IFSWF
International Forum of Sovereign Wealth Funds

ONE PLANET
SWF NETWORK

# Powering Change: Building Resilience in a Transforming Climate

# Introduction

Approximately 20 sovereign wealth funds joined the COP28 climate summit at the Dubai Expo City in December 2023. As far as we're aware, this was the largest cohort of sovereign wealth funds to attend the meeting, highlighting the importance that this issue has gained in this community.

At COP, sovereign wealth funds discussed how they could be involved in financing the energy transition, looking at funding models for resilient infrastructure, renewable energy and other climate solutions, including water management, sustainable agriculture and green hydrogen. Top of the agenda for many sovereign wealth funds was the need for a just transition, particularly in emerging economies. Governments and investors are beginning to understand that the energy transition is a process, not a switch. For some emerging markets, decarbonising their economies will require using lower-carbon fossil fuels, such as natural gas, which can substantially reduce the carbon emissions of existing power infrastructure. However, consistent, supportive and actionable national policy will need to be in place to attract sovereign wealth funds to invest in the transition in emerging regions such as Africa and South East Asia. Their investment will also require partnerships to develop not only between sovereign wealth funds with a mandate to develop their own economies and their peers that invest for long-term savings but also between these institutions and private investors. Increasingly, sovereign wealth funds are recognising their ability to provide access to differentiated deal flow, de-risk investments through government links, on-the-ground knowledge, the ability to develop innovative financing solutions and access to expertise. However, as for-profit investors, they need to work out how to bring the most value so they can attract the most private capital, including domestic investors.

The results of the fourth climate change survey by the International Forum of Sovereign Wealth Funds (IFSWF) and the One Planet Sovereign Wealth Fund network (OPSWF) support our mutual experience at COP28: that sovereign wealth funds are becoming more experienced in making their portfolios more resilient to climate change by using a variety of monitoring and risk management tools, as well as looking at a range of opportunities in both developed and emerging markets. As a result, sovereign wealth funds are being more transparent about their climate change policies and becoming more confident in pursuing them.

# About the Survey

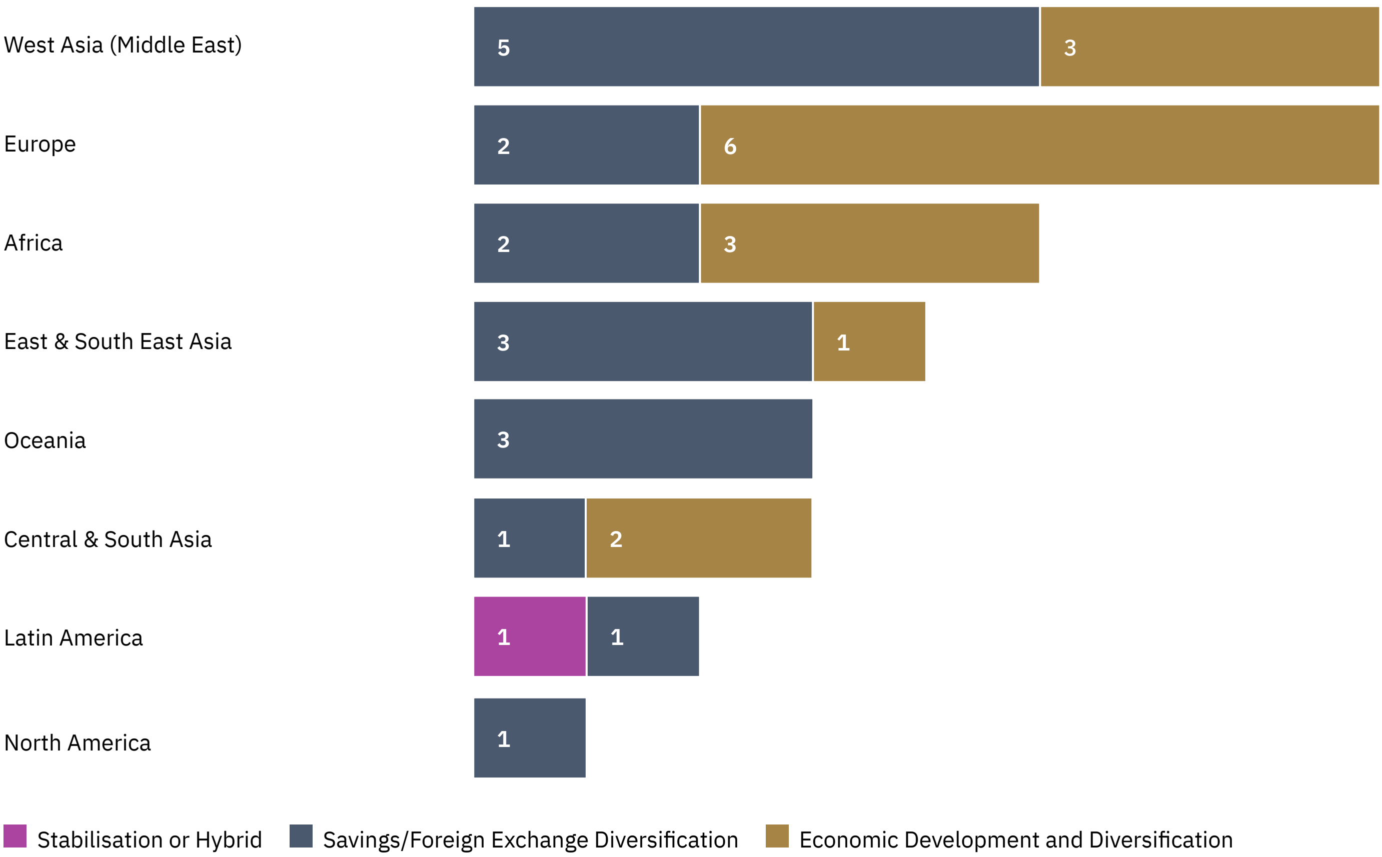
For this project, we distributed a survey to 48 sovereign wealth funds, primarily members of IFSWF and OPSWF. Thirty-four institutions (71%) responded. These responses represent the views of 40% of the world's 95 sovereign wealth funds.

While the survey was anonymous, the distribution list included all the world's largest sovereign wealth funds with total assets under management of approximately $7 trillion, over 90% of the total, according to IFSWF's database.

Readers should also note that we distributed the survey to the same populations of sovereign wealth funds (IFSWF members and OPSWF members) and received one fewer response (34) than in 2022 but the same number of responses as in 2020 and 2021. For clarity and comparability, we have calculated most percentages against the total number of respondents by year. Therefore, we believe that the results are reliably comparable year-to-year.

As shown in the chart below, respondent institutions broadly represented the total distribution of sovereign wealth funds (by geography and mandate).

**Figure 1: Overview of Respondents**




*Source: IFSWF-OPSWF Climate Change Survey 2023*

We kept the questions as consistent as possible with last year to maintain comparability across the years. In some cases where respondents could select multiple options, we added options to keep the questions relevant. Again, we added two more questions to better reflect the current, fast-changing situation. This year's survey had 20 questions.

As in previous years, to have a holistic view of how sovereign wealth funds approach climate change and avoid bias in the results, we encouraged funds that do not consider the issue to complete the survey. However, we only asked them to complete the first part of the questionnaire, as the remaining questions were irrelevant to them. Their inclusion in the dataset enables us to understand how the sovereign wealth fund community has embraced climate-related issues.

As with all primary research, some methodologies used in questionnaires are not perfect and might result in collecting some biased answers. For instance, Likert scales are subject to distortion from several causes: Avoidance of using extreme response categories (central tendency bias); Agreeing with statements as presented (acquiescence bias); Attempt to portray the respondent's organisation in a more favourable light (social desirability bias). Please note that the values don't add up to 100% in some charts due to rounding.

