IIGCC

Net Zero Bondholder Stewardship: Summary guidance

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Introduction

This summary provides a snapshot of IIGCC's Net Zero Bondholder Stewardship Guidance, designed to support institutional investors in integrating climate considerations into bondholder stewardship.

As the backbone of global corporate financing, the corporate bond market plays a central role in corporate capital structures and functions as a primary source of financing for the real economy. Accordingly, bondholder stewardship is a critical lever for achieving net zero goals and protecting long-term value.

The constant cycle of financing and refinancing, the diversity of issuers, and the wide range of actors involved in the bond market, from banks to underwriters to rating agencies, create unique opportunities for bondholders to influence corporate behaviour. Active engagement enables investors not only to support the transition to a net zero economy, but also to manage material financial risks and identify opportunities linked to the low-carbon transition. Effective stewardship can help safeguard portfolio value, enhance issuer resilience, and align fixed income investments with long-term climate and financial objectives. By engaging actively with issuers, bondholders can help shape climate strategies, support the adoption of sustainable practices, contribute to the broader transition to a net zero economy and therefore protect the long-term value of their investments.

'GSS+' refers to labelled bonds such as green, social, sustainability, and sustainability-linked bonds.

Opportunities

- **Broader issuer engagement scope:** Bondholders can engage with a wider range of entities beyond listed companies, including private firms, sovereigns, and sub-sovereigns. This expands the potential for climate-related influence across the full spectrum of debt issuers.
- **Influence on cost of capital:** While bondholders lack voting rights, they can influence issuers' cost of capital in the primary market. This is particularly impactful for capital-intensive sectors, where investor expectations on climate performance can shape financing terms and access.
- **Instrument-specific capital allocation:** Bondholders can support climate-aligned activities by engaging and investing in instruments such as labelled green and sustainability-linked bonds. These structures offer opportunities to direct capital toward transition efforts.
- **Long-term investment horizon:** Many bondholders, particularly those in portfolios with long durations, are well-positioned to advocate for long-term climate strategies aligned with net zero goals.
- **Collaborative leverage:** Bondholder engagement can complement shareholder initiatives

Challenges

Investors are increasingly practicing bondholder stewardship, with growing recognition of its role in driving climate action. Despite this progress, several structural and practical barriers remain, including:

- **Voting rights and documentation:** Bondholders do not have the same governance rights as shareholders, such as regular votes on governance. Bond documentation typically focuses on financial covenants and debt servicing, with limited provisions related to climate strategy or sustainability performance.
- **Perceived access and engagement barriers:** The legacy view that engagement is primarily for equity investors still lingers, limiting uptake despite growing recognition of bondholder influence.
- **Market complexity and data gaps**: The diversity of issuers (including private, high yield, and emerging market) creates inconsistent disclosure and engagement challenges, though these are not unique to fixed income.
- **Structural limitations:** The transactional nature of bond markets, including short issuance windows and secondary market trading, can limit opportunities for timely engagement.

NZIF asset level Assessment & targets – Corporate fixed income	
Asset alignment target	A 5-year target for increasing the % of AUM in material sectors that are 'aligning' or 'aligned' to a net zero pathway, or 'achieving net zero'.
Engagement threshold target	A minimum proportion of financed emissions are assessed as achieving or aligned to a net zero pathway, or are subject to engagement.

Stewardship Toolkit and Bondholder Stewardship

The IIGCC Net Zero Stewardship Toolkit outlines five key steps for effective stewardship. These steps are fully applicable to bondholders, though some require adaptation to reflect the structure and cadence of bond markets. The table below highlights how bondholder-specific considerations align with each step of the Toolkit:

Net Zero Stewardship Toolkit key steps	Additional considerations for bondholders
1. Undertake portfolio analysis, set portfolio net zero alignment goals and develop a stewardship prioritisation framework	▪ Use debt-relevant metrics (e.g. refinancing needs, debt reliance) to identify priority issuers for engagement.
2. Set net zero alignment criteria, alignment levels and time bound engagement objectives	▪ Apply issuer-centric objectives that extend beyond bond maturity dates, with interim milestones. ▪ Consider how these objectives apply across both labelled and unlabelled debt.
3. Develop an engagement strategy for priority companies	▪ Implement bondholder-specific approaches, including both issuer- and issuance-level engagement. ▪ Recognise the importance of ongoing engagement beyond issuance windows.
4. Baseline engagement and voting approach	▪ Feed insights into equity stewardship where relevant. ▪ Consider opportunities to vote on consent solicitations or other bondholder actions.
5. Asset owner and manager alignment on net zero goals and transparency	▪ Clarify asset owner expectations for bondholder stewardship. ▪ Ensure transparency in how bondholder engagement supports net zero goals.

