



PUTTING OUR FUTURE FIRST

*WHY ASSET OWNERS HAVE A DUTY
TO MITIGATE CLIMATE RISKS AND
IMPACTS*

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Reclaim Finance informed the financial actors in this report ahead of publication, notably sharing the financial data concerning them. The comments received and deemed relevant were incorporated. The authors believe the information in this report comes from reliable sources and strive to ensure that the data and analysis presented are thoroughly researched.

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1. MITIGATING CLIMATE RISKS AND IMPACTS IS AN INTEGRAL PART OF ASSET OWNERS' FIDUCIARY DUTY

The consequences of climate change are already affecting - and will increasingly affect - asset owners' beneficiaries.

An increase in extreme climate events, growing pressure on agricultural and water resources, rising health risks and mortality rates, and disruptions to energy supply and transport infrastructure have direct impacts on the living conditions of current and future generations. These climate impacts particularly affect access to essential goods and services such as healthcare, food, energy, and transportation, as well as the cost of living.

Furthermore, **climate change poses a growing and massive financial risk that threatens financial portfolios and the economy.** Because it undermines the environmental and social systems on which economic stability and societies depend, climate change is a systemic risk.

Several studies show that climate change is likely to cause significant economic losses, potentially amounting to as much as 50% of GDP by the end of the century. These economic consequences also have financial implications: a study by the EDHEC Climate Institute found that global equity valuations could decline by as much as 40% due to climate impacts without accelerated decarbonization, with losses potentially exceeding 50% at climate tipping points.

Asset owners with highly diversified portfolios and a long-term investment horizon - known as "universal owners"- are particularly exposed to climate systemic risks, as they depend on the health of the entire economy.

To act in the best interests of their beneficiaries, as required by their fiduciary duty, asset owners must therefore protect their beneficiaries and their financial portfolios from climate risks and climate impacts.

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Climate risks have been underestimated and now threaten investors' core business.

United Nations-supported Principles for Responsible Investment



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Climate issues fall within institutional investors' responsibilities - variously referred to as fiduciary duties, duties of loyalty and prudence, or best-interest obligations.

United Nations-supported Principles for Responsible Investment

2. A NECESSARY SHIFT: TO FULFIL THEIR FIDUCIARY DUTY, ASSET OWNERS MUST USE ALL MEANS AT THEIR DISPOSAL TO LIMIT CLIMATE CHANGE

To limit the systemic risk posed by climate change and fulfil their fiduciary duty, **asset owners must rethink their strategies**. Their goal must be to cut down emissions in the real economy and on a global scale, not just within certain funds or portfolios, in order to mitigate, overall, the climate-related risks and impacts to which they are exposed.

This so-called systemic approach prioritizes long-term economic and financial stability over short-term financial performance, to preserve the sustainability of the economic, environmental, and social systems on which beneficiaries' living conditions and economic health depend.

In practical terms, **an asset owner must use every tool at its disposal to keep global warming as close as possible to 1.5°C**, to limit global warming to a minimum.

The key means to use are:

- **Steering capital allocation:** Halting new investments—primarily in bonds—in companies involved in activities that scientists deem incompatible with the 1.5°C goal, such as the development of new fossil fuel projects;
- **Engagement with portfolio companies:** Systematically voting against the reelection of directors and remuneration-related proposals at these companies' annual general meetings, as well as adopting specific escalation strategies.
- **Influence on asset managers and other financial partners:** Refusing to entrust new investments and mandates to asset managers who do not comply with science-based climate criteria, and conducting a proactive and collaborative dialogue with external asset managers and other financial partners.
- **Advocacy for ambitious public policies:** Supporting ambitious climate regulations that facilitate a phase-out from fossil fuels and the development of sustainable solutions, and opposing environmental deregulation.



Given that the last eleven years have been the hottest on record,¹ and that global average temperatures are likely to remain at or near record levels over the next five years,² **it is more urgent than ever to take ambitious action to limit climate-related risks and impacts.**

The majority of asset owners and asset managers still have inadequate climate strategies, which continue to enable the development of fossil fuels – an activity scientists say is incompatible with a robust 1.5°C pathway. The pursuit of short-term financial performance is overwhelmingly prioritized, at the expense of climate action. This is the case even in the most advanced countries on climate issues, such as the European Union where the Sustainable Finance Disclosure Regulation (SFDR) requires investors to assess sustainability risks and disclose how those risks are integrated into their investment decisions and strategies.

In recent years, **the legitimacy of investors' climate action has even been called into question by some** - particularly in the United States - **on the grounds that it allegedly conflicts with the fiduciary duty imposed on investors and/or the financial interests of beneficiaries.**

According to the United Nations Principles for Responsible Investment (PRI), **"fiduciary duties exist to ensure that those who manage other people's money act in their beneficiaries' interests,** rather than serving their own interests".³ Although legal definitions and case law vary from country to country, investors' fiduciary duties generally include the following two principles: a **duty of care**, which requires making sound decisions based on all available information; and a **duty of loyalty**, which requires acting in good faith and with impartiality in the best interests of their beneficiaries.

Recently, several lawsuits have been filed against investors on the grounds that they allegedly breached their fiduciary duty by adopting inadequate climate practices. In Canada, in October 2025, four young people represented by the organization Ecojustice sued the country's largest pension fund over its climate risk mismanagement.⁴ In the United States, in March 2026, ClientEarth sued the real estate firm Cushman & Wakefield for failing to evaluate the climate-related financial risks to which it exposed its employees' retirement savings.⁵ At the same time, in the United States in 2024, Republican-led states filed a lawsuit against BlackRock, Vanguard, and State Street on opposite grounds: they accuse these firms of breaching their fiduciary duty by using their shareholder engagement to reduce coal production.⁶

In this note, Reclaim Finance explains why climate action is an integral part of asset owners' fiduciary duty. The briefing explains why they must mitigate the impacts and risks associated with climate change **and details the levers of action that asset owners must mobilize** to adopt concrete, ambitious climate action.

