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Contact:
csouthworth@pensionfundservice.com

Chris Southworth – Chief Executive Officer
No.1 Booths Park, Chelford Road,
Knutsford. WA16 8GS
Tel: 0044 1565 648205

Starting on a Sustainable Investing Journey

Authors: Fiona Stewart and Heike Reichelt

Note: The opinions expressed here are the authors' and do not necessarily reflect those of the World Bank or its stakeholders.

Introduction

Sustainable and social investing strategies are benefitting from renewed interest and investment flows amid the coronavirus pandemic as investors look to contribute to solutions, in addition to protecting the financial value of their investments. Sustainable investing is rapidly becoming mainstream.[1] Before the COVID-19 pandemic struck, investors globally were taking steps to incorporate environmental, social and governance (ESG) factors into their risk analysis and investment processes across asset classes, and their entire portfolios. Today, there appears to be even greater reason to take a closer look at ESG factors in investment. This analysis should not be disproportionately focused on "G," which for a long time has been recognized as affecting company performance, or "E" focused on climate risks that are becoming more obvious. Investors are realizing the need to increase the attention given to "S" criteria. The pandemic has uncovered significant social risks related to health and inequality and the effects of these risks on the financial value of investments. Globally, sustainable investment assets in the five major markets stands at over $30 trillion, according to the latest trends report published by the Global Sustainable Investment Alliance, representing a 34 percent increase over two years. Sustainable investment commands a sizable share of professionally managed assets in each region, ranging from 18 percent in Japan to 63 percent in Australia and New Zealand.[2] Clearly, sustainable investing constitutes a major force across global financial markets.

Yet, many investors find implementing ESG or related investment strategies in practice a challenge, which can be exacerbated when it comes to their fixed income portfolios. There are still no standard definitions for ESG criteria or strategies – with diverse views particularly in the 'social' area. Data – though improving and coming from increasingly diverse sources – is still not harmonized, making aggregation a manual affair. In fixed income, there are additional issues such as how to pursue engagement with issuers (particularly sovereigns), the role of ESG in credit ratings, the lack of choice of indices compared to equities, as well as an evolving universe of various ESG-focused products. These challenges are even more prevalent in emerging markets and developing economies in which the World Bank works.

Whilst we are increasingly finding an awareness of and intention to move to a sustainable investment approach globally, we are frequently asked by our clients and others 'how do we get started'?

This article is intended as a summary of the type of guidance we aim to provide investors we work with who are starting on the journey of sustainable investing, with questions investors may ask themselves.

Why should we consider sustainable investing?

Capital markets play a vital role in channeling investment into the economy to help drive growth and prosperity. Investors are typically focused on generating financial returns for their stakeholders and investment processes are generally set up to favor short-term returns. At the same time, stakeholders are asking asset owners and financial intermediaries to not only ensure that risks are factored in, but to contribute to financing sustainable activities that meet the need of the present without compromising the ability of future generations to meet their own needs.

1. The terms socially responsible investing (SRI), investing by integrating environmental, social and governance (ESG) criteria, and impact investing are often being used synonymously in the market place, as are other related investment strategies with a somewhat different focus (such as *long-term investing, universal ownership*), or strategies that concentrate on a particular aspect of ESG (e.g. green, climate change, social, ethical, religious investing). This article offers simplified explanations to help differentiate key aspects of some of these strategies and refers to sustainable investing as the term for these strategies overall.
2. GSIA 2018 – Global Sustainable Investment Review http://www.gsi-alliance.org/wp-content/uploads/2019/06/GSIR_Review2018F.pdf

Explicitly incorporating ESG criteria in the investment process is not just as an aspect of risk and return but can also offer investors an opportunity to go further and merge ESG and 'impact' investing through capital allocation to sustainable activities and a more holistic portfolio management approach. This includes assessing the potential risk based on ESG factors *and* measuring the impact of their portfolios on targeted environmental and social outcomes and beyond, such as mapping impact using the Sustainable Development Goals (SDGs).

Investors should be clear about what their motivations for adopting a sustainable investment approach are, before designing an investment approach or selecting particular investment tools.

What is most important to our stakeholders?

Most motivations can be categorized by the following, simplified *'ABC'* categories.

Avoiding

Many investors start by wanting to avoid certain securities, issuers, or sectors they consider to be too risky, where risks are too uncertain in terms of potential losses or want to avoid for other reasons. This exclusion strategy is sometimes called "Socially Responsible Investing" and is often combined with investing based on values. This type of strategy often takes a negative screening approach that excludes securities of specific activities or industries (e.g. controversial weapons, tobacco, fossil fuels) that they consider to be unacceptable. Reasons may be ethical, legal, or based on other norms and standards (e.g. human rights, labor conditions, corruption).

