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What Can Investors Do About Climate Change?

Workshop Feedback and Suggested Ways Forward

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Introduction

This report explores the role of investors in addressing climate change at a time when the effectiveness and legitimacy of investor influence are more contested and policy momentum less assured. It draws on insights from five half-day workshops held in late 2025 with representatives from over 60 asset owners and managers[1] in New York, Amsterdam, London, and Singapore, with total assets of USD 40–50 trillion. Context for the workshops was set by an extensive pre-read,[2] which set out the issues, evidence, and dilemmas relating to investor climate action and on which this report builds.

We do not remake the case for climate action here. We share the scientific consensus that the impacts and tail risks of climate change could be severe, and the economic consensus that the benefits of sensible climate action outweigh the costs. The link from climate to financial market impacts is highly uncertain, but we view **climate change as a material financial risk for long-term investors**, who have a financial interest in effective climate action. Fiduciary duty cannot justify support for any and all levels of climate action, but in our view support for some level of action is consistent with the duties of long-term asset owners, if approached thoughtfully, with regard to the interests of beneficiaries in a range of scenarios. For those who disagree, we do not relitigate these premises here.[3] Instead, we ask, **for investors concerned about climate change: what can they do about it, given their role, agency, and fiduciary duties?**

Although targeted at investors, this report has a message for governments too. Action by investors on climate change is severely constrained by their duties, the limited tools at their disposal, and the pathways of technology development. **Investor action requires effective and stable policy to incentivise investment and innovation.** With such policy in place, investors are a force multiplier - but they cannot compensate for its absence.

This is a practitioner-oriented report rather than an academic one. The conclusions are those of the authors alone and do not necessarily reflect the views of workshop participants or project funders. Section 1 summarises the workshop themes. Section 2 develops the central argument for reframing investor climate action around a policy-led transition and the consequences for goals, stewardship, and targets. Section 3 sets out a pragmatic framework for investor target setting. Section 4 identifies five areas where investors could do more to maximise impact while maintaining legitimacy. Section 5 considers the implications of weakening policy support for climate action. Section 6 concludes.
We would like to thank the participants from the following organisations who took part in this project

1 Asset owners include pensions funds, sovereign wealth funds, insurance companies, or endowments who exercise fiduciary duty over investments and determine strategy. Asset managers include index managers and active managers who are contracted by the asset owner to manage all or part of the investments on their behalf. Workshops were attended mainly by heads of responsible investment and the views expressed may not reflect the views held across the investing institution as a whole. See Appendix A for information on methodology.

2 What can investors do about climate change? Workshop pre-read available at: https://tinyurl.com/bdetar64.

3 The fiduciary basis for investor climate action and its limitations are discussed in Gosling, T. (2025), 'Universal Owners and Climate Change', Journal of Financial Regulation, 11, 1-40: https://doi.org/10.1093/jfr/fjae010.

Executive Summary

Over the past decade, **investor approaches to climate action have been largely shaped by a market-led narrative:** investors—acting individually and collectively—were expected to play a leading role in economy-wide decarbonisation through disclosure, target setting, capital allocation, and stewardship. That narrative has now run into fundamental limits.

This report argues that the next phase of investor climate action requires a **reframing towards a policy-led transition**, grounded in a more realistic assessment of investor agency. Government policy and technology developments are the primary determinant of decarbonisation pathways. Where policy does not align incentives with climate goals, investors cannot—on a sustained basis—force companies to act against economic reality. **Persisting with a market-led narrative in this context risks a loss of credibility and ineffective or performative action.** This does not imply investors should pay less attention to climate change, but has important implications for the nature of investor climate goals and actions. A second conclusion is that, given their role and constraints they face, **asset managers will not lead the charge. Clear leadership from asset owners is needed to spur investor climate action**, as this is the constituency where fiduciary obligations and risks relating to climate change mainly reside.

These conclusions are informed by workshops held in late 2025 with over 60 senior representatives of asset owners and asset managers across Europe, North America, and Asia. While views differed by role and region, several common themes emerged.

What We Heard

Investors are grappling with the credibility, feasibility, and legitimacy of investor climate action.

- **Climate change is viewed as financially material, but is increasingly one of a number of emerging investment risks and opportunities** alongside energy security, geopolitics, and AI, and can no longer be viewed as a sole or primary focus. Investors remain committed to playing a part but seek approaches that fit with their role and fiduciary duties.
- **Government policy and technology innovation are seen as the primary levers for climate action – where these are weak or misaligned, investors lack agency and even legitimacy.** Many investors believe their role has been overstated and there are widespread concerns that they have set targets they cannot meet. Although supportive government policy is viewed as critical, the appetite for investors to engage in policy advocacy is limited, with concerns about capability, legitimacy, and, in the US, political risk.
- **Stewardship is effective but constrained.** Engagement works, but subject to strict limits defined by what is economically viable: investors cannot compel boards to pursue strategies they judge to be commercially damaging.

- **Top-down target setting is losing credibility.** Translating economy-wide decarbonisation pathways into portfolio or firm-level targets has led to unrealistic commitments, reliance on flawed proxies such as portfolio decarbonisation, and a growing tension between ambition (especially continued adherence to 1.5°C goals) and feasibility.
- **The perspectives of asset owners and asset managers are quite different.** Asset owners often frame climate change as a long-term, system-level risk , whereas asset managers focus primarily on asset level risks and opportunities in the relatively short term. Asset managers say that asset owner preferences on climate are not well reflected in mandates, creating a persistent gap between stated expectations and day-to-day incentives.
- **Asset managers are talking more about climate risks and opportunities, especially resilience and adaptation, and less about mitigation.** This can cause friction with asset owners who continue to see mitigation as an important objective to reduce system risks.
- **Investor collaborations have played an important role but are running out of steam.** Initiatives have proliferated and suffered from scope creep. Climate Action 100+, as the largest and perhaps most significant climate-focused coalition, needs particular attention. Some larger investors, especially in the US and Europe question the value of participation, and we heard concerns about free-riding, unwieldy engagement governance, and legal risk.
- **There are marked differences between regions**. In the US the perceived legal and reputational risk for investors is high and framing climate action as an investor goal requires bravery. Asset managers are caught between clients with diametrically opposed views. In Europe there is a sense of waning political support for climate action, but the main concern is the gap between investor targets and real-world decarbonisation. The mood in Asia was quite different: here climate mitigation and adaptation are considered uncontroversial requirements for sustainable economic growth, with investors, companies, governments, and regulators seeking to work together to find pragmatic solutions.

Our Diagnosis

We need a change in narrative underpinning climate action, from “market-led” to “policy-led”. Consistent government policy is required to incentivise decarbonisation and technology development. Investors play a supporting rather than defining role. They cannot substitute for policy through targets or stewardship, but have an important role to advocate for, reinforce, enable, and anticipate technology and policy-driven changes as part of a network of actors supporting system change.

This change in narrative implies several important shifts:

- **Climate goals should reflect the role of investors in delivering change.** For investors who believe in the long-term financial materiality of climate change, climate goals remain appropriate. But given the current policy trajectory, climate goals should move away from the focus on 1.5°C with limited or no overshoot and instead align explicitly with the Paris Agreement of limiting warming to well-below 2°C; or they should be framed directionally – stating support for rapid but politically feasible decarbonisation.

- **Stewardship efforts should reflect the limits of investor influence.** Investors cannot force companies to operate outside the field of economic viability. Instead, they should use stewardship to encourage boards to explore, or even expand, the boundary of this field. They should advocate for, and support, policy developments to help align economic incentives with their climate goal.
- **Investors should adopt a pragmatic and focused approach to setting objectives.** This moves away from top-down portfolio targets to a limited number of objectives filtered by a clear view of the investor contribution and by principles of materiality, investor efficacy and comparative advantage, focusing on points of leverage rather than broad portfolio metrics.

Where Investors Could Choose To Do More

Against this backdrop, we identify five areas where investors could choose to do more in support of a policy-led transition while maintaining credibility and legitimacy.

1. **Stepping up on policy advocacy.** Policy is vital to enable climate action, yet few investors are truly stepping into the policy advocacy arena. Many asset managers face formidable barriers to getting involved. Asset owners will need to do more to lead, set the tone for, and fund policy advocacy than is the case today.
2. **Integrating climate action expectations into mandates and asset manager selection.** Asset owners need to be clear about what they want and factor that into asset manager selection and mandates, otherwise managers will have limited ability to follow through. Selection of aligned managers may be necessary for investors prioritising policy influence.
3. **Developing expertise in emerging markets climate investments.** There are large investment gaps for climate mitigation and adaptation in emerging markets (EMDE). The reasons for low investment allocations are not just financial, but include internal and organisational barriers. Asset owners can devote resources to building expertise and overcoming these barriers to increase EMDE allocations.
4. **Building climate expertise into the core investment process.** Investors cannot make the unprofitable profitable. But they can invest in research into physical climate risk, including adaptation and resilience, to ensure these risks and opportunities are correctly priced by markets. Or they can invest in expertise to evaluate and invest in climate solutions, ensuring this segment of the market receives its fair share of scale-up capital.
5. **Refocussing coalitions.** Investors should review the value provided by different collaborations and focus on where they can contribute most. Coalitions would benefit from clearer expression of their scope and limits. New models of engagement led by portfolio managers should be considered for strategic climate issues; the UK's Investor Forum provides a potential model.

With government policy momentum less assured or even in retreat in some regions, investors need to be realistic about what they can achieve, but can continue to contribute in many areas. We close with discussion of four qualities we believe are essential to investor climate leadership in 2026: courage; honesty, curiosity; and commitment.

1. What We Heard From Investors

Detailed feedback from the workshops is set out in Appendix B. In this section we focus on eight major cross-cutting themes that emerged.

Climate Change is Financially Material but is Now Part of a Crowded Agenda

Climate change is viewed as a material long-term financial risk, but is increasingly competing for attention with other emerging risks such as: energy security, geopolitics, and AI. Climate is less dominant than in earlier periods of stronger policy momentum, making it harder for investors to prioritise. Asset managers face the reality that other issues are likely to dominate investment returns over the short- to medium-term. Investors remain committed to playing a part but seek approaches that fit with their role and fiduciary duties.

Supportive Government Policy and Technology Innovation Are Essential

Effective and consistent government policy is essential to reframe economic incentives for decarbonisation. Investors can act as a force-multiplier for effective policy, but do not have the capability to "step in" to replace government action or lack of commercial technologies.

Stewardship Works but Investor Agency Has Been Overstated

Stewardship is consistently described as the most dependable and legitimate lever available to investors. Investor influence through boardroom engagement can have real economy impacts and is aligned with the core role of investors. Yet influence on company behaviour is constrained. Forcing boards to act against their view of the company's commercial interests is not realistic. For this reason, while investor stewardship has increased awareness of climate change, improved disclosures, encouraged target setting, it has not materially shifted emissions trajectories and cannot do so in the absence of supportive government policy.

Increasing Concerns About Credibility, Feasibility, Legitimacy

The top-down approach to climate targets increasingly lacks credibility within the investment community. Translating economy-wide pathways into investor net-zero portfolio targets, which are in turn delivered through capital allocation and stewardship, overstates what investors can credibly and legitimately deliver, when economic incentives are misaligned. Investors view climate goals as important catalysts of action within organisations, but feel the way they set targets does not reflect a realistic view of their agency. Investors are looking for ways to maintain momentum on climate action, while finding firmer ground for climate targets.

Asset Owners and Asset Managers Have Different Framings and Incentives

Asset owners often frame climate change as a long-term system-level risk that can threaten portfolio returns over decades, and therefore see support for climate action as compatible with fiduciary duty. Asset managers are more likely to focus on asset or company-level risks and opportunities over timeframes of a few years. This focus reflects mandate constraints, asset manager views of their role and agency, the nature and culture of the industry, diversity of client objectives, and, in the US, perceived legal and political risks of promoting climate action. The differences shape views on targets, stewardship, and collaboration.

The Investment Narrative is Shifting From Mitigation to Opportunity and Resilience

The rationale for climate as an investment theme is increasingly framed in terms of near-term economic drivers and investment opportunity. Areas such as renewables and grid development remain central given the evolving economics and the link with domestic energy security. There is also growing emphasis on adaptation and resilience, which are viewed as politically less controversial, increasingly relevant as physical impacts rise, and less dependent on supportive (and uncertain) policy. An integrated view of adaptation and mitigation appear strongest in Asia. In Europe, adaptation seems to be playing catch-up compared with a historic focus on mitigation and is requiring new skills and capability. The focus on climate change as just another investment risk or opportunity is more comfortable for asset managers, but can cause frustration for asset owners who see mitigation as essential to their long-term interests.

Investor Coalitions Have Been Important But Are Running Out of Steam

Large investor coalitions such as Climate Action 100+ are credited with elevating climate issues to board-level attention and improving disclosure, targets and expertise across the investment chain. However, workshop participants expressed growing coalition fatigue. Concerns include initiative proliferation, governance weaknesses, mission creep, freerider problems and the high time costs of participation, especially as coalitions move from framework development to more demanding transition and decarbonisation asks. As a result, there is interest in smaller, more focused and timebound coalitions organised around specific issues, sectors or regions. Some participants also distinguished between broad standard setting coalitions and those engaging directly on company strategy, calling for greater portfolio manager involvement, as is the case in the UK's Investor Forum. At the same time, there is interest in broader ecosystem approaches such as the Singapore Sustainable Finance Association.

