Predistribution Initiative

Responsible Asset Allocator Initiative
at the Fletcher School

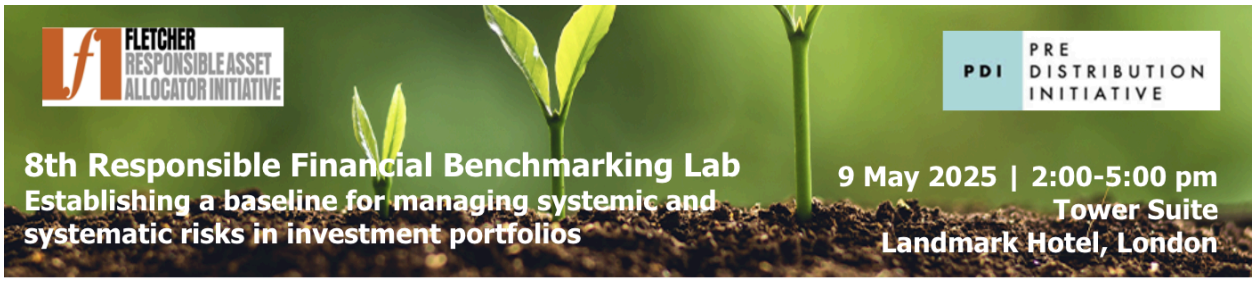
Key Takeaways

RFBL

Responsible Financial Benchmarking Lab
8th Roundtable

May 9, 2025, the Landmark Hotel, London

Asset Allocators working together with stakeholders to co-create solutions for externalities, mobilize capital, and reform benchmarking practices.



Key Takeaways from the 8th RFBL Roundtable

Introduction and Background

Problem Statement

- Traditional methods of asset allocation are backward looking.
- Externalities like climate change mean the future will not look like the past.
- Alignment with traditional financial benchmarks, and incentives tied to short-term performance, lead allocators to focus on near-term idiosyncratic risks versus longer-term systemic and systematic factors.
- Portfolios aligned with legacy benchmarks will be unprepared for this future, with too much exposure to risk and damage and not enough exposure to solutions.

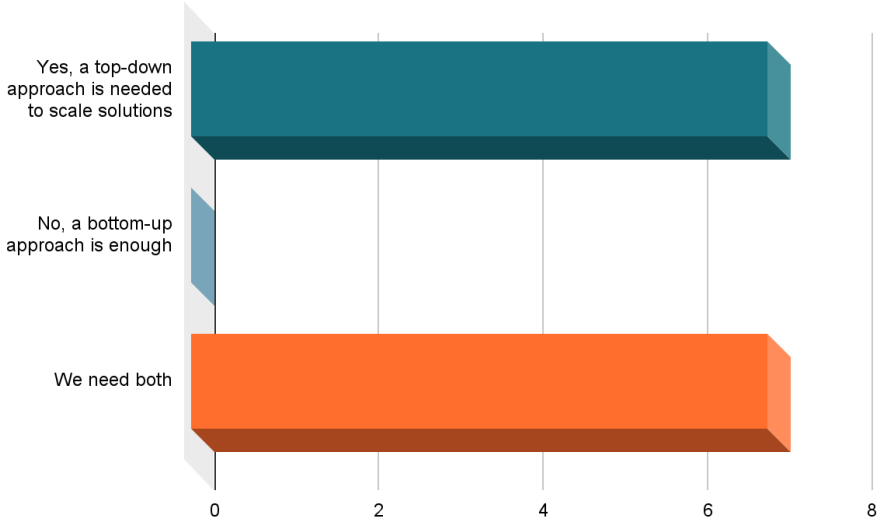
Proposition

- Stewardship and engagement activities are important, but politically fraught and difficult to scale. Alone, they are not positioned to deliver the results allocators hope to achieve and would be more effective if combined with appropriate asset allocation strategies.
- The current dissonance could be resolved by changing how investors and companies value and account for natural, social, and human capital.
- We need better top-down approaches. Asset allocators should align their portfolios with the future we are heading toward, rather than toward backward looking historic trends.
- Allocators can better protect their assets by moving away from traditional benchmarking practices and developing tools and approaches to consider externalities, such as integrating systemic and systematic risk into Capital Markets Assumptions (CMAs).

