# Analysis

## Study 1. Member Disclosure Analysis

**Key Findings**

- 90% of NZAOA members disclose details of their net-zero targets; However, only 26% disclosed information on Scope 3 emissions, which the Alliance considers to be a key requirement.
- 7% of members had high disclosure completeness levels on their alignment with TSP2 and 1.5°C pathway goals, 70% of members had medium disclosure completeness levels, and 23% of members had low disclosure completeness.
- Members have much higher disclosure rates around indicators detailing engagement with asset managers (86% reporting) and the engagement process (77% reporting).
- Only 40% report on setting measurable targets for engagement.
- Only 37% of members disclose their climate voting records. Moreover, only 6% of members report on their security lending policy in alignment with net zero.
- Only 26% of members disclose bond engagement, divestment, or denial strategies across fossil fuels.

## Introduction

The TSP2 focuses on the actions members must undertake to enable a real-economy transition toward a 1.5°C pathway in line with the "no or limited" overshoot scenarios of the IPCC. The TSP2 proposes tangible metrics that members commit to across engagement, sectoral carbon emissions intensities, differentiated actions across different asset classes (including infrastructure), and providing capital for climate solutions investment. So far, the academic literature has documented several ways in which investors could use their power to enable the low-carbon transition by preventing new fossil fuel infrastructure or increasing the sustainability profile of a company through: i) engagement directly in equities[iii] or engagement with debt-funders of companies (and votes at bank AGMs), ii) portfolio tilting in equities[iv], iii) divestment from secondary equity and bond markets[v] and iv) bond and loan denial for new fossil fuel infrastructure[vi,vii].

Further evidence into European pension funds' decision to divest or not suggests that divestment from fossil fuels is more likely among larger and publicly owned pension funds[viii]. Egli, Schärer, & Steffen (2022)[ix] further find that among privately owned pension funds, open funds competing for clients are more likely to divest compared with company funds restricted to employees. The literature further documents that pension funds tend to join initiatives such as the PRI, particularly if they come from backgrounds such as: (i) public service employee and labour union pension funds, (ii) from social backgrounds more culturally aligned with values represented by the RI movement (iii) and from countries which historically have more voluntary legislation on environmental, social, and governance (ESG).[x]

What is less known is whether pension funds that join peer initiatives such as the NZAOA also change their reporting practices and perform better on aligning with initiative-level pledges. Thus, in this study, we analyze how NZAOA members perform using evidence from public disclosures and commitments on members' websites.

## Methodology

In order to understand whether NZAOA members are aligned with the criteria outlined in the annex of the TSP2, we code and aggregate the TSP2 into 38 different indicators (Appendix 1 - Table 1), which refer to NZAOA member disclosure and reporting progress on net zero. These indicators include mandatory and strongly recommended TSP2 guidelines to members, with additional indicators to account for bondholding and climate voting. In translating the TSP2 into a scoring framework, we condensed multiple requirements and guidelines into key themes as indicators. Therefore, each indicator focuses on a separate aspect of decarbonising portfolios and decreasing emissions in investee companies. The scoring framework indicators include evidence of disclosure on: Scope 1, 2, and 3 targets and progress, fossil fuel financing phase-out policies, emissions target setting, engagement targets and process transparency, climate voting, and climate solution investing, among others. Indicators around the newly added infrastructure and real estate asset classes covered in the TSP2 were also included, as these are part of the mandatory reporting requirements for Alliance members moving forward. We developed these indicators to provide further insight in conjunction with the other two studies on proxy voting and bondholding in this report.

We gathered data[3],[4] from members' publicly available sources online, including their websites and published reports (e.g. annual reports, TCFD reports, ESG disclosures). Scoring members as either disclosing or not disclosing information for each indicator based on available data, we were able to evaluate 70 of the 73 cohort members. The remaining three (African Risk Capacity, the Sovereign Wealth Fund of the Gabonese Republic, and Stichting Pensioenfonds Medisch Specialisten) did not have any publicly available information. We then created disclosure profiles for the cohort, at aggregate and for each individual member, to evaluate whether members' disclosure levels were aligned to the TSP2 and the NZAOA's goals. To better evaluate and understand the results obtained in the data collection process, we have divided them into the following three levels:

- Low disclosure completeness (0-30% of indicators covered)
- Average disclosure completeness (30-70% of indicators covered)
- High disclosure completeness (70-100% of indicators covered)

3 Please note a minor limitation to the study: seven members publicly reported exclusively in Danish or Dutch and therefore, we used translation software to assess their disclosures.