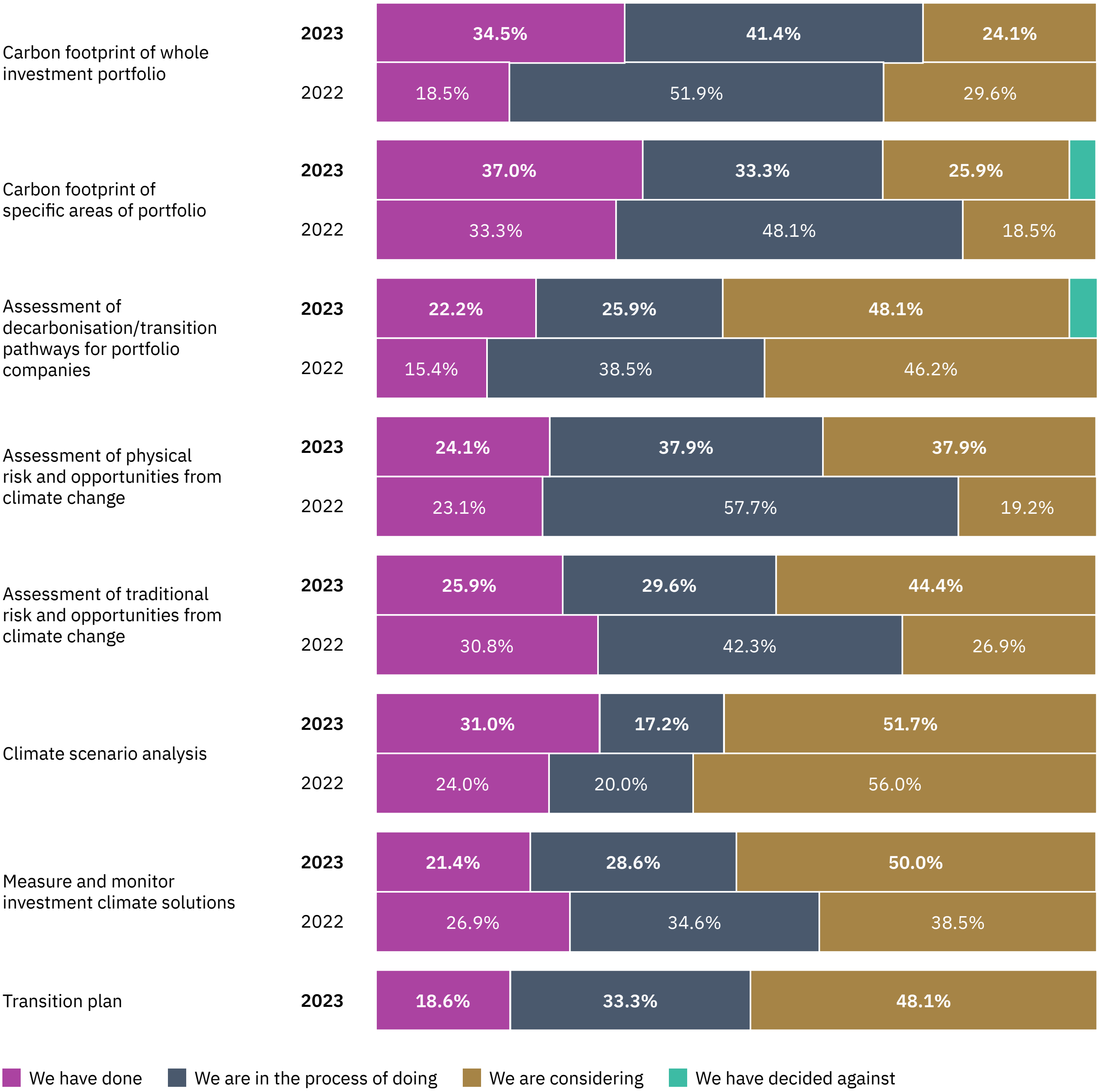
# Constructing Portfolios for Climate Resilience

2023 was the fourth year IFSWF and OPSWF have surveyed their members on their attitudes to incorporating climate change into their investment process. Initially, we were interested in understanding their investment beliefs. Having established that most sovereign wealth fund respondents believed climate change would have a material impact on their portfolios, in 2022, we focused on the actions they were taking to implement these policies.

This conclusion is borne out in this year's data. When asked whether they believed that addressing the effects of climate change was consistent with their investment mandate, only three respondents said no. Similarly, when asked about their motivation for considering climate change in their investment decisions, 68% of respondents stated that it would improve long-term returns (up from 60% in 2022), and 62% of respondents said that it was to reduce risk (up from 60% the previous year). We also observed that the number of respondents with a specific mandate to address climate change had increased from 14% in 2022 to 29% in 2023, and the number of respondents that didn't consider climate change had declined from seven to two.

Since 2020, the survey results have revealed sovereign wealth funds' rapid progress in making their portfolios more resilient to the impact of climate change by measuring and monitoring their climate impact and looking to mitigate it. Following rapid progress from 2020 to 2021, in 2022, we saw a period of consolidation as sovereign wealth funds worked out which tools and targets best suited their unique circumstances. In 2023, however, we saw another surge in sovereign wealth funds adopting climate change analytical tools, showing how government investors were taking action and materially changing their processes, policies and portfolios.

**Figure 2: Have you assessed or are in the process of assessing the climate-related risks and opportunities in your portfolio? Select all that apply.**



