

What Can Investors Do About Climate Change?

Pre-read for LSE Investor Workshops
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INTRODUCTION

The role of investors in addressing climate change is under intense scrutiny. In Europe, it is still widely accepted that investors have an important role to play in supporting economy-wide decarbonisation to help meet societal climate goals. In the US, however, investor involvement in climate initiatives has been attacked as anti-democratic, anti-competitive, and in violation of fiduciary duties. Some criticisms of investor climate action are doubtless justified: climate commitments have not always been well-grounded and there have been cases of greenwashing. Yet it is difficult to argue that investors should simply ignore climate change.

While the political consensus on climate change has fractured in the US, there are signs of similar developments in Europe. **Increasingly, climate change is viewed as one of a number of challenges to be addressed alongside energy security, cost of living, and indeed national security.** Concerns about the short-term economic costs of climate action are growing. Asset owners can no longer assume that their beneficiaries are uniformly supportive of net zero targets. Asset managers must cater to clients with widely differing views of climate change, after a period when it seemed safe to be on the decarbonisation side of the argument. At the same time, **doubts remain about how much has actually been achieved by voluntary investor action.**

This challenging context makes it particularly important for investors of all types to have robust foundations for their position on climate change. At the time of COP 26 in Glasgow, there was **a brief sense that global society was aligning** behind the mission to “keep 1.5°C alive”. Investors signing up to GFANZ-related commitments were therefore going with the flow of societal expectations and can perhaps be excused for not anticipating all the implications of their pledges. **That supportive context can no longer be taken for granted.**

This is why we have chosen to run this project now. Many excellent reports already exist on the role of investors in tackling climate change and other systematic risks. We are not aiming to produce another all-encompassing review. Instead, we aim to focus on some **difficult questions that have not always been fully surfaced or resolved** in those reports, but which investors face as a practical matter in their day-to-day work. Our aim is to provide a context in which those questions can be considered.

Our view is that climate change is a very serious issue that will only be addressed if citizens, consumers, businesses, investors, and policy makers all consider how best to contribute. But in the current environment that contribution **needs to be robustly grounded** in the context of each actor’s responsibilities, role in society, and agency.

This paper is intended as a **starting point for discussion with investors**, rather than a set of solutions or recommendations. Through that discussion, and the outputs that follow, we hope to help **investors chart a way forward** in this challenging area and time.

ORGANISATION OF THIS PAPER

This paper is pre-read for workshops on the topic ‘**What can investors do about climate change?**’ to be run by the Financial Markets Group at LSE with funding from the Environmental Defense Fund and the LSE Global School of Sustainability.

Our workshop participants are highly knowledgeable, so we make no attempt to cover all issues comprehensively. Instead, **our aim is to provoke discussion of the difficult questions that, in our view, remain unresolved.** Given this purpose, and for readability, we do not extensively reference sources throughout the paper. But we fully acknowledge the body of work on which we rely. In the Appendix we list some academic and non-academic articles that explore the issues in more detail. We have focussed on material that is accessible and useful to practitioners, rather than attempting to provide a full survey of the literature. It is, therefore, far from exhaustive, and prioritises review papers rather than single-issue academic studies.

This document has been produced for the workshop participants for the purpose of facilitating discussion. After the workshop we will publish a concise report setting out our view on some of the key findings emerging from the discussion, which we believe are **essential for investors to find a robust way forward.**

We start by setting some foundations in terminology, framing, and underlying assumptions. We then turn to the key questions that are the subject of this project:

1. **Goals and targets:** What is the nature of the financial risk that climate change creates for investors? Should asset owners and asset managers set climate-related goals and targets, and if so, what form should they take? How important are asset-level and real-world, system-level targets for different types of investors? What boundaries do fiduciary duties impose? Can alignment across the investment chain be achieved?
2. **Mechanisms:** What mechanisms have proven effective in achieving climate targets and contributing to real-world decarbonisation to date? What lessons can be drawn from practical experience, particularly around climate-focused investing, integration/divestment, corporate engagement, and policy advocacy?
3. **Collaboration:** What role can and should investor collaborations play? How should they be structured to contribute effectively while maintaining legitimacy?

EXECUTIVE SUMMARY

1. GOALS AND TARGETS

KEY FINDINGS

- At the asset level climate risk can clearly be material. At the systematic portfolio level the connection between climate change, economic risk and financial market risk is less certain.
- Asset owners adopting climate targets must combine a belief in climate change as a material systematic portfolio level financial risk with an assumption that they have agency to affect climate outcomes.
- System-level targets seem more relevant for asset owners than asset managers.
- An investor goal of limiting warming to 1.5°C is becoming difficult to justify.
- Investors setting goals can consider an alternative absolute goal (e.g. 2°C), but a directional goal (e.g. most rapid politically feasible decarbonisation) may be more resilient over time and better reflect the role of investors.
- Discussions of fiduciary duty in relation to climate change can be something of a red herring, when the real differences in view relate to the financial implications of climate change and the degree of investor agency.
- Incentives and agency issues mean that perfect alignment across the investment chain is likely unattainable and compromises will be required.

WORKSHOP QUESTIONS

- How can investors form a robust science-based view on the nature and extent of the systematic financial risk caused by climate change given uncertainties involved?
- Is it important to have specific climate goals or are they unrealistic for investors? How does this differ for asset owners and asset managers?
- If so, are temperature goals helpful or a distraction? And which temperature? Should we have directional goals or statements of intent instead? Does it matter?
- What challenges have participants faced in justifying climate goals from a fiduciary perspective and what arguments have been made that they found compelling?
- Where are the challenges and what is effective in terms of seeking alignment across the investment chain?

2. MECHANISMS

KEY FINDINGS

- There is extensive evidence that investors can affect corporate action on climate.
- However, there is little or no evidence these mechanisms cause companies to take harmful economic actions or correct for the unpriced carbon externality.
- Four schools of thought have emerged on how to proceed:
 - increasing assertiveness through voting against directors and debt financing;
 - limitations-aware engagement focussing on corporate actions within the realistic zone of director discretion;
 - policy engagement to make decarbonisation economically feasible; and
 - a pivot to focussing on adaptation and resilience.
- More assertive approaches face fundamental limitations given commercial constraints and the fungibility of capital.
- The policy-led approach starts from the probably valid premise that rapid decarbonisation will not happen without robust government policy and focuses on both direct engagement and the role of corporate lobbying.
- Investor policy influence is moving from a global to local phase, requiring connection to specific political triggers, focus on areas where investor views are particularly relevant, and careful guardrails to avoid political overreach.

WORKSHOP QUESTIONS

- Is the assessment of limited investor influence fair or have participants seen major impacts from their activities?
- If so, what has been most effective? Have sector initiatives worked better?
- What is the experience in asset classes other than equity?
- Is increased assertiveness in asset-level activities likely to work or do we need to pivot more comprehensively to policy engagement?
- What lessons have been learned from policy engagement and lobbying alignment to date – has it been effective and what are the disincentives and barriers?
- Should investor focus shift from mitigation to resilience and adaptation and what would that entail?

3. COLLABORATIONS

KEY FINDINGS

- Collective engagement is more powerful than solo efforts but remains limited against entrenched economic externalities and is burdened by collective action costs.
- Investors coalitions have reinforced societal net zero norms and have helped improve disclosure, but there is little evidence of them leading to material decarbonisation.
- Investor coalitions face structural weaknesses: weak governance, lack of accountability, lowest-common-denominator compromises, and incoherence in engagements.
- More focused coalitions on specific issues may achieve results where broad decarbonisation efforts stall - large coalitions may add value mainly through thought leadership, practice sharing and development of standards, such as disclosure.
- Coalition dynamics are shifting from global to local, as exit of US investors leaves coalitions increasingly European and political engagement is inherently local, depending on government policy pathways.
- A diverse ecosystem of coalitions may emerge: broad for knowledge and methods, single-issue for targeted impact, and territorial for political leverage.

WORKSHOP QUESTIONS

- What is the way forward for the larger investor coalitions? Do they have a future?
- Is there a case for smaller, more focussed, and more agile coalitions?
- Could there be an ecosystem of broad-based coalitions focussed on knowledge sharing rather than targets; narrower single-issued coalitions focussed on specific decarbonisation objectives; and regionally-based coalitions focussed on policy?
- If so, how should such collaborations form, and what should they focus on? How strong is the case for further collaborations differentiated by investor type - aligned with their respective duties, objectives, time horizons, and incentives?
- How can collaborations be resourced to do policy work?

FOUNDATIONS

Although this is a highly knowledgeable audience, it is useful to establish foundational concepts and terminology before discussing the specific research questions:

- The investment chain;
- Types of climate risk; and
- Fiduciary duty.

THE INVESTMENT CHAIN

When considering what investors can do about climate change, it is important first to understand the context in which they operate and their connection to assets in the real economy. Investors sit within an investment chain, in simplified form, as follows:

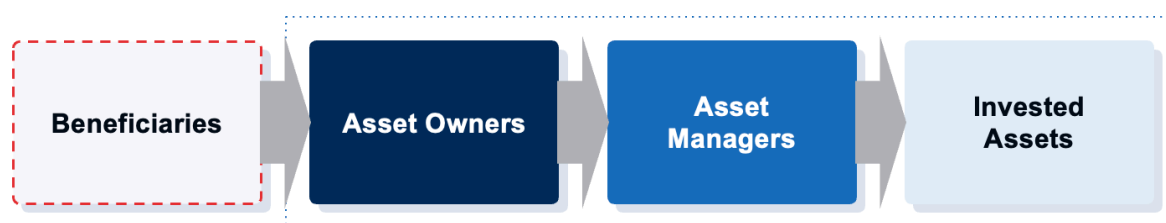


Figure 1: The investment chain

By way of illustration, beneficiaries might be the members of a pension scheme; the asset owner, the pension scheme; the asset managers, the fund managers appointed by the scheme to invest on their behalf; and the invested assets, the companies in which those fund managers ultimately invest. The actions of companies – through the production of goods and services – ultimately shape outcomes in the real economy.

Each part of the investment chain operates within its own regulatory framework and is subject to stakeholder expectations, financial incentives, and agency issues. While the discussion in this paper highlights stylised characteristics of each actor in the chain, it is important to note that there is considerable diversity within each group - for example, among asset owners depending on the source and ultimate use of funds, and among asset managers in terms of mandate, time horizon, and business model. At one end, asset owners have the objective of meeting beneficiary needs for real returns across diversified portfolios sometimes over decades. At the other, company directors focus on the short, medium and long-term financial success of their individual organisations. In the middle, asset managers are tasked by asset owners with delivering on specific mandates, often covering only part of the asset owner's overall portfolio and typically evaluated over periods of a few years. Their performance is usually measured relative to benchmarks, and they are typically rewarded for relative rather than absolute returns. Asset managers also face business incentives to deliver value to their own shareholders, which in practice often means focusing on funds under management and margins. **These relationships and dynamics create some alignment of interests across the chain, but the alignment is imperfect.** We will return to some of these issues in section 1.5.

