Ceres

Investor Climate Action Plans are Becoming a Norm

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37 of the largest 48 North American investors have made a net zero commitment and have elements of investor climate action plans to meet this commitment

As independent fiduciaries with an overarching duty to consider risk and return in the interests of their clients and beneficiaries, investors around the world have been focused on the material financial impacts of climate change to the companies they hold. Once they have identified the risks to their portfolios and the opportunities for investment in climate solutions in every asset class, they must develop their transition plans to address climate change as a multifaceted risk and opportunity. Transition plans are most effective in mitigating risk for industries and economies when they are publicly disclosed, since they send important signals to portfolio companies, policymakers, regulators, clients, beneficiaries and other investors.

With the European Union and the UK beginning to implement the Corporate Sustainability Reporting Directive the (CSRD) and the Transition Plan Taskforce (TPT) Disclosure Framework (which set expectations for transition plans), companies and investors doing business in those jurisdictions are preparing to disclose how their transition plans meet the stated goals of aligning with the Paris Agreement, achieving climate neutrality by 2050, and transparently disclosing their exposure to fossil fuel-related activities.

At the same time, the U.S. Treasury Department in 2023 issued its Net Zero Principles for Financing and Investment, which establish that financial institutions' net zero commitments should be in line with the goal of limiting the increase in the global average temperature to 1.5 degrees Celsius to avoid the worst impacts of climate change. Under the Treasury's principles, financial institutions that have made commitments to zero carbon emissions out of their lending portfolios and underwriting businesses should develop transition plans with clear practices, targets, and metrics. And they should support their clients and portfolio companies in adopting their own transition plans to mitigate risks and create meaningful growth opportunities. Net zero commitments are important because they demonstrate investors' commitment to address the financial risk of climate change.

To gauge how investors are responding to these expectations, and how investors are considering climate risk consistent with their fiduciary duty, Ceres reviewed publicly available climate disclosures made by four dozen of the world's largest and most influential North American investors to find elements of investors' actions for implementing these plans.

These 48 investors, with over $60 trillion in assets under management, represent more than half of global GDP and were chosen based on the Thinking Ahead Institute's annual list of the top global asset owners and asset managers.

