Net Zero Investment Consultants Initiative (NZICI): Guidance and Q&A

Overview of what investment consultants do and their role in achieving net zero emissions

Investment consultants provide investment advice services to asset owners to help them achieve their objectives. Investment consultants advise pension funds, endowments, foundations, sovereign wealth funds, insurers, family offices, private wealth clients and other types of asset owners. Investment consultants advise in accordance with relevant laws and regulations and act in the best interests of their clients.

Independent investment advice is critical for asset owners. It helps them gain an external perspective and supplement their own internal resources. The main types of investment consulting services are provided to asset owners in the following areas:

- Investment beliefs
- Risk management
- Investment policies
- Asset allocation
- Portfolio construction
- Asset manager selection
- Monitoring

Investment consultants provide strategic advice to their clients to help them achieve their investment objectives, subject to their investment beliefs, responsible investment policies and risk parameters. They will advise clients on asset allocation (eg equities vs bonds vs alternatives) and implementation (eg active management vs passive index).

Investment consultants do not research individual securities but rather help their clients select the most suitable asset management firms to implement their strategies. As such, investment consultants are the critical link between asset owners and asset managers. They provide education and analysis to asset owners and provide guidance to asset managers about product design based on their knowledge of asset owners' needs. In real world terms, investment consultants bring together multiple asset owners and multiple asset managers to encourage innovation and help create new investment solutions.

Investment consultants provide their advice either on a non-discretionary basis where asset owners take all decisions or on a discretionary basis where asset owners delegate most or part of their decision-making power to an investment consultant. Some investment consultants provide only non-discretionary advice, others only discretionary services, and some provide a combination of both.

On a global basis, investment consultants are responsible for advising their clients on the investment of trillions of dollars of capital. How this capital is invested and applied to influence real-world action will be key to whether society is able to achieve the global goal of net zero emissions by 2050 or sooner. This commitment directly addresses the urgent need for coordinated action on climate change. Good governance and the social factors for a just transition are also integral to the successful achievement of net zero.

Investment consultants also have some direct emissions from their offices and employee travel. While important, these emissions are relatively small compared to the impact that investment consultants can have through their advice.

Guide to the real-life application of the nine commitments

Our Net Zero Commitment applies to our: investment advisory services, fully discretionary services, and our own business operations.

This commitment is made in the context of our legal and fiduciary duties to clients and unless otherwise prohibited by applicable law. It is subject to the mandates agreed with our clients and their regulatory environments.

With respect to our investment advisory services, we commit to:

1. **Integrate advice on net zero alignment into all our investment consulting services as soon as practically possible and within two years of making this commitment**

This commitment fundamentally shifts the role of investment consultants in putting forward net zero aligned investment options to all asset owners. Asset owners often do not appreciate that they have an enormous impact on the global economy and climate change through their choices of investments. This commitment requires investment consultants to take a proactive stance in advising their clients on net zero alignment.

To achieve this, signatories will integrate advice on net zero alignment into all investment consulting services which would entail:

- Working with clients to help them develop their understanding of the real world and financial implications of climate change and articulate their investment beliefs in this area
- Facilitating clients' understanding of risks and opportunities associated with climate change and decarbonization of the global economy
- Helping clients reflect net zero alignment in their asset allocation and portfolio construction decisions
- Helping clients select asset managers and design products that provide better alignment with net zero
- Provide monitoring services that demonstrate the current state and progress towards net zero alignment.

In doing so, signatories will have to build up internal capabilities and adjust their internal processes in a way that offers net zero alignment across the entire investment consultancy business, often servicing thousands of different asset owners.

The deadline set to achieve this is two years. This is an ambitious goal, whose success should transform the way in which net zero investment options are embedded into investment advice across the industry.

2. **Work with our institutional asset owner clients to identify the investment risks from climate change, highlight the importance of net zero alignment and, where applicable, support our clients in developing policies that align their portfolios to a net zero pathway**

The crucial step in addressing climate change through capital allocation decisions is for asset owners to develop climate policies which clearly identify the risks and opportunities that climate change poses to their investments. Investment consultants can unlock this opportunity by being proactive in helping their clients to put in place investment beliefs and policies that incorporate net zero considerations. Many asset owners may still believe that addressing climate change is more of a moral rather than investment decision which would conflict with their fiduciary duties. Signatories will provide investment advice that combines the ambition of net zero alignment with that of investment risk and return implications.

