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PRI Principles for Responsible Investment

UN-Convened Net-Zero Asset Owner Alliance

Increasing Climate Ambition, Decreasing Emissions

The third progress report of the Net-Zero Asset Owner Alliance

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Special note on data

The Net-Zero Asset Owner Alliance holds its reporting cycle from March to May every year and the Alliance Secretariat processes this information by end of August. The Alliance also includes historical data in this Progress Report. Therefore, please note that the data in this report could have one of the three following timestamps:

The data on newly set and revised intermediate targets is as of May 2023 (at the end of the Alliance's reporting cycle).

The data on the number of members, and their publicly communicated targets (please note that these are not the same as targets submitted to the Alliance Secretariat) is as of September 2023.

Historical data on members' AuM, total financed greenhouse gas emissions (Figures 7 and 8) as well as the data on members' investments in climate solutions (Figure 21) refers to data from 31 December of each reported year. For example, 2022 data on total financed emissions refers to data as of 31 December 2022.

Abbreviations and acronyms

AuM	Assets under Management
COP	Conference of the Parties
CRREM	Carbon Risk Real Estate Monitor
EMDE	Emerging Markets and Developing Economies
GFANZ	Glasgow Financial Alliance for Net Zero
GHG	Greenhouse Gas
IEA	International Energy Agency
IPCC	Intergovernmental Panel on Climate Change
KPIs	Key Performance Indicators
MRV	Monitoring, Reporting, and Verification
NDCs	Nationally Determined Contributions
NZAOA	The UN-Convened Net-Zero Asset Owner Alliance
PCAF	Partnership for Carbon Accounting Financials
PRI	Principles for Responsible Investment
RtZ	Race to Zero
SAB	Scientific Advisory Body
SBTi	Science-Based Targets initiative
TPI	Transition Pathway Initiative
TSP	NZAOA's Target-Setting Protocol
UNEP	United Nations Environment Programme
UNEP FI	United Nations Environment Programme Finance Initiative
UNFCCC	UN Framework Convention on Climate Change
USD	United States Dollar

Note on importance of gender parity in the Alliance's governance bodies

The Alliance's highest governing body, its Steering Group (SG), is comprised of C-level executives, seven from member organisations and two from the convening organisations (UNEP FI and PRI). Elected every two years by the Alliance's members, the group convenes quarterly and sets the strategic direction of the Alliance. Women C-level executives are particularly encouraged to run for SG seats and there are currently two women CEOs representing the Alliance's membership: Katja Bergqvist, CEO of Nordea Life & Pension Group, and Akiko Osawa, CIO of Nippon Life Insurance Company. The Alliance will endeavor to reach full parity in the future SG constellations.

The Alliance's work plan is developed and implemented by six working tracks, which may each have up to two Track Leads. Elected annually, Track Leads are technical experts on the topic of their working track. Currently, the working tracks are led by five women and three men, reflecting a deep involvement of women in the Alliance's production of knowledge and guidance implementation.

Finally, the delivery of working tracks' outputs is supported by the Alliance's Secretariat, which is staffed by the two conveners. The gender breakdown of the Secretariat is seven women to four men and there is also gender parity at the level of the two Co-chairs of the Secretariat, in charge of the Alliance's operational decisions.

Thus, Alliance's work is supported, developed, and delivered by a team where gender parity is prioritised, and already largely achieved. The next step in the process is to further encourage the same gender breakdown at the highest leadership level.

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Foreword

The best available climate science tells us that to avoid the most devastating consequences of climate change, the world must limit global warming to 1.5 degrees Celsius (°C) above pre-industrial levels (IPCC 2023).

To bring the world on a 1.5°C track, greenhouse gas (GHG) emissions must peak by 2025 and they must fall by 43% by 2030 and 60% by 2035, to reach net-zero CO_2 emissions by 2050 globally.

However, the world already finds itself 1.1°C above pre-industrial levels. Moreover, we are heading towards at least 2.4°C warming according to states' latest climate pledges—communicated as their Nationally Determined Contributions (NDCs) under the Paris Agreement. In addition to the emissions gap between Parties' NDCs and the modelled 1.5°C pathways, findings from the global stocktake also indicate that there are implementation gaps between Parties' pledges and their enacted policies and actions.

Thus, governments must respond quickly as there is a narrowing window to raise ambition and implement existing commitments. Parties must do so by supporting a systems transformation which would make financial flows consistent with a pathway towards low GHG emissions and unlock trillions of dollars needed for climate action.

What is needed is credible, accountable and transparent climate action for all actors beyond governments. Non-Party stakeholders—businesses, communities, and financial institutions—have a crucial role to play in the global response to the threat of climate change.

Therefore, ensuring greater accountability and recognition for stakeholders with net-zero pledges is equally important going forward. This involves demonstrating accountability by making a public net-zero commitment, setting credible intermediate climate targets and reporting on progress regularly as much as it involves translation of net-zero commitments to action plans, organisational dynamics and practices.

The Net-Zero Asset Owner Alliance's engagement on climate action and its work on accountability and system transformation represent significant contributions of the asset owners community to addressing the gaps identified in the first global stocktake, which is what COP28 should help us deliver, and what the Recognition and Accountability Framework for non-Party stakeholders will be set up to support.

The work of the Alliance and of other leading non-Party stakeholders is far from done. However, openly discussing challenges, such as data availability and lack of an enabling policy environment, is the first step that will allow stakeholders to identify and pursue effective solutions. The Alliance's commitment to consistently update its protocols and governance to raise ambition is thus very encouraging.

Simon Stiell

Executive Secretary of the United Nations Framework Convention on Climate Change

Executive summary

The effects of our changing climate are now all too real. The UN-Convened Net-Zero Asset Owner Alliance (the Alliance) was set up four years ago in the belief that the redirection of investment flows in capital markets could help galvanise the transition to a global, low-carbon and just economy that would be more resilient to climate change shocks. As key actors in global economic markets, asset owners cannot escape climate change impacts; rather, the long-term viability of their businesses is inextricably linked to the trajectory of the planet's changing climate.

The Alliance holds firmly to UN Secretary-General Antonio Gutteres' assertion that the recent upsurge in disastrous climate events "must not inspire despair, but action". This commitment to action is evident in the Alliance's continued growth. Only through a collective industry response will capital begin to flow at the scale and pace required. **In this respect, the Alliance's increase in membership over the last 12 months from 74 to 86 members (now with over USD 9.5 trillion in assets under management) is considerably encouraging.**[1]

Yet rising membership alone will not bring about change. Of paramount importance is how asset owners deploy their capital resources and how they engage with relevant stakeholders to decarbonise the real economy. Here, commitment to decarbonisation is deepening year-on-year. Target setting is a case in point. **As of May 2023, 69 asset owner members (with USD 8.4 trillion in assets under management) have formulated and reported on their intermediate investment targets based on the Alliance's latest methodology (see Chapter 2).**

Such target-setting, moreover, is having measurable impact on absolute financed greenhouse gas (GHG) emissions reduction. **The latest data on total absolute financed GHG emissions show that even with the Alliance's growth, members' combined absolute financed emissions fell from 221.2 million tons of carbon dioxide equivalent (tCO_2e) in 2021 to 213.4 $mtCO_2e$ in 2022.** Chapter 2 provides further year-on-year data for four different member cohorts (formed based on members' base years for reporting). All four cohorts, 2018–2021 inclusive, show important reductions in absolute financed GHG emissions. **Most notably, by 2022, the 2018 and the 2020 cohorts reported a reduction of 21% and 20%, respectively.** Importantly, reductions in absolute financed emissions are the result of real-world emissions reductions, allocation changes, or divestment, among other drivers. Alliance members prioritise engagement and real-world reductions,

1 In the 2023 reporting cycle, the methodology for calculating members' AuM changed. The Secretariat now reports on members' most updated AuM figures, while in previous years it referred to members' AuM on the day of joining the Alliance. The input received during this year's reporting period shows a reduction in the Alliance's combined AuM compared to the previously reported figures. This phenomenon mirrors the contraction of the global economy in 2022.

however when this is deemed unsuccessful or no longer appropriate, reallocation and divestment may result. It is important to note, reallocation and divestment may not lead to emissions reductions in the real economy as assets may be purchased by an investor which does not seek to further engage on climate.

In 2023, 25 members set their intermediate targets for the first time and a few members from previous cohorts added to their target-setting. Together with those from previous years that expanded their targets, they set 27 new engagement targets, 26 new sub-portfolio targets, and 33 new climate solution investment targets. Sector targets were only chosen and updated by members from previous cohorts (see Chapter 2).

Members that set sub-portfolio targets account for USD 8 trillion in AuM; on average, their decarbonisation targets fell within the ranges of 22%–32% for 2025 and 40%–60% for 2030, as defined by the Alliance's Target Setting Protocol (protocol). Current methodologies for sub-portfolio targets encompass corporate debt, listed equity, and directly-held real estate. Thus, members' sub-portfolio targets cover USD 3.4 trillion of their combined AuM. **Members who had set sector targets have also increased their ambition levels, in particular for the oil and gas sector (see Chapter 3).**

The Alliance's governance processes have also continued to evolve, and its Accountability Mechanism is now applied to Alliance positions. In this report, members' alignment with the Alliance Position on Thermal Coal is examined. **The data shows that 97% of members with intermediate targets have an individual thermal coal position, 82% of which fully comply with the Alliance's position (see Chapter 3).**

The Alliance also seeks to extend its influence on the speed of the net-zero transition through members' proactive engagement with their investee companies, asset managers, and sector stakeholders. **The last year has seen a distinct increase in both targeted collaborative engagements with investee companies and bilateral engagements with asset managers (see Chapter 4).** On the whole, members selected a total of 238 engagement KPIs for target setting (an average of slightly more than three selected KPIs per member), which exceeds the protocol requirements of choosing two engagement KPIs (The UN-Convened Net-Zero Asset Owner Alliance [NZAOA] 2023a). Galvanising such action is the Alliance's protagonist role in thought leadership and best practices—an illustrative example being the recent publication of its Position Paper on the Oil and Gas Sector (NZAOA 2023b), which has been widely diffused across the industry.

An important element of the Alliance's theory of change (see Section 1.1) is investment in climate solutions. The Alliance's members recognise this—68 members (out of 69 who have set intermediate targets) have set climate solution investment targets. **The total amount of AuM invested in climate solutions reached USD 380.6 billion in 2023, with most investments going towards the buildings and energy sectors (see Chapter 5).**

As providers of capital to enterprises, asset owners are well-placed to embed their net-zero goals into their corporate engagement, investment allocation and decision making, public discourse, and choice of asset managers that best represent their interests. Through these activities, asset owners can influence company behaviour and thus create momentum for the decarbonisation of the real economy. However, asset owners do not and cannot act alone. For that reason, **this report concludes with a direct and urgent call to action to policymakers ahead of the 28th session of the Conference of the Parties to the United Nations Framework Convention on Climate Change.** Top on the Alliance's list of asks is the rapid reform of existing finance and investment policy frameworks. Asset owners are ready to mobilise 'billions to trillions' in capital allocation, but suitable assurances, incentives, and project pipelines are needed to fully unlock this readiness to act.

1. Introduction

1.1 The Alliance's theory of change

The 2023 Climate Ambition Summit marked four years of the UN-Convened Net-Zero Asset Owner Alliance (the Alliance)'s leadership on investor climate action. The Alliance was formed in 2019 by 12 members, with USD 2.4 trillion in assets under management (AuM), that recognised it is within an asset owner's fiduciary duty to manage climate risk and seize opportunities to invest in a net-zero just transition. These investors also recognised that addressing climate risk within an alliance promises greater efficiency and impact for individual financial institutions. Today, the Alliance counts 86 members with over USD 9.5 trillion in AuM[2] while maintaining its original mission and theory of change.

Financed (Scope 3) emissions are the most direct measure of a financial institution's alignment with the Paris Agreement Article 2.1.c, given that the provision of capital is their core activity. For asset owners specifically, acting responsibly on climate means tracking, evaluating, and reducing investor portfolio emissions. The Alliance operationalised this insight by requiring members to transition their investment portfolios to net-zero greenhouse gas (GHG) emissions by 2050. This goal is aligned with the Paris Agreement target of limiting global warming to a maximum global mean temperature rise of 1.5°C above pre-industrial levels.

To ensure that members' pathways to achieve net zero by 2050 are both achievable and credible, the Alliance defined its minimum requirements in the Commitment document (NZAOA 2022a). The Commitment highlights the Alliance's primary focus on reducing GHG emissions in the real economy, and positions its approach as being focused primarily on engagement. This reflects the Alliance's theory of change, which holds that asset owners' most effective contribution to fighting climate change derives from assisting, incentivising, and requiring their investee companies to embark on their own decarbonisation pathways.

