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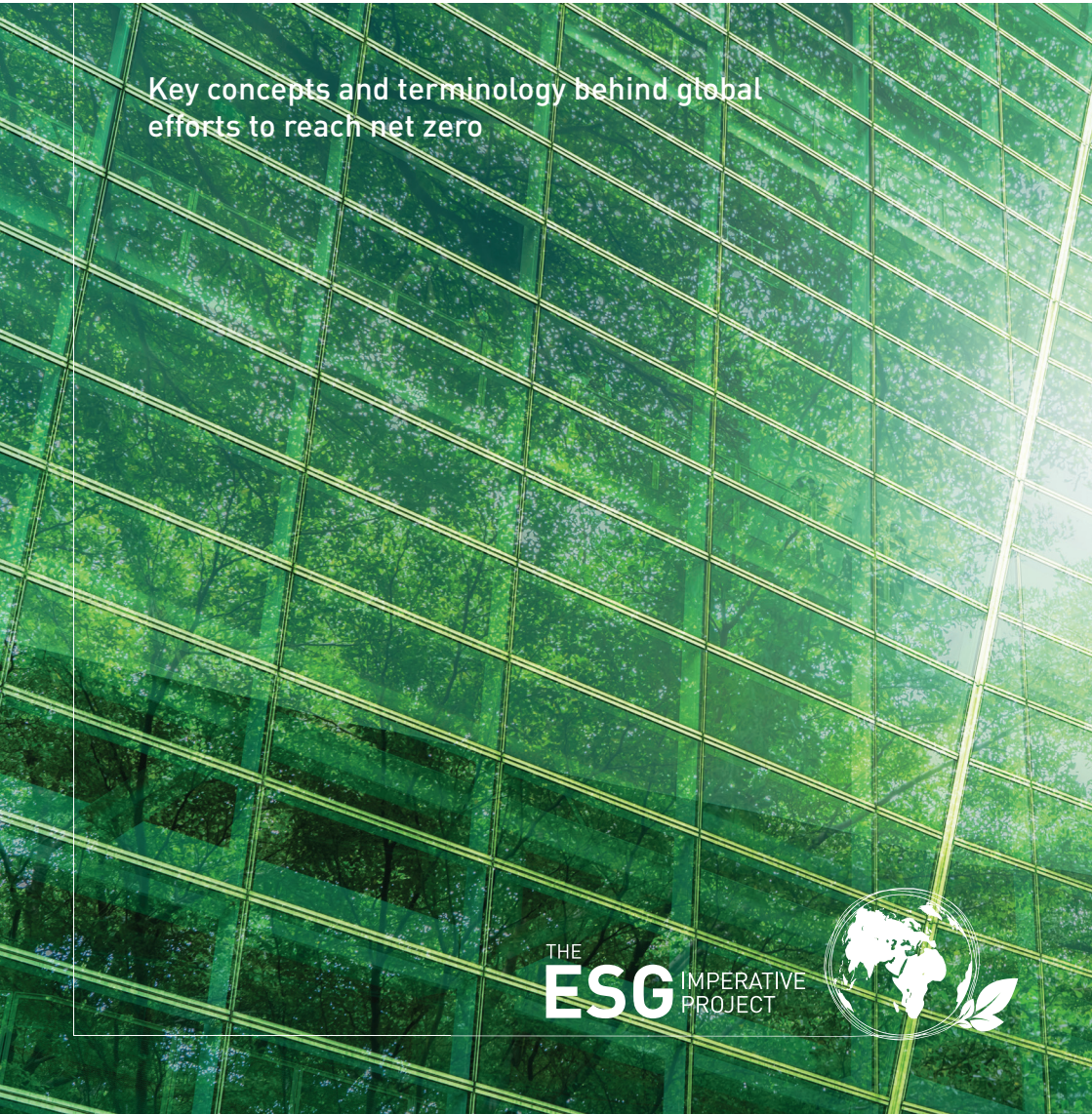
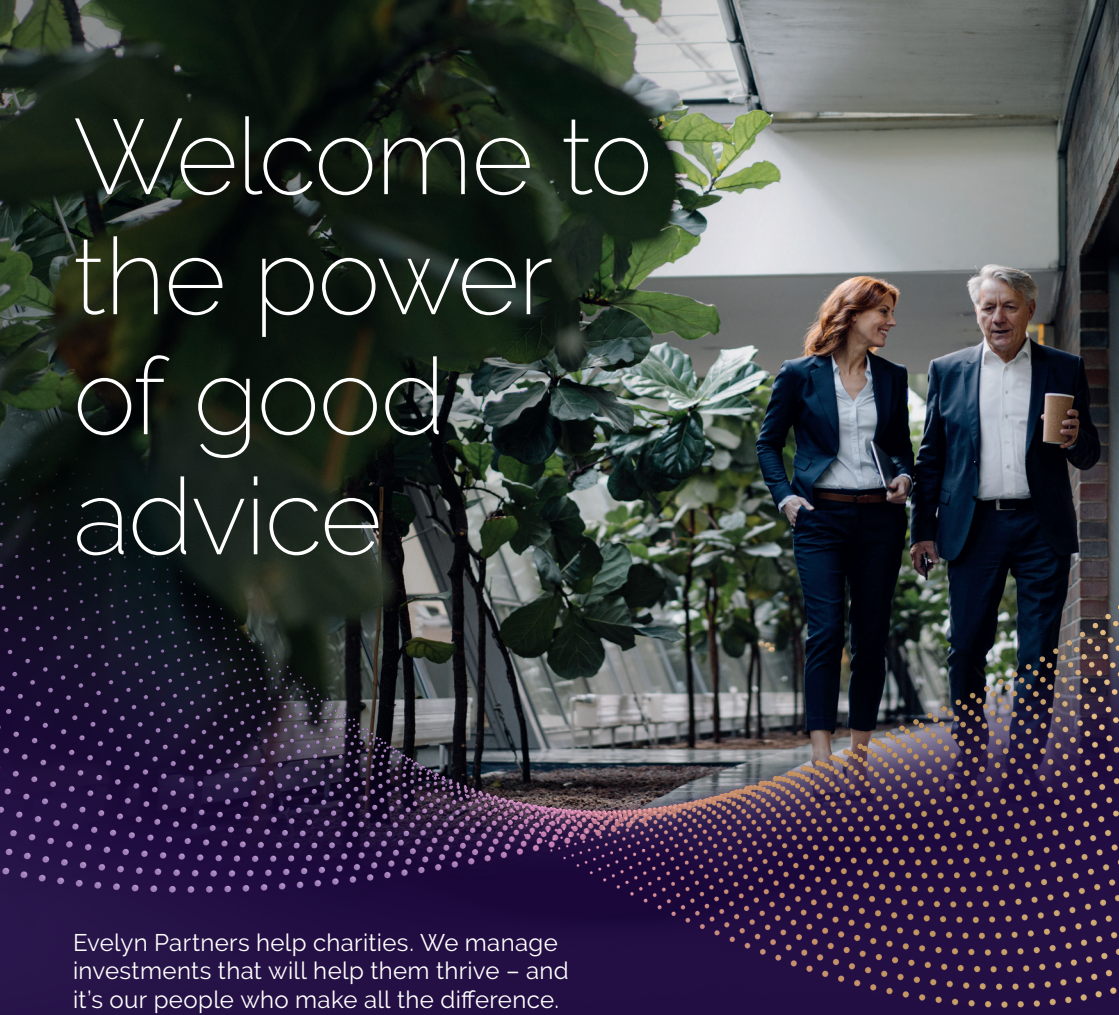
A-Z of Net Zero

