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UN-convened Net-Zero
Asset Owner Alliance

Target- Setting Protocol

Third edition

Authors note

January 2023

In partnership with:



Lead authors reflect on progress so far and what is to come



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As co-leads of the Management, Reporting and Verification (MRV) track of the UN-convened Net-Zero Asset Owner Alliance's for the last three years we have worked with dozens, if not hundreds, of our asset owner peers to develop the framework by which we execute the most important portfolio action of our careers (and perhaps our businesses' existence): decarbonising our portfolios in the world in which they exist.

This has allowed us to work with some of the most knowledgeable, skilful and passionate individuals in the sustainable investment community. We are astonished at the incredible collaboration—while remaining independent in decisions and actions as required by law—we experienced, because of the Alliance efforts and our shared commitment to mitigating climate change.

On the launch of the third version of the Alliance's Target-Setting Protocol (TSP), we want to reflect on the progress made to get here and hopefully encapsulate the extent of this progress since founding the Alliance. We take this opportunity to also step back as MRV co-leads after three exciting, interesting, insightful years, in alignment with the Alliance's governance.

The early days—Inaugural Target-Setting Protocol

The MRV track started with a blank slate in January 2020. Informed by existing efforts—including those from SBTi, PCAF, TCFD, IIGCC and many others—our consensus quickly became: the Alliance and its members need a fit for purpose Target-Setting Protocol that reflects our ambition and capabilities.

Knowing that there are no silver bullets for solving climate change, neither for single actors nor single actions, we created a framework that supports the members in navigating through a complex climate target setting environment to fulfil their commitments, while simultaneously fostering real world change. Therefore, we included four layers of activities in our targets: engagement, sub-portfolio decarbonisation, real-world sector decarbonisation and financing the transition.

The first version of our TSP (TSP V1) covered corporate bonds, listed equity and real estate. The final step to publishing our TSP V1, was setting an emission reduction range for 2020-2025 that balanced our ambition without being unrealistic—which would mean decoupling our investments from underlying economic developments.

Simultaneously the Alliance started working on methodologies for not yet so advanced asset classes and pushing the market for better data for underlying investments so that future versions of the TSP could reflect our full net-zero by 2050 portfolio commitments by setting target frameworks for all asset classes.

The next step—Version 2

Still under heavy Covid-19 restrictions, i.e., fully virtual, we began work on the second version of the protocol, which would include decarbonisation targets for our infrastructure investments. Given infrastructure is intertwined with the global energy system, we included our view on financing infrastructure related to fossil fuel—the burning of which are the primary source of GHG emissions globally. This was the first inclusion of a private asset class, paving the way forward to include others.

TSP V2 also extended the decarbonisation target range from 2025 to 2030. However, that range was still based on relatively old scenarios stemming from IPCC AR5 report.

The latest version—Version 3

In our recently launched TSP V3 we have enhanced our universe of targets to be set with eight principles to guide our decarbonisation approach to all asset classes. These eight principles provide guidance our key intent, which will prove helpful to evaluate how we align between different frameworks in the future. Based on these principles several additional private asset classes are now also included and we lay out the main decarbonisation timelines and actions for all asset classes.

Further, based on the latest IPCC AR 6 WGIII report, we updated the emission reduction target range that reflects the Alliance's strong guidance to support a 1.5°C world in line with the latest available science.



Outlook

Our work is not yet done. As the MRV track, we can only stop when all investments are considered, and as Alliance, when greenhouse gas emissions reach net zero. Our forthcoming focus will now include next steps for sovereign bonds, all other forms of public debt financing, as well as for most securitised products like covered bonds, asset-backed securities (ABS)—just to mention a few.

To translate the Alliance commitments into measurable action that help achieve a net-zero world, we must continue to encourage all actors to make efforts with the same level of ambition. This means that we need more alignment between different frameworks to ensure supportive, not conflicting, ambitions and action. Although the fundamentally different business models between banks, asset managers and asset owners will always lead to different frameworks and approaches, asset owners must be forthright in representing our interests and those of our customers and raise the ambition across the financial community.



Concluding remarks

We see addressing climate change not only as a competitive advantage to those that do it well, but as a competitive necessary for every actor in the financial community. Climate change is a global risk posed to our core business and investment portfolios, which cannot be fully hedged away or divested from. Something as seemingly boring as setting targets is ultimately the definition of the north star that guides us through an exciting, challenging, but also promising journey. Defining this North Star should mobilise all actors to take the actions they can to address climate change, because as we all know, there is no back-up plan.

We remain dedicated to support the Alliance the best of our ability; but for now, it is time to say a huge thank you to all the members of the Alliance and the full MRV track, which we had the privilege to work with.

Of course, we would be remiss if we didn't give a big thank you to all colleagues in the Alliance secretariat, especially to Jesica Andrews. We look forward to seeing the work of the future MRV leads.

All the best to our successors Sofia Bartholdy, Net Zero Lead, Church Commissioners for England, and Ben Carr, Analytics and Capital Modelling Director at Aviva.



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