
Tsinghua-Invesco Research: Six sustainable investing tips for asset owners

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Background

As covered in Invesco's previous research on asset owners, selected asset owners have a range of sustainable investing objectives and approaches in place. As a continuation, Tsinghua's research collaboration with Invesco recently consolidated practices from **50+ institutions** (including pensions, insurers, sovereign wealth funds) to identify six practical shifts shaping sustainable investing today — why they matter, and how asset owners can apply them.

1. Screening: Shift from exclusions to inclusive management

While the long-standing exclusionary screening approach remains relevant and effective for asset owners with legal/ethical objectives or clear-cut risk avoidance¹, leading practices now use inclusive and dynamic mechanisms to guarantee high flexibility in managing portfolios and enable real-time feedback to adjust investment portfolios. This also helps to avoid the performance and diversification costs of broad divestment. Examples of such approaches include:

- Move beyond simple exclusions (blacklist) and blanket withdrawals
- Establish multi-layered criteria (absolute/relative thresholds, rankings and qualitative review) with scheduled look-backs to update lists.
- Dynamic processes (phase-out, engagement & observation, re-inclusion) create more adaptability by real-time tracking and allowing restoration of investment qualifications.

2. Integration: Shift from third-party scores to decision-use materiality

ESG integration among institutional investors is both diversified across asset classes and embedded throughout the investment lifecycle. The trend of institutions evolving the use of ESG rating systems is aimed at overcoming the backward-looking nature of third-party data and incorporating localized, forward-looking insights and proprietary research.

- The degree of integration ranges from fundamental to quantitative approaches, with implementation differing across active and passive strategies.
- Embed throughout pre-investment (screening, due diligence, and pre-investment engagement), during investment (decision-making and portfolio construction), and post-investment monitoring and engagement.
- Embed financially material ESG factors directly into models (cash flows, discount rates, risk premiums) and position sizing.
- Build on internal/localized ESG research and rating team, to achieve coverage and depth that traditional external datasets cannot match.

3. Active ownership: Shift from voting tallies to capacity building and value creation

Active Ownership 2.0 encourages outcome-focused practices, promoting investors to be clear on how engagements are oriented towards their investment objectives such as how it supports portfolio value enhancement². Voting tallies matter, but engagement quality and implementation capacity drive financial outcomes for investors. Asset owners should place greater emphasis on continuous interaction with portfolio companies to drive long-term value creation for investment returns. Examples of such approaches include:

- Enhance stewardship outcomes by prioritizing long-term strategic partnerships and capacity building.
- Use multiple tools ranging from engagement to proxy voting.

1. CFA Institute; Global Sustainable Investment Alliance (GSIA); Principles for Responsible Investment (PRI). Definitions for Responsible Investment Approaches [EB/OL]. 2023-10.

2. PRI (Principles for Responsible Investment). PRI Strategic Plan 2021–24: Building a Bridge Between Financial Risk and Real-World Outcomes [EB/OL]. 2021.

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4. Thematic/impact investing: Shift from labels to objective-driven strategies

Thematic and impact investing are increasingly becoming the focus of asset owners' sustainable investing strategies. The former focuses on long-term macro trends such as energy transition and demographic shifts, proactively allocating assets related to relevant solutions. The latter, while pursuing financial returns, aims to generate quantifiable positive social or environmental impact aligned to the broader investment objectives of the asset owner. Examples of such approaches include:

- Avoid diluted social relevance and greenwashing labels by building evidence-based impact strategies centered on energy security such as for asset owners with dual carbon objectives.
- Adopt scientific frameworks (e.g., IMP³, OPIM⁴, IRIS+^{5,6}) or self-built IMM (Impact Measurement & Management) systems, and require measurable KPIs; structure products for identifiable, material outcomes⁷.
- Use the combination of financial, risk, impact and governance indicators to assess thematic/impact investment.

