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## The Nuance in Net Zero

As many companies approach their first emissions reduction targets under the Paris Agreement, effective measurement of their progress has never been more important. Over the past three years, we have continued to innovate our approach to measuring company alignment with their stated targets, especially through our proprietary Net-Zero Alignment Indicator (the Indicator). In this paper, we assess the current state of net zero through the lens of the Indicator, share our “lessons learned” from integrating the Indicator into our investment process, where appropriate and relevant, and explain how we have continually sought to improve the Indicator to better help investors that have a net-zero objective assess their progress.

## Executive Summary

- By incorporating real-time analyst insights into a company's alignment assessment, the Neuberger Berman Net-Zero Indicator is able to bridge the information gap where quantitative data may lag.
- Our in-depth assessments across a broad range of companies have allowed us to use the Indicator to track global decarbonization efforts, which are now at a critical juncture.
- The proliferation of off-the-shelf net-zero alignment products creates issues around methodology, timeliness and coverage.
- Our tool overcomes these issues through the use of multiple data sources, annual methodology reviews and, importantly, a qualitative overlay from our analysts.
- Continued innovation will remain essential to our effort on behalf of clients.

In line with the Paris Agreement on climate change, 2025 marks a key milestone in the pursuit of net zero, as many companies that have stated net-zero ambitions approach the first checkpoint for their emissions reduction targets.

As additional data becomes available to capture the adoption of low-carbon technologies, investors that focus on this area have had to evolve their assessment methods. This evolution is necessary for them to better understand companies' progress in aligning with a net-zero scenario. Despite these changes, one constant has remained: There is no singular data point that can capture the nuance of how companies across sectors are approaching their net-zero goals.

In our view, a holistic approach is needed to assess companies' alignment to a net-zero pathway, combining quantitative data with qualitative fundamental analyst research to capture real-time insights. Over the past three years, Neuberger Berman has continued to innovate our process of measuring company alignment with a net-zero scenario, especially through our proprietary Net-Zero Alignment Indicator (the Indicator). Extending our dataset, advancing our methodology and building sector-specific factors has allowed us to further capture the intricacies of assessing net-zero alignment accurately and realistically.

In this paper, we assess the current state of companies' progress along their chosen net-zero pathway through the lens of the Indicator, share our "lessons learned" from integrating the Indicator into our investment process for clients that have set a net-zero target, and explain how we have sought to continuously improve the Indicator to better help investors assess their progress toward a net-zero objective.

**A Nuanced Net-Zero Assessment Is Essential:** Achieving an investor's net-zero target requires a holistic analysis that combines quantitative data with real-time analyst insights. The Neuberger Berman Net-Zero Alignment Indicator supports this by integrating sector-specific factors and qualitative analyst overlays, allowing us to capture the complexity and real-world progress of companies' climate transitions.

## The Indicator

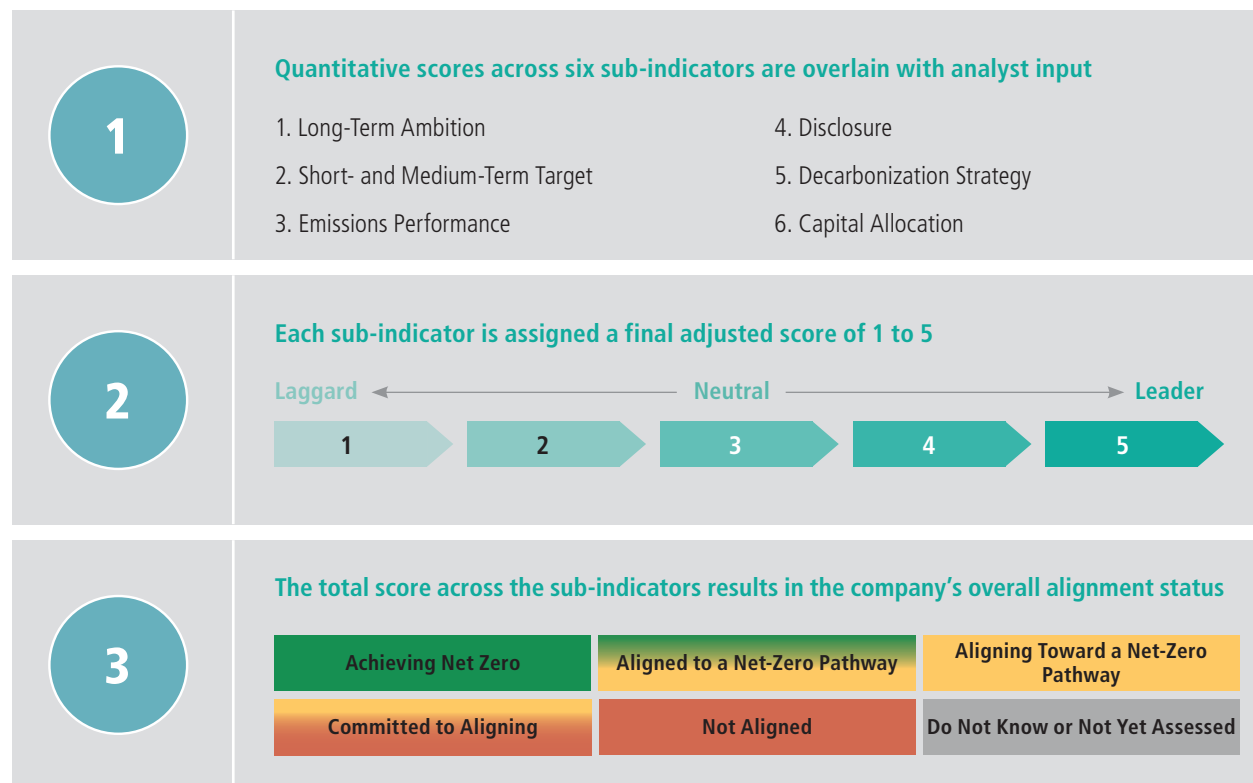
### Where it started

To enable a robust bottom-up assessment of a company's transition toward net zero, we created the Neuberger Berman Net-Zero Alignment Indicator in 2023.

Our proprietary Indicator assesses issuers' net-zero readiness and guides engagement targets, creating a positive feedback loop. It was designed to assess companies' progress toward their net-zero ambitions, which is represented by their alignment status. Developed in partnership with clients with decarbonization targets, the Indicator incorporates specific sub-indicators informed by the high-level expectations of the Institutional Investor Group on Climate Change (IIGCC).

