

SESSION NOTE

Financial Channels for Institutional Investors and Opportunities for Sustainability

13 November 2018- 16:15- 17:30

This session will discuss the integration of climate and environmental, social and governance (ESG) factors in institutional investment strategies. It will notably explore the role of shareholder actions and better climate disclosure to help institutional investors and investee corporations integrate climate risks in their investment decisions. The session will also explore available channels and instruments to help institutional investors benefit from investment opportunities associated with climate action, such as sustainable or low-carbon indices, green bonds and direct investment, as well as the role of family offices and philanthropies.

An increasing number of institutional investors (including pension funds, insurance companies and asset managers) acknowledge the risks and opportunities associated with climate change and climate action. A recent HSBC survey found that more than 60% of investors and 50% of issuers now have an environmental, social and governance (ESG) strategy in place,¹ a recent trend, especially since Mark Carney's call-to-action speech in 2015, and the adoption of the Paris Agreement.² According to Mercer, 17% of European pensions schemes now consider the financial impact of climate change, a three-fold increase from those surveyed in 2017.³

As a result, several institutional investors are taking action to integrate climate change risks and opportunities in their investment decisions. Various investment strategies are available for institutional investors to factor climate change, including: active engagement, divestment, exclusion, best-in-class approach, and thematic investing.

An increasing number of institutional investors also recognise the importance of climate disclosure to serve as an effective tool for strategic decision-making process, drawing on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which are quickly gaining support.⁴ A recent survey by Asset Owners Disclosure Project (AODP) found that a quarter of the 100 largest pension funds globally indicate they have a fiduciary duty to consider climate risk in their investment decisions.⁵

Nevertheless, there are practical implementation challenges to integrate ESG factors – including methodological issues (e.g. forward-looking scenario analysis), technical limitations (e.g. data availability and comparability) and behavioural issues. There is no one-size-fits-all approach; various tools and actions are available, based on emerging practices and various investment strategies across asset classes and geographies.

There is also a growing number of green financial products available to channel institutional investment in green investment across asset classes and investment types, including green bonds, ESG equity

¹ Amongst 1731 global investors and issuers; HSBC (2018). [Sustainable Financing and ESG Investing Report](#).

² J. P. Morgan (2018). [2018 Institutional Investor Survey](#).

³ Mercer (2018), [European Asset Allocation Report](#).

⁴ Mark Carney's April 2018 [speech at International Climate Risk Conference for Supervisors](#).

⁵ AODP (2018), ["Despite widespread backing, less than 20% of global pension funds intend to report aligned with TCFD"](#).

indices and benchmarks, and co-investment tools. The forthcoming *OECD Progress Update of Approaches to Mobilising Institutional Investment in Sustainable Infrastructure* shows that public actors have a variety of tools and techniques to activate institutional investment, including through innovative partnerships and investment vehicles. There are however outstanding challenges to channel institutional investment in green infrastructure, especially in emerging economies.

Useful Links

- Röttgers, D., A. Tandon and C. Kaminker (Dec. 2018 forthcoming), “Progress Update on Approaches to Mobilising Institutional Investment for Sustainable Infrastructure”.
- Ang, G. and H. Copeland (2018), “[Integrating climate change-related factors in institutional investment](#)”, background paper for the 36th Round Table on Sustainable Development.
- OECD (2017), [Investment Governance and Integration of Environmental, Social and Governance Factors](#).
- OECD (2017), [Responsible Business Conduct for Institutional Investors](#).
- AODP (2018), “Pensions in a Changing Climate”. <https://aodproject.net/changing-climate/>
- AODP (2018), “Got it covered? Insurance in a changing climate”. <https://aodproject.net/wp-content/uploads/2018/05/AODP-Got-It-Covered-Insurance-Report-2018.pdf>
- Church of England, [The Transition Pathways Initiative](#).
- [Climate Finance Partnership](#) (2018).
- OECD-ORF (2017), [Investing in a low-carbon India](#), event organised in July 2018 in New Delhi.
- SWEN Capital Partners (2018), [ESG best practices honours by SWEN Capital Partners](#).
- ORF (2017), “[Mobilising private capital for green energy in India](#)”.