Net Zero Target Setting

Guidance

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Contents

Foreword

The global economy is at a pivotal moment in the fight against climate change. Achieving emission reductions in line with the 1.5 degree towards net-zero emissions by 2050 is not an aspirational goal but a necessary commitment to mitigate the worst impacts of for people, businesses and communities.. Investors and businesses worldwide must integrate climate considerations into their decision-making processes to help transform economic sectors, so they deliver goods and services people want and need in a low carbon way. This will ensure financial resilience and long-term value creation while addressing climate risks and opportunities.

The financial sector plays a crucial role in the transition to net zero. Nearly $3 trillion is required annually by 2030 to align with the Paris Agreement's mitigation goals. Fund managers, in particular, are in a unique position to drive decarbonisation by steering capital toward low-carbon investments, supporting portfolio companies in their transition, and setting clear net-zero targets. However, navigating the complex landscape of net-zero target-setting frameworks, particularly in emerging markets, remains a challenge.

At British International Investment (BII), we recognise the urgency of addressing climate change and the need for robust guidance to support investors in emerging markets. Climate change is central to our mandate of driving sustainable economic growth in the markets we invest in. Through extensive engagement with our portfolio companies and fund managers, we identified a clear gap in accessible, practical guidance tailored to emerging market contexts. This document is a response to that gap—providing fund managers with the tools and frameworks needed to set credible, science-aligned net-zero targets.

This guidance focuses specifically on the mitigation goal of the Paris Agreement, complementing other resources that cover climate risk, adaptation, and resilience. It provides fund managers with a structured approach to setting and implementing net-zero targets, outlining key frameworks such as the Science-Based Targets Initiative (SBTi), the Net-Zero Investment Framework (NZIF), and guidance from the Glasgow Financial Alliance for Net Zero (GFANZ). It is designed for fund managers operating in emerging markets, where regulatory and operational challenges can make net-zero alignment particularly complex.

By adopting the principles outlined in this document, fund managers can better position themselves for regulatory readiness, enhance their reputation, and attract capital aligned with climate-conscious investment strategies. More importantly, they can contribute meaningfully to the global effort to limit warming to 1.5°C and build a more sustainable, inclusive future for all.

We invite fund managers, investors, and stakeholders to engage with this guidance and take meaningful steps towards a net-zero future. The journey to net zero is one that requires collaboration, innovation, and commitment. Together, we can turn ambition into action.

Nicola Mustetea

Director and Head of Climate

British International Investment

01

Introduction

- **Setting portfolio net zero emissions targets is an opportunity for fund managers** to lead the way toward a sustainable and resilient future by 2050.
- **Having a net zero target can support fund raising, reputation, regulatory readiness and profitability for portfolio companies**
- **Financial sector companies have access to various standards and guidance frameworks for setting net zero targets**
  It can be challenging to determine how each applies and which are most relevant for fund managers in developing markets.
- **This guidance document is for fund managers operating in emerging market contexts, including those in our investment portfolio**
  It focuses solely on the Mitigation goal of the Paris Agreement (Climate Risk, and Adaptation and Resilience are covered in other documents).

This document brings together key insights from existing net zero guidance materials

It provides clear guidance and useful resources at each stage, helping fund managers to confidently set and achieve net zero targets.

This document *does not* recommend or endorse any particular target-setting approach.

Why invest in a net zero-aligned future?

Achieving the goals of the Paris Agreement is a big investment opportunity. The IEA estimates nearly $3 trillion will need to be invested annually by 2030.

For investors, considering both climate risks and opportunities **can add value at every stage** of the deal cycle and exit.

The TCFD or ISSB S2 recommendations help **integrate climate change into financial decisions**, including fund manager investments.

Investing in climate solutions is **increasingly important and profitable** for fund managers.

Fund managers can play a key role in attracting funding for green and transitional investments, ensuring strong governance and management, and scaling solutions to seize opportunities.

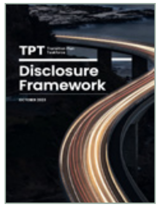
Guidance documents

This assessment considered several guidance frameworks, including guidance released between 2021 and 2024.

Glasgow Financial Alliance for Net Zero

The Glasgow Financial Alliance for Net Zero (GFANZ) is a worldwide coalition comprising prominent financial institutions in the UN's Race to Zero initiative.

In November 2022, it published a standard offering four types of metrics to help financial institutions align portfolios with a 1.5˚C temperature goal.



The Transition Plan Taskforce

The Transition Plan Taskforce (TPT) framework is aligned with the climate-related financial disclosure standard (IFRS2).

Climate disclosure frameworks help financial institutions report their exposure to climate risks and outline strategies for managing them.

The Science-Based Targets Initiative (SBTi) for Private Equity

Published in November 2021, the SBTi guidance for private equity provides sector-specific guidance, including distinguishing between fund types and asset classes and setting targets on this basis.

The Net-Zero Asset Owners Alliance

The Net-Zero Asset Owners Alliance (NZAOA) is a member-led initiative committed to transitioning to net zero GHG emission portfolios for institutions including banks, credit unions, insurers, and pension funds.

In April 2024, it published published the fourth edition of Target Setting protocol, a four-part approach for successfully transitioning to net zero.

[SBTi framework for financial institutions]

The SBTi framework for financial institutions (FIs), published in May 2024, supports FIs in their efforts to address climate change by providing resources for setting science-based targets.

The framework includes target-setting methods, a set of criteria, a target setting tool, and a guidance document.

[The Net-Zero Investment Framework (NZIF)]

The Net-Zero Investment Framework (NZIF) was developed by the Institutional Investors Group on Climate Change (IIGCC), with implementation guidance published in April 2021.

This has been developed for investors in traditional assets, where the approach to decarbonisation focuses primarily on the investment strategy and choice of investments.

[The Guidelines for Climate Target Setting for Banks]

The Guidelines for Climate Target Setting for Banks were produced by the United Nations Environment Programme: Finance Initiative's (UNEP FI) Collective Commitment to Climate Action in April 2021.

Signatories to the UN-convened Net-Zero Banking Alliance have adopted this approach to setting targets.

[The NZIF Component for the Private Equity Industry]

In May 2023, the IIGCC published the NZIF Component for the Private Equity Industry. This establishes a consistent industry-wide approach to measuring progress toward net zero, focusing on real economy decarbonisation of portfolio companies.

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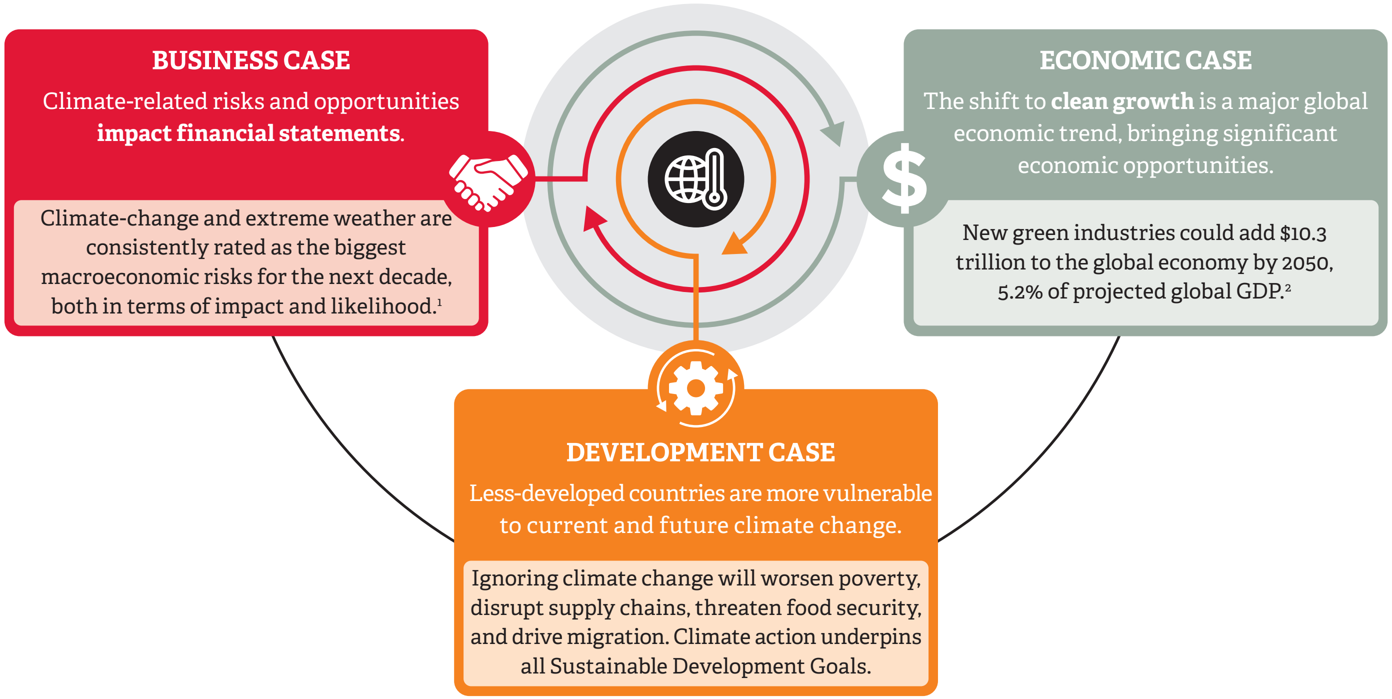
Background and context

The importance of limiting warming to 1.5˚C

Keeping global warming to 1.5˚C greatly reduces the risks of extreme weather, rising sea levels, ecosystem collapse, and health impacts compared to 2˚C. It provides greater protection for vulnerable populations, biodiversity, and economies while helping to avert the most severe climate consequences.

We must speed up the transition to a low-emission global economy, which has many benefits.



