

# Session 4: Meeting net zero and portfolio return targets at the same time

2024 Frontier Advisors Annual Conference

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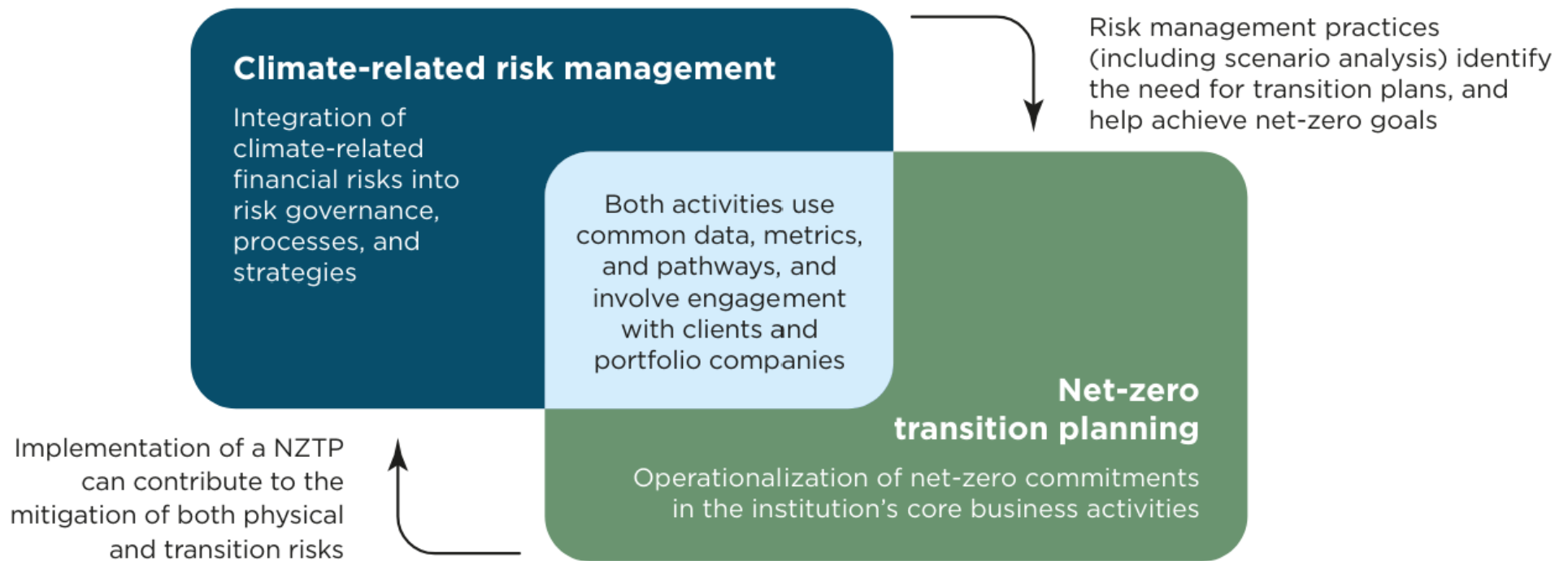


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# Contextualising net zero investing

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



Source: IIGCC



# Net-zero investing

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# Primary contribution purpose, targets and metrics under the microscope

## Primary contribution purpose

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### Solutions

Allocating capital directly to assets and technologies that are already at net zero or enable net zero in other parts of the economy.

### Transition

Allocating capital directly to assets that require capital to transition or enable the transition in other parts of the economy.

### Engage to align

Engaging high emitters to improve alignment performance to support a net-zero transition.

### Allocate to align

Positive inclusion to direct investment towards assets that are more aligned or contribute to a net-zero transition e.g. more aligned companies.

### Optimise given constraints

Where investors are required to be invested in certain assets for performance or regulatory reasons (e.g. LDI) these components should aim to identify marginal opportunities to deliver the above contribution strategies and manage any increasing transition risk by minimising investments in assets that cannot be aligned to a net-zero pathway to the extent possible.



# Primary contribution purpose, targets and metrics under the microscope

## Metrics

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### Carbon avoided

Emissions avoided by the use of a product that has less carbon emissions than the status quo.

### Asset alignment maturity

Proportion of companies with science-based targets and credible transition plans.

### Carbon risk

Absolute emissions owned by the portfolio, carbon footprint and carbon intensity.

### Carbon reduced

Investments in companies or countries that are reducing emissions with a credible trajectory to net zero.

### Engagement coverage

Proportion of emissions covered by strategic engagements to influence carbon reductions.



# Primary contribution purpose, targets and metrics under the microscope

## Target types

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### Increasing AUM Allocation

- Climate solutions
- Transition investing

### Portfolio coverage target

(% of financed emissions that are aligning)

- Proportion of emissions covered by strategic
- engagements to influence carbon reductions.



# The problems and solutions with net-zero investing

Current approaches to net zero investing constrain returns and limit impact

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## Problems

A focus on reducing portfolio financed emissions can:

- Drive decarbonisation on paper not in the real economy
- Incentivise exclusions thereby limiting the investment universe

Excluding high emitting companies and countries:

- Removes capital from where impact is needed the most
- Ignores market segments with significant return opportunity

Net-zero target frameworks focus on decarbonisation:

- Risking failure to invest sufficiently in net-zero technologies
- Limiting benefits from structural tailwinds behind climate solutions

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## Solutions

Focus on financing reduced emissions

Engage high emitters to influence transition plans

Recognise that net-zero pathways differ for sectors and regions

Invest at the scale required in transition and climate solutions to achieve decarbonisation

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From reducing financed emissions (in the portfolio) to financing reduced emissions (in the real economy)



## Reframing the challenge

How can investors contribute towards driving global emissions towards net zero and achieve strong risk adjusted returns?

### Maximise impact

By investing in assets which deliver greatest reduced or avoided emissions, and using the most effective levers of impactful engagement and active capital allocation

### Optimise returns

By avoiding restrictions that aren't helping deliver impact, and securing structural growth opportunities from the transition

### Manage risk

By avoiding increasing or exacerbating transition risks and by avoiding sectoral or regional concentration

## Questions to address:

- How do we rethink Strategic Asset Allocation to address financing emissions reductions?
- What strategies are best able to maximise impact while optimising return?
- What is the relative contribution that different asset classes can make towards net zero, while optimising returns?
- How do we measure contribution and use relevant targets and metrics for different components within a net-zero aligned portfolio?
- How do we reframe existing mandates and define new mandates to deliver on these objectives?





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# Final thoughts - sharing is caring

A global low carbon transition can only occur if contributors are widespread

- Investors already implementing NZTPs share learnings
- Progress to date is your call to action
- Frontier supports your net zero journey including training, target setting, portfolio implementation and measuring progress





# Thank you for joining us.

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