



Toitū Tahua
Centre for
Sustainable
Finance



Investor
Group on
Climate
Change

2022 STATE OF NET ZERO INVESTMENT IN AOTEAROA NEW ZEALAND

Results from wealth managers, asset owners,
and fund managers

NOV 2022

About the Aotearoa New Zealand Investor Coalition for Net Zero

The survey and this report were produced by the core group of the Aotearoa New Zealand Investor Coalition for Net Zero:



In addition, the coalition is supported by:



Note these supporting organisations are not responsible for the content of this report.

The coalition was formed last year to encourage and support investors to deepen their climate action. It conducted a survey in October 2021 of asset owners and fund managers to establish a baseline of net zero pledges, plans in progress, and intentions regarding reductions in climate emissions. This survey follows up on that initial baseline survey.

Toitū Tahua

www.sustainablefinance.nz

The purpose of Toitū Tahua: Centre for Sustainable Finance, is to accelerate progress towards a sustainable, inclusive and equitable financial system in Aotearoa New Zealand.

Mindful Money

www.mindfulmoney.nz

Mindful Money's aim is to make money a force for good. It is a charity that promotes ethical and impact investment. Mindful Money wants to empower all New Zealanders to be responsible for how they invest their savings – to do good and earn good returns.

The Investor Group on Climate Change

www.igcc.org.au

The Investor Group on Climate Change (IGCC) is a collaboration of New Zealand and Australian institutional investors focused on the impact of climate change on investments. IGCC represents investors with total funds under management of over \$3 trillion in Australia and New Zealand and \$20 trillion globally. IGCC members cover over 7.5 million people in Australia and New Zealand.

Acknowledgements

We would like to extend our sincere thanks to those that took the time to complete the survey.

A special thank you to those investors that assisted with case studies, consultation regarding the survey questionnaire, and feedback on the draft report.

Research Team

This survey was coordinated, analysed and drafted by David Lewis, with input and expertise from Harrison Smith (IGCC). Overall direction was provided by Barry Coates, design by Olive Coulson (both Mindful Money) and logistical support from Jo Kelly and Bella Conyngham (both Toitū Tahua).

November 2022

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EXECUTIVE SUMMARY

OVERVIEW AND CONTEXT

The financial sector has a key role to play in achieving a 1.5 degree pathway. Most of the capital required for investment in renewable energy and climate solutions will need to come from the private sector, as has recently been emphasised in the World Energy Outlook¹. The response has included significant global pledges to drive portfolio emissions to net zero, undertaken by asset owners and fund managers. Many of these pledges were undertaken around the time of the 2021 COP26 Climate Summit. Now, at the time of COP27 a year later, questions are being asked on whether those pledges are being translated into action.

These issues are relevant to the New Zealand finance sector and important for meeting expectations of customers and clients, keeping up with international peers and tackling the climate emergency. Asset owners, wealth managers and fund managers have crucial roles to play in reducing portfolio emissions and investing in the climate transition, both internationally and especially domestically. New Zealand is far from being on track to meet our UN climate change targets and our net zero legislation.



¹International Energy Agency, [World Energy Outlook 2022](#).

A year ago, a coalition was formed to encourage net zero pledges and climate action from New Zealand financial institutions, including through public awareness raising, a survey across the financial sector and a seminar. The survey, undertaken by a coalition core group of Mindful Money, Toitū Tahuā: Centre for Sustainable Finance (CSF) and the Investor Group on Climate Change (IGCC), revealed a strong interest in moving towards climate action and net zero pledges, but most of the sector were still at an early stage of measuring their emissions.

Since that first survey, there have been significant developments in climate disclosure and action. Above all, there has been a huge increase in public and financial sector recognition of both the risk of climate impacts, and the opportunity of a net zero-aligned economy. The Government Climate Change Work Programme includes national emissions reduction and adaptation plans, and the Carbon Neutral Government Programme. Mandatory Climate-Related Disclosures (CRD) comes into effect early 2023, applying to most of the larger (>\$1bn AUM) New Zealand investors. Recognising the important role investors play in influencing companies to develop and implement credible transition plans, a [Stewardship Code](#) has also been developed and launched. This includes standards for voting, engagement and influence over companies, including around reducing emissions. The public are increasingly expecting action by corporates and the financial sector amidst growing concerns about misleading claims and greenwash. The Financial Markets Authority (FMA) has undertaken [research](#) and is planning follow up action.

This year's survey captures responses from 50 investors, covering in aggregate \$331bn in assets, and capturing over 80% of the fund management market. The survey included an option for high-level, summary reporting for those relatively early on the net zero pathway, and more detailed questions and analysis from those that have made pledges or are close to doing so. This has allowed a comparison with last year's data on broad measures alongside a deeper dive into the key steps towards fulfilling on net zero pledges for a subset of respondents. The survey ran in parallel with the survey of Australian financial institutions, conducted by IGCC.

The survey revealed a number of critical findings

They include:

- **A keenness for climate action but slow progress.** Progress in New Zealand (NZ) is slower than Australia and significantly slower than international leaders such as the EU.
- On an international comparison, **the NZ investment industry is behind the Australian finance sector on virtually every measure surveyed**, including the foundations for emissions reductions
 - **Top-down climate governance from investors is lacking.** While some investors have made good progress, climate change should be central to organisational strategic plans, with climate strategies fully endorsed by the board
 - There has been **disappointing progress in new net zero commitments**, although new internal policies have been put in place by a number of asset owners and fund managers
 - Investors recognise the importance of setting **interim targets to kickstart meaningful climate action**, including asset alignment targets, engagement threshold targets and climate solutions targets, but progress remains slow in New Zealand. These targets are a crucial component of short-term progress and accountability, but **few targets or implementation plans** have yet been set
- Most wealth managers have **yet to engage meaningfully on climate issues**
- Most asset owners are **not proactively setting mandates to incorporate climate risk and opportunities**
- There are positive developments that provide a platform for further action. Investors of all sizes are progressing with annual climate reporting, including those without regulated reporting requirements. **Over half (58%) of investors now have a climate policy in place**, and ideally this will continue to rise to 100% over the next 12 months

- Climate reduction approaches have yet to be adopted widely across the New Zealand finance sector:
 - Investment in climate solutions (and associated targets) are low, indicating that **most investors are not yet redirecting investment decisions to favour companies and projects that will thrive in a net zero world** (or are not effectively reporting on this, if they are)
 - **Climate corporate engagement by investors to drive the transition remains low** in New Zealand. To ensure long-term value protection and creation, investors should implement climate engagement strategies (for example, with structured and time bound requirements for credible decarbonisation strategies from corporates)
 - Investors of all sizes are progressing with annual climate reporting, albeit using a **wide range of measures, methodologies and scenarios which lack comparability** (a problem internationally as well as Australasia). Regulated climate disclosure reporting will assist with this
- There are unmet needs for **support and collaboration**
- Despite disappointing progress overall, some investors are progressing well. We highlight six of these from various investor types with case studies in the upcoming detailed report²

There are some good practice examples, but the picture that emerges from the survey is of an investment sector that has not yet engaged sufficiently with climate action.