01

THE FIDUCIARY DUTY TO MANAGE CLIMATE IMPACTS AND RISKS

A. CLIMATE CHANGE IMPACTS RUN COUNTER TO THE INTERESTS OF BENEFICIARIES

The consequences of climate change have been extensively documented by scientists: an increase in heat waves and droughts, more severe flooding, growing pressure on water resources, rising sea levels, loss of biodiversity, etc.⁷ These phenomena are no longer merely long-term projections: they are already observable in many regions of the world, as illustrated in 2025 by - among other events - the deadly floods in Nigeria, the Democratic Republic of the Congo, and South Africa; the wildfires in California, particularly in Los Angeles; the drought in the Amazon basin; record rainfall and devastating floods in Vietnam (which experienced 13 typhoons that year) and Thailand; and heat waves in Europe and the eastern Mediterranean marked by several record-breaking summer temperatures.

These climate change impacts have direct consequences on the living conditions of asset owners' beneficiaries. In particular, they affect access to essential goods and services such as healthcare, food, energy, transportation as well as biodiversity:

- Regarding health, extreme heat events increase mortality and morbidity, particularly among the most vulnerable populations, and floods and fires increase the risk of injury, the spread of infectious diseases, and exposure to toxic substances, adding pressure on health care systems. Heat-related mortality has increased by 63% since the 1990s, to a yearly average of 546,000 in 2012-2021. And the risk of wildfires is growing: 2024 saw a record-high 154,000 estimated deaths from wildfire smoke-derived small particulate matter air pollution.⁸
- When it comes to food, extreme climate events reduce agricultural yields, thereby increasing price volatility. The IPCC notes that climate change "has slowed agricultural productivity growth over the past 50 years globally" and increases risks to food security, particularly due to the increased frequency and intensity of heat waves, droughts, and extreme precipitation.⁹





- The effects of climate change also impact the availability, reliability, and cost of energy supply. Heat waves significantly increase electricity demand for cooling, while droughts can reduce hydroelectric generation and limit the cooling capacity of thermal and nuclear power plants. Extreme weather events can also damage production and distribution infrastructure, leading to an increased risk of outages and potentially higher costs for households.¹⁰
- In the transportation sector, climate impacts also disrupt infrastructure and mobility services. Floods, storms, wildfires, and heat waves can damage roads, railways, ports, and airports, causing service disruptions and increasing maintenance costs. These disruptions affect access to employment, healthcare, and other essential services, while also undermining the supply chains on which the economy and societies depend.
- Climate change is increasingly altering species distributions, degrading ecosystems, and reducing their resilience, while biodiversity loss weakens nature's capacity to regulate the climate and support adaptation. As biodiversity declines, ecosystems become less resilient and less able to provide essential services such as clean water, food production, climate regulation, and protection against natural disasters. This undermines human health, livelihoods, food security, and economic stability, highlighting the close interdependence between healthy ecosystems and human well-being.¹¹

Asset owners' beneficiaries do not merely hold a portion of portfolios. They are also citizens, workers, consumers, and/or residents of vulnerable regions who are directly exposed to the consequences of climate change. Their interests, therefore, extend beyond the mere optimization of financial performance. They also include preserving the social, economic, and environmental systems necessary to maintain their living conditions.

As a consequence, **when an asset owner contributes to the worsening of climate change - for example, by providing capital to companies developing new fossil fuel projects - the resulting harm will directly affect the investor's beneficiaries.** In this case, the asset owner is clearly failing to fulfil their fiduciary duty to act in the beneficiaries' best interests.

Moreover, the longer the transition is delayed, the more severe climate impacts will be. Young people and future generations will be more exposed to the consequences of climate change. **Asset owners who fail to adopt ambitious climate action are therefore violating their duty of impartiality - which is part of their fiduciary duty - by prioritizing the interests of certain beneficiaries (current generations) at the expense of other beneficiaries (young and future generations).** This requirement for intergenerational equity is even more pressing for long-term asset owners, such as pension funds, whose commitments span several decades and will directly affect the interests of future beneficiaries.

