Sustainable Markets Initiative

The climate has changed

How CIOs are investing in a climate-resilient economy

IMPAX Asset Management

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Foreword

Throughout his life, the Founder of the Sustainable Markets Initiative, His Majesty King Charles III, has displayed an unwavering commitment to achieving a sustainable future.

It is why the Sustainable Markets Initiative was formed. To put Nature, People and Planet at the heart of global value creation, while supporting long-term economic prosperity for all.

Climate change is not merely an environmental issue; it is a fundamental investment factor, on a par with other long-term disruptions. That is why in the face of the unprecedented global challenges we face today, it is imperative that our stewards of capital recognise the profound impact of climate change on our investment landscape.

We need a world where investors, asset managers, and owners lead by example, demonstrating that profitability and sustainability can go hand in hand.

Yet, to lead by example, a mission is required, which is precisely what we hope this paper will provide. A guide for asset managers and owners to integrate climate risks and opportunities into their investment decisions, so others might learn how to help adapt or address the needs of this cohort.

Impax Asset Management and State Street have come together as members of the Sustainable Markets Initiative's (SMI) Asset Manager and Asset Owner Task Force (AMAO) to understand, through a series of interviews with the chief investment officers of major asset owners, the experience of those who have taken early steps to manage climate change.

The report of this work presents a summary of pragmatic steps that asset owners earlier in this journey can take to advance their response to the challenges posed by climate change. The scale of these challenges, but also the associated opportunities for those managing the world's pools of capital, is immense. By integrating climate considerations into our investment strategies, we and those managing our assets can not only achieve superior financial performance but also contribute positively to Nature, People, and Planet.

Our actions today will shape the world of tomorrow, and it is our responsibility to lead with vision and purpose.

Together, we can harness the power of capital to create a more sustainable and equitable world. Let us seize this opportunity to make a lasting impact for generations to come..

Jennifer Jordan-Saifi, CEO of the Sustainable Markets Initiative

Executive summary

As stewards of trillions of dollars of capital, asset owners sit at a critical juncture in the transition to a low-carbon and climate-resilient economy. Their primary fiduciary duty is to maximise the value of their investments and deliver returns for their clients (often working people with pensions) over a long-term time frame. Their assets under management also put them in a powerful position to influence their ecosystem's actions in response to climate change, impacting their regulatory environment and the product offering of asset managers.

A key task for chief investment officers (CIOs) is to ensure their portfolios can deliver returns in the context of long-term risks, including climate change. The fundamental task of a CIO is to structure a portfolio in line with expected return targets and risk tolerances, which are often set at the board level, in line with pension liabilities and strategic commitments.

But the reality of implementing a climate-aware portfolio is a complex and nuanced issue. Put simply, every portfolio allocation decision seeks to maximise return subject to specific risk constraints. Climate change can impact either, or both, the expected return or the expected risks of any investment. However, while CIOs may choose from a number of 'ways' to incorporate climate change, the appropriate approach will depend on how allocators creatively grapple with imperfect information, an evolving regulatory environment and opportunity set, and the reconciliation of longer-term and systemic climate risks with traditional portfolio risk management practices.

Given the increasing amount of evidence that climate risks are impacting portfolios, more communication is needed on how asset owners can manage this challenge effectively. This SMI-led project, co-led by Impax Asset Management and State Street, seeks to kickstart a conversation with the asset owner community about how it integrates climate risks and opportunities into its investment decisions. By sharing lessons learnt, the project seeks to provide practical steps for asset owners and managers on how they can approach this complex topic.

This report distils findings from a series of interviews with CIOs from leading asset owners, with five recommendations emerging from those conversations:

1. **Recognise that, to support the delivery of investment objectives, climate change needs to be a core consideration.**

   CIOs of leading asset owners consider the transition to a low-carbon economy as one of the major structural shifts they need to understand and manage within their portfolios to deliver long-term returns. Despite the large impact and high uncertainty around climate change, CIOs agreed that it can and should be managed as any other core investment factor.

