Beyond Growth: Sustainability of Our Planet
- Private Sector Finance Initiatives

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The next 15 minutes

- Context: We need to stop playing “pretend”!

- Sustainable Investment Overview
  - Various approaches that are financially attractive
  - Green Bonds - part of the solution
  - Infrastructure Investments – “yes, but…”

- Investors take the initiative and call on governments to act

- Trends in Policy and Financial Market Regulation: Emerging economies are leading. West is catching up.
Context
Since 1970 we have been building up “biocapacity” debt. Will the next generation be able to repay?

Source: Dr. Mathis Wackernagel, Global Footprint Network
We need to stop playing “pretend”.
Our footprint: 1.6 Earths

For comparison: USA: 4.4; Switzerland 3.3; China 2.0; India 0.7

Source: Dr. Mathis Wackernagel, Global Footprint Network; National Footprint Accounts 2016
Sustainable Finance: Overview and Trends
Europe and USA hold 95% of global sustainable investments

For comparison: Total AUM held by long-term investors: $71tn

Careful: no relation to a 1-planet world

Source: GSIA Global Sustainable Investment Report 2014
Various Sustainable Investment Approaches Exist – Each with Varying Levels of Rigor of Application

<table>
<thead>
<tr>
<th>Sustainable Investment Approach</th>
<th>Description</th>
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<tr>
<td>Negative Screening</td>
<td>Exclusions of countries, sectors, companies from the investable universe</td>
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<tr>
<td>Positive Screening</td>
<td>Deliberate selection of best-performing investments within a sector, asset class, investment universe</td>
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<td>ESG (environmental, social, governance criteria) Integration</td>
<td>Specific integration of ESG risks and opportunities in investment analysis</td>
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<td>Voting with respect to ESG-factors</td>
<td>Basing voting decisions on ESG considerations</td>
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<tr>
<td>Company engagement with respect to ESG-factors</td>
<td>Influencing investee on ESG matters via letters, meetings, calls, etc.</td>
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Sustainable Investing Has Gone Mainstream

Returns don’t have to be sacrificed

“Study shows sustainable investing has usually met, and often exceeded, the performance of comparable traditional investments.”

“…companies who score higher on ESG factors are more likely to outperform in the long-term.”

“The main finding from this body of work is that socially responsible investing does not result in lower investment returns.”
Green Bonds
“From 0 to 100” in 9 years

- Target issuance 2016: $100bn
- Vastly oversubscribed
  - E.g., 2015 $1bn bond issuance by Agricultural Bank of China: 8x oversubscribed
- Creation of green bond indices by mainstream providers (e.g. Barclays & MSCI, S&P Dow Jones, BoA Merrill Lynch)
- Growing pressure for strong and harmonized standards
- Careful: Lack of clarity on what is “green”; no proof of positive environmental impact required → risk of greenwashing
Infrastructure Investments

- Investors seeking low volatility, long term → potentially good fit
- Matching great investment need of 6trn/year
- De-risking, and lowering of transaction costs needed

Global new investment in renewable energy, $bn

Investor Initiatives
Investor Initiatives on Climate Change

INVESTOR PLATFORM FOR CLIMATE ACTIONS

MEASURE    ENGAGE    REALLOCATE    REINFORCE

PRI, Montreal Pledge  CDP  Global Investor Coalition on Climate Change  IIGCC

Ceres: Mobilizing Business Leadership for a Sustainable World  Climate Bonds Initiative  CDSB

regnan
Investors Recognize that Largest Risks to Their Portfolio are Sustainability Related

WEF 2016: Most likely risks with most severe impacts.

- **Failure of climate change mitigation and adaptation**
- **Large-scale involuntary migration**
- **Water crisis**
Asset Managers Expect Significant Losses from Climate Change under a BAU Scenario

Kepler Chevreux: Under a 450-ppm Scenario, the fossil-fuel industry would stand to lose $28trn of gross revenues over the next two decades.

Citigroup: total value of stranded assets could be over $100trn

Equity - HSBC: Climate regulation could trigger Domino-effect: 40 - 60% loss of market capitalization of oil & gas titles.

Debt - S&P: Climate regulation could result in downgrading of fossil fuel companies.
Trends in Financial Market Policy
## Emerging Markets Have Led the Way

<table>
<thead>
<tr>
<th>Country</th>
<th>Financial market regulation on ESG issues</th>
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<tbody>
<tr>
<td>Brazil</td>
<td>CB issues mandatory environmental and social policies for all banks</td>
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<tr>
<td>India</td>
<td>CB issues sustainability advisory; adds “renewable energy” to Priorities Lending Sectors list</td>
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<tr>
<td>Bangladesh</td>
<td>CB offers low-cost refinancing lines to lenders against green financing; lower equity margin requirements for socially &amp; environmentally beneficial lending</td>
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<tr>
<td>China</td>
<td>Green Credit Guidelines; new regulation on Green Bonds; new rules upcoming, banning companies from an IPO if they are in non-compliance with environmental rules</td>
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<td>South Africa</td>
<td>Pension fund regulation requires ESG factors to be taken into account</td>
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<td>UK</td>
<td>UK Law Commission confirms: Pension Trustees allowed to take ESG into account</td>
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<tr>
<td>US</td>
<td>Managers of pensions and 401(k)s allowed to add ESG funds to their portfolios</td>
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<tr>
<td>France</td>
<td>Article 173 of law on “energy transition for green growth” requires climate-change related reporting for institutional investors</td>
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<tr>
<td>EU</td>
<td>Institutions for Occupational Retirement Provision (IORP) Directive to allow inclusion of ESG factors into investment decisions, special mentioning of climate change, environmental &amp; social risks</td>
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</tbody>
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### International Initiatives

- **G20**: Green Finance Study Group
- **FSB**: Taskforce on Climate-Related Financial Disclosure
“The challenges currently posed by climate change pale in significance compared with what might come. Once climate change becomes a defining issue for financial stability, it may already be too late.”

Mark Carney, Sept. 29, 2015