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HONG KONG: ASSESSING RELEVANCE AND MATERIALITY OF CLIMATE-RELATED RISKS TO INVESTMENT STRATEGIES

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FOREWORD

The clock is ticking (arguably more loudly now) as the transition periods for implementing the regulatory requirements for climate-related risks are just around the corner, following the issuance of the Securities and Futures Commission's ("**SFC**") Consultation Conclusions on the Management and Disclosure of Climate-related Risks by Fund Managers in August 2021[1] ("**Conclusions Paper**").

Large Fund Managers (i.e. those with assets under management in their collective investment schemes ("**CIS**") which equal or exceed HK$8 billion) must comply with the base line requirements (focused around Governance, Investment Management, Risk Management and Disclosure) by 20 August 2022; and with enhanced standards (assessing the relevance and utility scenario analysis, and calculating the portfolio footprint of Scope 1 and Scope 2 greenhouse gas ("**GHG**") emissions associated with the funds' underlying investments) by 20 November 2022.

Remaining Fund Managers (i.e. those with less than HK$8 billion assets under management in their CIS) must comply with the base line requirements (referred to above) by 20 November 2022.

The above requirements have been introduced via amendments to the Fund Manager Code of Conduct ("**FMCC**") which require fund managers to take climate-related risks into consideration in their investment and risk management processes, and to make appropriate disclosures to fund investors where they have assessed climate-related risks to be relevant and material. The SFC has not sought to provide prescriptive guidance as to how to ascertain relevance and materiality, instead requiring managers to be pragmatic in assessing the relevance and materiality of climate-related risks under a qualitative and/or quantitative approach.

This paper aims to offer some guidance to managers when undertaking their own assessment of relevance and materiality of climate-related risks applicable to their CIS under management and indeed how best to manage this process from a compliance perspective. It also summarises some of the SFC's published guidance on this issue and seeks to put these new requirements into some perspective.

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[1] https://apps.sfc.hk/edistributionWeb/api/consultation/conclusion?lang=EN&refNo=20CP5

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1. Introduction

Climate-related risks are considered by the SFC to be a source of financial risk that may impact the value of assets and therefore an investor's investments in a fund. In-line with global regulatory developments, the SFC is amending the FMCC to require fund managers to take climate-related risks into consideration in their investment and risk management processes and to make appropriate disclosures to investors in funds. Climate-related risks include physical risks and transitional risks, examples of which are detailed in Appendix 2 of the SFC's Circular to licensed corporates – Management and disclosure of climate-related risks by fund managers dated 20 August 2021[2] ("**SFC Circular**").

Pursuant to the FMCC a fund manager in Hong Kong is required to identify "relevant" and "material" climate-related risks for the funds that it manages and to ensure that all material risks are taken into account in its investment management processes for these funds. This only applies to the funds being managed by the fund manager, and not to its separately managed accounts.

Separately, for risk management purposes at the fund level, a fund manager should implement adequate risk management procedures in order to identify, measure, manage and monitor appropriately all risks (i) relevant to each investment strategy of each fund; and (ii) to which each fund is or may be exposed including climate-related risks (in addition to market, liquidity and counterparty risks).

For managers responsible for the overall operation of the fund ("**ROOF Managers**") certain disclosures in relation to climate-related risks are also required to enable investors to make informed decisions about their investment in the fund, including governance arrangements for the oversight of climate-related risk and how climate-related risks are taken into account in the fund managers' investment and risk management processes, where climate-related risks are assessed to be material. More limited disclosures may be required where (i) climate-related risks have been assessed to be relevant but "immaterial" to the investment strategy of the fund; and (ii) climate-related risks have been assessed to be irrelevant to an investment strategy by disclosing as such.

Accordingly, fund managers need only comply with the requirements for investment and risk management processes where climate-related risks are assessed to be relevant and material. Where climate-related risks are assessed to be not material, a fund manager is still subject to the SFC's governance requirements and, as a ROOF Manager, may still need to make certain disclosures but otherwise need not reflect climate-related risks in its investment and risk management processes. It is important to note that the SFC is not looking to influence the investment universe of each fund, but rather to ensure that fund managers adopt investment and risk management processes that are consistent with the relevance and materiality of climate-related risks to the investment strategy of each fund.

