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<td><strong>Welcome</strong></td>
<td>Stephanie Pfeifer, CEO, IIGCC</td>
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| **Introduction** | Adam Matthews, Director of Ethics and Engagement, Church of England Pensions Board  <br> Co-Chair, PAII  
David Adkins, Head of Investment Strategy, Lloyds Banking Group – Pensions Investment and Funding Team  
Steering Group, PAII |
| **The Net Zero Investment Framework** | Daisy Streatfeild, Investor Practices Programme Director, IIGCC  
Inger Huus-Pedersen, Chief Portfolio Manager, PKA  
Co-Lead, Sovereign Bonds Working Group, PAII  
Murray Birt, Senior ESG Strategist, DWS  
Co-Lead, Real Estate Working Group, PAII |
| **Phase II of PAII** | Daisy Streatfeild, Investor Practices Programme Director, IIGCC |
| **Q&A** | All speakers |
| **Concluding remarks** | Adam Matthews, Director of Ethics and Engagement, Church of England Pension Board  
Co-Chair, PAII  
Stephanie Pfeifer, CEO, IIGCC |
Co-Chairs
- Lucian Peppelenbos, Senior Responsible Investment and Governance Specialist, APG Asset Management
- Adam Matthews, Director of Ethics and Engagement, Church of England Pensions Board

Steering Group
- Dewi Dylander, Deputy Director, ESG, PKA
- David Adkins, Head of Investment Strategy, Lloyds Banking Group Pensions Trustee Limited
- Michael Marshall, Director of Responsible Investment & Engagement, LGPS Central
- Christina Olivecrona, Senior Sustainability Analyst, AP2
- Faith Ward, Chief Responsible Investment Officer, Brunel Pension Partnership
- Peter Smith, Investment Manager, TPT Retirement Solutions

Working Group Co-Leads
Strategic Asset Allocation
- Craig Mackenzie, Head of Strategic Asset Allocation, Abbedeen Standard Investments
- Bart Kuipers, Head of Fiduciary Investments, BMO Global Asset Management

Sovereign Bonds
- Inger Huus-Pedersen, Chief Portfolio Manager, PKA
- Lupin Rahman, Head of EM Sovereign Credit, PIMCO

Listed Equity & Corporate Fixed Income
- Kaisie Rayner, Senior Manager, Responsible Investment & Fund Development, Scottish Widows, part of Lloyds Banking Group
- Francis Condon, Executive Director, Sustainable Investment Research, UBS Asset Management

Real Estate
- Murray Birt, Senior ESG Strategist, DWS
- Faith Ward, Chief Responsible Investment Officer, Brunel Pension Partnership
The Paris Aligned Investment Initiative
The Paris Aligned Investment Initiative (PAII) was launched in May 2019. Its aim is to explore how investors can align to the goals of the Paris Agreement. PAII is led and coordinated by IIGCC with a steering group of leading asset owners.

The bulk of the work to consider how investors can align to the Paris goals has been undertaken by 4 working groups covering: Strategic Asset Allocation; Sovereign Bonds; Real Estate; Listed Equity and Corporate Fixed Income.

We are working towards two main outputs from this first phase the initiative:

- A framework for Paris alignment, including key definitions, pathways and methodologies and approaches for measuring and implementing alignment
- Testing of the framework and the recommended methodologies on 5 members portfolios to test the financial implications of alignment

Participation from 70+ IIGCC members representing over $16 trillion of assets under management.
We have worked through the development of an initial framing paper to explore definitions and principles for implementing alignment with members, and then through the working groups to assess different methods and approaches that could be used to both measure alignment but also undertake the transition towards net zero.

This work has been brought together as a Net Zero Investment Framework, which we are publishing as a draft for consultation.

We are looking for feedback from members and external stakeholders on key questions and to strengthen the framework to publish a final version later in the autumn.

This will also take on findings from the portfolio testing that we are currently taking forward.
The purpose of this presentation is to provide a preview of the main components of the draft framework.

Many IIGCC members have been involved in one or other of the working groups. We have taken the conclusions of those groups to bring together a holistic framework under the guidance of the steering group and working group leads.
The Framework aims to set the level of ambition for investor action to match those investors have asked of governments and companies – global net zero emissions by 2050. It provides the basis where investors can ‘look each other in the eye’ to know that they are taking action that has impact to achieve net zero through a common understanding of best practice approaches and methodologies.

