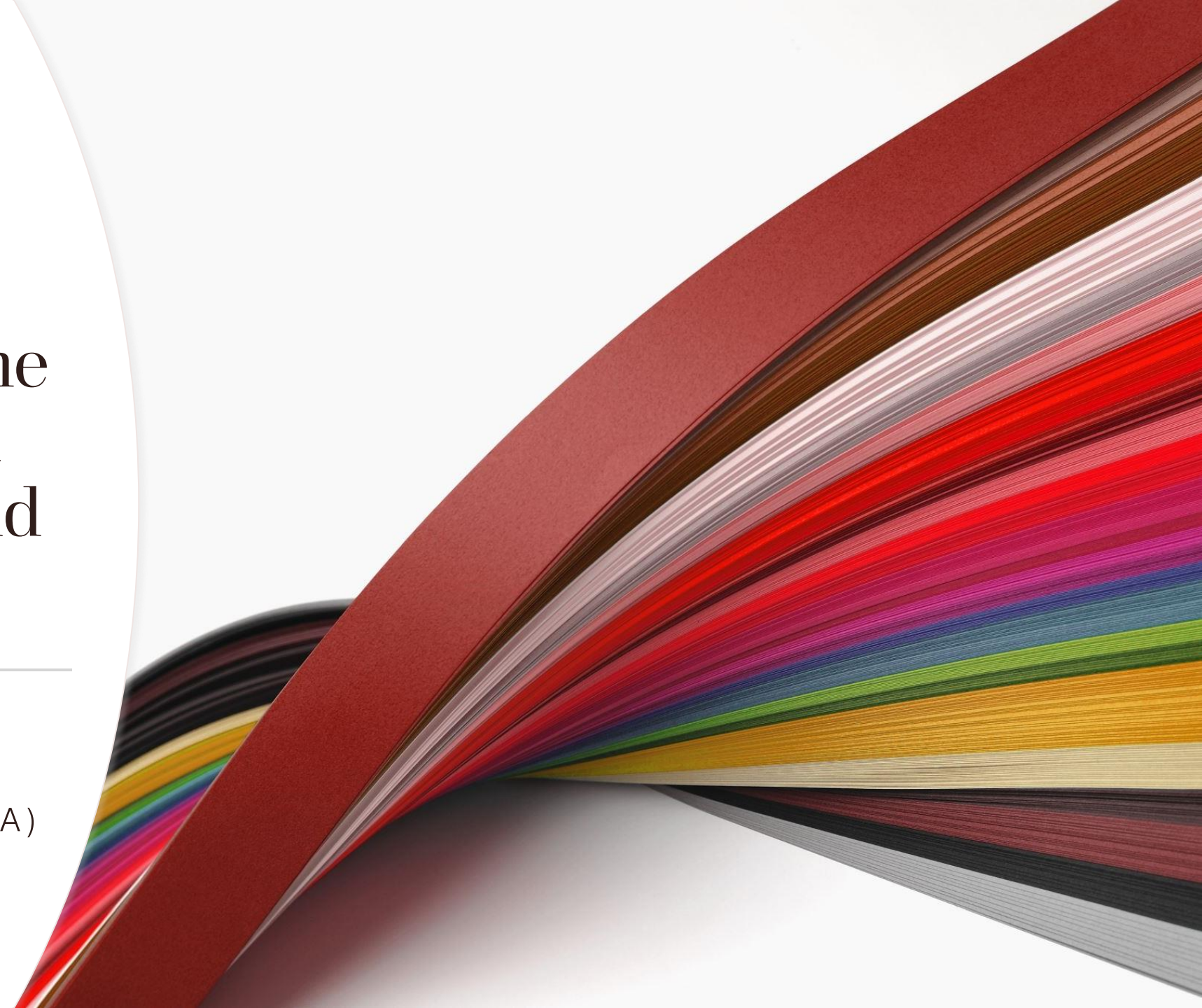




New Players in the Arena: Sovereign Wealth Funds and Sustainability

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Sovereign Wealth Funds

Expansion of International Law → Emergence of Sovereign Wealth Funds (first defined in 2005 by Rozanov)

Hybrid Investment Vehicles:

- Funded through public assets (revenue from the sale of raw materials or surpluses of foreign exchange reserves)
- Investment of private nature
- Short-term **private** goal of maximising investment returns
- Long-term **sovereign**/macroeconomic goal:
 - Pursuing market stabilisation;
 - Pursuing economic diversification;
 - Fostering intergenerational equity.