5. Climate risk management: Shift from disclosures to deeper risk consideration

Regulatory-compliant disclosures are necessary but insufficient. Asset owners are applying the framework for identifying, assessing and managing climate risks as well as scenario analysis to their specific investment practices. We encourage asset owners to move from disclosure to embedding climate risks in their investment processes including: Climate VaR (Value-at-Risk), financed emissions/WACI (Weighted Average Carbon Intensity) and ITR into SAA/ALM (Strategic Asset Allocation and Asset Liability Management, for asset owners and pensions) and ORSA (Own Risk and Solvency Assessment for insurers), and use multi-scenario stress tests to revise LTCMAs (Long Term Assumption Updates) and portfolio constraints. Examples of such approaches include:

- Elevate climate risk to SAA and ALM level, embedding it into risk budgets and portfolio constraints.
- Implement Climate VaR and multi-scenario stress testing (physical + transition risks) to revise LTCMAs to reflect extreme-weather and policy shocks on expected returns and volatility.
- Formulate a brown to green investment strategy, and apply Implied Temperature Rise (ITR^{8,9}) for portfolio calibration of "30-60" target¹⁰.
- Nature/biodiversity is integrated via TNFD-aligned assessments (Taskforce on Nature-related Financial Disclosures) (e.g., ENCORE, Exploring Natural Capital Opportunities, Risks and Exposure and MSA, Mean Species Abundance) and policy levers such as zero-deforestation.

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3. Sustainability Directory. What Are the Five Dimensions of the Impact Management Project (IMP)? [EB/OL].
 4. International Finance Corporation (IFC). Operating Principles for Impact Management (OPIM) [R]. Washington D.C.: IFC, 2019.
 5. Global Impact Investing Network (GIIN). IRIS+ Metrics [EB/OL].
 6. Altioem. GIIN's IRIS [EB/OL].
 7. Climate Value-at-Risk, MSCI, February 2020.
 8. Financial Stability Board (FSB). Task Force on Climate-related Financial Disclosures. Measuring Portfolio Alignment[R/OL]. 2021.
 9. Financial Stability Board (FSB). Task Force on Climate-related Financial Disclosures. TCFD Recommendations[R/OL].
 10. The Chinese government has two headline climate goals: to peak carbon dioxide (CO₂) emissions before 2030 and achieve carbon neutrality before 2060. The two goals are often referred to as the "30-60" goals.

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6. Governance: Shift toward a more active and accountable stewardship of sustainability

Mainstream practices show that without a solid governance structure, adequate resource input and reasonable incentive mechanisms, the application of multi-layer tools alone is difficult to achieve systematic governance effects¹¹. Boards should assume ultimate accountability for consideration of financially material sustainability risks in investments, supported by committee mandates, management incentives and transparent reporting. The end state is “top down to bottom up” alignment—policy, targets, scenarios and engagement informing daily investment decisions and manager oversight, with clear ownership of outcomes. Examples of such approaches include:

- Codify responsibilities, embed ISSB (International Sustainability Standards Board) in governance documentation, and trace strategy resilience, target progress and understand impacts on portfolio.
- Integrate the effectiveness of stewardship into performance evaluation system of relevant teams.
- Having the right governance and team setup enables focus on long-term value creation

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Appendix – Institutions’ Practices under Sustainable Investing Framework

Overall practices across three investor types and how they differ

1. Pensions – an EU pension case

- Mandate & objective: As long-term "universal owners" with intergenerational liability durations, pension funds focus on two core goals: ESG is treated as a systemic risk factor that cannot be fully diversified away; practices are aimed at safeguarding long-term solvency and inter-generational investability of markets
- Toolkit in practice: Inclusion with differentiation (leaders vs improvers) rather than blanket exclusion, combined with UNGC (United Nations Global Compact)-based conduct screening. It also emphasizes data infrastructure (PCAF (Partnership for Carbon Accounting Financials)-aligned financed emissions), internal carbon budgeting linked to portfolio construction, and active ownership (including voting actions and divestment as last resort in cases).
- What’s distinctive: Captures “Transition Alpha” through the synergy of inclusive screening and active ownership. It has evolved from a rule-follower to a standard-builder in global pension system, with its 56% carbon footprint reduction (vs 2015 baseline).

2. Insurers – an EU insurer case

- Mandate & objective: Insurers are defined by rigid payout obligations and strict capital constraints; ESG is mainly deployed for risk avoidance, regulatory readiness, and sourcing stable long-term cashflows consistent with long-duration liabilities (especially life insurers).
- Toolkit in practice: (i) a dual screening approach (negative exclusions + best-in-class selection), (ii) linking ESG factors directly to **internal credit ratings** (with valuation impacts via discount rate), and (iii) quantifying climate risk using scenario tools such as Climate VaR to strengthen downside protection, including blended-finance examples in impact investing.
- What’s distinctive: ESG practices are centered on downside protection for portfolios, with quantitative climate risk models pre-identifying and divesting stranded assets to shield solvency from tail events.

