

ISS-Ethix▶

# Climate Solutions

## From Disclosure to Decarbonization

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Ten ways to reduce climate exposure  
in your portfolio

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## Assessment and disclosure may no longer be enough

Recent months have witnessed several key milestones for sustainable finance. In June 2017, the final recommendations of the Taskforce for Climate-related Financial Disclosure (TCFD) were published, whilst January 2018 saw the publication of the final report of the High-level Expert Group on Sustainable Finance. More recently, the European Commission issued its [Action Plan for Sustainable Finance](#) in March 2018.

These developments go alongside the increasing investor awareness and proactive monitoring of climate impact and risks. A group of investors, with more than USD 10 trillion in combined assets under management, committed to report their investment footprint under the Montreal Carbon Pledge in 2014. Every large institutional investor in France and Sweden, as well as the Californian insurance industry, are required by law to report on their portfolio climate risks. Moreover, numerous voluntary initiatives emerged in different parts of the world, including the Dutch institutional investors' [Platform Carbon Accounting Financials](#) (PCAF).

Measuring one's impact and exposure are necessary first steps. However, while the number of investors acting upon the results of this exercise remains relatively low, an increasing number appear more likely to act on these insights and to decarbonize their portfolios. This is due to an increasing understanding of climate change's relevance to investors, increasing activity from regulators, and more and more tools allowing for targeted action.

This paper intends to give public equity investors a broad range of options for addressing the topic of climate change. Below, we discuss ten specific ways of moving from measuring climate impacts and risks to managing them, providing a guide for action.

## From measuring to managing – What can investors do?

Many investors already measure their climate impact and risks in different ways, such as carbon footprint assessments, fossil reserves analyses, or more forward-looking indicators such as companies' climate strategies.<sup>1</sup> To turn analysis into action, one needs to distinguish any given investor's underlying motivation. As part of this exercise, we need to consider two key factors related to climate change: impact, risk, and opportunity.

Impact-oriented investors want to make sure their investments help – or at least, do not harm – the climate. Historically, impact was the most common motivator to address climate change. Mostly mission-driven actors, such as churches and foundations, developed investment approaches focusing on a positive climate impact. From an impact perspective, “decarbonization” refers to decarbonizing the real economy.

Risk-oriented investors are primarily interested in ensuring that climate change does not threaten their investment returns. Risks can be linked to regulation (transition risk) or the physical effects of climate change (physical risk). From a risk perspective, “decarbonization” primarily means decarbonizing a portfolio.

On the other hand, opportunity-oriented investors try to capture opportunities linked to a low-carbon transition. This can be linked for example to renewable energy or new energy efficient products.

These dimensions of investor approaches in relation to climate change can exist in combination to each other. An investor may simultaneously seek to reduce climate risk in their portfolio or individual investee companies, while also addressing systemic risk by contributing to the decarbonization of the wider economy. At the same time, new climate investment opportunities may serve as a driver for growth.

Investors have many environmental risk mitigation alternatives available depending on their objectives and strategies. Ten pathways to decarbonization are:

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<sup>1</sup> For more information on current approaches to measure and analyze climate impact and risks, please visit [www.issgovernance.com/esg/thought-leadership](http://www.issgovernance.com/esg/thought-leadership).

**Ways to reduce climate-related risks in the portfolio**

1. Reduce Exposure (Divestment)
2. Positive screening
3. Short selling large emitters to neutralize macro risk

**Ways to synthetically decarbonize the portfolio**

4. Climate neutrality with carbon offsets
5. Climate neutrality with direct investments
6. Climate neutrality with EU ETS allowances

**Ways to accelerate decarbonization of the portfolio and the economy**

7. Engagement
8. Proxy voting
9. Individual and collective advocacy
10. Education of analysts and financial advisors

Those strategies can and should be considered in combination. At the same time, the decarbonization of the economy and risk management are of course not mutually exclusive objectives and as the summary graphic on page 16 shows, they can be achieved simultaneously depending on the action taken.

