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## Looking beyond the headlines: Climate investing can unlock opportunities and diversification

*The election of Donald Trump may have been accompanied by significant media and political narrative around climate initiatives, but many institutional investors continue to assess the extent to which their portfolios are exposed to climate risk, or conversely, whether alpha opportunities exist in investing in companies providing solutions to climate risk.*

### Box 1 Pension Funds push forward on climate goals despite backlash

“ At a time of resistance to environmental, social and governance goals, pension funds have become a bulwark against efforts to sideline climate risks.

In the past few months, some of the largest banks and asset managers in the United States have quit net zero networks, the climate groups that encourage their members to set ambitious carbon reduction targets and collaborate internationally on sustainability efforts.

At a time of growing backlash to environmental, social and governance goals and investment strategies, **pension funds, particularly in blue states and Europe, have emerged as a bulwark against efforts to sideline climate-related risks.**

The funds, which sit at the top of the investment chain, have stepped up engagement with asset managers and companies on climate goals and have kept public commitments to use their fiscal might to reduce carbon emissions. In some cases, that has meant shifting to European asset managers, which have not backed off on climate commitments as much as their American counterparts have. ”\*

\* New York Times. Published March 29, 2025. <https://www.nytimes.com/2025/03/29/business/dealbook/pension-funds-climate-esg.html>

Concurrent with this has been a **surge in demand** for climate-related **private market** investments. The lure of the ‘illiquidity premium’ and a correlation differential to traditional asset classes is driving this and some of our peers (asset managers) continue to pivot their business models to private investments (credit, equity, infrastructure, etc.).

Private markets however come with many **complex considerations** (fees/costs, excessive valuations, tough exits, high levels of dry powder and drawn out calls on capital, etc.). At KBI, we continue to advocate for a **public market approach to climate investing**, given the diverse benefits offered to investors. A climate allocation in the public market space can improve **diversification** as well as introduce **differential sources of return** for pension funds. This is a fast and efficient way of **aligning** investment portfolios to the **climate or sustainability goals** (see Box 2) held by a large cohort of institutional investors, primarily public and large corporate pension funds.

*Diversification does not guarantee a profit or protect against a loss.*

## Box 2 The Public Market Diversification Dilemma

“ A growing majority of large asset owners incorporate sustainable investment goals into their investment policies. Seven in 10 large asset owners (70%) now incorporate sustainable investment goals into their investment objectives, a seven-percentage-point increase since last year. **Large asset owners with more than US\$20 billion in AUM are more likely to incorporate sustainability goals, with 81% including them in their investment policies.** Among smaller asset owners, 64% have incorporated sustainable investment goals.

Large asset owners are still materially increasing their allocations to sustainable and impact-focused funds, even though the rate at which large asset owners are increasing their allocations has fallen year over year. In sustainable funds, 24% of large asset owners say they intend to increase their allocations over the next 12 months versus only 8% that intend to decrease allocations. Twenty-nine percent say they expect to increase their exposure to impact strategies versus only 1% that expect to decrease. **European large asset owners are much more likely to invest, with 32% expecting to increase allocations, compared with 13% that expect to decrease theirs.** ”\*

\* Mercer Investment's Large Asset Owner Barometer 2025, a survey covering 74 large asset owners, collectively \$2trillion of assets, from more than 16 countries.

Many investors have become increasingly **concerned** about **concentration risk** in their global equity portfolios in recent years. The objective of asset allocation is to balance risk and return by diversifying investments across different styles, strategies and assets. The ability to achieve diversification is challenging given the extent to which equity market cap indices have been **dominated** by a small cohort of **Tech stocks** in recent years. The same IT/Consumer Discretionary/Commercial Services stocks dominate the MSCI World Index, MSCI Quality Index, Growth Index and, at various times, Momentum Index.

As the tech stocks have low scope 1 & 2 carbon emissions, these names also dominate the Climate Change Indices. Yes, investors can lower their portfolio carbon emissions by increasing exposure to these names, but that comes with two caveats:

1. It **increases concentration risk** which runs contrary to improving diversification.
2. Most of these companies are **not providing** actual **climate solutions**.

