



2022 STATE OF NET ZERO INVESTMENT IN AOTEAROA NEW ZEALAND: TECHNICAL REPORT

Results from a survey of wealth managers,
asset owners, and fund managers

JAN 2023

The Executive Summary of the 2022 State of Net Zero Investment in Aotearoa New Zealand, published in November 2022, contains the findings and conclusions of the survey. The Executive Summary is available on the websites of [the Centre for Sustainable Finance](#), [Mindful Money](#) and [IGCC](#).

This Technical Report contains the methodology, survey detail and resources for those seeking a deeper level of information. This report should be read alongside the Executive Summary.

About the Aotearoa New Zealand Investor Coalition for Net Zero

The Aotearoa New Zealand Investor Coalition for Net Zero consists of a core group of three organisations that co-ordinated the survey and production of this report:



In addition, the coalition is supported by:



The coalition was formed in 2021 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.

The Centre for Sustainable Finance: Toitū Tahua

www.sustainablefinance.nz

The purpose of the Centre for Sustainable Finance is to accelerate progress towards a sustainable 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 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 Australian and New Zealand 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, editing by Andrew Jenkins (all Mindful Money) and logistical support from Jo Kelly and Bella Conyngham (both the Centre for Sustainable Finance).

January 2023

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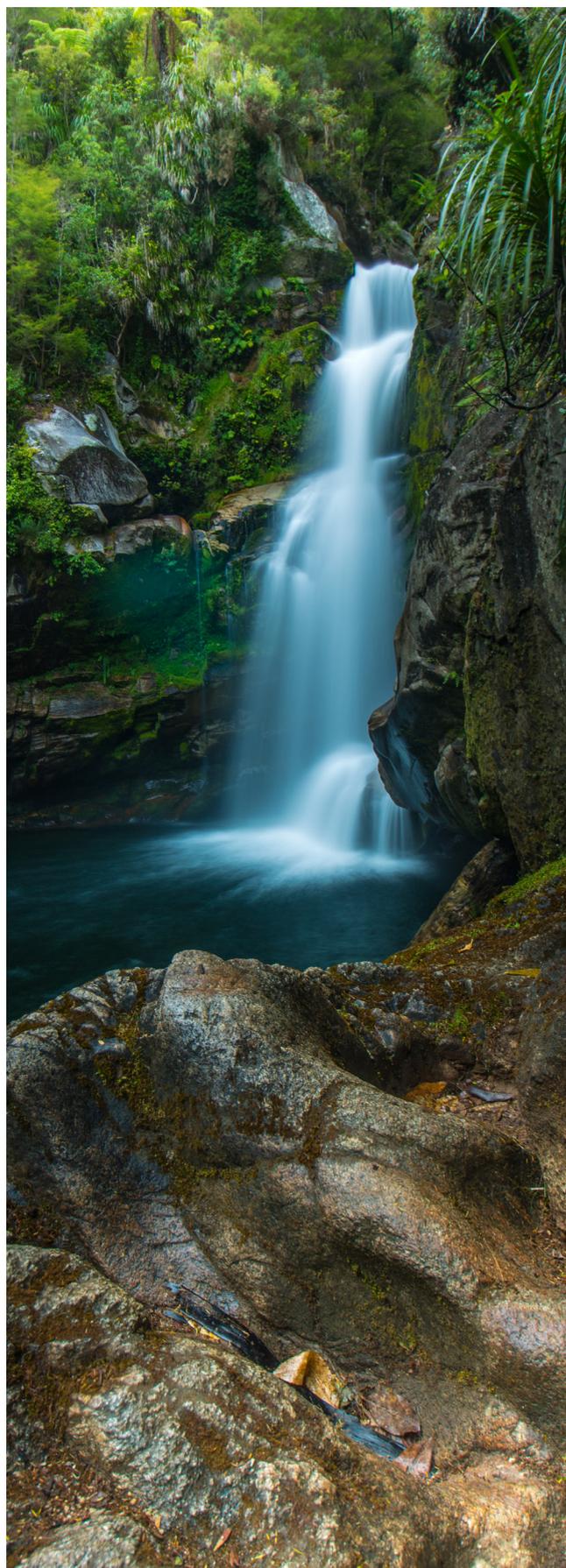
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BACKGROUND INFORMATION

Methodology

This survey was undertaken between mid- September and early October 2022. It was generally sent to the Chief Investment Officers (or equivalent position) of the larger fund managers, wealth managers and asset owners involved in managing New Zealand's financial assets. Over 100 organisations were contacted.

Respondents were questioned on a range of topics relating to their current investment activities, and their intentions for reducing the carbon emissions of the companies in their portfolios over time.

The survey structure was in line with the key asks of the PALL Net Zero Investment Framework and Investor Climate Action Plans ladder. As such, we believe it provides a good representation of best practice for climate action in the industry.

Respondents were given the option to choose between a:

- 'short survey' – 20 multiple choice questions.
- 'full survey' – around 30 more detailed questions, although most were multi-choice.

Both versions were built around a consistent core of 10 compulsory multi-choice questions, to allow broader comparisons across the market on the most critical areas.

This structure was used in order cater for both organisations that might be smaller, less well resourced, or less advanced in their climate planning (thus suitable for the short survey); as well as those that are larger or have, for example, already made a net zero pledge. IGCC members were strongly encouraged to complete the full survey.

Survey questions (especially in the 'long' version) largely mirrored those used in IGCC's Australian survey, in order to facilitate comparisons by market.

We received a total of 50 responses, covering in aggregate \$331bn in assets¹. This compares to total funds under management in New Zealand at an estimated \$365bn².

Box 1: Response overview³

\$331bn total assets	Largest 7 fund managers
Largest 3 wealth managers	Over 73% of fund management market ⁴

Respondents were assured that all individual responses would be kept confidential, with results to be reported in aggregate, and in broad categories only. The case studies in this report have been approved by the organisations concerned. Table 2 identifying individual investors has been verified from publicly available sources.

¹We 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 in our view.

²Source: Responsible Investment Association Australasia (RIAA), "[Responsible Investment Benchmark Report Aotearoa New Zealand 2022](#)". Estimate is based on "the Reserve Bank of New Zealand and other sources" (page 4).

³Source: Survey responses, supplemented by market share data from Zenith.

⁴The majority of AUM for wealth managers is not included in the \$365bn estimate of total industry funds under management figure used in this report. For consistency, the above calculation of survey coverage of 73% excludes AUM from wealth managers surveyed (\$65bn), thereby avoiding possible overstatement.

Table 1: Survey coverage

Categories of respondents	Total responses	Long survey	Short survey	Aggregate AUM (\$NZbn)
Fund manager	28	14	14	155
Wealth manager/advisory group	6	4	2	65
Asset owner	16	3	13	111
Total	50	21	29	331

Wealth managers included for 2022

The survey was extended to wealth managers this year, the inaugural 2021 survey having been focused on asset owners and asset managers. Wealth managers often have decentralised investment decision making across a large number of financial advisors, which can bring additional challenges to climate planning and to responding to some of the questions in this survey. However, wealth managers play a crucial role in the investment landscape in Aotearoa NZ, so it was important that we covered this sector to get insights into the state of progress. We were very pleased to have responses from the largest wealth managers – a special thank you to those respondents.

We welcome further respondents for 2023

We were delighted with the responses we received in 2022 and **would like to extend our sincere thanks to those that took the time to complete the survey.** We are aware that survey and reporting requirements relating to climate and broader sustainability have increased significantly in recent years, and hence that we often rely on the goodwill of certain individuals at each organisation to submit a response.

We are also aware that our survey didn't make it to many smaller and mid-size organisations or did not make it to the correct contact point. **We apologise if we missed you or your organisation this year. If you'd like to take part in 2023, please contact us at netzero@sustainablefinance.nz.**



Figure 1: Comparisons to IGCC's Australian survey

IGCC's fifth annual member survey has been conducted concurrently with the Aotearoa New Zealand survey ('NZ survey') detailed in this report. Themes in the NZ survey were designed to largely overlap those in IGCC's Australian survey ('AU survey'), although the *short survey* in NZ did present a small number of less complex questions. In the long survey, a large majority of questions directly replicated the AU survey.

The broad consistency in questions allows us to draw comparisons of industry progress in Aotearoa New Zealand compared to Australia. Accordingly, in the analysis through this report we have highlighted interesting and contrasting responses from IGCC's Australian survey, with a particular focus on some of the largest gaps in Australian industry practice relative to NZ.

That said, there are important differences in the sample for the NZ survey compared to that for the AU survey:

- Respondents to the AU survey are on average much larger – the median AUM (assets under management) in the AU survey is AUD13.6bn, compared to NZD700mn in the NZ survey.
- Respondents to the AU survey could potentially be more engaged on climate matters, on average, than respondents to the NZ survey (as reflected in their membership of IGCC).
- The AU survey covers the Australian operations of a number of large global investors that operate out of Australia (for example Vanguard, BlackRock, etc). This is also the case for the NZ survey, but to a lesser extent, given a large proportion of locally owned asset managers in Aotearoa New Zealand.

Each of these factors, in our view, can be expected to be *generally* consistent with more advanced climate planning across portfolios in Australia. Thus, these factors do reduce the level of comparability between the two surveys.

At the same time, we estimate that the Australian survey covers approximately 60% of total AUM in the Australian fund management market, against 73% in NZ. Given this level of coverage, at least by assets, we consider that **the surveys are both reasonably representative of overall industry practice in each country.**

After considering the above, in making comparisons of survey responses in Aotearoa New Zealand compared to IGCC's results in Australia, we have **generally focussed on areas where gaps are large.** In these cases, **we think there is likely to be a genuine and meaningful gap in industry practice in Australia compared to Aotearoa New Zealand,** rather than just reflecting differences in sampling and survey method discussed above.



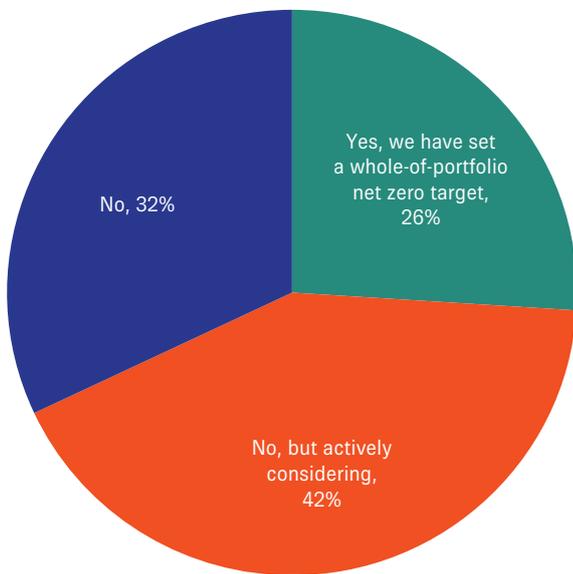
CLIMATE TARGETS, METRICS AND MEASUREMENT

Net zero targets

More investors are setting 2050 net zero emission targets, but progress has been slow – especially relative to ambitions in 2021

Chart 1: Setting net zero targets

Have you set a public net zero emissions target by 2050 (or earlier)?



We have identified 17 investors⁵ in Aotearoa New Zealand that have set public portfolio-wide targets to achieve net zero emissions by 2050. Of those surveyed, 26% had a portfolio-wide net zero target. This is up modestly from last year⁶. To be clear, these figures refer to targets for portfolio emissions, rather than targets for an organisation’s own operational emissions.

The pace of net zero target setting in NZ is significantly slower than in Australia. In IGCC’s Australian survey, 57% of those surveyed this year had a portfolio-wide net zero target – with a much higher proportion among asset owners (78%) than asset managers (44%). A further 13% had a partial target covering certain asset classes. Thus 70% of Australian investors surveyed have a target of some form, compared to 26% in NZ.

In terms of detail in the NZ survey relating to net zero targets:

- By AUM (assets under management), 47% of the survey sample (\$157bn out of \$331bn) had net zero targets, including the two largest investors.
- The median size in terms of AUM for those with net zero targets was \$6.0bn. Several smaller organisations have targets (refer Table 2 below), showing that size need not be a constraint.
- By organisation type, 9 fund managers, 8 asset owners, and no wealth managers were found to have net zero targets.
- Note that several organisations (6 in the survey) have set a *net zero target*, but are not making a *net zero pledge* (to an international alliance for example).
- A large majority (70%) of respondents this year indicate that they are actively considering setting a public target, or have already done so.

⁵ 13 survey respondents, and four other organisations that have publicly declared net zero targets. See table 2 for the complete list.

⁶ In 2021, this proportion was 10% from the actual survey responses, and 19% if the four commitments from Crown Financial Institutions made shortly after the survey are added.



Importantly, by setting a ‘whole of portfolio’ decarbonisation target, investors build in an accountability mechanism to track and ensure the effectiveness of climate engagement and strategic asset allocation (SAA), to ensure actions are resulting in the necessary portfolio level emissions reductions. Portfolio-wide targets may be seen as easier than at the asset class level, as it may provide multi-asset class investors greater flexibility on pathways to decarbonisation.

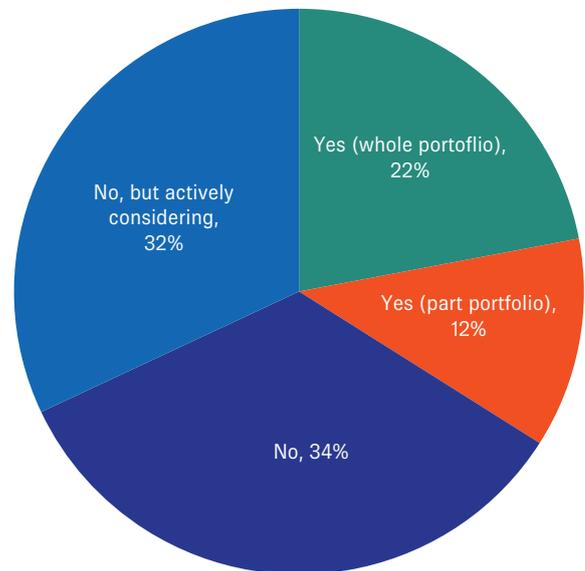
Over a third of investors have set an interim emission reduction target

Just over a third (37%) of investors have set an interim emission reduction target of some sort – either for an individual asset class, or for the whole portfolio. Another 33% are actively considering an interim emissions target for at least one asset class.

By type of organisation, 58% of those with an interim target were fund managers, and 42% were asset owners, with none among wealth manager/advisory respondents.

Chart 2: Interim targets

Have you set a public interim target (eg 2030 or 2025) to reduce emissions?



Looking at the detail, 22% of investors have now set ‘whole of portfolio’ public interim targets, with a further 27% actively considering this. This is somewhat behind IGCC’s Australian survey, where the corresponding figures were 38% for each.

In line with asks of net zero initiatives, several investors are setting interim targets for 2030, consistent with a fair share of the 50% global reduction in CO2 (against a 2019 baseline) identified as a requirement in the IPCC special report on global warming pathway of 1.5 degrees Celsius. This shows a clear acknowledgement from these investors of the urgent need to accelerate the transition.

Chart 3: Interim targets for asset classes

Have you set a public interim target (eg 2030 or 2025) to reduce emissions?

	Yes	No, but actively considering	No	Not applicable
Whole portfolio	22%	27%	41%	10%
Listed Equity	11%	26%	36%	28%
Private Equity	11%	17%	30%	41%
Fixed Income (inc. Green Bonds)	7%	26%	37%	30%
Infrastructure (inc. sustainable transportation)	7%	17%	24%	52%
Timber, forestry and agriculture	4%	7%	20%	70%
Real estate	7%	11%	28%	54%
Other	2%	14%	20%	64%

As shown above, few investors have set interim targets across asset classes. Looking ahead, greater numbers are 'actively considering' targets at the asset class level; for example, **26% are actively considering a target for listed equities**, and 26% for fixed income.

