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# Net Zero Target-Setting Methodologies Demystified

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# Introduction

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With the world moving towards decarbonisation target setting,<sup>1</sup> investors are grappling with establishing their strategy to support achieving Net Zero by 2050. To help guide investors with their decarbonisation journey, this paper provides an overview of three main methodologies in the market:

1. Institutional Investors Group on Climate Change (IIGCC) and Paris Aligned Investment Initiative (PAII),
2. Science Based Targets Initiative (SBTi) for Financial Institutions
3. United Nations-Convened Net Zero Asset Owner Alliance (NZAOA) target-setting protocol.

In addition to outlining the key characteristics of these frameworks, we will focus on the implications of how to set targets and the scope of asset classes to consider. To begin with, we provide a quick overview of the three key target-setting methodologies.

# Overview of Target Setting Methodologies

## Institutional Investor Group on Climate Change Paris Aligned Investment Initiative

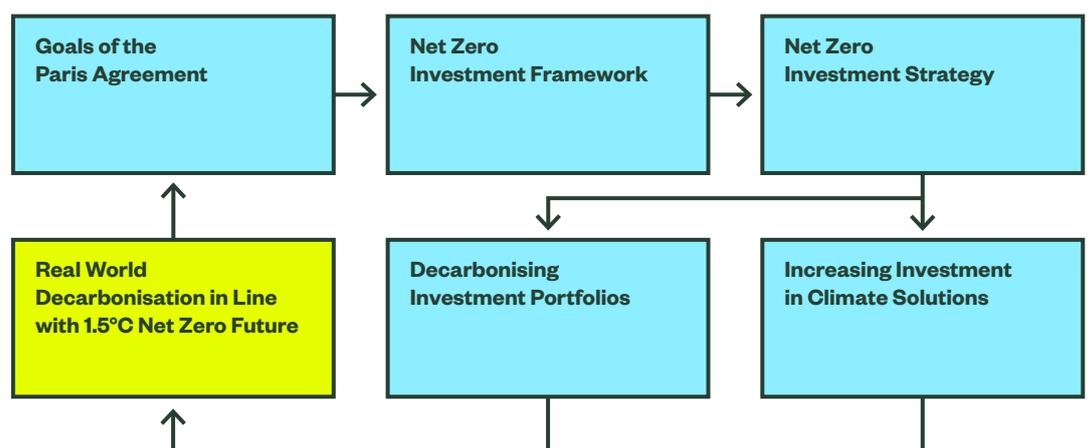
The Paris Aligned Investment Initiative (PAII) is an investor-led collaboration. It is supported by four investor networks:

- 1 Asian Investor Group on Climate Change (AIGCC)
- 2 Ceres
- 3 Investor Group on Climate Change (IGCC)
- 4 IIGCC

It was launched by the Institutional Investor Group on Climate Change (IIGCC) in Europe in May 2019 and is designed to support investors in aligning their investment portfolios with the goals of the Paris Agreement.<sup>2</sup> Figure 1 below is a high-level overview of the framework.

The PAII framework focuses on setting up net zero investment strategy guided by the goals of the Paris Agreement, with a focus on decarbonizing current investment portfolios and increasing investment in climate solutions. So far, asset classes covered by PAII include Sovereign Bonds, Listed Equity, Corporate Fixed Income and Real Estate, with imminent expansion to include two additional asset classes, Infrastructure and Private Equity. There are certain data and methodology limitations for some asset classes which we will explore later.

Figure 1  
IIGCC PAII Paris Aligned Decarbonisation Framework



Source: PAII, Paris Aligned Investment Initiative — IIGCC.

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## Science-Based Targets Initiative for Financial Institutions

The Science-Based Targets Initiative (SBTi) for Financial Institutions (FIs) differs from other broad-based models as it is focused specifically on a sector that provides finance and other services to the companies that are responsible for reducing greenhouse gas (GHG) emissions, rather than exercising direct control over GHG emission reductions. SBTi financial sector guidance provides a framework for FIs to clarify, improve and accelerate their alignment with the goals of the Paris Agreement.<sup>3</sup>

Additionally, the SBTi provides open source and public access to assessments regarding the degree of Paris alignment across different industries.