B. CLIMATE CHANGE IS A MASSIVE FINANCIAL RISK

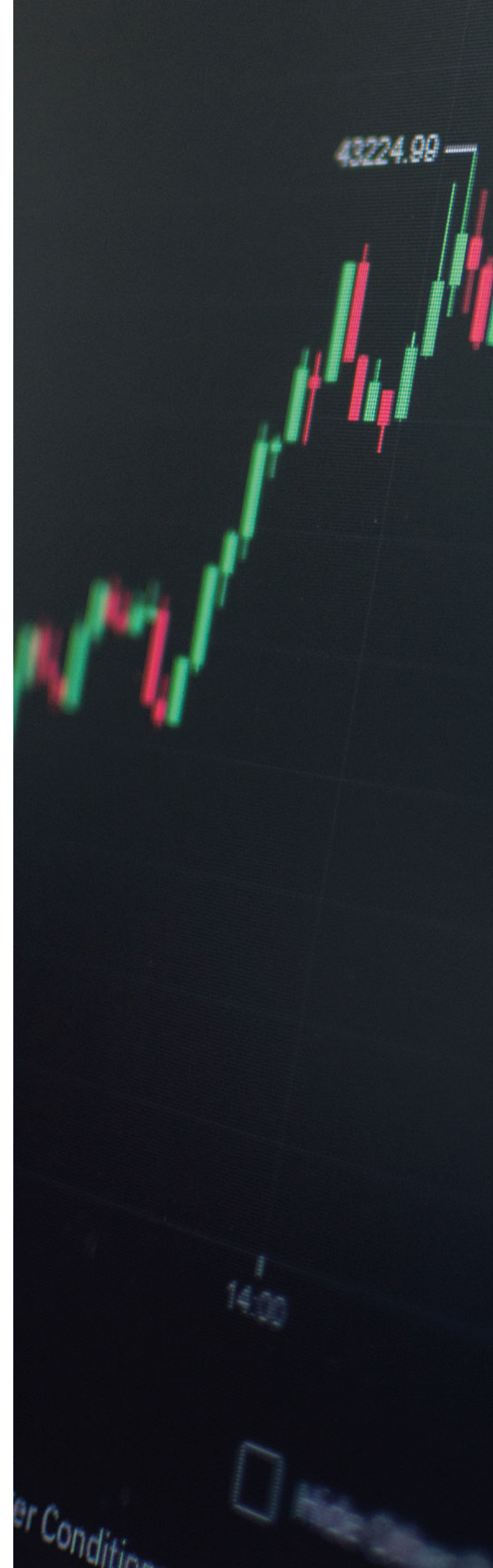
Global warming poses several financial risks, all of which are currently on the rise:

- **Physical risks** are related to losses and damage to property, land, infrastructure, and supply chains resulting from the increased frequency and intensity of climate extreme events (floods, droughts, wildfires, etc.) and gradual changes due to climate change (rising sea levels, rising temperatures, ocean acidification, water stress, loss of biodiversity, etc.). Physical risks can lead to financial losses due to asset deterioration, a decline in the value of collateral, increased insurance payouts, and disruptions to business operations. Losses related to natural disasters for insurers have been rising in recent years, exceeding \$100 billion in annual losses in 2025.¹²
- **Transition risks** are related to the transition to a low-carbon economy and result from changes in government policies, regulations, technological advances, and market developments as companies reduce their greenhouse gas emissions. Transition risks can lead to financial losses due to stranded assets, disruptions to business models, and a sudden devaluation of carbon-intensive

sectors. Delaying the transition leads to higher levels of transition risk, as the transition then becomes more abrupt and less organized.

In addition to physical and transition risks, companies and investors also face financial risks stemming from the rise in climate-related litigation, particularly against the main contributors to global warming. The number of climate-related lawsuits has more than doubled since 2015.¹³

These risks would be exacerbated by the crossing of climate tipping points, which is the breaching of critical thresholds in the Earth's climate system (polar ice caps, ocean currents, tropical forests, etc.) - **leading to significant, often irreversible, changes in the global climate system. In practical terms, this means that climate change is not linear:** the more global warming increases, the greater the likelihood of crossing a tipping point, and the more significant and unpredictable the consequences become. Moreover, these tipping points are not independent: crossing one of them can increase the likelihood of triggering others, leading to a cascade of changes within the climate system. This cascade effect further accelerates climate change, amplifying economic and financial damage.¹⁴ **These cascading changes can activate self-reinforcing climate feedback loops,** such as reduced Arctic sea-ice albedo or greenhouse