It really aims to translate the Paris goals into something actionable for investors, the basis on which they can make net zero commitments and implement investment strategies that deliver impact towards the net zero goal.

As mentioned in the slide it is also designed to be for both asset owners and asset managers. The published document is written primarily from the perspective of asset owners and ‘whole portfolio’ management, but the Framework provides an overview on how we expect asset managers to implement the framework. However we, are particularly interested to get feedback on these practicalities for different types of asset manager through the consultation.
To be considered aligned to the temperature goals of the Paris Agreement, investors should have an investment strategy consistent with achieving a global target of net zero emissions by 2050.

Two dimensions for investors:

- **Decarbonising investment portfolios** in a way that is consistent with achieving this net zero goal
- **Increasing investment in ‘climate solutions’** required to meet that goal, such as renewable energy, low-carbon buildings, and energy efficient technologies

Investors should use a range of levers – top-down and bottom-up – to achieve Paris alignment.

The Framework identifies 5 components of a net zero investment strategy:
- Governance and strategy
- Setting targets and objectives
- Strategic asset allocation
- Asset class alignment
- Advocacy and engagement

The starting point for the PAII was how do we define Paris alignment. Net zero emissions by 2050 is the target that gives us a good probability of limiting warming to the 1.5 degrees set out in the Paris Agreement. This is why we now talk about a ‘Net Zero Investment Framework’.

Two objectives are needed to reach the net zero goal:

- Decarbonising investment portfolios in a way that is consistent with achieving this net zero goal
- Increasing investment in the ‘climate solutions’ required to meet that goal, such as renewable energy, low-carbon buildings, and energy efficient technologies

The PAII working groups set out to look out how you can achieve these two objectives. This work led us to define a holistic approach for all levels of investment strategy and using all levers that help meet those two goals and achieve net zero.
An investor’s approach to alignment should be guided by the following five principles:

- **Impact**
  - Maximising long-term emissions reductions in the real economy

- **Rigour**
  - Science-based and consistent with achieving Paris goals

- **Practicality**
  - Feasible for a range of investors to implement

- **Accessibility**
  - Approaches and methodologies should be clear and easily applied

- **Accountability**
  - Clients, beneficiaries and stakeholders can assess whether investors are aligned

When the PAII considered what actions should be taken, and methodologies that should be used, our assessment was guided by 5 principles. And these are also relevant to guide how an investor should take forward implementation of their net zero investment strategy.
This slide provides a summary of the components of a Net Zero Investment Strategy.

The framework provides three ‘top down’ components at the portfolio or fund level that set direction and portfolio structure, and the strategy to achieve alignment. This starts with governance and strategy: setting your commitment to a net zero investment strategy, setting beliefs strategy and mandates, and then monitoring and reporting on implementation.

The framework proposes setting portfolio level targets on emissions reductions and investment in climate solutions consistent with the net zero goal. And then implementing a strategic asset allocation process that takes into account scenario analysis to inform risk and return expectations, optimises portfolios for climate as well as risk/return metrics, selects asset class variants that enable investment in lower carbon, and finally reviewing constraints to greater achievement of climate goals.

The asset class level components aim to shift the alignment of assets – which should be the key basis for achieving those portfolio targets. This involves setting
targets for asset class alignment, assessing the alignment of assets using recommended methodologies, and then undertaking alignment actions.

These alignment actions include using portfolio construction to allocate capital to support the transition and invest in climate solutions, engagement and stewardship or direct management to influence the alignment and performance of assets, and finally selective divestment if alignment cannot be achieved. This is complemented by two key elements to influence the enabling environment for alignment through stakeholder and market engagement, and policy advocacy.
The governance and strategy component sets the direction through an overall commitment, setting beliefs and principles for alignment, and setting mandates and reviewing implementation.

A particularly important component should be highlighted here - climate risk assessment. PAII started this process considering alignment was a different sphere ‘beyond climate risk’ but actually kept returning to this as a key first step towards alignment. This is because it has implications for your return expectations that inform SAA, plus reducing you exposure to high risk assets, will push you towards greater alignment and should be done as a first step as part of existing fiduciary responsibilities (although it is still not standard practice across all investors).

