Investing in Sustainable Infrastructure in Latin America

Survey Results 2019

Climate Change Division
IDB Invest

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INVESTING IN SUSTAINABLE INFRASTRUCTURE IN LATIN AMERICA

SURVEY RESULTS 2019

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EXECUTIVE **SUMMARY**

Driven by declining global investment yields, investors have been and will likely continue to increase their allocation to real assets – especially infrastructure. At the same time, investors are also increasingly looking for sustainable assets. As evidence grows on the benefits stemming from the integration of environmental, social and governance (ESG) factors into investment decisions, they are realizing that sustainable assets can deliver better risk-adjusted returns.

The bottom line is, attitudes are changing quickly. This is why the Inter-American Development Bank Group (IDB Group) partnered with Mercer to gain a better understanding of the profile of infrastructure investors, their needs and preferences for investing in sustainable infrastructure in Latin America and the Caribbean (LAC). The IDB Group aims to use these results to tailor its service offerings to enable investors to take advantage of the sustainable infrastructure investment opportunity in LAC.

The results of this survey reflect the positions of 96 institutional investors around the world with respect to sustainable infrastructure investing in LAC. Overall these investors represent a variety of asset owners (pension funds, insurers), asset managers and banks (both commercial and development) and collectively manage trillions of dollars in assets. The 22-question survey spanned a variety of topics including basic investor characteristics, investment methods and appetites, barriers to investment and environmental or social considerations.

Survey respondents disproportionately invest in LAC infrastructure versus the broader investor landscape. This deliberate survey focus provides for unique perspectives of value to the IDB Group on the views/attitudes of LAC infrastructure investors.

Key Findings

Investment Profile, Methods and Appetites

- *For many asset owners, achieving current infrastructure investment targets is a challenge.*
- *Pension funds typically access infrastructure via intermediated mechanisms (e.g. funds) whereas banks, asset managers and insurers prefer direct access.*

- *Infrastructure represents a much larger share of bank and asset manager portfolios than asset owner portfolios.*

- *Overall, investors prefer to invest in infrastructure via equity allocations with the exceptions of DFIs and insurers which strongly prefer debt.*

- *Investors prefer to access infrastructure assets via an even mixture of public and private assets. Yet unlisted infrastructure remains a small portion of asset owner portfolios.*

- *LAC investors have a higher tolerance for credit risk but for the most part investors outside of the region require BBB rated debt or better.*

- ***These preferences altogether suggest a gap between investor appetite (relatively high demand for liquid and de-risked investments) and market needs (mostly private greenfield investments required).***

Barriers to Investing in Emerging Market Infrastructure

- *Regulatory uncertainty and corruption represent the most significant risks to investing in emerging market infrastructure and LAC is no exception.*

- *Regulatory risks can readily be addressed through the thoughtful application of political risk insurance which is available through DFIs and private insurers in certain countries. However, some respondents – notably pension funds – indicated a lack of awareness of political risk management tools.*

- *A lack of bankable projects ranked first amongst other barriers not specifically related to investment risks. This may reflect a lack of awareness amongst international investors about the efforts of many LAC governments developing broad sweeping infrastructure plans and others running several successful infrastructure auctions.*

- *Overall it appears that Education and Capacity Building on the recent efforts on creating pipeline, increasing transparency and addressing political risks might be the quickest and easiest ways to address the top concerns identified by survey respondents*

Social and Environmental Considerations

- *A large majority of investors responding to the survey have an ESG policy in place and about half of these investors address climate change specifically in their ESG policy. This is a higher proportion of investors with ESG policies than found elsewhere in industry literature indicating that infrastructure investors, which tend to be larger, are more likely than non-infrastructure investors to address ESG issues in their investments.*

- *LAC investors are much less likely than investors from other regions to have any dedicated ESG resources speaking to a lack of related expertise in the region.*

- *As many as 20% of respondents have an ESG policy but no resources in place to support policy implementation or monitoring.*

- *Overall investors are still more likely to outsource ESG assessment or treat ESG as a compliance issue than embed ESG assessment into core due diligence or investment management functions.*

- *Climate-related disclosure is not yet mainstream and is lagging in LAC versus other regions.*

2

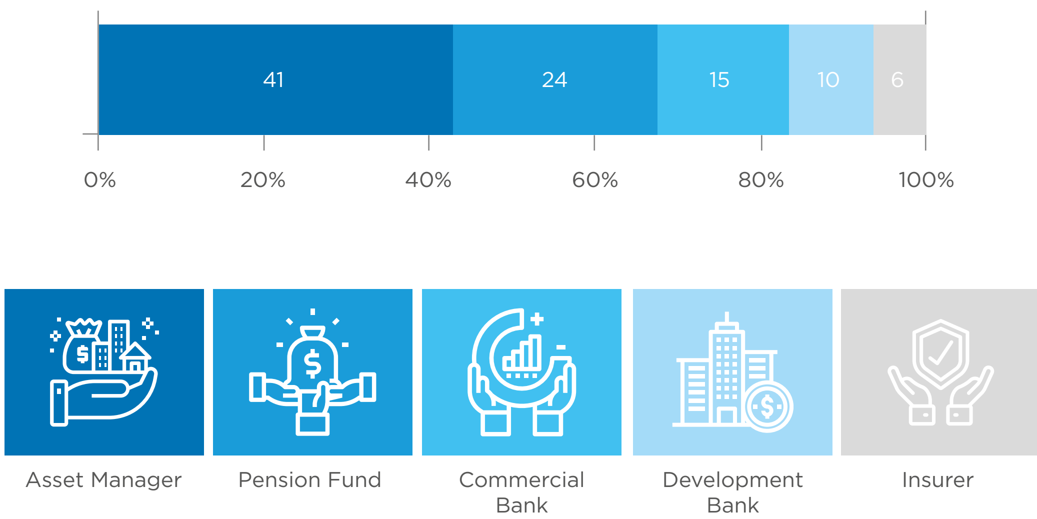
SURVEY RESULTS

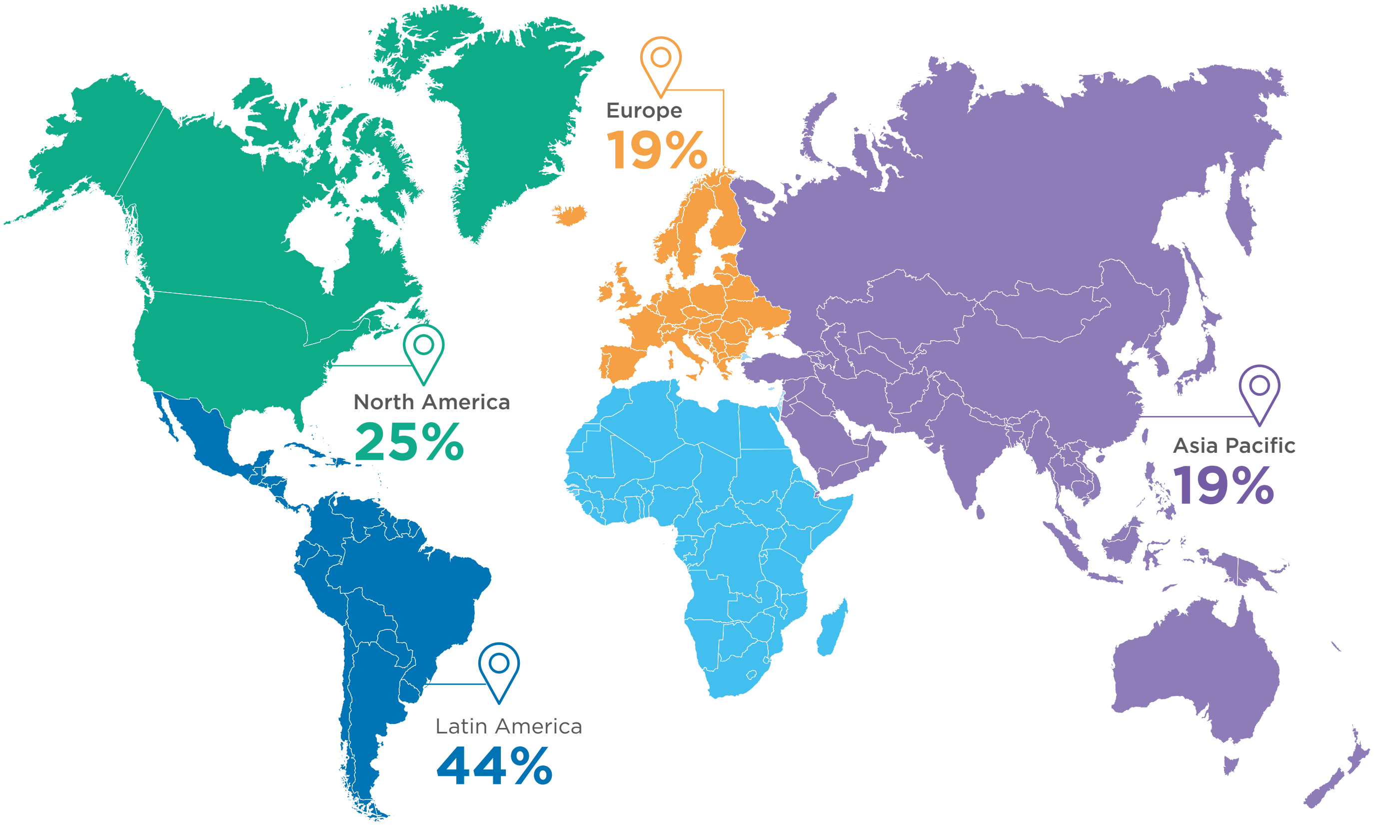
The Inter-American Development Bank Group (IDB Group) and Mercer combined resources to conduct global research on sustainable infrastructure, which included a survey. Findings are intended to inform IDB Group's understanding of the profile of infrastructure investors and their needs and preferences for investing in infrastructure, with a particular focus on sustainability considerations. The data obtained will be used by the IDB Group to inform its financing and/or non-financing strategy to enable investors to take advantage of the sustainable infrastructure investment opportunity in Latin America and the Caribbean (LAC).

The results of the survey reflect the views of 96 institutional investors around the world. Respondents represent institutional investors of various types (e.g. pension funds, insurers, investment managers, commercial banks, development banks) headquartered in a variety of regions.

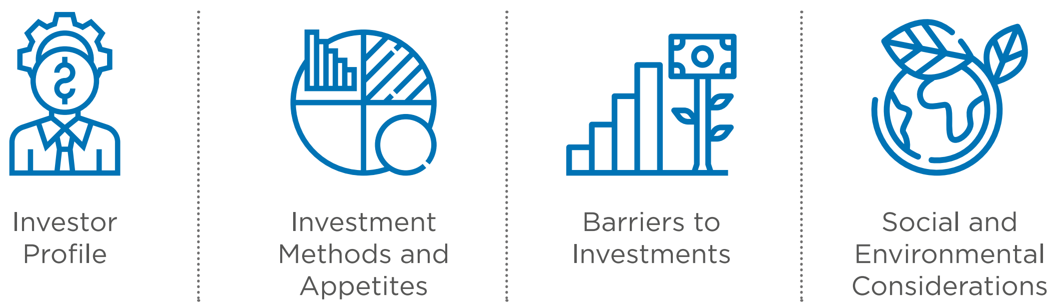
Given the subject matter of the survey we expect investors without exposure to LAC infrastructure were less likely to respond. This response bias means the survey is disproportionately capturing the views of investors with active LAC infrastructure allocations. The findings cited herein – particularly those related to barriers – may thus be more relevant to supporting active LAC infrastructure investors to increase their allocations to the asset class/region but could also be relevant to supporting new investors to enter the asset class/region.

Figure 1 / Respondents by Institution Type and Region (n=96)





The following commentary outlines the key findings of the survey split across four categories:



Investor Profile

The first section of the survey relates to the investor's role in the market (i.e. investor type); current and target levels of infrastructure investment overall, and in LAC specifically; and if infrastructure investments are located in LAC, specifically the countries where the assets are invested. The intention of this section was to gain a basic understanding of investors' approach to infrastructure investing across regions and types and the role of infrastructure in portfolios.

Key Findings:

- *Unlisted infrastructure remains a small portion of asset owner portfolios.*
- *Infrastructure represents a much larger share of bank and asset manager portfolios than asset owner portfolios.*
- *For many asset owners, achieving current infrastructure investment targets is currently a challenge.*
- *Survey respondents disproportionately invest in LAC infrastructure versus the broader investor landscape[1]. This deliberate survey focus provides for unique perspectives of value to the IDB Group on the views/attitudes of LAC infrastructure investors.*
- *Tapping growth in alternatives investing by asset owners is a strategic opportunity for DFIs and asset managers looking to increase overall allocations to LAC infrastructure.*

[1] Over 60% of respondents to this survey with infrastructure investments have an allocation to LAC infrastructure. Whereas in a separate survey conducted by EDHEC and the GI Hub (Investor Perceptions of Infrastructure, 2017) only 38% of survey respondents indicated an investment in Emerging Markets (inclusive of LAC).

