



HIGH MEADOWS
INSTITUTE

Sustainability in Capital Markets

Financing the transition to a sustainable
low-carbon economy

Methodology



Methodology

Sector Profiles

This document provides an overview of the research methodology used for HMI’s 2025 State of Sustainability in Capital Markets report. Any questions about the methodology can be addressed to info@highmeadowsinstitute.org.

Background

Research thesis: To effectively increase support for the transition to a sustainable low-carbon economy (SLCE), we need to first understand how key actors in the capital market and financial systems currently view and support this transition, as well as how they interact with one another. Without this baseline, it is difficult to identify where the opportunities are to

mobilize the additional resources needed to meet global climate goals.

This thesis implicitly makes a critical assumption: Current approaches related to an SLCE are inadequate for mobilizing the level of financial support required to achieve a truly sustainable, low-carbon economy. The gaps between commitment and action, and between strategy and impact, persist and are hindering progress toward climate goals.

Table 1 illustrates the **SLCE Spectrum**, a tiered framework highlighting the varying commitment levels across market actors. The framework is designed with the goal of pinpointing the current positioning of these actors within the broader transition.

	SLCE 1.0: Minimal Commitment	SLCE 2.0: Active Integration	SLCE 3.0: Systemic Leadership
Commitment to Principles	Commitment to sustainability principles is largely symbolic or compliance-driven	Aligned with recognized frameworks like the SDGs or the Paris Agreement	Full alignment with leading SLCE-related frameworks and standards, with an emphasis on advocacy for systemic change
Policies and Practices	Sustainability policies are isolated from decision-making, aside from what is required for compliance	SLCE-related policies are integrated into decision-making, with a focus on risk management and financial performance	SLCE-related policies and practices are fully embedded into decision-making, focusing on systemic change across sectors
Performance Targets	Vague or non-existent SLCE-related targets	Measurable, time-bound targets are aligned with financial risk management and climate goals	Ambitious, science-based targets are aligned with global 1.5°C targets, ideally covering Scope 1, 2, and 3 emissions
Accountability Mechanisms	Voluntary and minimal reporting with little transparency	Standardized reporting with some adoption of third-party audits and stakeholder engagement	Rigorous, transparent reporting, third-party verification, and public disclosure of progress

Table 1. SLCE Spectrum

Research Scope and Methodology

This research seeks to provide a high-level snapshot of how the key sectors in capital markets and the financial system are currently supporting the SLCE transition. The sectors have been divided into two tiers based on availability of data. For the purposes of this paper, we do not attempt to provide a subjective assessment regarding which of these sectors are best-positioned or most influential in contributing to the SLCE transition. Each sector has an important role to play.

- **Tier 1 sectors** are those with sufficient publicly available information for comprehensive assessment. Desk research on existing studies and analyses of these sectors, combined with a review of multi-stakeholder SLCE initiatives, enables an in-depth evaluation of the 10 biggest firms within each sector.
- **Tier 2 sectors** are those with limited third-party data or public information. We rely solely on desk research for these sectors, making the analysis less granular but still insightful.

Tier 1 Sectors:

- Asset managers
- Insurance firms
- Investment banks
- Pension funds
- Private equity firms

Tier 2 Sectors:

- Investment consultants
- Family offices
- Stock exchanges
- Sovereign wealth funds
- Business schools

Table 2. List of target sectors

Standards and Initiatives

We have also examined **several of the most influential standards and initiatives** related to an SLCE (Table 3). These standards function as useful proxies for determining where market actors stand in terms of their SLCE commitments. Most large investors and financial institutions align with at least one such standard, providing a broad lens through which to evaluate their commitment to an SLCE. In situations where a financial market actor renounced their participation in a particular initiative, we instead emphasized other public information (e.g., public disclosures and statements, third-party studies) in our analysis.