TYPES OF CLIMATE RISK

Climate change poses a range of financial risks for investors.

Asset-level risk covers well-documented physical and transition risks. Physical risks are often negative for incumbents as they require costly adaptation but can also create opportunities for businesses providing adaptation solutions. Transition risks have to date been negative for heavy emitters and positive for more sustainable businesses. But recent events, especially in the US, show that dependency on policy for profitability creates its own transition risk.

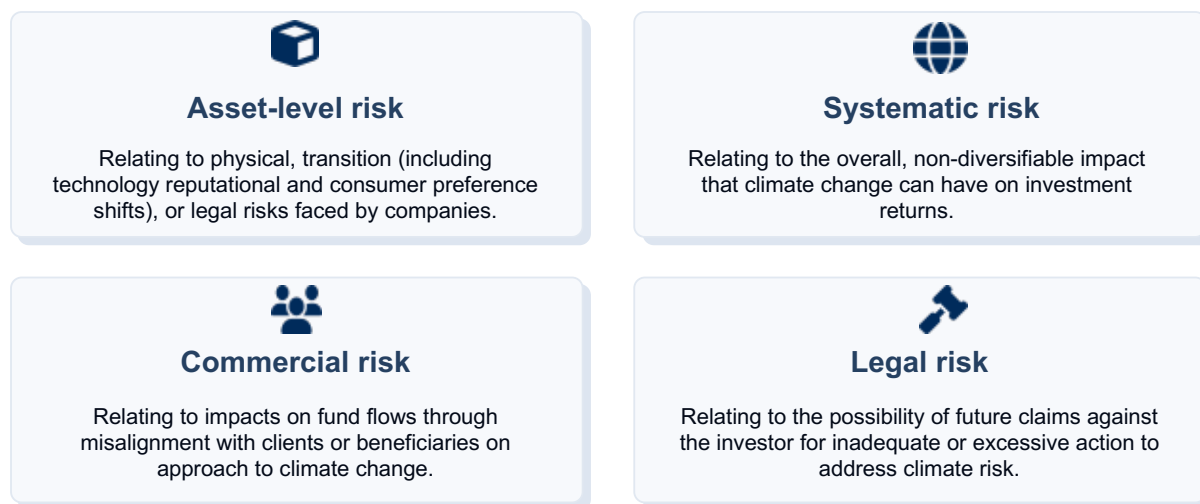


Figure 2: Types of climate risk

Systematic risk¹ is a more contested concept. It is based on the idea that climate change affects the whole economy and financial markets (negatively) in a way that conventional diversification cannot address. If conventional diversification is no longer an effective risk management tool, then focusing only on asset-level climate risk misses the point, and the only real option for broad-based “universal owners” is to confront the root cause: climate change itself. **The concept of systematic risk can therefore be seen as the essential justification for investors adopting overarching climate goals such as limiting warming to 1.5°C.**

Commercial risks arise because, with climate change being viewed by some asset owners (including retail clients) as both a moral issue and a systematic risk to long-term returns, investors face risks to fund flows if they are misaligned with the views of clients. These risks primarily affect asset managers but can impact asset owners who act as asset gatherers – for example, Defined Contribution (DC) providers competing for corporate pension mandates. **The challenge has now become more acute, with asset managers finding they have clients and stakeholders with diverse and contradictory sustainability preferences.**

¹ Systematic risk is the market-wide, non-diversifiable risks that climate change creates for investors. This is sometimes referred to as “systemic” or “system level” risk. Given that in the finance world systemic risk often refers to the more specific risk of financial system failure, the remit of shorter-term prudential oversight, we use the term “systematic” in this report.

Legal risk has gained attention recently, with cases brought in the Netherlands against Shell and ING and sweeping “climate justice” rulings from the ECJ and ICJ. On the other side of the debate, cases have been brought in the US relating to anti-trust and violation of fiduciary duty. **In this context investors want to ensure that they are protected against accusations of doing either too little or too much on climate action.**

Investor responses to climate change balance a number of these risks, which of course interact with one another and depend on the nature of the investor. Legal and regulatory developments can shift commercial incentives and influence which risks investors prioritise. In this paper, **we focus primarily on systematic and asset level risk.**

FIDUCIARY DUTY

Fiduciary duty is both a simple and a complex issue on which much ink has been spilt. Here, we set out some basic practical concepts that, in our view, reflect the reality of fiduciary duties faced by actors across the investment chain. For readers seeking more depth, the Appendix contains a selection of references relating to fiduciary duty. In this discussion, we highlight four key concepts that we see as particularly relevant to asset owners. We focus here on asset owners because they will be the prime driver of fiduciary consideration of climate risks.

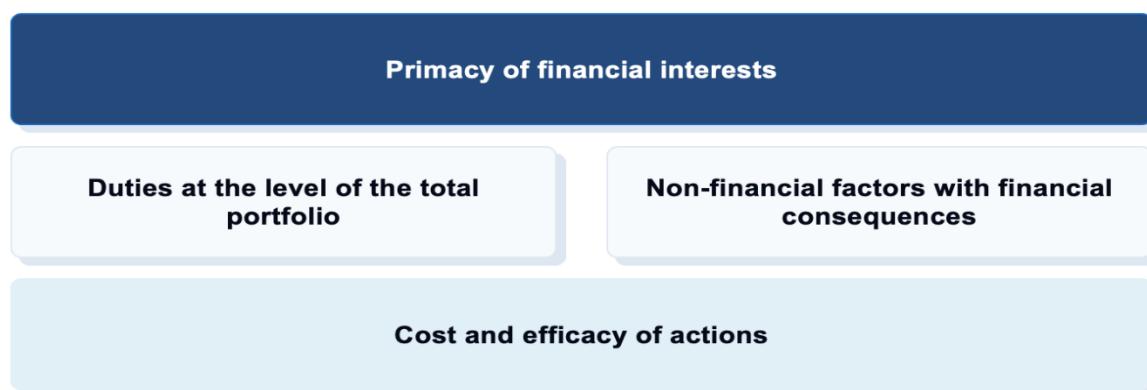


Figure 3: Fiduciary duty concepts

Our first concept is that **asset owners will mainly pursue financial objectives** in their management of assets – in other words, seeking to get the best possible risk-adjusted return over the time horizon of the liabilities in order to meet obligations to investors, policyholders, or beneficiaries. Given the nature of long-term liabilities, risk frequently means the risk of real-terms capital loss rather than underperformance. Asset owners will not, generally, be willing to sacrifice risk-adjusted returns in order to meet the non-financial preferences of beneficiaries. Even where this is permitted in principle, for example in the case of certain trust-based pension funds or endowments, **the bar that trustees would have to get over to ensure informed consent for such a trade-off from members is too high for this to be common.**

Our second concept is that the **fiduciary duties of the asset owner apply at the level of the total portfolio** rather than its constituent parts or assets. The concern is the ability of the entire portfolio to meet the liabilities rather than the returns from individual assets. It is in principle

possible for the asset owner to seek to curtail activities of an individual portfolio company, even if this is damaging to that company, if doing so reduces negative externalities for the portfolio overall. In practice, however, such interventions are likely to face significant practical difficulties because of directors' fiduciary duties at the company level.

Our third concept is that **it is perfectly legitimate for asset owners to consider non-financial factors**, like climate change, in their management of investments **if those factors have financial consequences**. It is straightforward to see how this could be the case at the asset level - physical damages may affect a property portfolio, for example – but the same logic could in principle also apply at the portfolio level, if climate change affects overall portfolio returns. We will come back to the nature of the financial risk in Section 1.

Our fourth concept is that when deciding whether and how to act on an issue like climate change, **asset owners need to think about the likely cost and efficacy of their actions. They should not consume fund resources or expose the fund to risks if their actions are likely to be ineffective**. Cost of actions can be both direct (e.g. cost of engagement) or indirect (e.g. negative outcomes from reduced diversification or a skewed investment strategy).

With this initial framing, we are now able to address the key research questions.

1. GOALS AND TARGETS

1.1 WHAT IS THE NATURE OF THE FINANCIAL RISK THAT CLIMATE CHANGE CREATES FOR INVESTORS?

This question is in many ways at the heart of the issue.

ASSET-LEVEL AND SYSTEMATIC RISK

Surveys of investors suggest they view **asset-level risk** as material in certain instances. It is hard to ignore the impact of **policy risk** for a fossil fuel or wind farm developer. **Physical risks** are increasingly being considered in a wide range of sectors such as real estate and agriculture, with resilience and adaptation rightly receiving increased attention. Technology developments in electric vehicles are having profound transition effects on the automotive sector.

Arguably, **the asset management industry is well incentivised to incorporate material climate risks and opportunities into valuation at the asset level** and to find actionable pricing signals if they exist. As regards **transition risk**, this is not really anything new for the industry which has long needed to consider policy and technology trends and changing consumer preferences. Physical climate risk is different in that it will require incorporation of new specific skill sets – e.g. relating to climate science. However, even in this dimension, **consideration of asset-level climate risk is not a fundamentally new departure** for the investment industry *in principle* even if, *in practice*, it requires some new skills to be deployed.

It is really the concept of **systematic risk** that creates the most controversy while also being the fundamental underpinning of investor climate targets. The argument for why investors should have climate targets comes in three parts.

- First, **climate change creates expected physical** (and associated social) **damages** which will create **economic losses**. Climate action reduces the losses by more than the costs of mitigation and indeed may spur economic growth through a green growth multiplier, creating a net benefit.
- Second, climate change **creates the risk of tipping points** whereby temperature increases trigger *irreversible* changes in planetary climate and weather systems, which either have severe long-term consequences in and of themselves (for example melting of glaciers that provide drinking water) or create negative feedback loops on climate or nature systems (for example coral dieback or melting of permafrost). **These tipping points are so severe that there will be unavoidable economic consequences.**
- Third, these economic effects **will inevitably translate into suppressed market returns**, either via a reduced compound growth rate over decades or as a sudden repricing as the market digests the worsened climate outlook.

An investor's view of the significance of systematic risk therefore cannot be separated from their view of the significance of climate change as an economic and financial threat.

Unsurprisingly, most reports advocating investor climate action and continued alignment with 1.5°C targets start with a description of the dire consequences of climate change and the threat of tipping points.

CONNECTING CLIMATE CHANGE TO FINANCIAL MARKET IMPACTS

Asset owners face a number of difficult challenges when determining the extent to which they view climate change as a systematic financial risk of relevance to their time horizons.

The first problem is making sense of **the connection between the physical impacts of climate change and economic growth**. Economic models show surprisingly small aggregate economic impacts from both extreme temperature changes and extreme decarbonisation, **which are equally difficult to believe**. Temperature rises in excess of 3°C by the end of the century (particularly if on a continuing positive trajectory) would take us into uncharted territory for our current society and population numbers. **Only an optimistic reading of climate science concludes this would not lead to severe problems** that could flow through into the economy and financial markets. On the other hand, scenarios that show the global economy transitioning smoothly under a 2050 net zero scenario seem **too optimistic about the efficiency of the necessary dramatic government intervention** in the economy and too sanguine about the feasibility and cost of rapid and deep electrification.

