UN environment programme | finance initiative

Principles for Responsible Investment

UN-convened Net-Zero Asset Owner Alliance

Executive summary

Demonstrating 1.5°C-Aligned Decarbonisation

The fourth progress report

October 2024

Executive summary

In recent years, climate change has moved from an abstract discussion in many quarters to a present-day reality. Mounting evidence strongly suggests that global commitments to keep temperature rise to below 1.5ºC by mid-century will be overshot if urgent action is not taken. While the economic repercussions of such a scenario will play out differently in the short-term across different geographies and sectors, no corner of the global economy will be unaffected. This poses an enormous risk to all institutional investors given the integral link between their long-term financial success and that of companies in the real economy. Thus, the Net-Zero Asset Owner Alliance ("Alliance") members strongly believe that supporting the transition to a low-carbon global economy is core to their interests.

Asset owners have a vital role to play in this collective imperative to reach net-zero greenhouse (GHG) emissions by 2050. As detailed in the Alliance's *Target-Setting Protocol* (2024a), three main levers of influence are available to them—allocation of capital to transition-focused businesses; proactive engagement with key stakeholders (including companies, asset managers and policymakers); and contributing to changing the norms and standards in the investment ecosystem ("field building") both by serving as a model of ambitious climate actions and by participating intentionally in public discourse.

Since the publication of the last progress report in 2023, the Alliance has been active on all three fronts, which are all embedded in the Alliance's *Target-Setting Protocol*. Out of the four target types delineated in the protocol, three are related to capital allocation strategies: climate solutions investments; sub-portfolio; and sector targets. Engagement targets speak most closely to the stakeholder engagement lever of the theory of change, while the entirety of the Alliance's four-pronged protocol contributes to field-building.

From the outset of the Alliance, its members have recognised the influence that comes from a show of broad financial industry support. The Alliance's membership of 88 asset owners, with assets under management (AuM) of USD 9.5 trillion, provides just such a demonstration. Moreover, 12 additional members have set their intermediate targets since the 2023 progress report; a total of 81 members have now set targets, enlarging the AuM under the Alliance's target-setting framework to USD 9.4 trillion (98.9 per cent of total AuM).

Members are building financial resilience by delivering demonstrable results. Even with growth in membership between 2022 and 2023, absolute financed GHG emissions decreased again in 2023 to 254 million tonnes of carbon dioxide equivalent (mtCO_2e) from 260 mtCO_2e a year earlier. **Most importantly, new data show that since the incep-**

tion of the Alliance, emissions fell by at least six per cent per year on average across all members that have set targets. These reductions are in with the 1.5°C-pathway requirements of the Intergovernmental Panel on Climate Change (IPCC).

The Alliance remains attentive to the fact that the same scale of reductions has not yet taken place in the real economy. In response, 80 target-setting members have set targets for their investments in climate solutions. Overall climate solutions investment in 2023 reached USD 555 billion and represented six per cent of the total AuM (compared to 4.6 per cent in 2022). The majority of members climate solution investments were directed to corporate bonds and real estate in 2023. Nevertheless, investments in private assets marked a notable increase, more than doubling to USD 33 billion since 2022.

When it comes to sub-portfolio targets, the average targeted reduction set was 26 per cent across all asset classes, which falls within the decarbonisation ranges set out by the protocol and based on the IPCC's no- or limited-overshoot 1.5°C scenarios in the Sixth Assessment Report (2022). Nearly half (48 per cent) of the Alliance's total AuM is now covered by these targets (compared to 42 per cent in 2022), showing the growing robustness of the *Target-Setting Protocol*. Coverage is expected to increase further once all asset classes covered under the fourth edition of the protocol are fully phased in. Moreover, challenges with data-acquisition remain in certain asset classes, such as private assets. To help resolve this bottleneck, Alliance members continue to advocate for improved disclosure, both directly to private corporates and through asset managers operating in private markets.

The Alliance supports this advocacy as a way for members to proactively communicate their long-term interests and concerns to decision-makers in companies, issuer firms, regulatory bodies and policy-making circles. Thus, the Alliance's portfolio contains mandatory engagement targets. Members have set individual engagement targets, which total of 242 engagements by 2025. Of these, over half (55 per cent) have already been met completely and more than one quarter (26 per cent) are over halfway towards completion.

Despite important advances in members' portfolio decarbonisation over the last twelve months, the Alliance concedes that progress in transitioning to net zero in the real economy is not happening fast enough. For long-term investors, the divergence of governments' climate commitments and existing policies is untenable. The course must change to deliver a net-zero transition in the real economy. Therefore the Alliance published a detailed white paper in 2024 arguing for governments to utilise carbon pricing as a way to meet their Nationally Determined Contributions (NDCs) and why it remains active on policy engagement through its Policy Track.

With the asset owners demonstrating that setting ambitious climate targets, delivering on them, and reducing absolute financed emissions is possible, the focus must now turn to governments and financial regulators so that asset owners and the rest of the investment ecosystem can continue supporting the net-zero transition effectively.