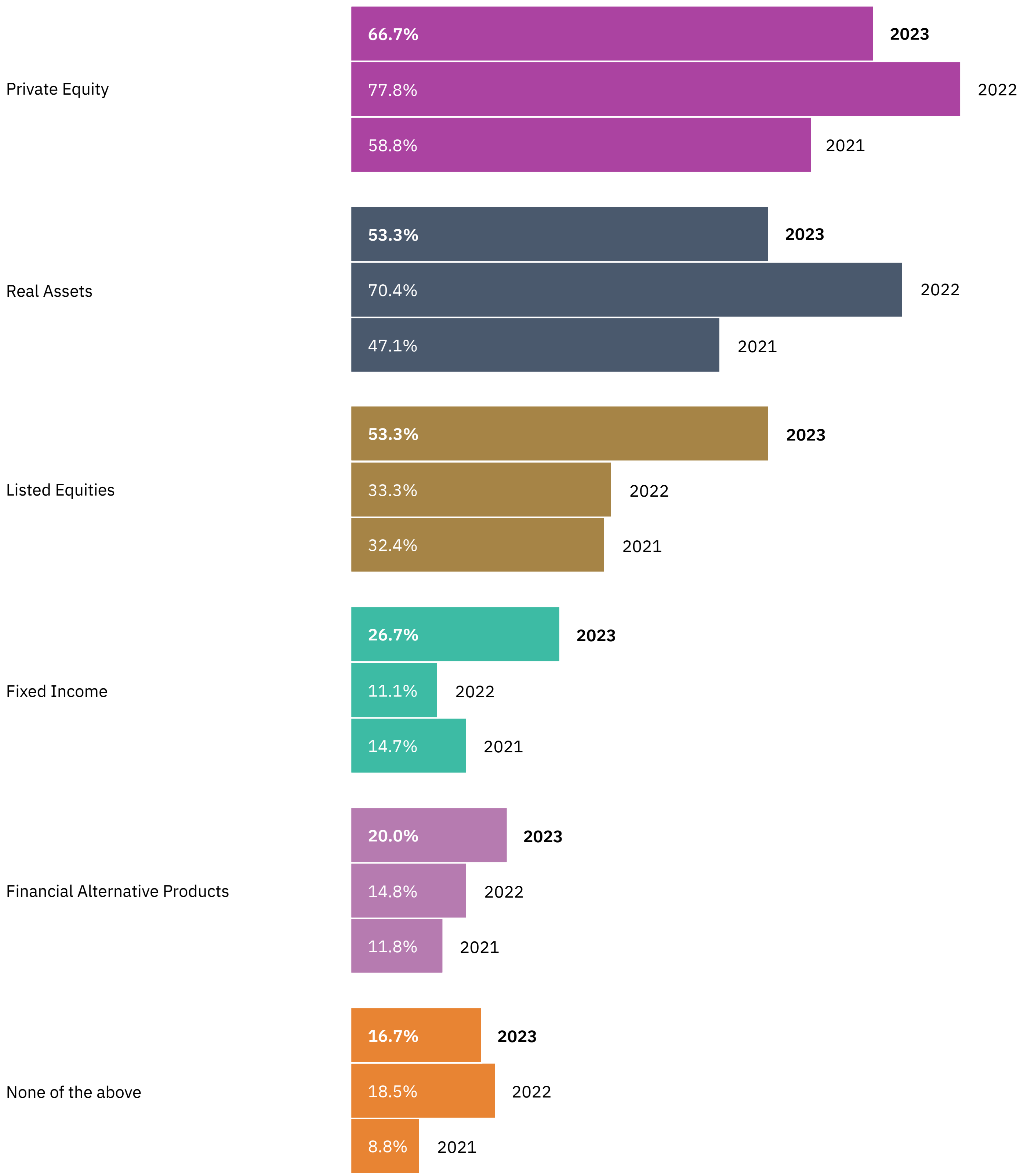

*Source: IFSWF-OPSWF Climate Change Surveys 2022 and 2023*

For example, the proportion of respondents that had completed the carbon footprint of their entire portfolio had almost doubled from 18.5% in 2022 to 34.5% in 2023. Indeed, as Figure 2 shows, sovereign wealth funds have increased their use of climate-related risk assessment tools across the board. We also noted evidence of sovereign wealth funds taking a considered approach to climate change and ensuring that the tools they use suit their circumstances. For example, unlike in 2022, one respondent revealed that their institution had decided against undertaking carbon footprinting of specific areas of the investment portfolio (likely because it had, or was considering, undertaking the exercise for the whole portfolio). One had also decided against assessing the transition pathways of its portfolio companies, perhaps because it did not hold substantial stakes. This response suggests that sovereign wealth funds are considering a range of these tools and making informed decisions about which are most appropriate for them rather than jumping on the bandwagon and using all available tools.

In 2023, we added the option of transition planning to this question, which has recently become an important tool, particularly since it has been endorsed by the Institutional Investors Group on Climate Change (IIGCC). While only 11% of respondents had a transition plan, a further third were in the process of doing so, and 48.1% were considering it.

We also noted sovereign wealth funds' increasing sophistication in climate finance. This is demonstrated by the asset classes in which they pursue portfolio construction for climate change purposes. Since 2020, respondents have focused their climate change efforts on private markets and real assets, with listed assets and financial alternatives lagging.
As we have mentioned in previous reports, sovereign wealth funds had tended to start with these types of assets because they were generally easier to assess – for example, a renewable energy project or climate technology company – or to influence, as sovereign wealth funds often have directors on the boards of their unlisted portfolio companies. In 2021, nearly 59% of respondents considered climate change in their private equity portfolio, only 32.4% in listed equities, and 14.7% in fixed income.

**Figure 3: In which asset classes do you pursue portfolio construction for climate change-related purposes?**




*Source: IFSWF-OPSWF Climate Change Surveys, 2021, 2022 and 2023*

In 2023, private equity is still the asset class that sovereign wealth funds prefer to select for their climate change strategy, with 66.7% of respondents doing so. However, more than half of respondents (53%) now select listed equities for climate-related themes, up from 33.3% in 2022. After a post-pandemic boost, renewable energy stocks had a torrid time in 2023 as they are more sensitive to interest rates than fossil fuel companies due to higher, longer-duration debt levels. As a result, surging interest rates increased borrowing costs, and investors took flight, tanking stock prices. However, now interest rates are stabilising, these lower valuations mean these stocks offer attractive entry points for sovereign wealth funds, enabling them to build a portfolio of listed infrastructure at competitive valuations quickly.

Our survey also suggests that sovereign wealth funds are beginning to consider allocating to green bonds. In February 2022, IFSWF surveyed its members on their opinions on these assets. At the time, only 20% of respondents allocated to green bonds, primarily in developed markets.[1] Almost two years later, when the IFSWF-OPSWF climate change survey for the first time asked how attractive these assets were, 35% of respondents rated them a four or five out of five (see Figure 4). At the same time, we can observe that the proportion of sovereign wealth funds selecting fixed income on climate-change grounds almost doubled to 26.7% from 2022. Although this appetite is not universal – 45% of respondents were neutral on this asset class – taken together, it seems that some sovereign wealth funds are actively engaging in the green bond market as issuance has increased, the market has become more liquid, and the transparency on impact is improving.

Our survey results also suggest that sovereign wealth funds are interested in different climate financing instruments and safeguards. The increasing severity and number of extreme weather events resulting from climate change have brought catastrophe insurance to the forefront of investors' minds, and issuance has also increased. Consequently, sovereign wealth funds are beginning to see catastrophe insurance as an attractive investment opportunity, particularly as it acts as a portfolio diversifier because it is negatively correlated to equity markets. According to our surveys, sovereign wealth funds' interest in these types of instruments has lagged behind other investment themes, with respondents ranking these as the least attractive in 2020, 2021 and 2022. While they might still be slightly niche, 2023's responses revealed a marked uptick in interest in these instruments, with 20% of respondents saying they were among the most attractive climate-related opportunities, rating them five out of five, with a further 35% rating them a four (see Figure 5). In 2022, only 6% of respondents rated these a five, and over half were neutral, rating them three out of five.