The second problem is making sense of **the connection between economic impacts of climate change and financial markets**. The research on this remains limited. Are financialised sectors of the economy more robust to climate impacts than the economy as a whole? Or are the implications of the leverage of the financial sector underestimated? Given economic climate damages will be focussed in poorer regions of the world, will this leave developed market investments less affected? After all, financial markets have shrugged off all manner of suffering in the developing world be it drought, famine, war, or economic crises. Will impacts be long-term and gradual or will they arise in the form of a climate shock or Minsky moment?

The links from emissions to climate change to physical, economic and then market impacts are uncertain at every step in their extent, timing, and geographic distribution. The potential for adaptation and the focus of financial markets on the regions and parts of the economy most able to adapt raises questions over the timing and extent of systematic risk. Added to this is uncertainty over the extent to which this risk is already priced in markets and therefore causes the potential for a climate shock.

Tipping points create a potential **risk-based** argument for action, but they are inherently uncertain. Some recent reports suggest that a number of major tipping points are at risk of being passed at levels of warming below 2°C. This is indeed worrying. **But many of these tipping points have consequences that play out over centuries** or have implications **that, while socially damaging, have an uncertain economic impact**. The gap between the expected impact of climate change on human life - particularly in the developing world - and its

financial effect on investment portfolios over predictable time horizons is an uncomfortable truth that investors will increasingly need to confront within the remit of their fiduciary duties and mandates set by their beneficiaries and clients.

It is extremely **difficult to be definitive on any of these points** and so **the existence or absence of systematic risk as a material financial matter over reasonable asset owner time horizons frequently seems to be a matter of faith**. Those placing more emphasis on findings from climate science tend to be more concerned about systematic risk, emphasising the extent of weather, ocean, and climate system changes and consequent social impacts. They also point out that the implications predicted by the scientific community of a given level of warming have worsened over time. Those placing more emphasis on economic analysis tend to be less concerned, emphasising the ability of economies to adapt especially as they become wealthier. They compare certain costs today against uncertain future benefits of climate action. **Connections between the two bodies of thought remain unsatisfactory and inconsistent.**

Pointing out the uncertainties regarding the impact of climate change is often identified as a key strategy of climate deniers. But the uncertainties are real, and asset owners need to carefully **think through and document their investment beliefs and their reasons for them.**

1.2 SHOULD ASSET OWNERS AND ASSET MANAGERS SET CLIMATE-RELATED GOALS AND TARGETS, AND IF SO, WHAT FORM SHOULD THEY TAKE?

FINANCIAL RISK AND AGENCY

The case for investors to integrate climate-related risks and opportunities into investment strategy is straightforward: climate change is a material **asset-level financial risk** so as a fiduciary matter the asset owner should seek to manage that risk. But an asset owner **setting a climate goal** needs to go further. They need to **believe in good faith that climate change represents a material non-diversifiable financial risk** to their ability to meet fiduciary objectives, and be able to clearly articulate the basis for that belief, given the nature and time horizon of their liabilities.

In addition, the existence of a goal in relation to climate change is justified by an important **underpinning assumption**, which is that, unlike for other systematic risks investors have agency regarding climate change: they **can influence the climate outcome**. This is generally based on the idea that through their core activities of capital allocation and stewardship, investors can influence real-world activities of companies and thereby the trajectory of decarbonisation at a reasonable cost and investment risk. We will see later that the extent to which this is the case is the subject of debate. At least, an asset owner setting a climate goal needs to articulate **how they will exert influence and their theory of change as to why this will be successful.**

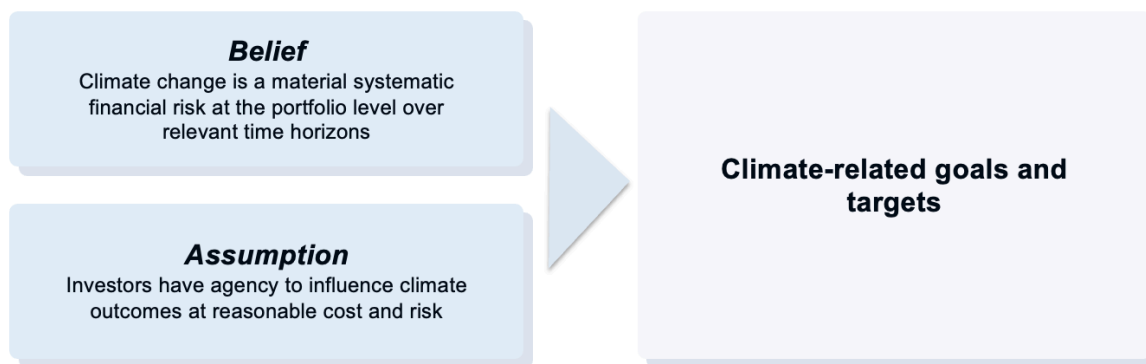


Figure 4: Belief and assumption underpinning climate goals

Given the well-documented risks if climate change worsens in an uncontrolled manner, it seems **reasonable for asset owners to set climate goals as part of meeting their fiduciary obligations to beneficiaries**, provided they have clearly articulated their beliefs on their financial rationale and agency. **But it is less clear that asset owners should be expected to set climate goals**. Even where an asset owner is convinced of the negative impacts of climate change for the world, they may find it difficult in good faith to be sufficiently sure of the connection between climate change and financial returns over the time horizons of their obligations. Alternatively, they may not believe they have sufficient agency to warrant taking climate action as opposed to other investment or non-investment actions they could undertake in pursuit of their goals.

ABSOLUTE TEMPERATURE GOALS VERSUS DIRECTIONAL GOALS

If an asset owner has decided to set a climate goal, then what form should it take? Should the asset owner adopt an **absolute temperature goal**? Or should they adopt a **directional goal** of being in favour of more, rather than less, climate action compared with where we are today? We consider each approach in turn.

The most common form of climate goal to date has been the GFANZ-type goal of limiting warming to 1.5°C with limited or no overshoot. **This seems increasingly problematic as a goal for investors**. First, it may already have been exceeded. Second, even if it has not, it is hard to envisage the required speed of decarbonisation being anything other than extremely costly and socially disruptive. Third, this goal is now far more ambitious than the goal of many governments as reflected in their policy stance. Advocates for retaining this goal tend to justify it with both **a more optimistic view of the plausibility of a massively accelerated transition** and **a high weight to the negative risks of climate damages**, particularly tipping points. In this view, hitting 1.5°C with limited or no overshoot is not the answer to an optimisation problem but an essential risk-management strategy given the view that downside risks of warming increase dramatically and in non-linear fashion above this level. Aligning with 1.5°C is a matter of portfolio protection.

But if an asset owner concludes that 1.5°C is not the right goal then what is? **Should an alternative temperature goal be adopted, such as 2°C?** This is the approach initially taken by the Net Zero Banking Alliance, before its more fundamental pivot. Such a shift has the benefit of continued linkage of the goal to the Paris agreement, which is still endorsed by the vast majority of the world's countries. Limiting warming to 2°C is arguably **still achievable with reasonable economic costs**, if ambitious. And although running more risk than limiting to 1.5°C, limiting warming to 2°C represents significant risk reduction from the current policy trajectory of approaching 3°C end of century warming and also implies a much-reduced pace of future warming as we reach century's end. Finally, temperature goals create clarity and the ability to link targets to, for example, industry decarbonisation pathways.

Or **should asset owners avoid temperature goals altogether?** It would be quite reasonable for an asset owner to believe that climate change is a financially material systematic issue but to consider that they have little or no agency to bring about a specific outcome. Moreover, they may consider the choice of a specific target outcome to be **an inherently political matter** to be weighed against other priorities. An alternative framing, therefore, could be for the asset owner to have a statement of support for **the most rapid possible politically feasible decarbonisation** and then take specific actions that are most effective and relevant by company, sector, and geography. The statement highlights the importance of climate change to the asset owner, and indicates which way they will lean when given the opportunity for influence, but does not bind them to a goal over which they have limited control.

PRACTICAL CONSEQUENCES OF CLIMATE GOALS

When choosing the type of climate goal they have, asset owners need also to think about **what it means in practice**. The over-arching climate goal can be a statement of intent or it can be an anchor for specific climate targets. Indeed some asset owners have indicated that any shifting of the goal distracts from the goal of limiting warming as much as possible. And such a shift may not be considered necessary if the precise goal does not affect day to day actions. In this view, 1.5°C is more a statement of intent than a specific target.

However, in practice temperature goals have certainly been used as an anchor for specific climate targets, **often leading to problematic portfolio decarbonisation metrics**. It could be argued that temperature goals have created an industry of target setting activity and portfolio decarbonisation products that look like they are supporting alignment with a particular temperature goal **but in fact achieve little or nothing in the real world**. This has had the remarkable consequence of opening the industry **simultaneously to the challenges of greenwashing and political over-reach**. Targets linked to temperature pathways also lead to what can seem like a parallel universe of theoretical three-decade decarbonisation pathways, which seem almost certain to be dramatically wrong.

The appropriate approach will depend on the asset owner's beliefs about the impact of climate change on their ability to meet their objectives and also on their beliefs about their agency to affect climate outcomes. As well as clearly articulating these dimensions, asset owners also

need to think through how the overarching goal will act as a guide to specific climate targets. Pursuing the goal **should not distract from or undermine the core purpose of the asset owner to invest for beneficiaries**, and the approach taken should have regard to the outcomes for beneficiaries in a range of climate scenarios. For example, Paris-aligned benchmarks may perform poorly in slower-than-expected decarbonisation pathways.

Type of climate goal	✓ Advantages	✗ Disadvantages
1.5°C with limited or no overshoot	<ul style="list-style-type: none"> • Still a relevant benchmark for climate risk • Consistency over time • Enables benchmarking & comparability 	<ul style="list-style-type: none"> • Lacks credibility as now virtually unachievable • Can lead to unrealistic goal setting and related investor demands if taken literally - fiduciary problems • Encourages "looks like 1.5" approaches / greenwashing
2°C or below	<ul style="list-style-type: none"> • More realistic goal • Still linked to Paris agreement • Enables benchmarking & comparability 	<ul style="list-style-type: none"> • Visible backsliding vs 1.5°C – every tenth of degree counts • Investors still have no control over outcome • Problem may repeat itself if >2°C
Fastest politically feasible decarbonisation	<ul style="list-style-type: none"> • Statement of support for faster decarbonisation • Reflects the reality of policy & political primacy - flexible to changing societal priorities • Enables each investor to focus where most effective 	<ul style="list-style-type: none"> • No explicit benchmark for targets or comparison • Individualised objectives risk losing collective action scale • Less emphasis on proactive investor action

Figure 5: Types of climate goals

1.3 HOW IMPORTANT ARE ASSET-LEVEL AND REAL-WORLD, SYSTEM-LEVEL TARGETS FOR DIFFERENT TYPES OF INVESTORS?

Systematic climate risks are long-term in nature and manifest at the portfolio level through reduced market returns. They are therefore **more directly relevant to asset owners than to asset managers**. Accordingly, system-level targets seem more appropriate for asset owners. By contrast, asset managers have obligations to clients at the level of the fund or mandate, which may carry specific constraints and targets, and are generally measured over shorter-term time horizons. The **purpose of an over-arching firmwide climate commitment** (such as a temperature goal) is therefore **less clear** and may create confusion and possibly conflicts. Asset managers can legitimately argue that, as the agents of their principals (the asset owner), it is not their role to set targets covering assets they do not own – especially where the asset owners they serve may have diverse preferences on climate.