Benefitting

Benefitting stakeholders by focusing on minimizing ESG risks and maximizing investment opportunities is another strategy, often referred to as "ESG integration." This strategy is focused on maximizing financial value for stakeholders (only), by explicitly considering ESG criteria. This approach includes the systematic inclusion of ESG risks and opportunities in investment analysis, portfolio construction, and risk management. Investors are implementing ESG integration in different ways across investment organizations and considering ESG criteria in the analysis, selection and management of investments. Key issues for consideration typically include:

E: climate change, carbon emissions, pollution, resource efficiency, biodiversity;
S: human rights, labor standards, health and safety, diversity policies, community relations, development of human capital (health and education);
G: corporate governance, corruption, rule of law, institutional strength, and transparency.

Contributing

Contributing to society for impact is a goal that investors also pursue. This goes beyond benefitting the financial value of the portfolio and can be for a variety of reasons. For example, it can help investors understand better and manage systemic risks such as climate change and biodiversity loss, even if they don't immediately affect the value of the portfolio, or because their stakeholders are explicitly looking to invest to create a more sustainable future. Fixed income investors that engage in this strategy often look for labeled bonds and transparency around how issuers finance projects that they support. *Impact investing* aims to generate measurable, beneficial social or environmental results alongside a financial return.[3] The evolving approach of *SDG investing* considers factors beyond traditional ESG criteria, using the United Nations' Sustainable Development Goals (SDGs) as a framework. Investors pursuing such strategies often take a thematic approach – including clean technology, renewable energy, energy efficiency, sustainable forestry and agriculture, water, education, health, and diversity. Until recently, climate investing has been a more broadly accepted investment approach, not just for its impact, but also for its portfolio risk management potential.

Impact Investment Principles
Launched in 2019, the Operating Principles for Impact Management provide a reference point against which the impact management systems of funds and institutions may be assessed. They draw on emerging best practices from a range of asset managers, asset owners, asset allocators, and development finance institutions.
www.impactprinciples.org/

3. 'Outcome' and 'impact' are often used as synonyms in this context. They can also be meaningfully conceptualized as 'outcome' referring to a finite, shorter term change, and 'impact' as broader, longer-term effects that are more difficult to measure objectively (Harding 2018).

What tools should we use?

Different methods for sustainable investing are being adopted by institutional investors, driven by investment objectives and what motivations are most important to their stakeholders, but also by legal constraints that result from new regulatory requirements. These range from purchasing 'labelled' (green, social, and/or sustainable) bonds and setting up or investing in ESG/SRI funds; to following ESG indices; to hiring ESG active managers; to incorporating and integrating ESG criteria across the whole investment process. This can be done by either following the methodology of different external service providers and/or by customizing such tools with the institutional investor's own philosophy and goals.

Several tools have been created to assist investors in the analysis of ESG risks and opportunities. Here, too, fixed income is lagging equities. Nonetheless, ESG frameworks have been developed for bonds, including ESG scores and rankings for companies, countries and other issuers, as well as ESG fixed income indices. These rely on ESG data, ratings, and rankings produced by firms such as Sustainalytics and MSCI, among others, with teams of analysts collecting data and analysis to produce a score on a company's perceived ESG risks according to the respective ESG research firm's methodology. However, there are significant differences in the scores provided by ESG research firms, and their analysis does not adequately factor in a firm or organization's positive impact or, in the case of multilateral development banks for example, development mandate.

When first adopting sustainable investing, most investors do not have the in-house skills to develop their own approach. Getting started therefore usually means applying tools, methodologies or products from these types of outside providers. Depending on the drivers of their move towards SRI/ESG or impact investing as outlined above – i.e. whether to avoid risk, and/or benefit members and/or contribute to society – a combination of bonds, indices, and funds can be a useful starting point.