SBTi is jointly administered by CDP (formerly known as Carbon Disclosure Project), The United Nations Global Compact, World Resources Institute (WRI) and World Wide Fund for Nature (WWF).<sup>4</sup>

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## UN-Convened Net Zero Asset Owner Alliance 2025 Target-Setting Protocol

Convened by United Nations Environment Program Finance Initiative (UNEP FI) and supported by the Principles for Responsible Investment (PRI), this target-setting protocol supports Net Zero Asset Owner Alliance (NZAOA) members to set Paris Agreement-aligned portfolio targets and report on progress. The Alliance recommends members use science-based targets and methodologies in their strategic planning to meet their net zero commitments.<sup>5</sup>

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### Similarities and Differences

While all three frameworks focus on setting Paris-aligned targets for financial institutions, there are some similarities and differences among the three frameworks, which we show in Figure 2.

Key noticeable differences:

- Among the three frameworks, SBTi for financial institutions can be used by both asset managers and asset owners as well as banks, while PAII only supports asset owners and asset managers; and NZAOA only asset owners (though certain aspects can be adapted for asset manager use).
- Variations across different asset classes covered, with currently NZAOA providing the most comprehensive coverage of different asset classes.

In terms of similarity, all three frameworks recognise that realising real economy wide decarbonisation is important and hence favour an engagement approach over broad-based exclusions, with the exception of coal-related investments — all three have provisions related to exclusion of coal-related investments. This aligns with our own approach, as discussed in <https://ssga.com/library-content/pdfs/insights/engage-or-divest.pdf>.

Both PAII and NZAOA also require signatories to set targets to invest in climate solutions, as it is an important strategy to support economic-wide decarbonisation.

Figure 2 Overview of the Three Net Zero Target-Setting Frameworks

	IIGCC PAII Framework (PAII)	SBTi for Financial Institutions (SBTi)	UN-Convened NZAOA 2025 Target-Setting Protocol (NZAOA)
<b>Who Is It Meant For?</b>			
Asset Owners	✓	✓	✓
Asset Managers	✓	✓	✓
Banks	✗	✓	✗
<b>Which Asset Classes Are Covered?</b>			
Listed Equity	✓	✓	✓
Corporate Fixed Income	✓	✓	✓
Sovereign Bonds	✓	✗	✓
Real Estate	✓	✓	✓
Infrastructure	✗	✗	✓
<b>Type of Targets</b>	Absolute or intensity based emission targets; targets for investing in climate solutions and corporate engagement	Sector-level emissions intensity reductions and engagement-based methods including Portfolio Coverage and Temperature Rating	Absolute or Intensity based emissions reductions (asset class and sector), Corporate Engagement, Transition finance tracking
<b>Timeframe</b>	A 10-year target for both emission reduction and investing in climate solutions; 2050 net zero commitment	5–15 years for emissions-based targets	5-year targets for emissions, engagement, and financing; 2050 net-zero commitment
<b>Any Portfolio-level Exclusions Suggested?</b>	Recommends engagement first followed by selective divestment if failed  Recommends exclusion of companies engaging in fresh thermal coal or tar sands investment	Phase out thermal coal investments required in line with full phaseout by 2030;  Bans new investments in thermal coal	Recommends companies to phase out coal and have no new investments in thermal coal
<b>Can Carbon Credits or Offsets Be Used?</b>	Regulated carbon credits allowed, offsets not allowed	Not allowed	Not allowed
<b>Treatment of Avoided Emissions</b>	Not to be counted in emissions reduction	not to be counted in emissions reduction	can be reported to reflect 'impact'
<b>Investing in Climate Solutions</b>	✓	Not specified	✓
<b>What Are the Reporting Requirements?</b>	Annual progress reporting in line with TCFD framework	Publicly report coverage of portfolio targets, a summary of the implementation strategy, and annual tracking of actions taken and progress toward achieving targets	Annual reporting on progress/targets being set

Source: Official methodology documents issued by IIGCC PAII, SBTi for Financial Institution and NZAOA, and SBTi and NZAOA 2021, *Net-zero Asset Owners Alliance — SBTi Finance Comparison Table*.

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# Recommended Targets

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## Emission Target Setting: Details of the Three Frameworks

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### 1. IIGCC PAII Methodology

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What are the actual targets? Below we explain the key requirements for target setting across the three frameworks.

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#### With Regard to Own Emissions

Set a target and reduce operational (Scope 1 and Scope 2) emissions in line with achieving global net zero emissions by 2050, or sooner.

