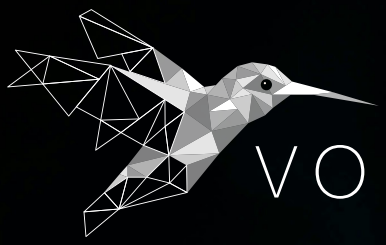

generation foundation

Time To Get Real

Current and future best practice for investor engagement on climate policy

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Foreword

This report lands at a moment when sustainable investment is under pressure from multiple directions. Political attacks on ESG have sent shockwaves through the industry, leading some firms to retreat and retrench – walking back commitments, leaving coalitions, cutting staff.

At the same time, a growing chorus of critics, including several (former) industry insiders, are questioning the effectiveness of the approaches to sustainable investing that have gone mainstream in recent years. These approaches include: portfolio-level target setting; ESG integration; increasing allocations to "sustainable" funds and assets; divestment; engagement with issuers to promote target setting, transition planning and transparency; engagement with regulators and policymakers to encourage the implementation of robust, consistent disclosure standards.

Are these approaches capable of delivering the outcomes they are designed to achieve? The uncomfortable answer to that question is no. Whether the focus is on mitigating system-level risks that affect returns, or on delivering a positive real-world impact, the truth is that the investment industry's current tools and tactics are woefully inadequate. Not useless – just no match for the scale, seriousness and systemic nature of the risks that now threaten the health and resilience of our economies and financial markets. **Up against the risks emanating from climate change, nature loss, a breakdown in social cohesion and a weakening of governance institutions, the investment industry has brought a set of knives to a gunfight.**

To put it bluntly, sustainable investment is facing a crisis of legitimacy. It needs a strategy reset – a plan for how to bounce back better and how to boost its effectiveness at delivering positive real-world and portfolio-level outcomes.

This report is intended as a contribution to that reset. **We focus on one very specific aspect of emerging practice that can and should be part of the industry's response to this moment: policy engagement – in particular, engagement on "real economy" policies (as distinct from financial regulation or disclosure standards)**. We are not claiming to have identified a silver bullet, just a pocket of innovation that merits greater attention – and much more substantial resourcing – than it has had to date.

While real economy policy engagement is still too nascent a practice for us to draw robust conclusions about how effective a tool it can be, the early signs are promising. The purpose of this report is to lay the foundations for a much-needed burst of experimentation and learning by doing – to make sure real economy policy engagement is both adequately resourced and effectively executed.

It's time for institutional investors to get real – in every possible sense.

About this report

This report synthesises findings from 18 months of research and engagement with industry stakeholders, including interviews with 70+ individuals, a series of six roundtables with investors based in Europe, Asia and North America, and an online survey of investors that received 77 analysable responses. We engaged with both asset owners and asset managers, with a primary focus on institutions headquartered in Europe (various countries), North America (US and Canada) and Asia-Pacific (Japan, Singapore and Australia). Collectively, the institutional investors engaged through this research represent approximately USD 33 trillion in assets under management (AUM).

The purpose of the research was to understand how institutional investors engage on climate policy today and to investigate what future "best practice" approaches to climate policy engagement might look like for different types of institutions. Our key research questions were as follows:

- What motivates investors' engagement on climate policy? Or, conversely, what reasons do investors have for not engaging?
- Which aspects of climate policy do investors engage on – and why?
- How do they carry out this engagement (i.e., what tactics, messaging and channels of influence do they use)?

Unsurprisingly, the answers to these questions vary a lot across different institutions, depending on their mandate, size, strategy and culture. We also sought to test the extent to which current approaches were considered optimal by industry stakeholders, to inform a robust, normative point of view on how current practice needs to evolve.

The report is in three sections:

1. Current context: What investor engagement on climate policy looks like today
2. Guidance for investors: How to build a robust climate policy engagement practice
3. Building the field: Key priorities for action to advance investor climate policy engagement

Sections 1 and 3 are relevant for anyone with an interest in the investment industry's current and potential role in influencing climate policy.

Section 2 is primarily for institutional investors. It will be of most use for those individuals who have the task of thinking through what their institution's approach to climate policy engagement should be and how to implement that approach effectively. The guidance is structured as a comprehensive end-to-end description of best practice – from establishing a solid rationale for resourcing climate policy work (the why) through to pointers for effective execution of a climate policy engagement strategy (the how). Readers will intuit which aspects of this guidance are most relevant for them given their firm's current level of maturity on this topic.

ABOUT VOLANS

Founded in 2008, Volans is a think tank and advisory firm that explores the emerging frontiers of the sustainable business and finance agendas, supporting pioneers to develop and implement new strategies for managing tomorrow's risks and opportunities. Volans works with clients and partners across a range of sectors – from finance to consumer goods – and has expertise across multiple aspects of emerging practice – from regenerative business models to corporate and investor policy engagement. The thread that connects all this work is a focus on the private sector's role in catalysing and contributing to effective systemic responses to the systemic challenges of our time.

Volans is a certified B Corporation (it was the first UK company to become a B Corp). For more on our work and previous research, visit www.volans.com.

Defining terms

CLIMATE POLICY

Climate policy refers to a broad swathe of different policy domains – ranging from disclosure regimes to green industrial policy. It operates at multiple jurisdictional levels – from global to sub-national. It covers both target setting and implementation plans. It touches every sector of the economy. And it includes a very broad range of potential policy instruments – from sustainable finance taxonomies to subsidies for the development and deployment of clean technologies, from due diligence requirements to carbon pricing. Increasingly, too, it refers not only to policies designed to reduce greenhouse gas (GHG) emissions but also to those designed to promote resilience and adaptation. Figure 1 is a simple illustration of the main categories of climate policy.

A key message of this report is that investors need to be strategic about which aspects of climate policy they engage on – and that the areas where engagement has been strongest in the past may not be the areas that warrant the most attention in the future.

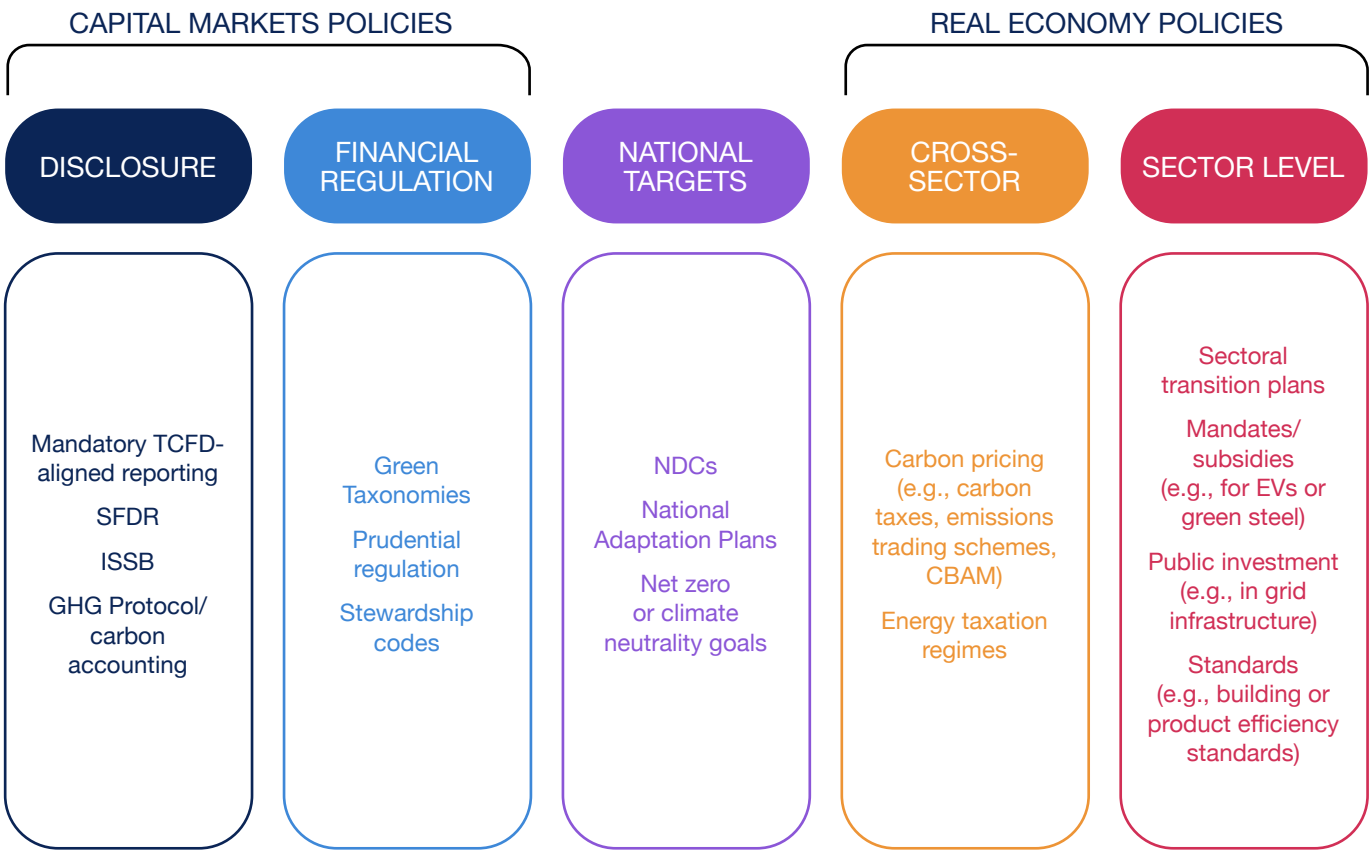


Figure 1: Climate policy spectrum (source: Volans)

REAL ECONOMY CLIMATE POLICY

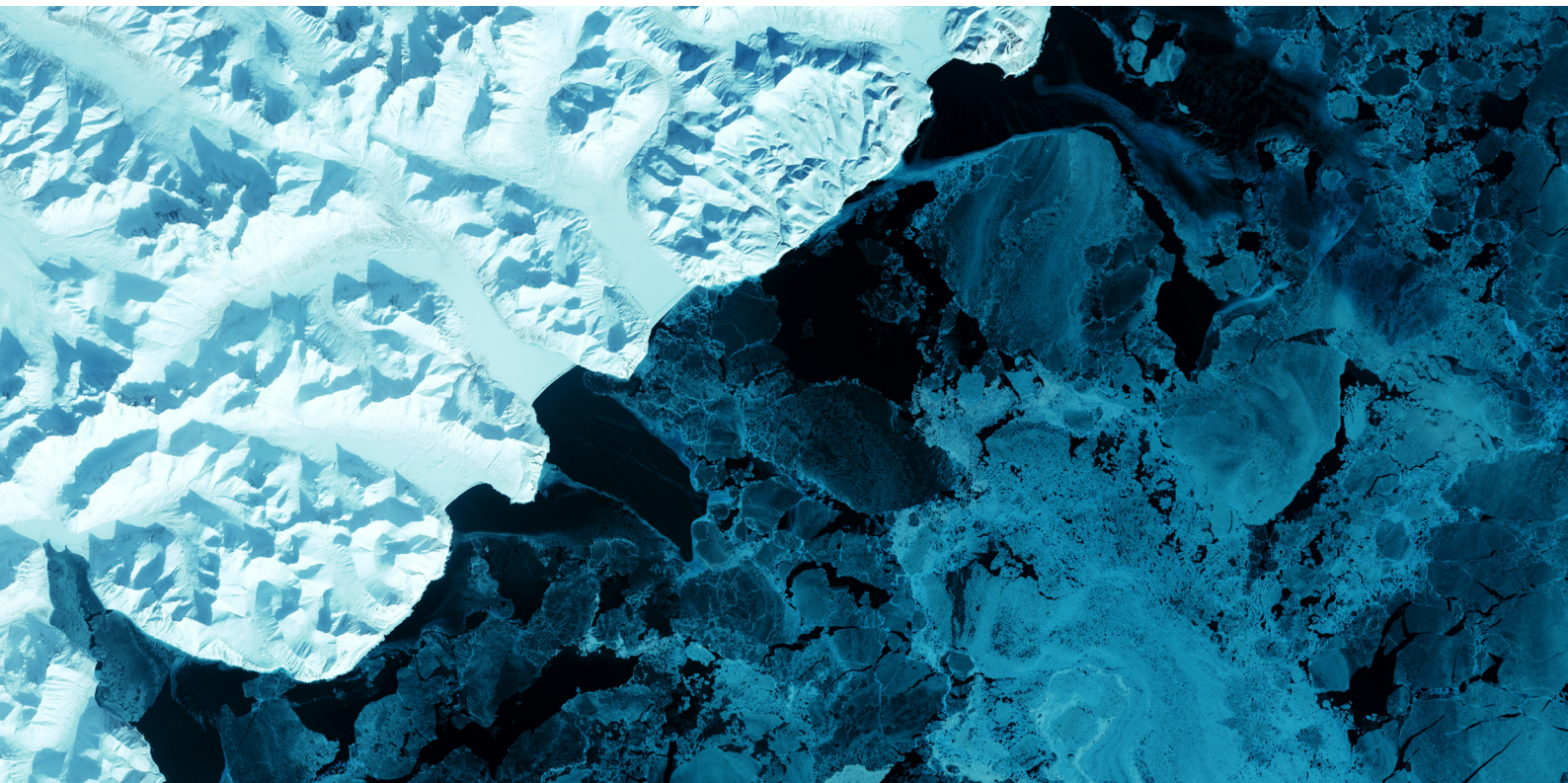
The term real economy refers to sectors that produce material goods and services (e.g., energy, transportation, steel, cement, food & agriculture, built environment, etc.). These sectors produce the vast majority of global GHG emissions and are directly affected by the consequences of climate change (e.g., disruptions to business operations and/or supply chains; adverse impacts on labour productivity and/or consumer demand, etc.). The financial sector invests in and finances activities in the real economy, but it is not generally considered to be part of the real economy.

Real economy climate policy therefore refers to policies that are designed to reduce the GHG emissions or enhance the climate resilience of firms in the real economy directly and/or to create a wider enabling environment in which economic incentives make climate action commercially viable. This can be done via a range of policy instruments – from tax incentives to mandates, from public investment in infrastructure to product or building efficiency standards. For investors, the key distinction is between real economy climate policy and sustainable finance policy. The latter is generally much more familiar territory for investors than the former.

POLICY ENGAGEMENT

Policy engagement refers to any activity whose purpose is to inform and/or influence policy outcomes. This includes both formal engagement with the policymaking process (e.g., responding to government consultations or meeting with policymakers) and wider influencing activities (e.g., media and social media messaging, hosting and participating in public events, commissioning research, etc.). It can be highly specific (e.g., trying to influence the content of a particular legislative proposal) or more general (e.g., emphasising the importance of policy stability and/or the principle that robust action to mitigate systemic risk is needed). Other terms used to refer to some or all of these activities include lobbying and advocacy. For consistency, we use policy engagement in this report as a catch-all term for influencing activities.

Policy engagement is sometimes conducted directly by individual institutions, but the bulk of engagement is typically indirect and collaborative – i.e., done via industry associations, alliances and/or ad-hoc coalitions that aggregate the views of multiple institutions.



HOW THIS RELATES TO FIDUCIARY DUTY AND SYSTEMIC STEWARDSHIP

Institutional investors, especially so-called "universal owners"[1], are exposed to a range of system-level risks that cannot be mitigated simply by diversifying the investments in a portfolio. The cascading impacts of climate change clearly fall into this category of risk, given that every sector, asset class and country is exposed to the economic and financial consequences of increasing climate instability in some form or other.[2]

Both asset owners and investment managers have a duty to understand the risk climate change poses to their portfolios and to take this risk into account in their investment processes.[3] Failure to do so would be a (potential) breach of their fiduciary obligations.[4] The law does not prescribe how investors should go about managing and mitigating such system-level risks though, so investment fiduciaries have a duty to investigate and answer this question for themselves. By definition, diversification on its own is inadequate to the task. It is increasingly clear that company-level engagement ("micro" stewardship) is also insufficient.[5]

In short, system-level risks require a system-level response. This is where the concept of system-level investing comes in.[6] One key component of system-level investing is systemic stewardship.[7] Fundamentally, systemic stewardship is about investors using their influence with a wide range of stakeholders – businesses, other investors, industry associations, policymakers, regulators, standard-setting organisations, etc. – to seek 'changes that affect many actors simultaneously, for example by changing the rules, incentives and norms that guide their behaviour.'[8] Policy engagement is one tool in the systemic stewardship toolbox. This report sets out how that tool is being used – and how it could be used better to protect long-term investment returns from systemic climate risk.