FIGURE 1: FIXED INCOME SUSTAINABLE INVESTING TOOLS

Source: (Inderst and Stewart 2018)[4]

4. Inderst, G., Stewart, F., (2018), 'Incorporating Environmental, Social and Governance (ESG) Factors into Fixed Income Investment', World Bank publication http://documents.worldbank.org/curated/en/913961524150628959/pdf/125442-REPL-PUBLIC-Incorporating-ESG-Factors-into-Fixed-Income-Investment-Final-April26-LowRes.pdf

- ***Thematic bonds*** or labelled bonds are bonds for which issuers commit to invest an equivalent amount of the proceeds, typically through earmarking, to projects and programs focused on specific themes or sectors, or simply raise awareness for certain themes. These bonds generally have the same financial characteristics, including credit quality and liquidity, as other bonds from the same issuer and therefore provide a good way for investors to incorporate a sustainable investment approach into their fixed income portfolios. Because the mandate of multilateral development banks (MDBs) such as the World Bank are focused on achieving a positive impact within clear ESG frameworks, investing in bonds issued by MDBs – labeled or not – is often a first step to sustainable fixed income investing, especially for investors looking for liquid, high-grade fixed income products that support positive impact in emerging markets and developing countries. For investors that prefer labeled bonds, the most prevalent option has been "green bonds" first issued by the World Bank in 2008 or "climate bonds", but thematic "social bonds" and "SDG bonds" highlighting certain SDGs and/or social projects have gained traction in recent years (e.g. Sustainable Development Bonds issued by the World Bank as described in its recently published impact report).[5] These bonds saw strong investor support through labeled bond programs dedicated as a whole or in part to addressing the health and related social and economic effects of COVID-19. The International Capital Market Association (ICMA) has published a standard framework that builds on the first green bonds issued by the World Bank, providing guidance for investors and issuers.[6] Fund managers also offer thematic green and social bond fund vehicles (e.g. the IFC/Amundi Planet Emerging Green One (EGO), the world's largest green bond fund).[7]

Trend: Performance-linked Investments

A developing trend within the labeled bond market are **performance-linked investments**, some being similar to Social Impact Bonds (SIB). SIBs are not bonds, in the traditional sense and do not offer a fixed rate of return. A social impact bond, is a "pay for success" instrument, i.e. a contract between a special purpose vehicle and the government that commits to pay for improved social outcomes, including in the health, education and environment sectors. For example, the City of Washington, DC, where the World Bank Headquarters are located, has used 'green' (rain gardens, green roofs, permeable pavements), rather than 'grey' infrastructure (concrete tunnel) to upgrade its stormwater management system. The World's first environmental impact bond was issued in 2016 to cover the cost of the project, with investors' return varying according to outcome targets.

See: DC Water. c2017. Green Infrastructure Plan. Accessed on: May 19, 2020.
Available from: https://www.dcwater.com/green-infrastructure.

Another very recent trend worth mentioning is sustainability-linked bonds, which benefitted from the experience of the previously sustainability-linked loans. **Sustainability linked bonds** are instruments in which aspects of the bond (e.g. coupon) can vary based on the issuer's performance against predetermined sustainability or ESG targets. ICMA published a new set of voluntary process guidelines, Sustainability-linked Bond Principles, at its annual general meeting on June 9, 2020.

See: https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/

- ***Index investing*** is another straightforward way for investors to adopt a sustainable investment approach – particularly if they are passive investors. ESG integration has historically been first associated with active investing, e.g. with norm-based exclusions or an active selection of the best ESG-compatible equities. More recently, however, the attention to ESG considerations in passive investing has been rising fast. Fixed income indexes can assist the development of low cost ESG strategies, e.g. screening via an exclusionary index or an ESG-tilted passive portfolio. Green bond indices and low carbon indices have also been developed. Investors are currently constrained by the lack of choices and may have different ideas about ESG factors and methodologies. Exchange traded funds (ETF) are typically launched based on popular indexes.

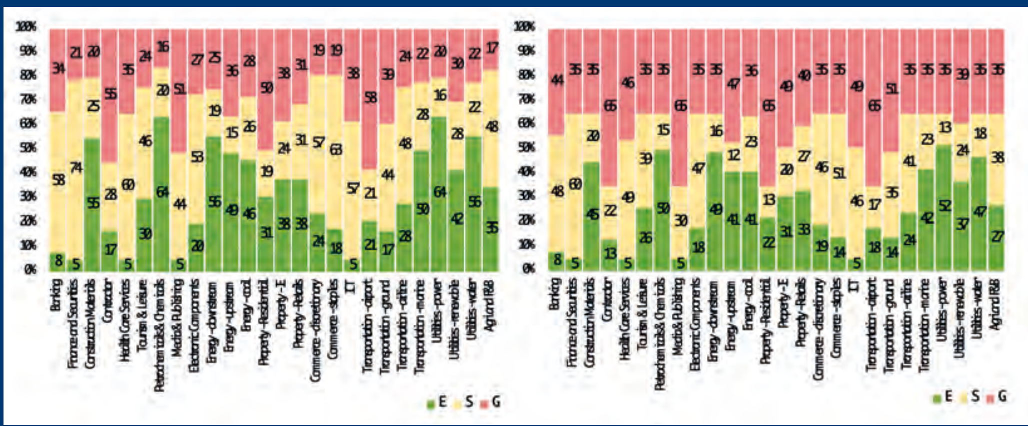
5. http://pubdocs.worldbank.org/en/138051589440217749/World-Bank-Sustainable-Development-Bond-Impact-Report-2019.pdf
6. https://www.icmagroup.org/green-social-and-sustainability-bonds/resource-centre/
7. https://www.amundi.lu/professional/Local-Content/News/IFC-and-Amundi-successfully-close-world-s-largest-green-bond-fund