As an example, most institutional portfolios are currently invested in a way that is aligned to an implied temperature rise of roughly 4°C above pre-industrial levels. Signatories will work with their clients to help them understand the implications of this portfolio positioning and work through options of how this could be improved from a risk-return perspective. Some of the key powers that asset owners can exercise are disinvestment, mandate design, engagement and new investment in climate solutions. Once asset owners understand the impact of climate change and its relevance to their portfolio, investment consultants can take it further by helping them develop a climate strategy and objectives, and facilitate the implementation and monitoring of changes over time to support the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C.

3. **Support efforts to decarbonize the global economy by helping our clients prioritize real economy emissions reductions, reflecting the target of 50% global emissions reduction by 2030 or sooner using existing decarbonization methodologies**

The way asset owners set targets and measure emissions could have significant implications for investment decisions and hence real economy outcomes. Having consistent methodologies is crucial and hence signatories' advice to asset owners will be anchored to the existing methodologies developed by the UN-Convened Net-Zero Asset Owner Alliance, Paris Aligned Investment Initiative and Science Based Targets initiative.

Another vital consideration is the prioritization of real economy emissions reductions over reducing emissions in investment portfolios. In theory, asset owners can quickly decarbonize through disinvestments from carbon intensive businesses but divesting these carbon intensive assets may not necessarily have the highest likelihood of a successful transition to a global low carbon economy. Quick decarbonization of investment portfolios may be counterproductive both from a financial perspective and from a perspective of contributing to real world outcomes. Understanding how to better measure real world outcomes is an evolving field. Signatories will contribute to developing better methodologies and metrics in this area and continue to integrate these evolving standards in their investment consulting services.

Given the findings of the IPCC Sixth Assessment Report which provides an up-to-date view of physical climate science, the focus on interim targets and emissions reductions within the next few years is becoming increasingly important. Signatories will support their clients in developing the understanding of various timeframes and aligning with the interim targets of 50% global emissions reduction by 2030 or sooner.

4. **Assess and monitor asset managers on the integration of climate risks and opportunities in their investment decisions and stewardship and reflect this evaluation in our client recommendations**

Investment consultants play an influential role in assessing asset management firms on behalf of their clients and can influence how asset management firms evolve based on the requirements in their assessment. Signatories will encourage asset managers to:

- integrate climate practices into their investment decisions
- disclose methodologies on the assessment of carbon exposure in their portfolios
- improve climate-related reporting and data availability
- step up voting and engagement practices with underlying businesses
- encourage asset managers to become signatories to the Net Zero Asset Managers Initiative.

Signatories will be prepared to exclude fund recommendations because the asset manager lacks appropriate climate competency or because the fund is not aligned with the Paris Agreement goals.

With respect to our fully discretionary services, we will:

5. **Align with the Net Zero Asset Managers Initiative as soon as practically possible and within two years of making this commitment**

Fully discretionary services of investment consultants are considered similar to the services of asset managers where investment consultants have the authority to take decisions within the mandates set by their asset owner clients. The difference is that investment consultants invest in asset managers on behalf of their clients while asset managers invest in underlying securities. Considering these similarities, signatories will align their discretionary services with the framework of the Net Zero Asset Managers Initiative.

With respect to our own business operations, we will:

6. **Set emissions reduction targets across all our operational emissions in line with 1.5°C scenarios**

Signatories will set emissions reductions targets across all their operational emissions in line with achieving global net zero emissions by 2050 or sooner and anchored to the SBTi framework for operational emissions. These targets are expected to cover the organization's Scope 1 and 2 emissions and to include an interim target for the level of emissions reductions achieved by 2030. This includes the situation where the investment consultant business is part of a larger organization.

Within the wider financial community, we will:

7. **Where suitable net zero methodologies do not exist, work collaboratively for the benefit of our clients to address these challenges, seeking harmonized methodologies**

Many of the methodologies for net zero alignment are at a nascent stage with imperfect data points and lack of coverage for asset classes like private debt, derivatives and cash. Signatories will seek cohesion with the rest of the investment community – including asset owners, asset managers, index providers and data providers – to provide actionable solutions to advancing net zero goals.