New Zealand's enviable international reputation for sustainability creates a significant, immediate opportunity for the financial sector. If the sector ramps up its commitments to climate action and its support for climate solutions, it will attract a larger share of the growing pool of international capital seeking net zero-aligned investments and meet the growing demands of individual and institutional investors. Investor action will also play a major role in driving opportunities across the traded and non-traded sectors in the transition to a net zero-aligned economy.

New Zealand has all the ingredients needed to keep and attract investment across the economy to achieve net zero emissions. Institutional investors also have the capital to help finance the transition to a net zero, climate-resilient economy. We look forward to the next few years when the opportunity and means to reshape the economic landscape come together with business commitment and policy direction supporting climate-aligned investment. Institutional investors should recognise their fiduciary duty to take action and deliver long-term returns for millions of people. This is the time for investors to ramp up climate action.

Barry Coates, CEO and Founder
Mindful Money

Rebecca Mukula-Wright, CEO
Investor Group on Climate Change (IGCC)

Jo Kelly, CEO
Toitū Tahua: the Centre for Sustainable Finance

²BayTrust
AMP Wealth Management NZ
New Zealand Super Fund
Pathfinder
Climate Venture Capital Fund
BT Funds Management



Box 1: Key Concepts and terms used in this report

Net zero target – A target for an entity (usually in this report – an investment portfolio) to achieve net zero emissions by 2050 or sooner. Net zero refers to a state in which greenhouse gases going into the atmosphere are balanced by gases being removed.

Net zero pledge – signing up to an alliance or initiative that underpins a net zero target with transparent and specific standards and accountability mechanisms. Examples include the Net Zero Asset Managers (NZAM), Paris Aligned Asset Owners (PAAOs) and other net zero initiatives accredited by the UN's Race to Zero Campaign.

Portfolio emissions – the sum of a proportional amount of each portfolio company's emissions (proportional to the amount of stock held in the portfolio). In other words, a calculation of the emissions of a pool of investments, based on how large those investments are, and how much emissions each of those investments generates.

Operational emissions – emissions relating to an investment organisation's own operations and team, such as those from office operations, staff flights, etc. In general, for investing organisations, portfolio emissions are many hundreds (or more) times greater than their operational emissions.

Asset owner – organisations such as community and philanthropic trusts, university foundations, iwi, Crown Financial Institutions (for example, NZ Super and ACC), and certain private companies (for example, insurance companies) that own a large pool of investments, but typically use other firms to manage those investments.

Fund manager – a company that invests money on behalf of clients primarily through specific funds. Most managers offer both KiwiSaver and non-KiwiSaver funds. In a pooled fund, each investor owns a portion of the total fund, and hence investors achieve identical investment performance in a given time period. Investors' money is spread across different kinds of investments (such as shares in individual companies) that the fund manager selects. A Financial Adviser³ does not need to be involved.

Wealth manager/advisory – a company that invests money on behalf of clients, with client relationships primarily managed by Financial Advisers. These Financial Advisers (and their teams) are generally also responsible for managing clients' investments.

Note that many firms in the NZ financial industry span two or even three of these categories. In the survey, we asked respondents to identify their *primary* category.

³Financial Adviser is defined by the FMA [here](#).

COMPARING PERFORMANCE ACROSS INDUSTRY CATEGORIES

There is wide variation in progress at the individual organisation level. Certain organisations such as the NZ Superannuation Fund, as well as particular fund managers, continue to lead the way, providing some good examples across key climate actions and inspiration for others. However, most of the respondents, including both small and large asset owners, wealth managers/advisors, and fund managers, are yet to really begin addressing climate risks and planning in their portfolios.

Notwithstanding the dominance of firm-specific factors, important themes have emerged across selected categories in the local investment industry. Firstly, the effect of size; secondly, trends by type of investor – comparing fund managers, asset owners, and wealth managers; and thirdly, comparisons with Australia.

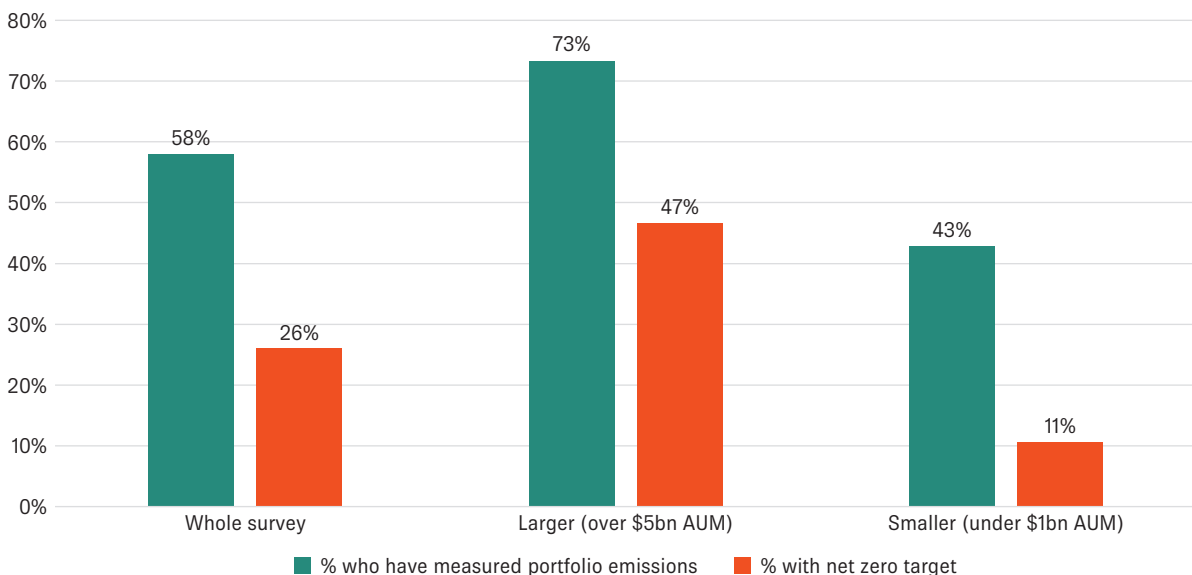
Focus area one: smaller versus larger investors

Larger investors are generally better progressed than smaller ones, but there is considerable variation

- Of the 15 larger investors surveyed with over \$5bn in AUM, 11 (73%) have measured portfolio emissions (either for all or part of the portfolio), compared to 58% in the overall survey.
- Among investors below \$1bn in AUM (29 surveyed), 43% have measured emissions.
- In terms of net zero targets, 47% of investors over \$5bn in AUM have a target (7 out of 15) compared to just 11% of those below \$1bn. For the overall survey, only 26% of respondents had a net zero target.

