, to the goal of reducing global emissions by at least 50% by 2030 and reaching net zero by 2050. This means lobbying for positive climate action and not lobbying against it.

Until recently, corporate lobbying including interactions with trade associations – many of which have strongly opposed meaningful climate action – were generally carried out in the interests of each individual company and behind closed doors. Investors are changing that dynamic with clear demands that companies lobby in favour of a common objective – the goals of the Paris Agreement – in a transparent manner with a consistent framework to ensure accountability.

After the launch of Investor Expectations on Corporate Climate Lobbying in Europe[12] and the United States[13], which catalysed dozens of engagements with companies, a Global Standard on Responsible Climate Lobbying[14] was published, instigated by AP7, the Church of England

10 OCBC unveils decarbonisation targets for six sectors to achieve Net Zero financed emissions by 2050 | OCBC Bank
11 http://www.cdpq.com/rid2022/en/
12 Investor.Expectations.Climate.Lobbying.Oct_.2018.pdf (churchofengland.org)
13 INVESTOR EXPECTATIONS ON CORPORATE LOBBYING ON CLIMATE CHANGE 9.19.pdf (ceres.org)
14 For more information, see About - Responsible climate lobbying: The global standard (climate-lobbying.com).

Pensions Board and BNP Paribas Asset Management. Investor engagement on climate lobbying is now a core element of the CA100+ Net Zero benchmark[15] and the focus of efforts led by the Interfaith Centre on Corporate Responsibility and others.

The global Standard aims to ensure that companies have a consistent governance framework in place, so that investors and other stakeholders can evaluate whether lobbying efforts (direct or indirect such as via trade associations) support the attainment of the Paris Agreement goals. Influence Map has emerged as a key provider of analysis to investors to help rate and rank companies and their trade associations on Paris alignment lobbying and has incorporated the standard into its work.[16]

From the 2020 proxy season, investors have been putting this question to a vote at annual meetings in the US, with proposals at seven companies receiving majority votes. In 2023, there were 21 proposals filed with companies relating to Paris or net-zero aligned lobbying. Out of the proposals, 12 went to a vote and received average support of 38.9%. In seven cases, investors agreed with the companies and withdrew their proposals. ISS, a leading proxy advisory firm, is referencing the global standard in its analysis of these proposals. In addition, there have been a wide range of investor engagements with companies on these questions.

RECOMMENDATION 7: **PEOPLE AND NATURE IN THE JUST TRANSITION**

Financial institutions should have a policy of not investing or financing businesses linked to deforestation and should eliminate agricultural commodity-driven deforestation from their investment and credit portfolios by 2025, as part of their net zero plans.

Land use change, including deforestation and converting native vegetation for agriculture and other commercial activities, contributes significantly to annual global GHG emissions, and eliminates and reduces the effectiveness of natural carbon sinks, in addition to compromising other ecosystem services. The 2022 United Nations Biodiversity Conference (COP15) produced a landmark agreement[17] to guide global action on nature, with concrete measures to halt and reverse nature loss, including putting 30% of the planet and 30% of degraded ecosystems under protection by 2030.

Although biodiversity and nature loss has historically taken a back seat to climate change among the environmental priorities of investors, some pioneering investors have long made deforestation a key priority for stewardship. Green Century Capital Management has been a leader in forceful stewardship to tackle deforestation, securing a majority vote at Procter & Gamble's annual meeting in 2021.[18] Since the publication of the IPBES *"Million species extinction report"*[19] in 2019, and the Dasgupta Review[20] in 2021, we have seen a groundswell

15 Net Zero Company Benchmark | Climate Action 100+
16 See, e.g., InfluenceMap Pilot Studies Assessing CA100+ Companies Using the Global Standard on Responsible Climate Lobbying
17 COP15 ends with landmark biodiversity agreement (unep.org)
18 Procter & Gamble Improves No-Deforestation Commitments - Green Century
19 Media Release: Nature's Dangerous Decline 'Unprecedented'; Species Extinction Rates 'Accelerating' | IPBES secretariat
20 Final Report - The Economics of Biodiversity: The Dasgupta Review - GOV.UK (www.gov.uk)

