State of Climate Investment in Aotearoa New Zealand

Insights from the 2023 survey

Investor Group on Climate Change

Centre for Sustainable Finance Toitū Tahua

Mindful Money

The Aotearoa New Zealand Investor Coalition for Net Zero consists of a core group of three organisations:

The coalition is also supported by:

The coalition was formed in 2021 to encourage and support investors to deepen their climate action. It conducted surveys in 2021 and 2022 of asset owners and fund managers to establish a baseline of Net Zero pledges, plans in progress, and intentions regarding reductions in climate emissions.

Acknowledgements
We would like to extend our sincere thanks to those that took the time to complete the survey. A special thank you to those investors that assisted with case studies, consultation regarding the survey questionnaire, and feedback on the draft report.

This survey was coordinated by Marwa Curran and Duncan Paterson from IGCC and the research was undertaken by Lonergan as part of the development of a comparable data set for New Zealand, Australia and the Asia-Pacific. The New Zealand analysis and report drafting was undertaken by Amy Sparks and Emily Maclean from Deloitte New Zealand, with overall direction provided by Barry Coates from Mindful Money.

The Centre for Sustainable Finance: Toitū Tahua

www.sustainablefinance.nz

The Centre for Sustainable Finance: Toitū Tahua is working towards an equitable, inclusive financial system that enables a resilient, sustainable Aotearoa New Zealand. CSF connects financial market participants, regulators and policy makers to remove barriers and enable sustainable finance.

Mindful Money

www.mindfulmoney.nz

Mindful Money is a charity that promotes ethical and impact investment in New Zealand. It provides transparency for KiwiSaver and managed fund investors on portfolio holdings, supported by public education and engagement, Mindful Money provides services to the financial sector including research on categories of high emissions companies and the integration of climate change into investment portfolios.

The Investor Group on Climate Change

www.igcc.org.au

The Investor Group on Climate Change (IGCC) is a collaboration of Australian and New Zealand institutional` investors focused on the impact of climate change on investments. IGCC represents investors with total funds under management of over $3 trillion in Australia and New Zealand and $30 trillion globally. IGCC members cover over 7.5 million people in Australia and New Zealand.

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Executive Summary

The drive to engage the financial sector in the transition to Net Zero was evident in the run up to COP26 in Glasgow in 2021. The world's largest asset owners and fund managers recognised their responsibility to be part of the climate solution, rather than remaining part of the problem. They pledged to reduce their financed emissions to Net Zero by adopting new investment behaviours, strong stewardship and investment in climate solutions.

New initiatives were also launched by the financial sector in New Zealand, including the largest asset owners and leading fund managers. They joined with their global counterparts in signing onto UN-aligned Net Zero commitments, supported by targets and actions that provide a structured approach and transparency.

This report analyses the results from a 2023 survey of New Zealand fund managers and asset owners. It identifies those with Net Zero pledges as well as others on the Net Zero pathway. The results are compared with prior year survey results undertaken in 2021 and 2022, and with parallel surveys undertaken in Australia and Asia.

The report covers the key elements of a structured pathway for investors, including Net Zero plans, drivers and barriers for climate investing, governance, investment policies, risk assessment, investing in climate solutions, enhanced resilience, and influence over the policy environment.

The past year has shown the huge economic, social and environmental costs of extreme weather events, related to climate change. The pace and scale of climate impacts have accelerated. So has the growth in renewable energy and other climate solutions. The risks are growing, but so are the financially viable opportunities.

Against this backdrop, it has been disappointing to see slow progress in action undertaken by the New Zealand finance sector. Mandatory climate-related disclosures have been a core focus for many fund managers, but, with a few notable exceptions, these have not been integrated into a framework of enhanced climate action.

Climate disclosures are a necessary step in providing transparency and informing investors. However, they should also be a management and governance tool for reducing risk, enhancing resilience and seizing opportunities. Hopefully, they will become a platform for structured steps along a Net Zero pathway, rather than solely a reporting obligation.

New Zealand has a reputation for sustainability. With evidence of climate action, the financial sector could attract a larger share of the growing pool of global capital and contribute more to driving the increasingly urgent climate transition.

Key insights
State of Net Zero in Aotearoa

Continued slow progress

There has been limited progress in the climate action taken over the past year as outlined in this survey. New Zealand's fund managers continue to lag investment providers in Australia and the EU.

Targets and commitments under state of review

Investors are currently reviewing their targets and commitments, with some planning public announcements in coming months. A large number appear to be motivated by climate-related disclosure (CRD) reporting requirements.

Negative screening and engagement lead the approach

Negative screening is the most common climate approach used by investors, selected by 100% of investors who responded to the 2023 survey. Engagement closely follows.

Climate linked to financial performance

Among survey respondents, two thirds (67%) say one of the top drivers which made their organisation consider climate considerations and Net Zero investing was the growing acceptance that climate factors impact the financial performance of investments.

Investing in climate solutions

Investors are looking for more than just reduction of emissions. There are attractive investment opportunities in companies that align with a Net Zero future and are actively contributing to the creation of that future.

Increased Focus on Biodiversity

23% of investors surveyed have a policy regarding biodiversity / nature, and 15% have a policy on deforestation.

Net Zero Commitments

Setting Commitments

Ambitions were high in 2021 when the first survey was undertaken, but this ambition has not translated into a broader movement for setting targets and undertaking actions. The 2022 report showed that, while a few investors set commitments, progress in putting the building blocks of emissions reductions were slow compared to Australia and especially compared to Europe.

When we reached out to investors to follow up on commitments and targets, a majority of the respondents noted how they were currently reviewing their commitments and targets. This lines up with how many investors are reviewing their approach to climate change, as they prepare for the climate-related disclosures.

Climate-Related Disclosures

Reporting under Climate Related Disclosure (CRD) legislation will start in 2024. This is mandatory for investment funds that manage more than NZ$1 billion of assets. The information in those reports will provide significantly more information to investors, potential investors, and market analysts.

Net Zero pledges
(registered with an international alliance)
and public Net Zero targets across whole investment portfolio

Net Zero Pledges
BT/Westpac
Pathfinder
Russell Investments
QBE Insurance
NZ Super Fund
Accident Compensation Commission (AC)
Government Superannuation Fund
National Provident Fund
Trust Waikato
Kiwi Wealth
IAG
BNZ

Net Zero Targets
Mercer
BayTrust
AMP
Southern Pastures
Foundation North
Simplicity

Note: This table may not reflect the true current status of Net Zero pledges and targets due to data availability and timing of the report.

Initiatives & Frameworks

Whilst there are a range of international initiatives associated with Net Zero, those most commonly used by the investment sector are associated with the UNFCCC's Race to Zero campaign for non-state actors, and with the Glasgow Financial Alliance for Net Zero (GFANZ), a finance-focussed group that formed at COP26 in Glasgow.