Standards / Initiatives / Associations	Target Audience(s)	Number of Members (as of January 2025)
Carbon Disclosure Project (CDP)	Investors, companies, cities, states, and regions	700+ financial institutions, 23,000+ companies, 330+ Supply Chain members, 1,100 cities
Ceres Investor Network	Investors	200+
Climate Action 100+	Investors	700
Equator Principles	Banks	130
ESG Data Convergence Initiative	GPs, LPs	300+ GPs, 125+ LPs
Forum for Insurance Transition to Net Zero	Insurers	N/A
Glasgow Financial Alliance for Net Zero (GFANZ)	Financial institutions	675+
Global Alliance for Banking on Values	Banks	70+
Global Reporting Initiative (GRI)	Organizations of all sizes and sectors	14,000
Initiative Climat International	PE firms, bond issuers, enterprises	250+
Institutional Investors Group for Climate Change (IIGCC)	Investors	400+

International Capital Market Association (ICMA)	Banks, Issuers, Investors, Asset managers, and Market infrastructure providers	600+
International Financial Reporting Standards (IFRS) Sustainability Standards	Public Listed Companies	25,000+
Net Zero Asset Owner Alliance (NZAOA)	Asset owners	89+
Net Zero Banking Alliance (NZBA)	Banks	130+
Net Zero Engagement Initiative (NZEI)	Investors	90+
Operating Principles for Impact Management	Investors	180+
Partnership for Carbon Accounting Financials (PCAF)	Financial institutions	500+
Pensions for Purpose	Pensions and other institutional investors	400+ organizations; 1200+ individuals
Principles for Responsible Banking (PRB)	Banks	330+
Principles for Responsible Investment (PRI)	Investors	5,000+
Science-Based Targets initiative (SBTi)	Companies and financial institutions	4,000+
Sustainable Stock Exchanges Initiative (SSEI)	Stock Exchange	130+
Transition Pathway Initiative (TPI)	Asset owners, Asset managers and Service providers	150
UN Principles for Sustainable Insurance (PSI)	Insurers	~300; 167 signatories, 110 supporting institutions
World Benchmarking Alliance (WBA)	Companies, investors, policy-makers and civil society	388

Table 3. List of standards and initiatives

Research Approach: Five Stages of Assessment

- 1. Initial Assessment:** We scanned the 10 largest firms in each Tier 1 sector using publicly available materials (e.g., annual reports, public announcements, websites) to assess their alignment, accountability, and investments concerning an SLCE. This initial scan provided a preliminary view of the sufficiency of available information.
- 2. Consultation & Refinement:** Initial research findings were shared with **HMI's Advisory Board**, whose feedback informed revisions in the assessment criteria. This process refined the focus across four distinct pillars:
 - Principles/Standards:** Alignment with industry standards and frameworks.

- Policies/Practices:** Implementation of relevant SLCE policies and practices.
- Goals/Targets:** Setting of SLCE-related goals and targets.
- Accountability Mechanisms:** Existence of tangible accountability mechanisms to back up commitments.

Each pillar delineates three levels of ambition—SLCE 1.0, 2.0, and 3.0—to provide a nuanced picture of organizational commitment.

- 3. Training & Validation:** We leveraged **ChatGPT** to initially categorize the 10 biggest firms in each sector based on their commitment levels (SLCE 1.0, 2.0, or 3.0). This analysis was validated using human expertise to ensure accuracy, and minor tweaks were applied to improve the criteria where needed.

4. **Expanding the Scope:** We repeated this process for **several industry standards and initiatives**. Each standard typically applies to a specific sector, ensuring the guidelines, policies, and disclosures are appropriately targeted.
5. **Developing Sector Profiles:** Using insights from both human and machine learning analysis, we generated comprehensive profiles of each sector. These profiles outline the sector's strengths, gaps, and potential to elevate its SLCE support.

FAQs

1. How did HMI choose the sectors for assessment?

We selected the sectors based on consultation with HMI's Advisory Council, considering both their relevance to the SLCE transition and the availability of public data.

2. Why focus on the 10 biggest market actors in each sector?

The rationale is that the 10 biggest players in each sector often control a substantial portion of market activity. If these leaders move in a specific direction regarding an SLCE, it's more likely that others in the sector will eventually follow.

3. How does the SLCE framework compare to other frameworks?

Our SLCE framework was informed by existing models but emphasizes accountability mechanisms, which are often overlooked in other frameworks. We believe this focus is essential given recent criticisms that many sustainability efforts lack tangible, measurable outcomes.