Many smaller investors have made excellent progress, with examples like BayTrust showing that an investor does not need to be huge to rise to the challenge of climate-aligned investing. Further, some of the smallest funds (<\$20mn) in the survey reported strong results, albeit some of these specialise in climate solutions.

Chart 1: Comparing survey responses by size of assets managed



Focus area two: comparing fund managers, asset owners, and wealth managers

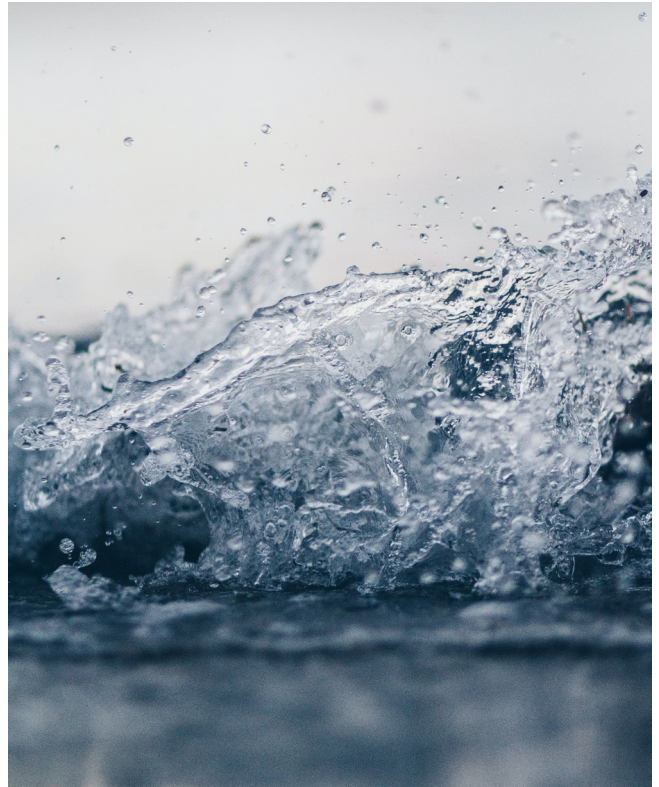
Wealth managers/advisors⁴ are lagging, especially regarding net zero targets

There can be some particular challenges for wealth managers to implement climate targets, given potentially decentralised portfolio management across many financial advisers. However, this is a large and influential part of the investment industry in NZ (over \$65bn covered in this survey alone), so it is essential that this sector progresses.

The survey was expanded in 2022 to include wealth managers, partly as we suspected progress may be lagging. This has been generally confirmed by the results, especially regarding targets. Key insights from the wealth managers who responded to the survey include:

- **Targets** – 58% of organisations with an interim emissions reduction target are fund managers, and 42% are asset owners, with none among wealth manager/advisory respondents, and no wealth managers have yet set net zero targets
- **Governance** – There was some evidence of climate-related factors being incorporated in governance structures at certain wealth management firms. Based on survey results, this is at a similar rate to fund managers and asset owners, but still remains lower than it should be given the materiality of the climate transition to investors' businesses
- **Climate reporting** – Responses from some wealth managers indicated an ambition to take further action in future, including for example voluntary CRD (which is based upon global TCFD standards) reporting⁵.

As a caveat, the sample size for wealth managers was low (just six respondents), although it included several of the largest managers.



Most asset owners are not proactively setting climate mandates

Only a third (6 of 17 respondents on this question) of asset owners reported having any investment mandates that refer to emissions, net zero, or decarbonisation. Especially once Crown Financial Institutions are excluded, this leaves a picture where the vast majority of asset owners in NZ are not requiring the fund managers they employ to explicitly consider climate factors in investments. This issue is likely to be of particular importance to Aotearoa's charitable investors given their broader values and community-driven purpose. We encourage community trusts to consider joining the [Funders Commitment on Climate Action](#), discussed further below.

Among fund managers, the proportion of those including net zero requirements in external mandates was slightly higher, at 43%.

⁴The terms 'wealth manager' and 'wealth manager/advisors' are used interchangeably in this report.

⁵Refer to our upcoming full report for an overview of the CRD reporting regime.



Focus area three: Looking across the ditch – how industry practice compares to Australia

NZ investment industry is consistently – in some areas significantly – behind Australia

The charts and table below provide an overview of responses to key questions in our NZ survey, compared to the same questions in IGCC's survey of Australian investors.

NZ is behind the Australian finance sector on virtually every measure surveyed, including climate measurement and reporting where New Zealand has had the world's first legislation.

As shown, there are significant gaps in the areas of:

- Net zero targets
- Engagement
- Governance
- Scenario analysis

Net zero targets – a large gap even for similarly-sized investors

NZ's largest investors surveyed have median AUM of \$10bn – similar to the A\$14bn (domiciled in Australia) in IGCC's Australian survey. Yet only 47% of large NZ survey respondents have a net zero target, against 70% in Australia.

Metric	NZ's largest investors: survey respondents with AUM ⁶ over \$5bn ⁷	IGCC's Australian survey	NZ full survey
Median AUM	NZ\$11bn	A\$14bn	\$600mn
% with whole-of portfolio net zero target	47%	57%	26%
% with partial portfolio net zero target	0%	13%	0%
% with net zero target (whole or partial)	47%	70%	26%

⁶ Assets under management.

⁷ 14 respondents.