The three primary initiatives operating under these banners are the:

- **Net Zero Asset Managers initiative (NZAM)** – with more than 315 signatories with USD$57 trillion in AUM;
- **Paris Aligned Asset Owners initiative (PAAO)** – a global group of 56 asset owners, with over USD$3.3 trillion in AUM; and the
- **Net Zero Asset Owners Alliance (NZAOA)** – backed by the UN Principles for Responsible Investment and United Nations Environment Program Finance Inititative.

Signatories to these initiatives undertake to transition their investments to achieve Net Zero greenhouse gas emissions by 2050 or sooner. The most common methodology used by investors in NZAM and PAAO is the Net Zero Investment Framework (NZIF). NZIF aims to provide a consistent basis for asset owners and asset managers to measure and manage portfolios towards the goal of achieving global Net Zero emissions. It seeks to provide recommendations for methodologies and approaches to alignment that a broad range of investors can utilise.

Third Parties

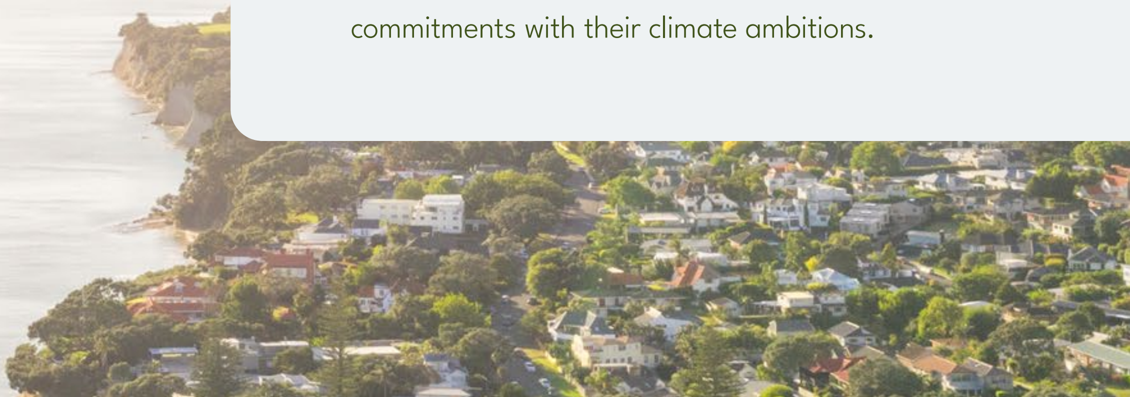
Many investors are utilising third party ESG data service providers or indices. Third party ESG providers are used for quantitative portfolio analysis, supporting managers to understand their climate risks and opportunities, as well as assessing portfolio carbon emissions.

Many investors have sought third party data solutions to support their climate-related disclosure preparation, which involves disclosing climate metrics and targets.

Why companies set a Net Zero commitment

Net Zero refers to a state where a company's greenhouse gas emissions are balanced by removing an equivalent amount of greenhouse gas from the atmosphere, resulting in Net Zero emissions. With the world grappling with climate change, companies have a critical role to play in reducing global emissions. By setting a Net Zero commitment, companies can reduce their carbon footprint, enhance their sustainability efforts, and positively contribute to the world's fight against climate change.

Furthermore, it can also help companies to remain competitive, create new business opportunities, increase access to finance, strengthen employee engagement, attract talent, and strengthen their brand. Many companies are going further than Net Zero commitments with their climate ambitions.



Net Zero Plans & Targets

Plans

Having a transition plan to achieve Net Zero financed emissions, supported by specific targets, is a crucial step in a Net Zero commitment.

Currently, most New Zealand investors are still developing their transition plans. Over half (54%) intend to complete a transition plan within the next year.

Under New Zealand's new Climate-Related Disclosure regime, disclosing a transition plan is required from year 2 of reporting. In coming years, disclosure of public plans should become more common, including for private companies and those below the threshold for the mandatory regime.

Targets

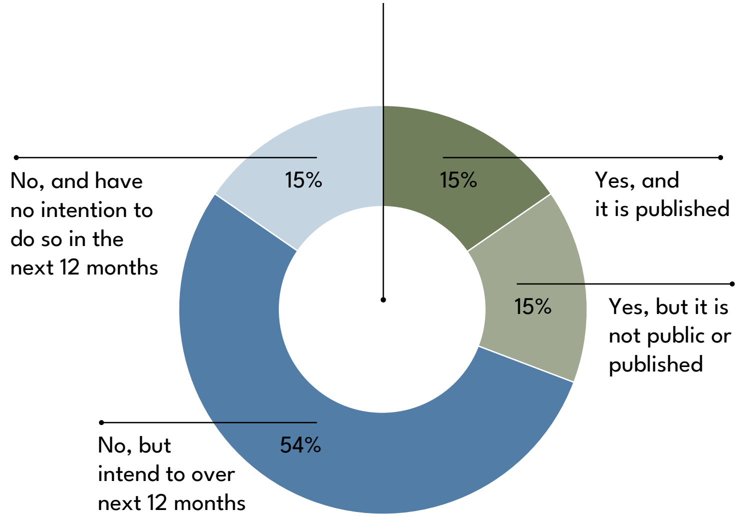
An interim climate target is one that is set for earlier than 2050, typically 2030 or 2035. Only 15% of investors surveyed have a published interim target. A further 8% have not yet published their account. A majority (77%) do not yet have an interim target.

Despite low levels of target setting, most investors surveyed (85%) had measured GHG emissions across their portfolios, whether they had published the emissions profile or not. This is an increase on the results in last year's report, which found that only half (50%) had either completed or had partially completed measurement.

The most common asset class to measure emissions was across listed equities (77%).

Do you have strategy/plan for achieving your Net Zero objectives and targets?

Asset Owners and Managers



A Net Zero Plan for a Net Zero Commitment

This can sometimes be challenging for companies who only realise the barriers they face once they come to write the plan. A well-structured and comprehensive plan can help companies achieve their Net Zero commitments in a cost-effective and timely manner and facilitate the transition to a more sustainable, low-carbon future. For many companies, the plan comes after the ambition or commitment is set.

Drivers for Climate Investing

Drivers

Among survey respondents, two thirds (67%) say one of the top drivers which made their organisation consider climate considerations and Net Zero investing was the growing acceptance that climate factors impact the financial performance of investments.

Drivers to consider climate issues are not limited to financial performance or regulatory demand; more than half (56%) of investors say one of the top drivers for their organisation was the desire to drive positive environmental and social outcomes. For just under half (44%), demand from their clients has driven these considerations, whether it is retail investors (22%), institutional investors (11%), or interest by underlying investors to align with Net Zero (11%).