Engagement strategies

Bondholder stewardship continues to be about ongoing, relationship-based engagement. While the cadence of engagement differs—driven more by financing events than annual general meetings—bondholders can and should consider pursuing sustained dialogue with issuers throughout the life of an investment.

IIGCC recommends bondholder stewardship is:

- Long-term
- Issuer centric
- Prioritised

Long-term and issuer centric

IIGCC recommends a long-term, issuer-centric approach to bondholder stewardship. This helps ensure consistency of expectations across both labelled and unlabelled debt and supports a deeper understanding of how an issuer's debt strategy aligns with its broader corporate and climate objectives.[1]

Bondholder engagement should look beyond individual transactions or bond lifecycles. Given the repeat nature of corporate debt issuance and refinancing, investors have a clear incentive to build strategic, ongoing relationships with issuers. This long-term perspective enables more meaningful dialogue, supports escalation where needed and positions investors to influence future financing decisions in line with net zero goals.

Prioritising engagements

Bondholders take a dynamic and risk-based approach to identifying priority issuers, focusing on where climate risks are most material to creditworthiness. Considerations[2] may include:

- **Reliance on debt:** Issuers with high leverage or frequent debt issuance may be more responsive to bondholder engagement.
- **Refinancing pipeline:** Upcoming refinancing events can create timely engagement opportunities.
- **Bond index inclusion:** Index presence may increase visibility and engagement leverage.
- **Issuer financing strategy:** The use of GSS+ bonds or integration of climate into financing decisions may signal openness to dialogue.
- **Sector debt intensity:** Capital-intensive sectors may warrant sector-wide engagement strategies.
- **Issuer profiles:** High yield, private, or emerging market issuers may be more receptive to investor input in certain circumstances.
- **Equity linkages:** Where investors also hold equity, bondholder engagement can build on existing stewardship efforts.
- **Disclosure practices:** Poor disclosure may indicate a need for foundational engagement on transparency and data quality.

1 IIGCC's Investor Expectations of Corporate Transition Plans: From A to Z, and NZIF 2.0, provide investors with guidance on assessing the net zero commitments and strategies of issuers.

2 For more on asset class agnostic considerations, see IIGCC's Net Zero Stewardship Toolkit.

Financing lifecycle

While bondholder engagement is not tied to AGMs in the way shareholder engagement may be, and investors are encouraged to engage beyond the maturity of the bond, the financing lifecycle still provides useful context. Investors should consider maintaining ongoing engagement, with financing events offering additional, but not exclusive, touchpoints.

Pre-issuance

When feasible, pre-issuance can be a strategic moment for engagement—particularly during refinancing or roadshows. Investors can:

- Set expectations around climate alignment and use of proceeds.
- Engage on issuer-level transition plans and targets.
- Discuss sustainable bond frameworks and potential use of labelled instruments.

Due to the constant cycle of financing and refinancing, issuers are often in a period of pre-issuance and refinancing existing debt is another key engagement opportunity.[3]

As outlined in NZIF 2.0, investors are also encouraged to engage issuers to agree on alignment criteria and climate-related activities, including the use of covenants and verified labelled bonds (e.g. GSS+ issuances) to ensure alignment throughout the bond's lifetime. For further guidance, see IIGCC's Engaging Labelled Debt publication.

Issuance

Issuance windows are often short and not conducive to deep engagement. However, they remain important for signalling expectations and making informed investment decisions. Investors can:

- Communicate the rationale behind investment or divestment decisions, creating a link with engagements and a pathway for issuers to return/remain in the investable universe.
- Share expected fund allocation with issuers.[4]
- Where appropriate, use capital allocation to support instruments aligned with climate goals—such as green or sustainability-linked bonds—while potentially avoiding general issuances from issuers not demonstrating credible transition plans. Ensure alignment of financing with the issuer's broader climate strategy through due diligence and engagement.