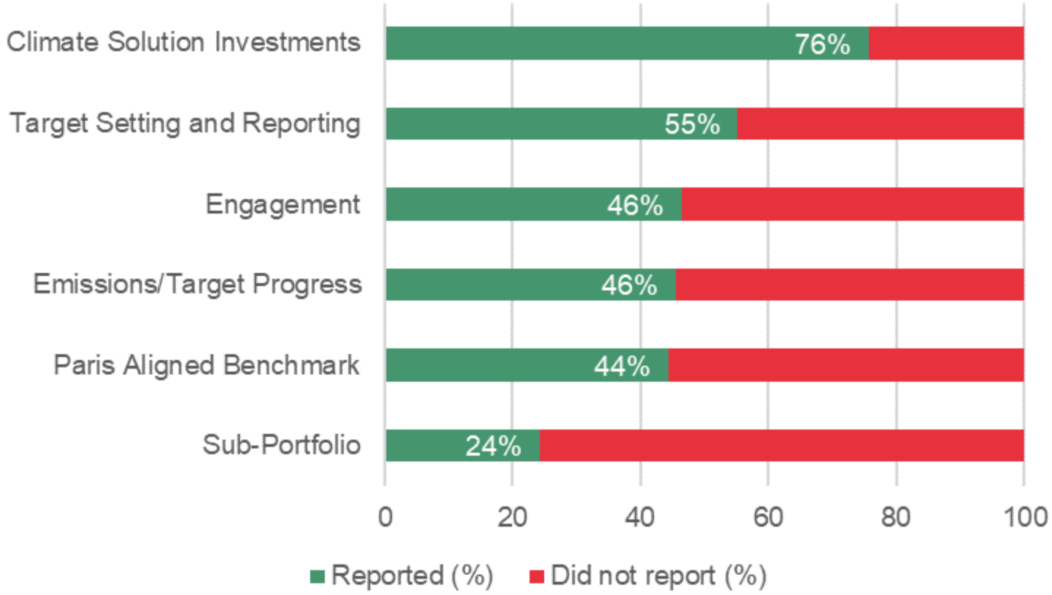
4 In this study, we analysed members at an organisational level. This means that we used information from either the parent asset owner company or from their subsidiary/sibling organisation, depending on the available sustainable disclosure information. Please refer to Appendix 5 for more details.

# Findings

## Cohort disclosure levels on themed indicators

**We find that overall, NZAOA members are reluctant to report on indicators that detail concrete decarbonisation activity across their investments. They are much more likely to report on target or policy setting rather than progress towards achieving those targets or other results-oriented indicators.**

Figure 1. Percentage of companies reporting on grouped[5] indicators[6] (summarised view).




5 'Climate Solution Investments' and 'Paris Aligned Benchmark' were two indicators that did not belong in any grouping and are left as individual indicators.
6 For a cohort-level visual on disclosure levels across all 38 indicators, see Appendix 6 - Figure 1.

Areas in which members showed the highest disclosure levels are focused primarily around target setting, largely around engagement, and details around science-based targets. Members showed particularly high levels of disclosure around:

- Net-zero targets (90% reporting)
- Asset manager engagement targets (86% reporting), and
- Fossil fuel policies (84% reporting).

This falls within expectations, given the Alliance's mandatory TSP2 requirements for all members to submit and publish targets within 12 months of joining the Alliance, include stewardship engagement within their strategy, and support the phase-out of fossil fuels required by 1.5°C scenarios. The NZAOA's second progress report published earlier in September 2022 confirmed that 44 members submitted internal reporting target templates as outlined in TSP2 – a number that has now grown to 46 .

In contrast to the high disclosure rates around target and policy setting, we find concerningly low disclosure from members around baseline Scope 3 emissions measurement and progress toward reducing such financed emissions. The NZAOA recognizes that Scope 3 emissions represent 95-97%[xi] of an asset owner's emissions, and require members to set targets on these emissions.