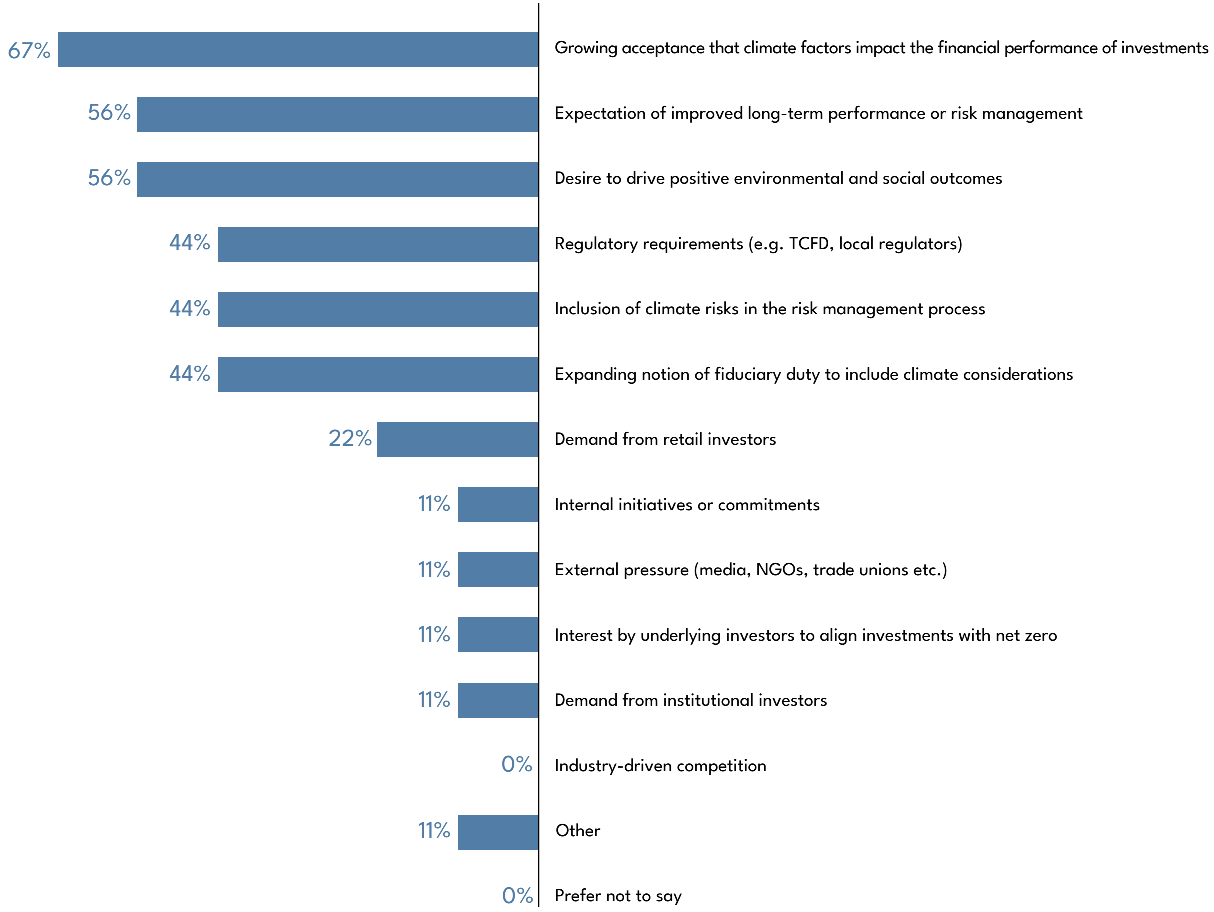
In Australia...

The underlying drivers for climate investment in Australia follow a similar pattern, with two thirds (66%) of respondents identifying the impact that climate factors have on the financial performance of assets; and their association with risk management, as their primary motivation.

59% of Australian investors were motivated by the desire to drive positive environmental and social outcomes, and a similar number said their climate approach motivated by a desire to meet the needs of their clients and/or beneficiaries.

It is striking to note that for both Australia (47%) and New Zealand (44%), regulatory pressures appear to serve as a supportive but secondary motivation to an investor's adoption of climate investment practices.

What have been the top drivers behind considering climate issues and Net Zero investing for your organisation?



Barriers for Climate Investing

Barriers

Investors surveyed cite a range of barriers to increasing their exposure to climate solutions investments or climate aligned investments.

The top reasons given are a lack of data, liquidity constraints, and the lack of opportunities with appropriate risk return objective (all 31%). However, a quarter (23%) express the lack of client demand being a barrier (noting that this is also highlighted as a driver above).

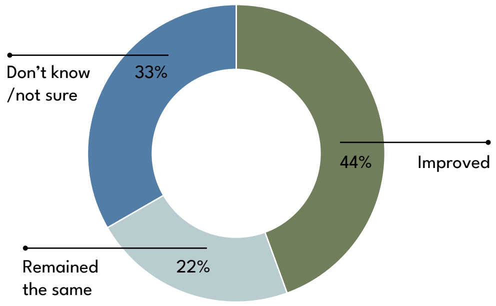
In positive signs for the industry, no member investor or non-member with Net Zero Target (NZT) has seen barriers to increasing exposure worsen over the past 12-months, while more than two-fifths (44%) have seen their barriers reduce. Asset managers are more likely to have seen their barriers improve over the last 12-months (60%, cf; asset owners 25%).

These barriers are not confined to climate solutions and climate-aligned investment. A number are similar to barriers cited in a recent Mindful Money report on Mainstreaming Impact Investment, including liquidity concerns and a lack of appropriate investment opportunities.

