Transitioning to a Net Zero Investment Policy – A Primer for the Not-For-Profit Sector.

Doug Sumner. September 2024

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Transitioning to Net Zero

Introduction

In a rapidly changing world where the consequences of climate change are becoming ever more visible, not-for-profits hold a unique and vital position in leading the charge toward a sustainable future. Transitioning to net-zero investing is not just a matter of environmental stewardship; it's a profound expression of purpose and values. By aligning investment strategies with the goal of a net-zero economy, not-for-profits can ensure that their financial resources drive not only positive returns but also transformative, global impact. As organizations committed to social good, this transition represents a compelling opportunity to match mission with action, paving the way for a more just, resilient, and thriving world.

Transitioning a Not-For-Profit's investment portfolio to net zero involves strategic adjustments and a reasonable timeframe to achieve sustainable and carbon-neutral outcomes. The following sets out how a Not-For-Profit can approach this transition. It also considers global guidelines and standards to help you make best practice decisions and provides guidance on including Net Zero into your Investment Policy

Transitioning to Net Zero – A Plan

1. Establish Clear Net Zero Goals

- Set explicit, science-based net zero targets, aligned with the Paris Agreement's goal of limiting global warming to 1.5°C.
- Define the scope of emissions: focus on reducing Scope 1, 2, and 3 emissions (direct, indirect, and value-chain emissions).
- Develop interim targets (e.g., reducing emissions by 50% by 2030) to track progress.

2. Conduct a Baseline Assessment

- Evaluate the current carbon footprint of the portfolio, including direct holdings, mutual funds, and other assets.
- Assess sectors with high carbon emissions and those with strong transition potential.

3. Adjust Investment Strategy

- **Divestment from High-Carbon Assets:**



  - Gradually divest from fossil fuels and other carbon-intensive industries.
  - Reallocate funds to companies with credible transition plans, renewable energy projects, and green infrastructure.

- **Engage in Active Ownership:**
  - Use shareholder influence to encourage portfolio companies to adopt net zero strategies.
  - Engage with asset managers to ensure alignment with the Not-For-Profit's net zero goals.
- **Increase Allocation to Green Investments:**
  - Allocate capital to renewable energy, sustainable agriculture, energy efficiency projects, and companies with strong ESG (Environmental, Social, and Governance) performance.
- **Invest in Climate Solutions:**
  - Consider investments in innovative solutions like carbon capture, sustainable forestry, and circular economy ventures.
- **Integrate ESG and Climate Risk Factors:**
  - Embed ESG criteria and climate risk assessments into all investment decisions to align with net zero objectives.

4. Choose a Realistic Timeframe

- A 2050 net zero target is standard, but charities can set a more ambitious timeline, such as 2040 or even earlier, depending on the scale of current emissions and available resources.
- Establish shorter-term milestones, such as reducing emissions by 25% by 2025 and 50% by 2030, to ensure measurable progress.
- Regularly review and update targets based on changing regulations, market conditions, and technological advancements.

5. Monitor and Report Progress

- Implement transparent reporting to track progress toward net zero.
- Use standardized frameworks like the Task Force on Climate-related Financial Disclosures (TCFD) to disclose risks, opportunities, and progress.
- Share reports with stakeholders, donors, and the public to demonstrate accountability and build trust.

6. Collaborate with Peers and Industry Initiatives

- Join collaborative efforts like the Net Zero Asset Managers Initiative or the Institutional Investors Group on Climate Change (IIGCC).
- Engage in industry discussions to refine strategies, share best practices, and amplify the impact of the transition.

Key Considerations:

- **Maintain Financial Returns:** The transition should not compromise the Not-For-Profit's ability to generate returns to support its mission.
- **Manage Transition Risks:** Be aware of risks like stranded assets, regulatory changes, and market shifts.
- **Adapt to Evolving Standards:** As ESG and net zero standards evolve, adjust strategies to meet emerging best practices.

By gradually shifting capital, enhancing ESG integration, and engaging actively with investees, a Not-For-Profit can align its portfolio with a sustainable, net zero future while fulfilling its financial and philanthropic goals.

Global Guidelines and Initiatives

As a Not-For-Profit transition its investment portfolio toward net-zero emissions, it should consider several global guidelines and initiatives to ensure alignment with best practices and international standards. Key among these are: (click on the link for more details).