Corporate engagement – NZ investors lacking formal climate engagement structures

Chart 2: Share of respondents with both a formal climate engagement strategy and targets

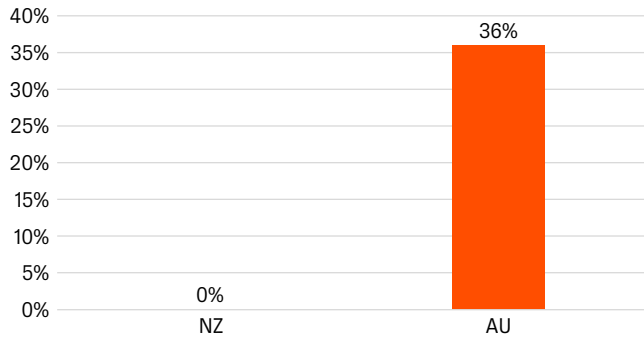
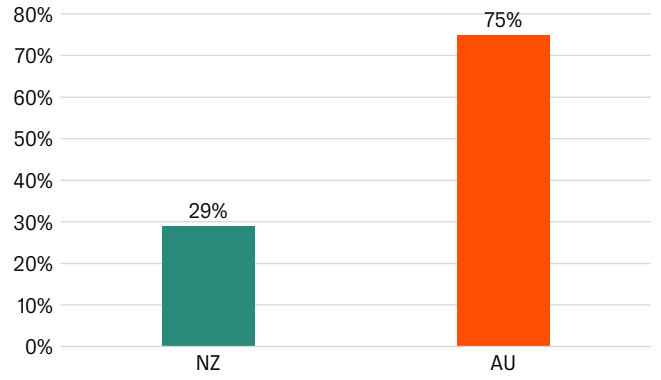


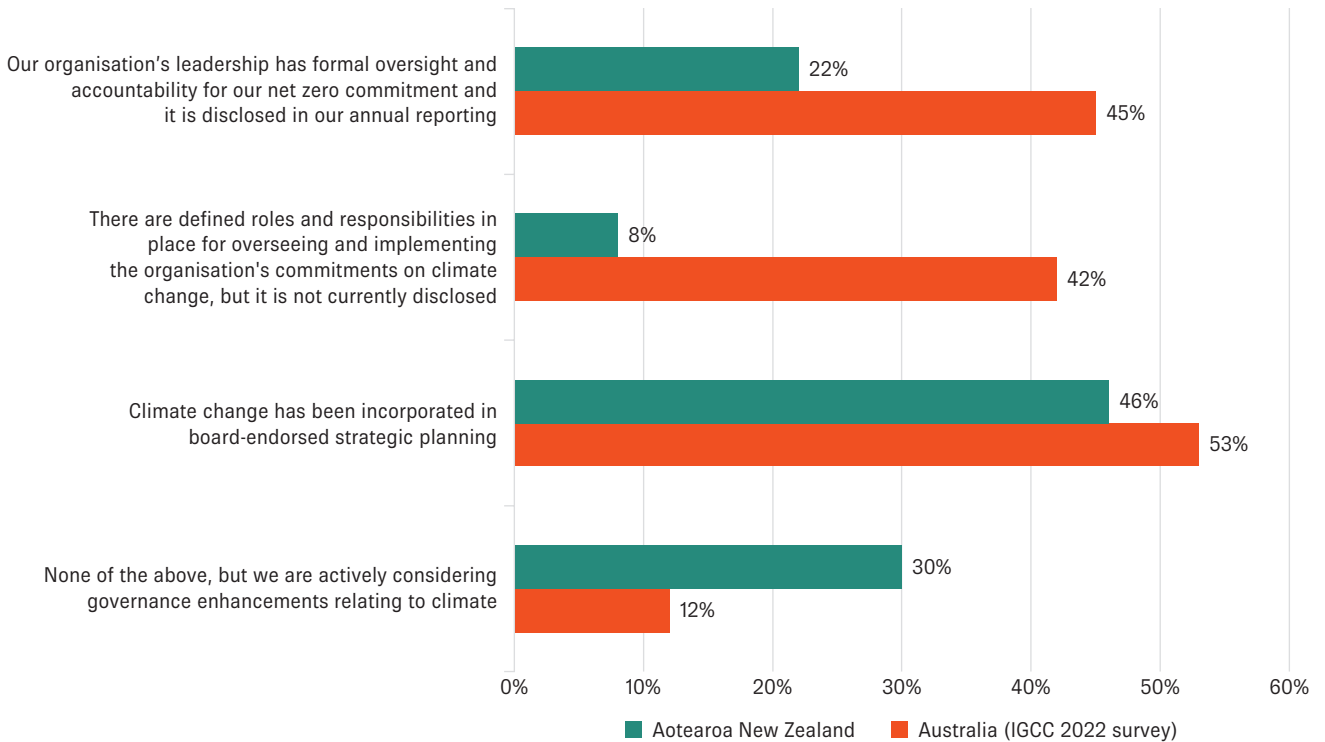
Chart 3: Collaborative climate engagement with local companies is much less common in NZ*



*Shows proportion of respondents involved in collaborative engagement with companies in their home market; ie AU investors with AU companies, and NZ investors with NZ companies.

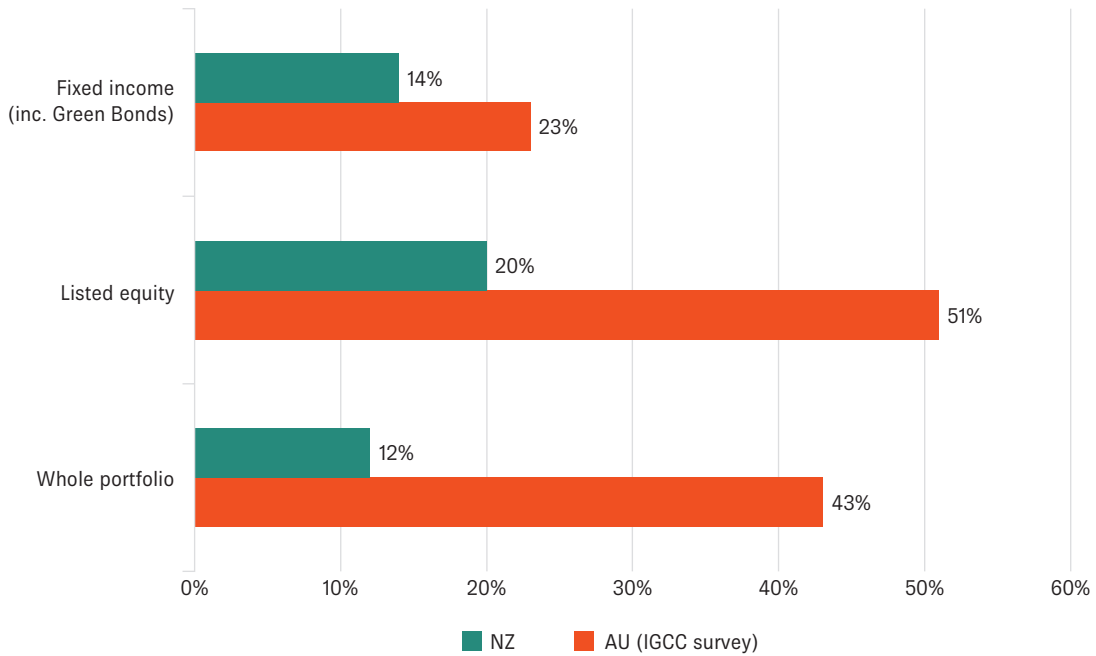
Governance – materially lagging Australia in key areas

