

# POSITION PAPER

DATE: 3-2-2026

SUBJECT: EUROPEAN CLIMATE RESILIENCE AND RISK MANAGEMENT

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## Climate Resilience and Risk Management – a perspective from private institutional investors

In this position paper, the Dutch Federation of Pension Funds outlines how pension funds integrate physical climate risks in their investment decisions and risk management, and how they view their potential contribution to financing opportunities related to climate resilience. Both private and public investments are needed to boost the EU's climate resilience. This paper provides recommendations for designing policy measures to attract private institutional investments to prevent and prepare for the growing impacts of climate change. To do so, we first sketch the responsibilities of pension funds and subsequently explain how policy makers can align public policy objectives with those of pension funds.

*We encourage the European Commission to consider in what way private investment could complement public investment in climate resilience. We also suggest starting dialogue with institutional investors at an early stage, to explore the possibilities to mobilize private institutional investment together.*

### PHYSICAL CLIMATE RISK MANAGEMENT BY DUTCH PENSION FUNDS

In this section, we give a general outline for how Dutch pension funds manage climate risks in their investment portfolios. We explain which assets carry specific physical climate risks, and in what ways pension funds manage these risks. Lastly, we describe opportunities for pensions to reinsure risks of extreme weather events.

In accordance with EU and Dutch law, Dutch pension funds consider environmental factors in their investment decisions and further, they assess how environmental risks, including physical climate risks, relate to their investment portfolio and the management thereof. Regarding the latter, they are supervised by DNB, the Dutch Central Bank. To this end, DNB has published a guide to managing climate and nature-related risk.<sup>1</sup> The guidance makes a distinction between (acute and chronic) physical risks and transition risks. Extreme weather events such as floods, storms and heat are part and parcel of acute physical risks, and the general rise of the sea level is an example of chronic physical risk.

Pension fund investments in infrastructure, real estate, housing, forestry and agricultural are the most relevant asset classes both when it comes to physical climate risks and climate resilience investments. Many of these investments are in privately held companies. Dutch pension funds allocate about one fifth of their investment portfolios (~€400 billion in total) to private market investments in

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<sup>1</sup> DNB, [Guide to managing climate and nature-related risk](#), updated in July 2025.

infrastructure, real estate and housing. Investment in forestry and agricultural land is much smaller and amounts to a few billion euros.<sup>2</sup>

Pension funds mostly invest in private markets, indirectly, through the portfolios of asset managers. Pension funds actively monitor how these asset managers integrate climate adaptation in their investment decisions. For example, through assessing whether investee companies allocate adequate capital expenditure to the climate resilience of their assets and projects. Where monitoring reveals concerns, pension funds can address these with their asset managers.

For investments in publicly listed companies, pension funds can address physical climate risk via shareholder engagement, albeit from more distance. Shareholder engagement can take the form of conversations between the investor and an investee company; and voting at shareholder meetings.

In terms of transferring insurers' exposure to tail risks of extreme weather events, catastrophe bonds offer potential for pension funds. These products are relatively new. The exposure to 'natural disaster risk' is a way for pension funds to diversify their investment risk away from 'economic risk'. This investment category delivers good returns and risk characteristics, and scores well on liquidity, inflation hedging and ESG-characteristics. At the same time, costs are high, availability is still low, products and their risks are complex, and catastrophe bonds are hard to explain to pension fund participants. For now, Dutch pension fund investments in catastrophe bonds are limited to a few billion euros.

#### **PRIVATE INSTITUTIONAL INVESTORS' INVESTABLE WINDOW**

Pension funds are long-term investors with a well-established fiduciary duty to ensure the assets are invested in the best long-term interest of their beneficiaries. That means they need to generate sufficiently high and stable financial returns to ensure that members receive their pension payments. Also, pension funds, in accordance with the 'Dutch Pension Fund Code', should take the sustainability preferences of their participants into account when defining their investment policy.<sup>3</sup> In this context, pension funds are willing to allocate capital when investments meet a defined set of conditions that align with their fiduciary duty. These conditions form the "Investible Window": the space where project characteristics are financially attractive, legally stable, and operationally viable within a long-term, risk-managed portfolio. This concept was coined in the highly recommendable paper *Unlocking Domestic Investment Opportunities; Aligning Public Goals with Pension Fund Realities* by the International Centre for Pension Management (ICPM).<sup>4</sup>

Pension funds hold potential to contribute to the financing of public priorities such as infrastructure, housing, and the energy transition. Yet this capital remains underutilized as related investment projects often do not meet the conditions of the Investible Window. Therefore, we recommend that policymakers align their public policy objectives by focusing on the design of business structures that align with fiduciary realities; on strengthening the enabling environment; on signaling policy commitment over time; through respecting fiduciary and governance boundaries; and through facilitating access and scale for smaller pension funds.<sup>5</sup> Please see Annex I

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<sup>2</sup> The investment numbers in this paper are our own estimates, based on various publicly available sources.