Figure 2 / Investor Type Descriptions

Investor Type	Relevance for Survey	Survey Response	Key Findings / Characteristics
Asset Owner: **Pension Fund**	Focused on large pension funds which have a propensity to incorporate ESG considerations into their investment process and are more likely to have exposure to emerging markets infrastructure.	Approximately 10% response rate; specifically 23 pension funds responded (12 of them in the LAC region). Pension funds are often selective in what surveys they respond to, if they respond at all (due to resource limitations and confidentiality concerns). respond at all (due to resource limitations and confidentiality concerns).	• Asset owners typically allocate less than 5% to infrastructure • Even with this relatively low target, asset owners struggle to meet their infrastructure allocation goals • Nevertheless asset owners are growing their allocations to alternatives including infrastructure • Asset owners have indicated a lack of awareness regarding risk mitigation tools available in emerging markets or a lack of understanding regarding their functionality • Pension funds prefer to access infrastructure investments via intermediated mechanism (e.g. funds) • All insurers and most pension funds surveyed have an ESG policy in place • However pension funds are not very likely to have dedicated ESG personnel versus other investor types implying a reliance on third party asset managers for ESG evaluation in infrastructure
Asset Owner: **Insurer**	Many insurers invest in infrastructure via their general account assets to hedge life insurance liabilities and/or seek alternative sources of yield versus traditional fixed income; European insurers are very focused on ESG integration.	Three insurers responded. Two additional insurers responded on behalf of their asset management divisions and self-identified as asset managers but have been reclassified herein as insurers, since most insurer asset managers will also manage all or a large portion of the general account assets of their insurance company parents.	
Asset Owner: **Sovereign Wealth Fund**	By nature these are national entities, most very large, allowing for potentially greater geopolitical involvement and high rates of foreign direct investment; liabilities highly correlated with the long-term stable yield offered by many natural resource and infrastructure investments.	One SWF responded (with no investments in LAC infrastructure). For data analysis purposes, it has been included with the pension funds.	
Asset Owner: **Endowment / Foundation**	Among others, this group consists of charitable institutions, religious organizations, and educational institutions. These organizations are relatively more likely than other investor types to incorporate ESG factors into their investment processes, and to target sustainable investment opportunities in emerging markets due to higher expected yields, greater investor risk appetite and higher impact potential.	No survey respondents self-identified as an 'endowment / foundation' investor. Two foundation type organizations self-identified as 'pension funds'.	

Investor Type	Relevance for Survey	Survey Response	Key Findings / Characteristics
Asset Managers	150 asset managers with infrastructure exposure were targeted; many of these have infrastructure specific strategies.	Close to a 30% response rate. Asset managers are more likely to respond as they often have specific investor relations resources to support responding to questionnaires as well as a desire to improve their recognition in the marketplace amongst asset owners. The 44 asset manager respondents represent approx. 46% of survey respondents; 7 of them are based in the LAC region.	• Tend to prefer direct investment • Are often willing to be the anchor investor, or co-invest with another anchor investor • Two-thirds of asset managers have some ESG resources (dedicated staff and/or a committee)
Commercial Bank	Lender involved in providing debt capital to support infrastructure development and construction.	Fifteen commercial banks responded; 12 of them in the LAC region.	• Banks prefer direct investment in infrastructure rather than intermediated • Infrastructure represents a much larger share of bank portfolios than asset owner portfolios • Commercial banks are the least likely respondent type to have an ESG policy or dedicated ESG resources in house • Commercial banks also still have relatively strong interest to invest in conventional energy assets
Development Bank	Includes bilateral peers of IDB Group, similarly providing solutions to development challenges and support in underserved areas.	Ten development banks responded; all of them in the LAC region. There was no outreach to non-LAC development banks.	• Strongly prefer debt investment over equity • Development bank long-term time horizons fill a key gap in LAC infrastructure financing

Of the respondents completing the survey 85% currently invest in infrastructure[2]. Of the 82 investors that indicated an infrastructure allocation, 52 are invested in LAC infrastructure and 42 are headquartered in the LAC region.

[2]For those investors not currently investing in infrastructure the survey questions related to infrastructure allocations were simply not applicable, though their views with respect to ESG factors on investment decisions were still captured (see subsequent sections).

Figure 3 / Respondents by Investor Type and Percentage of Respondents that Invest in Infrastructure

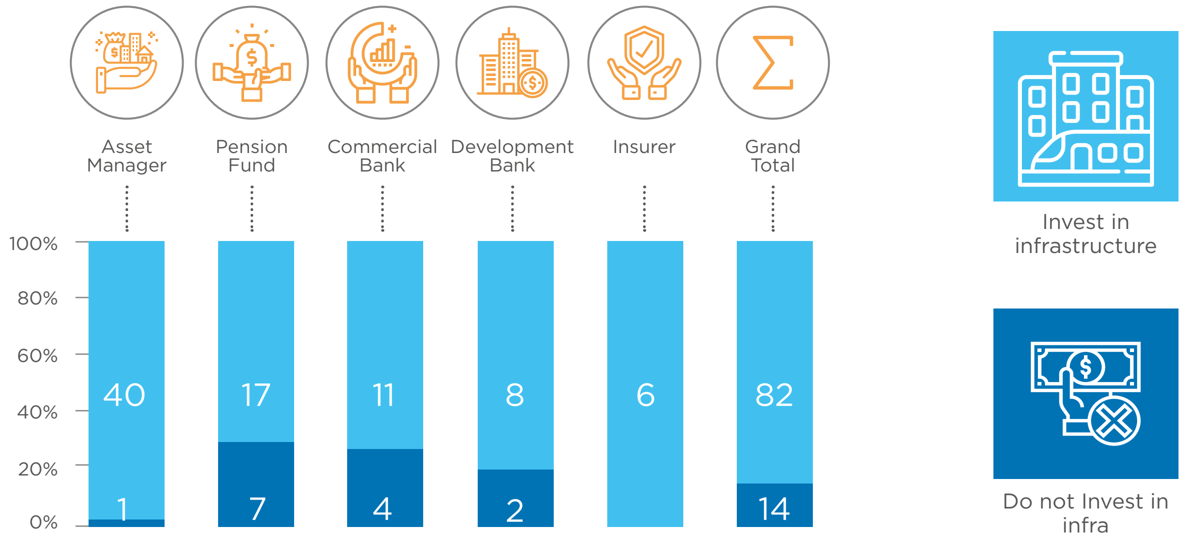


Figure 4 / Infrastructure Investors (count) by Location of Headquarters and LAC Infrastructure Exposure

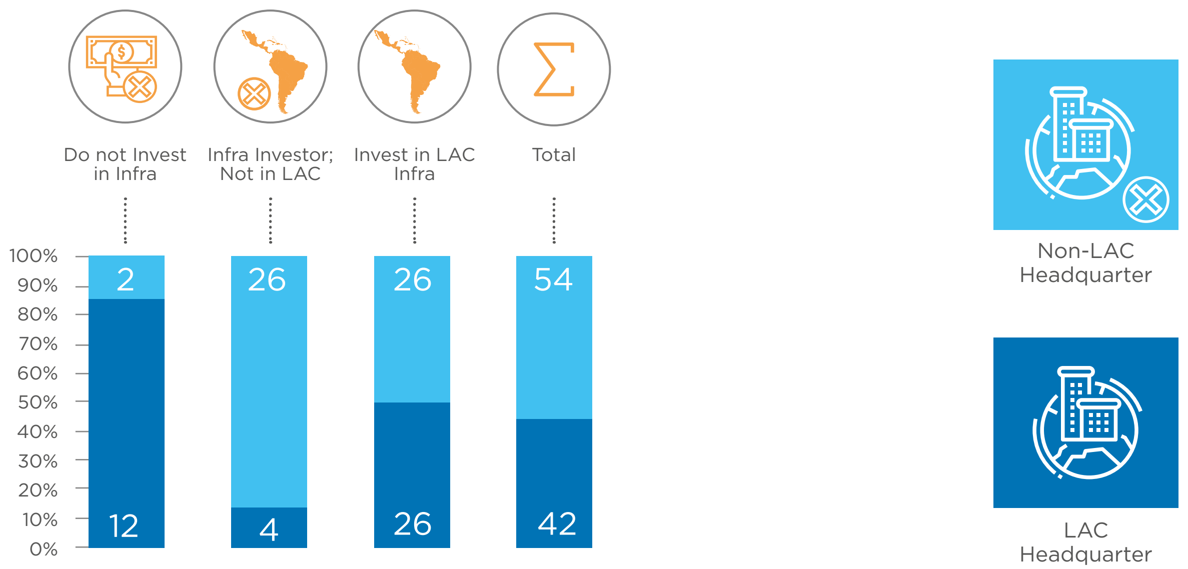
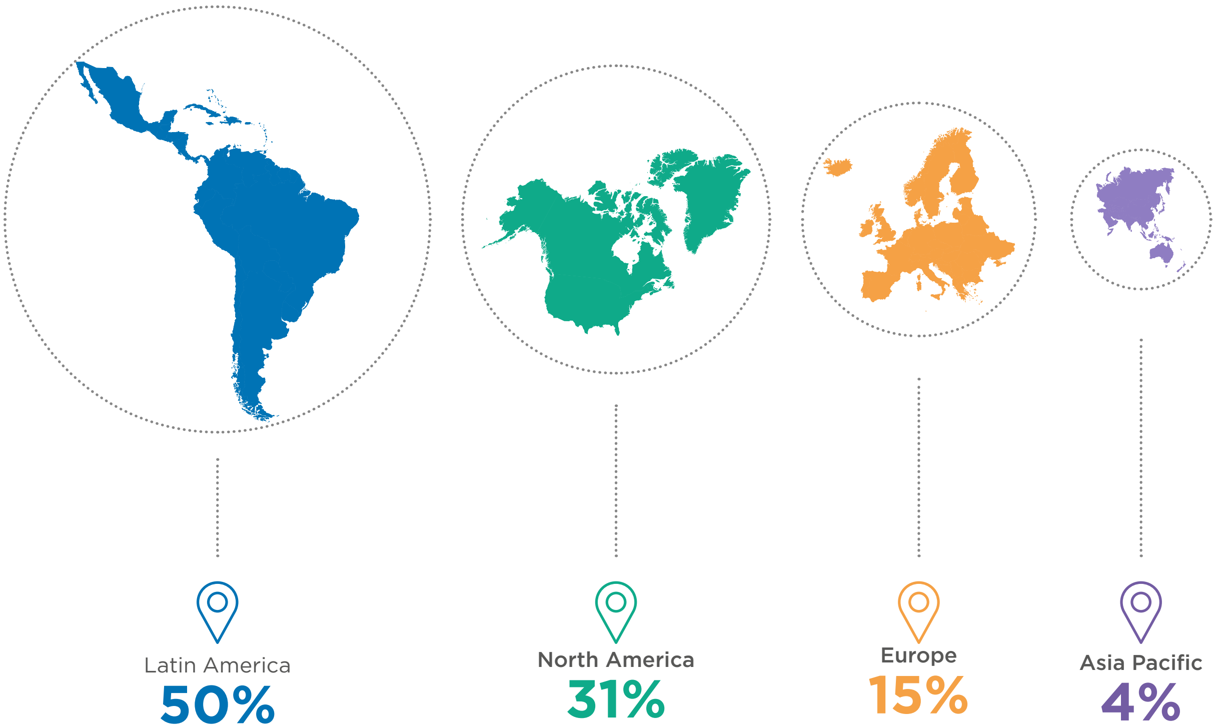


Figure 4 suggests that in our sample the majority of infrastructure investors include allocations to LAC in their infrastructure portfolios while also identifying a reasonably high level of cross-border investment. This aligns with broader market trends which show that "liquidity inflows into emerging economies (including cross-border loans and bonds) recorded average growth of 11.4%, much higher than the level seen in 2009 (3.3%) and in 2010-2015 (5.7%) and slightly above the 2016 figure (11.0%)" (ECLAC, 2018)[3]. The regional distribution of the respondents further suggests that most of the cross-border investors are largely of the "North-South" type with a very small component from Asia (Figure 5).

Figure 5 / LAC Infrastructure Investors by Headquarter Location

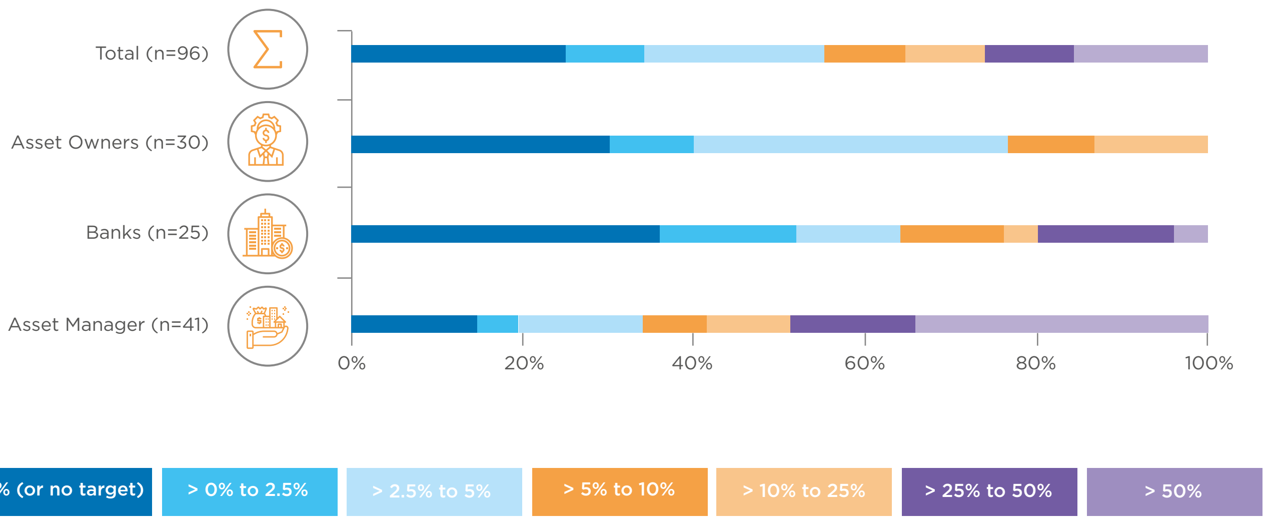


[3]Economic Survey of Latin America and the Caribbean 2018 - Economic Commission for Latin America and the Caribbean https://www.cepal.org/en/publications/43965-economic-survey-latin-america-and-caribbean-2018-evolution-investment-latin.