BEST PRACTICE GUIDE





Welcome to the power of good advice

Evelyn Partners help charities. We manage investments that will help them thrive – and it's our people who make all the difference.

Our experienced team has a deep knowledge of the sector and a genuine understanding of the challenges charities and their trustees face.

We do everything you'd expect from a financial investment partner, plus much more. We are an extension of your team, guiding and supporting your charity throughout the investment journey with strategies that truly align with your mission and values.

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Always remember, with investing, your capital is at risk.

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Welcome to the A–Z of Net Zero: A Guide to Climate Terms and Concepts

Evelyn Partners is delighted to sponsor this best practice A–Z of Net Zero guide. As long-standing stewards and managers of charity investments, we are proud to support this initiative by Civil Society Media to promote greater understanding of related terms and climate finance.

The reality of climate change is undeniable. According to the Royal Meteorological Society, in 2024, global temperatures reached 1.6°C above pre-industrial levels – a stark reminder of the systemic risks we face. Climate change presents complex, far-reaching challenges that demand informed, coordinated responses across all sectors.

Net zero, in broad terms, means reducing greenhouse gas emissions as much as possible and balancing any remaining emissions with removals, such as through carbon capture or nature-based solutions.

But net zero is more than a long-term aspiration – it can be a science-based, time-bound goal that underpins global efforts to limit warming to well below 2°C, ideally 1.5°C, in line with the Paris Agreement [see p22].

This guide offers a practical overview of the key terms shaping the global transition to net zero. From carbon footprints and climate scenario analysis to green revenues and transition plans, it aims to demystify the language of climate finance and provide clarity on how these concepts apply to investors, charities, and financial professionals.

In common with the rest of the financial services industry, our understanding of climate risk related events and data is still developing. For investors, companies, and charities alike, aligning with net zero

means taking credible, measurable action to reduce emissions and support a just and orderly transition to a low-carbon economy

At Evelyn Partners, we believe that understanding climate-related risks and opportunities is essential to building resilient portfolios. As stewards of our clients' capital, we are committed to integrating environmental considerations into our investment process, engaging with companies to drive meaningful change, and helping clients align their investments with their values.

Our approach to responsible investment is rooted in active ownership. We prioritise engagement over exclusion or divestment, believing that constructive dialogue –especially those in carbon-intensive sectors – can accelerate credible net zero strategies, through encouraging improved disclosure and science-based emission reduction targets.

However, progress toward global climate goals remains uneven. While many countries are preparing to submit updated Nationally Determined Contributions (see p20), not all major economies are aligned. Notably, the US has once again withdrawn from the Paris Agreement under the current administration, introducing uncertainty over its future climate commitments and weakening global momentum at a critical juncture.

Despite this policy shift, global emissions trajectories will continue to be shaped by developments in other major economies, particularly in China, which now accounts for a greater share of global emissions than the developed world combined.

We hope this guide supports informed decision-making and fosters a shared understanding of the evolving climate landscape, key net-zero concepts and climate-related terminology. Whether you're a trustee, investor, or adviser, we trust it will help you navigate your charity's path to net zero with greater confidence.

THE ESG IMPERATIVE PROJECT

Introducing Civil Society Media's ESG Imperative Project, an initiative designed to help your charity on its ESG journey.

ONLINE TRAINING

Journey to Net Zero

Recruiting diverse boards

Understanding governance

CONFERENCES

ESG Imperative

Charity Finance Investment Forum

Charity Finance Investment Forum Winter Edition

PRINT & DIGITAL

A-Z of ESG Best Practice Guide

Responsible Investment supplement in Charity Finance and special feature in Governance & Leadership magazine

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Attribution analysis

Attribution analysis is a critical scientific method. It can be used to determine the extent to which human-induced climate change influences specific weather events or long-term climate trends. By comparing climate models with and without the effects of greenhouse gas emissions, scientists can quantify the role of human activities in observed changes such as rising temperatures, more intense heatwaves, shifting precipitation patterns, and extreme weather events.

Attribution analysis identifies the sources and drivers of greenhouse gas emissions, helping to determine how much each sector, activity, or policy contributes to overall emissions. It supports climate action by revealing where reductions are happening, where they're not, and which interventions are most effective – enabling targeted strategies for achieving net zero.

This approach has become increasingly sophisticated, allowing for near real-time assessments of events such as floods, wildfires, and hurricanes. It provides robust evidence for legal and policy decisions, helping to allocate responsibility and support adaptation strategies in vulnerable communities.

Attribution analysis bridges the gap between climate science and societal action. It empowers decision-makers with evidence-based assessments and strengthens public awareness about the real-time consequences of global warming. As the climate crisis accelerates, attribution studies will remain crucial in guiding both mitigation efforts and adaptation planning.

This type of analysis is becoming increasingly important as pressure mounts on global efforts to curtail rising temperatures and extreme weather.