A case can be made that **large index investors have a structural interest in managing systematic climate risks**. By definition, they are long-term holders of assets representing significant parts of markets rather than active traders. Climate change will erode the long-term value of these assets, reducing assets under management and, in turn, fee revenues. However, incentives for index fund managers are **dominated by short term fund flows**, driven by costs and ancillary services rather than by long-term systematic risks.

For asset managers more broadly, the decision to adopt an overarching climate goal is likely to be significantly shaped by **commercial considerations**. Some will use such goals as a **form of signalling firm-level alignment** with the climate investment beliefs and stewardship objectives of current and prospective clients. At the launch of the GFANZ-related initiatives, this signalling was arguably viewed as a one-way bet, with the marginal client assumed to be supportive of an active climate stance. The situation has since become more complex, particularly in the US, where **asset managers now have clients with views both strongly for and strongly against climate action**.

Legal risk will also be a prominent consideration for asset managers or asset owners adopting a public position or target in relation to climate change. Outside the US, the concern may be to **provide protection against accusations in the future that climate change has been ignored or even aided and abetted** by the investor. Within the US there are shorter term **legal risks relating to anti-trust and (violation of) fiduciary duty**. The balance of legal and commercial risks is now more complex for asset managers in particular but also for asset owners.

1.4 WHAT BOUNDARIES DO FIDUCIARY DUTIES IMPOSE?

A DISCUSSION AT CROSS PURPOSES

Advocates both for and against climate action draw on fiduciary duty arguments. Those in favour say that investors have an obligation to act on climate change because it is a material systematic financial risk. Those against say that investors cannot prioritise climate objectives at the expense of beneficiary returns.

At one level, both sides of the argument agree: the duty of investors is to focus on long-term risk-adjusted returns and any secondary non-financial objectives cannot undermine this aim. **The difference of view is where climate action fits within this frame.** This in turn depends upon the underlying good-faith views of the investor both in relation to the financial impacts of climate change and the ability of investors to impact it at a reasonable cost and investment risk.

The debate on whether **fiduciary duty is a blocker or enabler of climate action** is therefore to some degree a **conversation at cross purposes**. For an asset owner who believes in good faith that climate change presents a material financial risk to their portfolio and who also believes in good faith that they have agency to address that risk, fiduciary duty enables and even encourages climate action. For an asset owner who believes only one or neither of these things, fiduciary duty is a block. Those who want climate action to be embedded into fiduciary duty are, in effect, wanting to impose these two beliefs on all asset owners.

At its core, fiduciary duty requires only three things of asset owners in relation to climate action:

- That they in good faith believe that **limiting climate change will improve financial outcomes** for their fund and beneficiaries over a relevant timeframe;
- That they believe that they have **agency and credible mechanisms** to help to achieve that goal; and
- That in pursuing the climate goal they **do not expose beneficiaries to unacceptable costs and investment risks** in the event that the goal is not achieved.

Of course, at both the asset and portfolio level it is clearly permissible, indeed arguably required, **to take into account financially-material climate-related risks and opportunities** in portfolio selection and stewardship, and investors routinely do this, where these risks and opportunities are material.

DOCUMENTING FIDUCIARY DUTY DECISION MAKING

This discussion suggests that some of the **debates about fiduciary duty have been something of a red herring**. For sure, fiduciary duty prevents asset owners pursuing climate action for moral or social reasons, unconnected to the financial interests of their beneficiaries. But few have argued for that as a basis for action.

Yet while in principle the situation is quite simple, in practice it is more complex. More work is still needed **to help asset owners and their advisers understand what it means to go through the process of developing and documenting the good faith beliefs** that underpin whatever position on climate change is adopted.

Good faith belief in climate change as a systematic financial risk

- How do we view the economic impacts and timescales of climate change?
- What are our beliefs about potential financial market impacts as a result?
- What role does consideration of tipping points play in our thinking over our timescales of concern?
- How do we think about the risks for different decarbonisation pathways?
- How do we think about the uncertainty associated with climate change?
- How do we think about specific temperature vs directional goals?

Agency of investor action

- What role can investors play in addressing climate change?
- Where will we be most effective given our expertise and investment approach?
- Do we believe we can make a material difference to climate outcomes?

Costs and risks for beneficiaries

- What are the direct costs of any climate action we may take?
- Does our approach create investment risk if the climate outcome is not as hoped?

Figure 6: Documenting asset owner climate beliefs

For **asset managers**, the fiduciary situation is quite different. They are **obliged to fulfil the terms of the fund or mandate against which they are managing assets**, and will seek to maximise returns subject to that mandate. Fiduciary duty is consistent with them taking asset-level climate risks and opportunities into account as relevant to their investment strategy. But overall firm-wide goals for climate action will be less relevant unless embedded into mandates.

Turning finally to companies, **the duties of directors are owed to the company and its shareholders, but in no realistic way to the wider portfolio value of ultimate asset owners**. Persuading directors to act against their company's interests for wider portfolio benefit is therefore extremely difficult. At the same time, "maximising shareholder value" does not have a single meaning. Directors are significantly empowered by versions of the business judgement rule around the world to pursue the interests of the company as they see fit. This discretion is not unlimited: directors remain subject to the disciplining constraints of elections and takeovers, and few survive long leading a chronically underperforming company. In practice, their duties can be described as **pursuing value creating strategies for the company in ways that keep shareholder support**. Corporate climate action has to live within this constraint.

1.5 CAN ALIGNMENT ACROSS THE INVESTMENT CHAIN BE ACHIEVED?

VIEWS, INCENTIVES, AND DUTIES OF INVESTMENT CHAIN ACTORS

Beneficiaries may have preferences about climate change, or beliefs about how climate change affects long-term financial returns. These views may play a prominent role where they are coherent and identifiable, for example as with charities, sovereign wealth funds, family offices, or corporate investor such as insurers. In pension funds, however, **it is much less likely for beneficiary preferences or beliefs to play a significant role in shaping investment policy**. Regulatory constraints (such as ERISA in the US which clearly prohibits this) are one reason, but the practical difficulty of eliciting beneficiary preferences with sufficient granularity and certainty is often the more important barrier. Therefore, an asset owner's stance on climate change remains most likely to be influenced by their beliefs as to its financial impacts.

Turning to the relationship between asset owners and asset managers, their incentives **differ** as already described in the Foundations Section. Asset owners have a specific goal and duration often linked to meeting a set of soft or hard liabilities, often over many years into the future. Their obligations reside at the portfolio level. Asset managers have contractual obligations to clients based on specific products or segregated portfolios. **Timeframes are typically shorter than for asset owners**, with mandates subject to review every three to five years. **Responsible investment activity forms just one weighting amongst many** in asset manager selection and in practice financial performance over the mandate period tends to have the strongest weighting. It is therefore **difficult to align timeframes and incentives**.

Finally, as also noted previously, directors' duties are to the company, not the investor's portfolio. Significant misalignment therefore exists across the investment chain.

	Asset Owners	Asset Managers	Companies
Duty to	Beneficiaries	Clients	Company & shareholders
Objective	Meet liabilities	Maximise returns subject to mandate	Long-term interests / value of company
Unit of interest	Portfolio	Fund or mandate	Company
Time horizon	Medium to long	Short to medium	Medium

Figure 7: Investment chain (mis)alignment based on typical characteristics

SEEKING ALIGNMENT

The Net Zero Asset Owner Alliance has emphasised the importance of asset manager alignment, stating in their paper “The Future of Investor Engagement” that “Asset owners must increase their efforts to ensure that asset managers understand and properly represent the systemic and long-term interests of their asset owner clients”. This can be harder than it seems in practice, and we see four different ways emerging of achieving alignment on climate action across the investment chain in relation to asset-level and systematic risks.

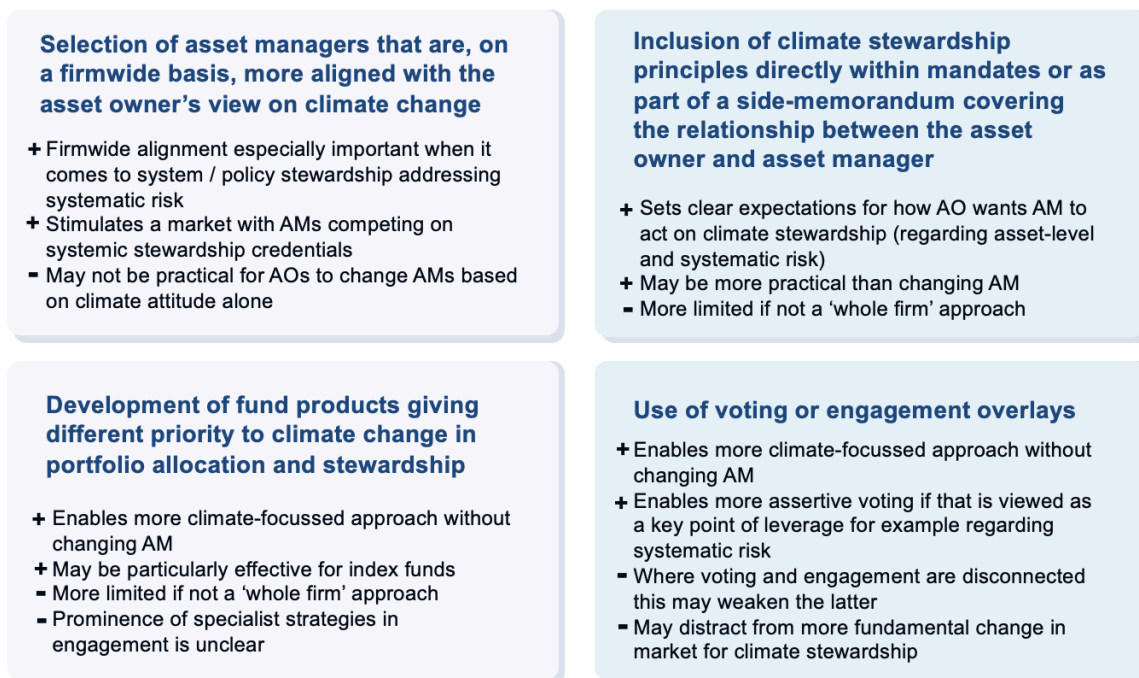


Figure 8: Approaches to seeking alignment across the investment chain

The approach taken to alignment across the investment chain will **depend upon where climate stewardship sits versus other priorities**, as well as the beliefs and objectives of the asset owner regarding asset-level and systematic risks.