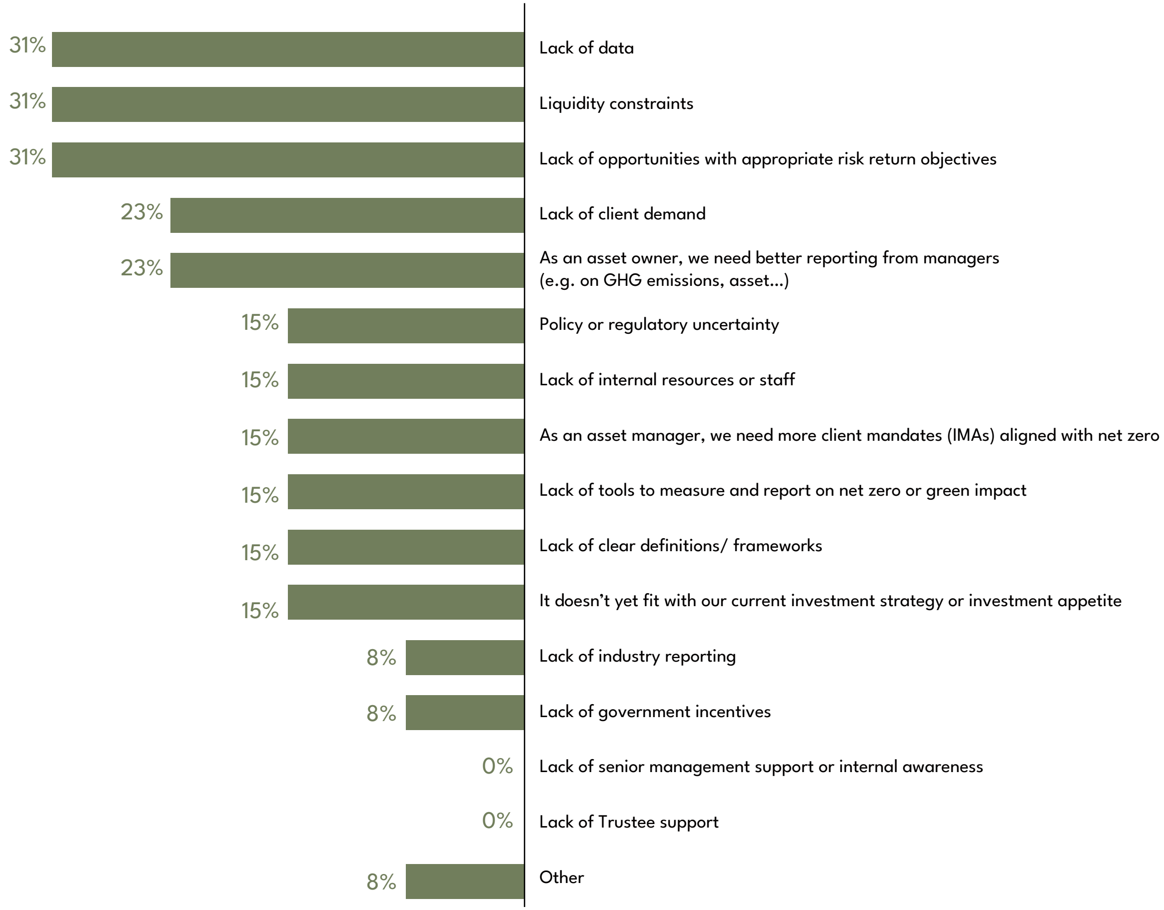
2022 results compared

In the previous year's report, a lack of data, tools and definitions around climate investing and Net Zero strategies were also identified as major barriers towards more climate-aligned investing. It was thought that the imminent climate disclosure standards and NZ National Adaptation Plan would partially address some of these challenges, but the barriers were still important in 2023.

Have you seen the identified barriers improve or worsen over the previous 12 months?



What are the main barriers to increasing your exposure to climate solution investments or climate aligned investments?



Governance

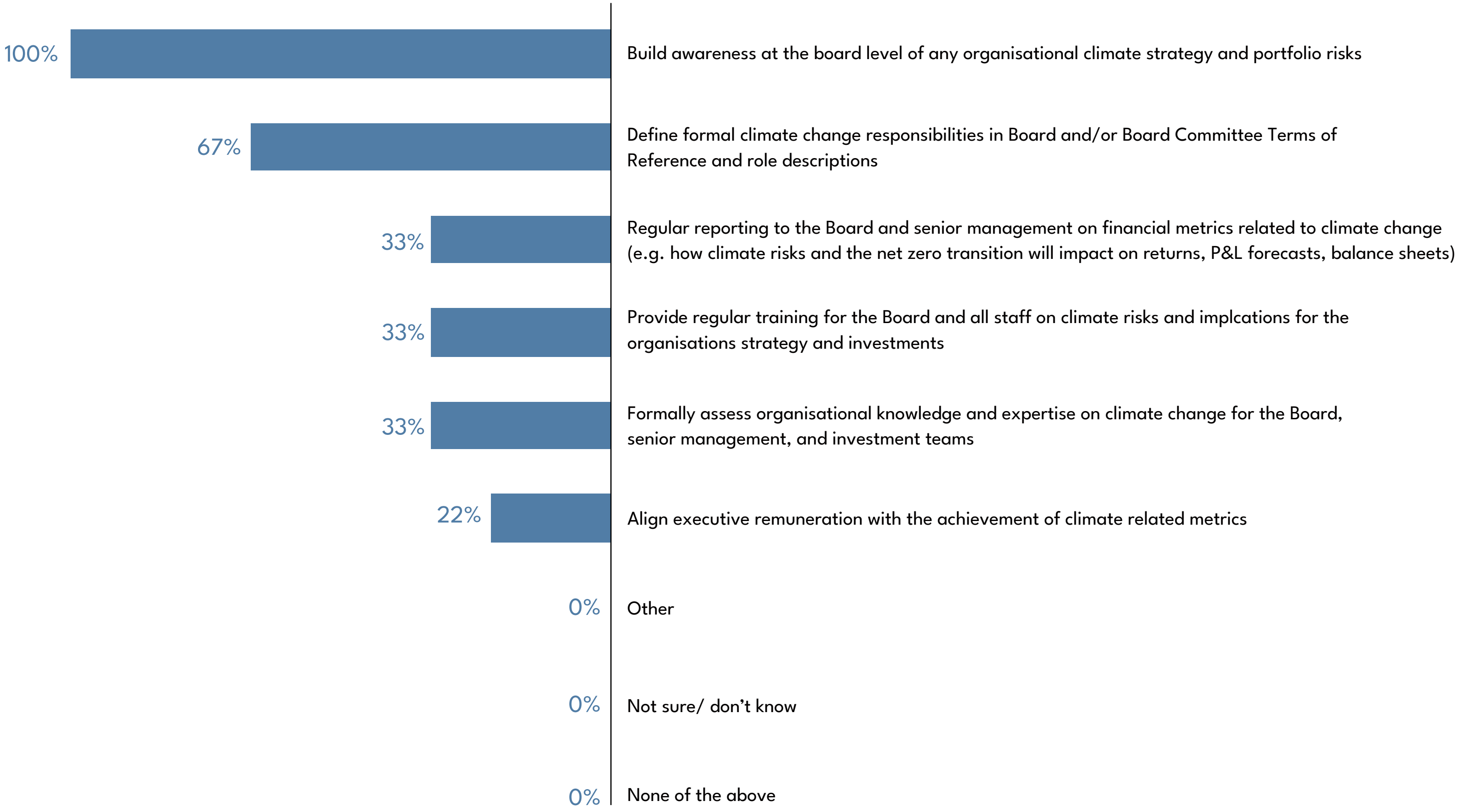
The Board and Executive

When it comes to internal governance structures around climate change, all member investors with a Net Zero target build awareness at the board level of any organisational climate change strategy and portfolio risk. This is consistent with the duties of directors, as outlined by Chapter Zero New Zealand in its Primer on Climate Change.

