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Pension System Allocations to Sustainable Finance

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Introduction

One of the most important drivers for helping accelerate progress towards sustainability is ensuring that adequate funding is being brought to bear towards sustainability solutions.

Demand, therefore, by large asset owners such as city and state pension funds, sovereign wealth funds, university endowments and foundations, as well as wealthy families and corporations with significant cash on hand, needs to become adequate to match the growing supply of companies and projects that can scale up and deploy innovative solutions where needed. Such supply of sustainable solutions can best succeed when met with adequate demand from investors. At the same time, while interesting techniques such as blended finance can assist solutions which do not provide the sort of risk/return profile asset owners seek against their understandably necessary annual return targets, reaching the sort of necessary scale of investor demand often means fitting mandates within existing asset allocation models and current financial goals and expectations for beneficiaries.

Carve outs for sustainable finance by asset owners are often a solution for making space for sustainable investment, which then creates more of a supply-demand dynamic which gives space for innovation and sustainability strategy to breath (such as within Climate Tech VC) and scale (such as large public companies seen as both sustainability and financial opportunities).

Building on our 2020 Sustainable Finance Institute pension fund case studies performed for the World Bank by students at SIPA, here are some of the best practice case studies of the present time, which we are very happy to see continuing to advance and make meaningful progress, acting as examples for other asset owners to learn from and adopt.

Case Studies

1. New York State Common Retirement Fund (NYSCRF)

Context:

Climate change is an increasingly urgent risk faced by all investors. NYSCRF is a recognized leading fund in addressing climate-related investment risks and pursuing opportunities in the growing low-carbon economy. The fund aims to mitigate climate risks for its investors by reducing exposure to fossil fuels while accomplishing the goals of the Climate Action Plan. Under the leadership of New York State Comptroller Tom DiNapoli, the New York State Common Retirement Fund has announced many big steps toward holding fossil fuel companies accountable for climate change.

Sustainable Investment Strategy:

Following a review of their readiness to transition to a low-carbon economy, the New York State Common Retirement Fund will enact investment restrictions on eight integrated oil and gas companies, including Exxon Mobil Corp. The Fund announced it will divest from ExxonMobil in any actively managed assets, because the company's energy transition plan failed to meet the Fund's standards.

After successfully achieving its goal to commit $20 billion to its Sustainable Investments and Climate Solutions program, NYSCRF aims to double its commitment by 2035 by investing $40 billion. This program focuses on sustainable investments such as clean energy generation, green bonds, and energy efficiency across all asset classes. As part of the program's expansion, the Fund plans to increase its investments in climate indexes by 50% over the next two years, with a long-term objective of doubling them by 2035.

DiNapoli's Climate Action Plan, announced in February 2024, sets the goal to address investment risks linked to climate change and steer the Fund's portfolio towards achieving net-zero greenhouse gas emissions by 2040. The plan takes the approach to focus on energy companies initially, leading to investment restrictions on 50 firms deemed lacking in transition readiness. The next phase will be targeting to restrict major utility companies in the US that are considered big GHG emitters, but also invest in potential pioneers in developing climate solutions.

The Fund will also refrain from initiating new private market investments in funds focused on oil, gas, and coal extraction or production. Furthermore, there are modifications to proxy voting guidelines to advocate for enhanced climate disclosure from public companies, urging them to provide comprehensive insight into their climate transition plans, associated risks, and potential opportunities.

Sources:

https://ieefa.org/resources/new-york-state-common-retirement-fund-takes-action-protect-new-yorkers-further-losses-oil

https://www.osc.ny.gov/common-retirement-fund/sustainable-investments-and-climate-solutions-program

Sustainable Investment Strategy

Goals for ESG integration into portfolio management, approaches to achieve objectives (market level & investment level)

2. Brunel Pension Partnership, UK

Context:

Brunel Pension Partnership is one of the eight UK Local Government Pension Scheme pools, a collaboration between several LGPS pension funds where their investments are operated by Brunel. Brunel specializes in portfolio construction and risk management. They aim to deliver responsible investment results to meet their fiduciary duties to clients and support a more sustainable financial system and a thriving society.

Sustainable Investment Strategy:

Brunel takes a long-term, responsible approach to investing with ESG integration practices, guarded by 12 investment principles. The purpose of the principles is to provide a framework for the fund structure, operations, manager selection, monitoring, and reporting. The principles are also designed to meet the Department for Communities and Local Government's Local Government Pension Scheme. In 2020, Brunel Pension Partnership teamed with Chronos Sustainability to develop a climate change framework that allows it to achieve sustainable investment returns aligned with the goals of the Paris Climate Agreement. Based on the framework, Brunel developed a five-point zero-carbon future policy, aiming to encourage investments in activities that support the low-carbon transition and increase Brunel's number and range of products linked to substantial climate change benefits. They will also challenge investment managers to demonstrate a reduced exposure to climate risk.