Chart 4: Attributes within investors' governance structure and practice



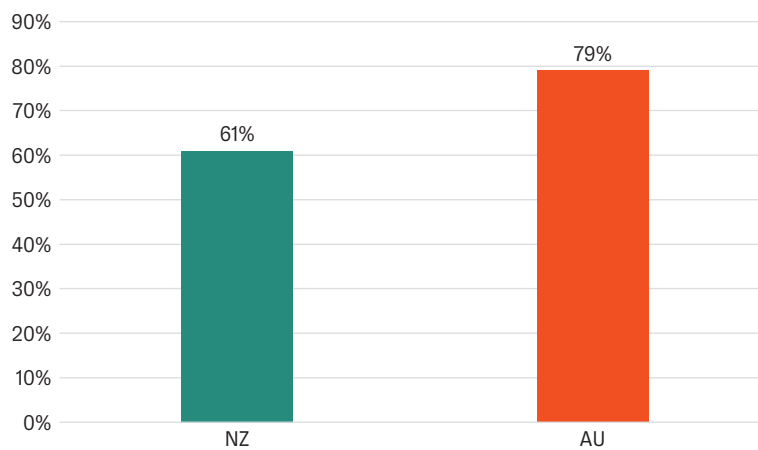
Stress testing portfolios to climate scenarios: Australian investors are far ahead

Chart 5: Scenario analysis



Prospective TCFD reporting

Chart 6: Share of respondents who have completed TCFD aligned reporting, or have committed to doing so within the next 12 months





Survey and comparability considerations

We estimate that the Australian survey responses cover approximately 60% of total AUM in the Australian asset management market, against 73% in NZ⁸. **Given this level of coverage, at least by assets, the surveys are both reasonably representative of overall industry practice in each country.**

However, there are certain factors that can be expected to be generally consistent with observations of more advanced climate planning for respondents to IGCC's Australian survey. One is the size of respondents. Another is membership of IGCC itself, which brings access to capability and peer networks, and also likely indicates a level of engagement with climate from the investor. We address these sample and methodology issues in detail in the *Background Information* chapter of the detailed report⁹.

There are many areas where survey responses differ significantly between the two countries. **In these cases, there is likely a genuine and meaningful gap in industry practice in Australia compared to Aotearoa New Zealand.** Even focussing on a smaller sample of the largest NZ investors – similar in size to Australian survey respondents – meaningful gaps in practice remain. Australia also remains behind European investors in several key areas.

⁸This 73% excludes AUM from wealth managers surveyed (\$65bn), to provide comparability with IGCC's Australian survey, and with the base figure of a \$365bn asset management market.

⁹Due for release in late November.

INTO THE DATA: KEY SURVEY FINDINGS IN AOTEAROA

Methodology

The survey was undertaken in September-October 2022 and received a total of 50 responses, covering in aggregate \$331bn in assets¹⁰ (of New Zealand's estimated \$365bn in assets). Focussing just on the fund management sector, the survey captured over 80% of the NZ fund management market¹¹.

Box 2: Response Overview

\$331bn total assets	Largest 7 fund managers
Largest 3 wealth managers	Over 80% of fund management market

Respondents were given the option to choose between a 'short survey' (20 multiple choice questions), and a 'full survey' (around 30 more detailed questions). Both versions were built around a core of 10 compulsory multi-choice questions, to allow broader comparisons across the market on the most critical areas. Survey questions largely mirrored those used in IGCC's Australian survey to facilitate comparisons by market.

Areas surveyed highlight best practice

The survey structure was in line with the key asks of the [PAII Net Zero Investment Framework](#) ("NZIF") and [Investor Climate Action Plans Expectations Ladder](#) – two frameworks that have been developed by investor networks globally to facilitate climate integration into portfolios, showing investors the runway to net zero. **The survey is designed to represent best practice for climate action in the industry.**

Addressing climate risk in a portfolio, as in the economy, is an extremely complex task. We believe that investors who are serious about managing climate risks need to be progressing across all of the analytic, reporting, governance, investing and engagement aspects covered in the survey.

Policy advocacy, which was briefly covered in the full survey, is also vitally important for investors in Aotearoa. NZ investors making a UN-aligned pledge are expected to engage with government, policy makers and regulators etc to drive the policy and regulatory environment in a way that unlocks capital flows into low-carbon technologies and solutions while decarbonising the economy. Policy advocacy should therefore form a core part of an investors' net zero strategy, particularly for larger, more influential investors.

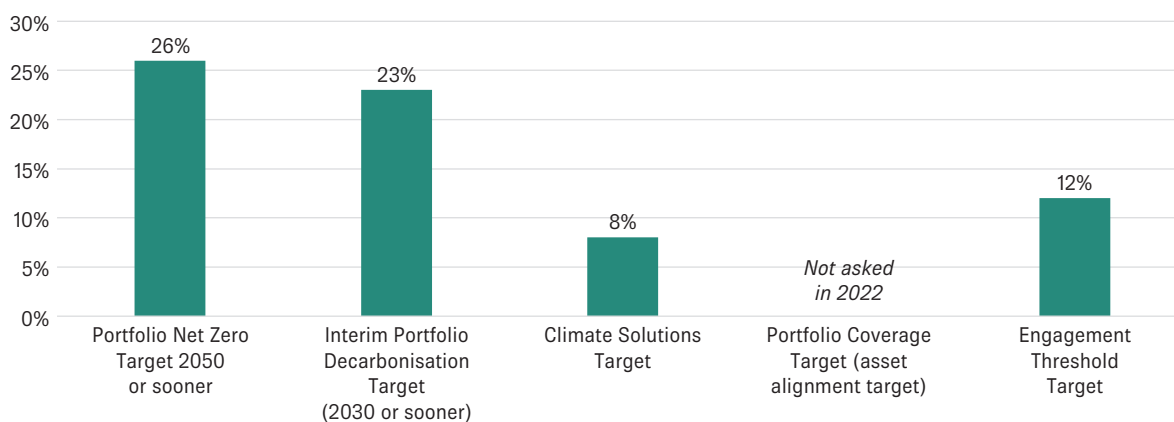
Key insights from the report

Net zero targets and pledges

- **Ambitions a year ago across investors in Aotearoa New Zealand were high** – 89% of survey respondents in 2021 expressed an intention to pursue or explore a net zero pledge. **Relative to this, aggregate progress over the past year has been disappointing** – we have identified three new investors signing onto pledges, and four new net zero targets.
- Of those surveyed, 26% had a portfolio-wide net zero target. This is up slightly from last year. By AUM, 47% of respondents had net zero targets.