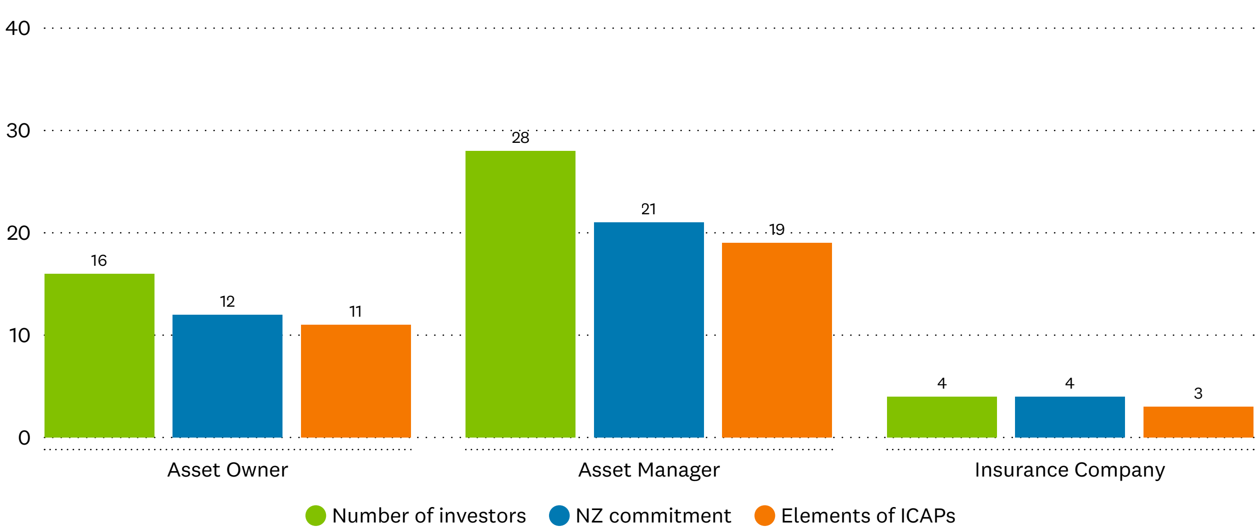
Key Findings

- **Ceres' review shows that 77% of investors have made a net zero commitment** to address portfolio climate risks and opportunities consistent with their fiduciary duties by supporting the goal of net zero greenhouse gas emissions by 2050 or sooner. Many investors articulated these commitments in their own words. But a third of the investors reviewed are signatories to one of the Glasgow Financial Alliance for Net Zero (GFANZ) sector-specific alliances—Net Zero Asset Managers, Paris Aligned Asset Owners, and the Net Zero Asset Owners Alliance.

- **Nearly 90% of investors who made a net zero commitment have elements of Investor Climate Action Plans (ICAPs) in place that demonstrate their progress towards their commitment.** While 15 of these investors have publicly disclosed a standalone transition plan, 18 others have articulated elements of a plan or multiple plans or policies consistent with the ICAPs Expectations Ladder (explained below).

- **Institutional investors are accelerating progress on all four focus areas of ICAPs—** investment, corporate engagement, policy advocacy, investor disclosure, along with governance of climate risks and opportunities.

Figure 1: Breakdown of investor sample by type of investors (Asset Owner, Asset Manager, Insurance) and how many investors under each investor type have made a net zero commitment and have elements of investor climate action plans.



Investor Climate Action Plans (ICAPs) outline the goals, actions, and accountability mechanisms an investor is taking (or preparing to take) to integrate climate risks and opportunities into its investments, operations, and strategic planning, in order to best serve the interest of their clients and beneficiaries.

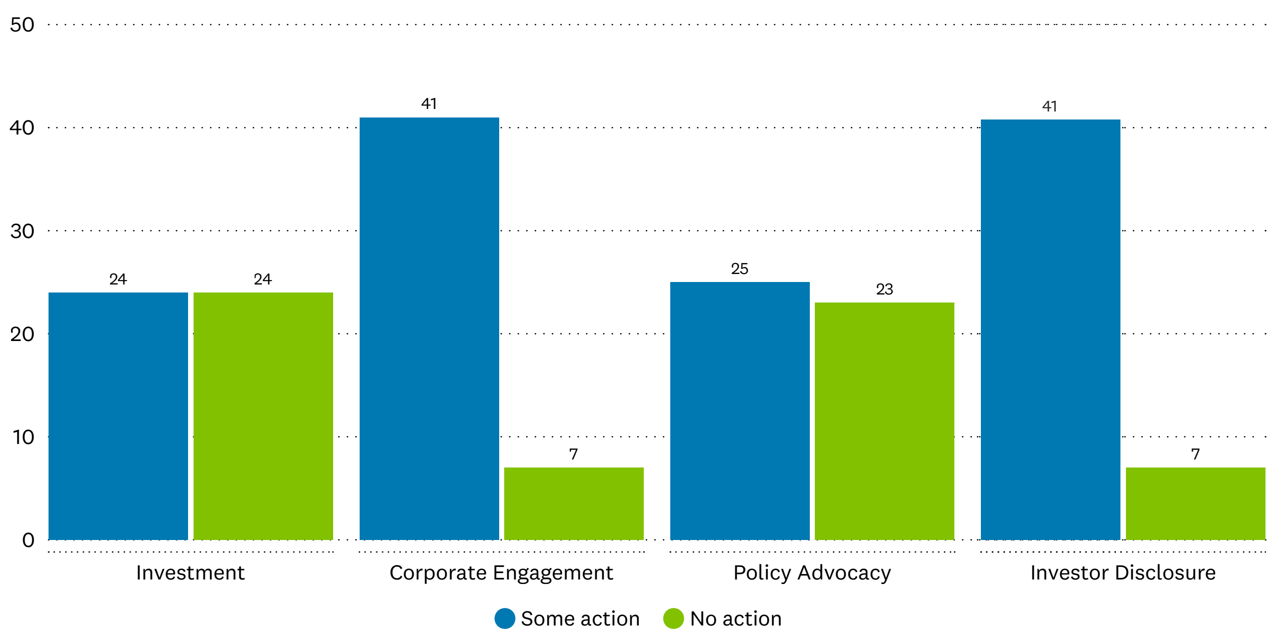
ICAPs help investors develop, issue, and execute robust climate strategies across four focus areas: investment, corporate engagement, policy advocacy, and investor disclosure, with an overarching theme of governance of climate risks and opportunities.

