

BACKGROUND: THE PARIS ALIGNED INVESTMENT INITIATIVE & THE NET ZERO INVESTMENT FRAMEWORK

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The [Paris Aligned Investment Initiative \(PAII\)](#) is a collaborative investor-led global forum to support investors to align their portfolios and activities to the goals of the Paris Agreement.

Launched in May 2019, at the request of IIGCC asset owner members, it now involves over 110 asset owners and asset managers representing \$33 trillion in assets. As of March 2021, the initiative has grown into a global collaboration supported by four regional investor networks – AIGCC (Asia), Ceres (North America), IGCC (Australasia) and IIGCC (Europe).

A key output of the initiative is the [Net Zero Investment Framework](#).

The Paris Aligned Investment Initiative is proud to be an official partner of the [UNFCCC Race to Zero](#).



Paris Aligned Investment Initiative

The [Paris Aligned Investment Initiative](#) is a collaborative investor-led forum to support investors to align their portfolios and activities to the goals of the Paris Agreement.

Launched in May 2019 by the Institutional Investors Group on Climate Change (IIGCC), the initiative has become a global collaboration involving three other regional investor networks supporting a growing number of investors to take action: the Asia Investor Group on Climate Change (AIGCC - Asia),

Ceres (North America), and the Investor Group on Climate Change (IGCC - Australasia).

The initiative is led by a steering group of leading asset owners, and now involves more than 110 investors representing USD \$33 trillion in assets.

Background to the initiative

Institutional investors hold portfolios of trillions 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 achieving the goals of the Paris Agreement.

Since the Agreement was signed in 2015, some investors have begun to take action towards investing in line with reaching net zero global emissions by 2050. However, there has been a lack of consensus around best practice approaches and a need to mobilise a growing number of investors to achieve the scale of investment required to help drive the transition to net zero.

As a collaborative global forum for institutional investors, the [Paris Aligned Investment Initiative](#) is building industry wide consensus on best practices for net zero investing. Involving both asset owners and asset managers, it seeks solutions to common barriers and challenges faced by investors aiming to align their portfolios and actions to the goals of the Paris Agreement.

Objectives

- Develop definitions for key concepts relating to alignment of portfolios with the goals of the Paris Agreement and build consensus around these among investors.
- Assess approaches and methodologies that can be used to measure alignment, and transition portfolios, across different asset classes to identify best practice options for achieving Paris-alignment.
- 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 the transition of portfolios.
- Provide a transparent basis for investors to make commitments to achieve global net zero emissions by 2050 or sooner, in line with the Paris Agreement, and take comprehensive, science-based, effective action towards this goal.
- Support investors to implement these best practice methodologies and approaches, addressing challenges and barriers, in order to drive real economy transition towards a net zero and resilient future.

Outputs

The Paris Aligned Investment Initiative has produced two key outputs to date:

- The [Net Zero Investment Framework 1.0](#) which provides a best practice, forward-looking and systematic blueprint for investors to decarbonise investment portfolios and increase investment in climate solutions, in a way that is consistent with achieving global net zero emissions by 2050 or sooner and maximises impact in the real economy.
- A [portfolio testing report](#), setting out the results of an exercise to test the application of the Framework on five investor portfolios. This showed that investors can align portfolios in line with the recommendations of the Framework, and this is a no-regrets choice with scope for significant benefit over business-as-usual, with respect to managing climate-related risks.

Future outputs of the PAII will include an updated Framework to include two further asset classes: private equity and infrastructure, and recommendations with regard to aligning to the adaptation and resilience goals of the Paris Agreement.

The investor groups involved are also working to produce additional guidance to further develop the Framework and support implementation on topics including: identifying and measuring scope 3 emissions; use of emissions offsetting; and target setting.

The networks will also provide activities including roundtables and working groups to support investors on all aspects of implementation of their net zero investment strategies and actions.



Net Zero Investment Framework

The Net Zero Investment Framework 1.0 defines methodologies and approaches for investors to align portfolios to the goals of the Paris Agreement and maximise the contribution they can make to achieving global net zero global emissions by 2050.

The Net Zero Investment Framework 1.0 is accredited by the **UNFCCC Race to Zero Campaign**.

