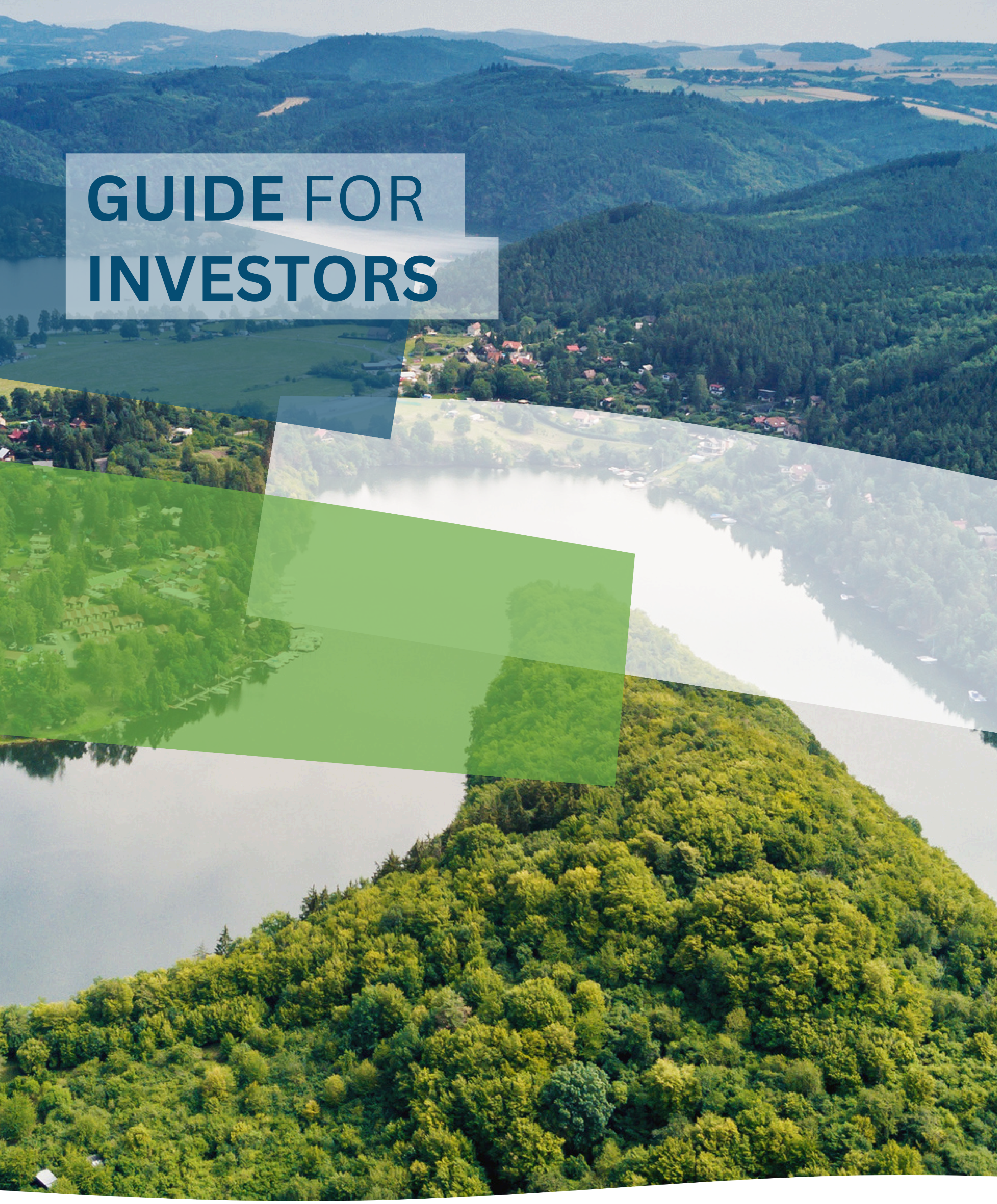
GUIDE FOR INVESTORS



GLOBAL SUSTAINABLE INVESTMENT ALLIANCE

GUIDE FOR INVESTORS

This guide offers investors insights and actionable strategies to align capital flows with the Paris Climate Agreement goals, addressing key barriers and unlocking opportunities in climate finance.

INTRODUCTION

This guide was developed alongside the report, ***Transforming Global Finance for Climate Action: Addressing Misaligned Incentives and Unlocking Opportunities***. The goal of this guide is to provide investors with example actions to facilitate the capital flows needed to align with the goals of the Paris Climate Agreement. This guide was developed in consultation with key industry experts, who were asked to provide their input on the current challenges in facilitating change in the financial system, and the steps to address these barriers.

While we recognise that investors' ability to take action vary as they are subject to local jurisdictions, we have prepared a number of key actions (that may need adaptation to fit in local contexts).

HOW TO USE

This research serves as an initial exploration rather than an exhaustive study. It provides a foundation upon which we can build, guiding ongoing efforts to develop comprehensive strategies for addressing the significant challenges within financial and policy systems. Actions should be tailored to specific contexts and circumstances.

Given that the system is complex, multiple angles should be tackled at the same time. In this way, solutions may be thought of as 'characteristics' for enabling environments that will allow capital to flow at the scale and pace necessary to achieve the goals of the Paris Climate Agreement, not as a 'one size fits all' checklist.

PIVOT refers to a framework for identifying the barriers to climate finance, developed to address the "policymaker investment dilemma". For a comprehensive explanation of these 'misaligned incentives', and associated solution sets, see the full report, *Transforming Global Finance for Climate Action: Addressing Misaligned Incentives and Unlocking Opportunities*.

