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Adapting to Reality:
Why climate resilience is the next
frontier for investors ?

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#Note1



EXECUTIVE SUMMARY

Ten years after the Paris Agreement, and with COP30 on the horizon, climate change remains a defining challenge for investors. In this first note of our serie dedicated to COP30 themes, we explore why adaptation — not just mitigation — is more than ever a strategic imperative to investment decisions.



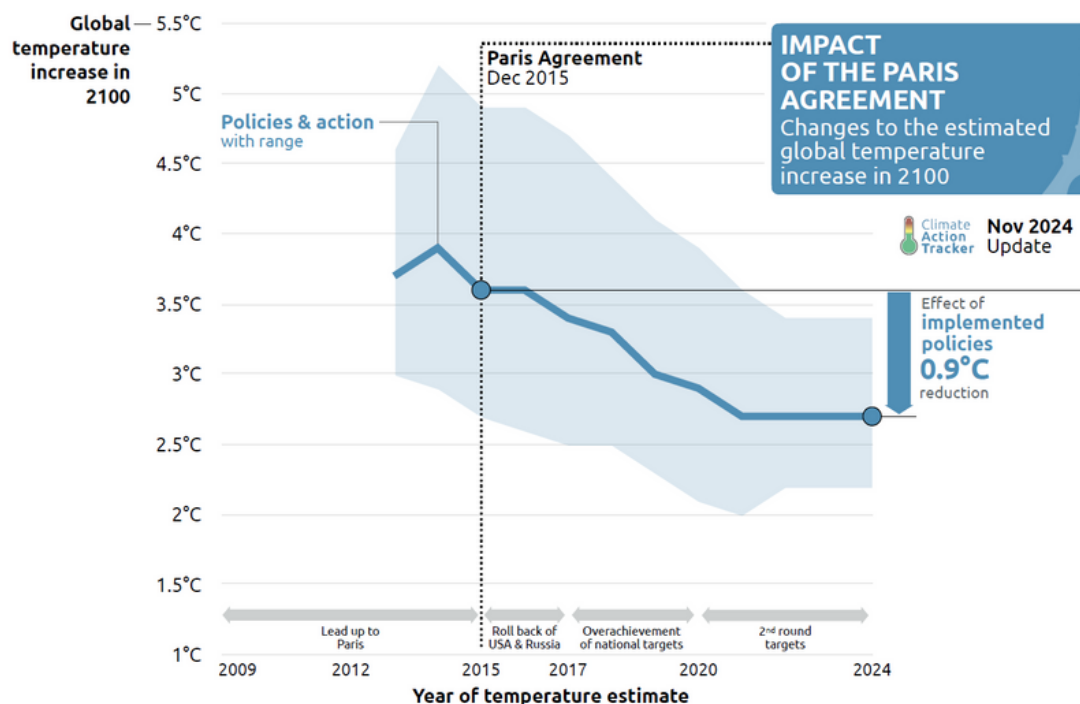
Part 1 : The backdrop

Key message #1: Stuck with a +2.7°C outlook

Since the Paris Agreement, stronger climate policies have reduced the likelihood of a +3.6°C scenario. However, **current trajectories still point to ~2.7°C of warming by 2100** if global mitigation efforts do not accelerate.

Put differently, and acknowledging the uncertainties inherent in climate projections, **the likelihood to limit warming to below 3°C currently stands at 80%**, but there is only an 8% chance to keep global warming below 2°C, without more aggressive climate mitigation policies according to the UN environment programme (UNEP).

Impact of the Paris Agreement



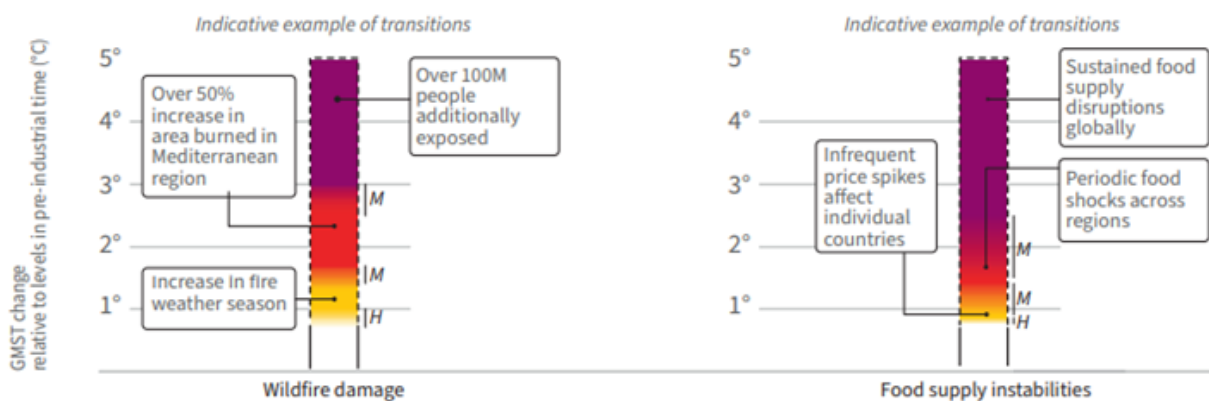
Source : Adapted by Sycomore AM from Climate Action Tracker's graph

