Institutional Investors and Stringent Climate Policies

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Overview

Institutional investors account for massive global wealth and, as crucial stakeholders in the fossil-fuel industry, they can play a significant role towards a just energy transition. Their strategic influence in the energy transition stems from their driving force in diversifying their local economies, but also through their portfolio of global asset allocation across various markets. However, different institutional investors vary in their incentive structure and potentially in their strategies in response to stringent climate policies. For example, public investors may favour investment choices with social externalities aligned with sustainability targets, while private investors remain subject to profit-maximising and financial constraints. This discussion remains undeveloped in the literature and more work is needed to understand better the implications of stringent climate policies for different institutional investors, such as Sovereign Wealth Funds (SWFs), public and private pension funds, hedge funds, insurance companies and asset management firms. We aim to broaden the understanding of sustainable practices of institutional investors and their scale of climate action.

Methods

Research on the database Preqin Pro, which allows to collect data on the infrastructure asset class by filtering for the following themes: amount and typology of investor; infrastructure sector (including renewables); source of financing (equity, debt); variation across two key turning points in recent years (Paris Agreement (2015), energy crisis in Europe (2021). Semi-structured interviews with top managers of financial institutions investing directly and indirectly in renewable energy infrastructure

Results

Asset management firms and pension funds need guarantees on risks through regulatory and market arrangements to invest large capitals in renewable energy. Some SWFs and MDBs are highly committed to renewable energy investments both directly and indirectly. Institutional investors' impact on the energy transition is likely to differ.

Conclusions

The paper explores how institutional investors differs in their investment strategies depending on their mandate and ownership structure. State-owned investors are more likely to follow public policies, therefore they are more likely to adapt their investment strategies to both climate and energy security policy changes.

References

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