



## How investment management firms can drive climate change disclosure adoption and reporting

As climate change impacts business operations and influences investor demand for sustainable investment solutions, investment management firms may face a challenge to incorporate material climate-related data into the investment decision-making process. Explore how investment managers can help companies adopt leading practices for climate change disclosure and reporting while providing greater transparency and accountability to stakeholders.

## Opportunity and changing preferences

Investment management firms have a once-in-a-generation opportunity to help unlock US\$43 trillion worth of global economic growth and achieve net-zero emissions by 2050.<sup>1</sup> While that amount of economic growth creation can certainly be appealing, there may be substantial human tolls, as well as significant costs—estimated at US\$178 trillion—to the world's economies should climate change be left unchecked.<sup>2</sup>

Many of these costs are coming to fruition. Some investment managers are seeing the negative effects of climate change on some of their portfolio holdings. In a 2023 Deloitte survey of global C-level leaders, almost every CxO, regardless of industry, reported that climate change has adversely impacted their company's operations, making climate change's influence on the operating environment a top issue for executives over the coming year.<sup>3</sup>

Investors are also taking notice of this new reality and beginning to demand action. In fact, two-thirds of financial services industry executives surveyed reported that they feel pressure from investors to act on climate change.<sup>4</sup> Given the implications of climate change on companies' operations and financial performance and the demands for action from investors, many investment management firms responded by launching investment products which incorporate climate-related data to identify climate-related risks and opportunities in the security selection process.<sup>5</sup>

Investment products with some level of environmental, social, and governance (ESG) incorporation are estimated to represent over 40% of all professionally managed assets worldwide at the end of 2022.<sup>6</sup> However, the lack of transparency driven by varied methodologies utilized in unaudited self-reported disclosures for most of these ESG-aligned products could allow concerns over greenwashing to proliferate. As such, investment management firms may face the challenge of effectively adopting a climate change plan of action that contributes to building a net-zero economy while also meeting regulators' expectations for consistency between the claims made about ESG funds and the investment practices of those funds.

Let's explore some possible approaches of how leaders at investment management firms may consider tackling these

issues, from driving more comprehensive disclosures and reporting practices at investee companies to implementing a climate-related data management strategy for use in the investment decision-making process. By taking these actions, investment management firms can contribute to creating a path to sustainable, long-term growth benefiting of all stakeholders in the global economy.

## Develop a climate-related data management strategy

Internal alignment with the firm's climate change plan of action and approach to incorporating climate-related data into the investment decision-making processes may be important to creating a clear and consistent message to external stakeholders. Top-down communication of expectations from C-suite leadership could be vital to strengthen corporate culture, ensure accountability, alignment, and commitment across the entire organization.<sup>7</sup> Whether an investment management firm is making incremental changes to an existing ESG investing strategy, or completely re-designing their business model, the CEO's vision can provide a leading guide to successful implementation.<sup>8</sup> Evidence from the Deloitte Center for Financial Services 2023 investment management outlook survey suggests that when the CEO's vision contains measurable characteristics, accountability increases and a foundation for the improvement of collaboration across a firm may be created. When it comes to climate change and a firm's broader ESG initiatives, stakeholders are increasingly demanding greater transparency from leadership. An example of a broader ESG initiative would include reporting specific progress on DEI metrics. When senior leaders surveyed in the Deloitte Center for Financial Services 2023 investment management outlook survey reported quantifiable progress on their specific DEI initiatives, they were 44% more likely to also report that collaboration among teams became much stronger.<sup>9</sup> Such leaders may gain similar collaboration benefits in their organizations by quantifying their firm's progress toward its climate-related goals. As teams work more effectively together toward a common ESG goal that is specific and measurable, making meaningful progress toward their firm's climate-related objectives becomes more achievable.