Key Points from the Roundtable Discussion

At the Roundtable, we asked delegates to answer and discuss a set of questions to establish a baseline understanding of the strategies used by asset allocators to address long-term systematic risks, such as climate change, in their portfolios, and the gaps that exist in current approaches. Following the roundtable, these questions will be adapted and circulated in a wider survey of the RFBL allocator community for a larger sample size and standardized results.

1. **Do you agree that a top-down approach, including adjustments to benchmarking and asset allocation practices, is needed to address system-wide risks at scale?**



Several contributors emphasized the necessity of a top-down approach to address systemic risks such as climate change. They stressed that current financial frameworks and portfolio construction practices are ill-equipped to respond to broad societal challenges that can destabilize markets and portfolio returns. They also expressed concern that investment strategies are too often narrowly focused on beating benchmarks shaped by idiosyncratic factors, which can obscure the value of systemic interventions.

Stewardship efforts, in this view, are challenged by misaligned incentives, outdated economic models, and a prioritization of short-term returns over longer-term resilience. Delegates expressing this view called for leadership at national and global levels—through mechanisms like transition plans and policy mandates—as well as

reform of capital market assumptions, to integrate forward-looking, sustainability-linked data and goals.

Many participants highlighted that, while a top-down strategy is crucial, it cannot succeed in isolation. These delegates argued for a complementary bottom-up strategy that leverages the influence of asset owners and managers to push for enterprise-level change. They noted that alignment of top-down and bottom-up strategies is essential to unlock more impactful forms of stewardship and to shift fiduciary interpretations toward long-term value creation. Proposals were made that stewardship needs stronger policy support, better measurement tools, and incentives aligned with long-term, real-economy outcomes.

There was broad agreement against divestment, which creates an illusion of progress by removing carbon-intensive assets from portfolios, but that does not change the trajectory of high carbon emitters, and therefore does not lead to real-world decarbonization.

Across perspectives, there was broad agreement on the need for structural reforms that go beyond incremental improvements. Respondents stressed the importance of integrating climate and other systemic risks into core financial decision-making, rather than treating them as peripheral ESG considerations. During the discussion, delegates revealed different visions for how transformation could occur—with some calling for centralized leadership and global coordination, while others advocated for distributed accountability across institutions. Despite these differences, delegates expressed a shared conviction that the status quo is insufficient and that a mix of regulatory reform, strategic rethinking, and operational alignment is needed to drive meaningful change.

Select quotes from the discussion

Asset manager. "*Yes, we need a top down approach because stewardship efforts on their own are broken. CIOs are trying to translate economic activity into the future we want to achieve, but it is not working*."

Asset allocator. "*Yes, we need a top down approach, because if we are only taking a bottom-up view we lose sight of the big picture. Asset managers will only remain focused on beating the benchmarks that they are assigned.*"

Asset allocator. "*Yes, we have to take account of systematic risks from a top down perspective. Stewardship programs on their own are not up to the task. We need to implement investments with top-down, real-world targets*."

Asset allocator. "*This is not such a clear cut proposition. We must remember that generally it is the board that sets the strategy and the investment team that has to implement it. This can be a constraint. Accordingly, it may be better to gain wide-spread acceptance by working together with external organizations to limit carbon emissions*."

Field builder. "*Yes, we need a top-down approach but we also must remain committed to bottom-up collective action to bring about change. Engagement can work, but we need policy makers to support those efforts instead of tearing them down*."

Field builder. "*Yes, but we should be wary of creating a false dichotomy. Reforming capital market assumptions and benchmarks is essential but not at the expense of stewardship. To face long-term systematic risks, we need to create ex-ante solutions that are future facing. The problem is that benchmarks and capital market assumptions are ex-post constructs that are backward looking. We have to change the language and use both top-down and bottom-up tools*."

Asset allocator. "*I agree that we need top down approaches, but I don't believe stewardship is broken. It can help to get companies to change incrementally*."

Field builder. "*One example of a top down approach that we need would be a globally accepted price for carbon. Without such accepted standards, we are operating in the dark and possibly pulling in different directions. We cannot manage systematic risks like climate change, or achieve alpha, without this*."

Field builder. "*We do need both. We need to tackle long-term systematic risks with a coalition of regulation, government policy, and bottom-up stewardship efforts from a variety of groups*."