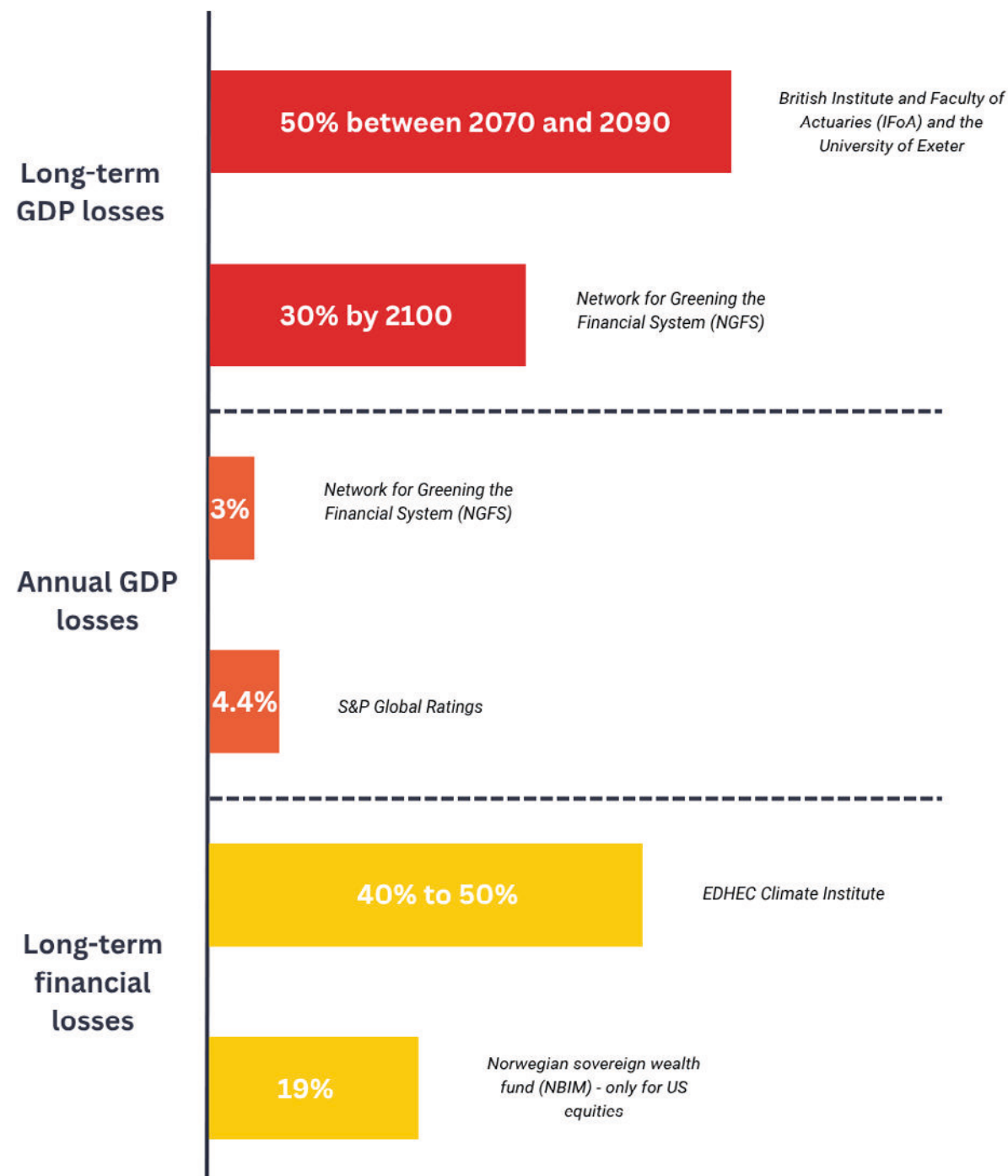


gas emissions from thawing permafrost, **that further amplify global warming.** These loops increase the likelihood of crossing additional tipping points, potentially driving a cascade of nonlinear changes across the Earth system.¹⁵

Because of these risks, several studies show that climate change threatens to cause significant losses to the global economy:

- The British Institute and Faculty of Actuaries and the University of Exeter estimated that the global economy could suffer a 50% loss in GDP between 2070 and 2090 unless immediate policy action is taken to mitigate the risks posed by the climate crisis.¹⁶
- For its part, the Network for Greening the Financial System (NGFS) estimated that climate damages could result in economic losses amounting to 30% of global GDP by 2100 under current policies, compared to a baseline that assumes no climate change.¹⁷
- NGFS also forecasted that climate disasters could slow global economic growth by up to 3% within the next five years,¹⁸ while S&P Global Ratings estimated that up to 4.4% of global GDP could be lost each year, without adaptation, in a slow transition scenario in which global temperatures rise by 3.6°C by the end of the century.¹⁹

Summary of research findings regarding climate-related economic and financial losses



- At the European level, the European Commission estimated that exposing the EU economy to global warming of 1.5 to 3 °C above pre-industrial levels would result in an annual economic loss of between €42 and €175 billion.²⁰

And these economic losses will lead to significant financial losses:

- A study by EDHEC Climate Institute found that, without accelerated decarbonisation, global equity valuation could decline by as much as 40% due to climate breakdown, with losses potentially exceeding 50% at climate tipping points.²¹
- Focusing solely on investments in its U.S. equities, the Norwegian sovereign wealth fund estimated that it could face a loss of 19% of the financial value from physical climate risks if climate policies continue on their current path and temperatures rise by 3°C by 2100.²²
- At the French level, looking only at transition risks – and not considering physical risks, the Bank of France found that if the transition is delayed, abrupt and uncoordinated, it could lead to a sharp correction in equities value of 6.8% on average by 2045, and as much as 24% for the fossil fuel sector, where some companies would lose most of their value.²³ In the short term, the Bank of France estimated that,

in the event of extreme climate shocks, French banks, insurers and asset managers would be exposed to losses of 196 billion euros, equivalent to a 4% drop in the value of their equity and bond portfolios. By comparison, the impact of the sudden transition scenario in the short term is much more limited at the aggregate level, with a total loss of 33 billion euros, or 0.7% of assets held.²⁴

While these studies vary in their assumptions, the types of risks considered and their results, they all agree on the following point: climate change poses a significant threat to the global economy and financial portfolios. **As a consequence, climate action is an integral part of the fiduciary duty of asset owners, who must act in the best interests of their beneficiaries by managing the risks to which their portfolios are exposed.**

FOCUS - WIDESPREAD AND MISLEADING MODELS ASSESSING CLIMATE RISKS

The British Institute and Faculty of Actuaries, in partnership with the University of Exeter,²⁵ as well as Carbon Tracker,²⁶ have concluded that the **most dominant risk assessment models, widely used by investors, governments, and central banks, significantly underestimate the risks associated with high warming trajectories.**

According to them, these models are based on economic and climate assumptions that do not sufficiently account for numerous mechanisms identified by climate science, including tipping points, cascading effects, nonlinear risks, uncertainty surrounding climate sensitivity, systemic disruptions, forced migration, conflicts, productivity losses linked to heat waves, and the impacts of rising sea levels.

As a result, projected damages remain surprisingly low even in scenarios involving warming of more than 3°C, leading to results that are at odds with the scientific literature on the impact of these levels of warming. **This incomplete consideration of the complex interactions between climate, economic, and social systems thus leads to an inadequate representation of the economic and financial impacts of climate change. These projections, therefore, convey a false and dangerous sense of security, upon which current investment decisions are based,** including those that contribute to exacerbating climate change.

