Climate Bonds INITIATIVE

7 Easy steps to move pension funds from short-term to sustainable

+7 steps for pension fund staff

Trustees...

1 State it

Declare the fund's commitment to buying green investment products through a Statement of Investment Beliefs (subject to available yield and your ratings requirements).

2 Inform yourself and ask the right questions

Ensure you are knowledgeable about the effect that long-term risks such as climate change have on participants' future retirement security and you are aware of the investment opportunities to help reduce those risks. There are experts who can help. Use this knowledge to ask the right questions so that you can recognize and hire talent that understands sustainable investment.

3 Set a green asset allocation

Determine a minimum allocation of green investments within the fund and a time line for achieving this allocation (again subject to available yield and your ratings requirements).

4 Allocate resources

Allocate sufficient meeting and agenda time and other resources to ensure a balanced discussion and analysis takes place on long-term, as well as short-term, issues. This is a marker of a sustainable investment approach.

5 Request experience when selecting managers tenders

Ensure that your fund selects investment managers with adequate expertise on climate risk and experience in managing green investment portfolios by requesting it in tenders. This is also recommended in the CWC Investor Brief "Climate Change Risks and Opportunities for Investors".

6 Incentivize managers

Pension funds need to be clear about their investment beliefs and their attitude to long-term investment – and translate beliefs into the mandate. Then, incentivize managers to identify and invest in long-term and sustainable investments that fit with the fund's return requirements; seek advice with this challenge. The objective is to ensure incentives are aligned in the best interest of young, future beneficiaries as well as for those in or approaching retirement.

7 Report back

Require your asset managers to report on long-term risks and opportunities relating to sustainable investments both from a perspective of today's and future beneficiaries. Include long-term performance indicators that ensure benefit for both future and current beneficiaries.

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And 7 for pension fund staff...

1 Evaluate risk

Evaluate the climate risk in your portfolio using the guidance of actuaries or other professionals with climate expertise.

2 Inform yourself

Ensure that you have the core competencies to understand environmental risks and recognize opportunities within this space. This may include participating in training sessions.

3 Look for new products and opportunities

Green products exist already, and not just in equities. You are responsible for finding new green investment products in all asset classes. Look for the bonds that will be tagged as 'climate bonds' on Bloomberg terminals as of 2014.

4 Allocate time

Ensure sufficient time and resources are devoted to discussing long-term and sustainable investment approaches within the fund.

5 Allocate investment

Allocate a defined portion of your portfolio to green assets, such as clean-tech equities and green or climate bonds (subject to available yield and your ratings requirements).

6 Measure long-term performance

Ensure that you are measuring and evaluating the effectiveness of strategies for both current and future beneficiaries.

7 Bust the myths

The investment industry is awash with green investment myths: such as that green performance comes at the cost of financial performance, climate infrastructure is a cost, all ESG (environmental, social and governance) factors are non-financial, etc. Leading pension funds should pioneer new mind-sets: that ESG indicators can drive financial performance, that green investments can enhance financial performance, that climate infrastructure is about investment, not cost.

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Mobilizing DEBT CAPITAL MARKETS FOR Climate Change

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