Field builder. "*Yes, we need a top-down approach to scale solutions, but it is all about having clear investment beliefs and a vision that can be clearly articulated. In the future, we are going to have industries that go bankrupt and countries that will suffer extreme economic and financial duress. Even if you don't believe in climate change, these consequences have to be recognized and we need to prepare for potential defaults and credit risk.*"

Field builder. "*We do need a top down approach. We don't have high quality benchmarks. There is a failure of leadership in reforming benchmarks and making them fit for purpose.*"

Field builder. "*Yes, a top down approach is critical but we must recognize that there is a concentrated effort currently to crush stewardship activities and take away investor rights. We all have an obligation to support global stewardship efforts as best we can in this environment. We need them too.*"

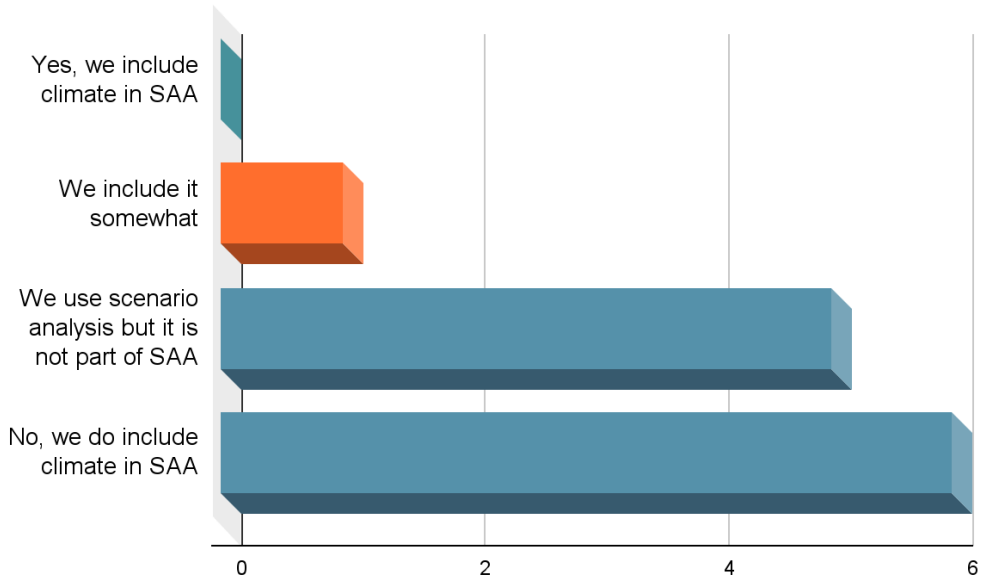
Field builder. "*We need a system level approach. We really need help in how to frame climate change as a system-wide issue. We also need to include fixed income and insurance in this framing. The bond markets are much bigger and more fundamental to financing climate solutions than the equity markets, and they have been undermined of late. Moreover, insurance prices have gone up by over 80% and we are evolving toward an uninsurable world*."

Asset allocator. "*How do you get your portfolio to deal with the tragedy of the commons? No-one does it. We have to assign ownership of the problem.*"

Asset allocator. "*This issue is all about integrity. We need bottom-up approaches that we can execute but we also need top-down strategies to drive solutions. Companies are spending 1% of their budgets on R&D for climate solutions while spending multiples of that on lobbying efforts to roll back environmental protections. We need to push back against this conflict while also incentivising investment to mobilize capital for solutions. Top down strategies can help with this. Current efforts to incentivize investment in solutions are encountering strong resistance at present. For example, a carbon tax was introduced in Canada recently due to strong popular pressure, but the policy was abandoned due to even stronger protests about the costs of the tax.*"

Asset manager. "*We need to re-emphasize incentives and language. The way climate change has been presented hasn't worked. We need to do more work to socialize these concepts from a bottom-up perspective*."

2. Do you incorporate climate considerations when determining your strategic asset allocation (SAA)?



Most asset owners and advisors acknowledged that they do not include climate change considerations when forming their strategic asset allocation models (SAA). There was a lot of discussion on the growing importance of using scenario analysis to understand the impacts of climate change on the portfolio and the costs it may impose on future returns, although few seemed to incorporate such scenarios in

their current SAA. This may be due to a greater focus on short-term performance by boards, or a lack of tools to enable the inclusion of global warming impacts on asset allocation decision-making. Regardless, it seems clear that allocators would benefit from moving beyond the use of scenario analysis simply as a tool to describe the long-term costs of systematic risks (such as climate change), on portfolios, and instead use that analysis to optimize portfolios to prepare for likely future outcomes.