This paper assumes that a fund manager has discretion over the investment management process of a CIS and hence is in-scope for the purposes of complying with the climate-related risk requirements under the FMCC. The intention of this paper is not to be prescriptive, but rather to facilitate each fund manager's own assessment of the relevance and materiality of climate-related risk to its funds under management and their investment strategies.

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2 https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/intermediaries/supervision/doc?refNo=21EC31

2. Relevance assessment of climate-related risks

2.1. Determining relevancy

When determining relevancy, the SFC decided against providing specific guidance on how a fund manager should identify the relevance of climate-related risks after taking into consideration the broad spectrum of climate-related risks and the wide range of financial assets and investment strategies in the market. Instead, for now, the SFC has opted to adopt a more pragmatic approach, allowing a fund manager to have the flexibility to determine whether or not climate-related risks are relevant based on its investment strategy.

Although the SFC indicated in its Consultation Paper on the Management and Disclosure of Climate-related Risks by Fund Managers[3] ("**Consultation Paper**") that instances where a fund manager considers climate-related risks to be not relevant to its funds and investment strategies may be rare, the SFC accepts that climate-related risks may not be relevant to certain investment strategies or funds. In the event that a fund manager assesses that climate-related risks are not relevant to its fund and investment strategies owing to the nature of a fund's investment or strategy – after having exercised professional judgement in such assessment – it must justify such irrelevance, with this assessment to be disclosed to investors by a ROOF Manager. Furthermore, a fund manager (regardless of whether it is a ROOF Manager) should also maintain appropriate internal records[4] which explain why climate-related risks are not relevant. Fund managers are expected to re-evaluate the relevance of climate-related risks at least annually and, for ROOF Managers, to update the disclosures as necessary.

In Q3 of the SFC's FAQs on Application of the climate-related risks requirements under the FMCC dated 20 August 2021[5] ("**SFC FAQs**"), the SFC provided some circumstances in which a fund manager may assess that climate-related risks are not relevant due to a fund's investments or strategy, such as:

- a quantitative fund;
- a macro strategy fund[6];
- certain index tracking funds (e.g. an index tracking fund which adopts full replication methodology requiring it to buy all the constituents of the index);
- a forex fund;
- a managed futures fund; or

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3 https://apps.sfc.hk/edistributionWeb/api/consultation/openFile?lang=EN&refNo=20CP5

4 When preparing such internal records concerning relevance, a fund manager may consider whether or not to also make a determination on the materiality of climate-related risks had such risks been determined to be relevant to the investment strategy or fund. For the avoidance of doubt, for now, the FMCC does not specifically require a fund manager to determine the materiality of climate-related risks when it is determined that such risks are not relevant to an investment strategy or fund.

5 https://www.sfc.hk/en/faqs/intermediaries/supervision/Application-of-the-climate-related-risks-requirements-under-the-Fund-Manager-Code-of-Conduct/Application-of-the-climate-related-risks-requirements-under-the-Fund-Manager-Code-of-Conduct

6 Macro strategies can include a variety of different asset classes and investment strategies. A fund manager managing macro strategy fund(s) should exercise care in determining whether or not climate-related risks are relevant to its investment strategy or fund(s) under management based on the underlying investments and investment strategy adopted.

- due to the time horizon of the investments of a fund, e.g. day trading.

That said, a fund manager should not conclude that climate-related risks are not relevant solely based on the SFC's examples without carrying out independent assessment based on its professional judgement. A fund manager is encouraged to look beyond its usual investment horizon, in particular when portfolio assets will be reinvested in similar (but not the same) investments over time.

Instead of setting out a prescriptive list of investment strategies and/or asset classes where climate-related risks are not relevant or providing a universal framework to identify and determine the relevancy of climate-related risks, the SFC as mentioned above takes a principles-based and pragmatic approach that allows a fund manager the flexibility to determine whether or not climate-related risks are relevant to its funds and investment strategies. However, a more calibrated level of relevance is likely to emerge at later stages of climate change policy development, and this may raise some challenges for those managers who adopt too loose an interpretation of relevance at this juncture.

2.2. Examples of investment strategies where climate-related risks are likely to be irrelevant / relevant

With a view to facilitating a fund manager's assessment of "relevance", below are some additional examples and suggested points of consideration that a fund manager may take into account when assessing whether or not climate-related risks are relevant to its funds and investment strategies. The examples are provided for guidance only and should not be considered to be exhaustive and/or authoritative. Each fund manager must carry out its independent assessment based on its professional judgement, taking into account its own circumstances, the investment strategies it adopts and fund(s) under management.