The final component is to define your net zero investment strategy. This should be easier because we’ve set out the recommended components in this framework!
Pathways to net zero

Science based net zero pathways are a central tool to assess appropriate portfolio targets and assess alignment of assets.

A critical challenge for credible alignment by investors is the availability of robust pathways for net zero emissions and investment trajectories broken down by sector and region.

At a minimum, pathways used by investors, companies and data providers should:

- Be associated with limiting warming to 1.5°C above pre-industrial levels with at least 50% probability (or at least well below 2°C with >66% probability)
- Reach global net zero emissions by 2050, or soon after
- Provide differentiated pathway information for regions and sectors which may require net zero emissions earlier or later, consistent with the global goal
- Have a global peak emissions year of the current year or later
- Ideally be (or linked to) a multi-sector model, taking account of all emissions sources
- Rely on a limited volume of Negative Emissions Technologies (NETS) to 2050

Before going any further, it is important to cover the issue of pathways. PAII refers to pathways to describe the emissions, technology and investment trajectories that will be needed to deliver net zero.

This pathway information will be used by investors to determine their own portfolio level targets regarding emissions reductions and investment; to assess the alignment of underlying assets to a net zero pathway; and to ensure methodology providers who offer these services are using an appropriate basis for their analysis. They are therefore the keystone of being rigorous in efforts to align.

In reviewing potential pathways to guide alignment, PAII identified a significant challenge. Main providers such as the IEA do not have a comprehensive net zero 2050 set of outputs.

In the meantime therefore the framework provides the main minimum parameters for pathways that can be used as a guide, given the limited availability and granularity of ‘true’ net zero pathways.
Objectives and targets set the direction and ambition of an investment strategy towards net zero, and act as a means to monitor the effectiveness of this strategy.

### Key Outcomes

<table>
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<th>Emissions reductions from assets</th>
<th>Increased investments in assets aligned with, or contributing to, the net zero goal</th>
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<tbody>
<tr>
<td>Emissions reductions in the real economy</td>
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The starting point of PAll was not target setting – it was how to explore take effective action towards alignment. The targets now proposed have been arrived at through this thinking and should be the means to help ensure investors implement effective action.

The framework therefore recommends a **set** of targets and goals. The combination proposed aims to capture the key outcomes we are trying to achieve: Namely are we achieving emissions reductions in the real economy – which should be delivered by emissions reductions from assets and an increasing numbers of assets aligning to net zero or providing the climate solutions to reach that goal.

We are asking for feedback in the consultation on the set of targets. Is this the right combination to set ambition, drive the right kinds of action, and monitor performance/effectiveness of strategies.
The Framework proposes a combination of bottom up and top down targets. We know that a single portfolio wide emissions reduction target does not necessarily incentivise actions that have greatest impact. You can simply sell your high carbon equities in the secondary market to achieve your target, but in so doing have almost no effect on real economy emissions.

At the same time, if our strategy has been effective we do – in most cases - expect to see portfolio emissions reducing. Hence the reason we include a top down emissions reduction target. Importantly having this goal is also important for guiding action e.g. portfolio optimisation in SAA. And overall it allows monitoring and accountability for impact.

Two options for emissions reduction targets are proposed. An overall intensity reduction target but also aggregating the actual emissions reductions from the assets you have exposure to as a complementary metric. The second has less established methodology but something we want to look at in Phase II work. At portfolio level we also propose setting a goal for increasing allocation to climate solutions.
The top down portfolio targets are described as ‘reference’ targets for a reason. As mentioned, we do not want these to create perverse incentives to achieve targets by divestment or investing in companies with only short terms emissions reduction potential simply to achieve the target. While we think the top down targets are important for monitoring performance they are not intended to be a straightjacket to be met at all costs. Hence the term ‘reference’.

Bottom up we are looking to increase % AUM invested in net zero or aligned assets. This is a fairly new concept and should be based on the extent to which you can shift portfolio construction towards more aligned assets, and the rate of change your expect to see through engagement etc.