The intention of this paper is thus to give an overview of the approaches while being fully aware that some strategies are more applicable for certain investors than others.

## Ways to reduce climate-related risks in the portfolio


The simplest way to mitigate macro climate risk from a portfolio is to eliminate net climate exposure in the portfolio. There are several ways to do this, most notably divestment and positive screenings. Depending on the mandate of an investor, a number of issues might need to be considered when implementing these approaches, such as maintaining sector exposure or limiting tracking error. Fortunately, these elements can be taken into account.



### 1. Positive screening

**Definition and description of strategy**

Many active and passive investors use positive screening to highlight companies identified as contributing positively to a low-carbon transition. In essence, this strategy is the reverse of reducing exposure to risky assets, as it leads to increasing exposure to "climate performers." Investors can also build strategies exclusively focusing on positive contributors towards a low-carbon transition. Metrics that inform such decisions include the emission intensity of a company, the company's management of climate risks and opportunities, or an explicit and specific commitment to emission reductions in line with the international climate goal of 2° Celsius set at the Conference of Parties (COP) 21 in Paris in 2015.

**Table 1: Characteristics and implications of positive screening**

AREA		ADVANTAGES	DISADVANTAGES
	Financial perspective	Allows for capturing of opportunities by increasing exposure to companies likely to	Can reduce portfolio diversification by limiting the number of investible companies or over-/underweighting

		benefit from a low-carbon transition.	certain sectors compared to a benchmark. Moreover, it may result in a higher-risk investment universe due to a potentially higher share of emerging technologies and business models.
	Ecological perspective	This strategy can highlight the importance of climate change transition to the market. The strategy can support the investees' standing with other investors (e.g. if the investee is included in a high-profile green index). In the case of an IPO, it can make capital available for technologies that can have a positive impact.	An equity investment in itself does not create direct impact. Impact on the real economy may occur indirectly, as the valuations of investee companies surge.
	Implementation	There are a number of climate-oriented index options available, among them indices from <a href="#">Solactive</a> and <a href="#">STOXX</a> . At the same time, data and consulting service providers can provide the necessary metrics and advice throughout the process. ISS can support by designing such strategies as well as with holistic climate assessments including carbon footprinting in line with the TCFD recommendations, risk assessment, scenario analysis, benchmarking and advisory.	

### Example




[The Salm Salm Climate Leaders fund](#), managed by Salm-Salm & Partners seeks to reduce risk by investing in companies whose business models align with the 2° Celsius climate goal and identifies companies that are more climate efficient than their benchmark. It complements its positive screening with avoiding companies that have fossil reserves.

## 2. Reduce Exposure / Divestment

### Definition and description of strategy

Perhaps the most obvious strategy is also one of the simplest: reducing exposure to companies facing significant climate change risk. These are companies whose business models and core operations are anchored in activities that may be vulnerable to climate change or rely heavily on fossil fuels. Reducing climate exposure can range from limiting exposure to what the investor assesses to be a sustainable level to full-on divestment from high-risk assets or sectors. While divestment is often perceived as an activist statement, in the context of this review, we consider divestment as the end of the spectrum of a risk-mitigating approach. In fact, for some investors, divestment may serve as a form of diversification, as illustrated by the example of the Norwegian sovereign wealth fund discussed below.

**Table 2: Characteristics and implications of climate-adjusted investment strategies**

AREA		ADVANTAGES	DISADVANTAGES
	Financial perspective	Allows for reduction of risks by reducing exposure to companies likely to be affected negatively from a low-carbon transition.	Can reduce portfolio diversification by limiting the number of investible companies or over-/underweighting certain sectors compared to a benchmark. This can increase the tracking error quite significantly.
	Ecological perspective	While this strategy is more about managing risks than creating impact, it permits clear signaling to the market regarding the importance of the topic to the investor. Investments freed up from divesting (fully or partially) could be reallocated to climate friendly assets.	Impact on the real economy is only indirect as a disposed equity would simply be picked up by another buyer.
	Implementation	There are a number of climate-oriented index options available, among them indices from <a href="#">Solactive</a> and <a href="#">STOXX</a> . At the same time, data and consulting service providers can provide the necessary metrics and guidance throughout the process. ISS can support investors by, among other things, providing holistic climate assessments, including a carbon footprint review in line with the TCFD recommendations, risk assessment, scenario analysis, benchmarking and advisory.	