<sup>3</sup> See standard 2 of the [Dutch Pension Fund Code](#) 2024.

<sup>4</sup> [Unlocking Domestic Investment Opportunities; Aligning Public Goals with Pension Fund Realities](#), the International Centre for Pension Management, September 2025.

<sup>5</sup> As set out in the aforementioned paper, on page 27-29.

for further elaboration on the Investable Window and strategic levers for policy makers.

#### APPLYING THE INVESTABLE WINDOW TO CLIMATE RESILIENCE INVESTMENTS

If private capital were to be sought for investments in nature-based solutions as default first line of defense and other long-term funding for infrastructural defense measures against extreme weather situations, these could take the form of public-private partnerships. We support the following observation from the IPCM paper: *“governments often approach infrastructure investment without a clear strategic objective. They seek private capital for infrastructure, housing, or clean energy, but often have difficulty articulating what they want in terms of control, outcomes, duration of the investments (exit strategies) and trade-offs. This ambiguity leads to poorly structured projects, unrealistic expectations, and conflicting messages across agencies, and therefore makes it challenging for projects to fall into the investible window. It is not enough to say, “We want private investment.” Governments must first clarify their own objectives and then assess whether their frameworks and institutions are equipped to attract and retain long-term capital.”*<sup>6</sup>

Therefore, **if the European Commission wants to explore mobilizing private institutional investment for climate resilience and adaptation, we encourage it to define its expectations on aspects such as control, outcomes, investment duration and trade-offs.**

When it comes to financing companies developing innovative products and services around climate resilience, such companies typically need venture capital and private debt financing. As reflected in Dimension 4 of the Investable Window,<sup>7</sup> institutional investors generally prefer assets that are operational or “core,” with proven business models and predictable cash flows. Moreover, such investments often lack scale and liquidity. Pension funds’ asset allocations to venture capital and private debt are therefore relatively limited. Considering these factors, **if governments want to attract pension fund investments in companies developing innovative products and services around climate resilience, risk-mitigation tools such as first-loss capital, guarantees, or blended finance could increase their attractiveness.**<sup>8</sup> Such state aid tools to de-risk private investments allow governments to speed up the development of new climate resilience innovations. The recent Clean Industrial Deal State Aid Framework is a good example in this respect.<sup>9</sup>

Finally, if the European Commission were to explore mobilizing private investment, we would encourage it to **start dialogue with institutional investors at an early stage**, to explore commercially viable business models and terms together and to avoid misalignment.

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<sup>6</sup> Please see page 19 of the paper.

<sup>7</sup> Please see the description of the dimensions on page 8-10 of the same paper.

<sup>8</sup> Please see page 10 of the paper.

<sup>9</sup> See the [Clean Industrial Deal State Aid Framework](#), 2025.

### ANNEX 1 - THE PRIVATE INSTITUTIONAL INVESTORS' INVESTABLE WINDOW

The concept of the Investible Window was coined in the paper [\*Unlocking Domestic Investment Opportunities; Aligning Public Goals with Pension Fund Realities\*](#) by the International Centre for Pension Management (ICPM). The paper can be read as a guide for governments and public finance institutions seeking to mobilize capital.

The window is comprised of four inter-related dimensions that characterize a project's characteristics, which are placed in the project's macro-environment:

- Dimension 1: **Risk and Return Alignment**. The investment must offer a competitive risk-adjusted return relative to global alternatives.
- Dimension 2: **Scale and Liquidity**. Institutional capital must be able to flow in and out at meaningful scale and within manageable liquidity constraints.
- Dimension 3: **Governance Framework**. Long-term investments require clear and enforceable contracts and strong governance mechanisms backed by effective institutional capacity.
- Dimension 4: **Development Stage**. Institutional investors generally prefer assets that are operational or "core," with proven business models and predictable cash flows.

Several contextual enablers can help shift projects into the investible window. A stable political, legal, macroeconomic, and financial environment is an enabler that does not override fiduciary constraints but can significantly improve the investment case if well designed and implemented.

The paper highlights five strategic levers the European Commission can use to bring assets into the investible window:

- Lever 1: Design business structures that align with fiduciary realities. Key design elements are commercially viable returns, contractual clarity and governance discipline.
- Lever 2: Strengthen the enabling environment. This includes stable regulatory frameworks, legal predictability and transparent procurement.
- Lever 3: Signal policy commitment over time. It is important to set long-term infrastructure strategies; involve independent agencies (such as the EIB Group); and use co-investment by the state.
- Lever 4: Respect fiduciary and governance boundaries.
- Lever 5: Facilitate access and scale for smaller funds.