Two thirds (67%) of survey respondents say their organisations have defined formal climate change responsibilities in Board and/ or Board Committee Terms of Reference and role descriptions. A third (33%) formally assess the Board, senior management and investment teams on climate change, and a similar proportion (33%) have regular reporting to the Board and senior management on financial metrics related to climate change.

A small number (22%) say their organisation has aligned executive remuneration with the achievement of climate related metrics.

Regarding organizational governance structures regarding climate change, which of the following do you generally satisfy?



Investment Policies to Drive Change

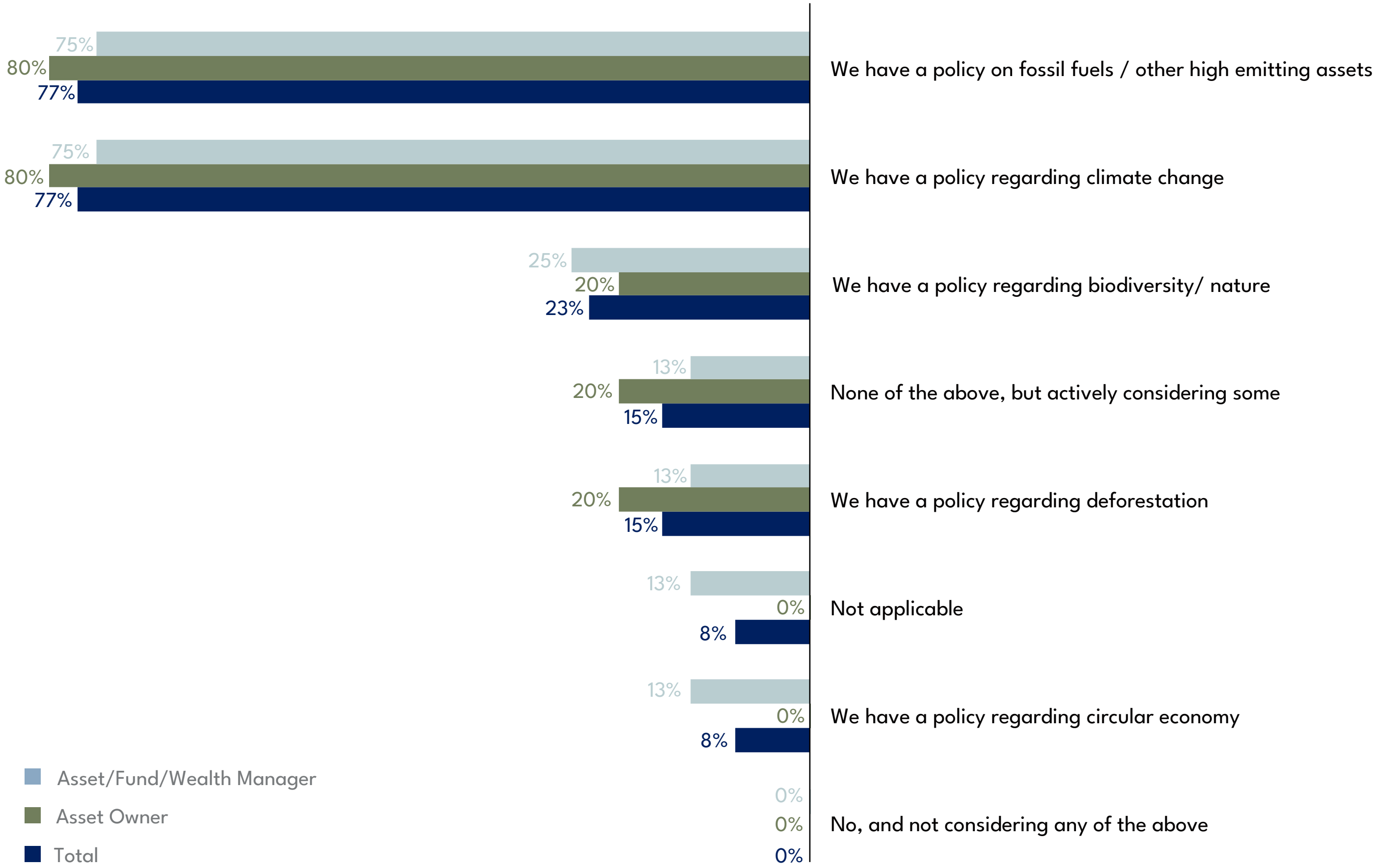
Range of Investment policies

Having a clear policy on climate change is critical to ensuring robust decision making. High level policies can guide the investment practice and provide a context and framework for meeting commitments and managing risk within portfolios. Such policies go further than processes (see over page) and tend to be more strategic.

The graph to the right shows that of the investors surveyed, three quarters (77%) of investors have a policy regarding climate change or a policy on fossil fuels / other high emitting assets (77%). All those investors who noted a climate change policy also noted having a policy on fossil fuels / other high emitting assets.

A quarter of investors have a policy regarding biodiversity / nature (23%), while a number have policies on deforestation (15%) and circular economy (8%). Asset owners and asset managers appear to have similar rates of climate policy adoption (80% and 75% respectively).

Do you have any investment policies on climate and related topics?