There Are Marked Differences in Regulatory and Political Context Between Regions

Differences across regions in policy ambition, legal exposure, and public scrutiny influence not just what investors feel able to do, but how they frame and communicate their actions. Undoubtedly this is most severe in the US asset management community, given the particular regulatory environment and political pressures. But in Europe too there was a recognition that the days of unquestioning societal support for climate action are probably over, at least for now. Concerns about the legitimacy of the investor voice are causing firms to be cautious about political engagement and lobbying on climate – possibly one of the most powerful channels of influence for them. By contrast, among Asian participants, there is less sense of a changed mood – a pragmatic approach to climate change continues, with a focus on both mitigation and adaptation and, at least in Singapore, collaboration between state and non-state actors.

We now turn to how investor climate action needs to evolve to reflect this context.

2. The Necessary Reframing of Investor Climate Action

In this Section, **we argue for a fundamental reframing of the role of investors in climate change**, which has significant implications for investor climate goals. In Section 3 we set out the implications for how investors set climate objectives. We use the following terminology:

- Goals: the investor's broader climate ambition or direction of travel.
- Objectives: specific areas of investor action or intended contribution towards goals.
- Targets: metrics, milestones or KPIs used to track progress against objectives.

For example, an investor might have a climate goal of supporting the aims of the Paris Agreement. This could give rise to an engagement objective of encouraging portfolio companies to explore actions that support greater alignment with a net-zero transition. Within this, they may have a target to engage with all Oil & Gas holdings to take action on methane flaring.

At the heart of our diagnosis are two linked observations:

- First, **investor climate action over the past five years has been shaped by a largely top-down 'market-led' narrative that has overstated investor agency.**
- Second, the next phase of investor action will require a **more focused and bottom-up approach, grounded in realism about where specific investors can most credibly and effectively contribute to a policy-led and technology-enabled transition.**

2.1. From Market-Led to Policy-Led Narrative

A realistic appraisal of investor agency is critical if investor climate action is to be impactful in the future. Over the past five years, investor climate action has been shaped by what Harald Walkate refers to as a **market-led narrative:**[4] investors, acting collectively and guided by sector pathways, could play a leading role in driving real-world emissions reduction through disclosure, corporate net-zero targets, solutions investments to support technology innovation, and forceful stewardship including voting and divestment. This narrative has materially shaped a theory of change based on disclosure, targets, and investor-driven accountability.

This theory of change has proved flawed. Decarbonisation cannot be delivered "one company at a time" through investor pressure, when economic incentives point the other way.[5] The required economic transformation is more profound. The lever for the necessary shift in incentives is government policy, alongside technology development and public investment. **Under a policy-led narrative the role of investors changes:** rather than trying to dictate corporate changes regardless of the economic incentives, investors support and enable the policy environment that is needed.

4 The narratives framing for this subsection is inspired by the writing of Harald Walkate, see for example: https://tinyurl.com/4yfmpu5c; see also the article by Lisa Sachs available here: https://tinyurl.com/3ufp2fun

5 The limitations of investor action were discussed in the workshop pre-read: https://tinyurl.com/bdetar64

Stewardship focuses on engagement objectives that are economically feasible for companies to deliver, i.e. “limitations-aware” engagement.[6]

The market-led and policy-led narratives are contrasted in Figure 1. Technology innovation plays an important role in both narratives but the role of investors differs significantly.

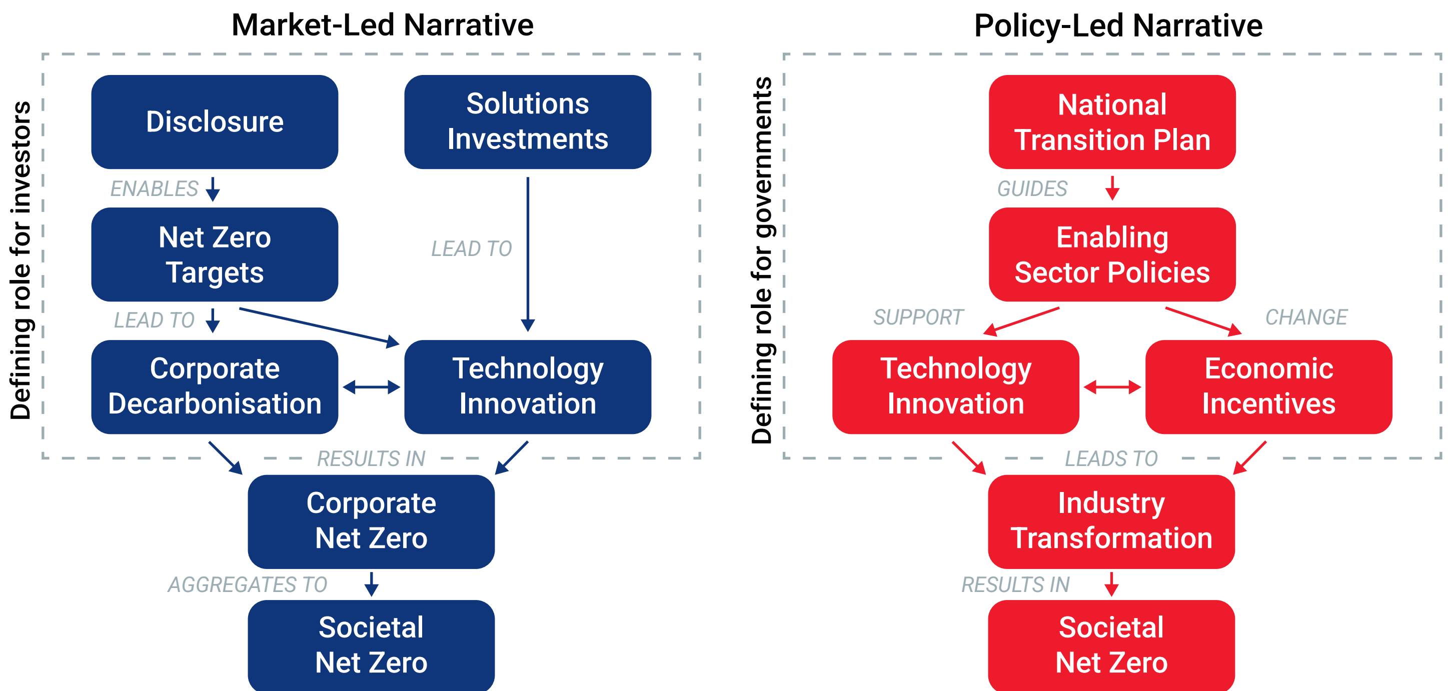

Figure 1: Comparison of market-led and policy-led narratives

As Lord Nicholas Stern put it in his recent book, [7]

> *“Governments... need to establish strategic and institutional frameworks that indicate clear and credible directions for the economy if investment is to flourish ...particularly... in the context of the investment imperative and the urgency of the transition.”*

Of course, the various investor initiatives stated the importance of government policy. But **policy dependence was treated as a caveat, not as the organising principle for investor commitments.** Target-setting frameworks are framed as if the market-led narrative could do the work, while policy is secondary in implementation. By way of illustration, of 127 investors who at the end of 2024 had published targets under the Net Zero Asset Owner Alliance (NZAOA) target setting framework and the International Investors Group on Climate Change (IIGCC) Net Zero Investment Framework (NZIF), only five made any reference to public policy engagement. [8]

6 Gosling, T and Walkate, H (2024), ‘Does Sustainable Investing Work?’, ECGI: https://tinyurl.com/mw95scja

7 Lord Nicholas Stern, ‘The Growth Story of the 21st Century: The Economics and Opportunity of Climate Action’, LSE Press 2025, p227, available at: https://tinyurl.com/3k8w5bwz

8 Gosling, T (2024), CFA Institute Research & Policy Center Discussion Paper, ‘A New Focus for Investor Climate Commitments’, available at: https://tinyurl.com/58363yek

This focus on a “market-led” narrative has **overstated investor agency and understated the role of policy, politics, and economic incentives.** The disconnect between investor climate targets and politically supported economic trajectories has encouraged “seems-like” 1.5C-aligned strategies—most notably financed emissions targets or portfolio decarbonisation—which create the appearance of decarbonisation without driving real-world change. At the same time, investors have encouraged companies towards targets that lack credible pathways in the absence of supportive policy or towards strategies that are economically damaging. In this way, investors have found themselves in the remarkable position of being accused both of doing too much and too little on climate change: of greenwashing and of political overreach.

It is not that investors are irrelevant. It is that the theory of change needs to be rebuilt. Under a policy-led narrative, **investor action must become more focused and bottom up, grounded in realism about where specific investors can most credibly and effectively contribute—**and explicit about the primacy of policy in determining economic viability.

2.2. The Role of Investors in a Policy-Led Transition

Yet “policy-led” does not mean “policy-only”. Policy development does not happen in a vacuum. Turning again to Lord Stern:[9]

> “The transformations necessary for decarbonisation will to a large extent rely on markets and private decision-making. This is a market and entrepreneurial story, but the role of the state will be crucial in shaping incentives, setting expectations, and fostering entrepreneurship.”

The role of investors in a policy-led transition is summarised in Figure 2.

Decarbonisation disrupts incumbents, leading to well-organised and politically salient combinations of corporate and labour interests that can undermine climate policy. Investors have an economy-wide view of the benefits of an orderly transition and so can **support ambition** for effective government policy, reaffirming that climate change is financially material and needs to be addressed. To help play their role to the full, investors need to **develop capability** relating to their understanding of physical climate risks and transition pathways.

9 Lord Nicholas Stern, ‘The Growth Story of the 21st Century: The Economics and Opportunity of Climate Action’, LSE Press 2025, p268, available at: https://tinyurl.com/3k8w5bwz

Investors will also need to build capacity to **engage effectively in policy formation** and sector transition plans, as recommended by the UK Transition Finance Council.[10] The policies required to make the transition investible are a core area of investor expertise. Finally, investors can **reinforce the transition** by integrating climate change into the core investment process. This includes using corporate engagement to encourage boards to take full account of climate risks and opportunities, directing capital towards and supporting commercial scale-up of climate solutions, and using investment expertise to help ensure that transition-readiness and corporate resilience are correctly priced by markets. Returning to policy influence, investors also have a role in ensuring their own lobbying and that of issuer companies does not undermine sensible climate policy objectives.

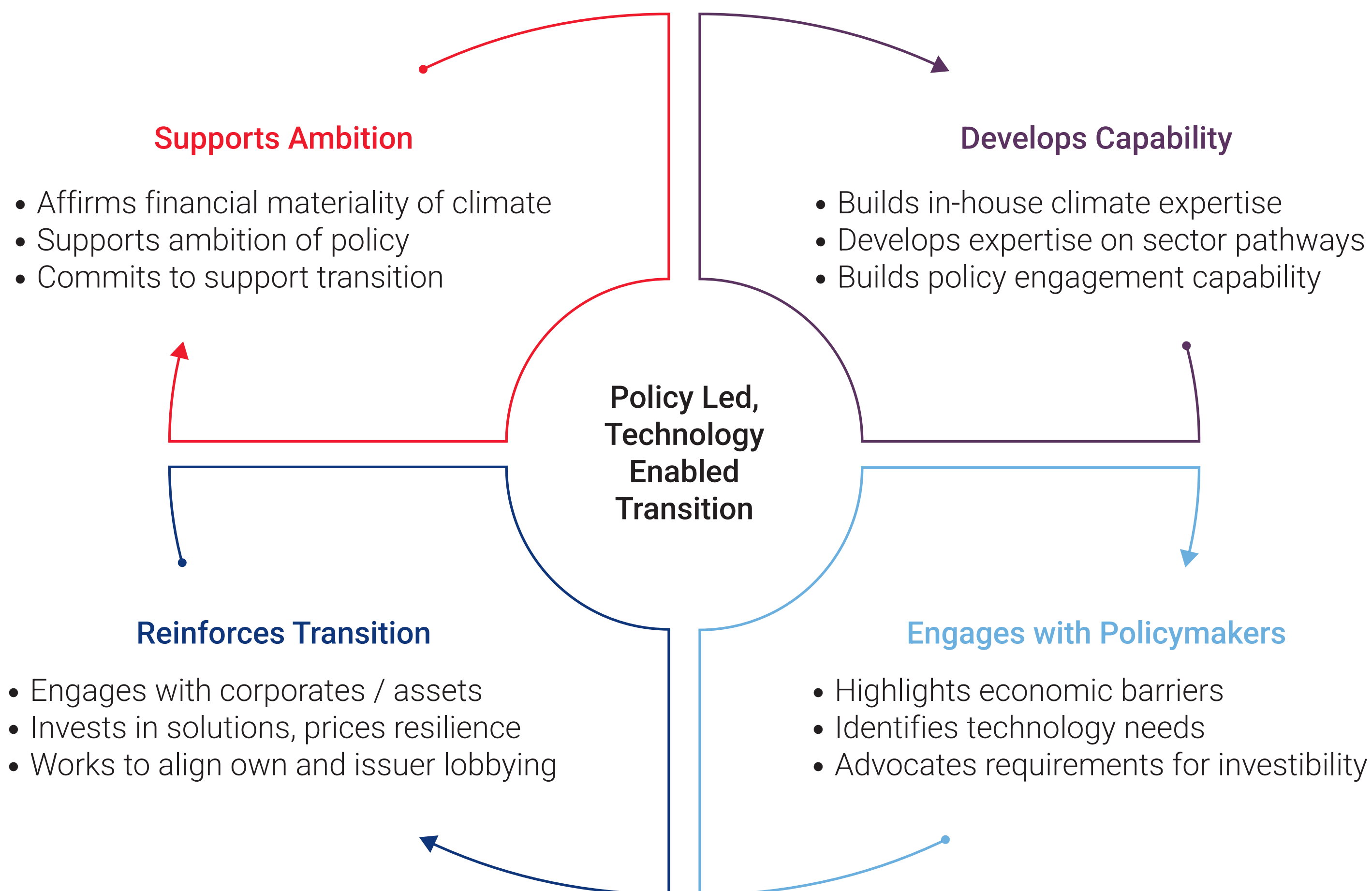

Figure 2: The role of investors in a policy-led transition

We return to many of these topics in Sections 3 and 4. Engaged investors (as well as companies, consumers, and voters) will of course play an important role in addressing climate change. But **the role of investors needs to be seen in the context of the primacy of government policy development.** The role is one of supporting and enabling, rather than driving, climate action, with consequences for investor goals, targets, and actions. This supporting role is inherently more constrained than some of the claims that have been made for what investors can achieve. But it is nonetheless important.

