

Capital Market Assumptions: A climate reality check

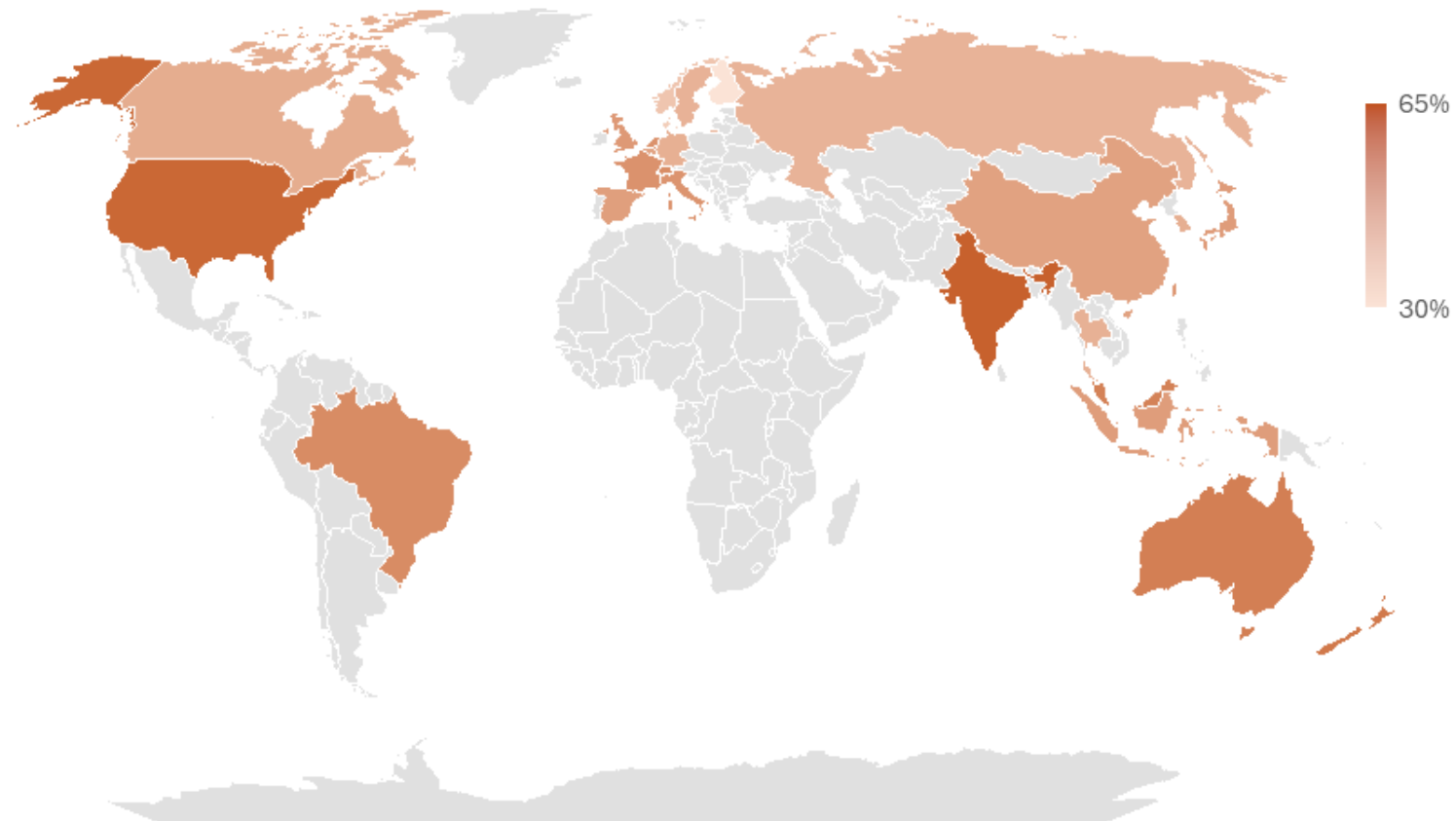
3 June 2026
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Why climate change matters for institutional investors?