Implemented climate approaches

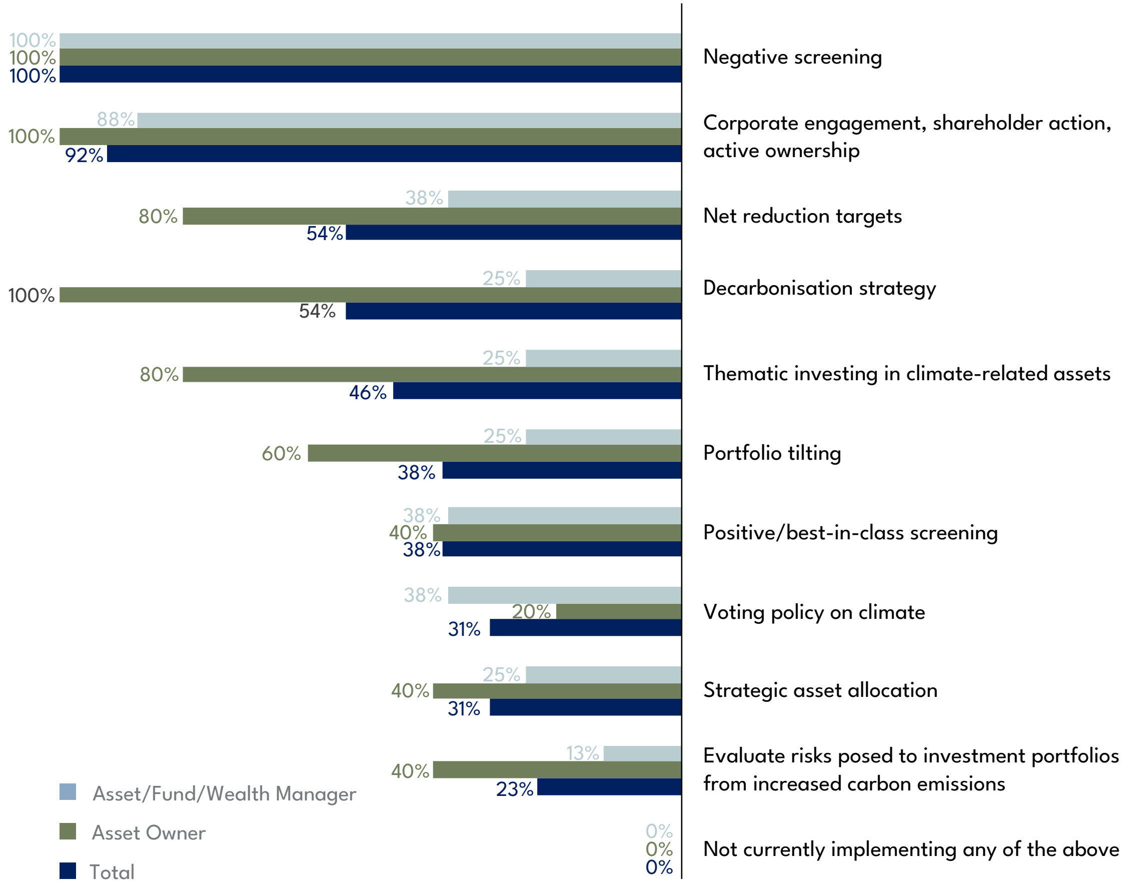
Once policy is set, it creates the platform for approaches to reduce financed emissions and strengthen resilience.

Negative screening, the process of identifying poor ESG performing companies, is the most common climate approach used by investors, selected by 100% of investors who responded to the 2023 survey. Corporate engagement, shareholder action and active ownership is the second most common climate approach taken, actioned by 92% of investor organisations.

Other approaches adopted by New Zealand investors include setting emissions reduction targets, decarbonising their portfolio and investing in climate themes (such as renewable energy).

Further analysis of the stewardship and engagement shows differences between fund managers and asset owners. Most fund managers undertake direct engagement with companies (75%) while most asset owners (60%) are members of local collaborative engagement alliances. Fund managers are more likely to be members of global collaborative alliances (38%). Only 8% of investors have set an engagement target.

Which of the following climate approaches does your organisation implement?



Increased focus on nature

Many businesses rely on natural resources for their operations. By understanding and mitigating their impact on nature, companies can work towards the sustainable use of resources, reducing depletion and promoting long-term viability. Recognising this connection between business and nature,The Task Force on Nature-related Financial Disclosures (TNFD) was launched in June 2020, seeking to create a global framework for companies and financial institutions to identify, assess, and report on risks and opportunities related to their dependence and impact on nature.

TNFD is modelled on the Task Force on Climate-related Financial Disclosures (TCFD), which established a widely-recognized framework for disclosing climate-related risks and opportunities. Companies that are already mandated to report on climate-related disclosures (or TCFD) are beginning to see the use-case for nature reporting under the TNFD framework. For example, in NZ, Lyttleton Port is an early adopter of the TNFD framework.

Investing in Climate Solutions

From the global challenge that is climate change comes a raft of opportunities to invest in the companies that are innovating to address the problem, positioning themselves as having a role in the transition to a lower emissions economy.

Investing in climate solutions refers to any investment that supports a lower emissions world, from renewable energy to waste recycling solutions. The growth of investing in climate in the past decade solutions – largely cleantech or climate tech – has seen the development of a sector of its own. While climate solutions have unique factors to consider, at the same time they can be found in most sectors of the economy. Almost all companies are exposed to cleantech, whether at arm's length by the savings they may receive from their renewable energy providers, by actively adopting clean technology in their processes, or by innovating themselves.

Future Opportunities for Investment

44% of survey respondents agreed that renewable energy, energy storage, and green infrastructure were priority targets for investors interested in climate solutions.

Many investors in New Zealand are actively pursuing climate solution investment strategies. Below are the types of funds in the New Zealand market that have specific investments in climate solutions. These range from mainstreamed strategies within wider portfolios, to values-based and sustainability-themed funds.

- VC funds
- Impact funds
- PE funds
- Managed Funds

Mainstreaming Impact Investment

Mindful Money undertook research into investments in positive impact companies within mainstream KiwiSaver and investment funds. Structured surveys and interviews were used to outline the drivers and motivations, barriers and opportunities to accelerate positive impact investing. Climate solutions were a major category within positive impact investing.

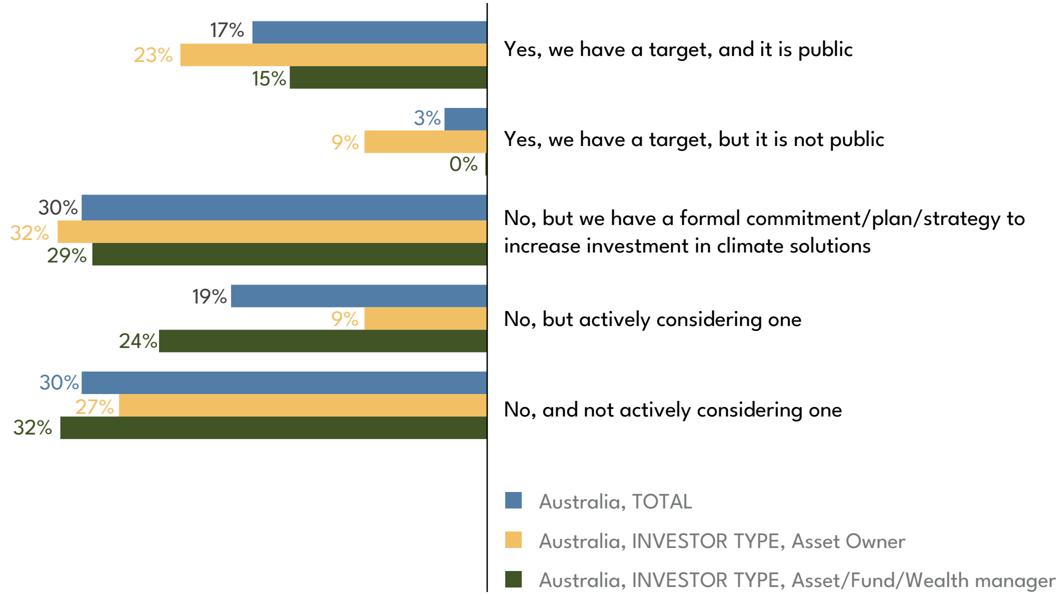
The report, Mainstreaming Impact Investment will be followed with forums, development of initiatives, and advocacy. A crucial issue in the research was investment in private funds by KiwiSaver schemes. Research undertaken by the Centre for Sustainable Finance, Investing in Private Assets, highlights barriers and potential solutions.