10 Transition Finance Council, 'Sector Transition Plans: The Finance Playbook', available at: https://tinyurl.com/ms2795cu

2.3. Consequences for the Nature of Investor Climate Goals

What does a policy-led narrative mean for the nature of investor climate goals? Goals and targets play an important internal role in mobilising attention and resources for climate action. Some investors retain a strong commitment to the 1.5ºC goal as a reference point for ambition, given worsening climate impacts and the importance of preventing backsliding.[11] However, many feel that **commitments to limit warming to 1.5ºC now give rise to unreconcilable tensions.**

Our own view aligns with the second group. Continued adherence to a 1.5ºC goal commits investors to an invidious choice: either translate the goal into unrealistic portfolio- and company-level targets; abandon it in practice while retaining it rhetorically; or rely on flawed methodologies such as portfolio decarbonisation that can be presented as "alignment" while being disconnected from real-world transition dynamics. Investors can state the level of ambition they wish governments had, but if goals are to be converted into targets they cannot be divorced from achievable or realistic pathways. A new approach is required.

Under a policy-led narrative we propose climate goals should take one of two forms:

1. **Align with the Paris Agreement, avoiding over-interpretation—an approach that in practice implies focusing on limiting warming below 2ºC.**[12]

   Example: Norges Bank Investment Management (NBIM) states that:[13]

   "Climate change is one of the defining challenges of the 21st century. As a long-term, diversified, global investor, the fund stands to benefit from an orderly transition in line with the goals of the Paris Agreement."

   Consistent with their over-arching climate goal, NBIM has advocated for the Science-Based Targets Initiative to allow target setting based on alignment with 2ºC rather than 1.5ºC pathways.[14]

11 It is worth noting that the Net Zero Asset Owner's Alliance recently reaffirmed its commitment to the 1.5ºC target, see https://tinyurl.com/2epfj64s; for reasons why many investors are no longer convinced see Gosling, T (2024), 'A new focus for investor climate commitments', available at: https://tinyurl.com/58363yek

12 We note the advisory opinion from the International Court of Justice in July 2025, which stated that in light of evolving science that 1.5oC should be considered the primary temperature goal under the Paris agreement. Discussion of the implications of this case are beyond the scope of this report, but this does illustrate further risks for investors in adopting any fixed climate goal. Judgement available at: https://tinyurl.com/bp5mn39c

13 NBIM 2030 Climate Action Plan, available online at: https://tinyurl.com/mtz4y2u3

14 NBIM Feedback on SBTi Public Consultation, 12 December 2025, available at: https://tinyurl.com/wvw5z9cd

2. **Be directional in nature: affirm the importance of addressing climate change but recognise the primacy of government policy and focus actions and targets on areas of investor agency.**

   Example: British Columbia Investment Management Corporation (BCI) states that:[15]

   "BCI is committed to using our influence to drive actions aligned with the global goal of achieving net-zero greenhouse gas emissions by 2050 … Climate change will have a systematic impact on the global economy, and may impair the ability of long-term investors to meet their requirements over a longer time horizon … which is why we support actions that limit GHG emissions wherever possible."

   However, beyond this directional framing, BCI does not have an over-arching climate target and affirms that:

   "BCI is taking action to support this global goal while maximising the likelihood of achieving client objectives in all future climate scenarios".

Each approach has trade-offs. The first approach retains the express support of investors for the Paris Agreement, which is important signalling, and retains political legitimacy in signatory countries. But it risks perpetuating the myth that investors can drive decarbonisation. A directional goal avoids that trap: it recognises investors play a supporting role in the transition and forces investors to articulate their own distinctive contribution to climate action. But it provides less explicit support for the Paris goals.

Climate ambitions remain relevant for asset owners, if they believe that climate change is a financially material system-wide issue. But asset owners need to document these beliefs, in a world where unquestioning support for climate action can no longer be taken for granted.[16]

For asset managers, the fiduciary and commercial context is different. They are obliged to operate within the terms of mandates and client objectives. Where their clients have diametrically opposed climate beliefs, it is not realistic for them to have firmwide climate goals and some managers have de-emphasised them. Others remain strong advocates of climate action, aligning themselves with like-minded clients. Yet even managers with diverse clients may still be able to state a view on the science or economics of climate change.[17]

15 BCI Climate Action Plan, available at: https://tinyurl.com/y5t7zytu

16 For a framework to document asset owner beliefs see workshop pre-read p19: https://tinyurl.com/bdetar64

17 For examples of a spectrum of asset manager statements on climate change see Generation Investment Management, Our Mission: Climate Change, available at: https://tinyurl.com/2rp7epar; Baillie Gifford statement of climate-related intent and ambition, available at: https://tinyurl.com/yc37deb2; BlackRock 2025 TCFD report, p3, available at: https://tinyurl.com/4zb66yd8

Ultimately the market will determine how much firmwide alignment matters. Depending on the mandate being awarded, some asset owners will not care whether their asset manager has a firmwide climate goal. On the other hand, asset owners who care about system-level stewardship and policy advocacy will be keen to find managers who are aligned at a firm level.[18] The extent to which asset owners prioritise climate stewardship in their manager selection process will determine the extent to which the market sorts to cater to these preferences.[19]

2.4. What Does a Policy-Led Narrative Mean for Investor Stewardship?

A consistent theme from our workshops was the **continued importance of investor stewardship**. But there are concerns about **unrealistic expectations amongst clients, policymakers, and civil society for what engagement can achieve.** The problem of over-ambitious engagement is illustrated in Figure 3. Attempts to force a company into uneconomic actions do not accelerate sector transitions. Instead the result is loss of competitiveness, leading to a reaction, and potentially an over-reaction, to attempted decarbonisation.

Stewardship is most effective within the boundary of what is economically viable – or when it encourages firms to expand that boundary through credible commercial framing. We refer to this as **limitations-aware engagement**,[20] which focuses on topics that can support sustainable reduction in emissions while remaining aligned with realistic commercial objectives. Directors have a zone of discretion in which they operate: a range of actions they can adopt within the current field of economic viability. The goal is to encourage them to adopt actions within this zone that are more aligned with decarbonisation. At the same time, investors can advocate for policies that shift the field of economic viability closer to alignment with a net zero future. This is illustrated in Figure 4.

18 See for example the People's Pension move from State Street to Amundi: https://tinyurl.com/muhap5br

19 Gosling, T. 2025, 'Is the market about to sort?' available at https://tinyurl.com/47ckve24

20 The limitations of stewardship described in this sub-section are very aligned with the views expressed by the Net Zero Asset Owner Alliance as set out in their publication 'The Future of Investor Engagement' (see in particular the discussion around Figure 3, p 13), available at: https://tinyurl.com/mwykxvvb. The concept of 'limitations-aware engagement' was developed by Gosling and Walkate in their series of articles 'Does Sustainable Investing Work', available at: https://tinyurl.com/mw95scja

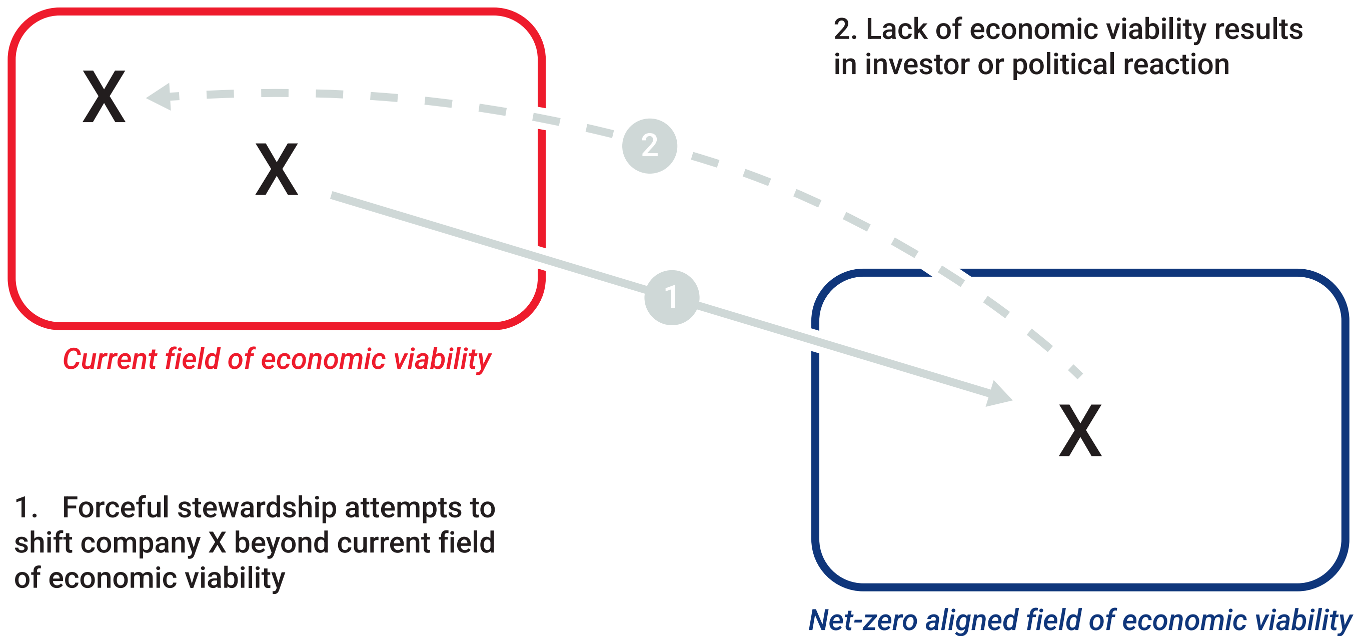

Figure 3: Investor engagement under a market-led narrative

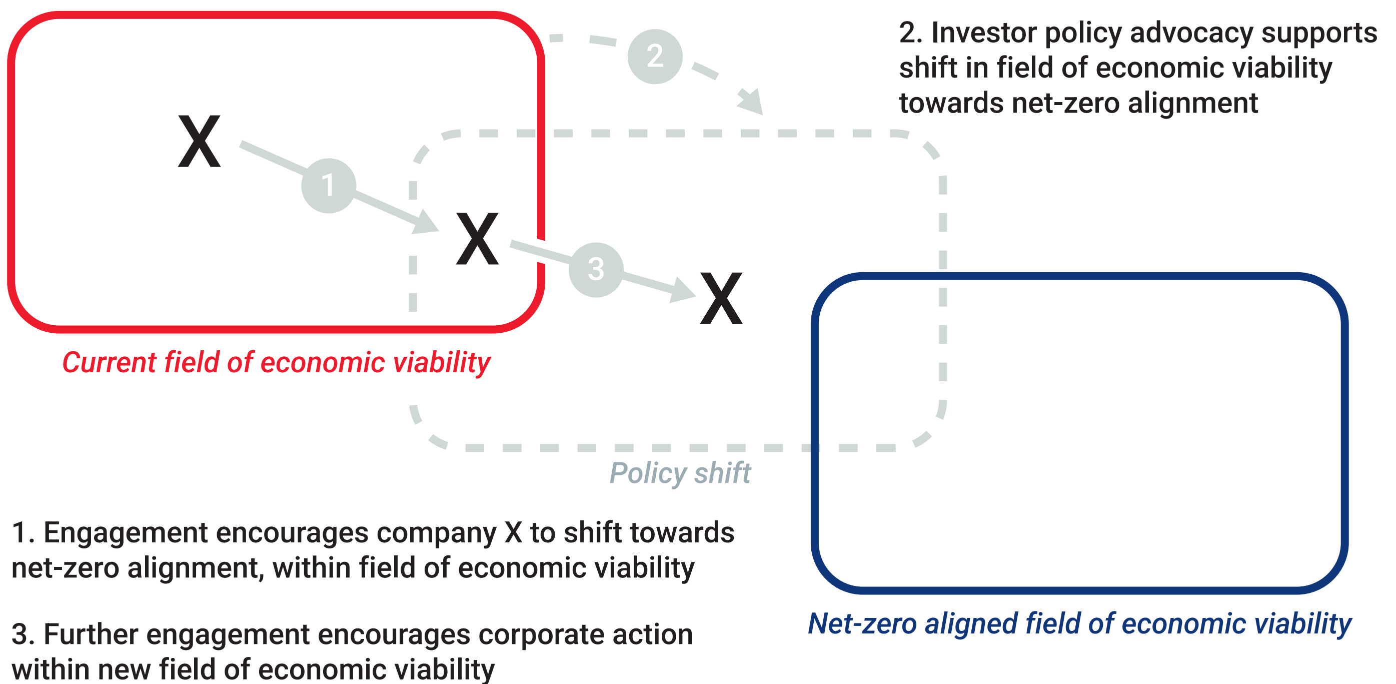

Figure 4: Investor engagement under a policy-led narrative

Engagement that seeks strategic pivots that lack commercial viability is unlikely to succeed. By contrast, engagement on lower-cost operational changes is more feasible. For example, engaging Oil & Gas firms to cut methane emissions (see box) is more plausible than seeking production cuts or a large-scale transition to renewables. The latter approach has largely failed.