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#### With Regard to Financed Emissions

At portfolio level:

- 1 A <10-year<sup>2</sup> CO<sub>2</sub>e emissions reduction target, covering listed equity and corporate fixed income, and real estate.
- 2 A <10-year goal for allocation to climate solutions representing a percentage of revenues or capex from AUM (based on EU taxonomy mitigation criteria).

At asset class level:

- 1 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 towards the goal of 100% of assets to be i) net zero or ii) aligned to net zero, by 2040.
- 2 An engagement goal which ensures that at least 70% of financed emissions in material sectors are either assessed as net zero, aligned with a net zero pathway, or the subject of direct or collective engagement and stewardship actions. This threshold should increase to at least 90% by 2030 at the latest.

Source: Paris Aligned Investment Initiative Net Zero Investment Framework.

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2.  
SBTi for Financial  
Institutions Methodology

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With Regard to Own Emissions

Set targets on own Scope 1+2 emissions plus own Scope 3 emissions from investment/lending (other Scope 3 emissions optional) — minimum 5-year and maximum 15-year targets.

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With Regard to Financed Emissions, Use One of these Methods

- 1 Sectoral Decarbonization Approach (SDA)** Emissions-based physical intensity targets are set at the sector level within the portfolio for the following sectors: Power Generation, Cement, Pulp & Paper, Transport, Iron & Steel and Buildings.
- 2 SBT Portfolio Coverage** Financial institutions commit to having a portion of their investees set their own SBTI-approved science-based targets such that the financial institution is on a linear path to 100% portfolio coverage by 2040 (in consistent emissions or monetary terms).
- 3 Temperature Rating** This approach enables financial institutions to determine the current temperature rating of their portfolio and take actions to align their portfolios to ambitious long-term temperature goals by engaging with portfolio companies to set ambitious targets. Temperature Rating methodology based only on that developed by WWF/CDP (no other methodologies supported), which is based on underlying company targets and climate scenario-based regression models.

Note: For Real Estate, only SDA is supported; all three methods are supported for Corporate Equity and Fixed Income.

Targets:

- Linear path to 100% coverage by 2040 required (under portfolio coverage method).
- Linear path to “well below 2-degree scenario” for Scope 1+2 and “minimum 2-degree scenario” for Scope 1+2+3 by 2040 (under temperature ratings method; 1.5 degree highly encouraged but not required).

Source: Financial Sector Science-based Targets Guidance.

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3.  
UN-Convened  
NZAOA Target-Setting  
Methodology

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With Regard to Own Emissions

Recommend to reduce operational (Scope 1 and Scope 2) emissions in line with achieving global net zero emissions by 2050, or sooner.

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With Regard to Financed Emissions

Set targets on minimum of 3 parts out of 4-part target-setting protocol:

**Sub-Portfolio (later Portfolio) Emission Targets**

- 22 to 32% CO<sub>2</sub>e reduction by 2025 (per IPCC 1.5°C SR scenarios) on equity and debt to listed corporates, infrastructure, and with the same reduction or CRREM national pathways for real estate.
  - 49 to 65% CO<sub>2</sub>e reduction by 2030 (per IPCC 1.5°C SR scenarios).
  - Covers Portfolio Emissions Scope 1 & 2, and tracking of Scope 3.
  - Absolute or intensity-based reduction against 2019 base year recommended.
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## Sector Targets

- Intensity-based/absolute reductions on all material sectors.
- Scope 3 to be included wherever possible.
- Sector specific intensity KPIs recommended.
- Sectoral Decarbonization Pathways used to set targets.

## Engagement Targets (Non-Waivable)

- Engage with 20 companies, focusing on those with highest owned emissions or those responsible for combined 65% owned emissions in portfolio (either directly, collectively, or via asset manager).
- Contribute to:
  - Asset Manager Engagement: Each member to participate in at least one engagement led by the Alliance
  - Alliance positions: Each member, where possible, to participate in Alliance position paper creation

## Financing Transition Targets

- Reporting progress on a climate-positive trend for all Alliance members internally to the Alliance; an individual public quantitative progress target is optional for members.
- Contribution to Alliance's financing transition sub-work tracks, for example, supporting activities to provide greater transparency, build solutions or enhance climate solution reporting.

Source: UN-convened Net-Zero Asset Owner Alliance Target-Setting Protocol (2nd Edition).