The final box is a threshold rather than a target. Particularly in the listed equities group, members discussed how to ensure sufficiently ambitious action and engagement by investors. But clearly you would not need to engage with companies that were already net zero or aligned already. Therefore this aims to set a % of emissions coverage threshold including assets that are either already aligned assets or where you have active engagement, so that you have a sufficient proportion covered, in order to have a sufficient net zero strategy. We are asking in the consultation what this minimum threshold should be.
Strategic asset allocation (SAA) can optimise the way assets are allocated for achieving Paris alignment by incorporating alignment objectives within this process

<table>
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<th>Key recommendations</th>
<th>Metrics for alignment</th>
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<tr>
<td>Use scenario analysis to ensure SAA is informed by climate risks and opportunities</td>
<td>Carbon emissions intensity (scope 1 and 2)</td>
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<td>Supplement standard SAA objectives with climate-related metrics, such carbon intensity and allocation to climate solutions, then implement portfolio construction accordingly</td>
<td>Climate solutions allocation as % of portfolio</td>
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<tr>
<td>Consider other asset classes such as renewable energy infrastructure</td>
<td>Plus supplementary metrics (e.g. fossil fuel reserves)</td>
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<tr>
<td>Specify variants of asset classes that use more systematic approaches to reduce carbon intensity and increase exposure to climate solutions</td>
<td>Portfolio optimisation</td>
</tr>
<tr>
<td>Review constraints to alignment and consider greater flexibility to enable greater alignment</td>
<td>PAII recommends optimising for achievement of alignment metrics in portfolio construction, alongside traditional risk/return and other indicators</td>
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<td>Allowing investors to identify portfolios that maximise Paris aligned objectives while achieving the same, or better, risk-return.</td>
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The working group looked out how SAA or similar processes can be used as a tool for achieving greater alignment. PAII recognises that different types of fund or scheme do this kind of process differently and have different levels of flexibility to restructure asset allocation but we think the elements proposed here can be used to some extent by all types of fund.

The key components of alignment through SAA are described on the slide. The consultation specifically asks for feedback on the extent to which these elements translate to different approaches to asset allocation – or what other actions might be relevant.
Governance, portfolio wide targets and SAA represented the top down actions to guide alignment and set direction, but as mentioned the key driver of achieving net zero and having real world impact really happens at the asset level. The framework therefore provides recommendations with regard to assessing alignment for different asset classes and how to transition a portfolio towards greater alignment and deliver impact over time.

Across the four asset classes considered, we broadly recommend following the same process:

- Set the scope, namely what should be considered within scope for alignment action
- Assess alignment of assets (existing or new)
- Take forward an alignment implementation strategy to increase alignment of assets and your exposure to net zero or aligned assets, and climate solutions, over time
### Sovereign bonds

**Scope**
- All national sovereign bond issuance, except domestic issuance used for liability matching purposes
- Regional/municipal issuance as and when data permits
- Government owned assets (e.g. SOEs) apply corporate fixed income methodology

**Assessment and Targets**
- Assessment should account for all emissions associated with the territory on a production basis
- Emission measurements should be normalised by GDP or per capita
- Investors should account for differentiated pathways towards net zero amongst countries of different levels of development
- Assess performance based on current and forward-looking indicators, including
  - GHG performance in relation to a net zero pathway
  - Performance of key policies / sectors relevant to alignment
  - Other national and international policy measures and positions

**Methodologies**
- The PAII considers Germanwatch Climate Change Performance Index to be the leading scoring framework
- No equivalent comprehensive performance assessment exists yet for municipalities

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This and the following slide sets out the process for sovereign bonds.
Sovereign bonds

Implementation

Portfolio Construction

- Tilt portfolios towards higher performing issuers based on climate performance indicators to the maximum extent possible, at a minimum exceeding the weighted average benchmark score for climate performance.
- Maintain appropriate proportion of exposure between developed and emerging market
- Increase allocation to green or SDG climate linked bonds

Selective Divestment

- Consider exclusion of continued poor performers from portfolios

Engagement

- Undertake active engagement to:
  - support improved performance of issuers
  - achieve global, regional and national policy ambition
- Investors should:
  - Actively engage with sovereigns to which they have the largest exposure or that have the highest impact on global emissions
  - Participate in collective engagement directly and indirectly through networks such as IIGCC, the Investor Agenda etc
  - Engage with index providers and data/service providers to request indices, benchmarks and data/performance assessments
  - Engage with issuers, investment banks and development agencies to seek to increase issuance of Paris aligned green and SDG climate bonds
PAII grouped these two asset classes together as they draw on similar underlying assets. However the framework does have a dedicated section on specific considerations for CFI.
Listed equity & corporate fixed income