Additionally, by incorporating real-time analyst insights into a company's alignment assessment, the Indicator is able to bridge the information gap where quantitative data may lag. This helps to better inform engagement with companies on their climate transition plans and enable investment insights for portfolios with client-directed climate objectives. Since inception, we have reviewed over 2,000 companies across our fixed income and equity holdings.<sup>1</sup> The tool is considered at both the portfolio and security levels across listed equity and corporate fixed income portfolios with net-zero objectives.

### NET-ZERO ALIGNMENT INDICATOR – PROCESS OVERVIEW



Total Holdings Reviewed<sup>1</sup>

**2,161**

Reviews Submitted with Analyst Overrides<sup>1</sup>

**556**

Source: Neuberger Berman.

<sup>1</sup> As of June 2025, across equity and fixed income. Excludes cash and derivatives (including U.S. Treasuries), CLOs and supranational debt.

## The State of Real-World Decarbonization

### Where we are on the pathway to net zero

Our in-depth assessments across a broad range of companies have allowed us to use the Indicator to track global decarbonization efforts, which are now at a critical juncture.

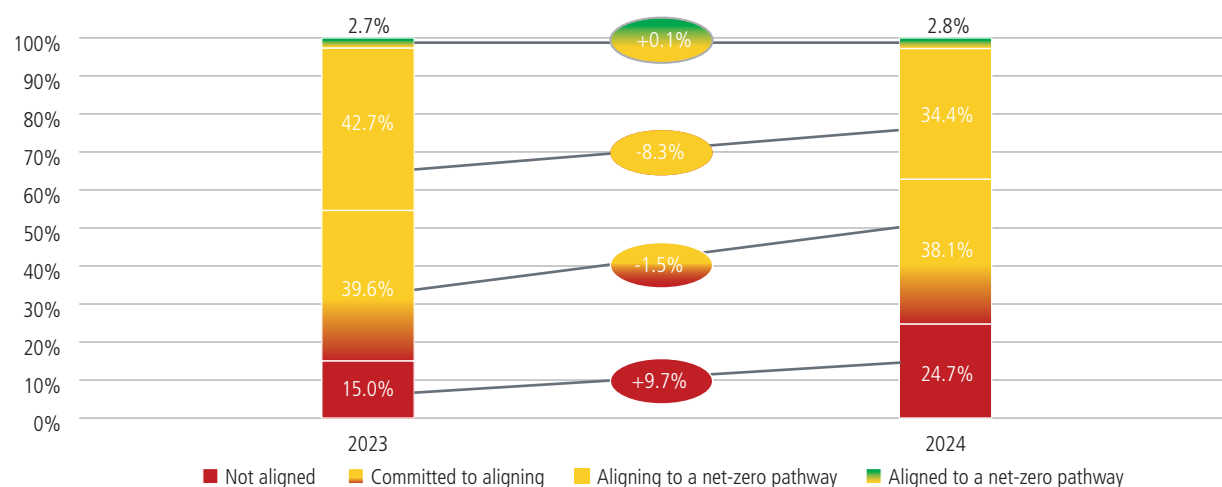
Renewables are poised to overtake coal as the leading electricity source this year, and clean energy investment exceeded US\$2 trillion for the first time in 2024. However, surging energy demand—fueled by artificial intelligence and data center expansion, rising electric vehicle adoption and economic growth—poses challenges to progress. Infrastructure delays and the need to scale technologies such as low-emission hydrogen and carbon capture add to the challenge, while geopolitical tensions and ongoing reliance on fossil fuels in major economies further complicate the landscape. Political fragmentation following the 2024 elections—where most incumbents lost ground—has driven governments to reconsider their priorities. This hesitancy reflects concerns about the financial burdens of decarbonization and declining living standards, prompting shifts toward energy security, defense and economic self-sufficiency. Regulatory uncertainty and higher capital costs may slow the energy transition, but are unlikely to stop it. The drive for AI dominance is spurring massive infrastructure investments, including bipartisan support for expanded nuclear capacity, which could substantially lower emissions. Businesses are leading the transformation, although progress across sectors is uneven, with manufacturing and transportation facing persistent hurdles.

These intricacies have been captured in real time via the Indicator, revealing an overall decline in the net-zero alignment status of companies as they scale back their commitments and targets.

Year-on-year changes in the net-zero alignment status of MSCI World constituents vary by sector. The most dramatic downgrade between 2023 and 2024 was in the financials and information technology sectors. Many financial firms have taken a step back from net-zero commitments, particularly in the U.S. Hyper-scalers, on the other hand, are combatting higher-than-expected emissions due to elevated energy demands from data centers and AI. Through the Indicator, we have been able to isolate these trends and gain insights both at the macro and micro levels.

### ALIGNMENT STATUS MSCI WORLD (EQUAL WEIGHTED)

Year-on-Year Change, 2023<sup>2</sup> to 2024<sup>3</sup>

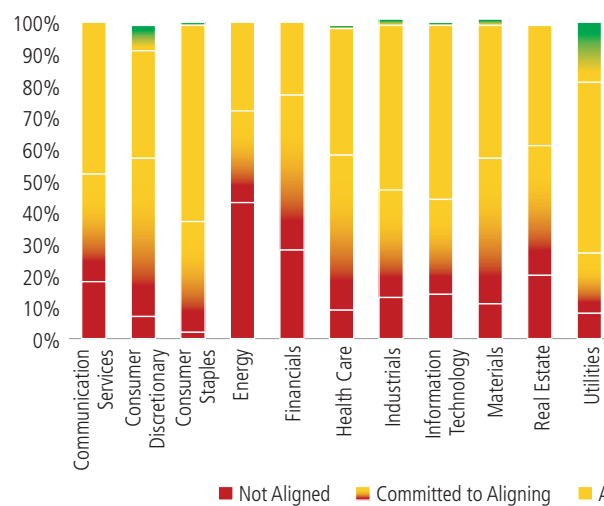


Source: Neuberger Berman.

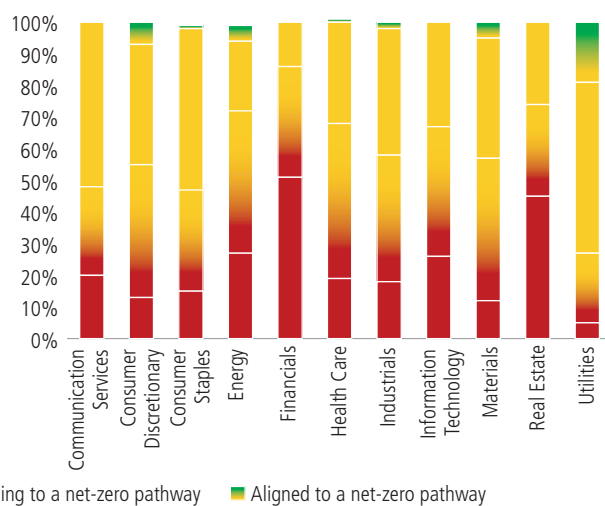
<sup>2</sup> As of December 29, 2023.

