



# Russell Investments delivers 50% carbon footprint reduction for institutional investor's new global equities portfolio

When a pension plan decided to introduce a low carbon strategy in its global equities portfolio, it needed an expert in rules-based quantitative investment. Drawing on its proprietary methodology in factor exposures, Russell Investments has enabled the client to achieve a 50% carbon footprint reduction while minimizing the active risk of the strategy relative to the benchmark.

CUSTOMIZED PORTFOLIO SERVICES

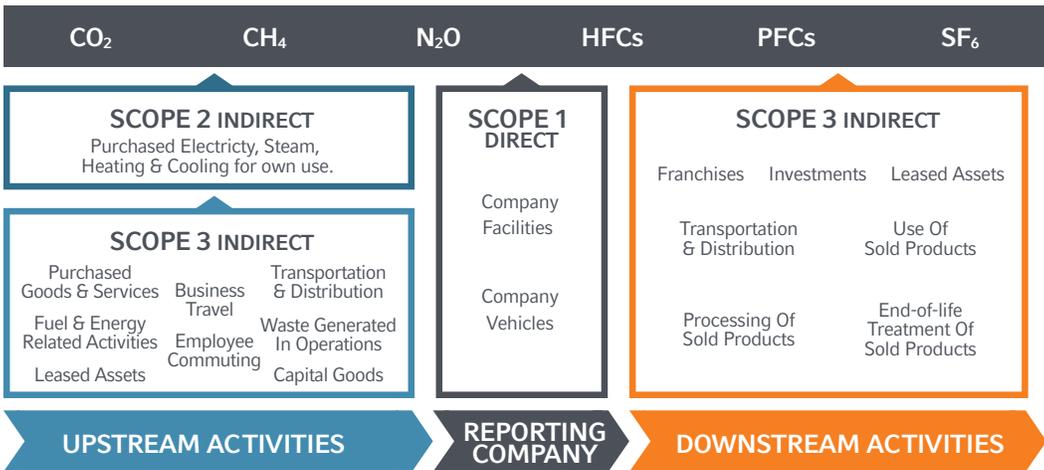


### Situation

This large industry super fund has already committed to more than \$1 billion in investment solutions in low-carbon renewable energy, climate solutions and other green investments. In January 2015, the fund began looking for a partner to help it introduce a low carbon strategy to its global equities portfolio.

The client wanted to maintain a carbon exposure level at or below 50% of the benchmark and remove all exposure to tobacco. The investment strategy also needed to minimize the variance between the benchmark and portfolio returns over rolling three-year periods to maintain their commitment to delivering strong, long-term value to its members.

With no widely agreed industry definition on what constitutes the carbon footprint of a portfolio or benchmark—and a wide range of possible metrics—the client needed a partner capable of conducting research to refine the underlying factors it used to measure carbon exposure. The client also wanted the strategy to consider carbon reserves and stranded assets within the construction of the portfolio.



Russell Investments was chosen for its capabilities in capturing factors, an intuitive approach to rules-based quantitative investment and our willingness to work with the super fund to design the optimal portfolio to meet the objectives.

## Solution

To develop the strategy, the Russell Investments team began by defining carbon exposure in terms of CO2 equivalent (CO2e) emissions and potential CO2e emissions from fossil fuel reserves. In consultation with the client, the team adopted a metric based on Scope 1 (direct carbon emissions) and Scope 2 (electricity consumption) CO2e, normalized by company revenue for CO2 footprint.

To overcome the fact that the industry has a variety of definitions for a CO2 footprint, we specifically defined this metric as greenhouse gas emissions measured in metric tons of carbon dioxide equivalent to per million USD of revenue. In addition, to mitigate the possible risk of stranded assets, the team defined a similar metric based on the potential CO2 emissions from fossil fuel reserves normalized by total company assets.

One of the biggest challenges was to ensure robust data across 1,600 securities. Rigorous testing was required to identify data anomalies.

Using the newly developed metrics and a robust carbon data set, we then constructed a rules-based strategy that reduces exposure to the top emitters to help meet the 50% reduction in carbon footprint requirement.

The methodology uses a linear approach to meet the objectives of a 50% reduction to both CO2 emissions and carbon reserves. However, concerned that any large price movements at a sector level could cause dislocations with active risk expectations, the team incorporated modest constraints around country and sector, as well as stock specific limits, to minimize any unintended risks.

## Results

Drawing on its proprietary methodology around factors, our innovative, customized solution directly met the client objectives, creating the exact exposure required for the global equities portfolio.

We continue to work with our client to ensure the methodology continues to reflect the characteristics in the carbon market as it evolves.

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*"Investors are taking action to measure their carbon exposure through the PRI Montreal Carbon Pledge as well as taking steps to decarbonize their portfolios, making commitments to low-carbon, climate-resilient and green investment opportunities."*

**Fiona Reynolds, Managing Director of UN Principles for Responsible Investment**

## FOR MORE INFORMATION:

Call Russell Investments at **800-426-8506** or visit [russellinvestments.com/institutional](http://russellinvestments.com/institutional)

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