Data availability and the element of prioritisation are key initial drivers, as investors focus on the parts of their portfolio that have better access and more confidence in the data.

As Chart 3 shows, the most common response to whether interim targets had been set, across all asset classes, was 'No' – that is, respondents had not set an asset class target, nor were considering it. **This indicated considerable further work to be done in this area over coming years.**

Figure 2: Net zero investment framework

Detailed asset level guidance on net zero alignment

The Paris Aligned Investment Initiative (PAII) (a global collaboration between IGCC with three other investor networks: AIGCC, Ceres and IIGCC) published the [PAII Net Zero Investment Framework](#) 1.0 ('NZIF') in March 2021.

NZIF aims to provide a consistent basis for asset owners and asset managers to measure and manage portfolios towards the goal of achieving global net zero emissions by 2050 or sooner. It seeks to provide recommendations for methodologies and approaches to alignment that a broad range of investors can utilise.

NZIF 1.0 covers four asset classes: listed equity and corporate fixed income, sovereign bonds, and real estate.

Over 2022, consultations have been led to incorporate the following asset classes into NZIF:

- Derivatives and hedge funds [here](#).
- Infrastructure [here](#).
- Private Equity [here](#) – The private equity components proposed for the Framework are intended to be relevant to both Limited Partners (LP) and General Partners (GP).

These guidance pieces aim to clarify, in each asset class:

- Scope of that asset class in scope for net zero alignment.
- Metrics and targets to measure alignment over time.
- Implementation actions to achieve alignment targets and decarbonisation of the real economy.



Net zero pledges

A number of investors in NZ have bolstered their net zero targets by joining investor net zero initiatives. However, after a wave of pledges last year, progress has slowed considerably in 2022.

Net zero initiatives give 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. Additionally, these net zero initiatives allow investors to not just be part of the transition but to accelerate it – through the open disclosure, contributing to standardisation & transparency, and working in conjunction with other investors to drive portfolio and system level change, including through bi-annual signatory meetings and local working groups.

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 frameworks. As shown below, this is up from 8 in late 2021 (and 4 at the time of last year’s survey), with Kiwi Wealth, IAG, and BNZ joining the list.

In addition, we have identified four organisations that have made public commitments to net zero targets over 2022. This gives a total of 17 organisations that either have a net zero pledge, and/or target.

Table 2: Net zero pledges (registered with an international alliance) and public net zero targets across whole investment portfolio⁷

Net Zero Pledges at November 2021 ⁸	New Net Zero Pledges (November 2021–October 2022)	Net zero Targets at November 2021 #	New Net Zero Targets # (November 2021–October 2022)
BT/Westpac	Kiwi Wealth	Mercer	AMP
Pathfinder	IAG	BayTrust	Southern Pastures
Russell Investments	BNZ ⁹		Foundation North
QBE Insurance			Simplicity
NZ Super Fund*			
Accident Compensation Commission (ACC)*			
Government Superannuation Fund*			
National Provident Fund*			

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.

*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.

⁷The 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).

⁸Our inaugural “[State of Net Zero Investment in Aotearoa New Zealand](#)” report was released in November 2021.

⁹BNZ 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](#).

We strongly support pledges to international alliances as a means of adding credibility and accountability to the far-away promise of a 2050 target. Accountability regarding interim emissions reductions targets – for 2030, or sooner in cases – is a key part of this. However, we also recognise that while these commitments are very important in the private sector, they do not necessarily suit all organisations, for example in the community and charity sectors.

Encouraging steps are being taken by community trusts

We are very pleased to note that 10 community trusts in NZ last year launched and 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. For more information, see Figure 3 below.

We see this as a meaningful and pragmatic framework for community and philanthropic organisations such as this to move forward with climate and broader sustainability goals. We would encourage other similar organisations to join the commitment.

Figure 3: Funders Commitment on Climate Action

Content supplied

In December 2021, a majority of the Community Trusts of Aotearoa New Zealand signed a *Funders Commitment on Climate Action*, in recognition of the key role that community funders play in building better outcomes for our environment and communities. The initial 10 signatories have since grown to 13.

This commitment was the initial result from the formation of a Climate Change Working Group established by the Community Trusts' Chief Executives with support from The Centre of Social Impact.

A guiding whakataukī (proverb) highlights the importance of collaborative effort in this initiative:

Ki te kotahi te kākaho, ka whati;
ki te kāpuia, e kore e whati.

*If a reed stands alone, it can be broken; if it is in a group, it cannot.
When we stand alone, we are vulnerable, but together we are unbreakable.*

– Kingi Pōtatau Te Wherowhero Tāwhiao

The seven-part commitment is guided by Te Tiriti o Waitangi and mātaurangi Māori aspirations. It focuses on a just transition, collaboration, and leadership. Significantly, it includes reporting back to communities and stakeholders the actions that signatories undertake.

The commitment is designed to be a high-level document that other New Zealand philanthropic funders are encouraged to sign up to. It was based in part on similar programmes overseas.

To read the full commitment and join the efforts, please visit www.climateactionaotearoa.co.nz.



Progress on net zero pledges has fallen far short of last year's ambitions

In last year's NZ survey, there was overwhelming support across NZ investors for planning net zero pledges:

- 11% of respondents noted that they were *already working towards* making a net zero pledge.
- When asked if they were interested in making a net zero pledge, 78% of respondents indicated either *Yes* (41%), or that they were *planning to* (37%).
- Taking these together, 89% of respondents in 2021 expressed an intention to pursue or explore a net zero pledge. This included almost all fund managers (96%), and most asset owners (79%).

- Only 11% of 2021 respondents indicated that they were *not interested* in making a net zero pledge.

Thus, ambitions a year ago across investors in Aotearoa New Zealand were high – to reiterate, 89% of survey respondents expressed an intention to pursue or explore a net zero pledge. **Relative to this, aggregate progress over the past year has been disappointing** – three new pledges, and four new targets.

Among investors who are not planning to enter a net zero pledge, a range of reasons were offered, from time and complexity to a desire to target more than net zero (ie. carbon removal), to a focus on other sustainability initiatives.

Figure 4: Net zero asset managers (NZAM) initiative

Since the launch of the initiative in December 2020, and building on the considerable momentum of the initiative so far, 273 signatories, representing over USD 61 trillion in AUM, have joined over multiple waves of public announcements.

Signatories to NZAM must comply with a 10-point [commitment](#).

An important feature of NZAM is that the commitment requires all signatories, within one year of signing on, to publicly disclose:

- The initial percentage of their portfolio that will be managed in line with net zero.
- Their 'fair-share' interim targets for AUM that will be managed in line with net zero, and target date.
- The methodology used in target setting.
- Annual reporting, in line with TCFD recommendations, including information on their climate action plan, and progress towards targets.

See the NZAM Progress Report target disclosures of May 2022 [here](#).



Figure 5: Paris aligned asset owners (PAAO) commitment

58 asset owners, with over \$3.3 trillion in assets, have now committed to comply with the 10 point [commitment](#), which includes:

- Contributing a fair share of emissions reductions to reach the global net zero emissions goal by 2050, or sooner.
- Set targets to reduce GHG emissions consistent with a 50% fair share reduction by 2030.
- Draw on the Net Zero Investment Framework to set targets.
- Publishing a climate action plan to deliver on targets.



See a link to the Paris Aligned Asset Owner 2022 November Progress Report [here](#).

Carbon footprint of portfolios

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.

A greater proportion of respondents this year indicated that they were *not* yet planning to start measuring emissions (22%, compared to just 4% in 2021). This may partly reflect changes in the survey sample or is possibly a recognition by some of the complexity and data challenges in measuring portfolio emissions.

Chart 4: Emissions measurement

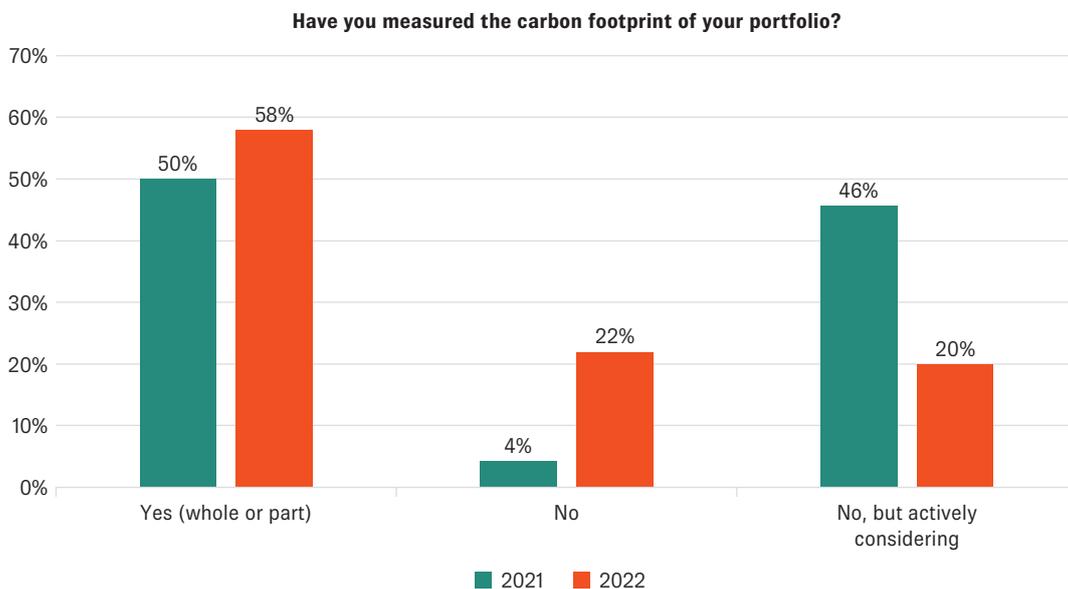


Figure 6: Mandatory climate-related disclosures in Aotearoa New Zealand

The impetus provided by recent legislation has been an important driver of increased emission measurement by investors. As many readers will be aware, the XRB (External Reporting Board, which sets financial reporting standards in NZ) received a mandate from government in October 2021 to set mandatory climate disclosure standards across NZ's financial sector.

Over the past year the XRB has been developing this reporting framework, known as Climate-Related Disclosures (CRD). The main disclosure standard is based on the recommendations of the global TCFD (Task Force on Climate-related Financial Disclosures).

The XRB's process is now complete, and the first climate standard was issued in December.

According to the draft proposals, reporting under CRD will be mandatory for the following Reporting Entities:

- listed companies with a market capitalisation of more than \$60m.
- licensed insurers, registered banks, credit unions, building societies and managers of investment schemes (ie. fund managers) with more than \$1bn in assets.
- some Crown Financial Institutions (via letters of expectation).

These entities would be required to make disclosures alongside wider year end reporting in 2023 at the earliest.

Source: XRB (<https://www.xrb.govt.nz/standards/climate-related-disclosures/>)

In terms of AUM (assets under management), emissions have been measured for \$257bn or 78% of the assets captured in the survey, reflecting that it is now standard practice among larger organisations. That said, it was pleasing to see several smaller organisations, including below \$100m in assets, reporting that they have measured portfolio emissions.

In other detail relating to emissions measurement from the NZ survey:

- 34% of investors report measuring carbon across their whole portfolio.
- Listed equities and fixed income are the best performers by asset class, reflecting the maturity of company disclosures and tools in these asset classes.
- Data coverage in other asset classes, particularly in private equity and primary industries, is lagging.

In IGCC's Australian survey, 45% of survey respondents have measured emissions across the whole portfolio, with 72% having done so in listed equities.

Overall, **measurement of portfolio emissions by NZ investors lags that in Australia, although the gap is relatively small.**





Chart 5: Measurement across asset classes

Details of your carbon footprint analysis

	Yes	No, but actively considering	No	Not applicable
Whole portfolio	34%	34%	17%	15%
Listed Equity	66%	7%	5%	22%
Private Equity	12%	22%	15%	51%
Fixed Income (inc. Green Bonds)	34%	32%	10%	24%
Infrastructure (inc. sustainable transportation)	17%	12%	7%	63%
Timber, forestry and agriculture	2%	10%	2%	85%
Real estate	22%	10%	5%	63%
Other	5%	7%	7%	80%

Scope 3 reporting

In terms of Scope 3, many (36%) investors noted that they are undertaking emissions analysis and in cases measurement, subject to varying limitations (for example a focus on fossil fuel holdings, or on parts of the equity portfolio). As in IGCC’s Australian survey, feedback has been that data is often unavailable, or is not giving users confidence in its accuracy.

Some investors are using data providers like S&P/ MSCI etc. Of interest, in Australia, one investor noted that while they have scope 3 data from a service provider, they have not felt comfortable proposing it as a standard metric or utilizing it in live portfolios, partly because of the very low correlation in scope 3 data across providers, in contrast to decidedly higher correlations between data for Scopes 1 and 2.

In addition to the forthcoming requirements for scope 3 reporting in New Zealand, other jurisdictions are introducing mandatory reporting requirements. In Europe, regulators have announced plans for scope 3 reporting to be required from January 2023 (under Sustainable Finance Disclosure Regulation, or [SFDR](#)). Investors should continue to work with corporates and service providers to improve data capture and reporting over time.

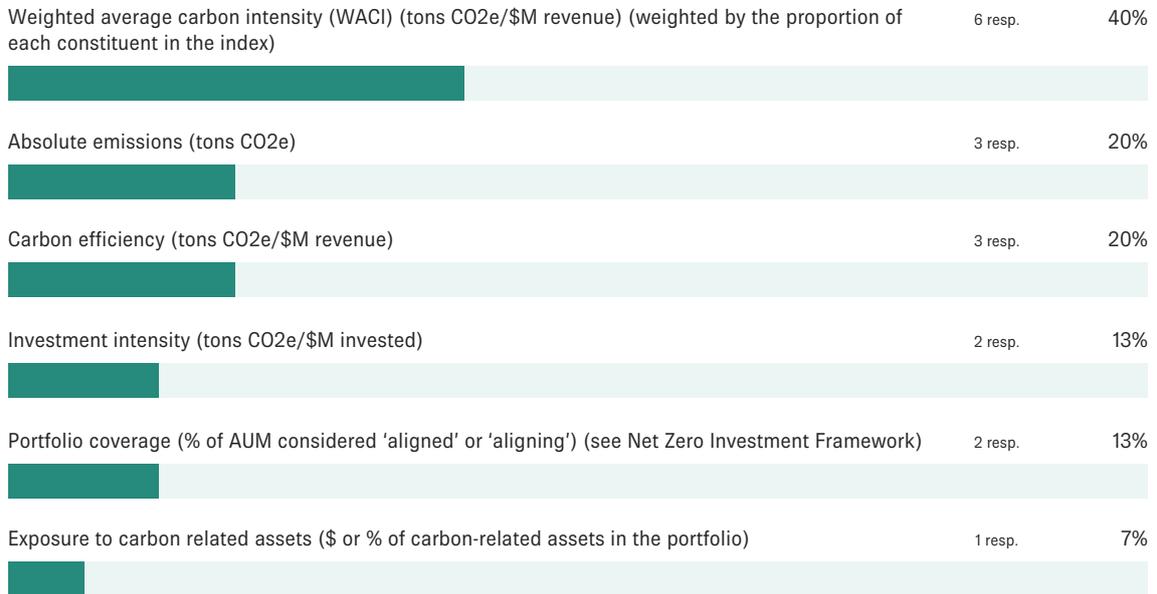
Climate related metrics

A range of climate-related metrics are publicly disclosed

The most commonly disclosed metric is weighted average carbon intensity (WACI) (tons CO₂e/ revenue), with 40% of relevant respondents making this disclosure. A range of other metrics are being disclosed, as shown in Chart 6.

Chart 6: Public reporting of emissions

Which climate related metrics do you disclose publicly?



Note: this question featured in the 'long survey' only and was not compulsory. The chart above shows what percentages of the 15 respondents to the question fell into each category.

