

Investing in the Future

Approaches to Climate Change in Portfolios

As the potential impacts of climate change become better understood, more investors are grappling with how to incorporate environmental considerations into their portfolios. However, investor preferences on climate risk and sustainability are as diverse as the climate solutions themselves.

From investors promoting green innovations to other investors cautiously integrating climate data into risk assessments, the strategies and philosophies reflect a complex landscape.

As investors solidify their positions on climate change, they also face a crucial question: How can they ensure their portfolio aligns with their sustainability objectives while still achieving their financial objectives?

State Street Global Advisors' new survey, *The Climate Opportunity*, highlights the diverse range of institutional investor attitudes and the challenges they face when adopting approaches to tackle climate change in their portfolios.

Key Drivers of Climate Investing

The survey, based on information from more than 300 asset owners from across EMEA ("Asset Owners"), reveals that mitigating investment risk (34%) is the main driver behind organizations considering climate-related factors in their investment decisions. This was closely followed by the potential for investment outperformance (29%) and compliance with new regulations (26%).

Although contributing to sustainability objectives and responding to demands from stakeholders, such as scheme members and fund investors, were cited less frequently as primary reasons, they remain important considerations.

Fiduciary duty also drives the integration of climate-related factors into investment decisions, with 62% of respondents stating that their fiduciary duty mandates them to integrate sustainability factors, including risks and opportunities, into investment decisions. Similarly, 63% agreed that investing in climate-related themes is critical to fulfilling their fiduciary duty.

Even though creating opportunities for investment outperformance is one of the key drivers for considering climate-related factors in investments, many investors also anticipate a potential reduction in returns.

The survey found 41% of respondents identify potentially lower returns and/or higher volatility as the main challenge or concern their organization encounters when investing in or offering climate-related investment strategies, making this the most frequently cited risk.

Despite these concerns, many investors continue to express an interest in climate change investing. This suggests that they may either be willing to accept lower returns to reduce the impacts of climate change or remain hopeful that such investments will yield better performance over the longer term.

Forward-Looking Metrics

Forward-looking metrics refer to indicators and measures that help assess a company's future performance in terms of sustainability and risks and opportunities attributed to climate change. Unlike backward-looking data which typically assesses a company's activities in the past and includes metrics like a company's carbon or greenhouse gas emissions, ownership of fossil-fuel reserves, and revenues derived from fossil-fuel related activities, these forward-looking metrics offer insights into how a company is expected to perform based on its strategies, policies, and practices and the risks and opportunities arising from climate change that these present.

They also enable investors to better measure the effects of potential climate change-related risks, such as regulatory changes or shifts in consumer preferences, which could affect future investment performance. This is particularly crucial as more investors understand that, while some effects of climate change are already evident, the energy transition will likely span several decades. Therefore, we believe these metrics are crucial for assessing long-term trends and preparing for the future.

Even though the market is increasingly recognizing the importance of forward-looking metrics, integrating accurate metrics remains a challenge. According to the survey, 40% of respondents reported that difficulty in obtaining high-quality climate-related data is a main concern. Meanwhile, another 40% cite the complexity of measuring the actual impact of investment as a challenge.

Overcoming these challenges and developing effective, accurate forward-looking metrics to guide investment decisions will be unique to each organization as there is no one-size-fits-all approach to incorporating sustainability data into security selection, risk monitoring, or reporting.

Also, there is no single person within an organization that possesses all the knowledge and skills required to implement an effective sustainability strategy while meeting a wide variety of needs.

However, not everyone considers forward-looking metrics to necessarily be an issue. According to the survey, 45% of respondents believe that the existing climate-related metrics are fit for purpose when it comes to the needs of Asset Owners. These existing metrics may include rating frameworks like the Global Reporting Initiative or the Task Force on Climate-related Financial Disclosures.

Meeting Investors' Different Needs

As asset owners gain a clearer understanding of the risks and opportunities associated with climate change, and how to integrate these within their portfolios, many are turning to asset managers for climate expertise.

Each investor will adopt a different approach to climate investing, driven by his or her individual preferences and goals. State Street Global Advisors is here to help by interpreting and activating solutions based on each investor's specific needs and approach.

The Climate Opportunity

A State Street Global Advisors study of EMEA-based asset owners' integration of climate considerations into investment decisions. Read the [full report here](#).

To explore how State Street Global Advisors can support your climate investment efforts, please visit us, contact your relationship manager, or email us at [SSGA Insights](#) to discover how we can help.

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* Pensions & Investments Research Center, as of December 31, 2023.

[†] This figure is presented as of June 30, 2024 and includes ETF AUM of \$1,393.92 billion USD of which approximately \$69.35 billion USD is in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

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Important Information

In partnership with FT Longitude, part of the Financial Times Group. This study was conducted in May of 2024 via an online survey instrument (n=330) and qualitative telephone interviews (n=2). Respondents were limited to senior leaders and Chief Investment Officers who are directly involved in ESG investment decisions at Pension Funds, Sovereign Wealth Funds, Endowments, and Insurance companies.

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ID2340704-6985317.11.GBL.RTL 0924
Exp. Date: 08/31/2025