- ***'Smart beta'*** is an approach whereby indices can be customized to better reflect the specific needs or preferences of investors. Investors can, alternatively, deviate from established indexes by using an internal "passive plus ESG overlay" approach. An immediate concern in relation to the increasing index customization in this field is the lack of comparability of strategies and performance by asset managers. Higher fees may also come with it. This approach is typically used as performance benchmarks in active investing and for replication in passive investing.

Government Pension Fund (GPF) Thailand Smart Beta Approach

The World Bank has been supporting the GPF, one of the main pension funds in Thailand, to develop and adopt their own 'smart beta' approach to sustainable investing. GPF uses MSCI ESG data to develop GPF-specific industry ESG weightings and company ESG scores. It multiplies MSCI's governance scores by 1.3, reflecting GPF's view on the significance of governance issues. For Thai companies, GPF limits the comparator universe to Thailand, to include any available, standardized local rating data (e.g. the Thai IOD's Corporate Governance Rating) and adjusts ratings to reflect GPF's expert views on the company's ESG performance. To apply ESG scores in asset valuations for equities, GPF uses the ESG Score to alter the discount rate; companies with lower ESG risks have a lower discount rate applied, and companies with a higher ESG risk have a higher discount rate applied. Adjustments to the WACC (weighted average cost of capital) are just one element of the valuation process. The valuation of a company also, to the extent that is relevant, takes account of the business risks and opportunities presented by sustainability issues.

MSCI'S ORIGINAL SECTOR WEIGHTS VS. GPF'S ADJUSTED SECTOR WEIGHTS



Source: GPF (forthcoming World Bank report)

- ***ESG funds*** of all sorts have been mushrooming in the asset management industry in recent years. Active fund products are also growing in the fixed income space – offered by mainstream and specialist ESG asset managers. Active managers use a variety of tools to develop their ESG approach, all based on some form of ESG scoring (see earlier section). Asset owners can buy these products "off the shelf" but many also define bespoke ESG investment mandates for active investment managers. These can extend to all ESG investment approaches. A summary guide on how to appoint an external asset manager is provided by the Principles for Responsible Investing.

- ***Holistic approach*** to sustainable investment can be developed over time by asset managers and asset owners, especially larger ones, to apply more comprehensive sustainability strategies. The intention is full integration of ESG across all steps in the investment process and all asset classes, not limited to, for example, labeled bonds and/or only certain funds or portfolios. Different in-house integration techniques are being applied by different investors. From an organizational perspective, ESG is often the job of a few "specialists". Some investors, however, gear up the whole organization to consider ESG in their investment approach. Foremost, a "full" ESG integration approach requires a clear strategic plan, including all levels of governance, starting with the board. In practice, various approaches have emerged:

  1. Separate team of ESG specialists;
  2. Integration of ESG expertise in analyst, portfolio, and risk management teams;
  3. Confining ESG reporting resources in marketing/public relations/middle or back offices.

Should we use a customized or standardized approach?

What is becoming more evident as the consideration of ESG factors becomes more prominent and widespread across the investment industry is the balance which institutional investors are having to strike between "standardization and customization". Many investors are increasingly looking to develop bespoke strategies to reflect their own philosophy and investment goals. The many different concepts allow for a customization of ESG investment strategies, indexes and portfolios. However, this makes it more difficult to compare performance.

On the other hand, a widespread complaint is on the lack of agreed ESG "standards". Many investors also would like to see standardized ESG definitions, stock lists, indices, etc. in order not to have to "re-invent the wheel", and to save costs. Some observers would also fear opportunistic "standard-shopping". However, what should be clearly standardized and harmonized is the data and how it is reported.

