

NET ZERO ASSET MANAGERS INITIATIVE ROADMAP TO A COMPLIANT COMMITMENT

December 2021

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While the Net Zero Asset Managers Initiative commitment (the **NZAMI Commitment**) is a clear signal to the market of an asset manager's commitment to addressing the risks and challenges of climate change, it is a significant undertaking for asset managers and has several regulatory implications.

Compliance may be particularly challenging for asset managers with large existing books of business or that do not have legacy environmental, social, and governance (**ESG**) or impact-investing product offerings. Notably, adopting a NZAMI Commitment requires asset managers to address issues with respect to fiduciary duties, fund and/or strategy disclosure documents, advertising and marketing, guideline monitoring, engagement and proxy voting, as well as client reporting, among other considerations.

NZAMI COMMITMENT BASICS – WHAT IS THE NZAMI COMMITMENT?

When becoming a signatory to the NZAMI Commitment, asset managers are making two primary commitments:

- Support the goal of net zero greenhouse gas (**GHG**) emissions by 2050, in line with global efforts to limit warming to 1.5°C (net zero emissions by 2050 or sooner)
- Support investing aligned with net zero emissions by 2050 or sooner

These two primary commitments are then effected by three specific commitments and 10 specific requirements. The complete NZAMI Commitment is attached as [Appendix A](#).

The NZAMI Commitment provides a framework under which asset managers will seek to achieve 100% of their assets under management (**AUM**) in strategies that support the overall goal of obtaining net zero GHG emissions by 2050 or sooner. This goal requires asset managers to assess the proportion of their AUM that is aligned with net zero investing (**In-Scope Assets**), set targets to increase the proportion of In-Scope Assets as part of overall AUM, and publicly report on their progress in promoting net zero investing.

Critically, this commitment does not require an asset manager to manage any of its clients' assets in net zero strategies. Instead, an asset manager signing up to the NZAMI Commitment is committing to promote the benefits of net zero investing to its clients and prospective clients; building tools to ensure portfolio managers can implement net zero investment policies; creating net zero-oriented client reporting metrics; and, perhaps, developing new investment products aligned with net zero investing.

NZAMI COMMITMENT CHALLENGES

It is critical that asset managers making the NZAMI Commitment ensure they have fully implemented all aspects of their commitment, while maintaining compliance with other applicable laws and regulations. Failure to adhere to the required elements of the NZAMI Commitment can result in an asset manager being removed from the list of commitment-compliant firms.

Further, an asset manager that promotes its NZAMI Commitment to clients and prospects in advertising or other communications, but does not fully meet its requirements, may be subject to regulatory penalties or legal liability to clients for misstatements in those materials.

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Interaction with Fiduciary Duties

One of the common threads across global regulation of asset managers is the existence of a fiduciary duty that asset managers owe to their clients. While the specific wording may change from jurisdiction to jurisdiction, asset managers everywhere must put client interests ahead of their own.

The NZAMI Commitment creates a potential conflict with that core duty because it is a commitment on the part of the asset manager itself independent of its relationship with, and obligations to, its clients. In other words, an asset manager making this commitment has an interest, as an asset manager, in maximizing its In-Scope Assets to meet the commitment, whereas the asset manager's clients may not have the same interest (e.g., net zero-aligned management may or may not be appropriate for every client in every strategy).

That said, this potential conflict is not, itself, impermissible because the NZAMI Commitment does not require an asset manager to implement a net zero strategy for any particular client or set of assets. Instead, the NZAMI Commitment is aspirational, specifically noting in paragraph (a) of the NZAMI Commitment that asset managers should "work in partnership with asset owner clients on decarbonization goals."

Asset managers that seek to alter existing strategies in line with their NZAMI Commitment, however, must consider their fiduciary duties. These duties would generally require asset managers to inform existing clients of any material changes to their strategies and potentially obtain client consent or amend existing investment management agreements and/or investment guidelines. In the context of funds, this disclosure and consent may be obtained through a fund board and, if necessary, revisions to fund offering documents.

Asset managers developing new strategies in line with their NZAMI Commitment do not face the same challenges. In the case of new strategies, there are no existing clients to whom the asset manager would owe a fiduciary duty, and so long as marketing materials and disclosure documents accurately describe the investment approach, asset managers have a wide latitude to pursue net zero investment programs.

Disclosure to Clients

Asset managers may find that some of their existing strategies are already consistent with a net zero goal, and that the NZAMI Commitment does not require changes for their inclusion as In-Scope Assets. Asset managers should take care in assessing existing strategies to ensure that, should those strategies and assets be included as In-Scope Assets, the asset manager's existing clients have been provided with sufficient disclosures regarding the management of these strategies, and that their inclusion would not be inconsistent with any marketing materials relating to such strategies.

