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CLIMATE IMPACT

What it is and how to achieve it

A guide to realising climate impact across asset classes



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Introduction

Financial market participants have been recently in the spotlight when it comes to climate change. After years of pressure by the divestment campaigns, targeted by regulators and building internal capacity, the investment community has embarked to address climate change with their investments.

There is, however, still a bit of confusion when investors talk about “decarbonization”. Some refer to decarbonizing their portfolios and mean de-risking them against the regulatory and physical effects of climate change. Others refer to decarbonizing the real economy and mean the impact that their investments can have on the climate¹.

This paper is addressing the latter: How can investors have an impact on the climate across different asset classes. This will be discussed for multiple forms of equity investment instruments, such as listed equity, Private Equity, Venture Capital and real asset investments. It will also cover debt investment instruments such as bonds and loans².

It provides a description how each asset class’s specific mechanics can be utilized to generate a certain output and subsequently outcome that can unlock a certain impact on the climate in the real economy.

The paper is structured into three parts. First, it introduces key concepts regarding impact and the investment value chain and translates them into an impact pathway. In the second and third part, the impact pathway concept is being mapped to different asset classes and the EU Sustainable Finance Action Plan analysed from an impact perspective. The fourth part offers a range of conclusion and observations.

¹Reference impact vs Risk paper

²Not in scope are derivatives, commodities and a range of other investment instruments.

Key concepts

To understand how an investment might impact the real economy, this paper offers three inter-linked concepts that are relevant for the later parts:

1.
Impact versus risk: Climate risk management does not by design lead to better outcomes from an impact perspective.
2.
Investment value chain: The “value chain” between an investor and the underlying asset and its activities in the real economy helps frame the market dynamics and the nature of the impact that an investor may have.
3.
From action to impact: Impact requires action. While it may be hard to measure causality, a prerequisite of impact is ‘one-directional action’ (i.e. actions that are not ‘offset’ by other market actors).

1. Impact versus Risk

The two main motivations for investors to address the topic of climate change are to avoid climate risks and to generate climate impact. Both goals require different approaches and instruments. Interestingly, the most commonly available climate-focused investment instruments predominantly address the risk side but do not necessarily create impact: Low-carbon indexes, divestment and exclusion help an investor reduce their exposure to climate-harming practices. If the risks of climate change unfold, investors who make use of such instruments might get hit less financially by the effects due to their reduced exposure. What they cannot claim, however, is that their low-carbon investment is having a direct impact on the real economy.

In order to create such an impact, an investor has to choose an action that can be linked to a change in business practice in the real economy. Those actions are often asset class specific – such as utilizing voting rights in public equity or debt denial in bonds – and a range of them will be introduced in the subsequent chapters.