Note: The 1.5˚C and 2˚C thresholds refer to global temperature increases above pre-industrial levels (approximately 1850–1900), benchmarks established in climate science and the Paris Agreement to guide efforts in combating climate change, refer to: BII Climate Change Strategy

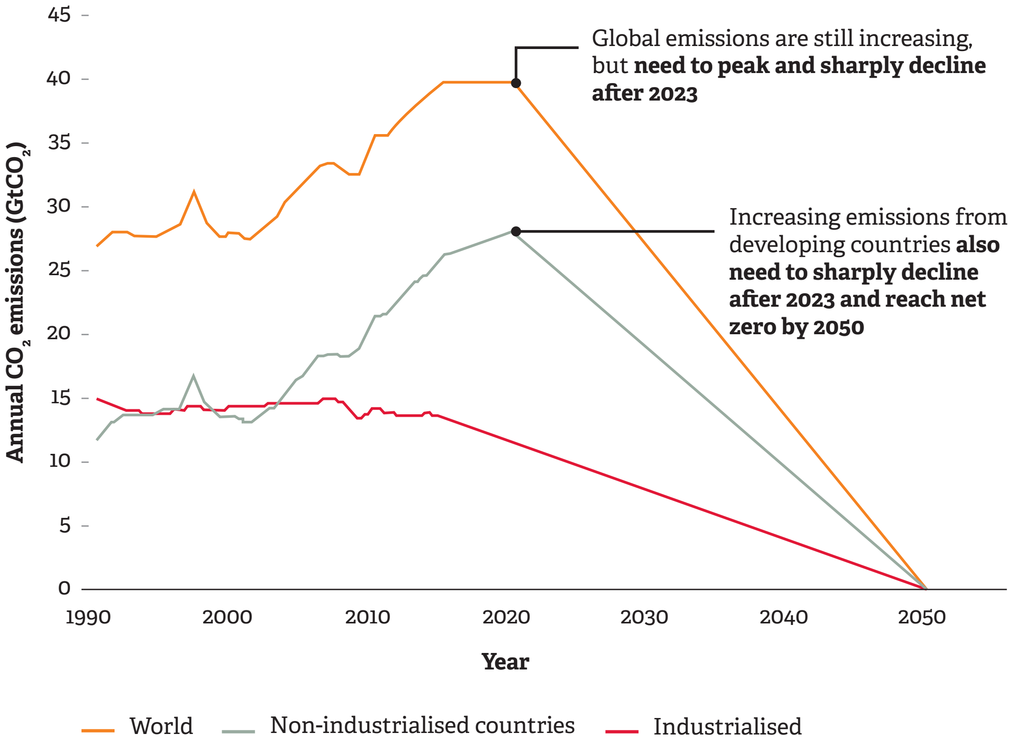
1. World Economic Forum Global Risks Report 2025
2. Arup and Oxford Economics

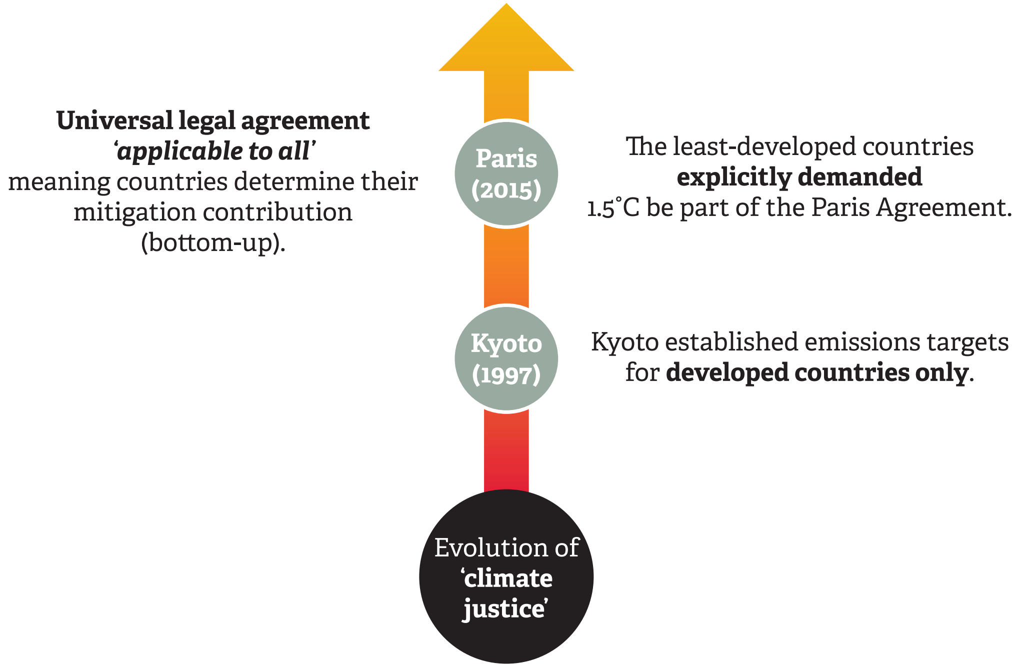
The 1.5˚C goal

The 1.5˚C goal can only be reached by common global action as recognised in the Paris Agreement.

Both developed and developing countries must act to reach net zero emissions by 2050.

A global emissions reduction model shows how developed and developing nations have different paths towards the same goal.





* Robinson, M., Shine, T. Achieving a climate justice pathway to 1.5 ˚C. Nature Clim Change 8, 564–569 (2018).
Non-industrialised countries are defined as developing countries and include China and India.

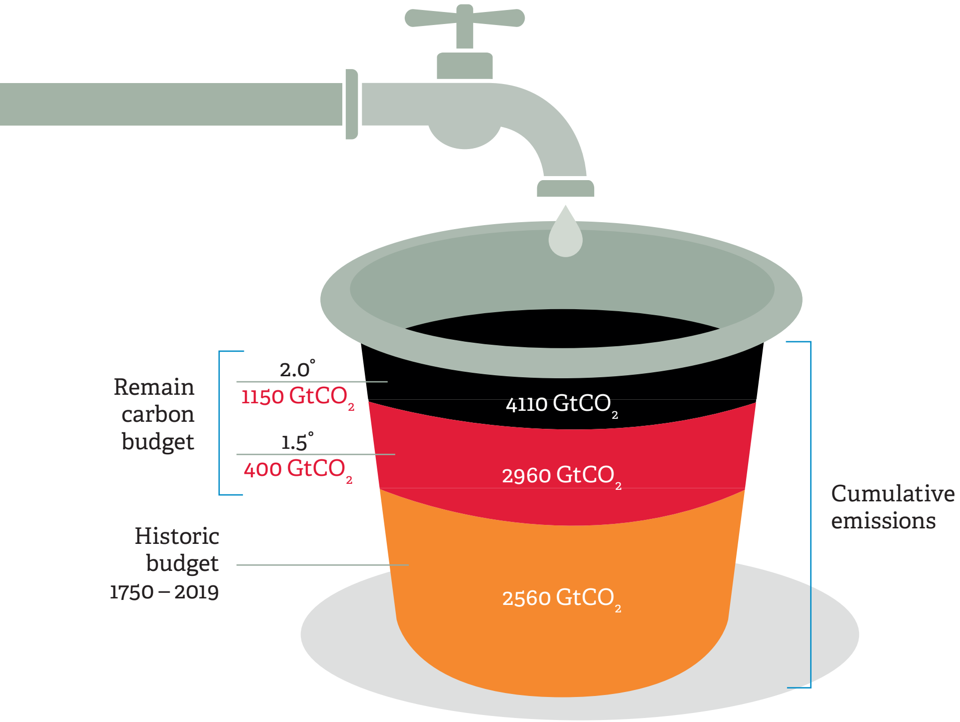
Pathways for developing countries would mean **a later peak in emissions, but also need to reach net zero by 2050.**

All sector investments need to be consistent with countries' low-carbon pathways.

Reaching 1.5°C is only possible if we stay within our 'carbon budget'

Our carbon budget is the amount we can emit before exceeding certain temperature thresholds.

Once CO_2, or other greenhouse gases (GHGs) are emitted (like the drops of water from a tap) they stay in the atmosphere (or bucket) for a long time. CO_2 can be in the atmosphere for up to 1,000 years.[3] If we don't stop emitting GHGs, the bucket fills up to the brim.



Figures represent limiting warming with a 67% probability

Adapted from IPCC, AR6 (2023)

Scientists estimate that to keep warming to below 1.5°C, the remaining carbon budget is 400 $GtCO_2$

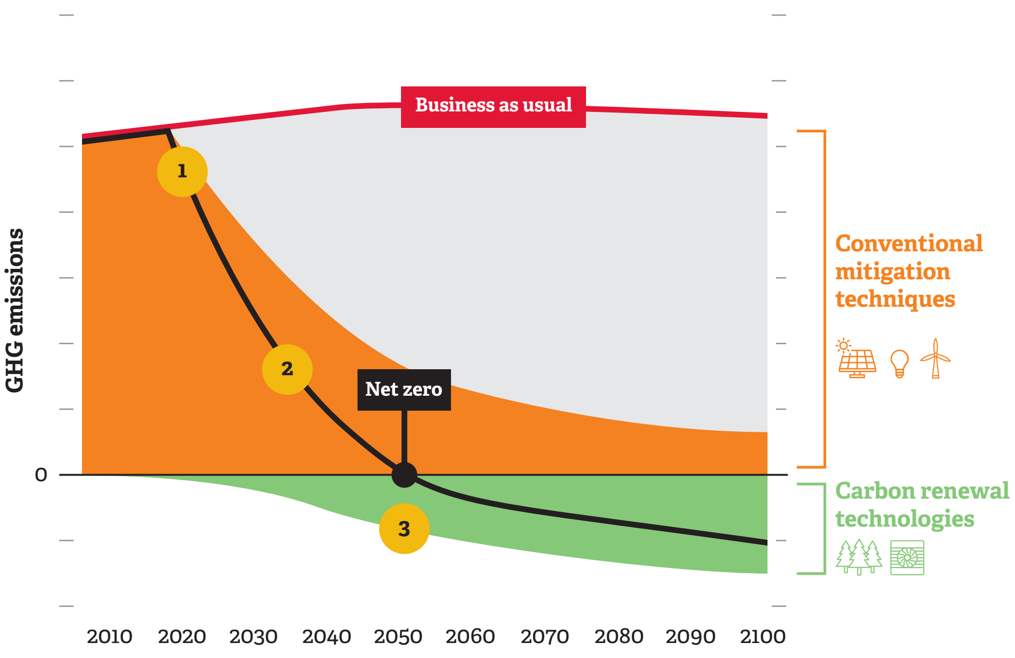
- At the current emissions rate, the entire carbon budget could be exhausted by 2030.
- If global CO2 emissions peak soon and then decline, we could have until mid-century to reduce carbon emissions to net zero.
- The temperature we eventually reach depends on the amount of GHGs we emit, while how soon we limit these warmer temperatures depends on how quickly emissions start decreasing.