The Commitment also makes clear that investors are only one stakeholder in the fight against climate change and sets the expectation that "governments will follow through on their own commitments to ensure the objects of the Paris Agreement are met". Governments' current policies, however, imply emissions reductions that fall short from those pledged through their Nationally Determined Contributions (NDCs), which them-

2 In the 2023 reporting cycle, the methodology for calculating members' AuM changed. The Secretariat now reports on members' most updated AuM figures, while in previous years it referred to members' AuM on the day of joining the Alliance. The input received during this year's reporting period shows a reduction in the Alliance's combined AuM compared to the previously reported figures. This phenomenon mirrors the contraction of the global economy in 2022.

selves fall short of meeting 1.5°C pathways. In the latest technical dialogue on the global stocktake, UNFCCC (2023a) estimated that the latter gap would amount to 20.3–23.9 $GtCO_2eq$ in 2030. Therefore, there is a clear and urgent need for governments and policymakers, as well as corporates, to establish actions in line with 1.5°C pathways. To encourage this further, the Alliance's Commitment stipulates that members will "advocate for, and engage on, corporate and industry action, as well as public policies, for a low-carbon transition".

To translate various parts of the Commitment into action, members are required to set individual targets within 12 months of joining the Alliance. Methodologies for members to set portfolio-level targets were established based on the best available climate science[3] and the Paris Agreement schedule (Art. 4.6c) for intermediate target-setting. This means that members are required to raise the ambition of their targets at least every five years and are also expected to report on their progress annually.

The Alliance's dedicated tracks and working groups improve the Alliance's target-setting framework every year by rendering the methodologies more robust and sophisticated. Members' reporting requirements are based on the Alliance's Target-setting Protocol[4] (protocol), which will be further discussed in the next section.

1.2 The Alliance's target-setting framework: overview of principles and latest updates

To comply with the Alliance's protocol (NZAOA 2023a), members must set a target on three out of four of the following target types: sub-portfolio, sector, engagement, and investing in climate solutions (Figure 1). Setting an Engagement target is mandatory for all members. This is to ensure that every member takes action to support GHG emissions reduction in the real economy, which will in turn lead to asset owner portfolio decarbonisation, as investee companies transition towards low-carbon business models.

3 As outlined in all versions of the Target-Setting Protocol, the Alliance has relied on the IPCC's no-overshoot or limited-overshoot 1.5°C Special Report scenarios.

4 Please consult different editions of the Target-Setting Protocol here: inaugural edition, second edition, and the third edition.

Figure 1: The Alliance's four-part target-setting approach | **Source:** The Net-Zero Asset Owner Alliance (2023a, p. 15)

As new methodologies are developed on an annual basis, members always have a year to commence applying the most recent version of the protocol (NZAOA 2023a). Based on the phase-in timeline, members that joined the Alliance in 2022 can decide between using the reduction ranges and asset-class scope from the second or third edition of the protocol. All members that join the Alliance in 2023 are expected to set their targets according to the third edition.

The latest edition of the Alliance protocol is based on the most recent climate modelling published in the Intergovernmental Panel for Climate Change's (IPCC) Assessment Report (AR6). Based on the IPCC's updated no-overshoot and low-overshoot 1.5°C scenarios, the Alliance identified a global average absolute emissions reduction requirement in the range of 40% to 60% for 2030. This range is mirrored in the Alliance's range for sub-portfolio targets.

Gains have also been made in the third edition of the protocol to expand the scope of sub-portfolio targets and to add clarifying language on engagement target-setting and on recommended metrics for setting sector targets. The current quality of reporting benefits from this important work on the methodological advancement of the Alliance's target-setting framework.

1.3 Governance update: Accountability Mechanism applied to the Alliance's positions

In March 2022, the Alliance approved its Accountability Mechanism with respect to target setting, and incorporated it into its Governance Document. In February 2023, the document was updated again with the aim of further strengthening and clarifying requirements for members on emissions reporting and position paper adoption (NZAOA 2023c).[5] The mechanism prescribes a process for the assessment of members' compliance, establishes a 'Peer Review Group', and delineates how different misalignment cases will be treated. The Alliance's traffic light review system was applied for the second time in this year's reporting cycle. All of the members that were flagged by the Review Group last year offered satisfactory remediation plans.[6]

In addition to target setting, the principles of the mechanism will also be applied to members' incorporation of the Alliance's positions into their individual internal policies. A position of the Alliance expresses a collective perspective of the membership on a topic that is central to the fulfilment of the Alliance Commitment (NZAOA 2022a). Thus, positions may focus on specific economic sectors, technologies and policies. They formulate expectations towards asset owners and/or other stakeholders. When expectations are set for members, the Governance Document stipulates that members shall "where applicable, [adopt or publish] a corresponding individual investment policy or approach, informed by the Alliance's Position" (2023c, p.14).

Members are given 12 months after an Alliance position is published to develop their corresponding policies and are asked to report on their alignment with the Alliance positions in their annual reporting to the Secretariat. A member's position is categorised as aligned when it complies with most of the requirements comprised in the Alliance's corresponding position. Just as with the application of the Accountability Mechanism on target setting, in cases where a member's internal policy is misaligned with a position of the Alliance, this member will be approached by the Peer Review Group. Delisting remains a measure of last resort for cases of severe misalignment without sufficient explanation.

This progress report includes reporting on the members' incorporation of the Thermal Coal Position (2020) in section 3.3. The 2024 and subsequent progress reports will also include data on members implementation of the Oil and Gas Position (NZAOA 2023b), which was released earlier this year.

5 Readers can learn more on the mechanism through the following link: unepfi.org/net-zero-alliance/about/alliance-accountability-mechanism/.

6 The application of the Accountability Mechanism is an internal process, and the Alliance cannot discuss cases of individual members nor the findings of the Review Group. Details of members' published targets can be found in Table 2.

1.4 The Alliance in the net-zero universe

The Alliance was formed on the understanding that partnerships can help catalyse and scale important climate action, within and beyond the finance industry. Therefore, the Alliance remains open to engaging with all stakeholders that share its net-zero ambition.

Since 2021, the Alliance has been a part of the Glasgow Financial Alliance for Net Zero (GFANZ)[7]—a pan-sector global coalition of financial institutions committed to a just transition. As part of GFANZ, technical experts representing the Alliance contribute to working groups that focus on topics such as: the mainstreaming of transition finance, energy, and real economy transition; the mobilisation of capital to emerging markets and developing economies; the advancement of public policy; and the promotion of benchmark investments.

The Alliance also remains a partner of the Race to Zero campaign. The campaign's focus has recently shifted to informing and supporting the set-up of the UNFCCC Recognition and Accountability Framework for non-Party stakeholder climate action. This UNFCCC-led framework will seek to "recognize and celebrate voluntary non-Party stakeholder contributions and progress toward the goals of the Paris Agreement" (UNFCCC 2023b). According to the preliminary outlines, progress will be seen in the context of advancement towards the recommendations encapsulated in the UN High Level Expert Group on Net-Zero Commitments of Non-State Actors (HLEG)'s report, "Integrity Matters" (2022).

The Alliance supports the framework's main aim and the common direction of travel offered by the HLEG recommendations. In fact, the Alliance's approach to carbon removals, which was integrated into the third edition of the protocol (NZAOA 2023a), is already in line with the said recommendations. The release of the Alliance's Position on the Oil and Gas Sector (2023b) furthered the alignment. It remains important to note that, although informed by the work of other climate bodies, the Alliance preserves its independent governance processes, which are especially relevant to membership minimum requirements and reporting expectations.

1.5 Organisation of the paper

The Alliance's First (2021) and Second Progress Report (2022b) presented data on growth for all of the following metrics: Alliance members, members that have set intermediate targets, and the AuM covered under the Alliance's target-setting framework. This report tells a story of deepened commitment. It reveals, for instance, that the number of members reporting targets has reached a new record. It also highlights the material impact of members' actions by providing data on their aggregated absolute GHG emissions reductions—a notable first for the Alliance. The next chapter covers these aggregate changes and shows the progress of the Alliance as a whole.

7 Readers can learn more here: gfanzero.com/

The subsequent chapters are organised around the different target types that members report on, coupled with details of the activities by working tracks in support of these targets. The report also features three case studies that showcase the diversity of approaches that the Alliance stakeholders take to implement different aspects of their net-zero commitments.

The third chapter covers sub-portfolio and sector targets. It reflects the work of the Monitoring, Reporting, and Verification Track, while also featuring data on the members implementation of the Thermal Coal Position (NZAOA 2020). The fourth chapter discusses progress on engagement targets and offers insight into the main activities and outcomes of the Alliance's Engagement Track. The fifth chapter, meanwhile, provides an overview of the investment in climate solutions by members as well as a comprehensive summary of the Transition Financing Track's focus areas.

The report's sixth chapter argues for a better enabling policy environment for a just transition. It lists the Policy Track's various engagements to this end, while also issuing policymakers with a call to action ahead of the 28th meeting of the Conference of the Parties to UN Framework Convention on Climate Change (COP28).

The conclusionary note lists the most important data from this report, as the basis of the Alliance's next steps and informs the reader on what to expect in the Alliance' future progress reports.

2. Aggregate results

2.1 Statistics on membership

In the four years of the Alliance's existence, there has been a consistent pattern of membership expansion. Since the last progress report (which showed data as of August 2022), an additional 14 institutions have become part of the Alliance while two members withdrew,[8] bringing the total count of institutional investors to 86.

Although the number of members continues to show an upward trend, the input received during this year's reporting period shows a reduction in the Alliance's combined AuM. This phenomenon mirrors the contraction of the global economy in 2022. As of 31 August 2023, the aggregate AuM of the Alliance's membership amounts to USD 9.5 trillion (see Figure 2).

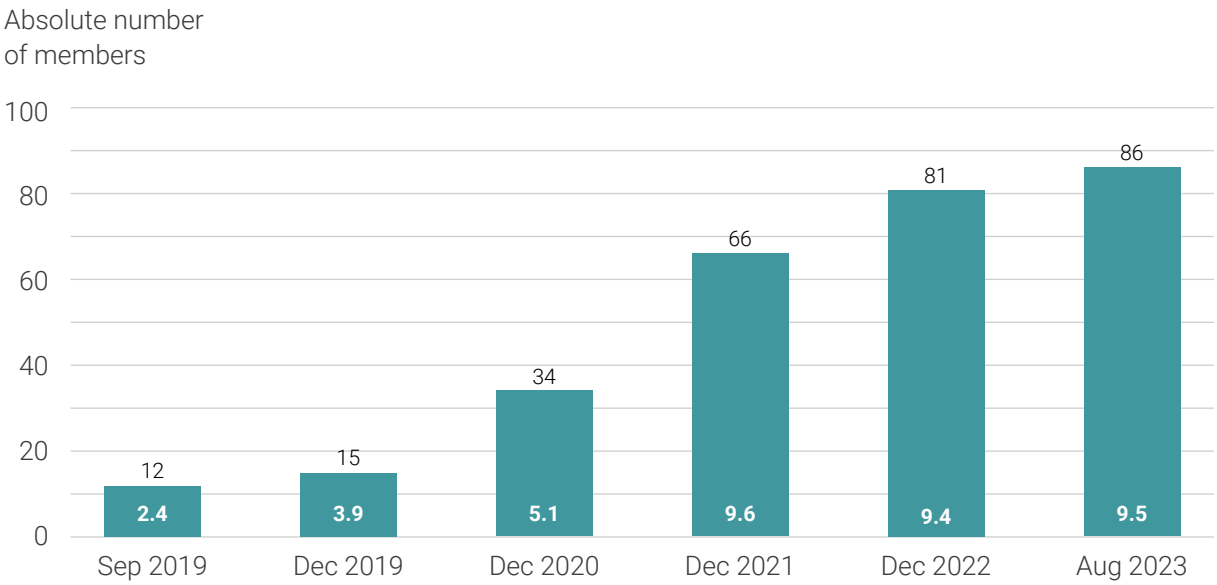


Figure 2: Growth in the Alliance's membership and total AuM (in USD trillion) | **Source:** Data reported by the Alliance members to the Alliance Secretariat in August 2023.

Figures 3 and 4 show a membership breakdown by type of asset owner and by their share of the Alliance's total AuM, respectively. The majority of the Alliance members are insurance/reinsurance companies, which make up 60% of member institutions and account for 75% of the Alliance's AuM. Pension funds are well represented in the membership—30% of institutions—but they do represent a smaller portion of the AuM

8 As indicated on the Alliance's website: unepfi.org/net-zero-alliance/alliance-members/, Hansemerkur withdrew from the Alliance on 19 May and Church of England Pensions Board withdrew on 30 June.

(17%). The Alliance has fewer sovereign wealth funds and endowment funds; combined, they represent 10% of the membership and just over 8% of the total AuM.

Figure 3: Breakdown of the Alliance's membership by institution type (August 2023)

Figure 4: Breakdown of the Alliance's total AuM by institution type | **Source:** Data reported by the Alliance members to the Alliance Secretariat in August 2023

2.2 Data on target-setting and reporting

After joining the Alliance, members are required to publicly disclose their intermediate targets within 12 months and report details of their individual targets to the Alliance Secretariat within the next reporting period.[9] The Alliance's reporting period takes place in the second quarter of each calendar year. During this period, submissions are collected and anonymised, with the view of being presented in an aggregated format within the yearly progress report.

In tandem with the Alliance's expanding membership, there has been an increase in the number of members setting their intermediate targets. By the end of the May 2023 reporting cycle, 25 additional members successfully formulated and submitted their intermediated targets, for a new total of 69 asset owners applying the Alliance's target-setting methodology. In 2023, the members with intermediate targets represent a total of USD 8.4 trillion in AuM, a figure which rose from USD 7.1 trillion last year (see Figure 5).

9 If a member joins the Alliance six months before the start of the next reporting cycle, it is not required to report its targets until the subsequent reporting cycle.