¹⁰ We have not attempted to adjust this figure for assets that could be reported by more than one organisation in the survey (for example, funds that are owned by a community trust, and managed by a fund manager). These are unlikely to be material to the total (<\$40bn, for example), in our view.

¹¹ Source: Survey responses; market share data from Zenith.

Chart 7: Key pillars: targets towards net zero

(1) Note: these targets are in line with the [PAII Net Zero Investment Framework](#). By setting each of these 4 target types above (portfolio decarbonisation, climate solutions, portfolio coverage and engagement threshold) this is seen as the most effective means to drive real economy emissions reductions while also enabling a practical and rigorous approach which provides accountability for action.

(2) With regards to the 'Portfolio Coverage Target', in 2022 investors were not asked if they had set a Portfolio Coverage Target, we will ask this in the survey next year.

● Interim targets¹²

- **Decarbonisation targets** – 23% of respondents have set a whole-of-portfolio interim emission reduction target (eg 50% reduction in emissions by 2030), and a further 13% have set one for an individual asset class. Another 35% are actively considering an interim emissions target for at least one asset class.
- **Climate Solutions targets** – Only 8% of respondents in NZ (4 out of 50) have publicly disclosed their climate solutions target¹³ with 14% actively considering. In Australia 21% of respondents to IGCC's survey have set climate solutions targets. In comparison to global targets received from asset owners under the Paris Aligned Asset Owner (PAAO) initiative, 55% of signatories have set a quantitative target for increasing investment in climate solutions.¹⁴

- **Portfolio Coverage targets** – Investors are working to set interim 'portfolio coverage' (asset alignment) targets, for increasing the percentage of AUM in material sectors¹⁵ that are 'achieving net zero', 'aligned' or 'aligning' to net zero. These portfolio coverage targets are increasingly seen by investors as the key driver for achieving net zero and securing emissions reductions in the real economy. While the overwhelming majority of investors in New Zealand have not yet assessed their baseline for the alignment of assets to net zero, compared to 2021, this is a noticeable focus area for international investors. Under the global PAAO initiative, 45% of signatories have set a portfolio coverage target to increase the proportion of assets classified as net zero, 'aligned' or 'aligning' to a net zero pathway.¹⁶

¹² NZIF recommends that these four targets are all set on an interim basis (eg, 2025 or 2030).

¹³ We assume that respondents to our short survey have not taken this step yet.

¹⁴ See Paris Aligned Asset Owner (PAAO) Progress Report (November 2022) here: https://www.parisalignedinvestment.org/media/2022/11/PAAO-Progress-Report-November2022_Final.pdf

¹⁵ 'Material sectors' refers to industries that contribute materially to climate change. This is a defined list of sectors based on NACE industry classifications (see NZIF [Supplementary Guidance](#)).

¹⁶ Refer to PAAO Progress report above. For guidance on target setting portfolio coverage targets see the [PAII Net Zero Investment Framework](#) and IIGCC Supplementary Target Setting Guidance.

- **Engagement Threshold targets** – Engagement threshold targets (targets for the proportion of financed emissions subject to climate engagement) are also an increasing focus point for investors. New Zealand investors are still in the early stage of setting these targets across the whole portfolios to help drive up meaningful climate engagement across their portfolios. Specifically, 6 respondents to the long survey indicated such targets were in place. Under the PAAO initiative, 35% of signatories have established a quantitative engagement threshold target.
- **Methodologies** – There are a number of different methodologies being used to determine what constitutes net zero alignment. Most common in NZ are the Paris Aligned Investment Net Zero Investment Framework, and Science Based Targets for Financial Institutions (SBTi-FI).
- **A number of investors in NZ have bolstered their net zero targets by joining investor net zero initiatives.** This gives net zero commitments more credibility due to the public disclosure requirements, and investors become integrated into the accountability mechanisms and minimum standards of UN Race to Zero. **However, after a wave of pledges last year, progress has slowed considerably in 2022.**
- There are now 11 major investing organisations in Aotearoa NZ that we have identified, both from the survey and public sources, that have made net zero pledges with internationally recognised initiatives. As shown below, this is just 3 more than last year.
- We identified four other organisations that have made public commitments to net zero targets over 2022. This gives a total of 17 organisations we can identify that either have a net zero pledge, and/or a target.

Table 1: Net zero pledges (registered with an international alliance) and public net zero targets across whole investment portfolio¹⁷

Net Zero Pledges at November 2021 ¹⁸	New Net Zero Pledges (November 2021–October 2022)	Net zero Targets at November 2021 ¹⁹	New Net Zero Targets [#] (November 2021–October 2022)
BT/Westpac	Kiwi Wealth	Mercer	AMP
Pathfinder	IAG	BayTrust	Southern Pastures
Russell Investments	BNZ ¹⁹		Foundation North
QBE Insurance			Simplicity
NZ Super*			
ACC*			
Government Super Fund*			
National Provident Fund*			

*These Crown Financial Institutions announced pledges shortly after the October 2021 survey.

[#]Organisations have made public commitments to net zero emissions by 2050 or sooner, but have not signed to international pledges/alliances in support of these targets.

We expect that there will be other investors in Aotearoa New Zealand who have set public net zero targets and potentially pledges for their portfolios, but who we have missed from this table. We apologise for these omissions and encourage any such investors to contact us at netzero@sustainablefinance.nz.

