

Journey to Net Zero:

Build your knowledge - education and metrics

Education: developing your knowledge and understanding of net zero and climate risk

The journey to net zero starts with education, to solidify decision-makers' knowledge and understanding of climate risks. It's important to understand the fundamentals of net zero and how your investment strategy can align with the low-carbon transition.

Education and training on climate risk, net zero and the options available to support your asset owner's net zero alignment should be ongoing throughout the process towards developing and maintaining a Climate Transition Action Plan (CTAP).

It's also essential to build knowledge on topics that interconnect with net zero to help enable a holistic approach when building a credible net zero investment strategy and to support positive actions.

Key topics that should be understood are:



The energy transition

The role of the energy sector in supporting the low carbon transition through investments in sources of renewable energy and supporting infrastructure (ie Grid technology and Solar PVs).

We explore investment opportunities in the energy transition further in our article [here](#).



Natural capital

The role of ecosystems and natural capital assets in supporting the low carbon transition through investments in various areas.

To explore natural capital further and how to incorporate natural capital considerations into your investment strategy, check out our [Nature Hub](#).



The just transition

The role of training and reskilling through investments in education and training for those employed in sectors that will become obsolete in the economy or 'stranded assets' due to the low carbon transition.

We discuss the just transition and sectors most affected further in an article [here](#).

Metrics: understanding your baseline and the path to net zero

Net zero goals aim to reduce the carbon emissions owned or financed by your investment strategy. This means you need to know your starting point and how your current strategy may already have features that align with net zero considerations.

Typical assessments will show your carbon emissions profile today. You can consider metrics such as your carbon footprint and absolute emissions measures, usually split down by industry. You may also want to know whether you're directly or indirectly exposed to the fossil fuel industry, and perhaps also define your exposure to climate solutions.



Carbon footprint

Carbon footprint gives a measure of an asset owner's ownership of emissions across both debt and equity investments and provides a good base to set reduction targets against.



Weighted Average Carbon Intensity (WACI)

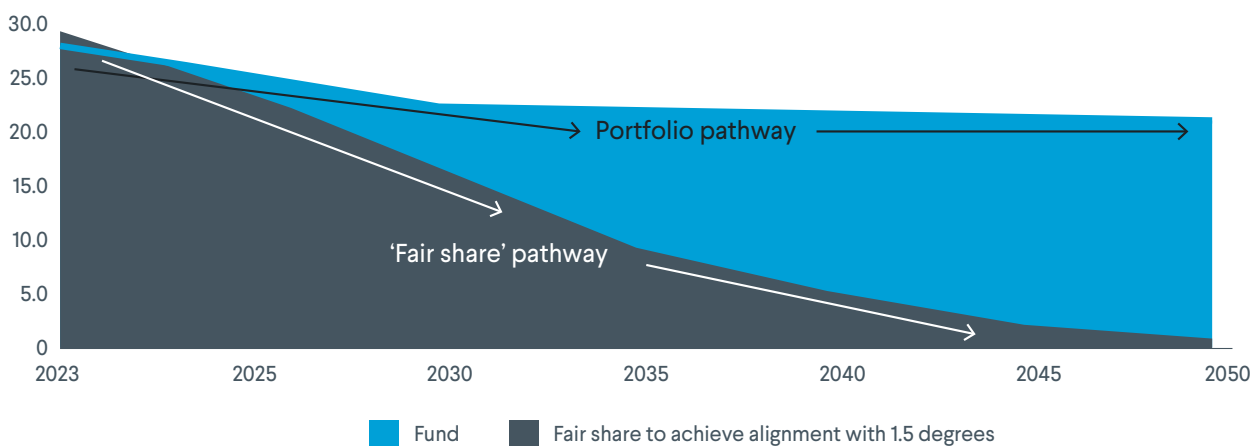
WACI normalises a company's emissions by sales in USD to allow for comparison of emissions intensity between companies of different sizes. WACI reveals where a scheme's exposure to transition risk lies, as companies with high revenue relative to emissions (ie a low WACI figure) could be more resilient to a higher carbon tax or other similar policy change in the future for example. This can be misleading as a measure of progress towards net zero, for example a high emitting company with a bumper year for revenue may have increased total emissions while the WACI figure shows a decrease since last year.

Both these measures are 'backward-looking' in that they show emissions that have already happened.

