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The Paris Aligned Investment Initiative (PAII) is established by asset owners and IIGCC.

The Net Zero Investment Framework (NZIF) is published by IIGCC, AIGCC, Ceres and IGCC.

Paris Aligned Asset Owners (PAAO) is launched by AIGCC, Ceres, IGCC and IIGCC, and becomes the net zero commitment vehicle for asset owners.

PAAO receives UN Race to Zero approval and 20 asset owners join PAAO.

PAAO joins other sector-specific alliances under Glasgow Financial Alliance for Net Zero (GFANZ) umbrella as it launches.

Publication of the first PAAO initial targets at COP26.

Launch of the PAAO annual reporting survey and opening of the 2023 PAAO reporting window.

Publication of NZIF Guidance for Private Equity.

Publication of NZIF Guidance for Infrastructure.

Publication of PAAO Initial Target Disclosures.

PAAO passes 50 signatories with representation in the United States, New Zealand, Australia and Europe.

2023 PAAO reporting window closes.

Renewal of the PAII Steering Group.

Publication of IIGCC Guidance on Derivatives and Hedge Funds.

Publication of the 2023 PAAO Progress Report.

Publication of NZIF 2.0 and Private Credit guidance (and updated NZIF Supplementary Target Setting Guidance).

Publication of the PAAO 2022 Progress Report.

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PAAO Updates / NZIF updates.
Paris Aligned Asset Owners (PAAO) is an international group of 57 asset owners, with over $3.3 trillion in assets under management, committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit temperature warming to 1.5°C above pre-industrial levels.

Most large asset owners are broadly exposed to whole national economies and given climate change presents economy-wide risks, they cannot entirely divest from these potential negative financial impacts for their beneficiaries. The economic science is clear that a rapid reduction in greenhouse gas emissions has the greatest net economic benefit, which benefits the financial returns of universal owners to their beneficiaries.

The initiative is governed by a Steering Group of nine asset owners, supported by four regional investor networks (AIGCC, Ceres, IGCC, and IIGCC – referred to throughout as the ‘Network Partners’) and a partner to the UN Climate Champion’s Race to Zero campaign and a member of the Glasgow Financial Alliance for Net Zero (GFANZ).

Within one year of joining PAAO, as outlined in the 10-point commitment statement, signatories are required to disclose their initial targets and objectives, drawing from the Net Zero Investment Framework. Following this disclosure of their targets, commit to reporting annually on their individual net zero strategies, including actions implemented towards achieving objectives and targets, as well as progress against those targets.

In 2023, the PAAO Network Partners developed and trialled a survey to collect information relating to the progress signatories are making towards their net zero commitments and targets.

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1 As of May 2024.
The survey was structured around the initiative’s 10-point commitment statement, and asked signatories to share information (subject always to the legal requirements on information sharing as set out in the disclaimer) on a range of areas from target setting to stewardship and, industry collaboration and to policy advocacy. The survey was designed to minimise additional climate- and ESG-related reporting burdens for signatories and account for the evolving net zero-related reporting and disclosure processes and emerging regulatory expectations.

In 2023, 46 out of the 56 signatories were asked to report, and 42 signatories submitted their survey within the reporting window, setting a 91% response rate for the first year of reporting via this survey. All responses are anonymised and aggregated.

This 2023 Progress Report, building on the PAAO 2022 Progress Report released in November 2022, offers an overview of the survey findings, and highlights actions taken by respondents in 2023 to fulfil each aspect of their commitment. It is structured around the PAAO 10-point commitment statement and provides information on the activities respondents have implemented in the past year to progress towards each commitment.

The report serves as a valuable tool for signatories to assess their strategies vis-à-vis their peers and pinpoint areas for future enhancement. Asset owners can refer to this report to help shape their net zero strategies or seek inspiration. Additionally, it provides external stakeholders with insights into the initiative and the activities asset owners are adopting to advance the net zero transition.

All data cited in this report refers to 2023 reporting from the 42 respondents mentioned above. This relates to activities reported in 2023 but may have occurred in the 12 months prior to reporting. This report relates to self-reported information by respondents which forms the basis of the analysis.

Figure 2: 2023 PAAO Progress on Survey response rate

<table>
<thead>
<tr>
<th>Expected</th>
<th>Submitted</th>
<th>Declined</th>
<th>Incomplete</th>
<th>Not Expected</th>
</tr>
</thead>
<tbody>
<tr>
<td>46</td>
<td>42</td>
<td>3</td>
<td>1</td>
<td>10</td>
</tr>
</tbody>
</table>

2 In 2023, PAAO conducted a trial of the reporting process. Beginning in 2024, all signatories will be required to report using the PAAO Survey on Progress, with the possibility of delisting for non-compliance.
The Paris Aligned Asset Owner (PAAO) initiative launched in 2021, in advance of COP26, in recognition of the fact that climate change poses major financial, environmental and social risks that have the potential to significantly impact our portfolios and affect the financial circumstances and the future world of our beneficiaries.

PAAO has subsequently grown into a global investor-led initiative, with 57 signatories and $3.3trn of assets committed to be net zero aligned by 2050. 56 PAAO signatories have set interim targets for 2030 or earlier and outlined their ‘fair share’ contribution to a 50% reduction in global emissions by 2030, drawing on the Net Zero Investment Framework (NZIF).

However, as global temperature records continue to be broken, the need to take action on climate change has become even more urgent. In response to this ongoing challenge, PAAO has evolved and matured as an initiative. Following the setting of targets, signatories’ focus is shifting to implementation and delivering the real-economy emissions reductions that we are all committed to achieving. It was in this context that PAAO introduced trial reporting for signatories in 2023.

The purpose of PAAO’s reporting is multi-faceted. It offers signatories an opportunity to reflect on their own progress against their commitments, while the aggregated reporting data allows us to analyse the progress that the initiative as a whole is making. Following the setting of targets, signatories’ focus is shifting to implementation and delivering the real-economy emissions reductions that we are all committed to achieving. It was in this context that PAAO introduced trial reporting for signatories in 2023.

