ROBECO
The Investment Engineers

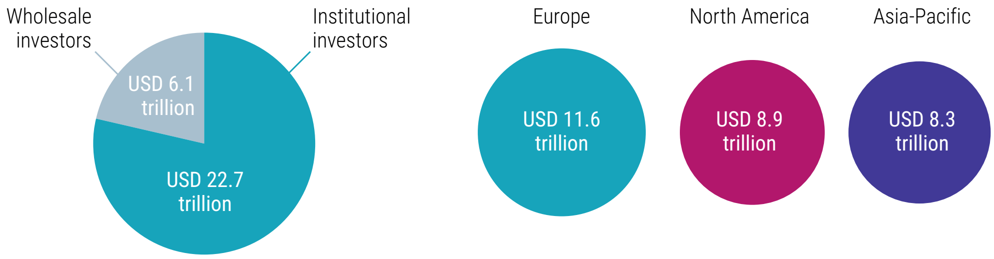
MAY 2024

2024 Global Climate Investing Survey

Realism on the transition journey:
Insights from investors

Methodology

This report is based on research commissioned by Robeco for its exclusive use, which was carried out in January 2024 by CoreData Research among 300 institutional and wholesale investors in Europe, North America and Asia-Pacific. The investors are based at a range of organizations: insurance companies, pension funds, private banks, fund-of-funds, advisory firms, wirehouse broker/dealers, endowments and foundations, sovereign wealth funds, and family offices. They ranged in size from holding less than USD 1 billion in assets under management (AuM) to over USD 1 trillion in AuM, with a total AuM for all respondents of approximately USD 28.8 trillion.



Marketing materials for professional investors only, not for onward distribution.

May 2024

Contents

Navigating climate investing: Realism on transition journey

How is the world of investing evolving? Our 4th Global Climate Investing Survey highlights the intricate challenges investors face on their sustainability journey. Investors are adopting a more focused and careful approach to decarbonizing their portfolios and transitioning to a low-carbon economy. As they tackle the complexities of the climate transition, there is more realism, careful deliberation and scrutiny over what is needed to embed sustainability.

The survey also reveals growing regional disparities in sustainable investing practices. The Asia-Pacific region now matches Europe in acknowledging the importance of sustainable investing, while enthusiasm wanes in North America.

For Robeco, sustainable investing has always been about the risk-return profile of our investments. We are convinced that the winning companies of the future will be those that embrace sustainable investment and the energy transition today. It is therefore about identifying tomorrow's leading low-sustainability risk companies. There is alpha to find in companies that are making the sustainable transition. According to United Nations research, approximately USD 125 trillion is required to transform to net zero by 2050.

Our commitment to sustainable investing goes beyond green technologies; it's about driving meaningful change across all sectors. This involves innovative strategies that harness the opportunities the transition presents. Transition finance is essential, not only for green projects like solar panels and wind farms but also to support businesses and industries that need to transition to cleaner technologies and increased energy efficiency over time. Companies preparing for a low-carbon future will be better positioned for long-term success and profitability.

With over 25 years' experience in sustainable research and investing, Robeco developed robust frameworks to distinguish transition leaders from laggards. This expertise allows us to support clients at every stage of their sustainability journey, offering a range of solutions from 'off-the-shelf' to tailored strategies that meet specific client needs.

We hope the insights from this survey inspire you, as they have inspired us, to continue creating both wealth and well-being.

Mark van der Kroft,
Chief Investment Officer

Key findings

62% vs. **79%**

of investors say climate change is at the center of, or is a significant factor in, their investment policy

of Asia-Pacific investors, leading the movement

76%

already, or plan to, allocate to funds/ strategies with a low-carbon approach

45% & **43%**

use active equity strategies to invest in transitioning companies

use green bonds/ sustainability bonds to do so

62% & **53%**

have a decarbonization strategy for all or part of their equity portfolio

have a decarbonization strategy for all or part of their fixed income portfolio

42% vs. **52%**

say a lack of suitable investment data, research and ratings are the biggest challenges when taking account of decarbonization

for this in 2023

37% & **26%**

invest in companies with high carbon emissions now, but with credible transition plans to lower emissions

plan to do so within the next 1-2 years

49%

say that collectively not enough is being done to meet climate goals and that the presence of physical risks will lead to a disorderly transition

69%

plan to invest more in climate solutions, either as a general aim, or via a quantitative target

1. The state of play on climate investing

Globally, the majority (62%) of investors describe climate change as being a 'significant' or 'central' factor in their investment policy. Given the global urgency of addressing the impacts of climate change, this may seem unsurprising. But there are a number of trends and developments behind this single figure, which need to be examined and understood.

Firstly, there are significant regional differences at work here. Investors in the Asia-Pacific region now lead the way in prioritizing climate issues, with 79% describing climate change as a significant or central factor in their investment policies, overtaking European investors (76%), who had previously been the global leaders in this regard. In contrast, the relevance of climate change has dipped in North America, where many investors are, for reasons such as geopolitical uncertainty and US political backlash, shying away from sustainable investing. This dip in North America explains much of the overall decline in the significance of climate change to investment policies in the last 12 months, as its importance is holding steady in Europe and clearly rising in Asia-Pacific.

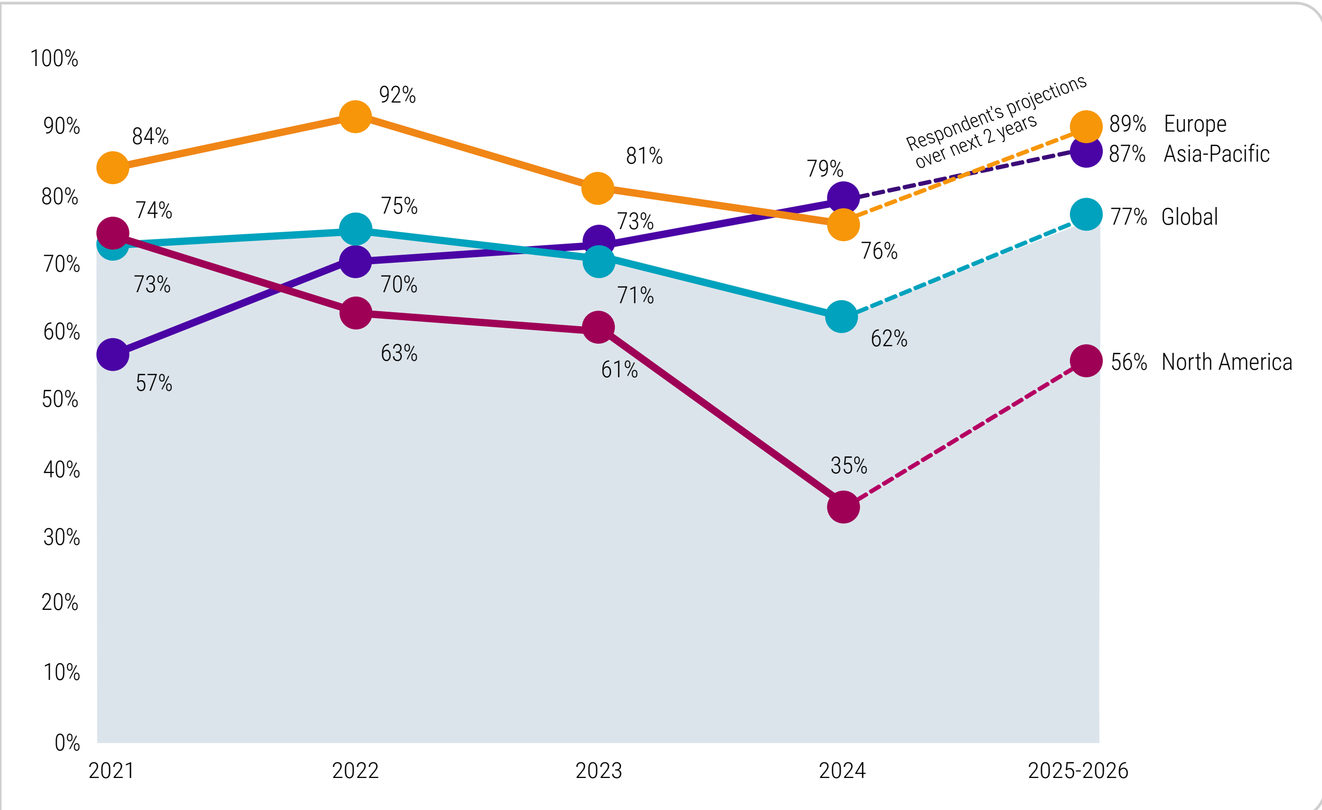
Investors remain committed, as they face headwinds

Secondly, there is a clear drive for investors to become more realistic and less naïve about the urgency to decarbonize their portfolios. As digital roundtable participant Liza Jansen, Head of Responsible Investment, Prudential, put it: "There is more interest in acting on climate change, but as we get more sophisticated and more knowledgeable, there is also more caution" (see pages 14 to 17 for more from the digital roundtable).

A third trend here is that the climate investing journey, which has only recently begun for many investors, is following a general pattern seen in many new ventures. There is initial enthusiasm and high expectations at the start, which is then followed by a wave of disillusionment as the scale of the tasks becomes clear. This is the stage that some investors are either entering, or emerging from, and it is usually followed by a stage of real progress being made, as the results of hard work and commitment come to fruition.

It is also notable that in all regions, investors believe that climate change will be more important to their investment policies over the next two years. This finding can be seen as a reflection of an understanding that investing sustainably will become increasingly important, as mitigating global warming becomes a critical issue over the next decade.