Regarding scenario analysis, some described running dual climate and non-climate scenarios to demonstrate the impact of climate risk on portfolio outcomes. This method creates a tangible basis for discussion with boards, clarifying the trade-offs and countering the misconception that factoring in climate comes with a performance cost, particularly over the long run.

Others emphasized the need to include both physical and transition risks in their scenario analysis, recognizing that while current transition risks might appear to be low due to political inertia, long-term physical risks are increasing, with commensurate negative impacts on future returns. This requires institutions to weigh multiple scenarios based on likely future outcomes, rather than simply averaging a range of scenarios.

Some highlighted limitations in current modeling capabilities. Traditional asset-liability models, which run thousands of randomized simulations, often fail to adequately capture the intricacies of climate-related disruptions. In response, some allocators are transitioning toward using narrative-driven climate scenarios to spark internal reflection and debate on plausible futures. Other experts expressed skepticism about the overreliance on financial models, stressing the impossibility of accurately modeling systemic tipping points or societal risks. They argued that historic financial returns are overstated due to underpriced environmental costs and called for a more grounded, physics-based understanding of energy and resource systems.

Some allocators felt that they lacked the methodology and confidence to incorporate climate change into their SAA models, pointing to the subjectivity of assumptions and limited utility of applying climate factors to broad asset class allocations. However, many also emphasized that climate considerations are often integrated at the implementation level through targets such as net-zero alignment, and defined allocation commitments to assets such as green bonds and low-carbon solutions. Others echoed that scenario analysis is useful for informing the overall investment outlook but should be seen as one of many inputs rather than a direct driver of allocation decisions, given the numerous variables that influence portfolio construction.

Select quotes from the discussion

Asset allocator. "*When building SAA models based on scenarios, allocators should present their boards with two distinct designs - one that accounts for climate change and one that does not. This helps to clarify for the board if there are short-term*

costs to the portfolio for taking the right steps over the longer-term, and how large those short-term costs may be. But this is not the usual case."

Asset manager. "*Scenario analysis can provide plausible filters for investors regarding climate change in developing their SAA, but it is not used very often. It is worth noting that historic returns have been overstated because they have been subsidized by underinvestment in risk mitigation that is necessary for the future we are heading toward. We have been kicking the can down the road. One of the problems is that it is hard to model tipping points, as the goal posts keep moving*."

Asset allocator. "*We do consider climate change but only somewhat in our SAA models. The models are not precise, but we try to look at a distribution of probable climate-change-related outcomes when we make our SAA. We try to think through the possible risks that could happen and then incorporate that into our model*."

Asset allocator. "*No, we don't incorporate climate change into our SAA, mostly because we don't know how to do it. We try to determine allocations to asset classes rather than what is going on within those asset classes*."

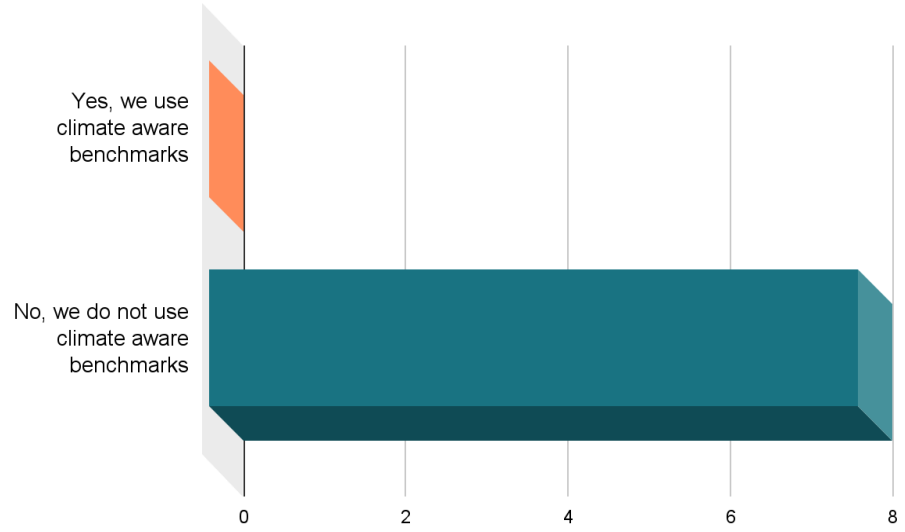
Field builder. "*A lot of institutional investors use scenario analysis for climate change but they don't necessarily apply it to their asset allocation models. It depends on the Boards and the Investment Committees to determine how much weight they put on different factors and how much confidence they have in those weightings*."