We also find that members have much higher disclosure rates around indicators that detail engagement with asset managers (86% reporting) and the engagement process (77% reporting). These indicators cover engagement themes that are non-binding and do not carry any requirement attached to the scope of engagement. When it comes to setting measurable targets for engagement (40% reporting) or escalation strategies before and during the bond issuance process (26% reporting), Alliance members are much more reluctant to disclose public information.

Members have similarly low disclosure levels around climate voting. We find that only 6% of members report on how their security lending policy aligns with net zero. Moreover, only 37% of members disclose their climate voting records.

Additionally, we find very low disclosure rates around sub-portfolio-related indicators of real estate and infrastructure, which aligns with the Alliance's September 2022 findings that only 55% of members have thus far set sub-portfolio targets. Although real estate and infrastructure targets were new additions in the TSP2, these targets are critical to drive necessary short-term emissions reductions to align with NZE2050, and are acknowledged as the most significant quantitative component of the Alliance's target-setting scheme and reporting rubric in the TSP2.

Table 1. Top and bottom 10 indicators in terms of NZAOA cohort disclosure levels.

| Top 10 Disclosed Indicators | | Bottom 10 Disclosed Indicators | |
|---|---|---|---|
| **Indicator** | **Members Reported (%)** | **Indicator** | **Members Reported (%)** |
| Details of net-zero target(s) | 90 | Infrastructure (reporting emissions) | 3 |
| Fossil fuel policies | 87 | Infrastructure (assessment) | 5 |
| Engagement | 86 | Climate votes (outsourced) | 6 |
| Engagement process | 78 | Real estate (reporting- intensity targets metric) | 8 |
| Climate solution investments | 76 | Infrastructure (creating target) | 8 |
| Details on targets based on IPCC | 75 | Infrastructure (phase out upstream greenfield projects) | 14 |
| Process of creating targets | 75 | Real estate (emissions calculation method) | 17 |
| Details of absolute emissions target(s) | 73 | Infrastructure (target) | 17 |
| Details on progress made against emissions targets ahead of COP30 in 2025 | 71 | Details on target and progress on Scope 3 emissions (portfolio emissions) | 21 |
| Details on target and progress of Scope 1 emissions | 65 | Real estate (creating target model) | 22 |

## Member deep dives

**NZAOA members in the top 11[7] group of best overall disclosure have mixed results when it comes to more ambitious indicators.**

Amongst the top 11 members with the highest overall disclosure, CDC, Aviva, AXA, Allianz, and Swiss Re Ltd were all considered to have high disclosure completeness (above 70% indicators covered). The remaining five members – CNP, L&G, Munich Re, CBUS, Generali, and Zurich International – were all considered to have average disclosure levels (between 30-70% indicators covered), although they were on the higher end of that range.

Table 2. Top 11 NZAOA cohort members by overall disclosure levels.

| NZAOA Member | Indicators Reported (%) |
|---|---|
| CDC - Caisse des dépôts et consignations (France) | 76 |
| Aviva Plc (United Kingdom) | 74 |
| AXA Group (France) | 74 |
| Allianz SE (Germany) | 71 |
| Swiss Re Ltd (Switzerland) | 71 |
| CNP Assurances (France) | 66 |
| Legal & General (United Kingdom) | 63 |
| Munich Re (Germany) | 63 |
| CBUS Superannuation Fund (Australia) | 61 |
| Generali Group (Italy) | 61 |
| Zurich Insurance Group (Switzerland) | 61 |

7 As CBUS, Generali, and Zurich International all disclosed the same percentage of indicators, the top 10 group was expanded to include 11 total members.

In an encouraging show of consistent reporting efforts, all 11 members reported on either absolute or intensity targets in addition to progress made against those targets. Members in the top 10 also reported more often on sub-portfolio targets.

For example, although only three members disclosed information on the Infrastructure Assessment indicator (focusing on whether or not members planned to report or already reported emissions for their energy infrastructure assets by 2025), all three members who did disclose information were in the top 10 group. These three members were Aviva, Allianz, and Munich RE. Additionally, we found that all top group members, except Munich Re and CBUS, disclosed financing transition targets, which is an indicator aimed at enhancing the supply side of climate solution investments in both the economy and through the Alliance members' investment portfolios.