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A number of common themes did however emerge. As would be expected, signatories frequently highlighted the importance of engaging with assets in their portfolio to achieve real-economy emissions reductions and support companies through the transition. In line with the COP28 agreement to triple investments in renewables, it was also positive to see the importance that signatories are placing on investing in climate solutions. Scaling up these investments will be essential to meeting the goals of the Paris Agreement, especially in emerging and developing economies.

Consistent with PAAO’s 10-point commitment statement, there is a clear recognition amongst signatories of the need to engage beyond their portfolios, to influence the ecosystem in which we are all operating and to achieve the systemic change that is required to mitigate the systemic risk of climate change. This is reflected in the fact that every signatory reported engaging with their asset managers on climate, but also that many engaged with wider service providers who are key to ensuring that signatories have access to the services, data and products needed to deliver their targets.

However, despite all of their activity and effort, PAAO signatories are only part of the broad set of actors that need to drive the achievement of the Paris Agreement goals. We can use the levers available to us to affect change as much as we can in line with our fiduciary duties, but to meet our commitments, we are dependent on governments taking the necessary policy action to deliver on their own commitments and create the right enabling environment. Here the world is clearly off-track, but in acknowledgement of this challenge, almost all PAAO signatories highlighted the climate policy engagement they had undertaken, whether individually or collaboratively.

PAAO is still a relatively new initiative and there remains a lot of work ahead for signatories to fully deliver our PAAO commitments. But we hope this report provides an insight into this important endeavour for peer asset owners and our wider stakeholders, showing how PAAO signatories are approaching this challenge and taking steps to implement their commitments today.

Foreword from the PAII Steering Group Co-chairs

All signatories reported that they have made progress towards their 2030 and 2050 targets within the reporting window. In an important sign of PAAO’s increasingly positive impact, they also reported their actions were supporting real-economy emissions reductions. Signatories pursued diverse strategies to achieve these outcomes, reflecting the varied nature of PAAO’s signatory base as well as the flexibility that NZIF provides to pursue tailored strategies in the context of individual investors’ own strategies, agendas, starting points, fiduciary duties, client mandates and regulatory considerations, from which and with which they make their own unilateral decisions regarding the ways and means with which they will set and reach their own net zero goals.

PAII Steering Group Co-chairs

Adam Matthews
Chief Responsible Investment Officer
Church of England Pensions Board

Nathalie Van Toren
Head of Responsible Investment
NN Group
Respondents have acted across all the PAAO commitments and are collectively using all the different levers of influence available to them, including those identified in NZIF (Figure 4).

**Figure 3: PAAO signatories who reported progress or are making progress towards the delivery of each commitment**

*Due to methodological and data limitations, signatories were not required to include scope 3 emissions in their initial targets.

- **Commitments 1-2:** All respondents reported having made progress towards transitioning their investments to achieve net zero portfolio GHG emissions by 2050, or sooner (commitment 1). However, the wide range of responses when asked to pinpoint the most impactful actions taken highlights the variety of approaches adopted by respondents. Despite all drawing on NZIF to achieve real economy decarbonisation (commitment 2), respondents prioritised different aspects of their PAAO commitment, with only 16 respondents reporting actions across all commitments.

- **Commitment 3:** Respondents expected to report in 2023 had previously disclosed their initial target for 2030 (commitment 3), and the different types of targets resulted in varying levels of progress towards their objectives.

- **Commitment 4:** Questions relating to offsets offered insight into the different stages at which offsets are being used by respondents and their underlying assets (commitment 4).

- **Commitment 5:** Policy advocacy plays a big role in creating an enabling environment for respondents to achieve their objectives (commitment 5) and 40 respondents reported policy engagement activity in relation to their climate-related objectives in 2023.
- **Commitments 6:** A large majority of respondents considered corporate engagement and stewardship in their net zero strategies (commitment 6).

- **Commitments 7:** While all respondents have engaged with their asset managers on climate-related issues, responses to questions relating to engagement with wider industry stakeholders were varied (commitment 7).

- **Commitment 8:** Whilst most of an investor’s emissions come from its portfolio, a significant share of respondents also developed policies to reduce their own operational emissions (commitment 8).

- **Commitments 9-10:** Transparency and accountability are essential to understand signatories’ strategies and progress towards their commitments. In 2023, a large majority of respondents have a publicly available climate action plan or transition plan (commitment 9) and nearly all disclosed their progress in a standalone TCFD report or sustainability report (commitment 10).
Commitments 1 & 2:
Transitioning investments and real economy decarbonisation

Commitment 1: Transitioning our investments to achieve net zero portfolio GHG emissions by 2050, or sooner.

Commitment 2: Implementing this commitment with the aim of achieving real economy emissions reductions and undertaking a comprehensive set of actions available to investors, drawing on the Paris Aligned Investment Initiative’s Net Zero Investment Framework.

Commitments 1 and 2 are combined to define the overarching outcomes that PAAO signatories are working towards. Commitment 1 sets the headline goal of achieving net zero portfolio emissions by 2050 or sooner. Commitment 2 articulates the need to achieve that goal through actions that drive real economy decarbonisation.

Signatories were asked whether they believed they had made progress towards their 2050 target (commitment 1) and if they had taken actions to achieve real economy decarbonisation (commitment 2) in the past 12 months.

In 2023, all respondents deemed that they had made real progress towards their commitments 1 and commitment 2 in 2023. That collective assertion of progress can be reasonably substantiated by a review of respondents’ activity, which is summarised throughout the rest of this section and report. While not all actions taken by signatories have a direct impact on real economy decarbonisation, they are nonetheless essential to set the necessary foundation to allow investors to implement an effective net zero strategy.