There is, however, one member that did not meet the requirement of publicly disclosing their target and has been flagged through the Alliance's Accountability Mechanism (see Section 1.3. for more information on the mechanism). An overview of each member's publicly disclosed targets (with corresponding hyperlink) or expected publication date is provided in Table 2.[10]

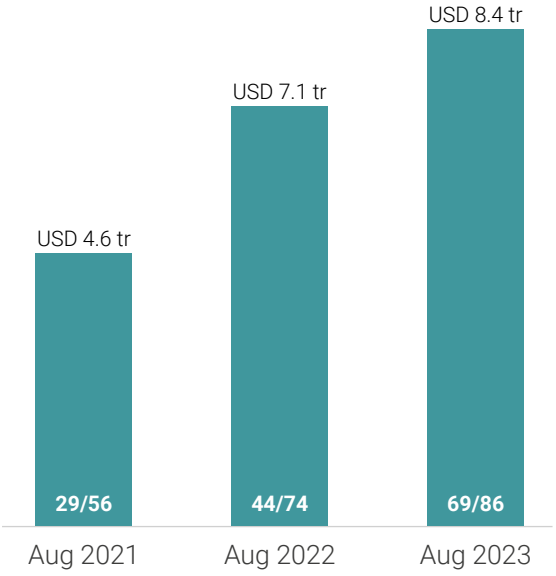


Figure 5: The number and total AuM of members that set intermediate targets by the end of the 2023 Alliance reporting cycle[11] | **Source:** Data reported by the Alliance members to the Alliance Secretariat in May 2023

According to the Alliance's Target-Setting Protocol, members are required to set targets on engagement and on at least two of the three remaining target types: sub-portfolio, sector, and climate solution investments. Figure 6 shows the absolute number of targets members set across the four target types. The figure distinguishes between three 'cohorts'—i.e., members that set targets in 2021, 2022, and 2023. This year, in addition to the 2023 cohort of 25 members, two members from last year's cohort also set engagement targets for the first time. Together with the 2021 cohort, 69 members have now submitted engagement targets, which covers the entirety of the membership with intermediate targets. Moreover, Figure 6 shows that 33 members have set targets on climate solution investments for the first time. Eight members have, therefore, set their climate solution investment targets in addition to the three other target types they had already chosen. In other words, these members are exceeding the requirements of the Target-Setting Protocol in this instance.

10 In addition to 69 members who reported their targets to the Alliance Secretariat during the 2023 reporting cycle, four more members have publicly disclosed their targets and are included in table 2. However, the data for these four members are not included in the aggregation shown in this report (which is based on the data received during the Alliance's reporting cycle).

11 Seventeen members are required to set targets in the next reporting cycle. Details of these targets will be included in the next progress report

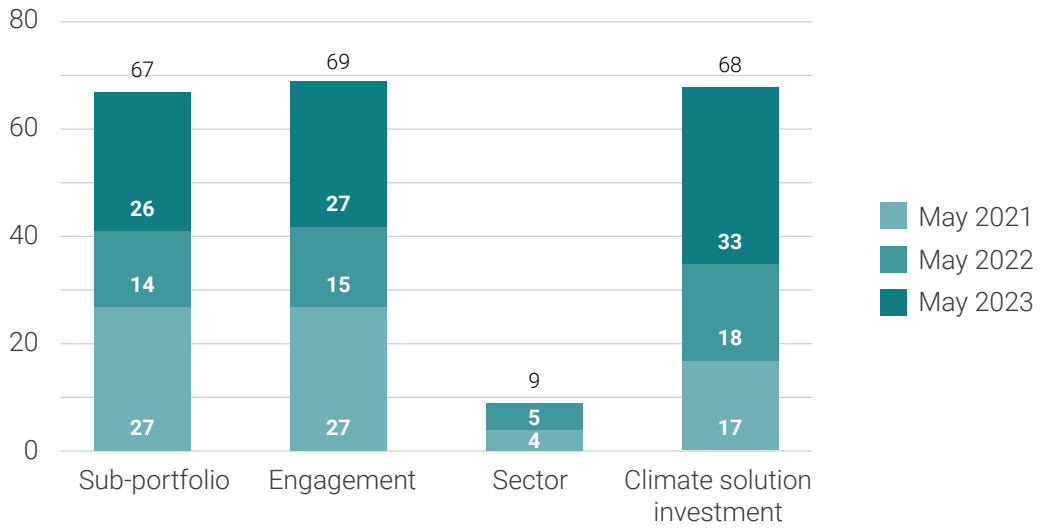


Figure 6: Total number of members' intermediate targets set across the four target types | **Source:** Data reported by members of the Alliance to the Alliance Secretariat in May 2023.

Table 1 provides further details on the dynamics of members' target-setting on the mandatory target type—engagement. Engagement is a mandatory component of target setting as the Alliance intends to affect real world emissions reduction, not only portfolio transformation. It can be seen, both in 2021 and 2022, two members failed to set engagement targets. These members were flagged through the Alliance's first application of the Accountability Mechanism in 2022, and in 2023, the number of members setting intermediate targets fully matched the number of members with engagement targets.

Table 1: Number of members setting engagement targets (2021–2023)

	May 2021	May 2022	May 2023
Number of members setting intermediate targets	29	44	69
Number of members setting an engagement target	27	42	69
Percentage of members with an engagement target	93%	95%	100%

Table 2: Overview of members' intermediate targets | **Source:** Data reported by members of the Alliance to the Alliance Secretariat as of September 2023.

#	Member	Country	Type	Data provided to NZAOA Secretariat	Link
1	Aegon N.V.	Netherlands	Insurance company	2022	Link
2	Aema Groupe	France	Insurance company	Due Oct 23	Due Oct 23
3	African Risk Capacity Insurance Company Limited	Bermuda	Insurance company	2023	Link
4	Ageas	Belgium	Insurance company	2023	Link
5	AkademikerPension	Denmark	Pension/super/retire/provident	2021	Link
6	Alecta Pensionsforsakring	Sweden	Pension/super/retire/provident	2021	Link
7	Allianz SE	Germany	Insurance company	2021	Link
8	AMF	Sweden	Pension/super/retire/provident	2021	Link
9	Assurances du Groupe BPCE	France	Insurance company	Due Oct 23	Due Oct 23
10	Aviva Plc	United Kingdom	Insurance company	2021	Link
11	AXA Group	France	Insurance company	2021	Link
12	Bayerische Versorgungskammer	Germany	Insurance company	2022	Link
13	BNP Paribas Cardif	France	Insurance company	2022	Link
14	BT Pension Scheme	United Kingdom	Pension/super/retire/provident	2022	Link
15	Caisse de dépot et placement du Québec (CDPQ)	Canada	Pension/super/retire/provident	2021	Link
16	California Public Employees' Retirement System CalPERS	United States of America	Pension/super/retire/provident	2022	Link
17	CDC - Caisse des dépôts et consignations	France	Sovereign wealth fund or government control fund	2021	Link
18	Church Commissioners for England	United Kingdom	Endowment/philanthropy/family offices	2021	Link
19	CNP Assurances	France	Insurance company	2021	Link
20	Crédit Agricole Assurances	France	Insurance company	2023	Link
21	Danica Pension	Denmark	Pension/super/retire/provident	2021	Link
22	David Rockefeller Fund	United States of America	Endowment/philanthropy/family offices	2021	Link
23	ERAFP—Etablissement de Retraite Additionnelle de la Fonction Publique Pension Scheme	France	Pension/super/retire/provident	2021	Link

#	Member	Country	Type	Data provided to NZAOA Secretariat	Link
24	Eskom Pension and Provident Fund	South Africa	Pension/super/retire/provident	Due 2024	Due 2024
25	Folksam	Sweden	Insurance company	2021	Link
26	Fonds de réserve pour les retraites - FRR	France	Sovereign wealth fund or government control fund	2021	Link
27	FSRG represented by FGIS	Gabon	Sovereign wealth fund or government control fund	Overdue	Overdue
28	Generali Group	Italy	Insurance company	2021	Link
29	Gothaer Group	Germany	Insurance company	2023	Link
30	Group Versicherungskammer	Germany	Insurance company	Due Nov 23	Due Nov 23
31	Groupama	France	Insurance company	2023	Link
32	HUK-COBURG Versicherungsgruppe	Germany	Insurance company	2023	Link
33	Industriens Pension	Denmark	Pension/super/retire/provident	2023	Link
34	Intesa Sanpaolo Vita S.p.A.	Italy	Insurance company	2023	Link
35	Jessie Smith Noyes Foundation	United States of America	Endowment/philanthropy/family offices	Due Nov 23	Due Nov 23
36	Just Group Plc	United Kingdom	Pension/super/retire/provident	Due 2024	Due 2024
37	KENFO	Germany	Sovereign wealth fund or government control fund	2021	Link
38	Lægernes Pensionskasse	Denmark	Pension/super/retire/provident	2023	Link
39	Legal & General	United Kingdom	Insurance company	2022	Link
40	LVM Landwirtschaftlicher Versicherungsverein Münster a.G	Germany	Insurance company	2023	Link
41	M&G (Prudential Assurance Company)	United Kingdom	Insurance company	2023	Link
42	MAIF	France	Insurance company	2023	Link
43	MAPFRE	Spain	Insurance company	Due 2024	Due 2024
44	Meiji Yasuda Life Insurance Company	Japan	Insurance company	2023	Link
45	Munich Re	Germany	Insurance company	2021	Link
46	Nippon Life Insurance Company	Japan	Insurance company	2023	Link
47	Nordea Life & Pensions	Sweden	Insurance company	2021	Link
48	Novartis Pension Fund	Switzerland	Pension/super/retire/provident	2023	Link
49	Old Mutual	South Africa	Insurance company	2023	Link

#	Member	Country	Type	Data provided to NZAOA Secretariat	Link
50	P+	Denmark	Pension/super/retire/provident	2022	Link
51	Pensioenfonds Detailhandel	Netherlands	Pension/super/retire/provident	2023	Link
52	Pension Insurance Corporation	United Kingdom	Insurance company	2023	Link
53	PensionDanmark	Denmark	Pension/super/retire/provident	2021	Link
54	Pensions Caixa 30 FP	Spain	Pension/super/retire/provident	Due 2024	Due 2024
55	PFA Pension	Denmark	Pension/super/retire/provident	2021	Link
56	Phoenix Group	United Kingdom	Insurance company	2022	Link
57	PKA	Denmark	Pension/super/retire/provident	2022	Link
58	Provinzial Holding AG	Germany	Insurance company	Due Nov 23	Due Nov 23
59	Prudential plc	Hong Kong, China	Insurance company	2022	Link
60	QBE Insurance Group Limited	Australia	Insurance company	2022	Link
61	R+V Versicherungen	Germany	Insurance company	Due 2024	Due 2024
62	Rothesay	United Kingdom	Insurance company	2022	Link
63	Russell Family Foundation	United States of America	Endowment/philanthropy/family offices	Due Oct 23	Due Oct 23
64	Sammelstiftung Vita	Switzerland	Pension/super/retire/provident	2023	Link
65	SCOR SE	France	Insurance company	2021	Link
66	Société Générale Assurances	France	Insurance company	2022	Link
67	SOMPO Holdings	Japan	Insurance company	2023	Link
68	Sparkassen-Versicherung Sachsen	Germany	Insurance company	2023	Link
69	St. James's Place Group	United Kingdom	Insurance company	2022	Link
70	Stichting pensioenfonds IBM Nederland	Netherlands	Pension/super/retire/provident	2023	Link
71	Stichting Pensioenfonds Medisch Specialisten	Netherlands	Pension/super/retire/provident	2023	Link
72	Storebrand ASA	Norway	Insurance company	2021	Link
73	Sumitomo Life Insurance Company	Japan	Insurance company	2023	Link
74	SV SparkassenVersicherung	Germany	Insurance company	2023	Link
75	Swiss Re Ltd	Switzerland	Insurance company	2021	Link

#	Member	Country	Type	Data provided to NZAOA Secretariat	Link
76	The Co-operators Group	Canada	Insurance company	2023	Link
77	The Dai-ichi Life Insurance Company, Limited	Japan	Insurance company	2021	Link
78	Unilever Pension Funds (Univest Company)	Netherlands	Pension/super/retire/provident	2022	Link
79	Unipol Gruppo S.p.A - UnipolSai Assicurazioni	Italy	Insurance company	2023	Link
80	UNIQA Insurance Group AG	Austria	Insurance company	2023	Link
81	United Nations Joint Staff Pension Fund	United States of America	Pension/super/retire/provident	2021	Link
82	University of Toronto Asset Management Corporation (re University of Toronto Endowment)	Canada	Pension/super/retire/provident	2023	Link
83	University Pension Plan	Canada	Pension/super/retire/provident	Due Nov 23	Due Nov 23
84	VidaCaixa	Spain	Insurance company	2023	Link
85	Wespath Benefits and Investments	United States of America	Pension/super/retire/provident	2021	Link
86	Zurich Insurance Group	Switzerland	Insurance company	2021	Link

2.3 Measuring impact: tracking absolute financed emissions

As discussed in the section on the Alliance's theory of change, the ultimate goal and measure of success of the Alliance is a credible transition of members' investment portfolios to net-zero financed GHG emissions by 2050. The Alliance's target-setting framework is conceptualised with this overriding purpose in mind.