Guideline Monitoring and Data Availability

Another challenge associated with the implementation of a NZAMI Commitment relates to the interplay between net zero portfolio management processes, disclosures of investment guidelines, and guideline monitoring systems. Depending on the specific strategy involved, implementation of net zero investing may require new investment guidelines, such as limitations on carbon intensity at a portfolio level, exclusion of high carbon emitters at an issuer level, or underweighting or overweighting certain high-emissions or low-emissions sectors, respectively.

Portfolio managers or guideline monitoring systems may require new data inputs to effect net zero-oriented investment strategies for In-Scope Assets. For example, data showing carbon intensity at an issuer, industry, or sector level may be necessary both for the investment decision-making process and to validate compliance with a strategy's net zero-related guidelines. Thus, prior to implementing any particular investment program or approving changes to disclosure with respect to NZAMI Commitments, asset managers should ensure that they are appropriately positioned to implement net zero strategies

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and have the correct data and tools in place to be able to systematically test compliance with any associated guidelines or restrictions. Systematic testing and compliance may be more or less challenging depending on the strategy, guidelines, and the data required.

Asset managers that intend to rely upon proprietary internal research to implement net zero oriented strategies and/or test compliance with these strategies should ensure that the processes under which their research is generated are documented and understood and are performed independently from portfolio management functions. Where external vendor data is used, asset managers should understand how the data is generated, the material assumptions made by the vendor, and any material limitations or gaps in coverage.

The general availability of data can also pose a challenge as well. The NZAMI Commitment requires asset managers to assess Scope 1 and 2, and where possible, Scope 3 carbon emissions when implementing the strategies included as In-Scope Assets. Market data provider offerings, however, are still developing, so asset managers should consider how their portfolio managers will be able to make the required assessments if the applicable carbon emissions data is not readily available—e.g., using estimates, industry averages, or proprietary research.

Client Reporting

In addition to traditional client reporting, the NZAMI Commitment requires asset managers to develop new net zero reporting for clients and for the public. Similar to the challenges associated with guideline monitoring, data availability may be a limiting factor for certain reporting to clients. Asset managers should identify where there may be gaps in available data and disclose these gaps and how they may impact reporting.

Stewardship and Engagement

A NZAMI Commitment has implications for an asset manager's stewardship and engagement practices. The NZAMI Commitment requires asset managers to "implement a stewardship and engagement strategy, with a clear escalation and voting policy, that is consistent with our ambition for all assets under management to achieve net zero emissions by 2050 or sooner." This component of the NZAMI Commitment is applicable to *all* assets managed by the asset manager, not just In-Scope Assets.

In assessing how to fulfill this portion of the commitment, managers should ensure that their engagement strategies remain in the best interests of all of their clients to ensure they continue to meet their fiduciary obligations. For example, an issuer adopting an aggressive decarbonization plan may be important from a net zero commitment perspective, but if that plan required the issuer to take on increased business risk, it may not be in the interests of an asset manager's clients who are not invested in a net zero-oriented strategy to support or promote that level of decarbonization. Asset managers making the NZAMI Commitment will need to review their stewardship, engagement, and proxy voting practices to ensure they can meet the terms of the NZAMI Commitment while also meeting their fiduciary obligations to all clients.

The NZAMI Commitment also requires asset managers to engage with other third-party market participants to encourage the development of data and analytics necessary to support net zero investing. For example, asset managers making the NZAMI Commitment will likely need to engage their vendors to request additional climate data in order to provide their portfolio managers and compliance professionals with the data necessary to fully incorporate and monitor net zero investing.

Finally, the NZAMI Commitment requires asset managers to align their policy advocacy with the net zero ambition. This alignment will require coordination across an asset manager, especially public policy departments, to ensure that meeting this commitment can be substantiated.

NZAMI COMMITMENT COMPLIANCE ROADMAP

While a NZAMI Commitment presents significant challenges to asset managers, careful implementation can ensure that a manager's commitment is not only aligned with the NZAMI Commitment but also with the requirements of applicable law and regulation. The following roadmap may be useful for asset managers just beginning their NZAMI Commitment.

Make a Strategic Plan

The first step is to develop a strategic plan for implementation of the NZAMI Commitment that is based on an assessment of the needs of the asset manager. For example, will capabilities be broadly marketed to new investors, or will the focus be on existing investors, or both?

Similarly, will the asset manager pursue its commitment through new products, adjustments to existing products, or both? Will the asset manager review its entire suite of products or focus only on specific asset classes where net zero investing can be more readily implemented and impactful (*e.g.*, developed market equities and energy and utilities strategies)? How will the asset manager incorporate engagement and proxy voting into its overall commitment?