While +3°C may seem modest compared to daily temperature swings, it's crucial to understand:

- **Warming is unevenly distributed:** Europe has already warmed by +2.4°C over the past five years, nearly double the global average.
- **Even small increases destabilize climate systems,** leading to more frequent and severe weather events.

For instance, as shown in the IPCC chart below, a +~2.5°C scenario put 50% more area at risk from wildfires in the Mediterranean region and would lead to unavoidable food supply instabilities.

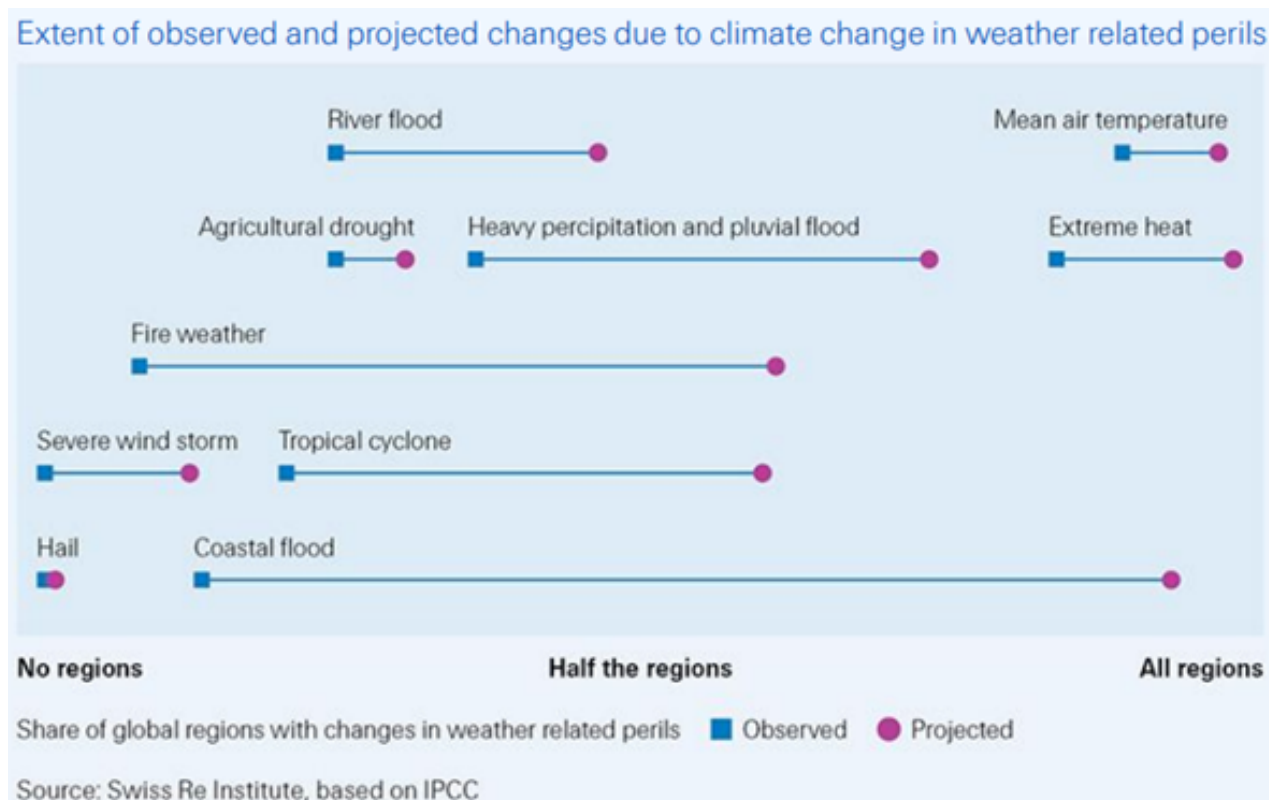
Translating degrees into risks: examples from the IPCC (Intergovernmental Panel on Climate Change)



Source: IPCC 2019

Key message #2: 14% of global GDP at risk by 2050 from increased severity of weather events

More generally, as depicted by Swiss Re, one of the world's leading providers of reinsurance, insurance and other forms of insurance-based risk transfer, **weather-related perils** such as flood, wildfires, and tropical cyclones **will hit a growing number of regions**.



