



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

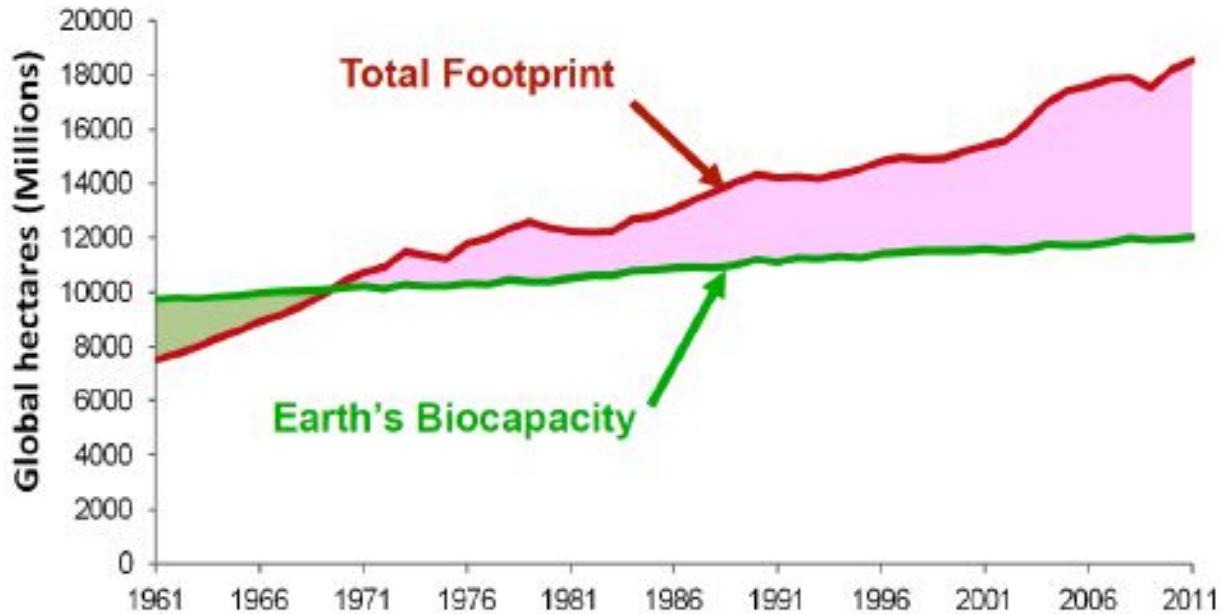




Since 1970 we have been building up “biocapacity” debt. Will the next generation be able to repay?

World

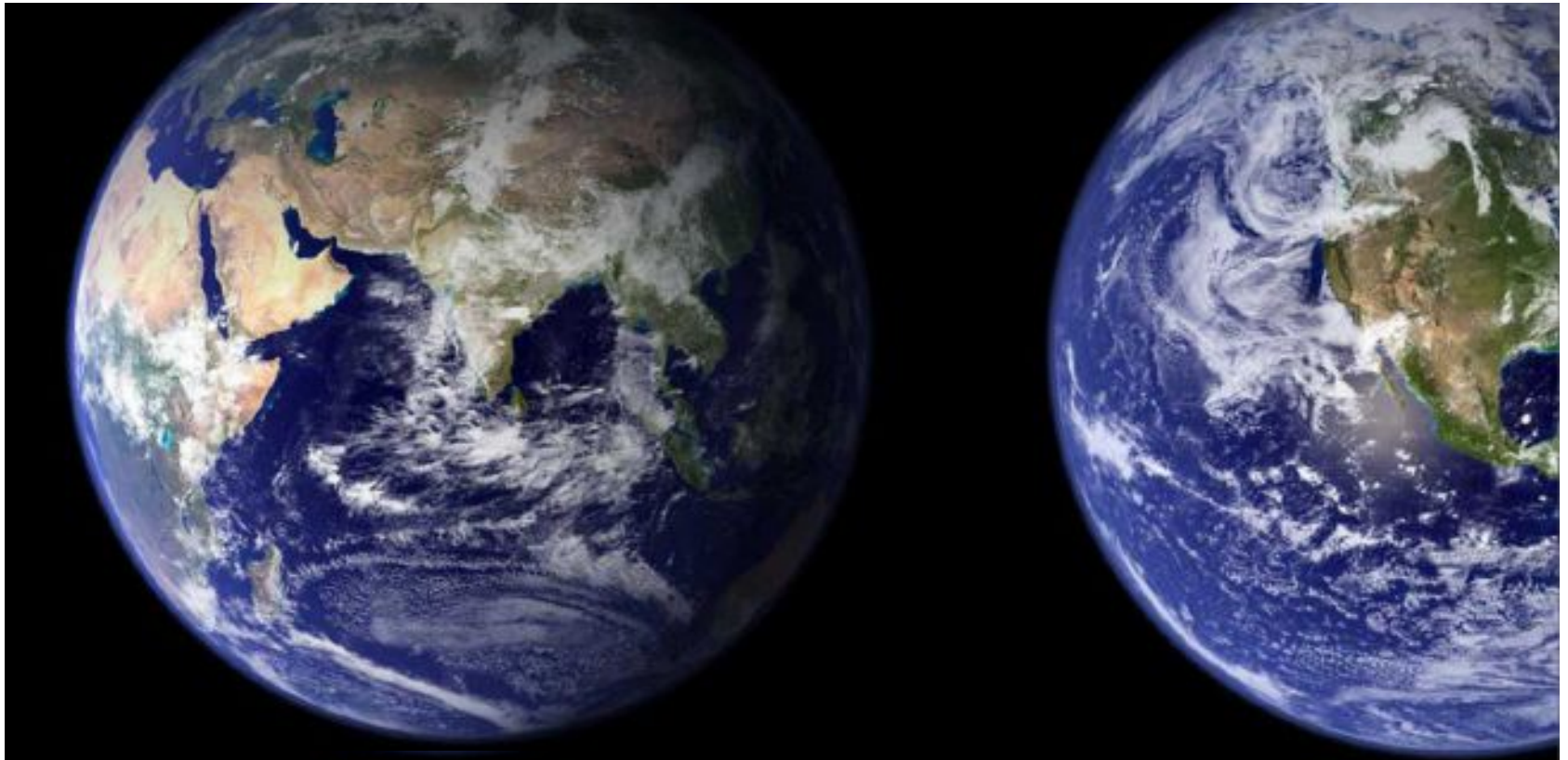
Total Ecological Footprint and biocapacity