1 — Universal owners are institutions with large, diversified portfolios who effectively own the entire market. As a result of this exposure to the whole economy, "externalities" created by one entity in a universal owner's portfolio are likely to show up as costs elsewhere in the portfolio. https://www.unepfi.org/industries/investment/universal-ownership-why-environmental-externalities-matter-to-institutional-investors-2/

2 — https://actuaries.org.uk/media/ni4erlna/planetary-solvency.pdf; https://carbontracker.org/reports/recalibrating-climate-risk/

3 — https://public.unpri.org/download?ac=13902; https://www.unepfi.org/wordpress/wp-content/uploads/2025/11/NZAOA_Addressing-Climate-Impacts.pdf

4 — The most comprehensive multi-jurisdictional analysis to date of the relationship between fiduciary duties and sustainability, which was conducted by law firm Freshfields Bruckhaus Deringer, concludes that 'there is no doubt that Asset Owners and investment managers have a duty to understand sustainability risks relevant to their ability to achieve the financial goals they are required to pursue and to take these into account as appropriate in their investment process. We consider that this would be accepted as the position in all the jurisdictions surveyed.' https://public.unpri.org/download?ac=13902 What remains less clear from a legal perspective is what exactly 'take into account as appropriate' means in any given context. On this point, interpretation will inevitably vary between jurisdictions and clarity within jurisdictions will emerge only as arguments are tested in court. For example, in late 2025, a group of beneficiaries filed a lawsuit against the Canada Pension Plan Investment Board (CPPIB), claiming that CPPIB had breached its fiduciary duties by failing to adequately assess and address climate-related risks. At the time of writing, the outcome of this legal battle is yet to be determined: https://ccli.ubc.ca/canada-pension-plan-investment-board-sued-by-beneficiaries-a-real-world-test-of-the-fiduciary-duties-ccli-has-long-articulated/

5 — Several academic studies have investigated the effectiveness of climate-related stewardship activities and collaborative initiatives (e.g., Climate Action 100+). The general conclusion of this research seems to be that engagement can deliver positive "process" outcomes, such as enhanced disclosure or corporate target setting, but there is little evidence that it has, to date, been successful at lowering actual GHG emissions. Of course, this finding may change over time but given the urgency of cutting emissions to avoid worst-case climate scenarios and the limited efficacy of company-level engagement in this regard to date, it seems imprudent to assume that micro stewardship is up to the task. This is the view that Investors for Paris Compliance, a Canadian NGO, came to after five years of seeking to use the tools of active ownership to drive decarbonisation of the Canadian economy. In May 2026, it announced that it was sunsetting its activities, having come to the conclusion that 'investor accountability, in the absence of regulatory change or legal consequences, is not sufficient to deliver net zero outcomes or manage climate risk at the system level.' https://www.investorsforparis.com/wp-content/uploads/2026/05/Sunsetting-Investors-for-Paris-Compliance.pdf

6 — https://www.unpri.org/deep-dive?id=addressing-system-level-risks-and-opportunities; Lukomnik, J., and Burckart, W. (eds), *The Handbook of System-Level Investing* (2026).

7 — https://www.unepfi.org/industries/the-future-of-investor-engagement-a-call-for-systematic-stewardship-to-address-systemic-climate-risk/; https://www.iigcc.org/insights/systems-stewardship-how-investors-are-responding-to-systemic-risk; https://uksif.org/wp-content/uploads/2025/05/Systemic-risks-a-framework-for-portfolio-resilience.pdf. The relative novelty of systemic stewardship means the language used to describe it is yet to be fully standardised. Other terms used by practitioners include: beta stewardship, macro stewardship, systematic stewardship and systems stewardship.

8 — https://insights.lcp.com/rs/032-PAO-331/images/LCP_Systemic%20stewardship%20best%20practice%20principles_03_2025.pdf

Executive Summary

CURRENT CONTEXT: INVESTOR CLIMATE POLICY ENGAGEMENT TODAY

Who engages – and why (not)?

- **The practice of engaging on climate policy is relatively new for the global investment industry.** The number of institutional investors that engage to some extent is growing but, in most cases, climate policy engagement remains a poorly resourced add-on, rather than a core strategic function.
- **The main reasons why investors choose to engage on climate policy are:**
  - They consider engagement on climate policy to be part of how they fulfil their fiduciary duty to protect returns over the long term
  - The systemic nature of physical climate risks requires a systemic response
  - Climate targets and transition plans require an enabling policy environment
  - Credible, predictable climate policies can unlock investment opportunities and value
- **Diversified, long-term asset owners are the institutions most likely to prioritise systemic stewardship due to their long time horizon and exposure to systemic risks.** However, their capacity to undertake meaningful policy work themselves is often constrained by lack of resources, insufficient expertise, concerns about legitimacy and a perceived lack of agency.
- **There is limited evidence to date of asset owners incorporating expectations around climate policy engagement into their processes for selecting investment managers and/or assessing their performance.** As a result, climate policy engagement is largely a discretionary activity for the asset management industry.
- **Political and cultural dynamics are a major factor in determining the extent to which institutional investors engage on climate policy.** Investor engagement on climate policy is more advanced in jurisdictions where the (perceived) political costs of engaging are low and/or the (perceived) political benefits are high. How different jurisdictions interpret and apply fiduciary duties also matters, as this has a significant bearing on whether investors will perceive engagement on climate policy to be a legitimate activity.
- **The premise that investors have a role to play in shaping real economy climate policies is a profound challenge to the industry's dominant culture and norms.** The view that climate change, and the policy response to it, are exogenous factors over which investors have no meaningful influence is increasingly being challenged. But much of the industry remains entrenched in a paradigm that assumes investors have no agency to mitigate systemic risks.

What do investors engage on?

- **Investor engagement on climate policy is mostly limited to support for climate-related disclosure regimes and relevant aspects of financial regulation.** For many institutional investors, these are the only aspects of climate policy they engage on – and even amongst those that also engage on real economy policies, the majority of their time, effort and budget is typically spent on disclosure and financial regulation.
- **However, there is an emerging consensus among pioneer institutions that real economy policy represents the next frontier and that a rebalancing of effort and resources is necessary.** In polling conducted during roundtables with investors based in Europe, Asia and North America, participants reported that they would optimally double the proportion of their engagement resource that goes towards sector-level policies (from 14% to 27%). Likewise for cross-sector policy instruments such as carbon pricing (from 10% to 22%). Conversely, they would more than halve the proportion of their engagement resource that goes towards disclosure standards (from 38% to 16%).
- **The sectors most frequently cited as priorities for policy engagement are power/energy, transportation, land use (deforestation), built environment and heavy industry (primarily steel).** The logic behind this is that these are the highest-emitting sectors, collectively responsible for the vast majority of global GHG emissions.
- **Investors engage at a range of different jurisdictional levels – from global, multilateral institutions to national and sub-national government entities.** For those that engage at national level, this tends to focus on their home market, though may also involve engagement with government entities in countries where they both/either have significant financial exposure and/or see progress as critical for delivery on institutional climate objectives.

How do investors engage?

- **Responsibility for climate policy engagement typically sits with the Responsible Investment function.** Investment and government affairs teams will often contribute to the delivery of engagement activities. In a relatively small number of cases, institutions have established dedicated systemic stewardship or climate/sustainability policy functions.
- **The majority of investor engagement on climate policy is conducted via collaborative initiatives.** Participation in the policy working groups of relevant associations or coalitions is one of the most common ways in which investors engage on climate policy. 79% of institutions that engage on climate policy report that this is one of the ways they do so.
- **Investors typically engage on climate policy via initiatives that have an explicit climate- or sustainability-related mandate.** Some engagement also happens via ad hoc, informal coalitions. Much less emphasis has so far been placed on the role of more mainstream finance industry and/or cross-sector associations.
- **The level of granularity depends on the issue.** 82% of institutions that engage on climate policy report that this includes responding to government consultations, which implies they are providing detailed input on specific policies. On real economy issues though, investors are more likely to keep their input relatively high level due to insufficient expertise.

GUIDANCE FOR INVESTORS: BUILDING A CLIMATE POLICY ENGAGEMENT PRACTICE

Creating a compelling rationale

- **At a macro level, the case for real economy climate policy engagement rests on the convergence of four key realisations that are currently rippling through the investment industry:**
  - Assessments of the scale and "non-diversifiability" of climate risk are trending in a direction that means many universal owners' exposure and vulnerability is worse than they previously thought.
  - Government policies are a determining factor for the pace and smoothness of the transition to net zero – and a rational, science-based policy response to climate change is not a given.
  - Investor strategies for addressing climate-related risks and opportunities through asset allocation and company-level engagement are falling short.
  - What gets measured doesn't necessarily get managed: better disclosure may be useful, but it is not the panacea that it has sometimes been presented as.
- **For individual institutions, there are two key aspects to making a robust case for engaging on climate policy:**
  - Anchoring it in the firm's investment beliefs, mandate, and how it interprets its fiduciary duties.
  - Integrating it into the firm's wider strategy for managing climate-related risks and opportunities via capital allocation and company-level engagement.

Prioritising where – and on what – to engage

- **No institutional investor can or should engage on everything.** It is important to be strategically selective in identifying which issues, sectors and geographies to focus on.
- **The starting point for prioritisation is to identify which sectors and geographies to focus on.** There are two relevant criteria for assessing this:
  - Materiality: how important is policy action in this sector/geography for achieving the firm's financial and climate-related objectives?
  - Agency: how much capacity does the firm have to influence the direction of policy in this sector/geography?
- **For most institutions, the data and knowledge required to make informed judgements about materiality and agency will already exist within the organisation.** The only significant data inputs required are a) financial exposure and b) portfolio GHG emissions, segmented by sector and geography. This information should then be combined with qualitative insights about the policy dependencies of companies' transition strategies and the political dynamics in key markets.

Executing effectively

- **Internally, the first step is to determine who should be responsible for managing and directing an institution's climate policy engagement.** The norm today is for this to sit with the Responsible Investment or Active Ownership function, though going forward more firms may choose to establish a dedicated systemic stewardship team or a specific climate policy function.
- **Dedicating appropriate internal resource and ensuring those responsible for climate policy engagement have the right capabilities is a pre-requisite for effective delivery.** This will often be about the ability to coordinate existing expertise and delivery capacity that may be spread across different parts of the firm (investment teams, stewardship, government affairs, etc.).

- **Externally, effective engagement is about driving consistency of messaging across all direct and indirect channels that make up an institution's "policy footprint".** This includes not just direct engagement with policymakers, but also the indirect engagement that happens via industry associations, as well as (for asset owners) the activities of their external asset managers, and (for both asset owners and asset managers) the activities of their portfolio companies.
- **Given the constraint of limited internal resources, collaborative engagement via formal and informal associations and alliances is a must for effective engagement.** The question of which coalitions and partners to work with needs to be assessed on a case-by-case basis.
- **Effective policy engagement involves a mix of tactics, tailored to the specific context in which engagement is taking place.** This context is defined by three factors:
    - Issue maturity: how advanced is relevant policymakers' thinking on this topic?
    - Political dynamics: what types of influencing activities are most likely to trigger a constructive response from relevant policymakers?
    - Institutional constraints: what level of expertise do you have? What types of advocacy – and what granularity of policy ask – can you legitimately pursue?
- Based on this context, investors can make informed choices about how granular to get in terms of policy detail, the duration of the engagement (one-off vs multi-year), and the appropriate balance between public messaging and behind-closed-doors dialogue.

BUILDING THE FIELD: THREE PRIORITIES FOR ACTION

1. **Mobilising asset owners:** how asset owners think about the role of climate policy engagement in achieving their investment objectives sets the tone for the whole industry. Greater clarity and alignment within and between asset owners on the need for robust climate policy action, what that means in terms of specific desirable policy outcomes, and the legitimacy of pursuing those outcomes via all the channels available to them is a key unlock.
2. **Building the talent pipeline:** the specific skillset needed for effective delivery of climate policy engagement is one that is rare within investment institutions. If institutional investors are to step up on climate policy, there will need to be a concerted effort to recruit more people with policy and advocacy experience into the industry, and to upskill individuals already working in the industry.
3. **Strengthening the capacity of investor coalitions to do real economy climate policy work:** given that collaborative engagement is key, there is a strong case for increasing the amount of resource dedicated to real economy climate policy engagement within investor coalitions. Strengthened capacity within initiatives should also then be used to improve coordination and collaboration between initiatives – and with other non-investor-centric organisations working on real economy climate policy issues.

Current context

What investor engagement on climate policy looks like today

Current state of investor climate policy engagement

SUMMARY

The practice of engaging on climate policy is still relatively new for the global investment industry. While the number of institutional investors that engage to some extent is growing, in most cases, climate policy engagement remains a poorly resourced add-on, rather than a core strategic function.[9] Responsibility for driving it often sits with Stewardship or Responsible Investment teams, for whom it is a second-order priority. There are exceptions: a small number of asset owners and asset managers have already embedded climate policy engagement as a strategic priority (see examples on pp. 17-20). Even among these pioneers though, climate policy engagement is a nascent, immature, still evolving, minimally codified practice.

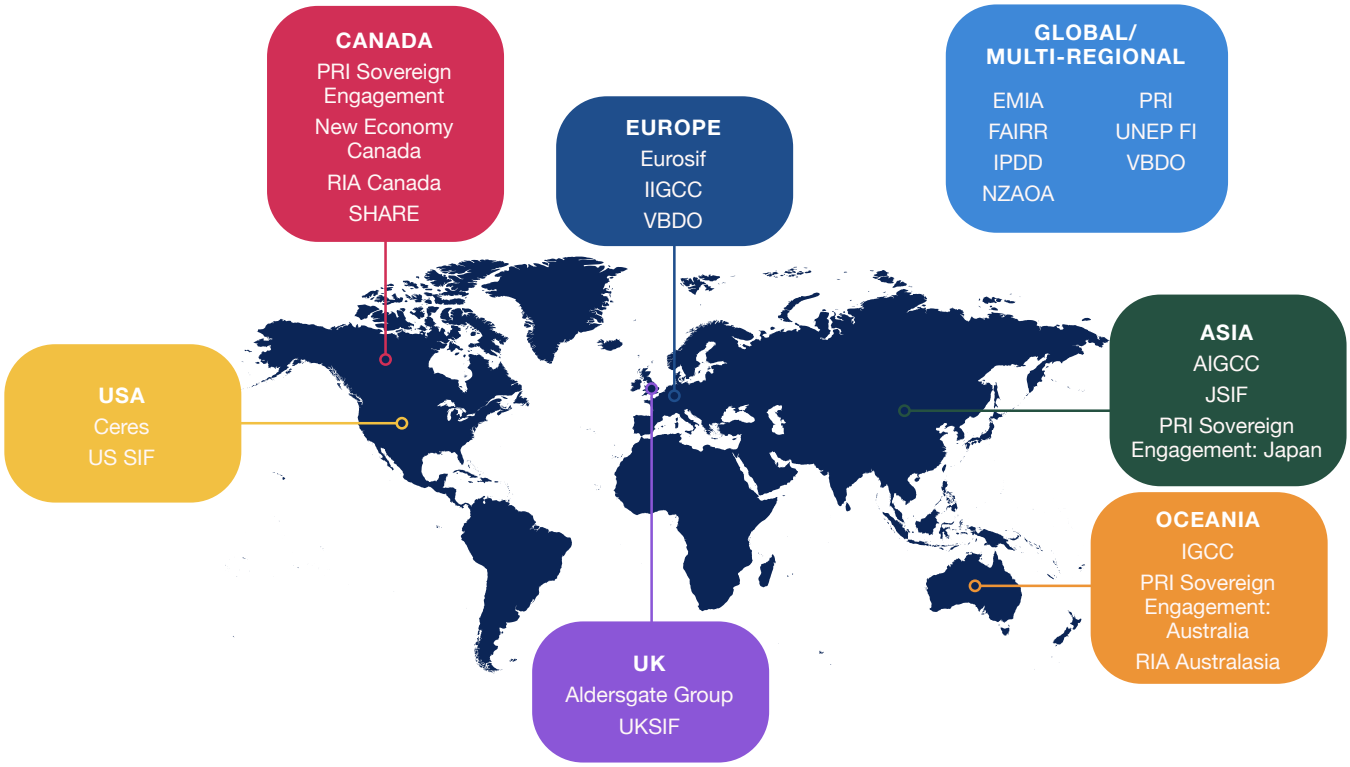
The majority of investor engagement on climate policy is conducted via collaborative initiatives. This makes sense as a way of pooling resources and enhancing legitimacy. The initiatives most frequently cited as conduits for investor engagement on climate policy are those with an explicit climate- or sustainable finance-related mandate, such as the ones listed in Figure 2. More mainstream finance industry or cross-sector associations are also potential conduits for investor engagement on climate policy. To date, however, there has been relatively little effort on the part of climate-concerned investors to mobilise these organisations to represent their interests on climate-relevant policy issues. As a result, mainstream associations are often either minimally engaged on climate policy and/or promote positions that are misaligned with the goal of limiting global warming to well below 2°C above pre-industrial levels.

Investor engagement on climate policy is mostly limited to support for climate-related disclosure regimes and aspects of financial regulation that directly affect investors. These areas of policy currently consume most of the time and resource that investors put into engagement on climate policy, though a nascent shift towards greater engagement on real economy policy issues is discernible among pioneers. One indicator that this shift is still in its early stages is the mismatch between how investors currently allocate resources across different areas of climate policy and what those leading this work think an optimal allocation of resources would be (see Figure 3).

The very premise that investors have a role to play in shaping real economy climate policies is a profound challenge to the industry's dominant culture and norms. The belief that investors' role is to maximise alpha (performance relative to a market benchmark) and take beta (performance that is driven by systematic factors) for granted is deeply rooted in Modern Portfolio Theory (MPT). The prevailing assumption is that both climate change itself, and the policy response to it, are exogenous factors over which investors have no meaningful influence. This paradigm is increasingly being challenged by a belated recognition that, with the systemic risks we now face, beta cannot in fact be taken for granted. But MPT and the various models and frameworks that go with it (e.g., the Capital Asset Pricing Model) continue to powerfully shape the investment industry's view of the world and the role it plays.[10]

9 — On growing uptake of climate policy engagement by institutional investors, see, for example, AIGCC's State of Investor Climate Transition in Asia 2026 report (https://aigcc.net/wp-content/uploads/2026/04/AIGCC-Climate-Transition-Report_May2026.pdf). The report looks at 240 significant investors across Asia (average AUM of US$110 billion) and finds that the proportion of these that engage to some degree on climate-related policy and regulation rose from 25% in 2024 to 33% in 2025 (and from 67% to 80% amongst AIGCC members). See figure 38 in the Data Companion to the report: https://aigcc.net/wp-content/uploads/2026/05/The-State-of-Investor-Climate-Transition_Data-Companion_7th-edition.pdf

10 — For more on this, see Lukomnik, J., and Hawley, J., *Moving Beyond Modern Portfolio Theory: Investing That Matters* (2021).