For an asset owner who takes the broadest view of systematic stewardship, including policy engagement as well as asset allocation and asset-level stewardship, **the best approach is likely to be identifying an asset manager whose firm-level policies are closely aligned with the investor’s objectives** (given that policy engagement happens at the firm rather than fund level). However, in practice this is difficult with many factors going into the selection of a manager beyond simply the stewardship philosophy or approach to climate change. An asset owner who views their role more as one of signalling or promoting specific best practices, e.g. on disclosure, or one that has a complex organisational structure with many different trusts and asset managers, **may not find it practical to change asset managers to achieve full alignment**.

SECOND BEST SOLUTIONS

Asset owners in this situation face compromises and may choose to accept a “good enough” alignment with their asset manager’s approach to climate change. Alternatively, they may select, where possible, a **manager’s specialist climate strategy**. Most major index fund managers, for example, now offer decarbonisation strategies that encompass adjusted allocation approaches and different engagement and voting policies. Some asset owners remain sceptical about this approach. Another approach is to **adopt pass-through voting**, where the asset owner either chooses a climate-aligned voting policy or retains votes on key companies or issues for themselves. If the asset owner is not conducting their own engagement, this approach has the weakness of separating ownership from engagement. A third option is therefore to make use of an **outsourced engagement and voting service**, which retains the alignment between these two pillars of stewardship, but separates it from ownership.

In practice, **full alignment across the investment chain** is going to be very difficult to achieve. However, for asset owners who have an expansive view of their role in climate action, and who consider this to be a key investment priority, it is hard to escape the conclusion that seeking to appoint managers who are philosophically aligned at the firm level is likely to be the best approach. However, no approach is perfect and compromises will likely be required.

SUMMARY OF PART 1

- At the asset level climate risk can clearly be material. At the systematic portfolio level the connection between climate change, economic risk and financial market risk is less certain.
- Asset owners adopting climate targets must combine a belief in climate change as a material systematic portfolio level financial risk with an assumption that they have agency to affect climate outcomes.
- System-level targets seem more relevant for asset owners than asset managers.
- An investor goal of limiting warming to 1.5°C is becoming difficult to justify.
- Investors setting goals can consider an alternative absolute goal (e.g. 2°C), but a directional goal (e.g. most rapid politically feasible decarbonisation) may be more resilient over time and better reflect the role of investors.
- Discussions of fiduciary duty in relation to climate change can be something of a red herring, when the real differences in view relate to the financial implications of climate change and the degree of investor agency.
- Incentives and agency issues mean that perfect alignment across the investment chain is likely unattainable and compromises will be required.

WORKSHOP QUESTIONS

- How can investors form a robust science-based view on the nature and extent of the systematic financial risk caused by climate change given uncertainties involved?
- Is it important to have specific climate goals or are they unrealistic for investors? How does this differ for asset owners and asset managers?
- If so, are temperature goals helpful or a distraction? And which temperature? Should we have directional goals or statements of intent instead? Does it matter?
- What challenges have participants faced in justifying climate goals from a fiduciary perspective and what arguments have been made that they found compelling?
- Where are the challenges and what is effective in terms of seeking alignment across the investment chain?

2. MECHANISMS

2.1 WHAT MECHANISMS HAVE PROVEN EFFECTIVE IN ACHIEVING CLIMATE TARGETS AND CONTRIBUTING TO REAL-WORLD DECARBONISATION TO DATE?

GLASS HALF FULL OR GLASS HALF EMPTY?

The first point to make is that there is extensive evidence that investors can affect corporate action on climate change through a number of different mechanisms. Capital allocation mechanisms (divestment, tilting, green bonds, bank lending policies and so on) can affect corporate cost of capital and corporate engagement and voting (especially collective engagement) can affect corporate actions directly.

Preferential allocation in public markets towards green and away from brown firms has been shown **across a number of studies to change cost of equity** by the order of up to 100 basis points and cost of debt by the order of up to 20 basis points. A study of the impact of restrictive bank lending policies suggests that they had a significant impact on hastening phase out of coal power and extraction in development markets (although causality is not certain).

Engagement, and collective engagement in particular, have been shown to be **successful in achieving engagement objectives in public firms**, including on environmental matters. There is some evidence that engagement and public policy statements on climate disclosures by the “Big 3” index managers may have increased disclosure adoption by heavy emitters and led to emission reductions, albeit very modest. Investor engagement has also led to target adoption by companies (in particular SBTi), which in turn led to some emission reductions. In other context, **votes against directors have been shown to be an effective tool of influence.**

However, the second point to make is that there is little or no evidence that these mechanisms cause companies to take action that is fundamentally harmful to their economic prospects or come close to correcting for the unpriced carbon externality, thus reducing systematic risks. This limitation was identified by the Net Zero Asset Owner Alliance in their paper “The Future of Investor Engagement”, where they stated: “as companies take steps to decarbonise and start to move up the ever-steepening cost curves, investor requests for additional emission reductions are met with increasing resistance.”

By way of illustration, a 100-basis-point change in the cost of capital has been shown to be equivalent to a carbon tax of around \$10 per tonne for heavy emitters. **It is not clear that the cost of capital impacts are sufficient** for management to notice or change their actions. Increasing cost of capital for brown firms can even cause them to double down on more profitable brown activities and reduce green investments. Turning to engagement, **“successes” have often been disclosure and target-based** rather than linked to material

real-world emission reductions. Where there have been emission reductions, they have tended to be small in percentage terms and focussed on firms whose emissions were lower in the first place. **Climate Action 100+**, perhaps the most focussed investor engagement alliance on climate, **has been found to achieve little in terms of actual emission reductions.**

Much of the evidence on the extent of investor impact is **focussed on public markets.** Increasingly asset owners are investing in private markets, whether infrastructure and real-estate, private equity and venture capital, or private credit. There are good reasons to think that **investor influence may be greater in these markets,** although there is relatively little research. First, where emission reductions are achieved in real assets such as commercial property, the **impact is very likely additional** with little risk of displacement of emissions to other contexts. Second, concentrated equity ownership in private markets creates the opportunity for **stronger governance oversight** and greater success with engagement objectives. Third, credit markets, and particularly private credit markets, **extend investor influence into companies that do not have quoted equity.** Moreover, the “lumpiness” of debt refinancing has the potential to create a point of greater leverage. Fourth, choices about where to focus venture financing **may enable climate solutions companies** that might otherwise have failed **to cross the “valley of death”.**

However, just because investor involvement in private markets activity may **have the potential for greater impact does not mean that it does.** Decarbonisation of real assets will be subject to similar commercial constraints as in other contexts for corporate decarbonisation. Private equity ownership may be via multiple layers of intermediation, reducing asset owner influence. Debt markets are deep, and profitable projects tend to have little difficulty in getting funded regardless of their environmental credentials. And finally, investment in climate solutions in venture capital is unlikely to increase capital availability sufficiently to overcome a fundamental lack of economic viability.

REALISTIC EXPECTATIONS OF INVESTOR INFLUENCE

Whether the outcome of investor climate action should be viewed as a success or failure depends on your starting point. **There seems little doubt that investor action on climate has had some impact on corporate action and emissions** and at the very least has caused climate change to feature more prominently in board discussions. On the other hand, if the hope was that investors would somehow step in and lead a ‘market led’ decarbonisation of the economy, then it must surely now be clear that this is never going to happen. What is also clear is that the **limited success of investor action means that investors should be careful about any costs and investment risks** to which they expose clients and beneficiaries in pursuit of these strategies.

There are four broad schools of thought as to how investors should respond to these facts.



Figure 9: Main approaches to investor influence

While limitations aware engagement and increasing assertiveness are arguably alternatives, policy engagement and a pivot to resilience and adaptation may be combined with either.

INCREASING ASSERTIVENESS

Advocates for more assertive action often identify two channels: **voting and provision of debt in primary markets**. Here voting is not just voting on shareholder proposals but also voting against directors of firms who do not exhibit the desired behaviour on climate change. There is some evidence that **personal votes against directors can trigger action** on governance matters in a way that advisory votes (such as say on pay) do not always achieve. And it is certainly a relatively cheap action for investors to take, in terms of direct costs.

Some asset owners believe that **asset managers are too reluctant to vote against management**. This may be because the asset manager's objectives from engagement relate more to information acquisition than seeking to direct corporate action. They fear they may lose access by voting against. Or they may face other conflicts of interest relating to other services provided to the firm by their organisation. This has led to interest in pass-through voting models where the vote is taken out of the hands of the asset manager and exercised either directly by the asset owner or in accordance with a more assertive climate voting policy.

Turning to provision of debt, the idea here is that heavy emitting firms raise most new capital in debt markets and have to return to debt markets frequently for refinancing existing debt. Therefore, **placing restrictions on the availability of that debt is a more meaningful capital constraint than changing cost of equity** in a world where equity financing is relatively rare. The approach also builds on some evidence that the stickiness and concentration of bank lending relationships means that bank lending policies relating to fossil fuels can cause sufficiently binding capital constraints to affect corporate behaviour. Finally, **focussing on public and private debt markets enables investors to influence unquoted companies** who are beyond the reach of public equity engagement.

Will these approaches be more effective? It is likely that **personal votes against directors and direct denial of debt financing will be felt more keenly** than engagement or more generalised cost of equity effects. But **there does not seem to be evidence** that they will be able to

overcome the hurdle of pushing firms to **take actions that they consider to be fundamentally against their interests**. Voting against directors has been effective in limiting actions that are against broader shareholder interests – it is not clear that aggressive and costly decarbonisation for heavy emitters falls into that category.

Given the depth and liquidity of debt markets it is also unclear how effective debt-based approaches will be in restricting robustly profitable activity. The evidence relating to bank financing policies for coal is set in a context where demand for coal in developed markets has been in long-term secular decline. At best it seems that the lending policies have helped to accelerate something that was on the way out anyway, **rather than fundamentally changing the economics of the industry**.

The final point to make is that **there are very likely spillover effects given the breadth of corporate actors and depth of capital markets: what is profitable tends to get funded**. The extent to which individual corporate emission reductions lead to net reductions rather than displacement is therefore unclear (with some evidence of the latter).

Advocates would counter that the direct costs of these actions are relatively low, so **why not try them, even if success is uncertain?** Given the costs of every temperature increment above 1.5°C to the whole portfolio, even if influence is marginal it should be exerted. Any explicit target above 1.5°C leaves the portfolio exposed to undiversifiable systematic risk. And even if ineffective in direct terms, such actions contribute to shifting the social discourse and norms in a way that disfavors fossil fuels. On the other hand, **radical company action aligned with 1.5°C can have a negative impact on company value**, as the example of the Oil & Gas industry has demonstrated.