<sup>3</sup> As of December 31, 2024.

**ALIGNMENT STATUS MSCI WORLD (EQUAL WEIGHTED) BY SECTOR, END-OF-YEAR 2023<sup>2</sup>**



**ALIGNMENT STATUS MSCI WORLD (EQUAL WEIGHTED) BY SECTOR, END-OF-YEAR 2024<sup>3</sup>**



Source: Neuberger Berman.

## Evaluating the Landscape of Net-Zero Alignment Solutions

Where opportunities and persistent challenges exist

### SHORTCOMINGS OF OFF-THE-SHELF SOLUTIONS

Net Zero Alignment Indicator vs. Off-the Shelf: Merits of Transition-Informed Approach

|                   | 'Off-the-Shelf' Solutions                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                            | Net-Zero Alignment Indicator                                                                                                                                                                                                                                             |
|-------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                   | Science Based Targets Initiative (SBTi)                                                                                                                                                                                                                                                   | MSCI's Implied Temperature Rise (ITR)                                                                                                                                                                                                           | TPI's Mgmt. Quality and Carbon Perf. Methodology                                                                                                                                                                                                      | MSCI NZIF Assessment                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                          |
| <b>Output</b>     | Framework provides an independent validation of whether company's targets are in alignment with a 1.5°C scenario.                                                                                                                                                                         | A metric that translates company's future emissions into single-temperature outcome based on company's targets and credibility of those targets.                                                                                                | Assessment of company targets' alignment with Paris agreement and the strength of their decarbonization strategy and governance.                                                                                                                      | Screens companies annually against the NZIF criteria categorizing on the maturity scale based on their progress toward net-zero goals.                                                                                                                                                     | Quantitative data overlay with qualitative analyst input to assess company's "climate transition" readiness across six sub-indicators.                                                                                                                                   |
| <b>Benefits</b>   | <ul style="list-style-type: none"> <li>Provides evidence that targets are <b>science-based</b></li> <li><b>Widely utilized</b> and understood by investors</li> </ul>                                                                                                                     | <ul style="list-style-type: none"> <li><b>Single data point</b> used to easily assess company alignment with Paris agreement</li> <li><b>Comparability</b> among different companies</li> </ul>                                                 | <ul style="list-style-type: none"> <li><b>Sector-specific</b> considerations when looking at <b>materiality</b> of emissions</li> <li>Emphasis on <b>governance</b> of climate strategies</li> </ul>                                                  | <ul style="list-style-type: none"> <li><b>Standardized</b> basis for measuring and reporting portfolio alignment with net-zero goals.</li> <li><b>Comparability</b> among different companies</li> </ul>                                                                                   | <ul style="list-style-type: none"> <li>Utilizes <b>forward-looking</b> metrics and analyst insights</li> <li>Deep <b>sector-specific</b> knowledge applied by analysts</li> <li><b>Active engagement</b> undertaken based on net-zero alignment status</li> </ul>        |
| <b>Challenges</b> | <ul style="list-style-type: none"> <li><b>Does not provide</b> insight into <b>feasibility</b> of company achieving their target</li> <li><b>Single point</b> in time assessment</li> <li><b>Skewed</b> toward <b>European</b> firms (61% of companies with validated targets)</li> </ul> | <ul style="list-style-type: none"> <li><b>Inconsistent results</b> when compared to other vendors</li> <li>Lack of clarity in methodology</li> <li>Reliant on <b>backward-looking</b> metrics</li> <li>Sensitive to MSCI assumptions</li> </ul> | <ul style="list-style-type: none"> <li>Assessment of <b>process and ambition</b> are <b>separated</b> into different outputs</li> <li>Data sometimes incomplete or outdated</li> <li><b>Limited scope</b> (focus on high-emitting sectors)</li> </ul> | <ul style="list-style-type: none"> <li><b>Slow to react</b>; only updated annually</li> <li>Reliant on <b>backward-looking</b> metrics (Carbon Disclosure Project (CDP), Science-Based Targets initiative (SBTi), and MSCI ESG Research)</li> <li>Sensitive to MSCI assumptions</li> </ul> | <b>Response to Challenges</b> <ul style="list-style-type: none"> <li>Utilizes multiple data sources to address anomalies</li> <li>Incorporates assessment of strategy and capital allocation</li> <li>Robust coverage across equity and fixed income holdings</li> </ul> |

Source: Neuberger Berman.

The past two years have witnessed a proliferation of off-the-shelf net-zero alignment tools, reflecting growing market demand and the increasing sophistication of climate-related financial analysis. These solutions offer a range of benefits to users, including greater transparency, improved benchmarking and streamlined reporting capabilities. However, the rapid evolution of this space has also surfaced a number of significant challenges that warrant careful consideration:

### 1. Methodological Controversies and Credibility Concerns

A prime example of current debate is the criticism directed at the Science Based Targets initiative (SBTi). SBTi's proposal to allow companies—particularly in the financial sector—to use carbon offsets for Scope 3 emissions has raised alarms among climate experts and certain stakeholders. Critics argue that this approach risks diluting the scientific rigor and integrity of the framework, enabling organizations to rely on offsetting rather than actual emissions reductions. The controversy has been compounded by internal governance issues, including staff resignations and calls for enhanced transparency, which have further eroded stakeholder trust. These developments highlight the critical need for robust oversight and continuous improvement in methodologies to ensure that alignment solutions maintain their credibility and effectiveness. They also reinforce the importance of avoiding over-dependence, and considering a variety of data inputs to apply more critical judgment.

## **2. Data Timeliness and Responsiveness**

A persistent limitation of many net-zero alignment analytical tools is their reliance on backward-looking data captured at a single point in time. This approach often fails to reflect the latest company announcements, strategic pivots, newly established climate commitments or even removal of commitments. As a result, users may find that ratings and assessments lag behind real-world developments, undermining the utility of these tools for timely capital allocation and decision-making. The slow responsiveness of some solutions can also impede the ability of investors and stakeholders to reward companies making ambitious strides toward decarbonization.