To complement this top-level sentiment, respondents were also asked to pinpoint the most impactful actions taken and how these had achieved real economy decarbonisation. The phrase ‘most impactful actions’ refers to the activity or activities undertaken by respondents that they determined had been the most impactful for implementing their PAAO commitments.
Table 1 groups respondents’ actions into portfolio-level and asset-level activities, as well as actions focused on the external environment. Answers were reviewed and grouped around the different levers identified within NZIF to create an initiative-level view of the types of activities respondents have been undertaking in the past 12 months.

The diversity of answers shows the power of the initiative to support economy-wide decarbonisation in ways that no one investor could achieve alone. Respondents’ answers clearly show that asset alignment activities play a crucial role as effective drivers of real economy decarbonisation and are regarded by signatories as the most impactful. This is consistent with NZIF’s strong focus on engagement at the asset level, portfolio construction, and investment in climate solutions to achieve real economy decarbonisation.

Despite portfolio level actions (i.e. putting in place the right governance and strategy, setting targets and objectives, and strategically allocating assets across the portfolio) being frequently cited as the most impactful actions, they were rarely listed as a source of real economy decarbonisation. These strategic actions are necessary steps to create the right internal settings for an investor to contribute to their ambition of reducing global carbon emission over the medium- to long-term. These internal-facing activities show the significant work signatories are putting towards delivering against their PAAO commitment, despite it not necessarily being visible to external stakeholders.

**Figure 5: Respondents’ most impactful actions and contribution to real economy decarbonisation**

<table>
<thead>
<tr>
<th>Focus</th>
<th>Most impactful action</th>
<th>Source of real economy decarbonisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio level</td>
<td>40</td>
<td>12</td>
</tr>
<tr>
<td>Asset alignment</td>
<td>47</td>
<td>42</td>
</tr>
<tr>
<td>External engagement</td>
<td>20</td>
<td>12</td>
</tr>
</tbody>
</table>

Respondents generally provided more than one action type as being their ‘most impactful activity’ of the past year and as drivers of real economy emissions reduction, which is why the totals exceed the number of respondents.

As defined in NZIF, as activities targeting the underlying holdings (assets) to be consistent with the investor’s net zero goals and objectives.

Respondents were not asked to categorise their actions in line with NZIF, so the categorisation has been undertaken by the secretariat and involves a degree of judgement about which NZIF lever any action is most closely associated with.
By linking signatory responses to the components of NZIF, we captured which levers are deemed most impactful by respondents.

As illustrated by figure 6:

**Top 3 most impactful levers:**
- Governance and strategy (portfolio level)
- Engagement and stewardship (asset level)
- Climate solutions (asset level) and market engagement (external).

**Top 3 most significant contributors to emissions reduction:**
- Engagement and stewardship (asset level)
- Climate solutions (asset level)
- Portfolio construction (asset level)

![Figure 6: Breakdown of most impactful levers](image)
1 Portfolio Level

Governance and strategy

- Actions related to governance and strategy stood out, with over 50% of respondents flagging these actions as being amongst the most impactful actions they undertook. This reflects respondents’ focus on developing the organisational structures and strategies that will enable them to deliver against their targets over the medium to long term.
- Improving data quality is a recurring priority for respondents, enhancing their reporting processes to make better use of the data they collect. Respondents also reported that they are beginning to integrate data on their underlying holdings’ scope 3 emissions and new asset classes.
- Many respondents reported having updated their climate and responsible investment strategies, with several respondents introducing or updating their energy investment policies. The scope of these varied from defining a coal policy, to focusing on oil and gas or specific sub-sectors such as tar-sands.

Targets and objectives

- All respondents had previously disclosed their interim targets. However, 11 (26%) respondents worked on making their targets more ambitious. These improvements ranged from bringing forward their net zero target dates, increasing interim emission reduction targets, expanding the scope of asset classes, introducing new target types, and bringing scope 3 into targets.

Strategic asset allocation

- Strategic asset allocation related activities were identified as impactful actions by 7 (17%) respondents. As part of the review of their investment strategies, these respondents considered assets’ alignment or a desire to tilt away from carbon-intensive investments in their strategic allocation decisions. Other respondents reported their actions towards fully integrating considerations of climate risk at the portfolio level.

Figure 7: Most impactful portfolio level levers

- Governance & Strategy
- Targets & Objectives
- Strategic Asset Allocation
2 Asset Alignment

Engagement and stewardship

- When looking at results at the asset level, engagement and stewardship stand out as a crucial lever, with 20 (21%) respondents listing their actions as the most impactful and 43% (18) of respondents reporting real economy decarbonisation through their engagement activities.
- As recommended by NZIF and aligned with the PAAO commitment statement, a majority of respondents reported focusing on engagement with underlying assets to encourage them to align with net zero by 2050, rather than prioritising divestment.

Portfolio construction

- Portfolio construction was also identified by 11 (26%) respondents as being an impactful lever and contributing to real economy decarbonisation. However, responses showed diversity in approaches, with some respondents noting that they actively invest in companies with longer transition horizons. Others are shifting their assets into Paris-aligned or climate-focused funds, which may emphasise portfolio decarbonisation over real economy emissions reduction.
- While several respondents identified the second approach as an impactful action to reduce their portfolio emissions, none relied solely on this to meet their PAAO commitment, as they engaged in a full wider range of activities needed to achieve real economy decarbonisation.

Selective divestment

- Only 2 respondents identified selective divestment as amongst their most impactful actions. Both cases followed NZIF recommendations, with one signatory divesting from coal following an update to their energy investment policy and the other acting on their existing coal policy to expand the list of companies they would divest from.

Climate solutions

- Investments in climate solutions were identified by 33% (14) of signatories as being amongst their most impactful actions and a key driver of decarbonisation. These respondents mostly focused on sustainable infrastructure (e.g. renewables). Respondents’ recognition of the potential impact of investments in climate solutions will be key to supporting the net zero transition and filling financing gaps.

