

Climate-Aware Investing

Selecting an External Manager

We believe attention to climate risks and opportunities is important to long-term value. However, investors seeking climate solutions can face a number of challenges when selecting an external investment manager. These may include lack of understanding of climate data to evaluate/measure, broad manager approaches to portfolio construction, limited product selection, and concerns around adequate disclosure.

Using the Principles for Responsible Investment (PRI) framework¹, we have listed some common questions for investors who are selecting an external investment manager.

Objectives

Define what climate-aware investing means to your organization and set objectives around its beliefs, goals, preferences, and resources

Questions to ask	Why is this important?
Do you view climate change as a material investment risk and/or opportunity within your portfolio?	The breadth of the objectives can play a vital role in determining the final strategy whether it be an exclusionary approach, integration or impact investing.
Are there any sectors, industries, or geographies that your organization wants to entirely avoid?	
Which climate factors do you want to integrate into your portfolio? (e.g. greenhouse gas emissions, fossil fuel reserves, brown revenues, green revenues, implied temperature rise, climate value-at-risk, carbon risk rating). Should you consider both backward and forward-looking indicators?	
Is positive real-world impact an explicit part of your primary objective for investment results?	
Do you expect policy makers to further introduce regulations requiring the investment management industry to consider climate-related factors?	
What are your objectives on transparency and reporting of climate goals? Does your firm provide a regular reporting framework to your beneficiaries?	

¹ Principles for Responsible Investment (PRI), Asset Owner Manager Selection Guide, 2018.

Culture

Gain an understanding of each managers' overall sustainable investing culture

Questions to ask	Why is this important?
Does the manager believe that climate factors impact the potential risk and returns of a portfolio?	Investment managers with a clearly defined culture may be more likely to integrate and maintain sustainability focused and climate-aware practices across the organization.
How does the manager incorporate climate considerations and values: <ul style="list-style-type: none">• Within investment funds? Does the approach differ across asset classes?• Across the organization outside of the investment process?	
Are portfolio manager incentives aligned with sustainable investing objectives?	

Approach

Assess the manager's investing approach and its alignment with your climate objectives

Questions to ask	Why is this important?
Do you have a firm-wide policy that articulates your climate philosophy and approach? If the policy is not firm-wide, which parts of the organization does it cover? How frequently do you review?	A comprehensive understanding of a managers investment approach is important for informed decision making on alignment with your own objectives.
Do you require each investment team to incorporate broad sustainability and climate specific factors into their investment process?	
Describe how governance processes for sustainable investing principles are integrated into investment funds, and the broader business.	
Do your investment teams leverage proprietary or external sustainability data? Describe the methodology.	

Capabilities

Ensure the managers overall sustainable investing capabilities satisfy the needs of your organization

Questions to ask	Why is this important?
How extensive is the firm's climate-aware product offering?	The degree of proficiency across broad sustainability/climate specific investing and product offerings, can be critical to selecting a manager that meets your firms requirements.
How does the manager develop an exclusion list? Do they have a proprietary list, or rely on external providers?	
How is climate data/insights merged with traditional financial data to make investment decisions? What sustainability data, research, and tools are used?	
Are climate metrics included in the standard reporting package? How is this communicated and what is the frequency?	
Evaluate how the investment manager engages with stewardship & active ownership issues.	

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