As the World Meteorological Organisation summarised in its 2023 COP28 session: "Attribution analysis strengthens the scientific basis for climate services and supports early warning systems, helping governments and communities prepare for future extremes."

iodiversity and nature

Biodiversity and nature are increasingly recognised as essential to understanding and addressing climate risk. Healthy ecosystems regulate the climate, absorb carbon, and buffer against extreme weather events. Yet, accelerating biodiversity loss – from deforestation, pollution, and habitat degradation –undermines these natural functions, creating material risks for businesses, economies, and financial institutions.

Many industries including agriculture, forestry, fisheries, and pharmaceuticals are deeply dependent on natural processes such as pollination, water purification, and soil fertility. These nature-related dependencies make them vulnerable not only to climate change but also to biodiversity decline.

The Taskforce on Nature-related Financial Disclosures warns of the risks in its overview statement: "Most of the vital ecosystem services on which business and society depend, and which provide the foundation for every economy, are in decline. Nature is now no longer a corporate social responsibility issue but a strategic risk management issue. Corporate and investor stewardship of nature is now essential to good corporate governance."

Investing in nature-based solutions offers a powerful way to address both climate and biodiversity risks. Projects that restore wetlands, reforest degraded land, or protect coral reefs not only store carbon but also support ecosystem resilience and community livelihoods. According to the UN Environment Programme, nature-based solutions could provide one-third of the climate mitigation needed by 2030, while also delivering co-benefits for biodiversity and human wellbeing.

Carbon footprint

A **carbon footprint** measures the total greenhouse gas emissions associated with a specific activity, individual, or entity, typically expressed in tons of carbon dioxide equivalent (CO_2e). In the context of investing, it quantifies the climate impact of financial portfolios by assessing the emissions linked to the operations of the companies held within them.

A commonly used metric is tons of CO_2e per $1m invested. This standardisation allows investors to compare the carbon intensity of different portfolios regardless of size. It answers the question: How many tons of greenhouse gases are emitted for every million dollars invested in this portfolio? This enables investors to help understand and manage climate-related financial risks, meet regulatory or disclosure requirements, and align with climate-conscious strategies such as net-zero targets.

For example, a low-carbon equity fund might report a footprint of 50 tons CO_2e/$1m invested, compared to a benchmark emitting 150 tons. The difference reflects more climate-efficient capital allocation.

As the Task Force on Climate-related Financial Disclosures notes: "Measuring and disclosing portfolio carbon footprints helps investors assess climate-related risks and opportunities and drive the transition toward a low-carbon economy."

By integrating carbon footprint analysis into investment decision-making, asset managers can better manage climate risk, influence corporate behaviour, and support global climate goals. It's a valuable tool for investors seeking to assess and integrate non-financial data into investment decision making and align with sustainable finance principles.

Charities which choose to measure and report on their carbon footprint might amalgamate their investments information alongside more traditional measurements such as travel and energy consumption, and reflect their reduction objectives in their procurement policies and choices.

ecarbonisation

Decarbonisation is the process of reducing and ultimately eliminating carbon dioxide and other greenhouse gas emissions from human activities, particularly those associated with energy production, transportation, industry, and agriculture. The goal is to transition to a low-carbon or net-zero economy to mitigate the worst impacts of climate change.

This process involves multiple strategies. A key step is the shift from fossil fuels such as coal, oil, and natural gas to renewable energy sources such as wind, solar, and hydro. Electrifying transportation (eg through electric vehicles), improving energy efficiency in buildings and manufacturing, and investing in low-carbon technologies are also vital components. Additionally, carbon removal methods such as afforestation, carbon capture and storage, and soil carbon sequestration play an increasing role in offsetting unavoidable emissions.

Decarbonisation also requires systemic changes in policy, finance, and consumer behaviour. Companies and investors are under growing pressure to disclose and reduce their carbon footprints, supported by frameworks such as the science-based targets initiative (see p25) and regulatory efforts such as the EU Green Deal.

As António Guterres, UN secretary-general, states: "Decarbonisation of the global economy must be our common goal. We need decisive climate action to build a sustainable future."

Achieving meaningful decarbonisation requires global coordination, long-term investment, and innovation. While challenging, it presents an opportunity to modernise infrastructure, improve public health, and generate green jobs, ultimately creating a more resilient and equitable global economy.

Engagement

In the context of net-zero investing, **engagement** refers to the active dialogue between investors and the companies they invest in, aimed at encouraging more ambitious climate action, improved disclosures, and alignment with global climate goals. Rather than divesting from carbon-intensive companies outright, engagement allows investors to use their influence to drive the transition toward a low-carbon economy.

This process involves setting clear expectations for corporate behaviour, such as setting science-based emissions targets, disclosing climate-related financial risks, and adopting credible transition plans. Engagement often includes voting on shareholder resolutions, meeting with company management, and joining collaborative investor initiatives.

Engagement involves working with companies or stakeholders to encourage climate action. Charities may engage with fund managers or suppliers to adopt net zero practices.

One of the most prominent examples is Climate Action 100+, a global investor-led initiative involving over 700 investors managing more than $68trn in assets. The initiative focuses on engaging with the world's largest corporate emitters to ensure they take necessary action on climate change. Climate Action 100+ has successfully pushed such companies as Shell, BP and Nestlé to improve transparency, commit to net-zero targets, and begin shifting their business models.

Katrina Brown, head of responsible investment at Evelyn Partners says: "We prioritise engagement over divestment – especially in high-emitting sectors. Rather than excluding high emitters, we aim to influence them through active stewardship, encouraging credible transition plans, science-based targets, and improved climate disclosures. This reflects our emphasis towards financing emissions reductions, not avoiding them – recognising that some of the companies best positioned to lead the energy transition operate in carbon-intensive sectors."

inanced emissions

Financed emissions refer to the greenhouse gas (GHG) emissions associated with the lending, underwriting, and investment activities of financial institutions. These are the emissions generated by companies or projects that banks, asset managers, insurers, and pension funds finance – not emissions from the financial institutions themselves. For charities, these are the emissions associated with their investment portfolios.

Under the GHG Protocol, financed emissions fall under Scope 3, Category 15 – Investments, which includes emissions resulting from equity and debt investments, project finance, and other financial services. These emissions often make up the vast majority of a financial institution's carbon footprint, sometimes exceeding 95% of total emissions.