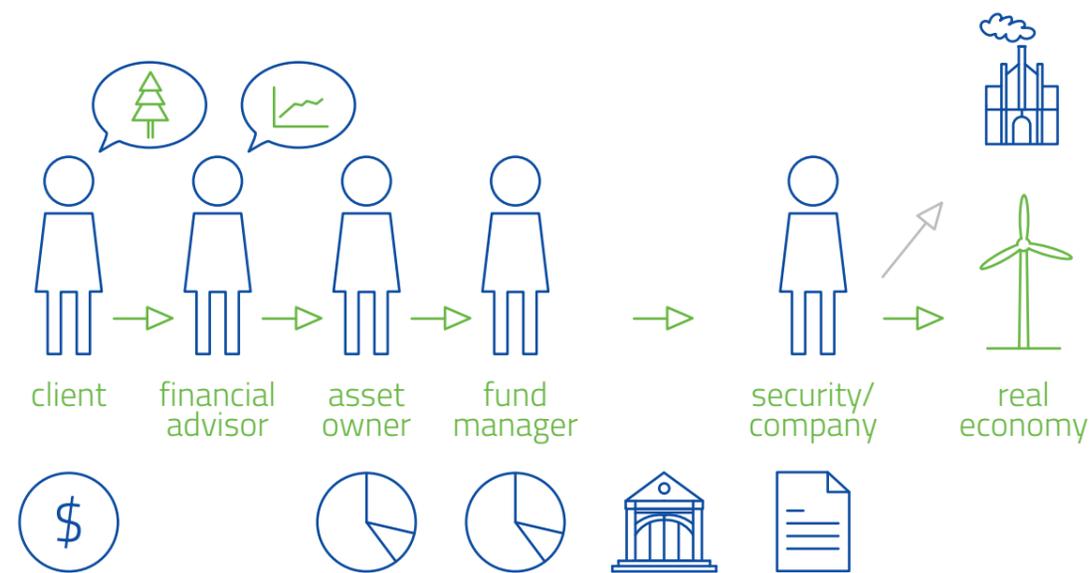
2. Investment value chain

In most asset classes, it is difficult for an end-investor to impact his/her assets directly as they can be quite removed from the underlying investment and therefore deprived from having an impact on it. An investor might choose a fund with hundreds of holdings. This fund might be distributed through a broker. In that broker firm, a fund selection team chooses this fund. The fund is managed by a 3rd party asset manager. The fund manager

might have chosen the specific company holdings based on an analyst's recommendation. A specific company holding might have a large number of investors each holding a very small share of the company.

Thus, the end-investor - be it a future pension beneficiaries or other asset owners - is oftentimes far removed from the actual assets with decisions being taken on many different levels. Even buying a stock or bond directly does not necessarily give access to management or allows to make the investor voice heard. Figure 1 below highlights the potential lack of connection between the ultimate asset owner and the impact in the real economy.

Figure 1



3. From action to impact

Combining the concept of impact with the value chain mapped out above, this paper suggests the following framework to approach the impact created by investments into different asset classes: In order to impact the real economy, an investor needs to choose a certain approach and corresponding action ("Input"). This approach then translates into a specific result as a direct consequence of the input by the investor ("Output"). This in turn results in a

responding activity by the asset or a consequence for the asset ("Outcome"). The response then has a (potentially) positive effect on the climate ("Impact").

Desired impact is for the purpose of this paper understood as changes in the real economy that have a direct effect on climate change mitigation. Specifically, impact defines investor action leading to GHG emission reductions either from the operations of a company, in its supply chain or linked to its products/service offerings through the development of new low-carbon technologies and ultimately a decrease in supply for high-carbon products/services and an increase in supply for low-carbon ones.



Figure 2: From Input to Impact – an example: "Green lending" criteria impacting the real economy.

Crucially, there is never a guarantee that an input leads to an output, let alone an outcome or impact. An investor might adopt an engagement policy but not act on it (input – output uncertainty). Likewise, an output such as a specific vote of an investors on a shareholder resolution might not lead to an outcome such as the publication of a climate strategy by a company, simply because no majority support was reached (output – outcome uncertainty). Lastly, even if the outcome of an investor action materializes as intended, for example the engagement on

the stop of a tar sand project leading indeed to the stop of said project, impact is not ensured since another company might instead develop the tar sand project (outcome – impact uncertainty). Any of the above points can be hurdles to impact.

That means that there are always conditions at each step that need to fall in place for an input to ultimately lead to the desired impact. Crucially, any action can have unintended consequences that might lead to a reduced, no or reversed impact.

Examples of such potential unintended consequences

▪ “Green bubble”

Financial markets may over-adjust, leading to an over-allocation to green assets. Such an outcome may be desirable from a climate perspective, but less desirable from a financial efficiency perspective (at least in the short-term). The Dutch Central Bank has warned about this outcome for example in their “Waterproof” report from 2017.³

▪ Distributional social effects

Outcomes of climate actions may lead to negative social effects (“unjust transition”). While this by itself may not be an unintended ‘consequence’ as the focus may be exclusively on climate, it does suggest that not all sustainability themes work in lock-step. This issue is the current focus of an initiative by the UN PRI and the Grantham Research Institute⁴ and received public attention in late 2018, when a climate focused policy in France resulted in week-long riots by a large group of “Yellow Vests”.

▪ Markets don’t internalize 2°C assumptions collectively

If markets don’t internalize the assumptions as a collective, many potential actions by investors will not be one-directional. This means that the effect

of the action of one investor would be offset by other investors’ behavior. For example, divestment of certain companies might lead other market actors to consider them to be under-valued and trigger a buy decision.