3 External Engagement

- Policy advocacy and engagement with market actors were also identified by respondents as an essential part of their climate-related activity. Respondents, 6 (14%), identified policy advocacy as one of their most impactful actions and 31% (13) did the same for engagement with the wider market.
Setting objectives and targets, including an interim target for 2030 or sooner for reducing Scope 1, 2 and 3 emissions associated with our portfolios and setting a target for increasing investment in climate solutions, consistent with a fair share of the 50% global reduction in CO₂ identified as a requirement in the Intergovernmental Panel on Climate Change special report on global warming of 1.5°C.

1 Overall

As part of their PAAO commitment, signatories are expected to set interim targets for 2030 or sooner to reduce Scope 1, 2, and 3 emissions associated with their portfolios, alongside targets for increasing investments in climate solutions.

Drawing on NZIF guidance, signatories are recommended to establish a portfolio decarbonisation reference target, alongside targets for increasing investments in climate solutions, as well as asset-level targets for asset alignment and engagement threshold. All targets are disclosed on the PAAO website.

As presented in figure 9, the breakdown of the application of NZIF within PAAO signatory targets illustrates a varied landscape:

- Portfolio decarbonisation reference targets emerge as the most widely adopted, with 95% (40) of respondents embracing this approach.
- Investments in climate solutions is the second preferred approach, with 71% (30) respondents setting quantitative targets to increase their allocation to climate solutions.
- However, there is a notable delay in signatories engaging with portfolio coverage and engagement threshold targets.

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6 Portfolio decarbonisation reference targets are referred to as Portfolio decarbonisation reference objectives in NZIF 2.0.
7 Portfolio coverage targets are referred to as Asset alignment targets in NZIF 2.0.
Despite the recommendation to set all four targets due to their complementary nature, the responses indicate varying degrees of adoption of the different target types among PAAO signatories, revealing different approaches to climate action:

- Only 17% (7) have set all four targets.
- 33% (14) have set three types of targets, with only 2 respondents prioritising climate solutions investment, asset alignment and engagement targets, over a decarbonisation target.
- 31% (13) have set two target types, with the majority combining a decarbonisation target and climate solutions investment target.
- 19% (8) have only set a decarbonisation target at the portfolio level.

**Figure 9: Respondents' interim target types**

**Figure 10: Breakdown of NZIF target combinations**

<table>
<thead>
<tr>
<th>Targets</th>
<th>Target Combinations</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 targets</td>
<td>PDRT / CST / PCT / ETT</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>PDRT / CST / ETT</td>
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</tr>
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<td>PDRT / CST / PCT</td>
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<td></td>
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<td></td>
<td>PDRT / PCT</td>
<td>2</td>
</tr>
<tr>
<td>2 targets</td>
<td>PDRT</td>
<td>8</td>
</tr>
</tbody>
</table>

**PDRT**  Portfolio decarbonisation reference target

**CST**  Investment in climate solutions target

**PCT**  Portfolio coverage target

**ETT**  Engagement threshold target
2 Portfolio decarbonisation reference target

The portfolio decarbonisation reference target functions as a monitoring mechanism to ensure that investors’ corporate engagement and actions to support alignment at the asset level result in the necessary portfolio level emissions reductions. In 2023, 40 respondents reported on their portfolio decarbonisation reference target.

Coverage: On average, respondents’ carbon emissions reduction targets cover 54% of their total portfolio, with target coverage ranging from 2% to 100% coverage.

Figure 11 shows the distribution of the proportion of assets under management in scope of respondents’ decarbonisation targets.

As presented in figure 12, the decarbonisation targets set by respondents focus on different asset classes. Notably, listed equities and corporate fixed income have the highest inclusion rate. The lower inclusion rate for real estate, sovereign bonds, infrastructure, and private equity assets could be attributed to multiple factors:

- These asset classes are not covered by all respondents, or respondents are not prioritising these asset classes due to a lack of data or capacity.
- Methodologies were not available at the time of the targets being set – for example, guidance for infrastructure and private equity, especially for infrastructure and private equity as guidance was published in 2023.

Baseline & metrics: The preferred baseline year for respondents’ decarbonisation targets is 2019, as recommended by NZIF. However, over a quarter of respondents have deviated from NZIF guidance, opting to base their targets on their portfolio emission performance at 2018, 2020, 2021, or 2023. The decarbonisation targets are expressed using two primary metrics: absolute emissions reduction (in CO2e) and emissions intensity (in CO2e per million USD invested). For real estate, respondents relied on various metrics with two types coming on top: CO2 emissions per square meter per year and energy consumption per cubic meter per year.

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8 Forest and farmland, mortgage loans, mortgage bonds, private debt portfolio, alternative Credits, illiquid commodities
Progress: The majority (76%) of respondents reported progress in their decarbonisation efforts, with only 8 respondents unable to disclose progress on portfolio level emissions reduction. A recurring theme among those unable to report on progress is the recent market volatility, which has impacted their calculation methods and created challenges in aggregating reliable data. This highlights the complexities involved in tracking and reporting decarbonisation progress amid fluctuating economic conditions, and the necessity for investors to develop robust attribution analysis and rebaselining policies.

Box I: Scope 3

Addressing scope 3 emissions forms part of the PAAO commitment, however signatories have faced challenges when looking to include investee scope 3 emissions in the scope of their targets in a way that supports real economy emissions reductions. IGCC and IIGCC released papers in 2024 highlighting the nuance and importance of addressing scope 3 emissions within investment portfolios, as well as the barriers to doing so and the current limitations of data and calculation approaches. The introduction of mandatory scope 3 reporting in a growing number of jurisdictions is likely to encourage investee companies to improve their disclosure practices and improve scope 3 data available to investors.

3 Allocation to climate solutions target

As recommended by NZIF, setting a goal for increasing investment towards climate solutions enables investors to direct capital to key activities, technologies, products, and services required to support real economy decarbonisation. In 2023, 30 respondents reported on their climate solutions target.

