HYMANS ROBERTSON

Responsible Investment

News and Views

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Evolving capital markets to better price climate-related risk

Climate change is not a distant concern. Extreme weather events are damaging property and disrupting supply chains, yet few businesses are communicating how they intend to mitigate and adapt, or the costs of doing so. This lack of information, coupled with structural limitations, prevents markets from fully pricing the potential impact of climate change. Investors can take steps to better understand climate risks, allocate to climate-aware strategies, and use their influence as stewards of capital to support well-functioning markets and value creation.

Markets are structurally limited in efficiently pricing climate-related risks

Climate change is a market failure, because the externalities of business operations (greenhouse gas (GHG) emissions) damage a global public good (a stable climate). Yet financial markets are limited in their ability to efficiently price climate-related risks. This is partly due to uncertainty around complex climate systems and the likelihood of different climate scenarios. It's also because traditional financial discounting models inherently downplay the financial impact of more distant risks – no matter how severe.

Pension schemes and asset managers are making progress to better understand climate scenarios and integrate environmental considerations into portfolio management. But markets must overcome informational limitations that prevent efficient price discovery. The Taskforce for Climate-related Financial Disclosures (TCFD) aims to increase access to information relating to climate risk and opportunities (although only certain entities have a reporting requirement). Another drawback is the primarily backward-looking nature of reporting. This means there is a lack of information regarding the changes businesses need to make to mitigate and adapt to climate change, as well as the cost of inaction.

Reporting frameworks must evolve, but this comes at a cost to businesses. With annual corporate reporting often lengthy, there's a need for efficiency and information on material issues. While global exchanges reduce the reporting burden to attract listings, decision-useful information should broaden market access, helping capital providers recognise the challenges faced by businesses. Communication is required between capital providers, regulators and businesses; this can help identify decision-useful information and allow markets to price risk more accurately.

Materialising physical risks necessitate transition planning

January's wildfires in Los Angeles County resulted in record property damage. They also highlighted the potential for significant losses to uninsured homeowners, and the investment risks arising from the physical effects of climate change. By factoring climate-related risk and extreme weather into insurance policy pricing, property values should adjust to better reflect this risk to owners. However, where insurers pull coverage from the highest risk areas, and where insurance markets are less developed, the pricing of risk is challenged.

While regulatory support for understanding climate-related risk is weakening in developed economies, litigation to create accountability for extreme-weather-related physical losses persists. When asset managers project physical and litigation risk, the financial costs of climate inaction can be better understood. Markets are incentivised to revalue companies that face expensive lawsuits and rising costs of insurance.

The increasingly apparent effects of climate change also highlight the need for businesses to plan if they wish to avoid physical and litigation risk. While many have stated a net-zero target, few are backed up by credible plans. Transition plans, which are currently being consulted on in the UK, can provide forward-looking, decision-useful information for both investors and lenders when understanding capital needs and price risk. When companies plan to mitigate the drivers of climate change (through decarbonisation) and adapt to its effects (through climate resilience), they also show markets and regulators by example the potential resource and training requirements.

Climate-aware strategies can improve disclosure and risk management

To date, many environmentally aware solutions have used historic emissions to proxy for climate risk. This does not adequately capture the capital needed to deliver transition plans. The cost of decarbonising a business in a sector where cost-competitive, low-carbon solutions exist is vastly different to sectors where solutions are still being developed. Furthermore, as climate change presents a systemic risk, even low-emitting businesses like those in the services sector may incur costs for climate resilience – for example, in air-conditioning offices or indirectly bearing the costs of other property maintenance.

Some strategies seek to invest in companies that are well placed to benefit from the transition. Such opportunities may carry higher emissions but demonstrate credible decarbonisation plans, giving confidence to investors that risks are being properly considered. This maintains support and allows capital to be deployed effectively. Meaningful change is more likely when accountability and information requirements are built into investment mandates, securities or executive remuneration. For example, a market-led approach where businesses plan to manage and disclose risk would see broader disclosure of decision-useful information. This is particularly relevant where capital providers highlight the demand for this information and acknowledge that failure to provide it comes with a higher cost of capital.

A market-based approach could prompt asset managers to request better physical risk and supply-chain mapping. This would come at a cost, borne by investors, but would offer valuable insights to support capital allocation. Investors should, therefore, consider the capabilities and tools of their asset managers in identifying climate-related risk and opportunities.

