



Investment
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UN-convened Net-Zero
Asset Owner Alliance

Aligning Climate Policy Engagement with Net-Zero Commitments

A foundation for asset
owner engagement of
asset managers

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In partnership with:





Background

Unabated climate change poses irreversible planetary changes that would negatively impact businesses, the world economy, and investment portfolio returns. Members of the Net-Zero Asset Owner Alliance (“the Alliance”) have each made a commitment to align their portfolios with a maximum temperature rise of 1.5°C, to mitigate climate risks and to safeguard their long-term financial interests. The Alliance continues to focus on managing climate risk at the portfolio level, setting science-based targets for decarbonisation, and supporting collaborative shareholder engagement as key means for engendering a just transition to net zero. However, the Alliance recognises that members can only achieve their net-zero goals if broader society also decarbonises, which will require supportive policy and regulatory environments.

Alliance members, and all other investors committed to addressing the systemic risks of climate change, must address the current trajectory of decarbonisation through multiple levers of influence. Policy advocacy presents a crucial lever; it includes advocating for stronger public policy that supports decarbonisation and designing investment stewardship practices so as to hold portfolio companies accountable for the alignment of their climate policy engagement with their climate commitments.

Purpose of this paper

This paper supports asset owners in assessing the climate policy engagement approaches of one of their most important strategic partners: their asset managers. This paper provides key principles to evaluate and engage asset managers on both their in-house climate policy engagement and on their portfolio stewardship activities regarding investees' climate policy engagement. The Alliance believes it is important that asset owners integrate these principles into their asset manager selection, appointment, and monitoring (SAM) processes as a regular course of due diligence.

“Climate policy engagement” is defined as encompassing: business/corporate activities (including advertising, social media, public relations, and sponsorship of research), contact with regulators/elected officials, and political spending that supports, influences or informs climate-relevant policy or regulation. This definition is in line with the key principles of policy engagement outlined in the UN Global Compact's Guide for Responsible Corporate Engagement in Climate Policy.¹

This paper focuses on three ways that asset managers can influence public policy related to climate:

- **Direct and indirect climate policy engagement on financial services regulation**, wherein an asset manager engages directly with public policymakers or holds membership in associations, industry groups or coalitions that engage on their behalf regarding financial services regulation related to climate change.
- **Direct and indirect climate policy engagement on real-economy policy**, wherein an asset manager engages policymakers directly or through trade associations on broader policy issues related to climate change.²
- **Climate policy engagement-related stewardship**, wherein an asset manager—through their stewardship of portfolio companies as a regular course of business— influences a company's climate policy engagement. Asset managers' focus on corporate alignment is crucial because investee companies' obstructive climate policy engagement can slow sectoral or economy-wide progress on operational decarbonisation and the transition to net zero.

1 UN Global Compact (2013). Guide For Responsible Corporate Engagement In Climate Policy. Accessible through: https://www.unglobalcompact.org/docs/issues_doc/Environment/climate/Guide_Responsible_Corporate_Engagement_Climate_Policy.pdf

2 Recent examples include investor engagement on methane regulation in the United States of America. More information can be found on the Environmental Defense Fund's website: [Investor Guide to Industry Comments on Proposed EPA Methane Rules \(edf.org\)](#).

The following best-practices are organised into four key categories, each with their own set of principles or considerations to assist asset owners in evaluating an asset manager's approach to climate policy engagement. For more on systemic stewardship strategies, including further detail on investor policy engagement, please refer to the Alliance's discussion paper: [The Future of Investor Engagement: A call for systematic stewardship to address systemic climate risk](#).

Best practices

1. Governance for ensuring oversight of climate policy engagement strategy and activities

Key principle

Asset managers should publish a governance framework that describes their climate policy engagement strategy. They should also indicate what oversight mechanisms exist for their direct and indirect climate policy engagement and climate policy engagement-related stewardship practices.

Climate policy engagement is relevant to multiple areas of an asset manager's business, including its corporate affairs, public relations, stewardship, and individual portfolio management engagements. It is important that asset managers organise and oversee activities via a coherent governance framework to ensure consistency of action across their organisation.

Asset managers should publish their governance structure and approach to climate policy engagement. This document should include an elaboration of how the manager communicates and upholds its strategy and its expectations across the organisation, especially for personnel involved in climate policy engagement. The elaboration could include:

- An overview of the asset manager's strategy and desired outcomes for its direct climate-related policy engagement and climate policy engagement-related stewardship;
- Key principles and codes of conduct that the asset manager adheres to in its climate policy engagement and climate policy-related stewardship;
- Insights into the asset manager's governance structure that ensures oversight and accountability for its climate policy engagement strategy. The governance outline should ideally include the identification of a board member or senior-level executive who is responsible for overseeing and implementing the asset manager's climate policy engagement approach.

2. Alignment of direct and indirect climate policy engagement with climate commitments

Key principle

Asset managers should align their direct and indirect climate policy engagement with their stated climate commitments.