LIMITATIONS-AWARE INVESTOR ACTION

The second approach starts from the perspective that **investor action is only likely to be effective in addressing asset-level risks and opportunities** and even in this domain, will be **limited by what is commercially viable for companies**. Rather than trying directly to force decarbonisation asset by asset, investors should be looking for opportunities to encourage decarbonisation in a manner consistent with their core remit as investors. This approach advocates “**limitations aware engagement**”: the potential influence of engagement is acknowledged but also the fact that engagement is **unlikely to be able to drive non-commercial outcomes for firms**.

The aim is to find actions **within the zone of discretion of directors that reduce emissions** while being plausibly value creating or at least not too costly. The archetypal example of the distinction between this and more direct approaches can be seen in the Oil & Gas industry. Whereas the direct approach pushes for Oil & Gas production cuts, the limitations-aware approach instead focusses on reducing methane emissions. While the first approach is likely to run up against fundamental commercial considerations for the firm, the second approach is possibly achievable with consistent and robust engagement, because it will typically involve

no-regret actions of companies. Firms would identify, **based on their own specialisms and areas of influence**, the issues on which they would choose to engage for maximum impact on climate issues.

Case Study: Environmental Defense Fund focus on methane emissions

The Environmental Defense Fund (EDF) has focused on methane in the Oil & Gas sector on the basis that reductions are achievable, low cost, and often commercially beneficial (“*lost gas equals wasted money*”). The programme has combined large-scale field studies with new technologies such as MethaneSAT, a satellite designed to provide independent, high-resolution data on methane emissions worldwide.

Alongside this, EDF has promoted practical abatement measures such as leak detection and repair, equipment replacement, and venting controls. This has been reinforced through engagement with companies and support for stronger regulation and disclosure. The approach has led to wider adoption of methane targets and operational changes, supported by a shift in regulatory standards in the U.S., EU, and China. It illustrates limitations-aware engagement: focusing on actions that sit within directors’ discretion and are consistent with value creation, while recognising that the scope of impact is confined to emission intensity rather than production volumes. [More information available here.](#)

Investors adopting this approach may also focus on other areas of their investing remit that contribute, at the margin, to decarbonisation. These include:

- Investing in capability to integrate climate risks and opportunities into their investment process to help ensure these factors are accurately priced by the market;
- Working with interested client segments to create genuine impact products (for example blended finance) for those clients prepared to provide higher risk or concessionary capital.

The criticisms of this approach are twofold. One is that it shows **insufficient ambition given the scale of the problems at hand** and implicitly accepts a scenario that could lead to cascading climate risks. A second is that the lack of standardisation means that: (a) there is a **lack of comparability and accountability** across investors, which may make it particularly hard for asset owners seeking to assess their asset managers; and (b) **scale is lost** when individual investors pursue their own priorities.

POLICY-LED APPROACH

The third approach, which may be combined with either of the first two approaches, starts with the fundamental premise that **rapid decarbonisation to address systematic risk will not happen without a consistent and robust government policy framework** to price, directly or indirectly, the carbon externality. This premise is almost certainly correct, with almost every major decarbonisation success having somewhere in its roots a policy intervention.

What can investors do about climate change?

Participant pre-read

Under this approach **the primary focus of investors is to act in ways that help to secure effective climate policy**. Some advocates for this approach would assert that this is the *only* way to achieve decarbonisation and that market-based decarbonisation efforts are a waste of time or, worse, a costly distraction. Others would assert that market-based approaches (whether of the more assertive or limitations-aware flavours) are important complements to the policy-led approach through the creation of self-reinforcing signals throughout the business and financial ecosystem.

Advocates of the policy-led approach point out that, despite regular cries that we are not doing enough on climate change, **politics – coupled with technology improvements - has already achieved a lot**. Projected end of century warming has reduced from well over 4°C at the time of the Paris agreement to well under 3°C now. Politics has played a major part in this whether through subsidies to nurture renewable energy industries, electric vehicles, carbon pricing, or other standards. Investors have played an important role in encouraging governments to take this action.

Almost any government policy change creates concentrated costs and diffuse benefits. There is often an incumbent coalition of corporate and labour interests that makes change politically very difficult. **Investors are one of the few constituencies that can look across the economy towards net impacts of policy change.**

There is little direct evidence on the effectiveness of investor policy lobbying, although anecdotally it appears to be important. It is increasing in prominence currently, along three main dimensions:

- **Direct policy lobbying with governments**, particularly in the investor's home nation. An example would be the work carried out by UK SIF in the run-up to the 2024 General Election in the UK.
- **Engagement with governments alongside sovereign debt investment**. An example would be the UN PRI sovereign engagement pilot running with the Australian Government.
- **Engagement on asset manager / corporate lobbying alignment**, to ensure consistency of public positions on climate and industry association membership and lobbying. An example would be the guidance on lobbying alignment issued by the Net Zero Asset Owner Alliance.

Investor lobbying of governments and regulators is moving from a global to a local phase. Investor engagement with policy, through the Institutional Investors Group on Climate Change (IIGCC), was initially focussed on encouraging ambition in the run-up to the Paris Agreement. What might be described as 'global lobbying' has continued, for example, through the Investor Agenda, a periodic investor letter encouraging bold climate action. **Such global lobbying is becoming less relevant and less impactful** as attention moves from global agreements to local implementation. Policy influence at a local level requires a more granular approach:

- **Connection to specific local political triggers**, such as an election, development of country NDCs, or passage of climate legislation through national (or EU) parliaments.
- **Identification of areas where investor views are particularly relevant** and politically salient, most notably in the areas of what is required to attract investment.
- **Development of policy influence capability** that aligns with the processes of specific political influence activities.

Much of the most consequential investor engagement on climate policy takes place not with governments themselves but with regulators, supervisors, and standard-setting bodies. These institutions, such as financial and prudential regulators, central banks, and accounting standards boards, play a pivotal role in shaping disclosure requirements and the market conditions in which climate action takes place. **Some investors have both the expertise and legitimate standing to influence the regulatory framework, yet such engagement remains limited and cautious, likely explained by justified concerns about legitimacy and conflicts of interest.** This reflects a broader tension between the framing of climate change as an existential systemic risk and the tendency of many financial institutions to approach related regulatory discussions as narrow technical matters. The result is a significant under-utilisation of one of the arenas where investors arguably have the greatest potential leverage to enable effective climate policy.

However, there is **risk of investors being seen to over-reach politically when they engage on policy matters in the climate arena** and to create the circumstances for an anti-investor backlash. There are not easy answers to this, but investors can ask themselves three questions:

- Is our policy advocacy based on a **clearly articulated and robust case founded on the investor's financial interests?**
- Is our position **based on positions of well-evidenced fact** that cannot be characterized as political in nature?
- Are we **focusing on matters in which we have expertise and that are directly material to us?**

To give just one example, an energy and utilities investor may have detailed knowledge about the requirements for government subsidy, planning, permitting and grid connections, and wholesale market reform in order to enable acceleration of investment in renewables, storage, and grid services. These policy requirements are also material to the investor's strategy. By contrast, investors are much less likely to have particular expertise or agency in relation to policies for a just transition for workers (notwithstanding the importance of this issue), nor are such policies so likely to be directly material to their investment strategy. Investors broadening **policy engagement beyond their direct areas of interest and expertise** can easily be perceived as acting from **political motives or imposing their values on the rest of society.**

Finally, when addressing corporate lobbying (or for asset owners, when addressing asset managers' lobbying), it has been suggested that the focus should be on **governance,**

transparency, and alignment between public positions and lobbying activity rather than trying to enforce particular lobbying positions. Trying to mandate corporations to engage in a particular way on policy will likely be met with accusations of micromanagement and overreach into areas that are the preserve of company boards. Such efforts also may infringe on activities that boards consider to be part of their fiduciary duty to support the long-term interests of the company. Demanding transparency and alignment of lobbying activities, however, is simply a **question of business ethics and plain dealing** and so is less likely to be controversial, while still offering hope of modest change.

Investor work on policy influence appears to be potentially very impactful. While the importance of policy is widely acknowledged, the translation into focused and determined investor action remains limited and would be a useful area for further work.

PIVOT TO RESILIENCE AND ADAPTATION

Surveys suggest that investors are taking an **increased interest in climate resilience and adaption** compared with mitigation. Two factors seem to be driving this. First, **investor involvement in climate mitigation action has become politically very contentious**, certainly in the US, and may potentially become so in Europe. By contrast, responding to the impact of climate change is viewed as safer ground. Second, **as climate risks shift from being a future prospect to a current reality**, investors see a natural self-interest in ensuring resilience.

This pivot can, in some ways, be viewed as a retreat from systematic stewardship to a consideration of asset (or sector) level risks and opportunities. But it does result in two new factors being integrated into the investment process and stewardship. The first is **consideration of the impact of physical risks**, both direct and in supply chains, **on company performance and financial sustainability**. This is already visible in sectors with little asset mobility or optionality, for example real estate. The second is **repurposing stewardship tools developed for mitigation action towards resilience and adaptation**. This includes monitoring and engaging on firms' governance and risk management of physical climate impacts as well as demanding improved disclosure on risks to resilience and adaptation needs.

A focus on resilience and adaptation is **qualitatively different from a focus on mitigating systematic climate risk**, and may be seen as an extension of the investor's traditional role of responding to risks and opportunities at the company level. But it is nonetheless useful. **Ensuring that climate risks are accurately priced and governed is inherently important** for the operation of price signals in capital markets, but may also increase corporate focus on climate risks of all types.

SUMMARY OF PART 2

- There is extensive evidence that investors can affect corporate action on climate.
- However, there is little or no evidence these mechanisms cause companies to take harmful economic actions or correct for the unpriced carbon externality.
- Four schools of thought have emerged on how to proceed:
 - increasing assertiveness through voting against directors and debt financing;
 - limitations-aware engagement focussing on corporate actions within the realistic zone of director discretion;
 - policy engagement to make decarbonisation economically feasible; and
 - a pivot to focussing on adaptation and resilience.
- More assertive approaches face fundamental limitations given commercial constraints and the fungibility of capital.
- The policy-led approach starts from the probably valid premise that rapid decarbonisation will not happen without robust government policy and focuses on both direct engagement and the role of corporate lobbying.
- Investor policy influence is moving from a global to local phase, requiring connection to specific political triggers, focus on areas where investor views are particularly relevant, and careful guardrails to avoid political overreach.

WORKSHOP QUESTIONS

- Is the assessment of limited investor influence fair or have participants seen major impacts from their activities?
- If so, what has been most effective? Have sector initiatives worked better?
- What is the experience in asset classes other than equity?
- Is increased assertiveness in asset-level activities likely to work or do we need to pivot more comprehensively to policy engagement?
- What lessons have been learned from policy engagement and lobbying alignment to date – has it been effective and what are the disincentives and barriers?
- Should investor focus shift from mitigation to resilience and adaptation and what would that entail?