1 IFSWF Direct | Do SWFs invest in Green Bonds?

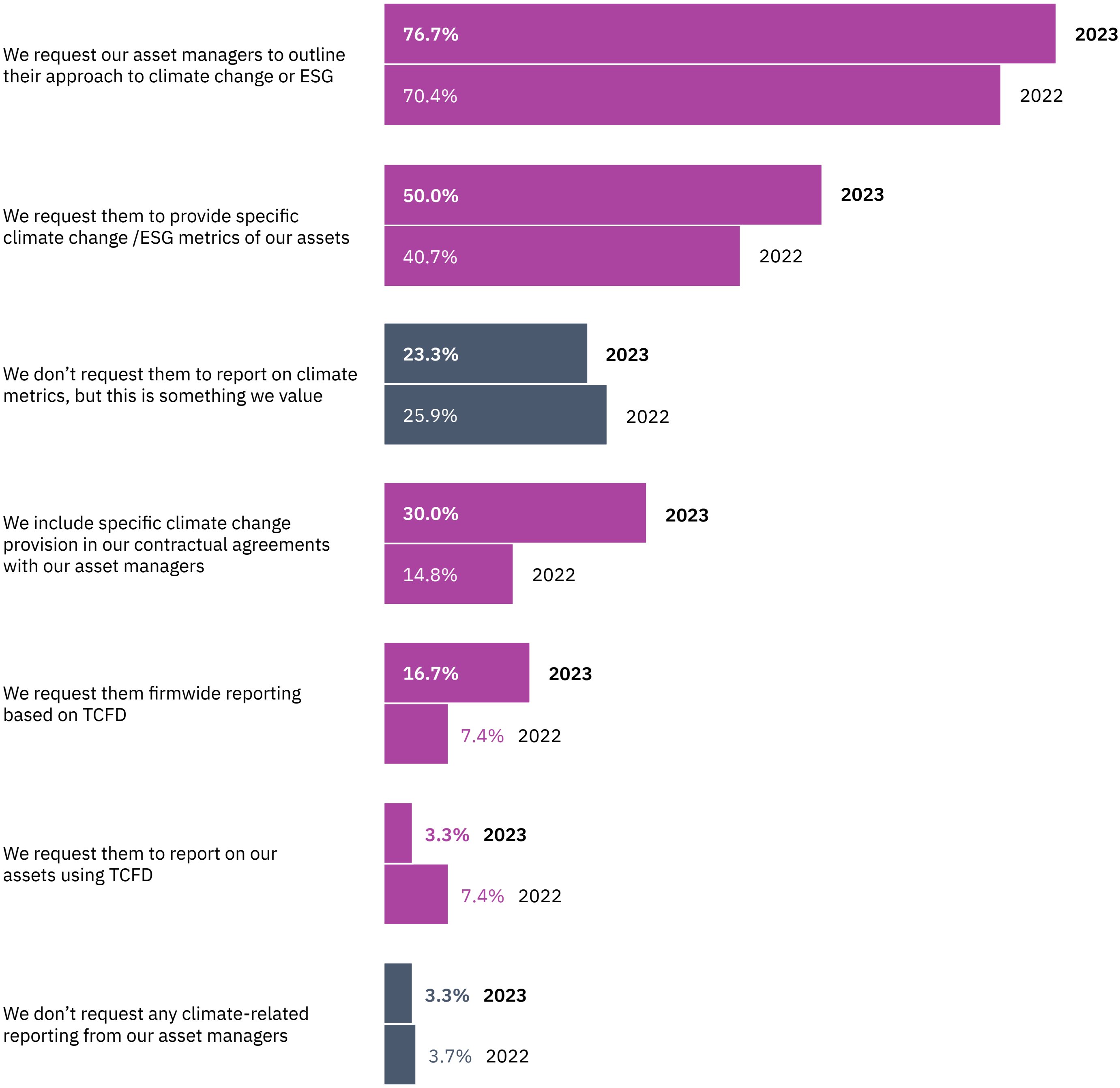
# Reporting and Transparency

As sovereign wealth funds become more experienced in climate investing and assessment, they are becoming more comfortable publicly reporting on their approaches.

While the proportion of sovereign wealth funds that issue a formal, separate climate-change or other form of sustainability report has remained the same, the 2023 survey reveals that more of them are describing their approach to climate change in their annual report (40%, up from 33.3% in 2022). More are describing their approach on their website (30%, up from 14.8%). All in all, the vast majority of sovereign wealth funds now provide some form of disclosure on their approach to climate. Similarly, the survey revealed that almost three-quarters of sovereign wealth funds apply the OPSWF Framework, follow the Task Force on Climate-Related Financial Disclosures (TCFD) guidance, or implement Global Reporting Initiative (GRI) guidelines.

Moreover, sovereign wealth funds continue to require more climate disclosure from their asset managers. In 2023, there was a slight rise in the number of respondents who required asset managers to outline their approach to climate change, bringing the proportion to 77%. Perhaps more meaningfully, there was an increase in the number of sovereign wealth funds that required asset managers to report specific climate change or ESG metrics on their assets from 40% in 2022 to 50%. Additionally, in 2023, the proportion of respondents that included specific climate change provisions in their contractual agreements with their asset managers doubled from 14.8% in 2022 to 30% in 2023. By so doing, sovereign wealth funds are playing their role in holding their asset managers accountable for their climate impact and making a contribution to protecting the industry against greenwashing.

**Figure 4: Do you request that your asset managers report to you on their climate change approach and performance?**




*Source: IFSWF-OPSWF Climate Change Surveys, 2022 and 2023*

# Broadening Opportunities

As sovereign wealth funds become more experienced in integrating climate change considerations into their investment process, we have also observed that they are looking at a wider range of investment opportunities.

Since 2020, our surveys have shown that sovereign wealth funds have focused on renewable energy as a climate investment theme. In 2023, however, the survey results suggested they are casting their nets wider and looking at more investment themes, sectors and opportunities. While renewable energy remains the most attractive climate-aligned investment theme in 2023, other sectors are also gaining traction. Notably, sovereign wealth funds have become more interested in water management solutions, with the proportion of respondents rating these as the most attractive more than doubling from 2022 to 2023 to 40%. Again, sovereign wealth funds' greater interest in this sector suggests that they have developed a more nuanced understanding of the impact of climate change and understand that alleviating water stress is vital in many parts of the world where the impact of climate change is most significant.