Case Study: Methane Abatement

The finance industry's work on methane is an example of the engagement model illustrated in Figure 4. The issue meets a number of key criteria of "limitations-aware" engagement:

- High climate impact, but relatively low abatement cost
- Operational, does not require wholesale strategy change
- Amenable to measurement and monitoring, e.g. by satellite

Through bodies like CA100+ and the Methane Finance Working Group, and supported by NGOs such as Environmental Defense Fund, investors engaged with Oil & Gas majors on methane reduction.[21] This normalised methane standards in capital markets, encouraged improved measurement, identified cost-effective abatement pathways, and led to some corporate commitments on methane measurement and reduction from larger producers.

Groups including CA100+ and CERES co-ordinated investor policy engagement in the US and Europe, leading to more stringent methane regulations on both sides of the Atlantic.

Actions for Investors

- Review approach to setting climate goals to align with a policy-led narrative.
- Asset owners: document fiduciary justification for climate action.
- Carefully frame engagement asks within context of economic limitations for firms.

Industry Projects

- Research into the connection between climate impacts and financial portfolio impacts.
- Develop practical guidance for trustees and investment committees on documenting climate-related beliefs and mandate decisions in a way that reflects fiduciary duty, realistic investor agency, and good-faith decision-making under uncertainty.

21 See for example https://methanefinance.org and https://www.edf.org/methane-timeline

3. A Pragmatic and Focused Approach to Objective Setting

Section 2 outlined why a reframing of investor climate action is needed. This section describes the implications for how investors should think about setting climate objectives and targets.

Climate objectives remain important – they galvanise action and keep climate change on the organisational agenda. But they should be tailored to what is realistically achievable given current economic incentives or should relate to actions to change those incentives, such as policy advocacy. In this section **we set out a process for how investors can choose objectives, consistent with their role, agency, and fiduciary duties.** The approach shifts from broad, top-down ambition to focused, bottom-up contributions grounded in realistic investor agency.

Problems with current target setting approaches

There is no shortage of frameworks for investor action on climate change.[22] However, while they acknowledge the importance of government policy in practice they focus on top-down portfolio measures, climate solutions, and 'asset-level alignment' measured by company level transition plans. This can have the unintended consequence of encouraging a move directly to specific targets, without sufficient consideration of the higher level objective.

Three problems recur. First, **financed emissions create enormous computational complexity** with limited connection to real-world transition dynamics and can incentivise portfolio decarbonisation rather than emissions reductions.[23] Second, **solutions-investment targets can lack additionality** if they aggregate investments driven by already mature commercial opportunities. Third, **transition plans and targets are of little use if they are unattainable because of economic realities.** As one recent report put it: "…there has been a proliferation of bottom-up models, tools, metrics, methodologies, and initiatives designed to measure and evaluate the climate performance of financial institutions…[yet]… meaningful progress in realigning global finance to support climate goals has been limited."[24]

Target setting frameworks typically start with an overall net zero goal which is translated into a range of portfolio, asset, and solutions targets (Figure 5). The aim is for targets to cover 100% of the portfolio as the net-zero deadline of 2050 approaches. This typical target setting framework aligns with the market-led narrative that investors can cajole companies onto a net-zero pathway. Of course that is not the case. As the Net Zero Asset Owner Alliance acknowledges, "It is important to note that the real economy is not moving as fast as the science recommends and that this departure creates a substantial challenge for NZAOA signatories".[22]

22 For example NZAOA Target Setting Protocol 5th Edition: https://tinyurl.com/43zz8tuj; IIGCC Net Zero Investment Framework 2.0: https://tinyurl.com/22rxcnuf

23 See Redwheel Counting Carbon two-part series available at https://tinyurl.com/5xv5th3z

24 Sachs, L., Mardirossian, N., & Toledano, P. (2023) Finance for Zero: Redefining Financial-Sector Action to Achieve Global Climate Goals, CCSI, available at: https://tinyurl.com/vh9eu6pm

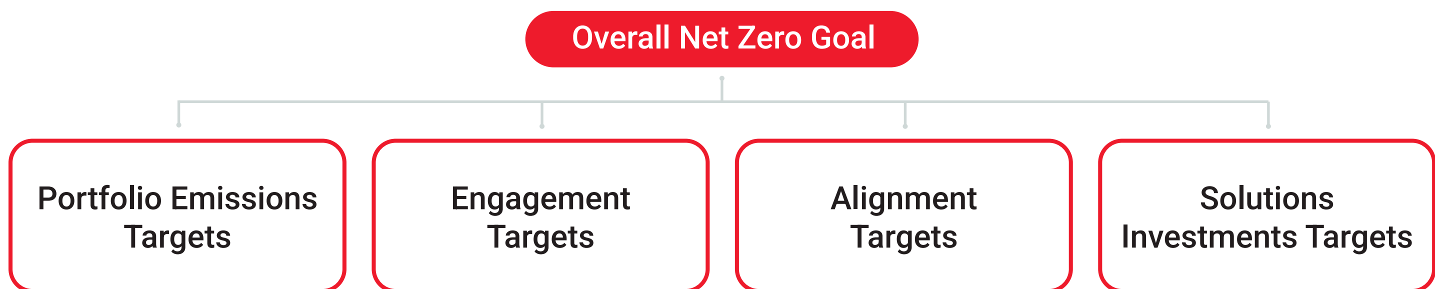

Figure 5: Typical target setting framework

As a result of these difficulties, a number of asset owners already detach their climate goals from specific firm-wide or portfolio level targets (see box). We would argue that this does not reflect a lessening of ambition, but instead a more realistic assessment of investor agency.

Examples of asset owners who do not adopt firm-wide portfolio targets

GIC Sustainability Beliefs [25]

"We believe that companies with strong sustainability practices offer prospects of better returns over the long term, and that this relationship will strengthen over time as market externalities are priced in and incorporated into the decisions of regulators, businesses, and consumers.

At the same time, we must also integrate sustainability considerations into investment decisions in a way that recognises the diversity of industries and markets in which we invest and operate, as well as the trade-offs and time needed for companies to make the transition. We believe this bottom-up nuanced approach is more effective to help companies in their transition towards sustainability, as compared to a top-down, one-size-fits-all approach of mechanically divesting from entire industries."

People's Pension Climate Change Position Paper [26]

[Announcing the new approach which no longer applies a top-down 1.5oC aligned portfolio investment constraint] Mark Condron, Chair of the People's Pension Trustee Board said:
"We remain firm that climate change is a significant long-term financial risk, but that misaligned, or overly ambitious climate strategies can also harm our members if they rely on optimistic assumptions about the speed or nature of transition. Our updated climate approach makes this explicit, and we believe being robustly transparent about this, both to our members and the wider market, is critical. By grounding our approach in real world evidence, we can back a credible transition while safeguarding the retirement outcomes our members rely on."

25 GIC Investing Sustainably: Our Beliefs, available at: https://tinyurl.com/sanabnd8

26 People's Partnership Climate Change Position Paper, March 2026, available at: https://tinyurl.com/k5t4afu2

Towards a Pragmatic and Focused Approach to Objective Setting

The objective-setting approach under a policy-led narrative is illustrated in Figure 6.

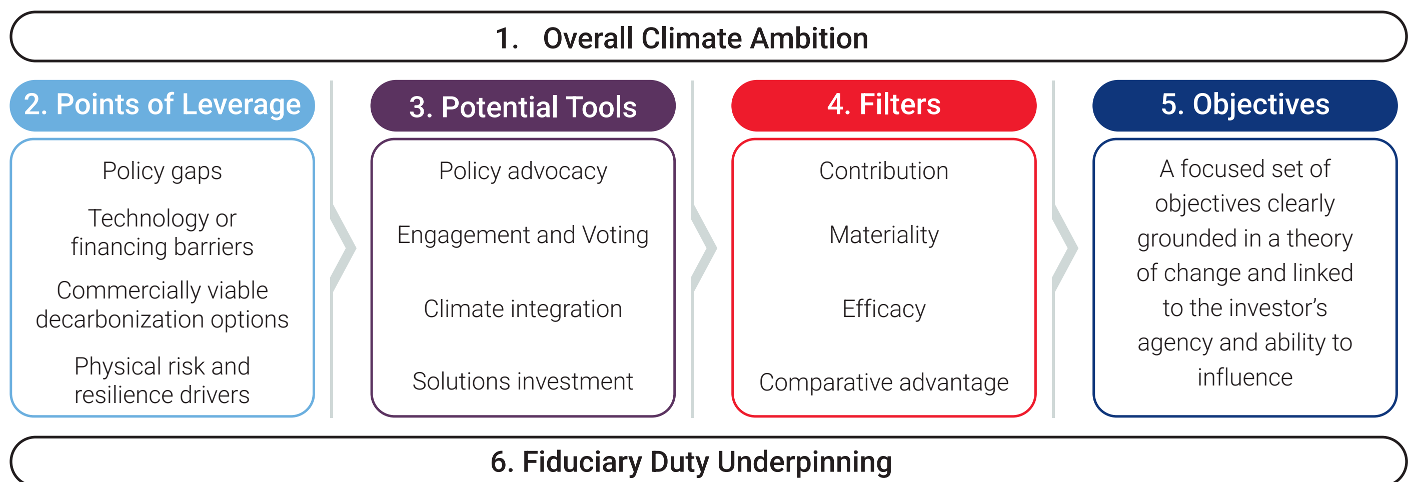

Figure 6: Objective setting framework under a policy-led narrative

The key steps in the process are as follows.

1. Climate ambition remains an important motivating factor for setting objectives and targets, but does not directly link to specific portfolio emissions pathways or to portfolio company targets that are unattainable given the societal trajectory.

2. The process is grounded in the investor's understanding of the key points of leverage within the themes, sectors, asset classes, or geographies in which they invest. This could include policy gaps, or technology or financing barriers which inhibit current commercial viability. Alternatively, there may be decarbonisation adaptation, or resilience investments that are already economically viable today but not being made.

3. The investor considers the range of tools available to address the key climate issues arising in their portfolios.

4. Filters are applied to identify the combination of issues and tools where each investor can be most effective, taking into account their expertise and points of leverage.

5. This process leads to a clear and focussed set of objectives, which may have KPIs and targets attached for measurement and monitoring purposes.

6. As a critical final step, which in reality will operate at every stage, the investor tests consistency with their fiduciary duty, to ensure that any actions taken do not have unintended consequences for investor risk-adjusted returns, for example in less favourable climate scenarios than the one wished for by the investor.

We propose four criteria for filtering targets at Step 4: **contribution, materiality, efficacy, and comparative advantage**. These are shown in Figure 7 together with supporting questions.[27]

Filter	***Considerations***	***Questions for Investors***
Contribution What is the theory of change for the investor contribution?	• Policy reinforcement • Limitations-aware • Enabling solutions	Fit with policy-led narrative – does the action reinforce or help policy development? Is the engagement ask feasible for the company? Is the action helping to enable solutions and capital flows where they are most needed (e.g. EMDE)?
Materiality How material is the issue for the investor?	• Financial materiality • Client materiality • Potential impact	Which climate issues are most financially material given our investment strategy? Which climate issues are of most concern to our clients or beneficiaries? Which segments of our portfolio have the greatest climate impact and potential?
Efficacy What impact can the investor have?	• Effectiveness • Additionality • Displacement / rebound effects	Does the lever being used have credible impact on real-world emissions? Is it cost-effective? Would the outcome have happened anyway? Is the effect robust to market and competitor responses or does it simply displace emissions?
Comparative Advantage Is the investor particularly well placed to use this lever?	• Sector / asset class • Particular expertise • Scale or influence	Which sectors / asset classes do we operate in where the most difference can be made (e.g. real estate, complex infrastructure, private markets)? What particular expertise or capability do we bring given our investment style or focus? Do we have a particular advantage of scale or influence in any markets?

Figure 7: Filters for selecting investor objectives

In relation to step 6, **investors must ensure any action they take protects the interests of beneficiaries across a range of realistic scenarios**, rather than being a bet on rapid decarbonisation. So for example, policy advocacy, limitations-aware engagement, solutions investment seeking market returns, and climate integration into the investment process should not have negative fiduciary consequences in most scenarios. However, fixed portfolio decarbonisation pathways or investment in technologies that are only viable given strong policy developments may have costs for beneficiaries in scenarios where government-led or technology-enabled decarbonisation is less than the investor hoped.[28]

27 This framework is based on the 2022 report for the UK Investor Forum "What Does Stakeholder Capitalism Mean for Investors" available online at: https://tinyurl.com/yh3xu6tx. It is also similar to the Materiality, Efficacy, Proportionality and Tracking Error framework adopted by People's Partnership: https://tinyurl.com/k5t4afu2

28 For a discussion of this tension see Gosling, T. and MacNeil, I. (2023), 'Can investors save the planet? NZAMI and fiduciary duty', Capital Markets Law Journal 18(2), 172, available at: https://doi.org/10.1093/cmlj/kmad002

The proposed approach is more nuanced and involved than simply setting a decarbonisation pathway or an objective relating to portfolio company target setting. But in our view this is a necessary requirement for effectiveness. Investment consultants will inevitably play a key role in enabling this process to work. **Asset owners will need devote the necessary resources to the process of target setting and monitoring in order for it to yield meaningful results.**

Practical Implications

Participants in our workshops were keen to understand the practical implications of this approach in terms of KPIs and targets. However, we are reluctant to provide a menu of standardised options. Indeed **a false prospectus of standardisation and comparability has been one of the problems in the climate targets arena.** Portfolio decarbonisation targets have led to greening portfolios not the economy. "Science-based" targets at the company level have often ignored the lack of feasibility of the targeted outcome given societal decarbonisation pathways.