1. UN Principles for Responsible Investment (PRI)

The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact. It provides a framework for integrating environmental, social, and governance (ESG) considerations into investment decision-making. By becoming a signatory, an investment manager commits to adopting and implementing the PRI's six principles, which include incorporating ESG issues into investment analysis and ownership policies. Link:

UN Principles for Responsible Investment

2. Net Zero Investment Framework (NZIF)

Developed by the Institutional Investors Group on Climate Change (IIGCC), NZIF offers a comprehensive guide for investors to align their portfolios with the goal of net-zero emissions by 2050. It outlines recommended actions, metrics, and methodologies

across various asset classes. Adopting NZIF can assist a Not-For-Profit in setting clear targets and implementing strategies for decarbonizing its investment portfolio. Link:

IIGCC

3. IFRS Sustainability Standards

Taking over the work by the now disbanded Task Force on Climate Related Disclosure the standards for recommendations for climate-related financial risk disclosures. Implementing these guidelines enables a Not-For-Profit to transparently report on how climate risks and opportunities are managed within its investment portfolio, enhancing stakeholder trust and demonstrating accountability. Link

IFRS

4. ISO Net Zero Guidelines

The International Organization for Standardization (ISO) has developed guidelines to assist organizations in achieving net-zero emissions. These guidelines offer a structured approach to measuring, reducing, and reporting greenhouse gas emissions. For a Not-For-Profit, adopting these standards can provide a clear pathway to net-zero, ensuring that its investment strategies are robust and credible.

ISO

5. Global Investor Statement on Climate Change

This statement, supported by over 500 investors managing more than $29 trillion in assets, urges governments to implement policies that facilitate the transition to a low-carbon economy. By endorsing this statement, a Not-For-Profit aligns itself with a global coalition advocating for climate action, reinforcing its commitment to sustainable investment practices.

Reuters

Implications and Adoption Strategies:

- **Alignment with Global Standards:** Adopting these guidelines ensures that the Not-For-Profit's investment practices are in line with international efforts to combat climate change, enhancing its reputation and operational effectiveness.
- **Structured Approach to Net Zero:** Frameworks like NZIF and ISO provide step-by-step guidance, helping the Not-For-Profit to systematically reduce emissions and achieve its net-zero targets.
- **Transparency and Reporting:** Implementing IFRS recommendations facilitates clear communication of the Not-For-Profit's climate strategies and progress, meeting the growing stakeholder demand for transparency.



Recommended Actions:

1. **Conduct a Gap Analysis:** Assess current investment policies against these global standards to identify areas for improvement.
2. **Develop an Action Plan:** Create a detailed strategy to address identified gaps, with specific timelines and responsibilities.
3. **Engage Stakeholders:** Communicate with donors, beneficiaries, and the public about the Not-For-Profit's commitment to these standards and its progress toward net-zero.
4. **Monitor and Review:** Regularly assess the effectiveness of implemented strategies and adjust as necessary to stay aligned with evolving global standards.

By integrating these global guidelines into its investment strategy, a Not-For-Profit not only contributes to the global effort to mitigate climate change but also upholds its fiduciary duty by managing risks and opportunities associated with the transition to a sustainable, net-zero economy.

Adjusting your Investment Policy



To ensure the transition to net zero is clearly reflected in your Investment Policy Statement (IPS), the document should be updated to incorporate specific language, objectives, and guidelines that align with net zero principles. Here's how to structure these updates:

1. Mission Alignment and Investment Philosophy

- **Add a Mission Statement:** Include a commitment to aligning the investment strategy with your mission, emphasizing the goal of contributing to a sustainable, low-carbon future.
- **Articulate Sustainable Investment Beliefs:** State that your organisation believes integrating net zero targets is consistent with both its fiduciary duty and mission.

Example Wording:
"The NFP is committed to investing in a manner that supports the transition to a net zero economy by 2050, aligning with the Paris Agreement's 1.5°C target. This strategy is an extension of the NFP's mission to drive sustainable impact."

2. Investment Objectives

- Define clear, measurable objectives that incorporate the net zero goal, specifying both financial return targets and carbon reduction targets.

- Include interim targets for carbon emissions reductions (e.g., 50% reduction by 2030).

Example Wording:
"The portfolio will aim to achieve a net zero carbon footprint by 2050, with interim targets of reducing emissions by 25% by 2025 and 50% by 2030, while maintaining financial returns in line with the NFP's overall objectives."

