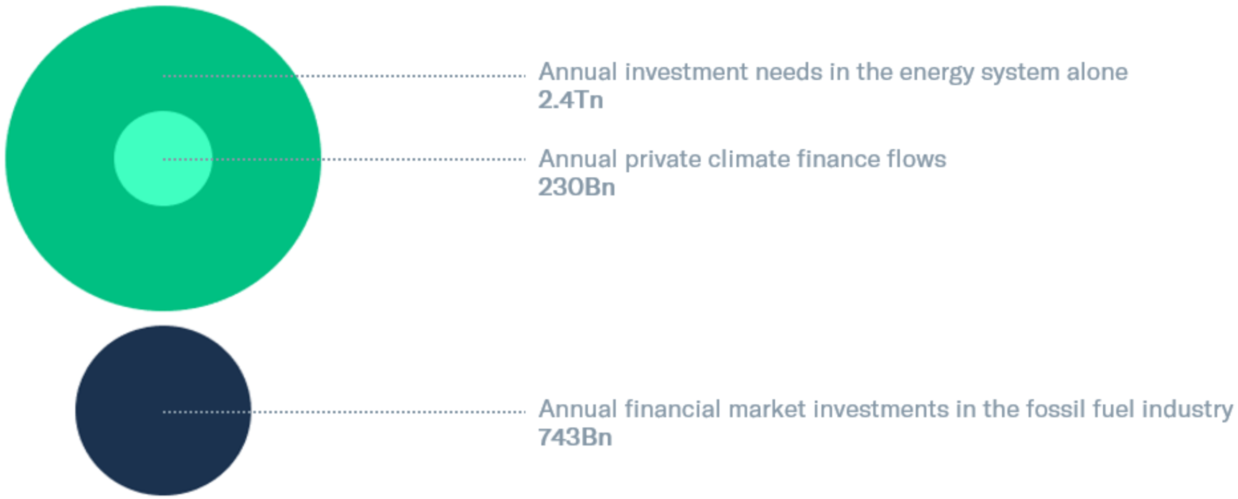
Shifting the Trillions

Why will private investors play a key role?

Shifting the Trillions: the transition needs to be massive and transformative

« Massive »



« Transformative »

> Carbon-intensive sectors such as oil & gas, coal power, ICE automotive, aviation and shipping need to decarbonize or be substituted quickly, while low-carbon sectors must grow as fast. Organizational, societal, and cultural innovations are also needed and require funding and financial incentives.

Source: UNFCCC Standing Committee on Finance, 2018 and Masson-Delmotte et al., 2018

Still, the funding gaps can be put in perspective with household savings

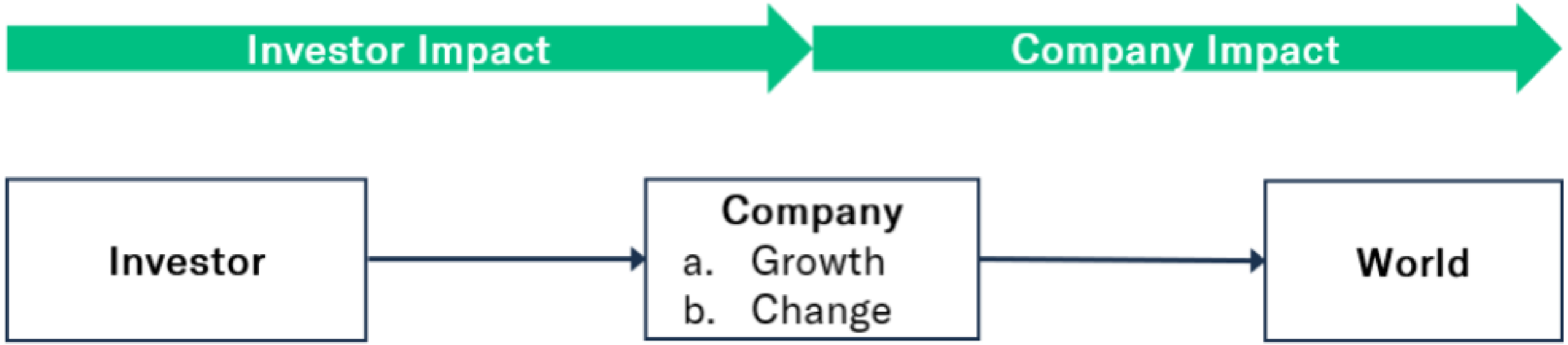
The Renewables and Energy Efficiency funding and gap in the EU (2020-2023) put in perspective

