DECARBONIZATION TOOLKIT

Conversation Guide for Updating Investment Beliefs

Investment beliefs set the investment philosophy, provide a long-term compass to select investment strategies, and help navigate short-term turbulence. Clearly articulating investment beliefs with a focus on portfolio consequences can provide the foundation for a sustained long-term investment strategy. Updating these beliefs to account for net zero commitments or other decarbonization goals helps investors define a sound investment process that is relevant to their circumstances and purpose.[23]

This resource outlines the questions and decisions that asset owners need to address when determining how to update their investment beliefs to reflect their views on climate risk and decarbonization goals.

Setting Objectives and Strategy	
Why is a decarbonization strategy necessary for fulfilling the purpose of the fund?	• Outcomes (e.g., dignity in retirement; insuring assets) depend on a livable world • Investable opportunities depend on resilient markets and economies
How do decarbonization goals affect desired outcomes and key metrics of success?	• Maintain financial targets; however, decarbonization goals may constrain how targets are achieved • Accept trade-offs in financial and nonfinancial performance • Reframe financial targets (e.g., income versus total return; absolute versus relative)
What is the ultimate time frame of the fund?	• The time frame could be, for example, perpetual, generational, or the time frame of liabilities
Does a decarbonization commitment affect which interim time periods are important for measuring success?	• Yes (specify how so) • No
What unique characteristics do investors display when focused on decarbonization? Are there any strategic advantages or disadvantages?	• Skilled at pricing location and duration risk during security selection • Market-making influence to change index constitution
What climate-related responsibilities beyond net zero or decarbonization do investors need to accommodate?	• Distributional impacts on particular communities, jurisdictions, and/or economies • Preservation of specific ecologies or biodiversity • Operational engagement with key portfolio companies to assist with transition
In what ways does a decarbonization commitment entail changes to the allocation targets in investment policies or reference portfolio and the ranges or deviations from those targets?	• Adjust the organization's benchmarks to underweight carbon-intensive industries • Question the organization's reversion-to-the-mean assumptions

How does a commitment to decarbonizing the portfolio and meeting interim progress goals affect investment beliefs related to . . . ?	
Responsible behavior: **(see Ripples of Responsibility)[24]**	• Internal versus external management • Engagement with public officials • Cooperation with peers and counterparties • Involvement with the scientific community • Controlling externalities felt by constituent groups
Return strategy:	• Asset allocation • Style constraints • Tilts/exclusions • Investment or manager selection • Thematic integration • Engagement/advocacy
Risk assumptions:	• Efficiency and distribution of prices • Markets • Rates, inflation, and employment • Systemic/structural • Geopolitical • Physical • Operations • Behavioral tendencies (internal and external)
Success metrics:	• Risk-adjusted performance • Influence in financial and economic markets • Reputation • Climate outcomes
Time horizon:	• Cumulative expected return (near, medium, and long term) • Period in scope for capital market assumptions (embedding transition risk into capital markets assumptions) • Timing of liquidity needs • Reconstruction of asset-liability matching