3. COLLABORATIONS

3.1 WHAT ROLE CAN AND SHOULD INVESTOR COLLABORATIONS PLAY?

The question of investor agency is closely linked to the potential for collaboration. Individual institutions have limited incentives and capacity to address asset-level - and particularly systematic - climate risks. Collaboration can change this equation and **be viewed as a multiplier of agency**, enabling investors to magnify their impact through the combined effect of aggregate capital, shared resources, and aligned strategies and objectives. At the same time, the rapid growth of collaborative initiatives raises important questions about accountability, governance, and legitimacy.

Investor collaboration can take a wide range of forms - from formal and institutionalised initiatives such as CA100+ to those facilitated by organisations such as the PRI, to more informal coalitions that operate outside established frameworks and may not be public. Most emerging research focuses on formal collaborations within an institutionalised framework. Assessing collaborative investor action involves even greater uncertainty and complexity than analysing engagements of individual investors, which makes isolating their impact within the wider system particularly challenging.

Moreover, by their very nature, formalised and institutionalised collaborations — even those primarily focused on companies, such as Climate Action 100+ — exert influence not only at the asset level but also at the market and regulatory levels. Some coalitions, such as the IIGCC, are rooted in policy engagement and have subsequently extended their activities to company-specific dialogue.

Evidence suggests **collective engagement focused on companies is more effective than single engagements**, for obvious reasons, though it can come with significant collective actions costs. Yet there is little evidence that even collective engagements in the environmental sphere can make much headway against persistent economic externalities and commercial constraints. The most significant collective engagement initiative in the climate arena – **Climate Action 100+ - has been shown to be successful in encouraging disclosure and long-term climate target setting but to have achieved little by way of progress towards real-world emission reductions**. Prominent “success stories” have unravelled in the face of commercial pressures.

Why is this? Investor coalitions have been criticised for weak governance, lack of accountability, a lowest-common-denominator effect arising from a ‘big tent’ approach, and incoherence or conflicting interests and views between investors at the level of engagements. But at a fundamental level, **even collective investor action, well executed, will never be powerful enough to overcome major economic externalities**.

Climate Action 100+ illustrates this dynamic. Since its launch, it has contributed to a rise in disclosure and target-setting among the world's largest emitters, with most focus companies now publishing climate-related financial disclosures and medium- or long-term emissions goals. However, only around 20 percent of companies assessed meet the full criteria of the initiative's Net-Zero Company Benchmark, and analysis by the Transition Pathway Initiative finds that just 7 percent are aligned with a 1.5 °C pathway and there is little evidence of direct emission reductions. **While these results indicate genuine progress in transparency and governance, they also highlight the limited translation of such commitments into verified real-world emission reductions.**

Perhaps the problem has been the natural desire to create a greater action orientation within coalitions, seeking to drive specific corporate outcomes. For example, Phase 2 of Climate Action 100+ **moved from an emphasis on target setting and disclosure to one of pushing for specific corporate actions.** This change arguably took investors both **beyond what they could realistically achieve**, given corporate commercial incentives, but also opened them increasingly to the **accusation of political over-reach.**

This illustrates a further point. There is good evidence that climate coalitions (see Appendix B) **have played a role in institutionalising net zero target setting among asset managers, and consequently in the corporate world, contributing to enhanced disclosure practices** amongst firms. This in turn has led to enhanced climate disclosure regulation. However, this was in the context of investors playing a reinforcing role within the context of a general societal momentum towards net zero. **These initiatives seem less able to create momentum against the currents of both profitability and societal preferences.**

3.2 HOW SHOULD COALITIONS BE STRUCTURED TO CONTRIBUTE EFFECTIVELY WHILE MAINTAINING LEGITIMACY?

This raises a number of questions about the future of investor coalitions. We outline three key questions on collaborations below. Given the divergence in duties, objectives, time horizons, and commercial incentives between asset owners and asset managers - particularly in relation to systematic climate risks, we can expect greater differentiation among investor-type coalitions, as already evidenced by the evolution of the NZAOA and NZAM.

First, **do 'big-tent' climate coalitions make sense?** On the one hand amassing a major block of investors behind specific goals does have an effect. There is evidence that consistent approaches by the 'Big 3' index investors had an influence on climate disclosures and some impact on emissions. The size of investor coalitions in collaborative PRI engagements has been shown to be one factor in leading to corporate change. Yet lowest common denominator effects limit what these coalitions will achieve. Indeed research suggests that successful collaborative engagements find a sweet spot between, in the investor side, the size of the coalition, the experience of the lead investors, and local knowledge and, on the company side, the firm's existing environmental orientation, size, profitability and the materiality of the issue.

This suggests that smaller, tailored coalitions may be better than large umbrella efforts in achieving change at the corporate level.

Overall, it seems that **broad membership coalitions can be helpful in developing thought leadership and best practices** to help members address climate issues and to establish norms. **But these coalitions have strict limits when it comes to pushing companies towards fundamental change.** Provided these limits are acknowledged, such coalitions can remain relevant. To some degree this is the direction that GFANZ appears to be taking and NZAM may follow. Beyond formal commitments, coalitions also function as networks of internal champions, connecting like-minded individuals across firms and jurisdictions. Done well, these networks can accelerate the diffusion of practical playbooks, such as those for methane abatement, supplier engagement, or lobbying alignment, and create informal channels for escalation and influence. **In relation to policy advocacy, coalitions** (such as the Investor Policy Dialogue on Deforestation in Brazil and Indonesia) **are likely to remain helpful** in sharing expertise and resources, ensuring co-ordination, and amplifying investor voice.

But overall, members of large coalitions face many of the same challenges and constraints as when working individually, including commercial realities and conflicting stakeholder demands.

Second, should climate coalitions seek to advocate broad based climate goals or should they form around specific issues? There is a case to be made that **tighter coalitions focussed on specific issues** like methane emissions in a particular sector or deforestation in particular territories **will be more likely to be successful** than coalitions that try to impose economy-wide decarbonisation. That is because such smaller coalitions of investors will be ready to commit to specific and targeted objectives beyond what would be possible in a 'big-tent' coalition. There is anecdotal evidence that individual champions within firms play a key role in this regard.

Third, should climate coalitions be global or local? This will depend upon the issue being addressed. Given the exit of US managers from climate coalitions, **the centre of gravity of these is fundamentally more European today.** There is growing interest in political engagement as an important component of investor climate action. There is little near-term prospect of enhanced global agreements on climate, so the action is largely regional and country-led. **Influencing political processes is an inherently local activity, arguing for the relevance of country and region-based coalitions.**

To the extent coalitions whether institutionalised or informal remain viable for investors, they seem likely to become more diverse. We can imagine an ecosystem of: broad-based formal coalitions focused around knowledge sharing, methodologies, and best practices, rather than targets; single-issue coalitions, institutionalised or informal, focused on specific high-impact climate issues such as methane emissions; and region or territory based coalitions with a focus on identifying opportunities for political influence and leverage.

SUMMARY OF PART 3

- Collective engagement is more powerful than solo efforts but remains limited against entrenched economic externalities and is burdened by collective action costs.
- Investors coalitions have reinforced societal net zero norms and have helped improve disclosure, but there is little evidence of them leading to material decarbonisation.
- Investor coalitions face structural weaknesses: weak governance, lack of accountability, lowest-common-denominator compromises, and incoherence in engagements.
- More focused coalitions on specific issues may achieve results where broad decarbonisation efforts stall - large coalitions may add value mainly through thought leadership, practice sharing and development of standards, such as disclosure.
- Coalition dynamics are shifting from global to local, as exit of US investors leaves coalitions increasingly European and political engagement is inherently local, depending on government policy pathways.
- A diverse ecosystem of coalitions may emerge: broad for knowledge and methods, single-issue for targeted impact, and territorial for political leverage.

WORKSHOP QUESTIONS

- What is the way forward for the larger investor coalitions? Do they have a future?
- Is there a case for smaller, more focussed, and more agile coalitions?
- Could there be an ecosystem of broad-based coalitions focussed on knowledge sharing rather than targets; narrower single-issued coalitions focussed on specific decarbonisation objectives; and regionally based coalitions focussed on policy?
- If so, how should such collaborations form, and what should they focus on? How strong is the case for further collaborations differentiated by investor type - aligned with their respective duties, objectives, time horizons, and incentives?
- How can collaborations be resourced to do policy work?

APPENDIX A: SELECTED REFERENCES

This section is not intended to be a comprehensive literature review but instead provides a selection of reports and papers written in a manner accessible to practitioners on the alternative perspectives on investor climate action set out in this report. The list has been curated to reflect a range of views and so inclusion of a paper does not imply any endorsement by the authors of this report.

OVERALL DISCUSSIONS OF WHAT INVESTORS SHOULD DO ABOUT CLIMATE CHANGE

Gosling, T. (2024). **Universal Owners and Climate Change**. *Journal of Financial Regulation*, 11(1), 1–35. [Available online here](#).

Reviews the application of universal ownership theory to climate change, finding that investors face significant limitations in both the financial case for 1.5°C targets and their ability to influence outcomes, suggesting a more realistic approach focused on contributions to enabling conditions for climate action.

Liebreich, M. (2025). **The Pragmatic Climate Reset – Part II: A Provocation**. Clean Energy (BloombergNEF). [Available online here](#).

Argues for a “pragmatic reset” of climate strategy, retiring 1.5°C in favour of a hard 2°C, prioritising fast, low-cost electrification, and deprioritising green hydrogen, while urging investors to shift from ESG box-ticking to policy-engaged stewardship that supports affordable real-economy decarbonisation and portfolio resilience.

Net-Zero Asset Owner Alliance (2022). **The Future of Investor Engagement**. UNEP FI. [Available online here](#).

Calls for expanding investor engagement beyond traditional corporate dialogue to include sector/value chain and policy engagement to address systemic climate risks. Argues that corporate engagement faces fundamental limitations when companies lack economic incentives or technological feasibility for decarbonisation, necessitating a “systematic stewardship”.

Net-Zero Asset Owner Alliance (2025). **Addressing Climate Impacts: An Overview of NZAOA Asset Owners’ Long-Term Interests and Responsibilities**. UNEP FI. [Available online here](#).

Sets out the case for long-term asset owners to consider climate change as a system level risk requiring action.

Quigley, E. (2025). **Universal Owners and Climate Change: A Response to Gosling**. *Journal of Financial Regulation*, fjaf010. [Available online here](#).

Provides a critique of Gosling (2024).

Sachs, L. E., Hearn, D., Goldklang, M., & Toledano, P. (2025). **Distinguishing Among Climate Change-Related Risks**. Columbia Center on Sustainable Investment. [Available online here](#).

Argues that investors and policymakers often conflate climate risks, and proposes a typology separating planetary, economic, and financial risks, each with distinct timeframes and implications, to support clearer decision-making and more targeted responses.