AIGCC: Asia Investor Group on Climate Change
EMIA: Emerging Markets Investors Alliance
IIGCC: Institutional Investors Group on Climate Change
IPDD: Investor Policy Dialogue on Deforestation
JSIF: Japan Sustainable Investment Forum
NZAOA: Net Zero Asset Owner Alliance
PRI: Principles for Responsible Investment
RIA: Responsible Investment Association
UKSIF: UK Sustainable Investment and Finance Association
UNEP FI: United Nations Environment Programme Finance Initiative
US SIF: US Sustainable Investment Forum
VBDO: Dutch Association of Investors for Sustainable Development

Figure 2: Key initiatives that coordinate/facilitate investor engagement on climate policy [NB. This map only includes initiatives that have climate policy engagement as an explicit primary focus of their work and that either have investors as members or actively work with investors on policy engagement] (source: Volans)

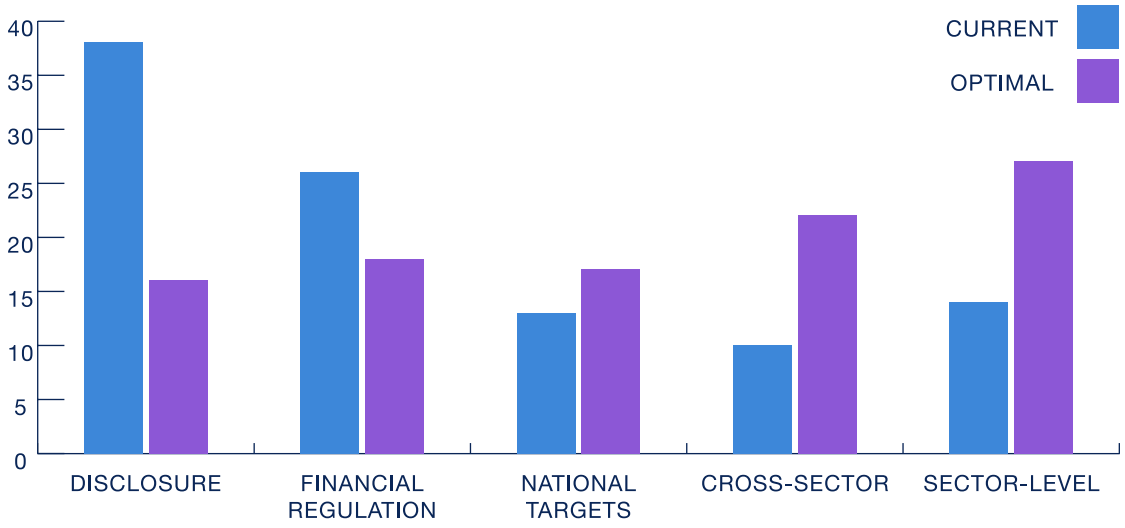


Figure 3: Current vs optimal allocation of resources across different aspects of climate policy – aggregated poll results gathered during roundtables held between Q4 2025 and Q2 2026[11] (source: Volans)

11 — These results were gathered during 5 separate virtual roundtables for investors based in Europe, Asia, Canada and the US. A total of 62 individual participants responded to this poll across the 5 sessions. The exact questions asked were as follows: *1) How are your resources for policy engagement currently allocated across the following themes? 2) What do you think an optimal allocation of resources across the 5 areas would look like?* In each case, investors were given the same 5 categories and asked to assign % to each.

PIONEER SPOTLIGHT: ROBECO

HQ: Rotterdam, Netherlands

AUM: EUR €337bn[1]

Approach to climate policy engagement (CPE): Robeco's approach to policy engagement is grounded in its climate and nature transition plan and active ownership strategy.

Robeco's engagement is done primarily via joint investor dialogues, participation in initiatives led by coalitions and membership groups, responding to government consultations and signing public letters. Robeco has played a proactive role in developing sovereign engagement programmes and is a member of the Global Sovereign Engagement Advisory Committee of the PRI Collaborative Sovereign Engagement on Climate Change. Robeco is engaging with Australian and Canadian government entities through the PRI's initiative, and with the Brazilian and Indonesian governments through the Investor Policy Dialogue on Deforestation (IPDD).

Responsibility/resourcing: responsibility for CPE is held by the Active Ownership team, with input from sustainable investment specialists and relevant investment teams.

Scope of climate policy agenda: Robeco engages on disclosure rules and standards, sustainable finance regulation, national climate targets/plans, sector-level transition policies, carbon pricing policies, policies relating to fossil fuel and other environmentally harmful subsidies, deforestation and policies relating to climate resilience and adaptation.

Key documents/links:

- Robeco's climate and nature transition plan, 2025-2030[2]
- Stewardship approach and guidelines[3]
- Relevant codes and memberships[4]

"As a long-term investor, Robeco engages on climate policy because sustainable investment outcomes depend on a well-functioning real economy. Climate change poses material financial risks, and effective policy frameworks are essential to manage those risks, support an orderly transition, and protect longterm value for our clients. Through policy engagement, we aim to support creating the conditions in which companies and investors can contribute to durable economic growth. As a sovereign bondholder, we also engage directly with governments to address material physical and transition risks that climate change poses to sovereign credit quality, fiscal outcomes and long-term investor returns."

Peter van der Werf, Head of Active Ownership

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1 — AUM accurate as of 10 April 2026 at https://www.robeco.com/en-uk/about-us
2 — https://www.robeco.com/files/docm/docu-robeco-roadmap-to-net-zero.pdf
3 — https://www.robeco.com/files/docm/docu-stewardship-approach-and-guidelines.pdf
4 — https://www.robeco.com/files/docm/docu-relevant-codes-and-memberships.pdf

PIONEER SPOTLIGHT: UNIVERSITY PENSION PLAN (UPP)

HQ: Toronto, Canada

AUM: CAD $12.8bn[1]

Approach to climate policy engagement (CPE): UPP's approach to climate policy is grounded in the fund's investment beliefs, which explicitly references policy advocacy on material issues as a tool for creating value and managing risk, alongside active ownership and collaboration with other investors and stakeholders.

UPP engages directly in the policy process via consultation responses, meetings with policymakers, public statements and submissions. It also participates in the policy work of multiple climate-focused coalitions and initiatives (e.g., PRI, SHARE, New Economy Canada). It also oversees the policy alignment of its external investment managers.

Responsibility/resourcing: responsibility for CPE is held by an integrated Stewardship and Government Relations team.

Scope of climate policy agenda: UPP's climate policy engagement is primarily focused on Canadian federal policy. Priority issues include climate disclosure standards (e.g., those published by the Canadian Sustainability Standards Board), sustainable finance regulation and a range of real economy policies, including those related to emissions caps, carbon pricing, methane regulation and electrification.

Key documents/links:

- Investment Beliefs[2]
- Climate Stewardship Plan[3]

1 — AUM accurate as of 10 April 2026 at https://myupp.ca/about-us/
2 — https://myupp.ca/investments/how-we-invest/investment-beliefs/
3 — https://myupp.ca/investments/responsible-investing/climate-stewardship-plan/

PIONEER SPOTLIGHT: CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM (CALSTRS)

HQ: West Sacramento, California, US

AUM: USD $401.6bn[1]

Approach to climate policy engagement (CPE): CalSTRS' approach to policy engagement is anchored in its Sustainable Investment and Stewardship Strategies, whose aim is to 'promote long-term sustainable business practices and public policies'.[2] CalSTRS' Stewardship Priorities clarify their priority engagement areas.

Engagement is done directly via writing letters to policymakers/government bodies and attending public events, and indirectly through membership of industry associations (e.g., the Council of Institutional Investors) and responding to consultations.

Responsibility/resourcing: responsibility for CPE is held by the Sustainable Investment and Stewardship Strategies unit.

Scope of climate policy agenda: CalSTRS engages on policy issues at state, national and international levels. Climate-related disclosure standards have been a key focus to date. For example, during 2025, CalSTRS responded to the California Air Resources Board (CARB) rulemaking on corporate disclosures of Scope 3 emissions[3] and supported ISSB through responses to 12 country solicitations.[4] CalSTRS also advocated against the US Environment Protection Agency's proposed rescission of the 2009 Endangerment Finding (which underpins the agency's ability to regulate GHG emissions in the real economy) and associated vehicle emissions standards.[5]

Key documents/links:

- Stewardship Priorities[6]
- Legislative & regulatory letters[7]

1 — AUM accurate as of 10 April 2026 at https://www.calstrs.com/investments
2 — https://www.calstrs.com/stewardship
3 — https://www.calstrs.com/files/c843e5df9/CARBCommentLetterSB253And261Implementation.pdf
4 — E.g., https://www.calstrs.com/files/e8c481336/RwandaConsultationResponse.pdf
5 — https://www.calstrs.com/files/2dbb655de/EPACommentLetter.pdf
6 — https://www.calstrs.com/files/05d1ddd70/StewardshipPriorities-February2024.pdf
7 — https://www.calstrs.com/legislative-regulatory-letters

PIONEER SPOTLIGHT: AVIVA

HQ: London, UK

AUM: GBP £454bn[1]

Approach to climate policy engagement (CPE): Aviva's approach to policy advocacy is grounded in its belief that climate change is a systemic risk but that the solutions to address climate change also represent an important economic growth, job creation, and investment opportunity under the right market conditions.

Engagement is done via the development of thought leadership public policy reports grounded in evidence and investment and insurance experience, meeting with/writing to policymakers and regulators, submitting consultation responses and participating in roundtables and policy-focused events. It is also informed by investee engagement and driven indirectly through specialist associations (e.g., IIGCC, Aldersgate Group), industry bodies and partnerships with civil society organisations.

Responsibility/resourcing: responsibility for CPE (which includes both policy development and policymaker engagement) is held by the Group Public Affairs team, supported by relevant business units across Aviva and its asset management arm (Aviva Investors), such as specialist investment teams, stewardship teams and the Group Sustainability Team.

Scope of climate policy agenda: Aviva has developed policy asks at both the international and national levels. In its COP30 Paper published in November 2025, Aviva called on governments to ramp up – and join up – national policies to increase private investment in low-carbon technologies and supply chains, climate adaptation and resilience, and nature restoration.

Specifically, it called on policymakers to (1) accelerate the submission and strengthen the ambition of Nationally Determined Contributions under the Paris Agreement, (2) underpin these with credible policy delivery plans at the national level, (3) develop "whole of economy" National Adaptation Plans that scale adaptation finance and (4) recognise the role of nature as critical infrastructure for the economy.

In addition to its longstanding work to improve the decision usefulness of sustainability reporting and disclosure frameworks, Aviva has been very active in developing national-level and sector-specific policy reports, outlining detailed solutions to improve market conditions for private investment across a wide range of low-carbon technologies, supply chains and nature restoration projects.

This recently included the publication of two *UK Low-Carbon Investment Policy Roadmap* reports in July 2024 and December 2025, which outlined key solutions to overcome low-carbon investment barriers in sectors such as power, buildings, transport and energy intensive industries. It also included the publication of *Investing in Nature* (October 2025), in which Aviva outlined key solutions to improve investment conditions in nature restoration projects in the UK, many of which are applicable globally.

Aviva Investors also engages directly with policymakers globally as the counterparties to sovereign bond investments, gathering insight and sharing perspectives on risks, opportunities and actions that can unlock value. In 2024, Aviva Investors launched a multi-year programme to support the development of national climate plans that could catalyse private investment, drawing on its holistic stewardship approach. This included tailored letters to finance ministers in over 50 countries and engagement with policymakers from more than 15 markets, including Japan, Mexico and Brazil.

Given its role as a major insurer, Aviva is also active in the field of national climate adaptation policy, being a member of the UK's Adaptation Taskforce run by Green Alliance and a founding member of the recently created FloodAction Coalition. In October 2025, Aviva published its latest *Building Future Communities* report, outlining likely increases in flood and subsidence-related risks for homes in England, and setting out corresponding policy solutions to address and mitigate those risks.

Key documents/links:

- Aviva's Climate Transition Plan, updated in 2025[2]
- Aviva Investors, UK Low-Carbon Investment Policy Roadmap, July 2024[3]
- Aviva, Building Future Communities, October 2025[4]
- Aviva, Investing in Nature, October 2025[5]
- Aviva, UNFCCC COP30 Policy Priorities, November 2025[6]
- Aviva Investors, UK Low-Carbon Investment Policy Roadmap, December 2025[7]
- Aviva Investors, Sovereign Engagement: Driving Positive Change while Delivering Long-term Value[8]
- Aviva's Climate-related Financial Disclosures 2025, March 2026[9]

1 — The total AUM of £454bn is based on the 2025 Aviva Group TCFD Report (see Note 5 p.44). This includes assets managed on behalf of third parties.
2 — https://www.aviva.com/sustainability/taking-climate-action/transition-plan/
3 — Boosting low-carbon investment in the UK: A Policy Roadmap - Aviva Investors
4 — UK's iconic landmarks at risk from climate change by 2050, according to new report - Aviva plc
5 — https://static.aviva.io/content/dam/aviva-corporate/documents/socialpurpose/pdfs/Investing-in-Nature-Report-2025.pdf
6 — https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwjwrLmv4baUAxW2UkEAHdMaFzYQFnoECBcQAQ&url=https%3A%2F%2Fstatic.aviva.io%2Fcontent%2Fdam%2Faviva-corporate%2Fdocuments%2Fsocialpurpose%2Fpdfs%2FCOP30-Policy-Paper.pdf&usg=AOvVaw0tSuR618caHymQBXVwZBAm&opi=89978449
7 — UK decarbonisation roadmap update - Aviva Investors
8 — https://www.avivainvestors.com/en-gb/views/aiq-investment-thinking/2025/05/sovereign-engagement-positive-change-long-term-value/
9 — Climate-related financial disclosure - Aviva plc

PIONEER SPOTLIGHT: IMPAX ASSET MANAGEMENT

HQ: London, UK

AUM: GBP £22.3bn[1]

Approach to climate policy engagement (CPE): Impax AM's approach to policy advocacy is grounded in its recognition that tackling systemic risks 'at the scale and pace required demands not only company-level action but also fundamental shifts in policy, market infrastructure and capital flows'.[2] Impax AM engages directly with policymakers and regulators, and indirectly through industry associations and alliances (e.g., IIGCC, UKSIF, Ceres), responding to consultations, joining issue-specific initiatives and participating in policy advisory forums (e.g., UK Net Zero Council). Thought leadership is also used to raise awareness of the need for coherent, reliable policy frameworks to unlock investment in climate mitigation and adaptation. Impax is increasingly deploying "systematic stewardship" – combining company engagement with policy advocacy – to address challenging systemic risks by driving systems-level change.

Responsibility/resourcing: responsibility for CPE is held by the Impax Sustainability Centre.

Scope of climate policy agenda: Impax AM engages on climate policy issues in the UK and globally. Key priorities include: the development of national transition plans; shaping expectations of corporate transition plans; and physical climate risk and adaptation. Impax AM emphasises the importance of sectoral pathways as a component of national transition plans and does sometimes engage on sector-specific policy issues.

Key documents/links:

- Stewardship and Advocacy Report 2026[3]

"Investors have a clear stake in well-designed climate policy. Without credible national transition plans, clear sectoral pathways and reliable market signals, the capital the transition demands will not flow at the pace or scale required. That is why we engage on policy both directly and alongside other investors — not as a nice-to-have, but as part of how we manage risk and protect long-term value for clients."

Chris Dodwell, Global Head of Policy & Advocacy, Co-Head Sustainability Centre

1 — AUM accurate as of 10 April 2026 at https://impaxam.com/investor-relations/share-price-and-aum/
2 — https://impaxam.com/assets/pdfs/reports/stewardship_and_advocacy_report_2026.pdf?pwm=9378
3 — https://impaxam.com/assets/pdfs/reports/stewardship_and_advocacy_report_2026.pdf?pwm=9378

PIONEER SPOTLIGHT: FIRST SENTIER GROUP

HQ: Sydney, Australia

AUM: AUD $190.7bn[1]

Approach to climate policy engagement (CPE): First Sentier Group believes policy advocacy is an extension of its engagement responsibilities and an essential tool for promoting positive change and shaping the direction of sustainable finance policy development and reform. This approach to policy advocacy stems from its belief that it has a responsibility to uphold 'the quality and integrity of the financial markets it invests in' and 'the need for clear and ambitious public policy covering sustainable finance regulation and real economy outcomes'.[2]

Engagement is done directly via public responses to policy consultations, participation in industry roundtables and in-person meetings with policymakers. First Sentier Group also engages indirectly, through industry associations (such as the Investor Group on Climate Change) and signing public statements/letters.

This work is complemented by climate-related research and thought leadership produced by the First Sentier MUFG Sustainable Investment Institute, which supports wider education and informed discussion on climate change.

Responsibility/resourcing: overall coordination of climate policy engagement sits with the Responsible Investment team, with input from investment teams where policy developments are material.

Scope of climate policy agenda: First Sentier Group's climate policy agenda covers both disclosure standards (e.g., national adoption of TCFD/ISSB recommendations) and real economy transition policies.

Key documents/links:

- Global Responsible Investment Policy Advocacy Principles[3]

"We view climate policy engagement as a natural extension of our stewardship and engagement responsibilities. Well-designed, clear, consistent, and ambitious public policy is critical to maintaining the integrity of financial markets and enabling a just real economy transition. By engaging directly with policymakers and through industry collaboration, we seek to support policy frameworks that are credible, decision-useful and capable of driving meaningful financial and climate outcomes."