Climate risk through a systemic lens

- Systemic climate risks are financially material and cannot be hedged.
- Regional, asset class and sectoral exposures differ sharply.
- Sudden repricing of climate risks can trigger sharp and unexpected market disruptions, catching investors off guard.

Negative impact of physical risk on regional equity return by 2050
High Warming Scenario vs baseline



Climate and capital market assumptions

Decision making in uncertain times



Scenario projections
with probabilities



Alternative futures
with ranking

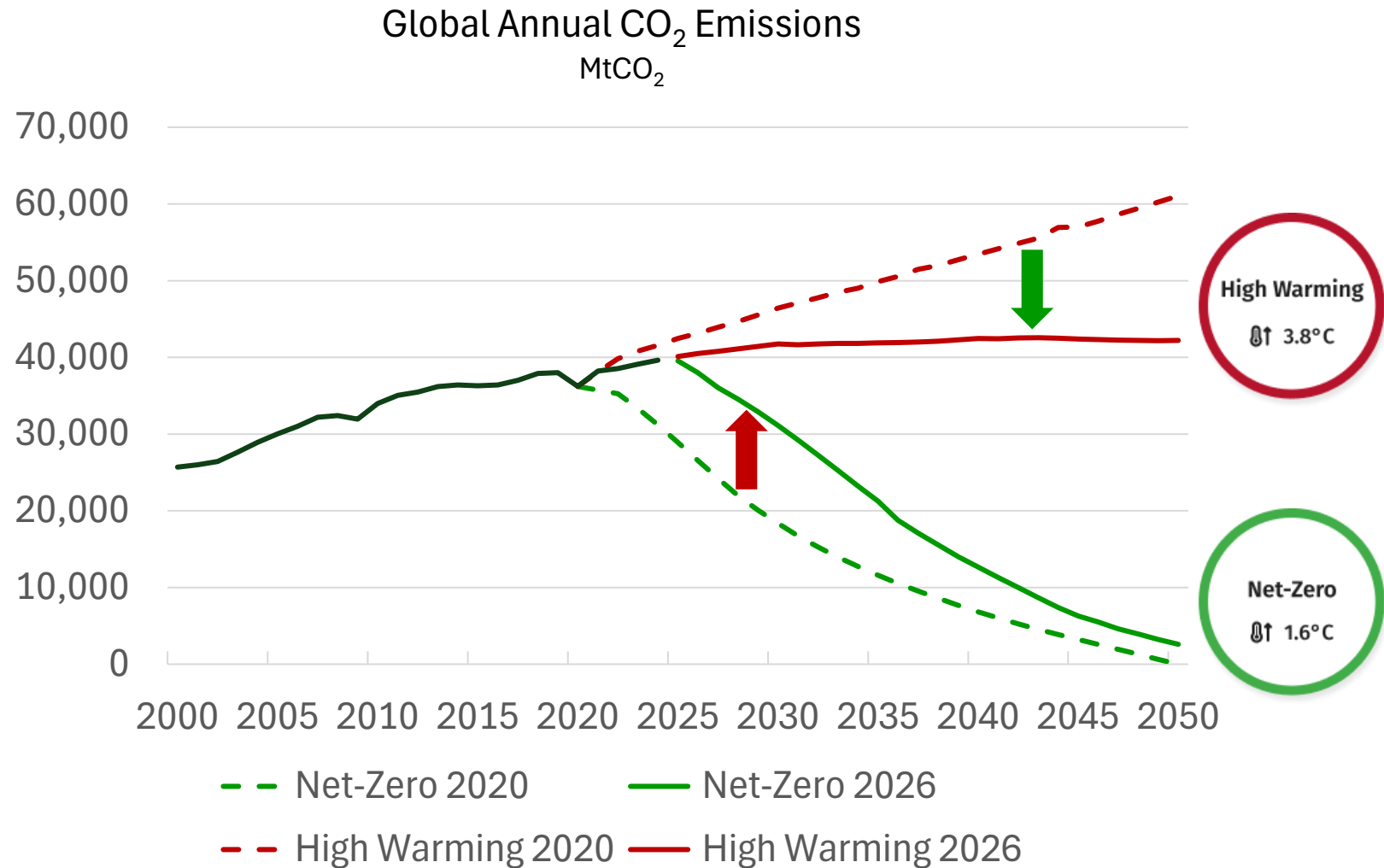


Multiple plausible
futures

- **Economic scenarios** allow investors to make risk-return trade-offs with statements of probability.
- **Climate scenarios** quantify systemic climate risks and opportunities of specific scenario narratives that have not occurred historically without knowing the probability.

Ortec Finance Climate Scenarios 2026

- Key messages 2026 climate scenarios
- Emission trajectory trend is flattening
 - Net Zero increasingly out of reach
 - Signs of growing transition momentum
 - Prepare portfolios for more physical risks



Source: Ortec Finance and International Energy Agency (IEA) scenarios.



Climate and capital market assumptions

Approaches observed

- **Climate risk benchmarking**
- Most likely minimum impact
- Probability weighting scenarios
- Take a view