### Example

In November 2017, the Norwegian central bank, which manages the country’s sovereign wealth fund, [proposed to the Norwegian government](#) that it should sell its assets in the oil and gas industry, representing approximately \$35 billion in equity value. The recommendation was a way to reduce risks associated with a [‘permanent drop in oil and gas prices’](#) and diversify the fund’s investments given [15% of Norway’s GDP](#) is contributed by the oil and gas sector. Having already exited companies with more than 30% of revenue stemming from coal, the suggested strategy promotes further divesting from fossil energy sources.

## 3. Short-selling large emitters to reduce macro risk exposure

### Definition and description of strategy

Short selling is an investment technique whereby an investor borrows an asset such as a public equity share for a small fee and sells that asset. If the share price subsequently falls, the share is bought back and returned to the borrower. The difference between the initial price and the price at which the security is bought back results in a financial gain. Although a relatively small number of investors have the flexibility to use short

selling as a tool to mitigate carbon risk, using short sales to hedge macro climate risk exposure can be a powerful tool. For instance, a manager may have a mandate to hold stocks that expose the portfolio to significant climate risk. In order to still manage climate risk in that case, one option is to short exposure to climate offenders – thus seeking to net out climate risks.

**Table 3: Characteristics and implications of short-selling large emitters**

AREA	ADVANTAGES	DISADVANTAGES
 Financial perspective	The strategy allows an investor to benefit from a falling share price (for example if the value of an oil company were to fall if regulation would be introduced severely restricting oil consumption).	Short selling is riskier than a long position as it has a potentially unlimited downside if a share price increases instead of falling. The short seller will then need to buy the security back at a higher price, making a loss.
 Ecological perspective	If a critical mass is reached it can impact company share price and thus incentivize the company to change. The existence of short positions can raise doubt about a company and its strategy.	A short-term fall in share price may not induce a company to change. A well-capitalized company can also buy back shares neutralizing any price impact. Some investors object to short selling ethically, arguing that the strategy bets on a harmful outcome for the company and its stakeholders.
 Implementation	Short selling depends on the regulatory framework of respective jurisdictions, the existence of a developed market for borrowing stocks, and the necessary skills for handling the inherent risks. Short-selling can be combined with going long on climate-friendly assets, creating a climate hedge as show-cased by <a href="#">Alpha Centauri</a> .	

### Example

The Clean Edge and Fossil Free Indexes launched Clean Edge Carbon Underground indexes, which seek to leverage macro trends favoring clean energy technology through a long-short investment strategy.<sup>2</sup> Instead of divesting from fossil fuel-intensive companies, the fund shorts these assets. Such a shorting strategy [has also been used by Robert Litterman](#) managing the World Wildlife Fund’s (WWF) endowment investments, with the objective to lower risks and align investments with the organization’s mission.

<sup>2</sup> FFI Clean Edge Carbon Underground Energy Transition Indexes, November 2017

## Ways to synthetically reduce portfolio climate exposure




While some investors may use positive or negative screening to try to remove risk from the portfolio, many other investors have less absolute screening ability in the portfolio; through mandate or other mechanisms, they may be required to hold companies that carry significant environmental exposure. Fortunately, there are mechanisms available to reduce the net portfolio carbon footprint in these circumstances.