Scope & assessment
- Identify assets in material sectors for assessment and alignment action (NACE sectors A-H, J-L)
- Assess assets against 8 criteria for a) achieving net zero; b) alignment; c) transition potential; d) not aligned/transferring
- Assess asset revenues from climate solutions (EU taxonomy mitigation criteria)

Alignment Criteria
The PAII sets out the key criteria investors can use to assess an asset’s achievement of net zero, alignment or transition potential:
1. Current emissions intensity performance (scope 1, 2 and material scope 3 emissions)
2. A long term 2050 goal consistent with global net zero
3. Short and medium term emissions reduction targets consistent with that goal
4. A credible investment plan or business model for achieving targets
5. Revenues and capital expenditure consistent with achieving targets
6. Clear governance responsibilities for targets/transition
7. Executive remuneration linked to delivering targets/investment plan
8. Disclosure and reporting of scope 1, 2 and material scope 3 emissions

Investors use company disclosures, taking into account third party analysis and independent verification, to assess companies against this criteria and the minimum thresholds outlined by the PAII. Investors can also use these criteria to guide engagement activities.

In terms of scope we recognise that this asset class can include a huge number of assets, that’s why framework recommends focussing on material sectors for the transition. PAII proposes building on the NACE code approach used in the EU taxonomy, but we have asked for feedback in the consultation on this way of determining materiality. There is a further current constraint on scope in that tools/data to assess assets have limited coverage so the focus of assessment and alignment may necessarily be limited to a narrower set of high impact sectors in the short term.

To assess alignment of a company we propose 8 criteria, this reflects the common approach across the framework of assessing current and future expected emissions reduction performance, and really builds on the learning on Climate Action 100+ in terms of key elements of what is needed for a company to be considered credibly aligning.

The framework recommends 4 categories or levels of alignment:
- Already net zero
• Aligned – meeting all the criteria

• Transition potential – where we suggest some minimum performance against 3 of these criteria

• Not aligned or transitioning

These categories are important for informing how to treat companies in your portfolio construction and engagement strategy (next slide).

In addition, investors should assess companies for revenues from climate solutions based on EU taxonomy mitigation criteria, in order to also increase exposure to these in line with targets set.
Listed equity & corporate fixed income

**Metrics and Targets**
- **Metric:** Current and forward-looking alignment of assets
- **Target:** Increase % AUM in net zero or aligned assets – 5 year goal
- **Objective:** Total coverage of assets aligned or under active management or engagement 70/80/90% portfolio emissions (combined with real estate)

**Methodologies**

No single methodology provides a comprehensive basis to assess all assets against sufficiently granular net zero pathways. The framework therefore outlines the key features required of a preferred methodology, with a focus on those based on the Sectoral Decarbonisation Approach, including scope 1, 2, 3, taking into account current and future performance, and governance factors.

**Leading methodologies identified:**
- The Transition Pathway Initiative carbon performance and management quality indicators
- The forthcoming CA100+ Benchmarking framework
- Science Based Targets Initiative company assessments

As mentioned earlier regarding targets, the aim is to increase the proportion of assets that are aligned, and maintain coverage of either aligned or assets under engagement of a high percentage. The slide outlines the proposed potential thresholds where we are seeking feedback in the consultation.

In terms of the methodologies for assessing alignment of assets, there are three recommended. TPI, the forthcoming CA100+ benchmark, and then SBTi company targets can provide the relevant data for the assessment criteria on targets.
To encourage the maximum impact on real world emissions and to support the development of data availability and disclosure, the PAII supports a positive inclusion and weighting approach and direct engagement with companies in high impact sectors.

**Implementation**

**Portfolio Construction**

The PAII recommends positively weighting companies with higher alignment performance and increasing allocation to climate solutions.