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

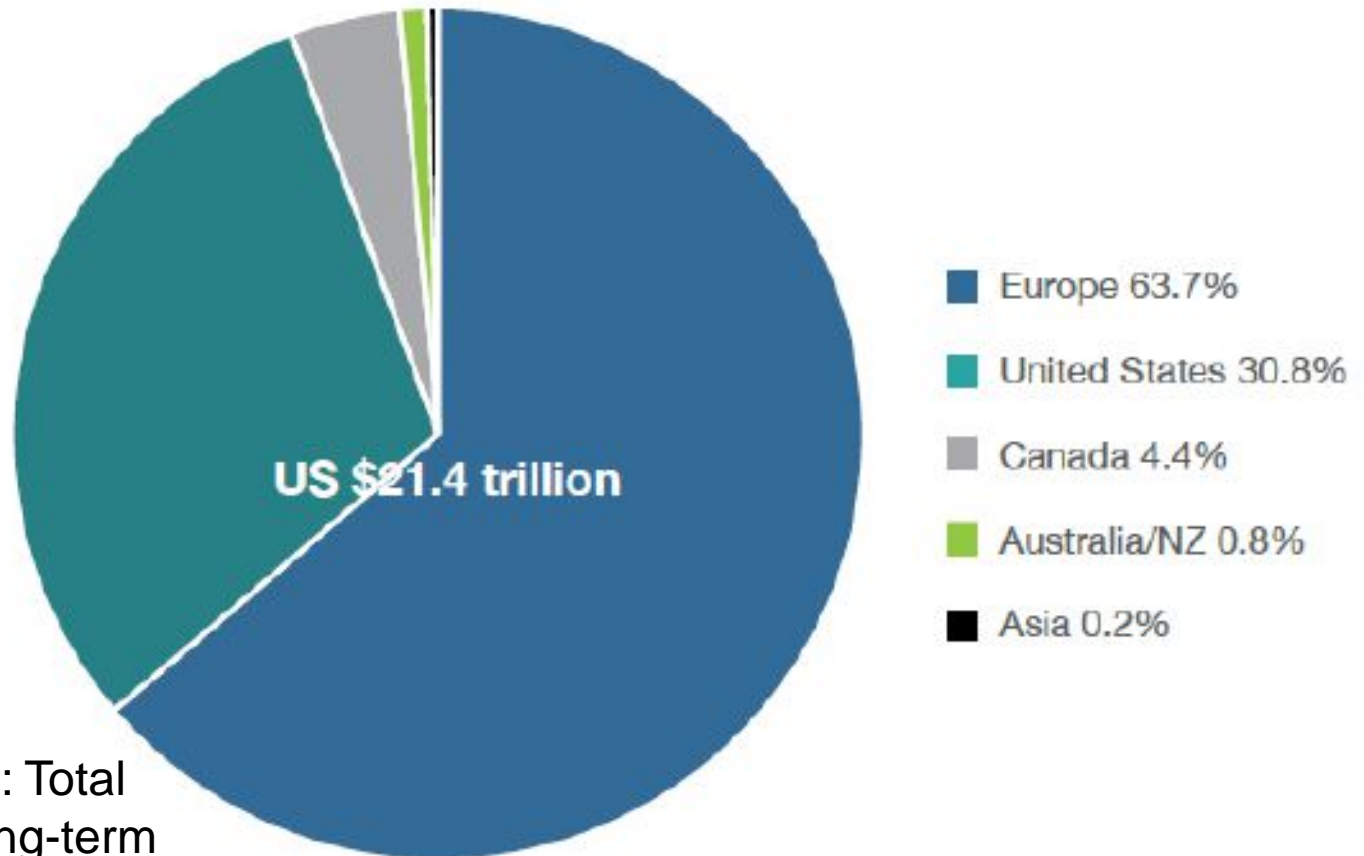


Sustainable Finance: Overview and Trends





Europe and USA hold 95% of global sustainable investments



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

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

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

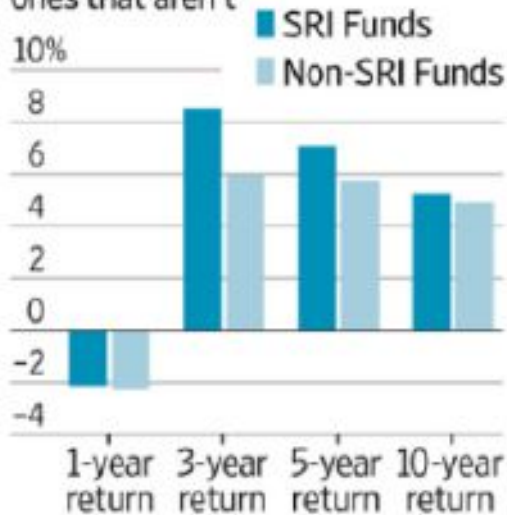


Sustainable Investing Has Gone Mainstream

Returns don't have to be sacrificed

Competitive Returns

Performance of 'sustainable' (or SRI) mutual funds versus ones that aren't



Source: © 2015 Morningstar, Inc.
THE WALL STREET JOURNAL.

Morgan Stanley
Institute for Sustainable Investing

MARCH 2015



“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.”