Post-Issuance

Ongoing engagement is essential for monitoring progress and maintaining influence. This includes:

- Engaging on issuer-level net zero alignment.
- For labelled bonds, tracking performance against stated targets.
- Reinforcing expectations ahead of future financing events.

Labelled debt may provide more opportunities for post-issuance engagement. For more, see IIGCC's Engaging Labelled Debt paper.

3 For more on identifying corporates that may come to market, see Anthropocene Fixed Income Institute's Bond Horizon.

4 See banks roundtable.

Escalation

Bondholders have a range of tools to escalate engagement when issuers fail to meet climate-related expectations. Even without voting rights, they can still have their voice heard through a structured escalation process that reflects the unique dynamics of fixed income markets.

The table below highlights some escalation techniques each with a clear objective and practical tactics. These approaches can be used individually or in combination.

Technique	Objective	Tactic
Private dialogue	Raise concerns and set expectations confidentially.	One-on-one meetings, written correspondence, pre-issuance discussions.
Collaborative engagement	Amplify collective investor voice	Join initiatives like Climate Action 100+ or the Net Zero Engagement Initiative (NZEI); co-sign letters; participate in joint meetings.
Public signalling	Signal dissatisfaction to the market and other stakeholders.	Public statements, media engagement, or inclusion in stewardship reporting.
Investment decisions	Align capital allocation with climate goals.	Avoid new issuances, reduce exposure, or divest from non-aligned issuers.
Systems stewardship	Influence market norms and issuer incentives.	Engage with underwriters, index providers, and rating agencies to reflect climate risks in pricing and inclusion criteria.

Collaborative/equity integration

Bondholder stewardship can be strengthened when integrated with broader stewardship efforts across asset classes. As bondholder engagement becomes more established, collaboration both within institutions and across the market can amplify impact and improve efficiency.

Equity Integration

IIGCC recommends effective bondholder stewardship... aligns with equity engagement, where appropriate.

Bondholder and equity stewardship often rely on the same foundations: robust data, transparent disclosures, and access to company decision-makers. Where appropriate, aligning bondholder and shareholder engagement can enhance consistency and influence.

While conflicts may need to be managed, credit and equity investors are typically aligned on net zero objectives.

Benefits of equity integration

Engagement – Including fixed income teams in engagements with existing equity engagements with C-Suite and board members signals the importance of reaching net zero across asset classes.

This can also help bondholders join collaborative engagement opportunities, such as Climate Action 100+ and the Net Zero Engagement Initiative.

Escalation – Combining the insights of equity and bond investors magnifies the influence and voice of both parties. Stewardship teams, where appropriate and permissible, may integrate bondholder concerns into the assessment of proxy votes, for example, holding the board accountable for an inadequate climate financing strategy.

Collaborative engagement

IIGCC recommends effective bondholder stewardship... utilizes collaborative engagement, where appropriate.

Shareholders have used collaborative engagements as a key stewardship strategy, with a proven track record for effective and efficient engagement.

Where possible, IIGCC is incorporating bondholders into existing collaborative engagement initiatives, such as CA100+ and NZEI.

For more on incorporating bondholder stewardship into collaborative engagement, see our webinar series and existing case studies.

Labelled bonds

Labelled bonds such as GSS+ offer investors a targeted way to align capital with climate goals. IIGCC's Engaging Labelled Debt Guidance provides a detailed framework for how bondholders can engage issuers on these instruments to support real-economy decarbonisation.

The guidance:

- Promotes best practices for aligning labelled bonds with net zero objectives.
- Outlines engagement strategies across the bond lifecycle: from pre-issuance to post-issuance.
- Emphasises the importance of due diligence to ensure that labelled instruments are credible, transparent, and aligned with the issuer's broader transition strategy.
- Encourages engagement not only with issuers, but also with underwriters, second-party opinion providers, and other market actors to improve the integrity of the labelled bond market.

While labelled bonds represent a growing share of the market, they still account for a small portion of total issuance. As such, they should be seen as one tool within a broader stewardship strategy that includes both labelled and unlabelled debt.[5]

5 For more detail, see IIGCC's Engaging Labelled Debt Guidance and the Unlabelled Debt Guidance.

Systems stewardship

Effective bondholder stewardship extends beyond direct engagement with issuers. Given the range of actors involved in structuring, marketing, and assessing bond issuances, fixed income investors are uniquely positioned to influence the broader financial ecosystem. By engaging strategically with these key market participants, investors can help shape the conditions under which climate-aligned financing decisions are made.