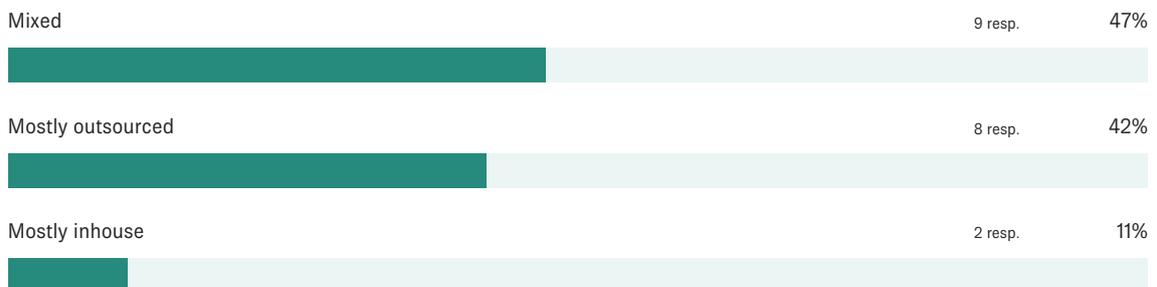
Other investors only report this information to board, stakeholders and clients, rather than publicly.

Most investors are relying at least partly on outsourced emissions data

Few investors gather climate data mostly in-house (11%), but a material proportion use a mixture of in-house and outsourcing for obtaining this data (47%).

Chart 7: Use of external data providers

To what extent are external providers used for sourcing and/or reporting of emissions data, or for assessing net zero alignment?



Note: this question featured in the 'long survey' only and was not compulsory. The chart above shows what percentages of the 19 respondents to the question fell into each category.

For net zero alignment, some investors are conducting this assessment in house using a range of indicators

Net Zero alignment is assessed using a range of indicators and datapoints sourced, with many investors doing this in-house, using data sources from CA100+, TPI, MSCI, SBTi. Conducting this assessment internally, while labour intensive, can assist investors to understand forward looking alignment criteria for companies to focus on, therefore being more beneficial in informing investor engagements and prioritisations.

Chart 8: Assessing alignment

There are a number of different methodologies for determining what constitutes net zero or climate aligned investments. Please identify the methodology(ies) that most closely aligns with your approach.

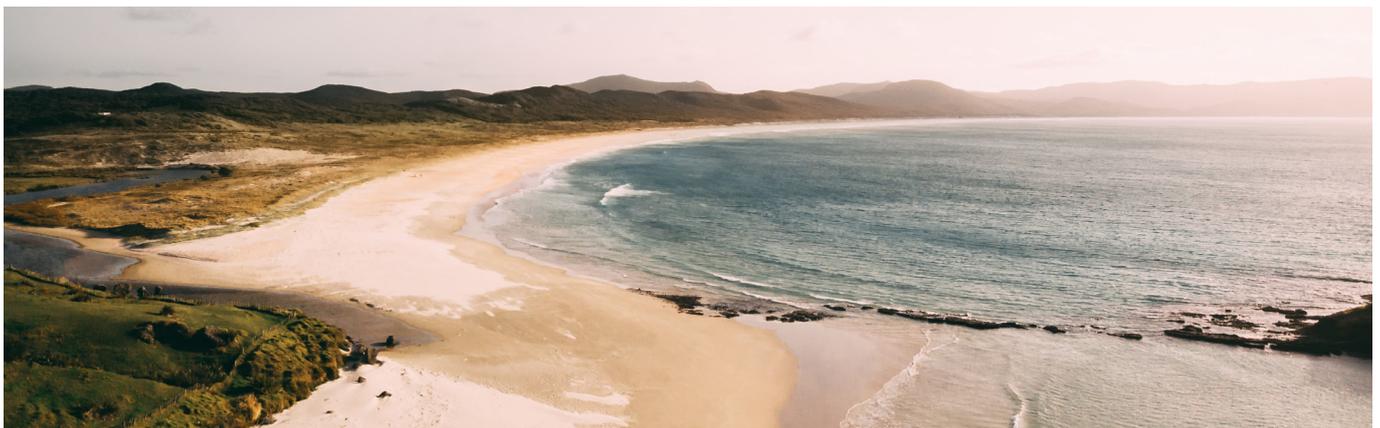
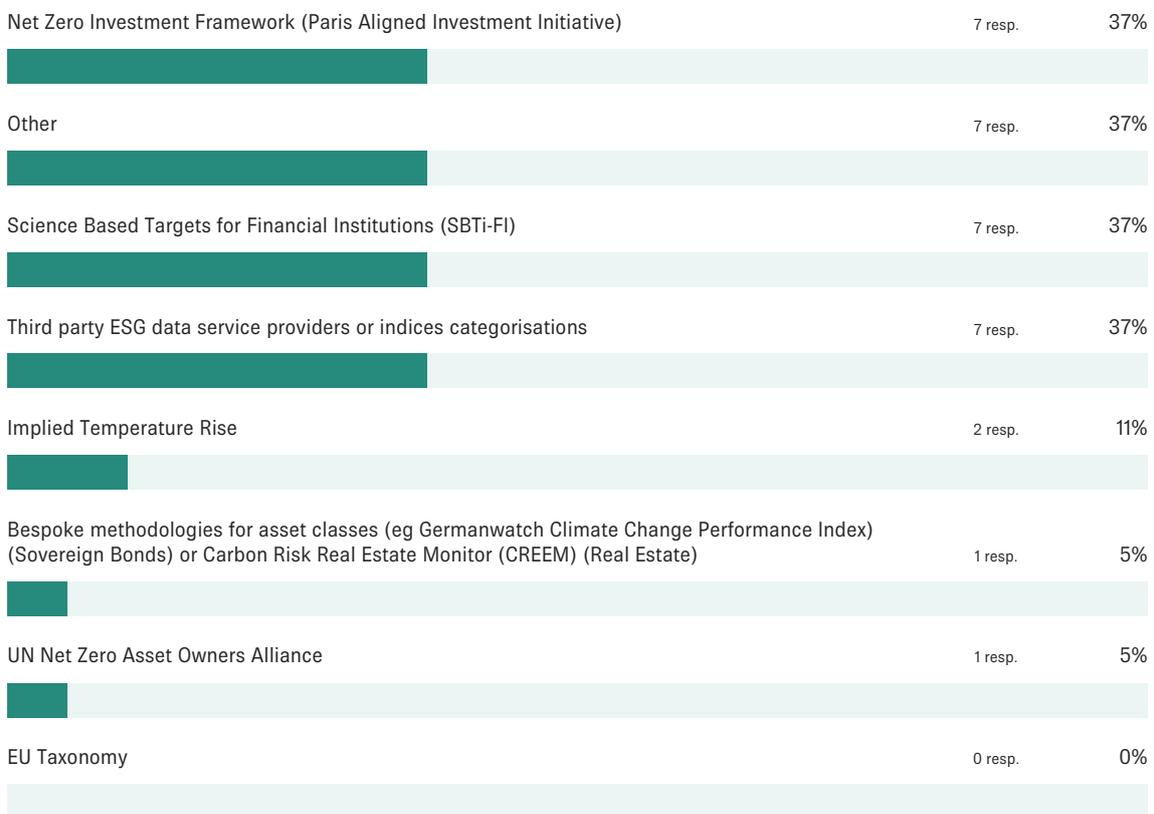


Figure 7: AMP Wealth Management

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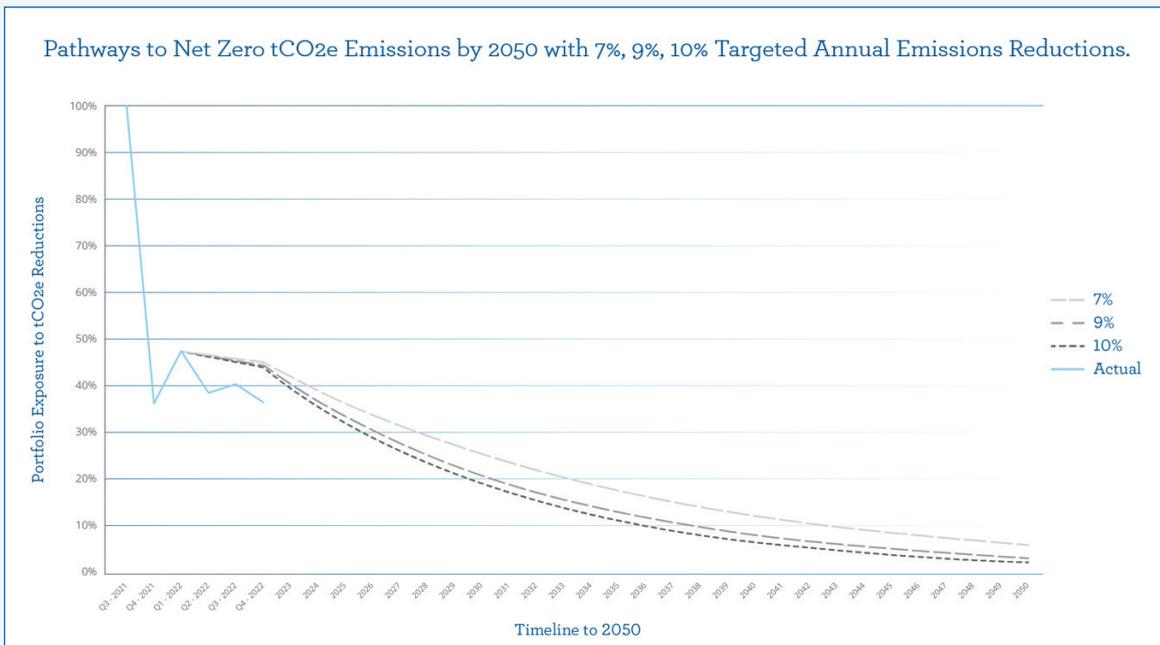
In March 2022, the Board of AMP NZ approved the adoption of our Net Zero Framework. As a company, we are absolutely committed to addressing climate change through our investments. Prior to this commitment, in 2021 we completely overhauled our Investment Philosophy, placing Sustainability at the core. Since then, we have reduced the carbon footprint of AMP-managed portfolios by ~60%.

To fulfil our net zero commitment, we have adopted two aligning objectives:

1. Decarbonizing our portfolios in a way that is consistent with achieving global net zero greenhouse gas emissions by 2050 or sooner.
2. Increase the investment into the range of ‘climate solutions’ needed to meet that goal.

How the global economy will transition to a low-carbon world is still uncertain. Therefore, we have set annual emission reduction targets that aspire to a net zero outcome by 2040, a base case outcome by 2045, and an absolute minimum requirement by 2050. In addition, we have set medium-term tCO₂e reduction targets to achieve by 2030. All targets are shown below relative to our baseline emissions from July 2021:

The annual emissions reductions form our pathways & targets (near-term & long-term) to net zero. The chart below illustrates our modelled pathway to net zero. The left-hand-side shows our actual progress to date (blue line) relative to the plan. Since our baseline date in 2021, we have reduced the emissions exposure of AMP-managed portfolios by 63%. YTD 2022, we have reduced the emissions exposure of AMP-managed portfolios by a further 23%.



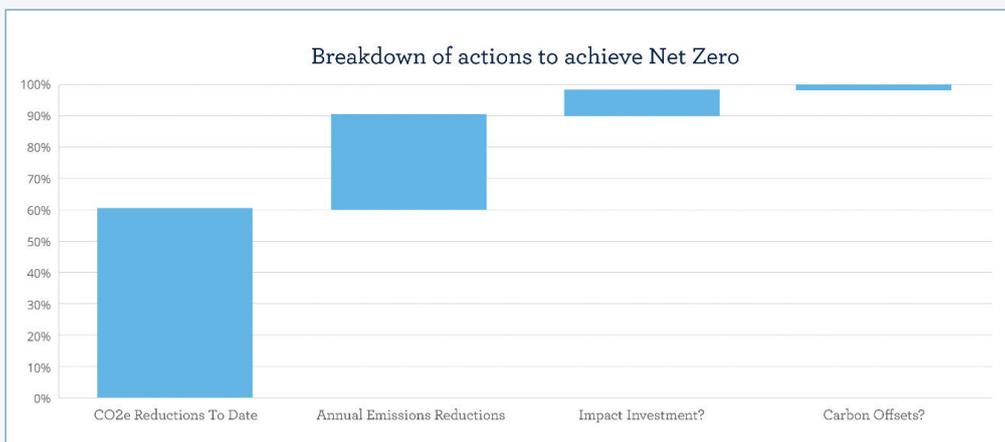
(continued)

Figure 7: AMP wealth management (continued)

Scenarios	Annual Financed Emissions Reduction	2030 Financed Emissions Reduction target	Hit net zero tCO2e emissions by
Worst Case (minimum UN Standard)	7%	-75%	2050
Base Case	9%	-79%	2045
Best Case	10%	-81%	2040

Disclaimer: The tCO2e emissions data used for the calculations in the above charts are sourced from our sustainable data provider, Sustainalytics. This data is subject to some limitations as can be seen here: <https://www.sustainalytics.com/legal-disclaimers>. These pathways have been calculated using AMP's methodologies as at 28.10.2022. Given the rapid development of methodologies & standards in calculating tCO2e emissions, we will continue to develop our approach as the relevant resources are set out. Due to the limitations with tCO2 data, this information is provided on an indicative basis only & no undue reliance should be placed on this.

We plan to continue reducing our emissions exposures using three levers – annual emissions reductions from investee companies, potential impact investments to deliver carbon positive outcomes, and (if needed), carbon offsets. Our preference is to achieve net zero without purchasing carbon offsets, as we believe carbon offsets do not produce the true sustainable impacts that we are looking to achieve.



We have committed to having our targets verified by the Science Based Targets Initiative. This will provide an external validation of our approach and targets, that gives our clients and stakeholders confidence in the framework we have for AMP New Zealand.



Scenario analysis

A small number of investors are undertaking scenario analysis across their portfolios, indicating more work is needed

It appears that, at present, only a small number of investors are undertaking scenario analysis against 1.5C , 2C and 4C scenarios. This process allows investors to understand vulnerability to transition risk, and to obtain a probability weighted portfolio return.

Just 12% of respondents indicated they have undertaken a climate-related scenario analysis across the whole portfolio, with 36% reporting they are actively considering. Given the increasing number of tools, service providers and available scenarios for investors to conduct scenario analysis, we hope that this ambition will flow through to more widespread use of scenario analysis among investors in Aotearoa New Zealand in future.

Chart 9: Scenario planning coverage across asset classes

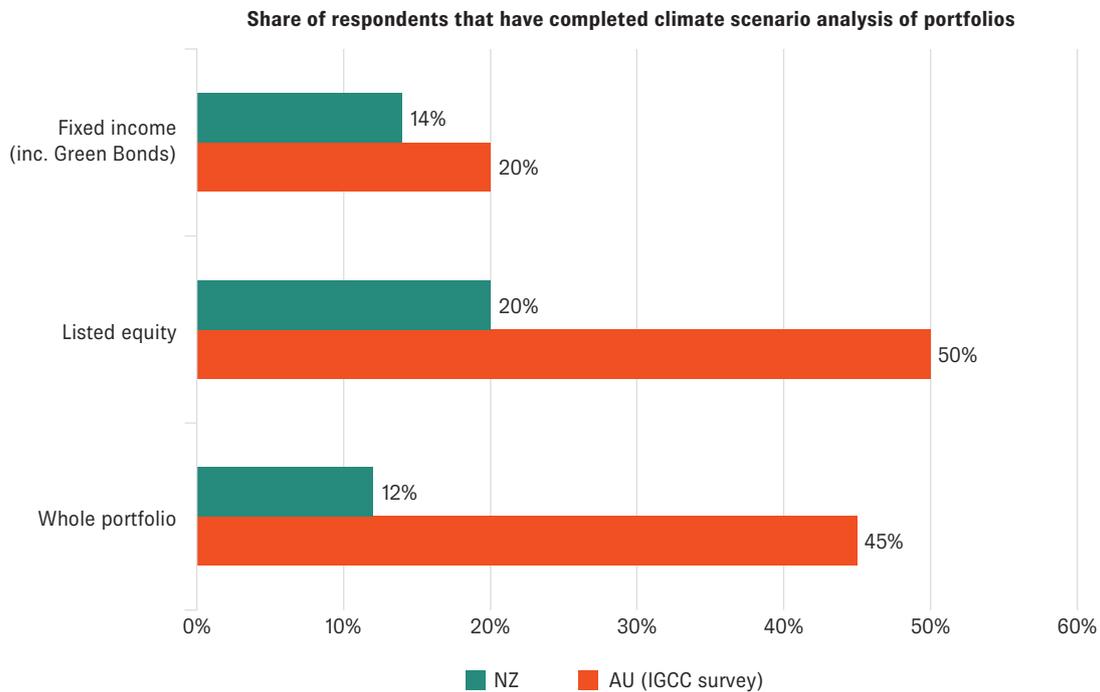
Have you undertaken scenario analysis of your portfolio? (for example, against 1.5°C, 2°C or 4°C scenarios)?