3. Sovereigns – an Asia sovereign case

- Mandate & objective: SWFs combine long-term capital with explicit national strategic mandates. ESG is framed as a lever for economic transformation and strategic resilience, not only a portfolio constraint.
- Toolkit in practice: (i) stress-testing business model viability (e.g., carbon-price pressure testing), (ii) using internal carbon pricing as a hard investment constraint with an increasing trajectory, (iii) integrating climate scenarios into macro return modelling, and (iv) thematic platform building (e.g., decarbonization initiatives) and transition-oriented impact approaches.
- What’s distinctive: ESG is elevated from a fiduciary duty to a strategic pillar for building long-term investment resilience and future value growth. The asset owners’ model provides empirical economic support for aggressive green transition, while their "capital investment + active incubation" model locks in growth premiums for frontier green technologies (e.g., SAF, Sustainable Aviation Fuels).

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Key sustainable investing approaches adopted by asset owners

1. Screening

Screening has been used for the longest time and in the widest range in ESG investment, and there are three types of screening:

- Negative screening: Excluding issuers/sectors inconsistent with policies (e.g., product-based: controversial weapons, tobacco, fossil fuels; conduct-based: violations of international conventions, negative environmental and human rights issues).
- Norms-based screening: Alignment to global conventions/standards (e.g., UN Global Compact).
- Positive/best-in-class screening: Tilt toward higher ESG performers or leaders within industries by screening specific “thresholds” or comparative advantages.

1. Examples of Screening Processes by Institution

Step	Institution	What they do
Phase-out	EU Pension A	Zero exposure to coal investments by 2030* in OECD (Organisation for Economic Co-operation and Development) /Europe and by 2040 globally; broaden exclusions for unconventional oil & gas.
	EU Insurer A	Set thresholds and timelines for thermal coal across underwriting and proprietary investments; full exit by 2030 in OECD and by 2040 globally.
Engage Observation	EU Pension B	Use an 'observation list'; prioritize engagement; decisions on observation/exclusion follow the Council on Ethics' recommendations, reviewed and updated periodically.
	EU Pension B	Clear escalation ladder: private dialogue → formal letters → vote against → divestment; sector exclusion thresholds also applied.
Exemptions & Re-Inclusion	EU Pension B	Guidelines define how to revoke observation/exclusion; eligibility can be reinstated when new information warrants it.

Note: *The IEA (International Energy Agency), IPCC (Intergovernmental Panel on Climate Change), and the UN Paris Agreement framework set the basis for phasing out coal investments: 2030 for OECD/EU countries and 2040 globally for coal power^{12,13,14}.

Source: Tsinghua-Invesco Research, Sample period: January 2023 to December 2025.

12. IPCC Special Report, Global Warming of 1.5 °C, 2018

13. Coal in Net Zero Transitions, IEA

14. Extreme weather: Investing into climate resilience, Invesco, October 2025

2. Integration

Integration moves beyond labels to systematically consider financially material ESG/climate factors in research, valuation, and portfolio construction:

- Risk identification: Mapping material ESG/climate exposures at issuer, sector, and portfolio levels; incorporating controversies and transition/physical risk.
- Uncovering hidden value: Considering how sustainability drivers shape cash flows (e.g., demand shifts, cost of capital, capex efficiency, policy risk), and revising assumptions accordingly.
- Forward-looking judgments: Embedding scenario aligned adjustments into DCFs or factor models (e.g., carbon pricing pathways, technology adoption curves).