UK Sustainable Investment and Finance Association (UKSIF) (2025). **Systemic risks: A framework for portfolio resilience**. [Available online here](#).

Offers a structured framework for UK asset owners (particularly those with long-term horizons) to identify, integrate, and manage these risks within investment objectives, despite short-term performance pressures.

DISCUSSIONS ON FIDUCIARY DUTY

Dolmans, M. & Wildner, A (2025). **Sustainable Fiduciary Duties for Investors: How fiduciary duties can be a key to escape the climate prisoner's dilemma.** Net Zero Lawyers Alliance. [Available online here.](#)

Argues that fiduciary duties offer a legal lever to overcome collective-action failures in climate finance. Proposes a five-pillar investment and engagement strategy grounded in fiduciary law, encouraging coordinated, systemic action rather than isolated portfolio decisions.

Financial Markets Law Committee (2024). **Pension Fund Trustees and Fiduciary Duties: Decision-Making in the Context of Sustainability and the subject of Climate Change.** [Available online here.](#)

Argues that climate change and sustainability considerations, when materially affecting risk or return, are legally regarded as financial factors and must therefore be integrated into trustees' decisions. Emphasises evaluating these risks not just at the level of individual assets or portfolios, but across the whole economy.

Freshfields (2021). **A Legal Framework for Impact: Sustainability impact in investor decision-making.** UNEP FI. [Available online here.](#)

Offers the first comprehensive legal analysis across 11 jurisdictions, covering regions such as the EU, UK, US, China, Australia, Canada, Brazil, France, Japan, South Africa, and the Netherlands, detailing the extent to which law permits or requires investors to intentionally pursue sustainability impact ("investing for sustainability impact").

Gosling, T. & MacNeil, I. (2023). **Can investors save the planet? NZAMI and fiduciary duty.** Capital Markets Law Journal, 18(2), 172–194. [Available online here.](#)

Examines whether asset managers who commit to the NZAMI and align investments with a 1.5°C pathway can fulfill these commitments without conflicting with their fiduciary duty. Argues that investment strategies most likely to reduce global emissions meaningfully are also those most likely to raise fiduciary concerns unless clients explicitly authorize them.

Hirt, Hans-Christoph. (2024). **Viewpoint: Rebuilding stewardship requires a return to first principles.** Analysis. Ipe. [Available online here.](#)

Argues that stewardship's core objective should be to enhance long-term returns at both the portfolio and market levels, but today, misaligned incentives weaken its effectiveness, notably because the long-run benefits of universal ownership often accrue to asset owners while the costs fall on asset managers operating under short-term models.

Rock, E. & Kahan, M. (2023). **Systemic Stewardship with Tradeoffs.** NYU Law and Economics Research Paper No. 22-01. [Available online here.](#)

Examines whether "universal owners" can genuinely sacrifice value from individual firms to enhance overall portfolio welfare by pushing systemic stewardship initiatives like carbon reductions. Argues that multi-firm-focused strategies face legal constraints, portfolio-client fiduciary conflicts, and the risk that competitive responses will neutralise any gains.

DISCUSSIONS ON ACTIONS

*Papers marked with an asterisk contain reviews of elements of the wider academic literature.

*Caldecott et al. (2024). **How sustainable finance creates impact: transmission mechanisms to the real economy.** Review of World Economics. [Available online here.](#)

Outlines how financial institutions can influence sustainable real-economy outcomes through three key transmission mechanisms: altering the cost of capital, impacting liquidity access, and promoting sustainable corporate practices.

Environmental Defense Fund (EDF) (2022). **A decade of discovery leads to our methane moment.** [Available online here.](#)

Shows how EDF's methane programme built the evidence base, shaped regulation, and advanced technologies like MethaneSAT to make methane emissions visible and actionable, positioning rapid methane reduction as a critical lever for slowing global warming.

*Gosling, T. (2024). **Universal Owners and Climate Change.** Journal of Financial Regulation, 11(1), 1–35. [Available online here.](#)

Discusses the role of universal owners in relation to climate change, arguing that fiduciary duty requires asset owners to have both a good faith belief that climate action improve portfolio returns plus efficacy of investor action.

Gosling, T. (2024). **A New Focus for Investor Climate Commitments.** CFA Institute Research Foundation. [Available online here.](#)

Argues that investors should reframe their climate commitments by anchoring them in realistic, achievable objectives, aligning investee engagement with practical influence and focusing efforts on shaping effective climate policy.

Gosling, T. and Walkate, H. (2023). **Does Sustainable Investing Work?** European Corporate Governance Institute. [Available online here.](#)

A series of articles and interviews exploring the extent to which sustainable investing achieves real-world decarbonisation.

*Heeb, F., Kölbel, J., Paetzold, F., & Busch, T. (2020). **Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact.** Organization & Environment, 33(3), 359–383. [Available online here.](#)

Distinguishes three pathways for investor influence and concludes that investors aiming for impact should undertake sustained engagement, channel capital toward sustainability-oriented firms constrained by financing, and use screening judiciously.

*Marti et al. (2023). **The Impact of Sustainable Investing: A Multidisciplinary Review.** Journal of Management Studies. [Available online here.](#) *

Posts that sustainable investing influences outcomes through three distinct strategies: argues that while screening and engagement produce direct company-level effects, field building operates indirectly, and investor impact accumulates over time.

Net-Zero Asset Owner Alliance (2023). **Policy Engagement Guidelines.** UNEP FI. [Available online here.](#)

Advocates that investors should participate in public policy debates to help build robust regulatory frameworks that facilitate decarbonisation across sectors.

Principles for Responsible Investment (PRI) (2022). **The Investor Case for Responsible Political Engagement.** [Available online here.](#)

Establishes high-level principles for responsible corporate political engagement, drawing on academic and practitioner insights, and calls for better disclosure of governance, alignment, and oversight mechanisms.

*Quigley, E. (2020). **Universal Ownership in Practice: A Practical Guide for Asset Owners.** GRASFI 2020; forthcoming from Cambridge University Press, 2025. Available online here.

Proposes a practical framework for universal owners to mitigate systemic risks, such as climate change, inequality, and pandemics, via enhanced active ownership, policy engagement, and real-world outcome metrics.

DISCUSSION ON COALITIONS

Buentjen, C., Perkins, R., and Sullivan, R. (2025). **Net-Zero Norms in Sustainable Finance: What Explains Asset Managers' Target-Setting?** *Journal of Sustainable Finance and Investment*. Volume 15, Issue 4. [Available online here](#).

Analyses why asset managers adopt net-zero targets, finding that target-setting is driven less by portfolio characteristics and more by normative and peer pressures within the sustainable finance field, reinforced by industry initiatives and client expectations.

Hastreiter, J. (2025). **Can Investor Coalitions Drive Corporate Climate Action?** Grantham Research Institute on Climate Change and the Environment, LSE. [Available online here](#).

Assesses the causal impact of Climate Action 100+ on corporate climate outcomes and finds that while CA100+ has not led to meaningful improvements in climate-related disclosure or carbon emission reductions, it has encouraged more ambitious medium- and long-term emission targets, though this result may reflect investors' prior selection of receptive companies.

Hastretier, N. and Perkins, R. (2025, currently under peer review). **Mainstreaming Corporate Climate Action Along the Governance Chain: Investor Coalitions and the Fallacy of Scale**, Department of Geography & Environment, LSE

Kaplan, S. & Levy, D. (2025). **The rise of investor-driven climate governance: From myth to institution?** *Regulation & Governance*. [Available online here](#).

Explores how institutional investors are no longer passive capital allocators but active governance actors, using their financial power to exert influence on corporate behaviour and climate strategy. Analyses the mechanisms by which investor-led initiatives shape market norms, governance practices, and regulatory expectations in the pursuit of climate risk mitigation.

Slager, R., Chuah, K., Gond, J-P., Furnari, S., and Homanen, M. (2023). **Tailor-to-Target: Configuring Collaborative Shareholder Engagements on Climate Change**. *Management Science* Volume 69, No. 12. [Available online here](#).

Identifies how combinations of engagement design features, such as coalition size, diversity, and escalation tactics, affect the success of investor collaborations on climate issues, highlighting the importance of tailoring engagement strategies to specific company contexts.

APPENDIX B: OVERVIEW OF INVESTOR CLIMATE COALITIONS

The table below summarises the most prominent investor climate coalitions and their distinguishing characteristics. Membership and AUM information reflects the latest data released by the coalitions and other public sources as of August 2025. The entries for GFANZ and NZAM reflect the initial scope of the activities and commitments of these organisations, although both have substantially pivoted in the last year, as explained in the footnotes.

	Main focus	Membership & AUM	Commitments	Key features
Glasgow Financial Alliance for Net Zero (GFANZ) ¹	Convenes sector initiatives to support system-wide net-zero commitments	450+ institutions (~50 countries); >\$130 T AUM	Net zero across scopes by 2050; set 2030 interim targets; publish transition plan & progress	High-level coordination; cross-sector frameworks
Net Zero Asset Managers (NZAM) ²	Supports net-zero alignment by 2050 via portfolio targets & disclosures	325 managers; ~\$57.5 T AUM	Commit to net-zero portfolios; set interim fair-share targets; increase AUM coverage; disclose progress annually	Target-setting & reporting; flexible portfolio alignment
Net-Zero Asset Owner Alliance (NZAOA)	Aligns institutional portfolios with net zero through engagement & interim targets	89 asset owners; ~\$9.5 T AUM	Publish science-based targets every 5 years; cut emissions 22–32% by 2025 & 40–60% by 2030; align portfolios & engage companies	Sector-specific guidance; stewardship & portfolio alignment
Paris Aligned Asset Owners (PAAO)	Provides tools & frameworks for aligning portfolios with the Paris Agreement	57 asset owners; ~\$3.3 T AUM	Reach net zero by 2050; set 2030 targets; decarbonise across portfolios; invest in climate solutions; limit offsets; report annually	Net Zero Investment Framework; regional collaboration & experimentation
Climate Action 100+ (CA100+) ³	Drives corporate climate action through investor engagement	700 signatories; ~\$68 T AUM	Engage focus companies on governance, emissions & disclosure; require 1.5 °C-aligned transition plans; no portfolio targets	Stewardship-focused; direct engagement via investor networks; escalation options

¹Now transitioned to an “independent Principals Group ... acting to address barriers faced in mobilising capital for the transition around the world...” <https://www.gfanzero.com/press/2025-new-year-update-from-gfanz-secretariat/>

²Has launched a review of the initiative “...to ensure NZAM remains fit for purpose in the new global context” and meanwhile has suspended activities to track signatory implementation and reporting and has removed commitment statement from its website: <https://www.netzeroassetmanagers.org/update-from-the-net-zero-asset-managers-initiative/>

³Despite the departure of several high-profile asset managers, particularly from the United States, Climate Action 100+ remains active

Table 1: Overview of investor climate coalitions. Source: GFANZ, NZAM, NZAOA, PAAO, and Climate Action 100+ public disclosures, 2024–2025.