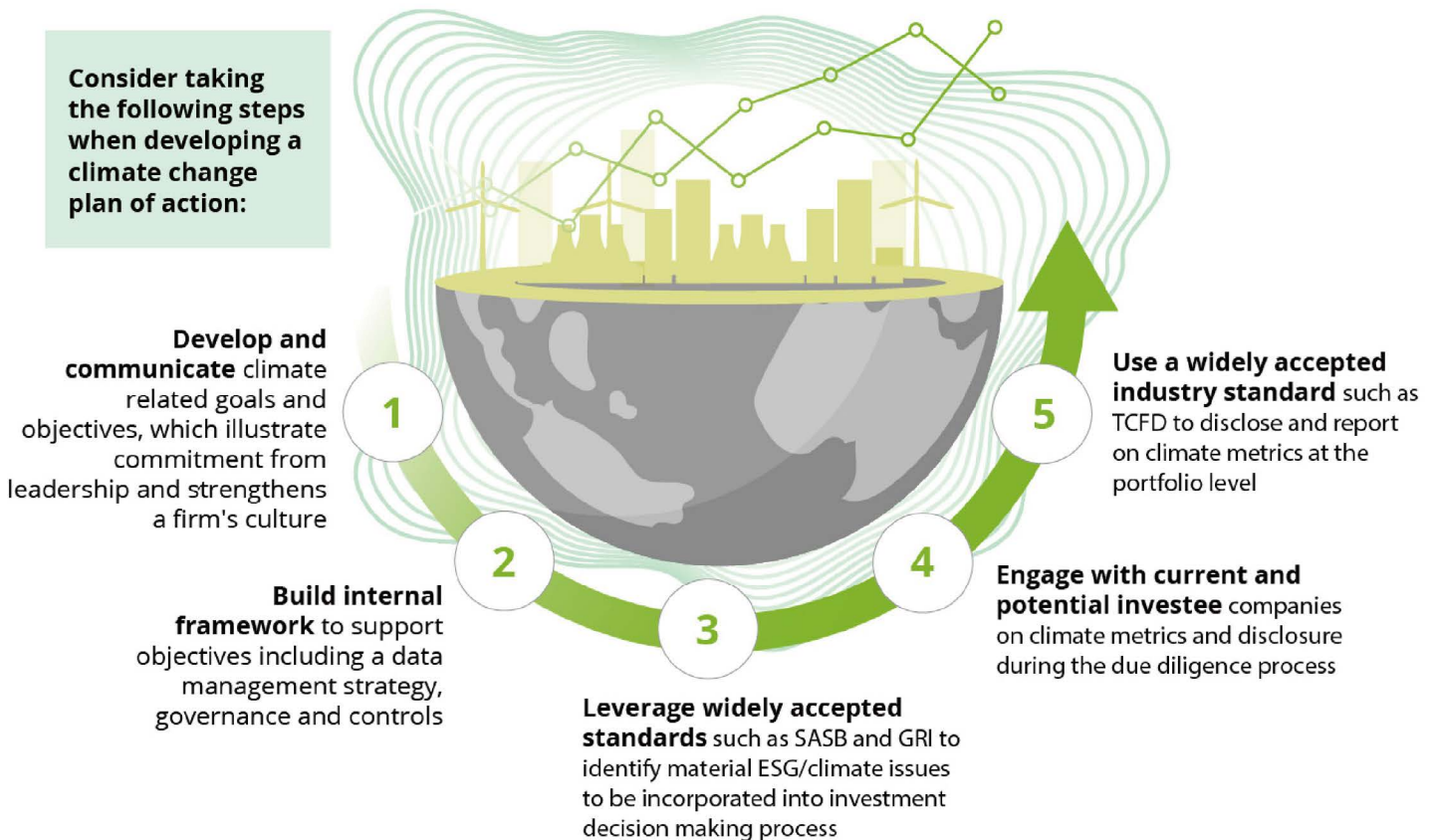
**FIGURE 1:**

Investment managers should consider whether the costs of inaction outweigh rewards of acting on climate change

### Potential rewards for action:

- Reduce human suffering and potentially unlock an additional **US\$43 trillion** worth of global economic growth.\*
- Improved collaboration across teams when leaders set specific climate initiatives with quantifiable progress.
- Stronger credibility with sustainability focused investors leading to opportunities for new fund flows.
- May satisfy the increasing desire for transparency from regulators and investors.

**Consider taking the following steps when developing a climate change plan of action:**



### Potential costs of inaction:

- Substantial tolls on humanity as well as significant costs, an estimated **US\$178 trillion**, to the world's economies should climate change be left unchecked.\*
- Negative impacts of climate change already seen on investment portfolios will likely become more pronounced, making the security selection process of portfolio managers even more difficult.
- Risk of fund outflows as investors reallocate their investment dollars to investment managers that are seen as taking a more proactive approach to combating climate change.

\* Pradeep Philip, Claire Ibrahim, and Cedric Hodges, [The turning point](#), Deloitte, May 2022.

Source: Deloitte Center for Financial Services

## Collect material climate-related data

One challenge when integrating climate metrics into an investment process is identifying the material climate-related data from reliable sources so portfolio managers are focused on what is both relevant and measurable. Even if trusted sources are identified, accessing the data itself may be a challenge. Seventy percent of board audit committee members surveyed as part of the Deloitte Global Boardroom Program reported that the companies they oversee have yet to complete an assessment of how climate change will affect the company's operations, supply chain, and customers.<sup>10</sup> A better understanding of which climate metrics impact an investment may help investment management firms put into place a formalized climate-related data management strategy.