2. ESG Integration Practices of Sample Institutions

Institution	Policy & Beliefs	Governance	Process	Stewardship	Reporting
Asia SWF* A	Dual materiality; Internal carbon pricing (ICP) (2024: US\$65/t; 2030 target: US\$100/t)	Sustainability Committee oversight; Board reviews ICP every two years	CTR (Climate Transition Readiness) framework embedded in investment due diligence	Net-zero transition dialogues with high emitters	Annual sustainability report; disclose ICP deviations & KPI progress; aligned to TCFD/ISSB
Asia Pension A	Require all external managers to sign/ comply with ESG policy	ESG/Stewardship and Investment departments jointly assess managers; ESG affects renewals	Use multiple ESG indices (e.g., carbon efficiency, gender diversity: S&P, MSCI, Morningstar)	External managers must conduct engagement and report outcomes	Annual Stewardship Activities Report and Sustainability/ESG Report
EU Pension B	Materiality matrix based on Sustainability Accounting Standards Board SASB/TCFD; exclude companies with thermal coal >25% revenue	RI Committee under the Trustee Board	Exclusion list; introducing a "climate tilt" to portfolio construction	Auto-generated engagement list for priority topics; retain divestment right	Disclose four core climate metrics vs net-zero targets
NA Pension	Board-approved Sustainable Investing Policy; align with ISSB disclosures	Chief Sustainability Officer (CSO) leads cross-functional implementation	Carbon footprinting tools; physical climate risk screening for real estate	Engagement and voting as core; divest if no improvement	Annual disclosure of sustainable investing performance; aligned to TCFD**/ISSB

Note: *SWF: Sovereign Wealth Fund, **TCFD: Task Force on Climate-Related Financial Disclosures
Source: Tsinghua-Invesco Research, Sample period: January 2023 to December 2025.

3. Active ownership

Active Ownership 2.0 not only highlights "ESG on corporate finance" but also focuses on "corporate behavior on environment and society".

- Three core tools of active ownership: Engagement, Proxy Voting and Escalation.
- Engagement vs. Proxy Voting: Proxy voting is usually an "outcome" of engagement rather than the first step. When a portfolio remains behind on key governance or sustainability issues after engagement, proxy voting will be used as a follow-up.

3. Comparative Practices of Active Ownership by Institutions

Institution	(1): Engagement	(2): Proxy voting	(3): Escalation
EU Pension	Treats engagement as a core stewardship tool; dedicated reports set out themes, methods and governance.	Views proxy voting as a key stewardship instrument; discloses voting activity and principles annually.	Where engagement falls short, applies a ladder of actions; the toolkit and escalation logic are disclosed in the annual stewardship report.
EU AM/Insurer	Holds routine dialogues with management/boards/advisers via meetings and letters; switches to more targeted engagement if responses are not constructive.	Voting is embedded in the stewardship process and guided by corporate governance and proxy voting policies; vote records are publicly disclosed.	If regular engagement fails, may escalate by pre disclosing voting intentions, voicing concerns via advisers, filing/co filing shareholder proposals, and, where appropriate, reducing or exiting holdings.
Asia SWF	Post investment ownership emphasizes continuous company interaction; the internal ESG Value Creation Playbook guides teams to identify and drive ESG value creation.	A formal voting policy sets principles and expectations; voting is integrated with post investment engagement and executed by a dedicated stewardship team.	A Senior Divestment and Investment Committee (SDIC) operates under board delegated authority to decide investments and divestments as an escalation lever.

Source: Tsinghua-Invesco Research, Sample period: January 2023 to December 2025.

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4. Impact investing

Impact investing aims to create measurable positive social or environmental impacts while achieving financial returns.