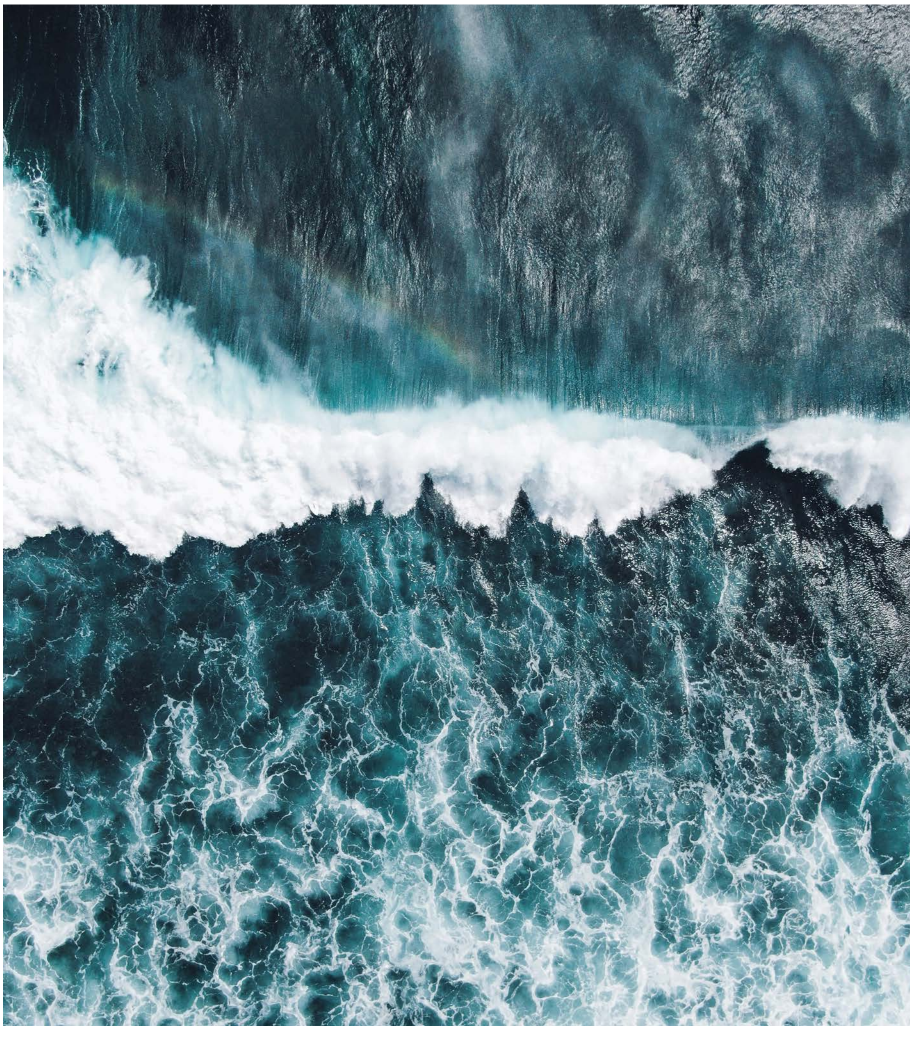
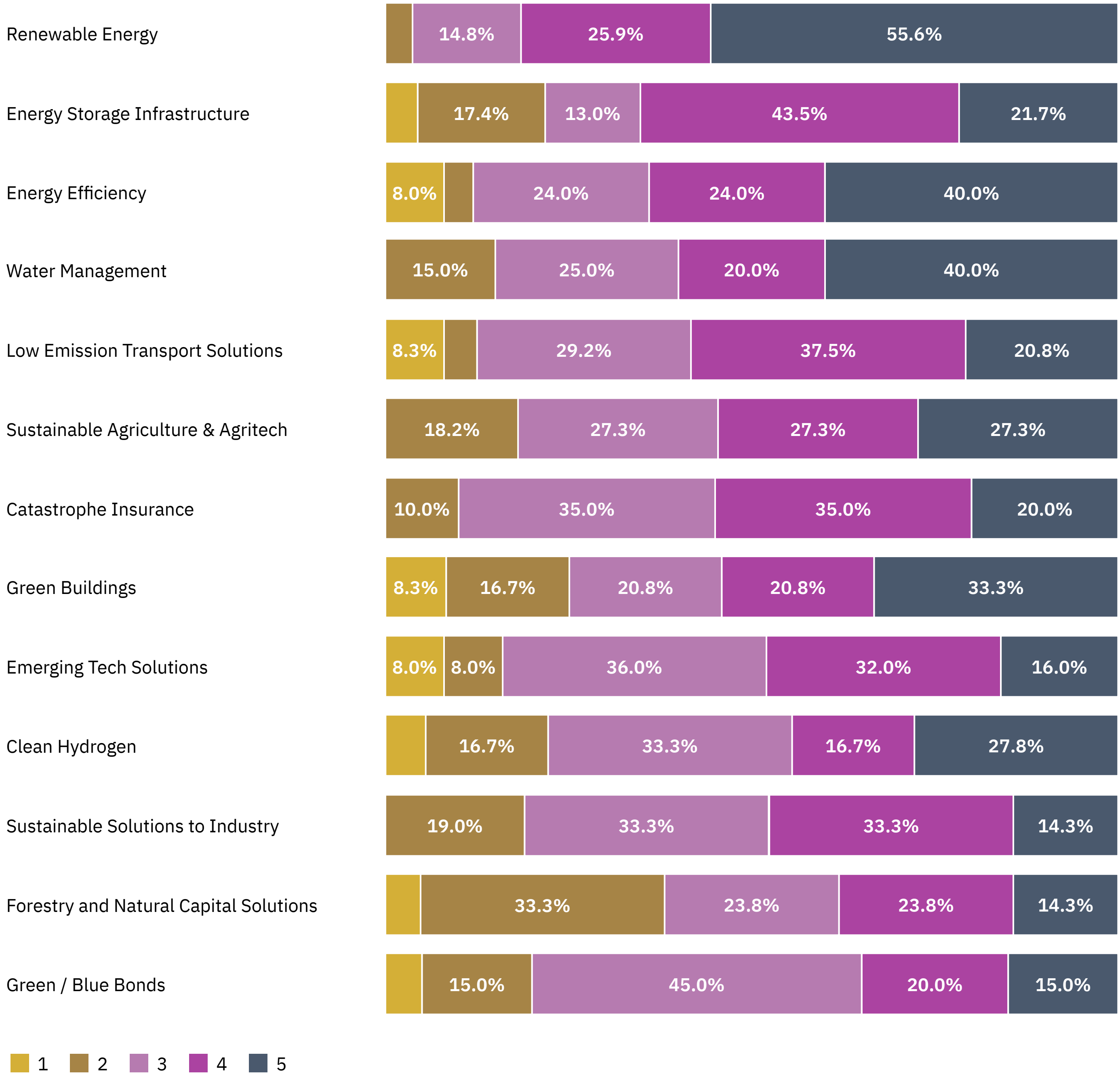


**Figure 5: In which climate-change-related themes do you see the best financial investment opportunities? Please rate 1 to 5, where 5 is the most attractive.**