2. **Develop and implement a dynamic framework that allows your institution to manage this highly uncertain issue as it evolves.**

   The evolving challenges created by climate change require a strong governance framework. Proactive and informed leadership was cited across conversations as the key ingredient for successful management of emerging climate risks and opportunities.

   Given that the past will most probably not be a good guide for the future, asset owners recognise a need to build institutional flexibility. Two consistent lessons emerged: the importance of regular structured reviews of the firm's strategy to manage climate change; and an investment governance framework that facilitates innovation in the firm's techniques for investment and risk management.

3. **Explore how to integrate climate change throughout the investment process, including asset allocation, manager selection and the choice of securities.**

   Asset owners are already exploring how to integrate climate change at every step in the investment process: within portfolio level targets and asset allocation decisions, asset class strategy, manager selection, security and transaction analysis and the stress-testing of portfolios. The most common approach is to integrate climate change at the manager, security and transaction level.

   Some areas for integration remain underdeveloped: CIOs recognise that asset allocation would benefit from understanding the impact of climate change on macroeconomic variables, but the limitations of market-standard climate scenarios make this difficult. To solve this challenge, some pioneering asset owners are developing bespoke scenarios.

4. **Build expertise through education, persuasive incentives for decision makers, and the use of internal specialists.**

   Climate change is a complex topic, and investment teams will need information and time to manage the multiple, geographically dispersed risks it creates. Teams will also need new analytical tools and remuneration structures that show how they can benefit from being more proactive in acquiring knowledge and weaving climate change considerations into their decision making. CIOs highlight the role that in-house sustainability expertise can play in embedding change but recognise that they need to co-create approaches with core capital allocators to be effective.

5. **As appropriate, engage in conversations on climate change with policymakers and peers to solve common challenges.**

   Asset owners will be more likely to factor climate change into their decisions as climate-related data improves and the opportunities to invest expand. To solve these challenges, CIOs highlight the importance of partnering with peers on the issues they face, such as the lack of standard metrics to price climate risk. To expand investment opportunities, they also highlight the need for greater dialogue between policymakers and companies on sector specific bottlenecks.

CIOs highlight that more work is needed on investor-ready climate scenarios and effective metrics to price climate risks, as well as continued innovation in asset allocation methods. Many interviewees stated that challenges remain around the quality of emissions data as well as transition and physical risk metrics, while the challenges of integrating these risks into current asset allocation methods are considerable. CIOs interviewed do not treat these limitations as an excuse for inaction or an insurmountable barrier but recognise the need for continued efforts by regulators, accounting standards bodies and scenario providers to improve financially material information available to portfolio managers on climate change.

This report is the first stage in this project's work to support effective action on managing climate risks and opportunities. The report provides both practical steps asset owners can take and additional support they require to fully integrate climate change into capital allocation. Preliminary findings were shared during a panel with CIOs at New York Climate Week on 26 September 2024, which highlighted areas for further work.

Introduction

Context

Climate change is now widely acknowledged as a major global risk. According to a survey from the World Economic Forum,[1] extreme weather is considered the top risk most likely to present a material global crisis in 2024 and beyond.

As stewards of huge pools of capital, decision-makers at the world's major asset owners are grappling with how to respond to climate change. As of 2022, the discretionary assets of the world's 100 largest asset owners were estimated to be $25.7 trillion, with the top 20 asset owners representing over 55% of these assets.[2] They have the potential to direct large capital flows towards or away from economic activities that support real-world decarbonization. Their fiduciary duty to achieve long-term returns for their beneficiaries (such as pensioners) also implies a need to understand and manage long-term risks, such as climate change, appropriately.