Finian Power, Director of Responsible Investment

1 — AUM accurate as of 31 March 2026 at https://www.firstsentiergroup.com/about-us
2 — https://www.firstsentierinvestors.com/content/dam/web/global/responsible-investment/documentation/global-documents/fsi-ri-policy-advocacy-principles.pdf
3 — https://www.firstsentierinvestors.com/content/dam/web/global/responsible-investment/documentation/global-documents/fsi-ri-policy-advocacy-principles.pdf

WHAT DRIVES INVESTOR ENGAGEMENT ON CLIMATE POLICY?

For those investors that do engage on climate policy, the rationale for doing so is typically grounded in a combination of four factors:

1. **Fiduciary duty and protecting returns over the long term**

   For institutional investors with a long time horizon (e.g., pension funds), climate change is a source of material financial risk, which means investors have an obligation to take it into account in their investment process.[12] Because climate risk is, to a considerable extent, "undiversifiable" (see next point), investors need other strategies for mitigating the risk. Policy engagement – to promote the adoption and implementation of government policies that would enable an orderly transition that protects the value of investments over the long term – is one such strategy.

   This is not to say that fiduciary duties, as currently understood and interpreted, require a firm to engage proactively and constructively on policy. The law is permissive rather than prescriptive in this area. But it is commonplace for firms that do engage on climate policy to cite fiduciary duty and/or protecting long-term returns as their rationale for doing so (see Figure 4).

> *"We need to pay pensions into next century… we have to have functioning economies and societies to be able to deliver inflation-plus returns to support those pensions, and so if there's climatic collapse and nature collapse and societal collapse through inequality and so forth, we will fail. We won't be able to do what we've promised and set out to do as an organisation."*
>
> Head of Responsible Investment, Pension Fund, UK

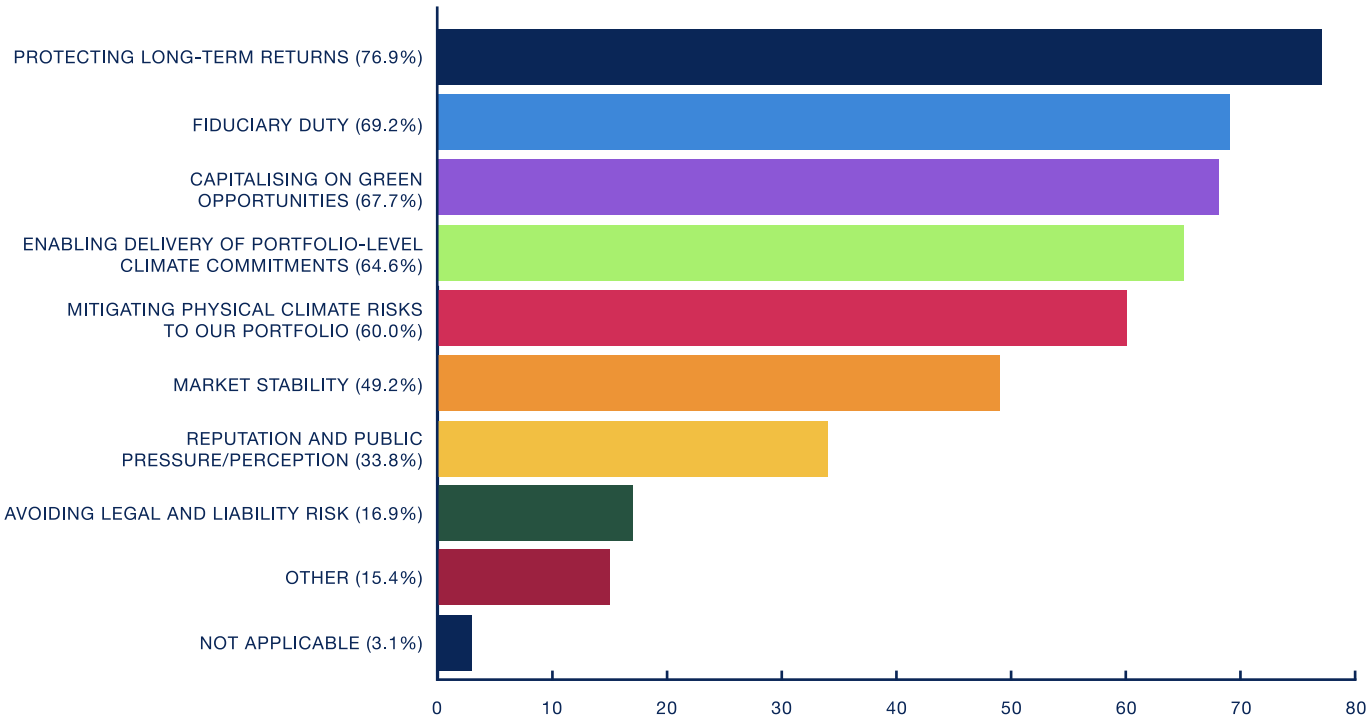


Figure 4: What motivates your institution's engagement on climate policy? (Source: Volans survey)

12 — https://www.unepfi.org/investment/history/fiduciary-duty/

2. **The systemic nature of physical climate risks requires a systemic response**

Investors' understanding of the nature and scale of climate risk is evolving to take account of the latest scientific and economic analysis of climate change's likely impact at different levels of warming. Projections of the likely impact on diversified investment portfolios under high warming scenarios are being updated and the generally direction of travel is towards higher value-at-risk estimates than were previously considered probable. Crucially, too, there is growing recognition that much of this risk is systemic in nature and, therefore, "undiversifiable". As a recent report from Carbon Tracker and the University of Exeter explains:

> '*While modern portfolio theory assumes that idiosyncratic risks can be reduced through diversification across assets, sectors, and geographies, climate change increasingly manifests as a systemic risk. Operating through shared physical systems, global supply chains, and tightly interconnected financial networks, climate impacts generate correlated losses that are likely to affect all portfolios simultaneously – particularly at higher levels of warming and economic damage.'*[13]

Determining exactly how significant and how near-term these losses are likely to be remains a work-in-progress for most institutions and the service providers they rely on for credible forecasts, estimates and scenario analysis. What matters is the direction in which expectations are being adjusted – and the order of magnitude/range of possibilities that is now considered plausible when estimating the present value of climate-related risks.

As of 2026, the consensus view of the scale, proximity (in time) and diversifiability of climate risk has shifted considerably from where it was 5-10 years ago. This new information is still being assimilated and integrated into investment strategy. But one conclusion is clear to institutional investors paying attention to the latest trends within climate risk modelling: climate change is a source of systemic risk that is both large and, to a considerable extent, undiversifiable. Engagement with policymakers to promote robust action on both climate mitigation and adaptation is one way to reduce that risk at source.

"Climate is an existential risk to financial performance as much as it is an existential risk to people and planet."
Co-Founder, Asset Management Firm, UK

"The narrative internally is that our policy advocacy supports managing systemic risks such as climate change... Asset allocation, stewardship and policy advocacy are the three key areas that an asset manager can contribute."
Head of Responsible Investment, Asset Management Firm, Australia

"One reason why we might want to advocate for policy change is because of the wider systemic risk that we're exposed to that climate change presents. The only way that we're going to de-risk that is by seeking system change. We cannot diversify our way out of it. We can't take decisions unilaterally that will diminish that risk, because it's a system-wide risk. We as an institution have a voice that can influence, to some extent at least, [domestic] government policy, which in turn, will hopefully influence international policy. And so overall, you're playing a small part in reducing that systemic risk that we're exposed to."
Head of Climate, Insurance Firm, UK

"Undiversifiable risk isn't unaddressable risk."
Investment Specialist, Pension Fund, USA

13 — https://carbontracker.org/reports/recalibrating-climate-risk/

3. **Targets and transition plans require an enabling policy environment**

Over the last decade, one of the primary ways in which both investors and companies have responded to the climate issue is by setting targets and developing transition plans. As of January 2026, more than 10,000 companies and financial institutions worldwide have climate targets validated by the Science-Based Targets initiative.[14] For many of these firms, the ability to achieve their targets will depend in part on the actions of policymakers.

Across every industry, policy is a critical factor in determining the rate at which low-carbon solutions become widely available on a cost-competitive, commercially viable basis. Some low-carbon solutions in some locations and industries have already passed a tipping point where no further policy action is needed to drive uptake, since these solutions are now competitive on a purely commercial basis. But that is not yet true across the board. Until it is, the credibility of any firm's transition plan depends, in part, on the extent to which it has identified its "policy dependencies" and the robustness of its approach to engaging with policymakers to address those dependencies.

Stewardship teams within investment institutions have played a role in persuading companies to set targets and develop transition plans. They have contributed to the development and adoption of various frameworks for assessing the quality of those transition plans. And they have begun to scrutinise the extent to which key portfolio companies' direct and indirect lobbying on climate policies aligns with the goals of the Paris Agreement.[15]

In a few cases, investors have then collaborated with specific portfolio companies to advocate for policies that will accelerate those companies' transition (or their growth, if the companies in question are low-carbon solution providers). These investors typically view such engagements as a way of de-risking specific investments, or de-risking transition-aligned investments in general. Policy engagement here is being used as a tool that complements capital allocation and active ownership, with all three driving towards the twin goal of mitigating systemic risk, while enhancing the value of transition-aligned investments.

> *"The adoption of effective climate policies to decarbonise the real economy is critical to support companies in their transition to a competitive and future-proof low-carbon business model. Investors' voice can support policymakers by providing them with feedback on the market failures and barriers we perceive and that are preventing/slowing down the energy transition. A more supportive regulatory framework can accelerate innovation and deliver more attractive investments to the market."*
>
> Head of Climate Engagement, Asset Management Firm, Netherlands

14 — https://sciencebasedtargets.org/news/sbti-celebrates-10000-company-validations

15 — See, for example, the Global Standard on Responsible Climate Lobbying (https://climate-lobbying.com/) and the climate policy engagement indicator in Climate Action 100+'s Net Zero Company Benchmark (https://www.climateaction100.org/net-zero-company-benchmark/). Investors have engaged with individual companies to promote greater transparency and rigour around the management of direct and indirect climate lobbying, including, in some cases, by filing shareholder resolutions. In early 2026, Norges Bank Investment Management set a new precedent by including an analysis of the direct and indirect climate policy engagement of more than 1,200 portfolio companies in its annual climate and nature disclosures (https://www.nbim.no/contentassets/e4662a16b2e147538c1555a05e5e0935/climate-and-nature-disclosures_2025_uu.pdf).

4. **Credible, predictable climate policies can unlock investment opportunities and value**

   The importance of a stable, predictable policy environment is often a key priority for institutional investors. This applies across all areas of policy, including those that influence climate mitigation and adaptation. When the policy outlook is unclear or volatile, this can have an adverse impact both on the pipeline of investment opportunities and on the value of existing investments. Clearly, investors cannot single-handedly reverse the politicisation of climate policy that is undermining policy stability in some jurisdictions. But investors can (and frequently do) make the consequences of this instability – in terms of its impact on investability – clear to policymakers.

   For asset managers building investment strategies designed to do well out of the transition towards a zero-carbon, climate-resilient economy, engagement with policymakers to promote credible, durable transition policies is a means of enhancing the risk-adjusted returns those strategies can deliver. This typically requires investment teams to feed in granular insights based on their analysis of portfolio companies. Entity-level and sector-level analysis provides the basis for identifying which mix of policies is most likely to unlock value and accelerate the transition. The involvement of investment teams also enables a two-way flow of information that can enhance investment performance. Firms that engage on policy are typically able to harvest qualitative insights about the policy outlook that can then be used to inform investment strategies.

"Policy stability, it helps you invest. It helps you predict… a long-term investor, is, as a general rule, going to benefit and welcome policy stability."

Head of Climate Engagement, Asset Management Firm, UK

"In understanding the policy landscape, we are in a position to advise our investment teams on areas of uncertainty and possible future change. The closer you are to an issue that is going to affect the stocks that you're investing in, the better positioned you are to comment on that now."

Head of Policy, Asset Management Firm, UK

WHAT EXPLAINS THE VARIABILITY IN INVESTOR CLIMATE POLICY ENGAGEMENT?

Whether and how an investor engages on climate policy depends on the specific institution's strategy, culture, leadership, mandate and business model. While there are no hard-and-fast rules determining who engages, on what, and how, there are some discernible patterns:

1. **Diversified, long-term asset owners such as pension funds, endowments or sovereign wealth funds (SWFs) are most likely to prioritise systemic stewardship.** These institutions are unavoidably exposed to systemic risks and their long time horizon aligns with the timeframe over which policy engagement can have a material impact on those risks. However, these institutions' policy work is often constrained by a combination of some or all of the following factors:

    a. Limited resources: asset owners are less likely than asset managers to have large Government Affairs or Stewardship teams, the two functions that typically do the heavy lifting on developing a climate policy agenda and driving engagement.

    b. Limited expertise: asset owners are also less likely than asset managers to have investment teams and analysts with deep knowledge of market and policy dynamics at the sectoral and country level. This is one reason why such institutions are often minimally engaged on real economy policy issues, but may engage on the development and adoption of global disclosure frameworks (e.g., TCFD, TNFD, ISSB).

    c. Concerns about legitimacy: for certain types of asset owner – specifically those that are public or quasi-public entities (e.g., SWFs, public sector pension funds) – their ability to engage with governments is constrained by the perception that it would be inappropriate for them to do so. Again, this means that these institutions tend to be minimally engaged on real economy policy issues, but may engage on issues such as disclosure standards that have, at least historically, been seen as less political and more obviously in institutional investors' lane.

    d. Perceived lack of agency: as one interviewee (a senior sustainable investing professional at a large Canadian pension fund) put it, "large financial institutions have far more weight than they think they do... But just from a fundamental mindset, most of them don't think of themselves as being able to shape the markets that they then invest in." Among firms that do engage on policy, it is common for engagement to focus heavily on the institution's "home" country, on the basis that that's where they have the most agency to influence policymakers.

2. **The signal from asset owners that constructive climate policy engagement is something they expect their asset managers to do is currently very weak.** Notwithstanding some public "calls to action" from groups of asset owners (e.g., the Net Zero Asset Owner Alliance[16] and the Asset Owner Statement on Climate Stewardship coordinated by People's Pension, Brunel Pension Partnership and Scottish Widows[17]), there is limited evidence to date of asset owners incorporating expectations around climate policy engagement into their processes for selecting investment managers and/or assessing their performance. As a result, climate policy engagement is largely a discretionary activity for the asset management industry, and even those that do it often struggle with the business case to justify their efforts.

   When asset owners do call on their managers to be proactive on climate policy, this is often done via the Responsible Investment/Stewardship function, rather than the Investment function. This limits the effectiveness of such calls to action since 'the power to influence asset managers reside[s] most strongly with the asset owner's CIO or asset class lead, not the stewardship professional.'[18]

> *"Asset owners often talk out of both sides of their mouth on this… For asset owners really to have an impact on asset managers, they need to speak with one voice and that means everyone at the asset owner. So not just the sustainability person, but the person in charge of selecting managers, the trustees etc. They need to be united, speak with an authentic voice, put their money where their mouth is, and it needs to be clear that this is an important part of what they expect from asset managers and asset managers won't get their money if they don't do it."*
>
> Partner, Asset Management Firm, UK

> *"[To justify increasing the resources we allocate to climate policy engagement] we would need current and potential asset owner clients to indicate that policy work and support for policies intended to reduce real-world emissions are a deciding factor for their award of mandates."*
>
> Head of Climate Engagement, Asset Management Firm, Canada

75%

The proportion of asset managers who selected 'stronger client demand' as one of their responses to the question: *In your opinion, what would need to be true for your institution to start engaging – or increase its engagement – in support of real economy climate policies?*

Survey respondents were allowed to select multiple responses to this question. Stronger client demand was the response most frequently selected by asset managers.

16 — See, for example: https://www.unepfi.org/wordpress/wp-content/uploads/2024/02/NZAOA-CTA-to-AM-industry.pdf The statement calls on asset managers to 'align lobbying activities with stated climate-related commitments'.

17 — https://www.peoplespension.co.uk/investments/responsible-investment/system-change/ Principle 1 of the Statement is that 'Industry/market and public policy engagement should be core to the climate stewardship proposition across asset classes.' This includes a specific ask of asset managers 'to allocate significant time and resources to communicating their policy positions on climate to policy makers.'

18 — Barnett, J., and Peura, P., 'Engagement and System-Level Stewardship: Lessons Learned from the Net Zero Asset Owner Alliance' in Lukomnik, J., and Burckart, W. (eds), *The Handbook of System-Level Investing* (2026).

3. **In order for engagement on climate policy to make sense, firms need to have a coherent strategy for managing transition-related risks and opportunities in place already.** The firms that engage on climate policy to a meaningful extent do so as a complement to their existing strategies for integrating climate considerations into capital allocation and entity-level stewardship activities. Policy engagement is the third strand of their climate strategy, reinforcing the other two. These firms typically already have portfolio-level climate commitments and are strongly supportive of portfolio companies developing and implementing transition plans. Their Stewardship teams may already be scrutinising companies' own climate lobbying (and, in the case of asset owners, their external asset managers' climate lobbying). In short, engaging on climate policy is "advanced-level" climate investment strategy; it is not an "entry-level" activity.

   Engaging on policy also requires greater strategic clarity and alignment than is needed for creating, for example, an energy transition fund. Asset managers can and do offer a multiplicity of investment products catering both to clients that consider climate highly material for achieving their investment objectives and to those that see it as peripheral or irrelevant. But when it comes to policy engagement, it's not possible to cater to all tastes. Therefore, the asset managers that do prioritise climate policy work have generally already made a strategic decision to focus on winning mandates from clients that are, themselves, highly climate-conscious and factor this into their manager selection.