Members in the top 10 hesitated, however, when disclosing information on progress made towards these targets. Disappointingly, none of the top 10 group members disclosed Scope 3 emissions information, and only six members disclosed information on assessing their carbon footprint across all emissions in line with the GHG Protocol. We also found that despite high levels of overall disclosure, Swiss RE had no disclosure around implementing the Paris-aligned benchmark or climate voting indicators.

**Case Study: Best practice on ambitious decarbonisation indicators**

Although Folksam was not a leader in overall disclosure levels, the Swedish insurance investor had the best disclosure levels when analysing more ambitious indicators that commit the firm to decarbonisation progress. Folksam disclosed information on both targets and progress made against those targets, including Scope 3 targets, unlike those in the top 10 group. We also found that the group reported they were working to comply with and implement Paris-aligned investing strategies, and in doing so, disclosed on all engagement indicators except bondholding. Moreover, Folksam also disclosed information on climate solution investments similarly to members in the top 10 group.

**Members in the bottom 10 group of overall disclosure dragged down the overall disclosure indicators by not reporting any information in several areas where other members provided higher levels of disclosure.**

Lowest overall disclosure came from Univest, David Rockefeller, Dai-ichi, HanseMerkur, HUK-COBURG, IBM, KENFO, Novartis, Detailhandel, and Bayerishce.

Table 3. Bottom 10 NZAOA cohort members by overall disclosure levels.

| Indicator | Indicators Reported (%) |
|---|---|
| Univest Company (Netherlands) | 3 |
| David Rockefeller Fund (USA) | 5 |
| The Dai-ichi Life Insurance Company, Limited (Japan) | 13 |
| HanseMerkur (Germany) | 13 |
| HUK-COBURG Versicherungsgruppe (Germany) | 13 |
| Stichting pensioenfonds IBM Nederland (Netherlands) | 13 |
| KENFO (Germany) | 16 |
| Novartis Pension Fund (Switzerland) | 18 |
| Pensioenfonds Detailhandel (Netherlands) | 18 |
| Bayerische Versorgungskammer (Germany) | 21 |

No members in the bottom 10 group reported on details or progress made toward Scope 1-3 emissions, nor did they provide any information on climate voting records or outsourced climate voting. Additionally, although 66% of members disclosed information on progress made against emissions targets ahead of COP30 in 2025 – the year by which the TSP2 has specified members must set interim targets for and achieve results – no members in the bottom 10 have reported any information on this indicator.

We also found very low reporting from this bottom 10 around other target-setting indicators, including how emissions reductions targets are created and how engagement targets are created and measured. Low disclosure levels around engagement targets are in line with the overall cohort's reluctance to disclose such information, and of the bottom 10 group, only HanseMerkur disclosed this indicator. However, the bottom 10 group also has extremely low disclosure levels on the engagement process, which drives down the otherwise-high overall disclosure levels for this indicator.

Univest (3% indicators covered) and the David Rockefeller Fund (5% indicators covered) fell behind as the only two investors to disclose a single-digit percentage of indicators. Univest, Unilver's pension fund, only disclosed information on one indicator, which detailed the portfolio's absolute emissions targets. The David Rockefeller Fund only disclosed information on two indicators on net-zero targets and fossil fuel policies; both were very broad and revealed little detail aside from stating their existence.

**Key Recommendations**

- Disclose and set measurable targets for engagement or escalation strategies across both equities and debt holdings.
- Report fully on outsourced climate votes, as well as their own climate voting record.
- Disclose whether the member is involved in fossil fuel bond engagement, divestment, or new fossil bond denial.
- Disclose and establish an escalation pathway for asset managers that fail to represent the asset owner's net-zero goals, as well as any incentive structures, such as tying asset manager fees to climate performance.
- We also recommend the Alliance to include the above recommendations as mandatory in the next Target Setting Protocol update.

Our findings in the disclosure analysis are complemented by the following studies on proxy voting and bondholding. The additional studies are particularly relevant given the disparity between high levels of public disclosure around asset manager engagement and low levels of disclosure around engagement targets and bondholder engagement.