The development of a strategic plan will likely reveal additional areas where the asset manager may need to invest:

- For managers seeking to evolve existing strategies, what will the communication and implementation plan be for the existing clients?
- Does the guideline monitoring system have sufficient capabilities to monitor guidelines based on, for example, carbon emissions or the adoption of science-based targets?
- Do portfolio managers have the tools they need to understand the carbon profile and related information about the issuers in which they invest?
- Do the existing product disclosures and marketing materials require revisions to communicate the NZAMI Commitment?

Identify Strategies and Set a Target

The strategic plan will allow an asset manager to develop reasonable targets for In-Scope Assets as required under the NZAMI Commitment. An NZAMI Commitment requires asset managers to set a target proportion of assets that will be managed towards net zero goals. While the commitment is designed to be "methodology neutral," the Net Zero Asset Managers Initiative network partners have formally endorsed the following three methodologies for asset managers to use for setting appropriate targets:

- [Paris Aligned Investment Initiative Net Zero Investment Framework](#)
- [Science Based Targets Sector Guidance - Financial Institutions](#)
- [Alliance 2025 Target Setting Protocol](#)

Whether asset managers adopt one or a combination of these three methodologies, asset managers are required to disclose their targets, and their methodology used to set the target. In addition, asset managers should bear in mind the requirement to set interim targets for In-Scope Assets for 2030 consistent with a fair share of a 50% reduction in CO2 emissions.

Asset managers should engage with their portfolio managers and inventory their existing strategies to determine which are or can be aligned with net zero goals and, by extension, are eligible to be included as In-Scope Assets. As noted above, asset managers including existing strategies as In-Scope Assets should review the associated disclosure and marketing materials to ensure that clients investing in those

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strategies would expect that the strategy would be included in the In-Scope Assets. Where an asset manager is making changes to strategies in order to support its inclusion as In-Scope Assets, the asset manager should ensure that those changes are disclosed to clients and that the relevant client has provided sufficient consent to those changes.

Adopt and Implement a NZAMI Commitment Policy

Finally, asset managers making the NZAMI Commitment should consider adopting and implementing a NZAMI Commitment policy. Such a policy would be designed to ensure compliance with the specific elements of the NZAMI Commitment and serve as a vehicle to communicate the goals of the NZAMI Commitment to all of the various internal stakeholders. The policy should cover how the asset manager intends to meet the prescriptive elements of the NZAMI Commitment—for example, publishing the disclosures required under the Task Force on Climate-Related Disclosures (**TCFD**) framework, making the required disclosures to the Investor Agenda, and providing reporting to clients.

In addition, the NZAMI Commitment policy can serve as the resource for the interpretive decisions made by the asset manager in accordance with its strategic plan. For example, the policy could include the methodology for determining how strategies are evaluated for inclusion as In-Scope Assets as well as the procedures the asset manager follows to validate that In-Scope Assets are, in fact, managed consistent with the net zero commitment. In addition, the policy can cover how stewardship, engagement, and proxy voting practices are assessed for compliance with both the NZAMI Commitment while also ensuring that the needs and goals of clients who do not have net zero-oriented mandates are met. Finally, the policy can also serve as direction and reminders to other stakeholders, such as procurement and policy groups that may have obligations under the NZAMI Commitment.

CONCLUSION

As discussed above, the implementation of a decision to participate in the NZAMI Commitment is a complex and multi-faceted undertaking. Attached as [Appendix B](#) is a checklist to help guide asset managers in implementing their NZAMI Commitment obligations in a manner consistent with their existing regulatory obligations. Asset managers can use the provided appendices coupled with the above roadmap as a guide on the path toward a compliant NZAMI Commitment.

APPENDIX A

Source: <https://www.netzeroassetmanagers.org/>

The Net Zero Asset Managers Commitment

In line with the best available science on the impacts of climate change, we acknowledge that there is an urgent need to accelerate the transition towards global net zero emissions and for asset managers to play our part to help deliver the goals of the Paris Agreement and ensure a just transition.

In this context, my organisation commits to support the goal of net zero greenhouse gas ('GHG') emissions by 2050, in line with global efforts to limit warming to 1.5°C ('net zero emissions by 2050 or sooner'). It also commits to support investing aligned with net zero emissions by 2050 or sooner.