As noted earlier, a definitive list of ESG issues does not exist – and it looks impossible to agree on. Competing concepts in the marketplace are more likely to allow for dynamic adjustments and quality competition in a fast-moving world. As investors develop their own ESG integration strategies, they must seek guidance from their stakeholders as to why they should pursue a sustainable investment approach and design the strategy accordingly. There is no universal standard, so investors can take the opportunity based on their expertise to customize and differentiate themselves from others.

There are pros and cons of setting "official standards." It seems premature for regulators to set ESG standards at this juncture, if ever possible given large differences of what's possible in specific countries, regions, and sectors. More likely is specific regulation at company/sector/project level, e.g. on carbon emissions, environmental footprint, and similar. Furthermore, disclosure requirements will become more detailed for both companies and investors. As social issues – which by their nature are less prone to consensus - become more embedded into the investment process, customization will remain, but consensus around frameworks is needed to provide a robust basis for ESG incorporation (and keep costs affordable). More robust methodologies would provide a better footing for ESG information and deliver better inputs in the models used by the investment industry. Existing standards for green, social and sustainable bonds such as those published by ICMA and related resources may serve as useful references in developing an approach.[8]

How can we report and measure our activities?

Once asset owners have decided to adopt a sustainable investment approach, it is also important to report on progress. Disclosure (or transparency) by asset owners is an important mechanism for driving sustainability in investment markets and in the wider economy. Questions are – quite rightly – increasingly being asked about how sustainable investment practices are being applied and what impact is being achieved. Attribution of impact that investments help to achieve is challenging and assumptions must be clearly articulated when reporting to stakeholders for reports to be credible. Investors should understand that reporting – just like sustainable investing overall – is evolving and iterative by nature.

8. https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/

The World Bank has been helping predominantly public sector emerging market clients implement reporting practices and has also been developing reporting frameworks for clients (Figure 2). For example, the World Bank recently conducted a benchmarking report to assess the sustainable investment reports of some of the world's leading pension funds to identify emerging practices.[9] There is no "one-size-fits-all," but the report includes a checklist, which provides a comprehensive list of the disclosures that asset owners' stakeholders are likely to demand. It has been tested on some of the world's largest pension funds. This analysis has provided some interesting insights into how these funds – many of whom are regarded as leaders on sustainable investment – are currently reporting on their approach to sustainable investment.

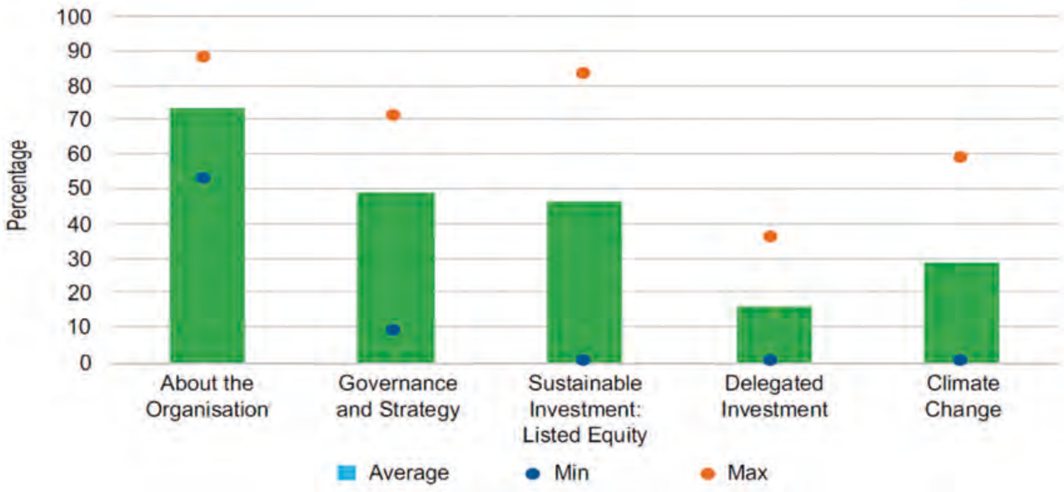
FIGURE 2: PENSION FUND ESG REPORTING FRAMEWORK

Source: (O'Sullivan and Stewart 2020)[10]

As can be seen in Figure 3, all the funds provide quite extensive disclosures about their organization, mandates, and governance. Those organizations that have made commitments to sustainable investment provide similarly good disclosures. The lower average score can be explained by the fact that some funds have only recently started to develop their sustainable investment objectives and strategies, and their disclosures are correspondingly lagging. The results also tell us that the disclosures being provided about their organizational approach to sustainable investment is not matched by the disclosures they provide about the implementation of their sustainable investment commitments, e.g. how these commitments are implemented in listed equities, in delegated (outsourced) investment management or in the specific case of climate change.