For those with net zero commitments, ICAPs are the accountability mechanism that demonstrates that their commitments will be implemented by robust actions. The ICAPs Expectations Ladder is consistent with the GFANZ Transition Plans guidance. For investors that have not yet made a net zero commitment, ICAPs show investors' clients, beneficiaries, and peers how the investors are starting to address climate change to minimize financial risk. For investors who will be subject to the EU's Corporate Sustainability Reporting Directive or the UK's Transition Plan Taskforce, these voluntary ICAPs will prepare them to meet the transition plan disclosure requirements.

The ICAPs Guidance and Expectations Ladder produced by the Investor Agenda provide investors with a useful framework for ensuring consistency, comparability, and decision-useful information for stakeholders. Across each of the ICAPs four focus areas, there are underlying sub-focus areas that outline recommended actions for investors. This tiered framework serves as a self-assessment tool, enabling investors to gauge their current standing and identify areas for further advancement. The ICAPs Expectations Ladder is not a disclosure requirement or recommendation but is instead a framework to support investors in developing their plans.

To assess how the world's largest investors are planning to address the financial risk caused by climate risks, translate their climate commitments into climate actions, and communicate that with stakeholders, Ceres' review of 48 investors focused on collecting data points which were chosen to be both representative of the four focus areas of the ICAPs framework and widely disclosed comparable formats.

Figure 2: Breakdown of the investors with some action vs no action under each focus area of ICAPs.



Investors are taking action within each of the four ICAP focus areas and governance

1. Investment

In line with their individual risk management goals, investors are working to protect their clients' and beneficiaries' portfolios by prioritizing decarbonization. 85% of the investors analyzed have either established a baseline carbon footprint for their portfolio or are assessing portfolio-level carbon exposure. 63% of investors have moved towards using advanced risk assessment-scenario analysis. However, only 13 of the investors who use scenario analysis published their risk assessments under a variety of global warming trajectories.

Transitioning portfolios to net zero requires managing systemic climate risks in investor portfolios and enabling the transition by shifting capital to value-creating businesses. To accomplish this, investors should consider 1) setting short- and long-term emissions reduction targets, 2) conducting a detailed climate risk assessment, 3) setting a climate strategy, and 4) building a climate friendly asset allocation across sectors and geographies.

The process of establishing climate action plans generally starts with investors assessing their exposure to climate-related risks and opportunities. Investors typically first begin at the portfolio level and engage with the management of the companies they are invested in and with individual fund managers (in case of asset owners) to integrate climate risk and opportunity metrics into reporting and strategies.

As part of the process of minimizing exposure to climate risk and shaping climate investment strategies or climate-aligned asset allocation, investors should consider increasing investments in low-carbon activities, clean energy, and nature-based solutions, while reducing investment in emissions intensive activities and engaging firms that have the strongest potential to transition rapidly to the low-carbon future.

Currently about half of the investors analyzed mention climate solutions and some sort of investments in green bonds, green assets, or transition assets. Others may be looking for climate solutions or other climate investment opportunities, but they have not articulated this strategy or investment targets in their Task Force on Climate-related Financial Disclosures (TCFD) reports or standalone investor climate action plans.

2. Corporate Engagement

The publicly disclosed plans of the investors we analyzed indicate that 81% conduct bilateral engagements with the companies they are invested in. And nearly half of the investors (44%) engage collaboratively, sharing public information, benchmarks, and industry analysis with peer investors by participating in initiatives such as Climate Action 100+ or other collaborative engagement efforts.