Increasing conviction

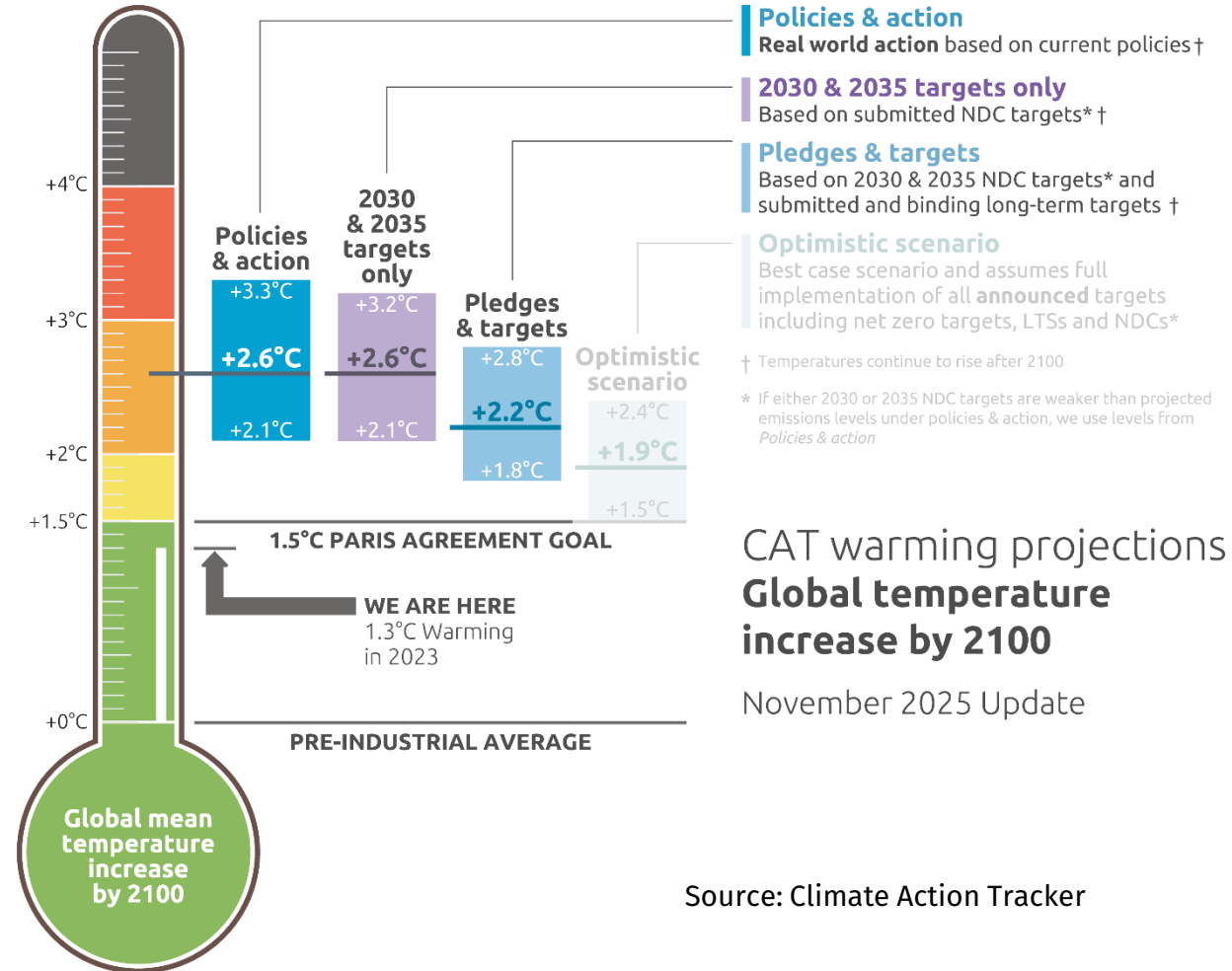
Climate and capital market assumptions

Climate risk benchmarking

1. Define view that range of 2°C to 3°C Global warming is currently most likely

2.

3.



