AIGCC
ASIA INVESTOR GROUP ON CLIMATE CHANGE

State of Net-Zero Investment in Asia

A Stocktake of Asian Institutional Investor Climate Progress

Published April 2024

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CEO's Foreword

The fifth year of this AIGCC annual State of Net-Zero Investment in Asia report presents an overview of the progress of institutional investors across Asia in addressing climate change.

Investors in Asia have increasingly recognized climate change as posing systemic risks that cannot be ignored or divested from. Asia and the Pacific region are currently responsible for more than 50% of global greenhouse gas (GHG) emissions.[1] Additionally, more than 80% of the projected growth in coal demand is anticipated to be from Asia.[2] Many parts of Asia are also amongst the most exposed in the world to physical climate impacts.

Governments are signaling the direction of travel is toward net zero, working on national policy packages intended to drive decarbonization. Examples include Japan's "GX" green transformation bond, Singapore's release of climate transition plans and green business activities, and ASEAN's taxonomies. From China to Malaysia, South Korea, Vietnam, Indonesia, and throughout the region, policymakers are adjusting economic settings along the same lines.

Leading investors are anticipating the largest global economic transition since the Industrial Revolution. There will be demand for capital to help economies adapt and build resilience, and investors in the region are positioning themselves for a climate-resilient, net-zero global economy.

There is movement and momentum to net zero from investors across Asia.

It is pleasing to observe increased understanding and action on climate risks and opportunities among investors across Asia, led by many investors within the AIGCC membership. However, capital flows are still on a trajectory likely to result in severe climate damage across Asia with a rise in extreme weather events and vulnerability to climate-related damage and disruption.

Driving net-zero emissions in Asia will require an unprecedented scale and speed of energy transition. To achieve this, investors in Asia must accelerate the movement of climate-aligned capital; scale-up investments in climate solutions, including early and mid-stage clean energy innovations; phase out reliance on fossil fuels,[3] and further develop nature-based adaptation solutions.

If managed effectively, the green transformation in Asia can create significant opportunities for inclusive and sustainable growth. This will require strong economic signals, such as decision-useful carbon prices, stimulus, and incentives that strongly indicate the related financial risks and opportunities.

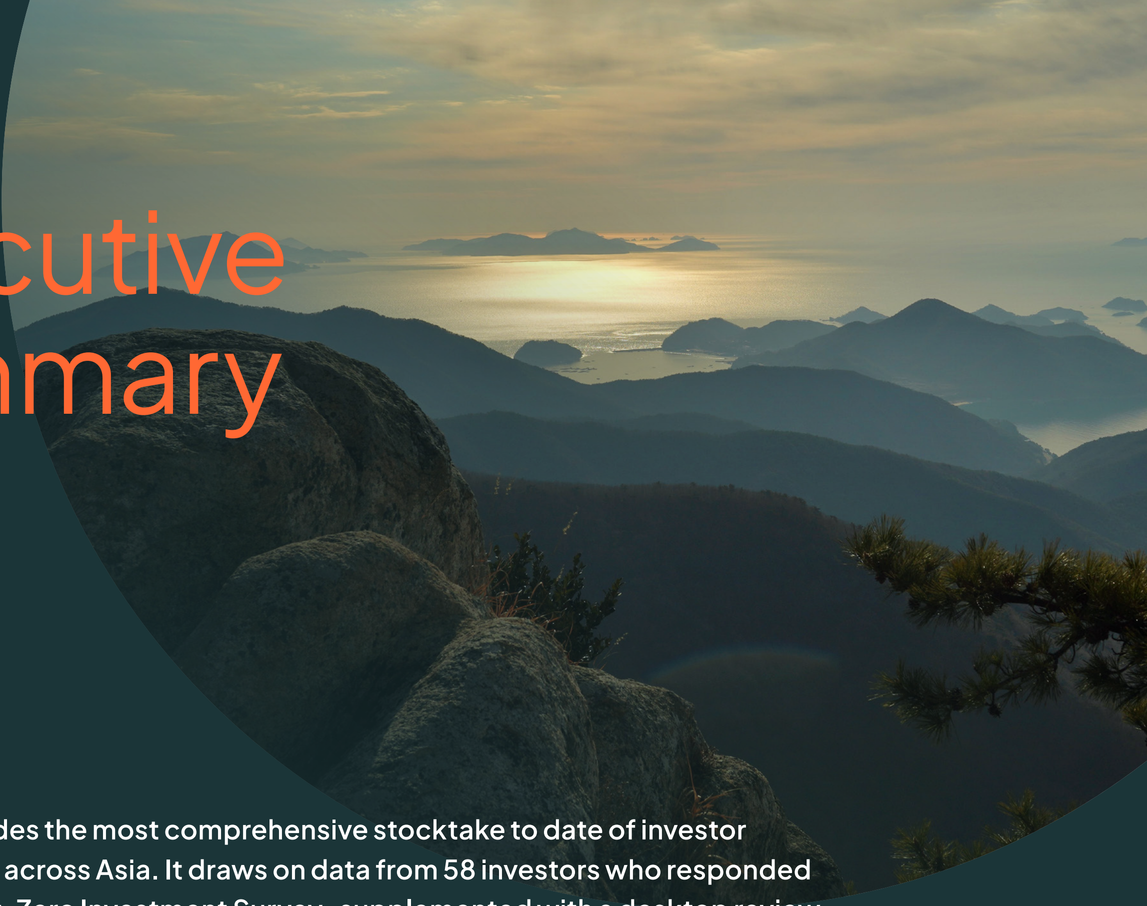
As this report shows, investors overwhelmingly endorse incorporating the economic transition and climate-related damage and disruption into their investment management and stewardship.

Therefore, the industry snapshot in this report provides valuable transparency in how investors are incorporating net-zero investment objectives and performing their role of capital allocation with respect to climate change.

We hope these results spur investors to go further and faster in their climate journey.
Sincerely,

Rebecca Mikula-Wright, CEO,
Asia Investor Group on Climate Change (AIGCC)

1 See Asia Development Banks *'Asia and the Pacific's Climate Bank'* here.
2 As above.
3 Investors have a fiduciary duty to integrate financially material factors including environmental and climate matters, see 'A legal Framework for Impact' here.



Executive Summary

This report provides the most comprehensive stocktake to date of investor climate progress across Asia. It draws on data from 58 investors who responded to the AIGCC Net-Zero Investment Survey, supplemented with a desktop review of key metrics and aggregated progress from more than 200 Asset Owners and Managers, 186 of which are headquartered in Asia. The report therefore reflects the ownership and management of most mainstream capital in Asia.[4]

Many investors in Asia are positioning themselves for a climate-resilient net-zero economy, but not at the required speed.

1. There is movement and momentum toward net-zero. Leading investors see effective monitoring and managing climate change as increasingly essential to long-term value preservation and creation by:
   - working to set climate strategies, short-term targets, and climate governance for decarbonization and to allocate more capital to climate opportunities
   - increasingly working to incentivize companies and governments to go further with credible transition plans in their key markets and to build resilience to physical climate risks
   - increasingly financing Asia's energy transition, recognizing capital must flow to climate-aligned activities and opportunities set to succeed in a net-zero world.
2. However, of the 200+ Asia Investors included in the data review, most fall short of actions needed to effectively manage climate risks and opportunities in line with global climate goals.[5] High-impact areas like fossil fuels and deforestation remain a challenge.
3. The 100 Asia Asset Owners reviewed trail Asset Managers on nearly every key climate metric surveyed, stressing the importance of progress for Asset Owners. Meanwhile, AIGCC members well outperform the market when evidencing climate progress and engagement across the areas reviewed.

The progress outlined in this report is benchmarked against the Investor Climate Action Plans (ICAPs) Expectations Ladder,[6] which provides a pathway for investors' transition plans to a net-zero economy – a key framework for investor climate action regardless of where they are at on their climate journey, and the structure from which this paper is modeled and actions assessed.

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4 This analysis focuses on a group of Asian markets (for the purposes of this report, collectively referred to as "**Asia**") including Brunei, Cambodia, Mainland China, Hong Kong S.A.R, India, Indonesia, Japan, Laos, Malaysia, Myanmar, Philippines, Singapore, South Korea, Taiwan, Thailand & Vietnam. For more information on the review process, report methodology and legal disclaimers. See Appendix

5 The agreement and subsequent ratification of the 2015 Paris Agreement by 195 Parties heralded a step change in the global transition to a low carbon and climate resilient economy. The Paris Agreement's central aim is to strengthen the global response to the threat of climate change by keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C.

6 It is generally agreed that transition planning for financial institutions should include integration of climate issues into (1) governance, (2) disclosure, (3) investment strategy, (4) corporate engagement, and (5) policy advocacy. Those five areas correspond to the five pillars of the Investor Agenda's Investor Climate Action Plans (ICAPs) Ladder and Guidance. High-level criteria are taken from each of these areas as a proxy for investor action for the purposes of this desktop review and report.

Key findings based on results of 200+ Asia investors

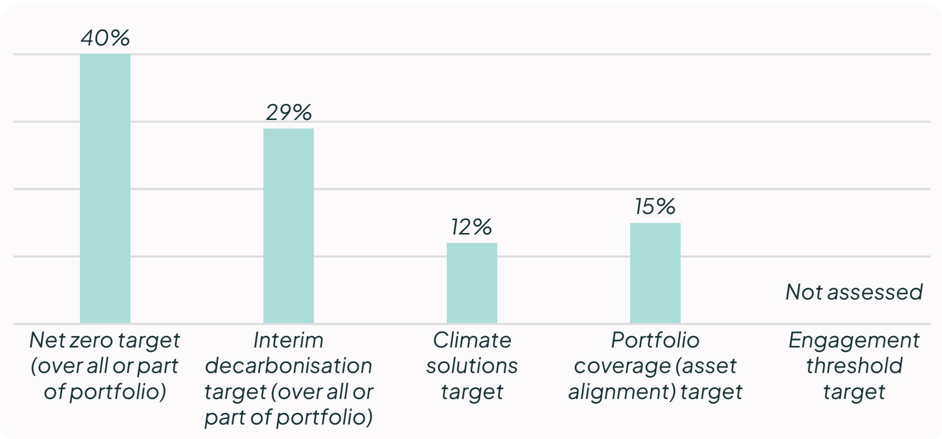
Focus area 1: Governance

- **Climate change recognition**: 70% of investors (84% of Asset Managers and 51% of Asset Owners, equaling a collective 81% of investor assets under management (AUM) reviewed headquartered in Asia) publicly recognize climate as a source of material risks and opportunities.
- **Climate change inclusion in investment policies:** 57% of investors (68% of Asset Managers and 43% of Asia Asset Owners) have integrated (to varying degrees) climate change considerations into investment policies.
- **Investor climate action plans:** 28% of investors (33% of Asset Managers and 20% of Asset Owners) have some form of climate action plan.

Focus area 2: Investment

- **Investors are working to set short-term climate targets** in line with the targets the Net Zero Investment Framework recommends.
  1. **Net-zero targets**: 40% of investors (49% of Asset Managers and 28% of Asset Owners) have a net-zero target over all or part of the portfolio. Most investors that progressed in this area are from regions with a set domestic net-zero target, indicating the key role of governments.
  2. **Interim targets**: 29% of investors (34% of Asset Managers and 20% of Asset Owners) have set an interim net-zero decarbonization reference target for all or part of their portfolio, helping drive short-term accountability.
  3. **Climate solutions targets**: The leading 12% of investors (12% of Asset Managers and 12% of Asset Owners) have set a target or strategy to increase investments in climate solutions. Investors in Asia are exploring and investing in climate solutions investments through various opportunities and markets.
  4. **Asset alignment ("portfolio coverage") targets**: 15% of investors (17% of Asset Managers and 3% of Asset Owners) have an asset alignment target. A small portion more have indicated they are in the process of conducting an alignment assessment.[7]
- **Fossil fuel approaches and policies**: 28% of investors (32% of Asset Managers and 23% of Asset Owners) have investment policies that consider fossil fuels.
- **Deforestation responses**: 12% of investors (19% of Asset Managers and 3% of Asset Owners) have established a policy or position on deforestation/land use.

Table 1. Investor net-zero targets



Note results for AIGCC members: 70% have a net-zero target (over their portfolio or part thereof); 53% have an interim target (over their portfolio or part thereof); 18% have a climate solutions target (qualitative or quantitative); 46% have set a Portfolio Coverage (asset alignment) target.
These numbers in Table 1 reflect the percentage of total investors reviewed who have achieved or partly achieved the relevant criteria. These target categories align with the PAII Net Zero Investment Framework.
Targets over all or a part of the portfolio.

7 This forward-looking target focuses on real-world decarbonization. To set this target, investors need to look across their portfolio at different assets, assess their alignment with net zero, then achieve the targets through asset selection, management, engagement, and (from time to time if appropriate) selective divestment. The Net Zero Investment Framework encourages investors to set a 5-year portfolio coverage goal for increasing the percentage of AUM invested in assets in material sectors that are i) achieving net zero or meeting the criteria to be considered ii) 'aligned' or iii) 'aligning' to net zero. This target should increase toward a goal of 100% of assets to be i) net zero or ii) aligned to net zero, by 2040.

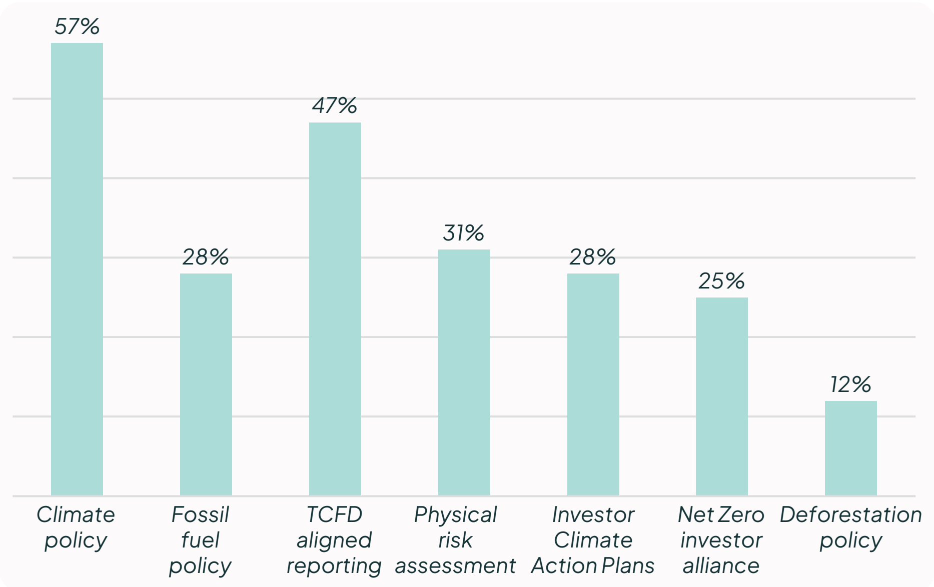
Focus area 3: Corporate Engagement

- **Corporate engagement initiatives**: 33% of investors (44% of all Asset Managers and 18% of Asset Owners) participate in corporate engagement initiatives on climate, including Climate Action 100+ or AIGCC's Asian Utilities Engagement Program.
- **Corporate engagement progress**: 37% of investors (50% of Asset Managers and 20% of Asset Owners) have shown robust climate corporate engagement, including climate change considerations in proxy voting policies, setting engagement targets, or reporting on climate stewardship actions and outcomes meaningfully.
- **Corporate engagement strategies**: a range of climate stewardship strategies are being adopted to drive corporates to align with net zero.

Focus area 4: Disclosure

- **Carbon emissions**: Investors are in the process of measuring and disclosing portfolio GHG emissions.
- **Climate disclosure**: 47% of investors (57% of Asset Managers and 38% of Asset Owners) are disclosing some level of climate risks and opportunities aligned to the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) but with varying levels of detail.
- **Physical climate risks**: 31% of investors (38% of Asset Managers and 20% of Asset Owners) have conducted a physical risk assessment over some or part of their portfolio, with varying levels of detail, though few set out detailed actions or plans to address these risks.

