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INSIGHTS FROM CFA SOCIETY SINGAPORE

# Partnering for impact: institutional investors and the net-zero transition



**BRIAN MINNS**

AS INSTITUTIONAL investors, we have a fiduciary duty to act in our beneficiaries' best interests and earn sufficient investment returns to meet their expectations. To achieve this, we need to ensure there are stable financial, social and environmental systems on which to build those returns.

At Canada-based University Pension Plan (UPP), we believe promoting healthy systems goes hand in hand with our fiduciary duty to our members. That's why when we developed our response to climate change and our net-zero approach, we set our sights beyond our own portfolio. We know that emissions must also decline in the real world, and that a well-managed, low-carbon transition requires systemic change from all corners of the global economy.

The net-zero transition presents opportunities for investors –

institutional and otherwise – to build confidence, resilience and competitiveness in the wider economy through profitably financing activities that support sustainable solutions and lower emissions.

By contributing to collaborative initiatives with the global investing community, investors create reciprocal relationships through which we can share expertise and best practices, leverage resources and amplify our influence to create the change we need. In this way, we can reduce uncertainty and risk, as well as maximise our return-generating potential.

Such collaborative effort among asset owners is one of the most effective means for organisations like ours to catalyse systemic change and carry out our shared fiduciary duty.

## Systemic risk requires collective action

When investors directly engage and set expectations for both the companies they own and the external managers they partner, we help keep these firms focused on the transition pathway, on improving their resiliency and lowering emissions. Investors need companies to improve their climate-related disclosures to better track their pro-



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PHOTO: PIXABAY

gress towards net-zero goals and make more informed investment decisions.

Finance-led groups such as Climate Action 100+ and the Institutional Investors Group on Climate Change work to ensure sound science, alignment and consistency across all member activities.

By engaging with various high-emissions companies through a common set of objectives, we are working not only to change their behaviour but also to improve climate-related expectations and the structure of information flows for

all companies and investors.

## Collective advocacy

Through collective advocacy with policymakers and regulators, investors can encourage rules and frameworks that support the interests of our beneficiaries and create the conditions for a well-managed climate transition.

Investors can collaborate and amplify their voices through well-established industry initiatives including: the United Nations-convened Net-Zero Asset Owner Alliance, a member organisation com-

prising 85 institutional investors with more than US\$11 trillion in assets under management (AUM); and the Ceres Investor Network on Climate Risk and Sustainability, which collectively represents more than 220 investors and AUM in excess of US\$60 trillion.

Through our participation in policy working groups, such as those convened by the Canadian Coalition for Good Governance and the Responsible Investment Association, we can define and promote good corporate governance practices in Canada and around the world.

We can also influence public policy to improve governance standards. More transparency, accountability and disclosure, in turn, help manage risk and protect the value of investments.

## Partnership makes the collective stronger

As domestic and international climate transition regulations and incentive frameworks evolve, investors face new legal and reputational risks, as well as potential impacts on returns. Rather than navigating this evolving landscape alone, they can join investor alliances and help coordinate policy advocacy, facilitate improved knowledge-sharing, and mitigate old and new risks.

For example, to counteract greenwashing and provide investors with more and better information to help guide their decisions, the International Sustainability

Standards Board will implement new global accounting standards for measuring and reporting climate-related impacts in January 2024.

Collaborative investor groups contributed to the development of these new standards and stand ready to support their launch around the world.

Once again, individual investors would be hard-pressed to keep up with the rapid pace of change in this area or to develop the collective influence that a group of investors can muster.

There are many options to join like-minded investors in local markets or on the international stage. The global low-carbon transition will continue to pose a challenge for all types of investors and presents both risk and opportunity along the way. Net zero won't be achieved in isolation, but will take collective action throughout the financial community.

Together, through partnerships among institutional investors and investors of all sizes, we can help shape the future of finance and bring about the systemic, global change required to make net zero a reality.

*The writer, CFA, is senior managing director for responsible investing at UPP. He is co-founder and past co-chair of the Canadian Responsible Investing Working Group, a member of the ESG Technical Committee at CFA Institute.*