

The 5 Key Questions Asset Owners Commonly Ask About Sustainable Investing

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Asset owners may wish to incorporate sustainability factors into their investment decision-making for a variety of reasons: from a desire to manage risks, identify investment opportunities, respond to regulations through to generating some form of positive sustainability outcome. Most often, however, it will likely be a combination of these factors.

From our conversations with clients, we've identified five of the most common questions that asset owners ask investment managers, whether as part of a manager appointment or manager monitoring process. We also provide our perspective, as a global asset manager, on those questions.

- Q1** What does sustainable investing mean to you?
- Q2** What capabilities do you have to help me achieve my sustainable investing objectives?
- Q3** We want to incorporate climate-thematic considerations in our portfolio, how can you support this?
- Q4** How do you ensure transparency and integrity in your sustainable investing processes?
- Q5** What are you doing to meet evolving investors' sustainable investing needs?

Q1. What does sustainable investing mean to you?

Sustainable investing is an investing philosophy where an investor considers environmental, social, and governance factors alongside traditional investment considerations. Given the variation in institutional investors' sustainable investing requirements, it's crucial that an asset manager is able to understand their clients' needs and has a long-term mindset, helping to ensure a fulfilling and effective partnership. Client-centricity is essential in piloting the nuances and complexities needed to provide solutions and services that are closely aligned to their requirements.

In our view, effective sustainable investing requires investment expertise, deep research acumen, analytical tools and robust reporting capabilities to help provide investors the information and range of choices they require to achieve their goals and invest with confidence.

Q2. What capabilities do you have to help me achieve my sustainable investing objectives?

The capabilities asset owners require from their asset managers to support their sustainable investment objectives may include:

- 1. Investment and Product Expertise** Creating successful investment outcomes requires an understanding of the requirements incorporated in an investor's objectives. It also requires working alongside investors in understanding the risks, opportunities and trade-offs (for example, tracking error versus a benchmark) that may arise from incorporating sustainability factors into investment portfolios. Partnerships and experience working with various index and sustainability providers can enhance the ability to implement strategies that tightly align with investors' objectives, including both off-the-shelf and bespoke indices and solutions.
- 2. Breadth of Investment Solutions** Asset managers can be expected to offer a spectrum of solutions for investors to implement sustainable investing objectives. For example, common approaches include negative screening, positive screening, and thematic investing. Such products and strategies may need to be both scalable and sufficiently flexible to adapt to potential changes in the future. State Street Global Advisors, for example, provides a wide range of thoughtfully designed and precisely executed sustainable investing options across pooled vehicles, including our global ETF platform, and fully customisable separate accounts for various sustainable investing approaches.
- 3. Data, Analytics and Thought Leadership** Access to high quality, multi-source and robust sustainability data supports the research and analysis that underpins investment solutions, helping investors assess the sustainability characteristics of their portfolios. Sustainable investing tools, data, methodologies and solutions continue to evolve and consequently asset managers who are able to deliver deep insights and analysis (such as the impact of incorporating sustainability factors into an index) through thought leadership can be a vital resource for investors seeking the most current knowledge and understanding of sustainability risks and opportunities. It is for these reasons that we have built a data platform featuring a wide range of sustainability data sourced from leading data providers. This includes firm-specific sustainability scores, controversy and business involvement risk indicators and comprehensive climate-related metrics including backward and forward-looking data as well as country-specific datasets. We regularly publish research papers and articles that address relevant sustainable investing issues to our clients.

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4. **Dedicated Sustainable Investing Team** Having specialist sustainable investing resources that work alongside portfolio managers, risk professionals and reporting and product teams can greatly enhance information sharing of new data, best practices and standards. At the same time, where applicable, this structure can improve consistency in establishing policies and processes across an organisation. This can help ensure that investment teams have the ability to incorporate material sustainability factors into appropriate portfolios they manage on behalf of their clients.
 5. **Investor Proxy Voting & Stewardship Engagement Choice** As investor preferences evolve, there is increasing demand for greater choice and transparency in how voting rights are exercised and how engagement with portfolio companies is conducted. Offering investors the ability to direct proxy voting or tailor stewardship approaches allows for greater alignment with their investment priorities and values.

State Street Global Advisors, for example, launched its **Proxy Voting Choice** program in 2023, allowing investors to direct the proxy voting of shares in the eligible funds and accounts they own. The firm has also introduced the client-driven **Sustainability Stewardship Service** for eligible clients who seek to have a distinct focus on certain sustainability priorities in engagements with portfolio companies.

Q3. We want to incorporate climate-thematic considerations in our portfolios, how can you support this?

Climate is an increasingly significant area of interest for many investors. Indeed, in our 2024 survey, *The Climate Opportunity*, we found a significant increase in the number of EMEA-based asset owners explicitly considering climate change in their investment strategies relative to our previous survey in 2021.