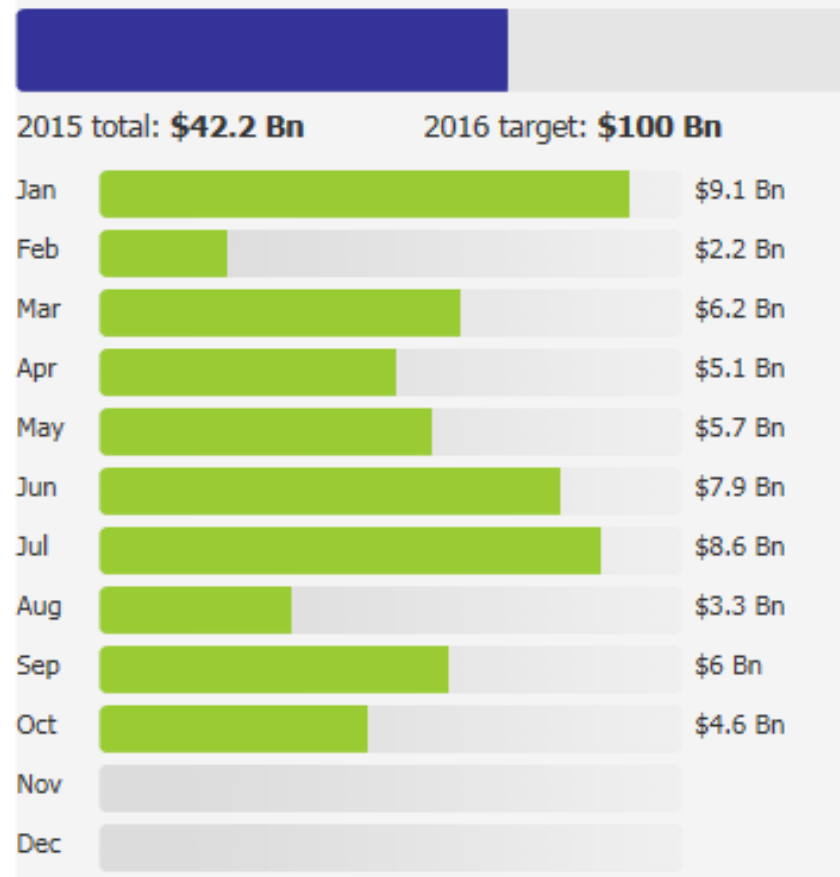
Green Bonds

“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

Green Bonds Market 2016

Issuance 2016 total issuance: \$58.7 Bn

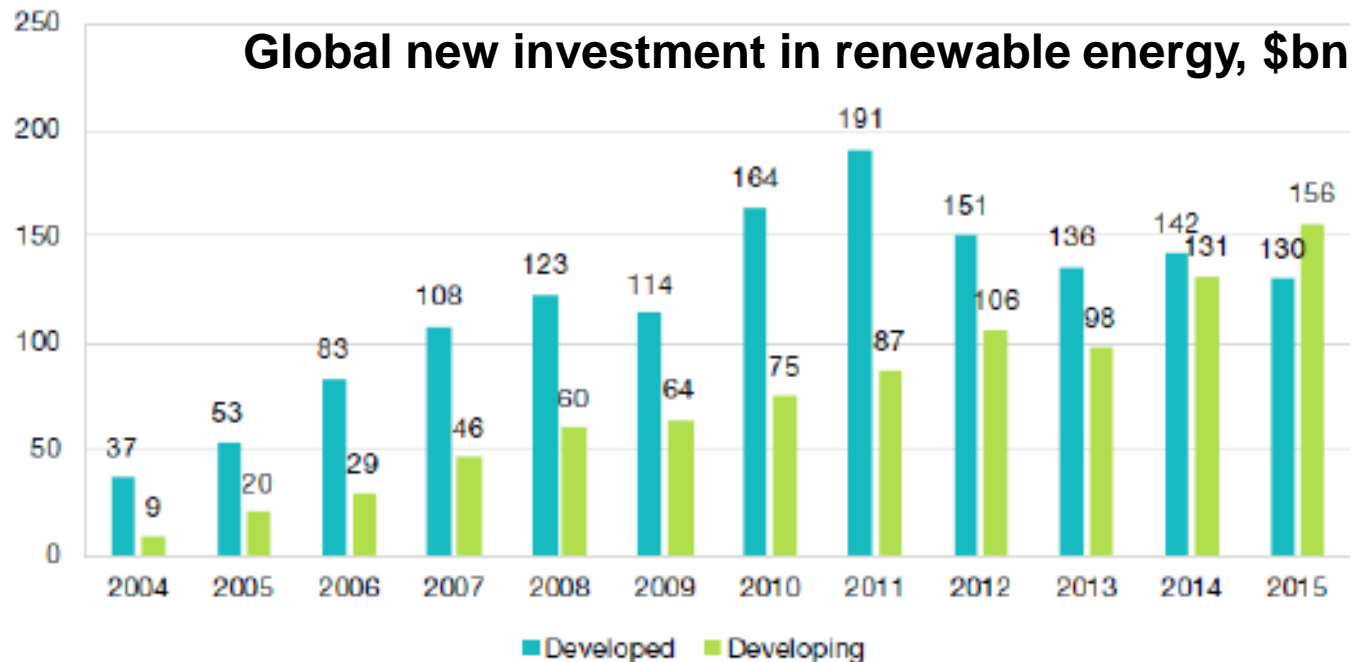




In Search of Returns

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





Investor Initiatives





Investor Initiatives on Climate Change

INVESTOR PLATFORM FOR CLIMATE ACTIONS

MEASURE

ENGAGE

REALLOCATE

REINFORCE

 PRI Montréal  PLEDGE

 CDP
DRIVING SUSTAINABLE ECONOMIES

GLOBAL INVESTOR
COALITION ON
CLIMATE CHANGE

 IIGCC
Institutional Investors Group on Climate Change

 Ceres
Mobilizing Business Leadership
for a Sustainable World

 Portfolio
Decarbonization
Coalition

 Ceres
Mobilizing Business Leadership
for a Sustainable World

 Climate Bonds