While the number of foreign infrastructure investors investing in LAC infrastructure is promising, their overall target infrastructure allocations within portfolios tend to be small with 40% of respondents positioning infrastructure as less than 5% of their total portfolios.

When it comes to fulfilling target allocations a substantial portion of investors (at least 20% overall) are still working to meet their commitments to the asset class. The portion of investors below their target is higher for non-asset managers (at least 30%)[4]. This may be due to the fact that many asset managers do not target an asset allocation specifically.

Figure 6 / Target Infrastructure Allocation for Infrastructure Investors by Target Range



[4]Note, the ranges reported are broad and so a larger portion of investors could well be below their target allocation. For instance, an investor with a 6% current and 8% target allocation would be showing as meeting their target based on the data available.

These asset allocation responses are broadly in keeping with other global surveys . Large pensions and sovereign wealth funds in the Organisation for Economic Cooperation and Development (OECD) area have allocated approximately 1% on average to unlisted infrastructure assets and over 80% of these infrastructure allocators report being below their targets for the asset class[5].

While not explicitly covered in the IDB survey, it is also useful to consider the pace of growth in infrastructure allocations. Looking at a subset of respondents to the OECD survey from 2010-2015 on average allocations to infrastructure have grown at a CAGR of 6% since 2010 outpacing growth in alternatives generally of only 1% over the same time period for the whole sample[6].

Tapping this growth in asset owners' investment in alternatives is a strategic opportunity for DFIs and asset managers looking to increase overall allocations to LAC infrastructure. Collectively these organizations need to make the value proposition of investment in this region and asset class clear to OECD investors. Moreover it will be important to support these OECD asset owners to surmount potential organizational/governance barriers to investing in unlisted asset classes in emerging markets generally (e.g. lack of due diligence capacity, rigid investment policy statements, concern over levels of risk)[7].

[5]OECD. Survey of Large Pension Funds and Public Pension Reserve Funds (2018), available at http://www.oecd.org/finance/private-pensions/survey-large-pension-funds.htm

[6]Mercer analysis of data from the OECD, Survey of Large Pension Funds and Public Pension Reserve Funds (2018).

[7]This represents a non-exclusive list of some barriers cited elsewhere in literature including Mercer's Investment in African Infrastructure: Challenges and Opportunities (2018).

Investment Methods and Appetites

The second section surveyed investors on their methods of investments, to understand the appetite for direct or indirect investment, equity or debt, tendencies for thematic investing, and particular questions aimed at the logistical components of infrastructure deals.

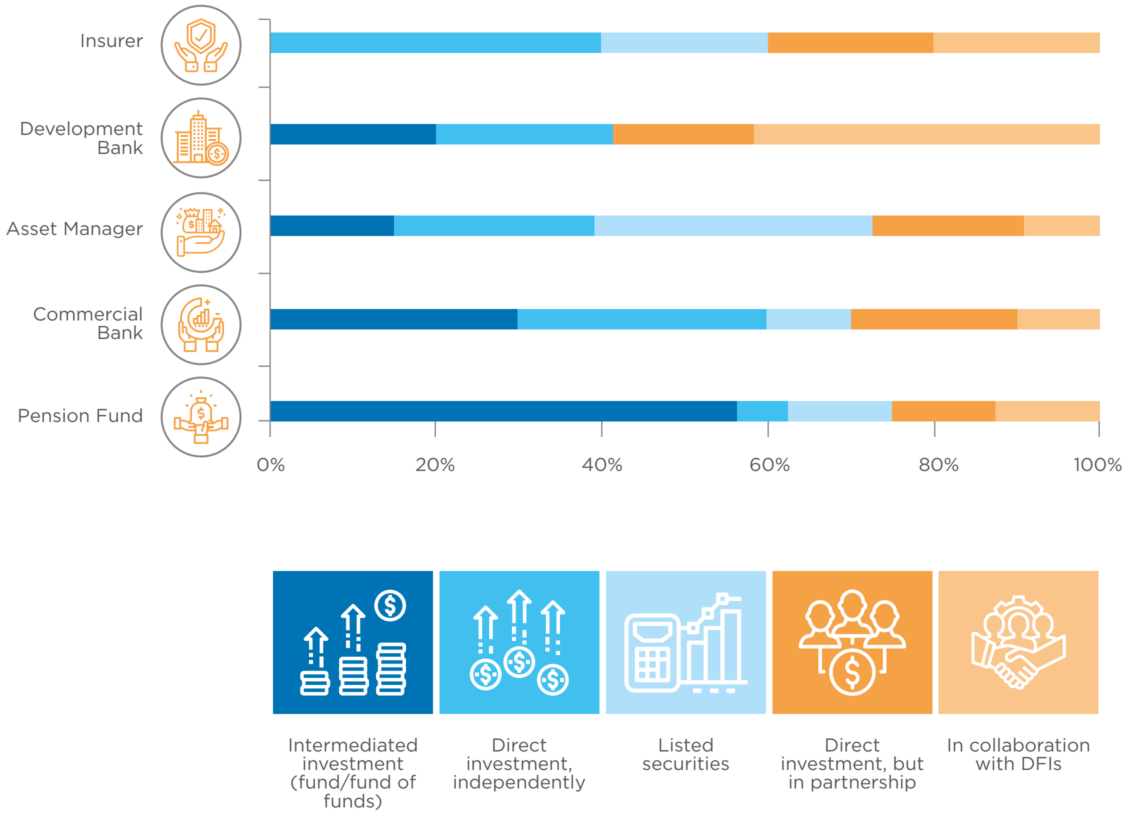
Key Findings:

- *Pension funds typically access infrastructure via intermediated mechanisms (e.g. funds) whereas banks, asset managers and insurers prefer direct access.*
- *Overall investors prefer to invest in infrastructure via equity allocations with the exceptions of DFIs and insurers which strongly prefer debt.*
- *Investors prefer to access infrastructure assets via an even mixture of public and private assets.*
- *LAC investors have a higher tolerance for credit risk but for the most part investors outside of the region require BBB rated debt or better.*
- *These preferences altogether suggest a gap between investor appetite (relatively high demand for liquid and de-risked investments) and market needs (mostly private greenfield investments required).*
- *In terms of sector preferences, investors expressed the strongest interest in renewable energy reflecting historical global infrastructure deal trends.*
- *Development bank long-term time horizons fill a key gap in LAC infrastructure financing.*

When asking how the investors typically invest in emerging market infrastructure[8] ***a significant bias for intermediated access to the asset class emerged amongst pension funds whereas banks and managers indicated a preference for direct investment (Figure 7).*** *Development banks and insurers were most keen to explore direct investing partnerships either with other DFIs or other investors. Listed infrastructure investments are less common except among asset managers.*

[8]Based on 49 responses to the questions in which respondents were asked to select all that apply.

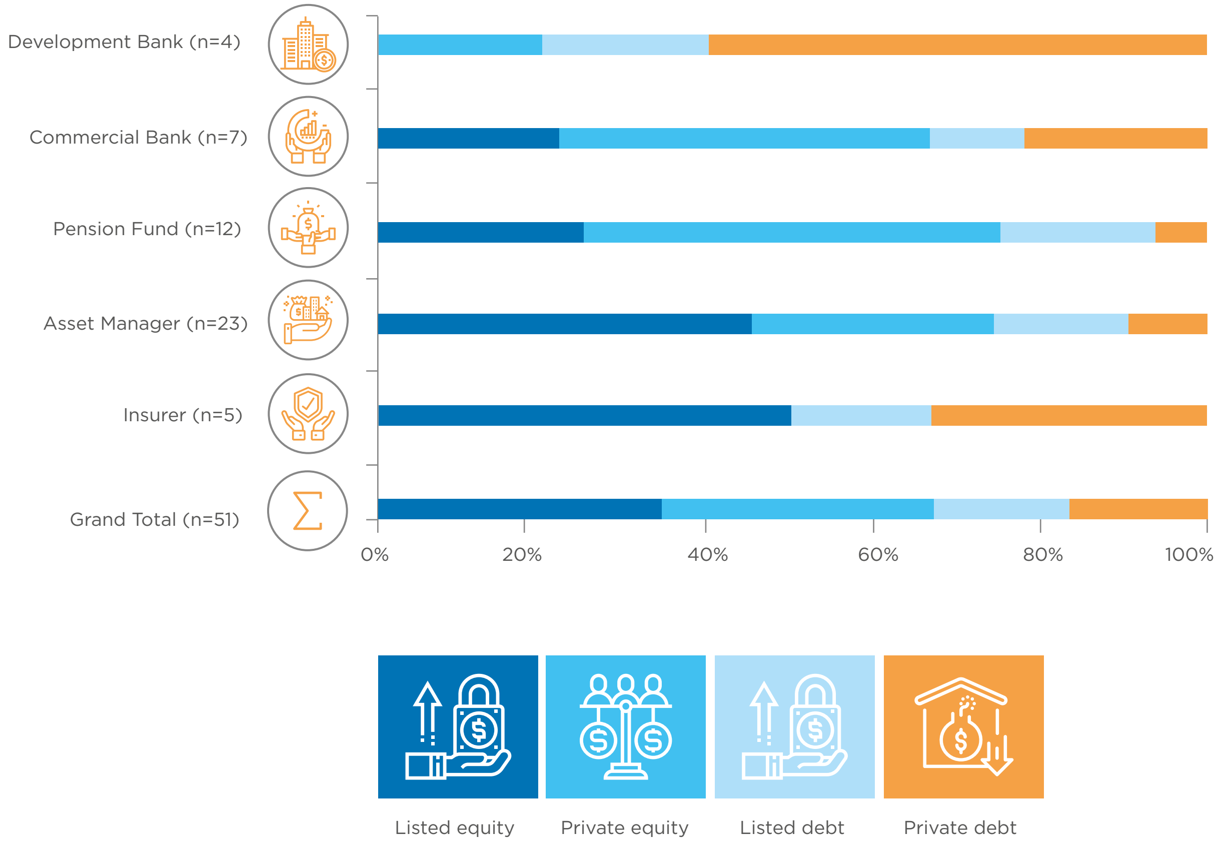
Figure 7 / Typical Investment Approaches for Emerging Market Infrastructure (n=49)



Overall investors strongly prefer to invest in EM infrastructure via equity. The outliers amongst respondents are the development banks which strongly prefer debt and insurers which do not typically invest in private equity. Development banks typically look to use their balance sheets and lending capacity to crowd in commercial equity and debt investment into infrastructure assets so their response is as expected. Insurers typically avoid private equity investments due to prudential regulatory constraints in their home markets[9]. In many jurisdictions insurers are forced to take a significant haircut for holdings in private equity (or unrated debt) vehicles based on risk-based capital rules used for regulatory purposes and so focus instead on investing in debt with high credit quality. Broadly the interest expressed by investor types in our survey (Figure 8) reflects that which has been profiled in other literature[10].

[9]Regulatory rules vary by jurisdiction. In the US market Risk Based Capital charges for insurers as proposed by NAIC are high for private equity investments. In Europe, while EIOPA reduced some capital charges for insurer infrastructure debt investments in recent years, capital charges for infrastructure equity investments remain high.
[10]World Economic Forum with/ Oliver Wyman; Infrastructure Investment Policy Blueprint; 2014

Figure 8 / Typical Asset Class for Emerging Market Infrastructure (n=51)



Survey respondents indicated an almost even split between public and private methods of infrastructure investing. The proportion of investors that indicated investing in EM infrastructure via listed equity is intriguing for a number of reasons:

- While many global infrastructure investment funds exist, their allocations to LAC companies are typically quite small[11].
- The current investment need in emerging markets is skewed toward greenfield assets which typically need to be financed using a mixture of private equity/debt (and occasionally public project debt subject to credit rating considerations). Listed equity is not widely recognized as a key source of finance for greenfield assets in emerging markets.

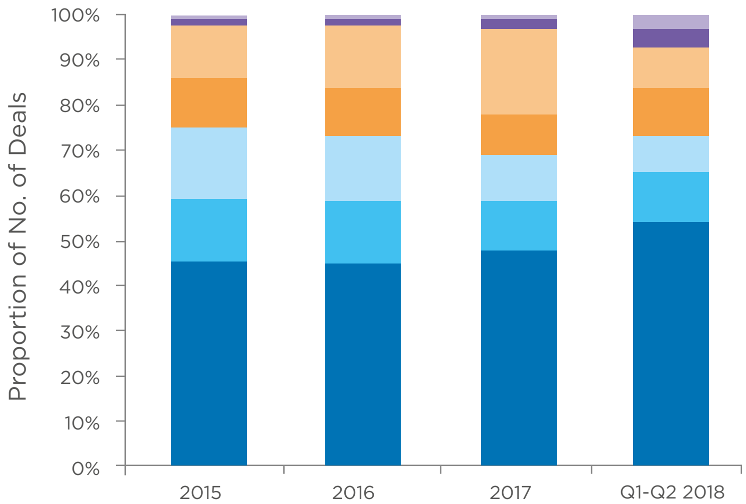
[11]For instance, the S&P Global Infrastructure Index has only a 4% allocation to LAC. The S&P EM Infrastructure index has a 28% allocation to LAC. https://us.spindices.com/indices/equity/sp-global-infrastructure-index and https://us.spindices.com/indices/equity/sp-emerging-markets-infrastructure-index - Fact Sheets as of September 28, 2018

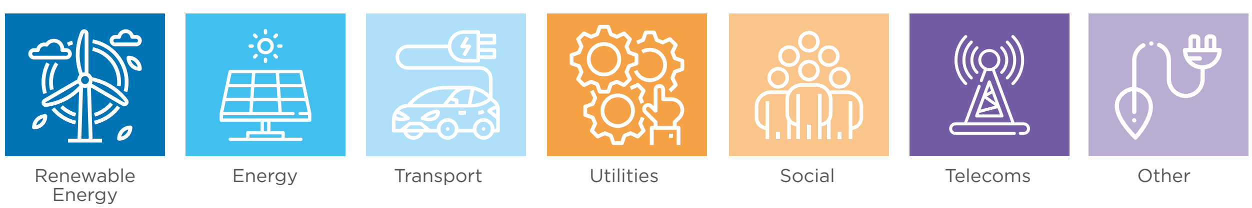
- Listed infrastructure has been criticized for lacking the necessary characteristics of a diversifying asset class due to a high degree of correlation with broader public equity markets[12].