The Alliance's governance lays out its requirement for members to publicly disclose and report their absolute financed GHG emissions. This is intended to demonstrate transparency and accountability throughout members' respective journeys towards decarbonisation. In 2023, the Alliance secured reliable and reportable data on members absolute financed GHG emissions, which is shown in Figure 7. The columns on the 'x' axis show change in emissions between December 2018 and December 2022. The figure reveals the aggregated financed GHG emissions of all members that set their targets and reported emission data. In addition, it breaks up the aggregation into cohorts of members (shown in different colours), organised according to the year in which members started reporting these data. The dark green, for example, groups all members that defined their base year in 2019 and reported their emissions thereafter. The figure therefore also shows the specific diminishment in emissions for each of the cohorts throughout the years.

Given the Alliance's rapid membership growth since 2019 (shown as the black dotted line), the total of the Alliance's absolute financed GHG emissions had increased until 2021 to 221.1 million tons of carbon dioxide equivalent (tCO_2e). **However, despite further growth in membership, the absolute financed GHG emissions decreased in 2022 to a total of 213.4 million tCO_2e (Figure 7).** The data coverage for financed emissions currently hovers at around 70% of members' AuM but shows a trend of increasing every year.

To analyse progress on emission reduction in the most precise fashion, each cohort should be viewed separately. Data shown in Figure 7 presents **a marked downward trend for each cohort**. The largest cohort, made up of members that set their targets in 2019, reduced their financed GHG emissions from 130.3 million tCO_2e in 2019 to 114.9 million tCO_2e in 2022. Similar reduction trends can be observed for the 2018, 2020 and 2021 cohorts. Thus, a **crucial observation emerges, while the overall membership of the Alliance is growing (pushing up total financed GHG emissions), members that have already set their targets show a significant decrease in total financed GHG emissions (particularly from 2021 to 2022).**

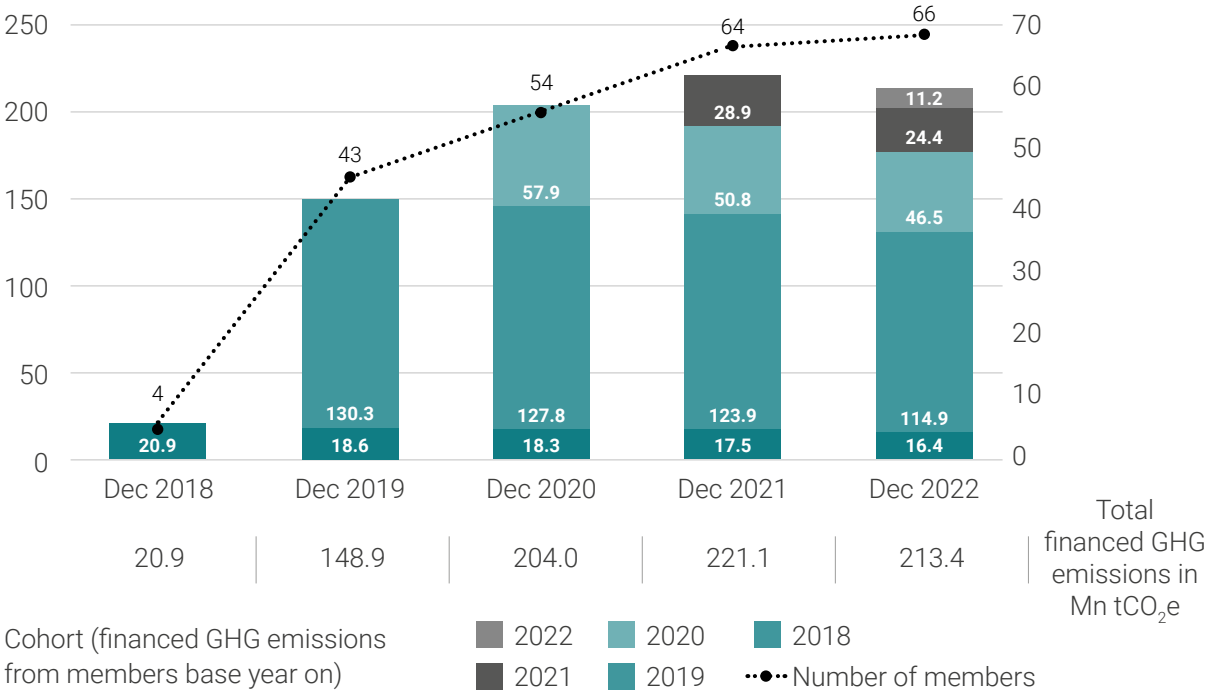


Figure 7: Absolute financed GHG emissions of the Alliance members with intermediate targets (2018–2022) | **Source:** Data reported by the Alliance members to the Alliance Secretariat in May 2023.

To dive deeper into analysing the financed GHG emissions of each cohort, Figure 8 shows the reductions in percentage. Looking at the 2019 cohort again, the data shows that by 2022 these members reduced their absolute financed emissions by 12% (compared to 2019 levels), while the 2020 cohort reduced their emissions by a staggering 20% (compared to 2020 levels).

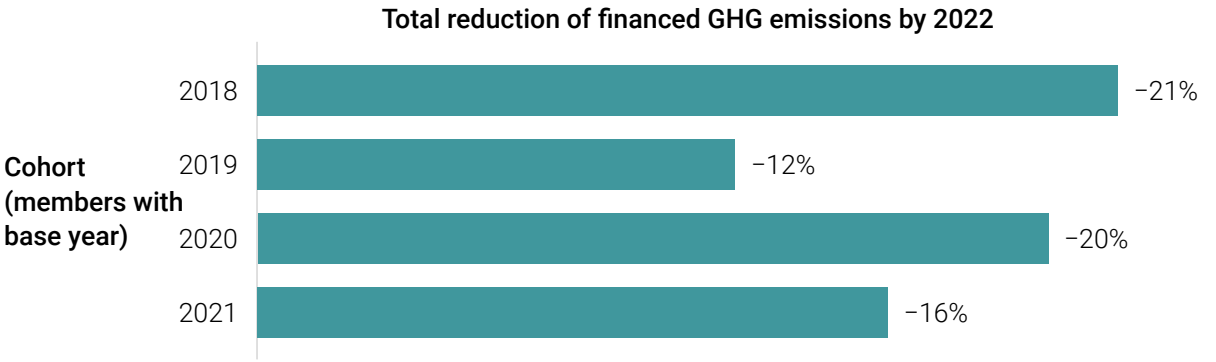


Figure 8: Members' total reduction of financed GHG emissions in December 2022 (members grouped by first reporting year) | **Source:** Data reported by the Alliance members to the Alliance Secretariat in May 2023.

However, it is important to note that factors beyond membership size and portfolio decarbonisation can also affect data on absolute financed GHG emissions. Some of the following factors may influence variation from one year to another:

- Upward or downward variation of real-world GHG emissions,
- Improvement of GHG emission disclosures by investee companies,
- Upward or downward variation of absolute AuM of each asset owner,
- Percentage of AuM allocated to asset classes already covered by a GHG emission measurement methodology (e.g., corporate bonds, listed equities, real estate, etc.),
- The capacity and choice of each asset owner to report Scope 3 emissions on top of Scope 1 and 2 emissions,
- The time lag between GHG emissions reporting by investee companies and GHG emissions accounting by asset owners,
- Other factors such as the impact of the Covid-19 pandemic and the war in Ukraine.

3. Progress on sub-portfolio and sector targets

3.1 Key findings on sub-portfolio targets

In the 2023 reporting cycle, 25 members set sub-portfolio target for the first time. In total, 67 members now have a sub-portfolio target, and their combined AuM is USD 8 trillion, which is marked as "AuM covered by (NZAOA) pledge" in Figure 9. The total AuM that the sub-portfolio targets apply to is now USD 3.4 trillion. The discrepancy between the two numbers is due to the fact that target-setting methodologies are still in development for certain asset classes and thus certain parts of members portfolio are still not encompassed.

The increase in AuM covered by the sub-portfolio target is also modest compared to the previous year. This can be caused by a number of factors, although changes in valuation of funds and asset allocation are likely to have played the biggest role.

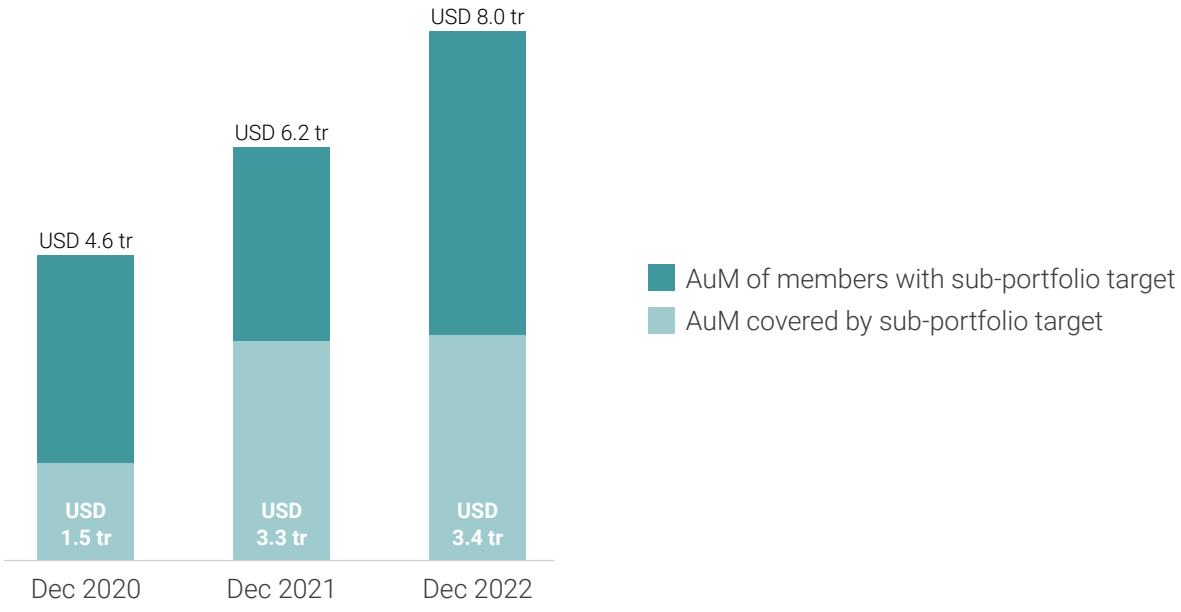


Figure 9: AuM of members setting sub-portfolio targets and the portion of AuM covered by such targets | **Source:** Data reported by the Alliance members to the Alliance Secretariat in May 2023.

The Protocol sets the CO_2e reduction ranges, in line with the IPCC's no- or limited-overshoot 1.5°C Special Report scenarios, to 22%–32% for 2025 and 40%–60% for 2030. Sub-portfolio targets can be formulated as either intensity targets or absolute emissions reduction targets. They can be applied to individual or combined asset classes. The Alliance's Target-Setting Protocol (2023a) elaborates on the benefits and drawbacks of both approaches.

Figure 10 to Figure 13 show the highest, the lowest, as well as the average targeted emissions reduction for each asset class, disaggregated by absolute and intensity-based targets. The targets members set on the listed equity asset class cover a wide range of intended emissions reduction by 2025. The average targeted reductions for absolute and intensity-based targets were 27.2% and 26.2%, respectively (Figure 10).

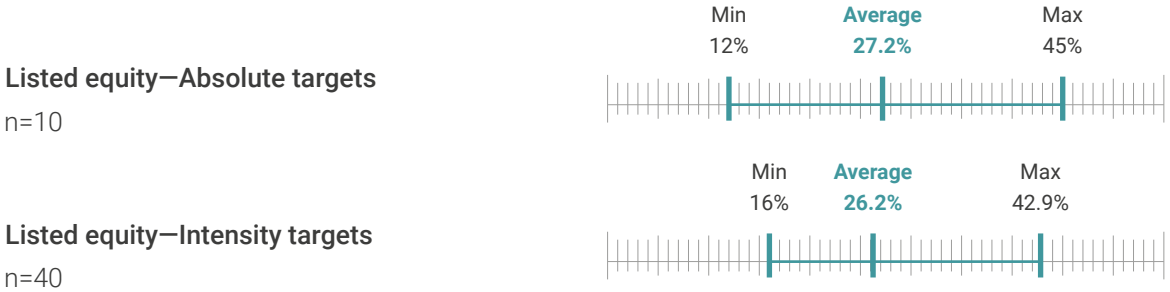


Figure 10: Ambition of sub-portfolio targets set for listed equity

For corporate debt, the targeted ambition for 2025 are slightly higher than for listed equity across the different metrics. While the average target reductions for intensity targets is exactly the same as for listed equity with 26.2%, absolute targets show a slightly higher average of targeted reduction of 28.9% (Figure 11).