Table 2. Investor Implementation of climate strategy & governance practices



Note results for AIGCC members: 89% have a climate policy; 59% have a fossil fuel policy; 82% have undertaken TCFD/International Sustainability Standards Board (ISSB)-aligned reporting; 61% have undertaken a physical risk assessment; 59% have an investor climate action plan; 52% are part of a net-zero alliance; 28% have a deforestation policy.
These numbers reflect the percentage of total investors that have achieved, or partly achieved, the relevant criteria. The robustness, completeness, and quality of investor document(s) have not been assessed, so documents exist with varying levels of detail and/or comprehensiveness.

Focus area 5: Policy advocacy

- Domestic policy environments and regulations across Asia are a key determinate of investor climate action.
- Investor climate policy advocacy across the region is generally lower than needed to spur the net-zero transition at the speed required for investors' best financial interests.
- Investors are increasingly eager to engage in in-depth dialogue with Governments and policymakers to unlock climate opportunities, including through climate networks like AIGCC.
- Investors who responded to AIGCC's Net-Zero Survey noted several climate priorities for Asian governments, including:
  1. improved approach to carbon pricing
  2. greater funding to support climate technologies
  3. setting 1.5°C aligned sector pathways
  4. mandatory climate disclosures
  5. improved approach to physical risks.

Focus Area 1: Governance

Appropriate governance and a portfolio-wide strategy for climate change provide the basis for portfolio alignment and broader actions by an investor to achieve net-zero goals.[8]

Leading investors:

- make climate change central to the organization's strategic plan
- demonstrate robust climate governance and planning, improving director climate accountability and transparency, and providing regular climate training to staff
- ensure top-down oversight and buy-in from the board and senior management, and align achievement of climate-related metrics with remuneration and incentives.

8 Investors should define roles and responsibilities to oversee and implement the organization's commitments on climate change and report on their climate performance. See ICAP's *Ladder and Guidance*: https://theinvestoragenda.org/icaps/.

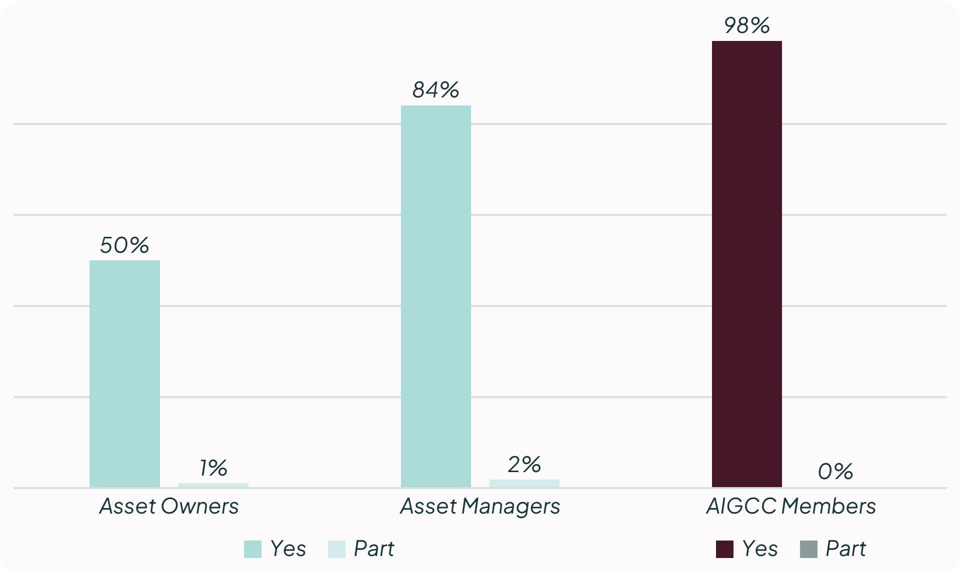
Recognition of climate change

Most investors across Asia have publicly recognized climate change as a material risk and opportunity.

Investors recognize that swift, economy-wide decarbonization has the greatest net financial benefit to investors' beneficiaries and clients, and the overall economy.

Of the 200+ Asia Investors, half of all Asset Owners and 85% of Asset Managers have **publicly recognized climate change as a factor** that does, or will, impact their portfolio (or have made statements indicating they are or intend to take climate action). In terms of AUM, $27 trillion representing 81% of investor AUM reviewed (from 183 investors headquartered within Asia) have publicly recognized climate as a source of material risks and opportunities.

Figure 1. Recognition of climate change



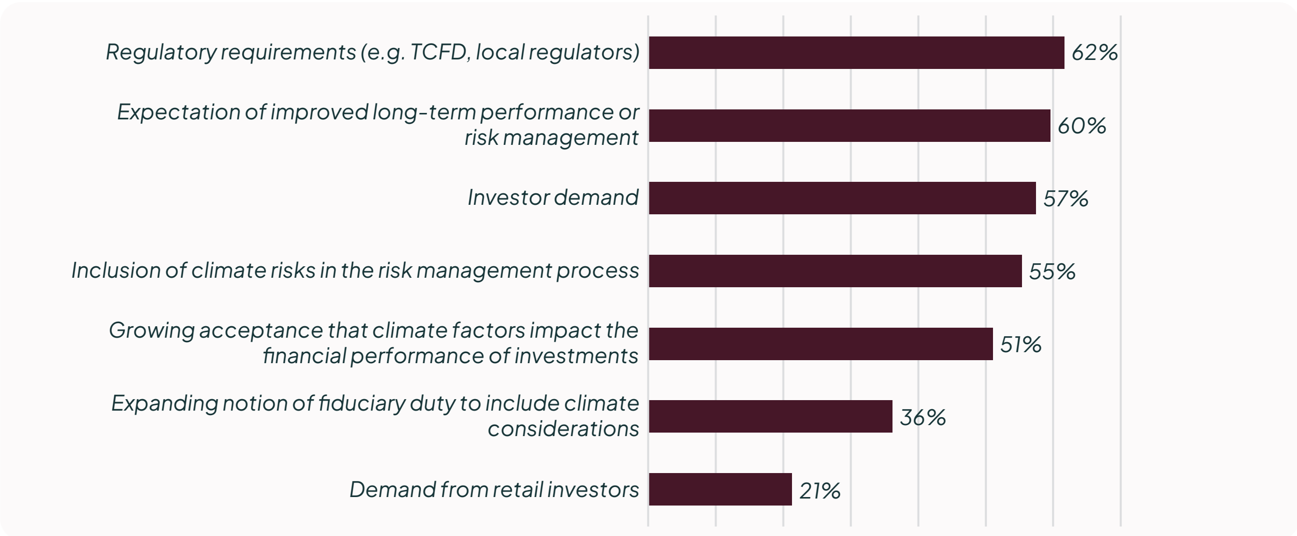
200+ Asia Investors recognize climate change risks/opportunities (e.g., have made a statement to that effect and may have commenced action).

Climate action drivers for investors

Regulatory and long-term performance are the key drivers for investors to act on climate.

Investors are being driven to consider climate from multiple angles. Changing regulatory requirements (62%) and expectations of improved long-term performance and risk management (60%) drive investors to act on climate.

Figure M1. Survey of AIGCC Members: What have been the top drivers for your organization to consider climate considerations and net-zero investing? (*n* = 47)[9]



9 Note: regarding the AIGCC Net-Zero Survey questions/date, "*n* = X" indicates the number of responses received for that specific question. Not all survey questions were mandatory, so sometimes the number of responses received varies.

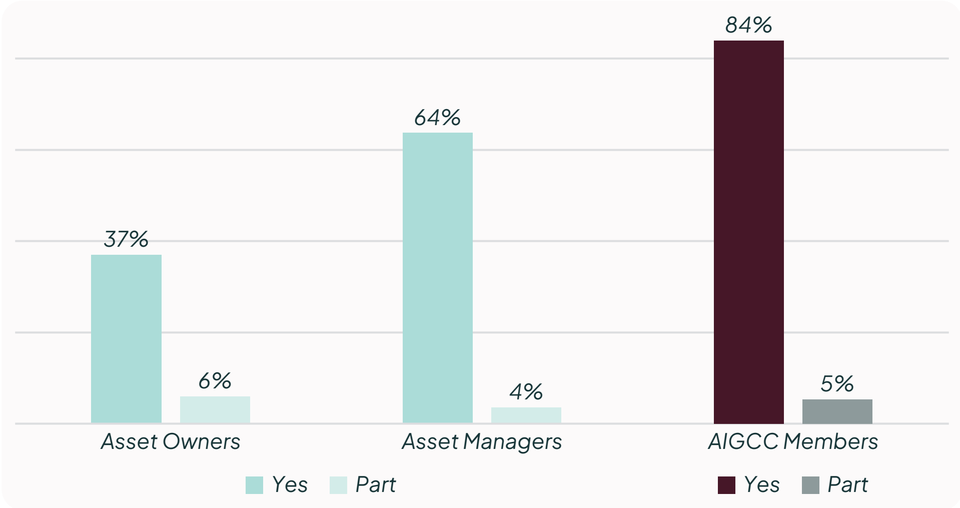
Climate policies

Climate change considerations are being integrated into investment policies but with varying levels of detail and robustness.

From the 200+ Asia Investors, 43% of Asset Owners and 68% of Asset Managers have incorporated climate change into their investment policies, but with varying detail and robustness.

84% or 56 AIGCC members have now set a climate policy, up from 80% in 2022.

Figure 2. Climate policies



200+ Asia Investors who have a policy on integrating climate change considerations into investments.

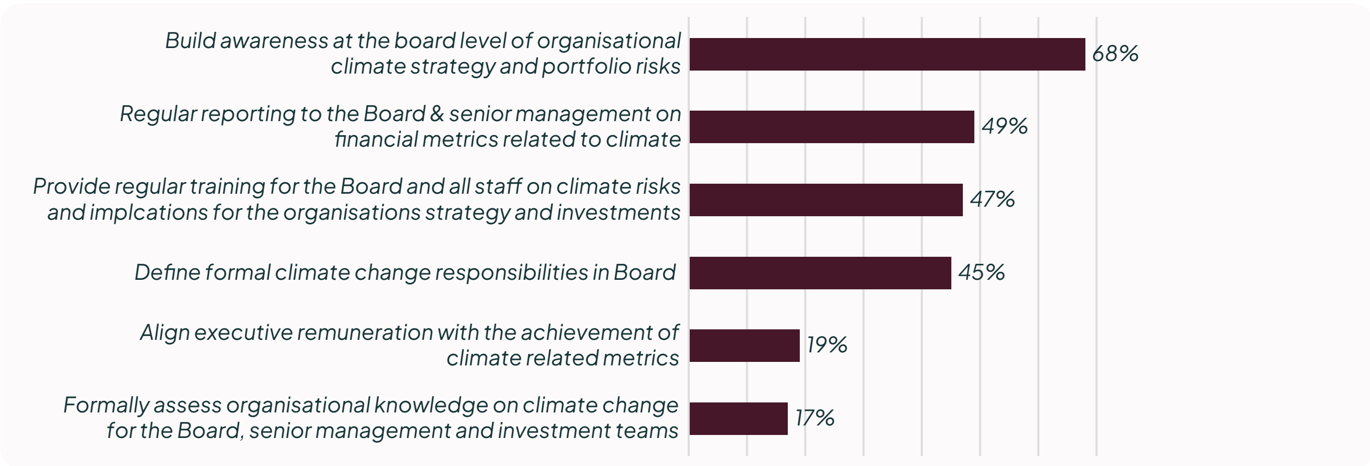
Governance structures

More than two-thirds of investors surveyed are implementing climate strategies at the board level.

Investors are improving their incorporation of robust climate governance structures and disclosing this. Best practice ensures top-down buy-in by linking remuneration/ performance KPIs to climate outcomes.

68% of respondents to the AIGCC Net-Zero Survey are building awareness of climate strategy and portfolio risks at the board level.

Figure M2. Survey of AIGCC Members: Regarding your organizational governance structures regarding climate change, which of the following do you generally satisfy (*n* = 47)



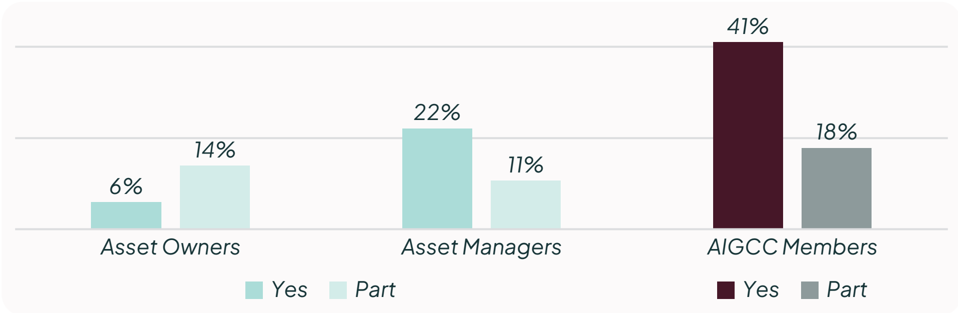
Investor Climate Action Plans

Leading investors are setting comprehensive transition plans.

Investors understand the importance of net-zero transition plans. Leaders are adopting comprehensive climate action plans central to the organizations' strategic plan, led from the top down by the board and senior management. This requires capacity building, staff resourcing, and moving toward linking climate to executive remuneration.

In the AIGCC Net-Zero Survey (*n* = 58), 50% of respondents reported having a climate transition plan/investor climate action plan for achieving their net-zero objectives and targets.

Figure 3. Investor climate action plans



Criteria: 200+ Asia Investors who have published an investor climate action plan.

Focus Area 2: Investment

Summary of investment progress

Leading investors:

- integrate climate change into investment decision-making, processes, and strategic asset allocation to drive long-term returns for beneficiaries
- allocate capital to 1.5°C transitioning companies, clean energy, and low-carbon solutions
- set near-term targets to align asset classes with net-zero alignment criteria
- set targets for and report on amounts invested in climate solutions
- consider strategies and policies to phase out fossil fuels
- incorporate deforestation, nature, and biodiversity considerations into policies and investment decisions.

Leading asset owners are aligning mandates with net zero.