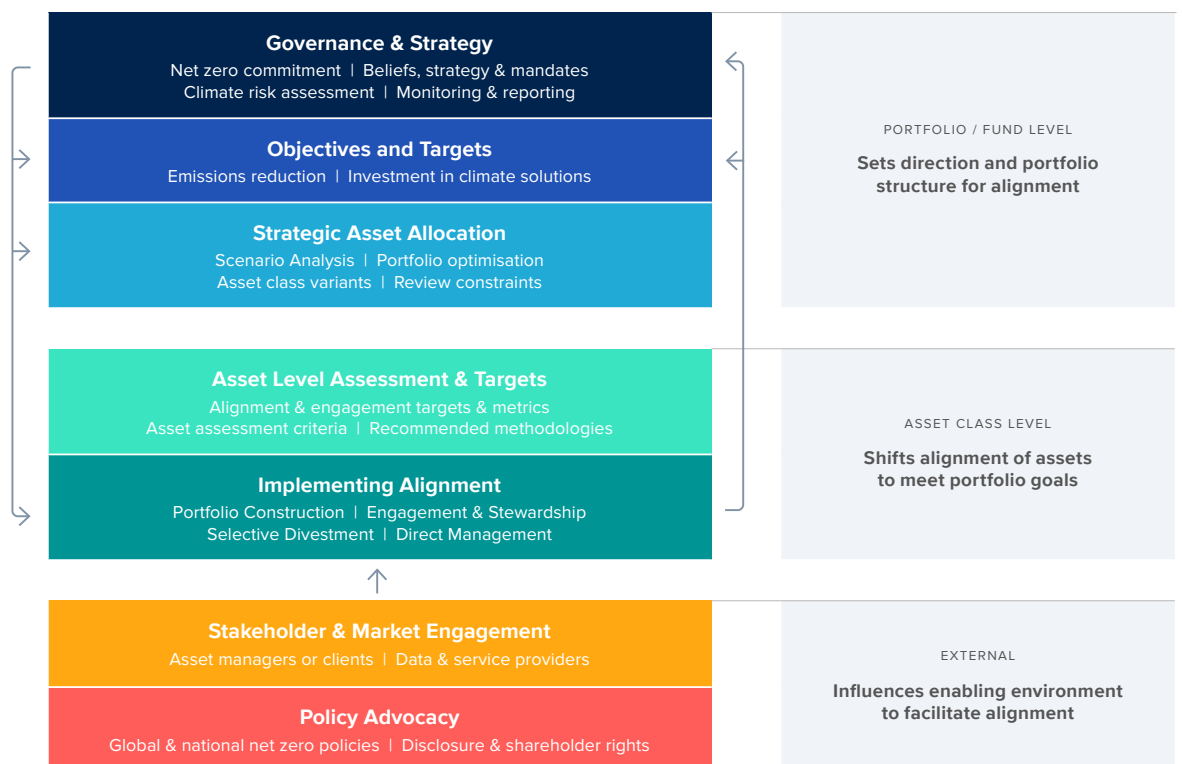
Framework overview

The primary objective of the Framework is to enable investors to decarbonise investment portfolios and increase investment in climate solutions, in a way that is consistent with achieving global net zero emissions by 2050 or sooner, and maximises decarbonisation of the real economy.

The Framework enables a range of investors - asset owners and asset managers, large and

small, - to implement robust net zero commitments. It establishes an industry-wide approach and common standard, driving impact at scale.

The Framework is a comprehensive guide to developing a 'net zero investment strategy' in line with achieving this goal.



The components of the Framework cover:

- Governance, including committing to achieving net zero portfolio emissions by 2050 or sooner.
- Setting targets at the portfolio level for decarbonisation and increasing investment in climate solutions, in line with science-based pathways towards net zero global emissions by 2050 or sooner.
- Strategic Asset Allocation approaches to optimise portfolios for alignment outcomes.
- Measuring the net zero alignment of different asset classes, and setting alignment and engagement targets to drive the transition of companies and assets at the pace necessary to achieve net zero by 2050 or sooner.
- Increasing the alignment of the portfolio and underlying assets through portfolio construction, stewardship and engagement, direct asset management and selective divestment.
- Policy advocacy and market engagement to influence the enabling environment for the net zero transition.
- Recommended disclosures, in line with the TCFD framework, for transparently reporting on alignment with net zero goals and implementation of the Framework.
- Science-based, portfolio level decarbonisation and investment in climate solutions, consistent with achieving the goal of net zero global emissions by 2050 or sooner. It is recommended that these are <10 year, but ideally <5 year, targets including scope 1 and 2, and phasing in scope 3 over time.
- Timebound <5 year “portfolio coverage” target for companies and assets themselves to be at net zero or aligned to net zero pathway, reaching 100% coverage of an investor’s assets by 2040.
- Engagement coverage threshold (>70% emissions in material sectors) ensuring intensive engagement to drive the transition where companies are not already at net zero emissions or aligned to a net zero pathway.