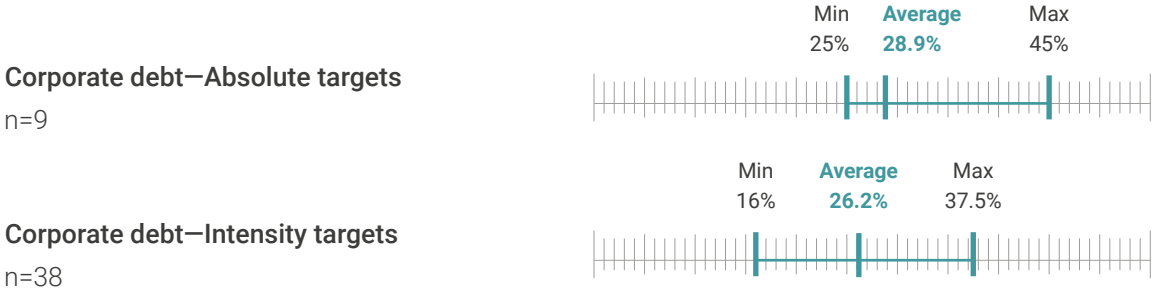


Figure 11: Ambition of sub-portfolio targets set for corporate debt

Real estate is a very location-specific asset class, which is why there is a wide range of targeted reductions seen in Figure 12. It is important to note that also for the real estate asset class members shall follow science-based 1.5°C pathways with no or limited overshoot (or CRREM pathways) for choosing their decarbonisation rate, these will however differ depending on the type of building and their geographic location. The average targeted reduction by 2025 is slightly lower for real estate, but it still hovers around 23 to 26%.

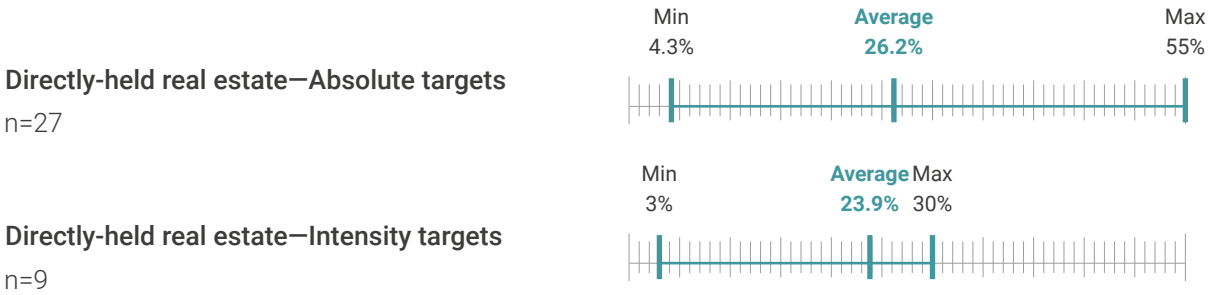


Figure 12: Ambition of sub-portfolio targets set for directly-held real estate

The number of organisations setting combined targets is significantly lower than the number of members setting targets on individual asset classes (see "N" in Figures 10–13). This is a shift from previous years, when combined targets were more dominant. Figure 12 shows that the average targeted reductions for combined asset classes are high, with the targets on combined bonds, equities, real estate, and infrastructure reaching 32%. Therefore, members' average targeted reduction for combined asset classes arrives at the highest end of the reduction range laid out in the third edition of the Target-Setting Protocol (2023a).

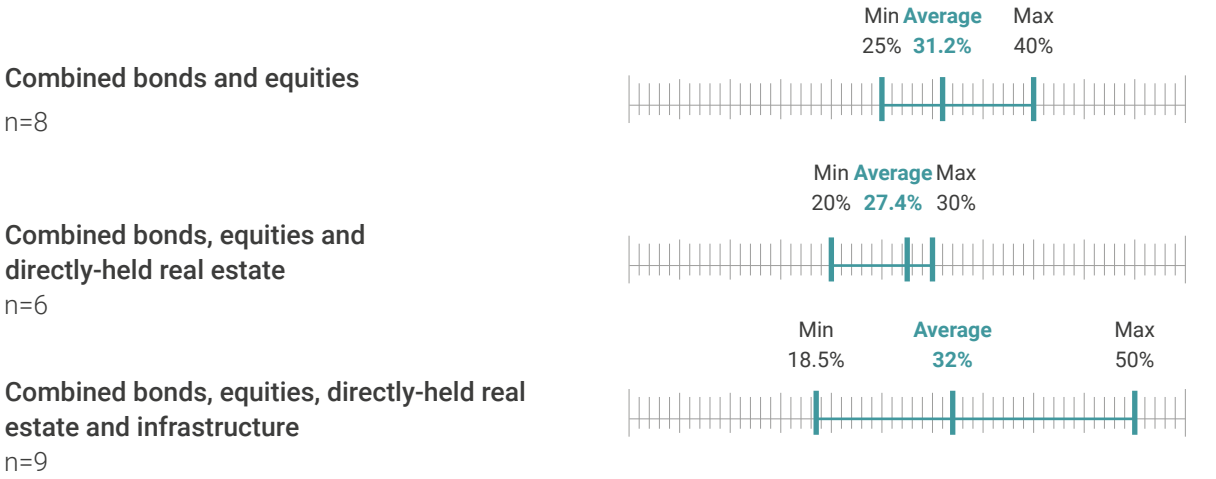


Figure 13: Ambition of sub-portfolio targets set for combined asset classes (bonds, equities, real estate and infrastructure)

Members of the Alliance should set targets on the entirety of their AuM, for asset classes where appropriate target-setting methodologies exist and where data are available. Figure 14 shows the average proportion of members' AuM in listed equity, corporate debt and direct real estate that was covered in actuality by a sub-portfolio target. On average, publicly traded corporate debt and listed equity have nearly full coverage under sub-portfolio targets—93% and 95%, respectively. In the case of listed equities, the Alliance increased the proportion of the AuM covered by a sub-portfolio target, from 91% in 2022 (see NZAOA 2022b) to 95% this year. Real estate coverage remains hindered by limited data availability.

	AuM pledge (USD trillion)	AuM target (USD trillion)	Percentage of AuM coverage
Publicly traded corporate debt	1.79	1.67	93%
Listed equity	1.13	1.07	95%
Directly-held real estate	0.41	0.32	78%

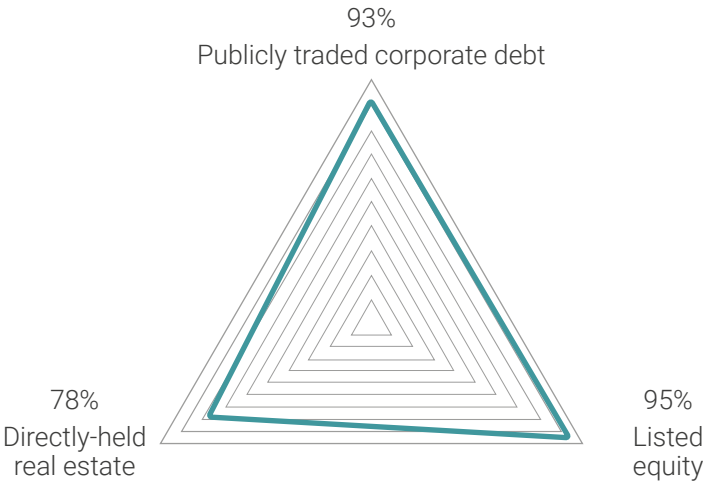


Figure 14: Portion of members' AuM covered by their sub-portfolio targets disaggregated by asset class | **Source:** Data reported by members of the Alliance to the Alliance Secretariat in May 2023.

Case study: Nippon Life's sub-portfolio target in its wider target-setting approach

The rising frequency of extreme weather events put addressing climate change, as part of broader sustainability topics, on top of Nippon Life's agenda. In 2021, Nippon Life joined the Alliance to further enhance its efforts to limit global warming. These efforts are reflected in the company's sub-portfolio target. However, portfolios of diversified investors remain tied to the real economy. Thus, Nippon Life complements its sub-portfolio target with its engagement and investing in climate solutions targets, to contribute to moving the real economy to net zero.

For its sub-portfolio target, Nippon Life has pledged to reduce the carbon intensity of Scope 1 and 2 emissions of its listed equities, corporate bonds, and real estate portfolio by 49% by 2030 (using 2020 as its base year). This target is to approximately halve the portfolio emissions by 2030 to achieve net-zero by 2050, which is in line with the requirements of the Target-Setting Protocol. This target also slightly exceeds the ambition of the Japanese government's Nationally Determined Contribution (NDC) under the Paris Agreement (Government of Japan 2021). The company is currently on track to meet its 2030 target, having already achieved a 15% reduction as of 2021. To successfully achieve its ambitious 2030 target, Nippon Life will continuously enhance its strategy, the key pillar of which is a combination of stewardship activity and providing sufficient finance to enable a net-zero transition.

Nippon Life believes that stewardship is the most powerful tool for investors in addressing sustainability issues. Its target is to engage with approximately 70 companies per year. The chosen companies account for roughly 80 of Nippon Life's financed emissions in its domestic equity and corporate bond portfolios. As part of its engagement strategy, Nippon Life requests that these highest emitters formulate and disclose their own decarbonisation roadmaps. From 2023, Nippon Life has strengthened its strategy by explicitly requesting companies to disclose their efforts to reduce Scope 3 emissions. In addition, going forward, Nippon Life will measure and disclose progress on attaining its engagement objectives with a particular company using a four-stage milestone system.

Nippon Life also recognises that sequencing finance, including in the hard to abate sectors, to prevent shock and volatility is crucial to a successful net-zero transition. Accordingly, Nippon Life has established an investment target of 3 trillion yen towards its "Decarbonisation Financing Facility", which supplements its existing green finance endeavours for the period between fiscal years 2017 and 2023.

Through its engagement and investing in climate solutions measures, Nippon Life aims to achieve its sub-portfolio target as well as contribute to a sound transition of the real economy.

3.2 Key findings on sector targets

Sector targets contribute to the achievement of total portfolio decarbonisation while driving appropriate sector-level alignment with the transition. The Alliance's Target-Setting Protocol (2023a) provides detailed guidance on using sector pathways to set targets on those sectors that are material for a member's portfolio.

The number of institutions setting sector targets has not significantly changed since the previous 2022 Progress Report (NZAOA 2022b). However, ambition levels and coverage have somewhat increased since then. For example, five members set targets on the oil and gas sector in 2022 with a targeted reduction of 20% in tCO_2e per petajoule (PJ), whereas seven members with targets on the same sector in 2023 targeted reduction of 28.7% (Figure 15). Increased data availability and greater familiarity with sectoral decarbonisation pathways are the likely drivers behind this shift.

Metrics used to set sector targets	
Oil and gas	Operational carbon intensity (Scope 1 & 2): mio. tCO_2e/PJ
Utilities	tCO_2e/MWh
Cement and steel	tCO_2/ton of cement | tCO_2/ton of steel
Shipping	gCO_2/tkm
Light and heavy duty	GCO_2/pkm
Aviation	gCO_2/pkm or gCO_2/rtk

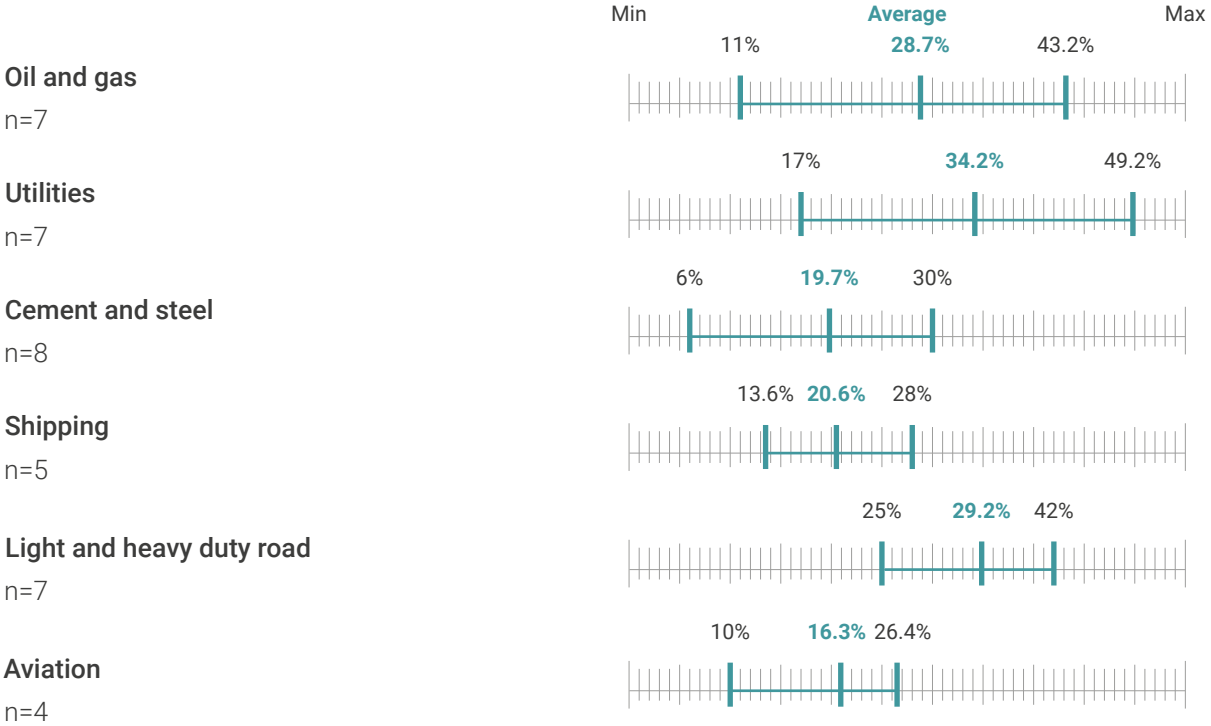


Figure 15: Targets set in 2023 on sectoral emission-intensity reductions | **Source:** Data reported by the Alliance members to the Alliance Secretariat in May 2023.