This will have **societal impacts** (ie population displacements) and **macro-economic implications**.

- **Inflation risks:** droughts notably were found to have long lasting impacts on headline inflation through food inflation, but other perils such as flood can disrupt global supply chains creating bottlenecks with inflationary consequences too.
- **Negative impact on economic growth** through extreme weather events and sea level rise creating damages to the capital stock, on the one hand, and heatwaves adversely weighing on labour productivity, on the other hand. While estimates of economic

losses vary, Swiss Re estimated a **global GDP impact of 14% by 2050 compared to only 4% if the objectives of the Paris Agreement were met**. The work done by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) in 2025 help to bring these risks to a more tangible time horizons for equity investors, as it found that **regional extreme weather events could generate temporary but material GDP losses already by 2030** (2.5% of global GDP), with emerging countries particularly hit (Asia 6%).

Key message #3: Adaptation spending needs amount to hundreds of billions

The UNEP and the Independent High Level Expert Group estimate **adaptation costs ranging from \$215bn to \$310bn per year by 2035**. Although these figures are already high, it is important to note that they only represent a fraction of total adaptation needs as they:

- **Do not cover adaptation costs of developed countries,**
- **Do cover only part of adaptation needs:** for example, they account for climate-proofing new infrastructure but exclude the costs of retrofitting existing assets. Neither do they cover the need to further deepen the penetration rates of air conditioning,
- **Do not cover adaptation costs to borne by the private sector,** which could add \$250bn per year to the total.

As weather perils become more frequent and milder global warming scenarios become more uncertain, **we expect public and private decision makers to further invest in climate resilience and trigger associated investments**. An already encouraging signal is that **75% of countries report at least one engineered action** such as flood defenses, drainage systems, or cooling centers, according to Bloomberg New Energy Finance (BNEF).

In a world where mitigation is stalling, **integrating physical climate risks and adaptation needs into investment decisions is a critical hedge**.

Part 2 : Implications for investors

A. The need to assess corporate risk exposure and adaptation plans

Key message #4: Lack of adaptation raises physical risks for companies

For investors, **integrating companies' climate change adaptation actions is and will be key to mitigating risk as climate change impact becomes increasingly acute.** In a recent study, S&P Global Sustainable estimated that **total physical impacts** for S&P Global 1200 index constituents, i.e. world's largest companies, **could reach up to \$25 trillion by 2050 under a medium climate change scenario.** Indeed, climate change raises physical risks for companies:

- **Lower revenues due** to disruption of own operations or supply chain, productivity loss or reduced demand,
- **Higher capital expenditures** to restore facilities affected by climate hazards with a potentially emergency need of cash,
- **Higher operating expenditure** due to increased raw material prices or insurance premium, lawsuits cost and responsibility for damages.

Key message #5: Companies assess these risks and develop adaptation plans

Companies are increasingly understanding that assessing their exposure to physical risk for their own operations but also their supply chain enables them to anticipate and potentially reduce the costs associated with these risks. However, this assessment requires, together with simulation of potential physical climate change impacts, granular geographical data of assets and infrastructures. The latter can be difficult especially for complex value chains.

Once risks have been assessed, including based on climate change scenarios, the next step is to establish a **time-bound adaptation plan**, ideally **involving all stakeholders both internal and external** (e.g. suppliers). In the same study, S&P Global Sustainable found that about **35% of companies across sectors[1]** have **disclosed an adaptation plan** that includes physical and non-physical measures aimed at reducing the physical risks. The share is higher for the utilities and real estate sectors (above 50%) and lower for the consumer discretionary, communication services and healthcare sectors (below 30%).

As of today, **disclosure of companies on specific adaptations measures is not standardized**. Some publish information in their Annual report, Sustainability report, or Climate strategy others in their TCFD[2] report and CDP questionnaire. The **level of details regarding the risk exposure assessment varies** (methodology, scenarios, tools used, internal or third-party assessment...) **so as regarding the adaptation plan and disclosure on precise actions taken with their scope and associated KPIs**. Examples of KPIs published include the share of facilities and sites in water-stressed areas or a map of all assets of the companies with their exposure to different climate hazards.

