
The Challenging Sustainable Investing Landscape

One Size Does Not Fit All

The incorporation of sustainability factors in investment decisions has become increasingly common in the portfolios of institutional investors over the past decade. This has been primarily driven by investors who may be focused on risk management, responding to new regulations, making investments that align with their values, or seeking to enhance long-term performance.

A recent survey of institutional investors by State Street Global Advisors, *The Climate Opportunity*, underscores the varying implementation of sustainable investing across asset owners, many of whom have differing views on the topic. Therefore, it may be crucial for asset owners to partner with asset managers that can offer bespoke approaches, helping them meet their individual investment needs and objectives.

The Investor Dilemma: Balancing Investment Risk with Market Solutions

The survey reveals that when considering climate-related factors, the majority of EMEA-based asset owners surveyed are most concerned by the investment risk it poses, more than its potential real-world impact, stakeholder preferences, and regulatory requirements. This emphasis on risk is consistent across all types of investors surveyed, from pension funds to sovereign wealth funds.

Our survey shows that more than 80% of asset owners surveyed have assessed and modeled the impact of different climate risks on their portfolios — a process that is often expensive, time-consuming, and complex. However, many investors face significant challenges in implementing strategies with sustainable investment objectives. The current market, dominated by index provider-led solutions, offers off-the-shelf products that may not fully address the specific risks exposed by this process.

This misalignment between investor needs and available solutions suggests the market needs to further evolve to meet the growing demand for sustainability integration. As a result, institutional investors must carefully select an asset manager who can truly understand their unique perspectives and can facilitate the implementation of their sustainability objectives effectively.

The Need for Customization

The investment landscape is flooded with sustainability-themed products designed to cater to asset owners. However, there is ample reason to believe many of these fail to accommodate the unique needs of each investor.

The survey finds that 62% of those surveyed judge the “general investment breadth and capabilities” as important when selecting their preferred manager. But being able to adapt to the evolving requirements as well as having suitable expertise to meet these needs of asset owners is also important with 38% of respondents identifying “innovation capabilities” and 33% of respondents citing a “lack of internal climate expertise” as main factors considered in the selection process and challenges faced, respectively. Access to data is also a challenge with 40% of respondents surveyed citing “difficulty in obtaining high quality climate-related data,” and one-third of those surveyed identifying “inconsistency in climate standards and metrics” as a main challenge when investing in climate-related investment strategies.

Evidently, a one-size-fits-all approach is inadequate. Given the variation in investor appetite, it may even leave investors holding portfolios that neither reflect their priorities nor adequately manage risk, potentially at the expense of their fiduciary duty.

As a result, we believe the ability to provide customization of the investment solution is not just desirable, it’s essential.

The New Standard for Asset Owners

A successful investment partnership in our view is one where, if needed, it can look beyond off-the-shelf products. It means working with an asset management team that can:

- 1 Listen and Understand** An asset manager can be expected to take the time to understand an investor’s sustainability preferences.
- 2 Provide Custom Solutions** Instead of relying on generic solutions, an asset manager can be expected to build bespoke portfolios that align with an investor’s sustainability goals, whether focused on specific sectors, asset classes, regions, or another metric of integration. These portfolios should be dynamic, enabling one to move in step with new risks and opportunities as they emerge.
- 3 Deliver Expertise and Insights** Navigating sustainable investing complexities requires access to data and expert insights. An asset manager can be expected to equip an investor with the tools and information necessary to understand the trade-offs involved in the integration of sustainability factors, helping them make informed decisions.

The Climate Opportunity

A State Street Global Advisors study of EMEA-based asset owners’ integration of climate considerations into investment decisions. Read the [full report here](#).

To explore how State Street Global Advisors can support your climate investment efforts, please [visit us](#), contact your relationship manager, or email us at [SSGA Insights](#) to discover how we can help.

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For four decades, State Street Global Advisors has served the world's governments, institutions, and financial advisors. With a rigorous, risk-aware approach built on research, analysis, and market-tested experience, we build from a breadth of index and active strategies to create cost-effective solutions. As pioneers in index and ETF investing, we are always inventing new ways to invest. As a result, we have become the world's fourth-largest asset manager* with US \$4.37 trillion[†] under our care.

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

[†] This figure is presented as of June 30, 2024 and includes ETF AUM of \$1,393.92 billion USD of which approximately \$69.35 billion USD is in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

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Important Information

In partnership with FT Longitude, part of the Financial Times Group. This study was conducted in May of 2024 via an online survey instrument (n=330) and qualitative telephone interviews (n=2). Respondents were limited to senior leaders and Chief Investment Officers who are directly involved in ESG investment decisions at Pension Funds, Sovereign Wealth Funds, Endowments, and Insurance companies.

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