## **3. Coverage, Scope and Fragmentation in Disclosure Practices**

Another consistent theme is the challenge of achieving comprehensive coverage. These issues are especially pronounced for complex criteria such as capital allocation and decarbonization strategy, which often require nuanced, qualitative analysis and expert judgment that go beyond quantitative metrics alone. Furthermore, coverage disparities are more acute in regions or sectors where disclosure standards are less stringent, limiting the comparability and reliability of net-zero alignment assessments.

## **4. The Role of Qualitative Judgment in Evaluating Alignment**

While quantitative metrics are indispensable, qualitative judgment remains crucial for evaluating the robustness of decarbonization strategies and the credibility of transition plans. Contextual factors such as governance quality, stakeholder engagement and sector-specific risks require expert interpretation and cannot be fully captured by automated binary measurement tools. Integrating qualitative insights into alignment solutions is essential to providing a holistic view of net-zero progress.

While the proliferation of net-zero alignment solutions represents clear progress, users must remain vigilant as to methodological, data and coverage challenges. Addressing these issues will be key to ensuring that alignment tools genuinely support informed decision-making and drive meaningful climate action.

## **The Advantages of Qualitative Overlays and Analyst Input**

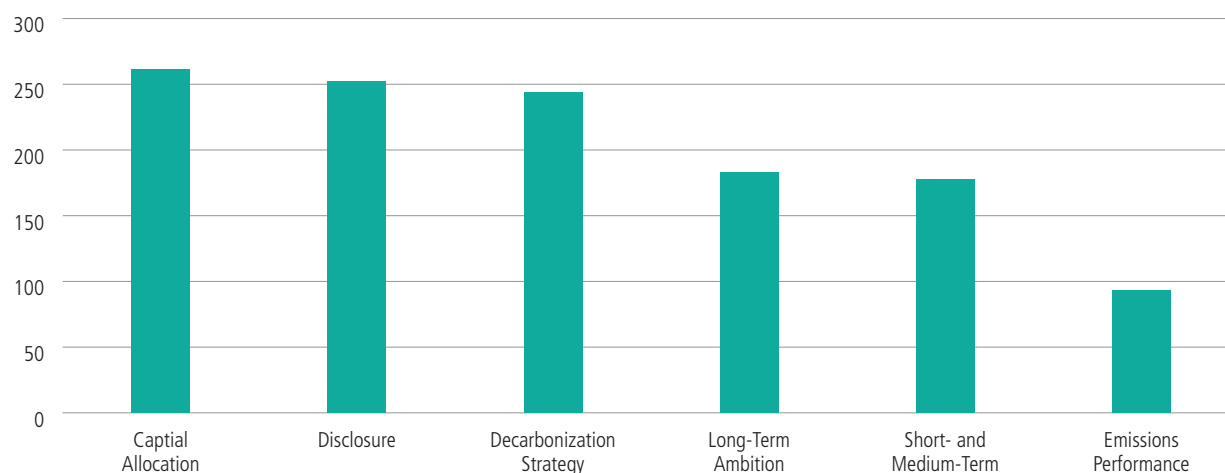
In designing the Indicator, we have worked to address the shortcomings found in various off-the-shelf solutions. This is accomplished through the use of multiple data sources and annual methodology reviews that ensure relevance and the use of forward-looking data points. However, one of the key differentiating factors is the qualitative overlay from our analysts.

Having run the Indicator for three years, we now have a robust historical dataset with which to dissect and analyze trends. We have identified the sub-indicators most frequently subject to overrides,<sup>4</sup> including areas such as capital allocation, disclosure and decarbonization strategy. Capital allocation and decarbonization strategy are emerging as two of the most critical sub-indicators in the assessment of corporate net-zero alignment. As the market evolves, there is a clear shift away from reliance on high-level commitments and aspirational statements. Stakeholders increasingly expect companies to substantiate their climate ambitions through tangible investment decisions and detailed, quantified decarbonization plans.

<sup>4</sup> As of June 2025, across equity and fixed income. Excludes cash and derivatives (including U.S. Treasuries), CLOs and supranational debt.

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#### TOTAL QUALITATIVE OVERRIDE BY SUB-INDICATOR (# OF HOLDINGS)



Source: Neuberger Berman.

These indicators provide a more rigorous measure of a company's transition credibility, reflecting not only its intentions, but also the underlying financial and operational mechanisms driving climate action. The prioritization of capital allocation and decarbonization strategy underscores a broader demand for accountability and transparency, ensuring that net-zero commitments translate into measurable progress and real-world impact.

Furthermore, the significant volume of analyst overrides required for the disclosure sub-indicator highlights persistent challenges in data timeliness and accuracy. The reliance on outdated information and the frequent use of estimates by third-party data providers often result in assessments that do not accurately capture a company's current emissions profile. Consequently, our analysts are often compelled to intervene, proposing adjustments that better reflect the latest developments and actual corporate performance. Therefore, our analysts' in-depth knowledge of the company and industry allows them to capture nuances that may not be reflected in a quantitative data point.

Outside of the faster responses to changing information, the Indicator and analyst overrides help to act as a positive engagement feedback loop. The scores and data outlined in the Indicator can help identify areas for engagement with the company. Based on feedback from these engagements, analysts can override the Indicator to reflect information gained during these discussions. Below is a case study showcasing one such example.