FIGURE 3: PENSION FUND ESG BENCHMARKING RESULT

(percentage of respondents fulfilling checklist information in various categories)



Source: (O'Sullivan and Stewart 2020)

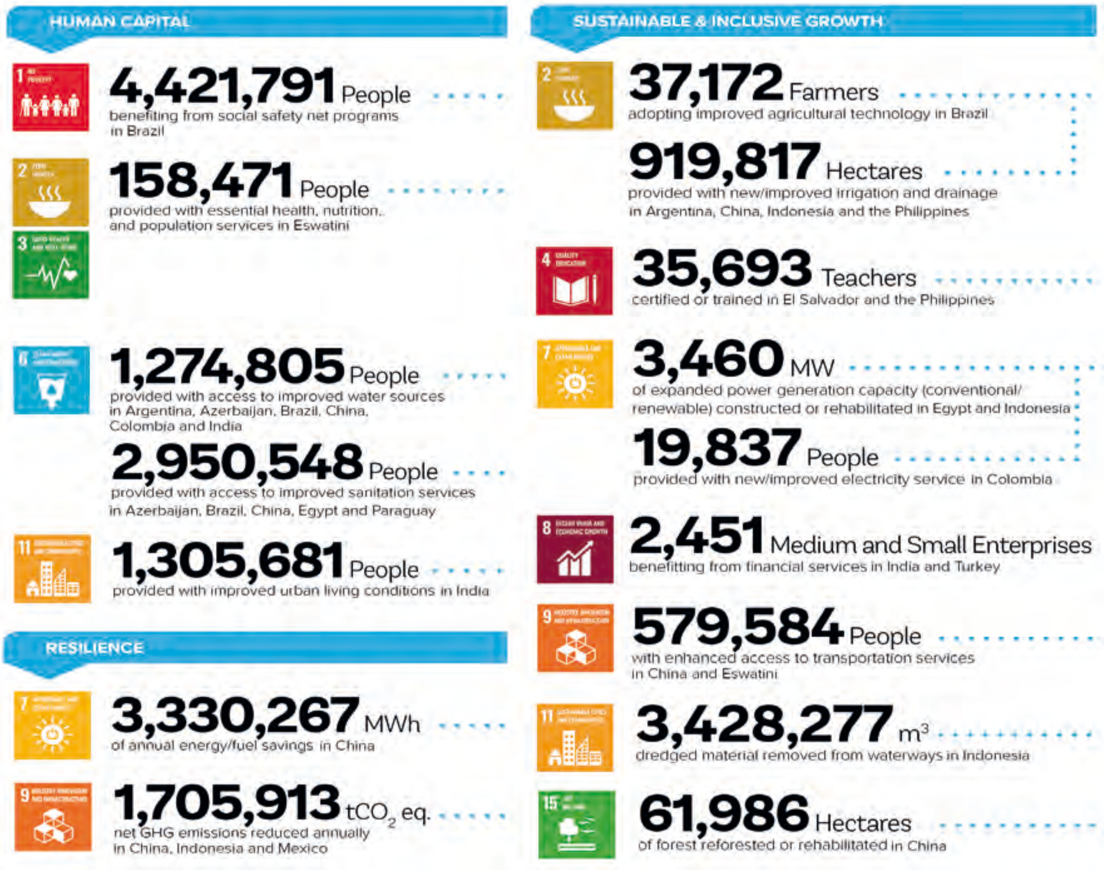
9. O'Sullivan and Stewart (2020), 'Sustainable Investment: Best Practice Disclosure Checklist for Pension Funds' http://documents.worldbank.org/curated/en/485741587445830636/Sustainable-Investment-Best-Practice-Disclosure-Checklist-for-Pension-Funds
10. O'Sullivan, R., Stewart, F. (2020), 'Sustainable Investment: Best Practice Disclosure Checklist for Pension Fund', World Bank publication https://openknowledge.worldbank.org/bitstream/handle/10986/33679/Sustainable-Investment-Best-Practice-Disclosure-Checklist-for-Pension-Funds.pdf?sequence=1&isAllowed=y