To stay within our carbon budget, and limit warming to 1.5°C, we must reach net zero. This requires deep and rapid emission cuts, while removing any unavoidable emissions. The next page explains how

3. The Atmosphere: Getting a Handle on Carbon Dioxide - NASA Science

What does net zero GHG emissions mean?

Net zero is the point where GHG emissions from human activities are offset by emissions removed from the atmosphere, stabilising temperature rises.



Adapted from World Resources Institute

To reach the global 1.5˚C temperature goal, we must remain within the global carbon budget. **To stay within this budget, systemic decarbonisation must happen before any offsetting.**

1. Rapid, deep emission cuts vs business as usual (red line) are required to reach net zero.

2. To set us on this path, we must reduce net GHG emissions by 23 $GtCO_2$ by 2030. This means setting near-term and long-term targets, with plans to halve emissions by 2030.

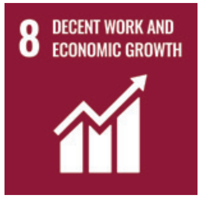
3. By 2050, in most sectors there needs to be a ≥ 90% reduction in GHG emissions. Any remaining emissions that are impossible to eliminate must be fully offset by removal/sequestration (net zero).

Global warming depends on total emissions over time, not just the final level but also the path taken to get there.

The path to net zero also takes into account other sustainable development goals

Net Zero Pathways: A net zero pathway is a strategic plan and model to reduce GHG emissions in line with carbon budgets, usually by 2050. It covers all sectors, including energy, agriculture, and manufacturing, ensuring sustainable development. Adapting to these changes is essential.

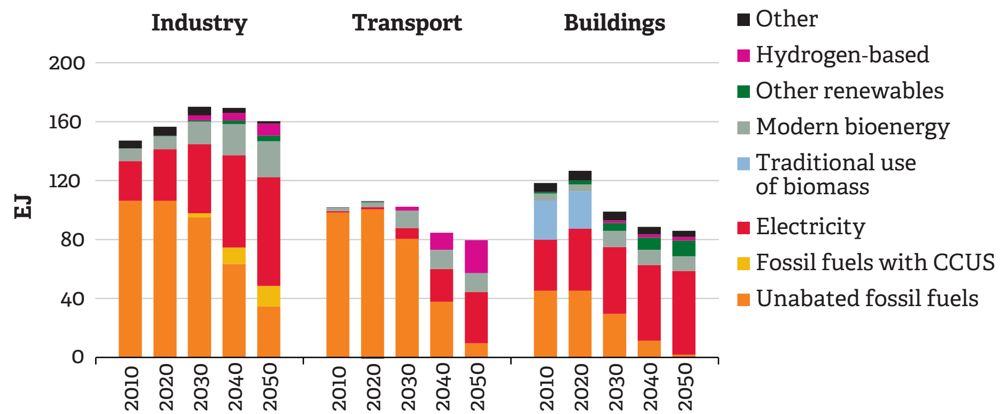
Pathways cover all countries and regions: Although developed countries must take the lead in cutting emissions, developing economies also need to reach net zero to keep global warming within 1.5˚C, the goal of the Paris Agreement. The challenge is to grow economies and improve livelihoods in the most low-carbon, affordable way.



Net zero pathways incorporate meeting other Sustainable Development Goals (SDG) including energy access and economic growth. For instance, the IEA's net zero pathway explicitly includes other actions such as:

Aims to achieve universal energy access by 2030 (SDG 7), addressing the interconnection between poverty and energy.

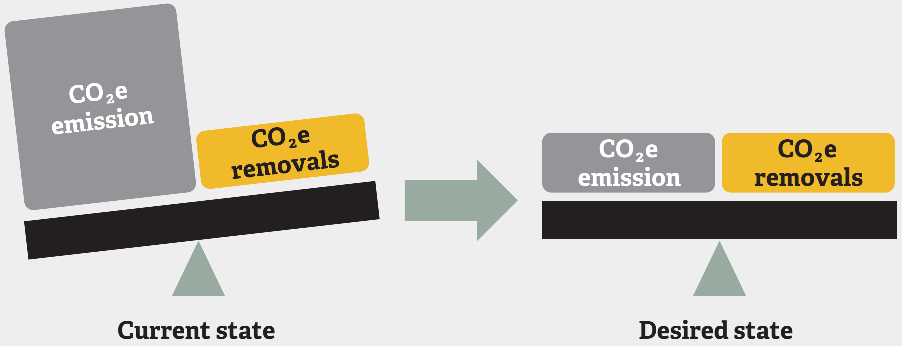
Economic Growth (SDG 8): The IEA acknowledges that the net zero transition must be compatible with economic growth, especially in developing economies. This can be achieved by creating jobs in clean energy industries and helping regions heavily reliant on fossil fuel industries to diversify their economies.



Adapted from IEA

What is the difference between net zero vs carbon neutral?

Claims with Credits



Carbon neutrality is achieved when the sum of emissions produced by a company (its 'carbon footprint') is offset by natural carbon sinks and/or carbon credits. PAS 2060 is an internationally-recognised standard for carbon neutrality, with requirements that can be met through emission reductions or sequestration offsets, including carbon credits.

Net zero means a company's business model has no net impact on the climate. This is achieved first by cutting its own value chain GHG emissions in line with 1.5˚C pathways, then offsetting any remaining emissions through sequestration.

Claims with Credits

1. A company can achieve carbon neutrality using either avoidance or removal credits, but it can only achieve net zero through removal (not avoidance). E.g,. a company can achieve net zero by investing in a forest conservation project that removes carbon dioxide from the atmosphere, but not by investing in an energy efficiency project that reduces, but does not eliminate, carbon emissions.

2. Carbon neutrality requires a carbon reduction plan but no specific rate of reduction, while net zero requires an entity to reduce emissions in line with a 1.5˚C-aligned pathway.

3. A company can claim it is carbon neutral at any time, provided it has fully offset its emissions. However, a company can only claim to have reached net zero when it has first implemented all viable measures to reduce its emissions to a level compatible with a 1.5˚C scenario (i.e., it has achieved its long-term emissions reduction target). In practice for most sectors, this means reducing emissions by 90-95% compared to the baseline. Only after this is achieved can a company neutralise its residual emissions using emissions removals and thereby claim to have reached net zero.

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Net zero target setting

Why set a net zero target?

Setting and implementing ambitious targets, such as net zero, is key to making progress on climate change.

VALUE PRESERVATION

Portfolio resilience:

Funds that embrace sustainability practices often demonstrate greater resilience in the face of environmental challenges. This can enhance the stability and performance of the fund's portfolio.

Alignment with global goals:

Setting net zero targets aligns firms with global initiatives like the Paris Agreement, contributing to the broader mandate to limit climate change and promoting sustainable development.

Regulatory and compliance readiness:

Fund managers can stay ahead of regulatory requirements and mitigate the risk of potential compliance penalties.

Enhanced reputation:

Demonstrating a commitment to sustainability can differentiate a fund in a competitive market and enhance its reputation and brand value.

Setting a net zero target at company or fund manager level is important for several key reasons

VALUE CREATION

Business opportunities:

Transitioning to a low-carbon economy can unlock new business opportunities and drive innovation. By setting net zero targets, funds can foster long-term value creation for their portfolio companies.

Risk management:

Setting net zero targets helps fund managers identify and mitigate climate-related risks.

Investor demand:

Investor demand for sustainable and responsible investing is growing. Fund managers need net zero targets to attract climate-conscious investors. Those who don't prioritise this will face rising regulatory pressures that will eventually trickle down.

Overcoming challenges when setting net zero targets

Fund managers setting net zero targets in developing markets may face challenges, but there are resources available to support.

CHALLENGE	CONTEXT AND OPPORTUNITY	ADDITIONAL RESOURCES
Significant changes in portfolio composition over time.	Typically, funds are only invested for 10-12 years, making it hard to achieve net zero in the lifetime of the fund. Instead, targets and actions can be set and developed in the short term, as the investments in climate action in the next 10 years (well within the fund's remit) will enable the pathway aligned with 1.5C.	See the following sections of this guide.
Limited understanding of climate issues and support for climate action among senior leadership in both fund managers and their portfolio companies.	Recognition of climate change as a material issue is generic and at a global level, though many fund managers are building internal capacity to address the topic with sectoral/geographical/technology context. BII offers several useful resources to help fund managers understand and integrate climate change issues.	BII Climate Change key concepts video series and BII TCFD Toolkit.
Limited influence of the fund manager on the portfolio company such as small equity share, credit strategy.	Funds that follow a minority holding strategy may not be able to directly influence portfolio company policy. However, a special type of target, called an 'engagement target', can be used to guide actions under these circumstances.	See the following section of this guide, on Recommended Engagement Activities.
Inadequate technical capacity to support the GHG accounting technicalities, identifying decarbonisation levers.	Developing a carbon footprint for a potential investment is increasingly becoming the norm at due diligence stage. In addition to various resources available to build internal capacity, technical assistance and partnerships can be potentially explored.	BII TCFD Toolkit GHG accounting and reporting guide.
Competing objectives as different investors may have different goals and priorities. Fund managers need to also consider other factors, such as maximising return and other risks.	Fund managers may have to manage investments for several investors with potentially competing goals and priorities, such as maximising return and demonstrating ESG impact. Fund managers should determine how material climate change is for the fund and then set targets appropriate to the fund. An engagement target can be a useful starting point.	See the following sections of this guide.