### 4. Climate neutrality with carbon offsets

#### Definition and description of strategy

All companies generate some level of emissions stemming from their operations. Thus, in turn, an investor investing into any company is always "associated" with a share of that company's emissions. A carbon offset is a reduction in greenhouse gas emissions that compensates for carbon emitted elsewhere. Carbon offsets can be implemented by buying CO<sub>2</sub> certificates that certify emission reductions in the context of a specific project (e.g. construction of an additional biogas facility). CO<sub>2</sub> certificates are assurances that the owner of the certificate has reduced greenhouse gas emissions. Further options to offset emissions are outlined in the two following options for climate neutrality (number 5 and 6).

**Table 4: Characteristics and implications of climate neutrality with carbon offsets**

AREA		ADVANTAGES	DISADVANTAGES
	Financial perspective	Carbon neutrality can send a strong signal of an investor's climate awareness and thus attract new customer groups. However, there is no advantage in the pure and direct financial sense.	Carbon offsets via CO <sub>2</sub> certificates cost money, and thus the implementation of this strategy is associated with costs without returns.
	Ecological perspective	Carbon offsets allow the financing of emission reductions that would not have happened without that financing. Thus, they have a clear positive environmental impact.	Carbon offsetting do not replace emission reductions of a company or investor itself as many 2°C pathways plan for negative emissions <sup>3</sup> by 2070 and thus require a sustained effort from all actors.
	Implementation	Carbon certificates have been an established mechanism for a while, and they are available through a number of providers, such as <a href="#">South Pole</a> . Standard and certification bodies, such as the <a href="#">GoldStandard</a> , are organizations that can certify for the high quality of carbon certificates. ISS can support by providing a carbon footprint analysis of portfolios and holistic advice on the implementation of such a strategy.	

<sup>3</sup> Negative emissions describe the concept that instead of more greenhouse gases being emitted into the atmosphere, those already emitted are being actively reduced from the atmosphere.



### Example

In 2016, the Swedish fund manager Öhman [launched a climate offsetting option](#) to its sustainable equity products, becoming the first fund to offer climate neutral equity fund investments. In addition to a positive climate impact, carbon offsets can align with the UN Sustainable Development Goals (SDG), creating additional impact. An example of a project resulting in CO<sub>2</sub> certificates that is also aligned with the UN SDGs is the forest conservation [Kariba REDD+ project](#) in Zimbabwe launched by the South Pole Group, inter alia fighting poverty additional to decreasing emissions.

## 5. Climate neutrality with direct investments

### Definition and description of strategy

When taking a multi-asset class view, direct investments into other assets that reduce greenhouse gases can also be used for offsetting emissions. This strategy can be executed through investments into real assets that save emissions in the magnitude of the equity portfolio's gross emissions. For example, instead of buying CO<sub>2</sub> certificates assuring the CO<sub>2</sub> reductions in a project implemented by a third party, the investor invests directly into such a project (e.g. a new windfarm). In this case, the investor claims the emission reductions from that project to offset for the emissions associated with her investment.

**Table 5: Characteristics and implications of climate neutrality with direct investments**

AREA		ADVANTAGES	DISADVANTAGES
	Financial perspective	Carbon neutrality affirms an asset manager's climate awareness and can thus attract new investors. Investing into real assets can yield real returns and serve as a hedge to GHG-intensive strategies.	For a 100% offsetting effect, the investment amount into real assets would need to be significant and might yield lower liquidity and a higher risk profile. Additionally, it may be relatively capital intensive.
	Ecological perspective	Direct investments into emission-saving technologies and installations have a positive environmental impact, both in financing emission reductions as well as technology development, transfer and scale.	Financing emission-reducing projects in countries with declared emission reduction targets might not have an additional impact as the reduction might have happened under policy commitments anyway. Also, climate neutrality is not immediate but unfolds with project operations.
	Implementation	Direct investments may not be part of the mandate of equity investors. Therefore, this strategy would be a valid action pathway for certain investors. Moreover, the correct assessment of the emissions reduction potential of projects needs specific expertise, usually requiring the cooperation with a reliable service provider on the ground. ISS- Ethix Climate Solutions can support by providing climate impact and avoided emissions analysis across all asset classes and provide advice on the implementation of such a strategy.	