▪ Supply flooding

Another unintended consequence may be that companies internalize the notion that long-term demand of high-carbon products will be constrained and will seek to be ‘first to market’ even at lower rates of return, thus potentially flooding the market.

▪ Assets move into private markets

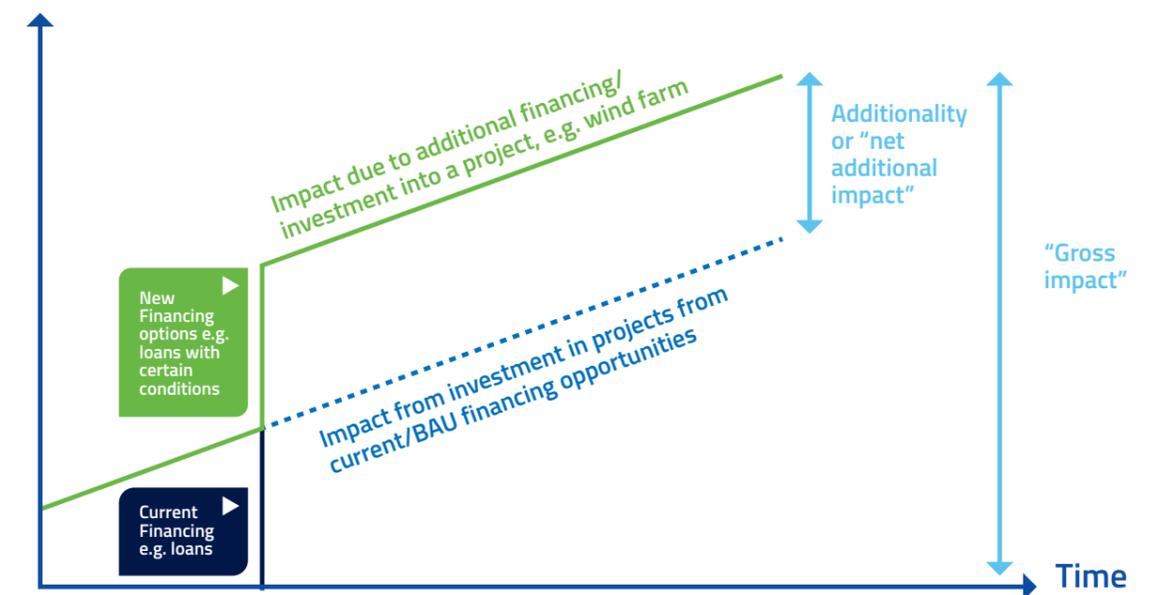
If listed companies can’t monetize certain assets – e.g. non-exploitation of tar sands due to stakeholder pressure – assets might move into private markets (e.g. non-listed ownership) or be sold to other listed companies less exposed to stakeholder pressure. This may reduce the leverage of financial markets in impacting the actions in these markets. Indeed, the presence of private markets more generally creates a challenge for creating one-directional effects, since not all decisions are under the ‘purview’ of financial markets.

A NOTE ON ADDITIONALITY

Frequently, impact is equated to additionality. These are two distinct concepts however. Impact, as noted above, is understood as changes in the real economy. Additionality relates to the question if a causality can be demonstrated for creating an impact compared to a baseline, i.e. on top of “what would have happened anyway”; see figure 3. This means that an investor’s action can have impact without necessarily being additional. An example is an investor providing a cheap loan for a low-carbon project thus enabling said project (impact). However, the investor’s action is only additional, if the project would not have been built happened anyway. So if another investor would have provided a loan for equal conditions enabling the project, the action while having impact in the narrow sense of the term, would not have been additional.

Figure 3

Impact (GHG reductions)



New financing tools and conditions can create an additional impact compared to a baseline, i.e. on top of what have happened anyway, as it may enable investment into new projects which could not be previously financed.

³Dutch Central Bank (2017). “Waterproof”

⁴Robins et al. (2018) “Climate Change and a Just Transition: A Guide for Investor Action”. Grantham Research Institute / UN PRI.



Mapping impact pathways

This section will apply the concept outlined above to demonstrate how impact can be achieved across different asset classes.