3.3 Key Members' implementation of the 2020 thermal coal position

The Alliance published its first Position on Thermal Coal in November 2020. As laid out in the Alliance's Governance Document, members are required to develop individual positions in alignment with all of the Alliance's position that include expectations for members. Alignment is taken to mean that a member's individual investment policy or approach is comprised of the key elements of a corresponding Alliance position. Members shall achieve alignment within 12 months of a position's publication date (or within 12 months of joining the Alliance for new members) or explain why they cannot do so.

In this year's reporting cycle, members reported against the 2020 Position on Thermal Coal. This position is currently undergoing a review and will be updated.

The success of member implementation is shown in Figure 16. The majority of Alliance members, 97%, have a position on thermal coal in place. Out of those members, 82% have positions that are 'aligned' with the Alliance's position—their positions meet more than two thirds of the key implementation criteria. The Alliance categorises as 'partially aligned' those members, whose positions align with 30% of the key implementation criteria. There are 3% of such members. Lastly, 15% of members with a position on thermal coal do not align with the Alliance's position.

Members who do not have a position in place or whose position is not in line with the Alliance's position have been asked, according to the Alliance's Accountability Mechanism, to provide their explanation. The Peer Review Group is currently reviewing their responses.

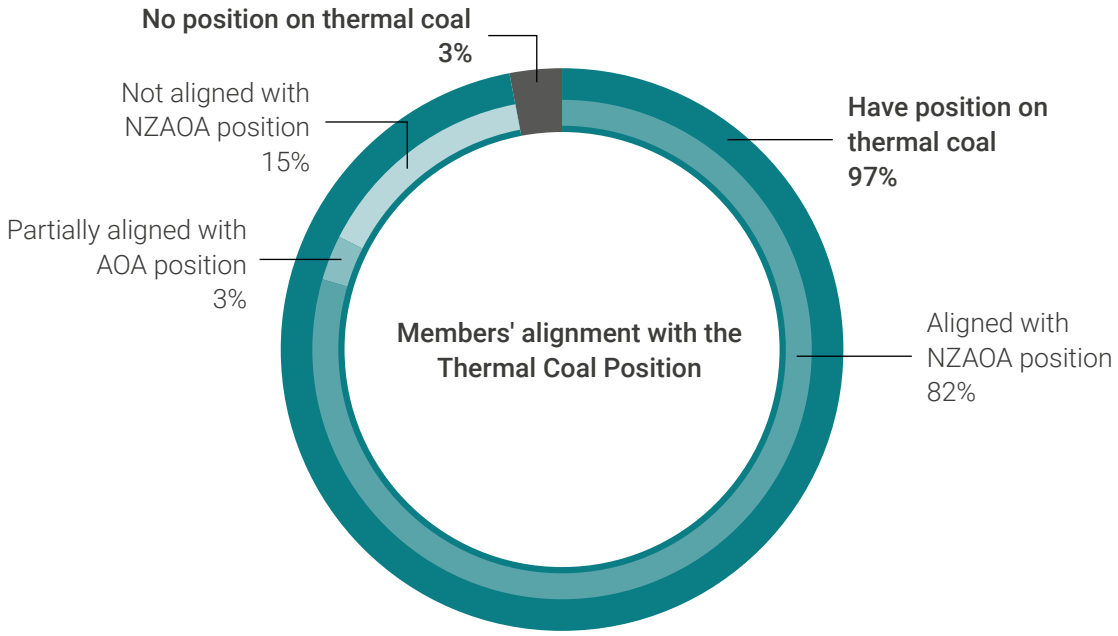


Figure 16: Members' alignment with the Alliance's Thermal Coal Position | **Source:** Data reported by the Alliance members to the Alliance Secretariat in May 2023.

Case study: CNP Assurance's thermal coal position

CNP Assurances first implemented a policy to reduce its exposure to thermal coal in its investment portfolio in 2015. In an effort to fully align with 1.5°C scenarios, the company updated its policy in 2020 and defined a goal to fully phase out direct exposure to thermal coal by 2030 for EU and OECD countries and by 2040 for the rest of the world.

CNP Assurances thermal coal policy is fully aligned with the Alliance's Position on Thermal Coal, especially the principles of not financing further thermal coal power plants; cancelling all new thermal coal projects still in their pre-construction phase; and phasing out of all unabated existing coal-fired electricity generation. The company achieved full alignment by developing internal exclusion and engagement policies.

Exclusion policy: Since 2015, CNP Assurances has gradually implemented a thermal coal exclusion policy by regularly revising its exclusion criteria. It has completely divested from companies earning more than 20% of their revenue from thermal coal and excludes any new investments in companies that:

- derive more than 5% of their revenue from thermal coal related activities,
- have thermal coal-fired electricity generation capacity exceeding 5 GW,
- produce over 10 million metric tons of thermal coal a year,
- develop new coal plants, coal mines or infrastructure contributing to the use of thermal coal,
- or have not adopted a plan to cease thermal coal operations by 2030 in EU and OECD countries and by 2040 in the rest of the world.

Engagement policy: In 2020 and 2021, CNP Assurances asked all directly-owned companies to publish an exit plan for thermal coal (aligned with the 2030 phase-out timeline for EU and OECD countries, and 2040 for the rest of the world) by the end of 2021. Engagement letters were sent in 2020 and in 2021 and received a response rate of 90% over both years.

By the end of 2021, following two years of dialogue between CNP Assurances and 18 directly-owned companies, the engagement results were as follows:

Fourteen companies had published an adequate thermal coal exit plan (an increase from nine companies who had done so at the end of 2019);

- two companies had published an inadequate thermal coal exit plan (a decrease from five such companies at the end of 2019);
- two companies had not published a thermal coal exit plan (a decrease from four such companies at the end of 2019).
- Thus, improvements were achieved for each segment. At the end of 2021, the four companies still failing to meet CNP Assurances' expectations were excluded from new investments. In 2022, at the request of CNP Assurances, Ostrum AM pursued additional dialogue with the two companies with no exit plan. One of the companies did end up providing an adequate exit plan, while the other did not, and its shares were sold.

4. Progress on engagement

4.1 Key findings and interpretation

There are currently eight engagement KPIs that members choose from to set targets on. Figure 17 lists all engagement KPIs and shows how many members chose them (from 2021 to 2023). With membership growth, these absolute numbers will increase naturally. However, the increase in members' interest is particularly noticeable for a few KPIs.

First, members of the Alliance have continued to report strong interest in corporate engagement through collaborative initiatives, with a jump from 22 members setting targets on this KPI in 2022 to 37 members doing so this year. The Alliance's Engagement Track encourages members to find most effective ways to conduct corporate engagement, including through active participation in initiatives such as CA100+.[12] In fact, Track members have utilised the CA100+ platform to contribute to sector and value chain engagements—another important stewardship lever in pursuing GHG emissions reduction outcomes in the real economy.

Since the 2022 Progress Report, the Track has focused on facilitating greater engagement between members and their asset managers. As a consequence, there has been a distinct increase of members setting targets on asset manager engagement, from 19 members in 2021 to 34 members in 2023. In addition, there has been a rise in members targeting contribution to the Engagement Track's written outputs. This year, 31 members set targets on contributions to the Alliance's position papers, an increase of 100% since 2022. This is a welcome increase as it reflects the member-driven character of the Alliance. The Alliance's Position Paper on the Oil and Gas Sector (2023b) represented a particularly important delivery for the Engagement Track and drove much of the rise in member participation. The Track intends to nurture this increase in members' participation over the coming year.

12 Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. Learn more: climateaction100.org/

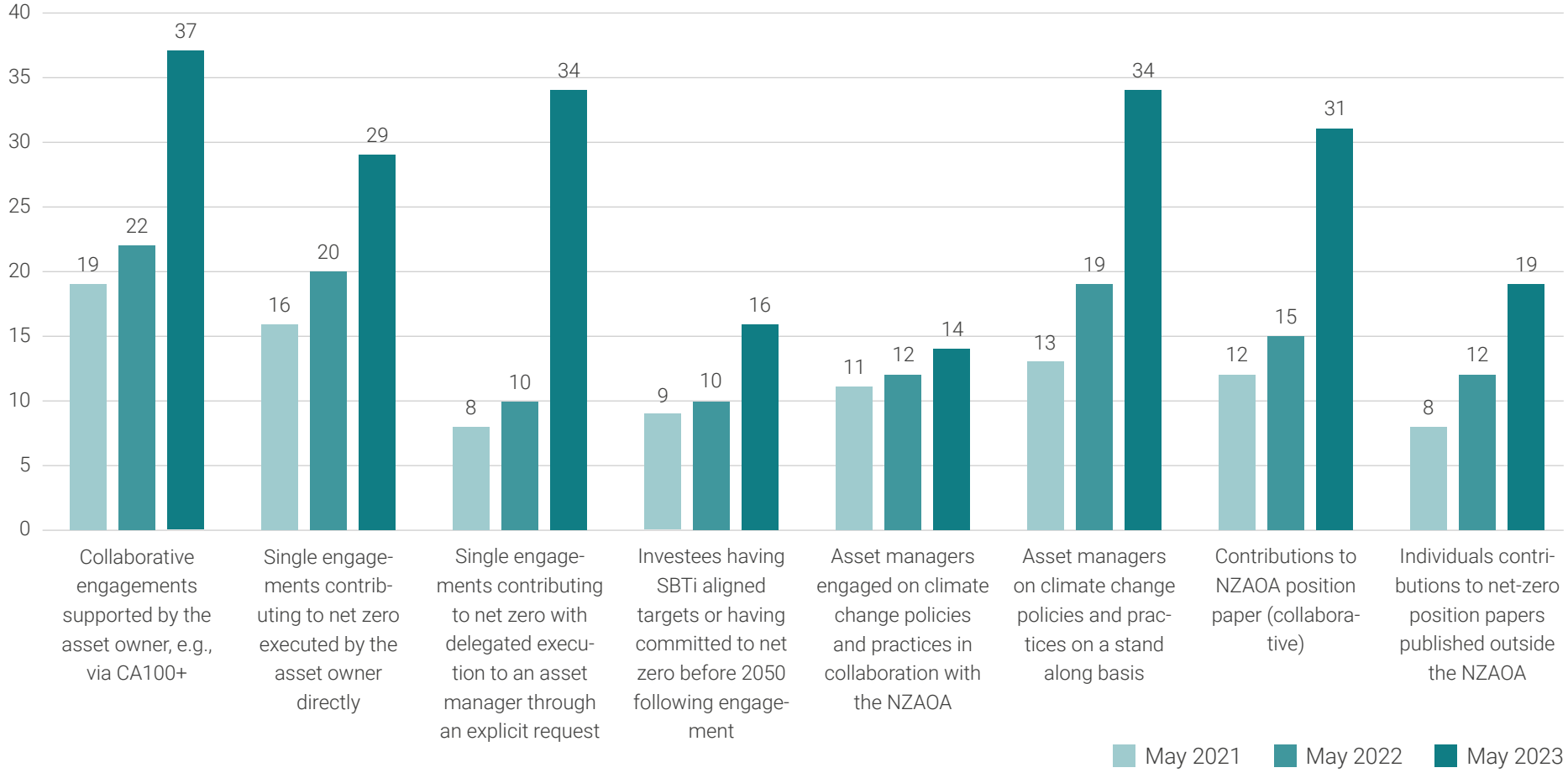


Figure 17: Number of members setting targets on engagement KPIs from May 2021 to May 2023[13] | **Source:** Data reported by members of the Alliance to the Alliance Secretariat in May 2023.

13 Two KPIs that were added in 2023 are not presented in this chart.

To put the total number of members choosing various engagement KPIs (as seen in Figure 17) into perspective, it is important to compare these to the minimum requirements set out by the Alliance's Target-Setting Protocol. In the latest (third) edition of the protocol, requirements were raised with the view of strengthening members' ambition levels. Members are now required to set targets on a minimum of two Engagement KPIs (instead of one, as was the case previously). Figure 18 shows that members have exceeded even these more ambitious requirements. A total of 238 KPIs were selected for target setting, which means that members chose, on average, slightly more than three KPIs. Thus, members set almost 100 additional KPIs, on top of the Alliance's minimum requirements.