4. **Political and cultural dynamics are a major factor in determining the extent to which institutional investors engage on climate policy – and, if they do, which areas of policy they focus on.** Investor engagement on climate policy is more advanced in jurisdictions where the (perceived) political costs of engaging are low and/or the (perceived) political benefits are high. Understandably, investors are more likely to engage with governments that welcome their input, and that share an overall perspective on the necessity and desirability of climate action, than with those that are actively hostile to climate action. Institutions headquartered in jurisdictions where climate policy is highly politicised are more likely to decide that it is inappropriate for them to engage than those based in jurisdictions where climate policy is not so politically contentious. If they do engage at all, they are likely to limit their engagement to topics deemed least contentious and where their legitimacy to engage is clearest. How different jurisdictions interpret and apply fiduciary duties also matters, as this, too, has a significant bearing on whether investors will perceive engagement on climate policy to be a legitimate activity.[19]

   Institutional investors are fundamentally social animals. They are influenced by their peers and, with the exception of the occasional maverick, they tend to prefer to stay close to the pack. Climate policy engagement is widely seen as something novel and potentially risky – *real economy* climate policy engagement even more so – and many institutions will only decide to engage once a critical mass of their peers do. These peer influence dynamics operate primarily at the national (or regional) rather than global level, meaning that norms can diverge quite substantially between jurisdictions.

19 — The other aspect of law that is relevant in this context is competition law. Various cases have been brought in the US alleging that investors coordinating on climate action represents a breach of antitrust rules. None of these suits has yet resulted in a judgement that investors have acted illegally and the legal arguments seem to be flimsy at best (see https://www.wsgr.com/a/web/jY18gBkNaokPxUM1vGhDCb/westlaw-today_weaponizing-antitrust-article.pdf). But the threat of litigation, however spurious its legal basis, has had a chilling effect on US investors' willingness to collaborate on anything to do with climate change.

WHAT DOES INVESTOR ENGAGEMENT ON CLIMATE POLICY LOOK LIKE IN PRACTICE?

What aspects of climate policy do investors engage on?

The term climate policy is shorthand for a vast range of different policy areas. To get a sense of the scale of the terrain investors are navigating, consider the fact that the Inevitable Policy Response's database of climate policy developments includes 661 separate developments during the 21-month period from January 2024 to September 2025.[20] This number only includes developments in 21 countries (plus the EU and UNFCCC) and not all sectors of the economy are in scope. It does not include developments related to financial regulation or climate-related disclosure standards, which, in practice, often dominate the attention and bandwidth of those working on climate policy within investment institutions (or within organisations that work on climate policy on behalf of investors).

Given this enormous scope, what aspects of climate policy do investors prioritise? While the answer varies across different institutions, some clear trends are discernible. Based on our investor survey, the areas of climate policy that it is most common for investors to engage on are: disclosure rules and standards (89% of investors that engage on climate policy say they engage on this); sector-level transition policies (76%); and financial regulation (70%).

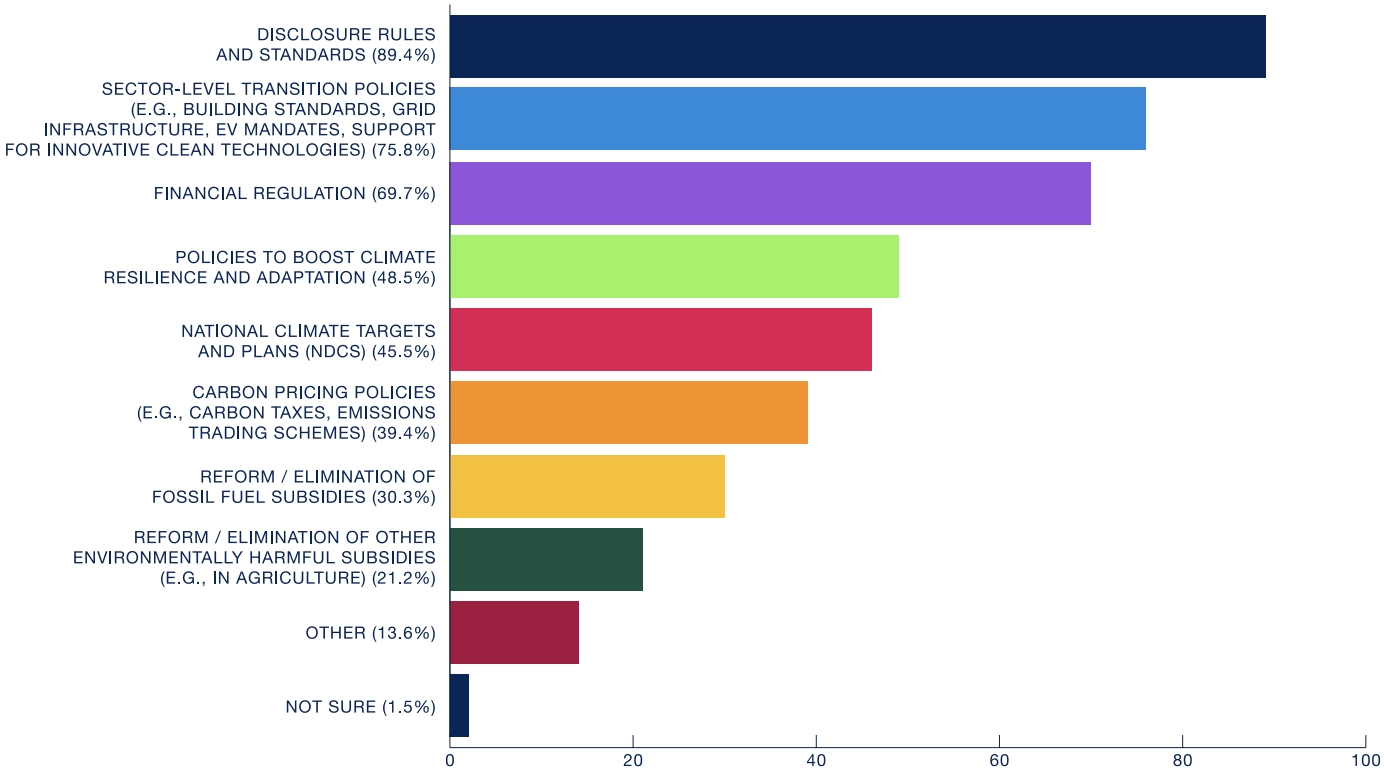


Figure 5: What type(s) of climate policy does your institution engage on – either directly and/or indirectly via industry associations or alliances? (Source: Volans survey)

20 — https://ipr.transitionmonitor.com/policy-table/

Not all of these areas of policy receive equal weighting in terms of the level of resource (time and money) that investors put into engaging on them. For example, while the proportion of investors reporting that they engage on sector-level transition policies is relatively high (76%), the proportion of their total engagement resource that goes towards this aspect of policy is currently just 14% (see Figure 3 on p. 16). In most cases, sector-level policy engagement is limited to a handful of sectors that, between them, are responsible for the bulk of global GHG emissions: power/energy, transportation, land use (deforestation), built environment and heavy industry (primarily steel).

This allocation of resources across different areas of policy is likely to evolve over time, with disclosure standards becoming less of a focus for investors and both sector-level policies and cross-sector policies such as carbon pricing becoming more of a focus. There are a mix of factors driving this. On the one hand, in some jurisdictions, climate-related disclosures are becoming less of a focus for engagement because adequate disclosure regimes have been, or are being, implemented. At the same time, investors (and others) are becoming more aware that disclosure is not a silver bullet. Better quality information about climate-related risks will not, on its own, make those risks manageable. Hence the turn towards real economy policies that address climate action as a problem of incentives, rather than simply a problem of measurement.

In terms of geographic scope, engagement follows an inverted pyramid pattern, with 89% of investors that engage on climate policy at all reporting that this includes global-level engagement (e.g., UNFCCC, ISSB). By comparison, 64% report engaging at regional level (e.g., EU, ASEAN), 47% at national level and 35% at sub-national level (primarily US institutions engaging at the State level). [NB. These figures are not adjusted for engagement intensity. It's likely that a sizeable proportion of the 89% that engages at global level is institutions whose engagement is very superficial (e.g., signing on to the occasional "call to action"). Conversely, the 35% that engages at sub-national level is unlikely to contain many institutions that aren't highly engaged and "in the weeds" on climate policy, because there are generally fewer opportunities for superficial engagement at the sub-national level.]

Institutional investors that engage at national level are most likely to do so in their home market. This is especially true if there is a significant home market bias to their portfolio, as is often the case for asset owners. Beyond this, investors tend to prioritise engaging in countries where they both/either have significant financial exposure and/or have identified progress in that country as critical for delivery of their portfolio-level climate objectives. This latter consideration is often the basis for global investors headquartered in a G7 country leaning into policy engagement efforts in certain emerging markets (e.g., Brazil, India, Indonesia), despite the fact that their direct financial exposure to those markets may be small.

> *"Our exposure to emerging markets in financial terms is not very large, but when it comes to climate change or nature, [some emerging markets] have enormous impact based on our analysis… For example, we engage heavily with the governments of Indonesia and Brazil on the issue of deforestation. Deforestation is a major cause of increasing global GHG emissions and our analysis indicates that progress on this issue in those two countries is important for our ability to deliver on our commitment to reduce our financed emissions."*
>
> Stewardship Specialist, Asset Management Firm, Japan

How do investors engage on climate policy?

Responsibility for climate policy engagement typically sits with the Responsible Investment function (or equivalent), with investment and government affairs teams feeding into the delivery of engagement activities. In a relatively small number of cases, institutions have established dedicated systemic stewardship or climate policy functions. But, more typically, climate policy engagement is treated as an adjunct to company-level engagement, with the Stewardship teams that manage the latter also taking on responsibility for the former. While this can be advantageous in terms of ensuring alignment between company-level stewardship objectives and policy engagement objectives, it often means that policy work is under-resourced and the individuals leading it have limited policy expertise or experience of engaging with the policymaking process. In most cases, the amount of internal resource allocated to climate policy engagement is less than two people (on a full-time equivalent basis), irrespective of institution size.

Given this light internal resourcing, institutional investors tend to be highly dependent on external partners for delivery of their climate policy engagement activities. As Figure 6 shows, participation in the policy working groups of relevant associations and/or coalitions is one of the most common ways in which investors engage on climate policy. Some of these initiatives are issue-specific, such as the Investor Policy Dialogue on Deforestation (IPDD), while others cover multiple aspects of climate policy in a particular country or region, with their focus evolving over time based on member input. The approach to engagement varies, with some coalitions coordinating detailed input on specific policy files, while others are more of a "blunt signalling exercise" as one interviewee put it. In some cases (e.g., IPDD or PRI's Collaborative Sovereign Engagement on Climate Change programme), the actual engagement with policymakers is investor-led, while in others, the initiative or association will conduct engagement on behalf of its members.

> *"We believe that policy engagement should be done in collaboration with others, so it's not something that we will do by ourselves ... it's important that we use the collective voice of investors."*
>
> Head of Climate Engagement,
> Asset Management Firm, Netherlands

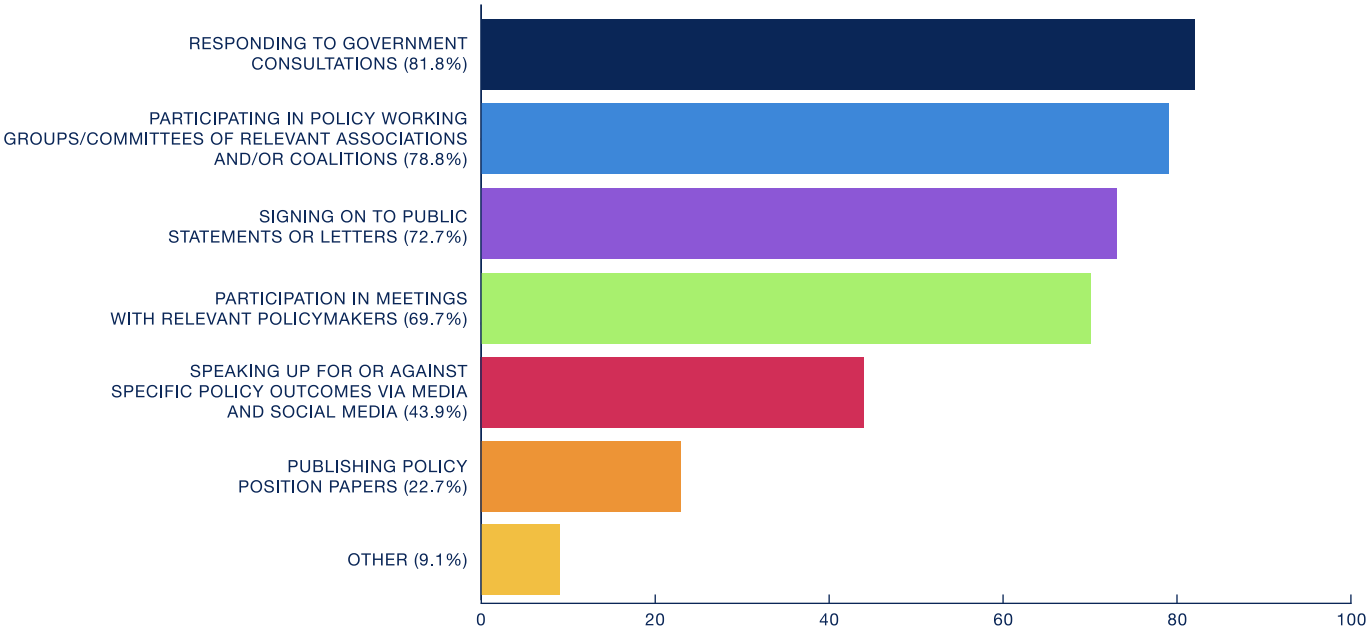


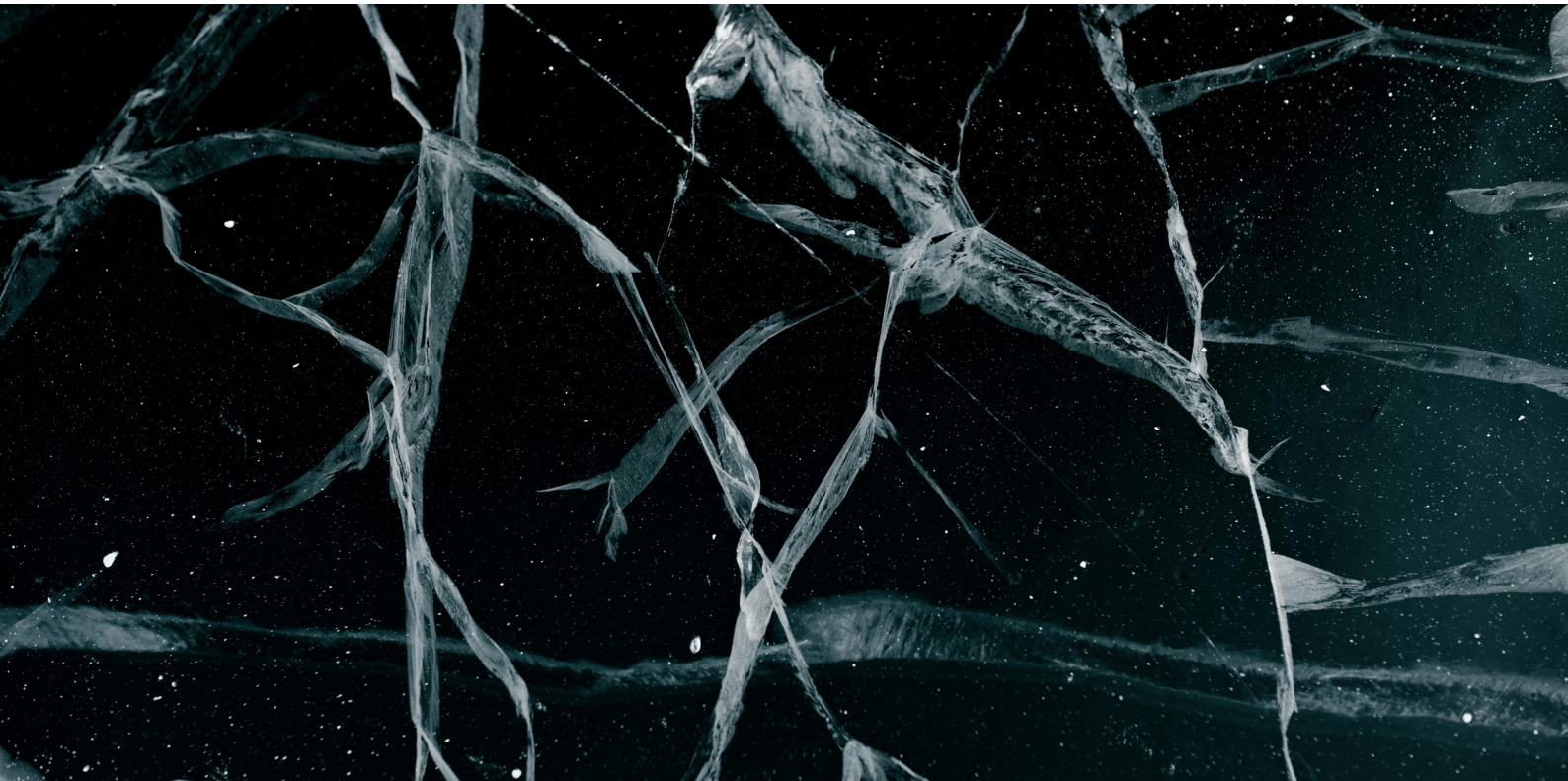
Figure 6: How does your institution engage on climate policy? (Source: Volans survey)

While the emphasis tends to be on engagement through specialist climate-focused groups such as those listed in Figure 2 on p.16, some investors also seek to drive their climate policy agenda by working with and through more mainstream industry bodies, be those finance sector associations or cross-sector groups (e.g., a national confederation of industry). The advantage of engaging via mainstream associations is that they often have a stronger track record of influencing policy and the very fact that they are perceived as "mainstream" can lead policymakers to assign more weight to their views. The main drawback is that it can be much harder to align on a constructive position on climate policy issues across the membership of a mainstream industry association than it is within specialist climate-focused coalitions. Investors with a sophisticated approach to climate policy engagement therefore make choices on an issue-by-issue basis about which of their memberships or affiliations to leverage in order to have the greatest impact.