Q *How would you describe the importance of climate change to your organization's investment policy 2 years ago, today, and in the next 2 years?*



Climate change is significant/central to investment policy

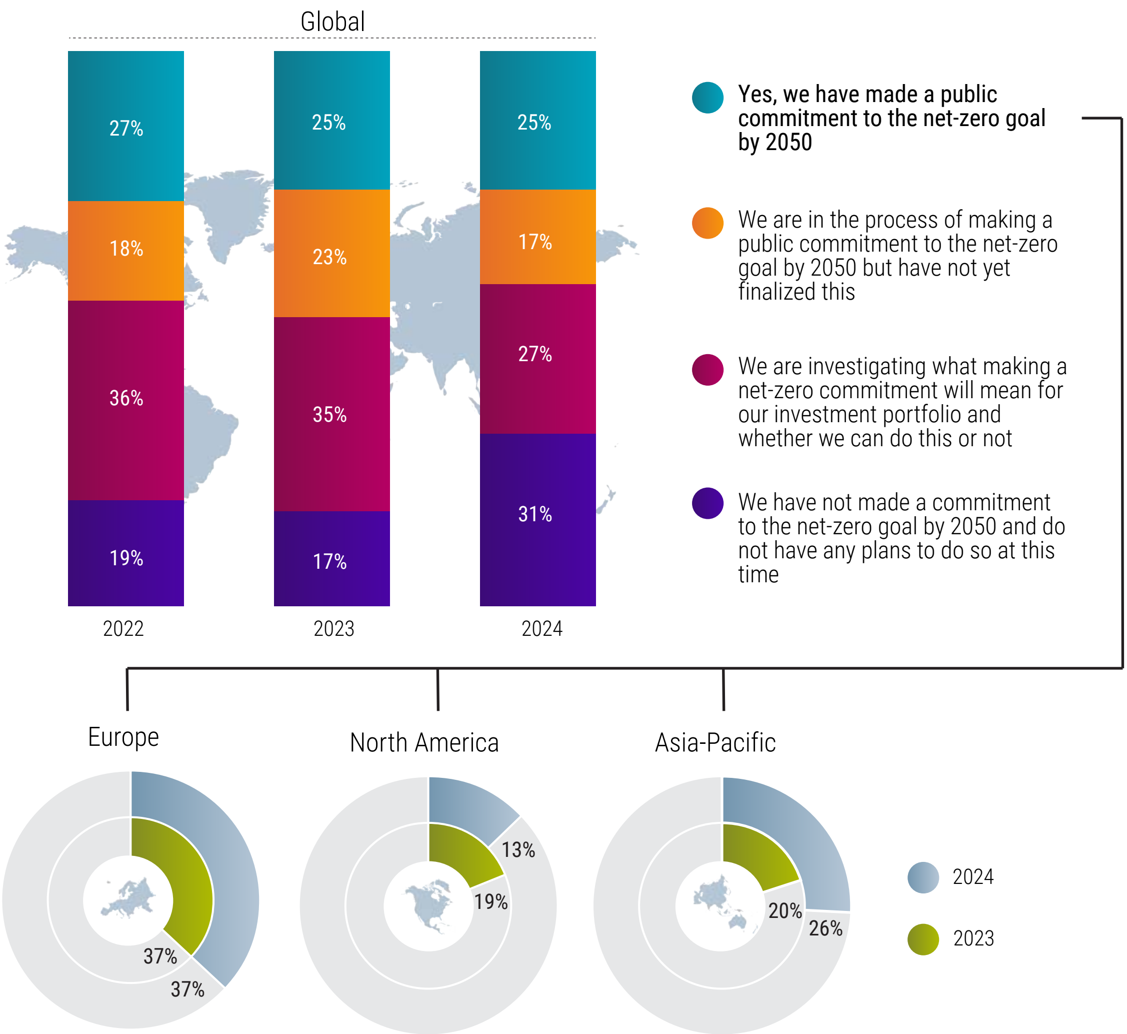
Investors are becoming more polarized on making a commitment to net zero, with falls in the middle ground categories of those in the process of making a commitment, and those investigating the feasibility of making a commitment for their organization.

While the number of investors who have made a public commitment remains steady at around a quarter, there has been an increase in those who have not made a commitment and have no plans to do so at this time, from 17% to 31% in 2024. Within this, European investors lead on net-zero commitments, along with insurance companies.

The biggest motivation among investors for a net-zero commitment is a belief in an ethical duty to support the transition to a sustainable economy, ahead of three equally strong drivers, which are wanting to be seen as a leader on this issue, general societal pressure from public opinion and demands from the board or senior management in an organization. Within these overall results, there are some variations by region and organization type. In Asia-Pacific, for example, the strongest driver is demands from the board or senior management.

For those who have not made a commitment to net zero, the reasons for this range from needing more time to consider a commitment, to other business priorities, to issues such as uncertainty over the impact on their investment strategy and if a net-zero goal is achievable, among other reasons.

Q *Has your organization made a public commitment to achieving net-zero greenhouse gas (GHG) emissions from its investment portfolio by 2050, or is it in the process of doing so?*



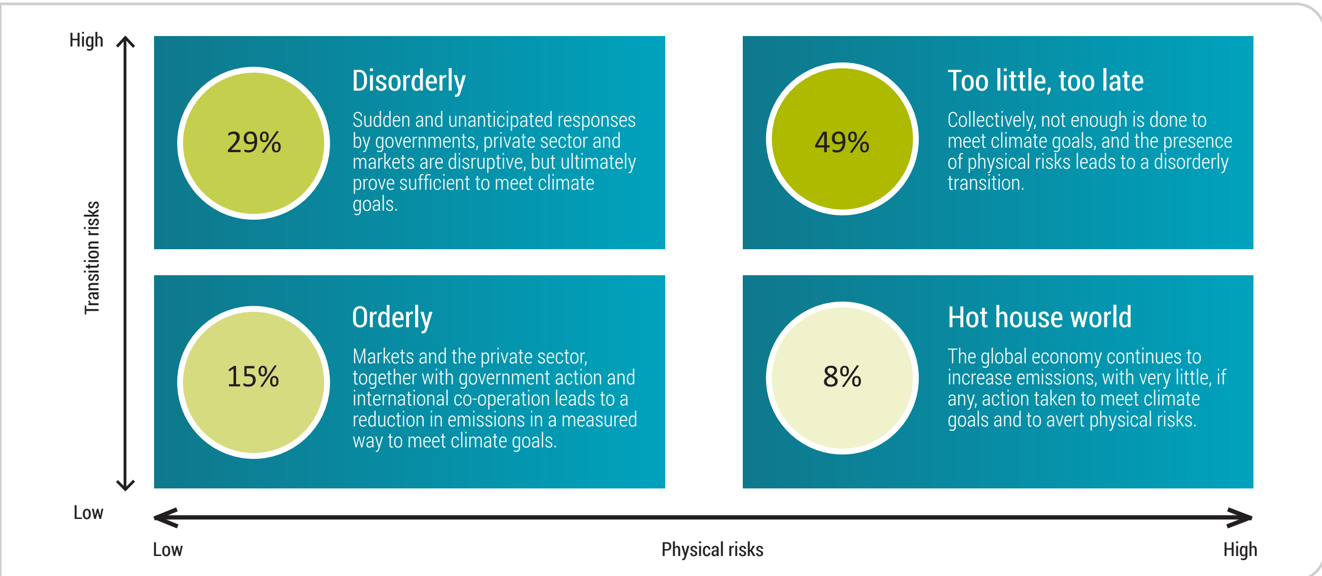
Growing polarization over making a net-zero commitment

At the same time as some are still holding back on making a net-zero commitment, an increasing number of investors now see the Paris Agreement target of limiting global warming to well below 2 °C as unachievable (41%, up from 30% in 2023). And when investors are asked about the likelihood of four possible climate transition scenarios from the Network for Greening the Financial System (NGFS), the majority of investors expect a disorderly climate transition over the next decade.

Almost half, 49%, think the 'too little, too late' scenario, with higher physical risks leading to a disorderly transition is the most likely outcome, while 29% think a less risky disorderly scenario, with delayed or divergent policies, is most likely. Interestingly, the regional variations here are relatively small. In fact, a higher proportion of North Americans expect the 'hot house world' scenario to take place (12% versus 8% overall). That investors are generally pessimistic over climate transition scenarios while some are reluctant to commit to net-zero mirrors a societal trend for individual consumers to accept that climate change is happening, while also exhibiting opposition to net-zero targets if they perceive them as negatively affecting their finances or lifestyle.

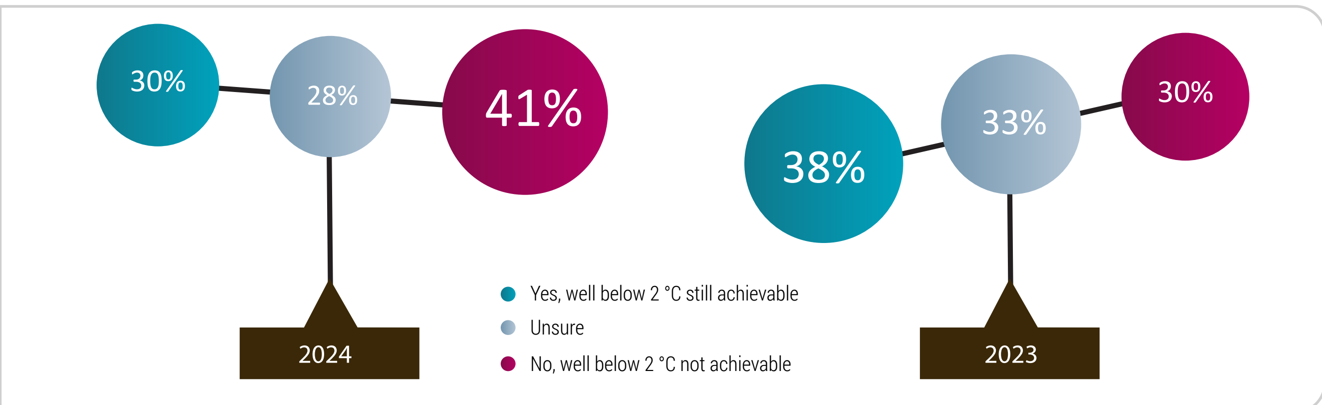
To overcome opposition to net-zero among investors, the asset management industry and others need to support the provision of more consistent data, standards and guidelines, as well as providing transparency on the risk versus return considerations and analysis of companies' climate performance. These were all cited by investors as actions that could help them decarbonize their investment portfolios.

Q *Which of the following climate transition scenarios do you think will be closest to reality/most likely to happen over the next decade?*



The most likely climate transition scenario over the next decade

Q *Is the Paris Agreement target to limit global warming to well below 2 °C still achievable?*



Is the Paris Agreement target achievable?