## Case Study: Ford Motor Company

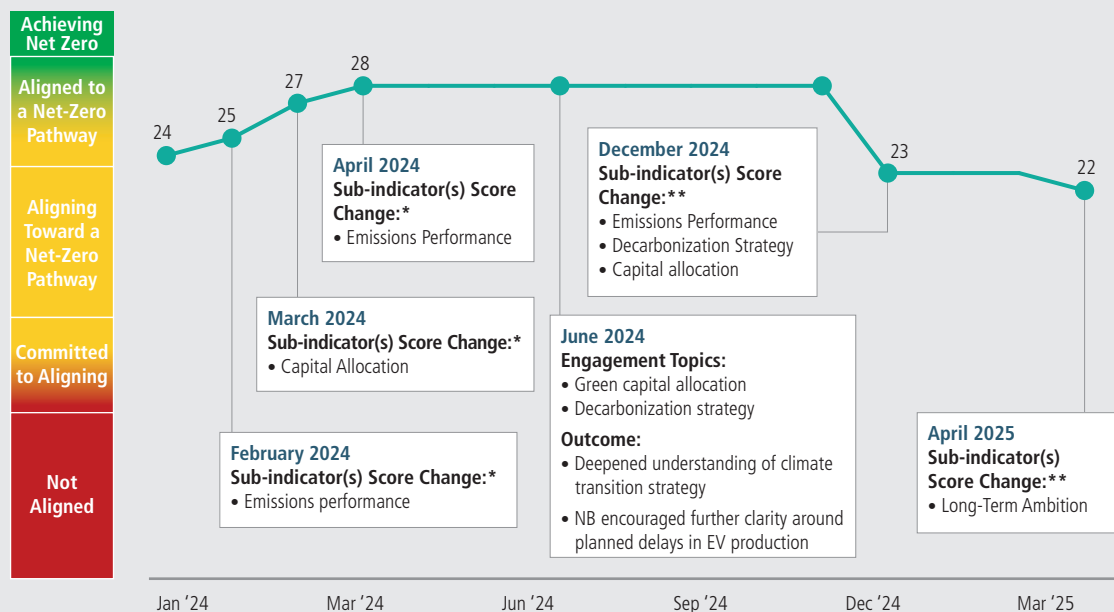
### Current Status: Aligning

Following Ford's corporate strategy update in August 2024, our autos analyst undertook qualitative revisions to its Indicator score. The announcement revealed a significant shift in its electrification roadmap, with reduced capital expenditures, scaled-back production and delayed launches of EVs.

To reflect this strategic pivot, the following revisions were made to Ford's Indicator score:

- Decarbonization strategy: **Downgraded**; the reduced EV rollout undermines its ability to achieve meaningful emissions reductions.
- Capital allocation: **Downgraded**, reflecting Ford's diminished financial commitment to electrification.
- Emissions Performance: **Downgraded** to account for the likely misalignment of the future emissions trajectory with 1.5°C targets due to slower EV adoption.

These adjustments lowered Ford's overall Indicator score and shifted its status from "Aligned" to "Aligning", a more conservative view of its net-zero alignment trajectory.



\*Due to change in data points.

\*\*Due to analyst downgrade.

Source: Neuberger Berman.

Filling the Gaps: Model Enhancements

How we have continued to improve the Indicator

Outside of the Indicator’s original advantages, we have made significant strides in advancing our net-zero alignment framework by integrating new data points, adjusting the model logic to better capture companies’ progress toward net zero, and developing sector-specific models, including the development of a dedicated banking model. Each of those are addressed in turn below.

The Growing Importance of Green Capex and Green Revenue

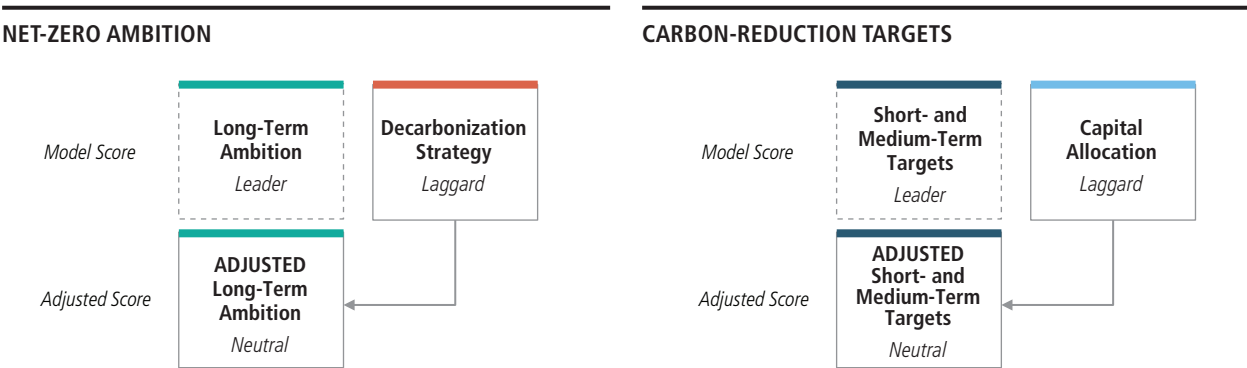
We have worked to enhance the data points used in the Indicator, with a particular focus on green revenue and green capital expenditures. While targets remain an important piece of any company’s transition plan, investors are increasingly emphasizing the assessment of green revenue and green capital expenditures. These factors have become more important, as investors seek to better understand companies’ progress toward long-term goals. Emissions reductions offer a historical view of a company’s progress, but green revenue and capex provide a forward-looking indicator of the potential speed and success of a company’s decarbonization efforts.

As this metric has gained prominence, we have seen year-over-year increases in reported taxonomy-aligned green revenue and green capex coverage of 4% and 6%, respectively. This increase in reporting has led to greater data availability, allowing us to expand our dataset to incorporate additional green revenue and green capex information. These additions have given us a better understanding of a company’s performance on our capital allocation and decarbonization sub-indicators, and a more holistic view of their alignment status. The expansion of the data set has introduced additional data points for approximately 12,000 companies, 300 of which previously had no coverage for green revenue or capex data points within our model.

The Link Between Ambition and Effort (the High-Impact Adjustment)

The growing importance of green revenue and green capex has highlighted a key insight from our ongoing work with the Indicator: the interconnectivity of sub-indicators.

As our understanding of net-zero alignment has matured, we have recognized that a company’s stated ambition should be assessed alongside the tangible effort supporting it. One of our most significant lessons is the need to assess sub-indicators together—particularly for high-impact companies where the stakes are greatest—rather than in isolation. This realization has led us to adjust our scoring methodology, ensuring that we better reflect the credibility of a company’s climate commitments by evaluating the alignment between ambition and execution.



Source: Neuberger Berman.

In practice, this means that emissions reduction targets—no matter how ambitious—should be supported by feasible transition plans and specified capital allocation to be considered credible. For example, even if a company receives third-party validation for its 2050 net-zero target, but we do not see a clear, actionable roadmap to achieve this target, we adjust the long-term ambition score down to

reflect this uncertainty. Similarly, short- and medium-term targets are no longer evaluated solely based on their existence or validation status. Instead, we assess whether these targets are backed by meaningful capital allocation toward decarbonization initiatives. If a company's financial commitments do not align with its stated goals, we adjust its score accordingly to reflect a more realistic view of its transition trajectory.