An asset manager may focus its climate-relevant policy engagement on financial services regulation and/or industrial policy and regulation. Additionally, a manager may undertake activities beyond direct engagement with policymakers, such as funding trade associations that engage in climate policy engagement, which can also influence policy and regulatory frameworks.

Asset managers have varying levels of resources available for direct and indirect policy engagement, and not all policy engagement will be relevant to climate. However, regardless of the manager's size, all their policy engagement activities should be consistent with their stated climate commitments.

An asset manager should:

- Establish a process for reviewing the climate objectives and policy positions of its most relevant trade associations. The manager should also outline which actions it would take in case of identified discrepancies between their own and their association's policy positions. Examples of possible actions include:
 - Engaging with the relevant trade association(s) in a time-bound fashion,
 - Releasing public statements outlining the discrepancies, and
 - Exiting or suspending membership in the trade association(s).
- Outline how it conducts direct or indirect climate policy engagement to support decarbonisation in the real economy if that is relevant to the manager's climate commitments. An explanation of difference in approaches, based on sectors or geographies, could be included.

3. Stewardship practices for climate policy engagement

Key principle

Asset managers should align their climate policy engagement-related stewardship practices with their stated climate commitments.

All asset managers should incorporate principles related to climate policy engagement into their investment stewardship practices. Asset managers should set expectations for companies' climate related policy engagement and hold them accountable through their stewardship programs.

Recognising that corporate engagement is resource intensive, the Alliance encourages asset managers to prioritise engagement with companies that pose the most material risk of misalignment. Still, asset managers should also clearly communicate their expectations to all companies through their broader stewardship policies. Direct stewardship is particularly relevant for portfolio companies in hard-to abate-sectors and for those companies that have made climate-related commitments or statements of support for the Paris Agreement.³

As part of its stewardship policies and practices, an asset manager should:

- Establish a process for evaluating the alignment between a portfolio company's climate commitment and the company's climate policy engagement practices. The process should prioritise companies for which the asset manager believes climate policy engagement is most material. Asset managers should also describe the extent to which third-party information is used to evaluate companies' climate policy engagement activities. Examples of third-party information include: the Climate Action 100+ Net-Zero Company Benchmark's lobbying indicator, the Transition Pathway Initiative, the Global Standard on Responsible Corporate Climate Lobbying, and InfluenceMap.
- Detail its stewardship escalation process for portfolio companies that are not responsive to its expectations. These details should:
 - Showcase how the process incorporates the use of engagement and proxy voting decisions for relevant shareholder proposals and election of directors, in alignment with principles set forth in the Alliance's resource on Elevating Climate Diligence on Proxy Voting Approaches.⁴
 - Explain any differentiation by asset class, geography, or sector.

3 By publishing policy papers on topics such as thermal coal, negative emissions technology, and carbon-pricing, the Alliance has outlined areas where it believes actors with climate commitments should take policy action.

4 <https://www.unepfi.org/news/industries/investment/net-zero-asset-owner-alliances-new-tool-for-asset-manager-engagement-on-climate-related-proxy-voting/>

4. Transparency, consistency and accessibility of climate policy engagement

Key principle

Asset managers should publish disclosures that provide sufficient information on alignment with the principles and practices outlined in this paper.

The qualitative and often confidential nature of climate policy engagement can make reporting difficult. However, to ensure transparency and accountability to asset owner clients, asset managers should use discretion to identify and then share material examples of their climate policy engagement and climate policy engagement-related stewardship practices.

Transparency and reporting should include:

- A commitment on the manager's website to align its climate policy engagement activities with its climate commitments,
- A summary of the governance and oversight as detailed under Principle 1,
- Summaries of the policies detailed under Principles 2 and 3 above,⁵
- Clear labelling, voting memos, or case studies of proxy votes for the instances where a company's climate policy engagement is a substantial factor in deciding to vote against its directors
- An elaboration on how the asset manager sequences the assessment or review of the trade associations of which they are a member. This could include:
 - A list of the most relevant trade associations of which they are a member,
 - Published insights on the critical climate positions where the asset manager's views might differ from positions held by their key trade associations.

5 An asset manager can embed the statement on climate policy engagement in a larger climate position statement or may publish it as a separate document. The Alliance notes that commitment to constructive engagement on climate policy is already embedded in both the Net-Zero Asset Manager Initiative (NZAMI) and Glasgow Financial Alliance for Net-Zero (GFANZ). In addition, an asset manager can include case study examples of direct/indirect climate policy engagement and climate policy related stewardship with underlying portfolio companies/issuers.



Conclusion

The above principles and supporting points provide the asset owner community with a basis for driving greater alignment between their systemic long-term interests and the climate policy engagement practices undertaken by the asset managers they work with.

Given the Alliance's commitment to support real-world change towards net zero by 2050—with the underlying expectation that investee companies align their business strategies with this commitment—Alliance members have an obligation as fiduciaries to support policy action that makes this goal a reality.



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