A fund manager's carbon footprint

Total GHG emissions – including emissions from portfolio companies – is the most important metric all fund managers must track to set net zero targets.

Fund manager

Scope 1
Direct emissions such as from fuel combustion in company vehicles, or air conditioner gases at company buildings.

Scope 2
Indirect emissions such as from electricity and heating/cooling energy consumed by company buildings.

Scope 3
Indirect emissions from company value chain i.e., use of sold products, business travel.

$

Scope 3*
Category 15: financed emissions from investments.

Includes portfolio company Scope 1, 2 and material Scope 3 GHG emissions.

The diagram shows the main GHG emissions relevant to fund managers. These include Scope 1, Scope 2 and material Scope 3 emissions.

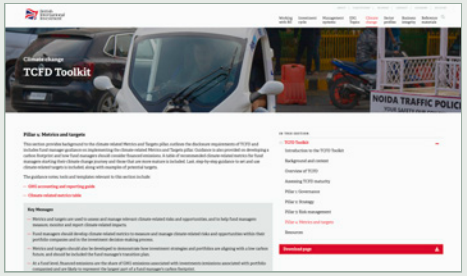
Different resources to calculate emissions are:

- At a fund level, financed emissions associated with portfolio companies are GHG emissions that are likely to represent the largest part of a fund manager's carbon footprint. These are categorised under Scope 3 Category 15, according to the GHG Protocol.
- Scope 3 financed emissions are calculated in line with the guidance provided by the Partnership for Carbon Accounting Financials (PCAF).
- At portfolio level, aggregate value of Scope 1 and 2 emissions of the companies using the GHG protocol.

PCAF has the Global GHG Accounting and Reporting Standard for the financial industry, which is aligned with the GHG Protocol.

PCAF
Partnership for Carbon Accounting Financials

GREENHOUSE GAS PROTOCOL



A GHG accounting and reporting guide for fund managers is available in our TCFD Toolkit – Metrics and Targets.

Further detail on how fund managers can aggregate and report their GHG emissions at a fund level can be found in PRI's Greenhouse Gas Accounting and Reporting for the Private Equity Sector.

* Primary emission category of focus for the fund manager.

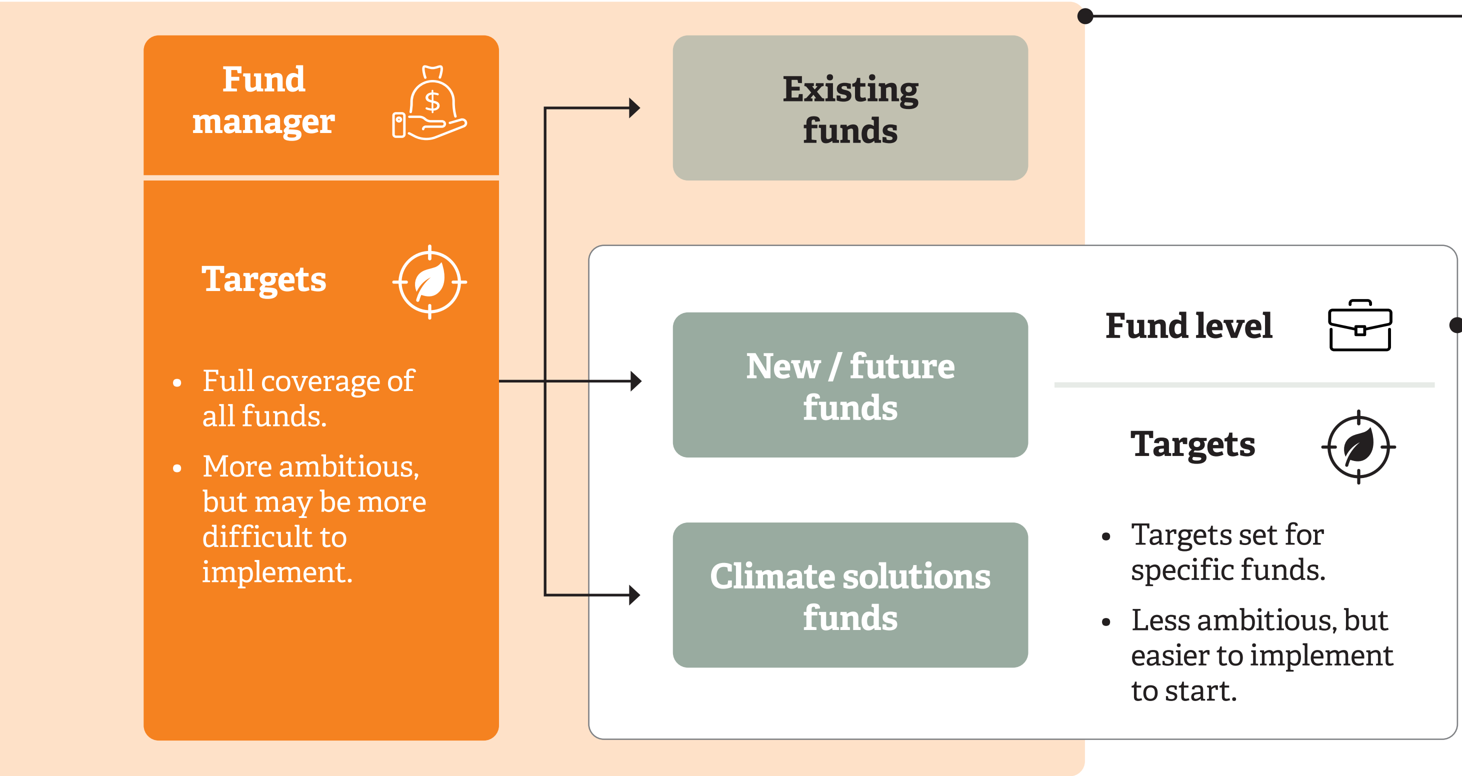
04

Types of targets

Fund manager vs fund level net zero targets

Fund managers should consider whether net zero targets should be set for all funds, selected funds and/or at the fund management itself.

When setting targets, factors such as fund time horizons, the fund manager's climate expertise, and the risk profile of funds based on GHG emissions must be considered.



Fund manager level target

Includes all activities, from the fund manager's own emissions to current and future investments. Existing investments don't need to align with net zero immediately, but the fund manager's target must outline how they will be managed and brought into alignment.

Fund level target

Applies only to the fund and its investments, keeping the scope limited. It can be a more practical approach for fund managers that are new to climate strategies or still building their net zero expertise.

Fund managers can start with a limited scope for targets, gradually expanding to cover all activities by 2050. This helps with external validation, as most target-setting frameworks (e.g., IIGCC, SBTi, NZAOA) require full coverage.

Note: Further information is provided in the form of case study

Options: type of targets

Net zero targets can be process-based or quantitative and should align with regional and sector-specific science-based pathways. They must support global net zero by 2050 or sooner and include both short- and long-term goals.

1 Managed in alignment targets

These are at asset level and aligned with the mitigation goals of the Paris Agreement.

While these assets may not reach net zero within the investment period, mitigation and transition actions are undertaken to ensure the portfolio is on a pathway to achieve net zero by 2050.

Example:
70% of assets under management (AUM) aligned to a net zero pathway by 2030.

2 Emissions reductions targets

These are typically defined as a percentage reduction in GHG emissions against a target baseline year.

These targets can either be absolute or intensity targets (e.g., per dollar invested).

Example:
50% reduction in Fund's absolute Scope 1 and 2 GHG emissions against a 2020 baseline by 2035 and net zero by 2050.

3 Engagement targets

These targets help to motivate portfolio companies to align with climate goals. They can be combined with other target types and are useful when the fund manager has no direct influence on the portfolio company.

Example:
Engage with 80% of portfolio companies on climate change within two years.

4 Climate solutions (optional)

These targets help to motivate portfolio companies to align with climate goals. They can be combined with other target types and are useful when the fund manager has no direct influence on the portfolio company.

Example:
40% of investments are allocated to renewable energy or other low carbon solution projects by 2040.

1 Managed in alignment targets

An asset managed in alignment with net zero is one with a clear, actionable plan towards decarbonisation, with management and investors actively overseeing its progress. While these assets may not reach net zero within the investment period, mitigation and transition actions will ensure the portfolio is on a pathway that is aligned and can achieve net zero over time.

- To align with the Paris Agreement's mitigation goals, fund managers must gradually increase the share of assets managed in line with net zero, aiming for full alignment by 2050 or sooner.
- A portfolio company can be considered in alignment with net zero, if it has Paris-aligned net zero targets or an externally-validated target, such as through SBTi. Setting managed in alignment targets can also go hand-in-hand with developing decarbonisation/transition plans for portfolio companies.

Relevant for:

Fund managers

Asset class:

Direct investment in growth capital, venture capital, co-investments

Additional considerations:

a In setting managed in aligned targets it is recommended that fund managers consider the IIGCC target setting guidance*. The criteria in the table overleaf provides an example of how to evaluate whether a PC is being managed in alignment with net zero.

b The IIGCC also differentiates between targets for portfolio companies in different influence bands, as some fund managers do not have majority holding stakes or may not have a sufficient equity stake to have a board seat.

Examples:

actis

60% of AUM to be aligned with net zero by **2030**.

Source: Actis-TCFD-2023.pdf

Ninety One

By **2030**, at least **50%** of financed emissions for corporate assets under management at Ninety-One will be generated by companies with a Paris-aligned science-based transition pathway.

Source: 91-ninety-one-integrated-annual-report-2023.pdf (ninetyone.com)

JGP

50% of portfolio companies setting a SBTi by **2030** and **100%** by **2050**.

Source: JGP – The Net Zero Asset Managers initiative

Allan Gray

30% of Allan Gray's top 40 local equity holdings' financed emissions must have committed to a science-based target by **2025**.