Interest in listed equity represents a gap in the region's needs and institutional investors' desires for infrastructure investment. It could also point to an opportunity for DFIs to develop new innovative financing mechanisms which enable private investors to finance infrastructure through listed equity (or debt) markets similar to the work IDB Invest has done around B Bonds[13].

Historically private infrastructure deals globally by deal count have favored renewable energy with the percentage cresting 50% half way through 2018 (see Figure 12). On an asset-weighted basis the renewable energy percentage decreases, though the sector likely still accounts for the plurality of deals by sector[14]. Globally interest in infrastructure assets remains diversified, however, with strong deal flow remaining in conventional energy, transport, utilities and social infrastructure.

Figure 9 / Infrastructure Deals by Primary Industry, 2015 – H1 2018 (Source: Preqin)





[12]https://www.edhec.edu/en/news/edhec-study-shows-listed-infrastructure-equity-offers-zero-diversification-benefits-not-asset
[13]https://blogs.iadb.org/bidinvest/en/what-is-a-b-bond/https://blog.iic.org/2018/02/09/what-is-a-b-bond/
[14]Preqin Infrastructure Deals Summary (Q2 2018) and Data Pack (2016); Mercer analysis.

The results of this survey reflect the diversified interest of the marketplace evidenced by Preqin above. While not a direct comparison the following figures show a weighting of the sectors that investors are pursuing (respondents were asked to check all that apply), investors expressed broad interest across a variety of infrastructure sectors (Figure 10, 11). In all cases, except for commercial banks and LAC investors, interest in renewable energy exceeded interest in conventional energy. European investors and commercial banks expressed the most interest in investing in social initiatives, such as schools and hospitals and Asia-Pacific investors and insurers expressed the most interest in transportation. Overall social infrastructure was of least interest and renewable energy was of most interest.

Figure 10 / Target Sector by Investor Type (n=62)

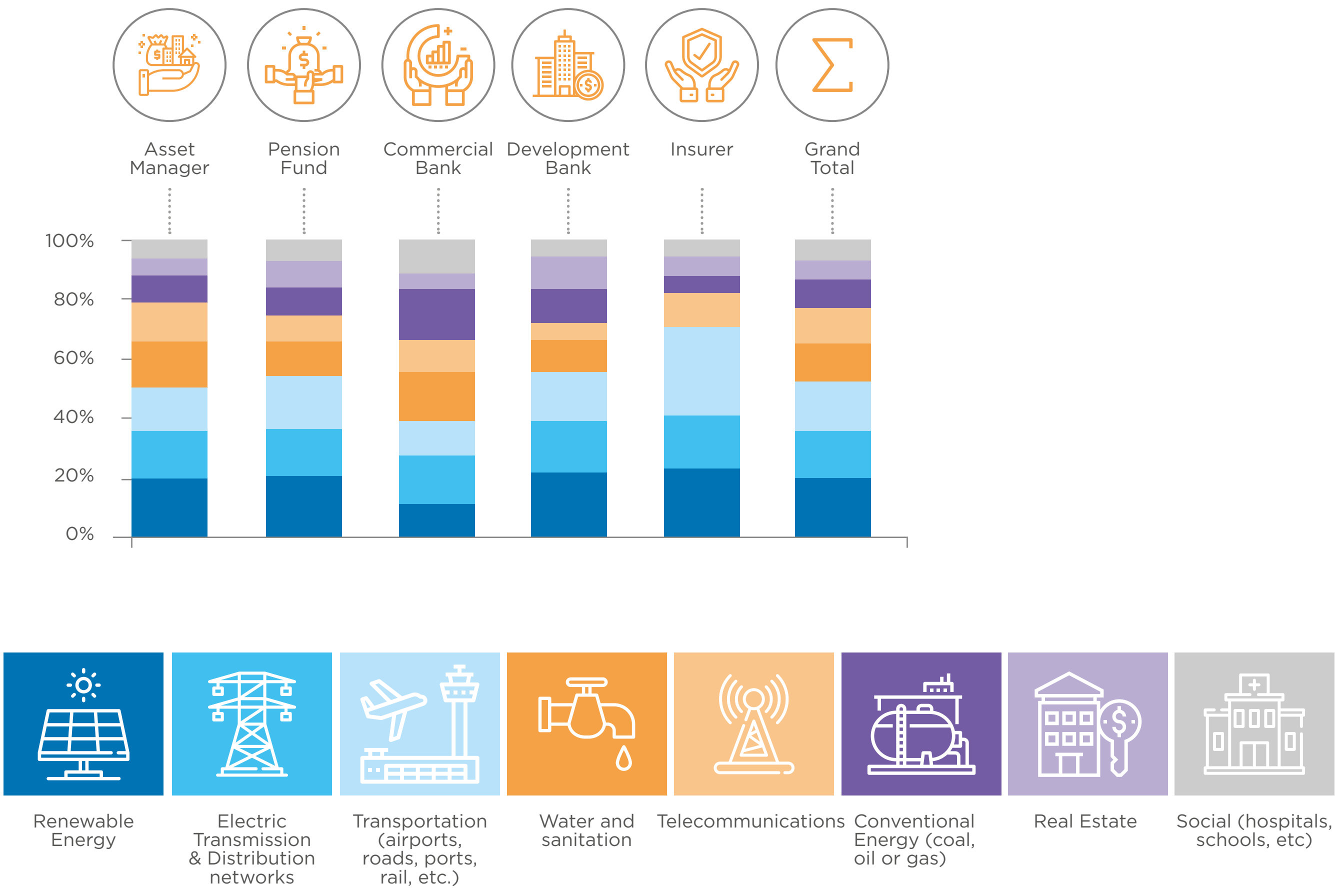
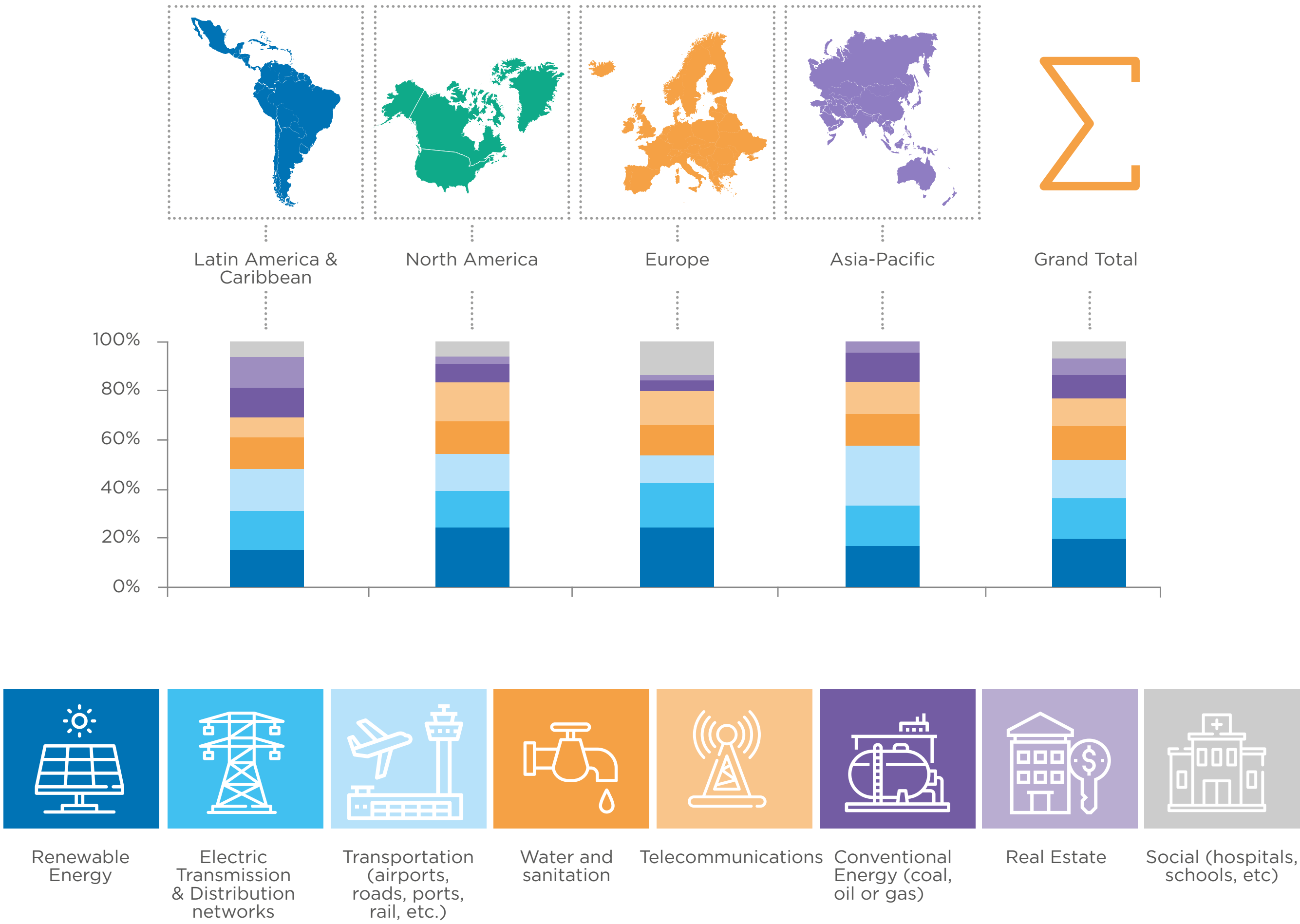


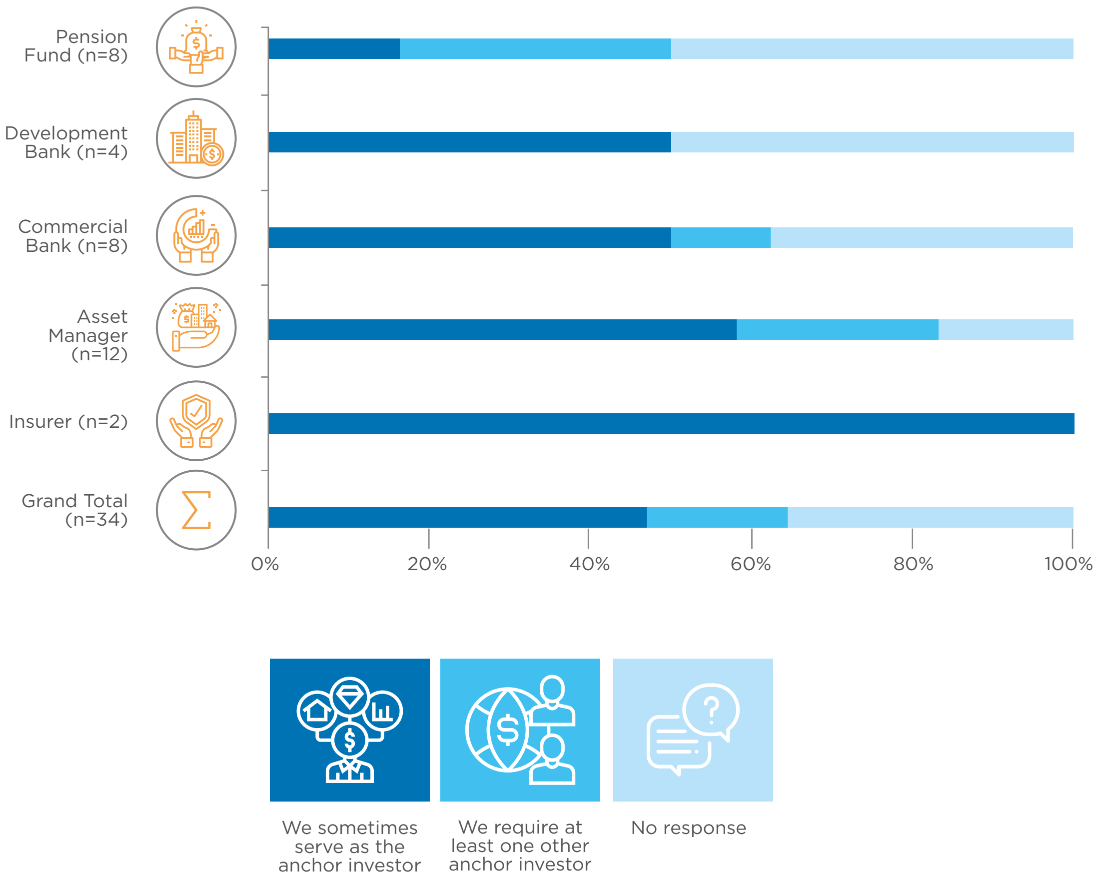
Figure 11 / Target Sector by Investor Type (n=62)



Interestingly, in terms of risk appetite for initiating and leading transactions at the very early stage, over 60% of the respondents indicated that they are willing to serve as an anchor investor, either individually or in partnership with others (Figure 12). Amongst primarily equity investors this more active investment approach is typical amongst asset managers (with more than 80% of respondents) and much more uncommon amongst pension funds with less than 50% willing to be an anchor investor. Generally speaking, typically debt-oriented investors (namely DFIs, commercial banks and insurers) are more likely to accept to be lead creditors and engage at early stage with the investments. Though as greenfield deals typically need both equity and debt support, anchors of both types are still needed at the deal level suggesting a relative dearth of lead equity investors in the region and a potential role for innovative instruments.

