

## Meeting net zero and portfolio return targets at the same time

Some investors are successfully implementing net zero strategies while also maintaining strong, risk-adjusted returns, but the path has been challenging at times, and constantly changing.

Leilani Weier, Head of Responsible Investment & Sustainability, Rest Super, said their impetus to adopt net zero began with a recognition that around half of Rest's members were under the age of 30, and it was that cohort who would bear the brunt of the impacts of climate change.

"They're retiring into that world that you're thinking about right now," she said. "And so, it was quite a simple process to think about that world and think through our scenario analysis."

Rest's modelling showed that a 30-year-old member would be better off if Rest adopted a net zero 2050 target based on expected returns. The fund created its first climate change roadmap around 2020, which included goals such as tracking its portfolio exposure to carbon and increasing commitments to renewable solutions.

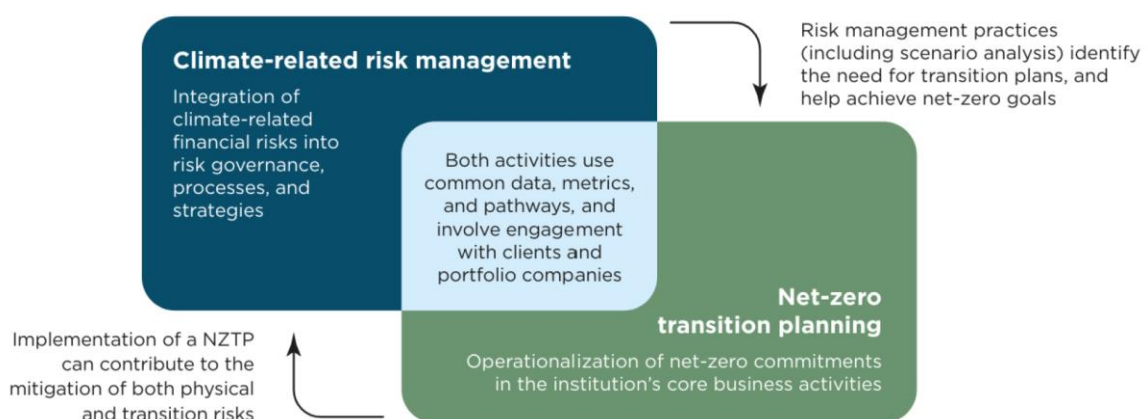
"We also set a 1 per cent target to impact investing, which was actually quite a big deal at the time because impact investing – even four years ago – was not as common as it is today."

Rest today has five impact investments in its portfolio. It made its [first impact investment in the listed equities asset class](#) with global investment manager Ninety One this year. "There's no compromise with finance returns. If anything, we're adding to the Fund's diversification in our portfolio." Rest considers any benchmark-relative risk arising from its climate approach as part of its portfolio risk-budgeting approach.

Weier said an early challenge was ensuring the entire investment management team was aligned with the same net zero philosophy, as well as getting the buy-in of its fund managers.

"Over the last five years, I can genuinely say the challenges we had with some of our investment managers in the early days, we simply don't have now because you need to have investment managers that are philosophically aligned to what we are trying to do and having those right conversations."

### Net zero transition plans (NZTPs) have a real-world impact objective



Source: IIGCC

Deirdre Cooper, Head of Sustainable Equity, Ninety One (United Kingdom) outlined strategies investors could take, including:

- Solutions: Investing in assets and technologies that will drive net zero.
- Transition: Investing in assets that require capital to transition.

- Engagement: Engaging with high emitters to improve their alignment with a net zero transition.
- Alignment: Investing in companies or assets that are more aligned with or contribute to a net zero transition.

Investors needed to appreciate that a net zero strategy didn't just involve reducing their portfolio's carbon 'footprint' by shifting allocations away from carbon-intensive companies.

"That approach hasn't changed real world emissions and remember our starting question was, 'What can we do as asset managers to help that journey to net zero?' so just moving around the weights in our portfolio isn't helping that journey."

It also requires tracking several metrics to measure progress as part of a net zero transition plan, such as carbon avoided (by the use of certain products), and alignment measures (the proportion of companies with science-based targets and credible transition plans).

Over the coming years, Weier said there was plenty of regulatory change ahead which would present new challenges for the responsible investment teams at asset owners.

"Be kind to them through this process because it is sometimes a little bit like feeling you're in a washing machine, trying to make sure you're steering the organisation in the right direction to make those very, very significant commitments."

Frontier strongly encourages all asset owners to draw on the lived experiences of net zero investors like Rest Super and Ninety One. By sharing these lessons, there is reason for optimism that every investor can contribute meaningfully to the global mission to achieve net zero, and thereby avoid the existential threat posed by climate change. We emphasise the importance of ensuring collective buy-in of purpose, both within your organisation and from counterparties, without which a net zero strategy is made more difficult.

**Frontier supports asset owners on their net zero journey including training, target setting, portfolio implementation and measuring progress. Frontier is a signatory to the Net Zero Investment Consultants Initiative. Contact Joey Alcock, Head of Responsible Investment, Frontier Advisors, at [jalcock@frontieradvisors.com.au](mailto:jalcock@frontieradvisors.com.au) for more information.**