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## Comparison of the Key Requirements for Target Setting

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What Scopes of Emissions to Be Covered?

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To compare the key requirements for target setting, we have broken down into different topics. For absolute carbon emissions and carbon intensity definitions, please refer to Appendix 2.

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### IIGCC PAII

- For portfolio holdings: Scope 1 and Scope 2 emissions, with Scope 3 emissions phased in from 2023.

### SBTi for Financial Institution

- For financial institution's own emissions: Scope 1, Scope 2 and Scope 3 emissions from investment/lending portfolio.
- For portfolio holdings: Scope 3 emission of investees to be included if they are represent over 40% of combined Scope 1+2+3 emissions

### UN-Convened NZAOA

- Scope 1 and Scope 2 for underlying holdings with Scope 3 only for relevant sectors

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As it illustrates, in addition to Scope 1 and Scope 2 emission, all three methodologies considers Scope 3 emissions to a certain extent. Despite potential double-counting issue related to Scope 3 emissions (for example, one company's Scope 3 emissions could be another company's Scope 1 emissions), Scope 3 emissions are more material in some sectors vs other like oil and gas, transport, utilities.

For definitions of Scope 1, 2 and 3 emissions, please refer to Appendix 2.

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## What Carbon Metrics Can Be Used?

### **IIGCC PAII**

- Either in absolute emission or intensity (CO<sub>2</sub>e/\$mn invested) and to the extent possible, provide evidence of the target has been determined and reflect net zero pathways that will meet absolute emissions reductions required over time.

### **SBTi for Financial Institution**

- Intensity Targets for Scope 1 and Scope 2 emissions are only eligible when they lead to absolute emissions reduction targets in line with climate scenarios for keeping global warming to well-below 2 degree Celsius or when they are modelled using an approved sector pathway.
- Absolute reductions must be at least as ambitious as the minimum of the range of emissions scenarios consistent with the well-below 2 degree Celsius goal or aligned with the relevant sector reduction pathway within the Sectorial Decarbonisation Approach.

### **UN-Convended NZAOA**

- Intensity-based/absolute-reduction on all material sectors; sector-specific intensity KPIs recommended for sector-based target setting.

While all three methodologies allow carbon intensity and absolute carbon emissions to be used for target setting, SBTi has detailed requirements in terms of whether/when intensity target can be used.

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# Discussion of Target Types

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## How to Set Targets

Once these different approaches are understood, the next step is to explore the actual target setting. As you will see, the three frameworks outlined also give different guidance around what types of targets to focus on.

Broadly speaking, there are four types of targets that various frameworks recommend users to set. They are:

1. Emission reduction targets
2. Portfolio alignment targets
3. Engagement targets
4. Green investment targets

The primary goal is emission reduction, while the other three (portfolio alignment, engagement and green investment targets) are contributors or guideposts to the achievement of the overall goal of emission reduction. As such, they may be thought of as necessary means to achieve emissions reduction since, due to this dependency, they are just as or arguably even more important than the actual emission reduction goals.

Figure 3  
**What Types of Targets are Required by the Three Frameworks?**

Target Type	PAI	SBTI	NZAOA
Emissions Reduction	Yes	Yes	Yes
Portfolio Alignment	Yes	Yes	No
Engagement	Yes	No	Yes
Green Investment	Yes	No	Yes

Next, we discuss four main targets in some detail:

- 1 Emission Reduction Targets
- 2 Portfolio Alignment Targets
- 3 Engagement Targets
- 4 Green Investment Targets

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## 1. Emission Reduction Targets

As the name suggests, emission reduction targets imply reduction of emissions financed by the investment portfolio. The first step in this process is to measure the emissions that are being financed by the portfolio. To this end, the Partnership for Carbon Accounting Financials' (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry<sup>6</sup> contains detailed guidance on how emissions financed by underlying investments are to be attributed to different types of investors (both equity and debt) and across various asset classes (equities, fixed income, project finance, etc). However, it is important to note that coverage for certain asset classes is still under development (e.g. sovereign bonds, green bonds, carbon offsets) with no globally accepted standard in place yet. In any case, as of today the PCAF is viewed as the de facto market standard for emissions accounting when it comes to investment portfolios.