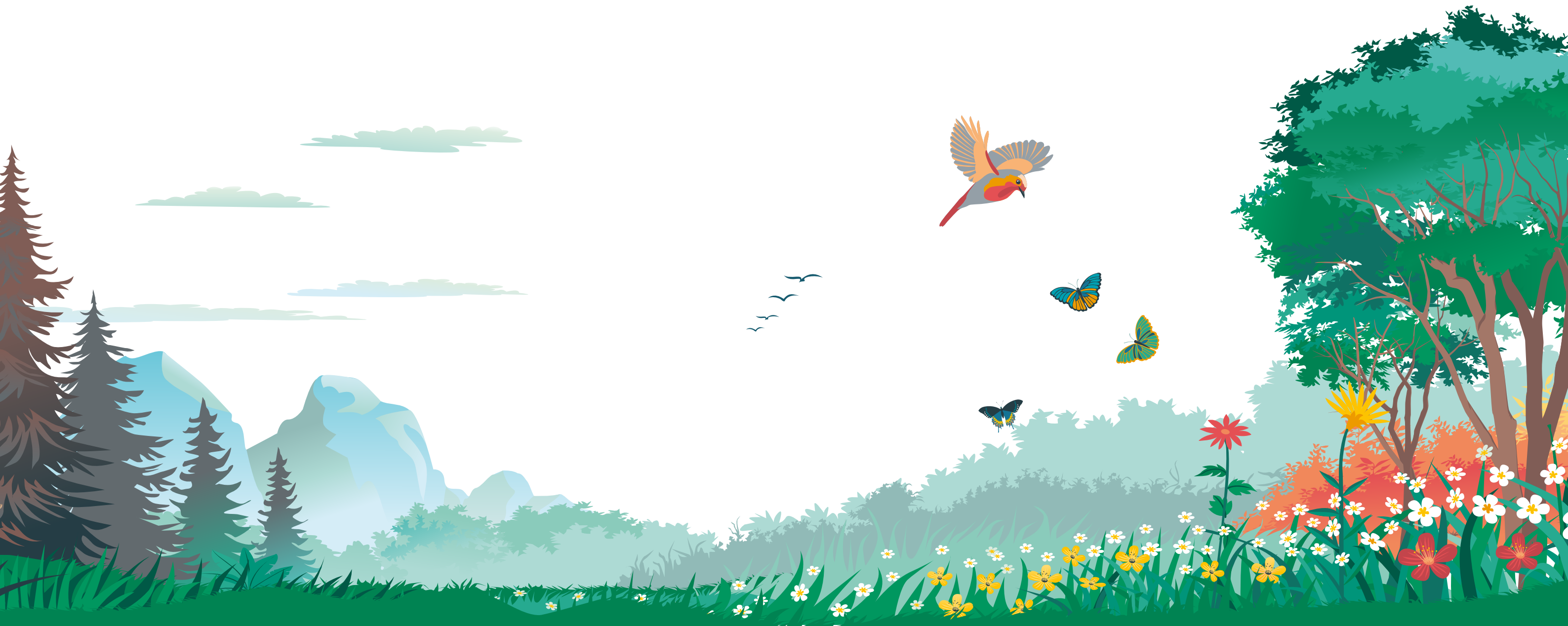
of interest in tackling nature loss from both institutional investors and corporates:

- In September 2023, Nature Action 100 was officially launched, supported by more than 200 institutional investors from around the world, representing USD 26.6 trillion in invested assets. The initiative seeks to engage with 100 companies seen as systemically important to the goal of reversing nature loss by 2030. NA100 was conceived and guided by institutional investors AXA Investment Managers, Columbia Threadneedle Investments, BNP Paribas Asset Management, Church Commissioners for England, Domini Impact Investments, Federated Hermes Limited, Karner Blue Capital, Robeco, Storebrand Asset Management and Christian Brothers Investment Services.

- The Principles for Responsible Investment has created a new collaborative engagement initiative focused on nature, called Spring, which has a particular focus on fostering policy alignment directly through investor engagement with policymakers, and indirectly by engaging companies with regards to their corporate political engagement.

- The Investor Policy Dialogue on Deforestation[21] is a collaborative initiative engaging with public agencies and industry associations in selected countries on deforestation. It is supported by 78 financial institutions from 20 countries with about USD 10 trillion in assets under management (as of December 2022). The IPDD runs workstreams on Brazil, Indonesia and 'Consumer Countries', which are co-chaired by investors such as BlueBay Asset Management, Storebrand AM, the Church Commissioners for England, Robeco, Brandywine Global and Legal & General.