Among other factors, asset owners must grapple with:

- The likelihood of a rising number of catastrophic events and the associated impact on financial returns
- Changes in consumption, production, or migration patterns arising directly or indirectly from climate change and the impact these will have on investee companies' balance sheets and cash flows
- Increasing levels of regulatory intervention, with potential implications for costs, investment plans, capital adequacy, and disclosure
- The challenges of adapting traditional approaches of asset allocation and risk management to take account of climate change

Project scope

This project, co-led by Impax Asset Management and State Street, aims to share experiences from asset owners on how they allocate capital in the context of climate change. We invited chief investment officers (CIOs) from 11 asset owners to discuss their approaches to integrating climate change into their work at all levels.[3] Each one-to-one conversation, held between June and September 2024 under the Chatham House rule, explored topics such as:

- Drivers for integrating climate risks and opportunities into governance and investment activity
- Methods for assessing and managing climate risks and opportunities
- Efforts to engage with industry to improve risk management and identify opportunities

By raising awareness of the practical challenges that asset owners face, the project aims to support the scale-up in capital directed towards a low-carbon and climate-resilient economy. The findings from the interviews have been amalgamated into a narrative that describes how leading CIOs have been seeking to effectively manage climate risks and opportunities in their portfolios and the lessons they have learnt.

1 World Economic Forum, Global Risks Report 2024
2 WTW Thinking Ahead Institute, Asset Owner 100 - 2023
3 The organizations represented included pension funds and sovereign wealth funds based in the US, Canada, Europe, Asia and Australia, with cumulative assets of over US$2.5 trillion.

Areas for further work

Developing asset owner archetypes and case studies

The findings from these interviews with chief investment officers will inform a practitioner's guide. To support understanding and implementation of Recommendation 3 in this report, we intend to prepare a stylised overview of the types of approaches asset owners are taking to integrate climate change within the investment process. Archetypes will explore differences in how asset owners utilise different asset classes to actively manage climate risks, bottom-up versus top-down approaches, and the use of sustainable investment teams. To bring these archetypes to life, subsequent work will also set out a series of investment case studies.

Dialogue with asset managers

For many asset owners, identifying asset managers with deep expertise on climate change is the key to successful management of the topic. External managers are the primary means by which many asset owners can manage climate risks and gain exposure to climate opportunities in their portfolio. CIOs highlight the benefits of industry transparency and ongoing dialogue with external managers. They also call for greater action from asset managers on emerging challenges, specifically on climate adaptation and nature.

Applying recommendations to nature

We are far behind on understanding and managing nature-related risks and opportunities, which are typically more complex as well as location specific. CIOs highlighted that the measurement and management of nature-related risks remains very complex. While many asset owners aim to include nature-related metrics in their investment analysis as a next step, most have not yet begun to develop a framework to evaluate financial risks arising from nature. Some CIOs also argued that a lot more needs to happen, in terms of policy and decision-useful data, for the industry to price in nature-related risks effectively. A minority of asset owners have begun to explicitly allocate to investments in natural capital, highlighting the challenges of identifying investments with sufficient scale or reliable returns.

Despite these differences, these interviews provide lessons that can be applied to nature. To successfully integrate nature alongside other investment considerations, CIOs highlighted the importance of improving data quality and ensuring there are clearer benefits from reducing harm to nature. Practical steps asset owners can take include: partnering with peers to improve the methodologies for assessing nature-related risks and enhancing the quality of data on location-specific biodiversity; investing in education and in-house expertise to create evidence around how nature-related factors could be financially material; and engaging in structured conversations with policymakers on the importance of policy signals to price in nature-related risks.

Lessons learnt from CIOs

Five core recommendations have emerged from our interviews, providing pragmatic steps for asset owners who have less experience in managing climate change.

1. Recognise that, to support the delivery of investment objectives, climate change needs to be a core consideration.

> "This is a mega-trend: there are huge opportunities to take and major new risks to manage."