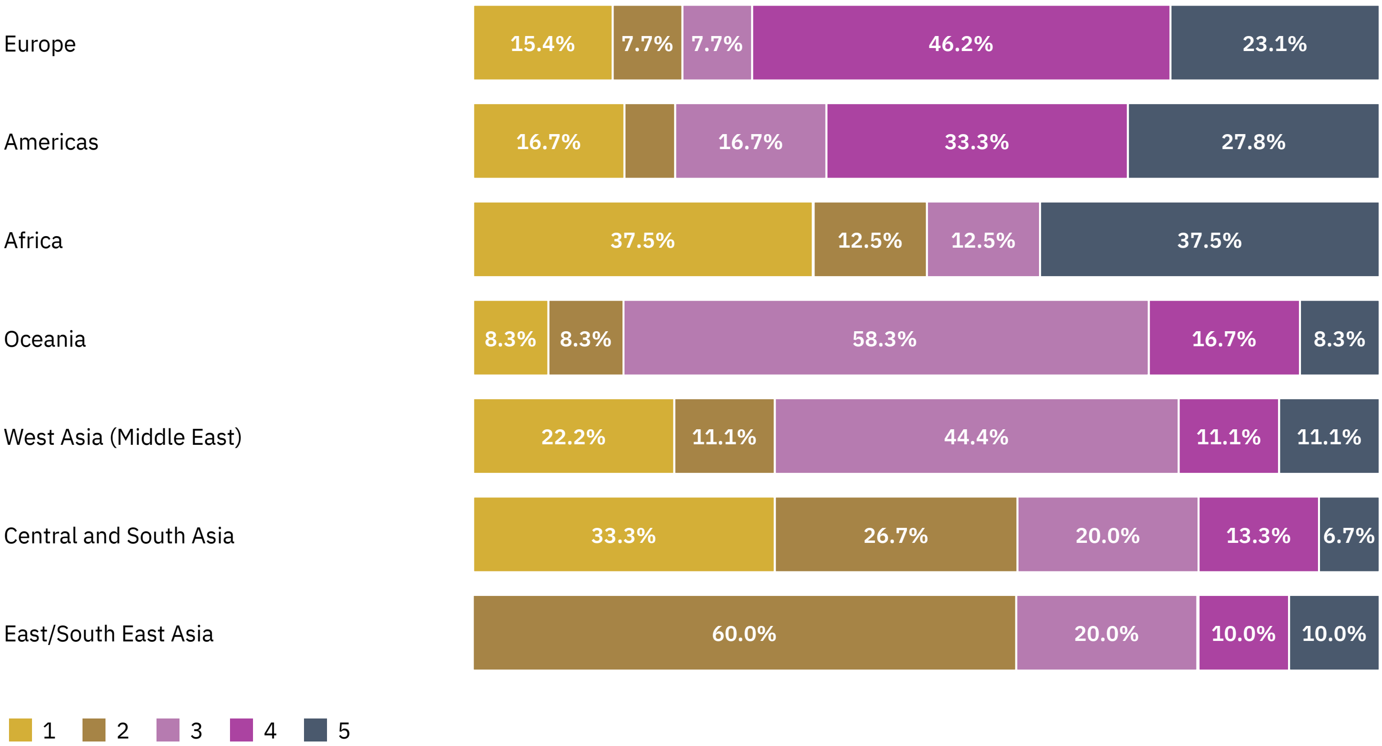

*Source: IFSWF-OPSWF Climate Change Survey 2023*

We also observe this trend reflected in the wider range of geographies in which sovereign wealth funds are interested in allocating to climate change solutions. In answering this question, we noted a substantial home bias, either favouring their home region (Africa and Latin America) or against their home region (developed markets and South East Asia). Once we stripped out the home bias, we noticed that sovereign wealth funds still favour the developed markets of Europe and the United States, which broadly have supportive government policies and large, mature markets. That said, the US has become markedly less attractive to sovereign wealth funds, with less than 30% of respondents ranking it the most attractive region for climate-change investment opportunities. Although there is recognition that the Inflation Reduction Act (IRA) is a "game changer" in catalysing new technologies to support the energy transition,[2] some sovereign wealth funds have concerns over inflated valuations resulting from the wall of government financing from the IRA. Moreover, there are increasing regulatory hurdles when they look to invest in the US green-tech and infrastructure spaces, making the US a more challenging investment destination for those sovereign wealth funds that invest directly. However, those that invest through local partners have reported a strong deal pipeline, although they are less keen to publicise their involvement in deals, due to the politicisation of the ESG debate in the US.

Sovereign wealth funds are also more interested in emerging markets. This theme was reflected in the discussions both IFSWF and OPSWF held with their sovereign wealth fund members at the COP28 climate summit in December 2023.

2 Finding Alpha in the new investment order, Keynote address by Dr Raphael Arndt, Chief Executive Officer of the Future Fund at the Australian Financial Review's Alpha Live Conference, Sydney, New South Wales

**Figure 6: Which markets do you think have the most attractive financial investment opportunities relating to climate change solutions? Please rate 1 to 5, where 5 is the most attractive. (Home bias removed)**




*Source: IFSWF-OPSWF Climate Change Survey 2023*

Respondents' attitudes to Africa are particularly interesting. Even removing the home bias, the proportion of respondents rating the region as the most attractive more than doubled in 2023 to 37.5% from 18.2% in 2022. However, respondents are polarised on the continent, with the same proportion of sovereign wealth funds rating the region as the least attractive. IFSWF's direct investment data does not bear this interest out, suggesting that sovereign wealth funds have not yet increased their investment in the region. We believe this lag is due to the fact that while some sovereign wealth funds have identified the opportunity to invest in climate solutions in Africa, it is challenging for those new to the continent. They are faced with an unfamiliar and complex network of jurisdictions and stakeholders, and there is a need for novel financing solutions like blended finance that they need to understand. For example, many will not have worked with development finance institutions, key players for investing on the continent, and will not have worked with concessional financing before.

Another barrier to investing in Africa is the need for a pipeline of scalable investment opportunities on the continent, particularly in the infrastructure space. As a result, Africa is still a "work in progress" for the sovereign wealth funds that have identified it as a geography to which they want exposure and over time, the investment will come. Indeed, the foreign direct investment data suggests that sovereign wealth funds will accompany a wide range of investors: according to the United Nations Conference on Trade and Development (UNCTAD), announced investment flows into African greenfield projects in energy and gas supply had increased to $120 billion in 2022 from $24 billion in 2021.[3]

However, some sovereign wealth funds are beginning to make inroads. On 26 February 2024, the Qatar Investment Authority and Enel Green Power announced a new phase to their 2021 joint venture partnership to finance, build, and operate renewable projects in Sub-Saharan Africa. QIA initially acquired 50% of Enel Green Power's stake in 730MW of renewable energy projects that were either already operational or under construction in South Africa and Zambia.[4] In this new phase, the partnership signed three long-term power purchase agreements to supply Air Liquide Large Industries South Africa and Sasol South Africa with 330MW of renewable energy generated by three joint venture-owned wind projects located in South Africa's Eastern Cape, which are due to be operational by 2026.[5]

For Africa's sovereign wealth funds, climate change has emerged as a critical theme, as demonstrated by the case study by the Nigeria Sovereign Investment Authority (see page 18). They have identified the pressing need for a just transition in their region, in which natural gas will play a key role as a transition fuel to decarbonise existing energy infrastructure. The growing interest in climate solutions in Africa and the rise in investment are promising. However, as Africa's sovereign wealth funds themselves noted at the 2023 African Sovereign Investment Forum (ASIF), there continue to be challenges for foreign direct investors to put their money to work, specifically a shortage of skills on the continent, particularly in fields such as project preparation, capital markets are still underdeveloped for raising financing, and there is a need for more local, private investment in major renewable energy projects.[6]

3 Investment flows to Africa dropped to $45 billion in 2022 | UNCTAD
4 Enel and Qatar Investment Authority join forces to develop renewables in Sub-Saharan Africa
5 QIA and Enel Green Power announce large-scale renewable energy project in South Africa
6 IFSWF Direct | How Africa's SWFs can Drive the region's development

Sovereign wealth funds considered East and South East Asia the least attractive region for climate-related investments. In this view, sovereign wealth funds appear to reflect that of the broader investment community. The region faces significant headwinds in kickstarting the energy transition. According to the International Monetary Fund (IMF), the Asia-Pacific region faces a shortfall of at least $800 billion in climate financing.[7] The major challenge for investors starts with the national transition planning policy. The IMF notes fundamental gaps in data, disclosures, and taxonomies. These are exacerbated by inconsistent national climate policies,[8] which often continue to promote fossil fuel subsidies and rely on coal for energy to promote just and equitable growth.[9] While four of the ten South East Asian countries have published long-term policy strategy documents, most still lack actionable implementation details. Supportive and actionable policy plans are essential to making the region less risky for investors looking at climate solutions. Without such an approach, even a fast-growing region that contributed about two-thirds of global economic growth in 2022[10] lags behind others for climate investment despite the abundant technical potential to scale renewable energy: energy consumption in South East Asia is predicted to grow by over 40% between 2020 and 2030.[11]

7 Explainer: How Asia Can Unlock $800 Billion of Climate Financing

8 Explainer: How Asia Can Unlock $800 Billion of Climate Financing

9 Southeast Asia's Green Economy 2023 Report | Bain & Company

10 Asia Continues to Fuel Global Growth, but Economic Momentum is Slowing

11 Southeast Asia's Green Economy 2023 Report | Bain & Company

# The Nigeria Sovereign Investment Authority's Approach to Climate Change

Tackling climate change is core to the implicit objectives of the Nigerian Sovereign Investment Authority (NSIA), as its mandate is to be the custodian of economic resources for the next generation of Nigerians.

To achieve this objective, the NSIA has developed and implemented a three-fold climate change strategy that first addresses climate change at an institutional level and embeds environmental, social and governance (ESG) practices in our processes, operations and subsidiaries. Secondly, the strategy advances climate solutions and projects (mitigation and adaptation) that help to lower Nigeria's carbon footprint and deliver social and commercial returns. Finally, NSIA's strategy is to build partnerships with other institutions to support Nigeria's overall goal of achieving net-zero emissions by 2060 and global climate goals.

**NSIA's approach to addressing climate and ESG issues is anchored on 3 pillars:**

**1. Institution**
NSIA proactively identifies and mitigates ESG risks in its processes and portfolio, maintains world-class standards in corporate governance and implements operational practices that supports its people and the environment.


**2. Investments**
NSIA develops and prioritises climate-aligned and climate-resilient projects and investment opportunities that generate social impact and environmental returns alongside commercial returns.