Fund managers are free to design and develop their own framework to determine and measure the relevance and materiality of climate-related risks. For example, in determining relevance, fund managers may begin by assessing the investment strategy. The reason(s) for any conclusions determined by the fund manager should be properly documented in writing and assessed annually.

Table 1 and Table 2 below provide some guidance as to the potential relevance of climate-related risks to certain investment strategies.

In addition to analysing the investment strategies, fund managers may wish to consider the (i) sectors; (ii) geographies; and (iii) asset classes in which a fund invests in determining the relevancy of climate-related risks to its portfolio. The framework of such analysis may also form the basis of a fund manager's assessment of the materiality of climate-related risks, in particular for strategies where climate-related risks are likely to be relevant. Table 3 below provides an example for assessing the relevance of climate-related risks by sectors.

Table 1: Strategies likely to be irrelevant

Strategies likely to be irrelevant	Reasons
Quantitative strategies (irrespective of the underlying asset classes actually traded)	No fundamental or technical research involved whatsoever – strategies purely based on mathematical, factor models
Forex ("**FX**") strategies	Physical and transition risks are very unlikely to be risks that are borne in mind when assessing FX rate movements
Index tracking strategies[7] (e.g., index arb) / managed futures strategies	Physical and transition risks are not risks considered when tracking indices/looking for arbitrage created by mispricing and/or undertaking a pure technical analysis (i.e., chart movements)
Interest rate strategies	Physical and transition risks are not risks considered when looking for arbitrage created by mispricing across rates/spreads
Day trading strategies[8] (irrespective of the underlying asset classes actually traded)	Physical and transition risks are not considered when trading on such a short-term, tactical basis

[7] Q4 of the SFC FAQs noted that funds adopting a passive investment strategy would not automatically be carved out from the requirements. Fund managers should assess the method used to replicate the underlying index. A full replication methodology which requires buying all the index constituents may justify being carved out. However, fund managers could adopt different methodologies for partial replication methodologies and enhanced passive strategies. The SFC suggests that fund managers adopting a passive investment strategy that do not adopt a full replication methodology may adjust the weights of portfolio constituents (or exclude them) from the fund's portfolio where the investee companies have been identified with high sustainability risks or poor environmental, social and governance ("**ESG**") ratings, to the extent it is permissible according to the fund's mandates and restrictions and subject to being within an acceptable tracking error range.

[8] Q3 of the SFC FAQs noted that when identifying climate-related risks, fund managers are encouraged to look beyond their usual investment horizon in particular when portfolio assets will be reinvested in similar investments.

Table 2: Strategies likely to be relevant

Strategies likely to be relevant	Reasons
Any strategy linked to **single-name issuers** (e.g., equity long-only; equity long-short, corporate credit, corporate bonds)	One can make a plausible argument that physical and/or transition risks are relevant for all sectors (and therefore arguably all companies in all sectors)
Real estate/infrastructure	Physical risks (especially) are likely to be relevant; transition risks also likely to at least be relevant
Native digital assets	Transitional risks (especially if using proof-of-work) are likely to be a factor to be considered and therefore likely to be relevant
Government securities	A country's climate change exposure and sensitivity, including reliance on agriculture and natural resources, energy mix and government policies, may affect the country's ability to repay debts[9]
Commodities	Physical risks (especially) are likely to be relevant; transition risks are also likely to at least be relevant

[9] See example given in B2.1 of Appendix 2 to the SFC Circular. However, this is an example provided by the SFC; the responsibility of assessing the relevance of climate-related risks rests with the fund manager, taking into account its investment strategy and process.

Table 3: Considerations for assessing relevance

Sectors	Are physical risks relevant (Y/N)? Why?	Are transitional risks relevant (Y/N)? Why?	Does the fund have any exposure in such sector (Y/N)?
Healthcare			
Materials			
Real Estate			
Construction			
Consumer Staples			
Consumer Discretionary			
Utilities			
Energy			
Industrials			
Consumer Services			
Financials			
Technology			
Telecommunications			

The SFC has not prescribed any methodology or model for determining whether or not climate-related risks are relevant to an investment strategy or a fund. As such, a fund manager must design and develop its own assessment framework and methodology that is best suited, taking into consideration its investment strategy, investment style and funds under management. The above table is designed to serve as informal guidance and is provided for reference only. Each fund manager must ultimately be responsible for undertaking its own analysis both in terms of relevance as well as materiality.