PRIORITY ACTIONS

Investors have two main ways (or levers) by which they can drive impact in the current set of 'norms' that they have:

1. Driving investee companies – 'the deployment of capital'
2. Engagement – 'the connections they have'

Investors can use both levers within the boundaries of fiduciary duty.

Asset owners specifically can incentivise asset managers to drive impact using these levers through mandate allocation. However, to be effective, asset owners need to:

1. Understand the time horizons of their asset managers and how these impact investment activities
2. Consider how this understanding influences the instructions they give to their asset managers

At the same time, filling the investment gap requires a combination of public and private money, involving:

1. Redirection of capital
2. Targeted reallocation
3. Revised valuation models
4. Realigned incentives throughout the intermediation chain

By incorporating these elements, investors can more effectively leverage their capital and influence to drive meaningful impact while fulfilling their fiduciary responsibilities.

The section that follows expands on the two levers and establishes priority actions.

Example actions include the following:

Action Group	***Example Actions***	***Rationale***	***Relationship to PIVOT***
Policy Engagement	*1. Engage with policy frameworks to develop systemic responses to sustainability goals*	*To address the lack of investor input in policy development that can lead to misaligned regulations and ineffective sustainability initiatives*	*Policy vacuum: Helps fill the gap in policy development by providing investor perspective*
	2. Engage with policymakers on practical implications of proposed climate policies	*Ensures policies are grounded in practical realities of investment practices*	*Policy vacuum: Bridges the knowledge gap between policymakers and investors*
	3. Participate in industry and policy-backed working groups on standardised metrics	*Promotes consistency and comparability in sustainability reporting*	*Policy vacuum: Contributes to the development of coherent policy frameworks*
Long-term Strategy Alignment	*4. Develop long-term investment strategies aligned with Paris Agreement and national transition plans*	*Aligns investment practices with global climate goals*	*Transition misalignment: Ensures investment strategies support broader transition goals*
	5. Implement compensation structures aligning executive incentives with long-term sustainability goals	*Counters short-termism in investment decision-making*	*(Self-)Interest: Aligns individual incentives with long-term sustainability objectives*
	6. Shift towards active stewardship of nature	*Recognises the value of natural capital in investment decisions*	*(Mis-)Valuation: Incorporates often-overlooked natural capital into investment considerations*
Risk Assessment and Valuation	*7. Modify DCF models to include climate-related risks and opportunities*	*Improves accuracy of financial projections in a changing climate*	*(Mis-)Valuation: Enhances accuracy of asset valuation by including climate factors*
	8. Develop and use risk models incorporating longer-term sustainability risks	*Enhances long-term risk management*	*(Mis-)Valuation: Improves risk assessment by considering long-term sustainability factors*
	9. Develop valuation methodologies incorporating 'externalities'	*Accounts for broader impacts of investments*	*(Mis-)Valuation: Addresses the undervaluation of environmental and social impacts*

Action Group	*Example Actions*	*Rationale*	*Relationship to PIVOT*
	10. Perform critical evaluations of current data and improve data standards	*Enhances quality and reliability of sustainability data*	*(Mis-)Valuation: Improves the accuracy and reliability of sustainability-related valuations*
Active Ownership and Engagement	*11. Move beyond traditional stewardship to broader activities, including policy engagement*	*Expands scope of investor influence*	*(In)active Ownership: Promotes more comprehensive and impactful investor engagement*
	12. Engage actively with high-emission companies on transition plans	*Promotes corporate sustainability transitions*	*(In)active Ownership: Encourages direct investor involvement in corporate sustainability efforts*
	13. Recognise all investments' real-world impacts and adjust strategies accordingly	*Promotes responsible investing*	*(In)active Ownership: Fosters a more holistic approach to investment impact*
Collaboration and Innovation	*14. Collaborate with other investors on climate initiatives and best practices*	*Amplifies investor influence and promotes knowledge sharing*	*(In)active Ownership: Enhances collective investor action for greater impact*
	15. Explore innovative financing mechanisms (e.g., blended finance, green bonds)	*Facilitates capital flow to critical areas, especially in emerging markets*	*Transition misalignment: Addresses funding gaps in sustainable transition efforts*
	16. Support development of open-source platforms for sustainability data	*Promotes transparency and accessibility of sustainability information*	*(Mis-)Valuation: Improves access to data needed for accurate sustainability assessments*
Fiduciary Duty and Governance	*17. Evolve understanding of fiduciary duties to consider broader impacts*	*Expands scope of investor responsibility*	*(Self-)Interest: Redefines investor interests to include broader societal concerns*
	18. Highlight differences in incentives between asset managers and owners	*Promotes alignment of interests across the investment chain*	*(Self-)Interest: Addresses misalignments in the investment chain that can hinder sustainability efforts*
	19. Discuss limitations of internal and external management structures	*Promotes more effective governance structures*	*(In)active Ownership: Improves governance to enable more effective sustainable investing*

Action Group	*Example Actions*	*Rationale*	*Relationship to PIVOT*
Capacity Building and Research	*20. Collaborate with academic institutions on climate risk assessment models*	*Enhances credibility of risk assessment tools*	*(Mis-)Valuation: Improves tools for accurate assessment of climate-related risks*
	21. Seek legal protections for more flexible investment strategies	*Allows for more innovative, long-term focused investing*	*Policy vacuum: Addresses legal barriers to sustainable investment strategies*

GLOBAL SUSTAINABLE INVESTMENT ALLIANCE