While more global pensions are expected to adopt the "Canadian model" which involves asset management insourcing over time, i**n the near term asset managers and banks will likely continue to be the driving force behind private infrastructure deal flow and project development in the region.**

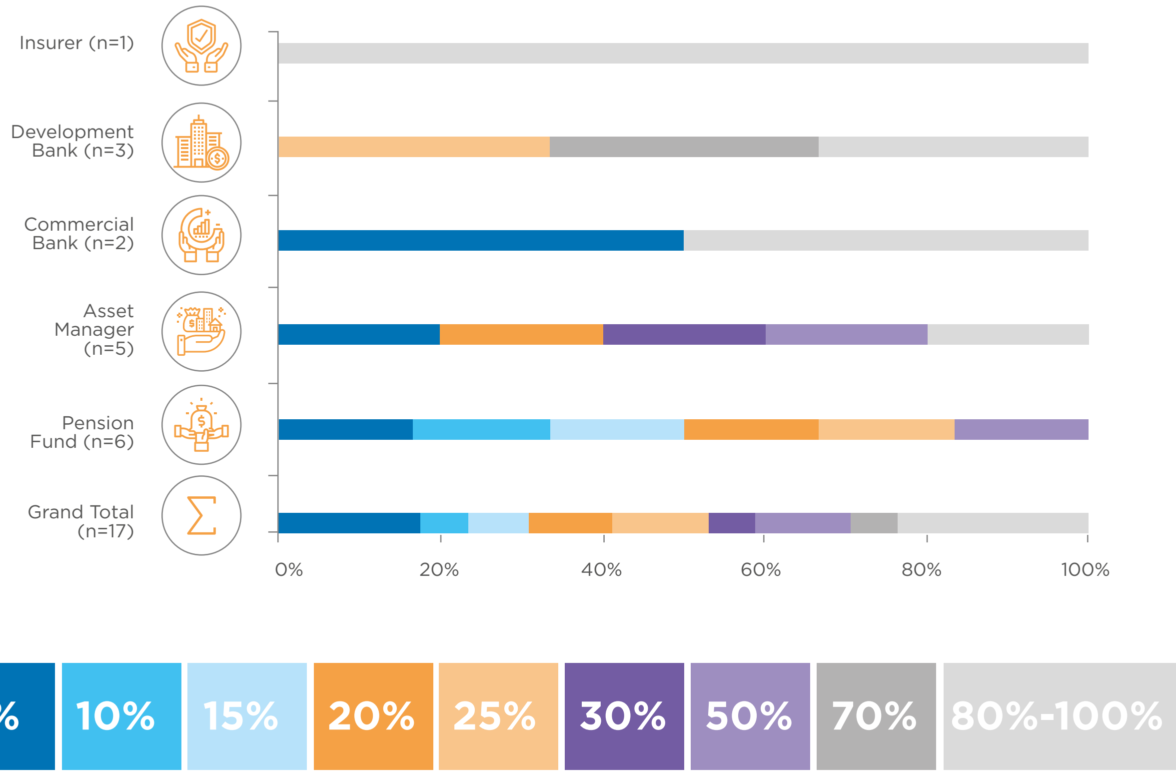
Figure 12 / Investors acting as Anchor Investors when Investing in Emerging Market Infrastructure (n=34)



In terms of the maximum % of the asset / project value, 17 investors responded and 70% of the responses reported a maximum investment of 50% of the asset / project value or below (Figure 13). The maximum ownership share that pensions can take in a given project is 50% with most pensions reporting a much lower limit. Asset managers on the other hand displayed a wide variety of responses with no consensus forming. While only two commercial banks responded to this question in the survey, surprisingly the two offered diametrically opposed responses.

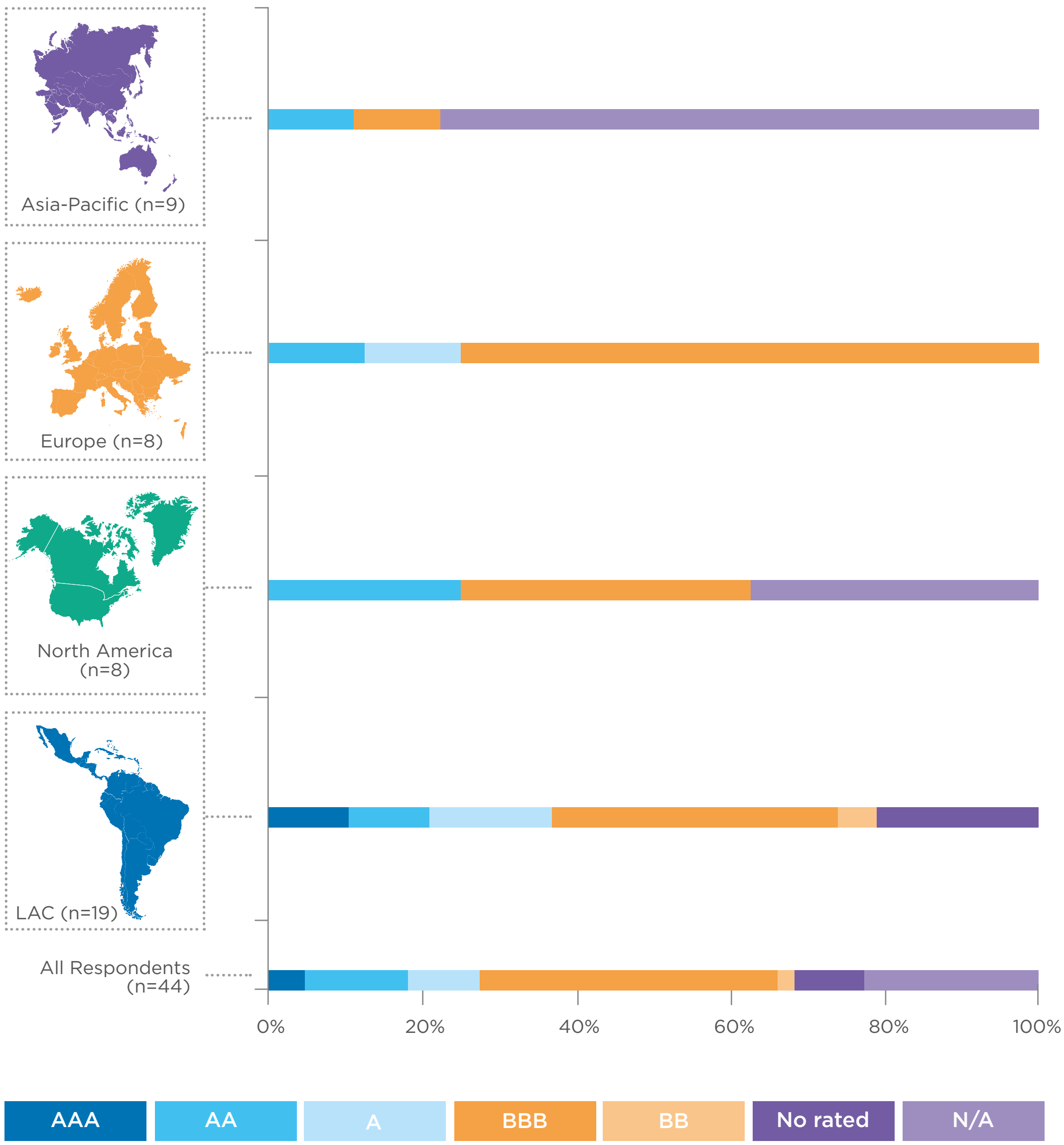
These limitations can be problematic insofar as there are relatively few investors by number willing and able to invest in LAC infrastructure versus developed markets. This means that size limitations can sometimes restrict deals from being fully financed. Also the relatively small number of anchor investors in the market (<40% of responses) speaks to a possible need for more lead deal underwriters who can bring in a broader number of investors. Development banks are well placed to support the development of new lead infrastructure investors either through the establishment of new fund vehicles for private capital (e.g. Ashmore Colombia Infrastructure Fund) or by educating investors with lead underwriting capacity on the merits of LAC infrastructure investing and encouraging their involvement in the marketplace (e.g. through blended finance).

Figure 13 / Maximum % of the Asset or Project Value (n=17)



In order to undertake a potential infrastructure project in LAC using debt instruments, **half of the respondents reported that they accept a BBB minimum international credit rating, while others sought an A rating on the project at minimum (Figure 14).** LAC investors were found to be the least risk-averse investors, reporting the largest proportion of sub-BBB rating minimums. A total of 44 investors responded to the question.

Figure 14 / Minimum International Credit Ratings – by Region of Investors' HQ (n=44)



On the typical maturity of debt instruments, investors across different geographies have relatively mixed interests, albeit centered on a consensus preference for 5-10 years maturity across geographies and investor type. The only investors who were interested in debt instruments with a tenor of less than three years were based in LAC (both asset managers and commercial banks). Development banks notably offer debt with a longer tenor than commercial debt providers fulfilling a key role in a market where project development timelines can be longer than in developed markets requiring more patient capital. 36 investors responded to this question. The figures below show responses split between investors with headquarters in LAC and investors with headquarters outside of LAC ("Non-LAC investors").

Figure 15 / Typical Maturity for Debt Instruments for LAC Infrastructure Projects – LAC HQ Investors (n=19)

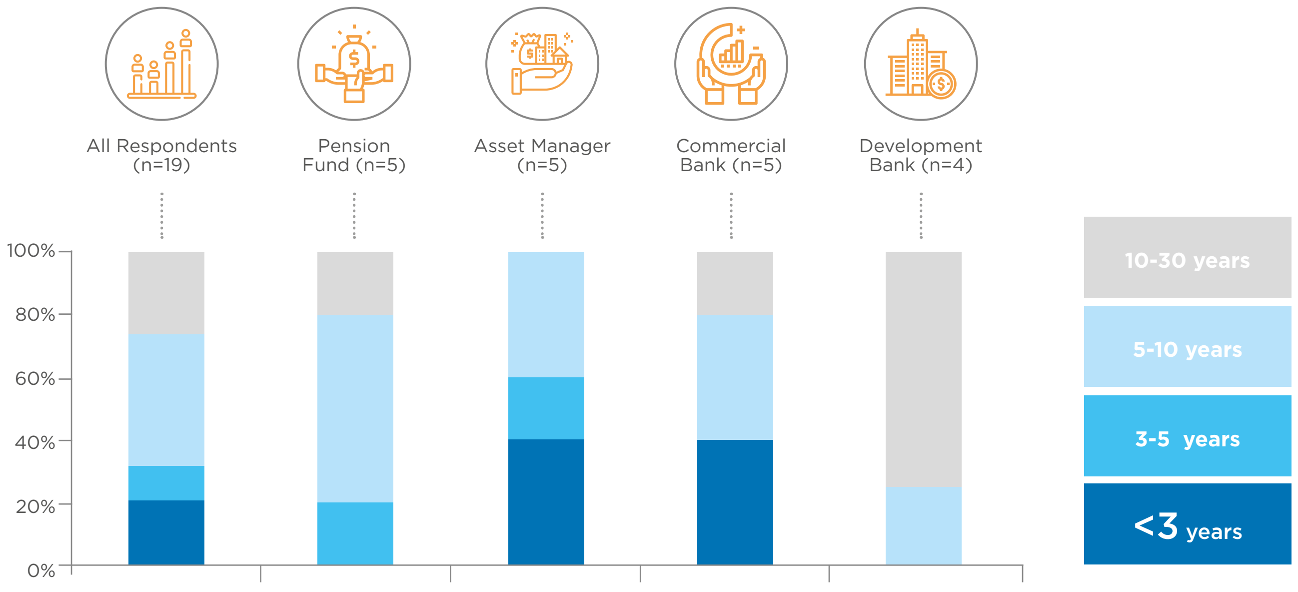
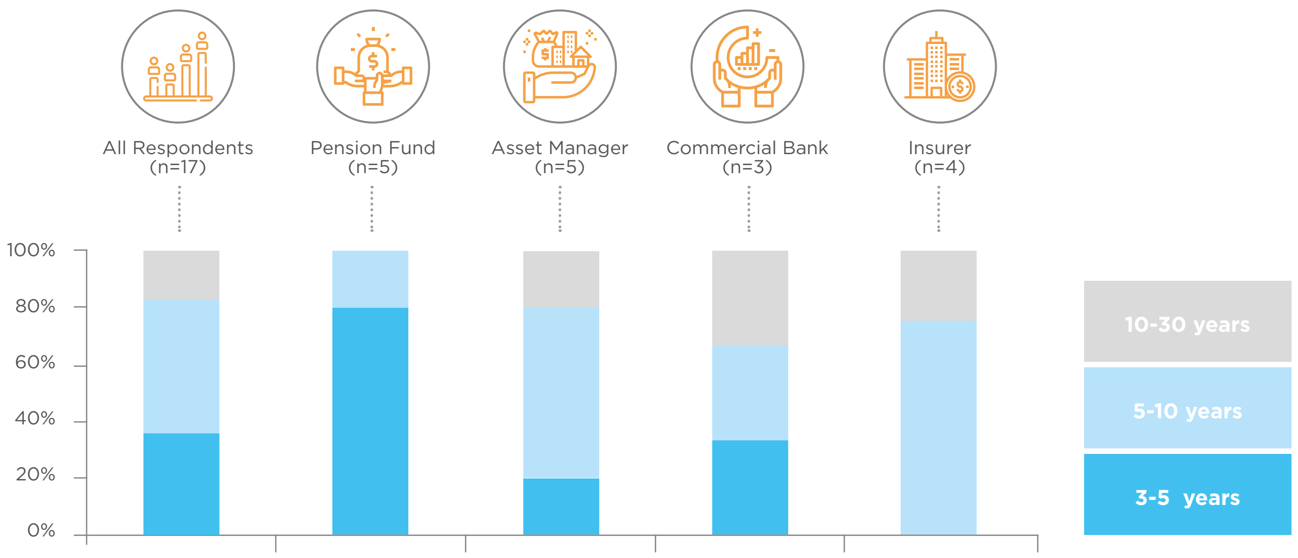


Figure 16 / Typical Maturity for Debt Instruments for LAC Infrastructure Projects – Non-LAC HQ Investors (n=17)



Barriers to Investments

The third section surveyed investors on barriers to investment in emerging market infrastructure, in an effort to understand which factors most frequently cause potential investors to avoid making infrastructure investments in LAC.

