

C2ES's Approach to Investor Stewardship

A System-Level Framing for Climate Risk

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This primer provides context for the emerging investor stewardship work at the Center for Climate and Energy Solutions (C2ES), why we are grounding it in a system-level, universal owner lens, and how this framing will guide the resources and guidance we build in the coming years.



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The Frame

Climate risk is systemic: It is economy-wide, and it cannot be diversified away. Because it affects the whole economy, it affects the whole portfolio. For long-term diversified investors whose returns track the economy more than any single holding, managing that risk is not a preference but an expression of fiduciary duty. Modern Portfolio Theory's diversification tools were built for idiosyncratic, company-level risk; they do not and cannot address the systematic risk that research places at three-quarters or more of the variance in long-term returns.¹ For universal owners, the practical question is less whether to manage climate-related systemic risk than how best to do so.

Protecting Risk-adjusted Returns

The magnitude of this exposure is not abstract. For diversified investors, long-term returns are largely determined by the performance of the market as a whole, rather than by any single holding, and a meaningful share of this market-wide exposure is now linked to climate. One widely cited estimate suggests the nominal returns on a standard balanced portfolio of 60 percent equities and 40 percent bonds could run 10 – 40 percent lower over a forty-year horizon than in a baseline without additional climate damage.² More recent modelling from the EDHEC Business School (École des Hautes Études Commerciales du Nord) Climate Institute finds a comparable spread in global equity valuations under different decarbonization pathways: losses below 10 percent with prompt and robust climate action, over 40 percent under a close-to-no-action scenario and potentially exceeding 50 percent if climate tipping points are crossed.³ The exposure is portfolio-wide, long-dated, and not diversifiable; it is a property of the portfolio itself, not a risk confined to individual holdings.⁴

The Resource Gap

There is room to develop climate-related investor resources that more directly address a system-level approach in the context of the current moment. The literature and toolkits available to stewardship teams are built predominantly around single-issuer materiality or general sustainability framing. These are useful for selecting and engaging individual holdings but are calibrated to a different risk model than the one universal owners operate under. Much of the existing infrastructure was designed when climate was treated as one issue among many rather than as a defining systemic exposure. The result is an asymmetry between what universal owners need to manage across economy-wide portfolios and the currently available stewardship infrastructure focused mainly on company-level engagement. Investors increasingly recognize systemic risk as the defining driver of long-term portfolio returns.⁵

A System-level Approach to Stewardship

A system-level approach produces categorically different investor resources for universal owners that in turn are more decision useful. This approach starts by defining materiality where universal owners' exposure sits: at the portfolio and economy level, which complements the single-issuer materiality lens. It frames climate, just transition, and transition planning as fiduciary risk management rather than values-based preferences, consistent with the standard of care trustees and legal counsel apply to investment decisions. It also calibrates stewardship tools to the systemic levers universal owners control: sector engagement, policy engagement, asset-manager engagement, proxy voting on systemic-risk oversight, and escalation where execution risk is evident, rather than only bilateral dialogue with individual portfolio companies.⁶

That same logic shapes the resources themselves. A system-level investor resource is designed to be more than a general-audience sustainability explainer. It is built as an input to stewardship decisions at scale: the kind of substance an asset owner can use to set manager expectations, the kind an asset manager can translate into proxy priorities and escalation thresholds, and the kind a stewardship lead can bring into an investor coalition without having to rebuild the fiduciary argument from scratch.

How This Framing Informs C2ES's Investor Stewardship Workstreams

C2ES centers its investor-facing work on the system-level approach because doing so addresses material climate risk and fiduciary responsibility in their full breadth. C2ES builds its investor-facing work through the following three workstreams, or angles, that address the same fiduciary problem long-term diversified investors face: just transition, asset owner leadership and influence on asset managers, and corporate decarbonization.