Investors who are seeking climate risk-aware investment solutions may wish to partner with asset managers to develop tools and solutions for implementing a range of strategies such as climate-related screens and indexes, as well as those focusing on climate solutions or green technologies.

In our case, to support clients who have climate investing objectives, we have launched various climate-related investment strategies and solutions. For instance, we developed a proprietary climate investment framework in 2019 and have been enhancing and expanding its application across equity and fixed income. In addition, we recently launched a fundamental equity strategy that seeks to invest in companies that we believe are well-positioned for the transition to a low carbon economy. Lastly, based on client demand, we have enhanced capabilities and developed insights in supporting those who are interested in incorporating forward looking climate metrics in their investment strategies.

In addition to building investment solutions, the ability to conduct rigorous research and share these insights with investors helps clients navigate the challenges of incorporating climate objectives into portfolio construction. Furthermore, portfolio monitoring needs can be supported by credible reporting capabilities that utilize a range of climate metrics across data providers.

Q4. How do you ensure transparency and integrity within your investment processes?

We believe it is important that investors invest via a process they can trust. Trust is built on the transparency, consistency and rigour in the implementation of investment objectives and communication of investment results.

Firstly, clear and transparent communication with clients is a priority. When building solutions, we believe it is crucial to understand clients' requirements in order to design and implement solutions that will help them achieve their objectives in the most effective way. This requires close collaboration between investment professionals, client relationship managers and dedicated sustainable investing specialists.

Secondly, it is important to establish effective oversight and governance over sustainable-investing-related processes across the firm. At the portfolio level, oversight and controls should be in place to ensure investment guidelines — including explicit sustainability requirements — are adhered to. With respect to sustainability data, quality assurance checks should be performed to ensure consistency, accuracy and to identify potential data issues.

Lastly, institutional investors may require regular periodic reporting on their portfolios, including sustainability characteristics, to facilitate the monitoring of their investments. In addition, portfolio analytics can provide a more robust level of detail into specific topics that investors are concerned about. At State Street Global Advisors, we provide monthly sustainability reports for our clients' equity and fixed income investment portfolios. These reports offer access to a full range of sustainability-related metrics such as controversies, business involvement and carbon emissions. We also provide portfolio analytics based on broad datasets that can address clients' requirements in monitoring the sustainability characteristics of their portfolios.

Q5. What are you doing to meet evolving investors' sustainable investing needs?

Our *Climate Opportunity* survey underscored the varying implementation considerations of asset owners who seek to invest in sustainable investment solutions. Off-the-shelf products may not fully cater to each investor's needs, highlighting the importance of an asset manager's flexibility, breadth and depth, as well as their ability to offer customised solutions.

We believe that it is crucial investors select an asset manager that can be a partner to them in their sustainable investing journey and who can appreciate the nuances in each investor's specific needs. To fulfil this commitment, we believe asset managers should focus on enhancing investment capabilities, delivering thought leadership and investing in their people and expertise.

Enhancing Investment Capabilities Developing innovative products and solutions in response to clients' demands and broadening the solutions offered to clients should be top of mind for asset managers. We are continuously exploring new areas of research based on client interest, which allows us to serve a wide range of clients' needs. For example, integration of different temperature pathways and scenario analysis into investment decision-making and exploring biodiversity risks and opportunities are just some of the areas we plan to conduct further research. Finally, broadening access to datasets can enable asset managers to be flexible and customise solutions to cater for clients' evolving requirements.

Delivering Thought Leadership Asset managers can be expected to provide insightful and relevant research and analysis that can support clients in making informed investment decisions. Understanding the importance of accessing expert insights and tools, we build on our broad sustainability data platform, relationships with index and sustainability data providers, as well as internal expertise, to conduct research into areas that our clients care about. We seek to share those insights through clearly articulated thought leadership papers.

Investing in People and Expertise The *Climate Opportunity* survey showed that 33% of respondents see a "lack of internal climate expertise" as one of the main challenges they face. This highlights the importance of asset managers placing emphasis on building internal expertise and capacity. For example, this can be demonstrated through expanding and strengthening the dedicated sustainable investing team and creating opportunities for investment professionals and client relationship managers to enhance their knowledge on sustainable investing topics. At State Street Global Advisors, we are continuing to grow our dedicated sustainable investing team in order to best serve clients' sustainable investment goals and objectives. We offer regular sustainable investing training as well as internal sustainable investing-focused research forums as a way to discuss industry trends, regulatory developments, research priorities and new sustainability-related initiatives across the firm.

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For over four decades, State Street Global Advisors has served the world's governments, institutions, and financial advisors. With a rigorous, risk-aware approach built on research, analysis, and market-tested experience, and as pioneers in index and ETF investing, we are always inventing new ways to invest. As a result, we have become the world's fourth-largest asset manager* with US \$4.72 trillion[†] under our care.

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

[†]This figure is presented as of December 31, 2024 and includes ETF AUM of \$1,577.74 billion USD of which approximately \$82.19 billion USD 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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