2. Investors make progress on implementing decarbonization

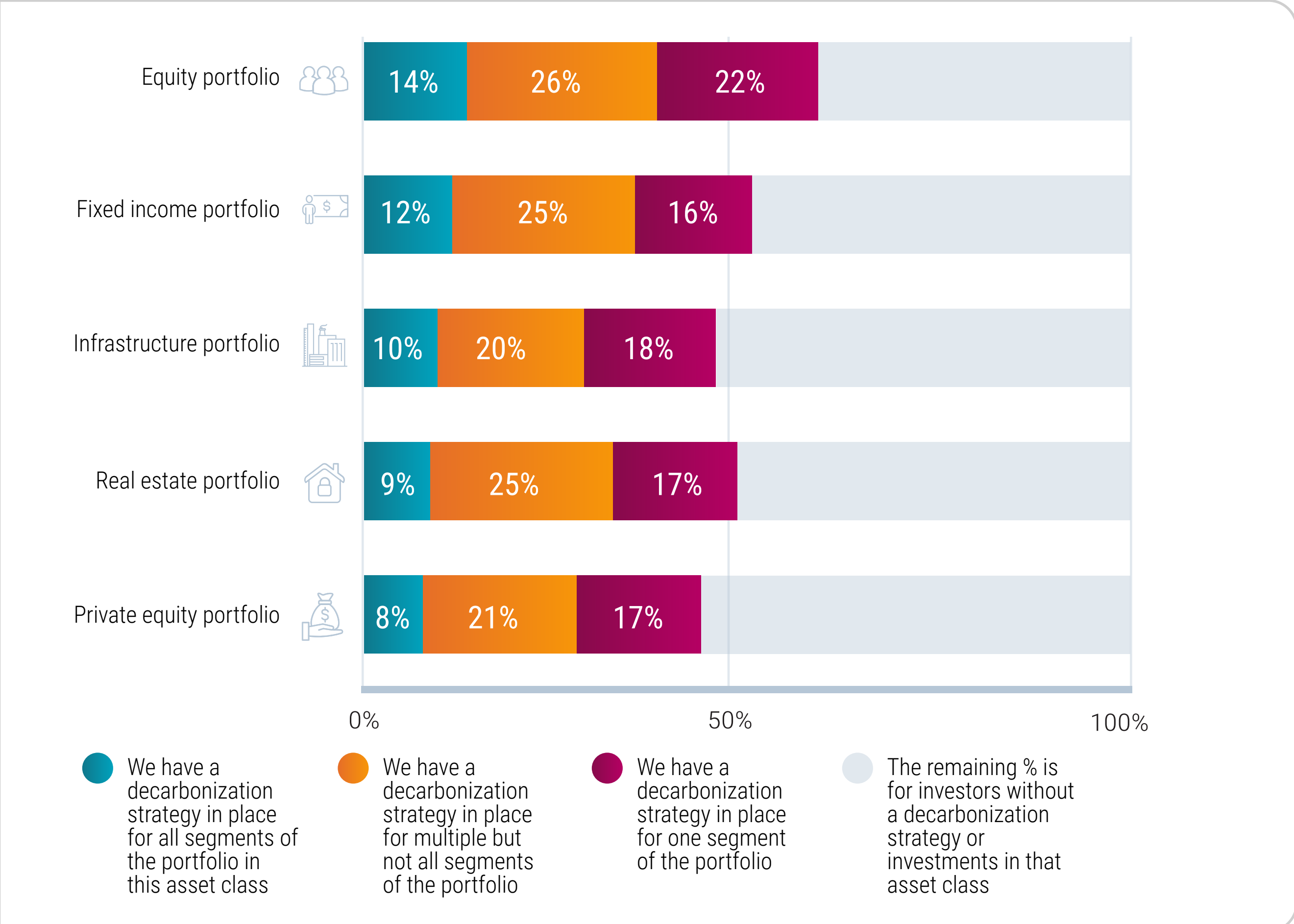
To decarbonize an investment portfolio, investors need to understand its carbon footprint. This year's research found that 43% of investors have calculated the carbon footprint of their holdings in different asset classes using Scope 1 and 2 emissions and 28% have taken steps to measure Scope 3 emissions where possible, through available data, modeling, best estimates and other measures. Furthermore, four-in-ten have taken steps to gain a forward-looking view of what emissions pathway investee companies are on, and how that aligns to the UN Paris Agreement. And for all these findings, these numbers have increased since 2023.

In addition, there are increased levels of knowledge and understanding on other topics around decarbonization, such as how carbon-intensive sectors such as energy and utilities are critically important for decarbonization, and how the introduction of carbon reduction targets will impact portfolio construction. And when asked about the physical and transition risks that their investment portfolio may be exposed to, 62% of investors have a reasonable, or very good, level of knowledge on transitions risks. This figure is 63% for physical risks to investment portfolios, such as the increased incidence of storms, droughts or wildfires that could damage assets or disrupt supply chains.

Investors decarbonize equity and fixed income portfolios first

In terms of decarbonizing their portfolios, this is most advanced in equities, with 40% either having decarbonization strategies in place for all segments of their equity portfolio, or for multiple but not all segments of the portfolio. A further 22% have a decarbonization strategy in place for one segment of the portfolio. For fixed income portfolios, these numbers are slightly lower. Among the other main asset classes real estate portfolios are ahead of infrastructure and private equities on decarbonization. The fact that investors are engaged in decarbonizing these portfolios means there will be future demand for funds and strategies to help investors fully decarbonize their portfolios.

Q *To what extent has your organization implemented clear decarbonization strategies within the following asset classes?*



Extent of implementing clear decarbonization strategies by asset class

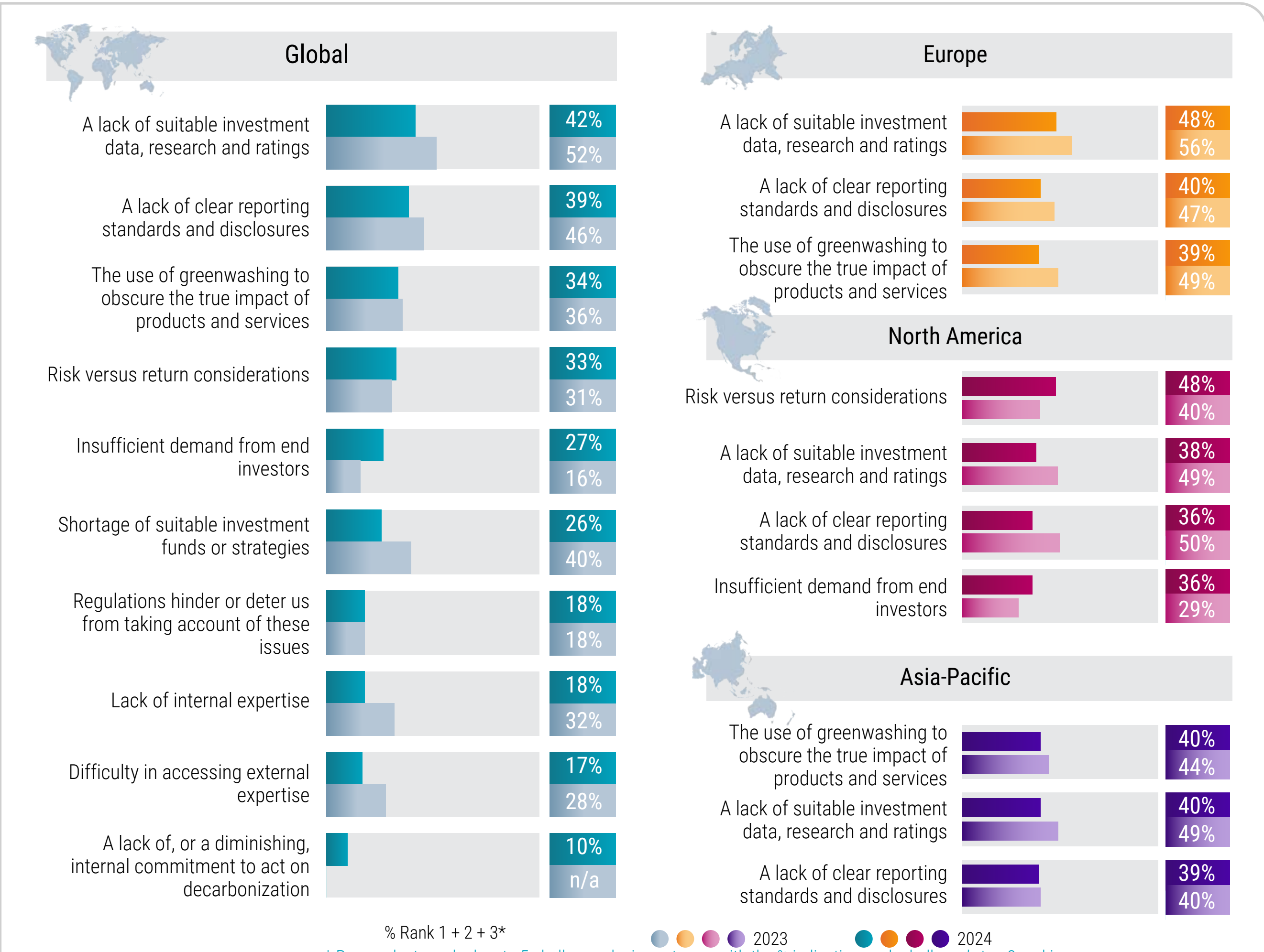
For investors, implementing decarbonization requires overcoming various challenges, from finding suitable investment data, research and ratings to guide them, to avoiding becoming subject to greenwashing when products, services or investments do not live up to their claims, to ensuring investment goals are still met, or ensuring that an investor has access to the internal and external expertise they need.

While these are considerable challenges, we can see that in many cases, these challenges have diminished in the past year. In all three regions, a lack of suitable investment data, research and ratings, while remaining a major challenge, has lessened as a challenge according to investors. This is also the case for a lack of clear reporting standards and disclosures. These findings are likely due to a mix of more being done to help investors in these areas and their growing abilities in overcoming these challenges.

For North American investors, managing risk versus return considerations has increased as a challenge in the last 12 months. The demand for fossil fuels, following higher post-pandemic economic activity, and supply constraints following geopolitical shocks, such as the Russia-Ukraine war, has clearly caused some North American investors to be concerned about the impact on returns of reducing their exposure to the oil and gas sector. This is less evident in Europe or the Asia-Pacific region, where many see investment opportunities from allocating to climate solutions or to companies that are transitioning away from high carbon emissions. Investors may also take a longer-term view, taking account of a projected fall in demand for fossil fuels as the energy transition happens, when they look at decarbonizing their portfolios.

Another challenge which has increased is insufficient demand from end investors, which has risen in all three regions. It has increased more as a challenge among wholesale investors (35% vs. 19%) than for institutional investors (23% vs. 15%). This increase is likely to be related to the rise in risk versus return considerations, as end investors, typically individual customers or savers, are more likely to be heavily influenced by short-term performance considerations.