The perspective is that of an investor trying to influence high-carbon companies to change their behavior towards low-carbon activities to decrease the supply of high-carbon products and services in the economy.

Before the discussion for individual asset classes, it is worth highlighting a few elements relevant for all asset classes. First, in order for climate actions to be impactful, they have to satisfy two conditions:

- **Material.**

Investor actions need to be significant enough to result in outputs and outcomes material enough to register with the companies. This can be through material changes of cost of capital, adjustments to general corporate financing conditions or binding decisions by a company's shareholders.

- **One-directional.**

Impacts will only materialize if there is at best no and at worst only a partial off-setting effect, and where off-setting effects don't impact the materiality criterion. Sometimes this off-setting effect may not even come from financial markets, for example in a case where financial markets withdraw capital, but a government agency offsets this.⁵

Second, as outlined above, even when investor actions have an impact (e.g. provision of capital), they are not by design additional. Business-as-usual transactions that any other investor would do (e.g. investing in an investment grade corporate bonds with standard tenor, size, and interest rate) do not necessarily lead to changes on the ground that would not have happened anyway. Other market actors would have stepped in. This is evidenced in the area where green bonds for example are 6x-oversubscribed.⁶ The investors who bought the bond had the 'impact', but these actions were not additional relative to market practice.

Third, impact and additionality in all cases relates to actual GHG emissions reductions in the real economy, and not to changes in financial markets. Changes in financial markets are only material insofar as they lead to GHG emissions reductions in the real economy. This is crucial, as a range of funds and approaches label themselves 'impact' and 'decarbonization' funds even when their decarbonization is only 'virtual'.

The next sections will review key asset classes from the perspective of institutional investors, notably direct equity, listed equity, and bonds. The subsequent section will then explore the related impact pathways for policy actions.

⁵Arguably, the intervention of the Queensland government in the Adani coal mine is a case in point for this effect, following backtracking of a number of banks.

⁶Environmental Finance (2018) "Unibail's green bond six times oversubscribed".

1. Direct Equity (VC, PE, real assets)

Equity investment is in general a way to take ownership in an asset. This paper differentiates between direct equity investments and indirect investments through, for example, listed equity. This section is based on the following types of direct equity investments: Venture Capital (an investor is taking ownership in a developing business at a comparatively high risk), Private Equity (an investor taking ownership in a more mature business) and investments into Real Assets (an investor is taking ownership in

an asset that does not take the outfit of a company, such as a building or a piece of infrastructure). In all three cases, there is typically direct access to management provided, which enables to create climate impact. The input would be to encourage a climate strategy, certain climate-friendly product developments or object to climate harming business practices. The table below highlights potential impact channels using the framework described above.

INPUT	OUTPUT	POTENTIAL OUTCOME	HURDLES FOR IMPACT
Blacklist / limit exposure to certain high-carbon projects / companies	Less capital is available for certain types of projects / companies.	Less available capital might – in aggregate – result in higher financing costs. This could in turn result in such projects being less financially viable or companies adjusting their behavior. They could also increase the relative costs of high-carbon to low-carbon goods.	Less equity from some investors might be balanced out by more investment from others and thus no effect on financing costs. Likewise, projects/companies might accept higher financing cost and still go ahead with their high-carbon plans.
Invest more in certain (low-carbon) projects / companies	More capital is available for certain types of projects / companies.	More available capital might – in aggregate – result in lower financing costs. This could result in more such projects being financed and/or companies expanding on low-carbon products and services.	Companies are able to absorb the capital and use it to implement low-carbon projects.
Set climate-related conditions⁷	Only companies meeting climate-related conditions will receive capital.	Company might change behavior to meet conditions.	Alternative financing without attached conditions might be available.
Submit resolutions & voting (as part of the board)	Resolutions pass or not depending on approval rate.	Resolution might be binding resulting in changed company behavior, with associated implications for the supply of low-carbon products and potentially lower costs	Depending on jurisdictions, passed resolutions and voting results have to be followed. Resolutions can relate to company disclosure rather than a specific action. In the case of disclosure, climate impact is unclear.

⁷Such conditions can include education of management on climate change, exchanging management, force climate relevant decisions such as retrofitting of buildings.