	Renewable energy	Energy efficiency	TOTAL
Financing gap per year, 2021-2030, (€ billion)	€30 bn	€310 bn	€340 bn
Financing gap per year, per capita (EU-27 population), (€)	€67	€692	€759
Financing gap per year, as a share of GDP in 2019 (EU-27, %)	0.2%	2.2%	2.4%
Financing gap per year, as a share of annual gross household savings in 2019	2.4%	25%	27.4%

Source: 2DII, 2021 based on Commission services 2020; Estimate for additional investments needs in the power, construction, industrial and transport (vehicles and rolling stock, excluding infrastructure) sector based on EUCO32-32.5 scenario, https://ec.europa.eu/energy/en/data-analysis/energy-modelling/euco-scenarios.
Estimates of additional investment per year over the period 2021-2030 are relative to 2016 Reference, estimates per sector rounded to the nearest € 5 bn.
Estimates not yet updated to include raising the ambition of GHG emission reductions to 50-55%

Private investors can contribute to the transition by having impact

Investor vs Company impact



Source: 2DII, 2019 based on Kölbel et al., 2018)

Investors impact depends on the theory of change and external factors

2° Investing Initiative

Impact and the Theory of Change

Private Investor A decides to invest in the product B of the Finacial Instituion C

Commitment	Climate action	Output	Outcome	Impact
Commitment taken by the financial institution	The specific initiative of the financier to achieve the commitment	The change arising from the financier's climate action that influences the investee.	The actual measurable change observed in the activities or decisions of the investee, as a result of the output.	The consequence of the outcome of a financier's climate action measuring the extent to which its action contributes to the climate goals
e.g. Reducing the carbon footprint of his portfolios	*e.g. Filing a shareholder resolution, divesting from high carbon sectors*	*e.g. A shareholder resolution on climate-related issues is passed at the Annual General Meeting ; WACC increases for the investee*	*e.g. A coal power plant is closed*	*e.g. The closing of the plant results in a X% drop in the company's GHG emissions*

Changes in the real economy are not sure

Source: 2DII, 2019 based ISO standard

All impact mechanisms don't have the same impact potential

Level of evidence of the effectiveness of the mechanisms of investor impact

Evidence level	Description
A Scientific consensus	Systematic reviews of the empirical evidence document a scientific consensus on effectiveness of the mechanism.
B Empirical evidence	Empirical studies show that the mechanism has been effective in specific settings. Yet, it remains unclear how far these findings can be generalized.
C Model-based prediction	Economic models predict that the mechanism should be effective under certain assumptions.
D Narrative	There are narratives that rationalize why the mechanism could be effective.