Asset allocator. "*No, we don't really incorporate climate change into our SAA. We are not really sure how to build it ex-ante into our models. We do believe global warming will likely lead to higher inflation, lower growth, higher risk premiums, and rising liabilities for companies. But we don't know how to build this into our SAA*."

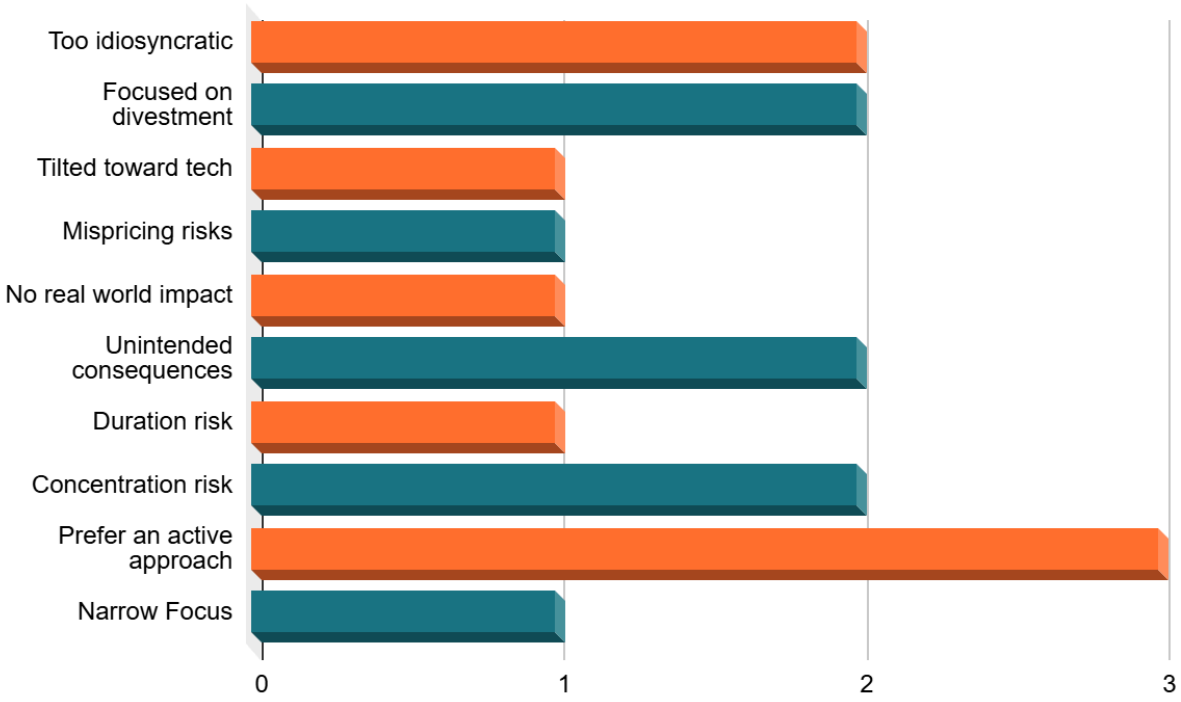
Asset allocator. "*We have decarbonized our portfolio but we don't rely on SAA to do it. We have a core belief system for our organization and feel that portfolio companies have to earn their investment capital from investors like us by complying with our core beliefs. We use sharpe ratios to optimize for sustainable portfolios.*"

Asset allocator. "*We do run climate scenarios, but we don't integrate them into our SAA because of concerns about complexities, unintended consequences, and challenges highlighted at this meeting by other delegates. So our work on climate change gets layered on top of our SAA rather than being incorporated into it.*"

3. **Do you use "climate aware" asset class benchmarks? If so, which ones?**



4. **If you do not use climate aware benchmarks, can you explain why?**



Climate-aware benchmarks for public securities are often used by asset allocators when investing in passive strategies (beta), to control carbon emissions in the portfolio, and in

active strategies (alpha), to provide carbon limits for external managers. However, there are well-known problems with climate-aware benchmarks and most delegates at the Roundtable indicated strong reservations about using them for SAA, largely due to concerns about their relevance, design, and practicality. They pointed out that once investment beliefs incorporate real-world considerations—such as climate transition risks— climate aware benchmarks provide targets that are more idiosyncratic rather than aiding allocators by providing broader capital market reference points.