4. Impact Investing and Outcomes of Sample Institutions

Dimension	Pension fund A	US Insurer B	EU SWF C
Institution & product positioning	Pension A released its first Impact Report in 2024, creating a dedicated Impact Investing chapter focused on disclosing impact results from private market projects and sustainable bonds.	Under Insurer B, the Global Bond / Impact Bond Fund is expressly positioned as an impact fund in the “Insurer B – 2025 Impact Report”, targeting mainstream risk-adjusted returns while supporting the Paris Agreement and the SDGs (Sustainable Development Goals).	SWF C Strategic Investment Fund, in its “Sustainability & Responsible Investment Report 2023”, treats “Economic & Social Additionality” as a core component of its sustainable investment objectives, with a policy/sovereign mandate centered on Ireland’s long-term economic development.
Coverage	The report discloses four themes — Climate & Energy Transition, Natural Resources, Fundamental Needs & Infrastructure, and Community Empowerment & Development — using selected private projects and themed bonds for impact analysis; The impact investment commitment amounts to US\$1.2 billion.	Fund size about AUD 161 million, investing across ~144 issuers, ~3,470 projects and 169 countries, i.e., a globally diversified impact bond portfolio.	Since inception, the fund has invested c. €8.8bn and catalyzed ~€12.6bn of private co-investment, primarily into infrastructure, housing, and SMEs.
Representative quantitative impact results	The report provides KPIs by theme and case. For one sustainable development bond example, estimated beneficiaries include ~200.5 million people, including improved water/sanitation for ~7.8 million people, agricultural output increasing by ~10.2 million tons per year, and more reliable electricity for ~2.3 million people — all mapped to themes and SDGs.	Latest one-year outcomes disclosed include ~35,000 MWh clean power generated; ~1.24 million m ³ water treated or saved; ~6,333 hectares of land managed or protected; 489 jobs created/retained; and ~258 students and ~764 children provided with education or immunization services.	The fund’s 2023 report discloses c. 34,000+ jobs supported by fund and project investments (of which >22,000 added since 2015), plus metrics such as new housing units and infrastructure progress, highlighting direct contributions to national employment and livelihoods.
Financial performance & return disclosure	The Impact Report emphasizes that all impact investments must deliver “market-rate or reasonable risk-adjusted returns” under a fiduciary framework; specific returns are mostly reported in overall performance reports rather than IRR per project. The impact section focuses on outcome KPIs and qualitative cases.	The Impact Report presents both impact and traditional fixed-income metrics side-by-side, e.g., annualized net return (~0.18% to end-2024), duration and credit ratings, enabling assessment on “financial performance + impact results”.	The fund reports “financial return + economic & social additionality” in parallel: it discloses portfolio nominal returns and asset-class performance since inception, alongside capital-mobilization multiples, jobs, housing and infrastructure outputs—reflecting the dual bottom-line of fiscal sustainability and development objectives for a sovereign/policy fund.

Source: Tsinghua-Invesco Research, Sample period: January 2023 to December 2025.

5. Thematic investing

Thematic investing is an active, forward-looking, top-down strategy that emphasizes the proactive allocation to address macro trends and provide "solutions".

5. Practices of Thematic Investing by Institutions

Practice Dimension	Pension	Insurer	SWF
Asset Allocation Direction	<ul style="list-style-type: none"> • Asian Pension: climate transition & decarbonization (ESG index assets cumulated to JPY 18.2 trillion). • EU Pension: climate transition & decarbonization (net-zero target currently covers ~76% of financed emissions). 	<ul style="list-style-type: none"> • EU Insurer A: prioritizes SDGs and green finance (EUR 8.5–9.5bn green-investment target). • EU Insurer B: prioritizes SDGs and green finance (Climate Transition Fund ~EUR 450m). • Asian Insurer A: prioritizes SDGs and green finance (JPY 5 trillion thematic-investment target by 2030). 	<ul style="list-style-type: none"> • Asia SWF A: ESG integration and decarbonization (sustainable-theme integration). • Asia SWF B: ESG enhancement and decarbonization.
Targets & Quantitative Management	<ul style="list-style-type: none"> • Asian Pension: platform enablement (external managers; GSS bonds investment). • EU Pension: stewardship (net-zero dialogue with portfolio companies). • Asian/EU Pension: climate-pathway tracking; assessment of breaches vs. standards (e.g., science-based targets). 	<ul style="list-style-type: none"> • EU Insurer A: sets quantitative targets (EUR 8.5–9.5bn green investments). • EU Insurer B & Asian Insurer A: SDG frameworks with quantitative targets. • EU Insurer A&B, Asian Insurer A&B: quantitative targets such as financed-emissions reduction and growth in green loans/investments. 	<ul style="list-style-type: none"> • Asia SWF A: ESG integration framework. • Asia SWF B: taxonomy/classification; dedicated vehicles and an ESG value-creation playbook. • Asia SWF A&B: KPI monitoring; quasi-financial quantitative indicators (e.g., climate-transition KPIs).

Source: Tsinghua-Invesco Research, Sample period: January 2023 to December 2025.

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6. Climate investing

Asset owners now treat climate as analytical financial practice rather than a siloed disclosure topic.