To illustrate this problem, NBIM said while it calculated a 19% drop in US equities from physical risks in a current policies scenario, MSCI's Climate Value at Risk (CVaR) model – which is used by many asset managers – predicted its portfolio would lose just 4%.²⁷

The most common weaknesses of the models are²⁸:

Model weakness	Explanation of the weakness	Risk
Omission of climate hazards	Models exclude sea-level rise, tropical cyclones, or climate tipping points	Downward bias in physical risk estimates
Exclusion of non-market damages	Models also exclude non-market damages, such as those to ecosystems and human health	Downward bias
Failure to account for nonlinear dynamics	Models use quadratic damage functions, which do not capture threshold/non-linear dynamics	More underestimation at high warming levels
Zero probability for tail events	Models treat lower probability events, such as tipping points, as having no likelihood at all	Exclusion of severe loss scenarios
Calibration on historical data	Models use damage functions fitted to more modest warming and associated damages	Extrapolation cannot forecast unprecedented temperature regimes
Spatial aggregation	Models assume uniform damages, ignoring the spatial heterogeneity of warming and risks	Downward bias in some regions
Short-time horizons	Models used by FIs are short-term, while some physical risks materialise over decades	Ignoring physical risks perceived as long-term, but that might materialise sooner
Ignoring macroeconomic feedbacks	Models ignore macroeconomic risks induced by climate change, such as migration, conflicts, or supply chain disruptions	Downward bias, because linked systemic risks are not captured

C. CLIMATE CHANGE IS A SYSTEMIC THREAT

Climate change is not just another financial risk among many. **Its impacts threaten the environmental and social systems on which our societies and our living conditions depend and, consequently, the long-term stability of the economy and all financial portfolios.** As such, climate change is a systemic risk.

In practical terms, our societies and our economy rely on a set of environmental and social systems that provide the resources, services, and conditions necessary for safe living conditions: access to drinking water, food, health care, energy, infrastructure, and functioning ecosystems. **Climate change is gradually undermining these systems** by affecting their availability, quality, or ability to meet people's needs.

Climate change is therefore a negative externality: high-emitting companies cause damage to environmental and social systems, which is not factored into the present value of the financial securities that they issue. **When ignoring this negative externality, institutional investors are valuing companies that generate short-term performance while weakening the sustainability of a system on which long-term financial value depends.**

To fulfil their fiduciary duty and protect themselves in the long term, asset owners must recognize this dependence on environmental and social systems and integrate their preservation into their investment strategies and activities.

This requires adopting a double materiality approach. Long-term asset owners must limit climate change, both to reduce their own climate impacts that contribute to global warming - which are not in the best interests of their beneficiaries - and to protect themselves from the systemic financial risks caused by that same global warming.



02

***A NECESSARY
PARADIGM SHIFT***

A. A SYSTEMIC APPROACH TO MANAGE CLIMATE RISKS AND IMPACTS

To fulfil their fiduciary duty, asset owners must adopt an approach that is appropriate and commensurate with the unprecedented threat posed by climate change.

This new approach, which we will refer to as systemic, requires revising some traditional risk management strategies, which underestimate climate-related financial risks and focus their action on one or a few companies. These strategies are characterized by the selection, exclusion, or engagement of individual companies, and as such, fail to address the system threat of climate change. This means that “universal owners”, who are asset owners with broad, diversified portfolios and long-term investment horizons, cannot diversify their portfolios away from systemic climate risks.

In a systemic approach, the goal of asset owners must be to preserve the economic, environmental, and social systems on which living conditions, economic health, and—by extension—long-term financial performance depend. This requires action that goes beyond the decarbonization of specific funds or portfolios, aiming instead for a concrete and effective contribution to the global fight against climate change. It means addressing the root causes of climate change by promoting an effective reduction in greenhouse gas emissions in the real economy.

By adopting a systemic approach, asset owners cannot wait for governments or companies to take the lead in reducing systemic climate risks. They must play an active role in climate action. Otherwise, they would expose themselves to the increasing effects of global warming resulting from a delayed transition.



B. LONG-TERM HORIZON AS A COMPASS

A systemic approach requires prioritizing long-term economic stability over short-term financial performance. In the context of climate change, the pursuit of immediate returns can lead to supporting activities and companies that contribute to increasing long-term systemic risk, as is the case with the development of new fossil fuel projects. This is notably because current asset valuation for high-emitting companies often fails to factor these negative externalities and expected future losses. To protect the long-term sustainability of the planet and the economy, it may therefore be necessary for investors to forgo short-term profits.

The necessary priority given to the long-term horizon is also consistent with the interests of the beneficiaries of major asset owners, such as pension funds and savings managers, who most often save for retirement or projects that lie far in the future.



C. TAKE ACTION NOW TO STAY AS CLOSE AS POSSIBLE TO THE 1.5°C PATHWAY

In a systemic approach, asset owners must commit to aligning their activities as closely as possible with a pathway that limits global warming to 1.5°C. This target remains the most relevant benchmark for climate risk management, as IPCC research shows that every additional fraction of a degree significantly increases physical, economic, and social risks, while every fraction of a degree avoided helps limit the scale of those risks. Furthermore, higher warming also increases the likelihood of crossing climate tipping points, which could trigger irreversible changes with uncertain consequences for the economy and society. **Maintaining the 1.5°C target therefore helps limit the extent of warming, and the resulting losses and damages, as much as possible.**

Adopting a systemic approach also requires taking immediate climate action, as a delayed transition increases greenhouse gas emissions, thereby amplifying the scale of climate impacts on society, the economy, and financial portfolios.