Key Findings:

- *Survey responses indicate that regulatory uncertainty and corruption represent the most significant risks to investing in emerging market infrastructure. While regulatory uncertainty ranks as a concern in other surveys, it is a more significant issue in emerging markets than globally.*

- *Regulatory risks can readily be addressed through the thoughtful application of political risk insurance which is readily available through DFIs and private insurers in certain countries. However, some respondents – notably pensions – indicated a lack of awareness of political risk management tools.*

- *A lack of bankable projects ranked first amongst other barriers not specifically related to investment risks. This reflects other survey findings as well, though may also reflect a lack of awareness amongst international investors regarding the recent progress which has been made in LAC with many governments developing broad sweeping infrastructure plans and others running several successful infrastructure auctions.*

- *Overall it appears one of the quickest and easiest ways to address the top concerns identified by survey respondents would be to educate them on improvements being made in LAC to address political risk and to shore up project pipelines.*

Much work has been done by IDB and other organizations to determine the key barriers to sustainable infrastructure investing globally and in Emerging Markets/LAC. Based on an analysis conducted by McKinsey in 2016[15], the organization identified 6 barriers as the highest priority to unlock the necessary capital flows into sustainable infrastructure globally. The first relates primarily to poor pipeline development by the public sector and the fourth relates to unsupportive regulatory environs. The remainder relate to the financial aspects of infrastructure transactions such as: the difficulty of renewable energy and other sustainable technologies to compete with incumbents on market-based economics alone given their differing capital structures[16] and the current distribution of subsidies[17]; the difficulty of accessing sustainable investment opportunities due to a lack of liquid public markets investment mechanisms; etc.

While on a global basis pipeline development and financial concerns dominate, in LAC the emphasis is somewhat different. Based on the research released by Mercer and IDB in 2017[18] which looked at the significance of a representative subset of the above issues to investors, the interviewees identified regulatory uncertainty as by far the most significant barrier to increasing investment into sustainable infrastructure in LAC. Pipelines and financial transaction issues ranked as much less significant barriers than globally.

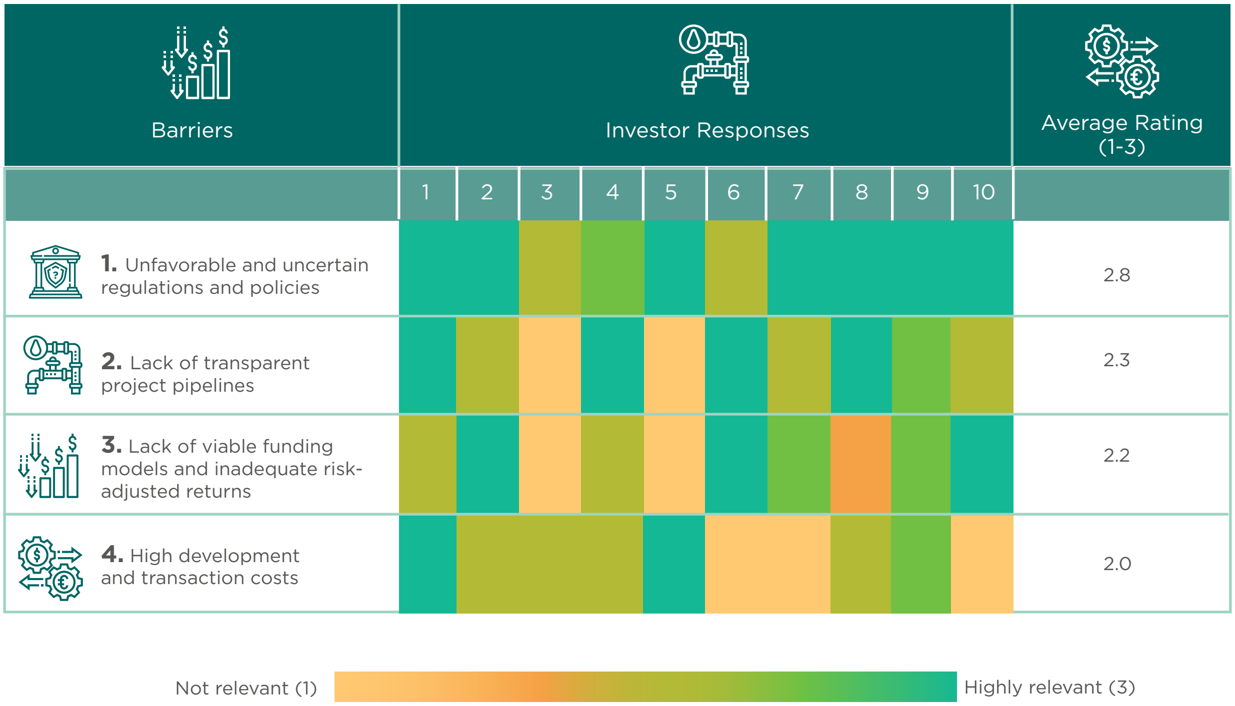
[15] McKinsey; Financing change: How to mobilize private sector financing for sustainable infrastructure; 2016

[16] Shannon Bouton, David Newsome, and Jonathan Woetzel, "Building the cities of the future with green districts," May 2015, mckinsey.com.

[17] While a full discussion of the impact of subsidies is beyond the scope of this paper, the IEA has tracked for some time the aggregate absolute amount of subsidies being channeled to fossil fuels versus renewables globally (see link below). Fossil fuel subsidies still dwarf renewable subsidies in absolute terms making it harder for renewable technologies to compete. While critics of this measure have argued that renewables receive a much higher share of global energy subsidies as a portion of total energy produced the logic of supporting incumbent and polluting industries with state incentives which far exceed those provided to cleaner technologies is difficult to support even on developmental grounds since distributed sources of renewable energy provide more accessible, safe and reliable energy access.
https://www.iea.org/newsroom/energysnapshots/estimates-for-global-fossil-fuel-consumption-subsidies.html

[18] Mercer and IDB; Crossing the Bridge to Sustainable Infrastructure Investment; 2017

Figure 17 / Barriers to Investment in Sustainable Infrastructure in LAC



This survey attempted to confirm the above and interrogate additional factors that might drive investors away from sustainable infrastructure opportunities in the LAC region. To do this, questions were asked in the survey which distinguished between the risks impeding prospective sustainable infrastructure investors and other barriers (e.g. issues not related to the riskiness of deals but to the availability of investable projects or human resources capacity). The following graphs show the responses received to the question "For infrastructure investments in LAC, which risks would cause you to walk away from a deal if not mitigated?" Respondents were allowed to select up to three options.

Figure 18 shows the responses split between LAC and non-LAC investors; Figure 19 shows the responses by investor type. Most of the responses were fairly aligned between LAC and non-LAC respondents both in terms of ranking and in terms of relative importance, with a significant majority in both groups (61% of the total) **confirming governance risk and political / regulatory risk as potential 'deal-breakers'. Interestingly, there was a notably higher percentage of non-LAC respondents identifying governance risk as a deal breaker (67%) versus LAC investors (52%), suggesting higher perception of corruption risks from foreign investors rather than locally based ones.**

The focus on regulatory risks amongst survey respondents broadly reflects what Mercer and IDB found in their 2017 research cited above, and from a focused analysis on the role of transparency and governance issues for the bankability of infrastructure in LAC (IDB and Mercer, 2019)[19].

[19]"Bankability through the Lens of Transparency: Increasing Private Investment in Latin American Infrastructure", Chalmers and Frisari, 2019 https://publications.iadb.org/en/bankability-through-lens-transparency-increasing-private-investment-latin-american-infrastructure

Figure 18 / “Deal-Breaker Risks” as identified by respondents
(n = 59 split between LAC/non-LAC Investors)