3. Materiality assessment of climate-related risks

When assessing materiality, the SFC has provided guidance to the effect that fund managers should adopt an approach which is "appropriate and proportionate" to their circumstances. This means that "one-size-does-not-fit-all". Secondly, the SFC has stated that the approach can be "qualitative, quantitative or some combination of both".

There is therefore a degree of flexibility in assessing "materiality" to a fund manager's circumstances. The SFC is encouraging a pragmatic approach. In all cases, and given the flexible and pragmatic approach permitted by the SFC, it is important that fund managers maintain appropriate internal records to demonstrate (i) that they have assessed, and (ii) how they have assessed, the materiality of climate-related risks to their circumstances i.e. to each investment strategy of each fund they manage. On the other hand, this flexibility should not be seen as flexibility to simply discount the importance of climate risks as a general determination.

3.1. Qualitative and quantitative approach

In paragraph 55 of the Consultation Paper, the SFC states:

"Qualitative approach

Fund managers may apply a qualitative approach by identifying those sectors (e.g., utility and power, mining, oil and gas) which are more likely to be adversely affected by the transition to a low-carbon economy and evaluate whether the investment portfolio is unintentionally skewed towards these sectors. Moreover, the fund managers may consider the second level effects on companies within the value chain of those highly affected sectors.

For example, SASB[10] has identified sustainability issues which would affect the financial condition or operating performance of companies within an industry and categorised them according to how likely they are to have a material impact, e.g., environmental issues such as GHG emissions are very likely to have a material impact on extractives and mineral processing industries, but not likely to be material for consumer goods and services industries. Fund managers could focus on the material issues and assess their impact on each investment strategy and fund they manage.

Quantitative approach

Fund managers may also apply a quantitative approach by utilising in-house or third-party data tools to analyse a portfolio's climate-related risks in the context of weather or climate data (e.g., five-year history of daily weather variables such as temperature and precipitation, extreme weather events including cyclones, earthquakes and drought) or projected climate conditions (e.g., the agreed rate of sea level rise in 10, 20 or 30 years' time) and assess their likely impact on the portfolio."

The SFC also expects fund managers to revisit their assessments when there are any major changes, such as changes to a fund's investment strategy.

3.2. Methodologies and standards

When assessing materiality fund managers should consider which methodology best suits their strategies.

[10] Sustainability Accounting Standards Board

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For example, the strategy adopted by some fund managers may result in them deciding it is appropriate to start with the specific portfolio and investment strategy, to then consider materiality at the individual investment level and assess how climate-related risk would impact each investment, and then aggregate the impact of all the investments.

On the other hand, other strategies may result in fund managers deciding it is more appropriate and acceptable to consider the overall portfolio, market or sector exposure and determine materiality accordingly. For managers that have long and short positions, it may be appropriate to assess materiality by looking at overall financial exposure risk of the portfolio or long and short positions on a net basis, as opposed to individual investment positions on a gross basis.

Furthermore, the SFC has not set any percentage thresholds above which climate risks would be considered material. Of course, as appropriate, fund managers can set their own percentage thresholds on what makes sense for their own investment strategies or funds, recognizing that setting percentage thresholds is not considered necessary. Whatever methodology is selected, fund managers should document the rationale for doing so.

In conducting the materiality assessment described above, the SFC has noted that fund managers may consider adopting the methodologies suggested by international reporting frameworks, such as[11]:

- Sustainability Accounting Standards Board ("**SASB**") – for example the SASB Materiality Map[12];
- Principles for Responsible Investment ("**PRI**") – in the report Implementing the Task Force on Climate-related Financial Disclosures ("**TCFD**") Recommendations – A Guide for Asset Owners[13], the PRI suggests that when prioritising climate-related risks, fund managers may also consider total portfolio risks, asset class risks, mandate or individual portfolio risks, sector risks, company or asset specific risks; and
- others, including the report Implementing the Recommendations of the TCFD[14], where the TCFD cited various sources of information about sectors and industries which are potentially affected by climate-related risks.

In addition to the above, the SFC also recommends that fund managers make reference to the publications and standards of the following international organisations[15]:

- Climate Disclosure Standards Board ("**CDSB**");
- Global Reporting Initiative ("**GRI**");
- International Integrated Reporting Council ("**IIRC"**); and
- Partnership for Carbon Accounting Financials ("**PCAF**").