Understanding and managing financed emissions is increasingly important for investors aiming to align with net-zero goals. By measuring these emissions, investors can assess climate-related risks in their portfolios, set science-based targets, and prioritize engagement with high-emitting companies. Transparent reporting also enables better comparisons across institutions and improves accountability in the financial sector.

The Partnership for Carbon Accounting Financials has developed standardised methodologies for calculating financed emissions, enabling consistency across firms and regions.

As the GHG Protocol states: "Scope 3, Category 15 [Investments] is especially relevant for financial institutions, where the emissions from their investment and lending portfolios often dwarf their operational emissions."

The Net Zero Investment Framework 2.0, developed by the Institutional Investors Group on Climate Change, encourages investors to shift focus from simply reducing financed emissions to financing reduced emissions – supporting real-economy decarbonisation through capital allocation to credible transition strategies.

Green revenues

Green revenues refer to the portion of a company's income that is generated from products, services, or business activities that contribute to environmental sustainability. These include renewable energy production, electric vehicles, energy-efficient technologies, sustainable agriculture, and waste reduction solutions. Investors and analysts use green revenues as a key performance indicator to assess how environmentally aligned a company is and to track the progress of climate-focused investments.

A widely recognised framework for measuring green revenues is the FTSE Russell Green Revenues Classification System. It identifies over 130 micro-sectors linked to environmental solutions and classifies revenues as either "green" or "non-green" based on detailed criteria. Similarly, the EU Taxonomy for Sustainable Activities is setting a regulatory foundation to standardise the classification of sustainable economic activities across Europe, which aims to help investors evaluate green contributions with more consistency.

Green revenue metrics are often expressed as a percentage of total revenues. For example, a company with 45% green revenues derives nearly half its income from environmentally beneficial sources. Such metrics are increasingly important for ESG (environmental, social, and governance) reporting, sustainable index inclusion, and the construction of low-carbon or impact-oriented investment portfolios.

As Martin Skancke said during his tenure as chair of the UN Principles for Responsible Investment Board: "Transparency on green revenues helps investors understand how companies are positioning for a low-carbon economy and reallocating capital in line with climate goals."

Charities might choose to invest in companies and funds with high green revenue exposure to support the net-zero transition.

As climate risks intensify and regulatory pressures increase, green revenues will continue to play a crucial role in identifying companies that are both resilient and aligned with the global transition to net zero.

ybrid infrastructure

Hybrid infrastructure refers to the integration of traditional physical infrastructure – such as roads, energy grids, and water systems – with digital technologies including sensors, data analytics, AI, and connectivity tools. This convergence enhances the performance, adaptability and sustainability of core infrastructure assets. Examples include smart grids that optimise electricity distribution, intelligent transportation systems that reduce congestion, or water networks that detect leaks in real-time.

For investors, hybrid infrastructure represents both a risk mitigation tool (see p19) and a growth opportunity. As climate change, urbanisation, and resource constraints intensify, infrastructure must become smarter and more resilient. Hybrid systems offer efficiency gains, reduced operational costs, and enhanced service reliability – key factors that improve asset value and long-term investment returns.

Hybrid infrastructure is central to sustainable investment strategies which integrate material ESG (environmental, social, and governance) considerations and particularly those which aim to deliver positive and environmental and social outcomes. By leveraging data-driven insights, these systems help reduce emissions, conserve energy, and improve transparency. For example, AI-integrated buildings can adjust heating and cooling dynamically to lower carbon footprints and operational expenses.

Moreover, private and institutional investors are increasingly attracted to hybrid infrastructure for its role in future-proofing portfolios. As global governments commit to green recovery plans and digital transformation, blended infrastructure projects are likely to benefit from both policy incentives and growing demand.

As former UN special envoy on climate action and finance, Mark Carney, noted: "Building hybrid infrastructure is key to unlocking the capital needed for a net-zero economy – it bridges the gap between digital innovation and physical resilience."

Implied temperature rise (ITR)

The **implied temperature rise** (ITR) metric provides an indication of how companies and investment portfolios align with global climate targets. Institutional investors increasingly use ITR to evaluate whether their holdings are compatible with the Intergovernmental Panel on Climate Change goal of limiting global warming to 2°C – or ideally 1.5°C – by the year 2100, compared to pre-industrial levels.

At the heart of the ITR concept is the global carbon budget – the total amount of greenhouse gases the world can emit while still maintaining a likely chance of staying within a certain temperature threshold. This budget is then apportioned to companies based on their size, sector, geography and historical carbon emissions across Scopes 1, 2, and 3 (see p21). If a company or portfolio exceeds its fair share of emissions, it contributes to a higher implied warming trajectory.

MSCI's ITR model, for example, uses IPCC scenarios and the Network for Greening the Financial System to define sector specific carbon budgets aligned with 1.5°C warming pathway. They forecast a company's emissions through 2050 by analysing its historical emissions record, stated reduction targets, credibility assessments of those targets, and relevant climate-related disclosures.

The resulting ITR value – expressed in degrees Celsius – estimates the potential global temperature rise in 2100, if the entire global economy followed the same emissions trajectory as the company or portfolio being assessed.

Katrina Brown, head of responsible investment at Evelyn Partners explains: "ITR is a useful forward-looking climate impact metric which helps us to assess how closely our portfolios align with global climate goals. For example, in 2024, we state in our TCFD report that 42% of our discretionary investment holdings were on track for 1.5°C or 2°C temperature pathways. We use it alongside other metrics for a comprehensive assessment of portfolio alignment with climate goals and to identify emerging risks and opportunities."

ust transition

A **just transition** refers to the principle and process of shifting to a low-carbon economy in a way that is fair, inclusive, and supportive of workers, communities, and vulnerable populations who may be negatively affected by the transition. This concept acknowledges that while climate action is essential, the social and economic impacts must also be addressed – especially for those employed in fossil fuel industries or living in regions heavily dependent on carbon-intensive economies.

For charitable organisations and foundations, integrating just transition principles into investment strategies is increasingly important. Many charities seek to align their endowments or reserves with their mission and values. Investing in companies or funds that promote environmental sustainability while also supporting workers' rights, retraining programmes, and community resilience reflects a holistic approach to responsible investing.

