

The net zero credibility gap – what is it and why should investors care?

What

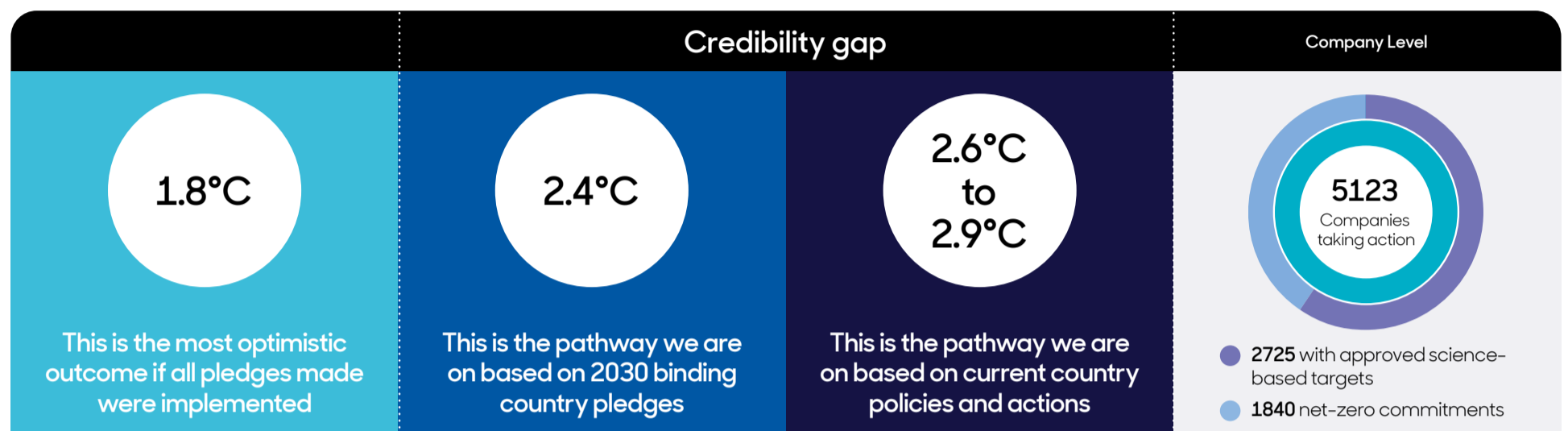
Simply, the net-zero credibility gap is the gap between net-zero pledges and credible actions to implement plans. It exists at both country and corporate level.

Why

This gap matters to investors who aim to take a forward-looking view on where carbon emissions will be in the future in order to identify credible transition leaders for investment.

How

To do that, investors should not simply take stated carbon targets at face value – they need to assess the credibility of these targets. This is what drives the transition to net zero with real world impact.



Source: <https://sciencebasedtargets.org/companies-taking-action#dashboard>, Climate Action Tracker, April 2023.



The value of investments and the income from them can go down as well as up and investors may get back less than the amount invested. Past performance is not a guide to future results.

Why do investors need to care about the credibility gap?

The credibility gap assessment can be applied to investments in three ways to deliver better investment outcomes and enable the transition towards net zero with real world impact:

01

Identifying credible transition leaders

These are companies that take credible action to decarbonise, innovate and therefore manage climate risks as well as benefit from the growth opportunities of the energy transition.

02

Influencing through active ownership

Setting clear data-driven milestones in engagements based on the results of the credibility assessment, particularly focusing on laggards to seek improvement in credibility scores, and to take voting action as appropriate.

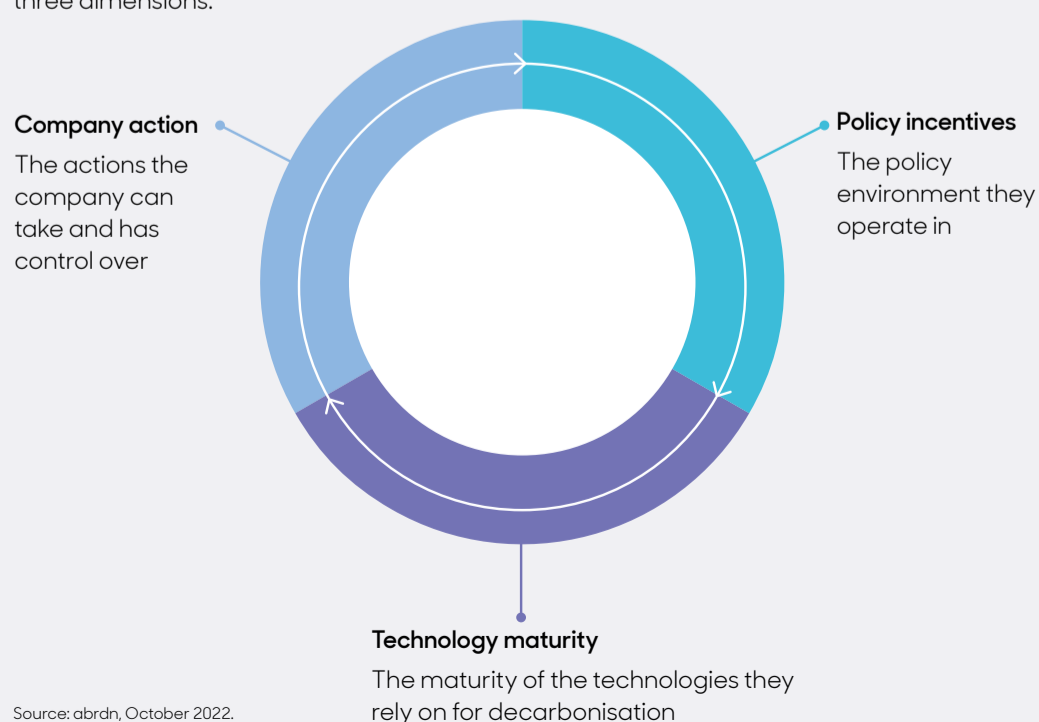
03

Analysing the impact on value

Incorporating the credibility assessment into climate scenario analysis which quantifies climate risks and opportunities to understand the impact of credible climate targets on value impairments or uplifts.

How does abrdn assess the net-zero credibility gap for investors?

We assess the credibility of stated carbon targets versus actions based on three dimensions:



Source: abrdn, October 2022.

The three dimensions are incorporated into abrdn's credibility score for corporates, which includes six factors:

01	Emissions target design – Identifying carbon targets and quantifying how much of the companies' emissions are covered by the target.
02	Emissions performance – Have emissions been rising or falling over the last 2 years?
03	Technology readiness level – Assessing decarbonisation technologies required to help companies achieve targets.
04	Policy supportiveness – Analysing the policy environment the company operates in and incentives for decarbonisation.
05	Green market penetration – Assessing if a company is generating green revenues based on climate solutions provided.
06	Climate governance – Reviewing governance factors for companies.

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