Establishing processes and frameworks to monitor and evaluate the effectiveness of climate policy engagement efforts remains a work-in-progress for most investors we spoke with. Given the complexity of the engagement process and the number of other factors at play in the policymaking process, attributing specific policy outcomes to specific engagement activities with any degree of confidence is generally impossible. Notwithstanding these challenges, the outlines of a best practice approach to assessing the effectiveness of policy engagement efforts are discernible. Typically, this involves tracking progress at three levels:

1. Activity level: the number and quality of meetings with policymakers. This includes consideration of the seniority of the stakeholders engaged and the tone/content of the conversations (i.e., how constructive? How detailed?).
2. Policy level: whether/to what extent the desired policy outcome on a specific policy file was realised.
3. Country level: whether/to what extent the general direction of policy in the relevant jurisdiction(s) reflects an institution's priorities and preferences.

This type of framework for monitoring progress is being applied both by individual institutions and by collaborative initiatives/coalitions (e.g., PRI's Collaborative Sovereign Engagement programme).



Guidance for investors

How to build a robust climate policy engagement practice

1: Creating a compelling rationale

Climate policy engagement will only be properly resourced if the internal rationale for it is clear and accepted by those responsible for setting strategy.

In this section, we demonstrate, first, how to make the case for engaging on real economy climate policies at a macro level. Then we look at how to bring this general case down to a micro (i.e., individual firm) level, by connecting the purpose of climate policy engagement to an institution's mandate and investment beliefs. Finally, we unpack how the value of climate policy engagement can be articulated in terms of how it affects risk, returns and, if relevant to the firm's mandate, impact.

A: THE MACRO CASE FOR (REAL ECONOMY) CLIMATE POLICY ENGAGEMENT

PHYSICAL CLIMATE RISK
More serious than we thought

POLICY AS A DRIVER OF THE TRANSITION
More important – and less inevitable – than we thought

EXISTING INVESTOR CLIMATE STRATEGIES
Less effective than we thought

DISCLOSURE-FOCUSED POLICY ENGAGEMENT
Less useful than we thought

Figure 7: Four realisations that make real economy climate policy engagement an imperative (source: Volans)

As of mid-2026, four key realisations about climate risk, the net zero transition and investor strategies for addressing them are converging to make the case for climate policy engagement as a strategic imperative:

1. **Assessments of the scale and "non-diversifiability" of climate risk are trending in a direction that means many universal owners' exposure and vulnerability is worse than they previously thought.**

   One signal of this ongoing recalibration of climate risk models comes from Norges Bank Investment Management (NBIM), the investment manager for Norway's Sovereign Wealth Fund (approximately $2 trillion in AUM). In 2025, NBIM disclosed results from a new in-house analysis of their US equity portfolio's physical climate risk exposure, which found that 'the present value of average expected losses from physical climate risk on our US equity investments under a Current Policy scenario is *19 percent* (and 27 percent at the 95th percentile).' By contrast, MSCI's widely-used Climate Value-at-Risk model projected losses of just *2 percent* (and 3 percent at the 95th percentile), which NBIM described as 'implausibly low'.[21] (Italics added.)

   Other risk analysts are coming to similar conclusions about the magnitude of physical climate risk and its systemic nature. For example, Ortec Finance, a risk analytics provider, warns that 'under a Limited Action scenario, where temperatures increase by 2.8°C by 2100… US private infrastructure assets suffer a 30 percent loss in returns over [the next] 15 years compared with baseline expectations.'[22] Meanwhile, for UK and US equities, Ortec expects performance 'to decline sharply in the 2030s [under high warming scenarios] due to an emerging insurance crisis, driven by the manifestation and increasing awareness of physical risks associated with rising temperatures.'[23]

   This report is not the place for a comprehensive discussion of the current state-of-the-art on modelling climate risk. All models are imperfect and the specific results generated by NBIM or Ortec or any other institution can be challenged. The important point for the purposes of this discussion is which order of magnitude seems most plausible for estimates of value at risk under a continuation of business as usual.

21 — https://www.nbim.no/contentassets/6fdfd333e6bf460f8e538b9b55a95bb7/gpfg-climate-and-nature-disclosures-2024.pdf; see also https://carbontracker.org/reports/ambition-under-pressure-analytical-leadership-vs-strategic-hesitation/
22 — https://www.benefitsandpensionsmonitor.com/investments/esg-investing/the-bill-for-climate-inaction-is-coming-due-for-taxpayers-and-investors-alike/393418
23 — https://www.ortecfinance.com/en/about-ortec-finance/news-and-events/ortec-finance-updates-climate-scenarios

Until relatively recently, the view that climate change might be a double-digit threat to the value of a globally diversified portfolio and that major losses might materialise this side of 2040 would have sat well outside the mainstream. Now this is what some of the most sophisticated and credible analysts in the industry are projecting.

A February 2026 report published by Carbon Tracker and the University of Exeter – *Recalibrating Climate Risk* – draws out the implications of the latest climate science for institutional investors. Its headline conclusion is that institutional investors need 'to place greater weight on tail risks, systemic exposure, and the limits of diversification. Because climate change operates through shared physical systems, supply chains, and financial networks, it cannot be fully diversified away.'[24] The fact that diversification is an inadequate tool for managing climate risk is something that many investors are only now starting to wrap their heads around.

2. **Government policies are a determining factor for the pace and smoothness of the transition to net zero – and a rational, science-based policy response to climate change is not a given.**

   For universal owners, a rapid transition is desirable in order to avoid worst-case climate scenarios that would cause severe damage to long-term returns.[25] A smooth transition is desirable because it dampens transition risks and amplifies transition opportunities. Economics and market forces will not, on their own, deliver a transition that is optimal from the perspective of portfolio value creation and preservation. While the unit economics of low-carbon alternatives may now be favourable in some sectors (e.g., energy), that is emphatically not the case in every sector – particularly so-called "hard-to-abate" sectors such as steel, cement, chemicals and aviation. Nor is it likely to become true in some of these sectors in the absence of major government intervention to incentivise and/or subsidise both the supply of and demand for low-carbon solutions. Indeed, the story of how we got to the point where solar and wind are cheaper than fossil fuels in most places is itself a story about massive government intervention to drive down the cost of renewables and create a strong, stable demand signal.

   In the immediate after-glow of the Paris Agreement a decade ago, it was plausible to believe that climate policy would trend, globally, towards alignment with the temperature targets enshrined in the Agreement. Some governments would move faster than others and there would be occasional blips where policy progress temporarily stalled, but the overall trajectory was "inevitable". This is no longer a plausible description of reality. The first post-Paris decade has been characterised not by convergence and consistency, but by massive policy divergence between countries and extreme shifts in direction from one administration to the next within countries. Rational, science-based policy action is not a given: it has to be fought for politically by those who consider consistency and convergence preferable to chaos.

   The dramatic shifts in policy between administrations in some countries have also provided clear evidence of the extent to which progress is "policy sensitive". For example, we can see this policy sensitivity in the way that the rate of deforestation in the Brazilian Amazon has fluctuated in response to the different policy approaches of the Bolsonaro and Lula administrations.[26] Likewise, fluctuations in the level of investment in certain clean technologies

24 — https://carbontracker.org/reports/recalibrating-climate-risk/; on the financial impact of tipping points, see also JP Morgan's April 2026 paper on the topic: https://jpmorgan.celero.site/s/ab29c67c/climate-intuition-tipping-points/

25 — There is ongoing debate about just how rapid a transition is optimal from a universal owner's perspective. For the purposes of the argument being made here, "rapid" does not need to imply a particular temperature threshold. The important question is simply whether the optimal speed of transition is faster or slower than a "business-as-usual" (or "policy-as-usual") trajectory, to which our high confidence answer is: faster.

26 — https://grimshawreview.lse.ac.uk/articles/24

in the US – first booming in the wake of the Inflation Reduction Act, then cratering under the second Trump Administration – are a sign of the extent to which policy is a material factor in determining how the transition plays out.[27] Increasingly, too, the energy transition is being shaped by geopolitics. For example, many net fossil fuel importers are accelerating renewables deployment as a way to enhance their energy security and strategic autonomy in an era of global instability.

3. **Investor strategies for addressing climate-related risks and opportunities through asset allocation and company-level engagement are falling short.**

   There is a lively debate among academics and practitioners about the effectiveness of "sustainable" asset allocation and asset-level stewardship strategies – in terms of their ability to contribute both to real-world outcomes (e.g., decarbonisation and/or resilience) and to the fulfilment of institution's objectives (e.g., protecting portfolio value over the long term).[28] It is not necessary to wade into that debate in any detail in order to make the case for engaging on climate policy. The important thing to note is simply that the most generous conclusion reached by anyone who has rigorously assessed the effectiveness of mainstream investor strategies to deal with climate change is that they are useful but seriously inadequate. That is true whether the yardstick used to judge them is contribution to real-world outcomes or contribution to fulfilment of long-term financial objectives.

   Uncomfortable as it may be for practitioners who have worked hard to get institutional buy-in for climate-focused capital allocation and stewardship strategies, acknowledging the inadequacy of current approaches may be necessary if climate policy engagement is to be seen as an imperative, not a nice-to-have. If key stakeholders and decision-makers are under the impression that everything is under control, they are likely to balk at the suggestion that they need to allocate resources to something as unfamiliar and potentially risky as climate policy engagement.

   To be clear, this doesn't mean abandoning existing strategies – merely ensuring that they are not "over-sold" and that their limitations are well understood. Climate policy engagement should complement and reinforce asset allocation and stewardship efforts, not replace them.

4. **What gets measured doesn't necessarily get managed: better disclosure may be useful, but it is not the panacea that it has sometimes been presented as.**

   As noted in the previous section, investor engagement on climate policy has, to date, focused heavily on disclosure rules and standards – both those that affect investors directly (such as the EU's Sustainable Finance Disclosure Regulation and equivalent regimes in other jurisdictions) and those that affect issuers (such as the TCFD's recommendations and government initiatives to make their adoption mandatory for certain types of company).

   The premise behind these disclosure-focused approaches to addressing climate change is that we are dealing with a market inefficiency – a problem of inadequate information. There is some truth in this, but the much bigger issue is one of market failure – a problem of incentives. Trying to address a market failure by improving the quality of information flows is like bringing a knife to a gunfight.

   For investors whose engagement on climate policy has, to date, focused either exclusively or primarily on disclosure,

27 — Not all clean technologies have been equally sensitive to the reversal in US policy under Trump. For example, investment in solar and zero-emission vehicles has been fairly robust, whereas investment in wind, batteries and green hydrogen has fallen sharply since the start of 2025. This shows that policy matters, but it is not the only factor at play: market forces matter too. For data on how investment in different technologies has fluctuated, see https://www.canarymedia.com/articles/clean-energy-manufacturing/trump-year-factory-investment-solar-batteries-evs

28 — A May 2026 report from the London School of Economics – *What Can Investors Do About Climate Change?* – provides a useful snapshot of practitioner views. It prefigures some of the findings of this report in concluding that policy has been under-emphasised as a driver of the transition and that investor action needs to evolve to take this reality on board: https://www.fmg.ac.uk/sites/default/files/2026-05/What-Can-Investors-Do-About-Climate-Change_final.pdf

the results shown in Figure 3 (see page 16) should be a reason to pause and reflect on whether this strategy is fit-for-purpose. What the data shows is that the individuals closest to the action know full well that a lot of investor engagement on climate policy is being misdirected. The collective view of 60+ people at the leading edge of this field is that the proportion of their total climate policy engagement resource (time and money) that should go towards engagement on disclosure standards is 16% – down from an average 38% today.[29] Conversely, they would, optimally, allocate two-thirds of their total engagement resource to a combination of sector-level policies, national climate targets/plans, and cross-sector policies like carbon pricing – up from just over one-third today. A rebalancing of efforts to ensure investors' resources are targeted at those aspects of policy most likely to deliver tangible progress is overdue.

B: CREATING A FIRM-SPECIFIC CASE FOR RESOURCING CLIMATE POLICY WORK

For individual institutions, there are two key aspects to making a robust case for engaging on climate policy:

1. **Anchoring it in the firm's investment beliefs, mandate, and how it interprets its fiduciary duties.**

   For example, Canadian pension fund UPP explicitly states in its investment beliefs that 'creating value and managing risk involve exercising UPP's voice to influence outcomes related to material issues through active ownership, policy advocacy, and collaboration with other investors and stakeholders — all of which must be approached with the same intention and rigour as selecting investments.'[30]

   For asset managers, engaging with key clients to articulate how working on climate policy can contribute to achieving their investment goals is key so that this ultimately becomes a recognised part of their investment mandate. At present, it is not the norm for asset owners to specify expectations on climate policy engagement within investment mandates, but some asset owners are considering ways to start incorporating this.

   For both asset owners and asset managers, the purpose of engaging on climate policy can be articulated in terms of how the firm fulfils its fiduciary obligations in an operating context defined by systemic risks and where beta trumps alpha.[31] To be clear, the law does not prescribe specific actions an institutional investor must take to address material sustainability risks, merely that it must do so in a way that is prudent and serves the interests of beneficiaries. Our research into current practice suggests that framing policy engagement as one aspect of how a firm seeks to address material sustainability risks is a legitimate interpretation of what it means to fulfil fiduciary duties.

29 — 38% is, without doubt, a significant under-estimate of how much of the industry's total climate policy engagement resource goes towards disclosure standards. This data was collected during roundtables and virtual dialogues that were specifically billed as being about real economy climate policy engagement. In our wider research (interviews and survey) we came across many institutional investors that said that they, for a variety of reasons, *only* engage on disclosure standards and sustainable finance regulation. These institutions generally declined to participate in the sessions on real economy policy engagement and therefore are not represented in the polling data gathered at these sessions.

30 — https://myupp.ca/investments/how-we-invest/investment-beliefs/

31 — Various studies have looked at the relative importance of general market movements (beta) versus specific asset allocation decisions and active management strategies (alpha) in driving a typical fund's return variation. For example, a study by Roger Ibbotson published in 2010 found that 'about three-quarters of a typical fund's variation in time-series returns comes from general market movement, with the remaining portion split roughly evenly between specific asset allocation and the active management' (see https://www.tandfonline.com/doi/abs/10.2469/faj.v66.n2.4). In their 2021 book, *Moving Beyond Modern Portfolio Theory: Investing That Matters*, Jon Lukomnik and James Hawley note that this is the lower bound of a range of estimates for the proportion of return variation that is driven by systematic, non-diversifiable factors (the range they give is 75-94%) (see https://www.routledge.com/Moving-Beyond-Modern-Portfolio-Theory-Investing-That-Matters/Lukomnik-Hawley/p/book/9780367760823).

2. **Integrating it into the firm's wider strategy for managing climate-related risks and opportunities via capital allocation and company-level engagement.**

   The case for climate policy engagement rests on its ability to complement and augment existing strategies for addressing climate-related risks and opportunities. For funds whose investment thesis is predicated on the assumption that issuers with a robust transition-aligned strategy and business model will outperform, climate policy engagement is a tool for increasing the likelihood of that investment thesis being borne out. Climate policy work is about creating the "macro" conditions in which climate-related "micro" decisions about asset allocation and engagement with portfolio companies are most likely to pay off.

   Understood in this way, strategic policy engagement is about enhancing the profitability of particular products, business models and corporate strategies. Therefore, the policies that matter most are those that affect the profitability of individual firms most strongly. This is why real economy policy engagement is a more effective complement to transition-focused asset allocation and issuer-level stewardship strategies than engagement on disclosure standards. The link between disclosure and profitability is weak and indirect, whereas real economy policies typically impact the profitability of specific assets directly and, if well-calibrated, the impact can be significant.

   Some investors already engage with key portfolio companies to encourage those companies to align their own direct and indirect climate policy engagement with science-based benchmarks (for example via Climate Action 100+). For those that do so, engaging constructively on climate policy themselves is a natural extension of this work. Combining the two – stewardship of portfolio companies' lobbying and engagement with policymakers – has benefits in terms of enhanced credibility and the two strands of engagement can be mutually reinforcing. Fundamentally, this is about using all the channels of influence available to institutional investors (see Figure 8) to transmit a consistent signal to policymakers.