Charity investors that consider the just transition may prioritise renewable energy projects with strong labour standards, community-owned energy solutions, or climate adaptation infrastructure in underserved regions. Additionally, charitable investors can engage with companies to encourage fair labour practices and inclusive climate strategies, ensuring that no group is left behind in the shift to net zero.

The Grantham Research Institute on Climate Change states: "The transition to a low-carbon economy will only succeed if it is perceived as fair. A just transition can build public support for climate policies and unlock investment at scale."

For mission-driven charities, aligning investments with just transition principles ensures they contribute not only to climate action but also to social equity and long-term resilience.

Kyoto Protocol

The **Kyoto Protocol**, adopted in 1997 and entering into force in 2005, was the first international treaty that legally bound developed countries to reduce their greenhouse gas emissions. Under the agreement, industrialised nations committed to emission reduction targets, based on the principle of "common but differentiated responsibilities," recognising that developed countries bear a greater historical responsibility for climate change.

Although it was eventually succeeded by the Paris Agreement (see p22) in 2015, the Kyoto Protocol laid the foundation for international climate finance, emissions accounting, and carbon markets – mechanisms that continue to shape sustainable investing today. Notably, it introduced the Clean Development Mechanism, allowing developed countries to invest in emission-reducing projects in developing nations and count those reductions toward their own targets. This early structure pioneered what are now key features of climate-aligned investment strategies.

For investors today, the Kyoto Protocol remains relevant as it helped create the infrastructure for global carbon pricing, disclosure standards, and regulatory expectations. It demonstrated the financial risks and opportunities tied to carbon emissions, sparking the first wave of investor interest in climate-related assets and liabilities.

As Christiana Figueres, former executive secretary of the United Nations Framework Convention on Climate Change, noted: "The Kyoto Protocol was the first critical step in embedding climate action into the global economy."

ife cycle assessment (LCA)

Life cycle assessment (LCA) is a method used to evaluate the environmental impacts of a product, service, or process throughout its entire life cycle – from raw material extraction and manufacturing to use and disposal. By analysing every stage of a product's life, LCA provides a comprehensive view of its carbon footprint (see p9), resource consumption, and pollution levels. This full-spectrum approach is essential for understanding the true environmental cost of economic activities.

For charities with investment portfolios, incorporating LCA can enhance responsible investment strategies by ensuring that the environmental performance of portfolio companies is assessed beyond surface-level sustainability claims. A company may appear green based on its end product (eg electric vehicles), but an LCA might reveal that its supply chain relies heavily on mining or fossil-fuel-powered production, undermining its environmental credentials.

LCA-informed investing helps charities align their portfolios with their broader missions, such as protecting the environment or promoting health equity. For instance, a health-focused charity may avoid companies with high life cycle emissions that contribute to air pollution and climate-related health risks.

Additionally, asset managers are beginning to integrate LCA insights into ESG (environment, social and governance) ratings, green bonds, and climate risk assessments. This enables charities to select investments with genuinely lower environmental impact and support businesses that are transitioning sustainably.

LCA is related to the concept of a circular economy, which the European Commission has embedded within the EU Taxonomy and the EU Circular Economy Action Plan, identifying life cycle thinking as a cornerstone of achieving climate neutrality by 2050. As the European Environment Agency notes: "Life cycle thinking is key to understanding environmental performance and making decisions that support sustainable development."

Mitigation and adaptation

Mitigation and adaptation are two key strategies for addressing climate change. Mitigation refers to efforts to reduce or prevent greenhouse gas emissions, such as investing in renewable energy, improving energy efficiency, or supporting reforestation. Adaptation, by contrast, involves adjusting systems, infrastructure, and behaviours to cope with the effects of climate change, such as building flood-resistant housing or investing in drought-tolerant crops.

For investors, both strategies present important considerations. Mitigation-focused investments may include clean energy, low-carbon technologies, or companies with aggressive emissions reduction targets. Adaptation-focused investments might support climate-resilient infrastructure (see p14) or technologies that help vulnerable regions manage extreme weather (see p32).

World Business Council for Sustainable Development notes: "Mitigation tackles the causes of climate change, adaptation tackles the effects, and both are critical for creating resilient, future-proof investments."

Carbon credits and offsetting also play a role in mitigation. Companies and investors may purchase carbon credits – representing reductions in emissions elsewhere – to offset their own footprint. These credits can finance renewable energy, forest conservation, or methane capture projects. However, credible offsetting relies on high-quality, verifiable projects and should complement, but not replace, direct emissions reductions.

Increasingly, investors are also considering Scope 4 or avoided emissions, which measure how a product or service prevents emissions elsewhere. For example, an energy-efficient building design or a teleconferencing app can reduce the need for travel and lower global emissions.

Charities can support mitigation and adaptation activities through advocacy, education, operational choices, and through their investment policy and strategies.

Nationally determined contributions (NDCs)

Nationally determined contributions (NDCs) are climate action plans submitted by countries under the Paris Agreement (see p22), outlining how they intend to reduce greenhouse gas emissions and adapt to the impacts of climate change. Each country's NDC reflects its national priorities, economic capabilities, and level of ambition in contributing to the global goal of limiting warming to well below 2°C, ideally 1.5°C.

In 2025, countries are required to submit their third round of NDCs, covering the period to 2035. As of June 2025, only a small number of countries had submitted their NDCs, leaving around 90% outstanding. However, both China and the European Union have confirmed that they will submit updated NDCs before COP30 in Belém, Brazil in November 2025, with commitments to cover all economic sectors and greenhouse gases, and to align with the long-term temperature goals of the Paris Agreement (see p22).

For investors, NDCs are a critical signal of policy direction and regulatory risk. As countries strengthen their climate targets and implement emissions reduction policies – such as carbon pricing, renewable energy mandates, or fossil fuel phase-outs – investment portfolios must adjust accordingly. Companies operating in jurisdictions with ambitious NDCs may face higher compliance costs but they also present opportunities in clean technology, energy efficiency, and climate adaptation sectors.

Climate scenario analysis plays a key role in this context, enabling investors to model how different NDC implementation pathways could affect asset values, sector exposures, and transition risks. By incorporating NDC-aligned scenarios investors can stress-test portfolios against a range of plausible policy and market outcomes, improving resilience and strategic alignment.

