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Report: Asset Owners Increase Intermediate Target Commitments While Decreasing Emissions

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According to an [annual report](#) published on October 18, 2023, members of the Net Zero Asset Owner Alliance (NZAOA) have stepped up their commitments by setting new intermediate targets in four key areas, *i.e.*, sub-portfolio targets, sector targets, engagement targets and climate solution investment targets. NZAOA is a UN-convened initiative of institutional investors committed to transitioning their investment portfolios to net-zero greenhouse gas emissions by 2050.

As members increased their target-setting ambitions, they also saw absolute financed greenhouse gas emissions drop 3.5% to 213.4 million tons of carbon dioxide equivalent (tCO₂e) in 2022, from 221.2 million tCO₂e in 2021, the NZAOA said in the report. It also urges government policymakers to ramp up the reform of finance and investment policies to support the net-zero transition.

According to the report, of NZAOA's 86 members with \$9.5 trillion assets under management (AuM), 69 members with \$8.4 trillion AuM set intermediate climate targets, up from 44 members with \$7.1 trillion in AuM in 2022. The intermediate climate targets are in line with the third edition of NZAOA's Target-Setting Protocol, issued earlier this year, which [we discussed](#) in February.

To comply with the Target-Setting Protocol, members must set a target on three out of four target types: 1) sub-portfolio targets (corporate debt, listed equity, and directly-held real estate); 2) sector targets (oil and gas, utilities, cement and steel, shipping, light and heavy duty, and aviation); 3) engagement targets (eight key performance indicators); and 4) climate solution investment targets (including corporate bonds, listed equity, real estate, sovereigns and agency bonds, private assets, and infrastructure).

A total of 67 members set sub-portfolio targets; nine members set sector targets; all 69 members set engagement targets as required by the Target-Setting Protocol; and 68 members

set climate solution investment targets, dedicating a total of \$380.6 billion to investments in 2023. Eight members reporting on their targets in 2023 went above and beyond the Target-Setting Protocol's "three out of four targets" requirement.

Finally, the report also calls on government policymakers to support asset owners by taking the following actions as soon as possible:

1. Scale up reforms of finance and investment policy frameworks to enable and attract private capital and create investable business models that are aligned with Paris Agreement goals.
2. Implement overarching policies that integrate transition planning across all government entities.
3. Continue to reform current multilateral financial architecture and prioritize the mobilization and alignment of private finance towards "billions to trillions."
4. Enable the transition towards net zero through accelerating the implementation of holistic, long-term domestic policies.

Taking the Temperature: The NZAOA report reflects the importance of investor engagement and influence in connection with climate change and sustainability, driven in part by investor coalitions, as evidenced by investor engagements in a variety of situations which we have discussed, including [here](#), [here](#), [here](#), and [here](#). In the United States, the U.S. Treasury in September [published guidance](#) for private sector financial institutions that have made net-zero commitments. And in the UK, [as we reported](#), the Financial Conduct Authority in June launched a consultation aimed at developing a voluntary vote-reporting template for asset managers.

While the report notes an increase in NZAOA membership, from 74 to 86 members in 12 months, as well as the increased commitment to net-zero targets and a decrease in financed greenhouse gas (GHG) emissions, headwinds remain, particularly in the U.S., as financial industry participants navigate the politicization of ESG. We have reported, for instance, that in the U.S. overall support for climate-related shareholder resolutions [declined in 2023](#) and there have been certain high profile withdrawals from net-zero industry alliances, such as [Vanguard's withdrawal](#) from the Net Zero Asset Managers initiative, and [the withdrawal](#) of Munich Re, Zurich and Hannover Re from the Net-Zero Insurance Alliance.