### Example

ASN Bank has developed a methodology to assess the impact of their investments across assets, [the Carbon Profit and Loss Methodology](#). The bank [invests in green energy](#) and similar technologies to complement its other investments. ASN Bank strives to become carbon neutral by 2030.

## 6. Climate neutrality with EU Emissions Trading Scheme allowances

The concept of "offsetting" greenhouse gas emissions typically requires an "additionality" proof: Would the emission reduction not have happened anyway? The challenge in Europe and many other geographies is that almost every tonne of CO<sub>2</sub> is governed already by cap-and-trade schemes. To achieve additional greenhouse gas reductions in the EU requires the acquisition of allowances for emissions. Each allowance gives the holder the right to emit 1t of CO<sub>2</sub> anywhere in Europe at any time before 2050. The CO<sub>2</sub> emissions embedded in each unused allowance can therefore be effectively prevented by purchasing and retiring such allowances. Such allowances are traded under the EU's Emission Trading Scheme (ETS) and can either be purchased at market price for their own sake or on top of emission-reducing investments that would otherwise not be additional (such as renewable energy or Green Bond investments). The allowances, measured in tCO<sub>2</sub>, can be mapped to a portfolio carbon footprint.

**Table 6: Characteristics and implications of climate neutrality with EU ETS allowances**

AREA	ADVANTAGES	DISADVANTAGES
 Financial perspective	Carbon neutrality can send a strong signal of an asset manager's climate awareness and thus attract new investors. As EU ETS Allowances are traded on stock exchanges, there is transparent pricing in place.	In order to achieve climate neutrality, EU ETS Allowances need to be "retired" (i.e. they are not an asset but a cost and they cannot be traded on).
 Ecological perspective	Buying an EU ETS Allowance is not only the most standardized way to reduce emissions in Europe, but it also supports European policymakers in the strongest policy instrument available to combat climate change: the Emission Trading Scheme.	Buying and retiring Allowances does not tell as compelling a story as direct investments into sustainable infrastructure or carbon offsets.
 Implementation	EU ETS Allowances can be simply acquired at the respective exchanges, such as the exchange in Leipzig. ISS- Ethix Climate Solutions can support by providing climate impact and avoided emissions analysis for portfolios and holistic advice on the implementation of such a strategy.	

### Example

In July 2016 the Swedish Government [unveiled a plan](#) to reduce the number of allowances in the EU ETS. The government committed to spend SEK 300 million annually on buying and cancelling such allowances until 2040. After a reform of the carbon market framework in November 2017, which enables governments to cancel part of their allocated carbon market budget of allowances, this plan was adapted. Sweden now plans to directly withhold and cancel a certain number of their carbon allowances instead of issuing and then repurchasing them in the market.

## Ways to accelerate decarbonization of the portfolio and the economy




Managing risks in the portfolio and reducing one’s net emissions impact may not be enough to further structural change. Aside from investment or trading strategies, investors also have at their disposal the very powerful tool of exercising their voice to move their individual investee firms or the wider economy towards a pathway compatible with the 2° Celsius climate goal. Investors have multiple avenues for voicing their concerns: direct engagement with the board and management, proxy voting, advocacy, and education.

### 7. Engagement

#### Definition and description of strategy

By proactively seeking a conversation with a company, investors can address important topics related to climate change risk, including lack of disclosure, emission reduction targets, and 2-degree scenario risk assessment. Forms of engagement can include one-on-one meetings, calls, letter writing campaigns, shareholder resolution filings, and collective engagement. As part of an effective engagement strategy, investors need to prioritize, prepare, monitor, and analyze their engagement efforts.