Investor action goes beyond capital allocation

Long-term asset owners play an important role in financial markets and their evolution – they have an interest in overcoming structural issues that threaten their objectives. In an industry where quantitative data is important, stewardship activity should focus on eliciting information around transition planning, for example:

- Working with asset managers, communicating demand for evolved climate-aware solutions that draw on forward-looking information – eg creating demand for improved physical risk datasets and understanding of supply chains, and the costs of corporate transition.
- Working with regulators to support a policy environment that better recognises externalities and addresses market failure or absence, particularly when articulated in the context of long-term sustainable GDP growth.
- Sharing information across the investment community to ascertain how to align decision-useful sustainability-related disclosure with incentives (without becoming burdensome).

Markets must evolve to reflect the full spectrum of modern risks and opportunities, incentivise action on climate mitigation and adaptation, and support long-term sustainable value creation. Investors are vital to driving that change.

Significant votes: fewer climate-change resolutions on the ballot

The 2025 US proxy season faced many challenges, not least those arising from anti-ESG sentiment covered in our Q1 RI News and Views, but also in the face of the newly issued (February 2025) Staff Legal Bulletin 14M (SLB 14M). SLB 14M, issued by the Trump administration (and covered in further detail in our 'ESG Snippets' section), marked a significant shift in the regulatory landscape regarding shareholder proposals. Those that raise social and environmental issues are now able to be excluded by companies if they do not "significantly affect the company's business". The bulletin clarified that reputational or economic harm alone would not be sufficient to include resolutions on the ballot. In addition, the bulletin strengthened the "ordinary business" exclusion, which allows companies to exclude proposals that deal with ordinary business or proposals they deem as "micromanaging business operations".

As a result, there were fewer ESG-related proposals at AGMs over the 2025 proxy season. Climate-related proposals requesting GHG emissions information, which are frequently seen on the ballot, dropped dramatically, with only two filed at Cracker Barrel and BJ's Wholesale. Moreover, many companies used SLB 14M to block proposals. For example, climate-change-related proposals from As You Sow were blocked at the Securities and Exchange Commission (SEC) by companies including All State, Constellation Brands, Targa and The Hartford.

Follow This pauses filing shareholder resolutions

Against this backdrop, and citing investor reluctance to vote, Follow This announced it will not file any resolutions in 2025. The non-profit organisation noted that while its climate resolutions had previously received strong support (with the average backing of one in five shareholders), filing resolutions without secured investor backing might risk lower votes and undermine climate progress to date.

Follow This has been responsible for the climate-related shareholder resolutions at major fossil-fuel companies, including BP and Shell. When it stepped back, there was no climate-related shareholder proposal at BP's AGM this year, despite a major U-turn on the firm's energy strategy. The new strategy, released in February 2025, involves the firm increasing investments in new oil and gas exploration until 2027, while decreasing investment in renewable energy. It was implemented without shareholder consultation.

Investors have a say on climate

Despite the lack of climate-related resolution, a group of major investors (including L&G, Nest and Border to Coast) pre-declared their vote against BP's Chair of the Board, Helge Lund, in protest of the climate strategy backtrack. Voting against Chairs can send a powerful signal of shareholder dissatisfaction, with some arguing that it holds more influence than a vote in favour of a climate-related proposal. L&G, which holds a 1% stake in BP, noted it was "deeply concerned by the recent substantive revisions made to company's strategy" and the lack of shareholder consultation.

Such action shows that investors retain the tools to influence and exercise their rights, despite a downward trend in ESG-related resolutions being filed. While the vote against Lund was largely symbolic, given his plans to step down next year, it sent a strong message of dissatisfaction from shareholders. Moreover, it voiced concerns about BP's long-term value and the risks associated with a withdrawal from climate commitments.

Climate-related shareholder resolutions

Here are the resolutions from As You Sow that made it onto the ballot:

Company	Resolution	Board Recommendation	Pass/Fail
Meta	Disclose Climate Transition Plan for Data Centres Shareholders request that Meta disclose a transition plan that results in new renewable energy capacity, or other actions that achieve actual emissions reductions at least equivalent to the energy demand associated with its expanded data centre operations.	Against	Fail (3.3% overall vote, 10.5% of independent shareholder votes)
Berkshire Hathaway	Disclose Clean Energy Financing Ratio Shareholders request that Berkshire Hathaway discloses its clean energy financing ratio, defined as its total financing in low-carbon energy as a proportion of its investment in fossil-fuel energy.	Against	Fail (3.4% overall vote, 6.4% of independent shareholder votes)
Amazon.com Inc	Disclose Scope 3 emissions Shareholders request that Amazon discloses all material Scope 3 GHG associated with its retail sales.	Against	Fail (13.9% overall vote, 16.0% of independent shareholder votes)
Foot Locker Inc	Net Zero Climate Transition Plan Shareholders request that Foot Locker adopts a goal for reducing its enterprise-wide GHG in line with the Paris Agreement.	Against	Fail (5.7% votes in favour of resolution)
Chubb Ltd	Disclose and Reduce GHG Emissions from Underwriting, Insuring, and Investment Activities Shareholders request that Chubb issue a report, at reasonable cost and omitting proprietary information, disclosing the GHG emissions from its underwriting, insuring and investment activities.	Against	Fail (13.9% votes in favour of resolution)

Despite the challenges of the 2025 proxy season, stewardship remains a key tool for asset owners to exercise their rights as responsible stewards of capital and to protect and enhance long-term value. It's increasingly important to reiterate that responsible investment is apolitical – its core goal is to deliver long-term risk-adjusted returns for the ultimate beneficiaries – and asset owners should ask their managers how their actions ensure long-term risks are mitigated. This might include asking whether they voted for or against the Chair at BP's AGM, or if they have voted against the Chair's re-appointment at other AGMs to signify dissatisfaction with the company's climate approach. In addition, alignment between asset owners and managers is essential to achieve responsible investment aims. Asset owners should engage with their managers to determine how they have voted on climate-related resolutions, to determine if this is in line with their expectations.

ESG SNIPPETS

SEC guidance takes hold

In February, the SEC released Staff Legal Bulletin 14M (SLB 14M), which updated Biden-era guidance regarding companies' no-action requests. These are used to exclude shareholder proposals from proxy statements and ballots. The bulletin indicated that the SEC's interpretation of the 'ordinary business', 'micromanagement' and 'economic relevance' rules would move in favour of the companies, making it easier for them to exclude shareholder proposals. Indeed, SEC data reveals companies have increased their efforts to exclude proposals, filing no-action requests for 46% of proposals this year, up from 29% in the previous year. Nevertheless, the findings indicate that SLB 14M does not grant companies unrestricted authority to exclude proposals, as only 69% of exclusions were approved – virtually unchanged from the 68% recorded in 2024. Overall, companies have been able to submit more exclusion requests while maintaining a similar success rate. This, combined with a drop in initial ESG proposals, has resulted in the number of ESG proposals making it to ballot reducing by around 30% year on year. It's also worth noting that since SLB 14M was released in the height of the 2025 proxy season, its full impact might not yet be evident.

Recent anti-ESG sentiment and regulatory changes in the US are impacting asset managers' capacity to engage effectively on behalf of their clients. Asset owners should evaluate how their managers are responding to these evolving challenges and confirm that managers continue to align with their own convictions and objectives.

ESG joins the stress test

In May, the Bank of England announced proposals that strengthened its expectations for banks' and insurers' management of climate-related risks. In particular, there was a greater emphasis on scenario analysis. In June, the European Supervisory Authorities (Europe's three primary financial regulatory agencies) announced the publication of the new draft 'Joint Guidelines on ESG stress testing', detailing how banking and insurance sector authorities in the EU should integrate ESG risks into their supervisory stress tests.

This suggests that insurers will increasingly move toward narrative-based (or similar) climate scenario analysis, potentially making more use of scenario analysis to better understand climate-related risks. Many insurers will need to invest further in their climate scenario capabilities to keep up with regulatory expectations. Furthermore, pension schemes that are moving to risk transfer and are currently using narrative-based climate scenario analysis will have better alignment with their insurer.

PRI's human rights initiative

The Principles for Responsible Investment (PRI) has released the inaugural report for its human-rights-focused engagement initiative, Advance. Advance, the world's largest investor stewardship initiative on human rights, comprises 267 investors representing over £25 trillion in assets under management. Of these, 118 are actively engaging with companies in the metals, mining, and renewables sectors – the initiative's current focus.

Human rights are among numerous ESG risks that asset owners must address within their portfolios. Effective stewardship practices can help mitigate these risks, and collaborative initiatives such as Advance foster progress by uniting efforts and amplifying collective impact. Asset owners are encouraged to maintain ongoing dialogue with their asset managers regarding risk management practices and to leverage their influence to promote positive change. For more information in this area, speak to your usual consultant.

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