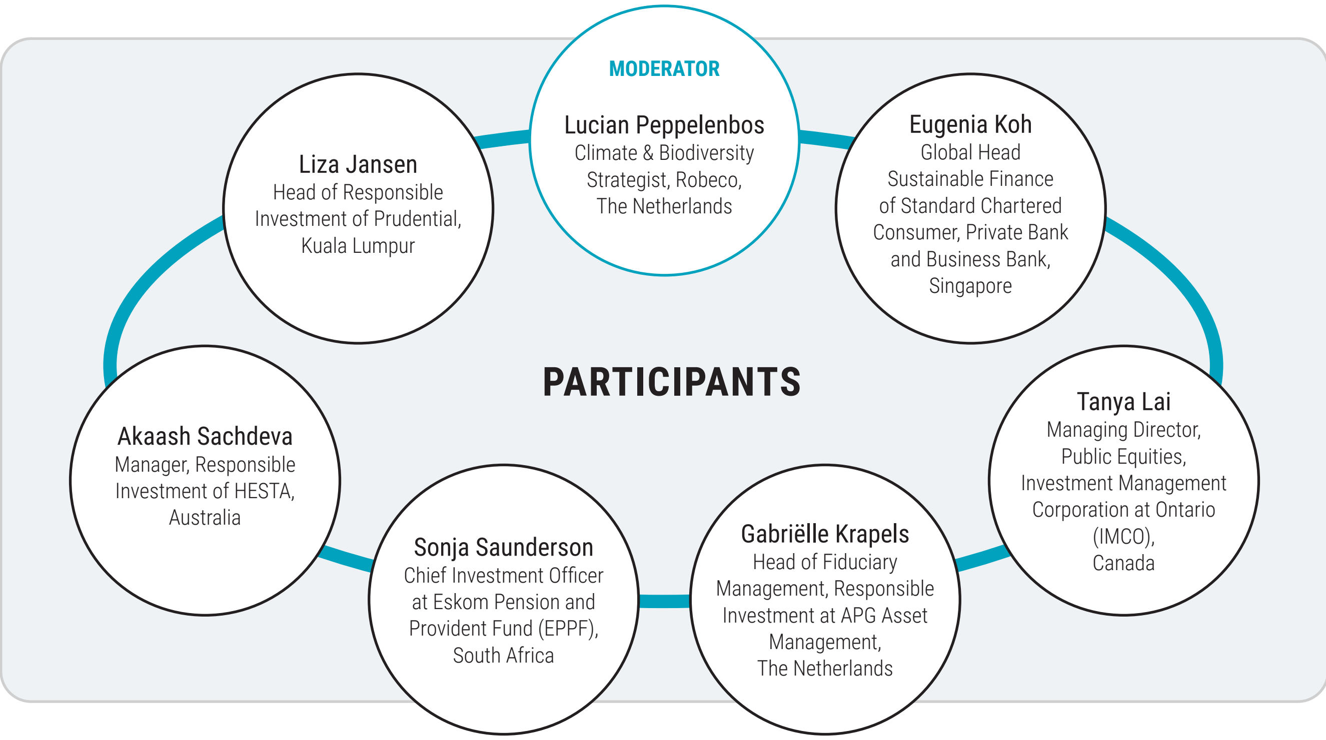
Q *What are the biggest challenges for your organization when seeking to take account of decarbonization in its investment portfolio?*



* Respondents ranked up to 5 challenges by importance, with the % indicating each challenge's top 3 ranking.

The biggest challenges when taking account of decarbonization

3. Investor roundtable: Managing the challenges of climate investing



According to this year's Global Climate Investing Survey, climate change has dipped in importance for asset owners' investment policies on a global basis. There has also been an increase in the percentage of investors who have not made a commitment to net zero and do not plan to do so. However, behind these results, the underlying commitment to sustainability remains strong and is being tempered by pragmatism and prudence among many investors.

Greater climate ambitions means taking more care on commitments

As roundtable participant Liza Jansen, Head of Responsible Investment of Prudential, Kuala Lumpur, said: "There is more interest in acting on climate change, but as we get more sophisticated and more knowledgeable, there is also more caution. We want to be more ambitious, so we are carefully thinking through what we do and what we commit ourselves to." Akaash Sachdeva, Manager Responsible Investment of HESTA, Australia, made a similar point, citing forthcoming regulatory policies in Australia: "We're seeing more government support for investors managing climate risks and investing in the transition and climate solutions, but with an added level of rigor, with mandatory company reporting on the horizon in Australia."

While the US is experiencing political backlash to the concept of ESG, investors in other regions continue to integrate sustainability into their investment approach. For example, at Canada's Investment Management Corporation (IMCO), Tanya Lai, Managing Director, Public Equities, said: "At IMCO, we started our journey in 2019, putting a stake down on net zero. As a CAD 70 billion asset manager, we plan to allocate 20% of our assets under management to climate solutions by 2030, across public and private investments." And Eugenia Koh, Global Head Sustainable Finance of Standard Chartered Private Bank, Singapore, said: "In the markets that we cover, mainly Asia, the Middle East and Africa, investors are increasingly thinking about how they can embed climate risk into their portfolios. Investors have often taken a thematic approach and this tends to be cyclical. Systematically embedding climate risks into core portfolios helps clients better manage their overall ESG risk, which could provide for more robust and resilient portfolios over time."

The reality of a changing climate is proving a powerful counterpoint to arguments against sustainability for many asset owners. As Sonja Saunderson, Chief Investment Officer at Eskom Pension and Provident Fund (EPPF), South Africa, explained: "There is a realization that as much as our country's economic fortunes are energy-dependent, climate change is happening. A lot of people thought it was a 'generations to come' problem, but we are experiencing its impact now," Saunderson said. Indeed, many investors do not believe that there is a conflict between sustainability and fiduciary duties. Gabriëlle Krapels, Head of Fiduciary Management, Responsible

> *" As a CAD 70 billion asset manager, we plan to allocate 20% of our assets under management to climate solutions by 2030, across public and private investments*
>
> Tanya Lai, Managing Director, Public Equities, Investment Management Corporation at Ontario (IMCO), Canada

Investment at APG Asset Management, said: "Our clients are long-term investors, and they believe that sustainable business models will outperform and reduce their downside risk. They also believe they should invest in companies, especially when they are in high impact sectors that have a good transition plan in place. At the same time, each investment should be seen within the criteria of risk, return, cost and responsible investing."

Koh at Standard Chartered and Sachdeva at Australia's HESTA concurred with the view that investing sustainably is positive for long-term results. Sachdeva said: "We have a strong investment belief that over the long term, responsible investing and sustainability supports absolute returns to members. Some of the challenges in the short term are around super fund performance benchmarks. This can create barriers to investing in opportunities that can help create a sustainable economy, even though from a long-term perspective, there's great potential for returns and outperformance." And Prudential's Jansen pointed out that sustainable investing can bring new opportunities to the table. "A benefit of financing the transition is that it makes your investment universe bigger. We are not just doing this because it is a good thing to do; this is the way forward for Asia."

> *"A benefit of financing the transition is that it makes your investment universe bigger. We are not just doing this because it is a good thing to do; this is the way forward for Asia*
>
> Liza Jansen, Head of Responsible Investment of Prudential, Kuala Lumpur

> *"There is a realization that as much as our country's economic fortunes are energy-dependent, climate change is happening. A lot of people thought it was a 'generations to come' problem, but we are experiencing its impact now*
>
> Sonja Saunderson, Chief Investment Officer at Eskom Pension and Provident Fund (EPPF), South Africa

Understanding the transition from brown to green

One of the key questions this year was which transition scenarios are most likely to play out. Almost half of investors expect the 'too little, too late' scenario of a fragmented and disorderly transition to prevail. APG's Krapels said: "Different scenarios are part of our strategic asset allocation, including the 'too little, too late' scenario. Our clients want to contribute as much as possible to an orderly transition." And HESTA's Sachdeva said it was interesting that the 'too little, too late' scenario was widely chosen: "That could be because of the short-term signals and noise in the last couple of years. Despite that, there is a long-term trend on the uptake of renewable energy and momentum for the transition. But there is a lot of nervousness in the short term, because it is clearly not going to be a smooth transition."

While some of this year's findings are concerning, there is also evidence of how investors are seeking to decarbonize, invest in climate solutions and actively support the transition away from fossil fuels. Standard Chartered Private Bank's Koh said: "We have also been working with different businesses around the transition, which is an interesting topic. There is a good understanding of the

concept; people get that we have to help brown companies transition to green. How can we do that in a way that is science-based and enables that pivot? That is something we have been working on a lot, in terms of building up the frameworks and the systems to enable it, through to having a dedicated transition finance team that is able to advise on transition technologies."

Sachdeva explained that HESTA has been working on scenario analysis and how that plays out into strategic asset allocation. "On the allocation of capital, we are looking at long-term, economic signals regarding the reduction in cost of renewable technologies over time. Meanwhile, we are balancing that with interest rates and the economic outlook, because of questions about the inflationary impact of the transition and the amount of money that has to be spent," Sachdeva said. IMCO's Lai said it was important to have a balanced approach: "When we think about the decarbonization strategy, one of the key questions is whether to lean more toward the so-called blue strategy, decarbonizing legacy energy and assets, or more toward a green investment framework of battery manufacturers, solar and wind energy generators. From our perspective, we have leaned both ways for flexibility."

For investing in climate solutions, the survey found that public market investments in developed markets are the dominant strategy, which implies that this area could become crowded. The roundtable participants have a range of approaches to climate solutions. Lai said there are still climate solutions opportunities in developed markets. "We don't believe the market is crowded; we are more concerned with that there may not be enough capital. Consultant research has found that 50% of the climate tech solutions are still underdeveloped and not ready for the market yet. There are a lot of opportunities for investors, but we need to assess whether they fit in our investment risk profile." In a similar vein, Sachdeva pointed out that investing in climate solutions is a relatively new subject. "It is not as easy as tech, where you can buy the likes of Nvidia, Apple, Microsoft or Amazon. In climate solutions, you need more detailed knowledge and understanding and to think about the right place to invest and where in the value chain you want to be. It requires more digging."