03

THE SYSTEMIC STRATEGY TO ADDRESS CLIMATE CHANGE

The systemic approach is characterized by the mobilization of all resources available to an asset owner to reduce greenhouse gas emissions in the real economy and on a global scale, rather than just within certain funds or portfolios. Managing a systemic risk such as climate change cannot be limited to a few isolated measures; it requires proactive and collective efforts to ensure the effectiveness of the actions taken.

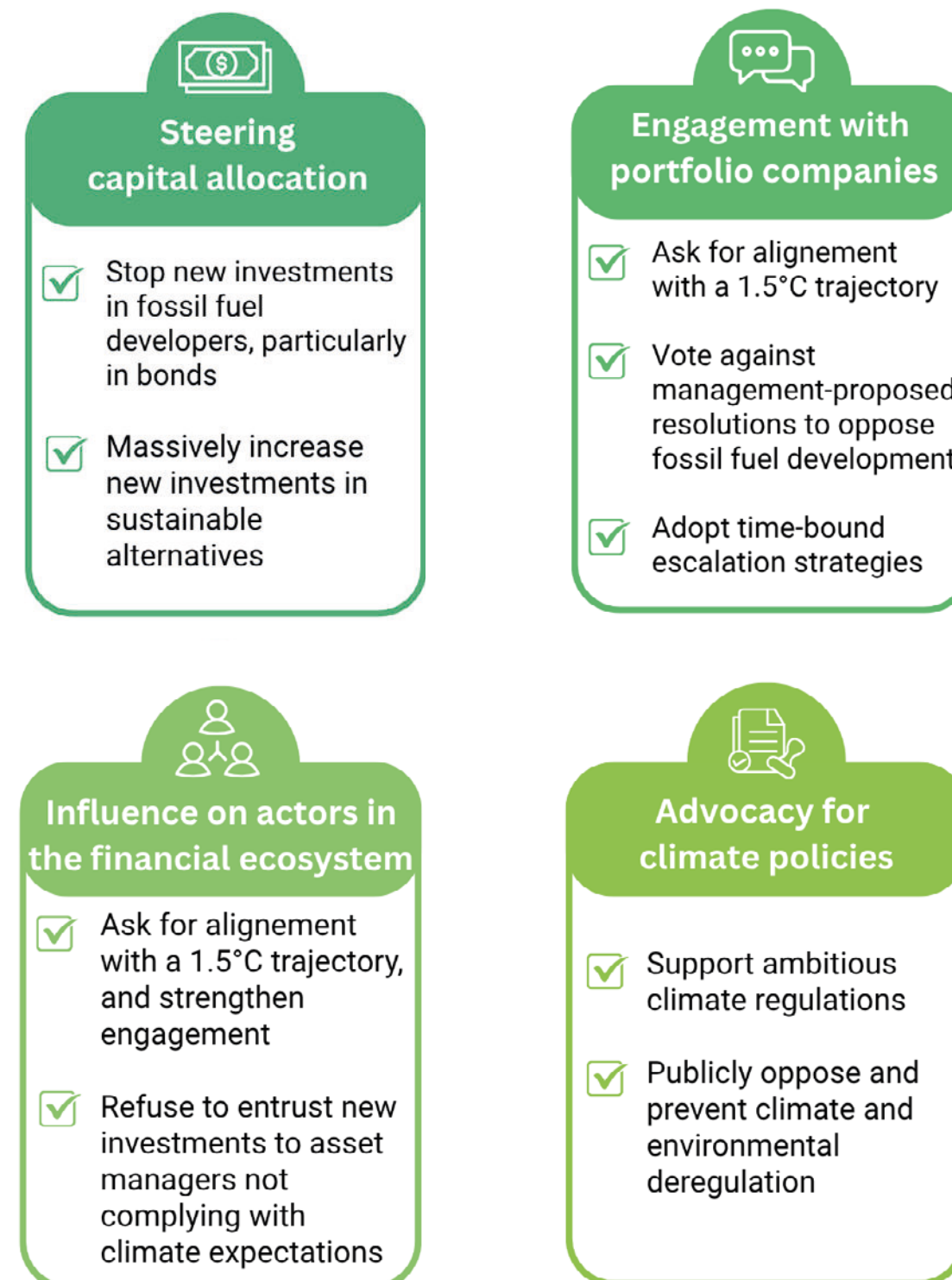
Given the nature of climate risks, doing nothing, or not fully using the available tools appears incompatible with the prudent management of beneficiaries' long-term interests, as required by the fiduciary duty.

The various climate action levers available to asset owners, which can and must be mobilized as part of their climate action, are as follows:

- **Steering capital allocation;**
- **Engagement with portfolio companies;**
- **Influence on actors in the financial ecosystem;**
- **Advocacy for climate policies.**



Climate actions levers for asset owners



**A. STEERING CAPITAL ALLOCATION
TO HALT THE EXPANSION OF FOSSIL
FUELS AND SUPPORT SUSTAINABLE
ALTERNATIVES**

As capital allocators, asset owners have the power to direct or divert financial flows toward or away from companies, and therefore to support the transformation of the global energy system and limit global warming to 1.5°C.