Source: stewardship-report-2021.pdf (allangray.co.za)

*IIGCC Net Zero Investment Framework: Implementation Guidance for Objectives and Targets

1 Managed in alignment targets

Example criteria of how to assess portfolio company alignment with the goals of the Paris Agreement.

Ambition

The portfolio company is expected to have set a goal to achieve net zero emissions by 2050 or sooner.

Governance

The portfolio company is expected to have relevant climate change governance structures established, including board oversight and climate change risk management.

Targets

Interim (5-10 year) and long term (2050 or sooner) Paris-aligned GHG emissions reduction target covering scope 1, 2 and material Scope 3 GHG emissions is expected to be developed by the portfolio company.

Disclosure

The portfolio company is expected to annually disclose Scope 1, 2 and material Scope 3 GHG emissions. Itshould also disclose progress towards mitigation targets. Public disclosure is best practice but not required.

Emissions performance

The portfolio company's emissions mitigation performance is expected to meet or exceed reductions required to meet Paris-aligned targets.

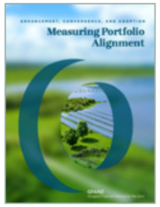
Climate strategy / transition plan

The portfolio company is expected to develop a strategy or transition plan setting out the ambition, actions and investment requirements to achieve its emissions mitigation targets.

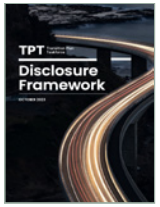
Additional guidance material :

The Net Zero Asset Managers Initiative (NZAM)

The Institutional Investors Group on Climate Change



Glasgow Financial Alliance for Net Zero



The Transition Plan Taskforce (TPT)

The Science-Based Targets Initiative (SBTi) for Private Equity

SBTi Corporate Net-Zero Standard

2 Emissions reductions targets

Emission reduction targets relate to the actual GHG emissions associated with an activity. There are two main types of emissions target:

- Absolute emissions targets refer to the total amount of emissions reduced over time before reaching net zero by 2050.
- Emissions intensity measures emissions relative to a specific metric, such as total equity or investment. Intensity targets can also be set based on production, but must be applied to each portfolio company individually

Targets should be set with a clear timeline, including short, medium, long-term, or interim goals.

Relevant for:

Fund managers

and

Portfolio companies

Additional considerations:

A fund manager can implement this by

1. Setting an emission reduction target across the relevant fund

OR

2. Committing to set emission reduction targets for some of its PCs

Examples:

Amundi ASSET MANAGEMENT

30% carbon intensity reduction by **2025** and **60%** by **2030** versus 2019 base year on Scope 1,2 and partly Scope 3.

Source: Amundi – The Net Zero Asset Managers initiative

GMO

60% of AUM covered by a portfolio carbon footprint intensity reduction target by **2025** and **65%** by **2030**.

Source: GMO – The Net Zero Asset Managers initiative

OLDMUTUAL

50% of financed emissions in domestic listed equity will be net zero, aligning or aligned by **2025**.

Source: Old Mutual Investment Group – The Net Zero Asset Managers initiative

M&G Investments

A **50%** reduction in the emissions intensity of its public equity and corporate debt portfolios by **2030**.

Source: net-zero-asset-owner-disclosure.pdf (mandg.com)

2

Emissions reductions targets

Emission reduction targets can be further categorised based on the asset class and sector of portfolio company

- Temperature Rating Target (TRT) rates portfolio companies with a temperature score, based on their GHG footprint to align with net zero pathway, both at portfolio company and aggregate fund manager level.
- Sector Decarbonisation Target (SDT) is a sub-sector approach intended for energy-intensive portfolio companies to reduce emissions aligned with a sector specific 1.5˚C pathway.

The fund manager can use different target types depending on a portfolio company's sector, maturity, asset class and level of influence. These targets can be adjusted over time based on progress.

Relevant for:

Fund managers

and

Portfolio companies

Additional considerations:

Portfolio company targets shall include coverage of Scope 1 and 2 emissions, as well as Scope 3 emissions when these are more than 40% of total emissions

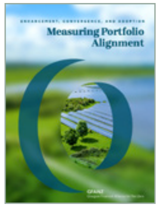
Asset class:

- TRT- Directs, private debt, secondaries, funds of funds
- SDT- Directs (electricity feneration, real estate)

Additional guidance material :

The Net-zero Asset Owner Alliance

The Guidelines for Climate Target Setting for Banks



Glasgow Financial Alliance for Net Zero

The Science-Based Targets Initiative (SBTi) for Private Equity

3

Engagement targets

Engagement targets require fund managers to take action to encourage portfolio companies to address climate change. These can also be part of the fund manager's stewardship role.

This can include qualitative actions to enhance a portfolio company's climate awareness or support them in setting their own climate targets.

Relevant for:

Fund managers

Additional considerations:

Recommended engagement actions outline the steps fund managers should take with portfolio companies (see next page).

Asset class:

Directs (minority share), funds of funds, secondaries.

Examples:

Old Mutual

Committed to engaging with investee companies that make up at least **80%** of its listed equity and fixed-income portfolio.

Source: Climate Report 2023 (oldmutual.com)

Ninety One

Ninety-One is prioritising engagement with the heaviest emitting holdings, aiming for active engagement with **80%** of emissions.

Source: 91-ninety-one-integrated-annual-report-2023.pdf (ninetyone.com)

M&G Investments

Set an engagement threshold target to engage or assess at least **70%** of its Scope 1 and 2 Financed Carbon Emissions (FCE).

Source: mg-investments-annual-stewardship-report-2023.pdf (mandg.com)

Amundi Asset Management

Amundi will begin a significant cycle of engagement with **1,000** additional businesses by **2025**.

Source: Amundi – The Net Zero Asset Managers initiative

Additional guidance material :

The Net-zero Asset Owner Alliance

The Institutional Investors Group on Climate Change

The Net Zero Asset Managers Initiative (NZAM)

3 Engagement targets

Recommended engagement actions

The table below outlines recommended engagement actions for fund managers with portfolio companies. These actions align with Engagement Target requirements for the fund manager's portfolio and are adapted from the IIGCC Net Zero Investment Framework for Private Equity. Engagement should focus on companies with higher transition risks, such as those with high emissions intensity.

<table>
<tr><th>INFLUENCE BAND</th><th colspan="2">ENGAGEMENT ACTIVITIES</th></tr>
<tr><td>High
(50% or greater board vote)</td><td>• Inform other board members of net zero commitments and targets related to the investment fund.
• Include climate change as an agenda item at board meetings.
• Inform portfolio company top-level management of net zero commitments and related targets of the investment fund, and of related voting intentions and ramifications. portfolio company
• Encourage alignment by supporting actions shown opposite.</td><td rowspan="2">• Developing a carbon footprint for the portfolio company.
• Performing a transition risk assessment.
• Identifying transition-related opportunities.
• Identifying mitigation options and opportunities.
• Setting GHG emissions reductions targets.
• Adopting relevant governance and strategic measures related to climate change, as set out in the recommendations of the TCFD.
• Developing a portfolio company transition plan.</td></tr>
<tr><td>Medium
(less than 50% board vote)</td><td>• Inform other board members representing large shareholders of net zero commitments and targets related to the investment fund.
• Request that climate change be included as an agenda item at board meetings.
• Request the portfolio company be managed in alignment with the goals of the Paris Agreement.
• Inform portfolio company top-level management of net zero commitments and related targets of the investment fund, and of related voting intentions and ramifications.
• Encourage alignment by supporting actions shown opposite.</td></tr>
<tr><td>Low
(no board vote)</td><td colspan="2">• Inform large shareholders of net zero commitments and targets related to the investment fund.
• Request actions be taken to improve the portfolio company's alignment with the targets set for the investment fund.</td></tr>
</table>

4 Climate solutions (optional)

Climate solutions allocation targets are related to the amount of capital invested into climate opportunities, businesses, technologies or services that enable transition to a net-zero economy or build resilience and adaptation.

This type of target often supports a net zero goal, as climate solutions like renewable energy or climate-smart agriculture typically have a lower carbon footprint compared to higher-carbon, non-qualifying alternatives.

Relevant for:

Fund managers

Additional considerations:

While not always directly discussed, climate solutions should not do harm to other environmental goals. For more on this, see the “Do No Significant Harm” Criteria of the EU Taxonomy.

Examples:

actis

50% of AUM to be aligned with net zero by **2030**.

Source: Actis-TCFD-2023.pdf

aegon asset management

By **2025**, allocate **$2.5 billion** across all eligible investment types: labelled bonds, structured credit, real assets and corporate bonds.

Source: Aegon Asset Management – The Net Zero Asset Managers initiative

dwm

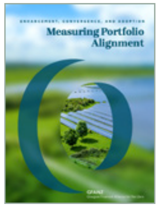
20% of AUM allocated to climate solutions by **2030**.

Source: Developing World Markets – The Net Zero Asset Managers initiative

Additional guidance material :

The Net-zero Asset Owner Alliance

The Institutional Investors Group on Climate Change



Glasgow Financial Alliance for Net Zero

Climate Investor Playbook

05

Implementing net zero target setting

How to set a net zero target

Steps for setting short and long-term net zero targets

1 Leadership commitment	2 Scoping and baseline	3 Target development	4 Target approval and communication	5 Portfolio engagement, monitoring and exit
• Consider the strategic implications and advantages for the business. • Obtain fund senior management buy-in (including fund board and executive management).	• Determine coverage of targets i.e., existing funds, new funds, own operational emissions. • Determine target types – reduction (e.g., absolute or intensity) and/or process (e.g., assets managed in alignment, engagement, etc.) • Determine the baseline (where relevant) based on which targets should be set. • Determine timeframes for targets considering holding period (i.e., short, medium, or long term). • Engage with and obtain buy-in from portfolio companies. • Develop governance structure.	• Conduct technical target development work using inputs such as baseline emissions, ambition, requirements, etc. • Develop short, medium, or long-term targets. • Set up steering mechanism for governance and accountability.	• Communicate draft targets to relevant stakeholders, evaluate portfolio company support requirements, and obtain buy-in from fund manager's board. • Present targets to stakeholders (including board) and obtain approval. • Document targets and obtain sign-off. • Communicate targets externally e.g. in impact-related reporting to LPs. • (Optional) External verification of baseline/targets.	• Develop systems to track and steer performance. • Develop scorecards/KPIs to evaluate performance and progress. • Monitor progress and report internally and externally on progress. • Monitoring progress against target at senior level (related to incentives/remuneration). • Responsible exit from an investment.*
Relevant stakeholders				
• Fund senior-management. • Fund board (if applicable).	• Fund investment, E&S and impact teams. • Portfolio company management. • Portfolio company board.	• Portfolio companymanagement. • Fund support teams.	• Fund senior management. • Fund board (if applicable). • Limited partners. • Fund personnel. • External stakeholders.	• Portfolio company management. • Fund senior management. • Fund board (if applicable). • Limited partners. • Fund personnel. • External stakeholders.