Source: Climate Action Tracker

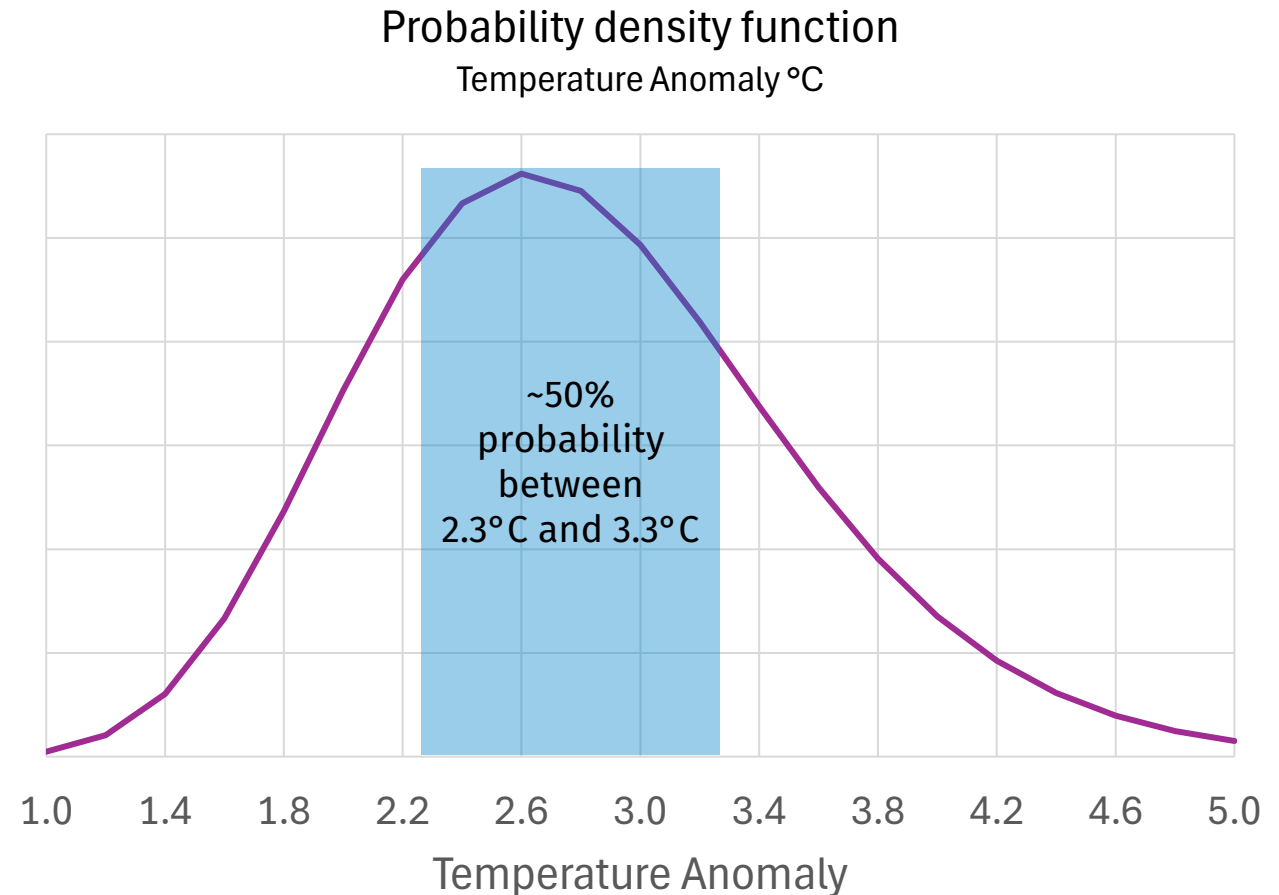
Climate and capital market assumptions

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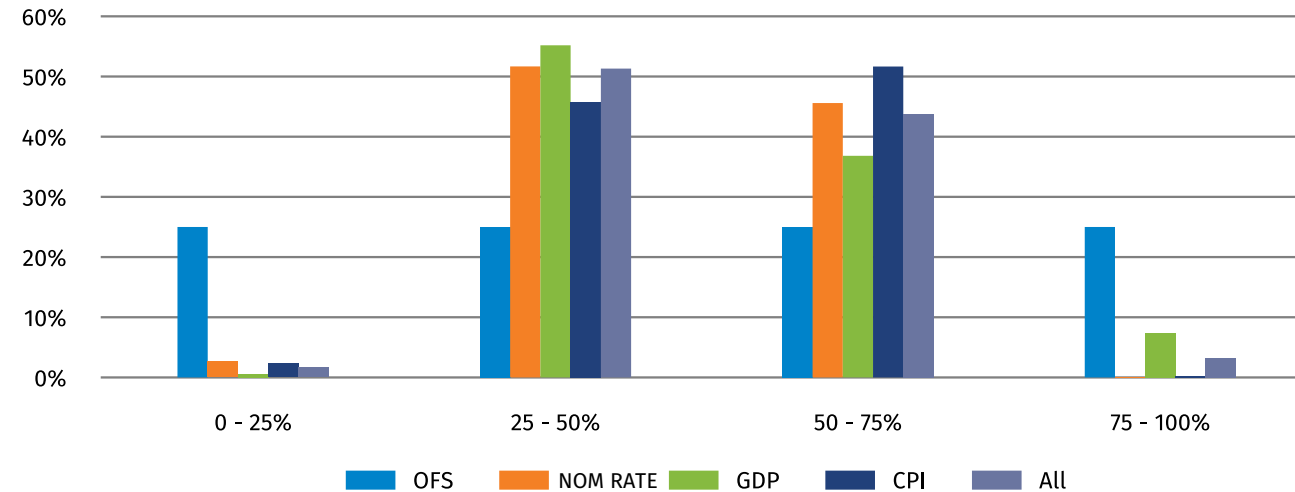
Source: Ortec Finance, drawing on results from academic literature, including: Lawson, J, A Moss, A Popa, E Cairns and C Mackenzie (2023); Rebonato, R., Melin, L., and Zhang, F. (2025); Sarofim, M.C., Smith, C.J., Malek, P. et al. (2024); Venmans, F., Carr, B. (2024); Wynes, S., Davis, S.J., Dickau, M. et al. (2024).