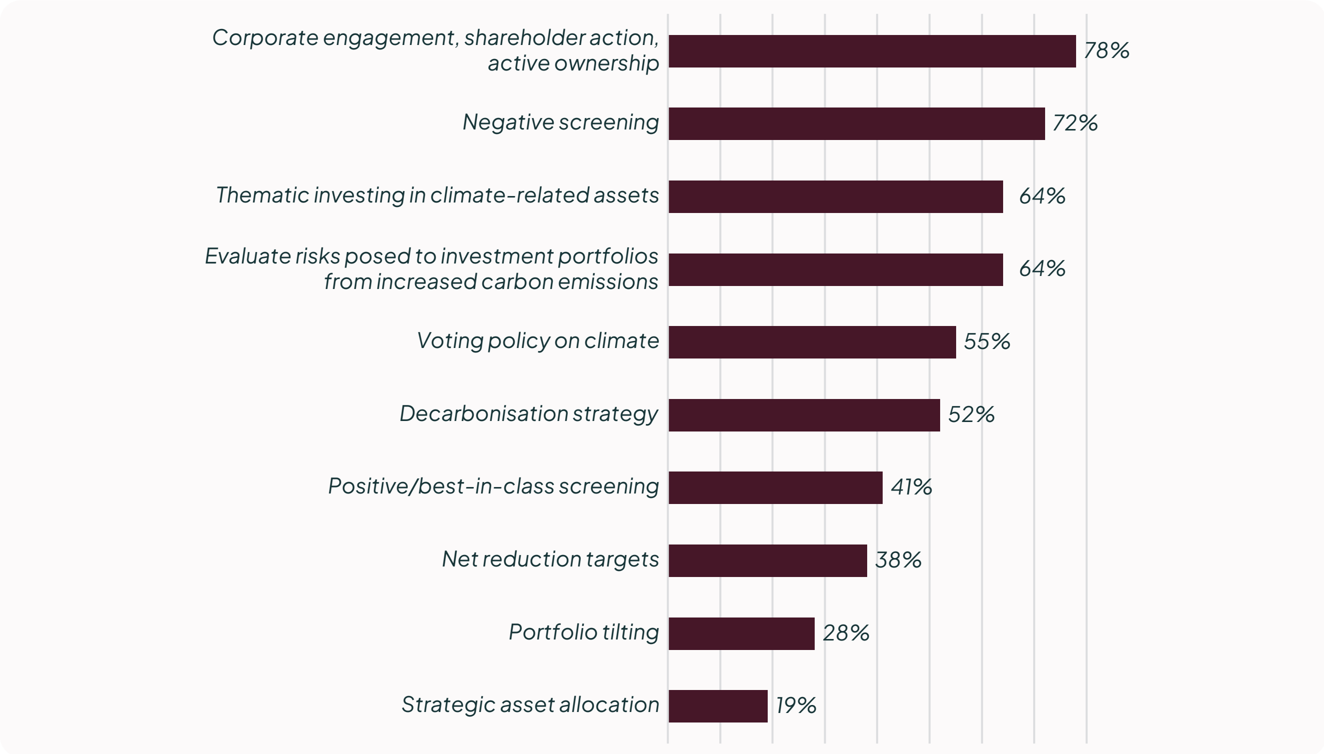
Despite areas of progress, for most investors reviewed there remains a climate ambition and action gap. Many investors have yet to show material progress in key areas aligned with the ICAPs Expectations Ladder and Net Zero Investment Framework (NZIF), which should remain a focus for the year ahead.

Climate strategies

78% of investors surveyed use corporate engagement, shareholder action, and active ownership as a climate implementation approach.

Investors favor active ownership as a key climate implementation approach, together with negative screening and thematic investing in climate assets. Strategic asset allocation to climate investments (19%) is still nascent.

Figure M3. Survey of AIGCC Members: Which of the following climate approaches does your organization implement? (*n* = 58)



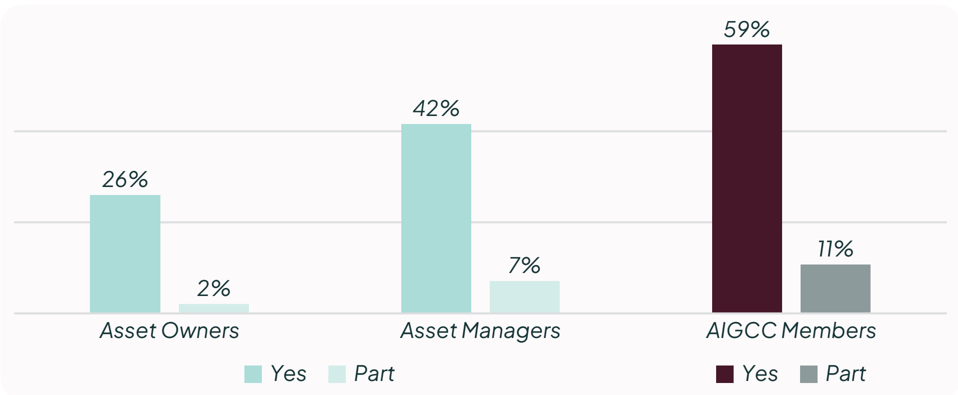
Net-zero targets

Investors use portfolio decarbonization objectives to drive accountability and assess effectiveness of climate actions.

From the 200+ Asia Investors, a quarter of Asset Owners and about half of the Asset Managers have set a net-zero decarbonization objective over some or part of the portfolio (not necessarily across all AUM). 36% of AIGCC members have set whole of portfolio targets.

70% or 56 AIGCC members have now set a public net-zero decarbonisation objective over all or part of their portfolio, an increase of 19% from 2022.

Figure 4. Net-zero portfolio objectives



200+ Asia Investors who have made a net-zero commitment for portfolio emissions.

Short-term decarbonization objectives

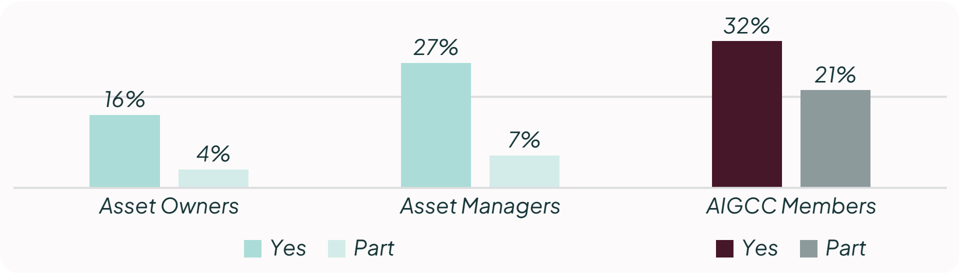
Short-term decarbonization targets are adopted by some, but not most, investors.

Of the 200+ Asia Investors, 20% of Asset Owners and 34% of Asset Managers have set an interim target across all or part of their portfolio. These investors have set these near-term decarbonization targets (e.g., >10-year targets) to drive the internal urgency and accountability needed to more broadly minimize climate risks materializing to portfolios and economies across Asia.

Responses to the AIGCC Net-Zero Survey (*n* = 58) showed:

- 45% of investors had a short-term decarbonization target over at least one asset class or mandate in their portfolio.
- 11% of Asset Owners and 18% of Asset Managers had a short-term target over the whole portfolio. This nearly doubles at the asset level for listed equities, but short-term decarbonization target setting is lower across other asset classes.

Figure 5. Short term decarbonization objectives



200+ Asia Investors who have set short-term/interim targets to reduce portfolio emissions (whole portfolio).

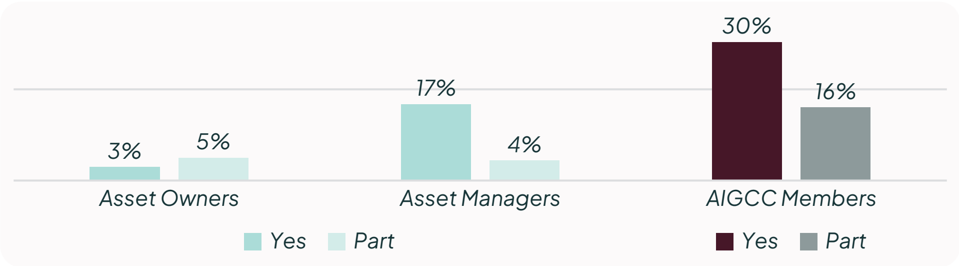
Asset level net-zero alignment

Investors are focusing on assessing net-zero alignment at the asset level and setting targets.

Leading investors are assessing and setting targets to improve asset-level alignment.

10% of the 200+ Asia Investors reviewed have set a target to increase asset alignment with net zero. These targets are a key driver for reducing emissions in portfolios and across the real economy. This is important for bottom-up asset management, stewardship prioritization and a comprehensive decarbonization approach that focuses on real-world impact rather than paper decarbonization. Most investors use the Net Zero Investment Framework (NZIF)[10] to do this.

Figure 6. Asset alignment targets



200+ Asia Investors who have set asset alignment (portfolio coverage) targets.

In the AIGCC Net-Zero Survey (*n* = 49):

- 45% responded that they had set a portfolio alignment target.
- 14% of survey respondents said they plan to set alignment targets within the next year.
- An additional 16% said they are internally tracking portfolio alignment at the asset level.

In the AIGCC Net-Zero Survey, the leading methodology for setting climate targets and measuring net-zero alignment was the NZIF (43%), third-party ESG data service providers/indices categorizations (31%) and Science-Based Targets for Financial Institutions (SBT-FI) (27%).

10 Portfolio alignment (portfolio coverage) targets are generally set using NZIF (6.1% of investors in this report), SBT-FI Portfolio Coverage approach (3.4% of investors in this report) or a blended/proprietary approach. Most investors in the Net Zero Asset Managers initiative have also set targets using NZIF.

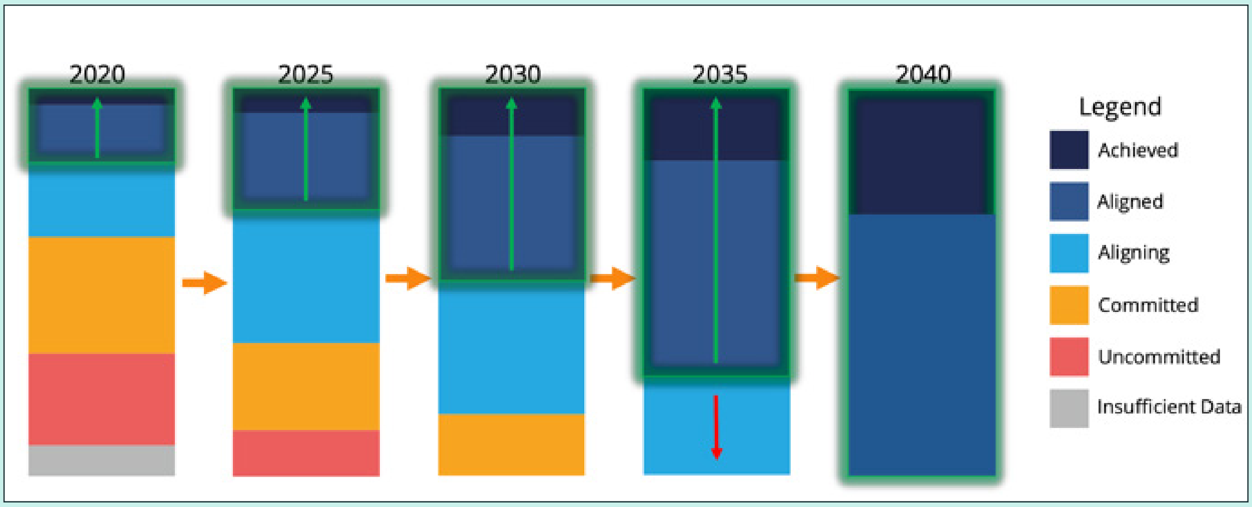
The NZIF approach to asset alignment

In the Net Zero Investment Framework (NZIF), the five alignment assessment categories are: i) achieving net zero, ii) aligned, iii) aligning, iv) committed to aligning and v) not aligned. NZIF clearly defines each category:

This alignment assessment can be used to set targets over time to increase the percentage of companies who are "achieving net zero" or are "aligned to net zero", etc.

NZIF Alignment Maturity Scale Assessing the alignment maturity of a company using the NZIF listed equity and corporate fixed income alignment criteria		i) Not aligned	ii) Committed to aligning	iii) Aligning towards a NZ pathway	iv) Aligned to a NZ pathway	v) Achieving net zero
At, or close to, net zero emissions						✓
Emissions performance*	Current emissions intensity (scope 1, 2 and material scope 3) relative to targets)				✓	✓
Capital allocation alignment	A clear demonstration that the capital expenditures are consistent with achieving net zero emissions by 2050				✓	✓
Decarbonisation strategy	A quantified plan detailing measures to deliver GHG targets, proportions of revenues that are green and where relevant increases in green revenues			✓	✓	✓
Disclosure*	Disclosure of scope 1, 2 and material scope 3 emissions			✓	✓	✓
Targets*	Short- and medium-term emissions reductions target (scope 1, 2 and material scope 3)			✓	✓	✓
Ambition	A long term 2050 goal consistent with achieving global net zero efforts		✓	✓	✓	✓
Climate Policy Engagement**	The company has a Paris- Agreement-aligned climate lobbying position and demonstrates alignment of its direct and indirect lobbying activities					
Climate Governance**	Clear oversight of net zero transition planning and executive remuneration linked to delivering targets and transition					
Just Transition**	The company considers the impacts from transitioning to a lower carbon business model on its workers and communities					
Climate risk and accounts**	The company provides disclosures on risks associated with the transition through TCFD Reporting and incorporates such risks into its financial accounts					
**alignment criteria that a lower impact company needs to meet* ***Additional criteria to be incorporated where feasible, with data availability*		Additional criteria a company must meet to move to that alignment category				

Example of Target setting to improve alignment from 2020 to 2040



In the AIGCC Net-Zero Survey, eight (8) investors provided an optional response. They stated the percentage of their AUM currently considered aligned to net zero (based on the NZIF alignment assessment or similar methodology):

- One investor has 1–9% of their portfolio already achieving net zero.
- Five investors have over 20% of their portfolio "aligned" to a net-zero pathway.
- Three investors have over 30% of their portfolio "aligning" to a net-zero pathway.

To further understand the alignment of Asia investor portfolios, ISS ESG recently assessed the percentage of companies satisfying the above NZIF asset alignment criteria for listed equities. The assessment of these Asia-Pacific companies from priority sectors discovered that only 4% of companies are "Aligning", 3% are "Committed to Aligning" (most companies in this alignment are based in Japan), and 93% of companies are "Not Aligned".

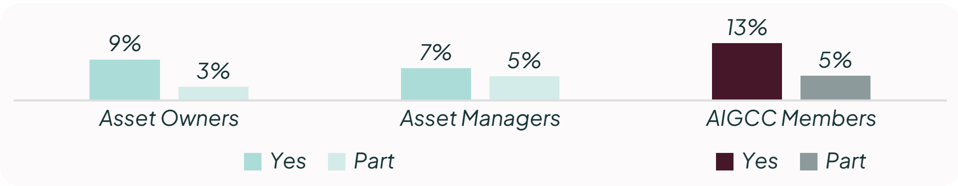
Climate solutions investment targets

Climate solutions investments are in focus.

Asia markets hold the key to achieving global climate goals, including through decarbonization and climate solutions investments in the region. A silent race is emerging to gain exposure to green finance opportunities, with an anticipated $71 trillion in investments required across Asia to reach net-zero by 2050.[11] There is strong interest from investors to allocate capital to 1.5°C aligning companies, clean energy and low-carbon solutions, with the net-zero transition potentially presenting a significant investment opportunity across a range of sectors, technologies and businesses.

- From the AIGCC Net-Zero Survey (*n* = 57), 14% of investors now have a public target to increase investment in climate solutions, and another 9% report having a target that is not publicly disclosed.
- 23% of investors yet to have a net-zero target reported having a strategy to increase investments in climate solutions.

Figure 7. Targets for climate solutions



200+ Asia Investors who have committed to increasing investments in climate solutions.

We expect to see more formalization of targets, plans and strategies to increase investments in climate solutions detailed over the coming year, with 21% saying they are "actively considering" this.

Investors can use a dashboard of climate solutions classifications and metrics to measure and communicate allocation to climate solutions and inform corporate transition plan analysis. For example, investors may report total financed emissions alongside complementary calculations excluding finance for 'Solutions, Transition and Emerging Markets (STEM)', recognising that a global scale up of climate solutions, such as renewable energy and electric transportation may lead to an increase in emissions within sectors in the short term.

11 Asia Policy Society Institute: *'Getting Asia to Net Zero'*, here. A report of the high-level policy commission on getting Asia to net zero, 2023.

Climate solutions categories

Investors want exposure to renewables, energy storage and low-carbon transportation.

