

# Levers of change

## Using engagement to drive meaningful change



To support the low-carbon transition, it's important to recognise that the wider economy must undergo systemic change. Company-level efforts are important to ensure companies develop and implement credible decarbonisation plans, but the systemic nature of climate risk requires broader efforts to support net-zero targets.

### Outcome-focused stewardship

Effective engagement means determining, in advance, what outcomes are sought and tracking progress. Climate metrics, therefore, offer more than just a static snapshot of a portfolio's performance from a climate-conscious perspective. They serve as a dynamic tool, highlighting areas of improvement over time within the portfolio, and other areas where progress is slow and further attention is needed. With that in mind, using metrics from the outset is crucial in developing a credible net-zero investment strategy.

### Company-specific metrics

To create a robust net-zero investment strategy, it's important for asset owners to recognise that companies differ in their starting points and sector (or region)-specific challenges. Therefore, assessing the credibility of decarbonisation plans is an important step, and should form the basis for vital company-specific metrics.

### Metrics relating to systemic risks

Asset owners can use their influence to encourage a policy environment that supports lower emissions, participate in collaborative engagements and lead within their industry to improve disclosures.

### Meaningful engagement metrics

Effective climate engagement relies on meaningful and considered metrics. Credible engagement goals are specific, measurable, actionable, realistic and time bound. Setting a small number of meaningful metrics, which are ideally a combination of company-specific and systemic, is important when planning engagement programmes with multiple asset managers. It's also important that these metrics sustain attention over time. Metrics of this kind can be defined in a climate transition plan to ensure that subsequent actions are monitored.



## CASE STUDY

Our client wanted to make sure that their asset manager's climate and decarbonisation goals aligned with their own. So, we've worked with them to develop an engagement framework to support their net-zero commitments and decarbonisation priorities. Building on our net-zero pathway analysis, we used the client's climate risk reports to help identify engagement priorities based on the metrics most meaningful to them.

The client identified the importance of taking a sector-specific approach to engagement. To help them, we designed a programme focusing on structured and focused sector-specific engagement with the investment managers holding equities.

The engagement programme included questions for the asset managers to facilitate direct company engagement with the highest emitters in our client's portfolio based on the three agreed priority areas: climate change, pollution and board composition. Since the engagement meetings, we have continued to support the client in monitoring engagement outcomes and identifying any areas of follow up using an engagement log. This case highlights the benefits of using forward-looking metrics to engage with companies and hold asset managers accountable, thereby promoting the client's decarbonisation priorities.

## Conclusion

- Engagement is a powerful tool for asset owners when taking into consideration net-zero and decarbonisation ambitions, enabling them to drive real-world change.
- Outcome-focused engagement is most effective, and defining a small number of measurable engagement-related objectives means that stewardship efforts are not only impactful, but also aligned with the broader low-carbon transition.

If you'd like support in developing any aspect of your net-zero investment strategy, please don't hesitate to reach out to us.



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