To align with a 1.5°C pathway, it is essential to halt the development of new fossil fuel projects. The Intergovernmental Panel on Climate Change (IPCC) writes that “Estimates of future CO2 emissions from existing fossil fuel infrastructures already exceed remaining cumulative net CO2 emissions in pathways limiting warming to 1.5°C with no or limited overshoot (high confidence)”,²⁹ meaning that no new projects should be developed to maintain global warming to 1.5°C. Also, projections from the International Energy Agency (IEA), in its “Net Zero Emissions by 2050”

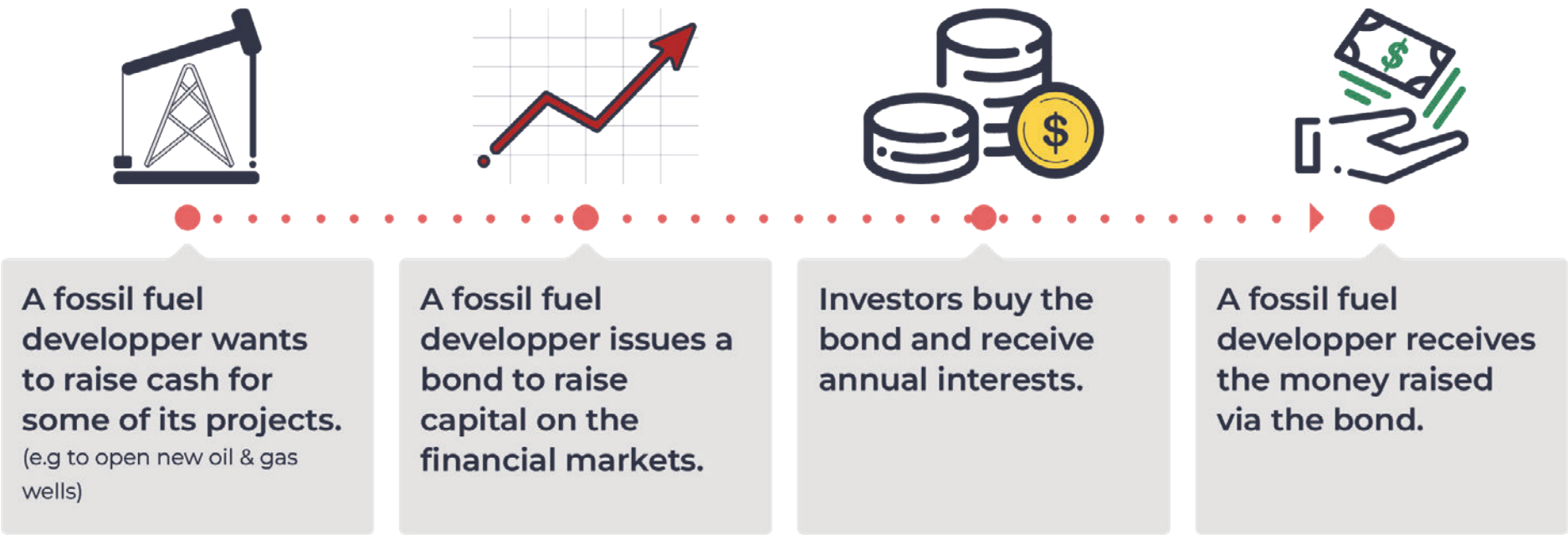
scenario, show that it is possible to meet energy needs while staying within the 1.5°C target, and that this requires, in particular, halting new thermal coal projects and the development of new oil and gas fields.³⁰ And the 2025 Production Gap Report indicates that: “The increases in fossil fuel production estimated under the government plans and projections pathways would lead to global production levels in 2030 that are 500%, 31%, and 92% higher for coal, oil, and gas, respectively, than the median 1.5°C-consistent pathway”.³¹

Stopping the allocation of capital to companies that support the development of fossil fuels is therefore a priority for preventing new fossil fuel projects and staying as close as possible to a 1.5°C pathway. The investments that should be halted first are those on the bond primary markets, as they directly finance the companies issuing them. Since share issuances are much less common than bond issuances, bonds represent a more significant source of financing for companies. Halting investment flows in the secondary market helps reduce demand for these bonds and must therefore also be implemented.

In practical terms, any investor making new investments that contribute to the development of fossil fuels exacerbates global warming and therefore fails to fulfil their fiduciary duty.

In addition to halting investment flows to fossil fuel developers, investors must adopt a strategy of redirecting capital allocation to sustainable alternatives in order to support the energy transition. In the IEA’s “Net Zero Emissions by 2050” (NZE) scenario, by 2030, for every dollar invested annually in fossil fuels, six dollars must be invested in the “clean” energy supply – mostly power supply –, and four dollars must be invested in energy efficiency and end-uses. This translates into an overall 10:1 ratio for the energy transition (that is, energy supply, energy efficiency, and end-uses transformation), including a specific 6:1 ratio for “clean” power supply.³² As the IEA explicitly underlines, “these economy-wide ratios provide an important guide for financial actors looking to assess their equity and lending portfolios against net zero targets”.³³

**HOW ARE
BONDS LINKED
TO FOSSIL
FUEL
EXPANSION?**





FOCUS – DOES A FOSSIL-FREE PORTFOLIO ENTAIL FINANCIAL UNDERPERFORMANCE IN THE SHORT TERM?

Asset owners' fiduciary duty requires prioritizing long-term economic stability, which may mean forgoing short-term profitable investments if their negative externalities threaten the economy as a whole. The majority of fossil fuel companies are developing new fossil fuel projects that are incompatible with a 1.5°C pathway; therefore, they constitute risky long-term financial investments.

