Listed Equity & Corporate Fixed Income

Alignment target
- Asset alignment target: A 5-year target for increasing the % of AUM in material sectors that are ‘aligning’ or ‘aligned’ to a net zero pathway, or achieving net zero.
- 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
- At a minimum it is recommended that material companies are those covered by sectors in NACE code categories: A-H and J-L.

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 absolute or emissions intensity is at least equal to a relevant net zero pathway.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>* Capital allocation alignment: A clear demonstration that capital expenditures are consistent with a relevant net zero pathway.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>* Decarbonisation plan: A quantified set of measures exists to achieve short and medium term science-based targets by reducing GHGs and increasing green revenues, when relevant.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Disclosure: Disclosure of operational scope 1, 2 and material scope 3 emissions.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Targets: Short and medium term science-based targets to reduce GHG emissions.</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>

Key
- Green ticks represent when a criterion is required to be fulfilled for a particular alignment category to be obtained.

* Additional alignment criteria that a corporate within a high impact material sector needs to meet.

Data sources that investors may especially wish to consider, and which are publicly available for this asset class, are:
- The Climate Action 100+ Net Zero Company Benchmark and associated net zero standards.66
- Transition Pathway Initiative Carbon Performance and Management Quality Indicators.67
- Science Based Targets Initiative (for assessing criteria: science-based targets, emissions performance68, and disclosure69).
- Carbon Tracker (for assessing capital allocation alignment70).

Investors can use a mixture of data sources to make as much of an informed judgement as possible. Investors using private data vendors should disclose the provider and product when appropriate.71 To represent best practice, data vendors providing assessments consistent with the alignment criteria should ensure and disclose their consistency with the latest detailed guidance on indicators from the Climate Action 100+ Net Zero Company Benchmark.

We anticipate continued evolution of indicators under each criterion, including subsequent enhanced guidance notes on indicators (current resources are identified within the ‘High impact material sectors’ section above).
Climate solutions
Investors looking to increase allocation to climate solutions in listed equity and corporate fixed income may consider adopting IIGCC’s four-step approach to classifying and calculating allocation to climate solutions for Listed Equity and Corporate Fixed Income, and utilise the disclosure template shown below:\textsuperscript{73}

Company emissions reporting for Derivatives and Hedge Funds
Neither derivatives nor hedge fund holdings are considered to constitute an asset class. Derivatives are considered to be financial instruments that offer indirect exposure to an underlying asset class, a portion of the market, or a specific security. Hedge funds are considered as vehicles that offer a variety of investment strategies across different asset classes.

Although indirect exposure to assets through derivatives may not directly contribute to GHG emissions, it is tied to underlying assets, such as stocks or bonds, which do have associated emissions. IIGCC guidance recommends investors report the following separately:\textsuperscript{72}

- **Financed emissions** – Attributed emissions from companies where the investor owns securities directly and can influence, whether purchased through secondary or primary markets.
- **Long associated emissions** – Associated emissions from companies where long exposure is gained via prime brokers or derivatives.
- **Short associated emissions** – Associated emissions from companies where short exposure is gained via prime brokers or derivatives.

Notably, long and short emissions should not be reported aggregated and/or netted, for financed emissions or associated emissions.

Asset managers and hedge fund managers can choose to additionally report the aggregate of the direct and indirect long exposures, but they should ensure they also report them separately.

Classification and measurement

**Step 1**
Solutions classification: Identify and classify activities, products and services that contribute to emissions reductions using net zero scenarios and/or local taxonomies.

**Step 2**
Contribution type: Assess the type of contribution those activities make to decarbonisation (transition of own performance and/or enabling).

**Step 3**
Corporate indicators: Assess contribution of a corporate using revenue and capex data.

**Step 4**
Portfolio/fund metrics: Aggregate corporate green activity up to portfolio or fund level, using “green ratio” or “financed green” metric.
Investors can use a dashboard of climate solutions classifications and metrics to measure and communicate allocation to climate solutions and inform corporate transition plan analysis, stewardship and engagement, as well as policy advocacy and industry engagement.