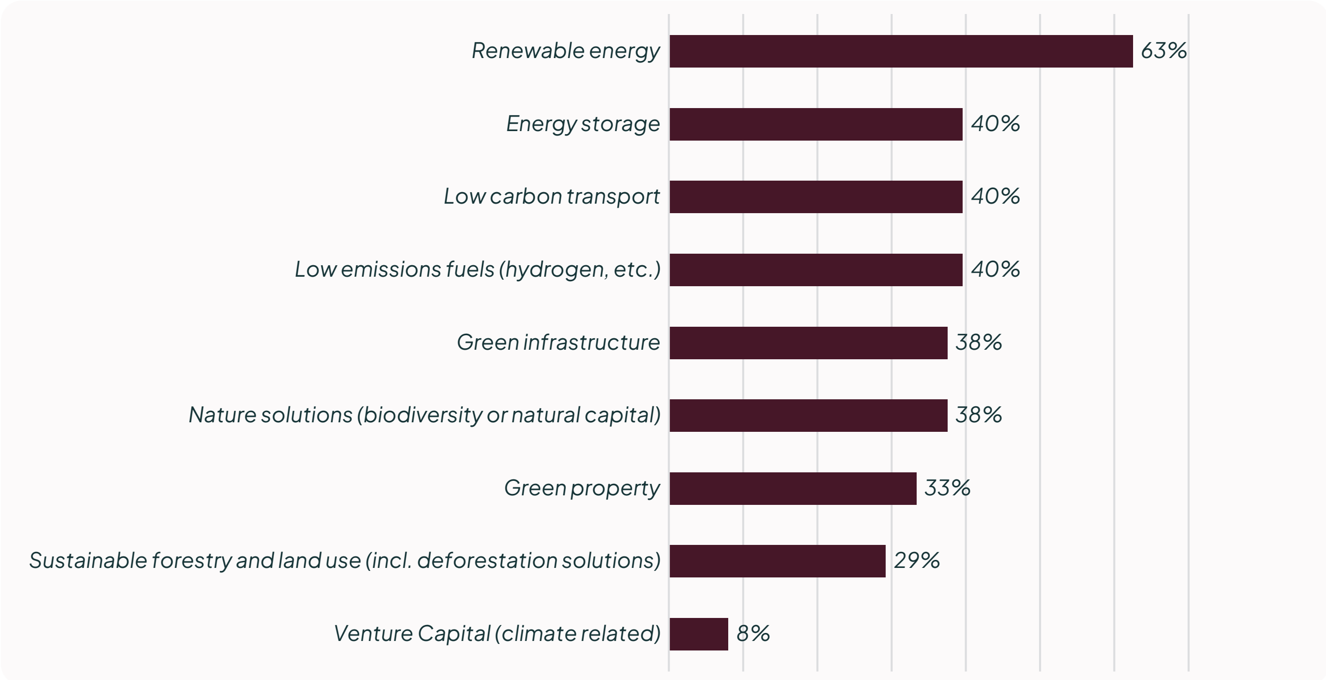
Respondents to the AIGCC Net-Zero Survey use the following methodologies and definitions to define climate solutions investments[12]:

- 35% of responders said they use third-party ESG data service providers.
- 33% said they use their own internal framework or proprietary methodology.
- 35% use taxonomies for sustainable activities, while others use green-labeled products and certifications, etc.

Investors also look to the recent IIGCC Climate Solutions Guidance (listed equities and corporate fixed income). To support clear and transparent disclosures and protect the integrity of climate solutions classifications, investors should prioritize transparency and standardization when disclosing climate solutions classifications.

Funds are investing significantly in energy transition, predominantly through renewables and energy storage and transportation. Investors see Asia as a crucial hub for producing, utilizing, and exporting essential components that enable the world to reach net-zero targets.

Figure M4. Survey of AIGCC Members: What are the primary opportunities you want to gain exposure to in the near future as part of your climate solutions investment strategy? (*n* = 48)



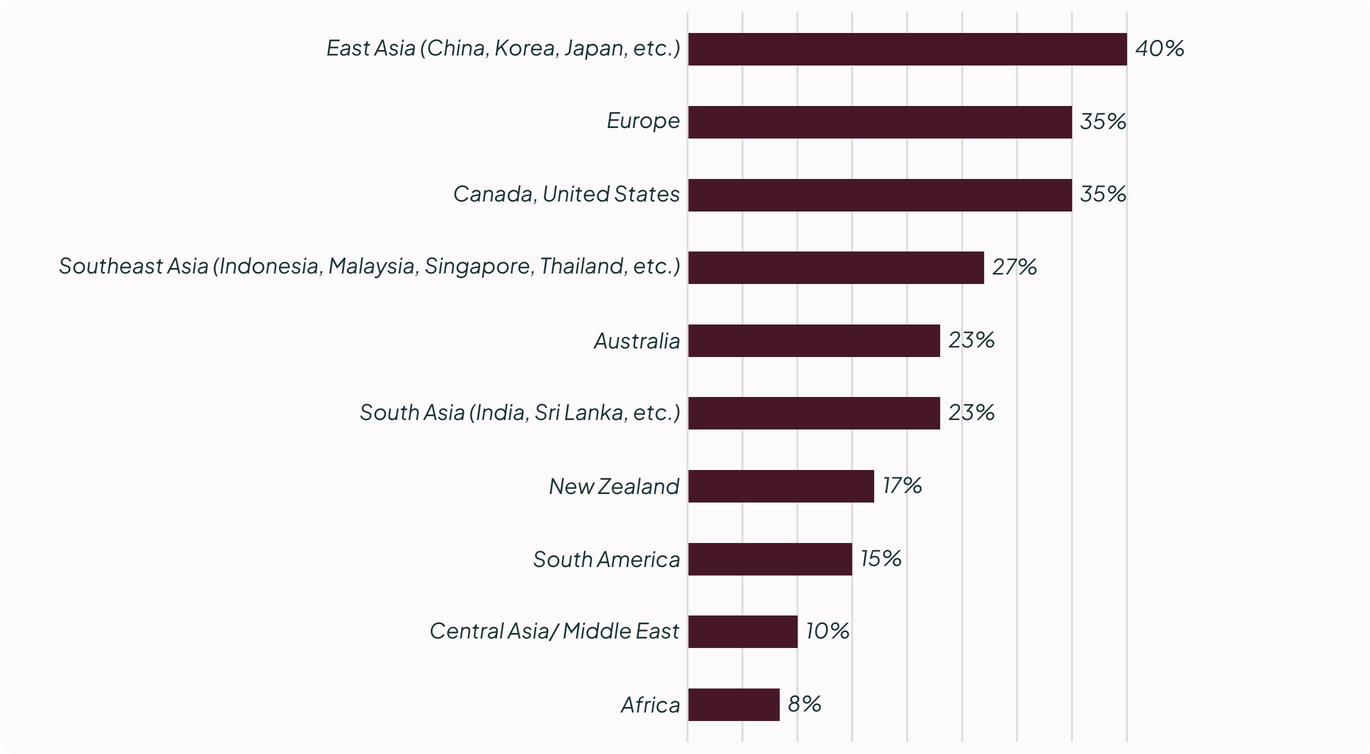
12 Generally speaking, climate solutions are "activities, goods or services that contribute substantially to, and/ or enable, emissions reductions to support decarbonization in line with credible 1.5°C pathways toward net zero, or that contribute substantially to climate adaptation". These activities should meet Do No Significant Harm criteria, and minimum social safeguards. See, the IIGCC *Climate Solutions Guidance* (listed equities and corporate fixed income) (November 2023).

Markets for climate solutions investments

A range of markets across Asia are considered attractive for climate-positive investments.

According to the International Energy Agency's Sustainable Development Scenario, an annual investment of about $180 billion in clean energy is required in Southeast Asia alone by 2030 to maintain a trajectory compatible with the region's climate goals. Current levels of clean energy investment stood at an average of $30 billion annually between 2016 and 2020. The below chart shows the key markets in focus for investors who responded to the AIGCC Net-Zero Survey.13

Figure M5. Survey of AIGCC Members: Which markets are you/do you expect to be active in as part of your climate solutions investment strategy? (*n* = 48)



13 See Imperial College London, '*Scale up of clean energy funding in Southeast Asia needed to meet climate goals*', Laura Singleton, March 27, 2023 here.

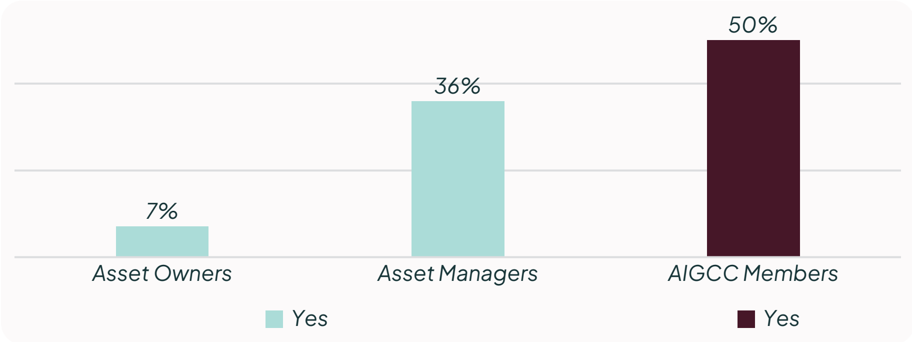
Investor net-zero alliances

Investors are joining global net-zero initiatives to bring credibility to their targets.

These initiatives are investor-led and facilitate connection with global peers.

Of the 200+ Asia Investors, 7% of Asset Owners and 39% of Asset Managers have joined net-zero Initiatives for investors,[14] including the Net Zero Asset Managers or Paris Aligned Asset Owners (PAAO),[15] etc., to accelerate net-zero action, transparency, and accountability. Slightly more are members of climate networks, like AIGCC, for peer-to-peer learning opportunities and capacity building.

Figure 8. Involvement in Net zero initiatives



200+ Asia Investors involved in investor net zero initiatives (e.g., Net Zero Asset Managers, Paris Aligned Asset Owners, United Nations Net Zero Asset Owner Alliance).

Aligning client mandates with net zero

A key barrier to climate action is that asset managers need more client mandates aligned with net zero.

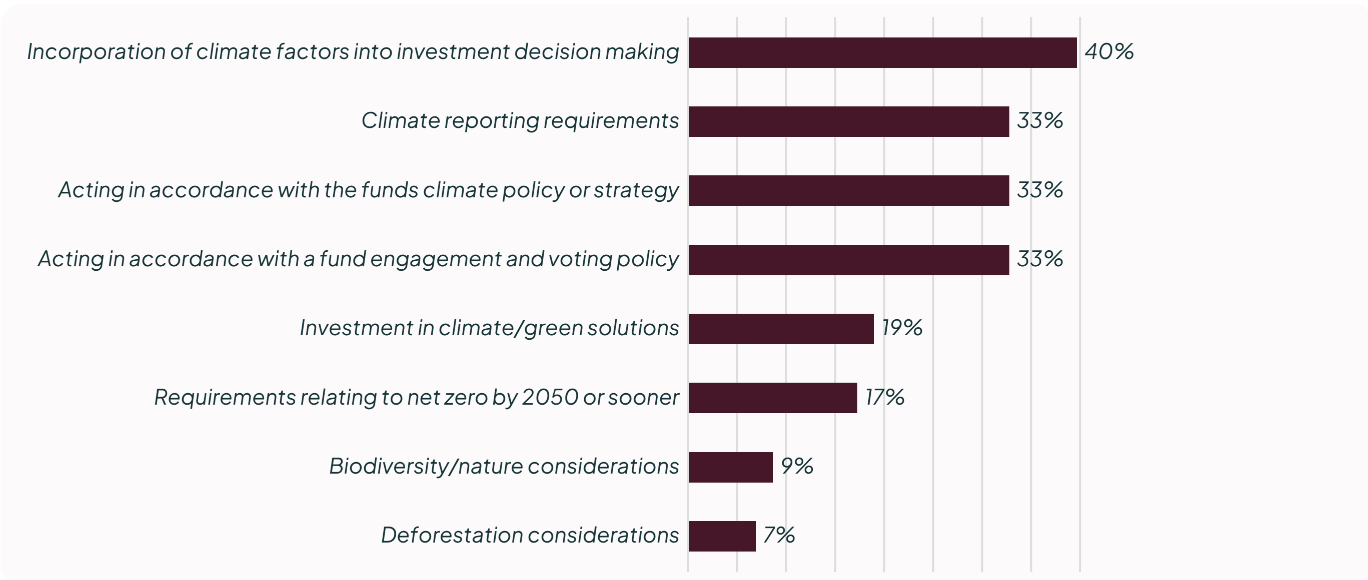
As a universal owner and cross-generational investor, mandates on climate for Asset Owners are critical to strengthening net-zero alignment and the impact of climate outcomes from Managers.

Responses from Asset Managers and Asset Owners indicate that Asset Owners are starting to align mandates with net zero to achieve their climate goals and mitigate portfolio risks.

In a separate AIGCC Net-Zero Survey question (*n* = 49), 41% of Asset Managers also stated a key barrier to climate action was they need more client mandates (IMAs) aligned with net zero.

Meanwhile, 44% of Asset Owners (*n* = 9) said they need better reporting from Managers (e.g., on stewardship outcomes, asset alignment, and GHG emissions).

Figure M6. Survey of AIGCC Members: Which of the following climate considerations do the mandates (investment management agreements – 'IMAs') you enter into typically include? (*n* = 58)



14 An additional 2.1% of investors are part of the Net-Zero Banking Alliance or Net-Zero Insurance Alliance – this is not included specifically as an investor net-zero initiative as these initiatives may not necessarily apply to all investor AUM/financed-emissions beyond their banking/insurance divisions, etc.

15 No Asia headquartered asset owners have yet signed up to Paris Aligned Asset Owners (PAAO). Five Asia HQ Asset Owners are part of the UN Net-Zero Asset Owner Alliance. PAAO are a global group of 56 asset owners, with over $3.3 trillion in assets. Read the Paris Aligned Asset Owner Commitment Statement.

Fossil fuel positions

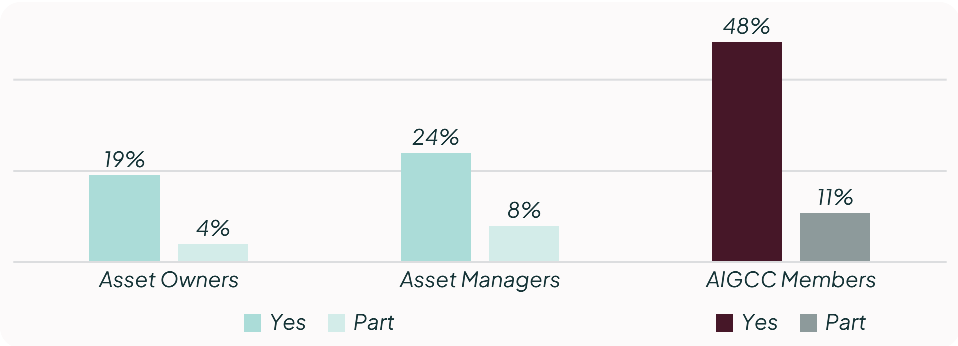
Leading investors are adopting strategies and policies to phase out fossil fuels.

Varying levels of reliance on fossil fuels across Asia create barriers to meaningful progress to net zero. Asia's emerging markets, particularly, face challenges in creating regional financing models that displace fossil fuels.

Investors are adopting policies and strategies to reduce exposure to fossil fuels, lower transition and stranded asset risks and to lessen the growing systemic physical risks.

Leading investors are adopting portfolio-wide fossil fuel policies and strategies. These include escalation strategies and timelines for excluding coal, oil, and gas companies from future investment and debt provision where corporates cannot show transition plan alignment with climate scenarios.

Figure 9. Fossil fuel policies and strategies



200+ Asia Investors with a policy or strategy on fossil fuels or other high-emitting assets.

From the AIGCC Net-Zero Survey (*n* = 58), we saw that, regarding organizational positions on fossil fuels, of the 58 responses to this question, 50% have a policy on fossil fuels or other high-emitting assets.
Also noted was:

- 41% have a position that applies to part AUM
- 25% have exclusions that apply to all AUM
- 24% have a coal exclusion over all AUM
- 10% consider just transition over all AUM
- 24% satisfied none of the above.