**Table 7: Characteristics and implications of engagement**

AREA	ADVANTAGES	DISADVANTAGES
 Financial perspective	Engagement is a way for investors to influence a company in a way they think positions it best for long-term success.	Engagement can be a time-consuming and resource-intensive process. Moreover, engagement strategies may be challenging to scale.
 Ecological perspective	Investors may be able to exert direct influence on a company and thus to impact its "DNA" to become more climate-friendly.	Results can take a long time to achieve. Engagement efforts can also remain unsuccessful.
 Implementation	A number of service providers can support taking action. ISS, for example, offers services relating to Pooled Engagement. Aside from this, ISS can support investors with data and analytics tools, including Environment & Social QualityScore, Engagement Suite, an end-to-end issuer engagement tracking and management	

		solution, and Climate Impact Reports. A short overview on the seven habits of effective investor engagement can be found <a href="#">here</a> .
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### Example



The New York State Retirement Fund has filed 120 shareholder resolutions asking major U.S. energy companies to disclose how their businesses will be affected by the 2° Celsius climate goal.<sup>4</sup> This campaign was complemented with engagement, resulting in the withdrawal of a number of those resolutions. Engagement is also an essential element of the [Climate Action 100+ initiative](#) formed in early 2018 and signed by 256 investors managing approximately \$28 trillion.

## 8. Voting


### Definition and description of strategy

A voting strategy can allow the introduction of environmentally-friendly policies across the portfolio by voting in favor of resolutions deemed positive from a climate perspective. Such a strategy can relate to proposals dealing with climate change directly. In the absence of shareholder proposals on the ballot, a more proactive voting strategy could potentially identify companies with a high-risk profile in terms of climate and target proposals that the investor may deem relevant to the issue depending on the type of risk (e.g. approval of financial statements in cases of poor disclosure, director elections in cases of insufficient risk management, or say-on-pay proposals in cases of insufficient management incentives).

**Table 8: Characteristics and implications of voting**

AREA	ADVANTAGES	DISADVANTAGES
 Financial perspective	Voting allows an investor to influence a company in a way they think positions it best for long-term success.	Setting up an approach to voting based on climate criteria requires an initial effort and investment.
 Ecological perspective	A climate tilted voting overlay allows direct influence across a large portfolio. At a minimum, supporting climate-favorable resolutions signals the importance of the topic to companies.	The effect of voting behavior on changes to companies' behavior and thus real economy impact may in many cases be indirect.

<sup>4</sup> Responsible Investor, 20180409. "NY State Comptroller DiNapoli follows up climate resolution successes with more action on GHGs"

	<b>Implementation</b>	<p>Voting is mandatory for shareholders in some geographies such as the U.S. and is increasingly used by European and Asian investors. Proxy voting implementation strategies entail knowledge and analysis of the various topics that appear on general meeting agendas. ISS's Specialty Policies and the ISS Custom Research Service support institutional investors with the development and implementation of their own voting policies, including voting strategies with a focus on climate change and other environmental issues.</p>
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### Example



Recent years have seen a surge in climate shareholder resolutions. By the end of April, the 2018 US proxy season had seen 91 filed climate proposals, compared to 17 each year in 2012 and 2013, according to ISS Analytics.<sup>5</sup> The support for these proposals has climbed in recent times, reaching 28% last year. Companies are increasingly asked to set GHG emission reduction goals and disclose on climate impact, in alignment with the TCFD recommendations. [One resolution that gained attention](#) led to ExxonMobil agreeing to report how the company's business could be affected by climate change. However, while requests for such information increase, few companies currently report on climate-related risks.

## 9. Individual and collective advocacy


### Definition and description of strategy

As crucial actors for the functioning of any economy, investors are principally in a strong position to urge policy makers to act on climate change. They can do so individually by joining broader initiatives, such as the Global Investor Coalition on Climate Change and Climate Action and Aiming for A by the CDP. The Principles for Responsible Investing (PRI), the United Nations Environment Programme Finance Initiative (UNEP FI) and The Generation Foundation are currently undertaking an effort to clarify investors' duties regarding Environmental, Social and Governance (ESG) issues including climate change.