> *You really need good government policies to make an investment attractive. Metrics and taxonomies are important to substantiate and measure what you're doing, but it starts with facilitating the conditions for an investment*
>
> Gabriëlle Krapels, Head of Fiduciary Management, Responsible Investment at APG Asset Management, The Netherlands

> *Taxonomies and real economy policies go hand in hand. The taxonomy is needed to define what a green product looks like, with policies to support the uptake of that green product*
>
> Akaash Sachdeva, Manager Responsible Investment of HESTA, Australia

Others see potential in both emerging markets and private markets for climate solutions. For example, Koh highlighted: "There are some interesting opportunities in the Venture Capital space, but they tend to be smaller and higher risk. The bigger, scalable solutions are mainly coming from developed markets at the moment, but we are seeing some interesting ideas from emerging markets in the pipeline. Hopefully they can grow in scale with time." And Saunderson maintained climate solutions in emerging markets are vital if climate change is to be mitigated, while also having the potential to be very good investments. "We believe financially it's more attractive to invest in climate solutions in emerging economies. Direct investments into solar and wind farms and in hydrogen gas have done extremely well in our portfolios," Saunderson said.

Investment opportunities in climate solutions

While the survey found that issues such as metrics and taxonomies are the biggest barriers to climate investing, real world economic policies can be as important for the roundtable participants. APG's Krapels was clear on this: "You really need good government policies to make an investment attractive. Metrics and taxonomies are important to substantiate and measure what you're doing, but it starts with facilitating the conditions for an investment." Prudential's Jansen shared this view: "By far it is real economy policies. Global fossil fuel subsidies are still USD 7 trillion a year. That would make a huge difference, more than any metrics or taxonomy ever could. The economics needs to start working; if renewable energy becomes cheaper than fossil fuels that will accelerate take-up because money talks."

For Sachdeva, both parts are equally important: "Taxonomies and real economy policies go hand in hand. The taxonomy is needed to define what a green product looks like, with policies to support the uptake of that green product. For green alternatives to industrial concrete, for example, customers are not yet willing to pay a significant premium for a green product. Governments have to think about policies that will help the uptake of green products and bring prices down."

Alongside climate solutions, transition finance is also needed to support a move to a low-carbon economy. It is also a topic where better disclosure and regulatory guidelines could help investors. Koh underscored: "It is in the transition area that we have the

biggest risk of greenwashing. Better disclosure and a common definition around what a credible transition looks like, in addition to the science-based targets and trajectories, will be important." Jansen agreed that clarity and consistency is needed to avoid greenwashing. "Climate solutions are better defined than credible transition strategies. There isn't a good definition of what the transition is, so the greenwashing risk is much higher than with solutions," Jansen commented.

> *"It is in the transition area that we have the biggest risk of greenwashing. Better disclosure and a common definition around what a credible transition looks like, in addition to the science-based targets and trajectories, will be important*
>
> **Eugenia Koh**, Global Head Sustainable Finance of Standard Chartered Consumer, Private Bank and Business Bank, Singapore

Another issue here, as Sachdeva explained, is that investors need to take a view on what technology will allow for in the future and what this means for future trajectories of transitioning companies. He said: "Part of the challenge with the taxonomy is that most transitioning companies, when you talk to them, will argue that they will be needed in the future and that they fall into the 'hard to abate' category, whether it is oil, gas, aluminum or cement." And on pathways for the transition, he added: "With some transitioning companies, like power utilities, you can see the pathway for cheaper renewables to replace coal-fired power plants as they shut down, so those companies can still exist. But for others, such as steel, green steel is not commercially available. They can make transition plans, but they are dependent on technology, regulations and government funding, which makes it difficult for investors."

A possible solution here for investors is to build up their technical expertise, which Lai said IMCO has seen in global asset manager practice. "An external asset manager we work with has created a climate transition research team staffed by engineers. The team evaluates whether the technology, developed by a legacy oil company to reduce waste, makes commercial sense and is ahead of its competitors. The investment researchers then use that information to develop an investment thesis. As investors, we may need to engage more in technical conversations like this," Lai said.

Engagement is a vital element to investing in transitioning companies and as Saunderson explained, it can be simpler at smaller, private companies compared to large, listed companies. "Overall, the listed sector is dominated in South Africa by old economy mining companies. It's easier for us to get change in smaller, more innovative technology companies in the private market sector, where they embrace new technologies. For the rest of the market, we invest with a very active engagement mindset, putting specific requirements in place in terms of reporting and also working with other asset owners to put pressure on those listed companies."

CONCLUSION

As can be seen from this discussion, the roundtable participants are continuing to place climate investing at the center of their respective investment approaches. This is driven by the view that doing so will deliver long-term returns, as well as by the demands of their customers and beneficiaries. While they face significant challenges, there are signs of progress in areas such as climate solutions and transition finance.

But it is also clear that investors need support from regulators and policy makers to create the right conditions and to support sustainable investing. The key to climate investing lies in real world economic policies promoting climate solutions and transition finance. These should be aligned with a regulatory framework that provides clear and reliable data, metrics and taxonomies, enabling willing and motivated investors to direct capital to the right places.

4. Investing in climate solutions and the climate transition

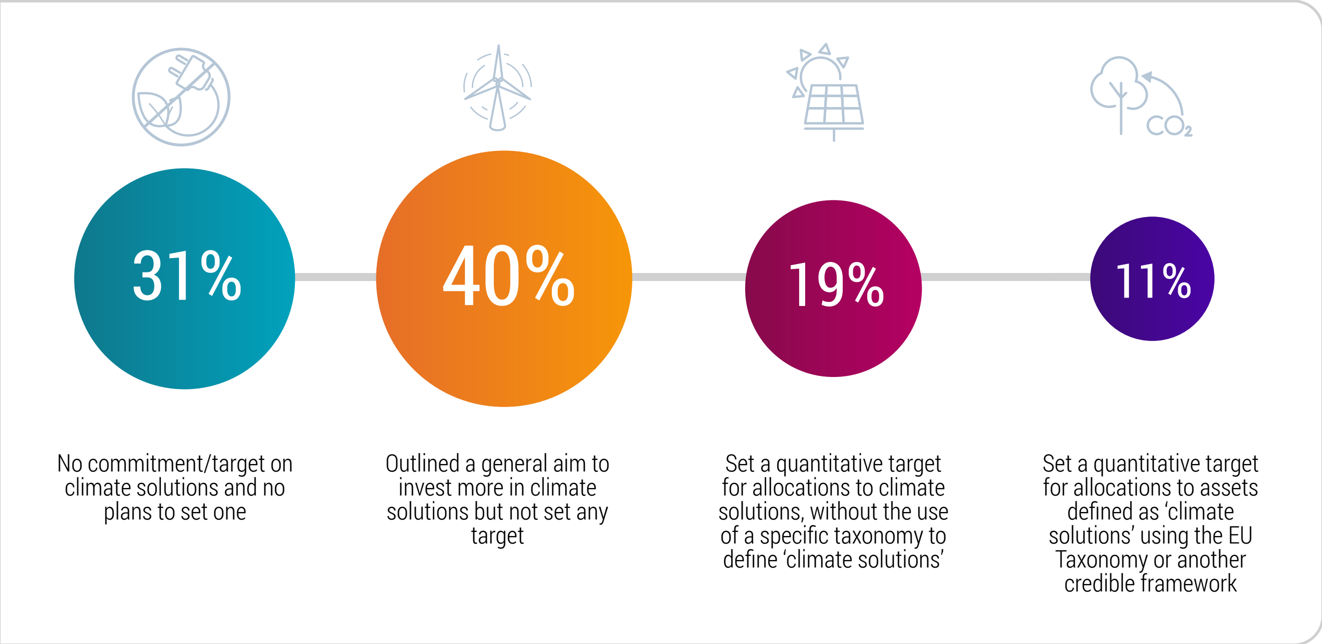
One of the positive themes in this year's findings is the hunger to allocate to climate solutions, which are needed for portfolio decarbonization. Almost half (48%) already allocate to funds investing in climate solutions to support portfolio decarbonization and a further 25% plan to do this within the next one to two years.

When it comes to setting targets for investing in climate solutions, 40% of investors have a general aim to invest more. But some investors are more specific; 19% have set a quantitative target to allocations to climate solutions and 11% have set a quantitative target using the European Union (EU) taxonomy, or another credible framework, to define assets as 'climate solutions'. Interestingly, more investors in Europe (19%) are using the EU taxonomy, or another credible framework, to help set a quantitative target for allocating to climate solutions. This shows how investors are willing taxonomies and other measures to support climate investing when these are available to them. And while the proportion of North American investors (36%) with a general aim to invest more in climate solutions is lower than in Europe (42%) or Asia-Pacific (41%), it is still relatively high.

At present, the most popular way to invest in climate solutions is indirectly, through funds, in commercially mature climate solutions in developed markets, with half of investors doing this. However, investors are not restricted to this route; over a third (36%) have invested in nascent climate solutions in developed markets via funds, while 29% have invested in commercially mature climate solutions in emerging markets via funds.

On the barriers they face to investing in climate solutions, investors give the biggest challenges as identifying suitable metrics and obtaining data to measure climate solutions (57%), or that current sustainable taxonomies and guidelines do not provide a clear definition of climate solutions. Another significant barrier for many (42%) is that real economy policies are insufficient to support companies developing climate solutions. In the digital roundtable, investors explained that real economy policies facilitate the right conditions, while metrics and taxonomies define and measure investments in areas such as climate solutions. "Taxonomies and real economy policies go hand in hand. The taxonomy is needed to define what a green product looks like, with policies to support the uptake of that green product" said Akaash Sachdeva, Manager Responsible Investment of HESTA, Australia. (see pages 14 to 17 for more from the digital roundtable)

Q *Has your organization made specific commitments or set targets related to investments in climate solutions?*