2. Listed equity

As described above, equity is in general a way to take ownership. Listed equity in particular refers to shares of companies that are listed at a stock exchange. Therefore, the connection between investor and investee is typically indirect as it is facilitated through secondary markets: An investor

buys a share not from the company directly but a previous shareholder. As equity confers ownership, a certain degree of direct influence is granted via voting rights. Larger equity holdings can also result in companies engaging with investors.

INPUT	OUTPUT	POTENTIAL OUTCOME	HURDLES FOR IMPACT
Divest/reduce exposure to certain stocks^a	Share price might decline if crucial mass is reached. Signal sent to wider ecosystem / the company.	Declining share price might result in changed company behavior.	One investor might be replaced by another resulting in no effect on share price / company valuation or a company might buy back shares. Moreover, a company might not be sensitive to share price changes.
Invest more in certain stock	Share price might increase if crucial mass is reached. Signal sent to wider ecosystem / the company.	Increasing share price might result in changed company behavior.	Critical mass might not be reached. Increase of company valuation might not result in any additional climate impact (e.g. more low-carbon product being produced).
Engagement with the issuers on their actions (incl. filing of resolutions)	Conversation with a company.	Company might change behavior. Participation in collective engagement might increase pressure and thus likelihood of action.	No result achieved necessarily. Impact also depending on content of engagement, e.g. disclosure vs. strategy shift and type of engagement.
Install / adapt voting policy	Vote against board / audit committee / etc. based on climate-related criteria.	Vote might result in changed company behavior/ strategy.	Vote signal might be too low to be relevant/cross attention threshold. Impact also depending on reasoning for voting, e.g. disclosure vs. performance on climate topics.
Do not participate in IPOs	Share price for IPO might decrease.	Reduced level of capital available for company.	Critical mass needs to be reached to result in share price decrease.

^aDivestment or reduced exposure to stocks can e.g. be achieved via the utilisation of low-carbon/climate-optimized indices. This in turn means that real economy impact is not linked to the methodology to construct such an index, but rather the asset class they link to.

CASE STUDIES

Example 1: Chevron.

A number of investors engaged with Chevron on their oil and gas investment and tar sands exposure (IIGCC report 2017). Chevron ultimately decided to sell a significant share of their assets to Cenovus. While it is unclear whether this was partly or not at all motivated by the investor engagement, the actual impact may be zero, since Cenovus plans to develop the assets Chevron has now sold. By extension, the effect of reducing the availability of the high-carbon product from Chevron has been offset by the increase in the availability of Cenovus. It is relevant to flag that from a financial risk perspective, these impact considerations may not be relevant. Chevron selling the asset may be the desirable outcome for the investors invested in Chevron. This fact shows the potential disconnect between using a risk framework and seeking impact outcomes.

Example 2: Minority ownership.

Another area where engagement may not be effective is in the area of companies that only have minority ownership in assets. In those cases, those companies have both limited sway over the actual operations of the assets, and also limited ability to engineer a shutdown. As a result, engagement will likely at best lead to a selling of the asset, which likely will be bought afterwards by another investor off-setting the effect of the initial action. Engagement on capex has been successful in those cases where there is both a majority or even 100% ownership and where the assets that are being engaged upon are non-tradable.

Example 3: Arctic exploration by Shell.

A successful example in this regard is the Arctic exploration by Shell. For a variety of reasons including reputational risks, Shell decided not to pursue oil exploration in the Arctic further. Given the expertise and costs required to develop these assets, it was not (at least to date) possible for Shell to trade the assets. Of course, assets may be tradable and for non-financial reasons a company may decide not to trade them, such as the case of Enel, which has shut down coal-fired power plants even if they could have been traded. This type of approach appears to be almost exclusively driven by non-financial considerations.

3. Bonds (Corporate, Sovereign)

A bond represents a loan made to a company, government or other issuing entity by an investor. It can be traded on secondary markets. A bond does not confer any ownership of a company. Within bond markets, there are a range of different instruments, each with their own impact pathway and dynamic. The key types are sovereign bonds, other government bonds (e.g. municipal bonds), bonds issued by state-owned entities (e.g. public development

banks), corporate bonds (sometimes also classified together with state-owned companies), and companies issued by financial companies primarily related to asset-backed securities.