Instead, what we have sought to lay out is a process that can lead to a robust outcome. If the process is followed, clear objectives will emerge, and targets can be set if appropriate. In some areas, such as engagement, targets may imply a level of precision, controllability and simplicity that is not always realistic or desirable. An investor may have a clear engagement objective, but the best way of assessing progress may combine coverage, milestones progress, and judgement.

Our framework also has implications for reporting. A nuanced dialogue between participants across the investment chain is aided by investors clearly laying out their climate approach in line with the framework and process in Figure 6. **A statement of climate approach or beliefs** should set out the investor's overall ambition and how it aligns with their understanding of fiduciary duty; identify the climate issues they see as most relevant across issues, sectors, companies and geographies; explain how they have filtered priorities and tools in line with their theory of change; and justify both the tools selected and those rejected. This should lead to a clear and tailored set of objectives and measurement approaches. The statement should describe how the investor will work collaboratively, how trade-offs will be handled, and, for asset owners, how climate alignment is incorporated into manager selection and mandate design. Such a process should involve the trustee board at the asset owner or the board of the asset manager.

Case Study: People's Pension Climate Change Position Paper [29]

In March 2026 the People's Pension published a new climate change position paper following a review of evidence and in-depth discussion with the trustee board. The position paper articulates the fund's fiduciary position in relation to climate change and establishes a set of MEPT principles (Materiality, Efficacy, Proportionality, Tracking error) to guide action. The fund sets a net zero ambition, but this is no longer formulaically connected to portfolio targets. Investment beliefs relating to climate change are articulated. Potential actions are evaluated in the context of real-world trade-offs and the MEPT principles. In this way a process, similar to that outlined in Figure 6, creates a climate strategy for board approval.

Most important is that the objectives should reflect the policy-led reality and the associated consequences for investor agency, and should be tailored to the investor's specific circumstances and points of leverage. **Not everyone should try to do everything – investors should focus on where they can make a difference cost-effectively.** This is an inherently tailored and nuanced matter. Existing guidance on investor target setting can be repurposed in some cases for KPIs specific to particular sectors and asset classes. But standardised targets should not be expected in every case, and most important is that the governing body and investment leadership follow a robust process as set out in Figure 6.

Holding Investors Accountable

A predictable concern is **accountability:** if investors can 'pick and choose' targets, how can asset owners scrutinise asset managers and how can external bodies hold asset owners to account? We think **current frameworks offer false comfort.** The standardised measures often chosen are only weakly linked to real-world outcomes: solutions investment definitions vary and lack additionality; and stewardship targets can encourage visible but performative behaviour, for example on voting. Substantive stewardship – especially the limitations-aware engagement described in Section 2– requires judgement and case-specific understanding that cannot be reduced to league tables.
For asset owners, two implications follow.

First, **credible oversight of stewardship is resource-intensive**. Many teams are under-resourced relative to the seriousness with which climate risk is described, suggesting an internal disconnect. Second, **given monitoring difficulties, there is a case for selecting managers who are aligned at the firm level.** If there is alignment of views and values on climate change then this reduces ongoing monitoring costs as there can be greater confidence that underlying stewardship approaches are also aligned. We return to this in Section 4.2.

29 People's Pension climate change position paper, March 2026, available at: https://tinyurl.com/2vmysm28

Actions for Investors

- Follow a robust process to articulate climate strategy and set objectives consistent with a policy-led narrative (Figure 6); select a small number of high-leverage objectives (with supporting targets) rather than comprehensive portfolio metrics.
- Ensure climate investment and stewardship resourcing match the stated importance of climate change.
- For asset owners and their investment consultants evaluating asset managers:
    - Avoid excessive focus on simplistic alignment metrics or voting league tables; evaluate the manager's specific stated contribution and the substance of their approach to climate investment and stewardship.
    - Upweight firmwide alignment of views on climate in manager selection.

Industry Projects

- Reframe existing target-setting guidance such as NZIF 2.0 and NZAOA Target Setting Framework to reflect a policy-led narrative.

4. Where Investors Could Choose to Do More

In the previous two sections we outlined the need for a more modest, but still important, role for investors in a policy-led narrative and explored the implications of this for investor climate goals and targets. In this section, we identify five areas where investors could do more to play this role to the full while maintaining legitimacy. **Not all areas will be appropriate for every investor.** The intention is to encourage selectivity and depth of effort in areas of comparative advantage for investors, based on their positioning, resources, and skills. The five areas are:

1. Stepping up on policy advocacy
2. Integrating climate action expectations into mandates
3. Enabling capital flow to solutions, especially in emerging markets
4. Integrating climate change into the core investment process
5. Revitalising coalitions

4.1. Stepping Up on Policy Advocacy

Policy is critical to creating the incentives for a low-carbon transition. Investors that want faster climate action should therefore consider how to use their influence on policy. Many workshop participants, especially asset managers, were sceptical, viewing policy advocacy as outside investors' core role and hard to deliver in practice. Our view is simple: **if investors do not engage on policy, they forgo one of the biggest potential levers for climate impact.**

Barriers to Policy Advocacy

Participants repeatedly stressed that **policy is foundational to decarbonisation because it reshapes economy-wide incentives.** Yet most investors devote limited time and resource to advocacy and are reluctant to engage. Asset managers often appear more energetic on regulation that directly affects their business than on climate policy. As one participant put it, "investors need to act like they mean it": commit senior attention, be more assertive, and resource the work accordingly. Despite ample guidance on policy engagement,[30] implementation remains patchy.

We heard five recurring barriers: (1) limited expertise and lobbying capability; (2) concerns about legitimacy and overreach; (3) fear of political retaliation; (4) lack of suitable industry bodies through which to engage; and (5) internal conflicts within diversified financial groups that complicate firm-wide positions on climate policy.

30 See for example NZAOA. 2023. "Policy Engagement Guidelines" (December) available at: https://tinyurl.com/44pdbm7j and PRI. 2022. "The Investor Case for Responsible Political Engagement" available at: https://tinyurl.com/2frbcjyv

Many participants noted "safety in numbers", but felt the right institutions are missing. For example, IIGCC's policy work[31] is valued, but some felt it was a weakness for climate lobbying to sit with a foundation-funded NGO rather than a recognised industry association. Others suggested sector-based engagement, alongside companies, can be more effective.

Incentives and capability for policy advocacy are misaligned. In principle, asset owners carry the long-term system-level risk and so have the incentive to engage in policy advocacy. But most lack capability and are reluctant to fund it. Asset managers often have the skills, but weaker incentives to engage on climate policy at a firmwide level, given short-term mandates.

These difficulties are not easily overcome. Yet **investors have played an important role in supporting governments' ambition in relation to the Paris Agreement and country-level legislation.** In a world where almost climate policy is strongly resisted by incumbents, investors are able to take a view across the economy and assure governments that the transition is economically manageable, and even desirable. How can investors regain this role?

Increasing Ambition in Policy Advocacy

We identified three practical levels of policy engagement from the workshop discussions:

- Level 1: Sustainable finance rules (e.g. disclosure, labelling).
- Level 2: Policy to enable climate investment (e.g. to make offshore wind investible).
- Level 3: Broad economy-wide climate policy ambition (e.g. carbon pricing).

Most investors are comfortable at Level 1, which is arguably a minimum, yet even here investor support for SEC climate disclosure rules dissipated following the change of administration in the U.S.

Fewer engage at Level 2, despite the relevance of investors' expertise on what makes the transition investible. An example is the work undertaken by the UK Sustainable Investment and Finance Association (UK SIF) in the run-up to the UK General Election in 2024.[32]

Level 3 is more contentious, requiring positions on wider economic policy where investor legitimacy and expertise may be challenged. This has mainly taken place through round-robin letters such as the Investor Agenda, although there are other more focused examples.[33]

A practical starting point is for investors to identify a small number of Level 2 issues where they have a clear stake, expertise, and legitimacy to engage policymakers.

31 See IIGCC policy pages available online at https://www.iigcc.org/policy

32 UK Sustainable Investment and Finance Association. 2024. "Financing the Future: Financial Services" available at https://uksif.org/election2024/financialservices/

33 There is some practice of Level 3 sovereign engagement in pilot projects run by UN PRI, see Sovereign Engagement on Climate Change, available at: https://tinyurl.com/ycxkdbpv; A notable country-level example is Australia's Investor Group on Climate Change, which combined development of policy frameworks to support emissions reduction, climate resilience and adaptation with a public-facing advocacy effort. See Making the Transtion Happen, available at https://igcc.org.au

Global to Local, General to Specific

Global "shopping lists" of policy asks are losing traction as climate politics diverges across countries. In this more fragmented phase of climate action advocacy increasingly needs to be:

- **Geographically local,** based on specific events such as elections, nationally determined contributions, or specific legislative developments; and / or
- **Focused in scope,** based on specific issues such as deforestation or methane.

This focus is easier to operationalise, enabling development of fit-for-purpose capability.

Investors could identify regionally-specific and / or issue-focused policy engagement opportunities that are particularly aligned with their approach, skills, or location.

Influencing Corporate Lobbying

We have seen examples of investors pushing companies to review and improve transparency about their approach to lobbying, together with the emergence of best practice guidance.[34] Pushing companies to lobby in a particular direction is difficult and may be considered over-reach into the realm of the board of directors. It is less controversial to request transparency about a company's climate lobbying and industry association membership, and how this aligns with their public positions on climate change. This should not be undertaken in a simplistic manner, as some climate regulation is bad regulation, and participation in industry associations is a nuanced and multifaceted issue.

Investors could participate in efforts to increase transparency of climate lobbying and its governance at investee firms, including their role in industry associations.

34 For example The Global Standard on Responsible Climate Lobbying: https://climate-lobbying.com and 'Company lobbying and climate change; good governance for Paris-aligned outcomes', Grantham Research Institute Policy Brief, February 2022 available at: https://tinyurl.com/572durrj

Influencing Asset Managers

The Net Zero Asset Owner Alliance has long emphasised the importance of asset owners engaging their asset managers on climate change.[35] Asset owners should make their expectations known to asset managers. However, these must be realistic. Making demands of asset managers that can never be met creates a superficial sense of action, but without enduring results. Policy advocacy expectations either need to be embedded into mandates (if deliverable at the mandate level) or alignment on climate beliefs and policy preferences needs to be given more weight in asset manager selection. We return to this point in Section 4.2.

Asset owners could place greater focus on asset manager policy advocacy in their selection and evaluation processes and mandates.

Asset Owners Will Need to Take the Lead on Policy Advocacy

Through discussions in our workshops it became very clear that **the barriers to many asset managers engaging on policy are formidable**, and they are unlikely to take the lead. Large asset managers who have clients with strongly divergent views on climate change will not be vocal policy advocates at a firm-wide level. Managers that have taken a strong stance on climate action and cater primarily to like-minded clients may be exceptions.

Asset owners will therefore need to consider how they can step up on policy advocacy more directly themselves and how this will be paid for and executed. This may require establishment and funding of new institutions or initiatives dedicated to this activity.

Interest in system-level stewardship is growing, with a central role for policy advocacy.[36] Yet our workshops revealed scepticism about how much will be achieved, given the capability, resourcing, and organisational changes required.

35 NZAOA Target Setting Protocol 5th Edition paragraphs T50-T54 and references therein, available at: https://tinyurl.com/39j8cz9s

36 See for example NZAOA Serving Asset Owner Clients Through Climate Stewardship, a Call to Action for the Asset Management Industry: https://tinyurl.com/46eh5m5p; UK SIF System Risks: A Framework for Portfolio Resilience: https://tinyurl.com/289f7e5e

Actions for Investors

For all investors:

- Review approach to policy advocacy, through the lens of it being perhaps the most influential climate action tool for investors, with an honest view of resource needs.
- Consider increasing policy ambition, exploring ways to move at least to Level 2, and identifying more local and specific advocacy, for more impactful contribution.
- Consider application of existing lobbying guidance for investors and in relation to lobbying and industry association membership at investee companies.

For asset owners:

- Establish and fund appropriate institutions and capability for policy advocacy.
- Consider whether effective policy engagement requires selection of aligned asset managers, and review asset manager selection criteria accordingly.

Industry Projects [37]

- Review the most appropriate collaboration format for policy advocacy.
- Develop taxonomy of lobbying approaches and associated case studies.

