Green finance, responsible investment and ESG: International investor perspectives

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THE PRI AND THE SIX PRINCIPLES

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice.

Its goals are to understand the investment implications of environmental, social and governance issues and to support signatories in integrating these issues into investment and ownership decisions.

The six Principles for Responsible Investment:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.
MAINSTREAMING RESPONSIBLE INVESTMENT

Where does the industry stand?

- Growth of investor experience in green investment
- Establishment of facilitative policy frameworks
- Green issues a key component of RI

Investors are looking at:

1. Value drivers:
   - ESG trends and financial value
   - Using ESG analysis as information advantage
   - Reconsidering asset allocation strategy

2. Institutional drivers:
   - Regulatory change
   - Diversify client base
   - Reputation risk and opportunities

3. Ethical / standards based

What is Responsible Investment (RI)?

An approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance factors (ESG).
INVESTOR ACTION ON CLIMATE CHANGE

Significant progress to date – investor input into the climate change agenda

PRI resources and initiatives:
- Pilot Framework for Developing an Asset Owner Climate Change Strategy
- PRI Investor Working Group on Corporate Climate Lobbying
- PRI Montréal Carbon Pledge

Industry and investor initiatives:
- Global Investor Statement on Climate Change
- Low Carbon Investment Registry
- Portfolio Decarbonisation Coalition
- Climate Disclosure Standards Board Fiduciary Duty Statement
- Climate Bonds Initiative

View further initiatives at the Investor Platform for Climate Actions:
www.investorsonclimatchange.org
GREENING INSTITUTIONAL INVESTMENT

Global investors are mainstreaming green investment, although supply and demand barriers need to be overcome through close collaboration with policy makers.

What are international investors thinking? What is driving this shift?

- Long term value
- Risk management
- Client demand
- Strategic policy signals
- Regulatory action
GREEN INVESTMENT PRACTICES

The sheer depth and breadth of investor action on green issues demonstrates that mainstreaming of green investment practices is well underway in the global investment industry.

What green investment practices are we seeing?

- Application across asset classes
- Integrated analysis of green risks is underway
- Investor engagement and active ownership
- Capacity building
INVESTMENT STRATEGY AND ENVIRONMENTAL ISSUES

Strategic thinking is at the core to embed environmental issues across investment processes
We know that investors are already mainstreaming green finance … and over time action will be taken to strengthen the demand side. But we also need to expand supply. How are we going to get there?

Definitions and market standards

- Lack of definition at a global level – what means green?
- Also there is concern about ‘green washing’ by listed companies and issuers
- Environmental issues are complex and multi-dimensional

Supply of green investments – opportunities and pipeline

- Insufficient development of regular equity and debt capital market options
- Emerging markets
- Demand for green bonds is presently outstripping supply
- Inadequate data
INVESTORS WANT BETTER DISCLOSURE

Investor demand for more information is stimulating market action and company disclosure

STOCK EXCHANGES

- Stock exchanges play a critical role in raising capital for green flows through new issues, IPOs and green bonds
- Example – London Stock Exchange green bond segment on its London market
- Investors – actively encouraging action on green issues by stock exchanges

CLIMATE DISCLOSURE

- Industry-led Financial Stability Board Taskforce on Climate-related Financial Disclosures

The lack of green bond ratings, indices and listings is also a barrier often cited by investors.
THE ROLE OF CREDIT RATING AGENCIES

Investors are encouraging credit rating agencies to integrate ESG factors into credit ratings formally…

Engaging credit rating agencies:

- Huge demand from PRI’s fixed income investor signatories
- Recognition that ESG issues represent major risks to creditworthiness and should be considered more explicitly
- PRI engaged major CRAs around the world over last 2 years

Statement on ESG in Credit Ratings

- Aspirational goal to promote systematic and transparent ESG integration
- 110 investors, US$17.5 trillion have signed their support
- Rating roadmap

Some rating agencies have developed methodologies to evaluate and rank the environmental impact of green bond-finance projects.
INVESTOR OBLIGATIONS AND DUTIES

Strong case that action on climate change is a fiduciary responsibility for asset owner – i.e. part of their day job, not just the ESG team

What are fiduciary duties?
Exist to ensure those who manage other people’s money:
- Act responsibly in the interests of beneficiaries
- Do not simply serve own interests

Climate change action as a fiduciary responsibility for asset owners?
- Show recognized relevant risks
- Analyse how climate change might affect returns over short/medium and long term.
- Explicitly manage the risks
- Question and challenge organisations to ensure risks effectively managed
- Establish enabling processes

- Failure to consider long-term investment drivers including ESG issues in investment practice is a failure of fiduciary duty.
INVESTOR EXPERIENCE IN FIXED INCOME

International investor appetite for green investments (including green bonds) exists – and investor experience provides useful learnings for regulators and market players to build the green bond market

- Demand barriers to green investment flows
- Supply barriers to green investment flows
- Challenges in green investor practices
- Investor governance
- Access to local markets
CLOSING COMMENTS

What are international investors looking for?

- Green bond market has continued to mature, increase in quantity and quality of issuances
- Green bonds are primary tool for activating the industry to engage on green opportunities
- But need industry-wide global standardization to build investor confidence
- Broader priority – to expand the efficient supply of green assets:
  - Product innovation
  - Market intermediaries
  - Risk mitigation
  - Data
  - Risk analysis
  - Investment agreements, policies and regulations
USEFUL GREEN INVESTING LINKS

- FSB Task Force: [https://www.fsb-tcfd.org/](https://www.fsb-tcfd.org/)


- Investor platform on climate change: [http://investorsonclimatechange.org/](http://investorsonclimatechange.org/)


- More PRI resources: [https://www.unpri.org/](https://www.unpri.org/)

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