



Five Core Action Areas for Decarbonizing Portfolios

When constructing long-term portfolios, institutional investors should focus on incorporating decarbonization targets through activity in five core action areas. This guide outlines the definition and purpose of each of the five areas and provides tools that investors can use to incorporate decarbonization into each area.

	Definition	Purpose	Tool to Implement
Investment Beliefs	Beliefs that set the investment philosophy and provide a compass for selecting investment strategies and navigating short-term turbulence	<ul style="list-style-type: none"> To clearly articulate investment beliefs, with a focus on their portfolio consequences, and to provide a foundation for a sustained long-term net zero investment strategy 	<ul style="list-style-type: none"> Conversation Guide for Updating Investment Beliefs
Risk Appetite Statement	A statement that establishes the risk framework by clarifying the asset owner's willingness and ability to prudently take risks and accept uncertainties	<ul style="list-style-type: none"> To develop a comprehensive statement of key risks, risk appetite, and risk measures appropriate to the organization and oriented to the long term To embed transition risk into capital market assumptions 	<ul style="list-style-type: none"> Conversation Guide for Updating Risk-appetite Statements
Benchmark Process	The measurement of the success of investment strategies and their execution over the long term	<ul style="list-style-type: none"> To select and construct benchmarks focused on long-term value creation To distinguish between assessing the strategy itself and evaluating the asset managers' execution of it 	<ul style="list-style-type: none"> Selected in line with appropriate climate-change scenarios and as appropriate for the relevant investment strategy employed
Evaluations & Incentives	Tools that ensure the interests of the asset owner and asset manager are aligned over the long term	<ul style="list-style-type: none"> To evaluate internal and external asset managers with an emphasis on process, behaviors, and consistency with long-term expectations To formulate incentive compensation with a greater weight on long-term performance aligned with decarbonization objectives 	<ul style="list-style-type: none"> Selected in line with appropriate climate-change scenarios and as appropriate for the relevant investment strategy employed
Investment Mandates	Mandates that define and formalize the portfolio approach and the asset owner / asset manager relationship	<ul style="list-style-type: none"> To use investment-strategy mandates not simply as a legal contract but as a mutual mechanism to align the asset managers' behaviors with the decarbonization objectives of the asset owner 	<ul style="list-style-type: none"> Terms to Consider for Net Zero Investment Mandates