



# Net Zero: From commitment to implementation

November 2022

273 asset managers around the world, representing \$61.3 trillion in assets under management (AUM)<sup>1</sup>, have committed to transitioning their portfolios to net zero emissions by 2050, as part of the Net Zero Asset Managers initiative (NZAM).

Two years on from the launch of NZAM, there is growing scrutiny of whether these commitments are backed up by robust implementation strategies in investment portfolios. Here we set out how Columbia Threadneedle Investments is working to implement its own commitment to transition relevant portfolios in a systematic and meaningful way to deliver for our clients.

## What does net zero mean for investors?

As a signatory to the NZAM initiative, we aspire to reach net zero emissions by 2050 or sooner across all assets under management, working in partnership with our clients.

Part of the NZAM approach is that asset managers can commit, over time, an increasing share of their assets under

management (AUM) to be managed in line with reaching net zero greenhouse gas emissions by 2050. This is to allow for the continued development of implementation methodologies and ongoing discussions and alignment with clients, bearing in mind the diverse starting points and investment objectives of different client portfolios. Managers' initial progress reports need to include an initial figure for the AUM being managed in line with the attainment of net zero emissions, and much attention has focused on this figure as a measure of success.

However, more recently we have seen attention move to the actual implementation strategies adopted by investors. This mirrors a shift we have seen in engagement with corporate issuers, where investor focus had been on the adoption of net zero targets but has now shifted to assessing how these will be achieved.

<sup>1</sup> As of October 2022

### What makes for a robust net zero implementation plan?

Methodologies and approaches to net zero implementation are still evolving. Several approaches have been developed, which we see as healthy innovation on a rapidly emerging issue, but it does create the potential for confusion. In some asset classes, such as sovereign bonds, net zero methodologies are still under development. The result is asset managers disclosing widely varying percentages of net zero aligned assets, which can often be difficult to compare. It's clear that this is a challenge our industry will need to address.

In our view, there are three key questions to ask which can help clients cut through this confusion and allow for a genuine comparison of the quality of net zero implementation plans by asset managers.

### Is the initial AUM target aspirational or based on implementation?

The first point to make is that when assessing the approaches by different asset managers, there is a difference in interpretation in relation to the declared aligned AUM targets. Some managers set these on a more aspirational basis, and others – including Columbia Threadneedle – disclose figures that reflect actual and current implementation.

In our initial disclosure, made in NZAM's most recent report (November 2022), we are clear that we are only counting assets as net zero aligned once we have analysed each portfolio individually, assessed implications and expected outcomes, and undertaken a thorough governance and approval process, which has included regulators and clients (including fund boards) where appropriate.

It is also worth noting that our net zero aligned AUM figure currently excludes most of our segregated mandates, which represent a significant proportion of our assets. A key principle of the NZAM is partnership with clients, and we expect our assets committed in this area to grow as we work with clients to understand their own net zero objectives.

### What methodology is being used?

NZAM recognises three net zero methodologies: the Net Zero Investment Framework, Science-based Targets for Financial Institutions, and Net Zero Asset Owner Alliance Target Setting Protocol. Other approaches also can be used – examples include Implied Temperature Rise, and the EU Paris-aligned Benchmark.

Different methodologies all have their merits, but are not always directly comparable, so care is needed in interpretation. Given the relatively nascent state of development, transparency on chosen methodologies is critical.

We are using the Net Zero Investment Framework as a basis for our approach on equities and corporate bonds – a methodology we helped to develop. A key factor in our decision was its focus on stewardship and real-world change. Our approach

systematically ranks companies on their net zero targets and implementation, with a goal for 70% of financed emissions intensity at portfolio level to be either aligned or under engagement, as recommended by the Framework.

In contrast, we see a risk that methodologies heavily focused on screening for portfolio-level emissions targets could encourage a reallocation of capital away from emissions-intensive sectors – just at a time when companies within these sectors who wish to make reductions in their emissions over a period of time need capital from shareholders to finance their low-carbon transition.

Across other asset classes, our net zero approach for real estate uses Carbon Risk Real Estate Monitor (CRREM) science-based targets, and we are working on other methodologies as industry best practice evolves.

### At what level is the methodology being implemented?

The NZAM Disclosure Reports show that some methodologies are being implemented at asset class level (for instance, applying to all equities), and some at individual portfolio level. At Columbia Threadneedle, we have taken the latter approach, with all net zero analysis and commitments being made in relation to specific portfolios in partnership with our clients.

As such, 7.36% of our overall AUM, or approximately \$43.5 billion, is now being managed in line with reaching net zero carbon emissions by 2050 or sooner. The figure represents 72 pooled funds and segregated mandates invested in the equity, corporate debt and UK real estate asset classes. Out of these, 45 are pooled funds managed for clients in the UK and Europe, which represents 31% of our OEIC and 65% of our SICAV fund range assets.

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Our experience is that the process of analysing portfolios, discussing expected outcomes, and working to implement stewardship strategies specific to individual portfolios has led to a much deeper level of engagement across the firm than an asset class-level approach might have achieved.

We complement this approach with a firm-level engagement focus list, where the goal is to work constructively with globally significant high-emitting companies to encourage them to align with a net zero trajectory. Those failing to meet minimum standards despite intensive engagement may be reviewed to see if they are still suitable to be held in portfolios adopting a net zero approach.

### **Our commitment to transparency**

Effective communication with our clients and stakeholders has always been important to us, but when it comes to net zero, it's essential. We understand that clients have questions about what alignment with net zero means for their portfolios, and it is important to be mindful of the investment objectives of our existing mandates.

We have published a paper setting out our methodology and approach to implementation<sup>2</sup>, and will report on the progress we make in aligning portfolios. We will also disclose which portfolios are in scope once we have received regulatory and client approvals and notified shareholders in the case of investment funds.

At Columbia Threadneedle, we are committed to delivering long-term financial returns for our clients, which includes managing


the risks and opportunities presented by climate change and supporting a constructive transition to a low-carbon economy. We believe that supporting real world carbon emissions reductions requires a well-researched and rigorous approach to stewardship with the issuers we invest in, underpinned by the principles of partnership with clients and transparency on our progress towards net zero emissions across the different portfolios we manage around the world.

These are the cornerstones of our path to net zero and we look forward partnering with our clients on this important journey.

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<sup>2</sup> [Net Zero Investing - Columbia Threadneedle Investments Approach.pdf](#)

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