AIGCC's Asian Utilities Engagement Program (AUEP)

The program helps investors and service providers collaboratively engage with Asia's systematically important electric utilities to increase the effectiveness of climate engagement with a common agenda.

The program's objective is to increase the effectiveness of climate engagement with focus companies through a common agenda, shared objectives, and collaborative effort with consistent, long-term objectives to send a powerful signal that investors are asking for and expect companies to respond to climate change.

The common engagement agenda

Based on AIGCC's Investor Expectations of Asian Electric Utilities Companies

- **Implement a strong governance framework** that clearly articulates the board's accountability and oversight of climate change risks and opportunities.
- **Take action to reduce greenhouse gas emissions** in a way that is aligned with the Paris Agreement. Companies should have clear decarbonisation strategies with short-, medium-, and long-term action plans including a timetable to phase out coal-based emissions in line with 1.5°C temperature scenarios.
- **Provide enhanced corporate disclosure** in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).
- **Outline physical risks to the company** and relevant adaptation strategies to mitigate these risks.
- **Engage with public policy makers** and other stakeholders in support of cost-effective policy measures to mitigate climate-related risks and facilitate low carbon investments in line with achieving net zero emissions by 2050 or sooner.

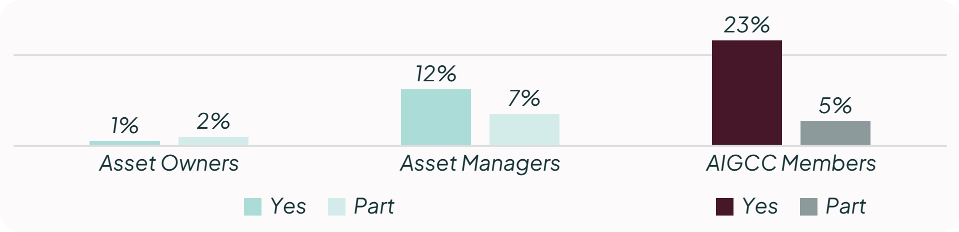
Alongside this high-level agenda, participants are identifying and communicating with companies on more detailed company-specific expectations.

Deforestation, nature, and biodiversity

Leading investors are increasingly considering deforestation, nature, and biodiversity.

While progress on deforestation across the investment community remains relatively nascent, leading investors are incorporating deforestation into policies, risk assessments & disclosures, company engagements, and/or investment decisions.

Figure 10. An approach or position on deforestation



200+ Asia Investors with a policy or strategy on deforestation.

In the AIGCC Net-Zero Survey, investors were asked If they had assessed or integrated a response to deforestation (*n* = 56):

- 17% stated they have a policy on deforestation.
- Of those who have done some form of deforestation assessment or response (34%):
  - 4% have conducted a detailed deforestation assessment across the portfolio.
  - 18% have conducted a high-level assessment across the portfolio.
  - 7% have integrated a response *over part of the portfolio* to address these risks/opportunities, while 11% have integrated a response over the whole portfolio.
  - 20% have a plan or strategy to address these risks and opportunities.
  - 4% publicly disclose deforestation risks and opportunities.

Investors also report increasingly incorporating deforestation into company engagements. In another AIGCC Net-Zero Survey question, 19% report engaging *meaningfully* with companies to reduce deforestation.

Under the Financial Sector Deforestation Action, some AIGCC members have also formally committed to eliminating forest-risk, agricultural commodity-driven deforestation activities at companies in investment portfolios by 2025.

We have also observed emerging investor interest in the broader topic of nature and biodiversity. The survey found that 43% have done some form of biodiversity assessment, and 26% have a biodiversity and/or nature policy. This aligns well with the recent introduction of the Taskforce on Nature-related Financial Disclosures (TNFD), which investors can use to assess, disclose, and understand the nature and biodiversity impacts, dependencies, risks, and opportunities on portfolios.

Focus Area 3: Corporate Engagement

Investors recognize the importance of engaging with systemically important emitters in Asia, aiming to rapidly transform business models in line with sectoral net-zero pathways. Collectively and individually, investors are essential in accelerating the transition to net zero by requiring companies to show their immediate progress in line with a 1.5°C future.

Leading investors:

- drive corporate alignment to net zero through their voting, resolutions, and corporate meetings and setting clear, time-bound climate expectations
- join engagement initiatives in Asia and conduct bilateral engagement with Asian portfolio companies with significant emissions or systemically important to the low-carbon transition
- leverage their influence to drive boards and senior company management to act to increase green capital expenditure (CAPEX), net-zero R&D, and green revenues while phasing out unabated carbon-intensive assets
- report on engagement actions and outcomes.

While some leading investors, primarily within the AIGCC membership, show robust and comprehensive climate stewardship, of the 200+ Asia Investors, a large portion of investors in Asia show insufficient action in this area.

Investors must work with portfolio companies to ensure they show credible net-zero transition plans, increase climate capital allocation, and encourage more effective climate governance and disclosures. This is achieved through amending investors' proxy voting policies, supporting climate resolutions, and establishing a clear escalation strategy for portfolio companies with time-bound expectations. Stewardship codes across the region support and encourage increased company engagement.

Climate corporate engagement progress

Investors are leveraging their influence to drive boards of portfolio companies to take climate action and invest for long-term value.

Through engagement and stewardship, these investors incentivize high-emitting companies to produce credible net-zero transition plans and demonstrate progress.

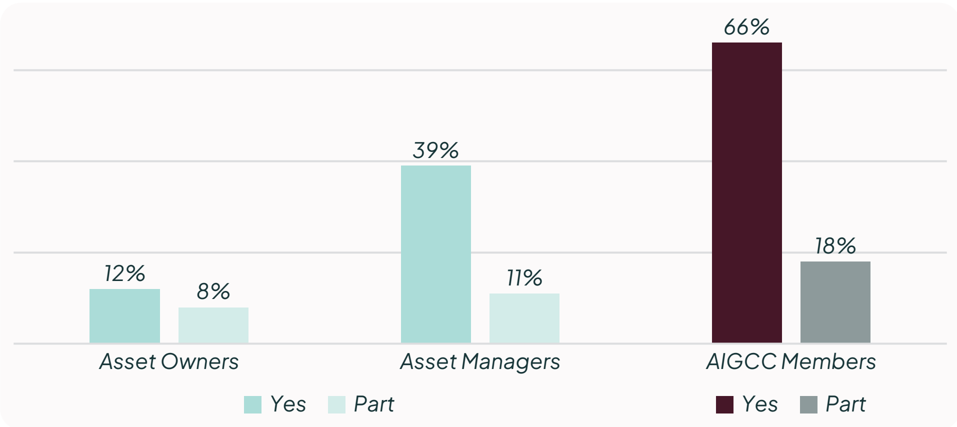
The AIGCC Net-Zero Survey (*n* = 58) indicates:

- 71% of responders engage directly and meaningfully with companies on climate.
- 29% of investors are part of local climate corporate engagement initiatives(e.g., engagement initiatives with domestic companies in Asia).
- 62% are part of global climate corporate engagement initiatives (e.g., Climate Action 100+).

Regarding other climate corporate engagement strategies, from the AIGCC Net-Zero Survey (*n* = 48):

- 38% of investors have a proxy voting policy on climate.
- 21% of investors have a public engagement target (9% have a public engagement threshold target, while 12% have another type of engagement target). Another 14% report having a non-public engagement threshold target.

Figure 11. Corporate engagement progress



200+ Asia Investors showing evidence of corporate engagement progress, including climate change considerations in proxy voting policies (or setting engagement targets or reporting on climate stewardship actions or outcomes meaningfully).

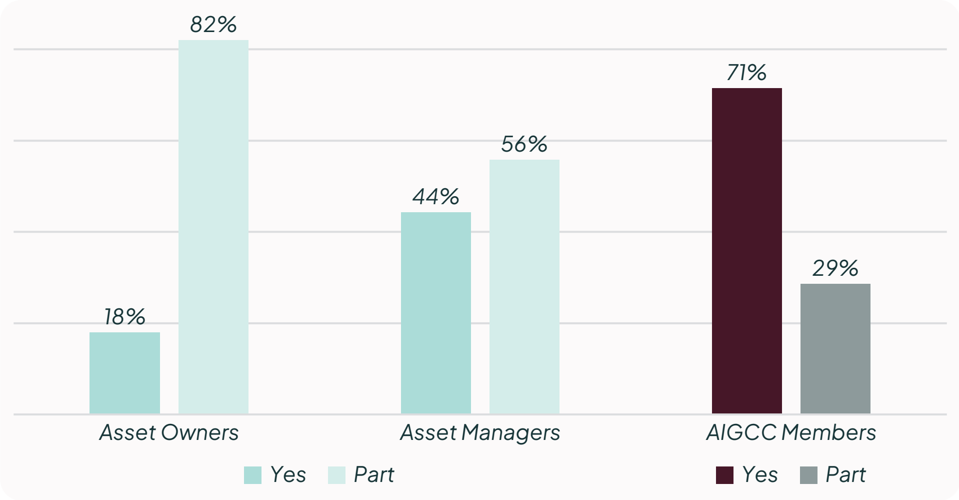
Climate engagement initiatives

Corporate engagement initiatives in Asia provide companies with consistent net zero asks from investors.

The investor voice is stronger together. Climate corporate engagement initiatives facilitate consistent asks and priorities from investors, enhancing corporate accountability and outcomes.

18% of Asset Owners and 44% of Asset Managers have joined climate corporate engagement and stewardship initiatives, including Climate Action 100+[16] and AIGCC's Asian Utilities Engagement Program (AUEP).[17]

Figure 12. Involvement in corporate engagement initiatives



200+ Asia Investors part of a climate corporate engagement initiative, including Climate Action 100+ or Asian Utilities Engagement Program.

Spotlight: Climate Action 100+ Phase 2

Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

The Business Case

The evidence is clear. Across the planet our economies and communities face systemic risks from climate change.

To mitigate their exposure and secure ongoing sustainable returns for their beneficiaries, investors must ensure the businesses they own have strategies that accelerate the transition to net-zero emissions by 2050, or sooner and align with the goal of the Paris Agreement.

The Paris Agreement goal is to limit average global temperature rise to well below two degrees Celsius above pre-industrial levels, and pursue efforts even further to limit the temperature increase to 1.5 degrees Celsius.

Phase 2

The initiative evolved its core goals and the Net-Zero Company Benchmark, improved and expanded how investors can participate, and enhanced the investor engagement model.

The new phase, running until 2030, aims to inspire a global scale-up in active ownership, markedly shifting the focus from corporate climate-related disclosure to implementing climate transition plans.

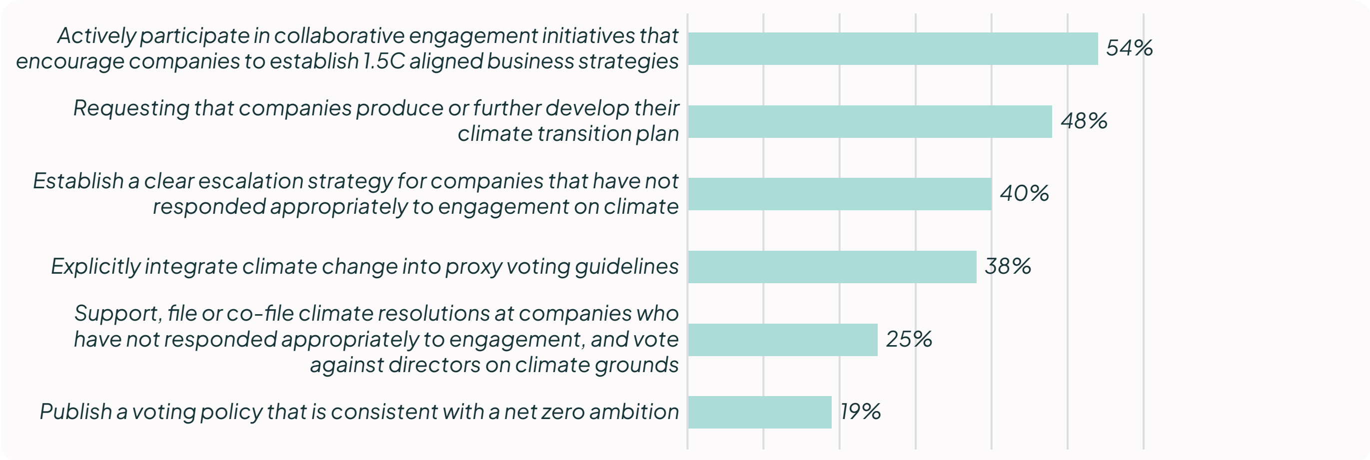
16 CA100+ has 54 Asian headquartered investors co-leading and contributing to corporate engagement. There are 37 companies listed in Asia in focus.
17 In 2021, AIGCC launched the AUEP. Through the initiative, investors engage seven of Asia's systematically important energy emitters, encouraging alignment with net zero.

Corporate engagement strategies

48% of investors request companies to produce net-zero transition plans.

Investors deploy a range of corporate engagement strategies. They enable corporate net-zero alignment through their voting, resolutions, and corporate meetings, with clear time-bound climate expectations to align company strategies with net zero.

Figure M7. Survey of AIGCC Members: Which of the following shareholder engagement and corporate escalation activities do you deploy to increase the profile of engagement? (*n* = 48)



Focus Area 4: Disclosure

Reporting climate risks and opportunities is critical to the efficient allocation of capital. Physical climate risks are already anticipated to cost Asian economies trillions of dollars. Together with transition risks, these can significantly impact investor portfolios.[18] Climate scenario analysis, assessments, and comprehensive disclosures are important in appropriately representing and managing the systemic financial risks of climate change.

Leading investors:

- recognize transparent disclosures play an important part in appropriately representing and managing the systemic financial risks associated with climate change
- use scenario analysis and stress testing to assess the impacts of physical and transition risks on the portfolio to inform current and future investment decisions
- use risk assessment and disclosures to inform strategies and manager selection.

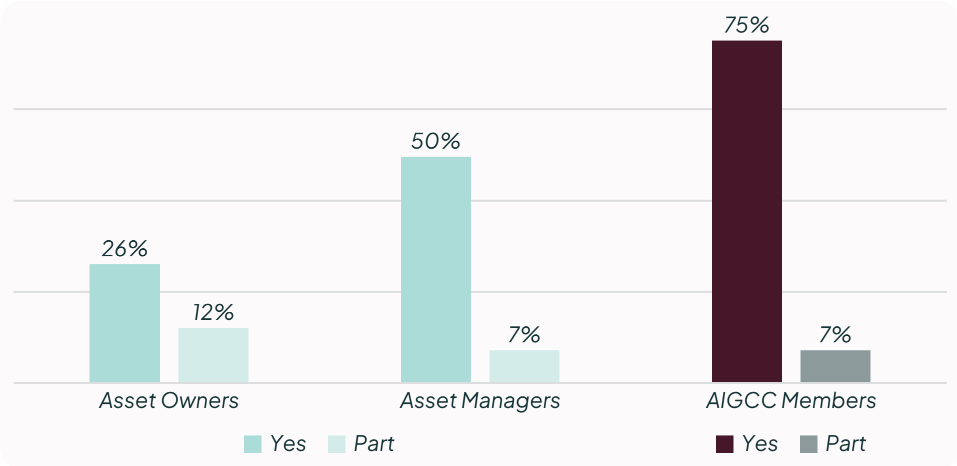
18 See footnote 3, referencing *Asia Development Bank, Southeast Asia and the Economics of Global Climate Stabilization, 2015* here.

Climate disclosure

Climate disclosures are improving.

While many investors have declared public support for corporations to adopt the TCFD and its recommendations, comprehensive climate disclosures from investors remain low. A quarter of Asset Owners and half of Asset Managers have published detailed climate disclosures in line with the recommendations of the TCFD, with a small additional number having published TCFD disclosures with generic/high-level information. There is good progress from AIGCC members in this area.