- **Risk management tools:**
 - Climate VaR: estimating value drawdowns across policy/technology/physical risk pathways.
 - Implied Temperature Rise (ITR): assessing alignment of portfolios to “well-below 2°C/1.5°C” trajectories based on issuer commitments and sector decarbonization curves.
 - Leading pensions, sovereign funds and managers disclose these measures alongside WACI, financed emissions and scenario-based stress tests, and connect results to portfolio rebalancing and engagement escalation.
- **Climate target setting:**
 - Target setting has advanced from long dated 2050 net zero statements to granular 2030 interim milestones.
 - The sample shows roughly half of institutions (33) with explicit 2050 goals, and 30 with quantified interim paths.
- **Scenario analysis**
 - Scenario analysis, central to TCFD/ISSB, has become a six-step iterative process (governance, materiality, scenario scoping, business impact, response measures, disclosure), combining NGFS (Network for Greening the Financial System), IPCC, IEA pathways with internal macro/credit models.
 - Pensions and sovereign funds embed scenarios in ALM/SAA to test funding resilience; insurers couple scenarios to ORSA and liability pricing.
- **Biodiversity and nature investing**
 - Asset owners reference TNFD v1.0, GRI (Global Reporting Initiative) 101/304, ESRS (EU Sustainability Reporting Standard) E4, using tools like Exploring Natural Capital Opportunities, Risks and Exposure (ENCORE) and nature footprint indicators to assess portfolio dependencies and impacts.
 - Practical actions range from zero deforestation policies, nature-linked insurance and natural infrastructure (wetlands, mangroves, habitat conservation) to biodiversity theme bonds and environmental information disclosure.

6. Climate Scenario Analysis Practices by Institutions

	Main purpose & business use	Scenario & tool sources	Representative practices
Pension fund	Asia Pension A / EU Pension A: Assess long horizon returns and risks under different warming/policy paths to test portfolio resilience and inform medium /long term asset allocation.	Asia Pension A / EU Pension A: Draw mainly on NGFS public scenarios; evaluate transition and physical risks across multiple time nodes.	Asia Pension A / EU Pension A: Use Climate VaR and Implied Temperature Rise (ITR) to quantify value impacts and temperature alignment for long term investing and risk management.
Insurer	EU Insurer A: Integrates climate scenarios and stress tests into group ORSA and ALM to assess solvency and capital positioning. EU Insurer B: Embeds climate scenarios into natural catastrophe models to evaluate underwriting and reinsurance risk.	EU Insurer A: Uses NGFS and supervisory scenarios (e.g., BoE climate stress test) across short/ medium/long horizons, aligned to a 2050 net zero pathway. EU Insurer B: Combines IPCC science based pathways with proprietary NatCat models to build multi timescale physical risk scenarios.	EU Insurer A: Quantifies market/credit risk on the asset side; on the liability side, applies ORSA scenarios and stress tests to assess impacts on cash flows and solvency. EU Insurer B: Converts scenario driven hazard frequency/severity shifts into loss estimates to inform underwriting and reinsurance structures.
SWF	Asia SWF A: Uses scenarios to assess macro/sectoral shifts and portfolio impacts, supporting transition and infrastructure investments. Asia SWF B: Applies scenarios in banking climate stress tests to evaluate macro financial stability risks.	Asia SWF A: Benchmarks NGFS Hot House World, IPR FPS and NGFS Net Zero to span different policy ambition paths and extend physical risk analysis to 2050. Asia SWF B: Uses NGFS based transition/physical scenarios for regional and banking sector stress testing.	Asia SWF A: Links macro → sector →asset results to portfolio valuation and decarbonization target

Source: Tsinghua-Invesco Research, Sample period: January 2023 to December 2025.

Conclusion

Tsinghua research highlights that institutional portfolios are moving from principles to practice. For asset owners, the common thread across leaders is operationalizing sustainability: dynamic screening over blunt exclusions; decision-use integration over score reliance; outcome-oriented stewardship over activity counts; objective-driven thematic and impact allocations; climate analytics embedded into ALM/SAA. Behind this series of shifts lies a fundamental upgrade of the governance structure, that is, a combined implementation of sustainable investment from the top-level decision-making to the execution.

In short, the frontier is no longer what to disclose but how to underwrite, value, size and govern with sustainability, so portfolios are more resilient, risk-adjusted returns improve, and capital actively delivers on broader objectives of asset owners.

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