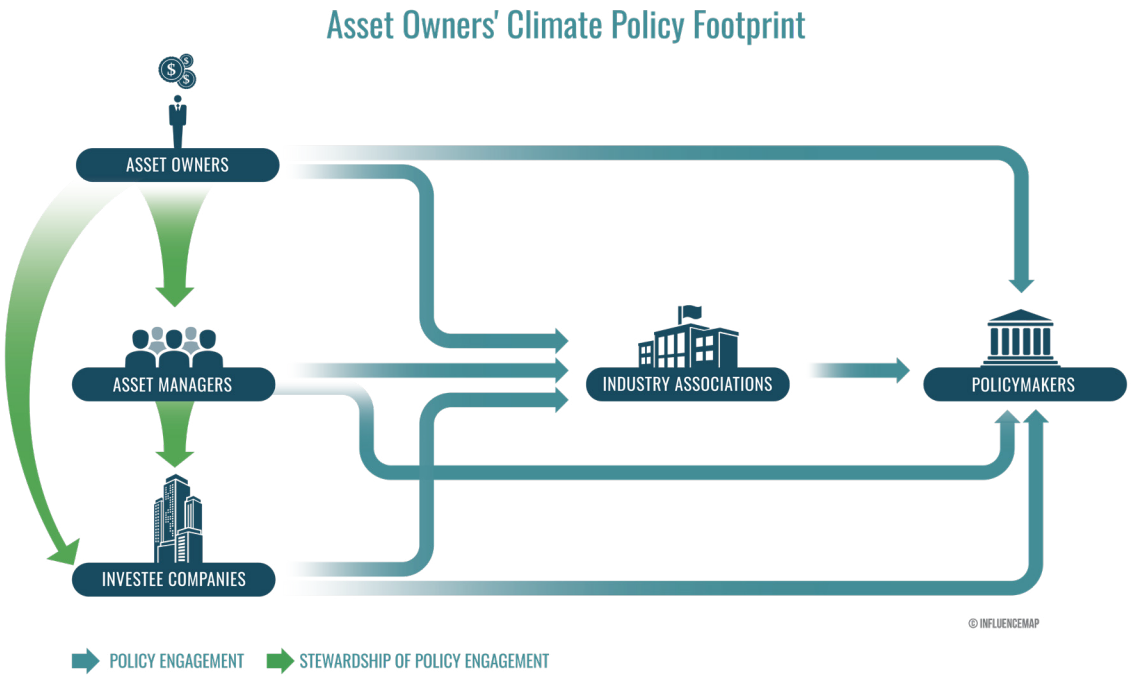


Figure 8: Institutional investors' policy footprint (source: InfluenceMap[32])

32 — https://influencemap.org/report/Untapped-Potential-Asset-Owners-and-Climate-Policy-Influence-30206

2: Prioritising where – and on what – to engage

Given the massive potential scope of what counts as climate policy – especially once you put real economy policies in play, not just disclosure standards and sustainable finance regulation – prioritisation is essential. No institutional investor can or should engage on everything. This section is about how to be strategically selective in identifying which issues, sectors and geographies to focus on, given limited bandwidth to engage.

PRIORITISATION FRAMEWORK

The starting point for prioritisation is to identify which sectors and geographies to focus on. There are two relevant criteria for assessing this:

1. Materiality: how important is policy action in this sector/geography for achieving the firm's financial and climate-related objectives?
2. Agency: how much capacity to influence the direction of policy in this sector/geography does the firm have?

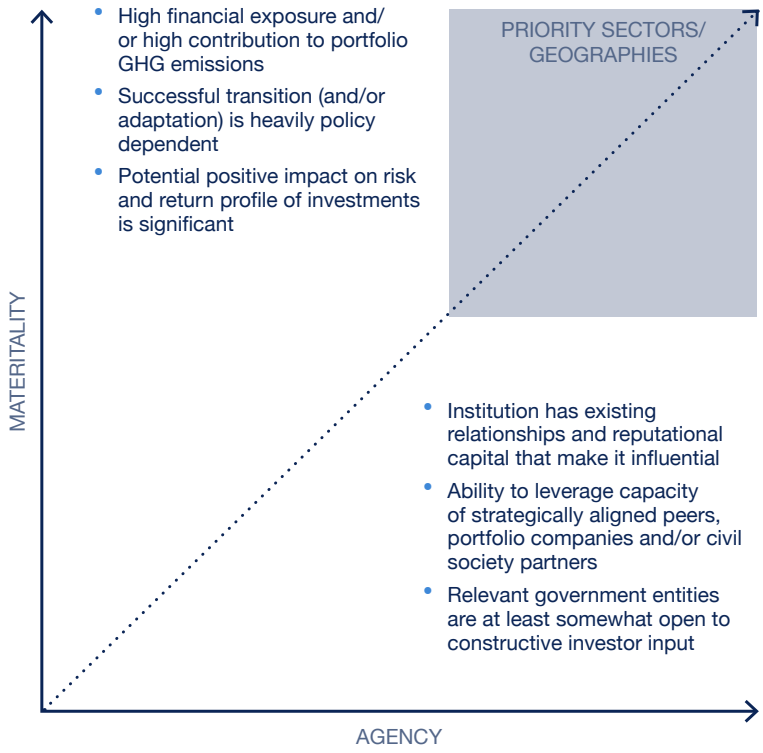


Figure 9: Prioritisation framework for real economy climate policy engagement (source: Volans)

Today, much of this prioritisation is done intuitively and informally. As the field matures and expectations of what policy engagement can deliver are raised, it will be important for institutions to formalise their decision-making to some degree to ensure both internal and external clarity and alignment about the institution's priorities. This doesn't need to be a cumbersome process: for most institutions, the data and knowledge required to make informed judgements about materiality and agency will already exist within the organisation. The task is simply to bring that existing data and knowledge together and plug it into a coherent framework.

The only significant data inputs required are a) financial exposure and b) portfolio GHG emissions, segmented by sector and geography. Firms may choose to incorporate other more sophisticated data inputs, such as climate value-at-risk, projections of future emissions, forward-looking transition readiness metrics, etc. But these are a nice-to-have. A basic prioritisation can be done using data that every institutional investor should already have readily available.

Prioritisation requires harvesting qualitative insights about the policy dependencies of companies' transition strategies in key sectors and the political dynamics in key markets. It also requires knowledge of how the firm is perceived by government stakeholders in different geographies and what existing affiliations, memberships and partnerships the firm has that might amplify its ability to influence. These insights may be dispersed across different teams – e.g., knowledge on policy dependencies is likely to come from a combination of investment analysts and stewardship teams, political dynamics will generally be best assessed by government affairs teams, etc. But, once again, the level of insight required for prioritisation should already exist within most investment institutions. It just needs to be brought together.

GUIDING QUESTIONS

Materiality

- Which sources of risk/impact are you least able to mitigate via diversification and engagement?
- What are the biggest "policy dependencies" for delivery of your portfolio-level climate goals?
- Where do current policies create material risks for your portfolio?
- Where might a different policy context materially improve the performance of specific investment strategies and/or of your portfolio as a whole?

Agency

- Where/on what issues is your voice most likely to make a difference to policy outcomes?
- Where do you have genuine expertise to contribute?
- Where do your priorities overlap with potential advocacy partners (e.g., other investors, portfolio companies or civil society organisations)?
- Where are there live windows of opportunity to influence, based on political dynamics and policy processes?

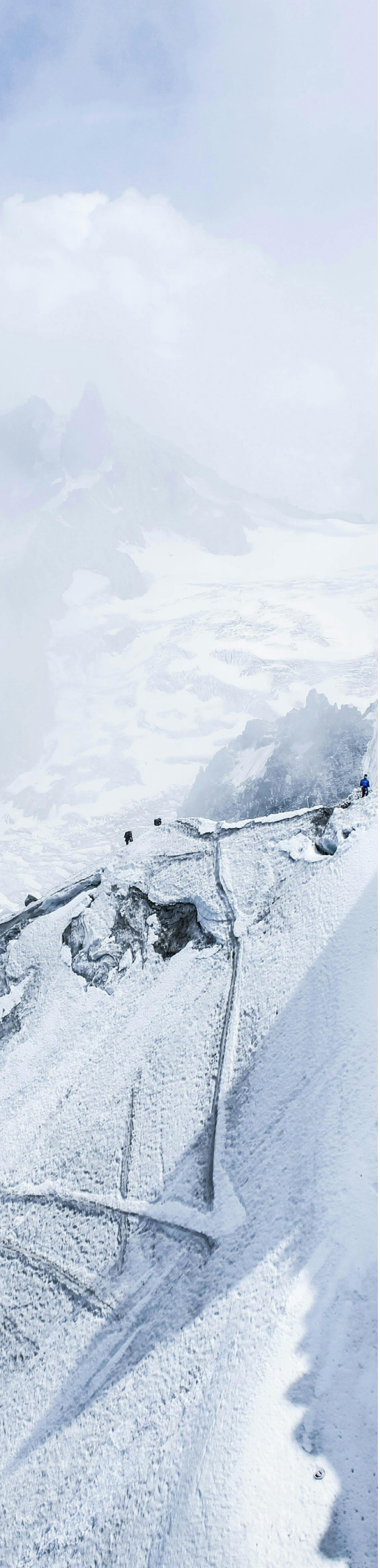
KEY CONSIDERATIONS FOR SELECTING GEOGRAPHIC AND SECTORAL FOCUSES

For selecting which **geographies** to prioritise, the following considerations apply:

1. Home market bias: most firms will prioritise engagement with their home government – i.e., the country or state where they are headquartered – unless there is a specific reason they cannot do so (e.g., because they are government-owned or a quasi-public entity). The rationale for this typically combines both materiality (many institutional investors' portfolios also have a home market bias) and agency (institutions are more likely to have well-established channels for influencing and reputational clout in their home market).
2. Current exposure vs future growth: for most globally diversified investors, their portfolio will be heavily weighted towards developed markets (e.g., G7 countries). There is therefore a case for prioritising engagement with these countries' governments, though investors are likely to be selective based on considerations about agency and additionality (will our voice make a difference?). Conversely, some emerging markets may be prioritised for engagement because of their potential contribution to future growth and future GHG emissions even if, in financial terms, they represent a small share of an investor's portfolio today.

For selecting which real economy **sectors** to prioritise, the following considerations apply:

1. Total GHG impact: investors tend to focus on the handful of sectors that drive the bulk of global emissions – above all power, transportation, construction/built environment and agriculture/land use. They sometimes choose to prioritise different sectors in different geographies. For some sectors/issues, certain geographies will be prioritised because of their systemic importance (e.g., Brazil and Indonesia on deforestation).
2. Potential for (investor input on) policy to unlock substantive progress: sectors with highly "policy dependent" transition



pathways are an obvious focus for investor engagement. These are industries where, based on current technologies, market forces will not do the heavy lifting in driving a transition, because the unit economics of low-carbon alternatives are not favourable under current policies. These are also industries where politically powerful incumbents may be resistant to policies that will accelerate the transition. In such cases, investor input can be an important corrective, since what's best for particular incumbent companies may not be the same as what's optimal at a portfolio or economy-wide level.

3. Degree of vulnerability/value at risk: given the extent to which future adverse climate impacts are already locked in, adaptation and resilience is a key consideration for sectors that are most vulnerable to these impacts, such as agriculture and real estate. These sectors may be considered priorities for policy engagement efforts because of the systemic risk they represent, even when they are a relatively small part of an investor's portfolio in financial terms.[33]

33 — For example, the seriousness of food price inflation as a source of macroeconomic and political instability means that there is a case for treating agriculture as a high priority sector, even if direct financial exposure to the sector is limited.

WHAT KIND OF OUTPUT SHOULD YOU EXPECT FROM A PRIORITISATION PROCESS?

Based on the criteria and questions set out above, an institution should be able to identify a shortlist of priority sectors/issues and countries/regions. The length of these lists will depend on the institution's size, capabilities and positioning. Some sectors may only be a priority in certain geographies. For each sector/geography, a further question arises about whether policy engagement will focus on transition, adaptation or both.

Figure 10 shows an indicative example of what the output of this prioritisation process might look like. In this case, our hypothetical investor has identified five priority sectors/issues and five priority countries/regions and then mapped these against each other. The colours signify whether the focus for that sector/geography is transition or adaptation or both.

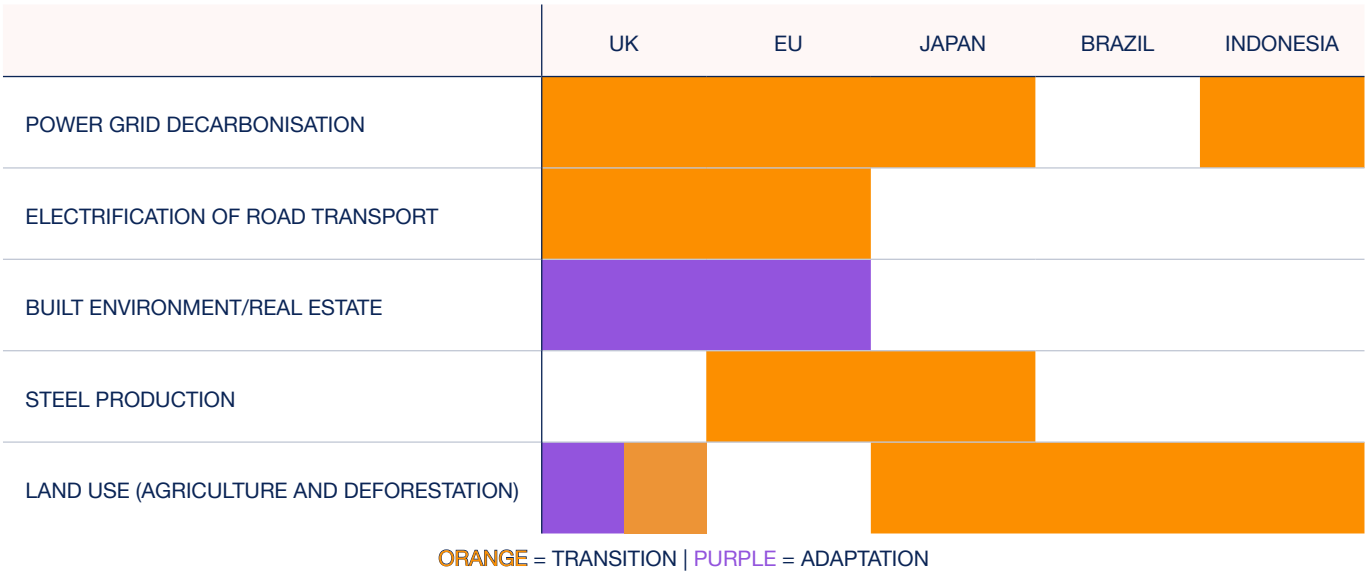


Figure 10: Hypothetical climate policy priorities grid for a UK-headquartered institutional investor (source: Volans)

ESTABLISHING A ROBUST ONGOING PROCESS

For institutions that are yet to establish real economy climate policy priorities, the framework outlined above can guide the process for doing so. Once an initial prioritisation has been done, it is helpful to establish a light-touch internal process for periodically reviewing and updating climate policies in light of any changes in the institution's strategic goals and/or external circumstances (e.g., shifting political dynamics in key geographies). This should ideally be integrated into the firm's wider strategy cycle, with climate policy engagement priorities being reviewed at least annually alongside both entity-level engagement priorities and other non-climate-related policy priorities.

3: Executing effectively

Having built the case for engaging on climate policy and identified strategic priorities, the final step is how to create maximum impact and value from whatever limited resource is available. Without effective execution, climate policy engagement risks becoming little more than a virtue-signalling exercise. This section sets out what emerging best practice looks like – first in terms of internal structure and capabilities and then, crucially, in terms of leveraging external networks and partnerships. At the end of the section, we turn to tactical considerations about how to engage on policy in different contexts.

A: SETTING UP FOR SUCCESS - INTERNAL STRUCTURE AND COMPETENCIES

Given the relative novelty of climate policy engagement as a practice for institutional investors, few firms have yet established a clear delivery model or developed the necessary capabilities.

A first step is to determine who should be responsible for managing and directing an institution's climate policy engagement. The norm today is for this to sit with the Responsible Investment or Active Ownership function – with climate policy engagement (and systemic stewardship more broadly) treated as an adjunct to company-level engagement. There are advantages to this in terms of aligning priorities across different forms of engagement, but it also creates limitations. Firstly, very few Responsible Investment or Stewardship professionals have policy or advocacy backgrounds. Secondly, given the scale and complexity of climate policy (especially when you broaden the scope to include real economy policies), it is simply not feasible to deliver effectively if climate policy engagement is treated as a "side-of-desk" project for people whose main job is something else.

Dedicating appropriate internal resource to managing climate policy engagement is a pre-requisite for effective delivery. The exact organisational structure that is most appropriate will differ from firm to firm, as will the appropriate size of the team dedicated to climate policy. At this stage, the point is simply that it needs to appear somewhere on the org chart and that there needs to be a team (or, at minimum, an individual) whose primary job is to manage the firm's climate policy engagement.

Ensuring the individuals responsible for climate policy engagement have the right capabilities to do this effectively is another important consideration. Part of their role is coordination of existing expertise and delivery capacity that may be spread across different parts of the firm. For example, they will need to draw on investment analysts and Stewardship teams for granular insights into how policy affects portfolio companies' profitability and ability to deliver on climate transition and adaptation goals. For delivery, they will need to tap into the capacity of those whose job it is to interact with policymakers (i.e., Government Affairs and/or external public affairs agencies) and/or who manage relationships with key alliances, associations and civil society partners. Figure 11 sets out the key capabilities required at a firm level.