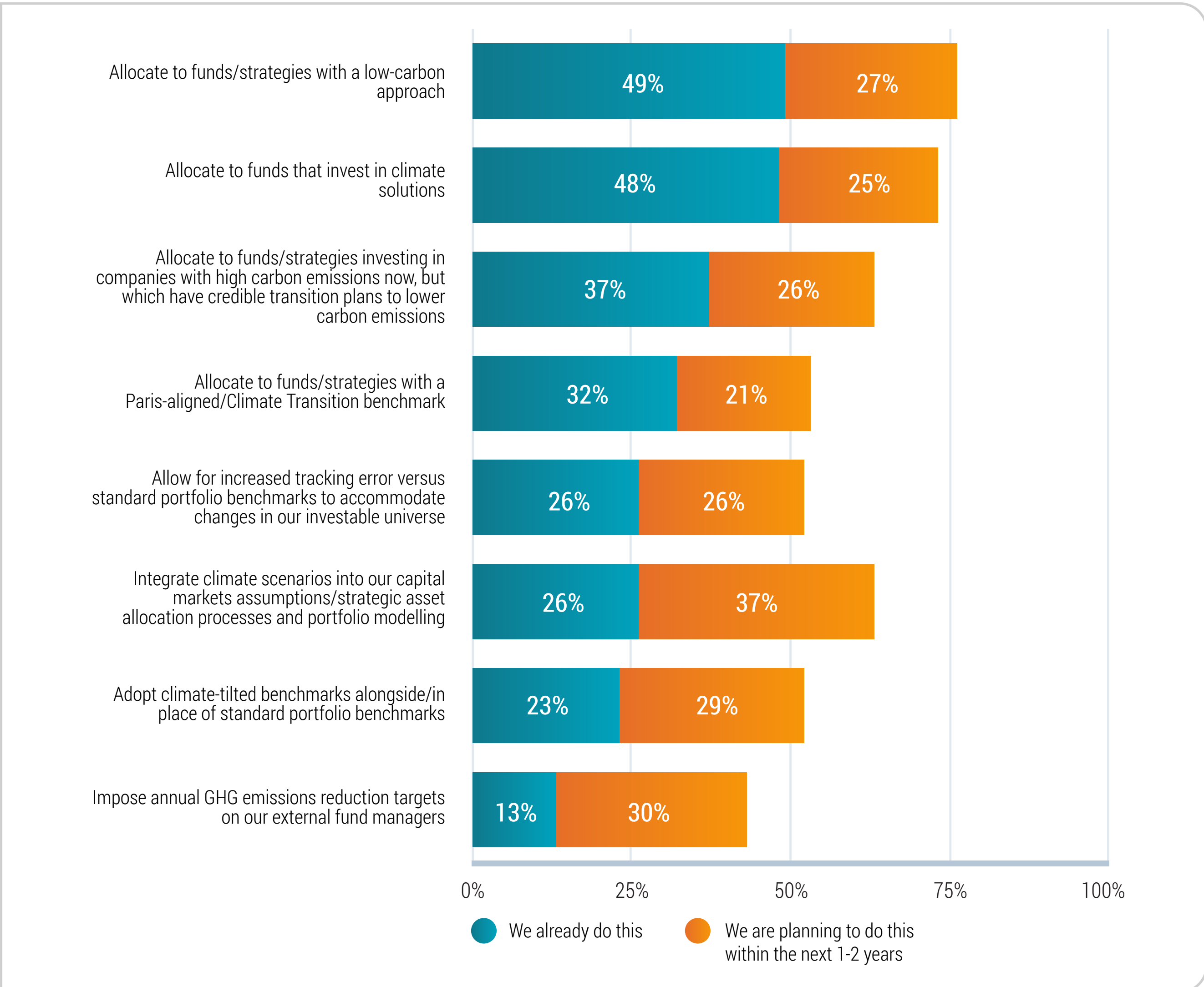
→ Most investors plan to invest more in climate solutions

As well as investing more in climate solutions, investors also need to help investee companies reduce their carbon emissions where this is possible, as part of the transition to a low-carbon economy. While this is less popular at present than allocating to strategies or funds with a low-carbon approach and allocating to funds investing in climate solutions, investing in 'transitioning' companies is a vital part of the journey to net-zero carbon emissions. At present, 37% of investors allocate to funds or strategies allocating to 'transitioning' companies, or those with high carbon emissions now but with credible transition plans to lower carbon emissions. And a further 26% plan to do this within the next one to two years.

Within the overall results, insurance companies are particularly likely to invest in funds or strategies allocating to transitioning companies, with 47% doing so already and 27% planning to within the next one to two years. This is part of the overall trend of insurance companies to be early adopters of climate investing approaches such as this. This is ahead of pension funds (29% already invest in transitioning companies and 26% plan to do so within the next couple of years). By region, European investors are most likely to invest in transitioning companies (45%), or are planning to do this in the near future (26%).

Asked how about the approaches that they are taking to investing in transitioning companies, investors pick out two methods in particular. One is investing in active equity strategies targeting transition-oriented companies (45%), while the other is investing in green bonds and sustainability bonds (43%). In both cases, over half of European and Asia-Pacific investors do this, well ahead of their peers in North America.

Which of the following investment approaches is your organization using, or planning to use, as part of its portfolio decarbonization?



Allocations to low-carbon approaches, climate solutions and transitioning companies are set to rise

Given their plans to allocate more to transitioning companies, we can expect to see greater use of other methods of investing in these companies. For example, at present 29% of investors use active fixed income strategies to target allocations to transition-oriented companies. In order to decarbonize more of their fixed income portfolios and to invest more in transitioning companies, this figure is likely to rise in the future. Around a quarter of investors currently use passive approaches to investing in equities and fixed income with weights based on the credibility of transition plans. Given the widespread use of passive investing, if investors have increased access to funds or strategies operating on this basis, then it is highly likely that their use will increase in the future. For many investors, the use of passive strategies with a focus on transitioning companies will enable them to fulfil ambitions to invest more in this area, with an external fund manager taking on the work of assessing the credibility of transition plans.

When it comes to investors' own transition plans, just under a fifth (18%) have developed a climate transition plan, while 27% are in the process of doing so and another 29% are considering whether to developed one. The most common feature of climate transition plans is a clear plan for investing in climate solutions, followed by a clear plan for supporting a just transition. Plans for the managed phase-out of thermal coal and fossil fuels are the next most common features.

On their biggest challenges to making a transition plan to reach net zero and implement it, three challenges stand out. For just over two-thirds (67%), the biggest challenge is implementation, or ensuring that all their activities, policies and decision-making support a net-zero commitment. This is followed by having the right metrics and targets to assess and monitor progress toward a net-zero commitment (63%) and governance, or creating structures for senior managers to implement a plan and to be incentivized to do so, as well as providing the training and development at all levels to support this (62%). These results indicate that many investors are still grappling with the organizational changes needed to move toward their net-zero goals.

Q *Which of the following approaches, if any, is your organization taking to invest in 'transitioning companies'?*

Investors' preferred ways to invest in transitioning companies

5. Helping investors on the journey to sustainable portfolios

Along with investing in climate solutions and investing in transitioning companies, investors will have to work with a wide range of companies to help them decarbonize. This means engagement will continue to be an important part of climate investing over the next decade.

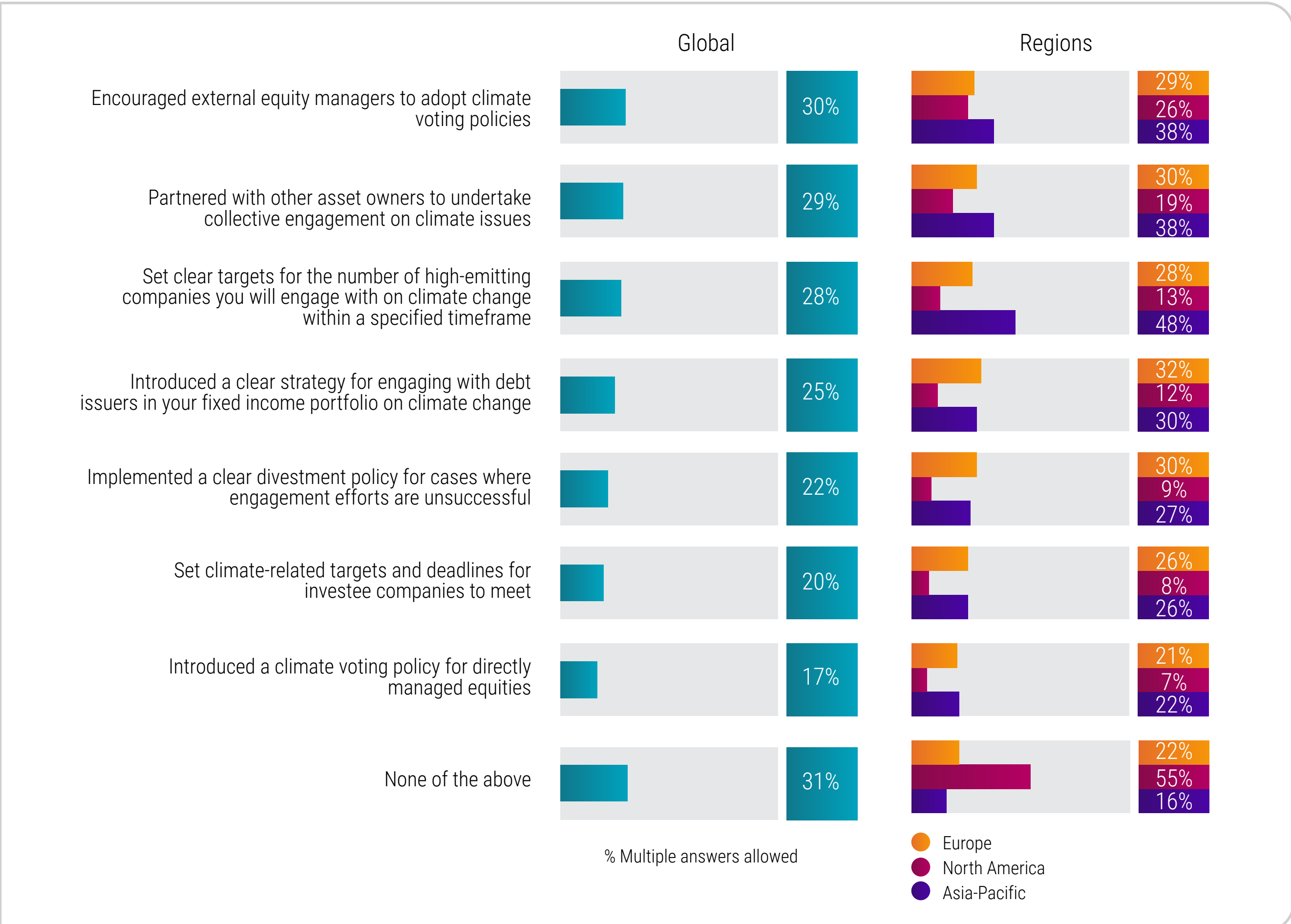
One example of this is the approach of investors toward oil and gas companies. At present, 23% of investors describe themselves as active owners, pushing for a move away from fossil fuels and toward renewable energy and prepared to divest if there is insufficient progress. Over the next two years, 28% of investors plan to be active owners, showing investors plan to step up their role as active owners, pushing for change. At the same time, the number of investors continuing to invest in oil and gas companies, despite their carbon emissions, as long as they provide good returns, is set to fall from 30% now to 15% in the next two years.