37 Volans is undertaking a global research project to investigate how and why institutional investors engage on climate policy. The ultimate goal of this project is to mobilise more investors to engage proactively and constructively with governments on real economy policies that drive decarbonisation and climate adaptation. For more information on this project see https://tinyurl.com/2xy79nmm

4.2. Integration of Climate Action Expectations Into Mandates

A consistent theme from the workshops is a disconnect between asset owner climate ambition and the reality of asset manager mandates and evaluation. Asset owners ask for climate investment and stewardship, but then judge performance on short-term financial outcomes against benchmarks that may not be climate-adjusted. Model-mandate initiatives[38] or memoranda of understanding struggle to gain traction because they sit alongside, rather than reshape, core governance, consultant advice, and performance assessment processes. Unless mandates make expectations of system-level stewardship explicit, practice defaults to asset-level risks and opportunities, reinforcing caution and limiting impact.

Stewardship alignment rarely drives manager selection. There are counterexamples,[39] but these are the exception rather than the rule. Mechanisms such as pass-through voting offer partial alignment, but separate engagement from voting, do not address firm-level issues such as policy advocacy, and weaken incentives for a genuine 'market for stewardship' to emerge.[40]

If an asset owner truly prioritises climate action, asset manager selection and mandates become first order. It is difficult to see how an asset owner can pursue climate action without the support of asset managers who are selected, incentivised, and evaluated with that in mind.

Actions for Investors

- Embed climate investment and stewardship into mandates distinguishing asset-level stewardship and system-level stewardship expectations.
- Clarify expectations and governance for how trade-offs between climate action and financial value should be addressed and reflected in benchmarks and evaluation.
- For asset owners prioritising policy advocacy: consider increasing the weighting on firm-wide alignment in asset manager selection decisions.

Industry Projects

- Share best practice examples of integration of climate action into investment mandates, with a focus on how such mandates operate in practice.
- Develop methodologies for measuring climate stewardship alignment that avoid encouraging performative activities around, for example, voting, and instead focus on substance, decision quality, and good-faith engagement.

38 See for example the International Corporate Governance Network Model Mandate, available online at https://www.icgn.org/model-mandate

39 BlackRock Loses EUR5bn Dutch Equity Mandate Over Climate Misalignment', Net Zero Investor, December 2025 available online at: https://tinyurl.com/bdf6z8x9

40 LSE Research Report for the Issuer & Investor Forum (2025), 'Connecting or Dividing: the Stewardship Implications of Pass-Through Voting', available online at: https://tinyurl.com/529wr5c8

4.3. Enabling Capital Flow to Solutions, Especially in Emerging Markets

Many workshop participants expressed strong interest in climate solutions investing, including both mitigation and adaptation. This sits closer to core investment capabilities and is generally less politically contentious than engagement with incumbent high emitting sectors.

However, the impact of solutions investing depends critically on additionality - whether investor capital, expertise, and attention change outcomes at the margin. Participants highlighted several contexts in which investors can play a catalytic role. First, in infrastructure projects such as grid upgrades that are highly complex in their early stages involving multiple private and government stakeholders. It is asserted that commitment and expertise provided by major investors makes a big difference to the success in raising finance in such cases. Second, in creating repeatable pathways for private capital mobilisation in particular market segments—for example the development of established debt-raising pathways for renewable energy investments—which makes raising private equity and venture capital allocation more straightforward and improves project bankability. Third, even in the listed sector, early-stage growth companies can benefit from consistent stewardship support from anchor investors. As one participant put it: "great companies don't just emerge by accident".

A central challenge is that "solutions" narratives remain disproportionately focused on developed markets, despite the greatest need being in emerging markets and developing economies (EMDEs). For example, a recent literature review for the UK's Department of Energy Security and Net Zero[41] highlighted key misalignments in global investment flows. They find that private capital flows to EMDE are at least an order of magnitude below where they need to be despite EMDEs outside China being responsible for more than half of projected future emissions. While this is often attributed to risk and return considerations, the authors found that many structural and economic factors contribute to this shortfall, including institutional investor attitudes, norms, perceptions, and awareness.

Similarly, a recent academic survey found that: "…none of the respondents identified traditional financial barriers—unattractive returns, unattractive risks, and insufficient risk tolerance—as the primary deterrents to investment. Instead, at the top of inhibiting factors they ranked the **absence of inhouse expertise in blended finance and self-imposed governance restrictions (e.g., mandates to invest in specific regions, assets, etc.), followed by internal organisational inertia."**[42] Our own research at LSE has highlighted how embedded asset owner asset allocation models create barriers to investment in blended finance.

41 Department for Energy Security and Net Zero, 6 January 2026, Climate Transition and Global Financial Stability: a Literature Review, available online at https://tinyurl.com/yhnwnfxv

42 Flammer, C and Giroux, T and Heal, G M, 'Scaling Sustainable Investing in Emerging and Developing Economies: Frictions and Opportunities' (January 2026). NBER Working Paper No. w34746, Available at SSRN: https://ssrn.com/abstract=6134115 (our emphasis).

This suggests that at least some **asset owners can productively devote resources to building capability and familiarity with EMDE climate investments,** to lower their own barriers to investment in this important area. Again, this comes down to resources, and a question of whether investors are prepared to deploy these in a way that matches their stated level of concern about climate change. Although governments remain responsible for realigning incentives towards climate action at scale, asset managers and asset owners can play a role in accelerating capital flows by focusing on areas where their expertise and engagement can be catalytic, rather than simply allocating to mature opportunities in developed markets.[43]

Actions for Investors

- Asset owners: consider devoting resources to building understanding and capability in relation to EMDE climate investments, including blended finance, and review asset allocation, governance, and capability constraints that impede participation.
- Participate in relevant cross-industry initiatives such as UK EDME Investor Taskforce.[44]
- Focus solutions investing on segments where investor expertise, credibility, and structuring can be catalytic, rather than simply allocating to mature opportunities.
- Build climate capability into investing processes to facilitate capital allocation to scaling economically viable climate solutions.

Industry Projects

- Develop case studies of successful blended finance and catalytic investment models that have mobilised private capital at scale in EMDE contexts. Explore how public–private collaboration platforms (including DFIs, MDBs, and institutional investors) can be structured to support scalable climate solutions investment in EMDEs.

43 See for example the work being done by market participants within the Blended Finance Lab at LSE to help scale this funding tool: https://cetex.org/blended-finance-lab/

44 See: https://www.iigcc.org/our-work/investor-initiatives/emde-investor-taskforce

4.4. Integrating Climate Change Into the Core Investment Process

Investors can play an important role by ensuring that **climate risks and opportunities are appropriately priced by markets through integration of climate change considerations into the core investment process.** Correct market pricing can reinforce economically robust decarbonisation trends that are already underway, encourage companies to anticipate likely policy trends as well as incentivising corporate resilience.

Alongside the existing focus on mitigation, **there is a growing recognition that adaptation and resilience must be integrated into core investment processes as physical impacts of climate change increase.** Efforts to understand resilience will result in firms gaining a better understanding of the physical risk consequences of climate change for assets and supply chains. Growing understanding within the business and finance community could help build private sector support for climate action. It has been argued that **the investment industry is underemphasising pricing signals that already exist in relation to corporate climate resilience** and is therefore allowing mis-pricing of resilience risk in the market.[45] By extension this is leading to missed opportunities for investors.

Integrating climate change into the core investment process requires a conscious effort to invest in relevant skills in the areas of climate science and technology transformation, and the need to build frameworks for this to be properly integrated into investment evaluation. **Investors can choose to prioritise and invest in these capabilities.**

The impact of climate integration should not be overstated: at best it facilitates accurate pricing and propagation of existing real economy incentives rather than changing those incentives. There is also a danger that recognition of climate risks may cause flight of capital from places that need it. But overall, ensuring correct pricing of risks and opportunities is a valuable role played by investors.

Actions for Investors

- Invest in climate and technology expertise to enable pricing of climate resilience, risks, and opportunities.
- Asset owners scrutinise asset manager climate science, technology transformation, and policy capabilities as part of asset manager selection.

45 Jason Mitchell, Man Group, ‘Comment: The climate adaptation blind spot in public markets’, Responsible Investor, 24 February 2026, available at: https://tinyurl.com/2yt6w4se

4.5. Revitalising Coalitions

Investor climate coalitions have contributed materially to disclosure, standards, target-setting, and capability-building and are credited with raising board-level attention on climate issues and encouraging target setting.[46] At the same time, many participants - especially in the US and Europe – report a sense of "coalition fatigue". There are concerns about proliferation of initiatives, mission creep, participation burdens, free-riding, and rising legal and political risk.

At the core of these concerns is a perceived misalignment between the design of many coalitions, their objectives, and the realistic agency of investors. There is a tendency for coalitions to shift from sharing best practice, developing knowledge, and engaging with issuers on topics such as disclosure, towards more prescriptive 'accountability-focused' models that assume a degree of collective influence over company strategy or system outcomes that investors do not in practice possess.

Climate Action 100+ attracted particular attention. Workshop participants praised its role in the early stages of climate awareness and disclosure, **but report growing strain as coalition activity moves from generic disclosure-based topics towards strategy-level engagements.** Some highlighted the need for a different engagement model, led by portfolio managers with responsibility for investment decision-making. **The UK's Investor Forum[47] was highlighted as a model**, where selection of engagement targets is investor-led, and a safe legal framework is provided for a "coalition of the willing" to come together to engage on specific strategic climate issues. It was suggested that a similar model could form a part of existing Climate Action 100+ structures, to enable more focused, company-specific strategic climate engagement.

Others feel that more regionally grounded and cross-investment chain coalitions could play an important role, particularly in helping investors understand how they can support economic transition and climate resilience in specific contexts. The Singapore Sustainable Finance Association is favourably mentioned, reflecting its role in bringing together asset owners, asset managers, banks, corporates, and policymakers in a shared regional ecosystem.

The core challenge is not whether investors should collaborate, but how collaboration should be structured to meet clearly aligned objectives consistent with investor agency.

46 A recent working paper reviewing the aggregate impact of climate alliances supports this conclusion: Gasparini, M and Tufano, P (2025), 'An Empirical Examination of Business Climate Alliances: Effective and / or Harmful?', Harvard Business School Working paper, No. 25-050 available at SSRN: https://ssrn.com/abstract=5253936

47 See https://www.investorforum.org.uk/what-we-do/

Under a policy-led narrative, coalitions would tilt away from comprehensive accountability frameworks towards more differentiated models tailored to specific purposes such as:

- Development of standards, frameworks, and best practice, which may remain suitable for "big tent" coalitions;
- Targeted coalitions on specific high-impact issues that fit within a zone of limitations-aware engagement, such as methane;
- Cross-value chain coalitions in a sector or regional context to help identify common ground on viable pathways and policy requirements for decarbonisation, such as the Singapore Sustainable Finance Association;
- Coalitions for policy influence, which are likely either to be issue or regionally focused and need to be constructed with appropriate resources and legitimacy; and
- Coalitions designed to deliver collaborative engagements on corporate climate strategies, which arguably should be case-driven and led by portfolio managers.

Actions for Investors

- Be explicit about the purpose of collaboration, distinguishing between learning and capability-building, standard-setting, issuer engagement, and policy influence.
- Assess where to focus effort based on which coalitions are aligned with the investor's own purpose, agency, mandate constraints, and client expectations – realign participation efforts accordingly.

Industry Projects

- Develop typology of investor collaborations, distinguishing purposes (e.g. learning, standard-setting, engagement, policy influence), structures, and governance models.
- Examine governance models for investor coalitions to identify design features that reduce mission creep, manage regulatory and legal risk, and align with with investor agency.
- Assess the feasibility of adopting an Investor-Forum-type model within Climate Action 100+ to support portfolio-manager-led, company-specific strategic climate engagements by coalitions of the willing.
- Examine successful regional and cross-ecosystem collaboration models, such as the Singapore Sustainable Finance Association, to assess under what conditions these approaches could be replicated or adopted in other regions.

5. What Can Investors Do When Governments Retreat?

Policy momentum in support of climate action is much less consistent and assured than when investor climate commitments reached their high point around COP26 in Glasgow. In some regions, it has even gone into reverse. A question that came up often in our workshops was this: **what can investors do about climate change when governments retreat?**

A central proposition in this report has been that investors need to act according to a policy-led narrative, recognising their more modest, but still real, role in supporting climate action. But when governments are not leading with policy, or are even softening what policies exist, what is there left for investors to do?

Investors cannot substitute for government action. Investors are a reinforcing rather than driving force. Their influence is stronger when policy is supportive, and weaker when it is not. This does not mean that investor action becomes irrelevant, but the nature of the role shifts, and is inevitably more constrained. Efforts can continue in a number of the areas we have already discussed.

First, **investors continue to play an important role in affirming to policymakers the financial materiality of climate change** and their long-term interest in effective climate mitigation and adaptation policies. Political currents ebb and flow, and a consistent investor voice helps prepare the ground for a more favourable policy environment. In many parts of the world policy momentum continues. But policy engagement requires a more tailored and geographically localised approach. Policy advocacy will also be most effective if oriented towards issues where investors have a clear stake and expertise: grounded in financial materiality and making the case for what is required from governments to enable investment to flow. They should resist expansion into areas that appear motivated by a wider social agenda or where they have little expertise. High profile policy advocacy, especially in the U.S., may be viewed as challenging for some investors. But the infrastructure, institutions and resources for sustained engagement can still be built. This will take time and asset owners could prioritise this now.[48]

Second, **investing in climate capability to integrate climate change into the core investment process remains very important.** Policymakers cannot wish climate change away. The physical effects of climate change continue to grow, and investors have a direct interest in monitoring and pricing resilience and adaptation, both to manage investment risks and identify opportunities from mispricing.