**3. Partnerships**
NSIA forges strategic partnerships with ESG-focused organisations/associations and closely works with the Federal Government of Nigeria to support in the achievement of national and global climate goals.

### 1. Institution

From an institutional standpoint, the NSIA advances the management of ESG risks in its operations and investment portfolio and the integration of climate and impact considerations into its core processes and through a robust ESG Management System. This comprehensive approach ensures that our operations and investments are environmentally responsible and generate significant development impact across the board. The NSIA continuously evaluates and improves internal practices, policies, and frameworks to ensure continuous value creation and alignment to national and global climate and development goals and maintain strong governance in line with international best practices. The NSIA is currently conducting a comprehensive carbon footprint assessment to gain insights into the environmental impact of its operations and current portfolio and craft a strategic pathway to decarbonising as part of our journey to net zero.

### 2. Investments

Beyond our institutional ESG readiness as an investment fund, NSIA has conceptualised, developed, and implemented a number of pioneering and transformative initiatives within the climate space that deliver social and environmental returns alongside commercial returns. We prioritise climate-aligned and climate-resilient investments and have invested in several renewable energy, carbon reduction and climate finance initiatives, which include the following:

- Carbon Vista is a $50 million joint venture between NSIA and the oil company Vitol to develop and invest in carbon emission reduction and avoidance projects in Nigeria, including clean cooking projects, reforestation projects, and biodiversity projects. The goal is to generate high-integrity carbon credits that can be validated and monetised.

- Green Guarantee Company (in collaboration with the Green Climate Fund, the UK Foreign Commonwealth & Development Office, and USAID) is a company set up to mobilise private and institutional capital into climate mitigation and adaptation projects in Nigeria and other developing countries by providing long-term guarantees to credit enhance debt instruments issued by project developers in developing countries.

- NSIA Renewable Investment Platform for Limitless Energy is an integrated energy generation and distribution franchise platform that will develop, finance, and operate projects along the renewable energy vertical in Nigeria, such as green energy tech manufacturing, midstream generation, and downstream distribution. This platform was created on the back of the successful 10MW Kano solar project that we developed and was commissioned by the then President in 2023.

- Construction Finance Warehouse Facility (in collaboration with InfraCredit) – a facility that provides construction finance to greenfield climate-aligned projects, with downside protection, to be refinanced by an InfraCredit-guaranteed bond post commencement of operations.

NSIA's ESG investment strategy entails a combination of ESG integration, negative screening, and impact investing. Before conducting preliminary ESG evaluation, all prospective infrastructure projects, fund managers or private-equity firms that are being considered for investment are first screened against the NSIA's Exclusion List; only those not operating in the excluded sectors are further appraised through a detailed ESG Due Diligence which is integrated into NSIA's overall investment appraisal process.

### 3. Partnerships

Our climate objectives go beyond seeking profitable investments incorporating climate solutions. The NSIA also collaborates with strategic partners to drive ESG integration, bolster our capacity, enhance our impact and accelerate climate action. Such partnerships are also critical to unlock climate financing at scale. For example, the NSIA signed an MoU with the National Council on Climate Change, Nigeria's climate regulator, to support the development of Nigeria's climate change and carbon market frameworks and create an enabling environment that mobilises private and institutional capital for climate investments in Nigeria. NSIA also works closely with Nigeria's Energy Transition Office and supports initiatives, such as the Africa Carbon Market Initiative, to develop a national and continental carbon market, thus creating efficient carbon trading systems and promoting sustainable investments by incentivising projects that reduce carbon emissions.

In 2021, we became a member of the One Planet Sovereign Wealth Fund Initiative (OPSWF), a coalition of SWFs committed to low-emission development strategies and integrating climate risks into the management of their assets. NSIA also leverages its membership in the Africa Sovereign Investors Forum (ASIF) to identify and unlock sustainable investment opportunities and mobilise climate capital for the benefit of the continent.

We believe our institutional initiatives, green investments, and strategic partnerships will contribute to building a climate-resilient society and supporting Nigeria in meeting its energy transition commitments. It remains imperative for NSIA to lead the way in mitigating climate-related risks and promoting sustainable investment practices in Nigeria.

# Meeting the Challenges

## Each year since 2020, we have asked sovereign wealth funds to identify the biggest obstacles to integrating climate change considerations into their investment process.

Every year, the availability of reliable data has been the most pressing challenge; 2023 was no different, with approximately three-quarters of respondents saying this was the most pressing challenge. Their lack of confidence in the data is one driver behind sovereign wealth funds asking for more transparency from their asset managers and why OPSWF is focusing on this topic as a workstream.

Despite data challenges, the proportion of respondents reporting that they had not experienced any significant obstacles has increased slightly. That said, challenges relating to appropriate investment opportunities, mandate and institutional buy-in have largely remained consistent over the years. Challenges around recruiting talent and finding investment opportunities remain the second and third most significant challenges facing sovereign wealth funds looking at climate opportunities.

Given the nature of the debate in the United States about incorporating environmental, social and governance issues (ESG) into public investor portfolios in 2023, we asked our respondents whether this debate had affected their climate integration process. Only one respondent told us that this had been the case, suggesting that sovereign wealth funds are continuing to integrate climate change metrics into their investment process regardless of the debate in the US. However, this debate and the accompanying accusations of greenwashing may well contribute to the US becoming a less attractive investment destination for sovereign wealth funds.

The survey was administered before the COP28 meetings. In light of the discussions at the summit, it is clear that sovereign wealth funds are finding the diversity and prescriptiveness of many local and international climate finance frameworks challenging. Sovereign wealth funds, particularly those investing in climate-change solutions in emerging economies and those looking to attract capital into their home economies, regularly mentioned that investor-specific climate frameworks should be flexible to the local context, recognising a fair share of the available global carbon budget and the associated trajectory for emissions reductions. By being more flexible, sovereign wealth funds would, therefore, be able to take the lead in crowding capital into the emerging markets that most need to wean their energy systems off fossil fuels and ensure that the energy transition is equitable.[12] We will address this question in our next climate change survey.

12 Partnering for transition

# Conclusion

## After a period of consolidation and implementation in 2022, 2023 saw another advance in the implementation of climate change mitigation strategies by sovereign wealth funds.

Most notably, this trend was evident in the marked uptick in these investors selecting listed and financial alternative assets for climate-change purposes compared to previous years. We have also seen a noticeable increase across the board in the different climate change-related assessments that sovereign wealth funds are using and a deeper consideration of these tools and targets, with them making informed decisions about which are most appropriate in their unique circumstances.

In the four years since our inaugural survey, we have seen great progress on all six of the challenges we set to sovereign wealth funds:

1. **Adopt and implement climate-related policies.**
2. **Seek out the appropriate talent and expertise.**
3. **Explore board member and executive education.**
4. **Use metrics** to show climate impact (i.e., success in reducing carbon exposure), comparable returns, and risk reduction.
5. **Communicate to all stakeholders** the strategic importance of climate.
6. **Partner with peers and international initiatives** to share experience and generate greater leadership within the sovereign wealth fund community.

On the whole, climate-related policies have been adopted and executed, and while there are still some challenges with hiring the right people, progress is being made. The widespread adoption of tools such as carbon footprinting and climate scenario analysis among this investor group will be able to provide the metrics to measure, monitor and mitigate their climate impact.

It should be noted that progress is not uniform. Several sovereign wealth funds have small teams and are reliant on their asset managers to implement climate-related strategies. However, given the rise in sovereign wealth funds requesting asset managers to report on their climate change approach specifically for their assets, they continue encouraging greater transparency in this area across the industry.