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[11] See Consultation Paper, paragraph 55.

[12] According to the SASB the Materiality Map is now only accessible via a login for users of the SASB Standards Navigator, which are primarily organisations that are licensing the SASB Standards. The Materiality Finder, which allows users to explore and compare the SASB Standards, is publicly accessible.

[13] https://www.unpri.org/download?ac=4652

[14] https://assets.bbhub.io/company/sites/60/2020/10/FINAL-TCFD-Annex-Amended-121517.pdf

[15] Page 8 of Appendix 2 of the SFC Circular provides that when accessing materiality, fund managers may consider adopting the methodologies suggested by international reporting frameworks, such as the SASB, PRI, TCFD, Climate Disclosure Standards Board, the Global Reporting Initiative, the International Integrated Reporting Council and Partnership for Carbon Accounting Financials.

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As examples[16], fund managers can make reference to publicly available information or research such as the World Resources Institute's tool that provides flood risk and water stress exposures to determine the potential impact of climate-related risks on the operations of investee companies. If the operation or access of the investee companies are concentrated in high-risk areas, then climate-related risk may be a material risk.

Fund managers can also make use of the SASB Materiality Map which reveals visually how general sustainability issues manifest across different industries. For a deeper understanding of how to access climate-related risks the SFC refers fund managers to the Overview of Environmental Risk Analysis ("**ERA**") published by the Network of Central Banks and Supervisors for Greening the Financial System ("**NGFS**") which provides wide-ranging examples of how environmental risks translate into financial risks, and an in-depth review of the tools and methodologies for ERA used by financial institutions.

Further, fund managers can make use of market data, for example, the total carbon footprint of a fund against a benchmark, another fund or the peer average to evaluate the climate risk of their underlying portfolio. When assessing climate-related risks the SFC encourages fund managers to look beyond their usual investment horizon. Physical and transition risks which are not likely to have a material impact in the short term may become material in the medium or long term. Fund managers are expected to consider how such risks may affect their strategies and can be factored into their investment management processes if they may become material over time.

It is also noted that MSCI Inc. ("**MSCI**") provides an ESG analytics tool for assessing the ESG exposures on a vast number of shares and fixed income assets. Based on its research, MSCI assigns an ESG rating to each company it covers which can easily be adopted by the risk managers of fund managers to assess total risks at a portfolio/investment strategy level. In coming up with the ESG rating, MSCI takes into consideration many risk issues under all the different themes in the three pillars of ESG – of which climate risk is one of the main themes. Although the MSCI ESG rating is not a direct measurement of climate risks, it may be a useful tool or proxy for assessing and analysing climate risks.

Assessing the materiality of climate-related risks to a fund or investment strategy should involve those within the fund manager responsible for risk management and the portfolio managers/the Chief Investment Officer ("**CIO**"). The views of the investment team are important as they are responsible for the investment proposition and how likely climate risk is to have an impact on the return profile of each investment or portfolio and how they can deliver absolute returns. In addition, managers can also consider how their investors may look at climate risk. Some steps and questions to consider include:

- assess climate-related risk in the context of (and in addition to) the usual risks currently measured by a fund manager, which may include:
  - liquidity (both portfolio liquidity and liquidity to meet redemption requests, meet counterparty calls etc.)
  - leverage
  - counterparty/credit exposure

[16] SFC seminar on The Management and Disclosure of Climate-related Risks by Fund Managers, in October 2021 https://www.sfc.hk/-/media/EN/files/COM/PDF/Climate-Seminar-PPT.pdf

  - country/market
  - sector/industry
  - other risks related to market conditions, such as COVID-19, Ukraine conflict etc.

- what factors need to be taken into account relevant to a particular investment strategy, such as impact for quantitative, systemic or fundamental investing, the length of holding period for a particular position, long or short positions, the impact on liquidity.
- in light of those factors, are climate-related risks material to the overall risks posed by specific portfolios or investment strategies under management?
- if climate-related risk is material to specific portfolios or investment strategies, is it material to a particular investment or investments within the portfolio or associated with the strategy?
- for the purposes of the above, decisions need to be made by the fund manager as to what it is going to measure to take a view on the materiality of climate risk aggregated across all the relevant investments.

These are questions that need to be discussed amongst the portfolio investment team/CIO and those responsible for risk management given the impact on investment policies and risk management processes. As a general matter, the fund manager has to ensure that its risk management policy and process is adequate to address all the material risks that exist in its portfolios.