The highest the level of evidence is

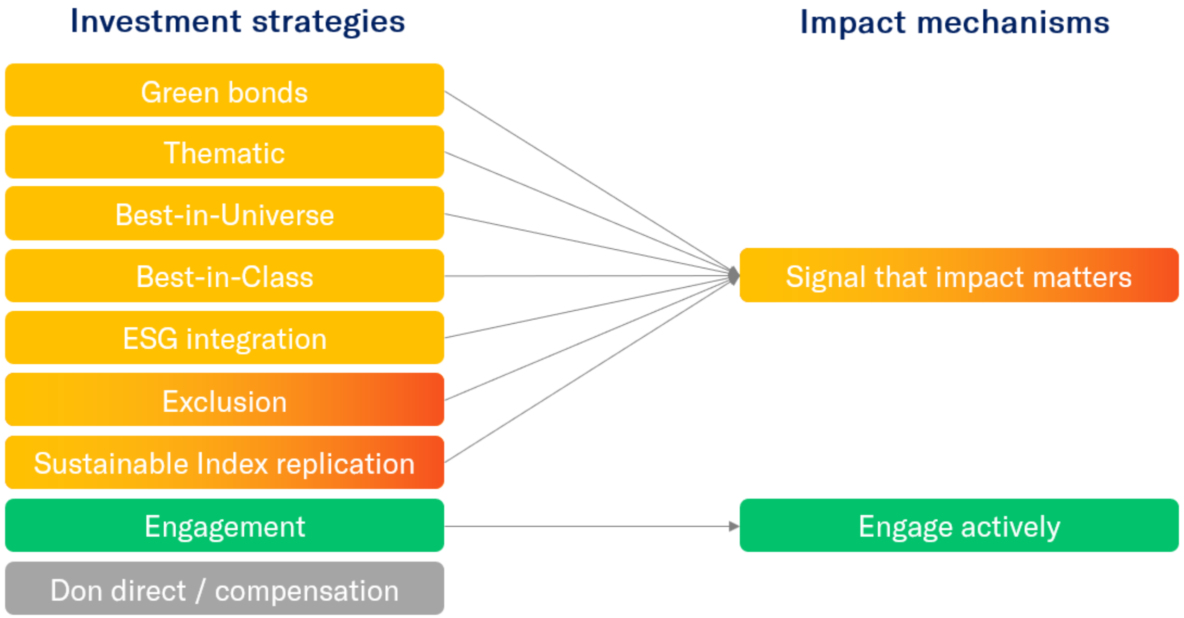
=

The highest the impact potential is

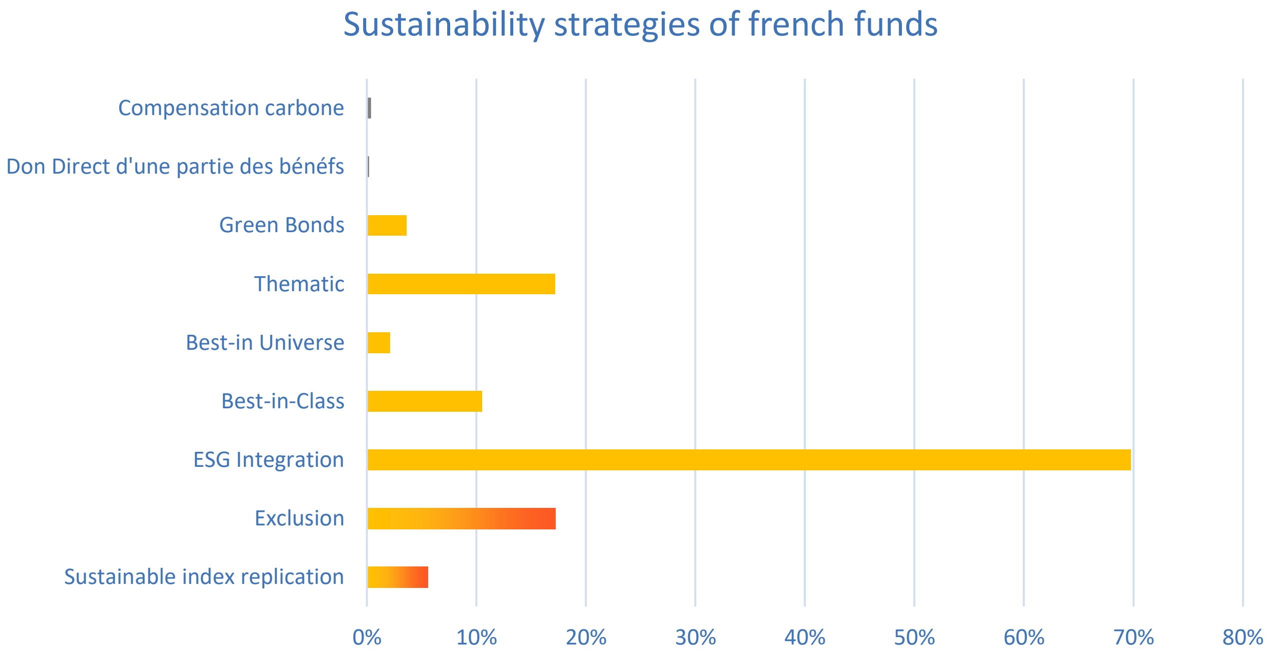
Source: 2DII, 2019 based on Kölbel et al., 2018)

Most used investment strategies generaly have limited impact potential

Level of evidence grid applied to investment strategies



And the strategies used by Retail Funds in France



Source: 2DII (Internal – report to be published)

While 30% percent of retail investors say that impact maters

Survey results (4,000, France, Germany 2019, 2Dii/Splendid)

ENVIRONMENTAL IMPACT OF THE INVEST. STRATEGY	SYMBOLIC ACTIONS TO DO NO HARM	OPTIMIZE RETURNS VIA ESG	NO INTEREST IN ESG

2/3 have sustainability objectives

For 30% the impact of the product matters

The amount of products that can answer impact expectations is limited

Survey results (4,000, France, Germany 2019, 2Dii/Splendid)

ENVIRONMENTAL IMPACT OF THE INVEST. STRATEGY	SYMBOLIC ACTIONS TO DO NO HARM	OPTIMIZE RETURNS VIA ESG	NO INTEREST IN ESG

Specific impact products and products with strong engagement approach	Thematic funds, exclusion and norm-based screening, best-in-class etc.	ESG integration focus on financially material issues	Standard investment

What do we need for retail investors to have impact?