Climate and capital market assumptions

Climate risk benchmarking

1. Define view that range of 2°C to 3°C Global warming is currently most likely
2. **Benchmark climate scenarios to OFS to ensure projections are sufficiently aligned.**
- 3.

Performance of climate scenarios relative to OFS distribution



Results based on OFS and 27 scenarios Source: OF, CE & NGFS

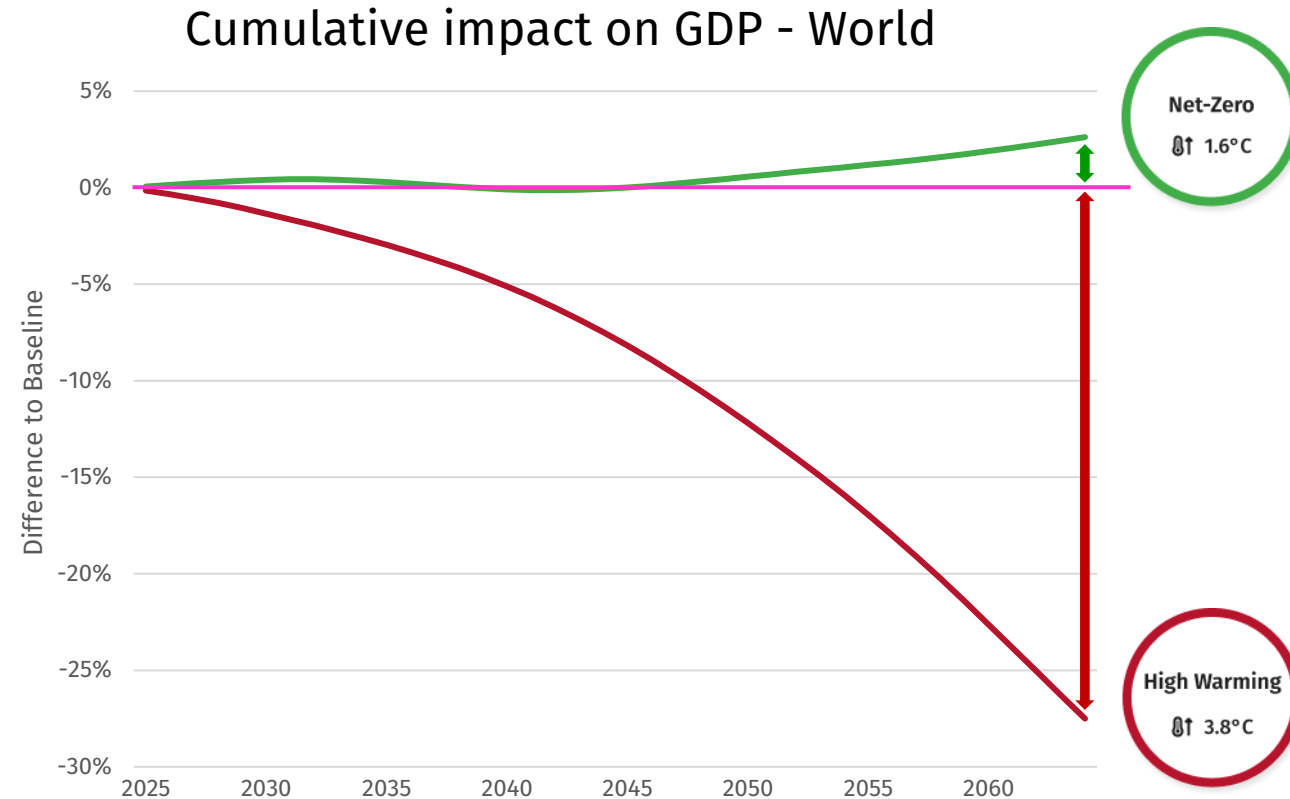
Dec25 benchmark results:

- Observed trends are mildly higher inflation and yields
- **OFS projections are broadly in line with public reference scenarios**
- Specifically the center aligned with a 2°C to 3°C global warming range.