- In September 2023, the Taskforce on Nature-related Financial Disclosures (TNFD) published its 14 recommended disclosures and a suite of additional implementation guidance[22] after a two-year consultative development process including pilot testing by over 200 companies and financial institutions.



21 Investor Policy Dialogue on Deforestation (IPDD) Initiative » Tropical Forest Alliance
22 FINAL-18-09-23-TNFD-final-recommendations-release.pdf

RECOMMENDATION 8: **INCREASING TRANSPARENCY AND ACCOUNTABILITY**

Non-state actors must annually disclose their greenhouse gas data, net zero targets and the plans for, and progress towards, meeting those targets, and other relevant information against their baseline along with comparable data to enable effective tracking of progress toward their net zero targets. Non-state actors must have their reported emissions reductions verified by independent third parties. Disclosures ought to be accurate and reliable. Large financial and non-financial businesses should seek independent evaluation of their annual progress reporting and disclosures, including opinion on climate governance, as well as independent evaluation of metrics and targets, internal controls evaluation and verification on their greenhouse gas emissions reporting and reductions.

Net zero initiatives and alliances must adopt best practice governance and processes for developing criteria and establishing accountability by:

- Designing a template for their members to report their pledges and annual reports in line with the recommendations.
- Verifying that all relevant information is provided and in the right format.
- Encouraging members to get independent evaluation of their disclosures (including greenhouse gas reporting verification) and set a timeline for mandatory independent evaluations.
- Reporting annually to the UNFCCC Global Climate Action Portal on the progress and any changes made, and provide an overall assessment of members' performance.
- Ensuring there is a transparent process for removing signatories or members who do not live up to their commitments and, prior to that, ensuring there is effective engagement with those members to try to secure their compliance.[23]

In 2023, for the first time ever, the Alliance has been able to secure reliable data to report on members' combined absolute financed GHG emissions. The figure below reveals that despite further growth in membership since 2021, the absolute financed GHG emissions decreased in 2022 to a total of 213.4 million tCO_2e. It is important to note that in addition to members' climate action, reductions in absolute financed emissions have multiple other drivers, such as real-world emissions reductions, allocation changes, or divestment. As of May 2023, 69 asset owner members (with USD 8.4 trillion in AuM) have formulated and reported on their intermediate climate targets based on the Alliance's latest Target-Setting Protocol, up from 44 members with USD 7.1 trillion in AuM last year.

23 https://www.unepfi.org/industries/net-zero-asset-owner-alliance-demonstrates-tangible-climate-action-in-the-latest-progress-report/

The alliance has an Accountability Mechanism review process that includes:

1. An option for members to clarify unclear elements after a first review of the submissions by the secretariat
2. In the case of still non-compliant/insufficient elements, a 'review group' offers suggestions for improvements
3. An option for members to react with a remediation plan on how to adopt the suggested improvements
4. In the case that the remediation plan and/or response of the member is insufficient, a stoplight system will be applied by categorising the case as red, orange, and yellow. Red cases can be delisted from the alliance.

RECOMMENDATION 9: **INVESTING IN JUST TRANSITIONS**

Financial institutions and multinational corporations should participate in developing country led initiatives to decarbonize and provide renewable energy accessibility. All businesses with operations in developing countries should demonstrate how their net zero transition plans contribute to the economic development of regions where they are operating, including integrating just transition elements, inequality, gender and energy access issues.

The global transition to net zero requires a new deal for developing countries that ensures a just transition and resources to achieve it. In part, this requires financial institutions and multinational corporations to work with governments and multinational development finance institutions to innovate, consistently take on more risk, and set more ambitious targets that help to maximise their investments in clean energy and climate resilience.

Efforts to accelerate investor participation in the international phaseout of coal include the Asian Development Bank's Energy Transition Mechanism and Just Energy Transition Partnerships, leveraging market-based approaches to speed up the transition from fossil fuels to clean energy. Other efforts include recently released voluntary guidance for financing the early retirement of coal-fired power plants in Asia Pacific launched by Glasgow Financial Alliance for Net Zero (GFANZ), carbon-intensive sectors and policymakers, and the draft Singapore and ASEAN sustainable finance taxonomies' relevant criteria.