While embracing climate change strategies is becoming more commonplace among sovereign wealth funds, this approach is not universal. Around a quarter of the respondents reported still facing stakeholder resistance or an issue with incorporating it into their mandate. This finding highlights the diversity of sovereign wealth funds. However, given the lack of impact that the ESG backlash in the United States has had on sovereign wealth funds' focus on climate, most of these investors will continue to implement these strategies and develop their approaches to climate finance in the future.

# Looking Forward

The field of climate change investing, whether building resilient portfolios or financing the energy transition, is fast-moving. There will always be new approaches to consider as the field progresses. In 2024, we see four main themes that sovereign wealth funds will be looking to better understand.

First, they will need to decide whether to develop a transition plan, which outlines how they and their portfolio companies will pivot their portfolios, assets, operations, and business model to align with their chosen climate targets and benchmarks. Transition planning is a relatively new concept, and almost half of the sovereign wealth funds we surveyed are still considering whether this tool is right for them.

Second, we expect that the trend of sovereign wealth funds showing greater interest in financing an equitable energy transition in developing markets, particularly in Africa, will continue. Indeed, this theme is a major workstream for OPSWF. In 2023, OPSWF established the “Renewable Energy in Emerging Markets and Developing Economies” Working Group, dedicated to generating the systems change necessary to unlock private sector capital flows to finance the energy transition EMDEs country with a focus on Africa. The strategy focuses on (1) identifying national policy enablers that can attract large-scale private sector financing (Policy Accelerator), (2) defining project bankability criteria to help scale investments (Bankability Accelerator), (3) facilitating collaborative investment efforts that foster the ecosystems to ensure their sustainability. Research like the OPSWF accelerator project will help sovereign wealth funds understand how they can best leverage new structures, such as blended finance, co-financing and hybrid financing, to fund a just energy transition effectively. In these new structures, they will also need to learn how to work with a new set of partners, such as development finance institutions and development banks, with whom many sovereign wealth funds have little experience interacting. Furthermore, they will also need to understand that new infrastructure in developing countries will need to be resilient to climate change, as it is in these regions where its impact is most felt, and be able to factor this into their investment decisions and influence the projects they choose to finance.

Third, data quality and availability continue to be a challenge for sovereign wealth funds and other investors. They will continue to push for greater transparency from asset managers and encourage them to improve the accuracy and fill holes in data sets. By pushing for improved data quality, sovereign wealth funds, which are sensitive to reputational risks, will become more confident in publicly adopting targets and reporting frameworks. For example, we expect sovereign wealth funds to increasingly focus on appropriate reporting frameworks, particularly around their impact. Although few sovereign wealth funds identify as impact investors, understanding how much they have reduced their carbon footprint, for example, will become more important. Similarly, as frameworks like the UN Sustainable Development Goals become more mainstream, understanding how their investments will affect the environment and local communities is becoming more significant, particularly for those sovereign wealth funds with a development mandate.[13]

Finally, the systemic risks engendered by nature loss and the investment case for considering biodiversity in portfolios will start to become more important. Again, in this complex area, data availability and transparency, as well as suitable footprinting tools, accounting standards and reporting frameworks, will be key for sovereign wealth funds to make the investment case for biodiversity.[14] But there is a greater understanding among sovereign wealth funds that preventing nature loss is an important part of fighting climate change and ensuring that essential investment sectors like agriculture, fisheries, textile production and water supply, among others, will be made more resilient and safeguarded for the future.

13 We touched on this issue in our report: What the S in ESG means for Sovereign Wealth Funds

14 Taskforce on Nature-related Financial Disclosures, Discussion paper on Biodiversity footprinting approaches for financial institutions, December 2023

# Acknowledgements

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The text was prepared by Dr Victoria Barbary, Director of Strategy and Communications at IFSWF.

# About the International Forum of Sovereign Wealth Funds (IFSWF)

The International Forum of Sovereign Wealth Funds (IFSWF) is a voluntary organisation of global sovereign wealth funds committed to working together and strengthening the community through dialogue, research and self-assessment.

In 2008, a group of 26 leading state-owned international investors from around the world established the IFSWF's precursor, the International Working Group of Sovereign Wealth Funds, following discussions with global groups such as the G20, International Monetary Fund and the US Department of the Treasury. The Working Group created a set of Generally Accepted Principles and Practices, known as the Santiago Principles, for sovereign wealth funds' institutional governance and risk-management frameworks. Following the Kuwait Declaration in 2009, the International Working Group became the IFSWF with the mandate of helping members implement the Principles.

Today, helping members implement the Santiago Principles remains the foundation of the IFSWF's activity. But the Forum now represents a group of almost 50 sovereign wealth funds from all corners of the globe, with a variety of mandates and at various stages in their development. As a result, IFSWF's focus has evolved. In addition to encouraging the ongoing commitment to the Santiago Principles, the Forum also undertakes research, facilitates peer assistance exercises and holds workshops and seminars to help members enhance their existing investment capabilities. The IFSWF also undertakes to represent its members to the global financial and policy communities.

## Standard Setting

The IFSWF helps foster good governance practices within the membership by enabling members to share their unique experiences of applying the Santiago Principles with each other. By sharing experiences, the Forum helps members to improve their governance and accountability structures and practices. The IFSWF also promotes transparency by encouraging members to report publicly on their experiences of implementing the Santiago Principles.

## Knowledge Sharing

The IFSWF seeks to help members raise their expected risk-adjusted returns by regularly bringing our members together to share their perspectives on specific governance, investment and operational issues. We also undertake peer assistance on investment practices, asset allocation and financial risk assessment. The Forum works with academic and practitioner experts to help members fulfil their mandate in an increasingly challenging and complex investment environment.

## Representation

The Forum helps represent the views of its members to the wider financial community. It provides a contact point through which members can collaborate with multilateral finance organisations and, where appropriate, engages with the media on issues of interest to the membership.

# About One Planet Sovereign Wealth Funds

One Planet Sovereign Wealth Funds was established at the One Planet Summit in December 2017. The objectives of the initiative are to:

- Help mobilise the capital of sovereign wealth funds, to innovate and expand the market for investment opportunities that advance alignment with the goals of the Paris Agreement.
- Accelerate efforts to integrate financial risks and opportunities related to climate change in the management of large, long-term asset pools.
- Leverage the scale and benefits of knowledge-sharing, while preserving flexibility and agility.

On 6 July 2018, the OPSWF founding members published a voluntary framework ("the Framework") outlining principles for sovereign wealth funds to systematically integrate climate change into their decision-making, and how they can collectively support ambitious global climate action.

This Framework includes 12 recommendations based on three guiding principles:

- **Principle 1: Alignment**
  Build climate change considerations, which are aligned with the sovereign wealth funds' investment horizons, into decision-making.
- **Principle 2: Ownership**
  Encourage companies to address material climate change issues in their governance, business strategy and planning, risk management and public reporting to promote value creation.
- **Principle 3: Integration**
  Integrate the consideration of climate-change-related risks and opportunities into investment management to improve the resilience of long-term investment portfolios.

Following the drafting of the Framework, members committed to continuing to work together to develop and share best practices relating to the implementation of the Framework principles. The One Planet Asset Managers (OPAM), the One Planet Private Equity Funds (OPPEF) initiatives and the One Planet Research Forum have also been established to accelerate efforts in supporting the implementation of the Framework and to support the transition towards more sustainable financial markets.

From 6 founding sovereign wealth funds, the Network has since grown to 47 members, comprising 18 sovereign wealth funds, 18 asset managers, and 11 private investment firms, with over $36 trillion in assets under management and ownership. For more information, visit oneplanetswfs.org

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