	Yes	No, but actively considering	No	Not applicable
Whole portfolio	12%	36%	40%	12%
Listed Equity	20%	28%	28%	24%
Private Equity	8%	18%	32%	42%
Fixed Income (inc. Green Bonds)	14%	26%	32%	28%
Infrastructure (inc. sustainable transportation)	10%	12%	18%	60%
Timber, forestry and agriculture	2%	6%	12%	80%
Real estate	6%	12%	20%	62%
Other	6%	6%	16%	72%

By asset class, scenario analysis across listed equities (20%) is most common, likely a reflection of the number and longevity of existing tools to assess this asset class. A small number of participants are undertaking scenario analysis across property, infrastructure or real estate. Obtaining information from underlying investments in private equity and real estate appears challenging, as is seen also in Australia.

Relative to Australia, use of scenario analysis in NZ portfolios is in its infancy, as shown in Chart 10 below.

Chart 10: Comparison of scenario planning



There are challenges in comparing emissions measurement and scenarios

It is important to note that there are a wide range of different emission measures, methodologies and scenarios used across the investment industry, both in NZ and internationally. This makes it difficult to compare the results across respondents. Comparability will improve with the XRB’s new disclosure regulations (see Figure 6), however there will still be a range of different reporting measures in use. This will impact comparability across Reporting Entities in future.

That said, traditional financial reporting including metrics like net profit, EBITDA and cash flow are also subject to (at times significant) influence from management, and variation in methodology across companies. In this respect climate-related reporting presents a similar challenge – although at present it appears to be a more significant one, especially where different methodologies are deployed. We expect that, as is the case for traditional financial analysis, users of climate disclosures will need to continue developing knowledge and tools to interpret and compare disclosures.

Climate aligned methodologies

There are a number of different methodologies for determining what constitutes net zero alignment. We are seeing investors use recognised climate specific methodologies to make portfolio-wide net zero commitments, shape strategies, implement transition plans and measure alignment at the asset level. These frameworks play an important role in helping investors with practical information to guide portfolios to net zero emissions.

The most common methodologies being used are the Paris Aligned Investment Net Zero Investment Framework, and Science Based Targets for Financial Institutions (SBTi-FI). Around 40% of the 19 investors who responded to this question are using each of these, with several investors using both.

Other investors are using a combination of approaches, using information from service providers and other data sets including CA100+ Benchmark Indicators and the Transition Pathway Initiative. Asset specific guidance continues to be used across specific asset classes.

What remains clear and consistent across our annual survey is the ongoing importance of using a credible methodology to define climate-aligned investments.

Figure 8: Setting and disclosing targets

To set and disclose targets and objectives, investors can draw on the [Net Zero Investment Framework](#), which includes four specific targets.

Portfolio level targets

- **Portfolio reference target** – A <10-year CO₂e emissions reduction target.
- **Climate solutions target** – A <10-year goal for increasing allocation to climate solutions.

Asset level targets

- **Portfolio coverage target** – A 5-year portfolio coverage target for increasing the percentage of AUM in material sectors that are i) achieving net zero, or, meeting the criteria to be considered ii) 'aligned' to net zero, or iii) 'aligning' to net zero.
 - This target should increase towards the goal of 100% of assets to be (i) net zero or (ii) aligned to net zero, by 2040.
- **Engagement threshold target** – An engagement threshold which ensures that at least 70% of financed emissions in material sectors are either assessed as net zero, aligned with a net zero pathway, or the subject of direct or collective engagement and stewardship actions.

For further explanation of the four recommended target types, see the [NZIF Supplementary Target Setting Guidance](#).



Asset level alignment and portfolio coverage targets

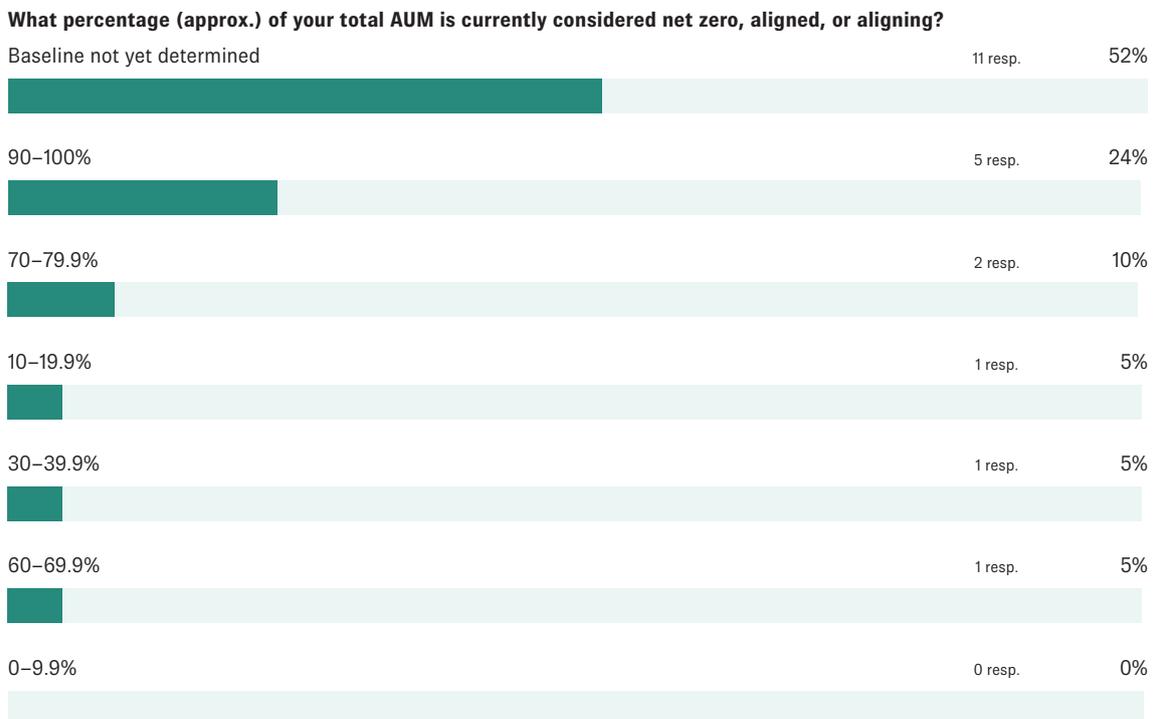
The overwhelming majority of investors have not yet assessed the percentage of their portfolios considered aligning with net zero by 2050

Investors globally acknowledge the need to determine asset level alignment based on forward looking criteria and set corresponding targets (known as a 'portfolio coverage target'). [NZIF](#) recommends these portfolio coverage targets as the key driver for achieving net zero and securing emissions reductions in the real economy. That is because this is designed to capture the extent to which assets are delivering against indicators that reflect both current and forward-looking alignment to net zero pathways. Conducting this baseline assessment enables a detailed understanding into what portfolio managers and asset owners need to do to achieve or become aligned to a net zero by 2050 pathway.

Most investors in NZ have not yet conducted an assessment of what share of their portfolio is net zero aligned. A small group of investors in NZ have conducted this baseline assessment. Within this, several report that 90% of total AUM is currently considered net zero, aligned, or aligning with net zero by 2050.

However, we recognise that there are differences in how investors are classifying 'aligned' and 'aligning' and that is mostly related to methodologies, data points and indicators available. Where investors are claiming such a high portion of the portfolio as aligning, this may reflect that underlying fund managers have committed to net zero by 2050. However, this ignores a bottom-up assessment of assets themselves, and so of itself does not indicate the portfolio is being managed in line with net zero.

Chart 11: Portfolio coverage targets



Note: this question featured in the 'long survey' only and was not compulsory. The chart above shows what percentages of the 21 respondents to the question fell into each category. We believe it is likely that few respondents in the 'short survey' would have yet undertaken this baseline assessment.

Investors can get started by conducting asset class alignment by using the criteria set out in the NZIF ([Net Zero Investment Framework](#)). Overseas, many are getting started first by assessing net zero alignment of listed equities before then moving to other asset classes. Refer to Figure 8 above for further details.

Physical risk & resilience

Physical risk assessments and investment lags well behind investor responses to climate mitigation

The survey results indicate only a small portion of investors have conducted physical risk assessments across their portfolio, with a limited few having implemented a response to increase resilience.

This area continues to be a challenge for investors. According to the Climate Policy Initiative (CPI), total spending on climate finance during 2019–2020 reached US\$632bn, with mitigation finance accounting for US\$571bn compared to just US\$46bn on adaptation and resilience; significantly less than what is required to meet the challenges posed by climate change.

As temperatures rise, there is clear evidence that climate hazards affect portfolios and the assets within them. This could be through distribution to operations, supply- or value-chains, or indirectly through shocks to broader economic, human, or natural systems. Managing the impact of physical climate risks is becoming an important part of an investor’s fiduciary duties, to protect their clients’ and beneficiaries’ assets and the world in which they are valued. Despite investors recognising the importance of this work (with 52% actively considering; a very similar portion to that in IGCC’s Australian survey), there is lots of work to be done.

Listed equity appears to be the most advanced asset class, with 14% of those who answered the question having already conducted a physical risk assessment.

Among investors who had performed this analysis, around half had not yet implemented a response to increase resilience. Several, mainly reflecting specialist climate solutions investors (eg. venture capital), answered that portfolios were considered to be resilient already.

Note that the response rate in Aotearoa New Zealand to this sub-question (ie. responses to climate-related physical risk or resilience) was low at only 16 respondents, likely indicating that most investors are yet to start this work.

Chart 12: Risk and resilience

Have you undertaken a climate-related physical risk or resilience analysis of your portfolio?

	Yes	No, but actively considering	No	Not applicable
Whole portfolio	14%	52%	29%	5%
Listed Equity	14%	57%	10%	19%
Private Equity	5%	19%	29%	48%
Fixed Income (inc. Green Bonds)	10%	48%	19%	24%
Infrastructure (inc. sustainable transportation)	10%	24%	5%	62%
Timber, forestry and agriculture	5%	5%	5%	86%
Real estate	10%	19%	10%	62%
Other	5%	10%	14%	71%

Note: this question featured in the ‘long survey’ only and was not compulsory. The table above shows the percentage of the 21 respondents to this question fell into each category. We believe it is likely that few respondents in the ‘short survey’ would have yet undertaken this analysis.

New tools are being developed for Climate Resilience for investments

Importantly, tools are developing to support investors to assess and invest in adaptation and resilience.

Of note:

- Supported by IGCC, the Coalition for Climate Resilient Investment ([CCRI](#)) in September 2022 launched the [Physical Climate Risk Assessment Methodology \(PCRAM\)](#) tool. This uses a new methodology that gives infrastructure owners and operators the means to evaluate physical climate risks to infrastructure and analyse their long-term impact on asset performance.
- This [discussion paper](#) (September 2022) from IGCC provides an early insight into the first steps towards creating a Climate Resilience Investment Framework.

Investor Engagement and Stewardship

Investors are increasingly recognising their exposure to climate risks and their fiduciary duty to respond. While investors can redirect their investment decisions to favour companies and projects that will accelerate the necessary clean technology transition, they also have a powerful opportunity to affect behaviour change, diversification and transformation among the most carbon-intensive companies through their portfolio holdings. This is possible through investment stewardship – including direct and collaborative engagement with companies to achieve corporate practice consistent with long-term value protection and creation.

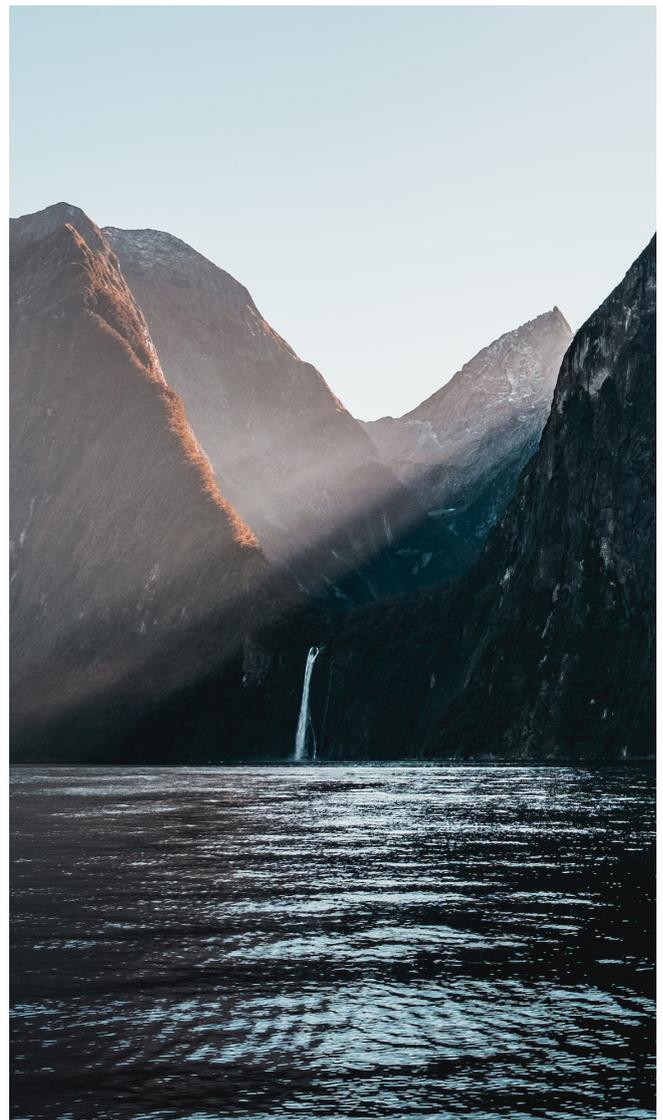
To achieve ambitious 2030 targets in investor portfolios and across the globe, investors need to drive rapid changes in the real economy. They must be active stewards that ensure the companies they own take the necessary action and produce net zero transition plans to deliver 1.5°C aligned short-, medium- and long-term targets. Portfolio alignment tools such as the Net Zero Investment Framework have therefore emphasised the strong role that stewardship needs to play.

There is a wide range of practice across the industry

When executed well, stewardship can be a critical part of generating the change we need in the economy to manage climate risk.

It must be specific, time bound and paired with effective escalation strategies, including divestment for companies that are failing to act.

Investors globally are using a range of voting tools as part of stewardship, including votes against management on climate grounds and 'Say on Climate' votes. In Aotearoa New Zealand it is striking to note that to-date there have been no such votes.



There is a very strong desire across the industry to see more collective engagement in Aotearoa New Zealand

In terms of engagement with investee companies, responses indicated that the bulk of this is still conducted bilaterally (ie. a single investor engagement with a company). Around half (48%) of respondents indicated that they are involved in collective engagement with international investments, while for investments in NZ only 30% of respondents are engaging collectively.