48 In a different context from climate change, corporate governance is increasingly being portrayed as being in conflict with growth across the political spectrum in the UK. RailPen has established the Governance for Growth Investor Campaign to make the case for governance as a support for investment and growth. This involves engagement with parliamentarians from across the political spectrum to help ensure the investor voice on this issue is heard consistently over time. See: https://tinyurl.com/nhx2dc3d

Third, **the transition is still happening and creates opportunities for investors.** Significant technology-driven transitions are underway affecting many sectors and companies. While climate mitigation may be a less important driver today than energy security or citizens' desire for clean air, that does not make the transition any less real. Investors can play a role in ensuring these trends are correctly anticipated and priced and that investment flows to scale companies well-placed to take advantage. But to do this, the investment capability required will be less a policy crystal ball but more the economics of electrification and understanding of physical climate risks. In the same way, building understanding of emerging markets investment opportunities that are commercially viable today is aligned with an investor's core role.

Fourth, **opportunities for limitations-aware engagement remain**. Investors can continue to seek and promote commercially viable, high impact opportunities such as methane flaring or sustainable real estate which are still viable for companies but more aligned with a decarbonised future.

Fifth, **work on improving the design of mandates and coalitions does not happen overnight,** and sustained efforts on these fronts, even in a time of a lower profile for climate policy, can build capacity for the future.

There is an understandable tendency in some quarters to call for investors and companies to do more when governments seem less willing to act. **Investors should certainly stay the course.** Asset owners who believe climate change materially affects their ability to meet fiduciary obligations have no reason to think differently because government policy weakens. Asset managers should continue to respond to risks and opportunities arising from physical climate impacts and the energy transition. Investors can remain vocal advocates for an orderly transition, encouraging their portfolio companies to lean into rather than against this trend. Investments in policy engagement are even more needed when policy momentum slips. But seeking to replace the efforts of governments by pushing private sector decarbonisation regardless of economic incentives will run into all of the problems laid out in Section 2.

6. Conclusion

The context for investor climate action has changed markedly in recent years. In the period around 2021, investors signing up to climate commitments could believe they were acting in step with strong policy momentum and broad societal support. Today's environment is more contested and uncertain. **Climate goals, targets, and actions therefore require a more robust grounding if they are to remain credible and sustainable.**

This report has argued that the limitations of investor climate action stem less from a lack of effort than from a misspecification of investor agency. Decarbonisation will not be delivered by investors substituting for governments through targets, portfolio alignment metrics, or increasingly assertive stewardship. Instead, it depends primarily on policy frameworks that reshape economic incentives, supported by technology development and public investment. **Investors have an important role to play—but it is a supporting and reinforcing role, and one that needs to be articulated with greater realism and discipline.**

Reframing investor climate action around a policy-led narrative does not imply retreat or disengagement. Rather, it requires sharper choices about where investors can make a meaningful contribution: reinforcing and enabling policy; focusing stewardship on commercially feasible actions within boards' zones of discretion; directing capital and expertise to areas where it can be catalytic, particularly in emerging markets or technology innovation; embedding climate expectations clearly into mandates and asset manager selection; and designing coalitions that are aligned with realistic agency and purpose. Achieving this demands hard choices about allocation of scarce climate investment and stewardship resources.

Although this report is directed at investors, there is also a message here for governments. Action on climate mitigation and adaptation cannot be delivered by private sector efforts alone. The unpriced externality of carbon emissions is just too great. **Investors need clear and, importantly, consistent policy signals to act as a catalyst for investment.** Where these have been provided, investment has flowed. Where they are absent, or perceived to be unreliable, investment will dry up.

What does climate leadership look like in 2026?

Against this backdrop, we suggest investor climate leadership in 2026 rests on four attributes.

- **Courage.** The incentives for investors to stay quiet on climate change, or to retreat to narrow framing of asset-level risks and opportunities, are strong. Climate leadership requires the courage to continue stating – publicly and consistently – that climate change is real, financially material over long horizons, and warrants action. This does not mean adopting maximalist positions, but does mean resisting the temptation to disappear from the debate, and being willing to engage in policy advocacy.

- **Honesty.** Investors need to be clear about the limitations of what they can deliver. Unrealistic commitments undermine credibility and raise questions of legitimacy. Honesty also requires reaffirming the primacy of policy in driving the pace of decarbonisation, and being transparent about trade-offs: between climate objectives and financial performance; between ambition and feasibility. Finally, honesty is needed about the choices needed to prioritise climate action: asset manager selection criteria, stewardship resource, and internal capability in areas such as emerging markets investment or policy advocacy.

- **Curiosity.** Climate change is a complex system challenge marked by uncertainty, evolving science, and complex interactions between climate, economics, and finance. Sometimes, but not always, there are trade-offs between climate action and other objectives. This is not a realm for false certainties or black-and-white thinking. Effective investor action will require learning new skills, building new partnerships, and engaging with unfamiliar areas such as blended finance, physical resilience, and policy advocacy. Curiosity, in this sense, means being willing to experiment, to learn where investors can add value — and where they cannot — and to adapt accordingly.

- **Commitment.** Finally, climate leadership requires persistence. If we are successful in addressing climate change, investors will have played a limited, but important role. Delivering on that role will require sustained commitment of resources and attention over years and decades. The investment industry has a reputation for chasing the next big thing to attract client interest. Climate leadership in 2026 means resisting that tendency, and treating climate change not as a cycle or a fad, but as a structural challenge requiring persistence and senior leadership attention, even when political winds shift and near-term incentives point elsewhere.

Some investors, acting in good faith, will conclude that climate action is not central to their objectives, even if they recognise its significance as a societal issue. Climate action is not relevant to every investment mandate. Some investors will in good faith believe that there is little they can do to influence climate outcomes and so choose to focus on other priorities. This report is not intended to be prescriptive or dogmatic.

But many investors continue to state that climate change represents an existential or system-wide risk to long-term returns. We have tried to set out what it means for those investors to act on that belief in ways that are credible, effective, and aligned with their true sphere of influence. We hope this report provides a clearer foundation for navigating these choices.

What is now required is not less ambition, but greater realism and discipline in how ambition is expressed and delivered.

Appendix A: Research Participants, Approach, and Team

Research Participants

We would like to thank the participants from the following organisations who took part in the research workshops for this report and have agreed to be named. Participation does not imply agreement with or endorsement of any of the contents or conclusions of this report, which are entirely the responsibility of the named LSE authors.

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Research Approach

This project was run under the auspices of the Initiative in Sustainable Finance (ISF), which was set up within the Financial Markets Group at LSE in January 2025 with the support of the LSE Global School of Sustainability.[49] The aim of the ISF is to apply academic rigour to the study of the incentives the private sector has to finance a sustainable future. This is not an academic research project, but has been framed with awareness of what the academic evidence has to say about the effects of different sustainable investing approaches and how these can be aligned with the fiduciary duties of investors. The objectives of the project were:

- First, to lay out some of the fundamental tensions faced by investors relating to investor climate action, which are often not acknowledged on either side of a polarised debate.
- Second, to create an environment where investors could come together to discuss these issues and the challenges and opportunities that arise in addressing them.
- Third, to identify some key areas of focus to help those in the investment industry wanting to contribute to climate action to chart a way forward at this challenging time.

The first objective was achieved through the project pre-read.[50]

The second objective was achieved through a series of five half-day facilitated workshops in Amsterdam, London (on two dates), New York, and Singapore, attended by representatives from over 60 investors. A competition statement was read out at the start of each workshop and discussion was organised around key questions set out in the pre-read. Extensive notes were taken and analysed with the help of AI to identify common themes. The findings from the workshops have been summarised in Appendix B. Participants received a summary of the workshop discussions.

This report aims to meet the third objective. Participants were given an opportunity to provide comments on a draft of the report.

The team was headed by Professor Tom Gosling, supported by Dr Hans Christoph Hirt and Dr Fernanda Gimenes. Between them the research team has extensive knowledge of the academic literature on sustainable investing combined with decades of real-world experience in the field. Funding was provided by Environmental Defense Fund. Tom Gosling's position is funded by the LSE Global School of Sustainability. We would also like to acknowledge the following people for their help with and input into the project: Dr Richard Perkins, Ulrike Rub-Taylor, and Ann Law, LSE; Andrew Howell, Kristin Lorenzo, Guillaume Morauw, Jake Hiller, and Leslie Labruto, EDF.

49 For more information on the Initiative in Sustainable Finance see: https://fmg.ac.uk/isf

50 The workshop pre-read is available here: https://tinyurl.com/bdetar64

Research Team

Professor Tom Gosling

Tom is Professor in Practice and Director of the Initiative in Sustainable Finance within the Financial Markets Group at the LSE. He is also a Senior Visiting Fellow at the LSE Law School and a member of the Financial Conduct Authority Sustainable Finance Advisory Committee. Tom has published on sustainable investing, executive compensation, investor stewardship, and fiduciary duty in leading finance and law journals. His co-authored paper Sustainable Investing in Practice: Objectives, Constraints, and Limits to Impact won the PRI Best Academic Paper Prize 2024. He has also written extensively on these topics in practitioner-oriented formats including for the CFA Institute, the Investor Forum, the Issuer and Investor Forum, and The European Corporate Governance Institute.

Dr Hans-Christoph Hirt

Hans-Christoph is an Adjunct Professor at IMD, an accredited professional trustee at Pi Partnership, an Advisory Partner at Fidelio, and a Senior Consultant at Arkadiko. He also serves as a Non-Executive Director and Trustee of the Hermes Group Pension Scheme, a member of the Investment Advisory Committee at WHEB, and a member of the FCA's Listing Authority Advisory Panel. Hans previously held senior leadership roles at global asset managers, including Managing Director for Sustainable Investing at UBS Asset Management. He also served as Managing Director and a board member of EOS at Federated Hermes, a leading provider of engagement and voting services, overseeing a fourfold increase in assets under advice to over $1.6 trillion. Hans advises institutional investors, company boards, and executive teams. He has published widely in business and legal journals, as well as practitioner publications, including writing a book on directors' duties and co-editing a 2023 book on stewardship and sustainability in investment management.

Dr Fernanda Gimenes

Fernanda is Senior Research Lead at the Centre for Economic Transition Expertise (CETEx) at LSE, where she works on private capital mobilisation, blended finance, and macroeconomic policy approaches that support climate investment in emerging markets. Her research focuses on political and institutional dynamics shaping climate finance, including how policy frameworks and financial market governance enable climate and nature-positive investment. She holds a PhD in Environmental Policy and Development from the LSE and brings over 15 years of experience combining policy research and applied work in climate and finance initiatives. Previously, she has held advisory and project leadership roles at the World Economic Forum, the UN Environment Programme, and the Brazilian chapter of the World Business Council for Sustainable Development.

Appendix B: Detailed Workshop Feedback

In this appendix we summarise what we heard in the workshops under three headings, reflecting the ordering of the agenda and the pre-read:

1. How should climate goals and targets be reframed in the current environment?

2. What are the most effective tools for investor climate action?

3. Should investors collaborate on climate and if so, how?

B.1. How Should Climate Goals and Targets Be Reframed in the Current Environment?

Common Themes

There is broad agreement across participants that climate change continues to represent a material risk for investors but growing discomfort with how climate goals and targets have been framed and operationalised.

Many participants feel that the current focus on formal alignment with 1.5°C has become increasingly difficult to justify and implement in practice. While the goal remains an important reference point for ambition, (a view expressed strongly by some participants), it is no longer widely seen as a viable operational target for investors, particularly where policy conditions, data, or mandate structures limit investors' ability to influence outcomes. Targets are seen as having played a valuable role in the past, particularly in mobilising internal attention and resources, and in signalling seriousness to companies and other stakeholders. While some participants indicate a preference for not using formal targets, few participants argue for abandoning targets altogether.

At the same time, there is growing criticism of how targets have translated into practice, particularly where they have encouraged portfolio decarbonisation strategies that improve reported metrics without supporting real-world transition, or that risk withdrawing capital from credible transition companies.

Many participants feel that while there is a role for overall statements of ambition, detailed targets are most relevant in relation to specific topics (e.g. methane) or asset classes (e.g. real assets) and should reflect realistic investor agency for the asset class in question.

Key tensions

- How to reconcile the importance of climate ambition at the asset and systems level with the need for credibility and feasibility from an investor perspective.

- Whether climate goals should function primarily as “statements of intent”, or as anchors for specific, measurable targets, and how much control investors realistically have over outcomes.
- How to explain changes in goals externally without appearing to retreat from climate commitments, given the science, particularly in a politically sensitive environment.
- How to treat different asset classes consistently, given that targets are easier to define and justify in some contexts (e.g. real assets) than others (e.g. diversified public equity).
- How to demonstrate, unambiguously, the fiduciary case for climate targets.

Asset Owners vs Asset Managers

- Asset owners tend to place greater weight on the value of climate goals as “signals” and their role in reflecting system-level risk, reflecting their longer time horizons and responsibility for managing risks at the portfolio or system level. Some also view targets as important for holding organisations to account internally. On the other hand, some asset owners do not have targets.
- Asset managers are generally more cautious, highlighting the primacy of risk-adjusted investment returns, emphasising the constraints imposed by mandates, fiduciary duty, and legal risk, particularly where commitments do not sit easily with diverse client objectives and short mandate horizons.
- A recurring theme is that asset managers are often expected to deliver climate outcomes that are not clearly embedded in mandates. This distinction is less clear-cut in contexts where institutions combine asset ownership and management functions (as noted for example in the context of the Singapore-based state-owned investment institutions).