INITIATIVE

 CDSB
Climate
Disclosure
Standards
Board

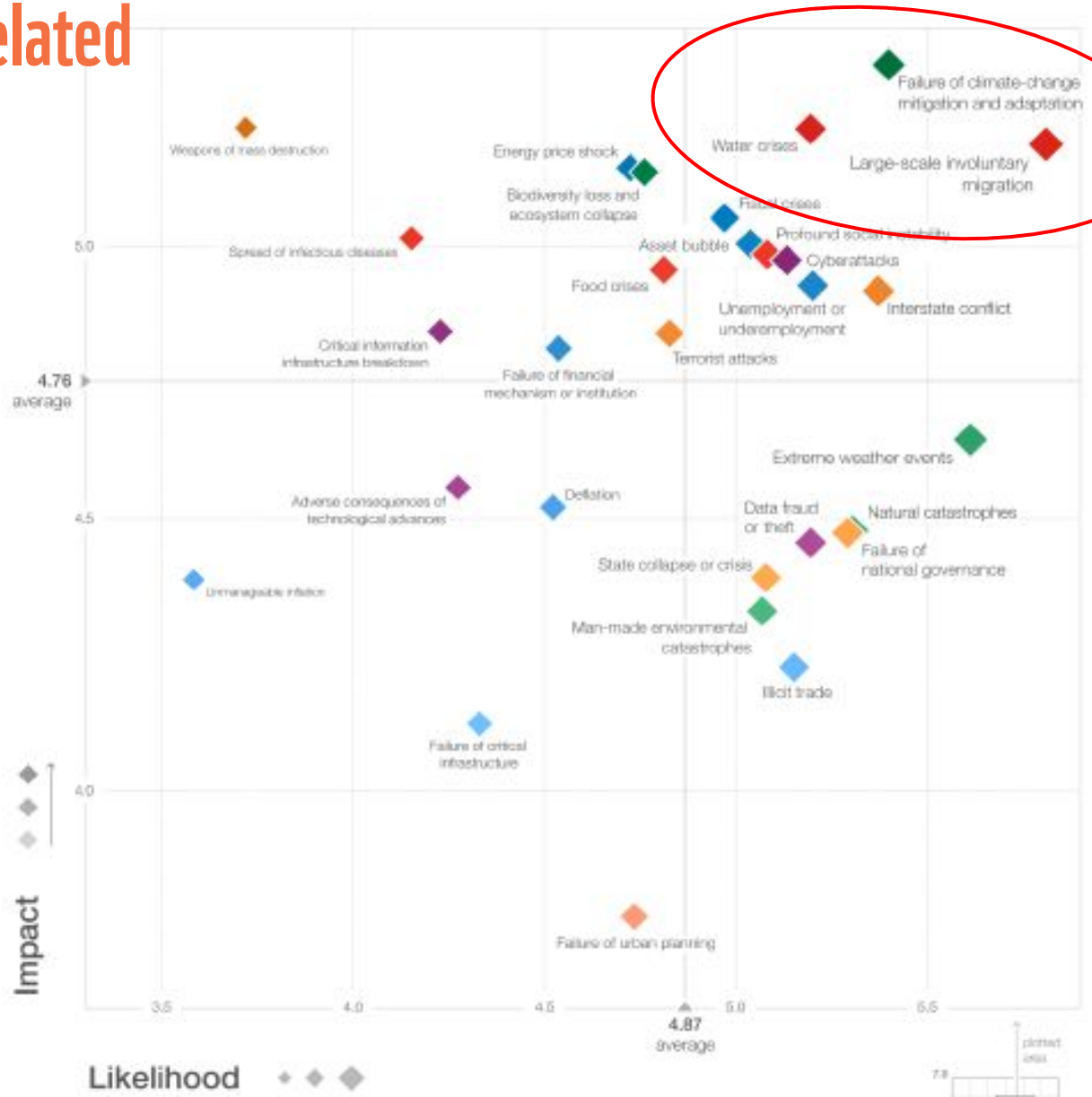
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Investors Recognize that Largest Risks to Their Portfolio are Sustainability Related

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

Country	Financial market regulation on ESG issues
Brazil	CB issues mandatory environmental and social policies for all banks
India	CB issues sustainability advisory; adds “renewable energy” to Priorities Lending Sectors list
Bangladesh	CB offers low-cost refinancing lines to lenders against green financing; lower equity margin requirements for socially & environmentally beneficial lending
China	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
South Africa	Pension fund regulation requires ESG factors to be taken into account
UK	UK Law Commission confirms: Pension Trustees allowed to take ESG into account
US	Managers of pensions and 401(k)s allowed to add ESG funds to their portfolios
France	Article 173 of law on “energy transition for green growth” requires climate-change related reporting for institutional investors
EU	Institutions for Occupational Retirement Provision (IORP) Directive to allow inclusion of ESG factors into investment decisions, special mentioning of climate change, environmental & social risks
International Initiatives	
G20	Green Finance Study Group
FSB	Taskforce on Climate-Related Financial Disclosure



The missing link?

“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



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