

# Climate-Aware Investing

## Setting an Investment Policy and Strategy

We believe attention to climate risks and opportunities is important to long-term value. In order to be prepared for the potential regulatory, economic and environmental impacts related to climate change, investors may consider reviewing their investment policy and strategy. Using the Principles for Responsible Investment (PRI) framework,<sup>1</sup> we have listed some common questions for investors seeking to review their investment policy and strategy for the risks and opportunities related to climate change.

### Context

Determine the relevant factors related to how your organization should approach climate aware-investing

Questions to ask	Why is this important?
What are your organization's: <ul style="list-style-type: none"><li>Views on climate investing? Are views aligned within the firm, or are there conflicting viewpoints?</li><li>Current knowledge level on climate change and key related issues like regulation, social and environmental trends?</li></ul>	This can enable key internal stakeholders to be aligned on their sustainable investing vision and mission for the firm, to allow for efficient implementation of the final investment strategy.
What stakeholders are your business responsible to? Is there a dual objective to contribute value outside the organization?	
What level of resources can/will the organization focus on to integrate climate themes into investment strategy? Are there clear lines of responsibility within the organization?	

### Principles

Develop a specific set of investment principles/beliefs that will inform your asset allocation and align all investment decisions

Questions to ask	Why is this important?
Will your climate principles be applicable to the entire portfolio or will there be different principles for specific groups of assets?	Identifying a clear, impactful set of investment principles can be the basis for all climate-related investment decisions.
Do you consider the impact on people and/or the planet? How is this translated into investment decisions?	
Are your firm's principles/beliefs based on external principles, codes and/or regulations? e.g. Principles for Responsible Investment, UN Global Compact.	

<sup>1</sup> Principles for Responsible Investment (PRI), How to Craft an Investment Strategy, 2018; Investment Policy: Process & Practice, 2016.

## 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 have a regular reporting framework to beneficiaries?	

## Strategy

Identify an investment strategy that fits your objectives, investment principles/beliefs, and capabilities

Questions to ask	Why is this important?
Does the firm have resources to manage the strategy inhouse or will it be outsourced to an investment manager?	Setting specific investment objectives and measures of success allows the evaluation of various scenarios to determine the final investment strategy.
What are your investment objectives? Factors to consider include asset class/sector/benchmark selection, risk and return targets, and investment horizon.	
What investment vehicle do you prefer? Consider expected costs, mandate size and number of exclusions to be included.	
Are you looking for an active/indexed solution? Or a combination?	
What quantifiable benefits do you want to create for your beneficiaries other than financial returns e.g. carbon emission reduction, portfolio net zero alignment, engagement with key stakeholders on climate related issues.	
How does your organization use its voting rights? Is responsibility for climate related engagement/voting owned internally or externally?	
Determine key climate performance indicators that relevant internal stakeholders, external managers and proxy voting providers need to regularly report against.	

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