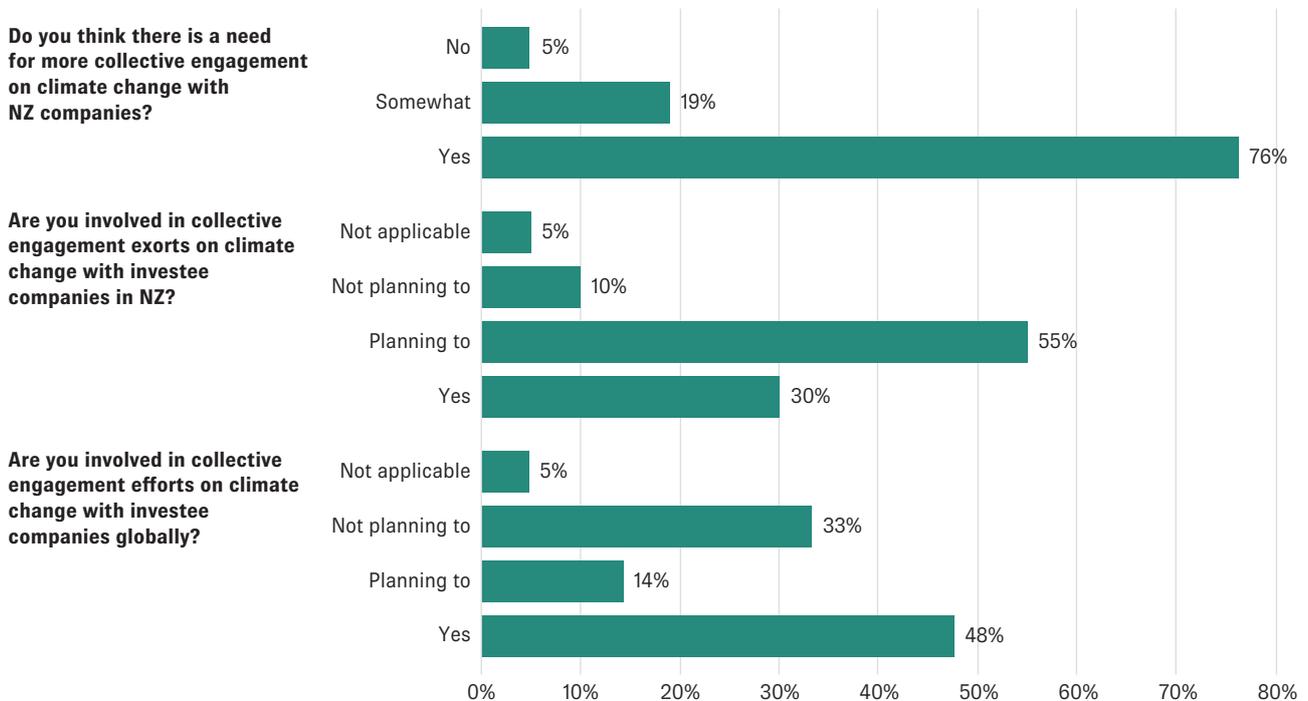
This level of collective engagement with domestic companies significantly lags that over the Tasman; 75% of Australian investors surveyed by IGCC in 2022 are involved in collaborative engagements with Australian companies.

Looking to the future, the survey identified a strong desire from the 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 felt that more collective engagement in NZ was not necessary.

This was one of the strongest themes to emerge across the survey, consistent with findings in other recent research including from KPMG for the Centre for Sustainable Finance ([Mobilising Capital for Impact, October 2022](#)).

The Aotearoa New Zealand Investor Coalition for Net Zero strongly supports further collaboration in this area and work is already underway to make progress here. We encourage any investors that may be interested in participating in collective engagement in NZ to contact us at info@stewardshipcode.nz.

Chart 13: Collective engagement: current practice and future aspirations



There is some evidence of formal engagement strategies and targets, but progress is lagging offshore

There were no respondents in Aotearoa NZ who indicated that they have *both* a formal engagement strategy and targets. In IGCC's Australian survey, 40% of survey respondents have both.

There is some depth to engagement strategies for some investors in Aotearoa, with 29% having a formal strategy but no engagement targets, and 10% having a target, but no formal strategy. Many investors responded that they are actively considering further enhancements in these areas.

Chart 14: Climate stewardship strategy

Have you developed a comprehensive climate engagement/ stewardship strategy or targets (ie a strategy to guide your prioritisation and engagements with portfolio companies/ assets re the transition to net zero)?



Note: this question featured in the 'long survey' only and was not compulsory. The graph above shows the percentage of the 21 respondents to this question that fell into each category.



Figure 9: Aotearoa New Zealand Stewardship Code

Launched in September, the inaugural Aotearoa New Zealand [Stewardship Code](#) provides a principles-based framework for achieving the three interconnected goals of effective stewardship:

- to create and preserve long-term value for current and future generations.
- to ensure the efficient management of capital whilst considering the best interests of clients and beneficiaries.
- to contribute towards achieving sustainable outcomes for our environment, society, and economy.

What is stewardship?

Stewardship is the responsible allocation and management of capital by investors – including asset owners and fund managers – to create and preserve long-term value for current and future generations. Stewardship also promotes sound investor and issuer governance, and business practices that lead to sustainable outcomes for our environment, society, and economy.

Key principles

The Code's nine principles guide investors to incorporate ESG matters in their investments; design and implement engagement policies; vote responsibly at shareholder meetings, and disclose the nature and outcomes of their stewardship; as well as aiming for greater collaboration, including with policy makers.

Founding signatories

ANZ	Metrics Credit Partners
ASB	Milford
BNZ	Northern Asset Management
BT Funds Management NZ – Westpac	NZ Super Fund
Castle Point	Russell Investment
Devon Funds	Salt Funds Management
Harbour Asset Management	Trust Management
Kiwi Wealth	

To become a signatory, go to <https://www.stewardshipcode.nz/>

In addition, we highlight that IIGCC in 2022 launched the [Net Zero Stewardship Toolkit](#), providing a systematic framework for global investors to help prioritise high-impact corporate engagement and hold companies to account.

Figure 10: Collaborative engagement – an important tool to boost investors' influence

The Aotearoa New Zealand Stewardship Code uses the term 'collaborative engagement' in referring to a broad range of ways in which investors can collaborate. For example, institutional investors coming together via discussions, meetings, campaigns, and the like to engage with companies, typically on environmental, social and governance (ESG) issues. When done well, it has the potential to be more influential for change, and helps investors share the heavy time and resource costs that quality engagement brings.

A *collective engagement* can be understood as a more specific practice referring to "a formal coalition of investors with a clear objective, typically working over time and with a coordinating body" (CFA Institute, UK Investor Forum). However, we note that the terms *collaborative* and *collective* engagement are often used interchangeably.

Below we highlight a few of the many organisations globally co-ordinating collective engagement.



Through Climate Action 100+, almost 700 investors, responsible for over \$68 trillion in assets under management, are engaging companies on improving climate change governance, cutting emissions and strengthening climate-related financial disclosures.

On 9 September 2022, Climate Action 100+ released updated [Net Zero Company Benchmark assessments for 14 Australian companies](#) on its focus list.

The Net Zero Company Benchmark measures focus companies on their progress against the initiative's three engagement goals and a set of key indicators related to business alignment with the goals of the Paris Agreement. All investors can use the benchmark to guide their corporate engagement priorities.



ShareAction oversees a number of collaborative investor groups seeking to influence specific issues. These are The Investor Decarbonisation Initiative, the Good Work Coalition, and the Workforce Disclosure Initiative.

Investors are still in the nascent stage of setting specific engagement targets for material sectors

The Net Zero Investment Framework recommends that investors implement an **engagement goal to ensure at least 70% of financed emissions in material sectors are either net zero, aligned to a net zero pathway, or the subject of direct or collective engagement and stewardship actions.**

By conducting this baseline assessment, this improves investor accountability to deliver on engagement and stewardship actions, and also helps drive engagement with emissions intensive investments in a portfolio while focusing engagement efforts on assets not aligned to a net zero pathway.

The proportion of financed emissions subject to climate engagement across investors varies greatly, with a large majority (68%) having not yet determined this. At the other end, 2 investors (4%) reported that 90–100% of their financed emissions are subject to climate engagement. In IGCC's Australian survey, 19% of respondents were in this category. For any outsourced engagement, either by an asset owner, fund manager, or wealth manager, regular reporting should be required to monitor this engagement quality and outcomes.

Climate solutions investments

Alongside the imperative of decarbonising portfolios, it is essential that investors increase their allocation of capital to climate solutions. Investment in climate solutions (and associated targets) can support real economy decarbonisation and also increases the proportion of assets which can be readily classified as at least aligned to a net zero by 2050 pathway.

Institutional investors have an important role in financing the net zero transition, which is likely to require investment of nearly \$130 trillion from now to 2050 in activities that support emissions reductions.

A handful of NZ investors have now set public climate solution investment targets, and many are actively considering this

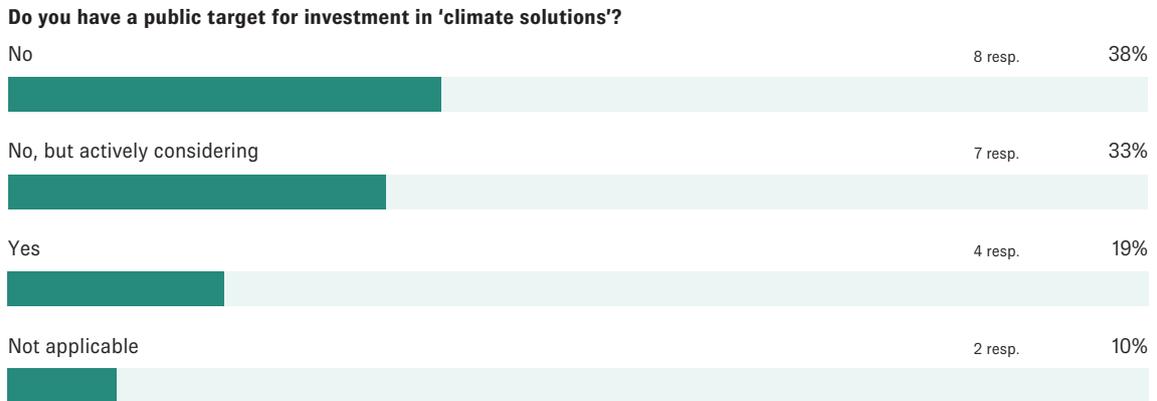
In Australia, 21% of respondents to IGCC's survey have set climate solutions targets. If we assume that respondents to our short survey have not taken this step yet, only 8% of respondents in NZ (4 out of 49) have set a climate solutions target. Most of those with a target in NZ reflect specific climate funds, for example in venture capital.

Figure 11: What is a climate solution?

A climate solution is an investment in an economic activity, good or service that contributes substantially to emissions reductions required by a 1.5°C pathway. A climate solution can be classified as a:

- **'Low-carbon' climate solution**, which refers to activities with close to zero emissions that already make a substantial contribution to achieving net zero, e.g. the leasing of passenger vehicles with zero tailpipe CO₂ emissions.
- **'Transitional' climate solution**, which refers to activities that make a substantial contribution to the transition to net zero by reducing their own emissions, even if they are not yet lowcarbon, e.g. the manufacture of cement with CO₂ emissions intensity below a specific threshold, and the leasing of vessels with a large% of energy from zero-carbon fuels.
- **'Enabling' climate solution**, which refers to activities that are enabling emissions reductions in the wider economy, e.g. the manufacture of energy-efficient equipment for buildings, and infrastructure for low-carbon road transport such as EV charging points.

Chart 15: Climate solutions targets



Note: this question featured in the 'long survey' only and was not compulsory. The graph above shows the percentage of the 21 respondents to this question that fell into each category.

In terms of examples, looking across to IGCC's Australian survey, investors are making climate solutions investments across a range of categories. The majority of climate solutions investments has been in renewable energy, but many investors have also made significant investments in clean technologies, energy storage, low carbon transport and green/sustainability bonds. It is also pleasing to see some investors have made investments in natural solutions (biodiversity and land use), and assets that generate carbon credits. Other investors noted investments in sustainable agriculture, nuclear energy, waste management and energy efficiency etc. Investors indicated they will continue to compile this information and track climate solutions investments across categories.

The methodologies investors use to define and measure climate solutions investments vary and lack standardisation

There are a range of methodologies and service providers that investors are using to classify climate solutions investments, including reference to SDGs (sustainable development goals), third party ESG data service providers, or the EU/other national taxonomies. Many investors use a combination of methodologies depending on asset class, with several also developing their own proprietary classification systems.

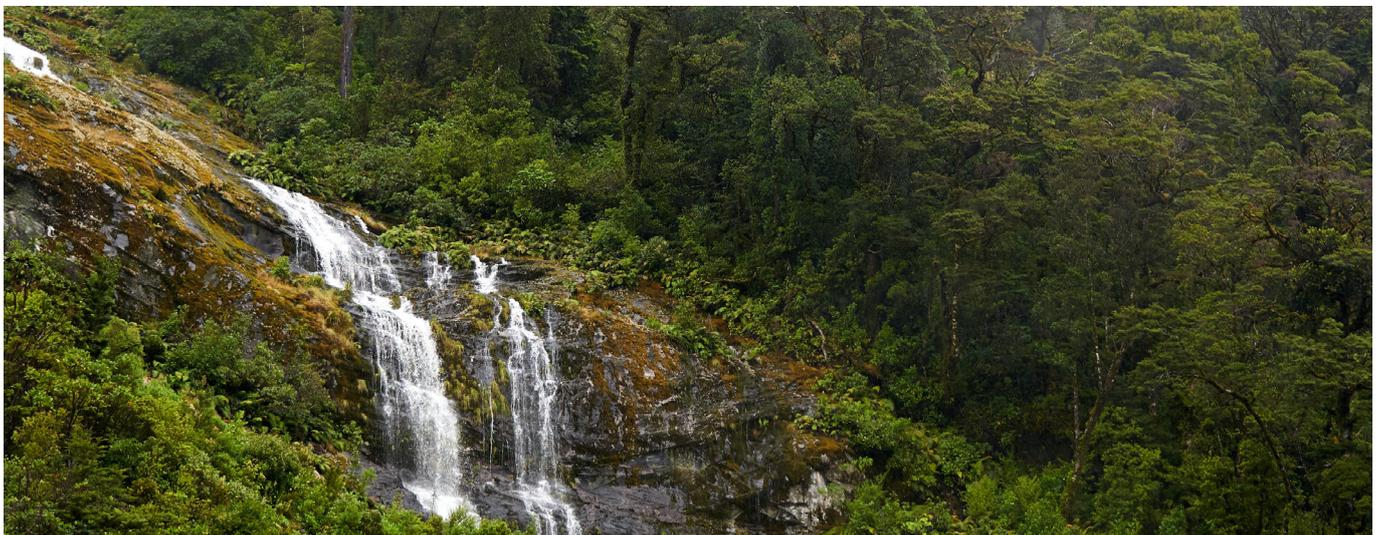


Figure 12: BTNZ*Content supplied*

BT Funds Management (NZ) Ltd (BTNZ), the investment arm of Westpac in New Zealand, acknowledges the huge responsibility it has to drive positive outcomes and prosperity for its people, communities, and the environment. BTNZ is committed to aligning its assets under management to a 1.5°C temperature pathway and net-zero greenhouse gas (GHG) emissions by 2050 or sooner. The fund manager is also working to invest more in a number of ESG themes. BTNZ applies an exclusion policy, which includes many fossil fuels activities, whale meat, controversial weapons and companies deemed to be in breach of UN Global Compact principles. BTNZ is also focused on stewardship activities and its guiding voting principles and engagement priorities reflects its commitments.