[1] Based on responses from 7 934 companies assessed in the 2024 S&P Global Corporate Sustainability Assessment, no adaptation plan corresponds to companies that answered that they do not have an adaptation plan, which adaptation plan is not publicly available or did not answer the physical risk adaptation plan question.

[2] In 2017, the Task Force on Climate Related Financial Disclosures (TCFD) published climate-related financial disclosure recommendations.

Below are some **examples of good practices in companies' adaptation action plan**:

- Once the exposure to water-stressed areas is identified, mitigation measures are to develop water efficiency action plans, ideally with a time-bound water consumption reduction target, or else the development of close-loop water systems when feasible.
- When companies identify sites exposed to climate hazards, they can identify precise measures to adapt their sites, e.g. machinery in elevated floors or wet land restoration for buildings exposed to flood risk.
- Companies can also develop emergency plans for their sites to identify measures to be taken in case of climate hazards and train employees based on pre and post-disaster measures.
- As another nature-based solution for food or textile companies, the adoption and promotion of regenerative agriculture practices can help strengthen the resilience of their supply chain.

How Sycomore AM integrates physical risks ?

At Sycomore AM, we have integrated in our proprietary ESG assessment model called SPICE a dedicated criteria for physical risk where we qualitatively assess these elements. However, it remains difficult as of today to systematically and quantitatively integrate physical climate risks and adaptation measures assessment at portfolio level. Due to the potential financial materiality of this issue, we will continue to follow methodological development and data provider offering.

B. Seizing associated investments opportunities

Key message #6: Adaptation needs also create investment opportunities across various sectors

Increase in adaptation spending in turn creates growth opportunities for companies exposed to climate resilience markets. We are already invested in several companies that should benefit from these trends and monitor further investment opportunities which span across several sectors.

Whereas some solutions such as water-efficient equipment correlate with other environmental investment themes, some adaptation solutions can imply trade-offs with climate change mitigation and biodiversity preservation objectives. Desalination plants, which generate emissions and waste, are one example. This is why it is key to us to assess these opportunities through the adaptation-mitigation-biodiversity nexus.

In the table below, we depict several solutions that address adaptation needs:

	Adaptation challenge	Focus on companies providing
	Sea level rise is marked by strong inertia with only +~5cm per decade projected but still exacerbate storm surges which will require new and upgraded coastal protection systems	- Coastal defense engineering and consultancy services seeking to limit adverse impact on biodiversity
	20-30% of global land area is now affected by droughts (vs 10-20% in the 20th century). The frequency of flash droughts is projected to rise by c.20-25% in key regions by 2100 (vs. 2015)	- Water-efficient equipment (e.g., dripping solutions for agriculture), water leakage detection ; sustainable desalination systems
	Less prepared arid regions are also at risk from extreme precipitation events . 2024 heavy rainfall event in Spain was 12% heavier and became twice as likely due to climate change	- Pumping and drainage systems (dewatering pumps, storm water management solutions) - Flood barriers
	As temperatures rise , a study found 18-37% increase in cooling need by 2050 due to climate change; further supporting projections of increased penetration of air-cooling systems	- Sustainable solutions for building thermal comfort: energy-efficient HVAC systems , advanced insulation products
	The global proportion of tropical cyclones that reach very intense (Category 4 and 5) levels is projected to increase; hence heightening the risk of destructive events for infrastructures	- Infrastructure (e.g., grids) resiliency services - Emergency infrastructures restoration services
	Whereas insurance is a key tool to enhance economic recovery post natural catastrophes, the global protection gap remains high due to affordability and risk modelling challenges	- Advanced weather-related nat cat risk modeling services - Dedicated parametric insurance solutions
	Climate changes can cause shifts or expansions in the geographic ranges of vector-borne diseases . A large part of Southern Europe is at risk of dengue, under worst scenario	Healthcare companies developing and/or providing vaccines against vector-borne diseases

Source: Sycomore AM

Conclusion

Businesses are exposed to climate change physical risks, and the **lack of preparedness could represent significant costs**. Climate adaptation enables companies to better integrate climate hazards in their decision-making process and **reduce their supply chain and geographical vulnerabilities**. At a local level, adaptation measures based on nature-based solutions, as a complement or an alternative to grey solutions, can also contribute positively to biodiversity restoration or protection. **Different stakeholders are likely to be involved in the implementation of an adaptation plan**. Working with suppliers and communities connected to the value chain of the companies is a factor of resilience.



For its close link with biodiversity and stakeholders' consideration, in addition to assessing companies' practices, at Sycomore AM, we also view climate adaptation as an **important engagement topic** with companies. Engagement enables us to **complement public information** on adaptation risks and **measures taken by companies and identify potential areas of improvement**.

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