Baseline & metrics: Over 80% (25) of respondents with a climate solutions target disclosed their baseline performance, with 15 adopting a proportion-based metric (e.g. % of AUM, fund allocations, or revenue streams). Another target type, for 9 respondents, focused on an absolute metric disclosing a specific sum dedicated to climate solutions. Only one respondent described their target in terms of renewable energy produced. The remaining 5 respondents are still refining their target type and their preferred metrics to quantify their objective.

Coverage: As presented in figure 12, most respondents prioritised listed equities and corporate fixed income for their climate solutions targets, with only 7 looking to increase their investments in climate solutions in real estate. Sovereign bonds, infrastructure, and private equity are commonly excluded from the scope of respondents’ climate solutions targets, which is a consequence of the current lack of established methodologies and guidance.

Progress: In 2023, 20 respondents reported progress towards their climate solutions targets, signalling a positive momentum among the signatory base.
Box 2: Investing in climate solutions: Listed equity and corporate fixed income

Assessing a company’s contribution to climate solutions, and aggregating contributions at the portfolio or fund level has long been an issue for investors committed to net zero. In 2023, IIGCC published guidance to help investors identify and engage on investee companies’ climate solutions activities. This provides simple step-by-step guidance for investors wishing to measure a corporate’s climate solutions activities. It covers listed equity and corporate fixed income, and future IIGCC guidance will broaden the focus to include additional asset classes and levers of influence.

4 Portfolio Coverage Target

Investors using NZIF are expected to set a portfolio coverage target to track progress of their assets’ net zero alignment over time, with the ambition of 100% of assets being aligned to a net zero pathway by 2040, as a minimum. In 2023, 17 respondents reported on their portfolio coverage target.

Baseline & metrics: For the portfolio coverage target, the baseline performance provides information on the split of assets considered to be achieving net zero, ‘aligned’ or ‘aligning’ to a net zero pathway based on the criteria described in Box 3. In 2023, 11 respondents provided information on their baseline performance. NZIF recommends collecting alignment data from public sources such as Climate Action 100+, the Transition Pathway Initiative as well as the Science Based Target initiative (SBTi), and 6 respondents specifically reported using these public data sources to conduct their alignment assessment. Some respondents deviated from NZIF guidance, with 2 developing their own internal methodologies to assess asset alignment and 3 solely basing their alignment assessment on whether their assets had a verified SBTi target.

Progress: In 2023, 65% (11) of respondents with a portfolio coverage target reported some improvement in their assets’ net zero alignment.
Box 3: Forward-looking criteria for assessing asset alignment under NZIF

Taken together the ten criteria can be seen as a minimum set of forward-looking components to assess the alignment of companies:

- **Ambition** – long-term net zero by 2050 commitment
- **Targets** – short-, medium- and long-term emissions reduction targets (Scope 1, 2, material scope 3)
- **Emissions performance** – current emissions intensity performance (scope 1, 2 and material scope 3) relative to targets
- **Disclosure** – disclosure of scope 1, 2 and material scope 3 emissions
- **Decarbonisation plan** – a quantified plan setting out the measures that will be deployed to deliver GHG targets, proportions of revenues that are green and where relevant increases in green revenues
- **Capital allocation alignment** – clear demonstration that the capital expenditures of the company are consistent with achieving net zero emissions by 2050
- **Climate policy engagement** – investee company has a Paris-aligned climate lobbying position and demonstrates alignment of its direct and indirect lobbying activities
- **Climate governance** – oversight of net zero transition planning and executive remuneration linked to delivering targets and transition
- **Just transition** – investee company considers the impacts from transitioning to a lower carbon business model on its workers and communities
- **Climate risk and accounts** – investee company provides disclosures on risks associated with the transition through TCFD Reporting and incorporates such risks into its financial accounts
5 Engagement Threshold Target

NZIF recommends investors set an engagement threshold target which ensures that at least 70% of scope 1, 2 and 3 financed emissions in material sectors are originating in assets that are either categorised as achieving net zero, aligned to a net zero pathway, or are subject of direct or collective engagement and stewardship actions. This threshold should increase to at least 90% by 2030 at the latest. In 2023, 17 respondents reported on their engagement target.

**Metrics:** The survey responses show that 11 respondents set their target on a proportion of financed emissions, while others have opted for alternative metrics, such as a number of companies to engage with or their level of involvement in various collaborative engagement activities such as Climate Action 100+ and the Net Zero Engagement Initiative.

**Progress:** Encouragingly, 11 respondents demonstrated progress towards their respective targets, with only 6 respondents yet to disclose information on their progress. Despite only 17 respondents setting a target on corporate engagement, responses to questions related to commitment 6 showed that 93% (39) of respondents developed climate-related stewardship and engagement strategies.

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**Box 4: Asset Owner Stewardship Questionnaire**

Many asset owners enlist their managers to implement stewardship and engagement strategies. The alignment between asset owner and manager on climate stewardship and its integration into investment decision making is critical for PAAO signatories to achieve their net zero targets. In 2023, IIGCC released the Asset Owner Stewardship Questionnaire, which supports a more consistent approach to the relationship between asset owners and asset managers in terms of exercising climate-related stewardship responsibilities and reporting on climate engagement.
Commitment 4: Offsets

Where offsets are necessary where there are no technologically and/or financially viable alternatives to eliminate emissions, investing in long-term carbon removals.

The Net Zero Investment Framework states that “investors should not use purchased offsets at the portfolio level to achieve emissions reduction targets”. In line with the PAAO commitment, NZIF also recommends that “investors should not allow the use of external offsets as a significant long-term strategy for achievement of decarbonisation goals by assets in their portfolios, except where there is no technologically or financially viable solution.”

Consistent with those recommendations, respondents were clear that their focus is on driving real economy emissions reductions and prefer not to rely on offsets, with no PAAO using offsets at the portfolio level in 2023. However, 5 respondents reported not being able to confirm whether offsets had historically been used at the portfolio level or not.

In contrast, 52% (22) of respondents reported offsets were used at the asset level (i.e. by investees). Close to a third of respondents (13) reported that they did not use offsets at the asset class level. However, for those two findings, data collection is challenging. In the first case, the results are based on the investor’s assumption that at least some of their assets were using offsets, whereas in the latter case, this might reflect a lack of data available from investees.

