



# Achieving net-zero:

## How to build a net-zero strategy

There's broad agreement that the world must undergo systemic change to protect the natural world, societies and economy from climate change.

But embedding this idea into your pension fund is no easy task, not least because of the complexity that surrounds climate change and the many moving parts in a LGPS portfolio.

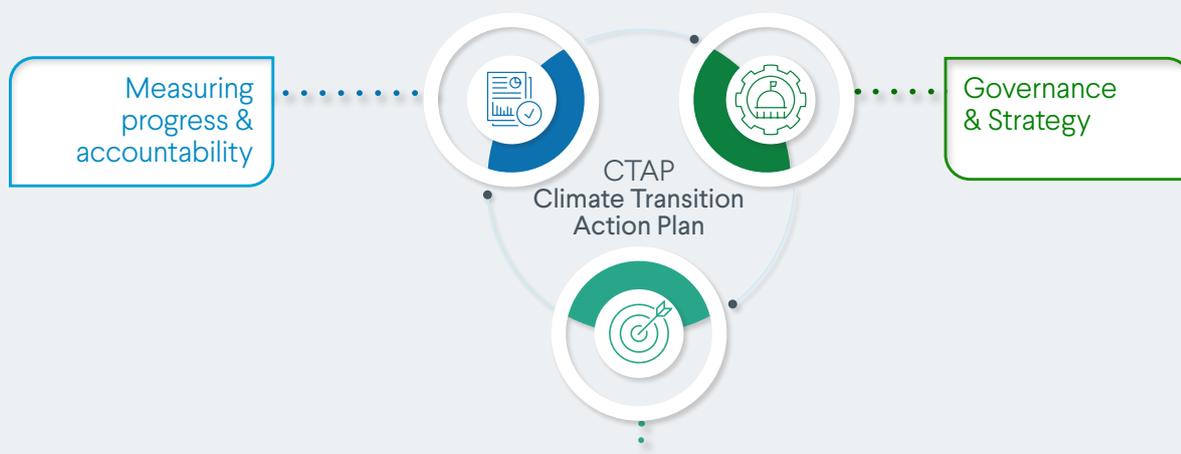
It's also natural to be hesitant about committing to a net-zero target until you're sure it's credible and achievable.

And there are members to consider - it's important to feel in command of the subject and able to answer their questions about carbon emissions.

So, how can you go about setting a credible net-zero strategy? It all starts with a climate transition action plan - translating your climate ambitions into measurable actions on policy, strategy and stewardship.

### The benefits of your climate transition action plan

- Your net-zero target date will reflect the views of all your stakeholders
- Your plan will articulate what you're trying to achieve, the steps you're taking and why
- Framed in plain English with clear goals and outcomes, your plan can be shared with members as part of your discussions with them
- Both fund and mandate-level targets will be clearly defined



Targets and actions:

 Portfolio emissions	 Climate solutions	 Asset alignment	 Engagement
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Your plan will include targets and actions in four key areas: **portfolio emissions, climate solutions, asset alignment** and **engagement**. Let's now explore those in more depth.



### Portfolio emissions

Firstly, think about the targets that you'll set for your overall portfolio's emissions and the most appropriate metrics to measure progress against these emissions targets. You should also consider the asset classes in your portfolio that fall under these targets and the scope of emissions for subsequent actions and targets, (ie scopes, 1, 2 and 3 emissions).



### Climate solutions/ opportunities

Decide priority areas of focus for investment opportunities. These could focus on carbon reduction or carbon removal or be part of wider areas that are linked to net-zero, such as nature and social factor asset allocations.



### Asset-level alignment

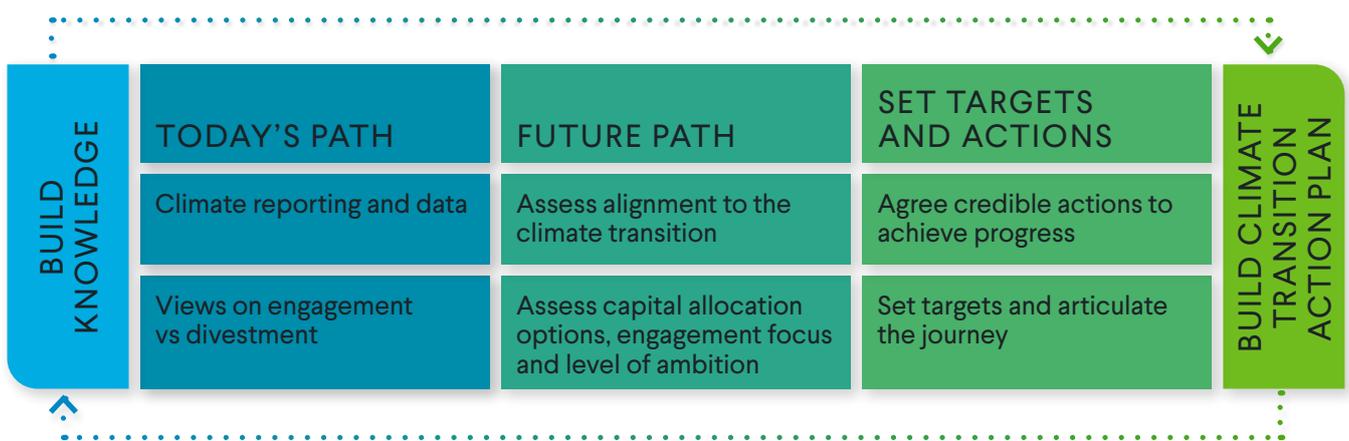
Be aware of how your net-zero objective will be affected by portfolio companies of the funds in which you invest. How do portfolio companies reduce their own carbon emissions as a whole and across their value chain? This should be taken into account to ensure that the assets within your portfolio align with your net-zero objective.