8. **Engage, independently or as a group, with regulators and policymakers, to facilitate the transition to net zero carbon emissions, addressing any barriers to our clients adopting and achieving their net zero targets**

This commitment is made in the expectation that governments will follow through on their commitments to ensure the objectives of the Paris Agreement are met, but the private sector needs to play its part in driving forward the transition to net zero. To achieve these ambitious objectives, collaboration across the industry is critically important. Signatories will engage with regulators and policymakers to share practical experience and help address any barriers to the investment industry adopting and achieving net zero targets.

To ensure accountability, we will:

9. **Report progress by our firm against the commitments made here at least annually in the public domain.**

Signatories will report publicly on actions being taken and their progress against interim and long-term targets, at least annually. To the extent possible, signatories will report via platforms that feed into the UNFCCC Global Climate Action Portal, such as Principles for Responsible Investment (PRI) reports. The specific reporting framework will be developed collectively by signatories in partnership with the PRI, Race to Zero and other relevant organizations.

Net Zero Investment Consultants Initiative Questions and Answers ("Q&A")

This Q&A provides further details of the nine commitments made under the Net Zero Investment Consultants Initiative. It is a guide for prospective signatories and other interested parties to the Initiative and the commitments. Each signatory should consider this guide in determining their implementation of their commitments, but it is non-binding and as such it is not intended to extend their commitments.

What is the Net Zero Investment Consultants Initiative?

The Net Zero Investment Consultants Initiative (NZICI) is a global group of investment consulting firms committed to supporting the goal of global net zero greenhouse gas emissions by 2050 or sooner, in line with the ambition to limit the global average temperature increase to 1.5°C above pre-industrial levels. Signatories recognize significant financial risks associated with climate change and the transition to a net zero and resilient economy. These include, but are not limited to, the risk of stranded assets and loss of earnings for organizations with operations not aligned with this transition, as well as increased weather events, such as flooding, droughts or the consequences of sea level rise. Signatories have committed to support their clients on this journey.

The initiative will be managed globally by the Investment Consultants Sustainability Working Group represented by both UK and US consulting firms and Principles for Responsible Investment (PRI). In turn, the initiative is endorsed by the Race to Zero Campaign.

Who are the signatories?

The signatories are a range of investment consulting firms from around the world who are all committed to support the goal of net zero greenhouse gas emissions by 2050 or sooner. Our twelve signatories to date advise on over USD 10 trillion of assets.

What does a signatory commit to?

A signatory commits to nine actions which support the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°Celsius. Please see the commitment in full here.

Why do we need the Net Zero Investment Consultants Initiative?

In line with the best available science on the impacts of climate change, signatories acknowledge that there is an urgent need to accelerate the transition towards global net zero emissions. On a global basis, investment consultants are responsible for advising their clients on the investment of trillions of dollars of capital. How this capital is invested will be key to whether or not we are able to achieve the global goal of net zero emissions by 2050 or sooner.

The initiative is designed to enable and accelerate the role that investment consultants play in advising their clients on net zero alignment to help deliver the goals of the Paris Agreement and ensure a just transition to a net zero and resilient economy. Signatories will also work actively with asset managers to improve their climate competence and encourage the asset management industry to play its role in the global transition to a net zero economy.

How will the Net Zero Investment Consultants Initiative effect change?

The Net Zero Investment Consultants Initiative sets out nine actions that investment consultants will take forward to support the goal of global net zero greenhouse gas emissions by 2050 or sooner. The principal actions include investment consultants integrating advice on net zero alignment into all their investment consulting services and supporting efforts to decarbonize the global economy by helping their clients to prioritize real economy emissions reductions, reflecting the target of 50% global emissions reduction by 2030 or sooner. These actions will effect change when carried out at the scale of signatories' assets under advice.

How is the Net Zero Investment Consultants Initiative different from other net zero investment initiatives?

Net Zero Investment Consultants Initiative is the only global initiative specifically focused on investment consultants and their advice to clients on aligning with net zero. This initiative is endorsed by the Race to Zero Campaign and supported by the Principles for Responsible Investment (PRI) who will provide the governance and reporting framework for this initiative. Signatories will collaborate with each other and other stakeholders via such initiatives so that investors have access to best practice, robust science-based approaches and methodologies, and improved data, through which to deliver on these commitments.

How does this go beyond what investment consultants are already doing?

Several investment consultants have already taken actions that relate to this initiative. However, the Net Zero Investment Consultants Initiative is a step change. It encourages more investment consultants to take action and, for those already taking action, it accelerates and increases the action being taken with their clients. Signatories will have to report on their actions at least annually in the public domain, bringing transparency and accountability for following through on their commitments.