The Framework provides recommended metrics, methodologies and approaches to measure alignment at portfolio and asset class level, and to take action to transition a portfolio towards net zero. It currently covers four asset classes – sovereign bonds, listed equities and corporate fixed income and real estate – with others to follow.

Key features that will drive real economy impact:

Achieving scale: The Framework is a tool that all investors – asset owners and managers, large and small – can use to take action towards net zero. Its ability to drive this scale of action across the industry is key to achieving the impact necessary to reach net zero global emissions by 2050 or sooner.

Setting goals and shifting capital: A commitment to achieving net zero portfolio emissions by 2050 or sooner focuses on both achieving decarbonisation in the real economy and increasing investment in the climate solutions needed to meet that goal. The Framework defines three core types of target as the main metrics to measure effective action towards those goals:

Optimising for climate: Investors adjust traditional investment practices like strategic asset allocation to optimise for climate outcomes, alongside standard risk/return metrics.

Delivering real economy transition: Investors assess the forward looking net zero alignment of all material companies and assets to ensure investments are supporting the net zero transition, with targets to reach full portfolio alignment with a net zero pathway by 2040.

Scaling net zero stewardship: Investors must expand and intensify engagement to ensure a significant majority of material companies in their portfolio (>70% of financed emissions and increasing) are the subject of active engagement, and go beyond equities to engage across asset classes. Timebound escalation approaches to corporate engagement and divestment will put high emitting companies on the clock to set their own net zero targets and operationalise net zero transition plans.

Portfolio construction with purpose: Investors use active investment selection, and use of passive indexes and benchmarks, to tilt portfolios to invest in net zero and transitioning companies. This includes bringing in exclusions for activities such as thermal coal power and tar sands exploration – and other activities over time – that are not aligned to technology pathways consistent with achieving net zero global emissions.

Using all levers of influence: In addition to their own governance, targets, and portfolio management, investors must engage actively in policy advocacy and with market participants and stakeholders to promote an enabling environment for real economy transition, and enhanced investor action towards the net zero goal.

How was the Framework developed?

More than 70 investors representing over \$16 trillion in assets under management collaborated to develop inputs to the Net Zero Investment Framework 1.0, as part of the Paris Aligned Investment Initiative. This involved four working group to assess methodologies and approaches for Strategic Asset Allocation and four asset classes.

More than 25 methodologies and tools relevant to supporting alignment with the Paris Agreement and net zero emissions have been analysed and reviewed in its formulation, with only those considered best practice approaches included in the Framework.

A draft version of the Framework was published in August 2020, and IIGCC undertook a public consultation period during which over 90 written responses to the consultation were received and reviewed. IIGCC also engaged with more than 700 stakeholders through events and roundtables to showcase the Framework and gain feedback.

Based on the outcomes of the consultation process, an updated version of the Framework

has been published. Building on IIGCC's existing work to date, the Framework has now been published in partnership with other investor groups across North America, Asia, and Australasia. The investor organisations involved are: Asia Investor Group on Climate Change (AIGCC) covering Asia, Ceres covering North America, the Investor Group on Climate Change (IGCC) covering Australasia, and the Institutional Investors Group on Climate Change (IIGCC) engaging with European investors.

The Framework is now a global tool which can be used as the basis for investors worldwide to implement their net zero investment strategies. These investors are supported by a global Paris Aligned Investment Initiative, launched in March 2021.

Work is continuing under the Paris Aligned Investment Initiative to expand the Framework to include additional asset classes, address alignment with the adaptation and resilience goals of the Paris Agreement, and provide further technical guidance on specific issues such as measurement of scope 3 emissions and use of offsetting.

How will the Framework be used?

The Framework is designed as a tool to support investor action. Therefore, any investor can use part of or all of the Framework as an 'open-source' and methodology neutral guide to taking action.

However, the investor groups behind Paris Aligned Investment Initiative are also encouraging investors to make net zero commitments, as set out in the Framework. For those investors making these commitments and using the Framework as the methodology for implementation, investors are expected to use the Framework as a

comprehensive tool on an 'implement or explain' basis, in order to demonstrate how they are applying components of their commitment using a robust methodology.

Asset owners can make a commitment to net zero through the Paris Aligned Investment Initiative [here](#).

Asset managers can make a commitment to net zero through the Net Zero Asset Managers initiative [here](#).

NET ZERO

INVESTMENT FRAMEWORK **1.5°C**

Backgrounder: The Paris Aligned Investment Initiative & The Net Zero Investment Framework