Specifically, my organisation commits to:

- a. Work in partnership with asset owner clients on decarbonisation goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all assets under management ('AUM')
- b. Set an interim target for the proportion of assets to be managed in line with the attainment of net zero emissions by 2050 or sooner
- c. Review our interim target at least every five years, with a view to ratcheting up the proportion of AUM covered until 100% of assets are included

In order to fulfil these commitments my organisation will:

For assets committed to be managed in line with the attainment of net zero emissions by 2050 or sooner (under commitment b)

1. Set interim targets for 2030, consistent with a fair share of the 50% global reduction in CO₂ identified as a requirement in the IPCC special report on global warming of 1.5°C
2. Take account of portfolio Scope 1 & 2 emissions and, to the extent possible, material portfolio Scope 3 emissions
3. Prioritise the achievement of real economy emissions reductions within the sectors and companies in which we invest
4. If using offsets, invest in long-term carbon removal, where there are no technologically and/or financially viable alternatives to eliminate emissions
5. As required, create investment products aligned with net zero emissions by 2050 and facilitate increased investment in climate solutions

Across all assets under management

6. Provide asset owner clients with information and analytics on net zero investing and climate risk and opportunity
7. Implement a stewardship and engagement strategy, with a clear escalation and voting policy, that is consistent with our ambition for all assets under management to achieve net zero emissions by 2050 or sooner
8. Engage with actors key to the investment system including credit rating agencies, auditors, stock exchanges, proxy advisers, investment consultants, and data and service providers to ensure that

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products and services available to investors are consistent with the aim of achieving global net zero emissions by 2050 or sooner

9. Ensure any relevant direct and indirect policy advocacy we undertake is supportive of achieving global net zero emissions by 2050 or sooner

Accountability

10. Publish TCFD disclosures, including a climate action plan, annually, and submit them to the Investor Agenda via its partner organisations for review to ensure the approach applied is based on a robust methodology, consistent with the UN Race to Zero criteria, and action is being taken in line with the commitments made here

We recognise collaborative investor initiatives including the Investor Agenda and its partner organisations (AIGCC, CDP, Ceres, IGCC, IIGCC, PRI, UNEPFI), Climate Action 100+, Climate League 2030, Paris Aligned Investment Initiative, Science Based Targets Initiative for Financial Institutions, UN-convened Net-Zero Asset Owner Alliance, among others, which are developing methodologies and supporting investors to take action towards net zero emissions. We will collaborate with each other and other investors via such initiatives so that investors have access to best practice, robust and science based approaches and standardised methodologies, and improved data, through which to deliver these commitments.

We also acknowledge that the scope for asset managers to invest for net zero and to meet the commitments set forth above depends on the mandates agreed with clients and clients' and managers' regulatory environments. These commitments are made in the expectation that governments will follow through on their own commitments to ensure the objectives of the Paris Agreement are met, including increasing the ambition of their Nationally Determined Contributions, and in the context of our legal duties to clients and unless otherwise prohibited by applicable law. In some asset classes or for some investment strategies, agreed net zero methodologies do not yet exist. Where our ability to align our approach to investment with the goal of net zero emissions by 2050 is, today, constrained, we commit to embark with determination and ambition on a journey, and to challenge and seek to overcome the constraints we face.

APPENDIX B

NZAMI Commitment Checklist

Asset managers should consider the following steps in developing a plan for the implementation of an NZAMI Commitment.

Each step should take into consideration the asset manager's individual needs, including those related to its business model, structure, client base, existing products, and product pipeline. Potential impacts that a NZAMI Commitment may have on other existing policies should be assessed and addressed as well.

- Adopt and implement a Net Zero Asset Managers Initiative Commitment Policy covering the following:
 - Setting and reviewing an interim target for the proportion of assets to be managed in line with the attainment of net zero emissions by 2050 or sooner
 - Evaluating In-Scope Assets for compliance with the terms of the net zero commitment
 - Validating that In-Scope Assets are, in fact, managed consistent with the net zero commitment
 - Publishing TCFD disclosures, including a climate action plan, annually, and submitting them to the Investor Agenda via its partner organizations for review
 - Providing the reporting required by the NZAMI Commitment
- Evaluate investment guideline capabilities for the ability to monitor compliance with applicable net zero guidelines, including assessing whether data is available, correct, and/or sufficient
- If existing strategies are included as In-Scope Assets:
 - Confirm that the strategy is not changing to meet the net zero requirements and the inclusion of the strategy in the net zero target is consistent with prior marketing and regulatory disclosures;
 - Where strategies are modified, ensure that the firm has received sufficient consent/direction and has provided the necessary disclosures to existing investors.
- Develop capabilities and processes to provide all clients with information and analytics on net zero investing and climate risks and opportunities
- Stewardship and Engagement:
 - To the extent consistent with fiduciary duties, implement a stewardship and engagement strategy, with a clear escalation and voting policy, that is consistent with our ambition for all assets under management to achieve net zero emissions by 2050 or sooner
 - Develop policies to engage with service providers to encourage the development of data and analytics necessary to support net zero investing
- Review marketing policies and procedures to ensure that the presentation of the firm's net zero commitment is consistent with regulatory requirements, especially the Sustainable Finance Disclosure Regulation, if applicable.

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