

IIGCC Paris Aligned Investment Initiative

Context

Institutional investors hold portfolios of billions of dollars with long range time horizons for asset and liability management. Where they choose to invest these funds over the next 30 years will have significant implications for the achievement of the Paris Agreement.

Some individual investors have begun to consider how their investments might be aligned to the goals of the Paris Agreement. However, there is not yet a robust assessment or consistent understanding of what aligning a portfolio to the Paris Agreement goals entails and what the implications of doing so would be.

As a result, a group of European asset owners requested IIGCC to lead a project to help investors to understand the concepts and issues related to aligning portfolios to the Paris Agreement goals, assess methodologies and approaches that might be used to enable investors to do so and analyse the implications of alignment on the characteristics of portfolios.

More than

70

members of IIGCC
are participating

This represents over

\$16

trillion of assets
under management

Implementation

The Paris Aligned Investment Initiative is led and coordinated by IIGCC with a steering group of leading asset owners. They include AP2, APG, Brunel Pension Partnership, Church of England Pensions Board, LGPS Central, PKA, and TPT Retirement Solutions.

More than 70 IIGCC members are participating in the initiative, representing over \$16 trillion assets under management.

The work to develop concepts, assess methodologies and test portfolios will be undertaken by IIGCC, with the engagement of IIGCC members and input from external experts.

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Many investors are looking to reduce their climate impact, but we lack a common understanding of the best methods and approaches for doing so across different asset classes and sectors. We are pleased to be working with IIGCC and more than 70 investors across Europe to assess and build consensus on best practice. This will help investors effectively implement their ambitions to reduce carbon emissions and increase investments in climate solutions in line with the Paris goals.”

Lucian Peppelenbos, Senior Responsible Investment and Governance Specialist, APG Asset Management



There is not yet an agreed definition of what being aligned to below two degrees or net-zero by 2050 means for a pension fund. There are emerging tools for some asset classes, but this is an issue that needs to be determined by asset owners. We are therefore delighted to be working together with leading European asset owners and to co-chair this IIGCC initiative with APG.”

Adam Matthews, Director of Ethics & Engagement, Church of England Pensions Board

Purpose

The Paris Aligned Investment Initiative will:

- Develop definitions for key concepts relating to alignment of portfolios with the goals of the Paris Agreement and build consensus around these among investors.
- Analyse the potential approaches and methodologies that could be used to assess alignment of different asset classes, to provide a menu of practical options for assessing and achieving alignment to Paris.
- Enable investors to understand the implications of transitioning portfolios by testing the approaches and methodologies for transition using real world portfolios to analyse financial characteristics, risks and opportunities associated with transition of portfolios.
- The outputs of the initiative will enable investors to start transitioning portfolios and measure alignment to the goals of the Paris Agreement, using common, robust and transparent approaches.

Framework



Expected outputs

A framework for Paris Alignment, including definitions relating to Paris Alignment; describing pathways for Paris Alignment based on emissions, technology and economic scenarios; and outlining the range of potential methodologies and approaches that could be used.

Assessment



An assessment of relevant methodologies and approaches for 4 asset classes: sovereign bonds, listed equity, corporate debt and real estate. We will also assess the potential for increasing alignment through strategic asset allocation approaches and may include further asset classes over time.

Testing



Testing of the most relevant methods and approaches for aligning portfolios using up to 5 real world portfolios, forecasting implications of aligning to Paris against key financial metrics relevant to investors.

A draft Net Zero Investment Framework was launched in August 2020 for consultation. This is the first output of the PAII.

For more information

For more information and to become involved contact Daisy Streatfeild dstreatfeild@iigcc.org.



Who we are

The Institutional Investors Group on Climate Change (IIGCC) is the European membership body for investor collaboration on climate change and the voice of investors taking action for a prosperous, low-carbon future. IIGCC has more than 230 members, mainly pension funds and asset managers, across 16 countries, with over €30 trillion in assets under management.

Our mission is to mobilise capital for the low carbon transition and to ensure resilience to the impacts of a changing climate by collaborating with business, policy makers and fellow investors. IIGCC works to support and help define the public policies, investment practices and corporate behaviours that address the long-term risks and opportunities associated with climate change. Members consider it a fiduciary duty to ensure stranded asset risk or other losses from climate change are minimised and that opportunities presented by the transition to a low carbon economy – such as renewable energy, new technologies and energy efficiency – are maximised.

For more information visit www.iigcc.org and [@iigccnews](https://twitter.com/iigccnews).