How are you going to support the global transition to net zero if you do not have discretion to manage assets on behalf of your clients?

This commitment recognizes that investment consultants provide non-discretionary investment advice to asset owners and acknowledges that signatories' ability to meet this commitment depends on the mandates agreed with their clients and regulatory environments. Signatories will integrate advice on net zero alignment in their investment consulting services. Signatories will provide net zero advice because they believe that the financial consequences of not achieving net zero are substantially adverse. Therefore, signatories believe it is consistent with their fiduciary responsibilities to advise in this way. Where there are barriers to the investment industry adopting and achieving net zero targets, signatories will engage, independently or as a group, with regulators and policymakers to challenge and seek to overcome these barriers.

Signatories understand that some clients may not share their view that it is necessary or appropriate to manage their assets in line with the net zero goal. Nevertheless, signatories will help those clients understand and identify the investment risks from climate change and highlight the importance of net zero alignment. Ultimately, advisory clients will determine their own path.

Are you going to manage your discretionary mandates in line with this net zero commitment?

Yes, signatories will adopt net zero objectives in those client portfolios that they manage in full discretion and align with the Net Zero Asset Managers Initiative.

Does this commitment align with your clients' fiduciary responsibility towards their stakeholders?

Signatories believe that this commitment is fully aligned with their clients' fiduciary responsibility towards their stakeholders. Climate change presents both financial risks and opportunities and should be managed as such. A thoughtful approach to managing the climate-related risks and opportunities of clients' assets and an active stance on stewardship will lead to better risk-adjusted returns for clients and their stakeholders which is within the scope of their fiduciary obligations. Indeed, signatories believe that the financial consequences of not achieving net zero are substantially adverse, including increased asset stranding, market volatility and drawdowns.

Shouldn't governments be leading on this type of initiative?

This commitment is made in the expectation that governments will follow through on their commitments to ensure the objectives of the Paris Agreement are met, but signatories are also very aware that the private sector needs to play its part in driving forward the transition to net zero.

Isn't 2050 too far away?

It is a long way away, so signatories will support efforts to decarbonize the global economy by helping their clients to prioritize real economy emission reductions, reflecting the target of 50% global emissions reduction from 2010 levels by 2030 or sooner, as identified by the IPCC special report on global warming of 1.5°C.

Does this mean that you will recommend your clients to divest from carbon intensive businesses?

The commitment aims to ensure signatories provide their clients with investment advice which is aligned with net zero goals. This does not necessarily mean signatories will recommend their clients to divest carbon intensive businesses. Engagement and stewardship are key levers to deploy in order to ensure carbon intensive businesses develop transition plans in line with net zero goals and may have more impact on real economy emissions than simply divesting. Signatories will encourage good stewardship and engagement throughout the investment value chain and emphasize the importance of strong stewardship capabilities in their asset manager assessments.

How will your assessment of asset managers change as a result of this commitment?

Signatories will assess asset managers on the integration of climate risks and opportunities in their investment decisions and stewardship and reflect this evaluation in client recommendations. As part of this, signatories may encourage asset managers to:

- integrate climate practices into their investment decisions;
- disclose methodologies on the assessment of carbon exposure in their portfolios;
- improve climate-related reporting and data availability;
- step up voting and engagement practices with underlying businesses; and
- encourage asset managers to become signatories to the Net Zero Asset Managers initiative.

Signatories will be prepared to exclude fund recommendations because the asset manager lacks appropriate climate competency or because the fund is not aligned with the Paris Agreement goals.

How is this initiative connected with other net zero initiatives?

The Net Zero Investment Consultants Initiative shares an ambition with the UN-Convened Net-Zero Asset Owner Alliance and the Net Zero Asset Managers initiative. We expect to work in partnership with signatories of other net zero initiatives. The Net Zero Investment Consultants Initiative is accredited by the UN Race to Zero campaign and is a member of the Glasgow Financial Alliance for Net Zero (GFANZ). In line with the GFANZ's requirements, signatories will use science-based net zero guidelines in their investment advice, cover all emissions scopes in their reporting, include 2030 interim targets in their investment advice and commit to transparent reporting in line with the UN Race to Zero criteria.

Which methodology are you planning to use to help your clients set interim targets?