**Table 9: Characteristics and implications of individual and collective advocacy**

AREA	ADVANTAGES	DISADVANTAGES
 Financial perspective	Better disclosure on climate risks allows for better decision making by investors. In addition, clear policy signals on climate change allow for improved risk management.	Membership in an investor network or individual engagement with governments can be a time-consuming and thus a costly process. Moreover, internal capacity building might be required.
 Ecological perspective	Effective advocacy on climate change can have far-reaching effects and thus a strong impact.	Impact can only be achieved indirectly. Moreover, engagement with governments is a long and potentially time-consuming process.

<sup>5</sup> ISS-Ethix Responsible Investment Insights, 2018-03-21

	Implementation	Investors may join a number of climate-related advocacy initiatives. Moreover, organizations like <a href="#">InfluenceMap</a> provide tools, such as their Climate Policy Engagement map, collecting relevant information on legislative timelines. This being said, advocacy is not directly related to the core activities of an investor. ISS can support by providing guidance on the implementation of such a strategy.
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### Example



[The Global Investor Coalition on Climate Change](#) is a joint initiative of four regional investor groups that promote the transition to a low carbon economy. Prior to the G20 Summit in 2017, the coalition [sent a letter](#) signed by 390 institutional investors representing USD 22+ trillion in assets, encouraging the G20 leaders to take the action necessary achieve the 2° Celsius climate goal. Similarly, in mid-2017 a number of U.S. companies including Morgan Stanley [urged US President Trump to stay in the Paris Agreement](#). Investors can also embrace standardized reporting frameworks and support global initiatives aimed at policy change, such as the [recommendations](#) by the EU’s High-Level Expert Group on Sustainable Finance.


## 10. Education of analysts and financial advisors

### Definition and description of strategy

Educating and thus empowering everyone within the financial ecosystem allows for system-wide action. Analysts within financial institutions provide crucial insight into companies. Informing them about these issues is therefore key for deeply embedding climate change considerations into the investment process. Likewise, financial advisors are in a position to explain the link between climate change and finance to retail investors.

**Table 10: Characteristics and implications of education of analysts and financial advisors**

AREA	ADVANTAGES	DISADVANTAGES
 Financial perspective	Better informed analysts can create better research and investment recommendations. Likewise, being able to credibly explain climate friendly investment options can attract new customer groups within retail investors.	Education efforts require an initial investment of time and – depending on the specific case – money.
 Ecological perspective	Educating analysts and – via financial advisors – retail investors facilitates in-depth change of the financial system.	Education efforts require a long-term time horizon, while the impact of these efforts is indirect.