Regional Differences

- Participants in the US tend to frame targets more narrowly around asset-level materiality and expressed greater concern about politicisation and legal exposure. Firm-wide commitments and coalition-driven targets are seen as particularly sensitive. Although this may be influenced by the fact that most US participants were asset managers rather than asset owners.
- Participants in Europe are more inclined to reference the concept of universal ownership, emphasising that climate risk and opportunity may manifest at the level of the overall portfolio or economic system, even where impacts on individual assets are less immediately material. They are generally more comfortable with the use of climate targets and continue to see them as expected by asset owners and stakeholders, although there was also a concern about credibility.
- Participants in Singapore place less emphasis on the debates around formal temperature alignment, reflecting a more cautious approach to target-setting, with institutions adopting different approaches to the use of formal targets depending on mandate, asset class and feasibility.[51] Discussions focus on practical constraints, business relevance, and the role of targets as directional or organisational tools, with greater emphasis on transition feasibility, policy alignment, adaptation and resilience.

51 See the Asia Institutional Investor Group on Climate Change, ‘State of Investor Climate Transition in Asia in 2025’, available online at: https://aigcc.net/wp-content/uploads/2025/04/AIGCC-Climate-Transition-Report_April2025.pdf

Our Perspective

Areas of commonality among investors are driven by two fundamental observations that came up time and again across our workshops. First, climate change is a financially material investment issue, and on the whole investors consider it to be in their interests to see more rather than less climate action compared with the today's global policy stance.

But second, investors have limited ability to influence the trajectory of climate change, which will fundamentally be determined by public policy, and public policy is not aligned with a 1.5°C outcome. These two areas of fundamental agreement led most investors to support maintaining a level of climate ambition, while believing that many current target setting approaches are unrealistic.

Areas of difference among investors are largely driven by geography and role. Given the political and legal context, US-based investors are increasingly uncomfortable with firm-wide targets which suggest an activist climate approach and instead view targets relevant to a subset of asset classes (especially real assets) or fund mandates.

At the other end of the spectrum, continental European investors remain the most comfortable with firm-wide targets and in some cases feel that moving away from such targets would be impossible in the political context within the EU. By the same token, asset owners tend to be more comfortable with firm-wide portfolio level targets than asset managers who have to cater to diverse client preferences.

B.2. What Are the Most Effective Tools for Investor Climate Action?

Common Themes

Across locations and investor type, there is broad agreement that the mechanisms available to investors to influence company behaviour - such as stewardship and engagement, voting, and capital allocation decisions - are constrained, and that their impact should not be overstated. In particular, trying to force boards to take action that they do not view as being in the company's commercial interests would have unintended consequences and is not realistic.

Stewardship, particularly engagement that reaches the boardroom, is consistently described as the most dependable and legitimate lever available to investors. Participants emphasise that boards remain the locus of decisions on strategy, capital allocation, and risk management. However, it is important to emphasise that stewardship's effectiveness depends heavily on context, investor type, and the form that engagement takes including the nature of the "ask" being made of the company.

It is acknowledged that while stewardship can improve disclosure, governance and internal attention to climate issues, it cannot cause companies to take action that is fundamentally harmful to their economic prospects. Notwithstanding these successes, many participants feel that existing mechanisms (such as engagement, voting, divestment) have not materially shifted emissions trajectories.

There is general scepticism about the effectiveness of investment allocation approaches (divestment or tilting) in mature public markets contexts. In particular, there is widespread scepticism about the effectiveness of portfolio decarbonisation as a mechanism for driving real-world change, but a number of asset managers noted that demand for such approaches from asset owners was still significant, presumably because they create an easy (if misleading) narrative of alignment.

However, a number of participants make the case for the relevance of allocation decisions in infrastructure, private markets and innovative growth company ecosystems. They believe that in these contexts the choices investors make about where to focus effort, resources, and expertise in capital allocation makes a significant difference to which businesses and projects succeed or fail. Investors who choose to engage in the hard work of funding complex multi-stakeholder infrastructure projects (such as grid upgrades) at early stages can increase the chances of success in these projects. Similarly, early-stage climate solutions companies do not face frictionless funding options and so choices by asset owners and asset managers to focus on these segments of the market do make a difference.

A minority view is that effectiveness could be increased by a more assertive focus on a limited set of issues, for example voting against directors in the case of fossil fuel expansion. However, there is concern about a single-issue focus when most engagements are multi-dimensional and that it is counterproductive to seek to force boards to take action that they do not view as being in the company's interests. There is more support for focus on specific issues that have high environmental impact but low financial consequence, such as methane emissions.

There is recognition of the importance of policy engagement, with mixed views on effectiveness to date. It is generally acknowledged that there has been limited policy focus so far, due to questions around legitimacy (when going beyond sustainable finance and disclosure rules), limited resources, and risks, with coalitions seen as a possible response. A common observation is that there was not a truly representative industry association, in the traditional sense, that would lead on policy engagement. Some participants feel that policy engagement works better in combination with issuers in a sector.

There is clearly a growing interest in adaptation and resilience as an investment and stewardship focus, for a number of reasons. First, in some sectors climate impacts are becoming financially material at the asset level and so naturally fit into existing investment and stewardship processes. Second, some investors view it as politically safer ground than mitigation, as it aligns with investors' traditional role of responding to the environment rather than trying to shape it. Third, there is a view that global mitigation efforts through policy are stalling, meaning that growing physical climate impacts are inevitable.

The increased focus on physical climate impacts aligns naturally with current investment and stewardship processes but is requiring investors to build new skills and capabilities in relation to the science and prediction of physical climate impacts. This is quite distinct from the past focus on transition risks, which required assessment of technology trends and policy likelihood.

Key Tensions

- How to engage assertively without overstepping the limits of investor influence, particularly where decisions rest with boards, governments, or other actors.
- Whether and when to escalate engagement (for example through votes against directors) and how to judge whether such actions are likely to be effective or only symbolic, or whether they may even have unintended consequences or undermine wider engagement objectives.
- How to integrate stewardship more closely with investment decision-making, given internal silos between portfolio managers, stewardship and sustainability teams.

Asset Owners Versus Asset Managers

- Views on mechanisms are fairly consistent between asset owners and asset managers, but a clear structural distinction emerges in how asset owners and asset managers frame their role. Some asset owners are more inclined to adopt a universal owner mindset and so in some cases have a more assertive approach to externality-creating companies. Asset managers, by contrast, tend to frame available mechanisms almost exclusively through the lens of asset-level materiality, reflecting mandate constraints and client objectives.

Regional Differences

- Participants in Europe express greater confidence in stewardship and, in some cases, a stronger appetite to experiment with escalation tools such as votes against directors.
- Participants in the US are generally more cautious, highlighting legal risk, political sensitivity, and concerns about coordinated behaviour, which constrain the use of some mechanisms, including in light of recent regulatory headwinds (for example, changes in SEC positions on no-action requests).
- Participants in Singapore emphasise pragmatic, relationship-based engagement and were more sceptical of public or highly assertive approaches (unless investors were prepared to withdraw capital). Private engagement, sector initiatives, and policy dialogue were seen as more effective in this context.
- Thinking and practice on adaptation and resilience appears more advanced among participants in Singapore than in other regions, where these seemed underdeveloped or less controversial alternatives to mitigation. Participants in Singapore emphasise that adaptation and resilience are complementary to mitigation, not a pivot away from it.

Our Perspective

It is striking to observe regional differences in ambition, as well as in confidence in the effectiveness, suitability, and relevance of the mechanisms available to investors. Participants in Singapore tended to express a pragmatic view of investor influence as incremental and often indirect, likely reflecting lower levels of public ambition and scrutiny, as well as comparatively shorter history of responsible investment and stewardship. US participants see stewardship as supportive of value creation at the asset level rather than as a mechanism to drive strongly directed change. By contrast, participants in Europe are both more confident in the available mechanisms and comfortable with articulating an ambition of driving change. Yet they are candid in acknowledging that, to date, these mechanisms have not delivered outcomes commensurate with that confidence.

Preferences regarding engagement modes, including public engagement and escalation versus private dialogue, also appear closely linked to differences in ownership structures among companies and asset owners and relationships in the investment ecosystem. Interestingly, the discussion suggested that in Asia there is comparatively more active, private, one-to-one engagement with policymakers, which can at least partly be explained by closer government linkages and institutional relationships.

Overall, participants continue to operate within the scope of the conventional sustainable investor playbook of engagement, some divestment, and solutions investment, while recognising that the impact on real world emissions was and would remain limited in the absence of supportive policy. While this causes frustration, there was little appetite to break out of the mould given the constraints of fiduciary duty, client mandates and, increasingly, external pressures. This includes a reluctance to engage on topics of climate policy.

B.3. Should investors collaborate on climate and if so how?

Common Themes

The large investor coalitions are recognised as having played an important role in the past, particularly in signalling investor concern, and developing knowledge and common frameworks. Climate Action 100+ is widely credited with having catalysed improved climate disclosure, increased focus on climate, target setting, and climate expertise across the investment chain. One participant said it was a remarkable achievement over just a few years to have put climate change firmly on the agenda of almost every large company board.

However, there is a widespread sense across workshops of coalition fatigue (although capability-building and learning value remains high in Asia). Many participants question whether the current landscape of investor coalitions is actually delivering meaningful outcomes and the number of initiatives can be bewildering. Concerns about governance and mission creep are frequently highlighted, with UN-PRI and Climate Action 100+ cited as examples and a sentiment that coalitions needed to be clearer about what they would and would not do.

At the same time, many participants feel that the effectiveness of some large coalitions has diminished over time, especially when moving from development of frameworks and disclosure and target-setting to more specific decarbonisation or transition-related asks. Some larger investors report that participation in Climate Action 100+ engagements could be extremely time consuming and not always productive, given the difficulty of aligning diverse investor interests. Participants also note free-rider dynamics, with a relatively small number of investors carrying a disproportionate share of the engagement workload, which limits overall effectiveness.

There is strong interest in smaller, more focused, and time-bound coalitions, often organised around specific issues, sectors, or geographies, such as the Methane Finance Working Group.[52]

There is also a distinction drawn between broad coalitions that seek to support development of market-wide standards and coalitions that seek to engage on company strategy. While current coalition architecture may be suitable for the former, there is a call for greater involvement of portfolio managers and investment teams in the latter. The UK Investor Forum[53] was mentioned by some participants as an example of what this might look like, providing governance and legal safe harbour for a “coalition of the willing” to engage companies.

52 https://methanefinance.org

53 https://www.investorforum.org.uk

There are also examples of ecosystem and value-chain engagements, where investors, companies and regulators come together, which were felt to be particularly helpful in relation to policy discussions and market development. One example that was spoken of favourably is the Singapore Sustainable Finance Association.[54]

Key Tensions

- How to judge the value-add of coalition participation, particularly for larger investors with significant internal capabilities (compared to what they could have achieved anyway without the work of coalitions).
- Concerns about free-riding, mission creep, and lack of clear endpoints, which can dilute impact and make it difficult to justify continued involvement.
- How coalitions should evolve as political and regulatory contexts diverge across regions, making global coordination more challenging.
- The extent to which coalitions should focus on learning and coordination, versus acting as vehicles for engagement or policy influence.

Asset Owners Versus Asset Managers

- Asset owners are generally more supportive of coalitions than asset managers, perhaps because they do not face the tension of diverse client views and feel a more natural long-term fiduciary alignment with climate action. However, while asset owners often value and endorse coalitions, asset managers tend to bear the brunt of resources needed for coalition participation. As such, there seems to be a classic misalignment of incentives between asset owners and managers.

Regional Differences

- Participation by US-based investors is described as more constrained, due to legal, political, and reputational considerations. By contrast there are few such concerns about participation from European and Asian investors.
- As a result, coalitions are seen as becoming increasingly European in composition and tone, reflecting both regulatory context and political openness to coordinated climate action.
- Concerns about the continued effectiveness of coalitions, and about mission creep, are widespread within our US and European workshops.
- Participants in Singapore are generally more positive about collaboration, emphasising the learning, access, and capability building benefits of coalitions, particularly in a regional context.
- Participants in Singapore describe active, private one-to-one engagement with policymakers. There are also examples of ecosystem and value-chain engagement for example a collaboration across investors, companies, regulators, academics and NGOs under the Singapore Sustainable Finance Association (SSFA), established and hosted by MAS.

54 https://www.ssfa.org.sg

Our Perspective

CA100+ is almost universally credited with improving disclosure, target-setting, and stewardship capacity. Groupings such as NZAM, IIGCC, and UN-PRI have been credited with helping to build knowledge, methodologies, and capability across investors.

However, especially in the US and Europe the concerns about proliferation, mission creep, and continued effectiveness are widespread, with an appetite for simplification and reform of the coalition ecosystem. A common theme is that difficulties have arisen when coalitions moved from development of knowledge, methodologies, and disclosure towards target-setting and driving specific corporate actions. It should be said that these concerns did not arise at our Singapore workshop, perhaps because for many participants coalitions are still fulfilling a valuable capacity building function given the level of maturity of stewardship in the region.

The discussion reinforced our view expressed in the workshop pre-read that there could be 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.

In addition, the workshops identify the need for structures to enable strategic engagement with specific companies on climate and development of the role of industry associations, particularly in relation to policy engagement.