This approach is grounded in the growing industry consensus that green capex and transition plans are among the most reliable forward-looking indicators of climate progress. Investors are increasingly focused on the achievability of climate targets, not just the ambition. The Transition Pathway Initiative's recently published "State of the Corporate Transition Report 2025" noted the shift in investor focus from ambition to action. The Initiative previously introduced Level 5 as part of its Management Quality assessment to help determine the credibility of a company's transition planning and implementation. However, as of 2025, fewer than 10% of companies assessed have reached Level 5, while more than three-quarters of companies receive credit for setting either long-term or near-term emissions reduction targets.<sup>5</sup> By connecting these factors, our adjustments holistically capture this phenomenon, ensuring that companies are not rewarded for ambition alone, but for the effort and investment that make those ambitions credible. In-depth analysis by our analysts ensures that we capture real-time changes to a company's decarbonization strategy, allowing our assessment to adjust when a company backs away from its transition plan, even as they maintain their targets. More than that, this qualitative assessment by industry experts enables the evaluation of companies' commitments to align their capital expenditures with climate pledges. TPI's Management Quality assessment finds that only 0.5% of companies assessed are aligning their capital expenditure with their climate pledges. However, among the more than 2,000 holdings our analysts have assessed, approximately 2% have demonstrated this commitment. This underscores the importance of assessing the interconnectivity between ambition and achievability, supported by analyst expertise, to identify companies that are genuinely making progress beyond what data can validate.

## Case Study: BP plc

### Current Status: Committed to Aligning

While BP has set ambitious climate targets, its climate strategy has recently undergone a notable recalibration, reflecting a retreat from previously stated decarbonization efforts. While the company maintains third-party verified long-term and near-term targets, the recent strategic shifts have cast doubt on its ability to deliver on these goals.

To reflect this strategic pivot the following analyst revisions were made to BP's Indicator score:

- Decarbonization strategy: **Downgraded to Laggard**; the company has pivoted away from renewable energy, including the divestment of its offshore wind division, and is now targeting fossil fuel production growth to 2.3 – 2.5 million barrels of oil equivalent per day by 2030.
- Capital allocation: **Downgraded to Laggard**, reflecting BP's reduction in annual net-zero transition spending from \$5 billion to \$2 billion, while oil and gas investments are expected to increase by 20%, reaching \$10 billion.

As a result of these overrides, an adjustment in the Indicator was applied to BP's target scores to reflect the lack of support given the strategic shift. This lowered the company's overall Indicator score and shifted its status from "Aligned" to "Committed to Aligning", capturing both the strategic shift and the uncertainty around the current targets.

Ultimately, this evolution in our methodology underscores a broader truth: Ambition without effort is insufficient. By embedding this principle into our Indicator, we believe we are better equipped to identify companies that are truly on a path to net zero—and to engage more effectively with those that are not. This adjustment also reinforces the importance of a holistic, dynamic approach to climate risk assessment—one that evolves alongside the data, the science and the real-world actions of the companies in which we invest.

<sup>5</sup> Transition Pathway Initiative, "State of the Corporate Transition 2025".

## BP: Adjustment to Alignment Scores

| Indicator                         | Raw Score (1-5) | Analyst-Adjusted Score | w/ High Impact Adj. | Score Breakdown                                                                                                                              |
|-----------------------------------|-----------------|------------------------|---------------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Long-term Ambition             | 5               | 5                      | 3                   | 2050 net-zero ambition verified by third-party. Subject to high-impact adjustment                                                            |
| 2. Short- and Medium-Term Targets | 5               | 5                      | 3                   | Short-term and medium-term targets covers Scope 1 and 2 and verified by third-party. Subject to high-impact adjustment                       |
| 3. Emissions Performance          | 4               | 2                      | 2                   | Scope 3 emissions have been rising over the past three years; currently only 2050 projected emissions are in line with a below 2°C scenario. |
| 4. Disclosures                    | 5               | 5                      | 5                   | Discloses Scope 1, Scope 2 and all material Scope 3 emissions.                                                                               |
| 5. Decarbonization Strategy       | 3               | 1                      | 1                   | Recently announced significant reduction in renewable energy focus and prioritization of fossil fuel production.                             |
| 6. Capital Allocation             | 3               | 1                      | 1                   | Reduced annual net-zero transition spending.                                                                                                 |
| <b>Total Score</b>                | <b>25</b>       | <b>19</b>              | <b>15</b>           | <b>Committed to Aligning</b>                                                                                                                 |

### ✓ Factors Enabling Transition

|                                         |                                                                                                                                                                                                                                                                                 |
|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Long-term Ambition</b>               | <b>Established long-term emissions reduction target</b> <ul style="list-style-type: none"> <li>Committed to net zero target by 2050 for Scope 1 and 2 emissions</li> <li>Ambition to reduce average life cycle carbon intensity of sold products to net zero by 2050</li> </ul> |
| <b>Short- &amp; Medium-Term Targets</b> | <b>Aim to reduce Scope 1 and Scope 2 emissions by 2030</b> <ul style="list-style-type: none"> <li>Aim to reduce Scope 1 and Scope 2 emissions by 20% vs. a 2019 baseline</li> </ul>                                                                                             |
| <b>Disclosure</b>                       | <b>Full disclosure of all material emissions</b> <ul style="list-style-type: none"> <li>Disclosed Scope 1, Scope 2 and Scope 3 emissions since 2019</li> </ul>                                                                                                                  |

### ⊖ Factors Hindering Transition

|                                 |                                                                                                                                                                                                                                                                                                     |
|---------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Decarbonization Strategy</b> | <b>Strategic shift away from renewable energy</b> <ul style="list-style-type: none"> <li>Moving away from renewable energy projects, such as offshore wind division</li> <li>Targeting fossil fuel production growth to 2.3 – 2.5 million barrels of oil equivalent daily by 2030</li> </ul>        |
| <b>Capital Allocation</b>       | <b>Continued investment in high-emission assets while reducing investment in clean energy</b> <ul style="list-style-type: none"> <li>Reducing annual net-zero transition spending from \$5 billion to \$2 billion</li> <li>Increasing oil and gas investments by 20%, up to \$10 billion</li> </ul> |

Source: Neuberger Berman.

## Sector Specification – The Banking Model

We have further enhanced our methodology with the inclusion of sector-specific net-zero alignment frameworks, most notably for the banking sector. In recent years, banking has emerged as an area requiring tailored assessment logic. The unique structure and financing role of banks necessitate a departure from the sector-agnostic model, which historically failed to capture the full nuance of banks' climate impact. Recent developments, including the withdrawal of major institutions from the Net Zero Banking Alliance (NZBA) and the Alliance's own strategic shifts, have underscored the need for a more targeted evaluation. While some banks maintain public commitments to net zero, others have scaled back their transition plans, with others dropping their targets entirely. These shifts, coupled with the recent announcement by the NZBA that they will immediately cease operations and transition to a framework initiative, reflect a sector in flux.