The ICAPs Expectations Ladder articulates tiers of corporate engagement activities, from beginning actions like establishing proxy voting policies and joining collaborative engagement initiatives to implementing escalation strategies, to ensure that all companies in the portfolio meet 1.5°C aligned sector-specific benchmarks, taxonomies, or thresholds.

Whether through bilateral or collaborative engagement initiatives, investors work independently with their portfolio companies to minimize climate risk by working on climate-related disclosures, climate governance processes, strategies for reducing carbon pollution, corporate transition action plans, capital expenditures, and climate-related targets. 85% of the investors analyzed address climate in their proxy voting strategy and consider this focus area as one of the most important levers to engage with and decarbonize investee companies.

3. Policy Advocacy

About half of the investors reviewed mention their advocacy plans or advocacy policies in their TCFD reports, or standalone investor climate action plans, and participate in one or more public policy initiatives. Among the 48 investors assessed, nine signed on to the 2022 Global Investor Statement to Governments on the Climate Crisis ahead of COP27, urging policy makers to adopt national policies to limit global warming to no more than 1.5°C to avoid the worst impacts of climate change and accelerate and scale up private capital flows needed to best serve their clients' portfolios. 22 of the investors reviewed submitted comment letters to the U.S. Securities and Exchange Commission in 2023 in support of rules to enhance and standardize climate-related disclosures by public companies.

4. Investor Disclosure

Most investors include their investor climate action plans in their TCFD reports. While investors are using a range of formats to disclose their climate action plans (including as part of sustainability reporting, a stand-alone transition plan, climate policies, or website updates), 85% of the investors reviewed have made public disclosures in alignment with the TCFD framework, the gold standard for climate risk disclosure that has gained widespread acceptance across jurisdictions and economic sectors. This makes investor disclosure the focus area where we've seen the most progress from investors. The IFRS Foundation has recently adopted the TCFD recommendations as part of its global disclosure standard.

Robust and comprehensive disclosures by investors enable clients, beneficiaries, and other stakeholders to understand how climate-related risks and opportunities are being assessed and managed by investors. These disclosures increase the demand for more consistent, comparable, and reliable disclosure of climate-related information, which then further enables market forces to drive the efficient allocation of capital and support planned net zero transition.

Most investors have published a TCFD report. Those who haven't published their own TCFD reports may have disclosed all of the elements of a TCFD report through the PRI reporting platform or the CDP Financial Services Questionnaire (both disclosure platforms have climate related questions modelled on the TCFD). For the third of reviewed investors who are part of global initiatives such as Net Zero Asset Managers, Net Zero Asset Owner Alliance, and Paris Aligned Asset Owners, the PRI annual report or the CDP questionnaire are required disclosures.

While this suggests widespread adoption of TCFD recommendations, it is important to note that TCFD requirements and ICAPs investor disclosure focus areas are similar but not identical. Investors seeking to report actions against the investor disclosure focus areas would need to ensure their climate activities are consistent with TCFD recommendations and have a special focus on activities that are forward looking, such as climate scenario planning, investment in climate solutions, or climate policy advocacy which may not be explicitly included in the TCFD framework.

Governance

Of the 48 investors reviewed, all 37 investors who made a net zero commitment have board-level oversight over their climate strategy and plans. Of the remaining 11, only two investors have board-level governance of their climate strategy and plans. That underscores their understanding that management of climate risks (and their net zero commitment as a strategy to address those risks) is a necessary element of the investor's fiduciary duty.

Despite progress there are still gaps that investors need to address

While there is a clear norm developing that investors will have climate action plans, not all the investors analyzed have publicly disclosed their plans. Ceres' analysis shows the most significant gaps are in the areas of investment and policy advocacy. Despite most investors saying they address climate risk in their portfolios, investors should consider conducting climate scenarios for both risk and investment opportunities and ultimately shape strategies and accountability mechanisms to complement such scenarios. Only a handful of investors use climate scenarios as part of strategic investment decision-making and just 50% of investors mention plans or strategies to invest in climate solutions.