	Implementation	There is no one-size-fits all approach regarding education. Apart from in-house education departments, more educational programs and organizations like the CFA Institute now include sustainability topics in their curricula. At the same time, an increasing number of initiatives are providing transparency to retail investors, such as the <a href="#">Climetrics</a> rating run by the CDP, a holistic climate impact rating of funds. ISS can support by providing guidance on the implementation of such a strategy and services and products relating to Climetrics.
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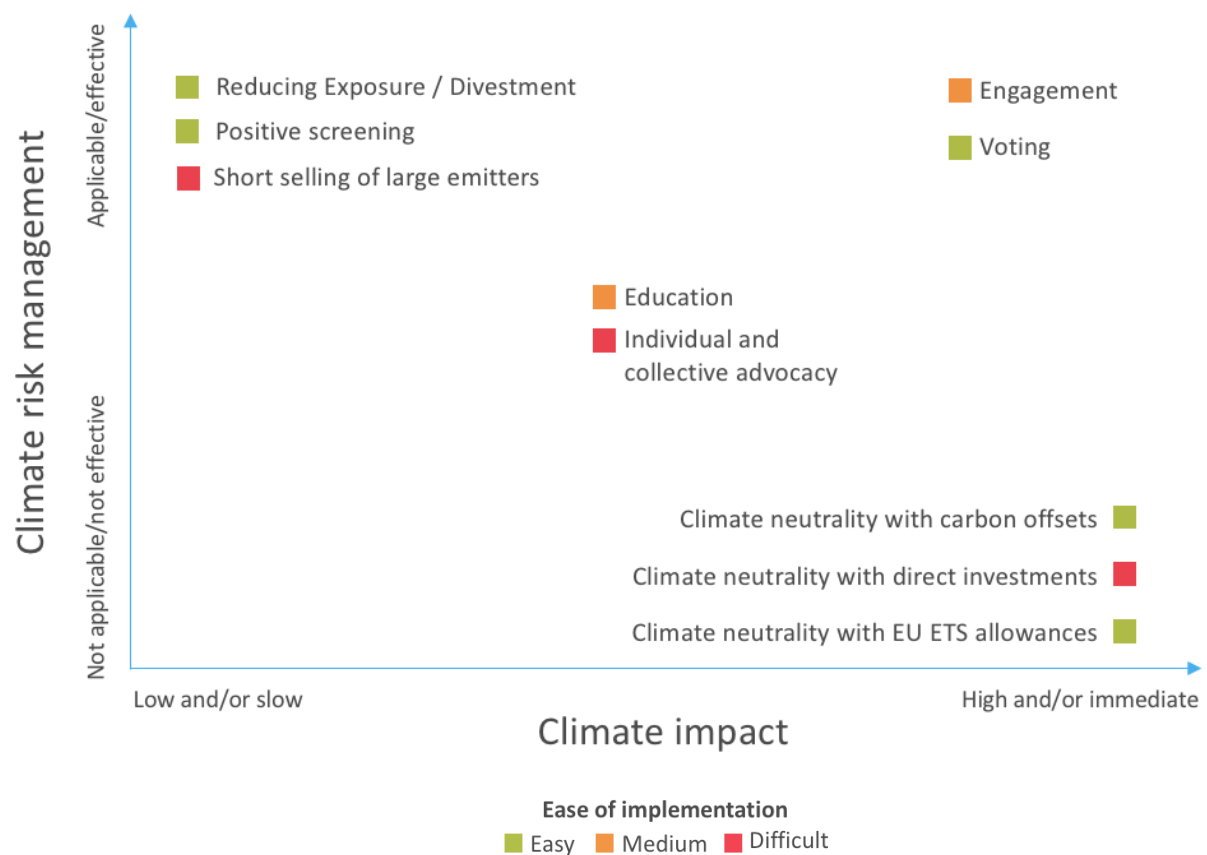
### Example

Efforts to increase awareness of retail investors have resulted in initiatives such as labels (e.g. FNG label, LuxFLAG Climate Finance Label) and climate ratings. The world's first climate impact rating of investment funds is [Climetrics](#), hosted by the CDP. It seeks to provide institutional and retail investors alike a comparable and easy to understand rating of funds, including mainstream ones.

## Conclusion – How to start?

UN Sustainable Development Goal number 17 is about a “Partnerships for the Goals,” highlighting the importance of combining different approaches for action. In the same vein, investors can realise the highest impact by combining different options to act – for example, divesting from companies with a high climate impact can be complemented by investing freed up capital directly into projects reducing emissions, positive screening can be coupled with offsetting any remaining emissions and a climate proxy voting overlay can be linked with engaging with companies of specific interest.

**Figure 1: Overview of options for turning climate measurement into climate management**



A crucial first step for any investor in this realm is to decide on one’s motivation – impact or risk management – and to start measuring an organisation’s climate impact. This is the foundation to moving towards managing climate impacts and risks. Approaches that are easy to implement can be entryways into the topic to be complemented at a later stage with further action.

### As a Final Note

It is important to keep in mind that there is no one-size-fits-all approach to decarbonization. The ten pathways outlined above can serve as reminders of aspects to consider when developing a strategy. Your strategy will ultimately be driven by the needs and priorities of your organization.



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