*This is a desirable outcome based on fund manager's cash flow, bandwidth, sectoral and regional constraints.

Step 1 – Leadership commitment

1 Leadership commitment | 2 Scoping and baseline | 3 Target development | 4 Target approval and communication | 5 Portfolio engagement, monitoring and exit

The first step in setting a net zero target is securing approval from executive management and the board.

- Net zero targets will have implications on the fund manager's investment strategy. For example, it may require allocating capital in a new sector such as renewable energy or away from fossil fuels but engaging in other high emitting sectors in their transition. Additional capital and/or resources may also be required to support the existing portfolio to reduce their GHG emissions. However, there are benefits for setting net zero targets for the fund manager – see page 17 for additional detail.
- Relevant information should be presented to executive management and the board to support the process. Information could showcase what other fund managers and DFIs have committed to on net zero, highlight key trends and decarbonisation technologies in the sector/s invested in and provide data on GHG emissions and mitigation opportunities in the current portfolio. Delivering this information will better-equip the board and executive team to make informed decisions about the buy-in and support of a net zero commitment.

Outcome

The purpose of this step is to obtain approval in principle. To receive a formal commitment from the senior management the next steps (2 and 3 in particular) in the process will help guide and determine the decision.

This includes the type of net zero target and the scope of its coverage (existing versus new funds).

Step A: Determine portfolio coverage

The fund manager determines which parts of the portfolio are covered by targets based on maturity levels, with the option to expand over time. The scope should also consider fund coverage, as some sectors may be more suitable for target setting.

- **New funds:** Any future funds that are still in development. It is generally anticipated that any new funds raised by the fund manager after setting the net zero target should be covered.
- **Existing funds:** Funds that have already started investing and have the major components of the fund strategy and management system already finalised. Depending on what stage the fund is in, there may be less opportunity to include these funds in the targets.
- **Fund manager activities** (also referred to as *internal alignment*): Relates to operational activities of the fund manager and its staff that results in GHG emissions, such as energy consumed by office buildings or business travel. It is good practice to include net zero targets for these operational emissions as well.

Outcome

In practice, this step consists of detailing all of the components of the fund manager's activities (e.g., operational activities, existing funds, future funds), and noting for each component whether it will be included in the scope, included at a specific date in future, or not included.

MATURITY LEVEL	LOW	MODERATE	HIGH
Operational emissions	Mostly excluded, or only including own Scope 1 and 2 GHG emissions.	Covers at least own Scope 1 and 2 emissions and travel-related emissions.	Covers all fund manager Scope 1, 2 and material Scope 3 categories, including travel.
Existing fund	Excluded.	Preferably included, except for funds that are expected to divest before meaningful progress can be made (e.g. less than two years before exit).	Included, except for funds that are already being exited. For funds being exited, engagement targets can be set.
New conventional fund	Excluded.	Included.	Included.
New climate targeted fund	Included.	Included.	Included.

1 Leadership commitment
2 Scoping and baseline
3 Target development
4 Target approval and communication
5 Portfolio engagement, monitoring and exit

Step B: Determine target category

The fund manager should decide what kinds of targets should be set.

This could be one or a combination of the following targets:

- Managed in alignment
- Emissions reductions
- Engagement
- Climate solutions (optional)

It should be noted that different target types may be applicable for different aspects of a fund manager's activities.

For example, for operational emissions, the most applicable target type is an emission reduction target.

Additional examples are in the (not exhaustive) table below:

FUND MANAGER ACTIVITY	
Scope 1 emissions	Emissions reduction (absolute or intensity reduction): reduce all Scope 1 emissions by at least [X]% and implement a clear transition plan toward net zero.
Scope 2 emissions	Emissions reduction (absolute reduction): reduce all Scope 2 emissions by at least [X]% and secure 100% renewable electricity procurement by XXXX.
Scope 3 Cat 6 Business travel emissions	Emissions reduction (absolute reduction): reduce all staff travel emissions by at least [X]% by XXXX and implement an offsetting strategy by YYYY.
Scope 3 Cat 15 Financed emissions	Emissions reduction (absolute or intensity reduction): reduce financed emissions by at least [X]% and ensure all high-emission assets have a decarbonisation strategy in place by XXXX.
Existing fund	Engagement: complete engagement actions with at least [X]% of portfolio companies and establish measurable climate commitments by XXXX.
New conventional fund	Managed in alignment: ensure at least 50% of fund assets are managed in alignment with net zero, with a clear pathway to 75%, by XXXX.
New climate targeted fund	Climate solutions: invest at least 50% of the fund in climate solutions, with a pathway to 80%, as defined by a recognised green taxonomy by XXXX.

Step 2 – Scoping and baseline

1 Leadership commitment | **2 Scoping and baseline** | 3 Target development | 4 Target approval and communication | 5 Portfolio engagement, monitoring and exit

Step C: Determine baseline

For emission reduction targets, the portfolio company or the fund manager must determine the baseline on which targets should be set. This requires a carbon footprint assessment ahead of defining absolute or intensity targets.

A carbon footprint can be calculated in-house using the BII TCFD Toolkit or by external experts. It should cover at least Scope 1, 2, and material Scope 3 emissions for one full year. GHG emissions reporting will differ depending on fund manager or portfolio company level. At the fund manager level, GHG emissions reporting should cater for both operational emissions (Scope 1, 2, and material Scope 3) of the fund manager and the GHG emissions from the portfolio, reported as Scope 3 financed emissions.
See page 18 for more details.

In some cases, portfolio companies may choose to use a historic year (no older than five years) as the baseline, to account for mitigation activities that have already been performed. The fund can also make use of PCAF to more accurately account for GHG emissions attributed to it.

Step D: Determine timeframes

- Net zero targets should have a timeframe that aligns with a 1.5°C trajectory towards net zero by 2050. To ensure a smooth transition while also meeting the objectives of the Paris Agreement, interim targets should be set as well.
- Targets can have different due dates, as some emissions sources may be easier to mitigate than others. For example, it is generally easy and cost-competitive for a fund manager to source electricity from renewable sources in the short term to reduce Scope 2 emissions, while portfolio companies may struggle to find viable short-term solutions for reducing direct thermal emissions from natural gas used in a boiler until green hydrogen becomes readily available.

Fund managers should also consider the planned fund lifetime and holding period in various portfolio companies. They should also consider and set targets for reductions to be achieved within certain time periods, i.e., setting interim targets aligned with a 1.5°C trajectory well before 2050.

The table below highlights this approach:

FUND MANAGER ACTIVITY	EXAMPLE INTERIM TARGET	EXAMPLE TARGET TYPE
Scope 1 GHG emissions	Reduction of Scope 1 GHG emissions by 35% by 2035 against a 2023 baseline.	All Scope 1 emissions reduced to net zero by 2050.
Scope 2 GHG emissions	Reduction of Scope 2 GHG emissions by 50% by 2040 against a 2023 baseline.	All Scope 2 emissions reduced to net zero by 2050.
Scope 3 travel emissions	All staff travel emissions reduced by 30% by 2030 against a 2023 baseline.	All staff travel emissions reduced to net zero by 2050 or compensated for with emissions removals.
Scope 3 financed emissions (Category 15)	Financed emissions reduced by 25% by 2030 against a 2023 baseline.	All financed emissions reduced to net zero by 2050.
Engagement	Engagement actions completed with 80% of portfolio companies within three years.	Engagement actions completed with all portfolio companies by exit.

1 Leadership commitment | 2 Scoping and baseline | 3 Target development | 4 Target approval and communication | 5 Portfolio engagement, monitoring and exit

Step E: Engage with portfolio companies

Engaging with portfolio companies covered by the target during scoping and selection helps secure their buy-in and feedback.

This may include understanding any prior studies done by the portfolio company on reducing emissions, climate solutions and opportunities, constraints and expansion plans to be considered, and the financial and technical capabilities within the company.

The fund manager should present the business case for setting net zero targets to the portfolio company, outline expectations and timelines and provide details on what kind of support may be provided.

Step F: Develop governance structure

The purpose of developing a governance structure is to track implementation progress to ensure that targets will be achieved, and to trigger interventions where there is a risk of targets being missed.

The governance structure should consider:

- Identifying existing and new structures and parties holding responsibility with regards to the targets. The governance should follow a similar structure to that of ESG and climate change management in the fund manager, with at least one person at executive level and person(s) for day-to-day activities.
- Identifying the relevant metrics to be tracked to evaluate progress against targets. For example, Scope 1 and 2 GHG emissions of all portfolio companies or total number of engagements with portfolio companies per month/year (see below table).

TARGET TYPE	EXAMPLE TARGET TYPE
Managed in alignment	• Total number of AUM whose strategies align with specific climate goals (i.e., net-zero). • Number of portfolio companies that have set carbon reduction targets in alignment with science-based standards.
Emission reductions	• Absolute GHG emissions. • Scope-specific emissions. • Emission intensity metrics (GHG emissions per unit of revenue).
Engagement	• Total number of engagements with portfolio companies per month/year. • Total number of portfolio companies that have set emission reduction targets after engagement.
Climate solutions (optional)	• Portion (%) of investments allocated to renewable energy projects. • Estimated avoided emissions due to investments in climate solutions. • Absolute reduction in GHG emissions achieved through climate solution initiatives.

