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# Navigating Sustainable Investing

## Regulation as a Driver of Opportunity and Risk

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For many investors as sustainability considerations move closer to the forefront of investment strategies, regulation has emerged as a key driver of both opportunity and risk.

This shift is being primarily driven by improved data availability, new scientific insights such as those from the UN's World Meteorological Organization, policy changes and growing voter interest, all of which has pushed climate and sustainability issues higher up on political agendas in many jurisdictions. According to a recent Pew Research Center [survey](#), a median of 75% of people across 19 countries in Europe, North America, and the Asia-Pacific region see climate change as a major threat — higher than concerns over misinformation (70%), cyberattacks (67%), the economy (61%), or infectious disease (61%).

This growing sociopolitical concern is influencing some policymakers and, in turn, reshaping the regulatory landscape for many institutional investors. For those managing institutional portfolios, understanding and adapting to these changes may be crucial.

The latest survey by State Street Global Advisors, *The Climate Opportunity*, highlights the importance of regulation in sustainable investing decision-making among EMEA-based asset owners (“Asset Owners”). Keeping pace with new regulation is the second-highest driver for Asset Owners integrating climate-related issues into their investment decisions, just behind investment risk. This dual role of regulation — as both a risk to be managed and an opportunity to be seized — is shaping the strategies of institutional investors around the world.

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### The Role of Policy and the Private Sector

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For institutional investors, the regulatory environment may be more than just a set of rules to follow — it's a dynamic force that varies drastically between jurisdictions. Changes, can and often do, reshape markets. As climate and sustainability issues become increasingly enshrined in law in many jurisdictions, investors who are attuned to these shifts are likely better positioned to gain a competitive edge.

The divergence in regulatory approaches across regions is particularly challenging. These variations mean investors must not only be compliant but also strategic in their approach to sustainable investing. Rather than viewing regulation as merely a hurdle, savvy investors can leverage it to unlock new opportunities, drive innovation, and differentiate themselves in the market.

Despite this varied regulatory backdrop, *The Climate Opportunity* survey shows that Asset Owners consider action by policymakers to be one of the most effective methods of combatting climate change, ranked by 56% of respondents among their top three choices. While regulation is a critical factor, it's not the only driver — only 16% of respondents ranked policy action as the most effective method, with 18% favoring investment choices made by the private sector.

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## Regulation as a Catalyst for Long-Term Thinking

The evolving regulatory landscape highlights a fundamental truth: Regulation shapes markets, and those who understand its nuances may be better positioned to succeed. For institutional investors, we believe this likely means staying ahead of regulatory trends — or partnering with an experienced asset manager to help navigate the complex regulatory web. The objective of investors is likely not to be simply about avoiding potential pitfalls, but strategically positioning portfolios to benefit from the ongoing shift toward sustainability.

For instance, the survey reveals that 82% of Asset Owners have already modeled the potential impact of climate-related policy and legal risks to their portfolios, with 42% conducting extremely detailed assessments and modeling. This level of foresight helps investors to anticipate how regulations could affect not just compliance spend, but also market dynamics, investment opportunities, and long-term returns.

Regulation can also support the transparency needed for effective stewardship, helping institutional investors to hold the companies in which they invest in accountable. Nearly half (44%) of survey respondents indicated that monitoring whether companies fully disclose their scope 1, 2 and 3 emissions according to the Task Force on Climate-related Financial Disclosures (TCFD) guidelines is a key component of their stewardship approach.

In our view, this emphasis on transparency, driven by regulatory frameworks, enables investors to engage with companies according to set benchmarks and to push for meaningful change where it may be needed to align with their investment objectives.

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## Our Approach: Guiding Without Prescribing

The regulatory landscape, in our view, is a powerful force shaping effective sustainable investment strategies, and for institutional investors, the ability to navigate and leverage this environment is likely key to managing risk and seizing opportunities. As many parts of the world continues to shift toward sustainability, and some pockets of the market are hit by a backlash, those who embrace regulation as a strategic tool may be best positioned to lead in the evolving landscape of sustainable investing.

At State Street Global Advisors, we understand that the intersection of regulation and sustainable investing may require a tailored approach, with consideration of relevant jurisdictions, reputational risk, and each investor's unique values. We don't prescribe a one-size-fits-all solution; instead, we work with clients to interpret and activate strategies that align with their unique needs and the regulatory environments in which they operate. Whether it's navigating supportive frameworks or adapting to highly specific laws, our goal is to empower clients to make informed decisions that drive long-term value.

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## 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.

<sup>†</sup> 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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