As an example of its commitments, in the fourth quarter of 2021 BTNZ allocated \$310 million to a global climate investment index mandate. What BTNZ believes was a New Zealand first, the index adheres to EU Paris climate regulations and allocates more to climate solutions and positive environmental, social and governance rated companies. The mandate also encompasses BTNZ's exclusions and a targeted climate engagement campaign to lift companies' climate performance.

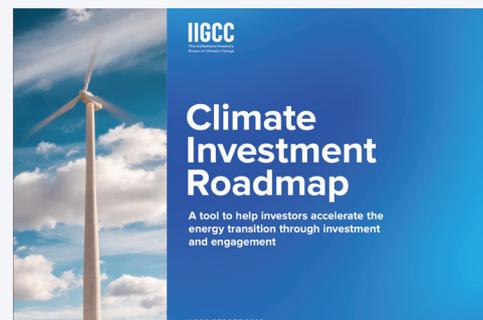
This year we've actively supported the introduction and became a founding signatory of the New Zealand Investment Stewardship Code. The Code aims to create and preserve inter-generational value for the people whose money is invested, and New Zealanders more broadly. Stewardship includes monitoring, engaging and collaboration by investors with companies and other issuers and holding them accountable on material issues to achieve sustainable outcomes. See Figure 9 for more detail on the code.

Figure 13: Climate investment roadmap

This report includes guidance to help investors determine climate solutions metrics, their applications and measurement methods. It includes an overview of investment trajectories (including investment needs by sector), a technology prioritisation framework for climate solutions, climate solutions metrics and benchmarks and a technical annex which includes an overview of climate solutions metrics and associated criteria.

The report explains that, in the short term, investors can start using a green investment ratio and a priority net zero investment ratio to measure their current exposure to climate solutions. A green investment ratio measures the share of a portfolio's total investments that are allocated towards climate solutions, as defined by the asset's associated green revenues that meet the criteria set out in sustainable investment taxonomies.

Also see paper here by IIGCC and FTSE Russell, An LSEG Business: [Green equity exposure in a 1.5°C scenario: Applying climate investment trajectories with green revenues](#) – the aim of this paper is to inform climate investment decision-making, building the green economy exposure of their equity portfolios and climate benchmarks in line with a 1.5°C temperature scenario.



Other climate related targets are not common, but 33% of investors are actively considering these

Examples of other targets which investors indicated they have set include:

- Benchmark relative reduction targets for fossil fuel reserves and weighted average carbon intensity, and a relative increased target for the MSCI Low Carbon Transition Score (LCTS).
- Allocations to impact investments.
- A target for carbon emissions mitigated per \$ of AUM.

Figure 14: Climate Venture Capital Fund



Content supplied

New Zealand, like the rest of the world, has an extraordinarily large challenge and opportunity for climate investment across the whole economy. The Climate Venture Capital Fund invests in businesses which have potential for excellent commercial returns and material reductions in greenhouse gas emissions. Since getting underway in 2021, we have made four investments, and will be closing the fund to new investors later in 2022.

The Venture Capital asset class, while illiquid, has consistently delivered high returns at low correlation to the traditional investment portfolio. Venture investing requires dedicated managers with experience in finding, assessing and investing in local or specialised early-stage investments, managing those investments to grow their business, and crafting follow-on capital raising rounds and exit events. The value created in venture capital investing is earned across all these three stages and accrues over many years.

The emissions impact from venture-backed companies can be unusually high, with the fund's current investments potentially able to deliver millions of tonnes of emissions reductions per year. We use globally-accepted measurement frameworks and clear metrics to measure impact. We invest in companies from the lab through to ones where the products, and emissions impacts, are already being delivered, and we are unafraid to support companies tackling hard-to-mitigate emissions and creating unexpected emissions reductions at huge scale. The demand for emissions reductions is vast and becoming increasingly valuable in the eyes of our companies' customers.

We see ourselves as a catalyst to demonstrate the very high returns and impact from climate venture capital investing, and our early results are strong. We want to see an increasing amount of funds placed in the sector from other venture capital and private equity funds. We also work with co-investors and companies to demonstrate carbon emission reduction credibility, as well as business strength, and this will make it easier for companies to raise green debt to fuel expansion.

CLIMATE GOVERNANCE & STRATEGY

Most investors (58%) now have a climate policy in place. Fewer (28%) appear to have a specific fossil fuel investment policy.

A climate change policy is a formal documentation of the organisation's position and principles on climate change. It may be a standalone policy, or a comprehensive climate section may be embedded in an investor's responsible investment, ESG or stewardship policy etc.

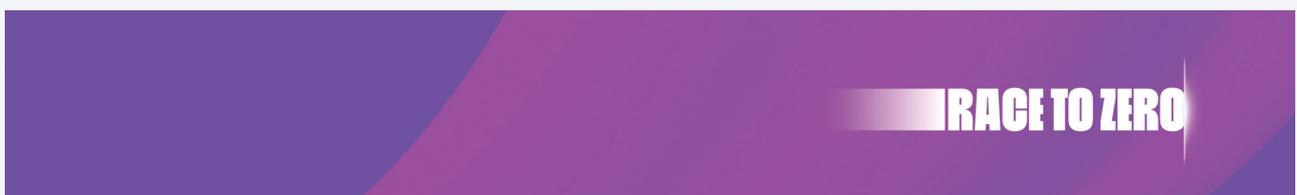
The reason for the low number of fossil fuel policies may be that some investors have fossil fuel exclusions, but for survey purposes did not consider this a formal fossil fuel investment policy.

In IGCC's Australian survey, 77% of investors now have a climate policy in place.

On the global stage, the Net Zero Asset Managers (NZAM) expects signatories to adopt and disclose a robust and science-based policy to fossil fuel phase out. The policy should recognise the need for a just transition and reflect regional differences in speed and phase out consistent with IPCC 1.5C scenarios. The recent International Energy Agency [outlook report](#) reiterated their advice that further investment in coal, oil and gas production is inconsistent with a 1.5 degree pathway.

The PAII Net Zero Investment Framework recommends that investors 'should not allocate additional capital to companies planning or constructing new thermal coal projects, associated infrastructure, or new exploitation of tar sands. Where relevant, investors should use active and escalating engagement with the aim of ensuring no new thermal coal generation is developed and no further tar sand resources are exploited, and that phase out of existing unabated capacity and activity is undertaken in line with net zero pathways.'

Figure 15: UN Race to Zero



[Recently published Race to Zero \(RTZ\) criteria](#)

The UN Race to Zero also recently published updated 2022 Race to Zero (RTZ) criteria, asking investors to pledge to adopt the policies needed to achieve the "phase down and out [of] all unabated fossil fuels." The RTZ criteria recognize the necessity of phasing out all unabated fossil fuels in order to achieve a 1.5C scenario with no or low overshoot. According to the latest R2Z [Interpretation Guide language](#), each RTZ member "shall phase out its development, financing and facilitation of new unabated fossil fuel assets, including coal, in line with appropriate global, science-based scenarios."

Most investors are using fossil fuel divestment or exclusion policies

A 'revenue threshold' for exclusions relates to the proportion of an investee company's revenue generated from a given activity. For example, if 15% of a company's revenue is from oil production, it would be excluded from a fund that applied a 5% revenue threshold relating to oil.

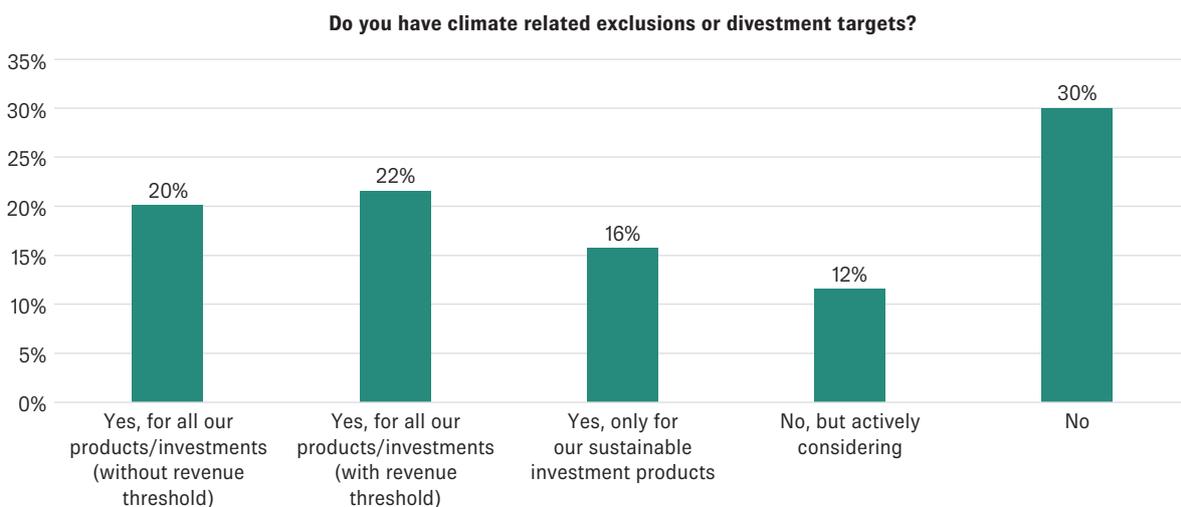
In the survey, we found that 20% of investors have climate related exclusions for *all products without revenue thresholds*. A further 22% apply these across all products, but with a *revenue threshold* (ie, some companies with revenue derived from fossil fuels, but below the threshold, can still be in portfolios). 16% of respondents have exclusions only for sustainable investment products, and 30% do not have fossil fuel exclusions.

These proportions are broadly similar to those seen in Australia, although there is a gap in the share of investors that do not have fossil fuel exclusions or divestment targets (NZ 30%; IGCC's Australian survey 24%).

It will be interesting to see how investors balance over time their approach to decarbonisation through a strong focus on engagement with strategies such as exclusions and divestment. This will be particularly relevant when considering investing in new fossil fuel activities, especially following the recommendations of the most recent International Energy Agency (IEA) Net Zero by 2050 report, referred to above, that highlighted there can be no investment in new fossil fuel supply projects if we are to meet our collective 2050 net zero goal.¹⁰

It should be noted that not all exclusions are consistently applied by investment providers, particularly in their indirect investments in external fund providers, and a range of materiality thresholds are used. Mindful Money provides transparency through publishing data on portfolio holdings¹¹ in fossil fuel production on a full look-through basis for all KiwiSaver and retail investment funds, based on a 5% revenue threshold.

Chart 16: Climate exclusions targets



¹⁰ https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroby2050-ARoadmapfortheGlobalEnergySector_CORR.pdf

¹¹ Portfolio data at www.mindfulmoney.nz and fossil free funds at <https://mindfulmoney.nz/pages/28/fossil-free-funds/>

Figure 16: BayTrust



Content supplied

To align with its purpose of ensuring Bay of Plenty communities and the environment flourish, BayTrust is working to ensure its entire \$250m+ investment portfolio is truly sustainable by 2030 by only investing in companies that provide goods and services consistent with a low-carbon, prosperous, equitable, healthy and safe society.

BayTrust fundamentally believes this approach is going to provide superior financial returns as this is where the best and brightest want to work, where capital is flowing and where the regulatory environment is supportive. We believe that companies that don't think about carbon exposure or climate change will likely be poor investments over the next 10 or 20 years – which as a perpetual trust, is our investment horizon.

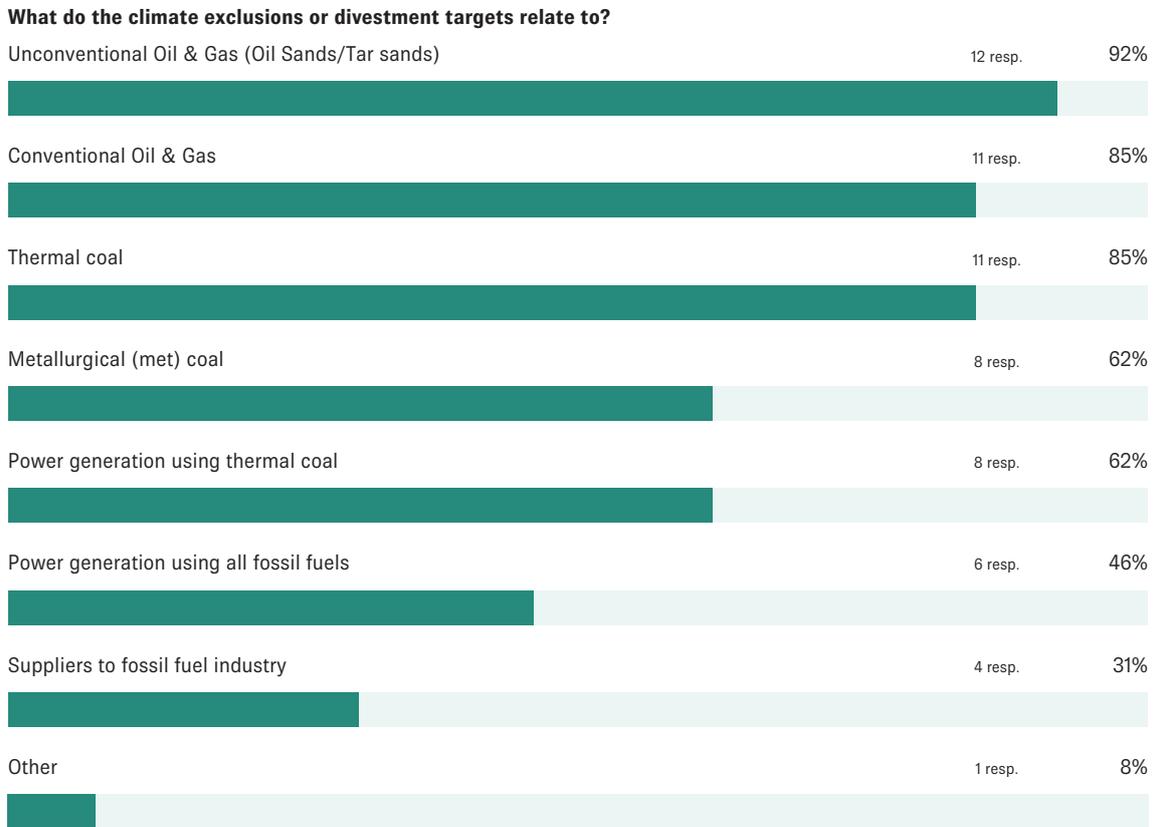
We also emphasise the need for urgency. Targets for 2040 or 2050 are kicking the can too far down the road, as climate change evidence increasingly points to the fact that we only have 5 or 10 years to act to mitigate the worst long-term impacts. Setting targets that are only 3 or 4 years out means investors have to start now and can't ignore these deadlines.

Other highlights of BayTrust's approach include:

- Excellent financial returns – BayTrust recording the second highest return of any NZ community trust (annualised 9.7%) over the last 3 financial years.
- Short-term goal to halving carbon exposure by 2025.
- Have already achieved a reduction in carbon exposure of 90% in global equity and emerging markets portfolio since 2018.
- Committed to increasing its impact investments to 20% of its investment portfolio (~\$50m) within the next 10 years, with a key focus on the local housing crisis.
- Calculating a temperature score – how many degrees of global warming BayTrust's portfolio is contributing to. This is a measure which people understand better and can relate to.
- For every single investment decision, BayTrust looks at its financial risk and return, and also its impact, including social, environmental and Te Tiriti o Waitangi commitments.

See [here](#) for a video of a recent presentation by CEO Alastair Rhodes detailing BayTrust's journey in recent years. The video is part of a set of shared resources from [Climate Action Aotearoa](#), incorporating the Funders Commitment on Climate Action (discussed further in Figure 2).