One area that deserves particular attention is policy advocacy; nearly half of investors fail to identify any actions related to policy advocacy as part of their climate strategy and action. Since policy shifts will determine real economy progress on climate change, investors should consider including plans to engage with policymakers both at the national and international levels to combat the climate crisis.

About Ceres

Ceres is a nonprofit advocacy organization working to accelerate the transition to a cleaner, more just, and sustainable world. United under a shared vision, our powerful networks of investors and companies are proving sustainability is the bottom line—changing markets and sectors from the inside out. For more information, visit ceres.org.

Lead Authors

Dazzle Bhujwala, Senior Director, Ceres Investor Network

The Rev. Kirsten Spalding, Vice President, Ceres Investor Network

Contributing Authors

Kimberly Gladman, CFA, PH.D, Specialist, Climate Change, Principles for Responsible Investment

Emmy Tolsdorf, Associate, Ceres Investor Network

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Appendix

Methodology

This report began from a list of 48 North American organizations on a list of the world's top 100 investors compiled by the Thinking Ahead Institute in 2023; three organizations were replaced after research into organizational boundaries. We collected links for the investors published before April 30th, 2024. The resulting list of organizations in the sample can be seen below. For each organization, researchers collected the following data points, which were chosen to be both representative of the key areas of the ICAPS framework, and widely disclosed in comparable format.

Research questions

Investment

- Does the investor have a net zero commitment (by 2050 or sooner)
- Does the investor have a plan to decrease emissions via interim targets, or other detailed plans to decrease emissions in the different sectors of their portfolio?
- Is the investor part of NZAM/NZAOA/PAAO?
- Does the investor disclose that it considers climate as a financial risk?
- Does the investor disclose having conducted climate scenario analysis?
- Does the investor mention climate solutions (or green bonds, green assets, transition assets)?

Engagement

- Does the investor report participation in engagement initiatives with other investors on climate change (e.g., through CA 100+ or coalitions led by Ceres or ICCR)?
- Does the investor report bilateral engagement with specific investee companies or types of companies (e.g., top 10 highest emitters)?
- Does the investor publish a set of proxy voting guidelines that specifically mention climate?

Policy Advocacy

- Did the investor participate in the Global Investor Statement in 2021 or 2022?
- Did the investor submit a comment letter to the SEC in support of rules to enhance and standardize climate-related disclosures by public companies and in public offerings?
- Did the investor mention policy/regulation advocacy?

Disclosure

- Does the investor publish disclosures explaining multiple aspects of its approach to climate change as a financial issue, through a TCFD report, stewardship report, or climate change section of its website or standalone investor climate action plan or transition plan?

Governance

- Does the investor have board-level oversight of climate issues?

Organizations

1. Affiliated Managers Group
2. Alliance Bernstein
3. AON
4. BlackRock
5. BNY Mellon
6. British Columbia Investment
7. Brookfield Asset Management
8. California Public Employees' Retirement System
9. California State Teachers' Retirement System
10. Canada Pension Plan
11. Capital Group
12. CDPQ
13. Charles Schwab Investment
14. Columbia Threadneedle Investments
15. Dimensional Fund Advisors
16. Federal Retirement Thrift
17. Federated Hermes
18. Fidelity Investments
19. Florida Retirement System
20. Franklin Templeton
21. Geode Capital Management
22. Goldman Sachs Group
23. Invesco
24. JPMorganChase
25. KKR
26. Manulife Investment Management
27. MassMutual
28. Mercer
29. MetLife Investment Management
30. Morgan Stanley
31. New York City Employees' Retirement System
32. New York Life Investments
33. New York State Common Retirement Fund
34. New York State Teachers' Retirement System
35. Northern Trust
36. Nuveen
37. Ontario Teachers' Pension Plan
38. PGIM
39. Power Corporation of Canada
40. Public Sector Pension Investment Board
41. RBC Global Asset Management
42. State Street Global Advisors
43. Sun Life Financial
44. T. Rowe Price
45. Teacher Retirement System of Texas
46. Vanguard
47. Washington State Investment Board
48. Wellington Management