CIOs consider the transition to a low-carbon economy as one of the key secular trends they need to understand and manage within their portfolios to deliver long-term returns. Interviewees repeatedly highlighted that climate change and the transition to a low-carbon economy are one of the major structural shifts affecting their portfolios. Several CIOs noted that they consider the impacts of climate change to be on a similar scale to the adoption of artificial intelligence and deglobalisation. They commented that like other mega-trends, climate change is highly disruptive and creates significant uncertainty at the macro and micro levels, impacting economic growth, inflation, and technology adoption. These impacts will need to be managed to generate attractive risk-adjusted returns, implying that consideration of climate change is not optional for any asset owner.

> "Managing the risks and opportunities arising from climate change has many parallels with the management of other major investment uncertainties."

Despite the large impact and high uncertainty around climate change, CIOs agreed that it can and should be managed as any other core investment factor. It is widely acknowledged that, unlike many other investment considerations, the tail risks emerging from climate change may pose existential threats for human society. But while the scale and uncertainty surrounding these risks are unique, the processes for managing them effectively can be very similar to the approach to other investment factors. CIOs noted that investment teams are already trained to evaluate uncertainty around long-term cash flows based on multiple variables, including technological progress, cyclical macroeconomic variables, societal preferences, and policy support. The investor toolkit can be readily adapted to cope with the disruptions created by climate change on all these drivers.

> "It comes down to the basics of good investment: you have to be open minded to consider all the drivers and humble enough to question if you are right."

Nuance is required around the management of systemic risks, rather than a blunt exclusion-focused strategy. Most CIOs agreed that divestment-only strategies are unattractive as they generally introduce unnecessary portfolio biases and hence the potential for impaired financial returns. They also remove the opportunity for creating additional value through engagement directed towards emissions reduction. Where exclusions are applied, this has been grounded in practical discussions on the investment case for specific companies.

2. Develop and implement a dynamic framework that allows your institution to manage this highly uncertain issue as it evolves.

> "The tone from the top was like a megaphone, telling us all that we are going to do this."

Strong governance of climate change from a proactive and informed leadership was the most cited ingredient for the successful management of climate risks and opportunities. CIOs highlighted the importance of a board and management team that are clear and consistent on the importance of integrating climate change within the investment process. This leadership is essential because of the extensive resources and patience that are required to improve processes and adapt firm culture. Internal pushback and external criticism will be inevitable as teams trial and adopt new approaches. Individuals at the top who recognise the significance of climate change can ensure this feedback does not prevent appropriate and timely action.

> "We spent a year with the board understanding what climate change meant for our portfolio."

Education and buy-in within the governance team will be even more important as new challenges emerge. CIOs consistently highlighted the importance of enabling board buy-in through individualised trainings and deep immersion on the science of climate change, which empower board members to be responsive to emerging challenges around climate change's investment implications. Education is seen as key in ensuring that the risks from climate change are not deprioritised due to pressure to achieve near-term performance goals. From experience, everyone is on board until performance suffers. Board members with long tenures and/or scientific backgrounds are typically more likely to ensure a consistent strategic direction and to provide robust challenge.

> "There is no historical precedent for climate change. We need to be prepared for the reality that the past will not be a good guide for the future."

Effective governance can also ensure a forward-looking approach to the development and review of a firm's strategy on climate change. Two consistent lessons emerged on asset owners' approach to building institutional flexibility: the importance of regular structured reviews of the firm's strategy to manage climate change; and of an investment governance framework that facilitates the enhancement of the firm's risk management techniques. On the former, several CIOs noted the benefits of developing rolling three-to-five-year business plans that factor in the expected evolution of climate issues, including the political context. Like any business strategy, the benefit lies in taking stock and understanding where the world is heading relative to earlier expectations. On the latter point, CIOs highlighted that the best opportunities to invest in the transition are constantly evolving, and there is a responsibility to consider new approaches to managing the portfolio to capture these opportunities.

> "Rethinking our investment governance framework makes it possible to factor in systemic risks in a way that was simply not incentivised before."