<table>
<thead>
<tr>
<th>Metric</th>
<th>Classification</th>
<th>Activity type</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green revenue ratio ($m and/or %)</td>
<td>Technical screening criteria-aligned</td>
<td>Transition of own performance</td>
<td>Recommended minimum disclosure if setting climate solutions targets under NZIF, in line with EU Taxonomy Regulation.</td>
</tr>
<tr>
<td></td>
<td>Taxonomy-aligned</td>
<td></td>
<td>Disaggregation of metrics by activity type is optional.</td>
</tr>
<tr>
<td></td>
<td>Taxonomy-equivalent</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Taxonomy-plus</td>
<td>Enabling</td>
<td></td>
</tr>
<tr>
<td>Financed green revenues ($m/$m invested)</td>
<td>Taxonomy-eligible</td>
<td>Transition of own performance</td>
<td>Recommended minimum disclosure if setting climate solutions targets under NZIF.</td>
</tr>
<tr>
<td></td>
<td>Taxonomy-aligned</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Taxonomy-equivalent</td>
<td>Enabling</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Taxonomy-plus</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Data coverage</td>
<td>N/A</td>
<td>N/A</td>
<td>Minimum required if setting climate solutions targets under NZIF.</td>
</tr>
<tr>
<td>% of AUM where revenue data is unavailable</td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of AUM with no revenues from climate solutions</td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Green capex ratio ($m and/or %)</td>
<td>Taxonomy-eligible</td>
<td>Transition of own performance</td>
<td>Recommended disclosure, as data availability improves, in line with EU Taxonomy Regulation.</td>
</tr>
<tr>
<td></td>
<td>Taxonomy-aligned</td>
<td></td>
<td>Disaggregation of metrics by activity type is optional.</td>
</tr>
<tr>
<td></td>
<td>Taxonomy-equivalent</td>
<td>Enabling</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Taxonomy-plus</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financed green capex ($m/$ invested)</td>
<td>Taxonomy-eligible</td>
<td>Transition of own performance</td>
<td>Recommended disclosure, as data availability improves.</td>
</tr>
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<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: IIGCC’s Climate Solutions Guidance.

**Reporting and disclosures**

To support clear and transparent disclosures and protect the integrity of climate solutions classifications, two core disclosure principles for investors using this guidance can be used:

- **Transparency**: Disclose assumptions and methodologies in a clear, fair and non-misleading manner when using a taxonomy-plus approach.
- **Standardisation**: Use a disclosure template to enhance standardisation of green revenue and green capex disclosures across the industry.

**Approaches to achieve asset level targets**

The approaches below can be used to achieve asset alignment targets. They are presented agnostically (regarding their efficacy) as their utility will depend on the context an individual investor operates within.
Asset selection / portfolio construction
- Active. Screening and/or weighting new investments within a sector based on alignment criteria and climate solutions metrics, with particular attention given to primary market issuances of equity and debt.
- Invest in specialist products/funds (alignment/use of proceeds/climate solutions focused), that are consistent with regulatory labels when available.
- Passive and index investing. Apply benchmark with positive weightings for alignment criteria and climate solutions revenue.

Asset engagement
NZIF does not provide a definition for ‘engagement’. This is for clients and their investment managers to discuss and perhaps formalise (e.g. via investment management agreements, investment policy statements, and fund prospectus material). However, NZIF does recommend the following actions for investors in relation to engagement:

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**Listed Equity & Corporate Fixed Income**

**Listed Equity**
- Utilise routine votes, shareholder resolutions and other means when the corporate is insufficiently progressing towards ‘aligned’ status.
- Co-file and/or support shareholder resolutions in line with the criteria.
- Implement an escalation approach, including a time-bound escalation strategy.
- Consider alignment criteria when voting on mergers and acquisitions, including whether the post company meets or can be expected to meet the criteria within a reasonable period.
- Ensure voting rights exist, including with external investment managers, to undertake the above actions.

**Corporate Fixed Income**
- Engage issuers to secure agreement to alignment criteria and climate solutions activities, including the potential use of covenants and verified labelled bonds (e.g. GSSS+ issuances) as mechanisms to ensure alignment criteria are met during the lifetime of the bond.
- Commence engagement in advance of the primary issuance process itself and continue engagement across the financing lifecycle.
- Set clear expectations of companies in relation to alignment criteria and climate solutions activities that should be demonstrated to secure financing.
- Assess how issuances are aligned with the net zero objectives and targets of the issuer.
- Assess engagement and stewardship capacity of external funds and investment managers, to ensure achievement of net zero objectives, strategy, and targets are not materially affected.

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**Additional engagement actions for listed corporate assets**

**Listed Equity**
- Set and publish an engagement strategy (including definitions, prioritisation process, clear milestones and an escalation process) which links to investment, weighting, and divestment decisions.
- Publish a NZIF-aligned voting policy and communicate this to relevant stakeholders.
- Publish voting actions and records (including rationale for policy deviation).
- Engage with companies, including on a value chain basis, to improve performance against alignment criteria and climate solutions activities (including announcing and explaining broad voting intentions).
- Join and actively participate in engagement initiatives, such as Climate Action 100+, IIGCC’s Net Zero Engagement Initiative, and the Asian Utilities Engagement Program.
- Disclose to clients how assets have been managed in alignment with clients’ stewardship and investment policies.
- Assess engagement and stewardship capacity of external funds and investment managers, to ensure achievement of net zero objectives, strategy, and targets are not materially affected.

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