

The Net Zero Investment Consultants Initiative

Interim report

November 2022



Climate change is a strategic imperative for our firm. Our vision of a net-zero carbon future includes a pledge to offset our historic carbon emissions dating back to 1921, be carbon neutral from 2021 and halve our carbon footprint by 2025. As part of the Net Zero Climate Initiative, we support the goal of global net-zero greenhouse gas emissions by 2050 or sooner, in alignment with the objectives of the Paris Agreement.

This report outlines the progress we have made in each of the initiative's nine areas of action, and offers a case study demonstrating the work we did to analyse a client's progress towards its net-zero goals.

Our progress

COMMITMENT ONE



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.

Earlier in 2022, we established a Net Zero Working Group (NZWG) with representatives across the business focused on delivering our consulting commitment. Through this group, we have established our beliefs on what 'good' net zero looks like, drawing on external frameworks and our existing climate beliefs and communicated this to key stakeholders within the firm.

We also continue our climate training programme for all consulting staff across our actuarial, investment and insurance businesses covering subjects such as policy development, scenario analysis, climate metrics and investment considerations. Training sessions are available to all at any time through our training hub.

COMMITMENT TWO



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.

We have started working with several clients to set net-zero targets and policies and to develop and implement strategies. We have created a [five-step approach](#) to help frame our consulting. Under each step, we have built up precedent material and case studies to support our consultants, which are available to all via our dedicated net-zero hub.

Consultants assess their clients at least once a year to establish where they are on their net-zero journey and assess the progress being made. For those that are not yet committed to net zero, we try to identify the barriers and provide support through the NZWG. Our most recent assessment was completed in August 2022.

Our proprietary asset-liability modelling includes climate scenario stress tests for use in funding and investment strategy advice. We have also worked to develop our modelling capability to help set and assess the progress of clients' strategies against net-zero goals. Using a carbon budgeting approach, we draw on third-party data to consider whether the strategy is aligned with clients' own net-zero ambitions, highlighting the magnitude of deviation. We are currently working on further modelling enhancements and have recently appointed an internal Climate Change Analytics Lead who will drive these efforts.



COMMITMENT THREE



Support efforts to decarbonise the global economy by helping our clients prioritise real economy emissions reductions, reflecting the target of 50% global emissions reduction by 2030 or sooner using existing decarbonisation methodologies.

Our modelling approach and reporting help our clients assess how aligned they are with a net-zero target. This approach encourages real-world change and a 'best in class' mindset, where individual holdings are compared with their direct peers within sectors and geographies.

This is preferable to disinvestment from the highest-emitting sectors, which remain vital to the economy and to achieve a successful transition. We also focus on opportunities for our clients in climate solutions investments, and our research team continues to build the range of solutions that we take to clients. Nature-based solutions are a current area of focus for our research team.

COMMITMENT FOUR



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.

We have updated our manager assessment framework to integrate climate change and net-zero considerations. We are developing our view on the credibility of stated ambitions by asset class and will use this to determine best-in-class products.

We have undertaken and published research on the availability of climate data within private market mandates. We have used, and continue to use, this as a basis for engagement with managers and challenged the asset management community to improve its approach.

COMMITMENT FIVE



Align with the Net Zero Asset Manager Initiative as soon as practically possible and within two years of making this commitment

We do not offer fully discretionary services to consulting clients. Our Hymans Robertson Investment Services (HRIS) business is not within the scope of the NZICI.

COMMITMENT SIX



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

Our climate pledge is a major commitment from the firm and includes a commitment to reduce our core 2019/20 carbon footprint of 1988 tCO₂e by 50% by 2025. We have also committed to offset our core lifetime carbon emissions of 33,800 tCO₂e by 2025 to achieve a lifetime net-zero position. Our advisers use a Science Based Targets methodology in the assessment of our emissions and reduction targets and we are currently working to incorporate our supply chain and working-from-home emissions. We have published [an update](#) on the progress we have made.

COMMITMENT SEVEN



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

We collaborate on climate issues through our membership of the Investment Consultants Sustainability Working Group and have collaborated with other industry groups, including the Institute and Faculty of Actuaries and ACA. Working with the Net Zero Climate Initiative, we collectively responded to the GFANZ PAT consultation in order to steer this toward what we believe to be more practical for clients. As a firm, we responded separately to this as well, reiterating the NZICI view as we were very much aligned.



COMMITMENT EIGHT



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.

We've engaged with regulators on the need for climate-scenario analysis in reporting by asset managers and the use of different portfolio alignment metrics. We also discussed policy development and positioning with different regulators, particularly focusing on the desire for a consistent approach. Over the last 18 months, we've also had engagements with or responded to consultations from industry bodies, including the Financial Conduct Authority, Department of Work and Pensions, Securities and Exchange Commission and Institute and Faculty of Actuaries.

We've also supported broader policy advocacy by our clients. For example, we encouraged clients to sign the 2021 Investor Agenda Statements to Governments on the climate crisis and will be writing to clients when the 2022 statement is formally launched. Our own pension fund also supported this initiative.

In July 2021, we launched our [Climate Impact Initiative](#) focused on the defined contribution market to ensure all members, regardless of the size of their scheme, can gain access to a climate-impact option. Our goal is to address this mismatch by creating the demand for pension providers to make available a climate option for members. We collaborated with one of our clients on this initiative, getting the support of both Pensions for Purpose and the Impact Investing Institute in the launch. We continue to explore avenues for collaborating on climate issues with others across the industry.

COMMITMENT NINE



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

This is the first report we have produced, but we commit to publishing a report every year.

CASE STUDY

Tools and reporting to help assess and design a client's net-zero strategy

Our client had already achieved its interim target of 50% reduction in Weighted Average Carbon Intensity (WACI) measured against a market benchmark. To help inform what this meant in absolute emissions terms and how on track the client was for its pre-2050 net-zero target for the whole portfolio, we carried out a forward-looking assessment. This helped to establish the scale of what is still needed for the portfolio to reach a true net-zero position, looking at scope 1, 2 and 3 emissions.

Focusing on the period up to 2030 and the level of commitments in place for the underlying assets, we identified engagement priorities for the client both between and within mandates. We also used this assessment to inform discussion on alternative strategies, including the consideration of climate impact solutions that provide additionality in terms of avoided emissions. Our client has allocated a portion of the assets to such investments and is looking to increase this.

The outcome of our forward-looking analysis is that the client, while meeting its current interim target early, understands the magnitude of work still needed in order to achieve its net-zero target. However, it is also understood that while the client can push ahead as much as possible with its portfolio, the ability to meet its net-zero target will also rely on global progress more generally.

To achieve net zero and do so in a real-world context, simply reducing exposure to high-emitting assets will not solve this and so engagement, collaboration and opportunities in climate solutions will be the client's primary focus.