The table below outlines key stakeholder groups, their roles in the bond market, and suggested engagement objectives to support net zero goals.[6]

Category	Stakeholder	Role	Potential engagement
Issuance and structuring	Bank Debt Capital Market (DCM) teams	Advise issuers on bond structuring, underwrite and market bond issuances, and act as intermediaries between issuers and investors	Leverage their advisory role to communicate investor expectations, especially to smaller issuers who rely on DCM guidance
	Second Party Opinion (SPO) providers	Validate the credibility of labelled bonds	Promote rigorous, transparent criteria for assessing alignment with climate goals
Market signals and standards	Credit Rating Agencies	Assess creditworthiness	Advocate for the inclusion of forward-looking climate risk in ratings methodologies
	Voluntary standard setters (i.e. ICMA or Climate Bonds Initiative)	Create voluntary standards	Engage to strengthen climate ambition, alignment criteria, and accountability mechanisms in voluntary standards
	Index providers	Determine inclusion criteria for bond indices	Encourage climate-aligned index methodologies and greater transparency in index construction
Policy and oversight	Regulators and policymakers	Set rules and frameworks for financial markets	Support the development of policies that incentivise climate-aligned financing and improve disclosure standards
Data and assurance	Data providers, auditors, assurance providers	Provide data, verification, and best practice standards	Improve the quality, consistency, and comparability of climate-related data and assurance practices

6 For more on the stewardship with different ecosystem participants, see IIGCC's Bondholder Stewardship Guidance.

Example: Engaging banks to influence issuance practices

Banks play a pivotal role in structuring and distributing bond issuances. Bondholders can engage with them to improve climate alignment at the point of issuance. Bondholders can engage with banks to:

- Facilitate introductions and encourage direct engagement between issuers and investors.
- Promote regular issuer roadshows to improve transparency and access.
- Encourage the adoption of best practices in labelled bond structuring and disclosure.
- Gain insights into market trends to inform issuer-level engagement strategies.

Conclusion

This summary guidance aims to support investors seeking to conduct bondholder stewardship as part of their net zero objectives.

As this guidance outlines, bondholders are uniquely positioned to influence issuers through sustained, issuer-centric engagement, strategic prioritisation, and collaboration across the financing lifecycle.

By aligning with the IIGCC Net Zero Stewardship Toolkit, engaging across the capital structure, and participating in collaborative initiatives, bondholders can play a critical role in accelerating real-economy decarbonisation.

Appendix

Following the IIGCC banks roundtable, it became clear that investment banks and issuers may lack insight into how climate and other material sustainability factors influence research and investment decisions for new issues. This can create the impression that these considerations are not material to order sizing or analysis.

However, investors recognize that climate and other sustainability factors can be highly material for certain issuers. Simply communicating these considerations during the new issue process can help shape issuer behaviour and encourage banks to integrate common investor expectations into their advice. In addition to analysts raising material sustainability topics in management meetings, fund managers can also share example prompts with banks to reinforce these priorities. For example:

- [x]% of bond fund AUM cannot play the deal due to [*insert material sustainability based reason for non-participation that is within the issuer's direct or indirect control to change e.g the issuer is in a carbon intensive sector with no carbon reduction targets*]. Our [y] million order would have been [z] million were it not for this, so it is in the issuer's interest to seek improvement on this aspect.
- [x]% of bond fund AUM has a non-financial objective to [*insert non-financial objective that could be exhibited by the issuer/issuance e.g. fund allocation objective related to issuer SBTi validation or green bonds*]. If this issuer would [*elaborate on request based on the non-financial objective e.g. obtain SBTi validation or issue a green bond*] then these funds would consider this opportunity more favourably and this could result in [*insert how much the order could be increased if the issuer met this non-financial objective*].
- [x]% of bond fund AUM has a non-financial objective to [*insert non-financial objective that this issuer/issuance is exhibiting e.g. fund allocation objective related to issuer SBTi validation or green bonds*]. These funds therefore consider this opportunity more favourably and this has resulted in [*insert how much the order has been increased due to the non-financial characteristic that the issuer/issuance is exhibiting*].

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