Targets

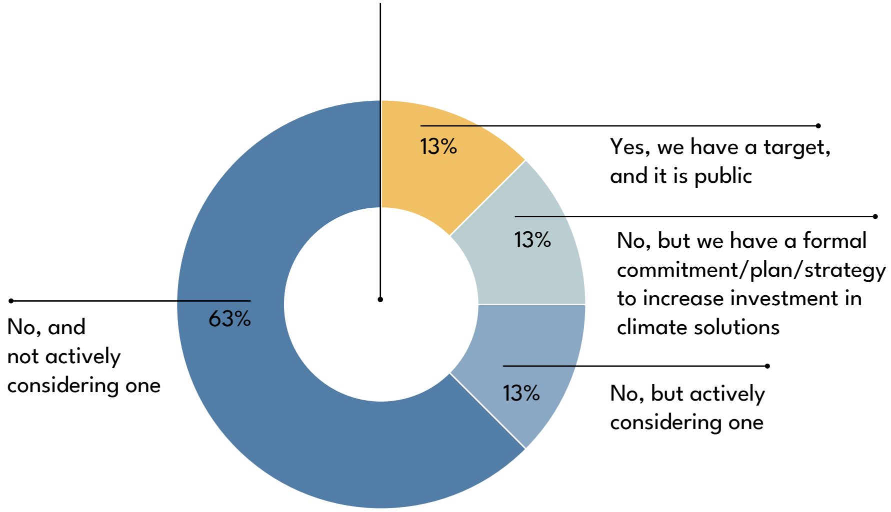
Despite a commitment to climate, only 13% of surveyed asset managers have a target for investment in climate solutions, while no asset owners had a target.

This can be contrasted with the results of the survey of Australian investors. While a similar proportion of fund managers have a target (15%), 23% of Australian asset owners have a target, compared to none in New Zealand.

Do you have a target for investment in 'climate solutions'? *filtered to Investors



Do you have a target for investment in 'climate solutions'? Asset Managers



The growing Climate tech sector

Climate tech is becoming a sector in its own right. According to research conducted by Deloitte GreenSpace Tech by Deloitte, Climate tech entrepreneurship and investment have intensified in the last ten years. According to the data set analysed by Deloitte, from 2000 to 2022, approximately 2,400 climate tech companies were founded, 9,000 funding deals were made, and US$148 billion was invested, with activity picking up markedly after 2013.

Deloitte note that recently, due in part to the pandemic and economic and geopolitical challenges, climate tech activity has slowed; this is generally in line with wider startup founding and funding activity. But investment in climate tech has not slowed as much as the market overall. And new climate tech venture capital (VC) and private equity funds continue to be launched, with billions of dollars ready to be deployed.

To read more about the Geography of Climate Tech see: GreenSpace Tech Research | Deloitte Global

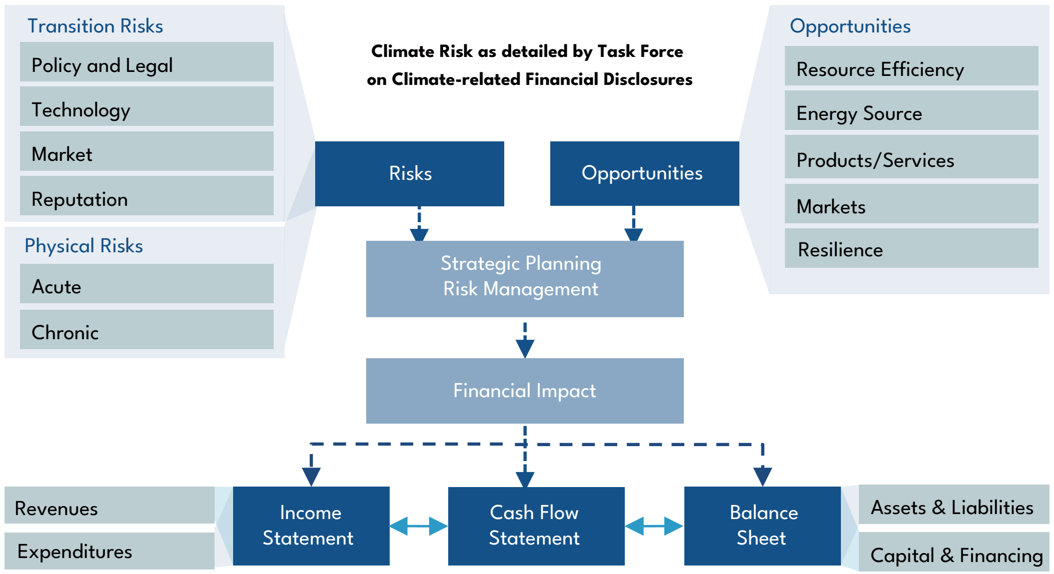
Physical Risk & Resilience

Risk Analysis
Currently, few of the surveyed investors undertake climate-related physical risk analysis of their portfolio. Only one in four (23%) apply risk analysis across any asset class, and only 8% across their whole portfolio.

A physical risk or resilience analysis is more commonly applied across the listed equity asset class (23%).

Many New Zealand investors are actively considering a risk analysis of their portfolios, often associated with Climate Related Disclosure reporting – 38% of asset managers are considering analysing their whole portfolio and 40% of owners are considering analysing listed equity, private equity, or fixed income within the next 12 months.

Risk Reduction approaches
Although a risk analysis has been undertaken by a limited number of respondents, most (78%) have already taken actions to reduce risks. Negative screening (56%) is the most common response to physical risk, but a wide range of approaches are used. Among asset owners, investment in adaptation solutions is most common (75%, compared with asset managers 20%).



Our increasing exposure to climate risks
New Zealand is not immune to climate risks and 2023 and 2024 have shown this to be true. The impacts of Cyclone Gabriel are still felt by many today, with an estimated cost of $14 billion. Transition risks are also evident in our economy. Mike Smith's case making its way to the Supreme Court shows how climate litigation can have real impacts on companies exposed to litigation risks. It is likely that as more investors prepare for climate-related disclosures, risk assessments will increase. Even those investors who are not mandated to complete a risk assessment may wish to follow the lead of the mandated and complete an assessment for future planning purposes.

