Net zero emissions in asset management

LCP INSIGHT CLARITY ADVICE

Our expectations of investment managers

September 2021

At LCP, we believe that achieving the goals of the Paris Agreement on climate change is in the long-term best interests of our clients and their beneficiaries, as well as of society overall. This is likely to require achieving net zero greenhouse gas emissions by 2050 or earlier. This note sets out our current thinking regarding the implications for our clients, what they require from their investment managers, and our view of best practice for achieving net zero emissions in asset management. We expect to evolve our thinking over time and update this note accordingly.

Supporting clients in meeting their objectives

It is important to our clients that their managers are appropriately managing climate-related risks of, and opportunities from, their assets, including those arising from both the transition to a low carbon economy and the physical impacts of climate change. Indeed, for most of them, it is integral to their fiduciary duties.

We believe that achieving the Paris Agreement goals is essential for managing risks to our clients' beneficiaries **over the longer term**. We therefore expect investment managers to support the Paris Agreement goals through actions including: aligning portfolios with the goals to the extent possible given their mandates and duties towards clients; setting net zero targets; and encouraging investee entities to do the same.

Our current thinking is that aligning investment portfolios to the Paris Agreement, alongside management of physical climate risks, will also help to manage climate-related risks and opportunities in client portfolios **over the shorter term**. However, unless explicitly agreed otherwise, our clients' money should be managed in line with their best interests. Investment managers should only take actions to achieve net zero emissions targets to the extent that they are consistent with this over-arching objective.

Some of our mutual clients may have set or wish to set net zero, or other emissions reduction targets themselves. Indeed, the trustees of UK pension schemes with relevant assets in excess of £1 billion and authorised master trusts will soon be required to set a climate-related target. They will be looking for investment products that will enable them to meet their targets. We expect investment managers will increasingly offer such products and we will keep managers informed of our clients' evolving needs in this area.

Investment managers setting net zero targets

We believe the following represents best practice principles in relation to net zero targets and encourage investment managers to follow them:

- join the Net Zero Asset Managers Initiative;
- publish and adhere to a climate action plan for meeting the commitments made;
- work towards net zero emissions for all assets under management, consistent with achieving net zero emissions globally by 2050 or earlier. We accept that this is subject to each client's wishes, but expect managers to encourage all clients to adopt a net zero target;
- seek real world reductions in emissions, rather than (just) focusing on reductions in portfolio emissions.
- for assets that have a net zero emissions target, cover scope 1, 2 and 3 emissions (or equivalent for sovereign debt) and investment in climate solutions;
- for assets that have a net zero emissions target, set interim targets consistent with meeting the goal, including alignment with the IPCC recommendation for a 50% global reduction in CO_2 emissions between 2010 and 2030;

- set net zero emissions targets for the manager's own operations;
- keep any use of emissions offsets to a minimum, in relation to both assets under management and the manager's own operations, and follow high quality, recognised principles for carbon offsetting;
- use effective voting (where applicable) and engagement with investee entities to encourage achievement of net zero emissions by 2050 or earlier;
- undertake policy advocacy and collaborative engagement in support of net zero emissions by 2050 or earlier;
- support the need for a Just Transition through engagement and policy advocacy activities;
- provide client portfolio reporting, for all assets, that includes climate-related metrics (including data on scope 1, 2 and 3 emissions) attributable to their assets; and
- work with investee entities to improve the quality and coverage of climate-related data.

Contact us

If you would like further information, please get in touch with one of us.

Claire Jones FIA
Partner

+44 (0)1962 873373
claire.jones@lcp.uk.com

Matt Gibson FIA
Partner

+44 (0)20 3824 7255
matt.gibson@lcp.uk.com

Emma Douglas
Consultant

+44 (0)20 3824 7246
Emma.Douglas@lcp.uk.com

Restrictions on use

About Lane Clark & Peacock LLP