The initiative is 'methodology neutral' in that investment consultants may choose an appropriate methodology to help their clients set their targets. Signatories recognize the three target setting approaches below:

- Paris Aligned Investment Initiative Net Zero Investment Framework
- Science Based Targets Initiative for Financial Institutions
- Net Zero Asset Owner Alliance Target Setting Protocol.

Where suitable methodologies do not exist, signatories will support efforts to address these challenges and develop suitable methodologies including through collaboration with the organizations listed above. If signatories use a substantially different methodology in their advice, they should explain the rationale in their annual disclosure and reporting, including how their alternative methodology is sufficiently rigorous and consistent with the target setting commitment.

Which baseline are you going to advise your clients to adopt for calculating the reduction in their emissions for interim targets?

The baseline will differ by clients depending on their mandates and data availability. Signatories' advice on the baseline and timeframes will generally be consistent with the three target-setting frameworks named above and the UNFCCC Race to Zero criteria.

What scope of emissions should the investment consultants account for in their advice to clients on net zero?

Advice and reporting should cover all greenhouse gas emissions, including Scope 3 emissions where these are material to total emissions and where data availability allows them to be measured sufficiently.

How will you ensure that your climate advice to clients continues to reflect the latest thinking in the climate science, data and methodologies?

Signatories will recommend their clients regularly review interim targets to ensure their portfolios are aligned with the trajectory of the net zero transition of the global economy and reflect the latest thinking in terms of climate science, scenarios, data and methodologies. Signatories expect this to be done at least every three years. Signatories will also regularly report publicly on how their advice evolves to reflect the changing landscape in this area.

How will you advise your clients on the role of carbon offsets in achieving their net zero commitment?

Recognizing the finite availability of offsets from land use and the need to rapidly decarbonize all activities within sectors to the extent possible, it is generally accepted that investors should not allow the use of external carbon offsets as a significant long-term strategy for achievement of decarbonization goals by assets in their portfolios, except where there is no technologically or financially viable solution. Based on this, signatories will advise their clients that carbon offsets should be reserved for emissions that occur because there are no technologically and/or financially viable ways to eliminate emissions. The role of offsets is expected to be primarily to neutralize residual emissions, enabling clients to attain the state of net zero emissions in their portfolios.

How are you going to approach developing new benchmarks that are better aligned with the net zero transition?

Signatories will encourage the development of climate benchmarks that incorporate specific objectives related to greenhouse gas emissions reductions and the transition to a low carbon economy – based on the scientific evidence of the IPCC – through the selection and weighting of underlying components. Signatories will encourage wider adoption of climate benchmarks as a default in their clients' portfolios. Signatories will also work with regulatory bodies in different geographies to help improve regulatory standards for climate benchmarks.

How will this initiative ensure that its signatories comply with the commitments made?

Signatories will report publicly on actions being taken and their progress against interim and long-term targets, at least annually. To the extent possible, signatories will report via platforms that feed into the UNFCCC Global Climate Action Portal, such as Principles for Responsible Investment (PRI) reports.

How are you going to reconcile this commitment with conflicting obligations you may face when complying with the requirements of client mandates or applicable regulation?

This commitment is made in the context of signatories' legal duties to clients and unless otherwise prohibited by applicable law. Signatories acknowledge that their ability to meet this commitment depends on the mandates agreed with clients and their regulatory environments. Where signatories' ability to align their approach with the net zero commitment is constrained today, they will challenge and seek to overcome the constraints.

Are your organization's own business operations aligned with net zero?

Signatories will set emissions reductions targets across all their operational emissions in line with achieving global net zero emissions by 2050 or sooner. These targets are expected to cover the organization's Scope 1 and 2 emissions and to include an interim target for the level of emissions reductions achieved by 2030. This includes the situation where the investment consultant business is part of a larger organization.

Are you going to increase the level of resources dedicated to this area as part of your commitment?

Yes, signatories will invest in the specialist resources dedicated to this area and provide all investment consultant colleagues with regular and appropriate climate-specific training by both internal and external experts.

Will this commitment be reflected in individual objectives of investment consultants?

Yes, performance assessments of signatories' relevant investment consultants and senior leaders will be aligned with helping clients achieve their climate-related objectives where appropriate.

What about other sustainability issues?

Signatories remain committed to addressing a range of environmental, social and governance issues. This commitment directly addresses the urgent need for coordinated action on climate change. It is not at the expense of other sustainability issues. Indeed, good governance and the social factors for a just transition are integral to the successful achievement of net zero.