Figure 13. Climate disclosures



200+ Asia Investors who have published climate disclosure information in line with TCFD recommendations (or a related climate reporting framework).

In AIGCC's Net-Zero Survey (*n* = 57), 18% of investors reported obtaining external review/assurance of climate reporting, while another 58% provide climate disclosures annually without external review or assessment.

Investors continue to advance climate disclosures, including adopting the 2023 released ISSB Standards, which build on the TCFD Framework. The ISSB Standards provide a global baseline for companies to disclose decision-useful, climate-related financial information. The ISSB will supersede the TCFD around July 2024.[19]

Measuring GHG emissions

Leading investors measure and disclose greenhouse gas (GHG) emissions across assets and disclose this publicly.

From the AIGCC Net-Zero Survey (*n* = 58):

- 97% of investors have measured and published GHG emissions for at least one asset class.
- 21% of investors have sought third-party emissions assurance or verification for at least one asset class.
- For Asset Managers (*n* = 49), 51% have measured carbon across the whole portfolio, with 22% reporting this publicly.
- For Asset Owners (*n* = 9), 22% have measured carbon across the whole portfolio and published this. An extra 29% have measured portfolio emissions across the whole portfolio but have not yet made this public.

Most investors have measured and disclosed emissions across listed equities. Across other asset classes, including infrastructure, real estate, and private equity, generally, about half of those invested in that asset class measure emissions and make that public, with a small percentage obtaining third-party verification of accounts.

Several investors noted they track and disclose scope 3 emissions and use this to guide engagement priorities.

19 Following strong market demand for its establishment, Trustees of the IFRS Foundation announced the formation of the ISSB on November 3, 2021 at COP26 in Glasgow. The ISSB issued its inaugural standards—IFRS S1 and IFRS S2—in June 2023, ushering in a new era of sustainability-related disclosures in capital markets worldwide. The Standards will help to improve trust and confidence in company disclosures about sustainability to inform investment decisions. For the first time, the Standards create a common language for disclosing the effect of climate-related risks and opportunities on a company's prospects. IFRS S1 provides a set of disclosure requirements designed to help companies communicate to investors on sustainability-related risks and opportunities they face over the short, medium, and long term. IFRS S2 sets out specific climate-related disclosures and is designed to use with IFRS S1. Both fully incorporate the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

Scenario analysis

Climate scenario analysis is used as a tool to predict portfolio outcomes and risks.

Investors conduct scenario analysis and stress testing to assess the impacts of physical and transition risks on the portfolio and inform investment decision-making and engagement.

From the AIGCC Net-Zero Survey (*n* = 58):

- 33% of investors have undertaken scenario analysis across their whole portfolio (e.g., against 1.5°C, 2°C or 4°C scenarios).
- Of those, 26% report having done detailed sector and asset level scenario analysis and have published the approach and actions taken.
- Further, at the asset class level, 70% of those invested in listed equity and fixed income have undertaken scenario analysis in those asset classes: 48% for real estate, 39% for infrastructure, and 29% for private equity.
- 22% of those invested in listed equities and 9% of investors across their whole portfolio publish the actions taken in response to the detailed sector and asset-level scenario analysis they have done.

The analysis helps the fund to have deeper understanding of its portfolio with regards to climate-related risks and opportunities.

Sponsor Case Study:
How World's Largest Asset Owner Expanded View of Climate Impact

Japan's **Government Pension Investment Fund** (GPIF, The Fund)[1]—the world's largest asset owner with over USD 1.6 trillion in assets under management[2]—has consistently measured the impact of its ESG- and climate-related initiatives on companies, markets and the global environment.

The fund, however, sought for the tools to evaluate the growing number of emissions reduction targets set by its portfolio companies and to expand its climate-related assessments beyond public companies.

GPIF addressed those issues by adopting MSCI analytical tools and data for climate-related disclosure in its annual ESG Report. Since GPIF outsources its equity investments to external asset managers, it does not have the opportunity to directly engage with investee companies. However, through conducting climate-related analysis and publication of ESG Report, the fund believes it is one of the ways to engage with asset managers as well as investee companies.

To learn more about how MSCI can help drive your sustainability strategy, please contact MSCI.

Challenge

In 2022, GPIF determined it needed the tools to progress on two critical climate-related goals. It wanted a way to:

- Establish whether the emissions reduction targets set by its portfolio companies were ambitious enough to avoid the worst effects of climate change.
- Gain a clearer understanding of risks related to sovereign bonds and real estate asset holdings to extend its climate-related assessments beyond public companies.

Action

The fund adopted MSCI's target-level data, Climate Value-at-Risk (VaR) model and Implied Temperature Rise metric with an aim to better analyze the impact of its investments, assessing whether its climate-related activities are improving the sustainability of financial markets and risk-adjusted returns as intended.

1 The Government Pension Investment Fund (GPIF) is a client of MSCI Inc. and MSCI ESG Research LLC and consented to its inclusion in this case study. GPIF did not receive any compensation in connection with this article. Any results achieved by GPIF are specific to its use case and are cited for informational purposes only. Other investors may not experience similar outcomes.
2 As of FY2023 2Q.

Case Study Continued

Impact

Institutional investors seeking to decarbonize their portfolios use MSCI's Climate Target and Commitments dataset to evaluate companies' ability to achieve climate targets. GPIF uses the data to help track portfolio decarbonization and analyze investee companies' current status of climate targets to share best practices to the broader public.

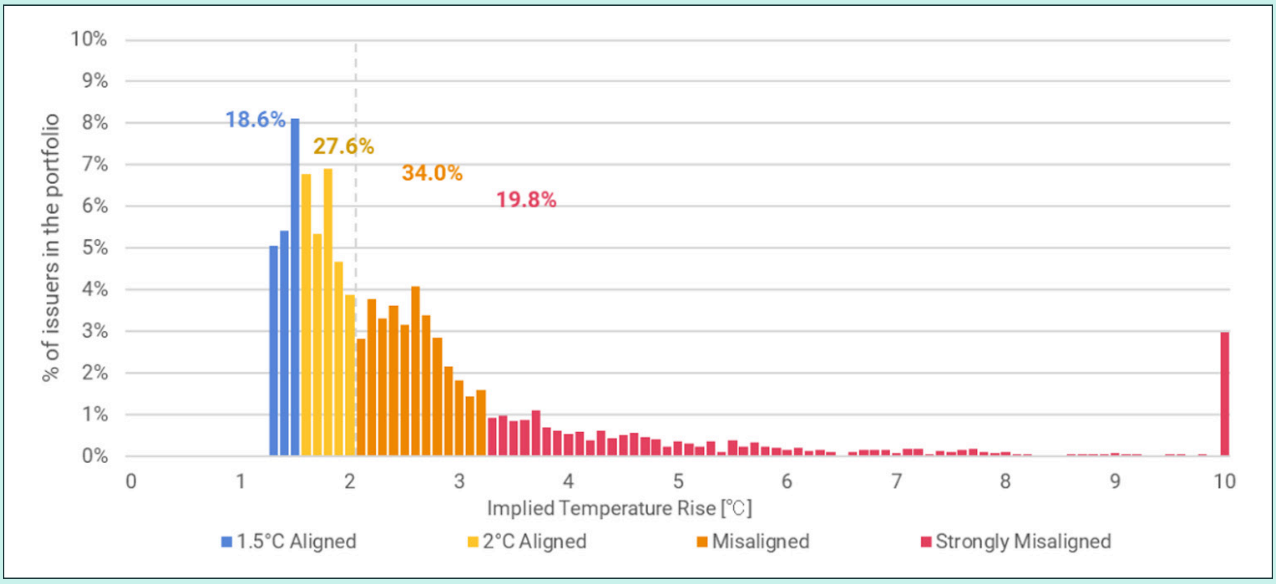
MSCI's Climate VaR model is designed to provide a forward-looking and return-based valuation assessment to measure climate-related risks and opportunities.

The fund uses the model to project changes in sovereign yields based on scenario analysis showing how markets might factor in climate risks. In one instance, the model indicated that a disorderly climate transition would result in significant negative VaR for major country holdings.[20]

Climate VaR also helps GPIF analyze its commercial—including office, industrial, retail—and residential real estate holdings to detect transition and physical risk exposure.

With MSCI's Implied Temperature Rise metric, investors can determine whether portfolio companies are aligned with global climate goals—keeping the average temperature rise this century to well below 2°C above preindustrial levels, as outlined by the Paris Agreement. The metric is designed to help investors evaluate how companies manage their "fair share" of decarbonization efforts to limit global warming, highlighting best and worst actors.

GPIF Implied Temperature Rise analysis: Temperature alignment status of issuers in FY 2022



https://www.gpif.go.jp/en/investment/GPIF_ESGReport_FY2022_E_report03.pdf – page 23.

Implied Temperature Rise helps GPIF evaluate the effectiveness of climate-related targets. The fund learned in a recent analysis, for example, that the number of its portfolio companies with a climate target increased by 2.6 percent point from FY2021 to FY2022.[21] It also learned that those providing sufficient target-level data increased by 0.4 percent point during that same time.

The analysis helps the fund to have deeper understanding of its portfolio with regards to climate-related risks and opportunities.

20 As of end of March 2023.
21 From "2023 Analysis of Climate Change-Related Risks in the GPIF's Portfolios", page 23.

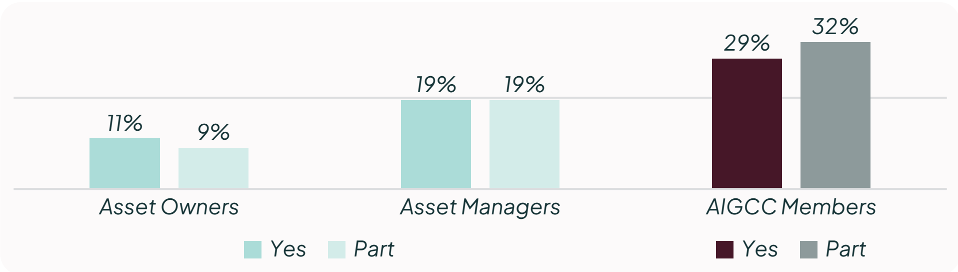
Physical climate risks

Investors are making progress in assessing physical climate risks.

- Current climate trajectories project severe physical impacts across Asia economies.[22]
- Leading investors want to focus more on driving urgent, adaptive, and resilience-building actions across Asia.
- Of the 200+ Asia Investors, 15% showed they had done a detailed physical climate risk assessment (over part or all of the portfolio), with a further 16% having made preliminary or high-level physical risk disclosures.
- From the desktop disclosure review, it appears only a small portion of investors disclose the actions they have done or plan to do to drive adaptation and resilience across portfolios.

- From the AIGCC Net-Zero Survey (*n* = 36):
  - 63% of investors have completed a climate physical risk assessment across at least one asset class.
  - 25% of investors reported having conducted a physical risk assessment across their full portfolio, and 60% of those invested in listed equities have conducted an assessment across listed equities, 50% in fixed income, 52% in real estate, and 26% in infrastructure.
  - Of the investors who responded yes in those categories, 50% (7 investors) responded they had implemented a response to increase resilience over the whole portfolio, 39% have done so specifically for listed equities, 60% for infrastructure, and 33% for real estate.

Figure 14. Physical risk assessments



200+ Asia Investors who provide material disclosure on physical risks and/ or actions to increase portfolio resilience or adaptation to physical climate impacts.

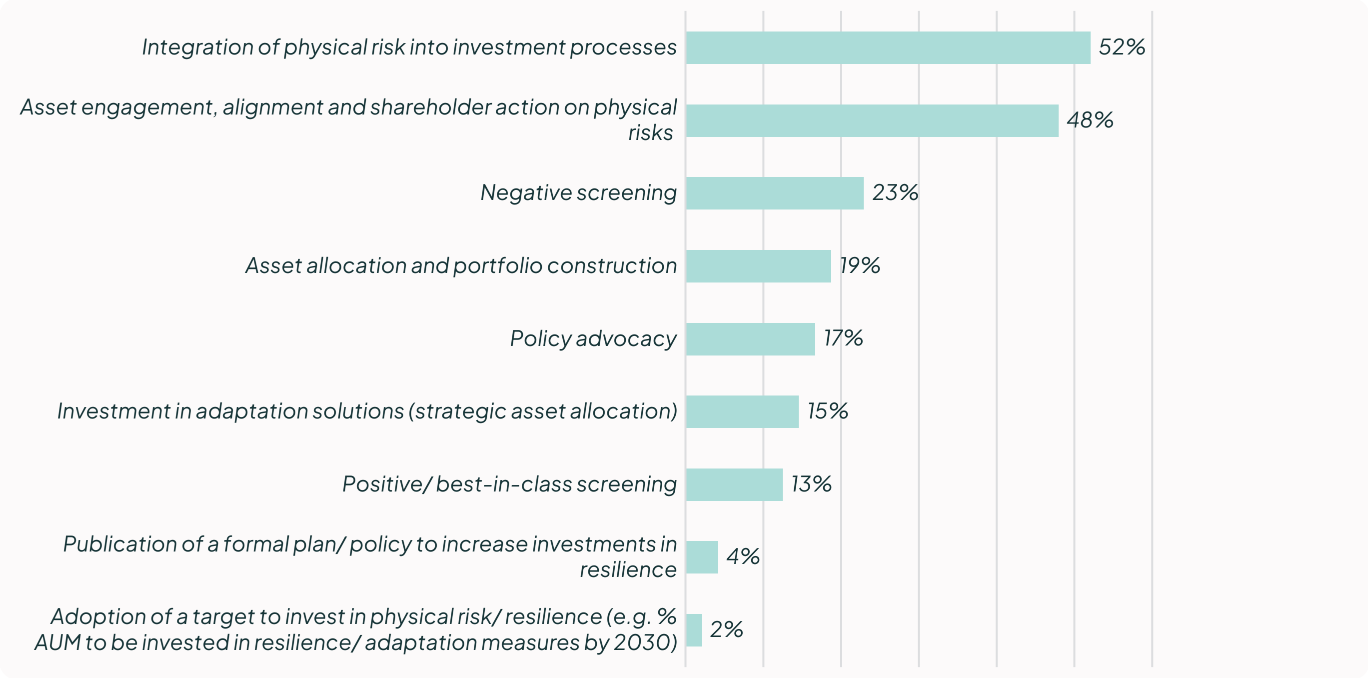
22 "Asia stands out as more exposed to physical climate risk than other parts of the world without climate adaptation and mitigation. Under RCP 8.5, by 2050, between 600 million and 1 billion people in Asia will live in areas with a nonzero annual probability of lethal heat waves. That compares with a global total of 700 million to 1.2 billion. In other words, a substantial majority of these people are in Asia. For Asia, the probability of being exposed to a lethal heat wave at least once a decade centered on 2050 could increase to 80 percent. By 2050, on average, between $2.8 trillion and $4.7 trillion of GDP in Asia annually will be at risk from an effective loss of outdoor working hours because of increased heat and humidity; as such conditions rise, the human body tires more easily and needs to take more frequent breaks. The Asian GDP at risk accounts for more than two-thirds of the total annual global GDP impact. Finally, about $1.2 trillion in capital stock in Asia is expected to be damaged by riverine flooding in a given year by 2050, equivalent to about 75 percent of the global impact' – See, McKinsey, '*Global Institute Climate risk and response in Asia*', November 24, 2020, Report here.

Physical risk responses

Investors are starting to respond to physical risks, with much more to be done.

Investors work to respond to physical risks and understand the value of resilience-building actions for long-term portfolio value preservation.