Investors increasingly assess NDCs to anticipate market shifts, align portfolios with climate goals, and identify transition risks related to policy tightening or stranded assets. By incorporating NDCs into climate scenario analysis, alongside other forward looking scenarios, investors can stress-test portfolios against a range of plausible policy and market outcomes, enhancing their ability manage climate- related financial risks and opportunities.

Operational emissions

Operational emissions refer to the greenhouse gas emissions that an organisation produces through its day-to-day activities. These emissions are categorised into three scopes by the Partnership for Carbon Accounting Financials (PCAF):

- Scope 1: Direct emissions from sources owned or controlled by the organisation, such as company vehicles or on-site fuel combustion.
- Scope 2: Indirect emissions from the generation of purchased electricity, heat, or steam consumed by the organisation.
- Scope 3: All other indirect emissions that occur in the value chain, including emissions from suppliers, business travel, employee commuting, and the use of sold products and services (see p12).

Charities can measure and reduce these as part of their own net-zero plans and strategies. For charities and not-for-profit organisations, operational emissions are increasingly relevant as environmental sustainability becomes integral to their mission alignment, reputation, and funding eligibility. Donors, particularly institutional ones, are seeking assurance that charities are minimising their carbon footprint in line with global climate targets. For example, a charity that leases office space, prints promotional materials, or runs a fleet of vehicles may unknowingly generate significant Scope 1, 2, and 3 emissions.

Measuring and managing operational emissions not only helps charities reduce environmental impact but also strengthens credibility and appeal to environmentally conscious stakeholders. Charities seeking to invest responsibly and ethically should also assess whether the organisations they invest in are effectively managing their operational emissions, as part of a broader evaluation of environmental stewardship and climate-related risk.

As the PCAF emphasises: "To align financial portfolios with the Paris Agreement (see p22), financial institutions need to measure and disclose the greenhouse gas emissions of their loans and investments." This includes scrutinising the operational emissions of both the charity itself and the entities in which it invests.

aris aligned

With regard to investing, **Paris aligned** means structuring investment portfolios and strategies to support the goals of the Paris Agreement – namely, limiting global temperature rise to well below 2°C, with efforts ideally to limit it to 1.5°C. This involves cutting greenhouse gas emissions rapidly and achieving net-zero emissions by 2050 at the latest.

A Paris-aligned investment approach goes beyond avoiding harmful assets; it proactively channels capital into companies and sectors that are contributing to a low-carbon future. This includes investing in renewable energy, sustainable agriculture, clean transport, and technologies that reduce emissions or enhance climate resilience. In support of Paris alignment, investors are increasingly expected to:

- assess the climate impact of their portfolios on their financed emissions (see p12);
- engage with high-emitting companies to encourage credible transition plans (see p11, p26);
- and set interim targets to measure progress.

The Task Force on Climate-related Financial Disclosures recommends that asset managers evaluate the resilience of their strategies and portfolios under climate-related scenarios – including a 2°C or lower pathway – and disclose how each product or investment strategy may be affected by the transition to a low-carbon economy.

Importantly, the focus is shifting from simply reducing financed emissions to actively financing reduced emissions – by allocating capital to companies and projects that are demonstrably decarbonising their activities in line with the goals of the Paris Agreement.

The Institutional Investors Group on Climate Change defines Paris alignment as requiring "a coherent set of policies, governance, and investment strategies that ensure portfolios are on a decarbonisation path consistent with achieving the Paris goals". This means integrating climate science into financial decisions and actively engaging with investees to drive climate performance.

Quality assurance

Quality assurance plays a vital role in ensuring the accuracy, credibility and consistency of climate disclosures. As climate-related data becomes increasingly central to investment decisions, regulatory compliance, and corporate accountability, the need for robust quality assurance frameworks has grown.

Climate data quality refers to the reliability, transparency, completeness and verifiability of information related to greenhouse gas emissions, climate risks, and sustainability performance. Adhering to ISO standards – such as ISO 14064 for greenhouse gas accounting and verification, and ISO 14001 for environmental management systems – helps organisations maintain internationally recognised levels of precision and consistency in climate reporting.

International regulations are converging on the need for high-integrity disclosures. The International Sustainability Standards Board is establishing a global baseline for sustainability reporting. Its standards – IFRS S1 and S2 – emphasise the importance of controls, governance and assurance in climate-related financial disclosures.

Third-party assurance and audit mechanisms are also gaining prominence. Independent verification ensures reported climate data meets established criteria, improving stakeholder trust. The International Auditing and Assurance Standards Board has issued the International Standard on Sustainability Assurance (ISSA) 5000, a comprehensive global baseline for sustainability assurance engagements, reinforcing the direction set by the ISSB's global disclosure standards.

In June 2025, the UK government launched a consultation on its draft Sustainability Reporting Standards (UK SRS – see p.27), including proposals for a disclosure and assurance framework that would embed independent verification into its sustainability reporting regime. This signals a clear intent to align with international best practices and ensure that climate-related disclosures are not only consistent and decision-useful, but also subject to robust assurance.

Risk management (climate related)

Climate-related **risk management** involves identifying, assessing, and responding to the financial risks posed by climate change to ensure the resilience of portfolios and long-term value creation. These risks are generally categorised into physical risks and transition risks, each with distinct implications for investments.

Physical risks arise from the direct impacts of climate change, such as extreme weather events (see p32) and long-term shifts in climate patterns (rising sea levels, drought). These risks can damage assets, disrupt supply chains, and lead to insurance losses or reduced economic output.

Transition risks stem from the global shift toward a low-carbon economy. This includes changes in policy and regulation (eg carbon pricing, emissions caps), evolving market preferences, technological innovation, and reputational risks. High-carbon sectors, for instance, may face stranded assets or declining valuations as investors pivot toward more sustainable alternatives.

Effective climate risk management requires scenario analysis, stress testing, and integration of environmental data into financial models. Investors must consider how these risks affect asset performance, corporate valuations, and long-term returns. Proactively addressing climate risk supports portfolio resilience and aligns with global regulatory and fiduciary expectations.