4. Why the emphasis on an SLCE rather than broader sustainability?

Sustainability is a broad term that covers a wide range of social, environmental, and governance issues. From an HMI perspective, the core sustainability challenge we face is transitioning from an extractive

economic model to a regenerative, low-carbon one. This report is intended to focus on how financial institutions can support this transition.

5. Why use ChatGPT in the research process?

ChatGPT has proven capable of conducting in-depth research at a speed that outpaces human effort while maintaining high accuracy. Additionally, its output can be easily validated and replicated, enabling researchers to explore where their organizations stand in supporting an SLCE.

6. How can you ensure the outputs from ChatGPT are accurate and reliable?

ChatGPT was trained on the SLCE framework using a series of carefully constructed prompts to ensure it understood the nuances between SLCE 1.0, 2.0, and 3.0. Once we were satisfied that ChatGPT understood the research objectives, we used a human research team to validate the outputs for each of the Tier 1 sectors, which led to very minor changes in the categorization for individual market actors.

7. Do you plan to disclose how individual market actors and/or standards rank according to the SLCE Spectrum?

No. The research focuses not on scrutinizing individual market actors but rather on forming a comprehensive picture of where a sector's biggest players stand in relation to an SLCE.

8. How did HMI account for criticisms of ESG and the departures of some financial institutions from relevant standards and initiatives?

The anti-ESG movement was a recurring theme in both the desk research and the data analysis. To ensure the analysis reflected the current market environment, we updated the relevant data as of January 2025. This update resulted in several financial institutions being downgraded from an SLCE 3.0 categorization to an SLCE 2.0 categorization, largely due to these departures and related backtracking on climate commitments.

Methodology

Case Studies

To develop the case studies contained in this report, the TIIP team identified and analyzed the practices of leading investors—specifically asset owners and asset managers—who are pioneering the use of system-level investing to combat climate change.

Our methodology included:

1. **Landscape Analysis:** Reviewing publicly available information on approximately fifty investors, identified through a literature scan, that demonstrated system-level approaches in addressing climate change.
2. **Desk Research:** Selecting five investors to do in-depth profiles on, collecting publicly available documents and general information, and synthesizing findings.
3. **In-Depth Interviews:** Conducting structured interviews with representatives from a selected subset of five influential investors. These interviews used a structured protocol to gather comparable data across participants while also allowing for unique, investor-specific insights.

TIIP selected a diverse range of investors to ensure a representative sample based on their established commitment to responsible, sustainable, or impact investment practices, particularly those with a system-level focus.

Research questions included (but were not limited to):

- Whether they are thinking beyond financial materiality and considering impact as part of their strategy related to the transition to a sustainable low-carbon economy;
- How they are integrating this thinking into their investment decision-making and other activities (e.g., policies, advocacy efforts, provision of learning networks, provision of technical assistance);

- Whether and how they are meaningfully measuring their intended impact; and
- Headwinds and tailwinds that are facilitating and hindering the above.

Examples of first-mover investors employing system-level tools and approaches included in this report are Cambridge Associates, Domini Impact Investments, McKnight Foundation, Pensioenfonds voor Gezondheidszorg Geestelijke en Maatschappelijke (PGGM), and Wespeth Benefits and Investments. These investors articulated system-related investment beliefs and employed standards and criteria to maintain a system-wide perspective on climate-related decisions. By leveraging their influence, these investors aim to advance system-level investing and climate action imperatives.

In addition to profiling individual investors, the research team examined investor-led coalitions and initiatives that utilized system-level strategies to address climate issues. Our data collection aimed to understand:

- **System-level Integration:** Whether these investors considered the broader, systemic impacts of their investments beyond financial materiality, specifically in the context of a sustainable, low-carbon economy.
- **Decision-Making Integration:** How system-level thinking influenced their investment decisions and activities, including policies, advocacy, learning networks, and technical assistance.
- **Impact Measurement:** The extent and methods by which these investors measured their intended impacts.
- **Facilitators and Barriers:** The supportive and obstructive factors influencing their system-level investment activities.

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Developed in partnership with:

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