

Climate-Aware Investing

Selecting an External Manager

Climate change poses multiple systematic risks and opportunities to investment portfolios. However, Australian investors seeking climate solutions face a number of challenges when selecting an external investment manager. These include lack of understanding of climate data to evaluate/measure, broad manager approaches to portfolio construction, limited product selection and concerns around “greenwashing”.

Using the Principles for Responsible Investment (PRI) framework¹, we have listed some common questions that climate-aware investors should address when selecting an external investment manager.

Objectives

Define what climate-aware investing means to your organisation and set objectives around its beliefs, goals, preferences, and resources

Questions to ask	Why is this important?
Do you view climate change as a material investment risk and/or opportunity within your portfolio?	The breadth of the objectives plays a vital role in determining the final strategy whether it be an exclusionary approach, integration or impact investing.
Are there any sectors, industries, or geographies that your organisation wants to entirely avoid?	
Which climate factors do you want to integrate into your portfolio? (e.g. climate emissions, fossil fuel reserves, brown revenues, green revenues, climate adaptability)	
Is positive real-world impact an explicit part of your primary objective for investment results?	
Do you expect policy makers to introduce regulations requiring the investment management industry to consider climate-related factors?	
What are your objectives on transparency and reporting of climate goals? Does your firm have a regular reporting framework to your clients?	

¹ Principles for Responsible Investment (PRI), Asset Owner Manager Selection Guide, 2018.

Culture

Gain an understanding of each managers' overall ESG culture

Questions to ask	Why is this important?
Does the manager believe that climate factors impact the potential risk and returns of a portfolio?	Investment managers with a clearly defined culture are more likely to integrate and maintain ESG and climate-aware practices across all aspects of the organisation.
How does the manager incorporate climate considerations and values: <ul style="list-style-type: none"> • within investment funds? Does the approach differ across asset classes? • across the organisation outside of the investment process? 	
Are portfolio manager incentives aligned with ESG objectives?	

Approach

Assess the manager's investing approach and its alignment with your climate objectives

Questions to ask	Why is this important?
Do you have a firm-wide policy that articulates your climate philosophy and approach? If the policy is not firm-wide, which parts of the organisation does it cover? How frequently do you review?	A comprehensive understanding of a managers investment approach allows for informed decision making on alignment with your own objectives.
Do you require each investment team to incorporate ESG/climate factors into their investment process?	
Describe how governance processes for ESG principles are integrated into investment funds, and the broader business.	
Do your investment teams leverage proprietary or external ESG data? Describe the methodology.	

Capabilities

Ensure the managers overall ESG investment capabilities satisfy the needs of your organisation

Questions to ask	Why is this important?
How extensive is the firm's climate-aware product offering?	The degree of proficiency across ESG/climate investing and product offerings, is critical to selecting a manager that meets your firm requirements.
How does the manager develop an exclusion list? Do they have a proprietary list, or rely on external providers?	
How is climate data/insight merged with traditional financial data to make investment decisions? What ESG data, research and tools are used?	
Are climate metrics included in the standard reporting package? How is this communicated and what is the frequency?	
Evaluate how the investment manager engages with stewardship & active ownership issues.	

ssga.com

Issued by State Street Global Advisors, Australia, Limited (AFSL Number 238276, ABN 42 003 914 225) ("SSGA Australia"). Registered office: Level 14, 420 George Street, Sydney, NSW 2000, Australia. T: +612 9240-7600.

Investing involves risk including the risk of loss of principal. The returns on a portfolio of securities which exclude companies that do not meet the portfolio's specified ESG criteria may trail the returns on a portfolio of securities which include such companies. A portfolio's ESG criteria may result in the portfolio investing in industry sectors or securities which underperform the market as a whole.

This material is general information only and does not take into account your individual objectives, financial situation or needs and you should consider whether it is appropriate for you.

There is no representation or warranty as to the current accuracy of, nor liability for, decisions based on such information. The whole or any part of this work may not be reproduced, copied

or transmitted or any of its contents disclosed to third parties without SSGA Australia's express written consent.

© 2021 State Street Corporation. All Rights Reserved. ID425820-2972298.2.2.ANZ.RTL 0321 Exp. Date: 31/03/2022