Some asset owners are pioneering additional innovation in investment governance to more actively manage climate risks. Several interviewees reported on significant innovations in investment governance frameworks within their organizations to handle uncertainty over future pathways. For example, changing the decision-making process for strategic asset allocation, which is often driven by an optimisation model or reference portfolio that is approved by the board. Some CIOs are now empowered to more actively manage climate risks, decide on optimal asset allocation and design mandates that can capture emerging opportunities, typically within board-approved performance parameters. This could lead to a significant shift for the industry and reflects a growing acceptance that a rigid approach to managing risks and an over-reliance on past data will not help deliver future long-term returns in the context of a warming planet.

3. Explore how to integrate climate change throughout the investment process, including asset allocation, manager selection and the choice of securities.

> "We're not trying to change the objective of investment teams. Within their objectives and risk return profile, we ask them "what can you do?"

Major asset owners are already exploring how to integrate climate change at every step in the investment process, though some areas for integration remain underdeveloped. Across interviews it was clear that there are multiple stages at which asset owners can integrate climate change considerations: within portfolio level targets and strategic asset allocation, strategy within each asset class, external manager selection, security and transaction analysis and the stress testing of portfolios. The most common practice was to integrate climate change at the levels of manager selection and, if relevant, security analysis. By contrast, CIOs noted the challenges of integrating climate issues into traditional approaches to strategic asset allocation.

> "We want to get a toe into the issue wherever there is material information to consider, whether its top down or bottom up."

Portfolio-wide targets are relatively rare, but more common is portfolio-wide climate risk management including stress testing. In some instances, CIOs noted that they had adopted portfolio targets for allocation to 'green' or 'transition' investments, or publicly committed to a "financed emissions" target across their portfolio. More often, CIOs consider resilience to climate change "bottom-up" as part of security level cash flow analysis and due diligence, rather than "top-down" when setting the portfolio-wide strategy. A key learning from interviews was that bottom-up analysis was not incompatible with top-down thinking - the latter can ensure minimum consistency on materiality and establish a framework within which multiple investment decision makers can operate.

> "A lot of variables and great uncertainty make it challenging to include climate considerations in a meaningful sense in capital market assumptions."

Asset allocators would benefit from understanding the impact of climate change on macroeconomic variables, but the limitations of current standard climate scenarios make this difficult. Nearly all CIOs interviewed recognise that climate change will impact macroeconomic factors, including inflation, economic growth and volatility, and that an understanding of these dynamics should inform capital markets assumptions and strategic asset allocation decisions. Despite this, integration of climate risks into asset allocation analysis remains rare as outputs of market-standard climate scenarios are typically not aligned with financial market needs. CIOs noted that such scenarios are not only highly uncertain, but that their decision-usefulness is also limited by their long timeframes, linearity, and focus on point estimates for expected returns (as opposed to ranges).

Some asset owners are exploring how to develop bespoke scenarios to inform their asset allocation decisions. In response to the lack of decision-useful scenarios, some asset owners are taking the lead in developing their own bespoke models. These scenarios aim to include shorter term implications, for example to 2030, and focus on developing a bottom-up view of what a likely transition could look like in the context of other uncertainties and trends, including geopolitical factors. Though there remains a long way to go to

comprehensively integrate information from scenarios into strategic asset allocation, the efforts made by some asset owners provide an important challenge to the wider community. For instance, some CIOs report that their models show higher and more volatile inflation as well as positive real rates emerging in nearly all probable future states of the world.

> "You need to drill down into details and the sector level implications, and not just focus on the asset class headlines."

Scenarios show what many CIOs already recognise, that climate change creates sectoral transitions that will need to be actively managed within each asset class. Findings from the latest climate scenarios show that climate change is likely to create a far greater dispersion of outcomes across countries, sectors and asset classes and that extrapolating past trends is likely to be inappropriate. Therefore, while climate-aware asset allocation can help to inform the optimal top-down exposures, active risk management within each asset class is also required. CIOs highlight the importance of working with investment teams to develop asset class specific strategies, based on each team's investment objectives, universe and risk profile.