Step 3 – Target development

1 Leadership commitment | 2 Scoping and baseline | **3 Target development** | 4 Target approval and communication | 5 Portfolio engagement, monitoring and exit

Step A: Conduct technical work

The technical work forming the basis of the target setting process will vary depending on the type of target that will be set, but can include actions such as:

For portfolio companies:

- Assessing the carbon footprints of portfolio companies or expanding and building on existing footprints to bring these up to the required standard.
- Assessing growth plans of portfolio companies and understanding the impacts on the carbon footprint.
- Performing decarbonisation assessment studies of portfolio companies, mapping out feasible decarbonisation pathways and costs. These assessments usually involve an on-site energy and carbon efficiency audit to identify practical actions. These are then evaluated for technical and economic feasibility, helping the portfolio company begin its emissions reduction journey.
- Assessing the existing maturity level of portfolio companies with regards to integrating climate change into management, governance and strategy.
- Identifying potential climate solutions that will have a positive climate impact

For fund manager :

- Establish the target type suited at the fund manager and fund level
- Identifying potential climate solutions that will have a positive climate impact
- Developing an engagement plan with the portfolio for driving positive action on climate change
- Determining the equity values, GHG emissions and control share of the portfolio companies in a fund to calculated the attributed financed emissions (using the PCAF methodology)
- Conducting scenario analysis to understand how the fund manager could align itself to a 1.5˚C pathway and understand the business case for strategic and investment decisions, including opportunities for investment in low-carbon sector. For additional guidance on conducting scenario analysis, refer to the BII TCFD Toolkit.
- External support or technical assistance opportunities from DFI investors.

Step 3 – Target development

1 Leadership commitment | 2 Scoping and baseline | **3 Target development** | 4 Target approval and communication | 5 Portfolio engagement, monitoring and exit

Step B: Develop targets

Feedback from the portfolio company as well as any technical studies can be used to inform the target setting process.

Again, this will vary depending on the exact type of target set, but can include:

For portfolio companies:

- Determining a feasible GHG emissions reduction pathway, considering factors such as short-term reductions, technoeconomic availability and viability of decarbonisation options for portfolio companies, ambition levels and growth plans.
- Setting of short, medium and long-term GHG reduction targets.
- Setting managed in alignment targets, engagement and/or climate solutions targets.
- Developing clear definitions of the scope and reach of targets, as well as how performance will be measured.

Please see the previous section for what is included in the different types of target.

Step C: Develop steering mechanisms

Fund managers have several steering mechanisms in place to address its net zero goals.

Some examples include:

- **Allocation within sectors and asset class:** Assess relative performance of investments in their sectors and asset class and incorporate into transaction decisions e.g., relative performance versus benchmarks on physical emissions intensity, practices and technologies, targets and transition plans.
- **Climate-solution financing:** Identify transition finance opportunities and align with the company's climate finance goals, if applicable.
- **Engagement:** Work with new and existing investees to encourage and support decarbonisation, e.g., through setting requirements and offering technical and value-add support.
- **Deployment of new products:** Identify where and how your company can offer concessional financing in support of decarbonisation, e.g., using Kinetic and Catalyst investment strategies or deployment of new types of finance (such as sustainability-linked loans or bonds).
- **Investment specific exclusions:** Identify how your company can assess transactions that might not be taken forward based on development impact and climate considerations.
- **Sector-wide exclusions:** Provide clear guidelines on what the investor will *not* invest in as set out by the fund manager's exclusion policy, e.g., no coal, upstream or midstream oil and gas, downstream oil, and HFO power.

Source: Levers adapted from SBTI Foundations for Science-Based Net-Zero Target Setting in the Financial Sector

Step 4 – Target approval and communication

1 Leadership commitment
2 Scoping and baseline
3 Target development
4 **Target approval and communication**
5 Portfolio engagement, monitoring and exit

Step A:
Present draft targets to stakeholders and obtain approval

- Draft targets should be communicated to relevant stakeholders within the fund and to impacted portfolio companies.
- The support needs of portfolio companies should be identified on the basis of proposed targets.
- If necessary, targets may need to be revised based on input from stakeholders.
- Once the portfolio companies have agreed the targets, the final draft targets can be presented to the fund manager board following the relevant internal processes for review and approval.

Step B:
Communicate targets internally and externally

Once fully approved, the formalised targets can be communicated to stakeholders (i.e., investors, portfolio companies, regulatory bodies, and internal teams).

While not required, it is recommended to share targets with interested parties, such as fund limited partners. If the fund makes public disclosures, this can also include the general public (e.g., TCFD disclosures).

Step C *(optional)***:**
External validation and verification

Fund managers can also have their GHG emissions and/or targets assessed by an independent third party. External validation and verification can be completed with the SBTi, ISO 14064 accredited organisations or other third-party verification firms.

Third-party verification comes with costs that should be taken into account.

Step 5 – Portfolio engagement, monitoring and exit

1 Leadership commitment | 2 Scoping and baseline | 3 Target development | 4 Target approval and communication | **5 Portfolio engagement, monitoring and exit**

Step A:
Develop systems to track performance

Systems and processes should be established to track performance against targets:

- Annual disclosure of progress against the range of targets is required to highlight performance and achievements.
- Relevant KPIs and systems to capture information (such as # of engagements) enable easy tracking of targets.
- Since mitigation efforts take time to scale up, leading indicators should be used to track progress and ensure necessary steps are taken. Engaging with portfolio companies is key to monitoring their performance and actions to measure and reduce GHG emissions.[1]

Example KPIs include:

- Actual GHG emissions of portfolio companies (Scope 1, 2 and material Scope 3).
- Capital allocated towards decarbonisation solutions.
- Operating financial impacts of decarbonisation efforts (e.g., cost savings on fuels or electricity, carbon tax avoided).
- Actual GHG emissions mitigated and avoided.
- Training provided.

Step B:
Develop scorecards

To track progress toward net zero targets, fund managers should use scorecards at the fund manager, fund, and portfolio levels.

- Scorecards evaluate how well the funds and overall investment portfolio is performing. They may also highlight the actions implemented to reach the targets such as reduction in GHG emissions.
- Fund-manager and fund-level scorecards can provide a holistic view of the performance of the entire fund and can be used for external reporting to investors and stakeholders.
- Portfolio-level scorecards focus on performance of individual portfolio companies within that fund and are more useful for internal decision-making nd management.

Step C:
Monitor and report on progress

Once a fund manager has committed to net zero targets, fund managers should monitor progress annually and disclose information both internally and, where necessary, externally. Fund managers should also provide information on actions/strategies taken during the year to meet targets.[1]

- Internal disclosure helps identify and improve the efficiency of resource allocation, increase accountability and improve collaboration.
- External disclosure builds the fund manager's credibility and reputation, demonstrates leadership,1 improves regulatory compliance , and ensures necessary information is shared with stakeholders and portfolio companies.

1: SBTi-Private-Equity-Sector-Guidance.pdf (sciencebasedtargets.org)

Step 5 – Portfolio engagement, monitoring and exit

1 Leadership commitment | 2 Scoping and baseline | 3 Target development | 4 Target approval and communication | **5 Portfolio engagement, monitoring and exit**

Step D:
Monitor progress of targets at senior level

During monitoring, target progress must be verified at a senior level to ensure effective tracking and alignment with the fund's investment strategy and objectives.

This helps manage potential risks that could affect fund performance, ensures efficient resource allocation, and supports long-term value creation.

Step E:
Ensure a responsible project exit

To ensure new investors of portfolio companies maintain net zero commitments and continue progress towards climate goals, fund managers should adopt a responsible exit strategy:

- Prioritise potential investors identified as dedicated to net zero objectives and committed to tracking and reducing GHG emissions.
- Enable a smooth transition by providing comprehensive information and support to help uphold the commitments.
- At exit, update the climate risk assessment with a revised scorecard that outlines the portfolio company's performance and highlights targets achieved or still pending.[2]

When preparing to divest, the following considerations should be taken into account:[3]

- Timing of exit: When a fund manager is prepared to exit a project, the timing depends on several factors such as if the fund manager's objectives have been met, the availability of a suitable investor and capital to further the mission.
- Investor selection: It is important to identify an investor that is aligned to the project and fund manager's objectives and views, based on their reputation, track record and overall operations.
- Legal documentation protection: During divestment, the fund manager must ensure legal documents contain compliance and protection measures to uphold sustainability and climate goals even after exit.

1: SBTi-Private-Equity-Sector-Guidance.pdf (sciencebasedtargets.org)
2: Net-Zero-Investment-Framework-component-for-the-private-equity-industry.pdf (parisalignedassetowners.org)
3: Impact Investing: Keys to a Responsible Exit (americanbar.org)

Step 5 – Portfolio engagement, monitoring and exit

Origination and screening

- Advise potential clients of fund net zero targets and share the mandatory requirements if deal proceeds.
- Pre-screen targets in high emission sectors to determine whether involvement in net zero commitment is feasible.

Due diligence

- Conduct or review carbon footprint.
- Conduct a climate change risk assessment.
- Conduct high-level assessment of mitigation potential.
- Assess support needs.

Investment committee and legals

- Investment Committee memos should include outcomes of DD specialist studies, portfolio company's impact on overall fund net zero targets, and commitments/requirements to be included in transaction legals/ESAP.
- Include net zero target commitments and actions in investment agreements.

Management and monitoring

- Ongoing monitoring of carbon footprint.
- Ongoing tracking of actions and progress towards achieving net zero.
- Provide technical assistance if required.

Exit and close

- Evaluate overall mitigation impact.
- Evaluate impact on fund net zero progress.

Origination and screening / Due diligence:

- A significant portion of the integration takes place before the investment agreement.
- Potential investees should be engaged with early and regularly about the fund's net zero commitment.
- Additional technical due diligence may help determine the investee's carbon footprint, mitigation potential, advisory services.