Once the baseline is set, we come to the granular details of how a reduction target is to be set. There are two main approaches:

### **Top-Down, Total Portfolio Level Targeting**

In the top-down approach, the investor would set a target emission reduction (ideally, based on a science-based climate pathway) considering the portfolio in its entirety without specifying whether the reductions would come from certain sectors, regions or companies. For an investor with a diversified portfolio (like universal owners), this approach is sensible and allows for a degree flexibility in the manner of achievement of targets.

### **Bottom-Up, Sectoral/Regional Targeting**

In the bottom-up approach, the investor would set targets for each company, sector, or region that the portfolio is invested in. The exact targets can be derived based on climate scenario models that provide emission pathways at granular sectoral or regional levels. This approach would be sensible for concentrated portfolios with a small number of holdings, or sectoral or regional funds. The appealing element here is that it clearly differentiates between sectors or regions, as it is understood that they have to decarbonize at different rates. However, this is not without its challenges as, while there is broad agreement amongst climate models on the direction of change, there is limited agreement on the exact quantum of change that is needed for different sectors or regions.

Additionally, climate model scenarios do not produce results for sector classifications commonly used in the investment landscape (e.g. GICS, ICB), rather they are based on real economy activities like energy supply, industry, transport. This is challenging in the overall portfolio context. Therefore, some assumptions need to be made to map the climate model sectors to those used in investing. As a result, quantitative target setting is highly dependent on two factors:

- The choice of scenario.
- The sector mapping being used.

In addition, it is more challenging to aggregate up sectoral/regional targets to the total portfolio level.

Lastly, sector/region allocations are likely to change when the portfolio composition changes (owing to changes in allocation, trading and also inflows as well as outflows leading to turnover) occurs, and this is an additional factor that complicates measurement of progress against stated targets.

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Accounting for this is quite important and meaningful as it relates to the measurement of progress over time. For example, a sector shift into an emission-intensive sector can lead to an increase in the portfolio's financed emissions, which may run against the overall goal to reduce emissions. In order to not disincentivise investments in such sectors, some adjustments would need to be made to the baseline emissions to account for such an increased sector allocation (please note that it is an industry-wide common understanding and agreement that portfolio decarbonisation should not be achieved by broadly allocating away from high-emitting sectors).

This process is known as re-baselining and every investor would need to define policies to determine how and when such re-baselining is triggered. In this aspect, the net zero frameworks currently lack standardised guidance and methodologies need to be developed.

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## 2. Portfolio Alignment Targets

Achieving the emission reduction goal also relies on underlying companies decarbonising in the real world. This leads to the second type of target related to the alignment of underlying assets to net zero pathways, and hence the name, portfolio alignment. Under this target, an investor would assess the proportion of their portfolio companies that are aligned to net zero and aim to increase that proportion over a period of time. The idea behind this is that as more companies adopt net zero targets, the portfolio itself would decarbonise over time as a consequence of the companies' real-world decarbonisation. The PAll framework and the SBTI framework both recommend the use of such a target, but differ in the way it is to be implemented.

### **The PAll framework**

The target-setting guidance recommends increasing the proportion of AUM invested in material sectors that is classified as *achieving* net zero, or *aligned* to net zero to 100% by 2040, with interim 5-year targets. There is also detailed guidance on what sectors are material, as well as exactly how assets are to be classified into buckets such as: *achieving*, *aligned*, *aligning*, *committed* and *not aligned*. This is initially based on six criteria upon which each asset is to be assessed (e.g. ambition for net zero, short- and medium-term emissions targets, disclosures, decarbonisation strategy, etc) and increases to ten criteria when data availability allows. The PAll also recommends leveraging publicly available data sources where possible, such as the Transition Pathway Initiative (TPI), the Science-based Targets Initiative (SBTI) or Climate Action 100+. However, for a universal owner, these public datasets often don't cover a significant enough number of holdings which leads to a reliance on private vendor datasets to enhance coverage.

### **The SBTI framework**

Of the three recommended approaches outlined earlier in Figure 1, the second and third are forms of portfolio alignment targets. The SBTI Portfolio Coverage approach is quite straightforward, and aims to increase the proportion of investee companies that have themselves signed up to set science-based emission reduction targets via the SBTI. Building on this, the SBTI Temperature Rating target expands the scope of emission reduction targets to those that are not necessarily validated by the SBTI, but have nonetheless been adopted by companies. In essence, the forward-looking emission reduction targets adopted by companies are converted into a temperature score (generally between 1.5 and 3.2 degrees using the recommended WWF-CDP methodology<sup>7</sup>), representing the alignment of the targets with a certain temperature rise outcome in the real world. Targets are then to be set to improve the temperature rating of the portfolio over time (by improving the alignment of underlying companies with net zero).