Evidently, it is difficult for asset owners to determine whether offsets are being used at an asset level, which makes it challenging for signatories to assure that offsets used at the asset level were only in situations where there are no technologically and/or financially viable alternatives to emissions. This issue clearly points to the need for further work and improved reporting. In coming years, signatories should see improved data at the asset level, especially in jurisdictions adopting ISSB-aligned disclosure standard.

Finally, offsets were only used by 6 respondents to reduce their operational emissions, with 4 respondents reporting only using offsets in that capacity.
Box 5: Evaluating the Use of Carbon Credits

Ceres published a report in 2022 providing critical guidance to help investors assess the integrity of corporate net zero commitments and companies’ use of carbon credits to deliver on those commitments. This guide compares existing standards for carbon projects and arms investors with cutting edge research and best-in-class practices to help them navigate the risks involved with commitments and make better informed investment decisions.

No respondents used offsets at the portfolio level in 2023
Commitment 5: Policy Advocacy

Ensure any direct and collective policy advocacy we undertake supports policy and regulation relevant for achieving global net zero emissions by 2050 or sooner.

Signatories join PAAO in the expectation that policymakers will deliver on their own commitments to achieve 1.5°C. PAAO recognises the vital role of governments and policy in enabling a 1.5°C trajectory and the need for a supportive policy environment to enable signatories to meet their own targets.

Under the PAAO commitment statement, signatories are expected to ensure their policy advocacy is consistent with the global objective of achieving net zero by 2050 or sooner. In 2023, 95% of respondents reported to have undertaken policy advocacy in support of their net zero target. The shape of that policy advocacy varies between respondents, with 43% (18) engaging just in collective policy advocacy, 50% (21) engaging in both direct and collective policy advocacy and one signatory only using direct policy advocacy.

The reports have not shown any correlation between the size (by AUM) of a signatory and their ability to undertake direct policy advocacy, with even some of the smallest signatories engaging in both direct and collective policy advocacy.
The survey showed considerable diversity in the approaches respondents take to their policy advocacy. Some signatories outsourced their climate policy advocacy to their asset managers via mandates, relying on their expertise to engage policymakers on their behalf. Otherwise the major takeaways are summarised below:

**In terms of collective efforts:**

- The **Investor Agenda Global Investor Statement** (see Box 6) was mentioned by 7 respondents as a key vehicle for collective policy advocacy. All of the PAAO Network Partners are founding partners of and are actively involved in the Investor Agenda.

- **Industry groups** were also a key channel for collective policy advocacy, creating channels for signatories to engage on policy issues and producing statements for signatories to publicly support. The PAAO Network Partners were identified as major forums for this work, along with various national sustainable finance industry bodies and broader industry bodies.

**In terms of direct policy advocacy:**

- Participating in public consultations was a standard approach.

- Respondents reported meetings with governments in support of specific policies.

- Direct policy advocacy was generally undertaken within respondents’ home jurisdictions, though some respondents also shared examples of direct engagement with foreign and supranational governments on climate-related issues.

**Box 6: Global Investor Statement to Governments on the Climate Crisis**

The **Global Investor Statement to Governments on the Climate Crisis** (GIS) is a call to action to governments to accelerate the implementation of critical policies to unlock the finance needed to tackle the climate challenge.

Coordinated by the seven Investor Agenda founding partners, the 2022 GIS was signed by 602 investors representing almost USD $42 trillion in assets under management.

The statement recognises the important role of policymakers in creating the necessary enabling environment to mobilise and scale up private finance and sets out key areas where urgent policy action is needed. Crucially, it emphasises investors’ commitment to working with governments to ensure policy mechanisms are implemented to deliver a climate-resilient, net zero emissions economy by 2050.
Commitment 6: Stewardship and engagement

Implementing a stewardship and engagement strategy, with a clear voting policy that is consistent with an objective for all assets in the portfolio to achieve net zero emissions by 2050 or sooner.

The Net Zero Investment Framework emphasises the crucial role that investor engagement and stewardship activity plays in supporting the transition to net zero, by prioritising real economy decarbonisation.
Approach to engagement

- **Stewardship and engagement strategy** – Impressively, 93% (39) of organisations have already developed or have collaborated with their asset managers to implement stewardship and engagement strategies consistent with their net zero objectives. An additional 3 are currently developing their strategy.

- **Investor engagement initiatives** – Climate Actions 100+ (CA100+) and the Net Zero Engagement Initiative (NZEI) are important vehicles for investor engagement activity, with 64% (27) of respondents being involved in CA100+, and 26% (11) being members of NZEI, an IIGCC engagement initiative.

- **Direct engagement** – 29% (12) of respondents reported directly undertaking some engagement and stewardship activities with their holdings and implementing voting policies.

- **Delegate** – Meanwhile, 42% (18) have delegated the entirety of these responsibilities to their asset managers or have appointed specialist stewardship service providers.

**Net zero aligned voting policies**

A significant majority of respondents (81%) have developed dedicated voting policies that align with their net zero goals, with 5 reporting their objective to develop such policy in the next year and only three have expressed no intention of formulating net zero voting policies.

This highlights a widespread recognition of the importance of voting in a way that is consistent with an investor’s climate-related objectives.

**Focus of engagement**

The survey responses also indicate the specific criteria promoted by investor engagement activities. These include:

- Long-term emissions ambition as well as short- and medium-term emissions targets.
- Climate governance, underscoring the significance of robust governance structures in effectively managing climate-related risks and opportunities.

- Disclosure of climate risk associated with the transition, detailed quantified decarbonisation strategies, and capital expenditure plans to ensure investee intentions are aligned with their overall decarbonisation strategies.
- One signatory also engaged its investee companies to ask them to disclose their climate-related lobbying activity.

