

Fund managers playing crucial role as super funds embrace net zero

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Australian asset owners are taking stronger action to meet the United Nations 2015 Paris Agreement to combat climate change, despite local regulations lagging the US and UK.

The key strategy is to engage with portfolio companies exposed to climate change risk – as opposed to divestment – directly and through their fund managers, according to Frontier.

"Frontier's expectation is all managers should be dedicating the resources to actively engage on material ESG issues, ideally directly and collaboratively, and this includes both passive and systematic managers," Frontier Senior Consultant, James Gunn, said.

The 2015 Paris Agreement set 2.0C as a maximum warming goal above pre-industrial levels (preferably below 1.5C), which will be predicated on achieving 'net zero' by around 2050. However, CO2 emissions need to be cut by about 45% from 2010 levels by 2030 to reach the target, according to the 2018 IPCC Special Report.

Head of Frontier's Responsible Investment Group, Principal Consultant, Joey Alcock, said those interim targets would affect investment decisions now across long-dated real assets such as property and infrastructure, as well as long-term active equity mandates.

"There's been a recognition that asset owners and other entities are setting targets... it's not about kicking the can down the road for a future generation, it's about saying we want to take action now. Setting those interim targets is actually a way to measure progress in a formal way."

Australia has lacked the political will to make targets formal, whereas the UK now has legislation requiring large pension funds to set climate change targets. Meanwhile, President Biden has re-committed the US to the Paris Agreement, as well as cutting emissions in half by 2030.



"The action that investors (asset owners, asset managers, consultants) are all taking is predicated on the expectation that governments will eventually establish policies that actually drive positive change towards the 1.5C target... asset owners can't do it by themselves," Alcock said.

Investor led action such as the [Climate Action 100+](#) initiative and the [Transition Pathway Initiative \(TPI\)](#) tool are also accelerating the pace of change, according to Head of Responsible Investment at Frontier's UK based GIRA partner firm, LCP, Claire Jones.

"They are both giving investors a way of working together to encourage the change that we need to see, but are also a way of scoring companies to help identify which parts of the portfolio need to have engagement focused on them first."

Advisory firm LCP is part of the Global Investment Research Alliance alongside Frontier and Segal Marco Advisors. LCP will require asset managers to be a signatory to the [Net Zero Asset Managers Initiative](#) as a minimum standard to be recommended from April 2022. Both LCP and Frontier are founding members of the Net Zero Investment Consultants Initiative.

<https://www.frontieradvisors.com.au/investment-consultants-come-together-to-launch-global-net-zero-initiative/>



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