That concentration risk will have worked well for investors in recent years. As a result, any ex-post analysis done today may well suggest that it is a good allocation decision to, for example, add exposure to a tracker of the MSCI World Climate Change Index. An ex-ante analysis may not be as positive. Either way, it runs counter to the concept of incorporating different sources of return into your portfolio.

Companies providing **climate solutions** have **long-term tailwinds** driving their business models. They are **under-analysed** by the research community and hence offer more **inefficiencies for active management to exploit**. These companies are typically **under-represented** in market cap weighted indices and as a result, it is KBI's conviction that an allocation can **improve** the overall **risk-adjusted return profile** of a portfolio.

### Our approach at KBI

Twenty-five years ago, KBI, identified the world's **most critical resources** being at the fore of climate-related impact, that is the nexus of **food, water** and **energy**. As our most critical resources, identifying companies **providing solutions to these supply/demand imbalances** seemed an opportune way to identify the potential winners. KBI's Global Solutions Strategy allocates across this nexus and today **offers investors exposure to multiple end-markets**, many of which are at the forefront of **climate mitigation, adaptation, resiliency** and **remediation**. Not only does this provide an alpha opportunity, it also offers exposure to **differentiated sources** of return. The strategy provides diverse exposures across styles and market-cap, whilst being underweight mega-capitalised sections of the market.

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## KBI Global Solutions Case Study

<b>What the strategy delivers</b>	Balanced exposure to solution providers active in the areas of water, clean energy, energy efficiency and food. Also provides exposure to climate mitigation & adaptation, sustainability and impact.
<b>Client</b>	Pension fund of global intergovernmental organisation
<b>Mandate requirements</b>	Climate impact allocation within global equity portfolio. Segregated mandate. Knowledge-sharing and customised screening on impact issues.
<b>Benchmark</b>	MSCI ACWI
<b>Process</b>	Multiple meetings leading to invitation-only extensive RFP. On site due diligence completed June 2024.
<b>Other types of current searches where we see interest in GRS</b>	<ul style="list-style-type: none"> <li>- Global Thematic Equity for alpha generation purposes</li> <li>- Climate Action</li> <li>- Impact</li> <li>- Sustainable</li> </ul>
<b>Sample current institutional clients/ investors invested in GRS</b>	<ul style="list-style-type: none"> <li>- Sub advisory mandates for Canadian (Thematic Alpha) mutual funds sold in all channels including institutional</li> <li>- Allocations from several Foundations who are attracted to ESG credentials and impact</li> <li>- Pension Funds</li> <li>- Shortlisted by SWF Climate Action Mandate</li> <li>- Strong engagement from several public pension plans</li> </ul>

There is a strong pipeline of activity and leads for the five KBI climate strategies – from China to South America to Europe. The products are highly rated, differentiated and managed by a specialist team renowned in the Climate Impact space, resulting in a strong conversion rate where relevant opportunities arise.