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### 3. Engagement Targets

Once again, as the name would suggest, engagement targets generally refer to engagements (either singular or collective) with underlying companies, and the PAII and NZAOA frameworks recommend setting targets to engage with a small number of companies that represent a large proportion of the portfolio's financed emissions. Additionally, users are also encouraged to engage with other market participants, as well as policymakers to advocate net zero aligned policies and approaches. While the SBTI does not recommend an explicit engagement goal like PAII and NZAOA, the Portfolio Coverage and Temperature Rating methods nevertheless take an engagement-oriented approach focused on portfolio companies.

Engagement targets are arguably the single most important targets that an investor would set — these represent a powerful tool to influence investee companies to change behaviour — this is even more relevant for universal owner-type portfolios. Ultimately, successful engagements can have a positive impact on companies' real world emissions trajectories and can contribute meaningfully to the achievement of the portfolio alignment and overall emissions reduction targets as well.

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### 4. Green Investment Targets

Last but not least, there are the green investment targets, or climate solutions targets. These refer to investments in companies engaged in green activities, or climate-positive projects, or assets like green bonds. The PAII and NZAOA recommend that investors set targets to increase green investments. There are many potential ways to measure the *greenness* of an investment: revenues or capex aligned with (EU Taxonomy) mitigation or adaptation criteria, Climate Bond Initiative Standard, EU Green Bond Standard, private data vendor green-revenues scores, etc. However, the frameworks do not currently provide strong guidance on measurement of climate solutions. Additionally, there doesn't appear to be a science-based methodology for the actual target setting. Expanding on this, if for instance a portfolio is assessed to have 5% of climate solutions exposure, it is not clear how the final target is to be set (e.g. 10%, 15%, etc). In the absence of detailed guidance, it is currently unclear how investors should measure climate solutions and as a result how they should set targets around those.

Finally, we would like to briefly comment on climate scenario selection and why this can influence a net zero strategy.

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## Climate Scenario Selection

The three net zero frameworks necessarily rely on climate scenario outputs to determine quantitative targets for portfolios. There are many options, though the most significant ones are: IPCC scenario pathways, IEA Net Zero Emissions by 2050 pathway, the One Earth Climate Model and Network for Greening the Financial System (NGFS) scenarios.

For instance, the PAII framework does not recommend a single climate pathway, but does specify criteria that the chosen scenario would need to satisfy (e.g. high probability of achieving 1.5 degrees global warming with no or limited overshoot, limited use to negative emissions technologies, etc.) In turn, the SBTI framework and specifically the Sectoral Decarbonisation Approach is based on the IEA's Beyond 2 Degree Scenario (B2DS). Lastly, the NZAOA framework assesses multiple climate scenarios for its overall emissions goal, but recommends the use of One Earth Climate Model for sector-specific target setting. For further guidance, an investor may also refer to the UNEP FI's report, Pathways to Paris,<sup>8</sup> which is a deep dive into climate models and their use cases.

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## Conclusion

The transition to a low-carbon economy is one of the most important and biggest challenges we face and will face of the next decades. Hence, financial market participants will play an important role to achieve this. As a result a lot of work is being done around providing guidance around the *how*.

We have looked in detail into three common frameworks: Institutional Investors Group on Climate Change (IIGCC) Paris Aligned Investment Initiative (PAII), Science Based Targets Initiative (SBTi) for Financial Institutions and the United Nations-convened Net Zero Asset Owner Alliance (NZAOA) target-setting protocol.

As we have seen, these frameworks have commonalities but also differences when examined in more detail. We have also uncovered questions that still have to be answered by the market. In order to achieve this industry collaboration is key and we are honoured that State Street Global Advisors has been asked to participate in some important working groups — such as the IIGCC Passives Project Group — to help answer those questions.

Additionally, as a member of the Net Zero Asset Management Initiative, we also publish our own approach and target-setting strategy and we look forward to engaging and collaborating with our clients on this important journey to net zero.