One participant stressed that net-zero is a public policy goal, not a financial one, and that an asset or fund being "low carbon" is only a weak proxy for financial risk or for managing externalities. This approach suggests that the act of considering climate in strategic asset allocation should be approached more as a risk management exercise, rather than an effort to maximize returns.

Others echoed similar sentiments, expressing concern that standard climate benchmarks often fail to reflect complex real-world dynamics or result in mispriced systemic risks.

Practical constraints were also a key reason for non-adoption. One participant highlighted challenges related to asset-liability matching, explaining that many climate-aligned benchmarks exclude long-duration bonds from sectors like utilities and energy, which are essential for meeting long-term liabilities. Regulatory capital requirements, risk concentration limits, and the need for stable investment income were cited as further barriers. Other delegates noted that climate-aware benchmarks can skew sector allocations or increase exposure to overvalued assets, conflicting with broader risk appetite and fiduciary goals.

Some institutions seek to incorporate climate considerations in more tailored ways. One delegate mentioned using a factor-based equity portfolio with a carbon filter, designed to maintain exposure to risk premia while reducing carbon intensity. Another uses a passive low-carbon index at the implementation level, optimized within a defined tracking error rather than embedded at the SAA level. A final perspective emphasized the use of internal taxonomies and sustainability lenses that go beyond pure climate metrics, reflecting a belief that rigid benchmarks may undermine broader integration of other issues, risks, and opportunities, as well as the pursuit of long-term, balanced investment outcomes.

Select quotes from the discussion

Asset allocator. "*We don't use climate aware benchmarks. What we have done recently is to step back and look at climate scenarios in terms of what the real use cases should be. We want to have real world impact, and reduce climate risks, not just build low carbon portfolios. We think that insurance premiums could be a good anecdotal indicator of climate distress going forward. We can already see the pressures building in higher insurance premiums*."

Field builder. "*Fiduciaries have to make a judgement call on the risk constraints they can operate within. Regarding systematic risks like climate change, we want to be directionally correct, and not get bogged down by trying to put very exact targets in place. This is not an exact science. For example, many institutions have a top-down allocation target to climate change investments, perhaps 10% of the portfolio. This is most often expressed in infrastructure and private equity investing*."

Field builder. "*We are experiencing an environment where the frequency and intensity of global warming related weather events are increasing, leading to increased costs for damage repair borne by insurance companies. At the same time, environmental regulations and protections are under attack, while many insurance companies are exiting the field. We need to analyze the ramifications of a potential failure of the insurance industry for climate change. What would happen if the P&C insurance industry goes belly-up? Climate aware benchmarks do nothing in getting to the root of the problem or mitigating such risks for long-term savers*."

Asset manager. "*We don't use climate aware benchmarks because they are idiosyncratic and we are trying to deal with a systematic risk. Net zero should be thought of as a government policy goal, rather than as a goal for the financial sector. We should approach climate change as an energy security issue - the transition out of oil and gas and into renewables needs to be orderly. From an investment point of view, we need stability while we replace the beta of the fossil fuel complex. Passive management is not as cheap as people think, because its historic returns have been subsidized, by bringing forward future returns and underspending on longer-term risk mitigation. Investors have to use judgement in allocating to this transition rather than using rigid idiosyncratic benchmarks*."

Asset allocator. "*We do not use climate aware benchmarks because they tend to be heavily weighted in tech and also skewed toward short duration bonds. Like many other institutions, we have a strong emphasis on cash flow, diversification, and a long-term investment approach. We want more diversification in our equity benchmark than climate aware benchmarks tend to provide and in our fixed income portfolio, we prefer to concentrate on long-term duration. Unfortunately, there needs to be greater focus on integrating climate change into the bond markets - there simply is not enough long-duration product. The fact of the matter is that the energy sector provides a lot of long duration bonds and this poses a conflict for investors that want duration but also want to implement impactful climate change strategies in their fixed income portfolios.*"

Asset allocator. "*We don't use climate aware benchmarks because they can lead to concentration risk, exclusions, divestments and unwanted consequences. They are hard to use because of their impact on risk. We prefer to use active managers to mitigate climate related risks and take advantage of climate-related investment opportunities. We also have a factor based portfolio that has a lower carbon filter*."