Several GFANZ convened net-zero financial sector alliance members, in conjunction with the International Partners Group, have pledged to support three new country platforms, the Just Energy Transition Partnerships (JETPs), in Indonesia, Vietnam and Senegal. GFANZ's JETP

Working Groups are looking to mobilize and facilitate private finance in support of ambitious transition pathways and investment plans. These commercial investors are helping to identify and resolve barriers to private finance in each country. The Indonesia and Vietnam JETP Working Groups draw on the diverse experience of firms, such as Bank of America, Citi, Deutsche Bank, HSBC, Macquarie, Mizuho Financial Group, MUFG, Prudential Plc, Shinhan Financial Group, SMBC Group and Standard Chartered. As of December 2023, both the Indonesia and Vietnam investment plans have been launched. Next, plans for solutions that allow for the 'recycling' of this financing are expected to encourage a wider set of investors such as pension funds to provide the necessary 'patient capital'.

At COP28 in Dubai, the COP28 Presidency, the UNCC and UN Special Envoys and GFANZ Co-Chairs Michael Bloomberg and Mark Carney, launched the Industrial Transition Accelerator to catalyse decarbonisation across heavy-emitting sectors. The ITA brings global industry leaders together with policymakers, finance, and technical experts to unlock investment and rapidly scale implementation and delivery of projects needed to cut emissions. The ITA will work closely with partner countries to support delivery of a critical mass of on-the-ground projects to reach their Financial Investment Decision (FID) phase in the next two years and be brought online by 2030.

In January 2023, the World Benchmarking Alliance convened a large group of investors to release an Investor Statement for a Just Transition, calling on most oil & gas companies to step up their efforts and recognise the responsibility and planning involved in implementing a just transition.

The investors based their statement on WBA's Just Transition Assessment examining the performance of the world's most influential high-emitting companies. This revealed a lack of action from companies to identify, prepare and mitigate the social impacts of their low-carbon strategies, potentially putting millions of workers in these industries at risk of unemployment among other risks. Evidence showed a lack of accountability and action, portraying a worrying picture of how key players in the most significant sectors react to the transition to a net zero economy. The statement is part of engagement actions under WBA's Just Transition Collective Impact Coalition and in coordination with Climate Action 100+.

RECOMMENDATION 10: ACCELERATING THE ROAD TO REGULATION

To ensure rigor, consistency and competitiveness, regulators should develop regulation and standards in areas including net zero pledges, transition plans, and disclosure. Additionally, governments must honour their own commitments by enacting and ensuring their net zero commitments are met.

There have been many efforts this year to deal with the gap in reporting credible and comparable corporate climate transition plans. NGOs such as WWF, the Carbon Disclosure Project, and the World Benchmarking Alliance considered the issue. The central bankers and financial supervisors' Network for Greening the Financial System published a report taking stock of emerging practices relating to climate transition plans and assessing the role of central banks and supervisors in relation to transition plans. IOSCO announced a new workstream to consider the role of securities regulators with respect to transition plan disclosures and the Financial Stability Board is preparing a report on the relevance of transition plans to financial stability.

It was exciting this October to see the UK Transition Plan Taskforce set out its blueprint for transitions plans. Designed with input from investors including Aviva, NatWest, Phoenix Group, Willis Towers Watson, Railpen, CPP Investments and LGIM, the TPT Disclosure Framework will help businesses understand what makes a climate transition plan robust and credible. The Financial Conduct Authority, which oversees company listings, said firms should engage early and get started. Companies are expected to use the framework to disclose their transition plans for 2025 and onwards, meaning the first reporting would be in 2026.

To date progress against net zero goals has been slow. Global emissions rose in 2022 and are likely to do so again in 2023[24]. The longer this trajectory continues the harder it will be to lower emissions to avert more than 1.5DC of warming without substantial overshoot. The commitments taken by the financial institutions highlighted in this report act as a bellwether for others actioning their existing commitments or considering joining the over 650 institutions that have already made a commitment within a GFANZ initiative[25]. Collectively we hope the insights in this report help to galvanize further individual and collective action to avert the climate crisis and reduce associated risk to financial markets.

As representatives of the financial services industry the authors of this report are happy to provide guidance to other institutions embarking on their net zero journey. Please contact the undersigned for further information.

24 Global Carbon Budget | Fossil CO_2 emissions at record high in 2023
25 About Us | Glasgow Financial Alliance for Net Zero (gfanzero.com)

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