

Net Zero Endowments

TO ADDRESS THE CLIMATE CRISIS & LEAD A JUST TRANSITION

This briefing paper aims to provide endowment decision makers and their service providers with an introductory, high-level overview of net zero portfolio commitments:

- 👉 What does it mean to have a net zero commitment?
- 👉 What does it entail to make and implement such a commitment?
- 👉 What are the key resources, initiatives, and groups involved in the space?

References to detailed guides; and additional resources on the various aspects of implementing a net zero commitment will be developed as follow-up resources to this briefing.

WHAT IS A NET ZERO PORTFOLIO COMMITMENT?

A Net Zero Portfolio commitment is a pledge to transition the investment portfolio to net-zero greenhouse gas (GHG) emissions by 2050 or sooner. This means that the companies and other assets held in the portfolio are reducing emissions towards zero in their own operations. Investors account for the GHG emissions based on the percentage they own of the companies and assets in the portfolio to create an aggregate portfolio carbon footprint. Targets are then established for reducing that carbon footprint to net zero. Carbon offsets may be used at the company and portfolio level, but should only be used after reducing direct emissions to the extent possible, and should be relied on less over time as direct emissions are reduced.

[The Net Zero Asset Owners Alliance](#) offers the following definition: *“In the portfolio context, transition means that asset owners commit to gradually reducing the overall emissions contained in their portfolio to be aligned with the Paris Agreement (Art. 2.1c). In doing so, they assist, incentivise and*

require portfolio companies to embark on ‘decarbonisation’ pathways of a scale and pace consistent with a 1.5°C objective of the Paris Agreement. Once these companies start to transition towards low-carbon business models, the asset owner will automatically see its portfolio ‘decarbonise’ as well.”

Intermediate targets: These targets consider the best available scientific knowledge, including the findings of the IPCC, and regular reporting on progress, including establishing intermediate targets every five years in line with Paris Agreement Article 4.9. Ambitious targets for 2025 and 2030, in particular, are important to ensure credibility and efficacy of net zero commitments. Most frameworks require 2030 targets to be consistent with a fair share of the 50% reduction of global carbon emissions by 2030.

Just transition: Social equity is central to addressing the climate crisis. Marginalized communities, disproportionately communities of color, are often the most vulnerable to climate impacts. Jobs for workers in the fossil fuel industry and heavy emitting sectors need to be protected and transitioned to jobs aligned to a net zero future. As investors

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increasingly focus on issues of diversity, equity and inclusion (DEI) and racial justice in the investment process, there are opportunities and benefits to integrating this work with net zero commitments. To ensure an equitable and just transition, climate solutions must ensure all communities are protected, have decision-making power regarding the pathways to net zero alignment for their community, and have opportunities to benefit from the transition to a new economy.

ENGAGEMENT: Engagement is central to net zero commitments on three levels. (1) **Shareholder engagement** directly with companies is a powerful tool for driving corporate action to reduce emissions and adjust business models; (2) For most endowments, **engaging with external managers** is required to ensure that a just transition is central to their investment process and engagement with companies; and (3) **Engaging on policy** issues is important to ensure a policy environment that drives the shift to a low-carbon economy with a level playing field.

WHY SHOULD ENDOWMENTS MAKE THE COMMITMENT?

Transformative action is imperative to address the climate crisis. There are several motivating factors for endowments to commit to a net zero portfolio:

PORTFOLIO LEVEL: Preparing one's portfolio for this transition **can reduce risk and enhance financial performance**, by reducing stranded asset risk (e.g. the risk that fossil fuel companies' reserves will be stranded, dramatically reducing value) and transition risk (e.g. carbon pricing reducing the value of unprepared, high-emitting companies).

SYSTEMS LEVEL: Climate change and associated social equity challenges are systemic risks that will increasingly impact the macroeconomic context and all portfolio holdings.

MISSION ALIGNMENT: Endowments are designed to support purpose-driven, nonprofit institutions. Regardless of the institutions' specific mission, the overarching mission shared by all nonprofits -- for which they enjoy tax-exempt status in the US -- is to improve society. Runaway climate change and extreme inequality will undermine that mission, and therefore it is appropriate and essential for institutions to leverage all of their assets to reduce these risks.

Investor commitments to net zero send strong signals to the market, focusing attention, and accelerating action by companies to reduce emissions and in some cases rethink business models. Particularly in the lead up to the COP26 international climate negotiations in November of 2021, these commitments demonstrate the broad support needed for governments to increase the ambition of their commitments to align with science and climate justice priorities.