Actions investors can take include:

- Screening and weighting investments based on alignment performance and climate solutions revenues
- Utilise specialist benchmarks, products or funds focussed on aligned or climate solutions
- For passive assets, apply a benchmark with positive weightings for alignment criteria and climate solutions revenue metric

**Engagement**

The PAII recommends engaging stewardship actions that focus on improving company performance towards the 8 criteria. This includes the following approaches to stewardship and voting:

- Developing a timebound engagement strategy with milestones and an escalation process with a feedback loop to investment/weighting/divestment decisions
- Informing companies of investor expectations in relation to criteria and voting intentions
- Joining collective engagement initiatives such as CA100+ and playing an active role in engagement activities
- Ensuring voting rights are in place for investors or asset managers
- Implementing an escalation approach and voting against board or relevant directors/policies as applicable

The logic of these recommendations is to allocate capital towards those aligning or to support those transitioning, and to increase investment in climate solutions.

The framework proposes:

- Using capital allocation, benchmark construction etc as an incentive for companies to align

- Engagement with companies not yet at net zero or meeting all alignment criteria. Importantly the framework specifies that engagement must have timebound milestones, escalation based on achievement of the assessment criteria and therefore feedback to portfolio construction/weighting/divestment decisions

The framework also sets out elements of a voting strategy – which will be further developed in Phase II of PAII.
Divestment is not recommended as the primary strategy for achieving alignment as if you are divested you have less influence to align companies. However we do see it as relevant in three circumstances as a tool in the overall strategy: due to risk exposure, escalation following unsuccessful engagement, or activities no longer permissible within net zero pathways.

In Phase II of PAII we expect to provide further guidance on activities that will no longer be permissible within a pathway towards net zero and different points in time.

Again, policy advocacy and engagement is key activity to helping investors to implement effective strategies and providing the enabling environment for companies to transition.
Real Estate
**Real estate**

Aligning a real estate portfolio involves improving the energy efficiency of buildings and utilising renewable energy technologies to reduce the emissions associated with buildings in line with pathways to global net zero emissions by 2050

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<th>Assessment</th>
<th>Metrics and Targets</th>
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| - Investors should assess current and future expected carbon and energy intensity, taking into account:  
  - Assumptions about the energy mix and demand in different buildings and locations  
  - Retrofit opportunities and other investments to decrease energy usage and emissions intensity  
  - Scope 1, 2 and relevant scope 3 emissions should be assessed, recognising methodologies to measure areas such as embodied carbon are still nascent | - **Metric**: Current and forward-looking alignment based on carbon emissions and energy use in line with net zero pathways (CRREM tool)  
- **Target**: Increase % AUM in net zero or aligned assets – 5 year goal  
- **Objective**: Total coverage of assets aligned or under active management or engagement 70/80/90% portfolio emissions (combined with equities and corporate fixed income) |

**Methodologies**

The working group identified the Carbon Risk Real Estate Monitor (CRREM) as the leading carbon/energy efficiency standard. CRREM, or equivalent tools, should be used to determine asset alignment with a 1.5°C pathway.

The working group also outlined a set of key features a green building standard that claimed to assess Paris alignment would have to include and noted that BREEAM is incorporating a ‘net zero’ component, based on the CRREM standard, into its assessment.
Real estate

Implementation

**Actions for real estate investors**

- Collect data required to assess a portfolio using CRREM or equivalent
- Develop a clear management and investment strategy supported with strong ESG policies and appropriate carbon reduction commitments, including energy efficiency measures, renewable energy, demand-side management
- Ensure all stakeholders adopt plans and agree with parties responsible for management of real estate assets
- Screen new investments using the CRREM tool or equivalent

**Data considerations**

Recognising data availability is an issue, the PAII outlines two approaches and recommend that:

- All buildings are included in the analysis to the extent possible, using estimations/approximations to cover data gaps
Real estate

### Engagement

- For real estate companies, the engagement approach set out for listed equities should be adopted, using CRREM assessment as the basis of engagement.
- For directly owned assets, engagement with tenants is a key component to support alignment. Prioritising based on stranding risk and exposure, investors should engage with tenants to:
  - Improve data collection processes e.g. through smart meter roll-outs
  - Facilitate actions and investments that reduce energy costs and cut emissions
  - Share the cost of retrofits between building owners and tenants through service charges
  - Encourage corporate tenants to adopt emissions reduction targets
  - Strengthen the role of green leases
  - Strengthen policy engagement to improve policy framework around retrofits
- Report on and score positively against GRESB tenant engagement indicators relating to climate and energy use

### Policy Advocacy

The working group noted that it may not be feasible for all buildings to be aligned to CRREM pathways given the level of emissions reduction and efficiency required, particularly in the late 2030s and 2040s.