Investors can choose to invest less in a certain type of bond, increase their exposure to green bonds or bonds issued by 2°C aligned issuers, or engage with the bond issuer.

INPUT	OUTPUT	POTENTIAL OUTCOME	HURDLES FOR IMPACT
Divest/reduce exposure to certain non-climate compliant bonds	Lower availability of capital for non-compliant bond issuers	Bond price might decline if crucial mass is reached and might increase interest rate for subsequent bond issuance. Signal sent to wider ecosystem / the company.	Price effect of investor action only tangible to company if linked to the issuance of bond, not in secondary trades. Lack of potential buyers could result in additional price premium being necessary.
Invest in green bonds	Signal to ecosystem and bond issuers	Greening of investment plans.	Requires green transition accountability of issuer, not just issuance, in order to avoid greenwashing.
Invest in 2°C aligned bond issuers	Signal sent to wider ecosystem / the company.	Bond price on secondary markets might increase.	Price effect of investor action only tangible to company if timing coincides with first issuance of bond. Oversubscription might result in lower interest rate.
Engagement with bond issuer	Conversation with a company.	Company might change behavior.	No result achieved necessarily. Impact also depending on content of engagement, e.g. disclosure vs. strategy shift.

CASE STUDIES

Example 1: Invest in green bonds.

Green bonds are bonds designed to finance green investment. Green bonds – just as regular bonds – are often re-financing instruments. This means that usually a project already existed prior to the green bond and the green bond itself cannot be linked to any real economy impact (e.g. the building of the project). Moreover, most green bonds are technically structured to provide full recourse and fully sit on the balance sheet of the issuer. This means that ultimately the green bond supports the balance sheet of a company and thus its overall activities, whether these are green or brown. For this reason, investment into a green bond cannot claim additional green impact on the real economy. If the issuer itself is overall transitioning to a low carbon economy, however, the investor can invest into this transition by buying a Green Bond.

Example 2: Divest certain bonds.

If a critical mass is reached, not participating in the issuance of bonds by climate-harming businesses can potentially be quite powerful to drive up cost of capital and therefore potentially trigger a change in an issuer's strategy. The case has been made, however, that such an approach and effect is not visible in the market yet. "To illustrate the importance of divestment from certain type of issuers if we are to reach the 2° target, one has to consider the abundant amount of cheap finance to non-compliant issuers today. (...) For a certain large, AA-rated, bond issuer in the oil industry (...) for bonds maturing in 10 years, the issuer pays about 0.09% - 9 basis points – per annum. This is just a wafer-thin margin above so called risk-free rates. This suggest that the impact of the divestment movement cannot yet be seen in bond prices, although of course their strategy may relate to the broader objective of stigmatization, rather than the cost and availability of capital in financial markets."⁹

Review of EU Policies and its impact avenues

In reviewing the relevant investor actions, it is of interest to review the role of the EU Sustainable Finance Action Plan in contributing to these outcomes. The Action Plan, currently in the implementation phase by the European Commission and Parliament, involves a range of different policy suggestions.¹⁰ The key actions are briefly discussed in the table on the next page highlighting their potential impact channel.

The objective of the Action Plan is to support economic growth while increasing the sustainability of the financial system and the economy, in particular with regard to “reducing pressures on the environment, addressing greenhouse gas emissions and tackling pollution; and minimizing waste and improving efficiency in the use of natural resources.” It also supports risk mitigation related to sustainability and environmental issues and associated strengthening of risk management practices.

First, the European Commission involves the development of three proposals for regulations:

1. Taxonomy.

A proposal for regulations to create a unified classification system on what can be considered an environmentally sustainable economic activity. The regulation is designed to underpin potential future regulatory incentives including a green supporting factor or the support of sustainable improvement loans.

2. Disclosure on sustainability risks.

This regulation seeks to expand the disclosure requirements of institutional investors and asset

managers with regard to the integration of ESG factors in their risk processes.