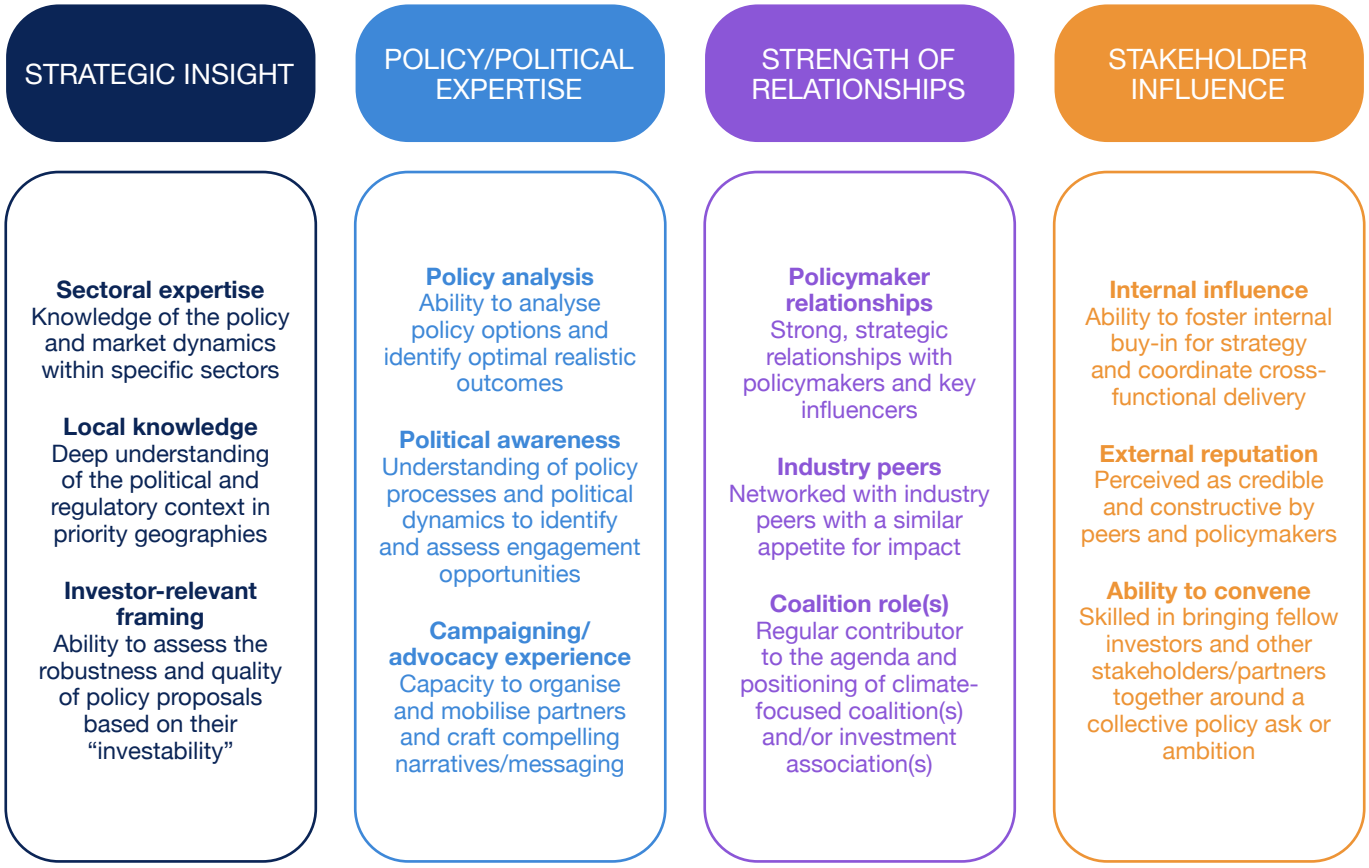


Figure 11: Capabilities required for effective real economy climate policy engagement (source: Volans)

B: OPTIMISING ACROSS MULTIPLE ENGAGEMENT CHANNELS

Effective engagement requires investors to take a holistic view of their "policy footprint" (see Figure 8 on page 38). This includes not just direct engagement with policymakers by the institution, but also the indirect engagement that happens via industry associations, as well as (for asset owners) the activities of their external asset managers, and (for both asset owners and asset managers) the activities of their portfolio companies.

Effective engagement is about driving consistency of messaging across all direct and indirect channels. When managed well, external asset managers, portfolio companies and industry associations can become valuable partners who amplify key messages and policy asks – but they often need to be mobilised to do so. Without proactive management on the other hand, the more likely outcome is conflicted messaging, with some of these potential partners instead promoting misaligned positions. When this happens, it undermines an institution's ability to realise its own policy goals.

Aligning an institution's entire policy footprint typically requires considerable internal coordination across functions. For example, engagement with portfolio companies regarding their (direct and indirect) climate policy influence is the responsibility of Stewardship/Active Ownership teams. For asset owners, setting clear expectations of external asset managers regarding both their own climate policy influence and their approach to managing portfolio companies' alignment on climate policy requires portfolio managers to be on board. Meanwhile, relationships with key industry associations, investor networks and other potential external collaborators may be held by a range of different individuals and teams across the organisation.

Given the constraint of limited internal resources, collaborative engagement via formal and informal associations and alliances is a must for effective engagement. For the purposes of thinking about investors' climate policy engagement, it is useful to segment the broad category of industry associations into three sub-categories:

- Climate- and sustainability-focused coalitions, such as those listed in Figure 2 on page 16.
- Mainstream finance industry bodies, such as the Council of Institutional Investors (US), PensionsEurope, the Investment Management Association of Japan, the Investment Association (UK) or the Institute of International Finance (IIF).
- Mainstream cross-sector associations, such as national confederations of industry or chambers of commerce.

Each of these sub-categories presents different challenges and opportunities. For example, aligning members around robust climate policy positions may be easier within climate-focused coalitions, but those coalitions may have less capacity to influence key policymakers than mainstream associations do. Conversely, aligning a mainstream association behind ambitious climate policy positions may be harder due to the breadth of its membership, but if this alignment can be achieved, the pay-off in terms of policy impact may be significant.

Historically, climate policy has generally been viewed as a specialist domain and treated as something distinct from wider financial and economic policy. As a result, investors tend to emphasise engagement via climate-focused coalitions, rather than mainstream associations. However, as an institution's view of what climate policy is expands to incorporate a wide array of real economy policy issues (industrial policy, energy policy, trade measures, carbon pricing schemes, etc.), there are two potential responses, both of which are starting to happen:

1. Climate- and sustainability-focused coalitions are increasing the emphasis they put on real economy policy issues and boosting their capacity to engage on these issues. In some cases, this is about extending or expanding well-established workstreams, while in other cases it is about creating a new strand of work and/or pivoting the focus of work programmes that have to date prioritised disclosure etc.
2. Some investors are leaning more into engagement via mainstream cross-sector associations, particularly where they can do so in collaboration with strategically aligned portfolio companies. Often, this is on an ad hoc, opportunistic basis, though some investors also participate in relevant policy committees within cross-sector associations on an ongoing basis.

The question of which coalitions and partners to work with needs to be assessed on a case-by-case basis. Every association will have expertise and credibility on particular topics and not on others, so the choice of partners depends on the specific engagement objective and an analysis of which initiatives have the greatest capacity to influence relevant decisionmakers. Sometimes this will mean seeking to "neutralise" misaligned groups by encouraging them to stay on the sidelines, as well as mobilising potential allies.

Investors can and do also partner with NGOs, think tanks and academic institutes on policy engagement, particularly where these groups can bring a level of expertise that investors do not have in-house. Advocacy coalitions that span civil society and the private sector – sometimes referred to as "Baptist and Bootlegger" coalitions – often have greater capacity for policy influence because they are perceived as representing a broad spectrum of societal interests.

C: TACTICAL CONSIDERATIONS

Effective policy engagement often involves a mix of tactics, tailored to the specific context in which engagement is taking place. This context is defined by:

- Issue maturity: how advanced is relevant policymakers' thinking on this topic? I.e., where does it map onto the "policy funnel" (see Figure 12)?
- Political dynamics: what types of influencing activities are most likely to trigger a constructive response from relevant policymakers?
- Institutional constraints: what level of expertise do you have? What types of advocacy – and what granularity of policy ask – can you legitimately pursue?

Based on this context, investors can make informed choices about the three dimensions that will together determine the most appropriate forms of engagement:

- Granularity: how detailed should your position and messaging be?
    - *From "something must be done" to "this specific thing should be done".*
- Duration: what's the time horizon for engagement?
    - *From one-off intervention to ongoing multi-year dialogue.*
- Visibility: how public do you want your engagement to be?
    - *From high-profile campaign-style activities to low-profile behind-the-scenes influencing.*

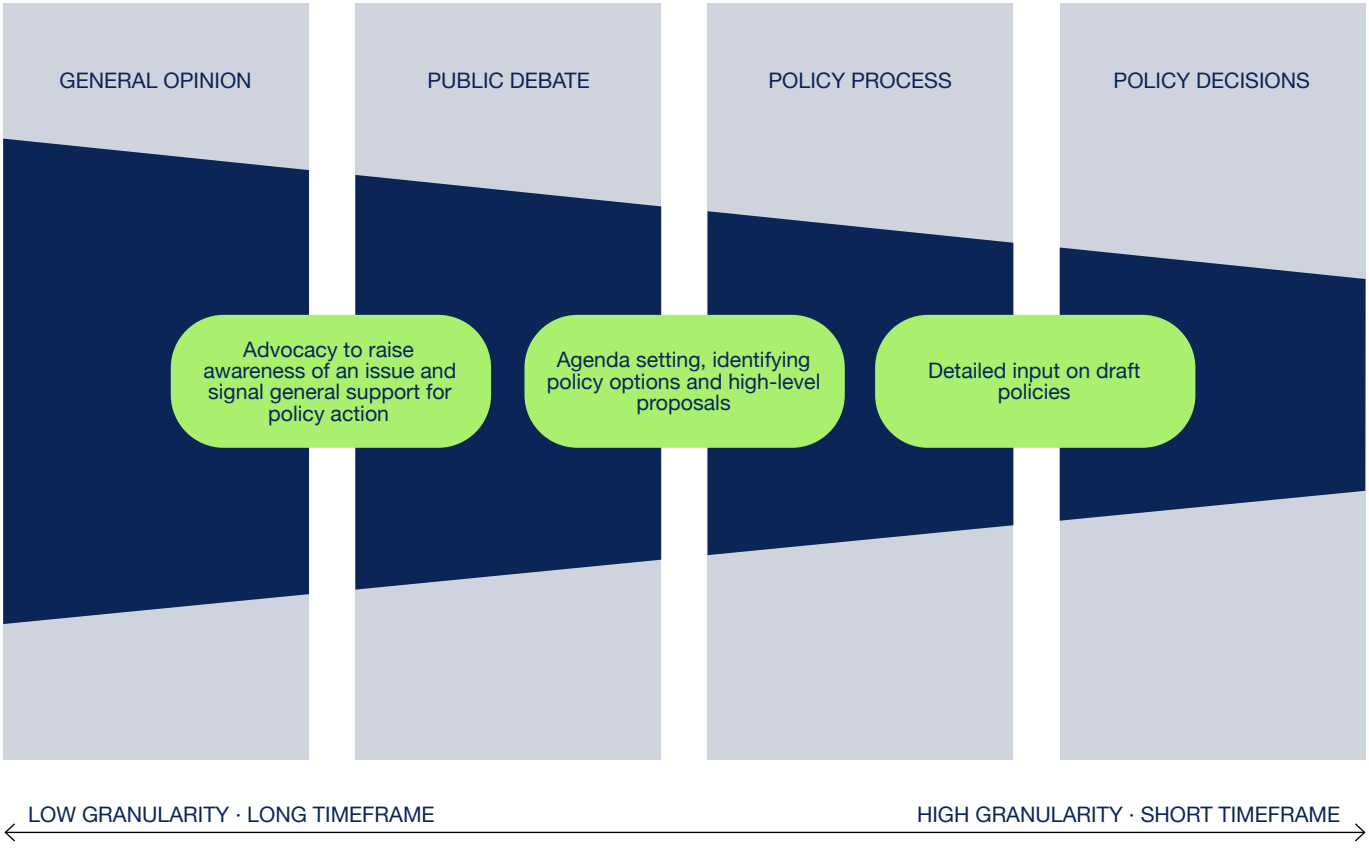


Figure 12: Policy funnel (Source: E3G, adapted by Volans)

Examples of different engagement tactics and approaches

- Sovereign engagement: leverages investors' role as holders of government–issued debt and/or significant investors in a country's economy more broadly as the basis for conversations with policymakers. E.g., PRI's Collaborative Sovereign Engagement on Climate Change programme started in Australia and has since expanded to Canada and Japan.[34] It focuses on establishing ongoing dialogue with stakeholders across different departments and different levels of government (national and sub-national). Investor input is typically higher level – more focused on raising awareness of the need for policy action and setting general principles for what good policy looks like than submitting detailed proposals on specific legislation.
- Agenda-setting campaigns: this can include a range of activities and outputs – position papers, events, media engagement, social media campaigns, joint letters, etc. Agenda-setting campaigns can be highly visible when the goal is raising broad public awareness and pressuring policymakers to take action (see, for example, IGCC's 'Climate Action Pays Off' campaign, which was launched in 2024).[35] Equally, agenda-setting can be more low-profile when the goal is to foster constructive engagement with policymakers directly and "going public" risks eroding trust and goodwill.
- Detailed input on specific policy options: this includes activities like submitting consultation responses (either independently or jointly with peers/via a coalition) and participating in meetings with those responsible for drafting policy. This is most likely to be used for issues where investors have considerable expertise and "skin in the game". The style of engagement is typically relatively low-profile, though may be coupled with more public-facing activities (e.g., media interviews and articles) in cases where publicity is deemed likely to increase the willingness of policymakers to take detailed feedback on board.

34 — https://public.unpri.org/investment-tools/stewardship/collaborative-sovereign-engagement-on-climate-change
35 — https://climateactionpaysoff.com.au/

Building the field

Key priorities for action to advance investor climate policy engagement

Strengthening the climate policy influence ecosystem

Investor climate policy engagement is in its infancy. The norm that this is something institutional investors do is still in the process of being established. The evolution from a disclosure focus to a real economy focus has barely started – indeed, not everyone is yet bought in to the premise that an evolution is needed (though we hope that, if you've read this far, you are at least somewhat persuaded). To our knowledge, this report is the first comprehensive attempt to codify best practice for investor engagement on climate policy at a level of granularity that should enable any institution to move up a maturity curve – itself an indication of how new this topic is for investors.

In this final section, we zoom out to consider what the key priorities are for building the field as a whole. Given that the rationale for engaging on climate policy rests heavily on fulfilment of fiduciary duties and the need to mitigate systemic risks, this is an area where collaboration trumps competition. While individual firms can and do reap benefits from being actively engaged on climate policy, these benefits are generally too small to power a competitive race to the top. Pooling resources to create a vibrant and effective climate policy influence ecosystem better serves the interests of most investors.

From the dozens of conversations we have had with practitioners, three key action areas to achieve this stand out:

1. **Mobilising asset owners**

   Asset owners sit at the top of the investment value chain. How they think about the role of climate policy engagement in achieving their investment objectives sets the tone for the whole industry. While some are already bought in to the principle that climate policy engagement is a legitimate and valuable tool that investors can use to mitigate systemic risk and protect long-term returns, the level of buy-in is patchy. That is true within institutions as well as between them. While climate policy engagement is fast becoming "normalised" within Responsible Investment teams, it is rarely (yet) on the Chief Investment Officer's agenda. This, in turn, means it is not a priority for most portfolio managers and therefore not being systematically integrated into investment mandates or how external investment managers' performance is assessed.

   Greater clarity and alignment within and between asset owners on the need for robust climate policy action, what that means in terms of specific desirable policy outcomes, and the legitimacy of pursuing those outcomes via all the channels available to them (see Figure 8) is a key unlock. Strengthening the demand signal that asset owners transmit to their external investment managers is essential for mobilising a larger portion of the asset management industry to treat climate policy engagement as a core competency rather than an optional extra.

2. **Building the talent pipeline**

   The specific skillset needed for effective delivery of climate policy engagement is one that is rare within investment institutions. Getting more people with policy and advocacy experience into the industry is one way to address this skills gap. Another is via upskilling programmes to train individuals already working in the industry in the skills and knowledge they need to lead effectively on climate policy engagement. Given that even large institutions that decide to go "all

in" on climate policy engagement are unlikely to employ more than a handful of people focused on climate policy, it makes sense for this upskilling to be delivered at an inter-firm – rather than intra-firm – level.

3. **Strengthening the capacity of investor coalitions to do real economy climate policy work**

   Many climate-focused investor coalitions have begun to do real economy policy work in recent years, but the level of resource being put into this globally is tiny relative to the scale and complexity of the task at hand. There is a strong case for increasing the amount of resource dedicated to real economy policy engagement within these initiatives. This will require additional funding, but, in many cases, could also be partially achieved by re-allocating resource from other less impactful areas (e.g., engagement on disclosure frameworks or promoting voluntary target setting).

   Strengthened capacity within initiatives could also then be used to improve coordination and collaboration between initiatives – and with other non-investor-centric organisations working on real economy climate policy issues. For example, this might include collaborative mapping of key policy moments and engagement opportunities at national/regional/sectoral levels as a basis for coordinating strategies across organisations with complementary aims.

BUILDING A PRACTICE REQUIRES PRACTICE

The fundamental message of this report is that, for institutional investors, climate policy engagement is a practice that is evolving and maturing – and it needs to continue doing so. This is not about a theory that needs to be refined, but a muscle that needs to be exercised. It's about learning by doing. It's about starting somewhere, however narrow the focus or incomplete the strategy, and then adapting and iterating.

Last but not least, it's about being ruthless. Evolution is about editing out what doesn't work or is no longer fit for purpose, not just adding new layers on top of old ones. At this early stage in the field's development, anything that already feels habitual and comfortable should be treated with extreme scepticism. Conversely, assumptions about where the boundaries are in terms of what is appropriate action to take need to be challenged and tested, not blithely accepted. Norms are there to be broken.

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