Therefore, IIGCC calls on policymakers to engage with investors and defines some key policy asks, including:

- Integration of the CRREM 1.5°C relevant national emission reduction pathways for different building types, into meaningful and binding targets, policy frameworks and corresponding timelines for the real estate industry
- Facilitate improved energy use data disclosure and sharing initiatives
- Consider carbon pricing and other incentives to promote retrofits and energy efficient new builds
Through this deck we’ve picked up on various policy and stakeholder engagement actions. These are vital elements of the framework and should be part of any net zero investment strategy.
All types of asset manager (AM) should adopt a long-term objective of aligning assets under management and investment strategies to the goal of achieving global net zero emissions by 2050

- Ability to adopt some components of the Framework across the whole AM business:
  - Policy advocacy, stewardship and engagement
- For other components, implementation will depend on AM, and should be adopted to the extent possible
- Where AMs are carrying out full management of a single client portfolio, all elements of the Framework can be applied
- AMs are encouraged to develop new Paris aligned products, funds and strategies across asset classes and educate clients regarding these offerings
- Client engagement is an additional key component of a net zero strategy for asset managers. An additional AM objective is:
  - Increase the proportion of assets under management that are managed in line with a net zero investment strategy
- For specialist AMs with high alignment already, managers to follow the principle of maximising the contribution to alignment

The Framework has the starting point of setting asset owner or a whole portfolio strategy. But the PAII has aimed to design a framework that can be implemented by asset managers.

During the working groups we discussed some of the specific constraints and challenges here. But the framework sets out some expectations of how different types of asset manager should be able to implement the framework and specific actions, as set out in the slide.

We have specifically asked for feedback on this in the consultation to help us further specify what a ‘net zero’ asset manager should look like.
Consultation Process
Consultation process

- Consultation opens to members and a wider audience w/c 3rd August
- Submit responses to consultation questions and general feedback via an online platform on the IIGCC website
- Close of consultation: Friday 25th September
- We are seeking input from a range of stakeholders and organisations – so please support us in promoting the publication
- Responses will be assessed by IIGCC and anonymised before being discussed with the steering group, involving further working group discussion as necessary
- The Framework will be adapted, as appropriate, to take into account responses to the consultation
- The final consultation will also reflect the results of the portfolio testing phase
## Areas for consultation

### Portfolio Objectives
- The targets proposed in the Framework
- A feasible threshold for aligned, or assets under engagement
- Methodologies for:
  - Relative impact of climate solutions investment (e.g. avoided emissions)
  - Aggregated emissions reductions from assets

### Strategic Asset Allocation
- Application of the Framework to equivalent processes
- Level of ambition required from investors

### Listed Equity and Corporate Fixed Income
- Scope for targeting alignment and focus on high impact sectors
- Approach to divestment
- Alignment criteria and thresholds for assets to be considered net zero, aligned or transition potential
- Other available methodologies for assessing alignment

### Implementation by Asset Managers
- Comprehensiveness of the guidance provided to asset managers
- Whether further details specification is required

### Emissions Accounting and Offsetting
- Approach of the Framework
- Whether further specification of emissions accounting methodologies is required
Phase II of the Paris Aligned Investment Initiative
Phase II of PAII

Expand the Framework
1) Analyse of methodologies and approaches for two additional asset classes:
   - Infrastructure
   - Private equity
2) Assess how investors can align portfolios to support the adaptation and resilience goals of the Paris Agreement

Address key analytical gaps identified in Phase I, including:
- Identifying and measuring scope 3 emissions
- Treatment of offsetting and negative emissions technologies
- Methodologies for avoided emissions and aggregating emissions reductions achieved at the asset level
- Pathways for increasing investment in climate solutions

Support Implementation
Develop additional guidance to support implementation of the Net Zero Investment Framework.

For example:
- case studies on target setting
- work with proxy advisors to develop net zero voting policy
Next steps

- We will notify members as the Net Zero Investment Framework and consultation process are launched w/c 3rd August

- You will be able to submit feedback via an online consultation platform which will be available on the IIGCC website

- We encourage you to share the Framework with colleagues and peers as well as on social media

- We will be reaching out to members in the coming weeks to set out plans and establish working groups for members to engage in Phase II of PAII. Please contact dboyd@iigcc.org if you are interested