For engaging with investee companies over their climate impact, investors use a range of measures. These include encouraging external equity managers to adopt climate voting policies (30%) and partnering with other asset owners on collective engagement (29%), or setting clear targets for the number of high-emitting companies that they will engage with on climate change within a specific timeframe (28%).

On engagement with investee companies over their climate impact, there is a clear regional disparity, with far more European and Asia-Pacific investors undertaking actions to engage with investee companies than in North America. Indeed, over half of North American investors (55%) are not taking any engagement actions, compared to 22% in Europe and 26% in Asia-Pacific. A prime reason for this discrepancy is the backlash to ESG investing in USA, where the topic has become controversial and divisive, leading investors to become more guarded and cautious on it.

It is also noticeable that investor actions on engagement increase with investor size. For example, only 10% of investors with less than USD 10 billion in asset under management have introduced a clear strategy for engaging with debt issuers in their fixed income portfolio on climate change. This rises to 36% for investors with USD 10 bln to USD 100 bln in assets, and 34% for those with USD 100 bln to USD 500 bln in assets.

Q *Which of the following actions, if any, has your organization taken to engage with investee companies on their climate impact?*



Most investors are engaging with investee companies on their climate impact

For engagement and other elements of climate investing, investors have to work with other stakeholders, including external asset managers, if they are to be effective. To gain insights into what the asset management industry can do to help investors decarbonize their investment portfolios, investors were asked what actions they would like to see. In response, the most popular request (17%) was for more consistent standards and guidelines, ahead of more reliable, standardized data and ratings, then transparency about risk-return implications, lobbying policymakers and better analysis of companies' climate performance.

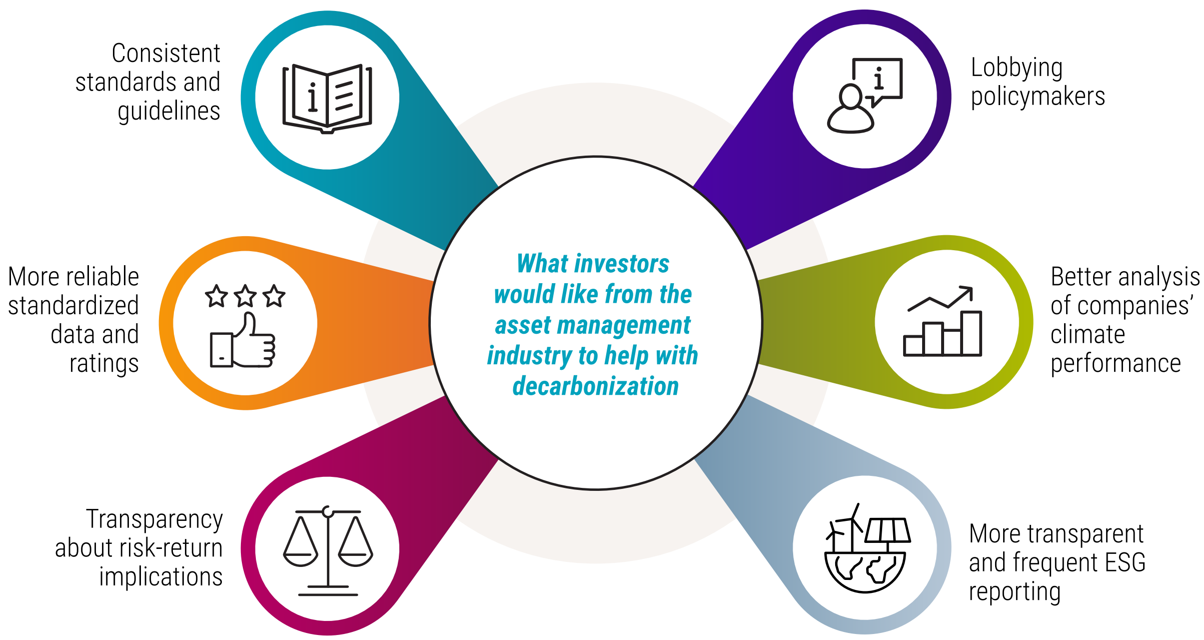
On standards and guidelines, a North American pension fund said it wanted asset managers to "agree on standard reporting in the industry to make investments comparable. Also, we would like to see more transparent data to confirm that decarbonization is happening". And a European pension fund said it wanted asset managers to "establish a global or at least a regional standard. Right now in Europe every country has it own standards". And in a similar vein, a European wholesale investor commented: "Carbon emission reports and ESG reports could be standardized for us to contemplate investment value".

Related to this, investors would also like to see better analysis of companies' climate performance. For example, an insurance company in Asia-Pacific, which is still considering making a commitment to net zero, said it wanted: "Credible data on full life-cycle cost and benefits of transition strategies".

Another area for potential asset manager assistance is around the risk-return aspects of decarbonization. Here an Asia-Pacific insurance company said: "Help us analyze the value we can get by decarbonizing our portfolio over time". This issue is particularly important to North American investors, who are more likely to feel that they have to justify sustainable investing on performance grounds. A North American pension fund commented that it wanted asset managers "to demonstrate that a decarbonized portfolio can perform as well as a carbonized portfolio. We have to get the best returns for our participants". And a North American wholesale investor said it wanted asset managers to "focus on benefits not only to the planet but potential returns to investors".

These comments show how investors are looking to the asset management industry for help with clear and consistent information, research and reporting on a range of topics, so that they can determine if and how they should decarbonize.

Q What action(s) would you like to see the asset management industry take to help your organization decarbonize its investment portfolio?



Based on open-text answers from survey respondents

As the importance of global action on climate change has increased, investors and others have become more aware of the importance of biodiversity in mitigating against the adverse impacts of climate change. Many experts believe there is a symbiotic relationship between biodiversity and action on climate change; on one hand, rising global temperatures are likely to cause environmental damage in a variety of ways, while at the same time, protecting biodiversity is positive for climate change, by preserving natural carbon sinks found in ecosystems such as rainforests, moorlands or tundra.

The growing awareness of the value of biodiversity to investors concerned about climate change is clearly shown when investors are asked about the importance of biodiversity to their investment policy. According to this year's results, 36% of investors globally describe biodiversity as being at the center, or a significant part, of their investment policy now, with this projected to increase over the next two years globally and in all regions.

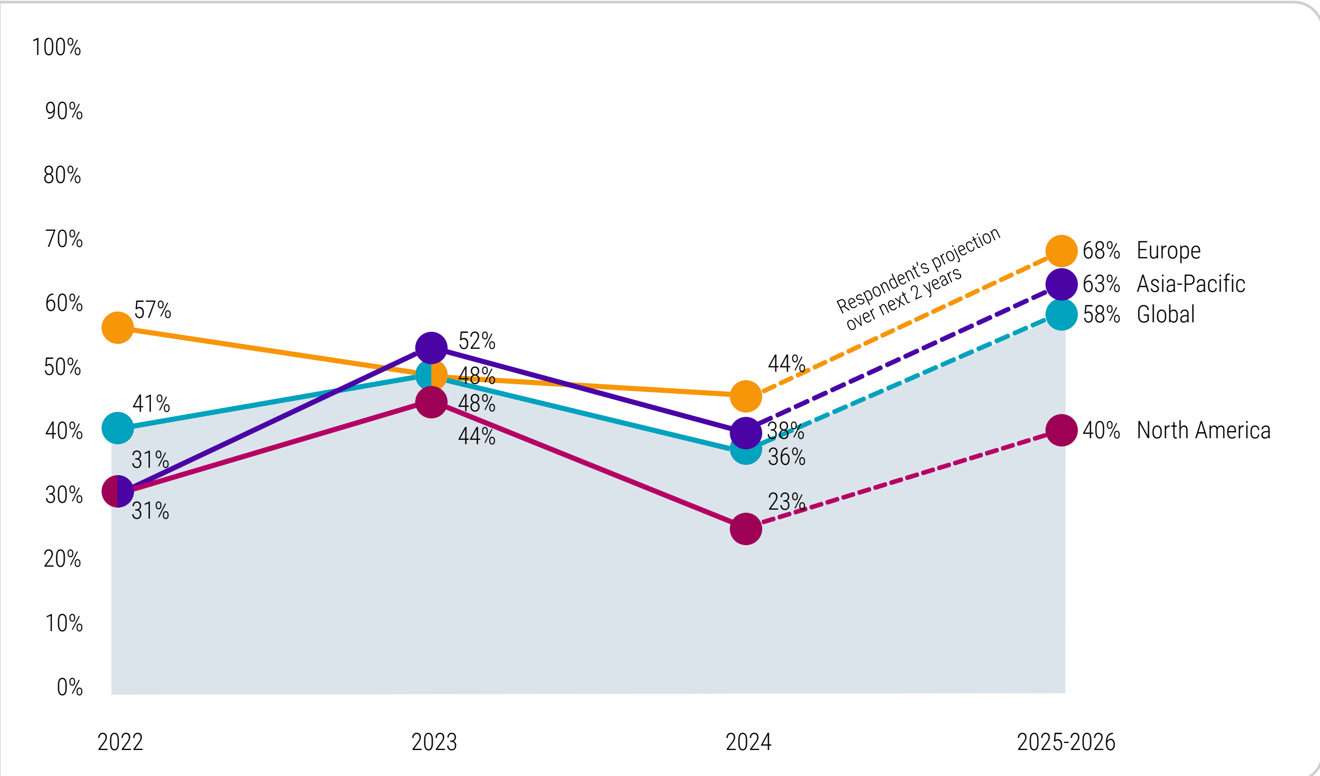
Regionally, investors in Europe are most conscious of biodiversity, with 44% giving it as an important factor in their investment policies, compared to 38% of Asia-Pacific investors and 23% in North America. The results also show that wholesale investors are as likely as institutional investors to put biodiversity as an important feature of their investment policies, while larger investors by assets under management are more likely to make biodiversity an important factor in their investment policies.

Compared to a year ago, fewer investors see biodiversity as a significant or central factor in their investment policy, although it is still increasing in importance over time. As with the importance of climate change to investors, this indicates how investing sustainably, with regard to issues such as biodiversity, has reached an uphill section of the road, buffeted by headwinds as investors move from a stage of aspiration and goal-setting and to a stage of practical action, which can be challenging.