Brunel Pension Partnership launched $48 billion in 2020 that focuses on creating a positive impact. They had also launched a £945 million private debt portfolio intended to accelerate responsible investment in direct lending. The step brings Brunel to become one of few large asset owners who expressed a desire to drive positive impact through investments and commitments to report their progress in aligning invested capital with SDGs.

Sources:

https://www.brunelpensionpartnership.org/about/

https://www.environmental-finance.com/content/awards/sustainable-investment-awards-2020/winners/esg-initiative-of-the-year-brunel-pension-partnership-climate-change-framework.html

https://www.environmental-finance.com/content/awards/impact-awards-2021/winners/investment-team-of-the-year-asset-owner-brunel-pension-partnership.html

3. Caisse de dépôt et placement du Québec (CDPQ), Canada

Context:

CDPQ is a global investment group that has a presence in all major markets with 434 billion Canadian dollars in assets. They invest in private assets such as private equity, equity markets, private credit, infrastructure, and real estate. They have made ESG considerations integral to all investment decisions and actively engage with companies to ensure adherence to ESG standards.

Sustainable Investment Strategy:

In 2023, they made $53 B investments in low-carbon assets and took a long-term approach to support portfolio companies in creating lasting value. In 2022, CDPQ signed a COP15 Statement from the Private Financial Sector, calling on private financial actors to contribute to protecting and restoring biodiversity and ecosystems through financing and investment. The fund also joined INVESTI in May 2023, aiming to foster the emergence and growth of investment strategies that incorporate ESG factors and sustainable finance. The $1 billion INVESTI is aiming to raise would grant mandates to experienced managers with the best ESG integration and impact investing strategies. CDPQ will continue to invest in low-carbon or low-intensity assets well positioned for the future. So far they represent more than $330 billion or close to 80% of their total portfolio. CDPQ also provides staff compensation for achieving climate targets.

Sources:

https://www.cdpq.com/en/approach/sustainable-investing

https://www.cdpq.com/fr

4. California Public Employees' Retirement System (CalPERS)

Context:

CalPERS is the US's largest defined-benefit public pension fund, with $464.6 billion in fund balance in Fiscal Year 2022-2023. The fund's mission is to manage the CalPERS investment portfolio efficiently and sustainably to generate risk-adjusted returns to pay benefits now and into the future. For more than nine decades, CalPERS has built retirement and health security for state, school, and public agency members. The fund serves more than 2 million members in the CalPERS retirement system and administers benefits for more than 1.5 million members in the health program. CalPERS has integrated ESG factors across its portfolio, with substantial investments in climate change mitigation.

Sustainable Investment Strategy:

Last year, CalPERS launched a sustainable investment 2030 strategy covering detailed long-term approaches to Net Zero. They plan to implement a thoughtful plan for its pathway to Net Zero by 2050, investing over $100 billion towards climate solutions by 2030, which is consistent with a more than 50% reduction in portfolio emissions intensity by 2030, and accelerating the transition to a low-carbon economy through divestments in high emitting sectors. CalPERS currently have close to $47 billion in low-carbon assets.

The new commitment would more than double that amount. They plan to develop a process to exit certain securities for companies without credible next-zero plans. The Sustainable Investments 2030 Strategy will also establish clear accountability for companies regarding reducing the size of their carbon footprint. CalPERS' investment managers will develop a process to exit certain securities that do not have a credible net zero plan.

The fund also has a Sustainable Investments Program that helps the Investment Office deliver returns through the identification, analysis, and management of high-value sustainable investment risks and opportunities. The implementation is established in four ways, including research, integration engagement, and advocacy.

Sources:

https://www.calpers.ca.gov/page/newsroom/calpers-news/2023/calpers-announces-100-billion-net-zero-pledge-and-new-climate-accountability-measures

https://www.calpers.ca.gov/docs/board-agendas/202311/invest/item06d-01_a.pdf

https://www.calpers.ca.gov/page/about/organization

https://calpers.ca.gov/page/investments/sustainable-investments-program/about-the-program

5. GIC, Singapore

Context:

GIC is a global long-term investor and as one of the three investment entities in Singapore that manage Singapore's reserves, they manage most of the Government's financial assets. GIC emphasizes sustainability as a core investment strategy, actively engaging in climate risk assessment and investing in renewable energy, sustainable real estate, and technology-based solutions for decarbonization.