**The nature-climate connection**

In addition to the robust engagement efforts focused on climate-related criteria, 15 respondents are also involved in Nature Action 100. This corporate engagement initiative recognises the interconnectedness between climate change and biodiversity loss, and demonstrates a holistic approach to stewardship.

**Box 7: Net Zero Voting and Bondholder Stewardship Guidance**

Effective engagement with companies is the primary tool that investors have to drive real world emissions reductions and meet their own net zero goals. Following the launch of the Net Zero Stewardship Toolkit, IIGCC has developed guidance to help investors with specific aspects of their engagement strategy. The IIGCC Net Zero Voting guidance supports signatories in developing their own net zero voting policies and practices. The IIGCC Net Zero Bondholder Stewardship Guidance provides corporate bondholders with a foundational framework to enhance their climate stewardship practices and offers practical steps aligned with the Net Zero Investment Framework.
Engaging with asset managers, credit rating agencies, auditors, stock exchanges, proxy advisers, investment consultants, and data and service providers to ensure that funds, products and services available to investors are consistent with achieving global net zero emissions by 2050 or sooner.

As part of this commitment, respondents were asked to detail their climate-related engagement activity with the wider investor landscape.

All respondents reported regular dialogue with their asset managers to improve disclosures of emissions data and to integrate considerations of climate risks and opportunities into their investment strategies. As presented in Figure 14, respondents’ engagement activities with other actors in the investment landscape vary among other stakeholder groups; with 62% (26) respondents engaging with data and service providers. Close to half of respondents engaged with proxy advisers (45%), and investment consultants (43%) and auditors were engaged by 24% of respondents.

The engagement with stock exchanges is also limited, with only 7% respondents actively involved, suggesting an opportunity for increased collaboration to promote sustainability disclosure requirements and standards. Respecting the independent nature of credit rating agencies, no PAAO signatories reported engaging with such agencies, to ensure unbiased and accurate evaluations of financial instruments, and climate-related risks.

On a positive note, 70% of respondents are actively engaged in investor working groups led by organisations such as AIGCC, Ceres, IGCC, and IIGCC, demonstrating a commitment to knowledge sharing in developing guidance to improve climate-related investment practices. In engaging in those working groups, many respondents contributed to the development of asset class specific guidance for NZIF (e.g. Private equity, infrastructure and upcoming guidance on sovereign bonds).
Additionally, respondents reported their involvement in other organisations, such as UKSIF, and in projects such as ASCOR, which underscores their dedication to shaping policy frameworks and industry standards to foster a more sustainable financial ecosystem. Overall, these results highlight the individual efforts of signatories across stakeholder groups to drive positive change and embed sustainability principles into investment decision-making processes.

Box 8: Improving the quality of net zero data

In response to feedback from investors using NZIF to set targets and develop transition plans, the PAAO Network Partners have undertaken work to support the improvement of net zero data across the financial system. In 2023, Ceres published a report delving into the challenges within the current climate data landscape. IIGCC published a net zero data catalogue for its members in 2022 and followed up in 2023 with the publication of six asks of data vendors, which called for an increase in the overall quality of net zero data available for alignment assessment and target setting. IIGCC also developed a resource aimed at enhancing the quality of net zero benchmarks, offering five principles to support the next generation of Paris aligned benchmarks in integrating a robust net zero objective.
Commitment 8: Operational emissions

Setting a target and reducing our operational (Scope 1 and 2) emissions in line with achieving global net zero emissions by 2050, or sooner.

While the primary focus of the PAAO commitment is on addressing the GHG emissions associated with signatories’ portfolio investments, it is still important for signatories to lead by example and consider ways to reduce their own operational emissions.
The survey findings reveal a substantial majority, comprising 26 (62%) respondents, have already established targets for reducing their operational scope 1 and 2 emissions. Signatories reported different levels of ambition as presented below:

- 40% (17) have targets earlier than 2050.
- 17% (7) have set a target to achieve net zero operational emissions by 2030.
- 14% (6) will develop targets related to their operational emissions in the next 12 months.

Key actions outlined by asset owners to reduce their operational emissions predominantly revolve around improving emissions from employee commuting, such as implementing cycle-to-work schemes, reducing emissions associated with business travel and electrifying company vehicles, and enhancing office energy efficiency. Moreover, 3 respondents emphasised the importance of improving waste management practices as part of their broader strategy to reduce operational emissions.

While considerable progress has been made, some signatories face challenges that necessitate alternative solutions. As such, offsets feature in the plans of 4 asset owners, serving as a contingency to address operational emissions proving difficult to cut entirely.

Overall, the survey responses indicate the proactive stance of signatories in addressing operational emissions and implementing internal sustainability objectives consistent with their wider net zero commitment.
Commitment 9: Transition plan

Disclosing objectives and targets, and publishing a clear Investor Climate Action Plan or transition plan for achieving these goals as soon as possible, no later than one year from making this commitment, and reviewing and updating targets every five years or sooner.

Since joining the initiative, 56 Paris Aligned Asset Owners have taken a significant step forward by disclosing their individual interim targets for 2030.

Over 75% have integrated these targets in a wider climate action or transition plans, with a further 6 respondents reporting their intention to develop a plan in the next 12 months.

Most of these plans draw on the Net Zero Investment Framework and the Investor Climate Action Plans (ICAPs) Expectations Ladder. Signatories’ plans detail strategies and actions they will take to facilitate the transition of investments towards achieving net zero portfolio greenhouse gas emissions by 2050, or sooner.

These efforts signify a deepening commitment within the asset owner community to drive meaningful change and contribute to the global transition towards a sustainable and resilient future.
Box 9: Net Zero Investment Framework 2.0

NZIF is the most widely used net zero framework by investors who have made net zero commitments to set targets and produce related net zero strategies and transition plans. NZIF 2.0 is an evolution of the original framework and is based upon three years of implementation experience. The new iteration, which will be published at the end of June 2024, includes new components for asset classes not initially covered and presents new recommended action points from recent industry insights and seminal guidance.
Commitment 10: Reporting

Reporting annually on the strategy and actions implemented and progress towards achieving objectives and targets, and in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

In the past year, 95% of respondents (40) have published individual public reports that detail their progress towards achieving their climate objectives and targets.