Climate and capital market assumptions

Climate risk benchmarking

1. Define view that range of 2°C to 3°C Global warming is currently most likely.
2. Benchmark climate scenarios to OFS to ensure projections are sufficiently aligned.
3. **Align climate scenarios with the OFS to easily combine results and insights.**





Climate and capital market assumptions

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Increasing conviction

Climate and Capital Market Assumptions

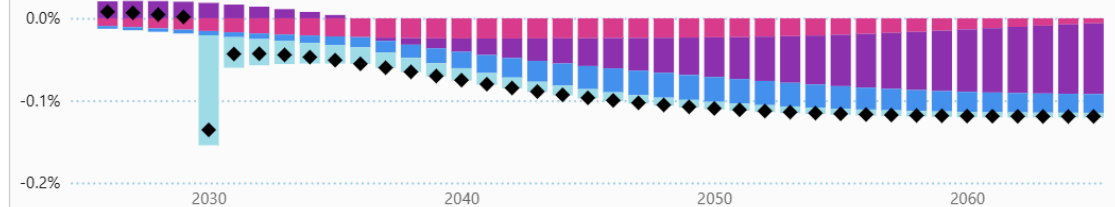
Delayed
Net-Zero
↑ 1.9°C

Most likely minimum impact

- Transition effects are small and vary over time
- Physical risks impacts show clear trends
- Impact on CMA's
 - Lower growth and expected equity return
 - Higher inflation

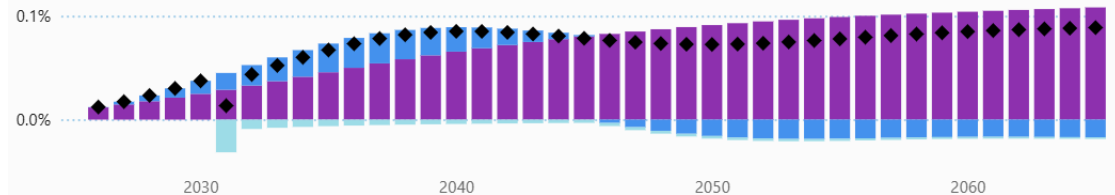
US GDP

Delayed Net-Zero Scenario, cumulative annualized



US CPI

Delayed Net-Zero Scenario, cumulative annualized



● Direct acute physical impact ● Direct chronic physical impact ● Direct transition impact ● Sentiment shock ◆ Total impact



Climate and Capital Market Assumptions

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- **Take a view**





Climate and Capital Market Assumptions

Probability weighting

- Benefit: flexible approach that can reflect dynamics of multiple scenarios.
- Downsides:
 - Not a real scenario distribution and it's challenging to attach probabilities to scenarios.
 - Scenarios contain sudden pricing effects.
- Used by very few clients



Climate and Capital Market Assumptions

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Take a view

- Benefits:
 - Assumptions closely align with stakeholder view and beliefs
 - Outcomes are more grounded and useful
- Downside: Requires significant expertise and conviction to formulate detailed assumptions
- Typically considered by the very large investment organisations with expert teams.



Conclusions

Climate and capital market assumptions stock take

Ortec Finance view

- There are multiple approaches available, each with clear trade-offs
- We remain comfortable with the current benchmarking approach
 - Over 95% of clients use the OF baseline
 - A small group of clients adopts alternative approaches
- Looking ahead
 - Assigning probabilities challenging but moving towards ordering of climate scenarios based on their relative likelihood.
 - Continue to monitor the most likely temperature range of 2°C to 3°C.
 - Consider more physical risks in the future however we maintain our view that non-linear physical risks are not priced-in.
 - Combined toolkit is needed

Q&A





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