

DISCUSSION “Decarbonizing Institutional Investor Portfolios”

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Research question

- Large institutional investors have committed themselves, in various ways, to address climate change
 - » E.g. “net zero by 2050”
- Are such commitments visible in lower emissions of investors’ portfolio holdings?
- Empirically challenging question
 - » Lower emissions—lower than what?
 - » Lower emissions—what kind of emissions?
- In case emissions are lower
 - » Do the same firms have lower emissions? Engagement result?
 - » Do portfolios contain firms with lower emissions? Portfolio tilts?

Results

- Evidence supports the view that portfolios have lower emissions...
- ...and those lower emissions are primarily because of reduced holdings in polluting firms...
- ...but much less evidence of portfolio firms polluting less
- Conclusion: Investors' contribution to combat climate change might be underwhelming
 - » “our analysis raises some doubts about the effectiveness of [...] investor initiatives in reducing carbon emissions”
- This is fascinating evidence
- Checklist (courtesy of Joao Cocco)
 - » Is this an important topic?
 - » Do I learn something?
 - » Do I want to know more?

With your permission, I skip a detailed discussion of the results...

...and go straight to comments
(they are not in order of importance)

COMMENT How to measure emissions

- The has several metrics for how exactly to measure emissions (I think 4 main ones, but I may have missed others)
- These are carefully developed, probably all interesting, all measure different economic mechanisms
- But it takes time/space to think them all through, for each test
- Suggestion: Have 1 main one, and move rest to Appendix
 - » Bring in any alternatives only for specific tests where they generate additional insights
- Question: Can you say anything about the issue of double counting of emissions for the measures
 - » see e.g. The Economist 2021 “Sustainable finance is rife with green wash”?

COMMENT Engagement

- The paper
 - » decomposes the change in “portfolio emissions” into 1) changes in portfolio weights and 2) changes in firms’ emissions
 - » argues that 2) represents engagement
 - » shows that most of the changes in “portfolio emissions” do not come from 2)
- But: Firms changing their emissions may or may not be the result of engagement
 - » Technology changes; business mix changes; cost cutting efforts; acquisitions, divestitures, restructurings—none of this is necessarily related to investor engagement, yet could significantly change emissions
- Suggestion: My sense is you have two options for how to deal with it in the paper
 1. Either dig into actual engagement mechanisms (shareholder voting?) and try to show it is really engagement, and causal
 2. Or acknowledge that it could be many things, such as engagement, but even if it was only engagement (i.e. a high water mark), it would still be small
- I think you gain more from pursuing 2, since engagement is likely not the effective focus of the paper

COMMENT Incentives of buyers and sellers

- When institutional investors tilt their portfolios against emissions, someone else tilts towards those emissions
- The narrative we are probably most familiar with is that private companies buy the brown assets that public companies divest
 - » E.g. ConocoPhillips (NYSE:COP) reduces its emissions in 2017 by an astonishing 22%, mostly by selling oil and gas assets to Hilcorp Energy (a private company, and the largest US emitter of methane in 2020)
- It might be a nice extension to *try* to disaggregate how much of portfolio tilting away from emissions ends up as privately held
 - » Putting it differently, illuminating the direction of the flow of emissions
- A related issue is whether the portfolio tilts are violating the fiduciary duties of those investors (given Florida, Texas, others) -

Minor comments

1. Variable names throughout the paper are not so user-friendly, for example “weights-only log Scope 1 (t+1)”, and there are many such names.
2. Figure 2 might be more interesting if scaled as a fraction (virtually all figures of stocks of something are upward sloping, but the slope matters) – how about % of MSCI ACWI free float market cap?
3. Table 1 has a Panel A, but no Panel B; also, font size is very small
4. Combine Appendix Table A.1 and B.1 so you can simplify all references to said appendix?
5. Table 2 Panel A has too much detail and too little visual structure, declutter? Panel B—drop all the Δ , otherwise same issues as Panel A.
6. Table 3 – maybe say somewhere that these are investor-years.

Conclusion

A very interesting paper, I learned a lot, thank you!