Chart 17: Types of exclusions



Climate exclusions are applied overwhelmingly to companies that derive material revenues from fossil fuels

Among respondents with fossil fuel exclusions (or divestment targets), there is a high degree of consistency in what is excluded with over 80% of respondents applying these across several categories (thermal coal, unconventional oil and gas, conventional oil and gas). Over 60% of investors also exclude power generation using thermal coal, and just under half exclude power generation using all fossil fuels.

Disclosure on climate change

Around half of investors are providing emissions data to clients

- 44% of investors are disclosing climate emissions data to clients, compared to the 58% that are measuring it.
- Of investors that are not disclosing, around two-thirds indicate that they are either implementing this currently, or intending to do so.



Most investors are working towards TCFD aligned annual disclosure, with progress to step up materially this year with the introduction of CRD

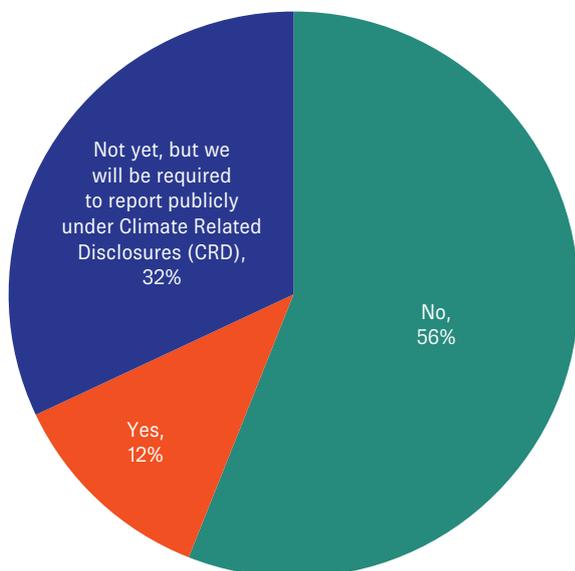
Only 12% of all respondents are *currently* reporting against the Taskforce for Climate-related Financial Disclosures (TCFD) recommendations, compared to over half in IGCC's Australian study (where there is no mandatory requirement). Of course, many more investors in Aotearoa New Zealand are implementing TCFD currently, with 32% of all respondents due to disclose under CRD (Climate Related Disclosures – refer Figure 6).

Of note, a further 27% of Australian investors in IGCC's survey are planning to disclose within the next 12 months. **Based on these responses, a year from now 61% of NZ investors surveyed will be producing TCFD reports, compared to 79% in Australia.**

Lower rates of TCFD reporting in NZ likely reflect internal capacity issues or prioritisations, which present particular challenges for our smaller organisations. Another constraint may be the divide between readily available information in publicly listed equities compared to private markets, which have less developed data availability.

Chart 18: Climate disclosures

Do you produce annual TCFD aligned reporting? For example, reporting under NZ's Climate Related Disclosures (CRD) regime?



If you are not already, do you have any plans to complete CRD (or TCFD) reporting on a voluntary basis?

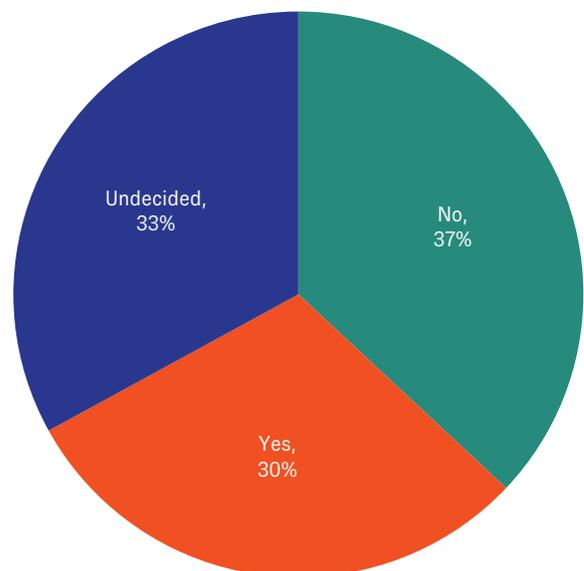


Figure 17: Pathfinder

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Trust, transparency and sustainability are buzzwords we're all hearing more and more. At Pathfinder we believe it's not enough for fund managers to make claims about sustainability without measuring and reporting. Being authentic and transparent around sustainability then builds business accountability and stakeholder trust.

At Pathfinder we continue to work on enhancing our levels of non-financial disclosure. This year we're releasing our second Sustainability Report, which is market leading for a range of disclosures.

In terms of Pathfinder's business, we continue our commitment to a 2030 net zero target. Our CO2 emissions per full time staff member have fallen 11% over the prior year and we've achieved a third straight year of 100% renewable energy procurement.

In relation to the funds we manage for our investors, 49% of the companies we now invest in are committed to science based emissions reductions targets (SBTi). This is a whopping 75% increase over a year earlier. Now, 29% of the companies we invest in set targets consistent with warming of 2°C or less (this is 49% higher than our benchmark).

We've set forward looking targets to continue driving lower carbon portfolios. For example, we're focused on increasing the number of companies in our portfolios with SBTi commitments by 7% per annum so we reach 100% coverage by 2030.

Trust, transparency and sustainability are much more than simply buzzwords for a marketing department, they need to find their way into the DNA of a business. This means science-based carbon targets, robust carbon reduction plans, and on-going efforts to do better. This is not simply about compliance reporting, it's about action.

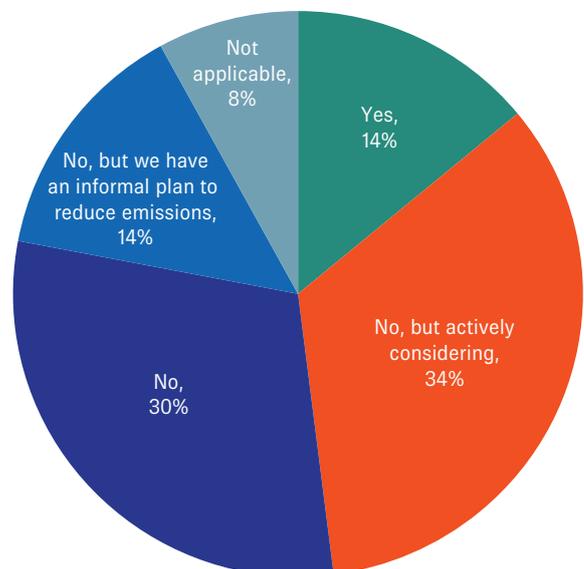
Investors recognise the need to publish Climate Action Plans but progress remains slow

Investors are strongly encouraged to adopt an 'Investor Climate Action Plan (ICAP)', also known as a 'climate transition plan', setting out the forward-looking actions, goals and accountability mechanisms for the organisation to reduce emissions and align with net zero before 2050.

14% of investors have published a climate action plan, with 34% actively considering (IGCC's Australian survey: 36% and 38%). A further 14% of investors in Aotearoa New Zealand have an informal plan to reduce emissions.

Chart 19: Climate action plans and transition plans

Do you have a published strategy to get to net zero (eg a Climate Action Plan or Climate Transition Plan)?



We are seeing a range of formats of climate action plans that meet existing investor reporting preferences, whether standalone plans or several are integrating net zero targets and plans into their TCFD and sustainability reporting.

The ICAPs Ladder provides a useful framework for developing a climate change roadmap. The Race to Zero Starting Line criteria emphasize that Transition Plans should not only have 2030 targets “which reflect maximum effort toward or beyond a fair share of the 50% global reduction in CO2”, but that the plans must include immediate actions that the institution will take to achieve its interim targets.

There remains a strong desire for further education to support progress

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. Of note, interest in learning about entering net zero *pledges* was lower than for broader emissions reductions plans or *targets*.

The Aotearoa Coalition for Net Zero is grateful for these responses and will be working on initiatives to help fill these support requirements over 2023, building on the experience so far from a community of practice on net zero amongst a group of fund managers, established after last year’s survey.

Figure 18: Investor climate action plan framework

The [Investor Agenda’s ICAPs Ladder & Guidance](#) is designed to help investors plan and assess their actions on climate change, no matter where the organisation is in its climate journey.

The ICAPs Ladder sets out a summary of actions over 4 tiers denoting progress on climate action in 5 focus areas applicable to all investors., serving as a ‘self-assessment checklist’ to help investors prioritise their focus areas. Investors wanting to be net zero leaders should rapidly climb to Tier 1 across all focus areas.

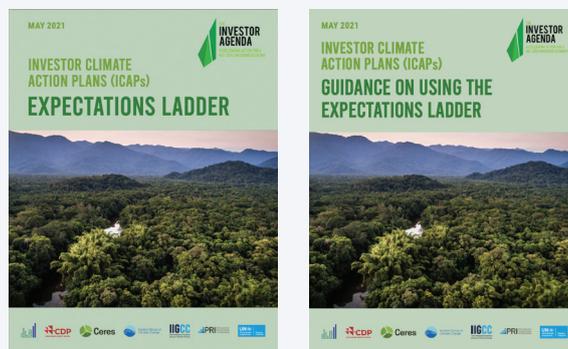
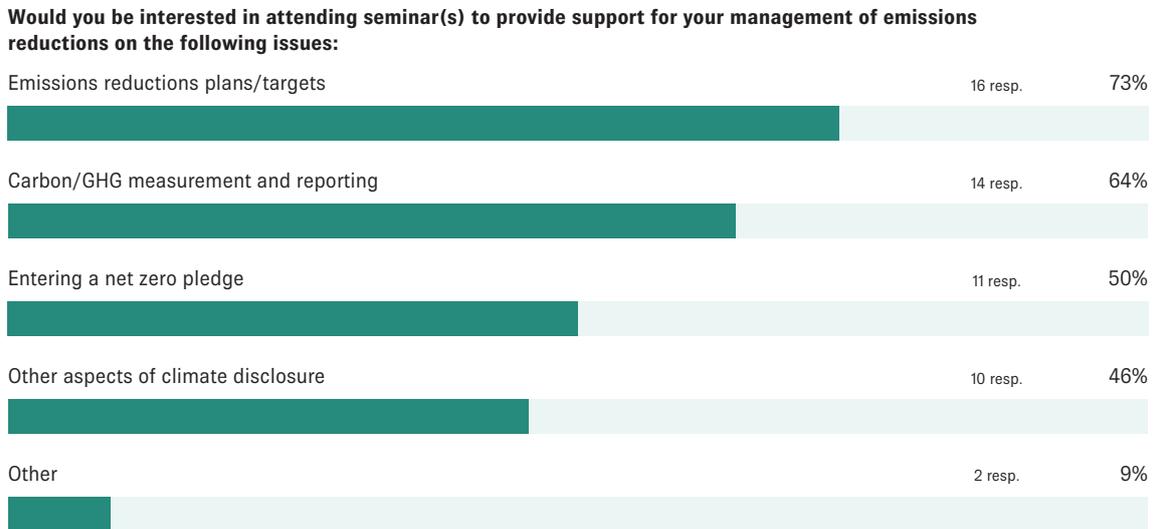


Chart 20: Capability building needs



Governance

Governance is another area where practice gaps for NZ relative to Australia appear significant

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.

Appropriate governance and a portfolio-wide strategy provides the basis for portfolio alignment and broader actions by an investor to achieve net zero goals. Climate change should be central to the organisation's strategic plan and the climate strategy fully endorsed by the board.

Chart 21: Governance structures and practices

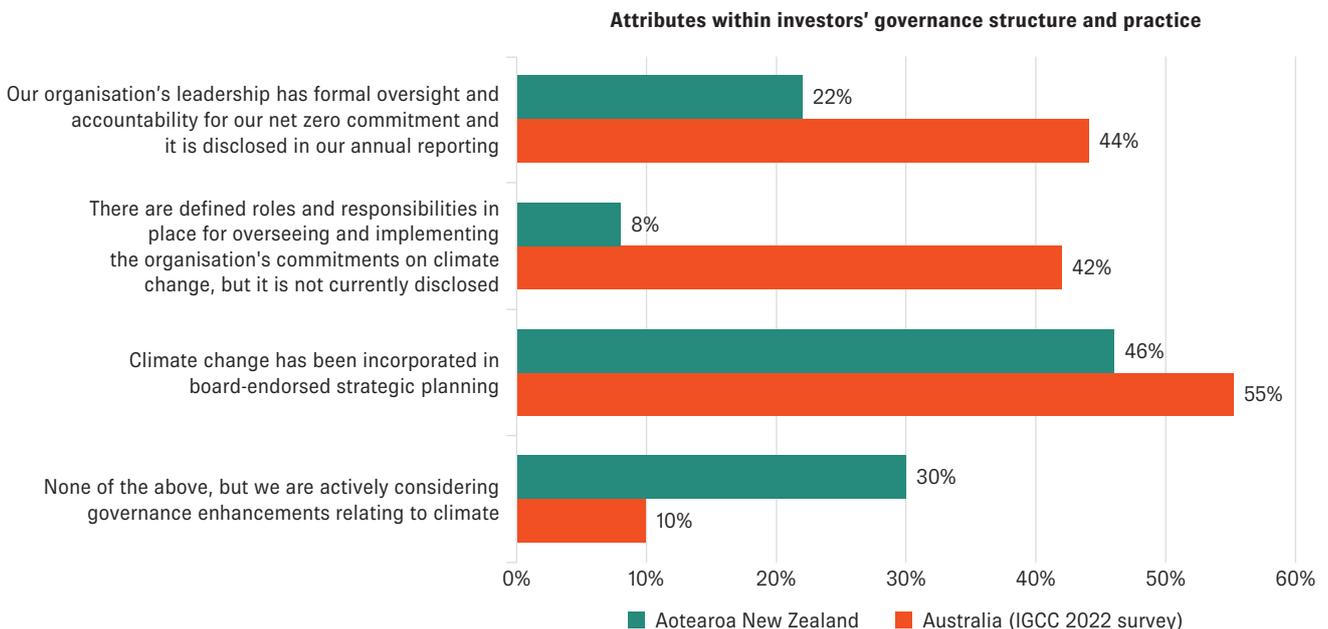
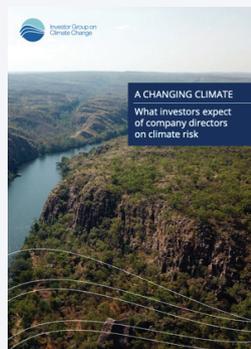


Figure 19: Managing climate risk in New Zealand: a tool kit for directors

This [publication](#) from Chapman Tripp includes insights from observing trends in climate change litigation and other litigation involving major social issues, and attempts to give directors the benefit of advice that they might wish we had had ten years from now.

The tool kit draws on the authors' engagement with boards of directors and climate change specialists and covers a range of areas including forecasting climate litigation risk, detailed guidance on what 'reasonable care' expectations are for managing of climate risk, and other 'hot tips' for directors.

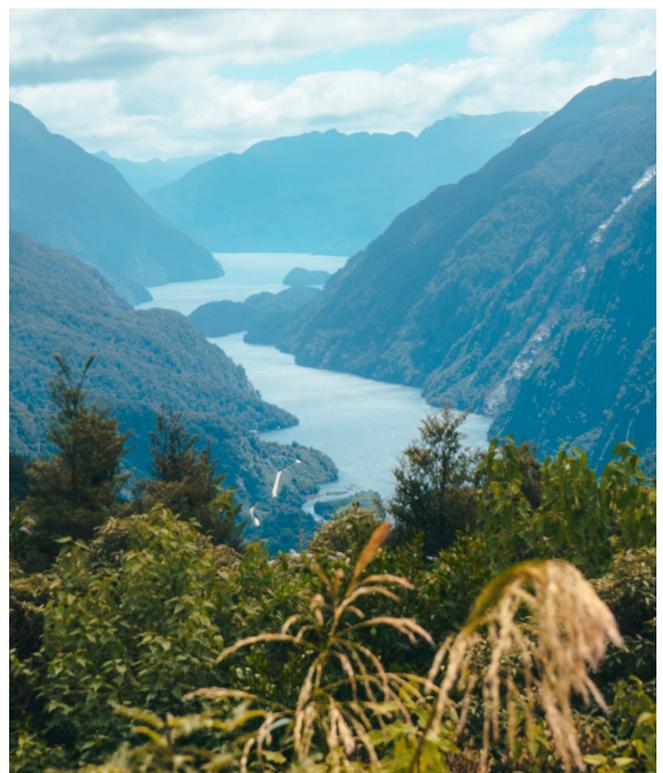
We also highlight this [report](#) from IGCC "A changing climate: What investors expect of company directors on climate risk". This includes useful insights from an Australian perspective across a range of issues including skill gaps for company directors, and investor expectations on outcomes from climate strategies.