3. Benchmark regulation.

This regulation focuses on developing a new category of benchmarks – labelled low-carbon and positive carbon impact, although the terms have changed in drafts of the European Parliament, to improve the provision of information to investors with regard to the climate performance.

Beyond these regulatory initiatives, the Commission is also considering the integration of ESG criteria in a separate review of the European Supervisory Authorities (ESAs) mandate.

While not a specific regulation, a key additional initiative is the review of the Delegated Acts of the Markets in Financial Instruments (MiFID II) and the Insurance Distribution Directive (IDD) as it relates to the consideration of ESG into the advice that investment firms and insurance distributors offer to individual clients.

Finally, the brief summary of impact pathways provided below also takes into account the discussion of a potential introduction of a “Green Supporting Factor” or a potential equivalent instrument supporting sustainable improvement loans, originally suggested by Commissioner Dombrovskis.¹¹ While controversial, the ECOFIN Council has recently asked the European Banking Authority to further explore this topic. The table on the next page provides an overview of the potential impact channel of the proposed actions.

INPUT	OUTPUT	POTENTIAL OUTCOME	HURDLES FOR IMPACT
Development of 'green' taxonomy'	Clarity on sustainability characteristics	Lower transaction costs for identifying sustainability-themed investments	The ability to 'norm' sustainability with the relevant taxonomy and practicable applicability; Gaps in definitions vs. gaps in data and the integration into investment decision remain challenging; Static standards might hinder innovation and development.
Reform of European Supervisory Authority mandate to integrate sustainability	Accountability of financial institutions on climate / sustainability risks	Better climate / sustainability risk management	Correlation between risk management and impact; Integration of supervisory signals into investment decisions.
Mifid II reform to require integration of 'non-financial preferences' in retail advice	Increase choice of climate focused investment products by retail investors due to higher integration of non-financial preferences into investment practices	Increasing offering of climate friendlier retail investment products	Proper application in retail advice necessary; development of relevant products requires expertise; Adoption of non-financial preferences by clients; Products need to yield climate impact rather than climate risk mitigation.
Sustainability disclosure by banks and companies	Transparency on environmental performance; More access to data	Better integration of environmental data into investment decisions	Design that ensures comparability between peers; Implementation beyond Europe for international effects; Integration of disclosures into investment decisions
Regulation of 'climate-related' benchmarks	Standard on 'climate-related benchmarks'	Discrimination across climate-related benchmarks raises level of ambition	Assumption around underlying ambition; Relevant guidance on benchmarks; Translation of regulation into action that drives outcomes; Standard might hinder positive competition of approaches
Green Supporting Factor / SI Loan factor	Risk-weight adjustment of green / sustainable assets	Cheaper cost of capital for green / sustainable assets	Appropriate definition of green / sustainable; Pass-through of policy impact to loan-takers

¹⁰European Commission (2018) "Sustainable Finance Action Plan".

¹¹2° Investing Initiative (2018) "Quantifying the Impact of a Green Supporting Factor on European banks capital and lending".