Sustainable Investment Strategy:

GIC holds the belief that companies with good sustainability practices offer prospects of better returns over the long term. GIC integrates sustainability through an approach that recognizes the diversity of industries and markets in which they operate, as well as the trade-offs and time needed for the invested companies to make the transition. Rather than putting efforts into divestment from companies in certain sectors, GIC supports companies in their transition toward long-term sustainability by actively engaging with portfolio companies on their climate transition plans. This includes funding the adoption and scaling of green technologies.

GIC's commitment is aligned with 3 sustainability organizations, including CDP, Climate Action 100+, and the Asia Investor Group on Climate Change. GIC's approach is closely monitored by top management and the GIC Board. GIC's Sustainability Committee, comprised of senior leaders from different business functions, is responsible for implementing the sustainability framework, as well as monitoring and responding to ESG issues. The Committee regularly engages the Group Executive Committee and Board Committees on broad trends and emerging issues that may affect the investment portfolio, as well as the ongoing implementation of GIC's framework for sustainability. Their approach focuses on capturing opportunities, protecting portfolios, and pursuing enterprise excellence.

Sources:

https://www.esgtoday.com/gic-strengthens-sustainable-investing-commitment-with-alignment-with-3-sustainability-organizations/

https://www.gic.com.sg/how-we-invest/investing-sustainably/

6. Government Pension Investment Fund (GPIF), Japan

Context:

GPIF manages and invests in the Reserve Funds of the Government Pension Plans. Under the public pension scheme in Japan, pension benefits for the elderly generations are paid by pension premiums collected from the contemporary working generations. There have been concerns over the age of the shrinking population in Japan that the burden of future working generations would become too heavy. This is where pension reserves come into play to provide surplus and secure funds through investment returns. GPIF employs long-term investment and diversified investment as their principal investment strategies. They make investments based on the policy asset mix, investing in bonds, equities, and alternative assets across the globe. As the world's largest pension fund, GPIF has integrated ESG factors across its $1.4 trillion portfolio.

Sustainable Investment Strategy:

GPIF is known for its substantial investments in green bonds and other sustainable assets. They have been promoting ESG initiatives since they signed the Principles for Responsible Investment (PRI) in 2015. GPIF adopted ESG-themed indexes, engaged with index providers and ESG rating agencies, and collaborated with overseas public pension funds and other institutions. From the indexes submitted to the Index Posting System, GPIF adopted the Morningstar Japan ex-REIT Gender Diversity Tilt Index, which is a gender diversity index for domestic equities, and began passive investment tracking this index. GPIF progressively expanded its ESG index-based passive investment since fiscal 2017. The fund adopted and invested in its ninth ESG index, the GenDi J index, as of March 2023. The total asset size of passive investments tracking ESG indexes has reached ¥12.5 trillion. By investing in these indexes, GPIF aims to enhance long-term investment returns through the sustainable growth of investees and of the market as a whole. Collaborating with the World Bank Group on ESG integration, GPIF is committed to promoting ESG investment, not only in equities but also in fixed income and other assets. For alternative investments, 82% of the funds in the GPIF real estate portfolio by value in 2022 participated in the GRESB Real Estate Assessment.

Sources:

https://www.gpif.go.jp/en/investment/esg/gpif_publishes_the_2023_esg_report.html

https://www.gpif.go.jp/en/performance/annual_report_fiscal_year_2022-2.pdf

https://www.gpif.go.jp/en/about/

7. PGGM, Netherlands

Context:

PGGM is a non-profit cooperative pension fund service provider. They offer clients pension management and asset management advice. On March 31, 2024, the total pension assets under management were 245 billion euros. As one of the largest Dutch pension funds, PGGM manages substantial assets with a strong focus on sustainability, integrating ESG criteria into its investment strategy.

Sustainable Investment Strategy:

PGGM uses genuine integration of ESG factors in its investment strategy. The fund uses the Materiality Map of the Sustainable Accounting Standards Board (SASB) as a basis for consistent assessment of the importance of individual ESG factors in specific sectors and investments. They also actively engage with portfolio companies on their Net-Zero transition and emission reduction targets to ensure promising progress and alignment with the Paris Agreement, including disclosure of the scope 3 Net Zero target.

The fund has over $100 billion in ESG and sustainable investments. Their approach to ESG includes three processes: selection, commitment, and ownership. The private equity business of PGGM closely monitors GP's ongoing ability to manage ESG risks and opportunities effectively and engages with them annually to encourage further improvements. The GPs receiving a "Very high" or "High" score in the ranking have grown from 73% in 2019 to 90% in 2022. Last year, PGGM set the target to have all investments be Paris aligned by 2040, which implies that by 2030, GPs should be committed to reaching net zero by 2050.