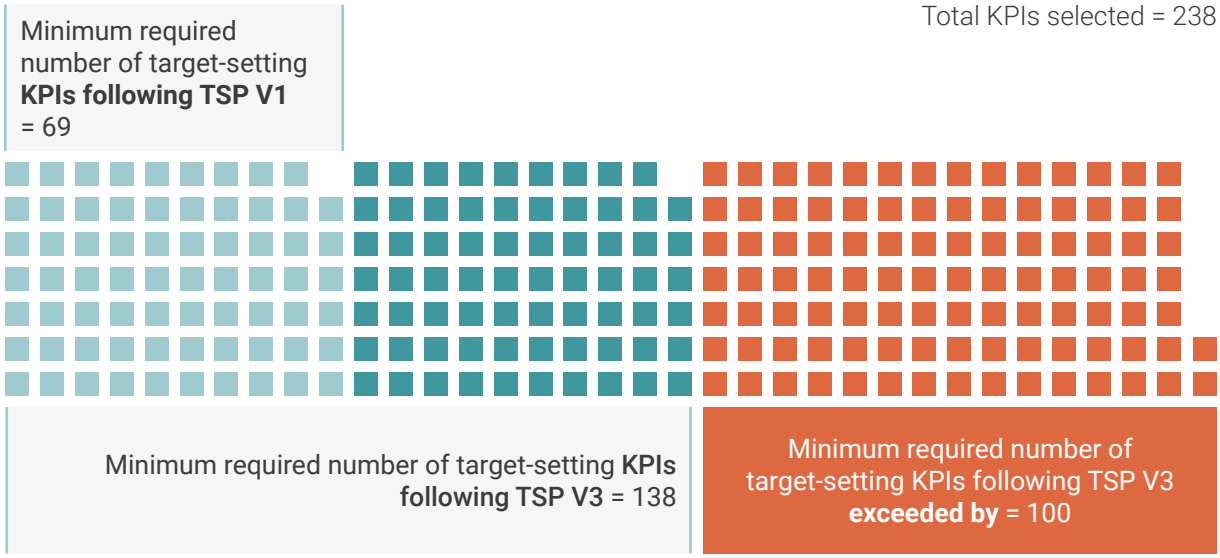


Figure 18: Number of engagement KPIs members selected (compared to TSP1 and TSP3 requirements)[14]

4.2 Focus on the oil and gas sector, climate lobbying, and asset owner leadership on asset manager engagement

Engaging relevant stakeholders remains one of the most effective levers for asset owners to influence and support the net-zero transition in the real economy.

In 2023, the Engagement Track spearheaded development of the Position on the Oil and Sector, expressing the Alliance's collective perspective on one of the most complex sectors for net-zero investors. The position is the result of over two years of discussions, dozens of dedicated workshops and convenings, and the integration of over 200 instances of direct feedback from members of the Alliance and its Strategic Advisors. The position is organised into expectations for investors and policymakers, as well as companies. By expanding the engagement focus beyond corporates, it implements the vision laid out in the Alliance's Future of Investor Engagement paper (2022c). The Alli-

14 TSP1 and TSP3 refer to the Alliance's Target-Setting Protocol First and Third Editions, respectively.

ance is confident that this position offers clear guidelines for members and other key stakeholders to respond to both scientific and economic imperatives of a net-zero transition in the oil and gas sector.

Further building on the principles put forth in the Future of Investor Engagement paper, the Alliance published a list of best practices for asset owner engagement of asset managers in its Aligning Climate Policy Engagement with Net-Zero Commitments paper (2023d). This work reflects the Alliance's priority of strengthening the climate-related dialogue with the asset manager community by capitalising on the direct links that its asset owner members have to their respective asset managers. The best practices outlined in the paper are intended to bridge the gap between the need for investor action on policy alignment, on the one hand, and asset owners' lack of resources for engaging their asset managers on this topic, on the other.

Expanding on this work, the Engagement Track is leading on the preparation of a paper to outline the expectations of asset managers' engagement programmes and their alignment with the ambitions of members of the Alliance. To help inform the drafting process, the Track brought together approximately 20 climate stewardship leaders, from both the asset owner and asset manager community, to discuss the challenges and opportunities in net-zero related engagement. The in-person workshop, hosted by Aegon in London, generated several outputs that will be incorporated into the paper in order to strengthen its practicality and implementation.

5. Progress on investing in climate solutions

Investing in climate solutions is crucial for reaching the set goal of limiting global warming to 1.5°C. To enable consistency across the Alliance's membership, an updated definition for "climate solution investments" has been established with the latest edition of the Target-Setting Protocol. The revised definition is as follows: "Climate solution investments are investments in economic activities considered to contribute to climate change mitigation (including transition enabling) and adaptation, in alignment with existing climate-related sustainability taxonomies and other generally acknowledged climate-related frameworks." This definition maintains that economic activities must not cause significant harm to environmental or social objectives while allowing members the flexibility to align with broadly accepted taxonomies and frameworks that account for regional differences.

The following sub-chapters provides information on members' progress on investments in climate solutions (5.1) and on the work of the Transition Financing Track (5.2). It also offers a case study of target application (5.3).

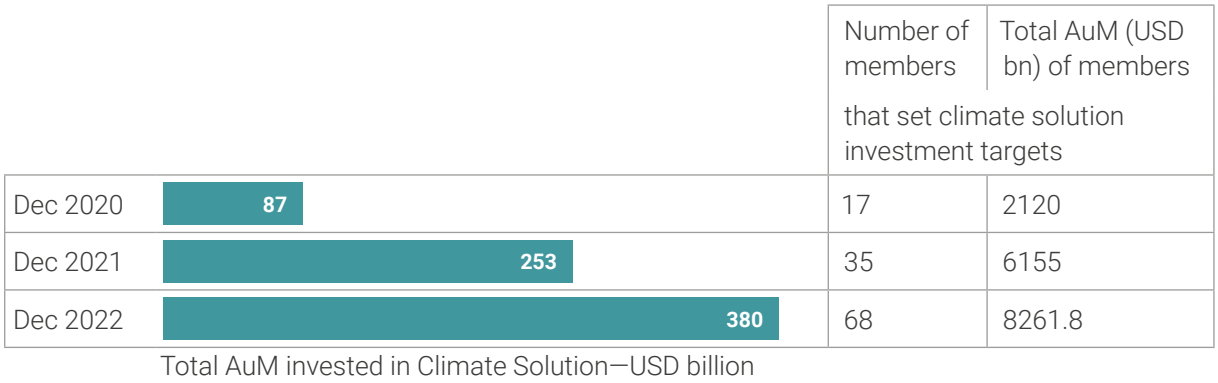
5.1 Key findings and interpretation

Currently, as per the third edition of the Alliance's Target-Setting Protocol (2023a), it is optional for members that set investment targets for climate solutions to define that target in quantitative terms. However, members are required to report the total amount of their climate solution investments annually. Over time, these should ideally demonstrate an increasing trend.

Since its inception, the Alliance has seen the total AuM in climate solutions follow a positive trajectory. The number of members setting climate solution targets has also increased, from 35 members in 2021 to 68 in 2022. The total amount of AuM invested in climate solutions reached USD 380.6 billion in 2023 (Figure 19). When considering this figure, it is important to note the growth in the Alliance's membership. In addition,

the basis of the 2020–2022 figures for a climate solution investment[15] do not include net-zero transition enabling investments, as per the updated definition. This new definition was outlined in the third edition of the Target-Setting Protocol, published in January 2023 (NZAOA 2023a, p.35).

Between 2021 and 2022, the total AuM of those Alliance members setting climate solution investment targets and their total investments in climate solutions grew more than 30% and 50% year-on-year, respectively. The 2022 aggregated data from members of the Alliance shows a positive trend in this proportion, with an average of 4.6% for 2022. This compares to 4% from 2021 data (NZAOA 2022b, p.43). However, the Alliance reported data shows that a considerable range exists among members when it comes to the share of climate solution investments as a percentage of a member's total AuM. Members reported figures as high as 46.8% and as low as 0.01%.



	Number of members that set climate solution investment targets	Total AuM (USD bn) of members that set climate solution investment targets
Dec 2020	17	2120
Dec 2021	35	6155
Dec 2022	68	8261.8

Figure 19: Growth in climate solution investments (December 2020 to December 2022) | **Source:** Data reported by the Alliance members to the Alliance Secretariat in May 2023.

With regards to asset class distribution within climate solutions investments, triple-digit growth is seen for infrastructure, private assets, supra-, sovereigns, agency bonds (issued green bond), and real estate (see Figure 20). Private assets and infrastructure both increased by 140%, which was the highest among asset classes reported. The Alliance has seen a year-on-year growth in climate solution investment across all asset classes reported apart from listed equity and "Other" (see Footnote 21).

15 Definition of climate solution investments as per the previous (second edition) of the Target-Setting Protocol: "Climate solution investments are investments in economic activities considered to contribute substantially to climate change mitigation (solutions substantially reducing greenhouse gases by avoiding, removing emissions/by sequestering carbon dioxide already in the atmosphere)/climate change adaptation (where that activity substantially contributes to enhancing adaptative capacity, strengthening resilience and reducing vulnerability to climate change). Economic activities making a substantial contribution to the first two objectives (climate change mitigation or adaptation) must be assessed to ensure they do not cause significant harm to all remaining environmental or social objectives." (NZAOA 2022d, p.67)

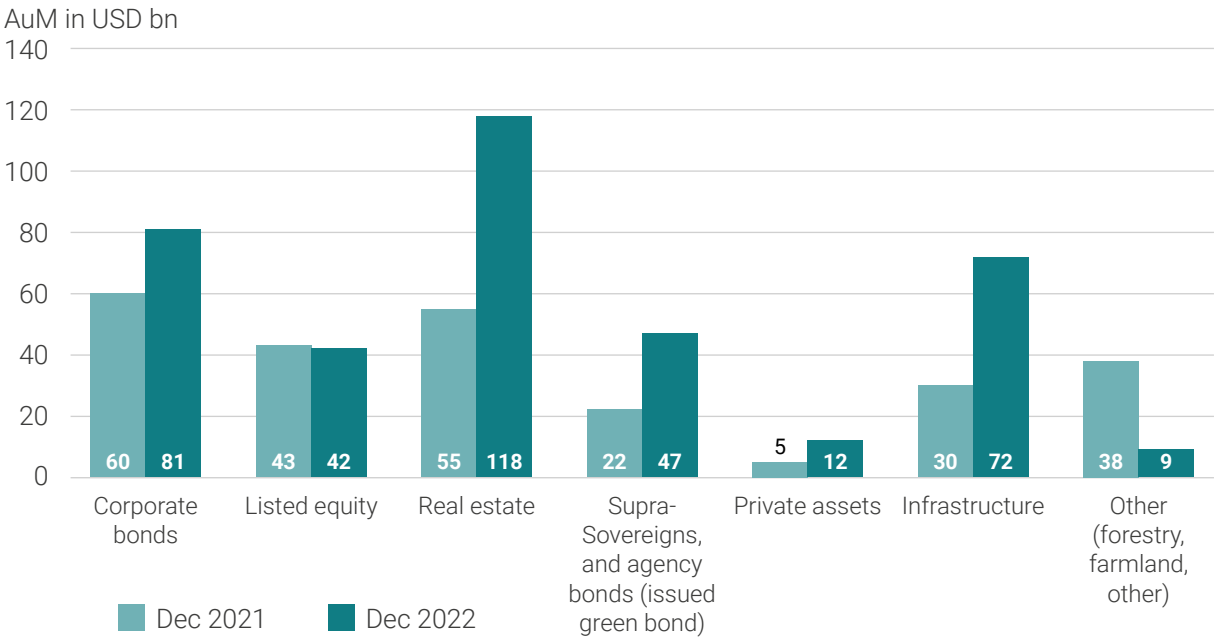


Figure 20: Asset class distribution of climate solution investments in 2021 and 2022[16] | **Source:** Data reported by the members of the Alliance to the Alliance Secretariat in May 2023.

The breakdown of climate solution investment by sector can be seen in figure 21. It shows that the bulk of the contribution comes from just two sectors—buildings and energy. Combined, these are responsible for 84% of all investments that could be allocated to sectors. This represents a small decrease, but still a similar proportion to the one shown in the 2022 Progress Report (NZAOA 2022b), in which both sectors comprised 90% of the climate solution investments of the Alliance.

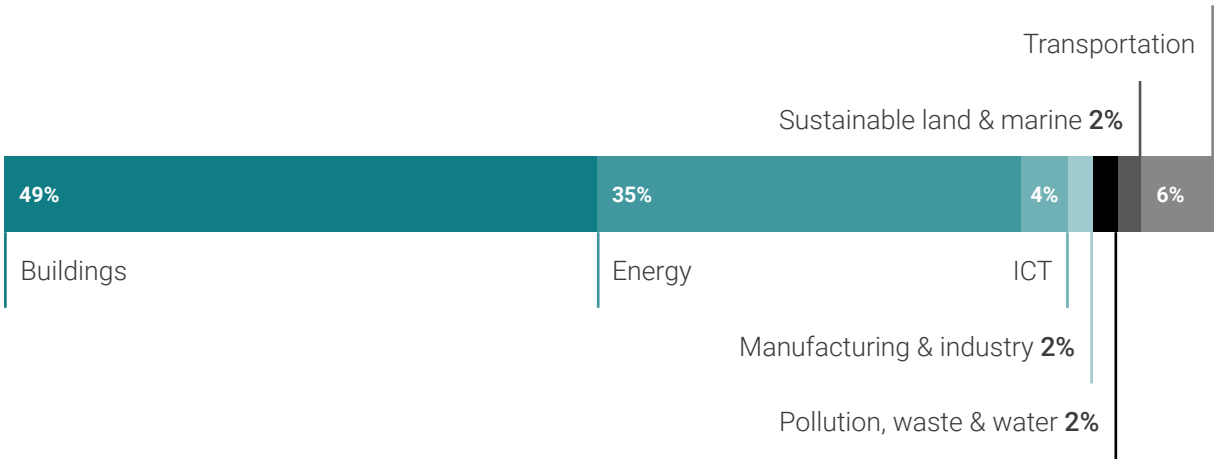


Figure 21: Percentage distribution of 2023 climate solution investments per sector[17,18] | **Source:** Data reported by members of the Alliance to the Alliance Secretariat in May 2023.