Considering the Policy Environment

When asked what steps they take to manage policy or regulatory uncertainty in investment activities, 44% of respondents said they engage in meaningful policy advocacy. This reflects the approach to corporate engagement, where most investors engage directly with companies on climate (54%).

A third (33%) of respondents say one of the steps they take is to redirect investment to jurisdictions, sectors, or markets with less uncertainty, and one respondent (11%) identifies opportunities to de-risk investments in uncertain sectors or jurisdictions.

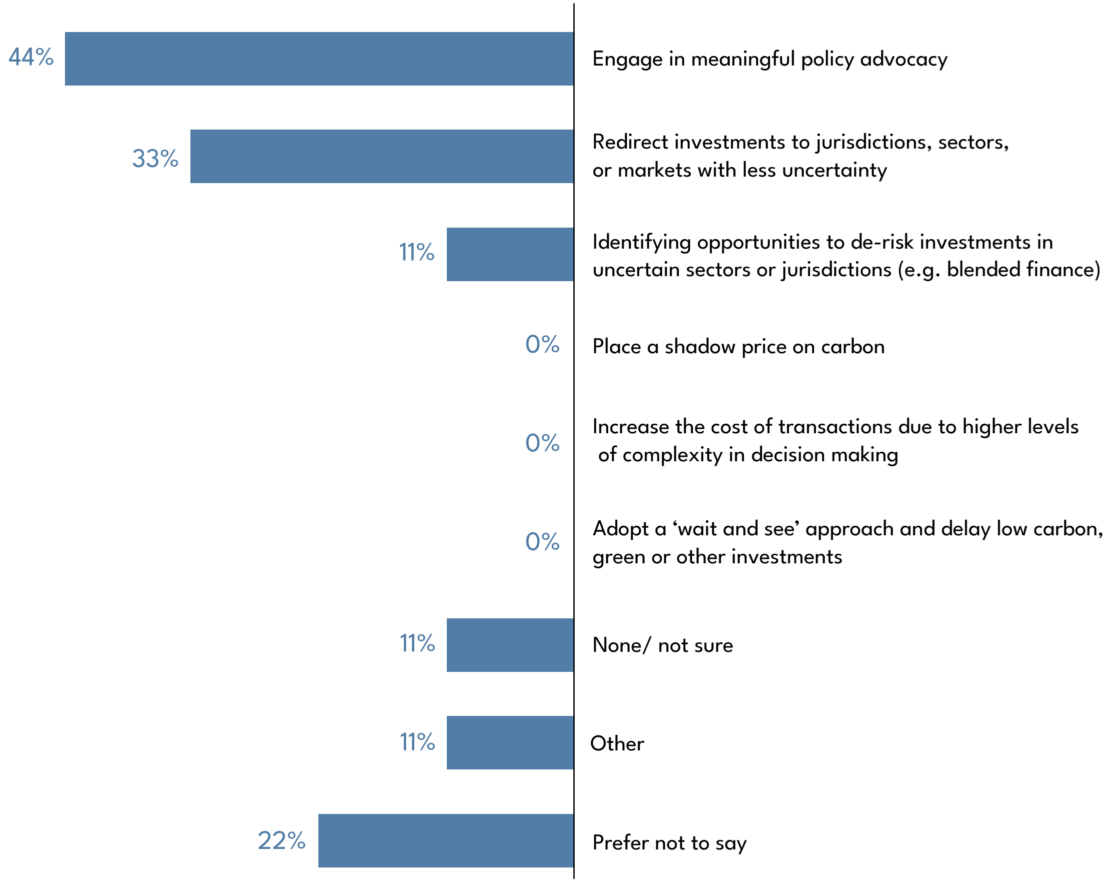
The most common form of policy advocacy identified by respondees was convening or participating in public seminars and events on climate change, energy, or sustainable finance related policy discussions (54%).

Half (54%) of investors have engaged in discussions with relevant policymakers / regulators, with 46% doing so via private roundtable discussions and a quarter (23%) via public panel discussions.

A quarter (23%) of investors have publicly called on governments and other policymakers and regulators, with 15% calling on them to work towards the Paris Agreement's goals, and 15% calling on them to implement measures relating to fossil fuels.

Although there have been recent changes to the political environment in New Zealand, the legislative framework remains intact. The Climate Change Response (Zero Carbon) Amendment Act 2019, Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 are two examples of New Zealand's commitment inscribed in law to address climate change.

What steps do you take to manage policy or regulatory uncertainty in investment activities?



Background

Methodology

This survey was undertaken between mid-September and early October 2023. It was generally sent to the Chief Investment Officers (or equivalent position) of the larger fund managers, wealth managers and asset owners involved in managing New Zealand's financial assets. Over 100 organisations were contacted.

IGCC, CSF and Mindful Money have collaborated in previous surveys in 2021 and 2022, building on IGCC's member surveys undertaken since 2017. The aim is to gather investor insights into how the market is integrating climate risk into investment decision-making, and investing in climate aligned opportunities.

Respondents were questioned on a range of topics relating to their current investment activities, and their intentions for reducing the carbon emissions of the companies in their portfolios over time. The survey structure was in line with the key asks of the PAII Net Zero Investment Framework and Investor Climate Action Plans Expectation Ladder.

Survey recipients were encouraged to complete the full survey. A shorter survey was available for investors that have not yet made Net Zero pledges or plans. Survey questions mirrored those used in IGCC's Australian and Asia surveys to aid comparability, with most questions having the same or similar wording as the 2022 survey.

Response overview

We received a total of 13 responses from a range of investors. While responses from smaller funds were lower than last year, the inclusion of larger investors results in the survey covering approximately $230bn of Assets under Management. This is around two thirds of total AUM in New Zealand.

We would like to extend our sincere thanks to those that took the time to complete the survey during a busy period. We recognise that many organisations have been preparing for New Zealand's mandatory Climate-Related Disclosure regime, for which reports are due to be released over the coming year.

2024 report

This report reflects the insights from the 2023 survey, to the extent that it can, recognising the lower response rate compared to 2022 survey. The lower response compared to Australia and Asia largely reflects the broader range of investment organisations surveyed in New Zealand, including many smaller organisations outside IGCC's membership. By contrast, the survey list for Australia and Asia primarily comprises larger investors that are IGCC members.

This survey captures investors' progress and the evolution of their approaches to transitioning to a Net Zero-carbon global economy, including setting targets, aligning assets with Net Zero, implementing Net Zero strategies, deploying capital to climate solutions, and the barriers and challenges to moving faster.

We recommend reading the Australian report for a broader view of trends in the region. The New Zealand report does not follow the same structure, instead providing highlights of the results, reflecting the smaller sample size. This report includes aggregated data and graphs, frameworks and guidance on taking action.

Investor Group on Climate Change

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