The Network for Greening the Financial System notes: "Climate-related risks are a source of financial risk. It is therefore within the mandates of central banks and supervisors to ensure the financial system is resilient to these risks."

To strengthen financial system resilience, the UK government introduced mandatory climate-related financial disclosures between 2021 and 2024, based on the TCFD framework. These apply to large UK-listed companies, banks, insurers, asset managers, pension schemes, and large private firms.

Organisations must report how they govern, manage, and measure climate-related risks and opportunities—enhancing transparency and accountability in financial decision-making. See the UK Net Zero Strategy (see p27) for further details.

Science-based targets initiative (SBTi)

The **science-based targets initiative (SBTi)** is a global partnership between global not-for-profit CDP, the UN Global Compact, World Resources Institute, and WWF. It helps companies set greenhouse gas emissions reduction targets that are in line with the latest climate science and the goals of the Paris Agreement (see p22), limiting global warming to well below 2°C, preferably 1.5°C.

Targets approved by the SBTi must be science-based, meaning they are consistent with what climate science deems necessary to avoid the worst impacts of climate change. These targets cover direct emissions (Scope 1), indirect emissions from energy use (Scope 2), and value chain emissions (Scope 3), which are often the largest for many companies (for more on Scopes 1,2 and 3 see p21).

For investors, SBTi-aligned companies represent lower climate transition risk and stronger long-term resilience. When a company sets and achieves science-based targets, it demonstrates strategic foresight, operational efficiency, and regulatory preparedness. This reduces the risk of stranded assets, reputational damage, and future costs related to carbon pricing or regulatory compliance.

The SBTi also provides tools for assessing portfolio alignment with climate goals. As sustainable finance regulations tighten, investors increasingly look to SBTi validation as a marker of credible climate action.

As the SBTi states: "Only science-based targets provide companies with a clearly defined path to reduce emissions in line with the Paris Agreement goals."

ransition plan

A **transition plan** outlines how an organisation will adapt its strategy and operations to support the shift to a net-zero economy. It typically includes carbon reduction initiatives, emissions targets, and timelines referenced against a baseline year – the specific base year against which emission reductions are measured (eg 2019 or 2020). These plans detail how companies will decarbonise their activities, transform business models, engage supply chains, and manage climate-related risks and opportunities.

For investors, credible transition plans are essential. They provide visibility into a company's long-term climate strategy, enabling better risk assessment, stewardship, and capital allocation. Transition plans help investors determine whether a company is effectively navigating climate-related regulatory changes, carbon pricing, and evolving consumer demands. Targets anchored to a baseline year also allow for transparent progress tracking.

The UK government has taken a leadership role in standardising these disclosures by supporting the Transition Plan Taskforce (TPT). The TPT Disclosure Framework, launched in 2023, offers a consistent structure for UK companies to develop robust and credible transition plans. The government has also announced a consultation on applying the International Sustainability Standards Board standards – including transition planning – to UK companies, considering how to strengthen mandatory requirements.

This integration ensures transition plans are no longer voluntary niceties but essential disclosures within the global financial system. Charities may develop their own or assess those of partners and investees. As the TPT notes: "High-quality transition plans are a vital tool for companies and financial institutions to demonstrate how they will contribute to and benefit from the transition to a low greenhouse gas emissions economy."

UK Net-Zero Strategy

The **UK Net-Zero Strategy**, first published in 2021, outlines the government's roadmap to achieving net-zero greenhouse gas emissions by 2050. It sets sector-specific pathways across power, transport, industry, and buildings, focusing on innovation, green jobs, and clean growth. Central to this strategy is the UK's commitment to decarbonise while maintaining economic resilience. Between 1990 and 2022, the UK reduced emissions by over 50%, even as the economy grew by 79%, demonstrating that economic growth and emissions reduction can go hand in hand.

In 2023, the UK government released an updated Green Finance Strategy, reinforcing the role of private capital in delivering net-zero. It introduced the concept of the UK as a "net-zero financial centre", mandating transition plan disclosures for large firms and promoting the Transition Plan Taskforce (TPT) framework. It also aligned financial regulation with sustainability goals, supporting the adoption of International Sustainability Standards Board standards for climate reporting.

Following the 2024 election, the Labour government began updating the UK's Net-Zero Strategy as part of its broader industrial strategy. Key commitments include accelerating clean energy deployment, reforming the UK's grid infrastructure, and reinstating the ban on new oil and gas licences in the North Sea. Labour has also launched Great British Energy – a publicly-owned clean power company, and expanded green investment through the National Wealth Fund.

In June 2025, the UK government launched three major consultations to modernise the UK's sustainability reporting and assurance framework. This included the UK Sustainability Reporting Standards (UK SRS), based on international IFRS standards, and proposals to require credible transition plans, aligned with the UK SRS and TPT framework, to support investor transparency and an orderly transition. Together, these evolving strategies signal a renewed focus on aligning policy, investment, and regulation to drive an inclusive, transition to net zero (see p34).

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Voluntary Carbon Market

The **Voluntary Carbon Market (VCM)** enables corporations, institutions and individuals to purchase carbon credits – each representing one metric tonne of CO_2e avoided or removed to offset emissions beyond their own reduction efforts. These credits typically fund projects such as reforestation, renewable energy, and methane capture. Unlike compliance markets (eg the EU ETS), the VCM is driven by voluntary commitment. It has gained prominence as companies set net zero targets, but concerns persist around transparency, additionality, permanence and double counting.

To enhance credibility, independent governance bodies such as the Integrity Council for the Voluntary Carbon Market and the Voluntary Carbon Markets Integrity Initiative have defined core carbon principles, promoting rigorous standards and transparency. Despite these efforts, risks remain. Certification schemes such as Verra's VCS or the Gold Standard help, but even reputed systems have faced scrutiny over overstated emissions reductions.

Stakeholders, including industry experts, environmental NGOs, and carbon market participants, broadly agree and argue that high quality credits should complement, not substitute, a company's commitment to decarbonisation. This view is echoed in the science-based targets initiative's (SBTi) draft Corporate Net-Zero Standard, which proposes that carbon credits can support net-zero goals only in a way that reinforces, rather than replaces, emissions reductions within a company's operations and value chain. As head of nature finance at Global EverGreening Alliance Edward Hewitt explains: "There should be no contradiction between a company cutting its own emissions and using high quality voluntary carbon credits to compensate for residual emissions."