Shift the focus

Comparing against baseline measures will often show progress, however it won't show the full picture. You'll also need to shift focus to the future, ie assessing the progress of your strategies against net zero goals and pathways to ensure alignment with your ambitions. A key focus here is placed on forward-looking metrics by assessing the portfolio's alignment with net zero and assessing the levers that can improve that alignment and accelerate the net zero strategy.

We encourage more granular analysis that helps you set and assess the progress of your strategies against net zero goals and pathways. For example, we use an approach which considers the 'fair share' of the overall carbon budget to assess whether your strategy is aligned with your net zero ambitions. This allows for judgments about whether individual portfolios are fully or partially in line with a given pathway, offering a more nuanced approach to assessing climate informed strategies.



No single metric will give you the full picture. A range of lenses is needed as well as various data sources to form as complete a picture as possible.

The use of climate metrics needs to be 'decision-useful', meaning they should support decisions on both capital allocation and engagement, as well as help demonstrate the real-world impact of these decisions.

Being able to understand the trade-offs of investing to support the low-carbon transition alongside the 'on-paper' emissions disclosure is vital. For example, it's quite easy to reduce carbon footprint by divesting from higher emitting sectors, but that does little for real economy change. On paper that would look like a good level of reduction but in practice, this just transfers the emissions to another investor who may not strive to reduce emissions, thus having a wider negative impact on the low carbon transition. Various lenses are then needed to demonstrate the bigger picture.

Equally, climate metrics can support the prioritisation of engagement activity, which is particularly important when resource may be constrained or more targeted action is preferred.

Some important questions to consider when using climate metrics include:

- ❓ How do you balance decarbonising with effecting real economy change?
- ❓ What impact on your emissions journey will certain capital allocation decisions make?
- ❓ How can metrics support and inform engagement activity?
- ❓ How should you balance uncertainty around data quality with the desire to make tangible progress?
- ❓ How might this position change between asset classes?
- ❓ How can you use emission data to inform but not dictate the asset owner's net zero strategy?
- ❓ Why is there a risk of getting lost in the numbers?

It's crucial to not allow metrics and numbers to get in the way of positive action.

CASE STUDY

Developing a Net Zero Strategy and CTAP

Our client wanted to set an ambitious net zero target and develop a credible investment strategy to align with this.

To support the framing of the client's initial thinking and potential target dates, we carried out a net zero training session with the committee members and officers. This helped build a knowledge foundation for all, particularly around potential net zero target dates and the implications of selecting different dates. In this training, the importance of interrelated issues such as nature-based issues like biodiversity loss and the social aspects the low carbon transition presents were also discussed. The next stage was then to help them understand their baseline and current path.

Traditional climate measures such as carbon footprint and WACI were used to assess today's position and to compare the progress made as a result of positive steps they had already taken over the past three years. This showed a significant reduction in carbon footprint over that time period.

To support discussions on a feasible net zero target date as well as ambitious but credible interim

decarbonisation targets, we provided them with our forward-looking carbon pathway analysis supported by input from other data sources such as Science Based Targets Initiative (SBTi) and Transition Pathway Initiative (TPI).

This analysis and assessment helped with further discussion and debate to define a suitable net zero target date that could be agreed on by all.

The client also recognised the importance of natural capital for an effective net zero investment strategy. Therefore, they undertook various training sessions on natural capital to help them better understand how to incorporate natural capital into their strategy.

After receiving all the appropriate training on various net zero-related topics, developing a greater understanding of the asset owner's current position with regard to climate risk and opportunity, and analysis of the future path for the current investment strategy, the client felt confident to build their detailed CTAP.

They have recently received their first annual reporting against the CTAP targets and actions.

Contact us

We have the skills and resources to help you explore all these areas. Please get in touch if you'd like to discuss this area further, or if you have any questions.

[Get in touch](#)



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Definitions

Transition Pathway Initiative (TPI) – The Transition Pathway Initiative provides independent research and data on the progress of corporate and sovereign entities in transitioning to a low-carbon economy, focusing on climate governance and carbon emissions.

Science Based Targets Initiative (SBTi) – An initiative that provides a clearly-defined pathway for companies to reduce greenhouse gas (GHG) emissions, helping to prevent the worst impacts of climate change and future-proof business growth.

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