1. Raising awareness
2. Highlighting impact potential
3. Facilitating access to impactful products

Highlighting impact potential of financial products is challenging

The definition of impact finance by the French financial place (Source: Finance For Tomorrow)

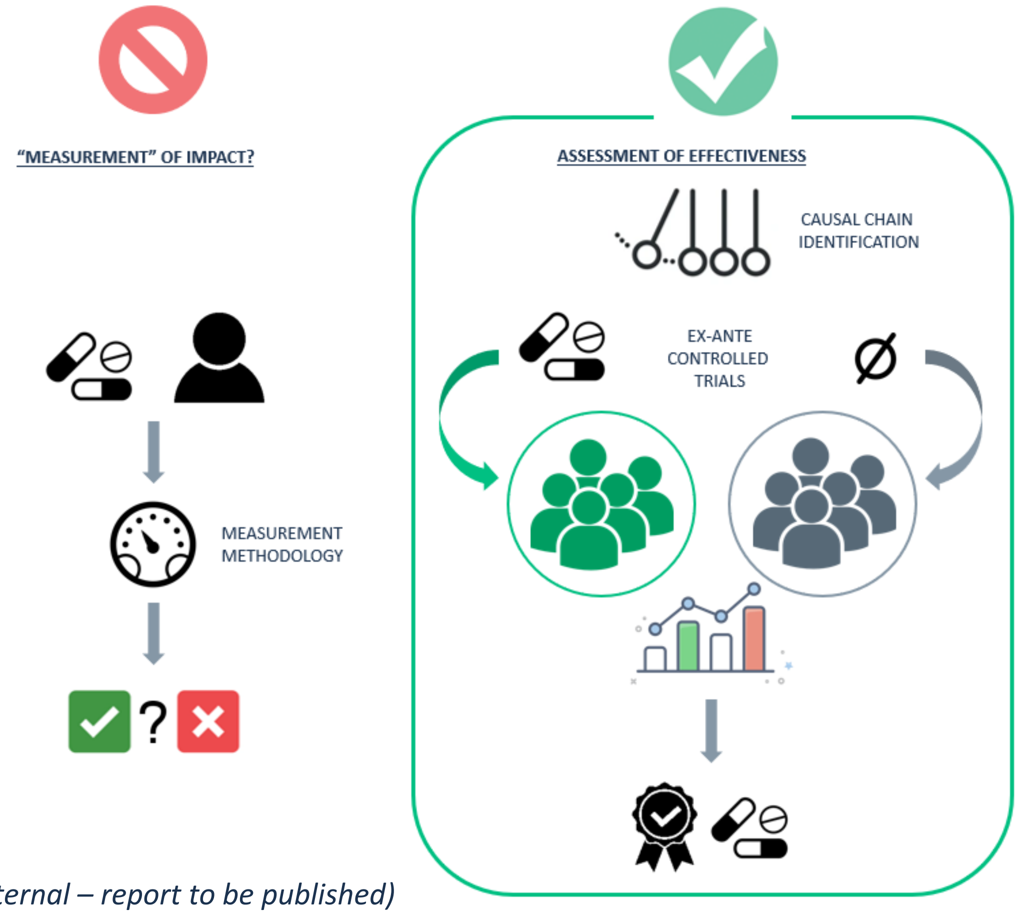
"Impact finance is an investment or funding strategy that aims to accelerate the just and sustainable transformation of the real economy by providing proof of its positive effects. It relies on three pillars:

1. Intentionality
2. Additionality
3. Measure

Those three pillars can't always been assessed

We need to shift from measurement to effectiveness assessment

The example of medical studies: Assessing the effectiveness of a medication via controlled trial rather than measuring its impact



What we can do is:

Ex ante: maximising investors impact potential

Post ante: monitoring companies impact

Source: 2DII (Internal – report to be published)

Example of the impact potential grid developped by the French place

Formalization of the Theory of Change

- How are the goals of the product described?
- How are the goals of the product justified?
- How are the actions deployed by the product manager to reach the goals described, and what are the expected causal chains?
- What sources have been used to formalize the ToC?
- Etc.

Pratical implementation

- Is the implementation of the actions in line with the Theory of Change?
- What are the ressources deployed to implement the actions ?
- How are the actions tracked and reported on?
- Etc.

Communication

Monitoring of results

- What procedure is put in place to track the results of the actions?
- How coherent with the ToC are the tracking indicators?
- How does the FI estimate its role (i.e., additionality) in the results observed?
- Etc.

Source: 2DII (Internal – report to be published)