# Appendix

## Appendix 1: Overview of Financial Sector Initiatives for Addressing Climate Change

Figure below provides an overview of financial sector initiatives to support addressing climate change. It covers across six key categories: high level commitment to act, measurement of financed emissions, scenario analysis, target setting, enabling action and reporting. The key focus of PAII, SBTi and NZAOA and how they compare to other frameworks is illustrated in this figure.

	High-Level Commitment to Act	Measurement of Financial Emissions	Scenario Analysis	Target Setting	Enabling Action	Reporting
<b>Banks</b>						
UN Environment Program for Financial Institutions (UNEP FI) Principles for Responsible Banking (PRB): Collective Commitment on Climate Action						
Climate Action in Financial Institutions						
Banking Environment Initiative						
<b>Investors</b>						
Investor Agenda						
UNEP FI Principles for Sustainable Insurance (PSI)	•					
UNEP FI Net Zero Asset Owners Alliance	•					
IIGCC Paris Aligned Investment Initiative (PAII)						
Climate Action 100+						
<b>Banks and Investors</b>						
World Economic Forum Financing the Transition to a Net Zero Future						
Task Force on Climate Related Disclosures (TCFD)						•
Partnership for Carbon Accounting Financials (PCAF)		•				
Rocky Mountain Institute (RM) Center for Climate Aligned Finance			•			
Paris Agreement Capital Transition Assessment (PACTA)						
SBTi-Finance				•		
Principles for Responsible Investment and World Business Council for Sustainable Development (PRI-WBCSD) Collaboration						
CP Financial services questionnaire						

■ Applicable Category ● Focus of Initiative

Source: Science Based Targets 2021, "Financial sector science-based targets guidance", p22.

## Appendix 2: Glossary

Abbreviation	Expansion
B2DS	Beyond 2 Degree Scenario (an IEA Climate Scenario)
CA100+	Climate Action 100+
CDP	Carbon Disclosure Project
CRREM	Carbon Risk Real Estate Monitor (EU-funded research project for decarbonisation of the real estate sector)
EU SFDR	European Union Sustainable Finance Disclosure Regulation
EV	Enterprise Value
GICS	Global Industry Classification Standard
IAM	Integrated Assessment Model (a type of climate model used to assess socioeconomic impacts of climate change)
IOB	Industry Classification Benchmark
IEA	International Energy Agency
IIGCC	Institutional Investors Group on Climate Change
IPCC	Intergovernmental Panel on Climate Change
NZAMI	Net Zero Asset Manager Initiative
NZAOA	UN-Convened Net Zero Asset Owner Alliance
NZE2050	Net Zero Emissions by 2050 Scenario (an IEA Climate Scenario)
OECM	One Earth Climate Model (a type of IAM)
PAII	Paris Aligned Investment Initiative
PCAF	Partnership for Carbon Accounting Financials
SBTI	Science Based Targets Initiative
SDA	Sectoral Decarbonisation Approach
TCFD	Task Force for Climate-related Financial Disclosures
WWF	World Wide Fund for Nature

**Scope 1:** Direct emissions from sources that are owned or controlled by a company. This could include, for example, on-site fossil fuel combustion and fleet fuel consumption.

**Scope 2:** Indirect emissions from sources that are owned or controlled by a company and include emissions that result from the generation of electricity, heat, or steam purchased from a utility provider.

**Scope 3:** Emissions from sources not owned or directly controlled by a company but that are nonetheless related to the company's non-electricity supply chain, employee travel and commuting, and emissions associated with these elements.

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## Endnotes

- 1 Refer to SSGA research “The World Targets Change”.
- 2 IIGCC 2021, “Net zero investment framework 1.5 degree (change to symbols) implementation guide”.
- 3 SBTi 2021, “Financial sector science-based targets guidance”.
- 4 Science Based Targets 2021, “Net-zero asset owners alliance — SBTi Finance: comparison table”, available at: <https://sciencebasedtargets.org/resources/files/AOA-SBTi-comparison-table.pdf>
- 5 NZAOA 2021, “Target setting protocol, second edition”.
- 6 <https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf>
- 7 <https://cdp.net/en/investor/temperature-ratings/cdp-wwf-temperature-ratings-methodology>
- 8 <https://unepfi.org/publications/banking-publications/pathways-to-paris/>

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\* Pensions & Investments Research Center, as of December 31, 2020.

<sup>†</sup> This figure is presented as of March 31, 2022 and includes approximately \$73.35 billion USD of assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.

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