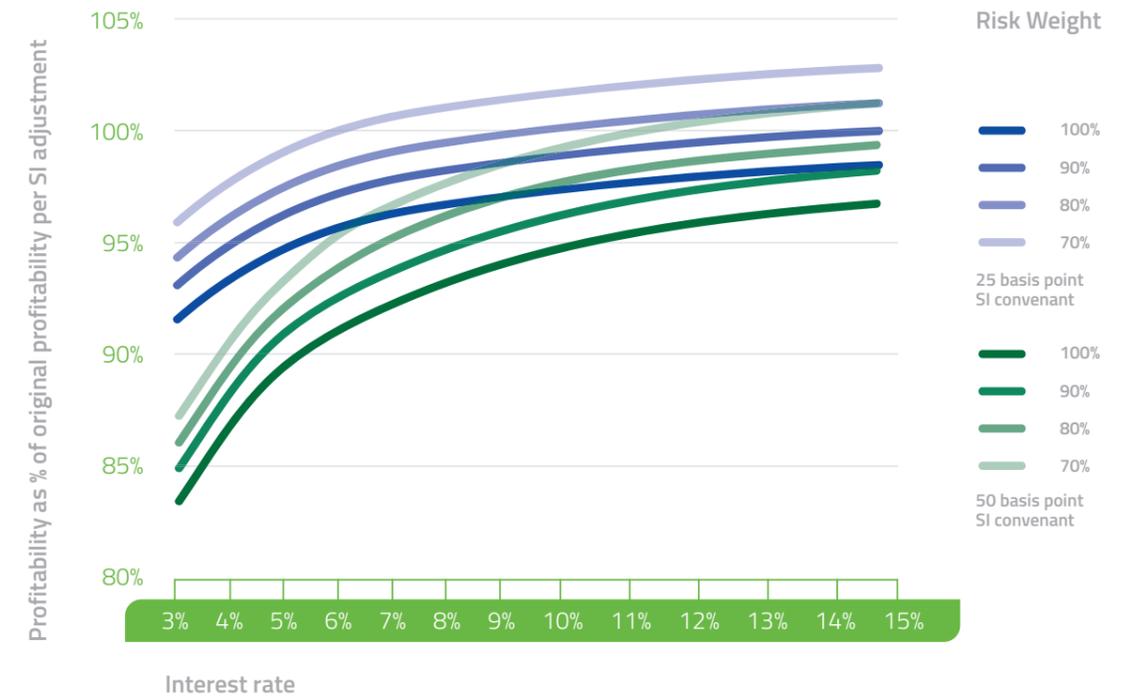
CASE STUDY

Sustainable Improvement Loans.

Sustainable improvement loans are usually revolving credit facilities, whose interest rate is partially adjusted (a premium or discount is usually applied to the margin) depending on the evolution of the borrower's sustainability performance. This sustainability performance may either be assessed based on external ESG ratings or KPIs, on the reaching of internal sustainability targets, on the company's listing on a sustainability index, or on several of the above at the same time. The issuer of the loan may either be a single commercial bank, or a consortium of several financial institutions. A Sustainable Improvement Loan factor involving an adjustment of the risk-weight of these loans in capital requirements could help offset that factor.

The case has been made that a risk-weight adjustment can have a significant effect on reducing profitability losses. A 20% risk weight adjustment with a 25-basis point SI covenant would imply a reduce profitability of 2% or less at interest rates of 5%-8% and be profitability neutral or even positive at any interest rate above 8%.¹² Even at a 4% interest rate, the risk-weight adjustment of 20% would imply a reduced profitability of only 3.4%. Lower SI covenants or higher risk-weight adjustments obviously amplify the results. Equally, higher SI covenants imply higher reductions in profitability. Thus, a profitability loss of less than 2% with a 20% risk-weight adjustment is only achieved at interest rates of ~10% or more for a SI covenant of 50%.

Figure 4: Impact of a SI capital adjustment on profitability at different interest rates, assuming a 25-basis point SI covenant (source: Authors)



¹²Thomä et al. (2019, forthcoming) "A Sustainable Improvement Loan Support Factor: Evidence for Impact". 2° Investing Initiative.



Conclusion

Investors seeking an approach to address climate change in their portfolio need to be very mindful of their objective, whether it be risk or impact. If an investor is keen on achieving real economy impact with his/her actions, the type of actions chosen should be carefully considered from an impact perspective.

Certain actions are more likely to create impact as they are more directly linked with potential changes in company behavior (e.g. voting, engagement). However, a specific input can in most cases not be linked with absolute certainty to a specific impact. The reasons for this are varied and include:

- Lack of counterfactual: Definite causality can be established if a baseline can be established of what would have happened otherwise. In the real world, establishing such a baseline is of course hard to establish in each case.

- Unintended consequences: An investor action might also lead individually or collectively to unintended consequences as outlined in the chapter “From Action to Impact”. It is in most cases not within the power of the investor to ensure such consequences do not happen.

- Indirect link between input and impact: A specific input is linked to a specific impact via a number of conditions. For a number of reasons, an impact might not materialize despite a perfectly executed input.

In order for action by investor to contribute effectively to climate change mitigation, the right supporting conditions can be crucial - notably in terms of avoiding unintended consequences. To this purpose, investors and other actors need to establish environment – policy and otherwise – to enable money to flow in the right direction while at the same time ensuring the wrong types of activity do not receive financing.

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