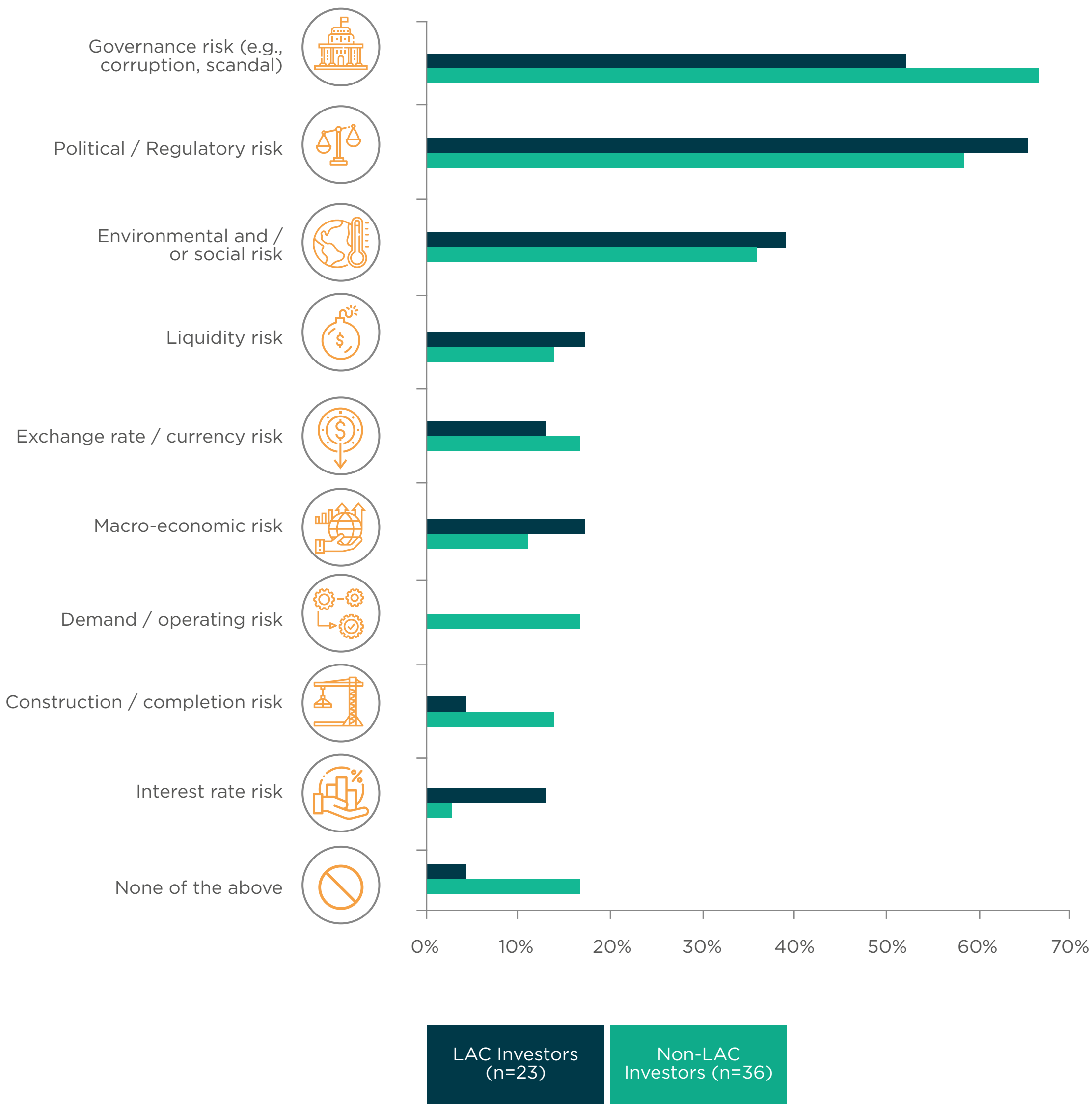
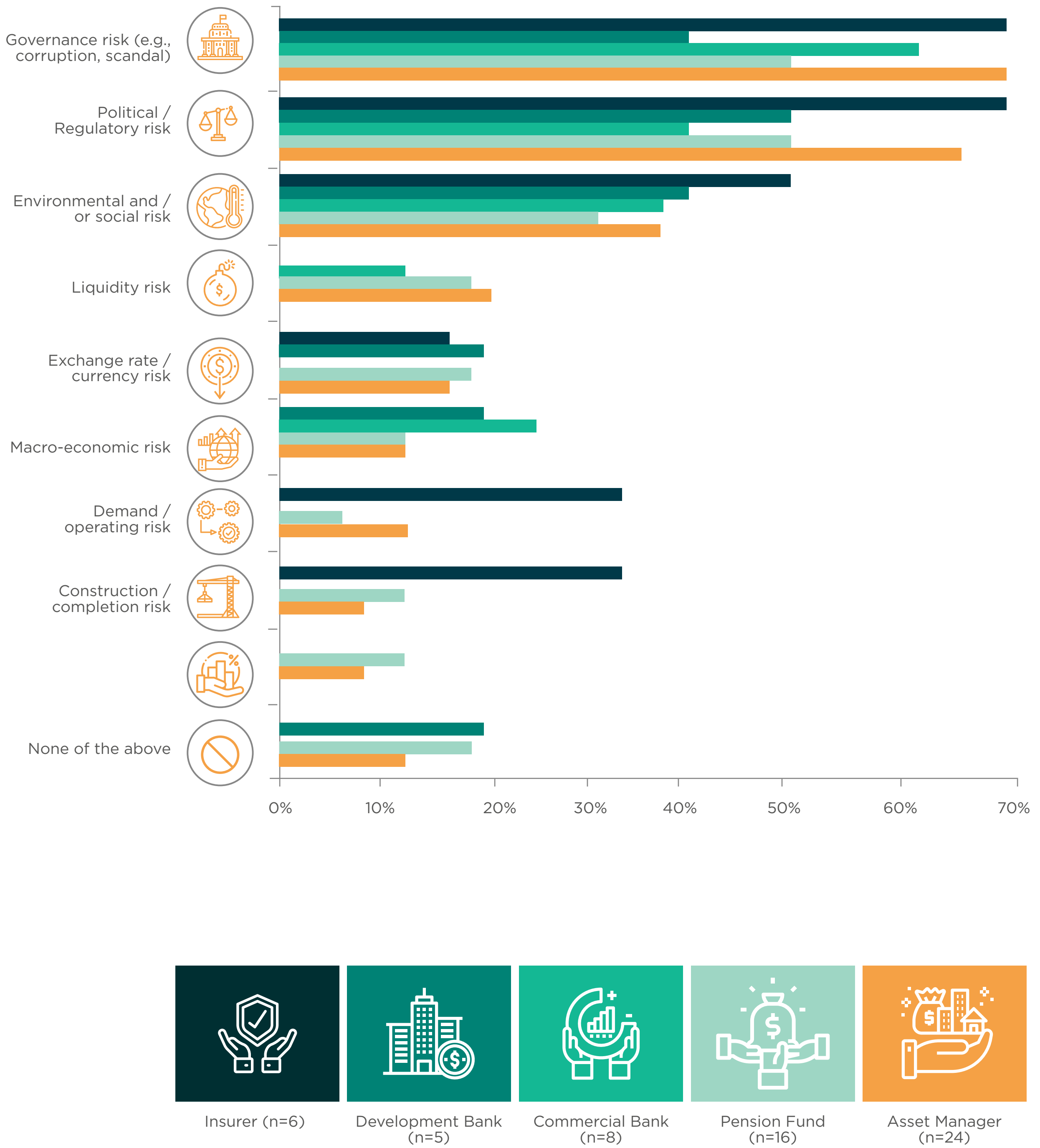
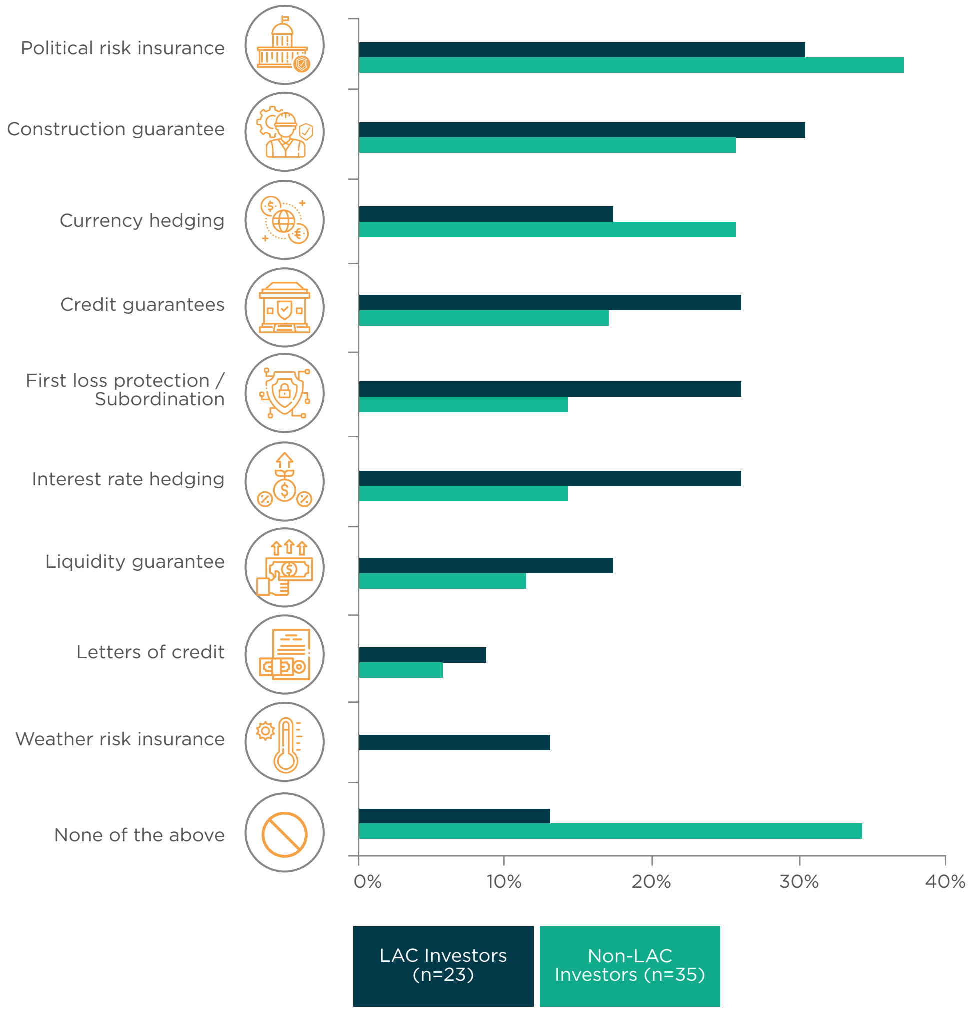


Figure 19 / "Deal-Breaker Risks" as identified by respondents (n = 59 split by Investor Type)



As might be expected, there also appears to be fairly clear alignment between the top "deal breaker" risks noted by investors and the risk mitigation instruments they are most interested in. Governance risks such as corruption or scandal may be in part addressed by both political risk insurance and construction guarantees (in the case of a contractor defrauding investors, for example), and political and regulatory risks generally would be addressed through political risk insurance. As shown in the following figure, although political risk insurance is of most interest, the lower percentage responses and the high incidence of "none" responses indicate that not all deal breaker risk concerns can be addressed through risk mitigation instruments or that more education on the uses/benefits of risk mitigation instruments is required. The high incidence of "none" responses also underscores the (perhaps paramount) importance of projects being well-prepared in keeping with the related emphasis in IDB's sustainable infrastructure framework[20].

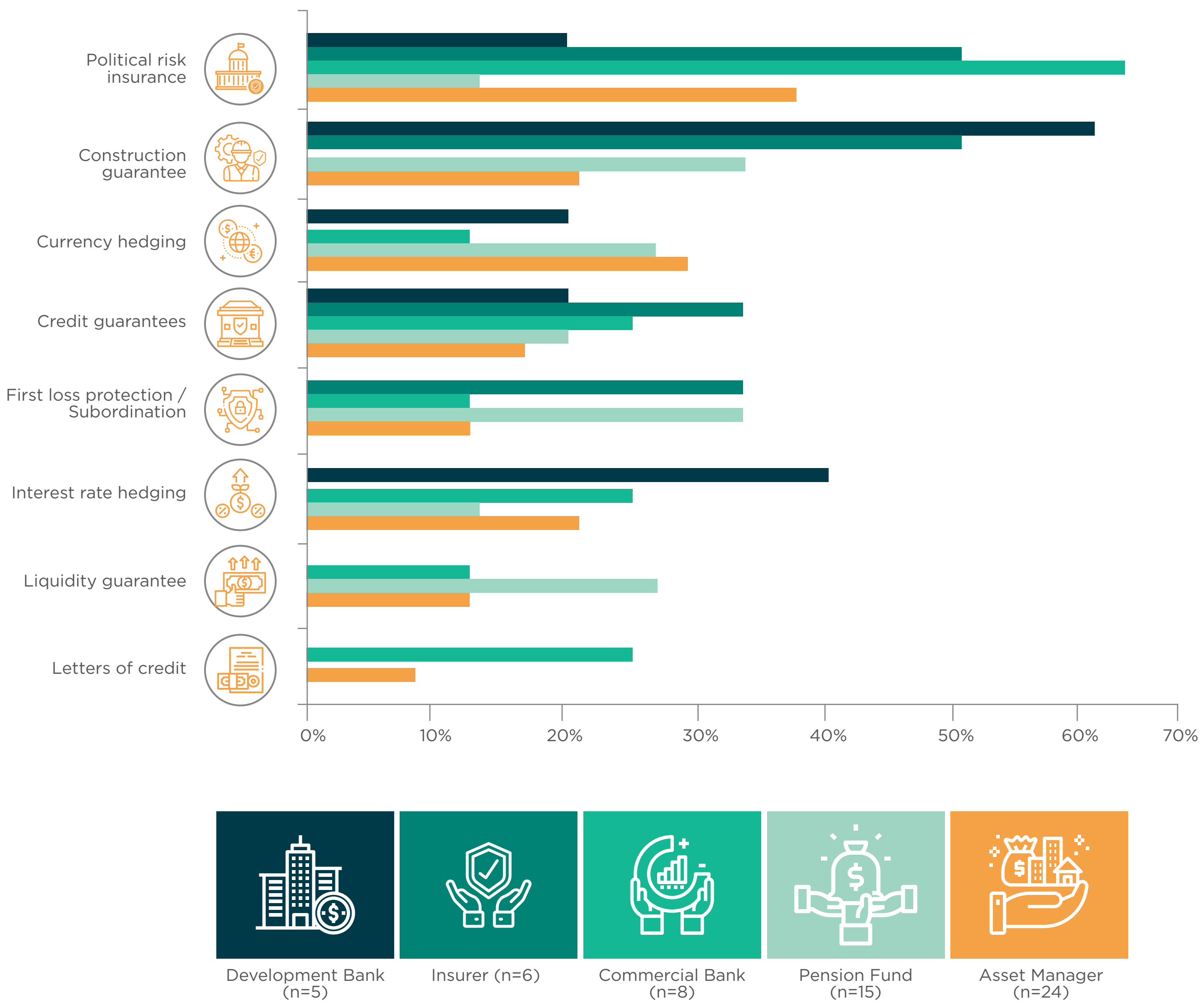
Figure 20 / Preferred Risk Mitigation Instruments, as identified by respondents (n = 58)



[20]https://publications.iadb.org/en/publication/12946/idbg-framework-planning-preparing-and-financing-sustainable-infrastructure

Some variation in risk mitigation preference was noted based on investor type (Figure 21); the lack of interest amongst pension funds for political risk insurance is curious and worth exploring further especially to the extent it is a reflection of ignorance regarding the utility of such a tool. In prior research asset owners have indicated a lack of awareness regarding risk mitigation tools available in emerging markets or a lack of understanding regarding their functionality[21].