16 In the 2022 Progress Report (NZAOA 2022b), climate solution investments that could not be attributed to a specific asset class were included under the category "other". This category was removed in this progress report.

17 This chart covers climate solution investments which were assigned to sectors by the reporting asset owners. Out of the total sum of USD 380.6 billion of reported climate solution investments 40% could be allocated to sectors. Thus, the sector percentages were calculated based on the total value of assigned investments: USD 154.7 billion.

18 Energy sector refers to NACE D and GICS 10 and 55.

5.2 Pushing for greater transition financing

The IPCC (2022) estimates that employing mitigation options, which cost USD 100 or less per tCO_2e, could reduce global GHG emissions by at least half of 2019 levels by 2030. Thus, to reduce the costs of climate change mitigation and support the net-zero transition to a world that stays within the global warming limit of 1.5°C, the Alliance's Financing the Transition Track seeks to promote capital allocation to key net-zero transition drivers, including to emerging markets and developing countries.

In 2022, the Track centred its efforts on creating transparency around climate solutions investment opportunities, establishing additional guidance for members, and engaging with crucial stakeholders. For example, during the process of enhancing the Alliance's definition of 'climate solution investments', it incorporated the concept of net-zero, transition-enabling investments, as explained in the previous section.

Cognisant of members' unique positions, the Alliance also analysed the applicability of existing climate benchmarks and found that it was limited. To spark a discussion on the topic, the Alliance therefore published a paper entitled 'Development and Uptake of Net-Zero Aligned Benchmarks: A call to action for asset owners and index providers' (2022e). The paper outlined ten principles for constructing net-zero-aligned benchmarks and index universes. Furthermore, to provide more clarity and reduce information asymmetry between investors, data providers, and investees, the Alliance has also established a community of practice on climate solution investment data issues.

A central part of the Alliance's work on transition financing is focused on supporting and advancing transition finance in Emerging Markets and Developing Economies (EMDEs) in line with the requirements of Paris Agreement. To this end, the Alliance continues to engage with organisations such as Convergence, Africa Investors, the EU-ASEAN Business Council, and the World Economic Forum to scale blended finance, bridge the investment gap in EMDEs, and ensure a just transition in these economies.

In 2022 and 2023, these collaborations resulted in regional workshops in Asia (for financial industry professionals and policymakers) and engagements with G7 finance ministers to modernise the governance and business models of Multilateral Development Banks (MDBs) and Development Finance Institutions (DFIs).

Case study: Co-operators' targeted investments into climate solutions

Co-operators is a financial services co-operative helping Canadians and their communities build their long-term financial security. At the end of 2022, its investment portfolio had a value of over USD 8.73 billion. In addition, it managed investments totalling USD 25.12 billion through its asset management arm, Addenda Capital.

With strong roots in communities across Canada, Co-operators has seen first-hand the impacts of increasing climate risks. In its 2022 Integrated Annual Report, the company identifies climate change as a direct threat to its mission of ensuring financial security for Canadians and Canadian communities. Co-operators formalised its strategic direction of using its investment portfolio as a key lever in addressing the climate crisis in 2014, when the board of directors adopted an objective to "integrate and embed co-operative and sustainability principles into all areas of business decision-making, action and processes".

In 2015, the company launched an impact investing strategy that further enabled targeted investment into climate solutions. Co-operators defines[19] impact investments as those investments that create both compelling financial returns and positive social and/or environmental impact that can be adequately measured, tracked, and reported. These investments cover various impact themes and sub-themes,[20] including climate change categories such as renewable energy, clean transportation, and energy efficiency. Aligned with the Alliance's definition of climate solutions, Co-operators' investments in this area comprise economic activities that contribute to climate change mitigation, transition enabling, and adaptation.

Currently, Co-operators' climate solution investments are primarily allocated in fixed income and private equity, with a fund-of-funds approach also being applied. Addenda Capital's proprietary approach assesses securities and investments for impact using global best practices, principles, and standards as a foundation. Examples include the International Capital Market Association's Green Bond Principles and the Climate Bond Initiative's Climate taxonomy. It also develops and applies additional criteria as needed. Addenda Capital's approach uses a pass/fail system looking for strong governance frameworks, third party assessments, and other sector and industry-specific criteria.

19 As inspired by the Global Impact Investing Network's definition: thegiin.org/impact-investing/.

20 At the end of 2022, Co-operators impact themes were: climate change, community development, health and wellness, education, and food, agriculture, and natural resources.

As of 31 December 2022, Co-operators had 23.6% of its investments in impact assets, totalling nearly USD 2.06 billion. Over 74% of its impact assets were in climate solutions, amounting to roughly 17% of its total invested assets, or USD 1.52 billion.

An example of an impact investment held by Co-operators is the Government of Canada's inaugural green bond, issued in early 2022. Proceeds from this bond will finance clean-transportation projects, such as the adoption of zero-emissions vehicles and supporting infrastructure, and energy efficiency initiatives targeted towards domestic households. The generating capacity of the renewable energy projects and initiatives backed by Co-operators in 2021 will generate approximately 86.5 million MWh of renewable electricity. This is enough to provide electricity to 7.5 million homes for one year.

The market for climate solutions is expanding. With this growth come additional opportunities to invest. Co-operators is committed to advocating for new and improved policies and standards that can drive sustainable finance forwards. Similarly, it is committed to leveraging its invested assets in order to catalyse the transition to a net-zero, climate-resilient economy. By 2030, Co-operators aims to place 60% of its assets into climate transition or impact investments, including climate solutions investments. Co-operators has also set an intermediate target that 50% of its assets will meet those same criteria by end of 2026.

6. The importance of creating an enabling policy environment

A net-zero transition requires a clear and consistent enabling policy environment that can alleviate uncertainties for financial decision makers. Successful policy implementation further helps minimise transition risks to financial institution, corporates, and the real economy as a whole. In fact, the IPCC AR6 (2023) found with high confidence that economy-wide policy packages, such as public spending commitments and pricing reforms, are effective in meeting short-term economic goals while reducing emissions towards climate-resilient development in the medium to long term.

Effective climate action should be enabled by strong political commitments that are backed up by clear action plans across multilevel policy domains. Such action should also be developed through inclusive governance processes to ensure transparency and accountability. Meanwhile, effective policy packages should be comprehensive, consistent, and balanced across objectives, while also being tailored to national circumstances. In addition, it is particularly important that they give consideration to potential equity and distributional impacts on communities.

Alongside other actors, asset owners have a critical role in bringing about such climate action. In addition to facilitating a meaningful response to the climate crisis through capital allocation and engagement with asset managers, asset owners have a clear responsibility to engage in policy advocacy for the creation of net-zero-enabling policy environments.

Asset owners, and investors more broadly, are already advocating for the creation of an enabling policy environment for climate action. This action is necessary for the fulfilment of their fiduciary duty since it ensures their ability to generate returns in the long term and to benefit from the financial opportunities associated with the shift to net zero (Freshfields Bruckhaus Deringer, 2021). Governments should therefore continue to engage closely with investors to make sure that risks are effectively managed, and opportunities are fully realised.

6.1 Strengthening the investment case for net zero

While many countries have committed to net zero, few have described their pathways to this goal in detail. Key missing information include the types of solutions to be deployed at scale. This year, the Alliance Policy Track published a discussion paper highlighting the economic case for net zero, and the immediate needs to accelerate the net zero transition by scaling enabling policies that unlock investment opportunities (NZAOA 2023e).

Clear policy frameworks, strong government commitment, ambitious targets, and detailed transition plans can help overcome the barriers to net zero. Existing barriers and bottlenecks include significant upfront capital investment, cheap and profitable brown alternatives in the short term, and the lack of efficient and predictable national regulation with regards to licensing and approval processes.

Offering robust signals through climate policies play a crucial role in addressing the barriers and guide investment choices. Such policy tools include carbon-pricing mechanisms (NZAOA 2022f), financial support through subsidies, grants, or tax subsidies, as well as new regulations and standards for relevant decarbonisation solutions. Credible signalling from governments and the international community can alleviate uncertainties for financial decision-makers, thereby mitigating transition risks.

6.2 Call to action for policymakers at COP28

The first Global Stocktake (GST) marks the most extensive assessment of global action on climate change to date, distilling over 1,600 documents from diverse sources. The key findings of the Global Stocktake process were recently released in a Synthesis Report by the Co-Faciliators, which underscores that the world must take stronger action before the second Global Stocktake in 2028, to avoid the devastating reality of global temperatures soaring beyond 1.5°C (UNFCCC 2023a). The outcomes of the GST provide the necessary evidence to garner political support from both Parties and non-party stakeholders to generate a 'virtuous ambition loop' between the real economy and government, towards more ambitious nationally determined contributions in advance of COP30 in 2025. The Alliance will also take into consideration the need to increase ambition alongside government action as its members publish their next round of targets in 2025.

On the list of priorities at COP28, there will also be the adoption of a framework for the Global Goal on Adaptation, the operationalisation of the Loss and Damage Fund, and continued discussions around Article 2.1(c) that focuses on alignment of financial flows with development that is both low in GHG emissions and resilient to the effects of climate change. Observers and Parties to the Convention will also closely monitor progress around strengthening the commitments on phasing out fossil fuels, which were introduced at COP26 and reiterated at COP27.

Thus, the December meeting in the United Arab Emirates will present yet another paramount opportunity for the world to shift the course towards transformational climate action that keeps 1.5°C within reach. Recognising this, the Alliance calls on governments to urgently ensure the following:

1. **Scale up reforms of finance and investment policy frameworks that will enable and attract private capital and create investable business models that are aligned with Paris Agreement Goals:** by supplementing private investors' knowledge and capabilities. This includes leveraging MDBs and DFIs local knowledge, expertise, and sourcing networks, alongside their financial knowledge, such as details of default and recovery rates. MDBs and DFIs can also work to enhance grant-measures for capacity building and for improving project pipelines alongside domestic governments.

2. **Implement overarching policies that integrate transition planning across all government entities,** in order to support a whole-of-government transition in an effective, ambitious and inclusive way. Transition plans are an important tool for assessing climate strategy, ambition, and credibility. The development of a common set of climate-related metrics and guidance on net-zero transition plans are a high priority to increase comparability and embed climate action into the activities of state actors.

3. **Continue efforts to reform the current multilateral financial architecture and prioritise the mobilisation and alignment of private finance towards "billions to trillions".** Capital flows must be significantly scaled up to allow EDMEs to fund the net-zero transition. To achieve this, MDB organisational mandates, operating models, and expected outcomes must be transformed to align with current global challenges.

4. **Accelerate the implementation of holistic, long-term domestic policies that enable the just transition towards net zero:** especially focusing on systemic interventions that can facilitate reductions in demand for oil and gas as well as increase alternative energy supply through economy-wide actions, such as funding innovative technologies and implementing carbon-pricing mechanisms that are just and well designed.

Conclusionary note

As seen throughout the report, the work of the Alliance seeks to span as many thematic areas as there are levers for investor to act on climate. The Alliance publishes its Target-Setting Protocol to set key expectations for members, but also to share its methodologies with institutional investors beyond its membership, and to offer a leadership model to regulators and policymakers. This report, in turn, allows for a demonstration of the Alliance's achievements but also for an honest evaluation of improvement areas—that help identify the focus of future work.

Intermediate targets set at the sub-portfolio level allow members to create a clear path to 2050 on reducing absolute an/or intensity-based portfolio emissions. So far, 67 members have a sub-portfolio target, with averaged targeted reductions that meet the Alliance's reduction ranges of 22%–32% for 2025 and 40%–60% for 2030. In addition, gains have been made in data coverage overall. However, the Alliance is already endeavouring to expand the scope of sub-portfolio targets, by adding methodologies on private equity and infrastructure funds, as well as private loans to privately-held companies—scheduled for incorporation into reporting as of 2025.

For Alliance members to invest greater portions of the AuMs into climate solutions, and especially in markets where financial gaps are most stark, important work remain to sensitise relevant stakeholder to the reforms necessary for mobilising private capital at scale.

The Alliance's work on intermediate sector and engagement targets will be further supplemented by the Alliance Engagement Tracks' work on encouraging members and stakeholders to apply the Proxy Voting Guidelines as well as the best practices for engaging with asset managers, outlined in the Aligning Climate Policy Engagement with Net-Zero Commitments discussion paper. In 2024, members will also report on their implementation of the Alliance's Position on the Oil and Gas Sector (2023b).

The Alliance members' own policy engagement should also be based on their net-zero commitments, which the Policy Track will provide guidance on. This piece of work, along with other progress on the Alliance's protocol and governance, will contribute to even greater alignment with HLEG recommendations.

The ultimate goal remains to use the Alliance's story of leadership—which relies on consistent improvement—to inspire other institutional investors, businesses, and crucially, policymakers, to take credible steps towards decarbonisation.

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UN environment programme | finance initiative

PRI Principles for Responsible Investment

Investment Leadership Programme

UN-convened Net-Zero Asset Owner Alliance

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