## 2025 Mid-year Outlook Main and alternative scenarios

SCENARIOS FOR 2025	PROBABILITY 20% <b>DOWNSIDE RISK SCENARIO</b> Fragmented stagflationary environment	PROBABILITY 70% <b>AMUNDI MAIN SCENARIO</b> Sub-par growth with sticky inflation	PROBABILITY 10% <b>UPSIDE RISK SCENARIO</b> More disinflation with productivity gains
Scenario	Geopolitical and/or trade war escalation ( <b>back to Liberation Day</b> ), severe supply chain disruptions, profit recession, and impact on labour markets. Upside risk to the US deficit due to further deterioration from lower growth.	Although in a <b>significantly higher tariffs world</b> (with average US tariffs at 15%), policy uncertainty subsides over time, with an orderly relocation of supply chains. Growth decelerates without major setbacks. US deficit around 6.5%.	Policy uncertainty subsides significantly, driven by a recovery in global trade dynamics; disinflation enables monetary policy normalisation. ( <b>With average US tariffs below 10%</b> ). Downside risk to the US deficit due to stronger growth.
World GDP	2.6-2.8%	2.8-3.0%	3.1-3.3%
US GDP	1.0%-1.3%	1.4%-1.8%	1.9%-2.1%
Euro GDP	0.3%-0.7%	0.8%-1.0%	1.2%-1.5%
China GDP	3.5%-4.0%	4.0%-4.5%	4.6%-5.0%
US CPI	3.2% - 3.5%	2.8% - 3.3%	2.4% - 2.7%
Euro CPI	1.5%-1.8%	1.8% - 2.2%	1.8% -2.2%
China CPI	(-0.7%) - (-0.4%)	(-0.4%) - 0%	0% - 0.5%
Fed rate	3.00%	3.75%	3.75%
ECB rate	1.0%	1.5%	1.50%
Investment Implications	<ul style="list-style-type: none"> <li>• Risk off</li> <li>• Inflation linkers</li> <li>• Gold</li> <li>• Cash</li> </ul>	<ul style="list-style-type: none"> <li>• Mildly risk on</li> <li>• Positive on equity, credit IG, cautious HY</li> <li>• Tactical on duration</li> </ul>	<ul style="list-style-type: none"> <li>• Risk on</li> <li>• Positive on equity, credit IG and HY</li> <li>• Neutral duration</li> </ul>

Amundi Investment Institute, IMF, Bloomberg. The table shows reference projections based on information available as of 10 June of 2025. Assumptions on tariffs as of 10 June of 2025, at face value, tariffs are 10% universal, 30% on China (20% Fentanyl and 10% reciprocal); under the section 232, 25% sectoral tariffs on Auto & Auto Parts, 50% on Steel and Aluminum (since the 4th of June). Sectoral tariffs on Canada and Mexico only for non-USMCA-compliant imports.

## Factors to monitor



**Credit stress**  
due to policy lag effects leading to defaults



**Liquidity risk**  
in private credit amid rising complexity, deregulation and strong bank and non-bank linkages



**Real estate stress**  
on commercial banks and consumers



**Volatility spikes**  
for valuation reset and/or carry trade reversal

## Amundi asset class views

Asset Class		---	--	-	-/=	=	=/+	+	++	+++
EQUITY PLATFORM	United States				◆◆					
	US equal weighted					◆	→			
	Europe							◆		
	Japan						◆			
	China					◆	→			
	EM ex China						◆	→		
	India						◆	→		
FIXED INCOME PLATFORM	US Duration					◆	→			
	EU Duration						◆			
	UK Duration							◆		
	Japan Duration			◆						
	US IG Credit					◆				
	US HY Credit			◆						
	EU IG Credit							◆		
	EU HY Credit					◆				
	EM bonds HC							◆		
	EM bonds LC								◆	
OTHER	Gold						◆			
	Oil					◆				
	Currencies (USD vs. G10)				◆	←				

◆ Stance at June 2025      → Expected direction of views for H2

Source: Summary of views expressed at the most recent global investment committee (GIC) and updated as of 11 June 2025. The table shows absolute views on each asset class and are expressed on a 9 scale range, where = refers to a neutral stance. This material represents an assessment of the market at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation regarding any fund or any security in particular. This information is strictly for illustrative and educational purposes and is subject to change. This information does not represent the actual current, past or future asset allocation or portfolio of any Amundi product. FX table shows absolute FX views of the GIC.

# To go further: The Amundi Research Center



## Amundi Investment Institute, our story

The Amundi Investment Institute was created to enhance strategic dialogue with clients and to cement Amundi's leadership in economic and financial research. Positioned at the core of the global investment process, the Investment Institute collaborates seamlessly with Amundi's investment platforms. It produces analysis on economic and market developments, including their implications for investors. Our goal is to help clients navigate an increasingly complex and rapidly changing world.

To find out more, please visit: [research-center.amundi.com](https://research-center.amundi.com)

### Climate and responsible investing

### Thematic Papers

### 2025 H2 Outlook

## IMPORTANT INFORMATION

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Date of first use: 24 July 2025

Doc ID no. 4692112

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