In the short term, several studies show that excluding fossil fuel companies from a portfolio does not result in lower financial performance. The University of Groningen concluded in 2016 that "divesting from fossil fuels does not have a statistically significant impact on overall portfolio performance, and only a very marginal impact on the utility derived from such portfolios" and that "investors can divest from fossil fuels without significantly hurting their financial performance".³⁹ Another study published by economists in 2018 analysed financial performance between 1927 and 2016 and found that "fossil fuel divestment does not seem to impair portfolio performance" and "fossil fuel company stocks do not outperform other stocks on a risk-adjusted basis and provide relatively limited diversification benefits."⁴⁰

The past annual performance of the MSCI World ex Fossil Fuels Index, which tracks the MSCI World Index but excludes companies with oil, gas, and coal reserves, **also shows that fossil fuel companies do not outperform the market, except during periods of energy crises.** On average, the MSCI World ex Fossil Fuels Index did not show lower annual financial performance over the last fifteen years compared to the MSCI World Index, except for recent years marked by energy crises (2022 and 2026), during which the fossil fuel sector posted record profits.⁴¹

B. ENCOURAGING INVESTEE COMPANIES TO ALIGN WITH A 1.5°C PATHWAY

For the companies that remain in their portfolios, **investors must use their privileged position, particularly as shareholders, to encourage companies to align with a 1.5°C pathway.**

Investors must take into account the failure of the methods used in recent years. For example, 96% of companies in the oil and gas sector are still developing new oil and/or gas fields.³⁴ Some major companies in the industry such as TotalEnergies, BP, and Shell, are even moving backwards instead of forward, and have announced multiple climate setbacks in recent years by increasing their fossil fuel production in the short term or reducing their investments in renewable energy.³⁵

Given the proven ineffectiveness of past shareholder engagement with the fossil fuel industry, investors must impose strong sanctions. As a matter of priority, they must vote against management-proposed resolutions at annual general meetings, including the reelection of directors, remuneration of top management, approval of financial statements, and dividend payouts, and justify their opposition with a climate rationale. Currently, votes against these resolutions

remain rare, even though academic research identifies that, along with halting the purchase of bonds, they have the greatest potential to drive change in a company's practices.³⁶

To avoid getting bogged down in an endless and ineffective dialogue with some companies, **investors must adopt clear escalation strategies. These strategies must specifically plan engagement actions of increasing intensity, combined with public demands, implemented with a precise timeline in the event of a lack of progress by companies.** Engagement actions must utilize the full range of engagement tools: bilateral and collaborative dialogue, public statements, written and oral questions at annual general meetings, votes against management-proposed resolutions, halting new investments, reducing holdings, etc.



C. INFLUENCING THEIR FINANCIAL PARTNERS, PARTICULARLY ASSET MANAGERS

Asset owners play a key role in the financial ecosystem. In particular, as clients and ordering institutions, they wield considerable influence over their partners, including over asset managers, proxy advisory firms, risk modelling providers, index providers, and others. One of their most significant levers for action, therefore, lies in encouraging these actors to better integrate climate risks and impacts into their practices and to align with a 1.5°C pathway.

Among their key partners, asset managers are mandated to manage the assets entrusted to them by asset owners. Asset owners can require their managers to invest their assets according to their rules, for instance by including sustainability requirements in their mandates. But when they work with managers whose overall practices exacerbate climate risks and impacts (for instance with continuing fossil fuel investments), asset owners condone managers acting contrary to their long-term interests. A few asset owners started to show the way by strengthening their selection criteria or by increasing their engagement with asset managers, considering their overall climate practices.³⁷

To exert influence on asset managers so that they align their practices with a 1.5°C pathway and cease their support for fossil

fuel expansion, asset owners must:

- **Publish clear climate-related expectations to asset managers**, for their global practices and all assets under management, such as:
 - ◊ Make any new investments in bonds conditional on companies ending their fossil fuel expansion plans;
 - ◊ Vote against strategic, management-proposed resolutions (such as director elections, board discharge approvals, and executive-remuneration proposals) for companies pursuing their fossil fuel expansion plans;
- **Refuse to entrust new investments and/or mandates to managers who do not comply with the asset owners' expectations**, considering the asset managers' overall practices and not just their capabilities in managing delegated assets;
 - ◊ Many assessments exist to enable the identification of asset managers with inadequate climate practices;³⁸
- **Maintain a regular, bilateral and collaborative dialogue to encourage them to comply with the expectations and align their practices with a 1.5°C pathway;**
- **Make public statements**, both unilaterally and collaboratively, on asset managers' inadequate climate strategies that do not align with a 1.5°C pathway.



D. CALLING FOR THE ADOPTION OF AMBITIOUS PUBLIC CLIMATE POLICIES

Asset owners' support for ambitious climate regulation - including a planned phased-out of fossil fuels, the end of fossil fuel development, and the development of sustainable solutions - can help reduce transition risks and limit the effects of climate change. In a context marked by environmental deregulation, the involvement of asset owners is even more necessary. As major economic players, they wield significant influence to support the conditions for an orderly economic transition, and can counter pressures to weaken climate policies.

However, this regulatory advocacy cannot replace asset owners' own climate action. To address climate risks and impacts, they have a responsibility to mobilize all the tools at their disposal to support the transition, without relying on regulatory changes which may not deliver the necessary ambition or stability.

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Reclaim Finance is an NGO affiliated with Friends of the Earth France. It was founded in 2020 and is 100% dedicated to issues linking finance with social and climate justice. In the context of the climate emergency and biodiversity losses, one of Reclaim Finance's priorities is to accelerate the decarbonization of financial flows. Reclaim Finance exposes the climate impacts of financial players, denounces the most harmful practices and puts its expertise at the service of public authorities and financial stakeholders who desire to bend existing practices to ecological imperatives.

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