Sources:

https://www.pggm.nl/en/blogs/accelerating-climate-action-at-yara-international/

https://www.pggm.nl/en/

https://www.pggm.nl/media/nobb5zl5/pe-esg-report-2022.pdf

8. Norges Bank Investment Management (NBIM), Norway

Context:

NBIM manages Norway's Government Pension Fund Global and aims to ensure long-term revenue management from Norway's oil and gas resources. NBIM has over $1 trillion in assets, strongly emphasizing sustainable and responsible investment practices. The fund covers four investment areas including equities, bonds, real estate, and renewable energy infrastructure.

Sustainable Investment Strategy:

NBIM takes an active approach to monitoring and engaging with companies. They conduct ongoing due diligence on environmental and social topics integral to their work and divest from companies that expose their investments to unacceptable ESG risk. NBIM made a 2025 climate action plan to drive their portfolio companies towards net zero by 2050. Their engagement focus list includes companies representing 70 percent of their equity portfolio's financed scope 1 and scope 2 greenhouse gas emissions, their largest holdings in sectors with significant indirect exposure to climate risk, and additional companies with elevated climate risk based on proprietary assessments. NBIM also manages to directly invest in sustainable finance initiatives, like the recent agreement they made to acquire a 49 percent interest in a 644 MW portfolio of solar plants located in Spain. The fund will also set up a Climate Advisory Board to challenge their investment strategies and support their ambitions in the 2025 action plan.

Sources:

https://www.nbim.no/

https://www.nbim.no/en/responsible-investment/2025-climate-action-plan/

https://www.nbim.no/en/responsible-investment/2025-climate-action-plan/company-engagements-on-environmental-social-and-governance-topics/

9. AustralianSuper, Australia

Context:

AustralianSuper is Australia's largest superannuation fund that manages over $335 billion of retirement savings on behalf of over 3.4 million members. They have an ESG and Stewardship program with three pillars: ESG Integration, Stewardship, and Choice, which helps them understand the values of their members when it comes to investing. AustralianSuper integrates ESG factors into its investment decisions and has significant allocations to sustainable infrastructure and renewable energy projects. The fund also works with other investors and industry groups, such as The Australian Council of Superannuation Investors and Principles for Responsible Investment, to gain insights and broader influence on ESG issues.

Sustainable Investment Strategy:

AustralianSuper considers a range of ESG issues but prioritizes those that they believe are likely to have the greatest financial impact on investment returns. AustralianSuper has committed to achieving net zero carbon emissions by 2050 in the investment portfolio. They focus integration and stewardship activities on the measurement and management of scope 1 and scope 2 emissions of the investments in the portfolio. AustralianSuper uses internal carbon tracking activities to monitor progress towards their met zero commitment. The 2022 analysis measures the current and estimated 2050 emissions of approximately 65% of their investment portfolio. AustralianSuper has also been measuring the carbon intensity of the Australian shares and international shares asset classes portfolios using an external carbon consultancy since 2013.

The carbon intensity of their portfolios in these asset classes has reduced by 45% between 2013 and 2021.

Sources:

https://www.australiansuper.com/investments/how-we-invest/climate-change

https://www.australiansuper.com/about-us

https://www.australiansuper.com/investments/how-we-invest/esg-management

10. PensionDanmark, Denmark

Context:

PensionDanmark was established by a group of labor unions and employer organizations to manage the pension agreements that have been part of the collective agreements. In recent years, PensionDanmark has significantly increased investments in real estate, and the investments are equally divided between existing properties and new developments. All new development achieves high rankings within the sustainability certification system, DGNB. As a Danish pension company, PensionDanmark is known for its proactive stance on sustainable investments, with substantial commitments to green energy projects and sustainable infrastructure.

Sustainable Investment Strategy:

PensionDanmark has established a set of guidelines for sustainable investments. To reinforce compliance with the guidelines, PensionDanmark conducts screenings and exerts active ownership. For example, PensionDanmark does not invest in securities that are subject to sanctions imposed by the UN or EU. The fund also does not buy equities or bonds in companies whose activities conflict with international conventions acceded by the Danish state. PensionDanmark takes the approach of reassessing the general guidelines for investments every year with a specific benchmark for asset allocation.

In September 2019, PensionDanmark and a group of leading international investors announced the formation of the Net-Zero Asset Owner Alliance, an alliance of investors working towards climate neutrality by 2050. In 2022, the Alliance, which consists of pension and insurance companies, had assets under management of $10.6 trillion. In September 2023, PensionDanmark became among the first pension funds to receive approval from the Science Based Target initiative. The Targets cover 56% of AUM, including real estate, electricity generation, and listed equity.

Sources:

https://www.pensiondanmark.com/en/investments/real-estate-investments/

https://www.pensiondanmark.com/en/investments/active-ownership-and-responsible-investments/

https://www.pensiondanmark.com/en/about-us/esg-key-figures/