What is the Net Zero Asset Management Initiative (NZAMI)?

The NZAMI was launched in December 2020 and builds on previous investor climate initiatives with a specific focus on setting portfolio decarbonization targets. The initiative is supported by an international group of asset managers formally committed to reducing their portfolio carbon emissions to net zero by 2050 at the latest. This is in line with national commitments made as part of the Paris Agreement, which aims to limit long-term temperatures rises to 2, but ideally 1.5, degrees Celsius above pre-industrial levels.

The NZAMI launched with 30 founding signatories representing over US$9 trillion of assets under management (AUM) and today represents US$57.4 trillion.* Specifically, the initiative relates to the emissions financed by the investment community, not asset managers’ own operational emissions, as the latter are dwarfed by comparison.

When did Muzinich become a signatory?

We became a signatory to the NZAMI on 27th October 2021, just ahead of the COP 26 in Glasgow, Scotland. This is a critical milestone in our ongoing journey to ensure our investments are aligned with a more sustainable future.

1. IPCC The Intergovernmental Panel on Climate Change is an intergovernmental UN body tasked with informing policymakers with scientific insight on climate change. The IPCC’s Sixth Assessment Report is available online: https://www.ipcc.ch/report/ar6/wg1/

* Net Zero Asset Managers Initiative, as of 27 October 2021
Why did Muzinich become a signatory?

We have been increasingly focused on sustainable investment and climate change for some time. We, and many of our investors, believe this is vitally important, not only in the name of investment best-practice, but in the long-term interests of the environment and society.

Earlier in 2021 we updated our responsible investment policy which includes a new ESG policy for the majority of our UCITS strategies. Many of our funds are classified as Article 8 products under the Sustainable Finance Disclosure Regulation (SFDR) and have specific carbon efficiency targets relative to specific benchmarks. But this is just the beginning of our actions to tackle climate change.

We believe physical climate risks present the single largest hazard to humanity and the global economy for the foreseeable future. In signing the NZAMI we have taken a leap towards significant climate action. Investors can and will play a critical role in addressing both the risks and opportunities presented by climate change.

What are Science Based Targets?

The NZAMI was, in part, established to avoid more tokenistic investor and corporate climate pledges in favour of a more scientific approach. While the Paris Agreement is a global commitment to reach net zero by 2050, every company will need to discover their own science-based target (SBT). This will show each company exactly how much and how quickly they need to reduce their carbon emissions to prevent the worst effects of climate change.

Company and investor SBTs will depend on their specific circumstances. Company-level targets are independently certified by the Science Based Targets Initiative (SBTi) - over 1800 companies have set these targets or made commitments to date. Investors can also set SBTs. These are an important building block for asset managers to set the right carbon reduction pathways as part of their NZAMI commitment.

What action will Muzinich need to take in response to signing the NZAMI?

On signing the NZAMI, signatories make several explicit and implied commitments. First, we will create a plan to decarbonise our portfolios by a certain percentage over the next five years, and the proportion of our assets under management (AUM) to which that applies.

While the goal is to reach 100% of AUM, we are mindful of the practical challenges of applying such a target to certain instruments like derivatives. Beyond this, we will continue to set new five-year targets on a rolling basis.

To deliver, we will finalise a formal climate policy that follows the framework set out in the Paris Aligned Investment Initiative. The framework includes ensuring adequate internal governance and accountability to deliver on our promises.

This will make sure we have the expertise and resources in place to understand and calculate the climate trajectories of our holdings and set platform and product-level objectives and targets as part of our firm-level commitment.

The real action comes from our asset allocation and long-term stewardship. This means taking investment decisions to reduce portfolio carbon intensity, identifying investment opportunities in climate ‘solutions’ such as low carbon energy, and engaging portfolio companies to ensure their climate pathways meet our needs.

At the same time, we will continue to manage strategies that deliver on the investment expectations of our clients. As part of a broader need to identify and manage climate transition risks in our portfolios, we also need to carry out scenario analysis to inform our standard credit research process.

Can’t you simply exclude fossil fuels?

Our portfolios need to remain well diversified - we can’t just use exclusion as a crude means of decarbonising. While our investment strategies are largely coal-free, oil and gas producers will play a dominant role in the transition to cleaner energy - albeit in a vastly more energy-efficient economy.

New technology and nature-based carbon offset solutions will also play a part in achieving our goals. But they will likely form a very small part of the solution once other avenues have been exhausted.

What are some of the challenges you face as a corporate credit manager?

The challenges are many and varied but won’t stop us taking rapid action. The lack of forward-looking climate insights and data, policy uncertainty and market reticence are commonly recognised stumbling blocks. We need to engage companies to ensure quality and timely emissions data on Scope 1, 2 and critically Scope 3 emissions.
The three frameworks key to understanding the future trajectories of companies are the Climate Action 100+ initiative’s Net Zero Company Benchmark, the Transition Pathways Initiative and the Science Based Targets Initiative. While their scope is currently limited, we will continue to work with the European Leveraged Finance Association (ELFA) to engage high yield and corporate loan issuers to increase their climate commitment discloses. We also believe it is critical to engage policy makers and demonstrate our commitment to net zero with the expectation that they fulfil their end of the bargain.

Are there any other important considerations for a net zero investment strategy?

We believe in the concept of a ‘just transition’ at the national and corporate level to minimise the socio-economic impact of the climate transition. In our view it’s important that wealthier economies like the US and Europe help developing countries to reduce emissions. This would ensure workers, local communities and businesses of more carbon intensive industries are supported in their move to alternative livelihoods and that we can collectively meet our goals.

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