To address this complexity, we introduced the banking-specific model to adjust the metrics across sub-indicators and place greater emphasis on financed and facilitated emissions. In the original model, banks disclosing only Scope 1 and 2 emissions could receive inflated scores despite these emissions representing a small fraction of their total climate impact. The revised model corrects for this by ensuring that full credit is awarded only when Scope 3 (particularly Category 15) emissions are appropriately prioritized. Similarly, long-term and short-term ambition scores now reflect the inclusion and credibility of financed emissions.

### MODEL ADJUSTMENTS FOR BANKING SECTOR

|                               | Sector-Agnostic Model                                                          | Banking Sector Model                                                       | Rationale for Adjustment                                                                                                                                                       |
|-------------------------------|--------------------------------------------------------------------------------|----------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Long-Term Ambition            | Assess net-zero ambitions across scope 1, 2 and 3 emissions (equally weighted) | Assess net-zero ambitions for financed and facilitated emissions           | <ul style="list-style-type: none"> <li>Bank structures are deeply complex with a unique breadth of financing activity</li> </ul>                                               |
| Short- and Medium-Term Target | Assess short-term targets across scope 1, 2 and 3 emissions (equally weighted) | Assess near-term targets across material sectors in banks' loan portfolios | <ul style="list-style-type: none"> <li>To more accurately evaluate a bank requires a material sector-based targeting approach</li> </ul>                                       |
| Emissions Performance         | Consider projected and historical emissions trajectory (equally weighted)      | Consider projected and historical emissions focused on Scope 3             | <ul style="list-style-type: none"> <li>Emphasis on financed emissions ensures appropriate credit is awarded where bank's decarbonization efforts are most impactful</li> </ul> |
| Disclosure                    | Evaluate emissions disclosure for Scope 1, 2 and 3 (equally weighted)          | Greater emphasis on Scope 3 (Category 15) emissions disclosures            |                                                                                                                                                                                |
| Decarbonization Strategy      | Evaluate "green revenue" and operational decarbonization efforts               | Evaluate finance offerings that align with global decarbonization efforts  | <ul style="list-style-type: none"> <li>Addressing bank financing could unlock greater decarbonization across the economy</li> </ul>                                            |
| Capital Allocation            | Evaluate "sustainable capex" and green patents                                 | Evaluate plan to decrease financing to misaligned activities               | <ul style="list-style-type: none"> <li>Direction of financing crucial to alignment</li> </ul>                                                                                  |

Source: Neuberger Berman.

This enhanced methodology has led to meaningful shifts in alignment status across the 34 banks initially assessed. We saw an overall deterioration in scores, with a higher portion falling in the “Not Aligned” and “Committed to Aligning” buckets. The primary drivers of score changes included:

- 1) **Emissions Performance and Disclosure:** The most significant downgrades occurred where prior logic disproportionately rewarded Scope 1 and 2 data. The new logic adequately captures Scope 3 as the most material emissions.
- 2) **Decarbonization Strategy:** These scores saw notable upward adjustments, as the new model better captures banks’ efforts through their financing activities—an area previously overlooked. Capital allocation scores were also refined to reflect sustainable finance offerings and plans to reduce exposure to misaligned sectors.

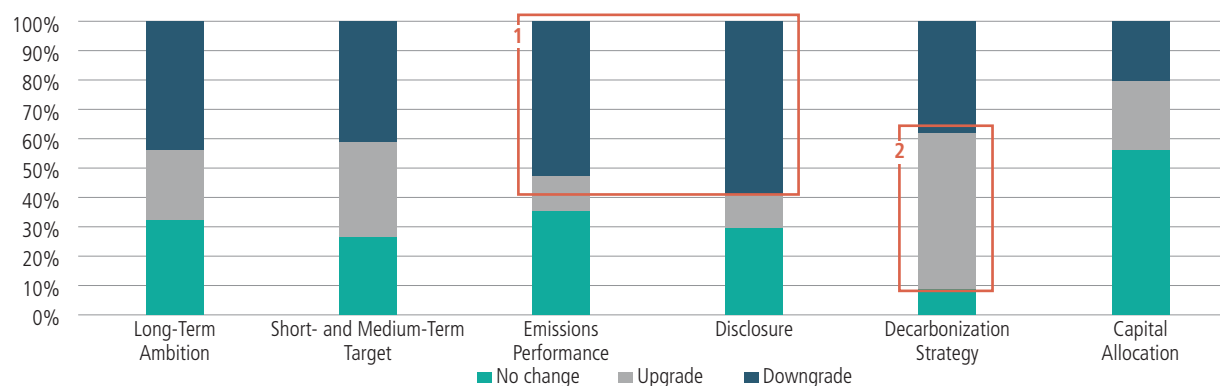
#### SHIFT IN BANKING SECTOR ALIGNMENT STATUSES (APRIL 2025)



Source: Neuberger Berman.

#### CHANGE IN ANALYST-ADJUSTED SCORE BY SUB-INDICATOR (APRIL 2025)

Banking Model



Source: Neuberger Berman.

By incorporating sector-specific considerations, the banking model provides a clearer and more accurate picture of net-zero alignment within the financial industry. It ensures that banks are assessed not only based on their operational footprint, but also on the direction and impact of their financing activities—arguably their most powerful lever for driving economy-wide decarbonization. This refinement exemplifies our broader commitment to continuous improvement and methodological nuance, enabling investors to better understand and engage with the financial institutions shaping the climate transition. In the future, we plan on incorporating other sector-specific frameworks for high-impact industries such as oil and gas, mining and airlines.

## Improvements to Our Governance Process

While the methodological enhancements above are essential to the continued improvement of the Indicator, governance and controls around our evaluation process also saw significant improvements in the past year through our data and technology platform.

We launched our internal Starling data platform to support analysts and portfolio managers in tracking and managing portfolios with specific climate transition objectives. The platform provides transparency around the sub-indicators and underlying data that we believe are driving companies' net-zero alignment status. The platform also enables an analyst to override a sub-indicator to capture changes in company progress or regression to net zero. The Starling platform is governed by the Stewardship and Sustainable Investing Group, which reviews, challenges or approves an analyst request to override a sub-indicator. Furthermore, Starling has been integrated with key downstream platforms, such as our research and portfolio construction tools supporting investment teams in managing portfolios with climate transition objectives. These process enhancements have allowed for greater transparency and helped to enhance the Indicator's integration into the investment process.