Several endowments have made net zero commitments to date, including Harvard, Stanford, Michigan, UPenn, Arizona State, Sydney, Oxford, and Cambridge. An updated list of commitments by endowments are maintained and accessible via: www.intentionalendowments.org/net_zero_endowments

HOW CAN ENDOWMENTS COMMIT TO NET ZERO?

There is a growing suite of tools, frameworks, and initiatives designed to support asset owners in committing to net zero.

- **RACE TO ZERO CAMPAIGN**, part of the UNFCCC, secures net zero commitments from cities, regions, investors, businesses, and higher education institutions to build momentum around the shift to a decarbonized economy ahead of COP26. They have developed [Criteria for Participation](#) (Version 2.0, June 2020); and [Interpretation Guide](#), (Version 1.0, April 2021 from the Race To Zero Expert Peer Review Group) that provide a standard for credible net zero commitments.

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- **NET ZERO ASSET OWNERS ALLIANCE**, developed by UNEP-FI and PRI, is an international group of investors committed to net zero. The Alliance has a [Commitment Document](#) that outlines requirements for participation and a [Target Setting Protocol](#) for asset owners in establishing interim targets on the path to net zero.
- **NET ZERO ASSET MANAGERS INITIATIVE**, is an international group of asset managers committed to working with asset owner clients to achieve net zero.
- **INVESTOR CLIMATE ACTION PLANS** (ICAPs) are a key component of a net zero commitment. The Investor Agenda group has developed an [Expectations Ladder](#) for investors that lays out four ‘tiers’ of climate action, and the accompanying [Guidance on using the Expectations Ladder](#).
- **PARIS ALIGNED INVESTMENT INITIATIVE** (PAII) was established by the Institutional Investors Group on Climate Change (IIGCC). It has its own [asset owner commitment](#), and developed the [Net Zero Investment Framework](#), which proposes key components of a net zero investment strategy, focused on (1) decarbonizing portfolios; and (2) investing in climate solutions.
- **NET ZERO INVESTMENT FRAMEWORK** outlines steps investors should take around the following categories: (1) Governance and Strategy, (2) Targets and Objectives, (3) Strategic Asset Allocation, (4) Asset Class Alignment: Sovereign Bonds, Listed Equity, Corporate Fixed Income, and Real Estate, (5) Policy Advocacy and Market Engagement, and (6) Recommended Disclosures
- **SCIENCE BASED TARGETS INITIATIVE** (SBTi) defines and promotes best practice in emissions reductions and net-zero targets in line with climate science to help companies ensure their targets are credible.
- **CLIMATE ACTION 100+** is an investor-led initiative to ensure the world’s largest corporate greenhouse gas emitters take necessary action on climate change through collective shareholder engagement.

ENSURING AN EQUITABLE & JUST TRANSITION TO NET ZERO

There is a growing suite of tools and resources focused on diversity, equity, inclusion and racial justice into the investment process, that can be applied and integrated with an approach to net zero:

- **RACIAL DISPARITIES AND CLIMATE CHANGE**, provides an overview of environmental racism and environmental justice, written by members of the Princeton Student Climate Initiative.
- **INVESTING IN RACIAL EQUITY: A PRIMER FOR COLLEGE & UNIVERSITY ENDOWMENTS**, includes 12 action steps endowments can take to assess and improve their approach to DEI in the investment process.
- **DIVERSE ASSET MANAGERS INITIATIVE** (DAMI) supports institutional investors in allocating to diverse managers, and published the [Fiduciary Guide to Investing with Diverse Asset Managers and Firms](#). Signatories of the [Due Diligence 2.0](#) commitment pledge to shift their due diligence process to catalyze the movement of capital to BIPOC managers.
- **THE JUST TRANSITION PROJECT** at the Initiative for Responsible Investing (IRI) provides research on the social dimensions of climate action, including [Climate Change and the Just Transition: a guide for investor action](#).
- **ADDRESSING CAPITAL’S EFFECTS ON RACIAL JUSTICE** published by Transform Finance provides a framework for investing to advance racial justice.

IEN'S NET ZERO ENDOWMENTS INITIATIVE

IEN's Net Zero Endowments initiative convenes and supports endowments in: Learning about Net Zero Portfolios; Making commitments to net zero portfolios; and Participating in shareholder engagement efforts to get portfolio companies onto decarbonization pathways aligned with the 1.5 degree C warming target.

The initiative is led by a diverse [Steering Committee](#) of endowments, investment consultants, managers, data providers, Outsourced CIOs, and nonprofit partners. Endowments are encouraged to join the initiative immediately to accelerate their learning and action on an equitable and just approach to a net zero commitment. A Net Zero commitment is not required to participate, and there is no cost to join. Visit our website below to see the Steering Committee members and endowments committed to net zero portfolios to date.

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