Sustainable Finance Outlook

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Physicla risk meets capital

The latest issue of SEB's Sustainable Finance Outlook highlights a stark reality: the energy transition is too slow to avert material physical climate risks. It examines exposure to these risks at fund, company and asset levels, and how sustainable finance can strengthen climate resilience. The report also explores water as both a systemic financial risk and an investment opportunity.

Climate risk exposure scores across investment funds

Key Findings

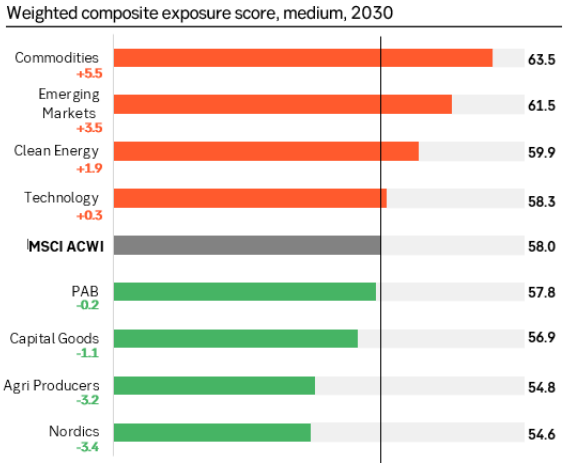
Commodities: Largest weighted composite exposure score at 63.5
- Reflects the nature Series "Score" Point "PAB" Value: 57.8 erations, since most holdings directly own mining
- Assets concentrated in Argentina, Chile, Mexico, the US, Canada, etc...
- Mining assets cannot be relocated because operations depend on fixed mineral deposits

Nordics: Lowest weighted composite exposure score at 54.6
- Due to the fund having higher concentration of assets in the Nordics in comparison to other funds (approx. 26%)

Paris Aligned Benchmark (PAB)
- A transition framework does not automatically mean less exposure to physical risks

Technology fund
- 92% of its holdings are also constituents of the MSCI ACWI, meaning the two portfolios share substantial underlying exposure

Agricultural producers
- Only 39% of holdings are farmers, the rest are food producers, their assets are indirectly exposed in comparison as they likely do not own agricultural land
- Analysis of just farmers increases the score by 1 point



Source: SEB, S&P

Energy transition update

While the transition is still underway and electrification is gaining pace, it is too slow to prevent global warming from causing economic damage. Substantial investment is now needed both for mitigation and adaptation. Investors and companies need to know where physical risks are likely to emerge and how to limit the economic and financial damage.

Sustainable finance market update

Sustainable bonds reached USD 1598bn resulting in a 15% YOY growth despite geopolitical turmoil. Corporate issuers generally allocate only a small share of sustainable finance to investments in climate resilience. By contrast, the most climate-hazard-exposed holdings in selected investment funds have allocated a substantially higher share to climate resilience than MSCI ACWI companies overall. Asset-level assessment is essential to assess whether sustainable finance can reduce companies' vulnerability to physical risks and protect investors from financial impacts.

Regulatory update

Regulators, standard setters and financial institutions increasingly expect physical climate risk to be translated into financial consequences and credible adaptation responses. Across corporate reporting,

sustainable finance and prudential supervision, frameworks are converging on a more location-specific and forward-looking assessment process, even as differences in materiality, methodology and data continue to constrain comparability.

Asset level physical risk analysis

Asset-level insights from SEB's Physical Risk Intelligence Tool reveal location-specific and overlapping climate exposures in mining holdings and data centres. Two case studies highlight material physical risk exposure at a mining company's Chilean properties and identify 48 European data centres with significant exposure to a hazard combination that could strain electricity systems without effective adaptation measures.

Water: from systemic risk to bankable opportunity

Water is fundamental to economic growth, industrial production and societal development. Yet ageing infrastructure, persistent underinvestment, pollution and growing demand are putting water systems under increasing pressure, while climate change brings increasing unpredictability through droughts and floods. This article sets out why water is becoming a material financial risk and how SEB is working with clients to turn it into bankable opportunities.

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