Sovereign Wealth Funds

SWFs can be established through different legal structures:

- private or public,
- with or without a legal personality separate from their parent states

Absence of a shared definition

Bassan: «funds established, owned and operated by local or central governments, which investment strategies include the acquisition of equity interest in companies listed in international markets operating in sectors considered strategic by their countries of incorporation»

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How environmental sustainability considerations may affect SWFs' investment choices

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What are the main tools for SWFs and their states of nationality to address the ecological transition

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In case of a claim against a SWF (or its state of nationality), how the rule of state immunity comes into play

Climate change and SWFs' investments

- SWFs: more than 8 bln USD of AuM globally
- Relevance of sustainability consideration
- Action or inaction of SWFs on climate-related finance is particularly significant to reach the Paris Agreement's goal
- SWFs usually engage in portfolio investments (not foreign direct investment)

It can hardly be identified a common strategy among the different SWFs and between the different investments of the same fund

Differences between SWFs and other state investment vehicles



Foreign investments tend to achieve short-run profits (production of income \approx capital consumption)



SWFs: more room for sustainability considerations

longer-term horizon, focused on future generations and intergenerational equity
More diversified portfolio



Almost 60% of SWFs are commodity funds (*oil and gas*)

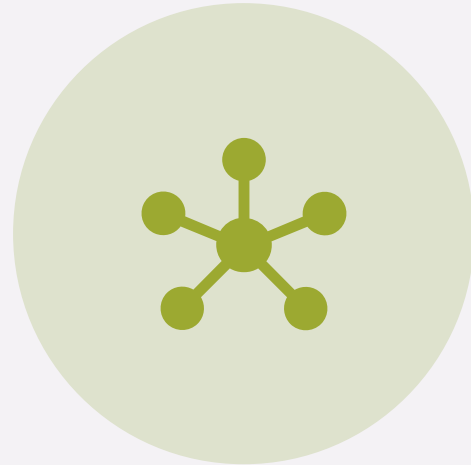
Main challenges



The sensibility of SWFs for environmental matters reflects that of their parent States

Best examples: Norway and New Zealand

Strategies



GLOBAL NETWORKS AND
PLATFORMS OF BEST PRACTICES



REGULATION OF SWFS

One Planet Sovereign Wealth Funds network

- Launched in 2017 (President Macron) in the aftermath of the Paris Agreement
- Established by six SWFs, including five of the ten largest ones (such as those of Norway, Saudi Arabia, Abu Dhabi, Qatar, and Kuwait)
- Publication of a voluntary framework:
 - integrating climate change considerations into SWFs' investment agenda
 - supporting global climate action

However, there are no binding instruments requiring SWFs to consider the environmental implications of their investments

OPSWF's guiding principles



Promoting climate change considerations in investors' decision-making processes



Leveraging the ownership rights of SWFs to encourage targeted companies to address climate change in their governance, strategies, risk assessment and reporting



Promoting the resilience of long-term investment portfolios by integrating climate change-related opportunities and risks into their decision-making process

Regulation

- Regulation of SWFs: ‘Santiago Principles’
 - First attempt to regulate SWFs
 - 24 guiding principles
 - Adopted by the International Working Group on Sovereign Wealth Funds (established by the IMF)
- The Principles do not contain specific provisions on sustainability
- Commentary to the Principles: “**some SWFs may exclude certain investments for various reasons, including social or ethical reasons. More broadly, some SWFs may address social, environmental, or other factors in their investment policy**”
- Proposal to add a new Principle on sustainability.

Immunity (climate change litigation)

Climate-related lawsuit launched directly against a fund

- Immunity from adjudicative immunity (*private nature of the investments* → no immunity for SWFs?)
- Immunity from execution (*ultimate public purpose of the investments* → immunity for SWFs?)

SWFs' approach towards sustainability

PHILANTHROPIC OR BUSINESS-ORIENTED?