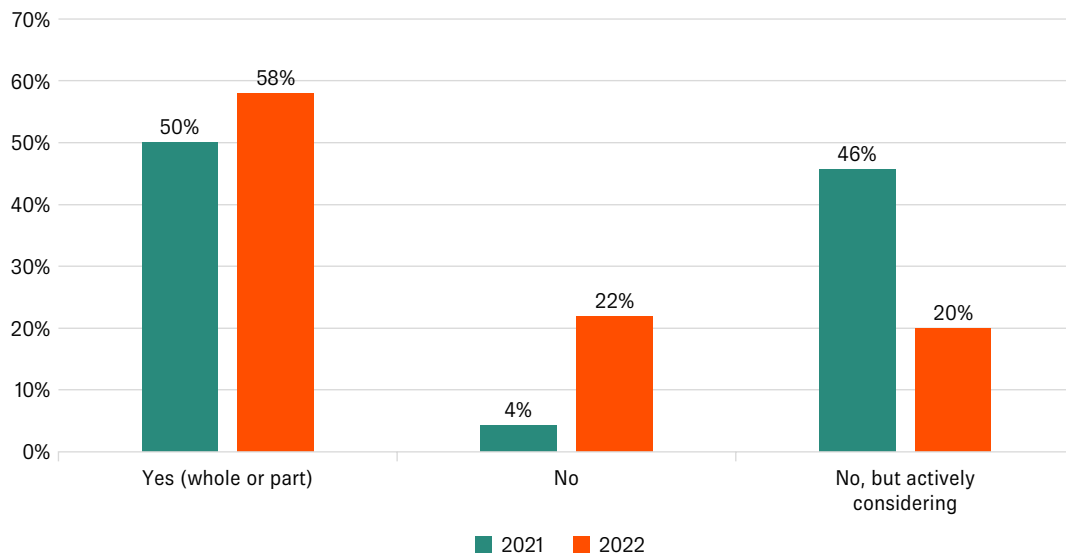
We recognise that while joining net zero initiatives can be very important across the private sector, they do not necessarily suit all organisations. We are very pleased to note that 13 community trusts in NZ are now signed up to the [Funders Commitment on Climate Action](#). This includes a commitment to decarbonise investments and operations but is not subject to specific targets. We highlight this initiative in the full report²⁰.

¹⁷ The table only refers to net zero targets for emissions from portfolios, rather than targets that apply only to an organisation's operating emissions (refer Box 1).

¹⁸ Our inaugural "State of Net Zero Investment in Aotearoa New Zealand" report was released in November 2021.

¹⁹ BNZ has made a net zero pledge as part of the Net Zero Banking Alliance. It has not made a pledge specific to its fund management operations. It has a net zero target for its investment portfolios, as detailed in its [sustainability report](#).

²⁰ Due for release in late November.

Chart 8: Have you measured the carbon footprint of your portfolio?

Carbon footprint of portfolios

- **Carbon measurement** – There has been a disappointingly small increase in carbon measurement across portfolios in the past year. 58% of respondents in Aotearoa NZ have now measured portfolio emissions, either across all or part of portfolios. This is up from 50% in 2021.
- **Metrics** – The most commonly disclosed metric is weighted average carbon intensity (WACI) (tons CO₂e/revenue).

More detailed analytics: scenario analysis, physical risk etc

- **Scenario analysis** – At present, only a small number of investors (<20%) are undertaking scenario analysis against 1.5C, 2C and 4C temperature scenarios. This process allows investors to understand vulnerability to transition and physical risks²¹, and to obtain a probability weighted portfolio return.

- **Risk Assessment** – Only a small portion (<20%) of investors have conducted physical risk assessments across their portfolio, with a smaller number having implemented a response to increase resilience.
- **Comparability** – there are a wide range of different emission measures, methodologies and scenarios used across the investment industry, both in NZ and internationally. This makes comparability difficult. It will improve with the XRB's new disclosure standards, however there will still be a range of reporting measures in use. While traditional financial reporting, including metrics like net profit, EBITDA and cash flow, are also subject to influence from management/methodology, the comparability challenge will likely be more significant for climate reporting.

²¹'Transition risk' is defined as "Risks related to the transition to a lower-emissions global and domestic economy, such as policy and legal risks, technology risks, market risks and reputation risks". Physical risk is defined as "Risks related to the physical impacts of climate change. Physical risks emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events. They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns". Source: XRB (External Reporting Board) <https://www.xrb.govt.nz/dmsdocument/4182>.

Investor stewardship

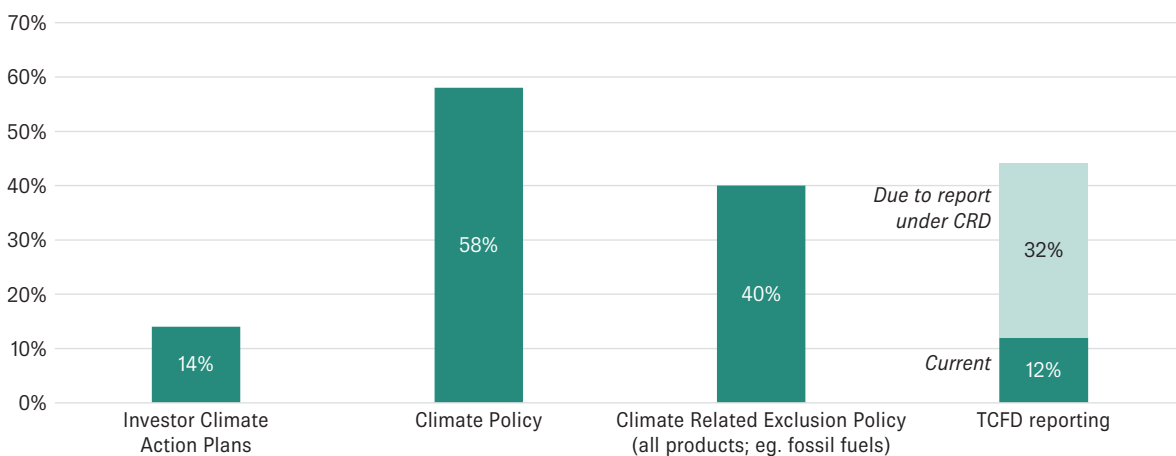
- There were no respondents in Aotearoa NZ who indicated that they have both a formal engagement strategy and engagement threshold targets.
- **When executed well, climate stewardship can be a critical part of generating the transformational change needed in the economy to achieve net zero emissions.** It must be specific, time bound and paired with effective escalation strategies, including divestment for companies that are failing to act. When climate stewardship is executed inadequately, net zero commitments or climate engagement claims could amount to greenwashing.
- **There is a very strong desire from the investment industry for more collective engagement by investors with companies in New Zealand, with 76% of respondents seeing a need for more of this.** Only 5% of respondents felt that more collective engagement in NZ was not necessary.