Asset allocator. “*We do not use climate aware benchmarks. We focus our climate change mitigation efforts on implementation at the asset class level and we use active external managers to execute our investment strategies on climate change.*”

Field builder. “*Climate aware benchmarks are often used in conjunction with external asset managers and index providers.*”

Asset allocator. “*We don’t use climate aware benchmarks, but instead use a climate taxonomy. We believe that allocators have to look at their overall fiduciary duty, rather than just investing through a climate lens. This would be the problem with climate aware benchmarks, which could skew the portfolio and bring unintended consequences to our investments.*”

8th RFBL Roundtable, hosted by the Predistribution Initiative and RAAI

May 2025, The Landmark Hotel, London

Pictured, left to right: Ahmad Bastaki, *former Executive Director*, **Kuwait Investment Authority (KIA);** Will Gordon, *Co-chief Investment Officer*, **New Zealand Superannuation Fund (NZSF)**; Karina Luchinkina, *Strategic Advisor*, **Ukrainian Start-up Fund (USF)**, *former Board Member*, **Mahistralni Gazoprovody Ukrainy (MGU)**; Kristian Flyvholm, *Chief Executive Officer*, **Sovereign Investors**, *former Chief Investment Officer*, **Central Bank of the UAE**; Joe Cheung, *Chief iInvestment Officer*, **Hong Kong Monetary Authority (HKMA)**; Abdul Bashir, *Principal Investment Manager*, **Greater Manchester Pension Fund (GMPF)**; Laure Philippon, *Investment Engagement Lead*, **Share Action**; Maria Elena Anker, *Grants Manager*, **Generation Foundation**; Delilah Rothenberg, *Founder and Director*, **Predistribution Initiative (PDI)**; Scott Kalb, *Founder and Director*, **Responsible Asset Allocator Initiative at the Fletcher School (RAAI)**, *former Chief Investment Officer and Deputy Chief Executive Officer*, **Korea Investment Corporation (KIC);** Madeleine Evans, *Director*, **Generation Investment Management**; Mike Clark, *Director,* **Ario Advisors**; Pat Yim Baron Chan, *Head of Research & Macroeconomics*, **Abu Dhabi Investment Authority (ADIA).**

Not pictured, attended virtually: Ms. Lenka Moore, *Senior Manager*, **Capitals Coalition**; Prof. Frank van Gansbeke, *Executive Scholar in Residence*, **Middlebury College**, *Co-founder*, **Beyond Bretton Woods**; Mr. Keith Johnson, *Board Director*, **Externalities Investment Research Network (EIRN)**; Ms. Veena Ramani, *Director of Stewardship*, **MassPRIM;** Mr. Takeshi Kimura, *Special Advisor to the Board,* **Nippon Life;** Arjen Pasma, *Chief Investment Officer* **PGGM;** Mr. John Lukomnik, *Adjunct Professor*, **Columbia University SIPA**, *Chief Executive Officer*, **Sinclar Capital**; Mr. Jeremy Nicholls, *Advisor,* **Social Value International**; Mr. Pedro Guazo, Chief Executive Officer, **United Nations Joint Staff Pension Fund (UNJSPF)**, Paul O'Brien, *Board Member*, **Wyoming Retirement System,** former Deputy *Chief Investment Officer*, **Abu Dhabi Investment Authority (ADIA)**.

Pictured, left to right: Ahmad Bastaki, *former Executive Director,* **Kuwait Investment Authority**; Pedro Guazo, *CEO*, **United Nations Joint Staff Pension Fund**; Valeria Martinez, *Manager of Financial Operations,* **Mexico Petroleum Fund**; Scott Kalb, Director **RAAI**, former CIO, **Korea Investment Corporation**; Akshata Kaloor, *Economist,* **National India Infrastructure Fund**.

Pictured, left to right: Dirk Aufderheide, *Principal, Currency Management & Strategy*, **Abu Dhabi Investment Council (ADIC)** Ahmad Bastaki, f*ormer Executive Director*, **Kuwait Investment Authority (KIA)**; Scott Kalb, *Director* **RAAI**, f*ormer CIO* **Korea Investment Corporation (KIC)**; Karina Luchinkina, *Strategic Advisor,* **Ukraine Government Start-up Fund**; Chloé Lavedrine, *Senior Managing Director*, **Centerbridge Partners**; Kristian Flyvholm, *CEO,* **Sovereign Investors**, *former CIO*, **Central Bank of the UAE**.