Figure M8. Survey of AIGCC Members: What type of response to physical risk is being implemented to increase resilience? (*n* = 48)



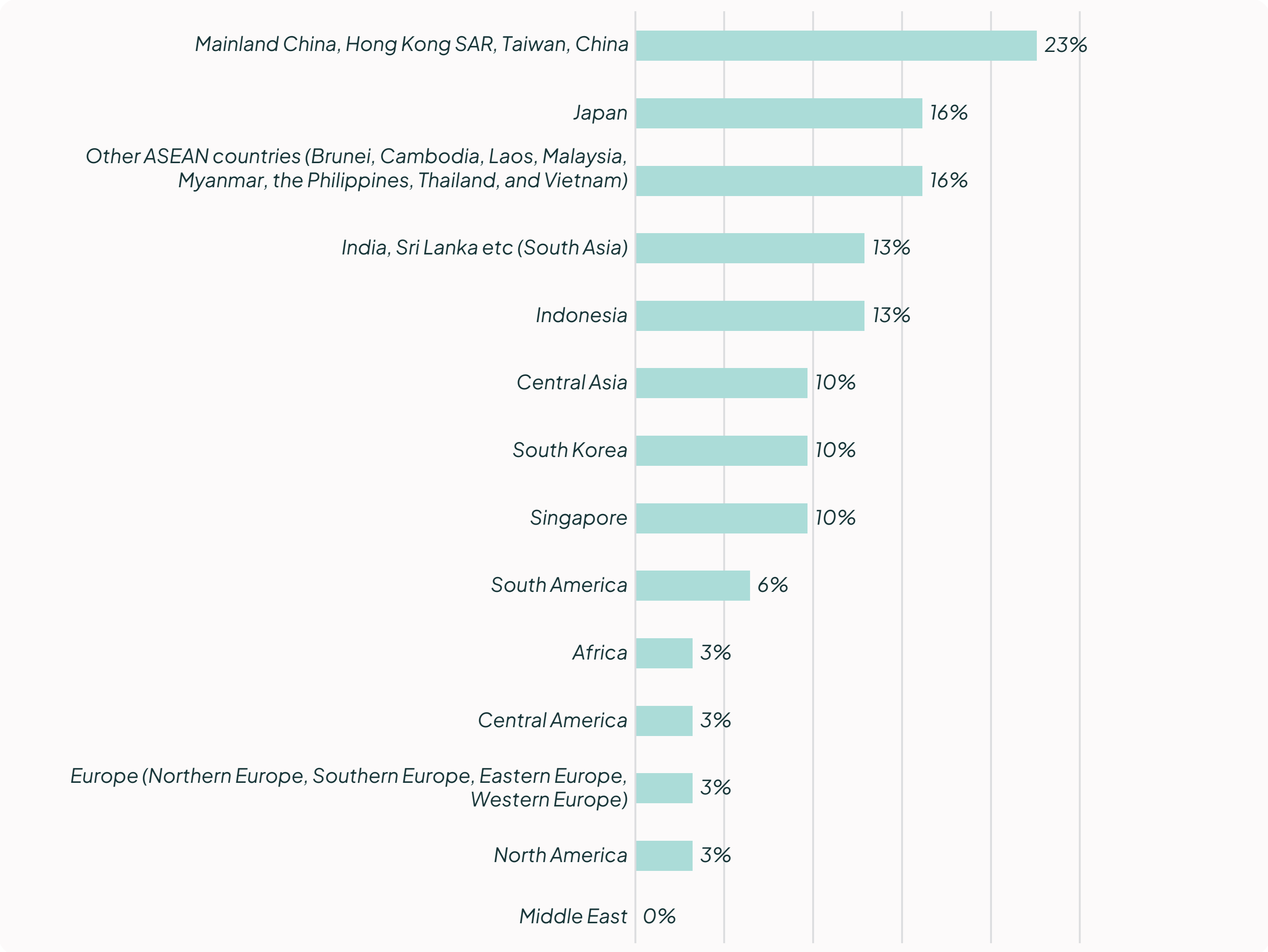
Physical risk actions across a range of markets in Asia

Implementing physical risk responses and adaptation measures across Asian markets remains low.

Investors are increasingly concerned with addressing physical risks across Asia, given the enormous exposure of much of the region to climate-related disasters and costly extreme weather events.

Investors implement responses to physical risks across a range of markets.

Figure M9. Survey of AIGCC Members: Across which geographical regions have you implemented a response to improve resilience to physical risks? (*n* = 31)



Focus Area 5: Policy Advocacy

Policy and regulations are often key barriers to investors' climate progress. Investor engagement and collaboration with policymakers on net zero needs to increase as it remains key to achieving climate goals—for investors, corporates, and governments.

Leading investors:

- recognize their influence on policymakers and view climate policy engagement and advocacy as an extension of investor responsibilities to deliver the best outcomes for their beneficiaries,
- engage in meaningful and frequent policy engagement and advocacy with governments to unlock climate opportunities, and
- disclose climate policy actions and set out forward-looking strategies on policy advocacy in their climate planning.

Investors are increasingly contributing to the collective effort to influence policy that helps investors across Asia allocate capital in the transition to net zero. This advocacy is delivered through meetings and roundtables with government officials and policymakers, letters, responding to consultations, and media activity, as well as ensuring lobbying and trade association advocacy is consistent with net-zero goals. Different jurisdictions have different mechanisms for investors to participate in the policy process.[23]

Policy advocacy in Asia, including by investors and industry bodies like AIGCC, is increasingly focused on energy transition and managed phase out, mandatory climate disclosures, climate financing, deforestation and enhancing assessments and responses to build resilience to physical climate risks.

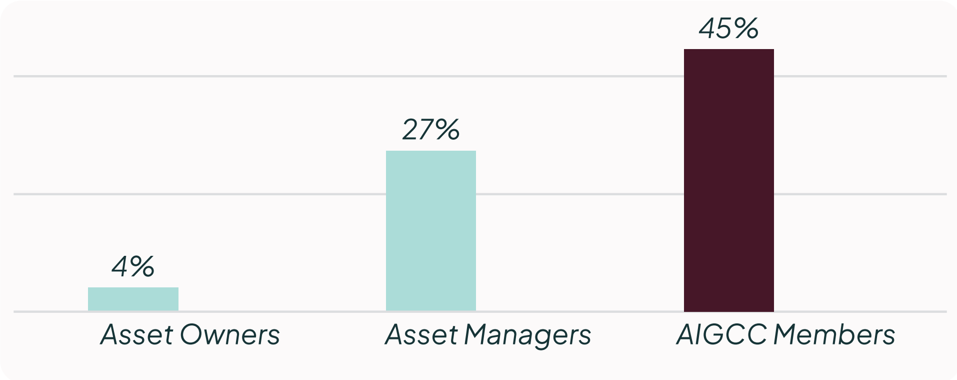
23 Some ideas for policy advocacy actions are set out in the ICAP's Guidance on Using the ICAPs Expectations Ladder.

Global Investor Statement to Governments on the Climate Crisis

Only a few investors in Asia signed the Global Investor Statement to Governments on the Climate Crisis.

As the simplest proxy for whether the investor is engaged in policy advocacy, we considered whether the investor had signed the Investor Agenda's ambitious 2022 Global Investor Statement to Governments on the Climate Crisis, an investor-backed statement and call for urgent action on climate change.[24] 16% of the investors (4% of Asset Owners) had signed the statement, indicating a hesitancy to engage in climate policy advocacy activities from many domestic investors in Asia.

Figure 15. Policy advocacy, through investor-backed statements



200+ Asia Investors who supported the 2022 Global Investor Statement to Governments on the Climate Crisis.

In the AIGCC Net-Zero Survey (*n* = 47), investors were asked what they thought should be the key climate-related priority of the national government where their entity is headquartered.

The top responses were:

- an improved approach to carbon pricing (34%)
- greater funding to support new climate technologies (32%)
- setting 1.5°C aligned sector pathways and plans (32%)
- mandatory climate-risk reporting and implementation of climate taxonomies (28%)
- an improved approach to physical risks.

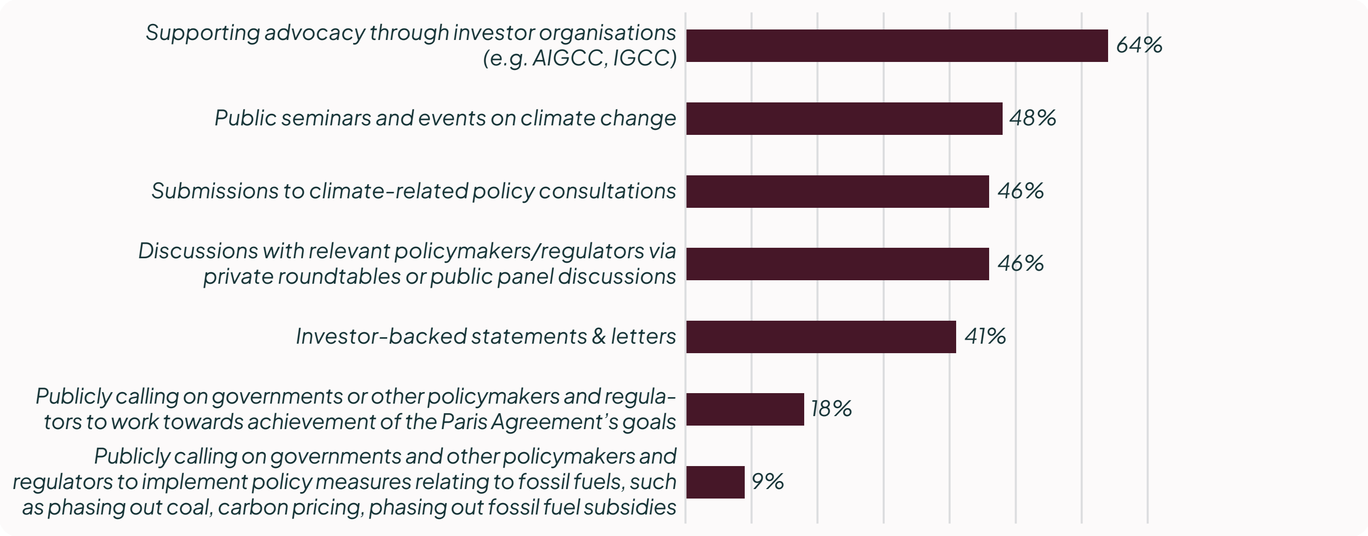
24 Signed by 602 Institutional investors with $42 trillion AUM, the 2022 Global Investor Statement to Governments on the Climate Crisis is the most ambitious statement to date in terms of the policy recommendations it contains. It calls on governments to raise their climate ambition in line with the goal of limiting global temperature rise to 1.5°C.

Policy advocacy and engagement activity

Within AIGCC, investor climate policy advocacy is on the rise.

A wide range of investors are conducting more climate policy advocacy actions. Still, more intense and frequent engagement will lead to better climate outcomes and an orderly transition to net zero in investors' best financial interests. In AIGCC's policy and Asian Utilities Engagement Program activities in 2023, we saw leading investors undertake regional engagement and in-depth dialogue with policy and government decision-makers to unlock climate opportunities.[25]

Figure M10. Survey of AIGCC Members: Please indicate the following types of policy advocacy you have undertaken over the past 12 months regarding climate change (*n* = 56)[26]



25 The AUEP program facilitated three successful roundtables in Japan, Malaysia, and Indonesia over the last few months. AIGCC supported the Oxford Asian Leaders Sustainable Finance program, bringing together over 40 regulators and central banks from 13 markets.

26 AIGCC contributes to the collective effort to influence policy to help investors across Asia allocate capital in a transition to net zero.

Focal Policy areas include:

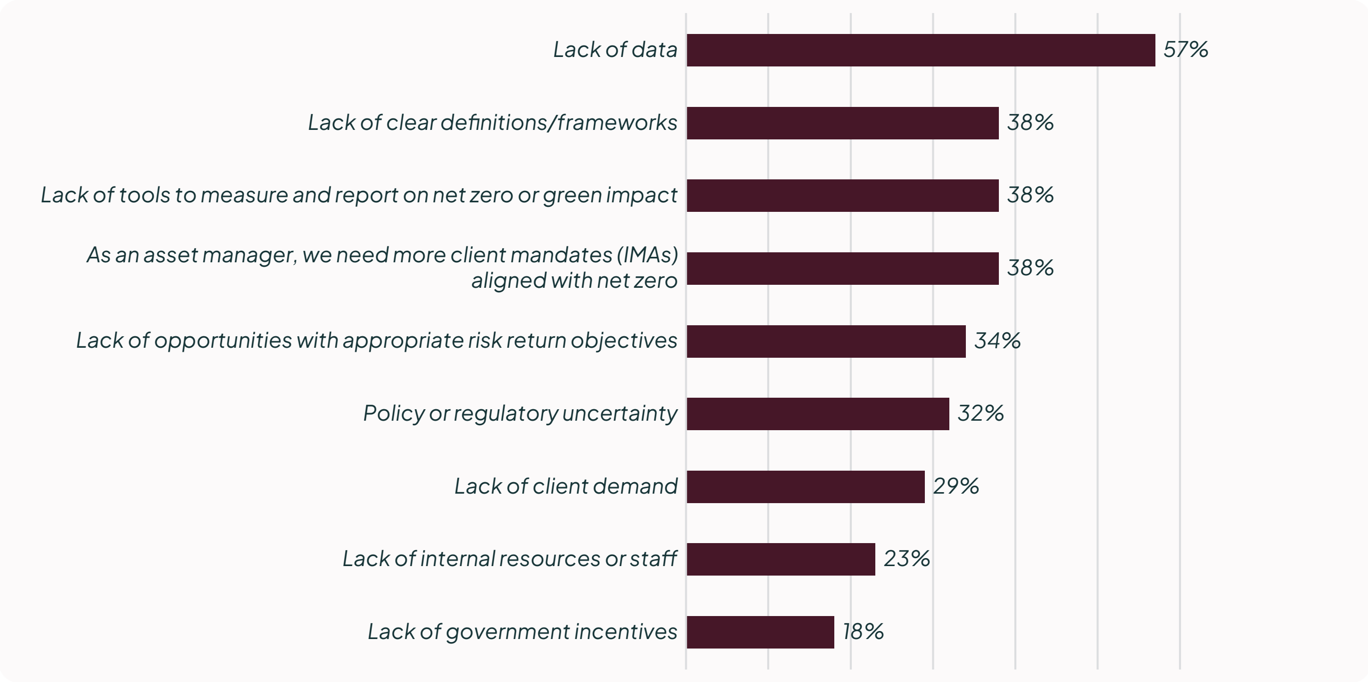
- *Energy transition:* supporting government policy that unlocks a rapid clean energy transition.
- *Disclosures*: working alongside regulators and governments to reform climate disclosure rules.
- *Climate financing*: Including taxonomies and other legislation to support the flow of sustainable finance.
- *Physical risk*: understanding the implications of physical impacts of climate change to help build resilience to protect economies.

Barriers to climate action

Investors within AIGCC's membership have expressed a need for better climate data and climate taxonomies from governments. This will allow better quality climate-aligned reporting and more allocation from investors in climate positive investments.

The leading "lack of data" barrier identified below suggests investors want governments across Asia to provide consistent, accurate, reliable, and timely climate data. For example, national physical climate-risk records would support investment needs in adaptation and resilience and prevent physical climate risks from being underpriced by investors.

Figure M11. Survey of AIGCC Members: In your view, what are the main barriers to increasing your exposure to climate solution investments or climate-aligned investments (*n* = 56)



Conclusion

Investors across Asia are making climate progress. However, save for some leaders who are well out-performing the market, most investors are not acting at the speed required to limit the most serious effects of global warming. This places the long-term financial interests of their beneficiaries at severe risk.

The investment industry is at a critical juncture. Investor's net zero actions in the next few years will have significant implications on future returns and the stability of Asian financial systems.

Asian investors have recognized the need to take holistic climate action to reduce the raft of climate-related physical risks, transition risks, legal risks, and stranded asset risks.