To increase transparency for World Bank bond investors interested in information about how the World Bank works to fulfil its sustainable development mandate that bond proceeds help support, the World Bank published a first-ever Sustainable Development Bond Impact Report in May 2020.[11] This report is especially relevant for investors taking a holistic approach to understand how an issuer approaches its activities. It is the first impact report covering all World Bank bond issuance and the entire portfolio of the development activities of the World Bank (International Bank for Reconstruction and Development, IBRD), and follows a similar methodology created by the World Bank for green bond impact reporting that has become market standard. The scope and scale of the World Bank's portfolio provides a useful testing ground for this holistic approach. In fiscal year 2019 (July 1 - June 30), the World Bank issued US$54 billion in bonds in 27 different currencies through 440 transactions to support the financing of sustainable development projects and programs.

The Sustainable Development Bond Impact report provides an overview of how the World Bank engages with investors, using the SDGs as a framework, and includes detailed information on the World Bank's operational process and safeguards, and alignment with market frameworks. Impact highlights map results to the SDGs. The report looks back at 71 projects that were completed in fiscal year 2019 (see Figure 4) and looks forward at 84 projects that were approved and started disbursing in fiscal years 2018 and 2019. Detailed tables provide project-by-project information. Given the report's timing, the report also includes information about how the World Bank is supporting member countries in their response to COVID-19.

FIGURE 4: WORLD BANK SUSTAINABLE DEVELOPMENT BOND IMPACT REPORT HIGHLIGHTS

Summary of select achieved project impact highlights for projects completed in fiscal year 2019



Source: World Bank Sustainable Development Bond Impact Report 2019

11. World Bank Bonds for Sustainable Development Impact Report 2019: http://pubdocs.worldbank.org/en/138051589440217749/World-Bank-Sustainable-Development-Bond-Impact-Report-2019.pdf

Increasing Transparency: ESG Data for and from Sovereigns

Asset owners and other investors that are integrating ESG data to assess specific risks are increasingly looking at sovereign ESG data to complement other sources of information such as from credit rating agencies and ESG research firms. The World Bank launched a sovereign ESG data portal (See: ESGdata.worldbank.org) to support data transparency and provide indicators and a framework for investors and sovereign issuers to complement their analysis. The portal also provides research and other resources that may be of interest to investors looking for sovereign ESG data. Sovereign issuers have also started to engage with investors around ESG topics and provide related information as part of their investor relations outreach and disclosure.

See: https://blogs.worldbank.org/voices/greater-transparency-environmental-social-and-governance-esg-issues-new-focus-sovereign-debt

Key lessons for investors: Transparency is key

From single steps to a full organizational approach

Many investors – both asset owners and asset managers – have taken some single steps into sustainable investing, e.g. by investing in an SRI equity fund or in green or other labelled bonds, using an external service for proxy voting, subscribing to ESG research firms scores and information and/or producing ESG marketing/compliance literature. Such steps are often indeed the main options for smaller investors, and a good way to start. Larger investors, however, to progress, need to work towards a full organizational approach (including starting at the most senior management and board levels), devote in-house analytical resources, and apply appropriate aspects of ESG strategies in parallel.

Clear objectives

Clarity about the objectives is paramount. Some investors (and academics) primarily try to chase a few extra basis points via (changeable) ESG product/strategy outperformance. Instead, more efforts should go into setting ESG investment objectives: What is this particular asset owner trying to achieve with ESG (if at all)? And how? There is often an excessive focus on financial performance, and too little regard for performance in terms of E, S, and G and / or impact.

From input to outcomes – from process to impact

In the past, ESG investing has been mainly concerned with inputs (e.g. finding ESG data, products) and internal processes (e.g. ESG analysis, compliance). While this process will continue, in the future, more efforts will go into the ESG output, including:

1. Becoming clearer about how to conceptualize ESG outcomes;
2. Working to find appropriate ESG metrics;
3. Getting a handle on the environmental and social impact of portfolios;
4. Determining how to measure and communicate ESG impact; and
5. Mapping portfolios and SDG outcomes.

ESG investing is developing from a purely process-driven to a more outcome-driven activity. The concerns outlined above show that, whilst great strides have been made to incorporate ESG factors into fixed income investments, and across investors' portfolios, more needs to be done to truly mainstream this approach and have material impact.