Investment committee and legals:

The next step is to present the Investment Committee with an assessment of how the investment aligns with the fund's net zero target. This should include key metrics such as estimated changes to the fund's carbon intensity and whether the investment supports or hinders the overall goal. We recommend incorporating net zero targets into the investment agreement.

Management and monitoring:

Management and monitoring involves regular tracking of progress towards achieving net zero goals, as well as the overall carbon footprint of the portfolio company.

Exit and close:

At exit, progress towards net zero should be assessed at both the fund manager and portfolio company level. Including this evaluation, along with future commitments, can provide valuable insights for potential investors and demonstrate the fund's ongoing commitment to sustainability.

* Refer to OPIM Impact Principles for further guidance on impact management.

06

Case study

Case study – Overview

The case study features a hypothetical fund manager Global Equity.

Global Equity has three existing funds – Fund I, Fund II, and Fund III – alongside two proposed new funds, Fund IV and Green Fund. The case study illustrates the practical steps a fund manager can take to establish net zero targets.

Global Equity

Global Equity is a developing market fund manager, focused on the agro-processing value chain, with a goal to integrate further upstream in the supply chain. Global Equity generally takes a greater than 50% equity share in PCs. It has made a commitment to address climate change and to setting realistic net zero targets.

Existing funds

Global Equity has three existing funds in 2023:

Fund I – Has reached maturity and is being divested.

Fund II – Fully invested and will mature in three years.

Fund III – Partly (30%) invested and will mature in seven years.

New funds

Global Equity also plans to start raising capital for two new funds:

Fund IV – A traditional fund.

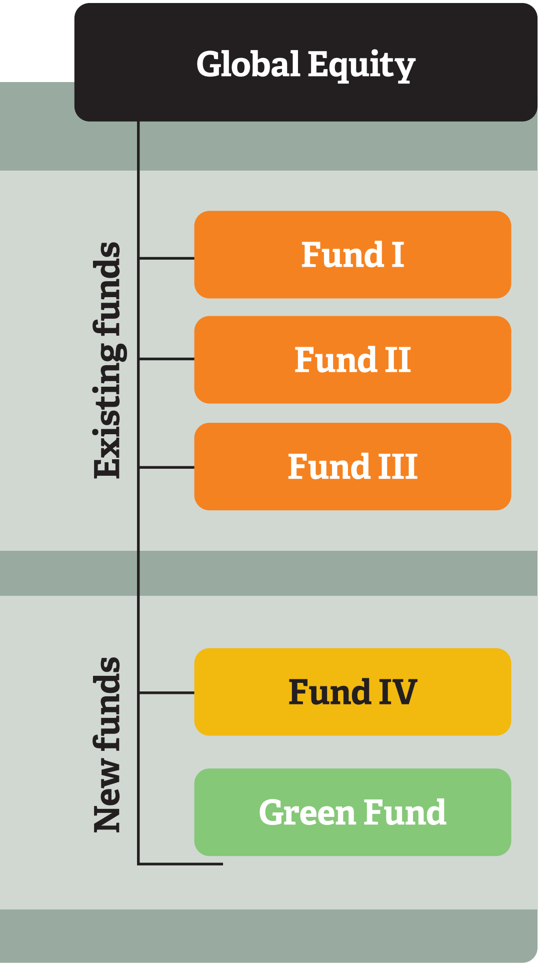
Green Fund – An agricultural-focused fund investing primarily in green and climate-friendly agricultural practices.

Target-setting process

As a first step, Global Equity engages with the senior leadership of the fund to get high-level buy-in on a net zero commitment.

Once senior leadership buy-in has been confirmed, Global Equity will perform a scoping exercise. This will consider which aspects of the fund manager's activities will be included in scope, and what type of targets will be set. These two considerations happen in parallel, as they are likely to impact each other.

Case study – Target setting



Global Equity operational emissions:

- Global Equity has not yet performed a carbon footprint of its own operational GHG emissions.
- Global Equity owns three office buildings and several company cars. As a result, Global Equity follows best practice and sets at least a Scope 1 and 2 GHG emissions reduction target.
- Global Equity also sets a net zero by 2040 target for its operational emissions, as technologies needed to reduce these GHG emissions are readily available and cost competitive.
- Additionally, Global Equity commits to setting a Scope 3 GHG emissions target for all material Scope 3 GHG emissions sources (excluding financed emissions) within two years.

Target type:	Absolute GHG emissions reduction
Target scope:	Global Equity Scope 1 and 2 GHG emissions
Interim target:	At least 50% reduction in absolute GHG emissions by 2030
Long-term target:	Net zero by 2040

Other considerations:

- Targets for material Scope 3 GHG emissions (excluding financed emissions) to be set within two years.
- Targets to be reviewed at least every two years.

Global Equity

Existing funds

Fund I

Fund II

Fund III

Since funds vary in investment maturity, different types of targets will likely be needed for each one.

As a principle, Global Equity sets Engagement targets for all funds (existing and new), and will set Paris-aligned AUM targets, where possible. Where not possible, Global Equity will set GHG emissions reduction targets.

As Fund I is at divestment stage, Global Equity does not set GHG emissions reduction targets and instead sets a 100% Engagement target by exit for the remaining fund assets.

- This means Global Equity will engage with the portfolio companies in Fund I to improve awareness and knowledge of climate change and motivate them to develop decarbonisation plans and set their own net zero targets.
- These steps are likely to help Global Equity achieve a successful exit by encouraging portfolio companies to take steps to address climate change.

TYPE	SCOPE	TARGET
Engagement	**Fund I PCs**	**100% engagement actions taken by exit**

Fund II is already fully invested. As such, it is harder to agree significant new measures and interventions not included in the original ESAP. It uses its majority holding to:

- Address climate change through engagement with the portfolio companies in the fund with a proposed approach including supporting in the development of decarbonisation plans, funded by Technical Assistance, where possible.
- The fund manager also encourages setting of medium and long-term reduction targets.

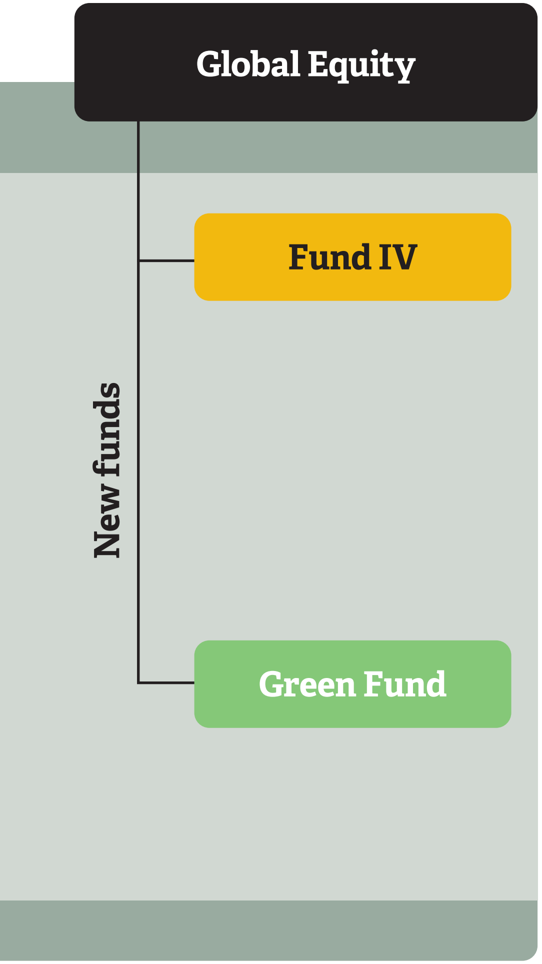
TYPE	SCOPE	TARGET
Engagement	**Fund II PCs**	**100% engagement actions taken within two years**
Managed in Alignment	**Fund II PCs**	**Decarbonisation plans** developed and accepted by the Board for all Fund II portfolio companies by the time of exit.

As Fund III is still investing, there is an opportunity to include agreements regarding net zero targets with investees.

- Fund III will have a Paris-aligned AUM target along with a decarbonisation plan target.
- As with other funds, there will also be an engagement target for all portfolio companies.

TYPE	SCOPE	TARGET
Engagement	**Fund III PCs**	**100% engagement actions taken within two years**
Managed in Alignment	**Fund III PCs** already invested	**Decarbonisation plans** developed and accepted by the Board for all Fund III portfolio companies within two years of investment.
Managed in Alignment	**Fund III**	**Interim target 1:** At least 50% of assets managed in alignment with net zero by 2028. **Interim target 2:** At least 80% of assets managed in alignment with net zero by 2030. **Long-term target:** 100% of assets managed in alignment with net zero by exit.

Case study – Existing funds



New funds presents an opportunity for Global Equity to include climate change, and alignment with the goals of the Paris Agreement, as a consideration for the investment process.

Further, investing in climate solutions will form part of the Green Fund.

Fund IV is in a capital raising stage. This is an ideal time to include climate change considerations into the fund setup, including the ESMS and investment strategy.

As a new fund, all assets should eventually be aligned.

TYPE	SCOPE	TARGET
Engagement	**Fund IV PCs**	**100% engagement actions taken immediately after transaction close**
Managed in Alignment	**Fund IV**	**Interim target 1:** At least 50% of assets managed in alignment with net zero after three years. **Interim target 2:** At least 80% of assets managed in alignment with net zero after five years. **Long-term target:** 100% of assets managed in alignment with net zero by exit.

As the Green Fund is a targeted climate-dedicated fund, it would be appropriate for all invested assets to be at least Paris-aligned, and for most assets to be climate solutions.

TYPE	SCOPE	TARGET
Managed in Alignment	**Green Fund**	**100% engagement actions taken immediately after transaction close**
Managed in Alignment	**Green Fund**	**Interim target 1:** At least 50% of assets managed in alignment with net zero after three years. **Interim target 2:** At least 80% of assets managed in alignment with net zero after five years. **Long-term target:** 100% of assets managed in alignment with net zero by exit.

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