By embracing actions towards net zero, investors have the opportunity to support sustainable development, and lock in the benefits of future economic models: Clean abundant energy, better transport systems, advanced manufacturing and industry - a climate resilient net zero economy.

Appendix: Data Collection Methodology

The results contained in this report are derived from two sources:

- **Survey responses from 58 AIGCC Members, and**
- **A desktop review of 200+ investors active in Asia.**

The report makes clear when the analysis draws on one, other, or both of these sources. .

AIGCC Net Zero Survey

The 2023 AIGCC Net Zero Survey ('AIGCC Net Zero Survey'), is sent to AIGCC members and non-members asking a number of detailed questions regarding their climate integration and progress.

The survey had 58 institutional investor responders - 49 asset managers (both domestic and global) and 9 asset owners. Medium AUM was $106 billion, with 48% of investors being under $100 billion and 52% being over $100 billion.

The survey draws on structures in the best practice Net Zero Investment Framework, and Investor Climate Action Plans.

Desktop review of 200+ Asia Investors

AIGCC reviewed publicly available information from:

- 100 Asset Owners (all headquartered in Asia), and
- 116 Asset Managers.

These are collectively referred to as ('200+ Asia Investors').

Within this group were 58 AIGCC investor members.

These investors represent a range of markets, assets under management (AUM) sizes, and ownership structures, with the majority being of significant assets under management or influence within their region or globally.

These investors' publicly available documents and climate disclosures were reviewed by AIGCC against key elements from the Investor Climate Action Plan framework.

200+ Asia Investors by markets

This includes 183 investors headquartered in Asia.

Asia HQ Investors

- Brunei 1% - (2)
- Hong Kong SAR - 8% (17)
- India - 7% (16)
- Indonesia – 2% (5)
- Japan – 15% (32)
- China -15% (32)
- Malaysia – 3% (7)
- Pakistan - >1% (1)
- Philippines – 1% (3)
- Singapore – 9% (19)
- Sri Lanka - >1% (2)
- South Korea – 10% (21)
- Taiwan – 5% (10)
- Thailand – 3% (7)
- Vietnam – 3% (7)

Other (non-Asia HQ Investors)

- Australia - <1% (0.5)
- Europe – 5% (10)
- North America – 7% (16)
- United Kingdom – 4% (8)

The criteria for inclusion in the list of 200+ Asia Investors were:

- **AUM size:** The median AUM was approximately USD $75.6 billion, and total assets of approximately USD $76 trillion in AUM, representing a majority of total global assets under management[1]. The data on investors' AUM was sourced from a range of publications[2].
- **Type of Asset Owners and Asset Managers:** The sample contains mostly larger Asset Owners (sovereign wealth funds, pension funds and insurance companies etc)[3], and larger Asset Managers (multi-asset managers and leading managers across equity, fixed income, private equity and infrastructure).
- **Geographic diversity:** The Asset Owners and Asset Managers include a mix of regions covering 15 Asia markets[4].

Desktop Assessment Methodology

The 200+ Asia Investors' disclosures and publications were reviewed against the Investor Climate Actions Plan (ICAPs) Ladder 'focus areas' of (1) Governance (2) 'Investment' (3) 'Corporate Engagement'(4) 'Investor Disclosure'(5) 'Policy Advocacy'.

For each of these focus areas, a set of sub-criteria were chosen as an indicator of action in that focus area, allowing AIGCC to form a high-level view of progress across each focus area. (See Appendix Box 1)

The review provides a high-level view of climate progress across and within areas, categorised as:

- 'Yes': the criteria was disclosed/ achieved
- 'Part': the criteria was evident only at a high level, for example without detailed disclosure, consideration or application.
- 'No': there was no evidence that the investor had satisfied the criteria based on the public disclosures reviewed.

This desktop review includes data from publicly available reporting in English, or website information able to be translated into English, as at 30 September 2023.

1 This represents majority of professionally managed assets in the world (given total of approx. $112 trillion global AUM) as many of the largest global asset managers are also included in the study.

2 This includes, but is not limited to, climate disclosures (TCFD reports, Sustainability/ ESG Reports, Annual Reports), climate action or transition plans, website pages, climate statements, responsible investment/ climate policies/ investment policies, proxy voting guidelines, stewardship reports, governance policies etc. All annual reporting reviewed covered data available as at 30 September 2023, in English. This information was supplemented with self-reported information from investors who responded to AIGCC's 2023 Annual Net Zero Survey

3 "*Asia and the Pacific is home to a significant number of asset owners, with a very high volume of assets under management. Recent research shows that the world's top 100 asset owners' assets under management (AUM) totalled $25.7 trillion at the end of 2021, growing 9.4 per cent from the previous year. Of these, Asia and the Pacific accounts for 36.1 per cent of total AUM. Such asset owners need to convert their net zero commitments into faster action, including transition plans with targets for 2030 and 2040*'." Extract from WTW.co.com.

4 Investors were identified via lists including Willis Towers Watson's Thinking Ahead Institute The Asset Owner 100 – 2022; The world's largest asset managers – 2022 ; Caproasia 2022 Top 100 Asset Owners Ranking; SWFI Top 100 Largest Insurance Rankings by Total Assets; S&P Global Market Intelligence; local market figures taken from regional websites; https://www.statista.com; https://www.asiaasset.com; other websites to ensure a balance of geographic diversity, with a focus on including larger AUM investors across each market where possible.

Indicators

The indicators below were selected as a simple, and best available, proxy for assessing investor climate progress for the 200+ Asia Investors. However, we recognise that mandatory climate disclosure regimes based on the international ISSB standard would help AIGCC and other stakeholders develop a more reliable system-wide understanding of investors progress and where the risks and opportunities lie. For investors managing their own risks and opportunities, AIGCC recommends using the more comprehensive ICAPs Ladder and NZIF , rather than this simplified set of criteria.

Focus Area	Proxy Used
Governance	• The investor recognises climate change risks/ opportunities[5] • The investor has established a policy on integrating climate into investments[6] • The investor has published an investor climate action plan[7]
Investments	• The investor has made a commitment to achieving net zero portfolio emissions (ideally by 2050 or sooner)[8] • The investor has set an interim/ short term target to reduce portfolio emissions[9] • The investor is part of an investor net zero initiative[10] • The investor has committed to increasing investments in climate solutions[11] • The investor has set an asset alignment target[12] • The investor has established a policy or strategy on fossil fuels or other high emitting assets[13] • The investor has established a policy, position, or strategy on deforestation[14]

5 The investor publicly recognises climate change as a factor which does, or will, impact their portfolio (or have made statements indicating they are, or intend to, take climate action). A 'Part' achieved rating for this category indicates that the investor had only a very high-level or vague statement about climate change (or, for example, only climate ambitions with respect to banking division not asset management division) ,and so those investors are do not appear to have taken any material climate change action over their investment portfolios.

6 Establish a formal policy on integrating climate change, or integrate climate change into existing policies (for example, this may be a standalone policy which incorporates climate change into investment analysis, decision-making, investment manager selection and appointment etc). Alternatively, climate change may be referenced in Responsible Investment Policies or ESG Investing Policies. A 'Part' achieved rating indicates that the investor had only mentioned climate change in their policy at a very high level without any detail and/or no recognition of acting in alignment with Paris Agreement.

7 This includes an Investor Climate Action Plan (ICAP), transition plan, or similar document, setting out the forward-looking actions and strategies the investor will take to get to net zero. This may be published as a standalone document, on the investors website, or with detail on strategies and targets in TCFD aligned disclosures. Investors received a 'Part' achieved rating for this category where the investor only demonstrates high level or vague climate plans, without comprehensive or concrete steps or actions.

8 Best practice is to align portfolio emissions reduction target with 1.5°C and global net zero emissions by 2050 or sooner. Target setting is essential to jump-start action and inform strategic planning. Targets are also a tool to maintain accountability and to enable investors to measure their own progress. An investor received a 'Part' achieved rating for this category where the investor has only set a net zero goal for a small part of the portfolio and has not made a broader net zero commitment.

9 Short term targets, for example, for 2030. Best practice is to set intermediate targets every 5 years using recognised methodologies and frameworks for setting, assessing, reporting and verifying performance. Short term targets are beneficial to align existing strategic planning and incentivise investment managers, asset owners and other stakeholders to track progress towards long- term targets and to ensure that action is built into existing corporate governance systems. A 'Part' achieved rating in this category is received where the investor has only set a target over some asset classes/mandates but not over the whole portfolio, or where the investor stated that the target was internal only (i.e. no public target).

10 This includes the Net Zero Asset Managers, Paris Aligned Asset Owners and UN Asset Owner Alliance. An investor who is part of the Net Zero Banking Alliance or Net Zero Insurance Alliance but not a net zero investor alliance specifically received a 'Part' rating, as the asset management division is generally not included within scope of these commitments.

11 Commit to increasing investments in appropriate clean energy and low-carbon opportunities. Investors should aim to set a 10-year goal for allocation to climate solutions representing a percentage of revenues or capex from AUM (for example, based on taxonomy mitigation criteria), increasing over time, in line with investment trajectories based on a net zero pathway. Investors who received a 'Part' achieved rating for this category may have set a vague qualitative aspiration to increase investments in climate solutions, or may have reported a green financing target for the banking or insurance division only. Investors would also receive a 'Yes' rating for this category if they set out the current amount they have invested in climate solutions with a qualitative ambition or strategy to increase this.

12 This is seen as the main driver for achieving portfolio emissions reductions. This target is for increasing the alignment of assets within the portfolio with net zero pathways. Investors set asset alignment (portfolio coverage) targets using the NZIF, or using SBT-Fi portfolio coverage approach, etc. Investors received a 'Part' achieved rating for this category where the investor noted that they had set an asset alignment target or use SBT-FI but there was no publicly available evidence of this, or if the investor noted that they only track their portfolio coverage target/ current level of alignment internally (i.e. no public disclosure of target or current level of alignment).

13 This includes integrating some form of formal fossil fuel policy, commitment, screen or strategy relating to the investor's portfolio. It could include details of escalation strategies, exclusions, plans for engagement on managed phase down or outs, screens, transition finance or commitments to exit or transition fossil fuel investments etc. Best practice is to establish a formal investment policy or transition strategy on fossil fuels and other high impact activities that aligns with a net zero target, including an explicit commitment to phase out exposure to fossil fuels or phase up exposure to renewable and clean energies (e.g., through escalation strategies or transition finance) in line with science-based net zero pathways and aligning with just transition principles. Investors received a 'Part' achieved rating for this category if they only had an exclusion/ screen over a small part of the portfolio, if the policy only seemed to apply to banking or insurance divisions, or if there was some evidence of a fossil fuel policy but with insufficient information or detail.

14 This includes a deforestation policy, commitment, or integration of deforestation into existing policies, including a deforestation in proxy voting policies, or statements by investors formally requiring a focus on ongoing stewardship with regards to deforestation. For example, it could include a commitment for a portfolio free from forest-risk agricultural commodity- driven deforestation activities. In future iterations of this report we will look to consider biodiversity policies or TNFD reporting in tandem with assessing deforestation approaches given the overlap. Investors received a 'Part' achieved rating for this category if they made a reference to having a deforestation position but without providing any sufficient detail.

Focus Area	Proxy Used
Corporate Engagement	• The investor demonstrates evidence of corporate engagement progress, including through having climate change considerations in proxy voting policies (or alternatively, setting engagement targets or reporting on climate stewardship actions or outcomes meaningfully etc).[15] • The investor is part of a climate corporate engagement initiative, including Climate Action 100+ or Asian Utilities Engagement Program[16]
Investor Disclosure	• Investor has published climate disclosure information in line with the recommendations of the TCFD (or a related climate reporting framework including ISSB)[17] • The investor evidences material disclosure on physical risks and/ or actions being taken to increase portfolio resilience/ adaptation to physical climate impacts[18]
Policy Advocacy	• The investor signed the 2022 Global Investment Statement to Governments on the Climate Crisis (GIS)[19]

15 Investors received a 'Part' achieved rating for this category where they did not appear to reference climate change in their proxy voting policies or did not have an engagement target, but were reporting with some detail on climate engagement outcomes and activities. For more climate stewardship guidance, investors can refer to IIGCC's Net Zero Stewardship Toolkit.

16 https://www.climateaction100.org ; https://aigcc.net/asian-utilities-engagement-program/

17 Investors received a 'Part' achieved rating for this category where the investor only has very high level (e.g. generic) TCFD disclosures, or only reports at the group level (e.g. a bank) and has no specific disclosures related to the funds management or asset owner division.

18 Looking at if the investor publishes results of scenario analysis and stress testing to assess the impacts of physical risks on the portfolio, and/ or whether they use this analysis to inform current and future investment decisions, stewardship or policy advocacy etc. Investors received a 'Part' achieved rating for this category if they had either (1) only very high level/ general info on physical risks (2) only reported physical risks at a high level for one asset class; only reported physical risk for the banking division level etc with no information specific to the investment portfolio.

19 Investors are encouraged to support collaborative investor statements calling on governments to implement specific policy measures aiming at achieving net zero emissions to limit global warming to 1.5° This may include scaling up renewables investments, phasing out coal, phasing out fossil fuel subsidies, introducing carbon pricing etc. For this desktop review, we used the 2022 GIS as the simplest proxy for investor involvement in policy advocacy, but an investors' policy advocacy workstream should extend well beyond signing this statement. In future iterations of this report, we will look to consider other proxies to assess investor policy advocacy activities.

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About AIGCC

AIGCC is the leading network of institutional investors in Asia, mitigating climate risks and seizing net-zero opportunities. Our members include some of Asia's largest pension funds, fund managers and other financial services providers.

We activate investors, encourage high-emission businesses to transition to net zero and advocate for policy that unlocks capital for climate solutions. AIGCC connects members to resources, networks, and forums to accelerate their climate practice. We also advocate on their behalf to business and political decision-makers.

Report sponsor

MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 50 years of expertise in research, data, and technology, we seek to deliver integrated data, analytical tools, indexes and insights that untangle the complexity of the net-zero transition.

Our climate solutions harness the depth of our data and the collective insight of our analysts from across the globe to help institutional investors understand how to produce return, quantify risk and adapt their strategies accordingly. In Asia, we have dedicated teams supporting investor needs in integrating climate considerations into their investment process.

From analyzing and attributing portfolio's emissions, to capturing opportunities, sharpening one's views of climate-related risk, setting and monitoring progress toward targets, and benchmarking performance – investors can find the right tool at every stage.

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This report has limitations – it is intended to provide a high-level snapshot of investors' climate progress based on simplified proxy metrics in Appendix A and supplemented with extra data provided by AIGCC members in a 2023-member survey. To review the climate progress of 200+ Asia Investors, AIGCC relied on the data available on investor websites, published online, or readily translatable in English.

Some information or data may have been missed, under-or-over-stated, or incorrectly interpreted during the review. AIGCC does its best to ensure the robustness of its analysis and the results contained within this report and believes the information to be accurate as of 30 September 2023 based on its subjective assessment and on the methodological approach as set out in the summary in Appendix A and based on responses received to the member survey.

The information provided in this report is based on the best knowledge and resources available to AIGCC during preparation. However, such data can be subject to various factors and subjective uncertainties. Therefore, it is advisable that readers exercise their judgment and seek professional advice where necessary regarding areas contained in the report.

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All written materials, communications, surveys, and initiatives undertaken by AIGCC are designed solely to support investors in understanding risks and opportunities associated with climate change and taking action to address them. While AIGCC encourages investors to adopt recommendations to assist them in meeting their voluntary net-zero commitments, it is a foundational principle of how AIGCC and its members work together that the choice to adopt guidance, best practice tools or tactics prepared by AIGCC is always at the ultimate discretion of individual investors based on their mandates and starting points from which they make their own internal decisions.

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