Alignment targets

- **Asset alignment target**: A 5-year target for increasing the % of AUM (or financed emissions) in material sectors that are 'aligning' or 'aligned' to a net zero pathway, or achieving net zero. NZIF recommends that for new assets where the general practitioner has significant influence, 100% of operational assets are to be classified as 'aligned' or 'net zero' by 2030, or, for acquisitions after 2025, within five years of investment. Additionally, for fund of funds, the asset owner or asset managers should aim, by 2030 at the latest, to only invest with firms or fund managers who themselves are setting asset alignment targets.

- **Engagement threshold target**: A minimum proportion of financed emissions are assessed as 'achieving' or 'aligned' to a net zero pathway, or are subject to engagement.

Scope

- Infrastructure as an asset class should be broadly defined to incorporate equity and debt exposure held through direct or co-investments, listed and unlisted infrastructure funds, project finance or passive investments. It typically includes greenfield and brownfield investments in economic and social infrastructure.

- Potential crossover with other asset classes is high, which is why investors will need to assess which guidance methodology is most appropriate to their individual circumstances.

Criteria underpinning alignment assessment

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Committed to aligning</th>
<th>Aligning to a net zero pathway</th>
<th>Aligned to a net zero pathway</th>
<th>Achieving net zero</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset with emissions intensity required by the sector and regional pathway for 2050 and whose operational model will maintain this performance.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Emissions performance: Current and forecast emissions (scope 1, 2 and material scope 3) relative to a net zero benchmark/pathway or an asset’s science-based target. An aligned asset would need to see emissions decline consistent with targets set to converge an asset with a net zero pathway.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Decarbonisation plan: Development and implementation of a quantified plan setting out a decarbonisation strategy for scope 1, 2, and material scope 3.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Governance: Governance/management responsibility for targets and decarbonisation plan.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Disclosure: Disclosure of scope 1 and 2 emissions, and disclosure of material scope 3, in line with regulatory requirements where applicable or the PCAF Standard.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Targets: Short and medium term targets for scope 1, 2 and material scope 3 emissions in line with science-based ‘net zero’ pathway. These may be absolute, or intensity based: a) where available, a sectoral decarbonisation / carbon budget approach should be used; b) minimum for other assets is a global or regional average pathway.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Ambition: A long term goal consistent with the global goal of achieving net zero by 2050.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>
Greenfield assets

For greenfield assets, the highest status that can be achieved is ‘aligning’. For this, operational criteria for ambition, targets, decarbonisation plan and climate governance must all be met along with the following:

- The asset will be, or is being, constructed in a way that is designed to deliver an asset that can be aligned to a net zero pathway, including consideration of whole lifecycle emissions to minimise embodied emissions and avoid carbon lock-in.\(^1\)
- There is a decarbonisation or management strategy to minimise emissions in the construction phase.

In transitioning from greenfield to operational status, an investor should ensure scope 1, 2 and 3 emissions data is compiled and disclosed, as well as a target set to maintain aligning status. The most advanced status a greenfield site can reach is aligning. As an asset becomes operational, beyond meeting the required criteria for a greenfield asset to be aligning, an investor should ensure that scope 1, 2 and 3 emissions data is compiled and disclosed as well as a target set.

Although this is a distinct requirement, the first criteria for greenfield assets to be aligning requires a plan for the lifecycle of the asset to be consistent with net zero. Providing the asset follows the expected trajectory for emissions in the plan, the correct disclosures and establishment of a target should be consistent with aligning status being maintained in operation.

For both operational and greenfield assets, achieving emissions disclosure (and several other indicators) may take a significant period. Investors should use the best available data or estimates to address gaps and engage with companies, users, regulators as relevant to improve disclosure. It will be possible, over time, to credibly benchmark embedded emissions related to steel and concrete with a 1.5\(^\circ\) scenario. It will be important for infrastructure investors to incorporate this into their assessment of the value chain.

Investors are recommended to work towards their assets achieving these indicators as soon as possible. However, it is expected that assets will achieve these indicators progressively and targets relating to alignment can be set to take account of the timeframes it may take to achieve these.

Third party verification of an asset’s disclosures associated with the criteria is recommended and should be annual if possible.
Brownfield assets
The approaches below can be used to achieve an asset alignment target. However, they are presented agnostically (regarding their efficacy), as this will depend on the context an individual investor operates within.

Portfolio construction
- Negative screening:
  - Assess emissions intensity of the asset, including material scope 3 and facilitated emissions, and potential for the asset to align with a net zero pathway. For greenfield assets, this assessment should consider full lifecycle emissions; where assets cannot be aligned, new investment should not be considered.
  - For debt investments, given more limited ability to influence during the holding period, the screening test should be higher, including whether the asset has an alignment target and/or strategy, or the investor has a reasonable expectation that they can engage the issuer to achieve this.
  - Undertake climate risk assessment and, to the extent possible, assess marginal abatement cost curves, and forecast internal rate of return (IRR) in a net zero scenario and only invest in assets where forecast IRR hurdles can be achievable in these net zero scenarios.

Management
- Define a net zero investment strategy and set portfolio/fund level objectives and targets.
- Assess and disclose current and ongoing scope 1, 2 and 3 emissions, net zero strategy and progress towards delivering against targets.
- For open ended funds, it is expected that emissions performance will be reported on an intensity basis. Where investors are setting portfolio level reference targets, a rebaseling policy for emissions intensity should take account of significant changes to fund exposure.
- For closed ended funds, where the end of fund date is sooner than the recommended target dates (2030, 2040), an appropriate shorter term end target should be set.

Engagement
- Investors should include infrastructure assets within the scope of the portfolio engagement goal; engagement targets should include 100% of carbon-based energy and transport infrastructure assets should immediately be the subject of collective or direct engagement, or management interventions.
- Direct engagement to establish timebound KPIs for emissions measurement and disclosure, target setting, development, and implementation of strategies, possibly including support through training and knowledge sharing.
- Ensure governance and management responsibilities for climate change are defined for each asset/operator, including establishing remuneration linkage.
- Undertake collaborative stewardship and engagement with escalation strategy, based on achievement of alignment indicators.
- For debt holdings, use change/waiver processes to introduce relevant ESG requirements.
- Monitoring and reporting on carbon performance and achievement of milestones and actions defined in company strategies.
- Engagement of employees, suppliers, regulators and community to ensure a just and effective transition process.
- Engagement with suppliers and greenfield developers to advocate for reducing emissions from purchased materials and assets’ embodied emissions.