In addition to investors themselves, a range of stakeholders have a role to play to achieve the goal of mainstreaming ESG into fixed income investments, with a focus on transparency. If investors have more information, they can make better decisions that will help them channel funds towards more sustainable activities:

- ***Governments*** can provide more timely, accurate national data on ESG and development issues, as well as financial national accounting and encourage investors and companies to provide more transparency around how their activities are at risk based on potential climate and social developments and how they impact the environment and society; and work to incentivize companies to disclose sustainability considerations of their operations to investors for labelled and non-labelled bonds;[12]
- ***Corporations and financial institutions*** need to continue to improve their reporting on ESG risk and impact as well as financial factors, including through standardized ESG-relevant information;[13]
- ***Multilateral development banks***, as issuers of bonds that are suitable products for sustainable investing, have an important catalytic, intermediary and capacity building role to play, including as models for sustainable investing and promoting transparency through detailed impact reporting to enable a holistic approach;
- ***The academic community and international associations*** can provide thought leadership and support the mainstreaming of investments that incorporate ESG factors, and work towards frameworks that investors can adopt as part of their sustainable investing strategies;
- ***Service providers*** should continue to strive to improve their ESG methodologies and analysis and be more transparent, pushing for more timely and accurate information to support their assessment; they in turn need to be pushed by investors to increase the quality of their products.

Investors are increasingly engaged in how their investments are affecting the environment and society, in addition to protecting the financial value of their investments. Strategies and approaches are evolving and, just like any other journey, sustainable investing should be implemented step-by-step, with the first step likely to be the most difficult one. Transparency and disclosure are key threads in the various approaches and each methodology helps to develop and grow sustainable investing. As investors continue embarking on this journey, it moves us closer to a shared goal of creating a more sustainable global financial system.

12. There are several government-led initiatives to support sustainable capital markets that must be carefully designed and implemented in a way that is suitable for each market and avoids potential unintended consequences, such as the European Commission's work on integrating sustainability in its financial policy framework. In emerging markets, several countries also have initiatives or regulatory frameworks to support sustainable capital markets.
13. There are several standardized reporting frameworks, providing investors with important ESG-relevant information for corporations and financial institutions, such as the Task Force on Climate-related Financial Disclosures (TCFD), Sustainability Accounting Standards Board (SASB), and Global Reporting Initiative (GRI).

THE WORLD BANK

Fiona Stewart

Fiona Stewart
Lead Financial Sector Specialist
The World Bank

Fiona Stewart, Lead Financial Sector Specialist, is part of the Long-term Finance Team in the World Bank's Finance, Competitiveness & Innovation Global Practice. Fiona provides policy advice on pension and insurance market reform to governments around the world, and is currently working on projects in East and Southern Africa, Indonesia and Georgia. Previously, she worked for the OECD's Financial Affairs Division for eight years and led the Secretariat of the International Organisation of Pension Supervisors (IOPS). Prior to working at the OECD, Fiona worked in the pension fund industry. As head of American Express Asset Management in Japan she was responsible for investing $2bn in Asian equity markets, and, as part of an international team, for managing $20bn globally. She holds degrees from Oxford and Johns Hopkins Universities and a Chartered Financial Analyst qualification. She also served on the advisory board of one of the OECD's own pension funds.

Heike Reichelt

Heike Reichelt
Head of Investor Relations and New Products
World Bank Treasury

Heike Reichelt is Head of Investor Relations and New Products at the World Bank Treasury. The World Bank Treasury manages the funding programs for the World Bank (International Bank for Reconstruction and Development, IBRD), the International Development Association (IDA), and the International Finance Facility for Immunisation (IFFIm). Her team is responsible for managing relationships with bond investors, rating agencies and the financial media, and developing new bond products. These include products to raise awareness for the Sustainable Development Goals (SDGs) and climate change mitigation and adaptation - like World Bank Green Bonds. Heike also manages outreach to the sustainable and impact investing community and works with other issuers and market participants to encourage the growth of sustainable capital markets focused on making a long-term positive social and environmental impact through integration of environmental, social and governance criteria (ESG) in investment decisions. She has 20+ years of experience in finance – including as an engagement manager for the World Bank Treasury's Reserves Advisory Management Program for central banks and in the areas of export finance and capital markets, during her career at KfW, the largest German development bank. Heike was recognized for her role in building sustainable capital markets as the 2017 recipient of the prestigious Joan Bavaria Award.

Contact:
csouthworth@pensionfundservice.com

PENSION fund service.com

Chris Southworth – Chief Executive Officer
No.1 Booths Park, Chelford Road,
Knutsford. WA16 8GS
Tel: 0044 1565 648205

PENSION fund service.com