3.3. References

The SFC has provided guidance regarding materiality assessments in its papers and circular on this matter. These include:

3.3.1. SFC Consultation Paper

In paragraph 55, the SFC notes that fund managers may consider adopting the methodologies suggested by international reporting frameworks, such as those described in Section 3.2 above.

If climate-related risks are considered to be material for a strategy or a fund, fund managers should comply with the proposed requirements for governance, investment management and risk management as well as the applicable disclosure requirements. If climate-related risks are not material for a strategy or fund, fund managers are only subject to the provisions on governance and are required to re-evaluate the assessment of relevance and materiality periodically and comply with the applicable disclosure requirements.

3.3.2. SFC Conclusions Paper

On relevance and materiality assessments of climate-related risks, the SFC notes in its Conclusions Paper in paragraphs 95-97 that climate-related risks are relatively new to the industry and the methodologies and practices in this area are evolving. The SFC refers fund managers to paragraphs 50-55 of the Consultation Paper (see Section 3.3.1 above).

Fund managers are also advised to make references to the publications and standards of international organisations (namely those listed in Section 3.2 above) which focus on climate change or sustainability in developing their policies and procedures. The SFC stresses that reviews are required or assessments be made on a regular basis and when triggered by any major changes such as to a fund's investment strategy.

3.3.3. SFC Circular

In Appendix 2 to the SFC Circular on sample industry practices for managing climate-related risks, the SFC provided the following guidance:

"When assessing the materiality of the impact of climate-related risks on an investment strategy or a fund, fund managers should adopt an approach which is appropriate and proportionate to their circumstances. The approach can be qualitative, quantitative or some combination of both. Fund managers may consider adopting the methodologies suggested by international reporting frameworks, such as the Sustainability Accounting Standards Board (SASB), Principles for Responsible Investment (PRI) and others, in assessing the materiality of climate-related risks. Fund managers should maintain appropriate internal records to demonstrate that they have assessed the materiality of the risks."

These international bodies are consistent with the references noted in the Consultation Paper and Conclusions Paper.

3.3.4. SFC FAQs

Q3 of the SFC FAQs provides similar guidance to the SFC Circular in Section 3.3.3 above, while also reminding fund managers of the climate-related risks associated with high carbon intensity assets:

"In addition, when incorporating climate-related risks into investment management processes, a Fund Manager should not only focus on green-related investments but also monitor and manage the climate-related risks associated with high carbon intensity assets in order to properly manage the fund's overall risk exposures."

Q3 provides a list of international organisations that fund managers can refer to and these are the International Financial Reporting Standards Foundation ("**IFRS**"), SASB, the PRI, TCFD, the CDSB, the GRI, the IIRC and PCAF.

4. Points for consideration

The extent to which the SFC's requirements apply will depend on whether or not the fund manager considers climate-related risks are relevant and material to its funds and investment strategies, whether the fund manager is a Large Fund Manager and whether the fund manager qualifies as a ROOF Manager. Fund managers may take the following into consideration (list not intended to be exhaustive):

- the management of ESG issues, including climate, is an ongoing and evolving process. The regulators in Hong Kong will continue to follow developments in the global industry bodies. There is a direction of travel globally;
- it is important for fund managers to identify and, as appropriate, manage the climate issues that affect their funds and investment strategies – these may be different, depending on each fund manager's own circumstances;
- fund managers should also put in place appropriate processes and systems to monitor, assess and manage these identified risks on an ongoing basis, where material, to ensure appropriate

and timely actions are taken to address risk. If the risk is assessed to be not material now it may, or may not, become material in the future;

- fund managers may adopt a flexible and pragmatic approach in assessing the relevance and materiality of climate-related risks to their circumstances. In assessing materiality, fund managers can use either or a combination of a qualitative and/or quantitative approach;
- for certain types of strategies, stewardship may be a way to manage climate risks, by influencing investee companies to implement climate risk mitigation measures;
- document in detail any methodologies used for assessing the relevance and materiality of climate-risks;
- where assessed to be relevant and material, take climate-related risks into account in the fund managers' investment analysis and decision-making process. In the case of a ROOF Manager, reflect such assessments in the fund's disclosures as relevant and appropriate; and
- the Board and management of the fund manager have an important governing role in assessing and managing climate-related risks, and ensuring that there is a proper framework for the conduct of relevance and materiality assessments.