- 65% opted for a standalone TCFD report
- 33% chose to integrate their TCFD disclosures within a broader sustainability report.

Only one signatory reported having published a TCFD-aligned report alongside their primary sustainability report.

Despite commendable efforts from a wide majority of respondents in 2023 to meet commitment 10, we note that 2 investors have not yet published a TCFD-aligned report detailing their strategy and progress towards climate related targets. While one has expressed intentions to do so within the next 12 months, the other has been unable to make their report public.
Box 10: Emergence of ISSB standards and the evolution of sustainability reporting landscape

Following the publication of the first set of International Sustainability Standards Board (ISSB) standards in July 2023, and their application since the start of 2024, TCFD-aligned reporting is likely to be superseded by reporting against ISSB over time. The ISSB standards leverage the same framework and recommendations as TCFD but build on them with more granular reporting requirements. In addition, investors will also need to navigate a broader range of jurisdiction-specific standards, for example the Corporate Sustainability Reporting Directive (CSRD) and Sustainable Finance Disclosure Regulation (SFDR) in the EU, or the UK’s Sustainability Disclosure Requirements (SDR).
The Paris Aligned Asset Owners initiative would like to thank the respondents for taking the time to submit their reporting survey in 2023 and provide valuable information on their progress.

Following the publication of the 2023 Paris Aligned Asset Owners Progress Report, the Network Partners will use the data and information from signatories’ reports to develop additional guidance and target specific areas of support. Additionally, the initiative will publish case studies to highlight best practices examples across the commitments.

Signatories are also invited to provide feedback on the reporting process and identify any potential areas for improvement.

### Next steps

If your organisation is considering making a net zero commitment and would like to discuss the initiative, as well as the methodology and implementation support offered by the investor networks, please get in touch.

#### Contact the initiative

- **AIGCC (Asia)**
  - **Serena Li**
  - Investor Practices Manager

- **Ceres (North America)**
  - **Kaede Kawauchi**
  - Investor Network Senior Manager

- **IGCC (Oceania)**
  - **Lisa Caripis**
  - Investor Practice Program Manager

- **IIGCC (Europe)**
  - **Julien Grolee**
  - Senior Programme Manager
I - Governance

Steering Group

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Church of England Pensions Board
Nathalie Van Toren (Co-Chair)
NN Group
Akaash Sachdeva
HESTA
Andrew Kitchen
Royal London Group
David Adkins
Lloyds Banking Group Pensions Trustee Limited
Dewi Dylander
PKA
Faith Ward
Brunel Pension Partnership
Liz Gordon
New York State Common Retirement Fund
Michael Marshall
Railpen

Executive Committee

Stephanie Pfeifer (Chair)
IIGCC
Kirsten Spalding
Ceres
Rebecca Mikula-Wright
AIGCC & IGCC

Collaboration

PAAO commitment statement

Paris Aligned Asset Owners commit to the following with their fiduciary obligations:

- Transitioning our investments to achieve net zero portfolio GHG emissions by 2050, or sooner
- Implementing this commitment with the aim of achieving real economy emissions reductions and undertaking a comprehensive set of actions available to investors, drawing on the Paris Aligned Investment Initiative’s Net Zero Investment Framework
- Setting objectives and targets, including an interim target for 2030 or sooner for reducing Scope 1, 2 and 3 emissions associated with our portfolios and setting a target for increasing investment in climate solutions, consistent with a fair share of the 50% global reduction in CO2 identified as a requirement in the Intergovernmental Panel on Climate Change special report on global warming of 1.5°C
- Where offsets are necessary where there are no technologically and/or financially viable alternatives to eliminate emissions, investing in long-term carbon removals.
- Ensure any direct and collective policy advocacy we undertake supports policy and regulation relevant for achieving global net zero emissions by 2050 or sooner
- Implementing a stewardship and engagement strategy, with clear voting policy that is consistent with an objective for all assets in the portfolio to achieve net zero emissions by 2050 or sooner
- Engaging with asset managers, credit rating agencies, auditors, stock exchanges, proxy advisers, investment consultants, and data and service providers to ensure that funds, products and services available to investors are consistent with achieving global net zero emissions by 2050 or sooner.
- Setting a target and reducing our operational (Scope 1 and 2) emissions in line with achieving global net zero emissions by 2050, or sooner.
- Disclosing objectives and targets and publishing a clear Investor Climate Action Plan for achieving these goals as soon as possible, no later than one year from making this commitment, and reviewing and updating targets every five years or sooner.
- Reporting annually on the strategy and actions implemented and progress towards achieving objectives and targets, and in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.
## II - PAAO signatories

### PAAO 2023 Reporting

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III - Network Partners resources

Portfolio Level

AIGCC. 2024. The State of Net Zero Investment In Asia 2024.
Ceres, 2022. Evaluating the Use of Carbon Credits
IGCC. 2023. Mobilising climate investment in emerging markets.
IGCC. 2023. Driving Australian climate innovation – Unlocking capital to support a clean industrial revolution.
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IIGCC. 2024. Derivatives and Hedge Funds Guidance.
**Asset alignment**


IIGCC. 2018. *Investor expectations on corporate lobbying.*

IIGCC. 2019. *Investor expectations for listed real estate companies.*


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IIGCC. 2021. *Accelerating the transition in the trucks sector and its value chain.*

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IIGCC. 2023. *IIGCC Climate Solutions Guidance.*

IIGCC. 2023. *Asset Owner Stewardship Questionnaire.*


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IIGCC. 2024. *Addressing methane emissions from fossil fuel operations.*


**External engagement**


IIGCC. 2022. *IIGCC Expectations of Policymakers on Corporate Sustainability Disclosures.*


IIGCC. 2023. *Six asks of data vendors: Improving net zero data provision.*