- We're pleased to profile in the upcoming detailed report the inaugural Aotearoa New Zealand [Stewardship Code](#), launched in September. This provides a principles-based framework for achieving the three interconnected goals of effective stewardship. International investors are predominantly drawing on the [IIGCC Net Zero Stewardship Toolkit](#) to enhance their stewardship practices.

Climate governance and strategy

- Around half of investors are incorporating climate change in board-endorsed strategic planning, but defined roles and responsibilities for overseeing and implementing commitments are not being disclosed.
- The majority of investors (58%) now have a climate policy in place.
- Only 14% of investors have published a climate action plan, with 33% actively considering. A further 14% of investors in Aotearoa New Zealand have an informal plan to reduce emissions. Investors can use the [Investor Climate Action Plan \(ICAPs\) Framework](#) to start constructing their climate plan.

Chart 9: Key pillars: governance and strategy



- Only four respondents (8% of the total survey) have materially integrated just transition considerations as part of their portfolio management and investment process, but many (around 40%) are actively considering this.

Disclosure on climate change – ramping up over 2023

- 44% of investors are disclosing climate emissions data to clients, compared to the 58% that are measuring their emissions.
- Only 12% of all respondents are currently reporting against the Taskforce for Climate-related Financial Disclosures (TCFD) recommendations. A year from now, as mandatory CRD (Climate Related Disclosures) kicks in, 60% of NZ investors surveyed will be producing TCFD-aligned reports.

Other insights: need for more training and better definitions

- In the short survey, we asked investors to select areas where they believe further educational support may be beneficial. There was a high (75%) response rate to this question, and many investors signalled interest in support across a range of areas. We believe this indicates that there is a sizable group of investors that are grappling with the complexity and internal skills required to progress climate investing strategies.
- There is minimal use of offsets in NZ relating to *portfolio* emissions (two investors), which is consistent with Australia.
- Eight investors surveyed are already, or are going, carbon neutral for their own *operational*²² emissions.
- Only a small proportion of asset owner mandates with external fund managers specify requirements relating to net zero or decarbonisation.

- A lack of data, tools and definitions around climate investing and net zero strategies was identified as the biggest barrier towards more climate-aligned investing. These are ongoing challenges, which will be partially addressed through climate disclosure standards. NZ's National Adaptation Plan aims to deliver a set of definitional tools (green 'taxonomy') to support climate and nature-positive investments. Although further work on data, tools and definitions are required, the urgency of the climate transition calls for investors to push ahead with concrete steps as soon as possible, even as tools and frameworks continue to improve.



²² See Box 1 for these definitions.

CONCLUSIONS

This survey provides a catalyst for accelerating the pace of change. For most of the investment sector, the optimism and ambition from 2021 survey has not been carried through into tangible progress. The steps outlined in this survey as key to investor action on the climate are crucial for seizing opportunities as well as managing risks.

New Zealand has all the ingredients needed to keep and attract investment across the economy to achieve net zero emissions. For investors, transitioning high emitting assets and finding investments in carbon solutions that generate strong, stable, and sustainable returns remains challenging, but is critical for tackling climate change. Developing the real-world solutions which unlock capital and embed low carbon at the heart of investment decisions requires the financial sector to continue to step up ambition and act.

Importantly, we believe that there is a huge economic incentive, and indeed a necessity, for Aotearoa New Zealand to step up to efforts fighting climate change. NZ remains heavily reliant on offshore capital. This capital is increasingly differentiating where it goes, and at what cost, based on climate factors. Our major exporters – such as primary and tourism sectors – sell to global consumers that increasingly care about climate. Our extremely valuable clean and green brand underpins our economic value proposition in so many ways.

The pace of investor action on climate change has ramped up internationally – we must now raise our level of ambition and action. Investments made now in climate change mitigation and resilience provide the greatest net benefit for investors, the wider economy, society, and the climate.

Looking ahead – our future work

Collaborative engagement in NZ

As mentioned, the survey identified a very strong desire from the industry for more collaborative engagement by investors with companies in New Zealand.

Collaborative engagement brings many benefits – resources are pooled to allow deeper analysis and understanding across key climate and sustainability issues, messages to management teams and boards are amplified from a wider investor group; and insights and best practice can be shared and developed collaboratively.

The Aotearoa New Zealand Investor Coalition for Net Zero strongly supports such collaboration and is already working to make progress. We encourage any investors that may be interested in participating in collaborative engagement in NZ to contact us at netzero@sustainablefinance.nz.

Training

We'll be looking to support investors over 2023 who are grappling with the complexity and internal skills required to progress climate investing strategies. As identified in the survey, this will include more information on setting targets, and pledges. IGCC regularly runs masterclasses and working groups on these topics and has recordings available for new members. For more info contact secretariat@igcc.org.au.

Global comparisons

At present IGCC and its international partners are compiling data on climate practices in other regions across Asia and globally, including the recent release of the [Paris Aligned Asset Owner Progress Report 2022](#). This report provides an overview of actions taken by leading global asset owners (including the NZ Super Fund) to implement net zero commitments, highlighting best practice case studies. These will provide a further stock-take on the relative state of play for the investment industry in comparison to Aotearoa New Zealand. We will provide further analysis of these relativities over coming months.

The gaps identified relative to Australia are in many respects even deeper compared to leading countries globally, such as the UK and broader Europe. For a country that takes pride and capitalises economically on its green image ('100% Pure New Zealand'), this is surely a long way from where our investment industry collectively wants to be.



We suspect that some sceptics will focus on the smaller size of institutional investors in Aotearoa New Zealand compared to these larger global players. Against this, many businesses in NZ aim to perform at the highest level globally, and there is a vast array of examples of small investors globally responding well to climate challenges. In any case, this survey shows that NZ's largest investors are clearly behind Australian peers when it comes to target setting.

We hope that, by the time of the 2023 survey, more organisations here have stepped up to set targets, plans, invest in climate solutions and drive emissions down. Those who do will continue to set themselves apart from peers, protecting and enhancing the quality, returns and attractiveness of their portfolios.

This executive summary will be supplemented by a forthcoming in-depth report on the 2022 State of Net Zero Investment in Aotearoa New Zealand. This will include:

- Detailed survey results, analysis across sub-sectors, and comparisons to Australia
- Reference material summarising and linking readers to global research and frameworks that can support best practice
- Case studies focussing on NZ investors rising to the challenge