## The Indicator in Action

### *How the Indicator is used in the investment process*

#### **Evolution in net-zero objective setting**

The enhancement of the Indicator has also helped advance our approach to climate transition strategies. Historically, our efforts were primarily concentrated on reducing carbon emissions across Scopes 1, 2 and 3. In recognition of the need for a more comprehensive and forward-looking framework, our climate transition strategies are now structured around three core targets:

- **Net-Zero Alignment of Exposures:** By 2030, we aim for at least 90% of our corporate and quasi-sovereign exposures to be considered as achieving, aligned or actively aligning to net zero, or to be subject to targeted engagement. Full alignment across these exposures is targeted for achievement by 2050.
- **Carbon Footprint Reduction:** We are committed to reducing the carbon footprint of our portfolios by at least 30% by 2030, relative to a 2019 baseline, with the ultimate goal of achieving net zero by 2050.
- **Engaging Financed Emissions:** Securities accounting for 70% of financed emissions must either be aligned with net-zero pathways or actively engaged on the climate transition. This requirement will be superseded by our broader alignment target outlined above as of 2030.

This evolution reflects our commitment to robust, measurable climate action, ensuring that our strategies not only result in a portfolio of investments focused on the reduction of emissions, but also drive real progress toward a net-zero future across our investment universe. The Indicator plays a pivotal role in achieving these goals, tracking alignment progress at the portfolio level, conducting detailed company analyses and informing targeted engagement efforts. By integrating the Indicator into every stage of the investment process, strategies can deliver a robust framework for real-world decarbonization while meeting ambitious climate objectives.

## Case Study: Climate Transition Plus – World Equity

### The Indicator's role in active management

Passive sustainable/environmental, social and governance funds have gained traction in recent years, but we believe that investors are becoming more familiar with the limitations and long-term risks associated with indexation.

Equity indices have evolved from simple benchmarks to complex tools driving passive investing, which, while cost-effective, introduce hidden costs like tracking error and arbitrage risks, along with challenges to market efficiency and price discovery. Sustainable indices face additional issues, such as reliance on backward-looking carbon data, exclusionary criteria undermining capital allocation to high-emission sectors crucial for energy transition, and biases favoring low-emission companies. The 7% linear annual emissions reduction prescribed by the EU climate benchmark standards is not an accurate reflection of how the global economy is decarbonizing, and these indices are not built to respond to the dynamism of the transition.

Meanwhile, active managers can assess qualitative factors and prioritize companies making meaningful progress, even if their metrics appear temporarily unfavorable. This adaptability enables active strategies to identify opportunities for real-world impact while avoiding unintended sector biases often inherent in passive indices. The Indicator is a key tool that helps Neuberger identify potential opportunities for investment and assists managers in engaging with company management and boards. With this tool, managers can hold companies accountable, influencing certain sustainability commitments and capital allocation decisions.

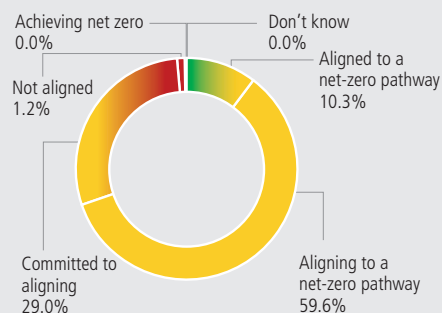
One such strategy is Neuberger Berman Climate Transition Plus – World Equity, which seeks to invest in companies globally that appear well positioned for a transition to a low-carbon economy. To achieve future carbon reductions, the Indicator is leveraged to provide forward-looking insights and robust bottom-up assessment of each company.

Neuberger Berman Climate Transition Plus – World Equity strategy offers:

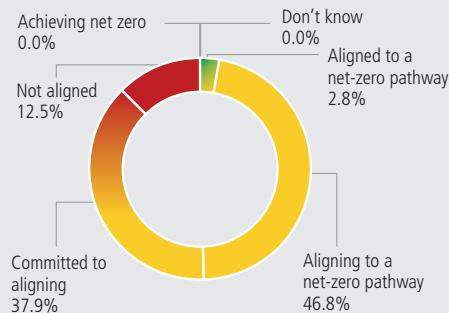
- **Better Net-Zero Alignment:** Relative to MSCI World, exposure to the “Not Aligned” category is reduced from 13% to 2%, and the overall alignment score increases by 15%.
- **Carbon Reduction:** Over 45% carbon footprint reduction relative to the MSCI World.
- **Active Engagement:** 3,200+ annual equity engagements supported by a 25+ person Stewardship and Sustainable Investing group and 50+ person team of equity analysts. Approximately 73% of current portfolio holdings have been actively engaged.
- **Targeted Risk Budget:** Quantitative portfolio construction designed to maintain target tracking risk of 1%.
- **Alpha Generation:** Balances risk budget between improving net-zero alignment and alpha opportunities.

### Neuberger Berman Climate Transition – World Equity Strategy (June 2025)

**Alignment Status**  
(Climate Transition Plus – World Portfolio Weight)



**Alignment Status**  
(MSCI World Index Weight)



Source: Neuberger Berman.

Outside of the typical benefits active management can provide over passive, the Indicator has further enhanced our investment capabilities. The integration of this metric into these strategies plays a pivotal role in meeting client-directed climate objectives.



## **The Need for Continued Innovation and Nuance**

### **The path forward**

As companies across the globe approach critical net-zero milestones, insights from Neuberger Berman's Net-Zero Alignment Indicator underscore the importance of a nuanced, holistic approach to climate transition assessments. The main takeaway is clear: Achieving net-zero objectives cannot be captured by a single data point or backward-looking metric. Instead, it requires the integration of quantitative data, real-time analyst insights and sector-specific overlays to reflect the true complexity of corporate climate action. Over the past three years, we have continued to advance the Indicator in line with the progression of industry standards and increased availability of data. This evolution has enabled more accurate tracking of decarbonization progress and revealed the intricacies of sectoral hurdles. However, as was true at the start of our journey with the Indicator, the importance of qualitative judgment in evaluating transition credibility has remained constant.

The Indicator's ability to adapt to real-world developments has helped ensure that credit is being awarded when ambition is matched by tangible effort and investment.

Looking ahead, the future of net-zero assessments lies in a continual and methodological refinement, deeper sectoral customization and the expansion of forward-looking metrics. As investors and companies navigate regulatory uncertainty, geopolitical shifts and the accelerating pace of technological change, tools like the Indicator will be essential for driving meaningful climate action and informed investment decisions. Over the next few years, we hope to expand our sectoral models to other high-impact sectors, in addition to utilizing the Indicator to assess the net-zero alignment of sovereigns.

Ultimately, a company's journey to net-zero demands not only ambition but also credible, measurable progress—supported by transparent reporting that evolves alongside the science and the market.

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