> "The most effective way to change behaviour is to change the benchmark."

To enable the integration of climate change, many CIOs noted the importance of benchmarks and the constraints they create when managing climate risks. Many interviewees highlighted that an understanding of climate risks at any level - macro, asset class or security – will not be able to drive significant change in portfolio allocations if teams are focused on minimising their tracking error relative to a traditional benchmark. CIOs differ in their view of how best to solve this challenge. Some argue in favour of adoption of low-carbon benchmarks as a catalyst for a change in behaviour. Others question the benefits of rigidly following traditional benchmarks or indices, instead arguing that investors need to increase their tolerance of basis risk.

4. Build expertise through education, persuasive incentives for decision makers and the use of internal specialists.

> "You need to involve and educate internal teams and ask individuals what changes they're planning to make."

Climate change is a complex topic, and investment teams will need education and time to manage the multiple, geographically dispersed risks it creates. CIOs repeatedly stress that integrating climate change as a topic within investment decisions cannot be imposed top-down. Portfolio managers will be the individuals responsible for deciding where to invest. To enable them to make effective decisions on risk-returns, they need to have the conviction that managing climate risks will support delivery of their investment objectives, as well as the expertise to identify and manage both risks and opportunities. Education is a key ingredient to winning the hearts and minds of investment teams, with CIOs noting the benefits of regular staff training and external speaker events.

Investment teams will also need evidence and remuneration structures that show the potential benefit of modifying traditional approaches. To create demand for information on climate change, CIOs highlight the effectiveness of sharing evidence internally on successful investments in the transition. For instance, one CIO noted that their low-carbon index for global equities was first trialled in the sustainability portfolio before being adopted in global equities. Several CIOs also highlighted the impact of remuneration policies linked to environmental and climate-related objectives, either as one element of a qualitative multi-dimensional assessment or as a new quantitative target. This change in remuneration has created rapid shifts in culture across teams.

> "How do you change attitudes? Create a green core and green leaves shoot up."

To motivate and educate investment teams, some CIOs highlight the role in-house sustainability expertise can play in embedding change and co-creating approaches with core capital allocators. For many asset owners, the creation of an in-house sustainability team has been a pivotal step in implementing change on investment desks. Several CIOs highlighted that these teams can be influential in convening stakeholders, providing expertise and training to colleagues, and developing actionable frameworks tailored to asset class needs. To be effective, these teams should have a remit that sets them up for success. For instance, teams with the authority to co-develop investment frameworks with portfolio managers have been particularly successful. This has also been the case for sustainability teams which are used to triangulate perspectives from top-down external research and internal bottom-up analysis.

Sustainability teams with an investment remit can also create change by incubating new approaches. Some CIOs highlighted the catalytic role that their sustainable investment team had in pioneering investment products and transactions which were then organically adopted across the organisation. To help achieve this impact, these teams were given freedom to innovate and invest across the capital structure. As they were not limited to a specific asset class, they were able to interact across the organisation and create a case for change based on what was working.

> "Buy-in and partnerships with asset class leads is essential, otherwise core capital allocators will just talk past these issues in whatever way they can."

There is no single preferred approach to building expertise. Not all CIOs were in favour of creating centralised sustainability teams, highlighting concerns that this would slow down the spread of knowledge and create a culture where climate risks are not embedded in financial analysis. To avoid siloes, some CIOs highlight the benefits of building expertise principally within investment teams or using asset class climate champions to spread knowledge outside of centralised sustainability teams. Creation of a Co-CIO role with a sustainability focus is also being pioneered in some asset owners, as a clear signal that climate change considerations need to be fully integrated into the investment team's DNA and require dedicated attention.

5. As appropriate, engage in structured conversations on climate change with policymakers and peers to solve common challenges.

> "We can decarbonise our portfolio, but if nobody else does and we don't live our lives differently then we've actually taken on a ton of risk."