Investment managers can create a catalyst for investee companies to jump start the data collection process. With so many companies still unsure about the effects of climate change on their operations, it may be of little surprise that the related climate change data is not being reported to stakeholders by many companies. Yet, less than half (46%) of audit board members respondents surveys as part of the Deloitte Global Boardroom Program identified poor data/lack of accurate and complete management information as the biggest challenge in overseeing climate change in relation to their organizations.<sup>11</sup> The biggest concern cited was having a clear and agreed upon carbon reduction strategy. The same survey noted that almost two-thirds of audit committee members don't regularly discuss climate change at board meetings. This could pose an opportunity for investment management firms to jumpstart a dialogue about a climate change strategy at investee companies.

Investment managers can encourage investee companies to adopt recommendations for climate-related frameworks, initiatives, and standard-setting organizations such as the Task Force on Climate-related Financial Disclosures (TCFD), Glasgow Financial Alliance for Net Zero (GFANZ),

or the International Sustainability Standards Board (ISSB). Moreover, as investment management firms increase the level of engagement concerning climate change risks and opportunities with company management, chances may improve that the company could disclose more relevant climate-related data. By increasing engagement with investee companies and disclosing these efforts, investment managers may also build stronger credibility with sustainability-minded investors.

Even when climate-related data is available from companies, navigating through the sea of data sources often remains a challenge as investment managers work to increase transparency to their investors. Whether it be accounting for higher insurance costs due to climate change or potential cost related to a company's carbon emissions, without access to quality data, reporting the progress on a carbon reduction strategy to stakeholders can be difficult. Even when data is readily available, competing interpretations of the same data can often lead investment managers to different conclusions about the same potential investment. Due to the varying disclosure frameworks that may be adopted by companies if any at all, many portfolio managers may need to take on the difficult task of integrating third-party datasets to fill gaps created by the patchwork of company disclosures. Creating a thorough and accurate picture of a company's material ESG characteristics can remain a challenge for many investment managers. Hence, it may be important to have adequate controls and data governance in place around these aggregated datasets help ensure it is complete and accurate in order to help derive valuable insights.

## **Report progress to investors, regulators, and other stakeholders**

Investment managers can gain efficiencies in the reporting process by housing ESG/climate data alongside traditional financial indicators and datasets on portfolio manager's investment research platforms. This practice allows for greater integration in the investment decision-making process to identify sustainable investment opportunities and risks, but also provides a method to report to investors how these metrics impact decision-making in a transparent way.<sup>12</sup> Reporting to stakeholders on not only investment performance, but the impact of their investment dollars on climate-related initiatives (referred to as double materiality) represents an emerging opportunity for differentiation.<sup>13</sup>

Aggregating the data onto the investment platforms used by the portfolio managers in the investment decision-making process could present another challenge. Efficiencies may be created when the ESG/climate data is integrated on the same platform as the traditional data alongside the portfolio manager's notes. This technological issue can require backend adjustments to bring in new data feeds. A more integrated and streamlined platform may also help investment managers more effectively satisfy growing regulatory requirements. Regulators around the world are seemingly increasing their focus on investment management firms that claim to incorporate climate change risks into their investment decision-making processes and detailed disclosures are expected to be required in the future.<sup>14</sup>

In the United States, the SEC recently proposed that public companies be required to regularly make climate-related disclosures, including the impact of climate-related disasters on certain financial statement line items, as well as GHG emissions (Scopes 1, 2, and 3).<sup>15</sup> While these rules are still being finalized, investment management firms may benefit from such standardized datasets in the future. Once available, their investment operations and data collection processes would need to determine how enhanced ESG disclosures may impact their funds and investment decision-making process.

## **Drive sustainable growth for the long-term**

Without concentrated effort, climate change could impose significant tolls on people's lives as well as the world's economy over the coming decades. As capital allocators, investment management firms generally have a strong interest not only in seeing the negative effects of climate change risks mitigated to improve the potential for better returns on existing investments, but also in identifying new opportunities that may emerge from the economic growth associated with net-zero emissions strategies.

As climate change concerns and other ESG considerations have become mainstream, stakeholders from around the world are demanding greater transparency, disclosure, and for companies to accelerate their activities toward decarbonizing the global economy. Leaders at investment management firms may meet or exceed these expectations by communicating their commitment with specific and measurable goals, building an internal framework to support those objectives with a robust data management strategy, leveraging well-known sustainability standards into the investment decision-making process, engaging with investee companies about climate change related issues, and disclosing and reporting climate metrics at the portfolio level. In short, "[t]ime is no longer running out. It's up."<sup>16</sup> Opportunities are here for investment managers to enter the conversation to drive growth in a sustainable manner.

# Endnotes

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