3. Strategic Asset Allocation

- Adjust the asset allocation guidelines to prioritize investments in low-carbon and sustainable sectors.
- Specify increased allocations toward green bonds, renewable energy, energy efficiency projects, and other climate-positive assets.
- State the commitment to reducing exposure to high-carbon sectors, with explicit guidelines on fossil fuel divestment and sector caps.

Example Wording:
"The NFP will reduce exposure to fossil fuel investments, with a target of full divestment by 2030, while progressively increasing allocations to sectors aligned with net zero, such as renewable energy, sustainable infrastructure, and green bonds."

4. ESG and Climate Risk Integration

- Clarify how Environmental, Social, and Governance (ESG) factors will be integrated into investment decision-making, with a specific emphasis on climate risk.
- Define criteria for assessing investment opportunities, including the alignment of companies with net zero pathways, ESG scores, and climate transition plans.

Example Wording:
"ESG considerations, particularly climate-related risks and opportunities, will be embedded across all asset classes and guide investment decisions. Investments will be assessed based on their alignment with the NFP's net zero transition strategy."

5. Active Ownership and Engagement

- Emphasize the NFP's intention to use its influence as a shareholder to encourage investee companies to adopt net zero strategies.
- Detail how the NFP will vote on shareholder resolutions related to climate change and sustainable practices.

Example Wording:
"The NFP will actively engage with investee companies to promote adoption of net zero

strategies and transparency in carbon reporting. Where feasible, the NFP will vote in favour of shareholder resolutions that support sustainability and net zero commitments."

6. Monitoring and Reporting Requirements

- Establish clear criteria for monitoring progress toward net zero targets, including how often the portfolio's carbon footprint will be assessed (e.g., annually).
- Define the format and frequency of reports to the board and stakeholders, ensuring transparency and accountability.

Example Wording:
"The investment portfolio's carbon footprint will be measured annually, using standardized metrics, to track progress toward net zero. Results will be reported to the board and shared with stakeholders, aligning with frameworks such as the IFRS Sustainability Standards."

7. Investment Compliance

- Establish clear criteria for fund manager or direct investments compliance with the net zero or sustainability initiatives
- Define the selection criteria and attestations expected from any investment or investment advice

Example Wording:
"The NFP will only invest in in funds from fund managers who have signed up to the UNPRI and who can attest that they are compliant with the IFRS sustainability standards. They must further attest that any fund or direct investment is made in compliance with the net zero principles included in this investment policy.

An annual compliance attestation on the above will be required from all investment fund managers or issuers of direct investments.

8. Timeframe and Review

- Specify the timeframe for achieving net zero and the process for periodic review of the IPS to ensure it remains aligned with evolving best practices and regulations.
- Include a commitment to adjust the policy as climate science, regulatory frameworks, and industry standards evolve.

Example Wording:
"This Investment Policy Statement will be reviewed biannually to ensure alignment with the NFP's net zero targets and evolving industry standards. Adjustments will be made as necessary to maintain progress toward achieving net zero by 2050."

9. Risk Management

- Explicitly address the potential risks associated with the net zero transition, such as stranded asset risk, regulatory changes, and market shifts, while outlining how the NFP plans to manage these risks within the portfolio.

Example Wording:
"The NFP will regularly assess risks related to the net zero transition, including potential stranded assets and regulatory changes, to ensure that the portfolio's risk-return profile remains balanced and aligned with the NFP's goals."

Incorporating these elements will ensure the IPS not only supports the NFP's transition to net zero but also embeds this commitment in its core investment strategy, decision-making processes, and reporting.

Conclusion

In conclusion, achieving net-zero emissions within the not-for-profit sector presents both a challenge and an opportunity. By adopting sustainable practices, leveraging partnerships, and engaging stakeholders, organizations can not only reduce their environmental impact but also enhance their resilience and long-term viability. The journey toward net-zero requires careful planning, innovative approaches, and a commitment to continuous improvement. As the sector navigates this path, collaboration, knowledge-sharing, and tailored strategies will be crucial in overcoming obstacles and seizing opportunities. Ultimately, embracing sustainability aligns with the core mission of many not-for-profits: to create a positive impact on communities and the environment for future generations. This commitment not only fosters trust and goodwill but also positions the sector as a leading force in the global transition toward a more sustainable and equitable world.