This underscores that effective VCM participation involves emission cuts first, with carbon credits addressing remaining unavoidable emissions. When administered with integrity – under solid governance, independent verification, and close alignment with the Paris Agreement (see p22) – the VCM can mobilise private capital, accelerate natural climate solutions, and funnel finance into regions and communities that need it most.

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Weighted average carbon intensity (WACI)

Weighted average carbon intensity (WACI) is a widely used metric to assess the carbon exposure of investment portfolios. It represents the portfolio's weighted average of its holdings' issuer carbon intensity, which is calculated using Scope 1 and Scope 2 (see p21) emissions divided by the issuer's revenue (in USD millions). In essence, WACI measures how much carbon a company emits per unit of revenue, then averages this across all holdings in a portfolio, weighted by the size of each investment. Charities can use this to assess the climate impact of their investments.

This approach ensures that companies emitting large amounts of greenhouse gases relative to their revenue contribute more heavily to a portfolio's overall carbon intensity.

For investors, WACI provides a snapshot of climate-related risks. A higher WACI suggests greater exposure to carbon-intensive companies, which may face transition risks as economies decarbonise. Conversely, a lower WACI can indicate better alignment with climate goals, regulatory preparedness, and reputational advantage.

WACI is recommended by the Task Force on Climate-related Financial Disclosures and is increasingly used by asset managers to inform sustainable investing strategies, monitor and manage risks and opportunities within their portfolios, and engage with companies on emissions reductions.

-treme weather

Extreme weather events such as floods, heatwaves, wildfires and storms are increasing in frequency and severity due to climate change. These events pose significant physical risks to communities, infrastructure, and ecosystems, with disproportionate impacts on vulnerable populations. For charity investors, extreme weather has both direct financial implications and mission-aligned investment considerations.

Financially, portfolios exposed to sectors and regions vulnerable to climate disruption such as agriculture, real estate, and supply-chain-dependent industries, may face declining asset values, insurance volatility, and stranded assets. At the same time, investment in climate-resilient infrastructure (see p14), adaptive technologies, and nature-based solutions can create both risk mitigation and opportunity.

From a mission perspective, extreme weather often exacerbates social inequality – disrupting food and water security, increasing displacement, and burdening health systems. Charities with social justice, environmental, or humanitarian goals may seek to align their portfolios with investments that support climate resilience, sustainable development, and low-carbon transition, avoiding companies that contribute to climate degradation.

In addition, charities may wish to assess how their investment portfolios align with the United Nations Sustainable Development Goals (SDGs). The SDGs are a set of 17 global objectives adopted by UN member states to address urgent social, environmental, and economic challenges, ranging from poverty and health to climate action and biodiversity. Seeking to align investments with the SDGs can provide a useful lens for understanding how capital is being deployed in ways that are consistent with these global goals. This approach can help to identify where investments may support or contribute to long term systemic change.

The need for resilience is pressing. Inger Andersen, executive director of the UN Environment Programme, says: "The science is clear: we are facing more frequent and intense extreme weather events, and our window to act is closing fast."

Yearly greenhouse gas (GHG) emissions

Yearly greenhouse gas (GHG) emissions refer to the total amount of gases – primarily carbon dioxide, methane, and nitrous oxide – released into the atmosphere by human activities each year. These emissions originate from sectors such as energy production, transportation, agriculture and industry. They are typically measured in metric tons of carbon dioxide equivalent, which standardises the global warming potential of different gases into a single unit (CO_2e, see p9).

Rising annual GHG emissions are the primary driver of climate change. According to the Intergovernmental Panel on Climate Change, global emissions must be halved by 2030 and reach net-zero by around 2050 to limit global warming to 1.5°C. This imperative directly influences investment strategies, as governments, regulators, and markets respond with new policies, carbon pricing mechanisms, and sustainability mandates.

For investors, yearly GHG emissions data offer insight into a company's environmental footprint and transition risk. High emitters may face regulatory penalties, reputational damage, or reduced demand as consumers and supply chains shift toward low-carbon alternatives (transition risks). Conversely, firms that reduce emissions or provide climate solutions (eg clean energy, energy efficiency, carbon capture) may benefit from growth opportunities.

Investors can integrate yearly GHG emissions data into their investment strategies via:

- Benchmarking and target-setting: comparing portfolio emissions with climate scenarios.
- Thematic and ESG integration of material non-financial climate risks and opportunities into investment decisions by allocating capital towards companies with declining emission trends or solutions for decarbonisation.
- Engagement and stewardship: encouraging high-carbon emitting companies to adopt science-based targets (see p34) credible transition plans [see p26], and disclose their strategies to adapt their business models with a net-zero pathways.

ero emissions commitment

Zero emissions commitment refers to the pledge or pathway by countries, companies, or institutions to reduce net greenhouse gas emissions to zero by a target date – typically 2050, in alignment with the Paris Agreement's (see p22) goal to limit global warming to 1.5°C. "Net zero" implies that any remaining emissions are balanced by carbon removal efforts, such as reforestation or direct air capture. The commitment is not just about offsetting, but achieving deep reductions across operations, supply chains, and product life cycles.

For investors, zero emissions commitments are increasingly a marker of long-term value and climate risk resilience. Companies with credible net-zero strategies tend to have clearer transition plans, more robust governance, and are better positioned to comply with evolving regulation, carbon pricing, and stakeholder expectations. Conversely, firms lacking such commitments risk lagging in the low-carbon transition, facing stranded assets and reputational damage.

Investors are responding by integrating emissions targets into due diligence, portfolio construction, and stewardship practices. The Net Zero Asset Managers initiative and science-based targets initiative (see p25) are shaping expectations for transparency and accountability.

But net zero is more than a long-term aspiration – it can be a science-based, time-bound goal that underpins global efforts to limit warming to well below 2°C, ideally 1.5°C, in line with the Paris Agreement. Achieving net zero requires organisations to:

- Align with a 1.5°C pathway for Scope 1 and 2 emissions, usually including an interim emissions reduction target
- Significantly reduce emissions across their value chains (Scope3),
- Neutralise residual emissions through permanent carbon removal (eg carbon capture or nature-based solutions).

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