STATEMENT OF THE BOARD OF GOVERNORS OF THE INVESTMENT COMPANY INSTITUTE

October 13, 2021

Financing the Transition to Net Zero

The Board of Governors of the Investment Company Institute (ICI)[1] recognizes that the world is moving toward a lower-carbon economy. Countries around the world have agreed under the Paris Agreement to limit the average global temperature to an increase below 2 degrees Celsius from pre-industrial levels and additional global efforts to limit the increase to no more than 1.5 degrees Celsius, recognizing the specific needs and special circumstances of developing countries, especially those that are particularly vulnerable to the adverse effects of climate change. The transition to a net-zero emissions economy by no later than 2050 – a goal set by world leaders – is a multi-faceted endeavor, with actions required by both public and private stakeholders. Private finance, including regulated funds like mutual funds and exchange-traded funds, will play an important role in funding this transition.

Each fund and/or its adviser must decide for itself the steps it can take to facilitate the transition to net zero, consistent with a fund's investment objectives and strategies, investors' interests, and a fund manager's fiduciary obligations. It is important to note that fund investors will decide the funds in which they choose to invest, which may or may not include funds with climate-related objectives and strategies. ICI's Board, however, has identified and set forth herein a variety of ways that a fund and/or its adviser may choose to help facilitate the transition to a net-zero emissions economy.

[1] The Investment Company Institute (ICI) is the leading association representing regulated funds globally, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI's members manage total assets of $32.4 trillion in the United States, serving more than 100 million US shareholders, and $10.1 trillion in assets in other jurisdictions. ICI carries out its international work through ICI Global, with offices in Washington, DC, London, Brussels, and Hong Kong.

We observe that:

- **Investors increasingly are seeking sustainable investing opportunities**. The fund industry has been responding to investor demand by offering a larger number of funds focused on environmental, social, and governance (ESG) considerations.[2]

- **Fund managers serve as fiduciaries to funds and their investors**. As fiduciaries, fund managers are required to make investment decisions in accordance with the fund's investment objectives and strategies and in the best interest of funds and their investors, having regard to the balance of risks and returns. This includes considerations that may arise from climate change, which may vary by asset class.

- **Physical and transition risks arising from climate change may affect the long-term enterprise value of portfolio companies.** Recognizing the potential significance of climate exposures, ICI has been a vocal proponent of reporting by US public companies of climate change-related information consistent with the narrative called for by the Task Force on Climate-related Financial Disclosures (TCFD) framework.[3]

- **Many ICI members already have independently confirmed their support for various major international sustainability initiatives.** The initiatives include Climate Action 100+, the Net Zero Asset Managers Initiative, the Operating Principles for Impact Management, the UN Global Compact, and the UN Principles for Responsible Investment.

To facilitate the transition to net zero and meet investors' objectives, and to the extent permitted by law and fund managers' fiduciary obligations, we support industry efforts to take the following actions:

1. **Promote transparent and useful climate disclosure that facilitates informed investment decision-making**. Building on ICI's work in encouraging enhanced climate-related disclosure by public companies,[4] fund managers, on behalf of their investors, can continue to contribute to financial market and government efforts to develop global public company disclosure frameworks. The efforts can include engaging with policymakers, regulators, standard setters, and other market participants in the development of appropriate climate-related disclosure frameworks and encouraging enhanced disclosure about climate risks and opportunities by private companies and governmental issuers. In addition, consistent with ICI's publication recommending funds' use of consistent terminology to describe sustainable investing strategies,[5]

[2] In 2020, more than 90 new ESG criteria funds—focused on climate and broader ESG criteria—opened in the United States alone, representing about 16 percent of total US open-end fund launches that year. ESG criteria funds are determined based on ICI's application of predetermined rules and definitions to fund prospectus language. *See* ICI, *2021 Investment Company Fact Book*.

[3] *See* *ICI Board Unanimously Calls for Enhanced ESG Disclosure by Corporate Issuers* (Dec. 7, 2020) and *ICI Calls on SEC to Require Companies to Disclose Greenhouse Emissions and Workforce Data* (Jun. 7, 2021).

[4] *See id*.

[5] *See* ICI, *Funds' Use of ESG Integration and Sustainable Investing Strategies: An Introduction* (Jul. 2020).

fund managers can continue to promote effective communications to investors about the climate characteristics of a fund, which could be considered with reference to the TCFD framework.

2. **Incorporate climate-related factors into funds' investment analyses based on their stated investment objectives and strategies**. By factoring in climate-related risks and opportunities in the pursuit of relevant investment objectives and strategies, funds can contribute to the appropriate pricing of climate-related risk by financial markets.

3. **Engage in climate-related stewardship activities that are consistent with funds' investment objectives and strategies and investors' interests**. Depending on a fund's investment objectives and strategies, these activities may include: encouraging companies to report climate-related information for increased transparency about risks and opportunities; supporting efforts that encourage practices and disclosures that support the transition to net zero; and providing transparency regarding a fund's proxy voting policies as they relate to, among other things, climate change risks and opportunities.

4. **Create and offer funds with climate-related objectives and strategies to meet investor demand for products that align with the goal of net zero emissions by 2050 or sooner**. These funds, which can include actively-managed and index-based funds, can permit investors to allocate their capital to support companies' transitions towards alignment with net zero, which may include, among other things, business-model decarbonization and/or the provision of products and services that facilitate the transition.

5. **For funds with climate-related objectives and strategies, periodically make available to investors information about the fund's climate characteristics**. Information about a fund's climate characteristics can assist investors in understanding the extent to which the funds' portfolio investments are exposed to climate transition risks. For funds with net-zero objectives, disclosure of information regarding the alignment of the fund's portfolio to net zero can offer transparency to the benefit of investors. It is important to recognize, however, the ongoing development and range of climate-related metrics. Funds should decide the climate characteristics information, including metrics, if any, that are appropriate to provide. Fund managers can continue to support the development and testing of metrics and methodologies. Funds' ability to make this information available depends on the availability of consistent, comparable, and reliable climate-related data and information about public companies and other issuers of a fund's portfolio holdings.