Some investors are considering linking executive remuneration to delivering climate targets and the transition, but none have started this yet

A handful (3) of respondents noted that executives have climate KPIs, albeit not a direct link to remuneration. **Around a quarter of investors are actively considering linking executive remuneration to climate.** This approach would provide alignment to what investors are asking of their companies and assets. Most (57%) investors responded 'no', suggesting they are not actively considering this.

For now, for those not linking KPIs or executive remuneration to delivering on climate, we would hope that they have at the minimum been reporting regularly to the board on climate, working to define formal climate change responsibilities, and ensuring boards (and staff) have regular training on climate risks and opportunities.



Carbon offsets

Few investors use offsets for their own portfolio emissions, but more are using offsets to go carbon neutral at the organisational level

Only two investors in Aotearoa indicated they are currently using offsets as part of their financed emissions, but several more (around a third of respondents to this question) are considering it. For the two investors currently using offsets, these are used alongside other climate practices to drive down portfolio emissions – as opposed to the use of offsets as a potentially easy substitute for broader climate action.

Only a couple of investors indicated they are intending to use offsets for their financed emissions over the next 5–10 years, with some investors commenting that they believe the decision to utilise offsets rests with the assets themselves, and that assets should prioritise reducing emissions over offsetting.

In Australia, there was a similar picture regarding use of offsets, with only one investor using these currently in relation to the portfolio, and only 6% indicating that they are planning to do so over coming years.

Around 20% of investors are already carbon neutral at the organisational level

It is pleasing to see that eight investors surveyed are going carbon neutral for their own operational emissions, setting a good example for investee companies and taking climate action today. These investors are using offsets, hopefully as part of broader formal plans to reduce organisational emissions. In IGCC's Australian survey, 25% of investors report that they are carbon neutral at the organisation level.

The investor community recognises that emissions associated with their investments dwarf the emissions associated with their own operations, and so the focus remains very much on financed emissions and the real world impact of investors' core business. That being said, it is expected that all investors will also target net zero emissions by 2050 or sooner for their own operational emissions.

Only a small number of investors responded that they are materially integrating just transition as part of their portfolio management and investment strategies

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.

The concept of a 'just transition' recognises that while the transition to a net-zero emissions economy will provide many benefits, there will also be transitional challenges for those workers, communities, and countries that rely heavily on fossil fuel reserves for their livelihoods or economic growth. To ensure everyone is on board with the net zero transition and to ensure the transition moves forward at the speed required in the tight timeframe between now and 2030 to halve emissions, we need to ensure that the advantages and costs of transition are fairly distributed.

Investors have an important role in ensuring a just transition, whether that be through their corporate engagement, investment strategy and capital allocation or advocacy and partnerships etc.

Of interest, one Australian investor commented that *'we believe the transition to net zero is inevitable but ensuring a just transition is not guaranteed. Being green does not inherently mean being fair. It is critical to understand and act on this concept now, as we lay the foundations for the decisive decade ahead. investors need to take a sophisticated approach to create system-positive change. This ensures investment decisions are made holistically, with honest conversations about trade-offs...'*

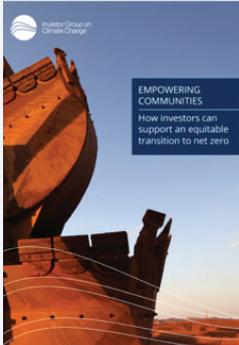
Figure 20: Investors' role in an equitable transition to net zero

A just transition combines the need for climate action with the consideration of social inclusion, through an economy-wide process which aligns to a sustainable future with the creation of decent work and quality jobs, net zero emissions and thriving communities.

The 2015 Paris Agreement specifically takes into account the imperatives of a just transition and the creation of decent and quality jobs in accordance with nationally-defined development priorities and making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development (Article 2).

The IGCC report *Empowering Communities: How investors can support an equitable transition to net zero*, released in July 2021, details the key investor actions for investors to integrate just transition considerations across investments and help investors manage the challenges of the transition away from fossil fuels to decent work and thriving communities in the renewable economy.

Find out more



The overwhelming majority of investors have not yet conducted an assessment or integrated a response to biodiversity

Despite the fact that nature loss poses a major risk to businesses, and while moving to nature-positive investments offers opportunity, investors are struggling to get started with risk assessment and action in this area.

Only one respondent has conducted an (initial) high level assessment of nature and biodiversity risks, with 38% actively considering this (IGCC's Australian study: 17% and 38% respectively). No respondents had conducted a detailed assessment or had started to implement a portfolio level response.

In terms of commentary, there were some useful insights in the Australian survey, with some investors indicated they are getting started with certain ESG rating models which cover some biodiversity factors, while other investors have committed to implement a biodiversity reporting system into their business in the near future.

Investors commented that they recognise biodiversity as an important developing area to be actively monitored, though have not yet integrated a robust portfolio level response due to data and regulatory challenges. Other investors appear to be waiting for guidance from Taskforce for Nature-related Financial Disclosures (TNFD) to provide a framework for developing and delivering nature-related risk management and disclosure.



Investment mandates

Asset Owners

Investment mandates are still catching up to climate aspirations for asset owners

Asset owners are increasingly recognising the need to engage and track manager progress on climate, including on carbon emissions and the actions managers are taking to manage the transition of portfolio companies to a low-carbon economy. **Much more work needs to be done, however, to translate aspiration to action through aligning mandates with net zero commitments.**

Only a small proportion of asset owner mandates with external fund managers specify requirements relating to net zero or decarbonisation

Of the 17 asset owners who responded to the survey, 61% indicated they do not yet specify requirements relating to decarbonisation in any mandates (Australia: 41%). Two asset owners indicated they include this in the vast majority (75–100%) of mandates.

In IGCC's Australian survey, feedback of note included that one asset owner has added climate-related clauses in all investment mandates to build structured alignment into mandates which can help operationalise net zero commitments and provide protection against greenwashing risks.

A small number of asset owners are asking fund managers for disclosure relating to emissions and stewardship

A couple of managers noted that almost all (75–100%) of their fund manager mandates require reporting on emissions, and on stewardship activities and outcomes.

Of note, these were not compulsory questions, and the response rate was low.

Figure 21: NZ Super Fund

Content supplied

The NZ Super Fund has shifted about 40% of its overall investment portfolio to market indices that align with the Paris Agreement, the international climate change treaty.

The changes apply to the Fund's index-tracking Reference Portfolio benchmark and its corresponding \$25 billion of passive investments in global equities. The changeover to the MSCI World Climate Paris Aligned Index and the MSCI Emerging Markets Climate Paris Aligned Index commenced in June, with the new benchmark taking effect on 1 July 2022.

The changes will further reduce the Fund's exposure to carbon emissions as well as deliver better environmental, social and governance (ESG) outcomes across the board. They will also significantly reduce the number of publicly listed companies that the Fund owns directly.

The NZ Super Fund undertook many months of technical analysis weighing up a range of risk, return, cost and implementation considerations to ensure that making this shift will not have a detrimental impact on investment returns. They also considered a range of ESG enhanced portfolios to ensure that they selected a set of portfolios that would have the best impact on social and environmental outcomes, including meeting The Super Fund's Net Zero Commitments.

Asset Managers

Asset managers report that only a small portion of asset owner clients are specifying requirements relating to decarbonisation or net zero

41% of asset managers indicated that only a small proportion (0–25%) of clients have specified requirements relating to decarbonisation and net zero. The reason for the slow progress here might be that asset owners are preferring informal methods of engagement with managers rather than incorporating net zero or decarbonisation references into mandates. Clearly, the latter will send a more powerful message to fund managers.

Disclosure demands from clients, and provision from managers, is generally low

- In the long survey, some asset managers (17%) reported providing emissions data to *all* clients, while more (33%) are providing emissions data to only a *small portion* (0–25%) of clients.
- Half of managers responding to this question said no clients require annual climate reporting (such as TCFD), while 17% said only a small portion (less than a quarter) of clients require this.

Barriers to Investment

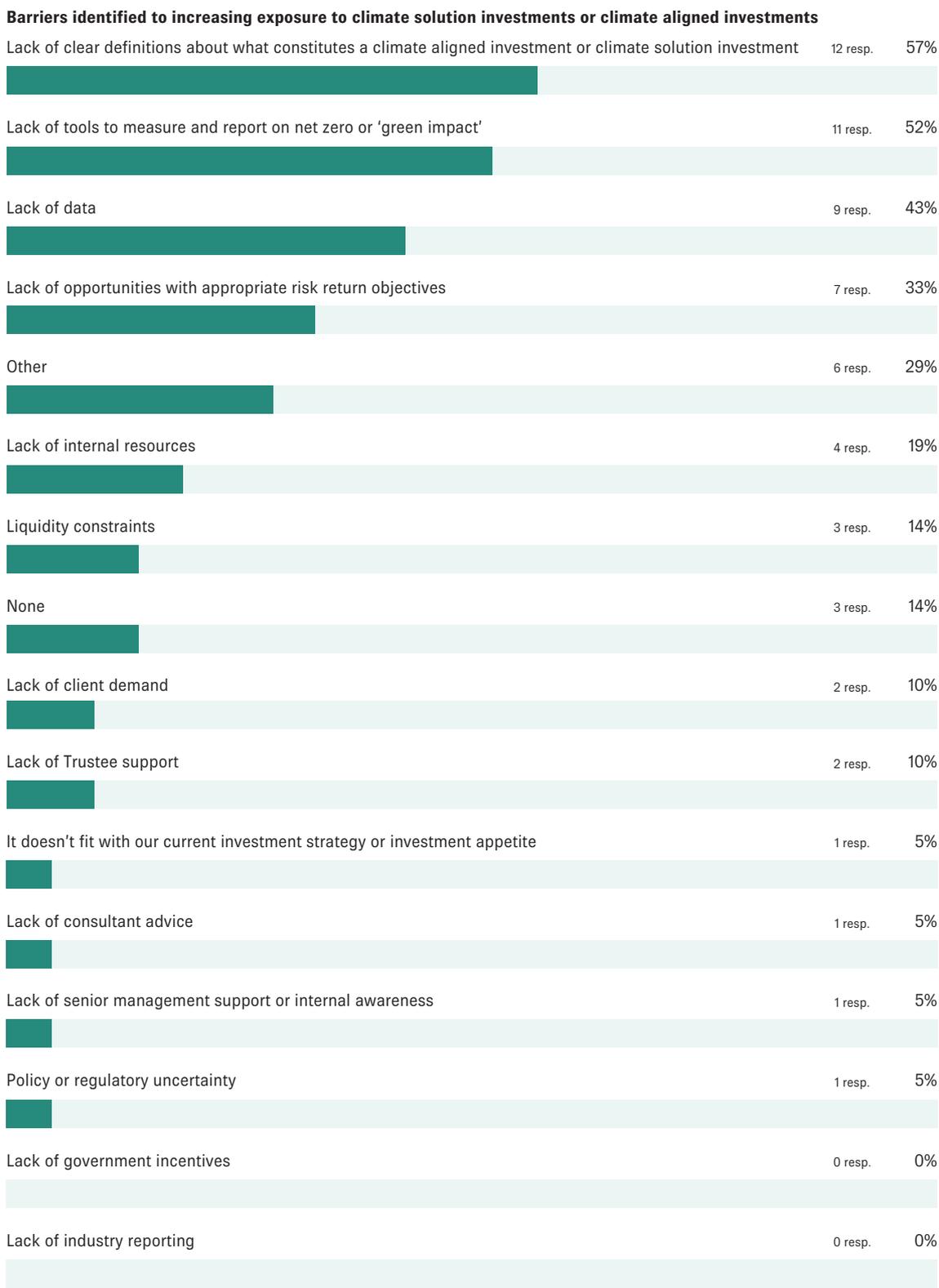
A lack of data, tools and definitions around climate investing and net zero strategies was identified as the biggest barrier towards more climate-aligned investing

As shown in Chart 22 below, a range of barriers were identified by respondents, with challenges around tools, data and definitions each being highlighted by around half of respondents. **Of note, internal resourcing, trustee support, and support from internal management did not feature as perceived barriers.** Traditional investment considerations such as the availability of investments with appropriate risk/return profiles and liquidity were also not seen as dominant barriers for most respondents.

This is encouraging in light of steps being taking towards introducing definitional tools in Aotearoa NZ, as highlighted recently in the National Adaptation Plan. If executed well, this initiative provides scope for significant progress against this particular barrier.



Chart 22: Barriers to climate solutions

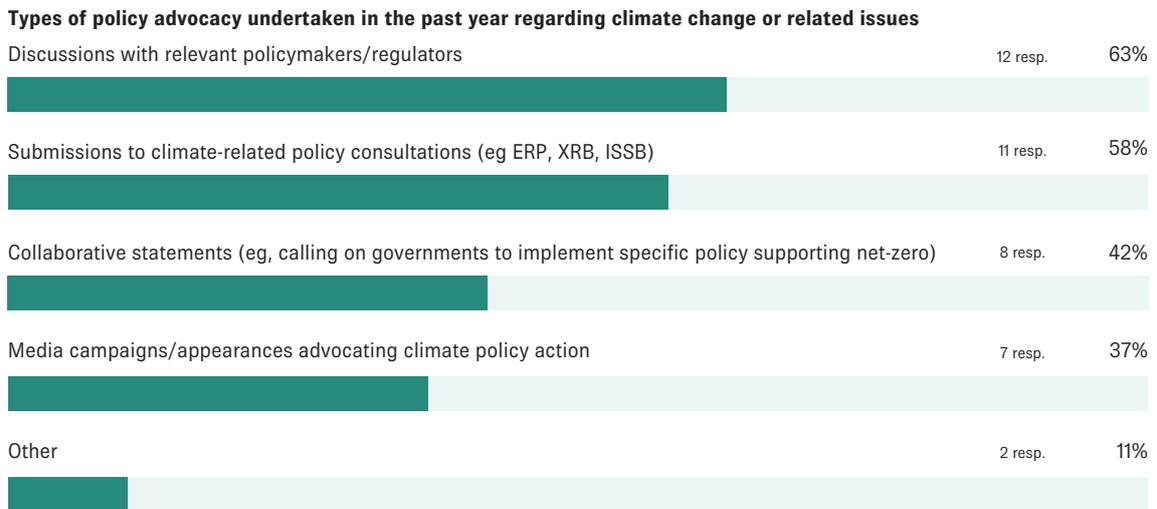


Note: Respondents were asked to select their top three barriers from the list above.

NZ investors see policy uncertainty as a minor issue, compared to those in Australia

There is a strong contrast to results in IGCC's Australian survey where policy uncertainty remains a critical barrier for investors (53% of respondents), as has been the case in recent years. Indeed, only one investor in Aotearoa NZ noted policy uncertainty as a key barrier. Risk/return considerations were highlighted by 57% of Australian respondents (NZ: 33%).

Chart 23: Policy advocacy undertaken



Note: this question featured in the 'long survey' only and was not compulsory. The graph above shows the percentage of the 19 respondents to this question that fell into each category.



ENDNOTES

Disclosure of Interests

David Lewis was employed at Milford Asset Management from 2012–Jun-2021 and retains a minor shareholding (<1%).

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