Asset owners will be more likely to factor climate change into their decisions as climate data improves, and the opportunities to invest expand. While CIOs recognise that climate change is a key long-term secular trend affecting investment portfolios, they stressed that the pace and scale of capital allocation to climate-related opportunities must reflect market realities. In the context of society's response to climate change, investment teams need to be confident in the projected financial returns of business models based on evidence rather than on a conviction that a particular new business model will be successful.

> "Data is essential, you can't manage what you can't measure."

Some asset owners are developing relationships with peers to address issues such as the lack of data and standard metrics to price climate risk. All CIOs interviewed acknowledged the limitations of metrics, including the lack of data on current and expected emissions and credible forward-looking assessments of a company's response to climate issues. Despite this, data quality or quantity is not viewed as an insurmountable barrier or excuse for inaction. Firstly, data is improving, with CIOs often highlighting their ongoing dialogue with international accounting bodies to improve climate-related corporate reporting. Secondly, multiple CIOs highlighted their discussions with peers and academic institutions to overcome gaps in existing metrics, which have, for example, led to joint tenders for new sources of physical climate risks data. Finally, CIOs highlight that in-house qualitative frameworks and robust discussion on inherently uncertain transition risks can be more valuable than attempting to identify a point estimate on expected losses.

> "It's not the lack of available finance that is the problem, it's the lack of opportunities, the lack of policy."

To expand investment opportunities, CIOs highlight the benefits of greater dialogue between policymakers and investee companies on sector-specific challenges. Although CIOs differ in how they approach engagement on policy-related issues, many acknowledge that the businesses they invest in depend on greater policy clarity if they are to reduce their emissions. Optimal policy often doesn't include subsidies, which CIOs view as a source of uncertainty and hence investment risk. Many CIOs also highlighted that their job is not to create regulations or tell policymakers how to make viable policies. If politicians want to scale finance towards climate mitigation and adaptation, they need more effective consultation with companies across the economy in order to better understand how to optimise the development of markets and overcome bottlenecks.

> "Emissions are like smoking, we all know it's bad and it's got high social costs, but we'll continue to do it until it's outlawed."

Across interviews, CIOs highlighted the policies that have already triggered changes in their investment management, for example by:

- Providing long-term clarity for businesses to adapt their investments, via targets and sector roadmaps, particularly in sectors where climate solutions are less advanced.
- Lowering risks of early-stage technologies, including via guarantees, technical assistance and concessional public finance, to support an improvement in long-term cost competitiveness.
- Creating revenue streams where markets don't exist, for example via the imposition of carbon pricing.
- Streamlining regulation and removing bottlenecks to support the scale up of established technologies, such as permitting reform to accelerate the roll out of grid infrastructure.

Conclusion

The low-carbon transition is a complicated journey that does not lend itself to simple solutions. Multiple approaches – and a recognition that not all of the globe starts at the same point – will be required. Depoliticisation of the issue is also needed. Interviews repeatedly highlight that climate change is an important consideration to deliver investment objectives and protect the pensions of working people. At the same time, there is no single or top-down approach to integrating climate into allocation decisions. Serious thinking about climate change acknowledges its complexity and the uncertainties that investment teams face. Given these uncertainties, creating resilient portfolios requires a governance framework that supports innovation and leadership buy-in around the importance of climate change as a financially material factor.

The good news is that a historic opportunity exists for public organisations and private companies, policymakers and investors, to come together to safeguard people's future livelihoods while also allocating capital towards a more sustainable economy. While the interviews and recommendations focus on steps asset owners can take, they also point towards actions and dialogue required with policymakers and asset managers. For readers of this report, we'd like to move beyond talk and coalesce around concrete action.

Asset owner organisations interviewed included: Australia Retirement Trust, California State Teachers' Retirement System, Caisse de dépôt et placement du Québec, Environment Agency Pension Fund, PFA Pension, Universities Superannuation Scheme, and Velliv.

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