### Engagement

Ensure that you are acting within your sphere of influence, by engaging with asset managers and other relevant parties by clearly setting out your expectations and pushing them to take action.

## The building blocks you need to build a credible net-zero plan



## Here we outline five essential steps to building a credible plan, and how you can get started:

### 1 Build your knowledge

The journey to net-zero starts with education. Education and training should be ongoing throughout this process. It's important that you, as decision makers, have a solid understanding of climate risks and net-zero to lay the foundation for developing a robust net-zero strategy and climate-transition action plan. Workshop sessions can be a really effective way to do this, allowing for discussion and consensus-building.

### 2 Understand your baseline

Net-zero goals encourage you to reduce the carbon emissions owned or financed by your investment strategy. Knowing your portfolio's starting point is crucial when building a comprehensive net-zero strategy.

Typical assessments will show your current carbon emissions profile today, considering metrics such as your carbon footprint and absolute emissions. You'll also want to understand your direct or indirect exposure to the fossil fuel industry and define your exposure to climate solutions.

Comparing against baseline measures will often show progress, however it won't show the full picture. You'll also need to shift focus to the future, i.e. assessing the progress of your strategies against net-zero goals and pathways to ensure alignment with your ambitions. A key focus here is placed on forward-looking metrics by assessing the portfolio's alignment with net-zero and assessing the levers that can improve that alignment and accelerate the net-zero strategy.

### 3 Use the levers at your disposal to drive change

After assessing your baseline, it's important to think about improving your journey over time and how to be most effective as an asset owner. There are two main levers – capital allocation and stewardship – both of which you can use to build an effective net-zero strategy:

- **Capital allocation** – explore how your capital-allocation strategy and mandate changes could put your investments on a better path, or even how to accelerate the journey. Two strategic areas to consider here are reducing emissions or removing emissions from your portfolio.
- **Stewardship** – establish engagement priorities and identify targets that will help to inform engagement activity with your asset managers and hold them accountable.



**4****Set targets and actions**

Clear objectives and credible but ambitious milestones need to be set. These, and supporting actions, should focus on emissions reductions, alignment improvement, climate solution investment opportunities, and engagement activity.

Then clearly articulate your net-zero journey and strategy, including the reasoning for your targets, to effectively communicate them to stakeholders. Include your position on the synergies with nature and social factors and the actions you want to take on these important areas, such as prioritising biodiversity loss as an engagement theme or allocating capital to nature-based solutions. For social factors, the just transition could be an engagement theme of focus.

Your plan should detail how you intend to drive change and achieve your goals in line with your objectives. This includes targets and actions across the areas of portfolio emissions, climate solutions, asset-class alignment and engagement, as well as the rationale, beliefs and processes taken to establish these commitments.

**5****Monitor, report, and evolve**

Measuring, assessing, and reporting progress against targets and objectives is essential to achieving net-zero. Implementing a net-zero strategy is a dynamic and iterative process and your plan reflects this, by providing an initial basis to assess and monitor progress against that strategy. Therefore, regularly reviewing and evolving your plan to adapt to changes in government responses, market developments, and improvements in data will be essential for a robust plan. Annual reviews of progress against targets and objectives, alongside periodic reviews of the economic, regulatory, and investment backdrop are necessary to address risks and opportunities.

# Ready to get started?

Building a net-zero strategy and climate transition action plan is a significant undertaking, requiring a structured approach and ongoing commitment. By following these five steps- building knowledge, understanding your baseline, using levers of change, setting targets and actions, and monitoring, reporting, and evolving- you can make meaningful progress towards reducing your carbon footprint, achieving your net-zero ambitions and contributing to a sustainable future.

Over the last three years, we've helped over 30 clients to build a net-zero strategy, committing over £1bn to real asset strategies that will have meaningful climate impact.

*This is the first in a series of articles to help you understand and set a credible strategy in order to achieve net-zero. Look out for more over the coming months as we explore each of these steps in more detail.*

## Contact us

We have the skills and resources to help you explore all these areas. Please get in touch if you'd like to discuss how to investigate natural capital as an investment opportunity in your asset portfolio.

[Get in touch](#)



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