Just transition encompasses execution risk, loss of social license to operate, macro-level labor and demand exposure, and operational continuity risk.⁷ These are the variables that determine whether the transition is deliverable at the pace and in the form universal owners' portfolios depend on.⁸

Asset owner leadership and influence on asset managers is among the highest-leverage tools for systemic stewardship available to universal owners. The mandates, voting expectations, engagement priorities, and escalation thresholds asset owners set cascade across every portfolio their managers run. Building the substance that lets asset owners translate long-term climate risk into manager expectations is where system-level stewardship can be operationalized at scale. It is a gap the ecosystem has identified but not yet adequately resourced.⁹

Corporate decarbonization is where forward-looking fiduciary duty meets execution. What companies are doing to reduce emissions in alignment with climate goals, strengthen board governance and oversight of climate risk, and allocate capital in line with robust transition plans is the underlying work that determines whether universal owners' long-term portfolio exposure is being managed. A credible transition plan is the artifact through which a universal owner, its managers, and its portfolio companies can demonstrate they are managing the risk they are legally obligated to manage. Corporate decarbonization, in this framing, is not an add-on to stewardship. It is the substance stewardship is built to support.

Endnotes

- 1 Jon Lukomnik and James P. Hawley, *Moving Beyond Modern Portfolio Theory: Investing That Matters* (Abingdon, UK: Routledge, 2021), citing Gary P. Brinson, L. Randolph Hood, and Gilbert L. Beebower, "Determinants of Portfolio Performance," *Financial Analysts Journal* 42, no. 4 (1986): 39–44.
- 2 Joseph P. Byrne and Prince Asare Vitenu-Sackey, "The Macroeconomic Impact of Global and Country-Specific Climate Risk," *Environmental and Resource Economics* 87, no. 3 (2024): 655–682, <https://doi.org/10.1007/s10640-023-00831-0>.
- 3 Riccardo Rebonato, Dherminder Kainth, and Lionel Melin, *How Does Climate Risk Affect Global Equity Valuations? A Novel Approach* (EDHEC-Risk Climate Impact Institute, 2024), <https://climateimpact.edhec.edu/publications/how-does-climate-risk-affect-global-equity>.
- 4 Rachel Teo and Willemijn Verdegaal, *Integrating Climate Scenario Analysis into Investment Management: A 2023 Update* (Singapore: GIC ThinkSpace, April 2023), <https://www.gic.com.sg/uploads/2023/04/GIC-ThinkSpace-Climate-Scenario-Analysis.pdf>.
- 5 The Investment Integration Project, *The TIIP Handbook of Investing for the General Welfare: Principles, Policies, and Practices of Investing for Universal Owners* (New York: The Investment Integration Project, 2021), <https://www.tiipproject.com/>.
- 6 Freshfields Bruckhaus Deringer, *A Legal Framework for Impact: Sustainability Impact in Investor Decision-Making* (London: Freshfields Bruckhaus Deringer, 2021), <https://www.freshfields.com/en-gb/our-thinking/campaigns/a-legal-framework-for-impact/>.
- 7 Naila Karamally, *Perspectives on a Just Transition in the Electric Utilities Sector*, Center for Climate and Energy Solutions, May 2025, https://www.c2es.org/wp-content/uploads/2025/05/Perspectives-on-a-Just-Transition-in-the-Electric-Utilities-Sector_Updated.pdf.
- 8 Grantham Research Institute on Climate Change and the Environment, *Investing in a Just Transition: Why Investor Action on a Just Transition Is Critical* (London: London School of Economics, 2018), <https://www.lse.ac.uk/granthaminstitute/publication/investing-in-a-just-transition-why-investor-action-on-a-just-transition-is-critical/>.
- 9 The Investment Integration Project and Principles for Responsible Investment, *Working Towards a Sustainable Future: Asset Owner Stewardship of Asset Managers* (New York and London: TIIP and PRI, 2022), <https://www.tiipproject.com/>.