However, a positive sign here is that the scale of challenges to investors seeking to take account of biodiversity have fallen. For instance, 38% now give a lack of suitable investment data, research and ratings as a major challenge, compared to 53% a year ago. One exception here is that more investors now see a lack of clear reporting standards and disclosures as a challenge than a year earlier (32% versus 24%).

Another positive development on investor awareness of biodiversity in this year's results is that over half (56%) now agree that action to protect and restore biodiversity is as important as action to tackle climate change, up from 47% a year ago.

Q How would you describe the importance of biodiversity to your organization's investment policy 2 years ago, today, and in the next 2 years?



The importance of biodiversity to investment policies

Making the transition won't be easy

Some of the key lessons from this year's findings

Now the real work begins! – This could sum up some of the key messages from this year's survey. When we look at the survey findings and insights from the participants in the digital roundtable, we can see that many investors are adopting a focused and diligent approach to the work of decarbonizing investment portfolios and moving toward the low-carbon economy of the future.

As investors tackle the hard work involved in the climate transition, there is careful scrutiny over what is needed to embed sustainability into the many aspects of running investment portfolios, from gaining expertise in measuring their carbon footprint, to using forward-looking metrics and data, to ensuring it is fully integrated into strategic planning and investments in different asset classes.

Another key message is that this will not be a journey of smooth, linear progress. Investors are constantly buffeted by short-term pressures, from volatile market conditions to global geopolitical upheavals. These forces can be powerful in the short term, but the survey shows that most investors are maintaining their commitment, driven by their long-term outlook and, in many cases, a realization that their fiduciary duty now encompasses taking account of the risks arising from climate change.

One of the key themes this year is the strong progress by investors in the Asia-Pacific region on climate investing. Investors in this region are now on par with Europe in making climate change a significant or central factor in their investment policies. This means that Asia-Pacific investors are embracing investing in climate solutions and in the climate transition – two areas we have increased our focus on in this year's survey. Investors in Asia-Pacific and elsewhere can see great opportunities in climate solutions, so many are poised to increase their allocations in this area. And the transition of investee companies from brown to green, as they decarbonize, cannot take place without investor support and involvement. European investors also see the potential in the climate transition and climate solutions, while the picture is more mixed in North America.

Finally, we would urge policymakers and governments to step up their work developing economic policies and standardized regulatory frameworks to support the climate transition, as investors are clearly flagging this up as an area where help is needed.

Lucian Peppelenbos
Climate & Biodiversity Strategist, Robeco

Conclusion

If anyone ever thought that moving the global economy from being carbon-based, as it has been since the Industrial Revolution, to a sustainable, low-carbon economy would be easy, they undoubtedly do not think so now.

This year's survey shows the majority of investors are taking steps to decarbonize their portfolios. Many recognize the increasing importance of biodiversity, the energy transition and climate solutions as crucial sources of future investment opportunities. Another key takeaway is that investors are clearly aware of the scale of the challenge and the necessity for action, as shown by their views on the future trajectory for global temperatures. Not only are many skeptical that the Paris Agreement target of limiting global warming to well below 2 °C above pre-industrial levels this century is still achievable, but few see an orderly climate transition as the most likely outcome in the next decade. This will have implications for areas such as climate scenario analysis, which may in turn feed into investment decision-making and investment strategies.

There are also fascinating regional differences among investors. Until now, investors in Europe were usually seen as leading sustainable investing, with large institutional investors responding to the views of their members, regulators and policy makers, as well as a recognition that their fiduciary duties involve taking account of climate change risks. However, we can see that investors in Asia-Pacific are catching up fast and in some ways are overtaking their peers in other regions. One possible explanation is that investors in Asia-Pacific are already seeing the impact of climate change in a variety of ways. This makes topics such as the climate transition particularly important, as investors want to work with transitioning companies to help mitigate the adverse effects of climate change, and also because they see the investment case for doing this.

We can see that many investors are becoming more skilled as climate investors. For example, expertise on calculating carbon footprints across different asset classes has risen. In addition, in the eyes of investors, the size of some of the investment portfolio decarbonization challenges has diminished. There are also positive signs on future plans to invest in climate solutions, with most investors intending to increase their allocations in one way or another. At the same time, investors also often need outside help, whether in the form of taxonomies, data and metrics to assess investments, or economic policies which support the energy transition.

Overall, the findings of the Robeco 2024 Global Climate Investing Survey provide a fascinating snapshot of where institutional and wholesale investors around the world stand on various issues under the umbrella of climate investing and decarbonizing investment portfolios. There is a clear determination to move forward, even if this is challenging and difficult at times, as investors adapt to the demands of climate investing.

ABOUT ROBECO

Robeco is a pure-play international asset manager founded in 1929 with headquarters in Rotterdam, the Netherlands, and 16 offices worldwide. A global leader in sustainable investing since 1995, its integration of sustainable as well as fundamental and quantitative research enables the company to offer institutional and private investors an extensive selection of active investment strategies, for a broad range of asset classes. On 31 December 2023, Robeco had EUR 181 billion in assets under management, of which EUR 176 billion is committed to ESG integration.

Important information

This information refers only to general information about Robeco Holding B.V. and/or its related, affiliated and subsidiary companies, ("Robeco"), Robeco's approach, strategies and capabilities. This document is solely intended for professional investors, defined as investors qualifying as professional clients, who have requested to be treated as professional clients or who are authorized to receive such information under any applicable laws. Unless otherwise stated, the data and information reported is sourced from Robeco, is, to the best knowledge of Robeco, accurate at the time of publication and comes without any warranties of any kind. Any opinion expressed is solely Robeco's opinion, it is not a factual statement, and is subject to change, and in no way constitutes investment advice. This document is intended only to provide an overview of Robeco's approach and strategies. It is not a substitute for a prospectus or any other legal document concerning any specific financial instrument. The data, information, and opinions contained herein do not constitute and, under no circumstances, may be construed as an offer or an invitation or a recommendation to make investments or divestments or a solicitation to buy, sell, or subscribe for financial instruments or as financial, legal, tax, or investment research advice or as an invitation or to make any other use of it. All rights relating to the information in this document are and will remain the property of Robeco. This material may not be copied or used with the public. No part of this document may be reproduced, or published in any form or by any means without Robeco's prior written permission.

Additional information for Canadian persons

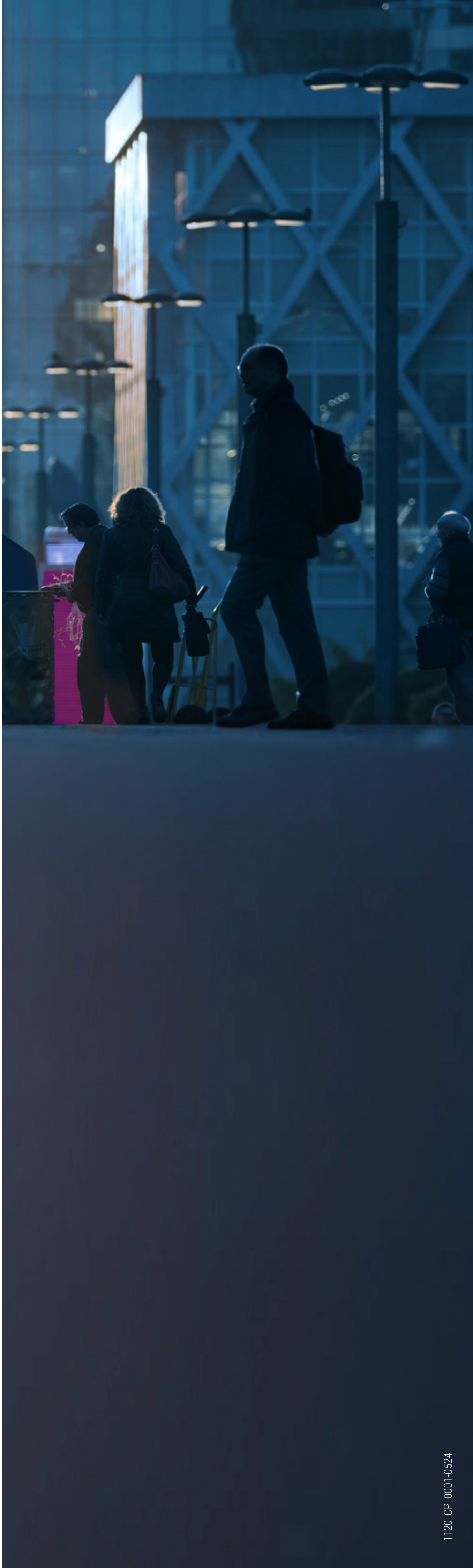
This information is distributed in Canada by Robeco Institutional Asset Management US Inc. ("RIAM US") and/or Robeco Institutional Asset Management B.V. (RIAM BV), both wholly owned subsidiaries of Robeco Holding B.V. ("Robeco"). Neither Robeco nor any of its subsidiaries maintains an office in any Canadian province or territory. However, RIAM US and RIAM BV operate in certain Canadian provinces pursuant to the International Dealer and/or International Adviser exemptions to registration. No securities commission or similar authority in Canada has reviewed nor in any way passed upon this document or the merits of contents. RIAM US and RIAM BV have appointed McCarthy Tétrault LLP as its agent for service in the provinces of Ontario and Quebec.

Additional information for US persons

This information is distributed in the US by Robeco Institutional Asset Management US Inc. ("RIAM US"), a wholly owned subsidiary of Robeco Holding B.V. RIAM US has its offices at 230 Park Avenue, New York, NY 10169 and is a registered investment adviser with the US Securities and Exchange Commission ("SEC"). Several of RIAM US staff are registered with the Financial Industry Regulatory Authority ("FINRA") through Foreside Fund Services ("Foreside"), a FINRA registered broker-dealer that is not affiliated with RIAM US or RIAM US's parent, Robeco Holding B.V. Such licensing and registrations should not be interpreted as an endorsement of RIAM US by the SEC or FINRA. Also, such registrations and licensing are in no way intended to imply a certain level of skill or expertise on the part of RIAM US by the SEC or FINRA.

While the information contained in this document was compiled from information believed to be reliable, it is general in nature it is intended primarily for an institutional investor audience. However, the information is not guaranteed nor warranted to be accurate.

ROBECO
The Investment Engineers



Please visit the Robeco website
for more information