Source of Capital

Public Institutional Investors and Asset Managers

Type Of Entity	Sovereign Wealth Funds, Pension Funds, Public Sector Pension Companies and Funds (in lieu of pension funds)
Investment Stage	Depends on strategy; Typically, late
Impact	Driven by clients' requirements, e.g., ESG and investment time horizon.
Instrument	Invest through mutual funds, tradable securities (stocks and bonds), smaller portion in PE funds
Supplier Of Concessional Capital	Yes **NO**

Description

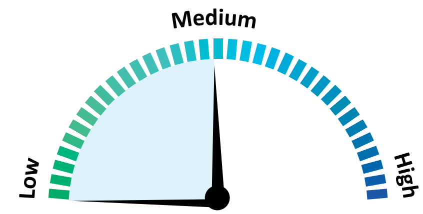
Public institutional investors and asset managers include public organization and funds that pool resources and invest on behalf of others in a variety of assets and instruments (e.g., mutual funds, securities, and PE funds).

These include sovereign wealth funds, pension funds, and public sector pension companies and funds. A sovereign wealth fund (SWF) is a government investment fund managing resources from the country's surplus reserves. Typically, these surplus reserves come from revenues from state-owned natural resources, trade surpluses, foreign currency operations, privatizations, budgetary savings, and governmental transfers. SWFs are relatively flexible sources of funds – depending on their country-specific purpose and policies – with the ability to provide long-term investment either directly into projects or through fund managers. When investing with climate considerations in mind, most prefer to do so through private equity, real assets, listed equities, and fixed income. SWF investments in climate change related sectors totaled US$3.3 billion in the first three quarters of 2021, up from the US$2.3 billion reported in all of 2020.[1]

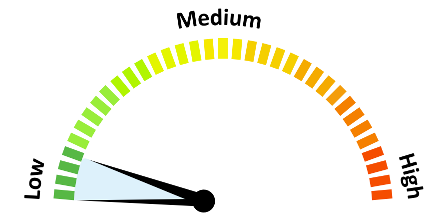
Public institutional investors typically look for lower-risk investments with a large ticket size in the tens to hundreds of millions of dollars.

In general, they are less likely to make direct investments into a project, preferring instead to invest into funds with a proven track record. They also rely heavily on existing relationships with trusted fund managers for any investments. Mobilizing institutional investment is an enormous opportunity, but it faces constraints around asset allocation requirements, size of deals, and liquidity. Institutional investors set specific target allocations across each type of asset, and the allocation for developing countries tends to be low (10-20% is common). Institutional investors typically must make very large investments, of which there is a limited pipeline in developing countries. To date institutional investors have played a limited role as sources of funding to projects in developing economies.

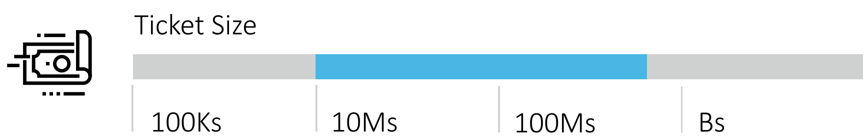
1 IFSWF and OPSWF, 2021. In Full Flow: Sovereign wealth funds mainstream climate change.
https://www.ifswf.org/sites/default/files/IFSWF_InFullFlow.pdf



Relative Return Requirement



Relative Risk Appetite



Recommended Actions By Key Source Of Capital

Some suggestions for what Public Institutional Investors can do more of to enhance Just Financing outcomes include:

- Ensure that all investment is aligned with the Country's NDC commitments and Just Financing Principles.
- Ensure deployed integrate climate-related risks assessments, and that investments reflect (in their financial structure) incentives for low-carbon, climate resilient investment that align with the Country's NDC commitments.
- Increase their target allocation for low-carbon, climate resilient infrastructure, which can then support allocation of a larger proportion of their investments to climate-transition, such as energy, transport or water.
- Coordinate with the government on country climate strategies to advance pipelines of investable projects and foster an investment environment that supports climate-related investment (e.g., including through legal and regulatory changes).