Figure 21 / Preferred Risk Mitigation Instruments by Investor Type (n=58)

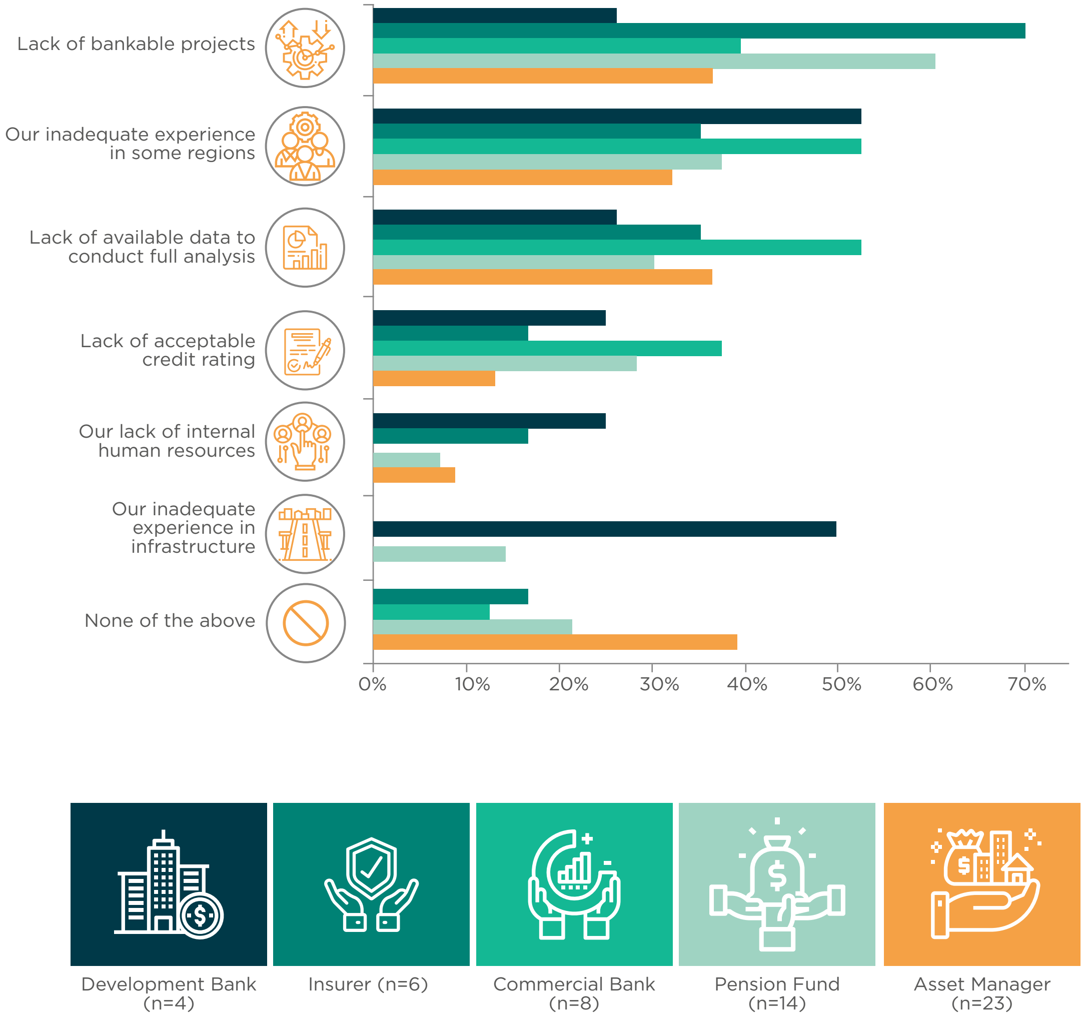


[21] Mercer; African Infrastructure Investment: Challenges and Opportunities; 2018 – page 30-31

In addition to ranking key risks and risk mitigants, respondents were asked to rank other barriers to investing in emerging market infrastructure which may not relate specifically to the risks of investment. Respondents were asked to select up to 3 options. The following figures compare the perceived barriers that LAC and non-LAC investors face based on the 55 responses to the question overall, across regions and by type.

Figure 22 / Barriers to Reaching Emerging Market Infrastructure Targets (n=55)

Figure 23 / Barriers to Reaching Emerging Market Infrastructure Targets – by Investor Type (n=55)



Overall awareness of national infrastructure plans appears low. A lack of bankable projects ranked first which broadly reflects the findings of McKinsey's global analysis cited previously in this section[22]. However, much progress has been made in LAC recently with many governments developing significant infrastructure plans and others running several successful auctions. This mismatch between perception and a rapidly changing

[22] A lack of bankable projects could either be an issue with the volume of the projects (which could be addressed through more robust pipeline development) or an issue with the risk/return characteristics of the project (which could be addressed through a variety of blended finance interventions). For the purposes of this analysis responses to this barrier are presumed to refer to the former issue more so than the latter given survey context.

reality is redoubled by the findings of an EDHEC survey[23] which asked investors to identify which national infrastructure plans they were familiar with in selected OECD and Emerging Market countries. Overall awareness of national plans was low outside of the EU, the UK, Australia and North America. In particular investors had low awareness of infrastructure plans in Chile and Brazil. Closing this awareness gap could help to foster more investment into LAC infrastructure by surmounting the most significant barrier identified in the table above. The issue of a lack of bankable projects is a common complaint; however there will always be elements of individual investor preference, and perhaps investment policy constraints, which render projects "unbankable" according to an investor's perspective (e.g. credit quality preferences cited previously).

The second most common barrier noted – that an investor doesn't have enough experience in a given region – likely stems from a variety of factors. In other studies, research has indicated that infrastructure investors based in developed markets believe they have adequate deal flow and ability to deploy capital with appropriate risk and return expectations into North America and Europe[24]. Such issues can be surmounted by helping investor to gain comfort with the particular contexts and risks that a country or region presents. Learning more about a region requires an explicit focus and dedication of time and resources, which may be a deterrent to investors that do not have a clear emerging markets focus. Though such education could pay dividends when it comes to addressing the two highest ranked barriers identified in the survey.

Finally, **a lack of data available to perform due diligence on deals is a persistent challenge among emerging markets**, as highlighted by the World Bank and others.[25] Improving data availability is a multilayered process involving government agencies, regulators, and the private sector in a given region. Furthermore, aligning all of the stakeholders to develop the data collection and reporting structures necessary is a long-term process. This challenge is not insurmountable, but it is one that will likely affect these markets for the foreseeable future.

[23]EDHEC, Investor Perceptions of Infrastructure; 2017 – presents the views of 186 infrastructure investment professionals surveyed globally.
[24]Mercer; African Infrastructure Investment: Challenges and Opportunities; 2018 – page 18
[25]Independent Evaluation Group. 2017. Data for Development: An Evaluation of World Bank Support for Data and Statistical Capacity. World Bank, Washington, DC. © World Bank. http://ieg.worldbankgroup.org/evaluations/data-for-development

Social and Environmental Considerations

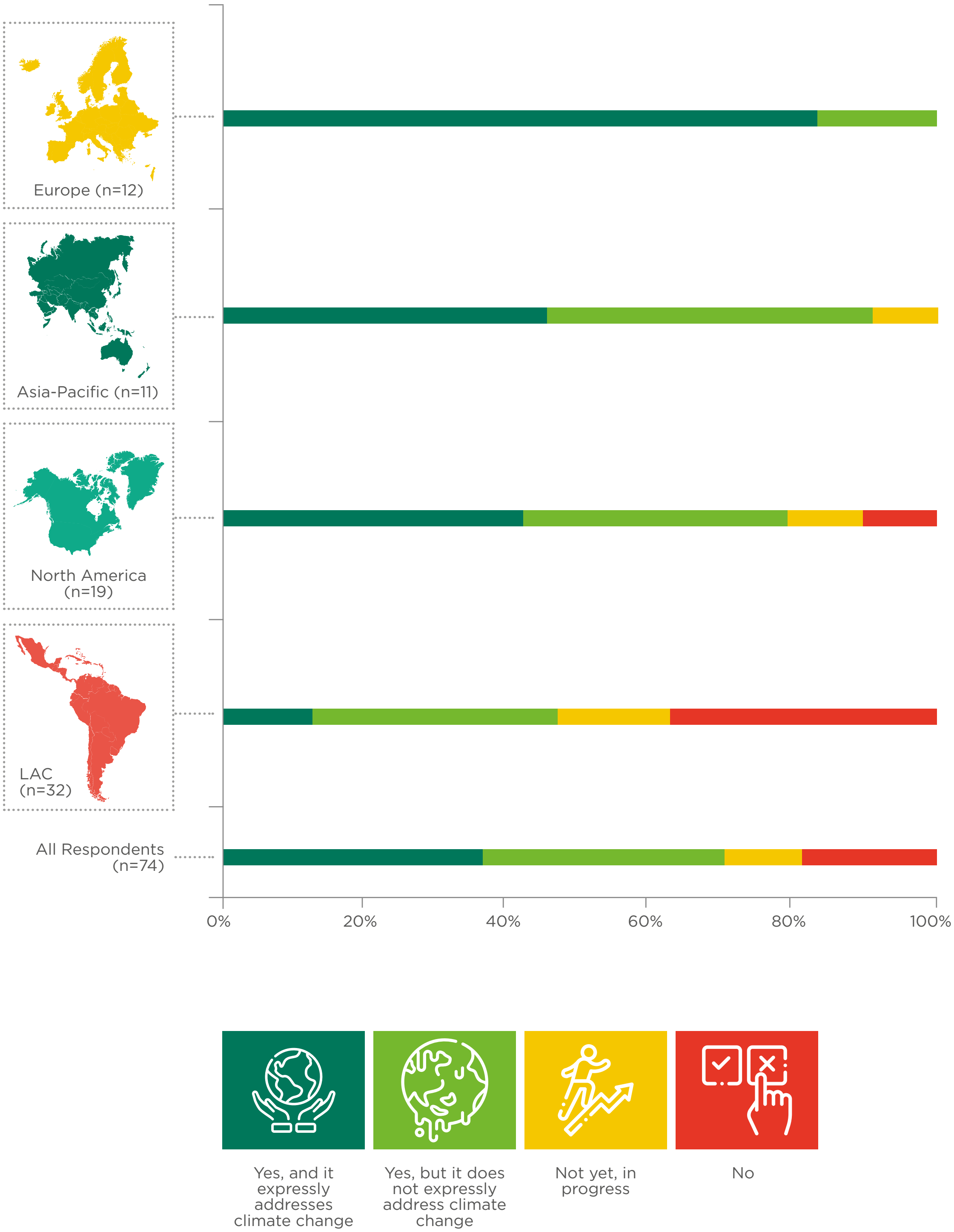
*Lastly, investors were asked about the sustainability considerations they take into account within their investment process and **philosophy.***

Key Findings:

- *A large majority of investors responding to the survey have an ESG policy in place and about half of these investors address climate change specifically in their ESG policy. This is a higher proportion of investors with ESG policies than found elsewhere in industry literature indicating that infrastructure investors, which tend to be larger, are more likely than non-infrastructure investors to address ESG issues in their investments.*
- *LAC investors are much less likely than investors from other regions to have any dedicated ESG resources speaking to a lack of related talent in the region.*
- *As many as 20% of respondents have an ESG policy but no resources in place to support policy implementation or monitoring.*
- *Overall investors are still more likely to outsource ESG assessment or treat ESG as a compliance issue than embed ESG assessment into core due diligence or investment management functions.*
- *Climate-related disclosure is not yet mainstream and is lagging in LAC versus other regions.*

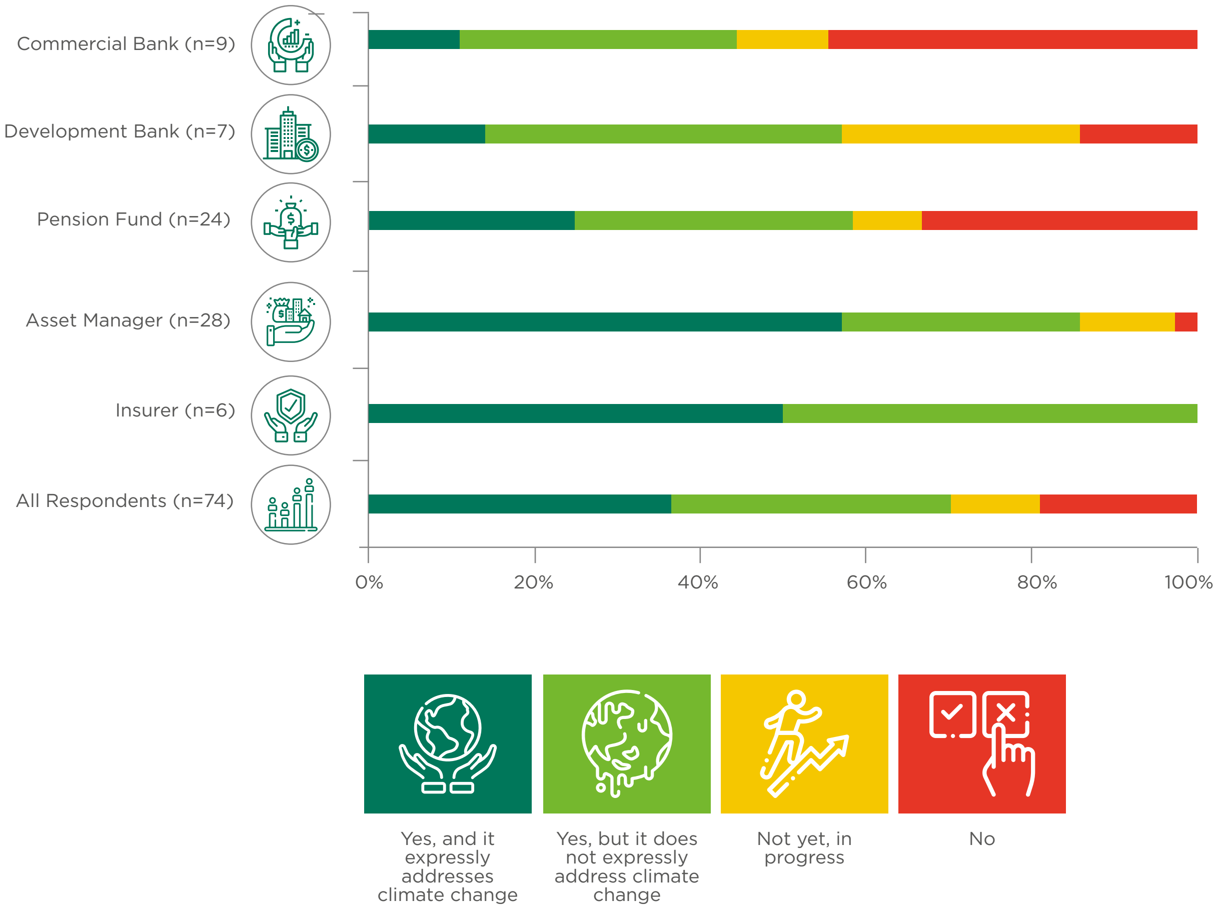
***Less than two-thirds of the LAC respondents have an ESG policy (or have one in development).** This contrasts with European-based respondents which all have an ESG policy and most of them explicitly reference climate change.*

Figure 24 / Investor ESG or Sustainable Investment Policy Adoption – by Region of Respondent HQ (n=74)



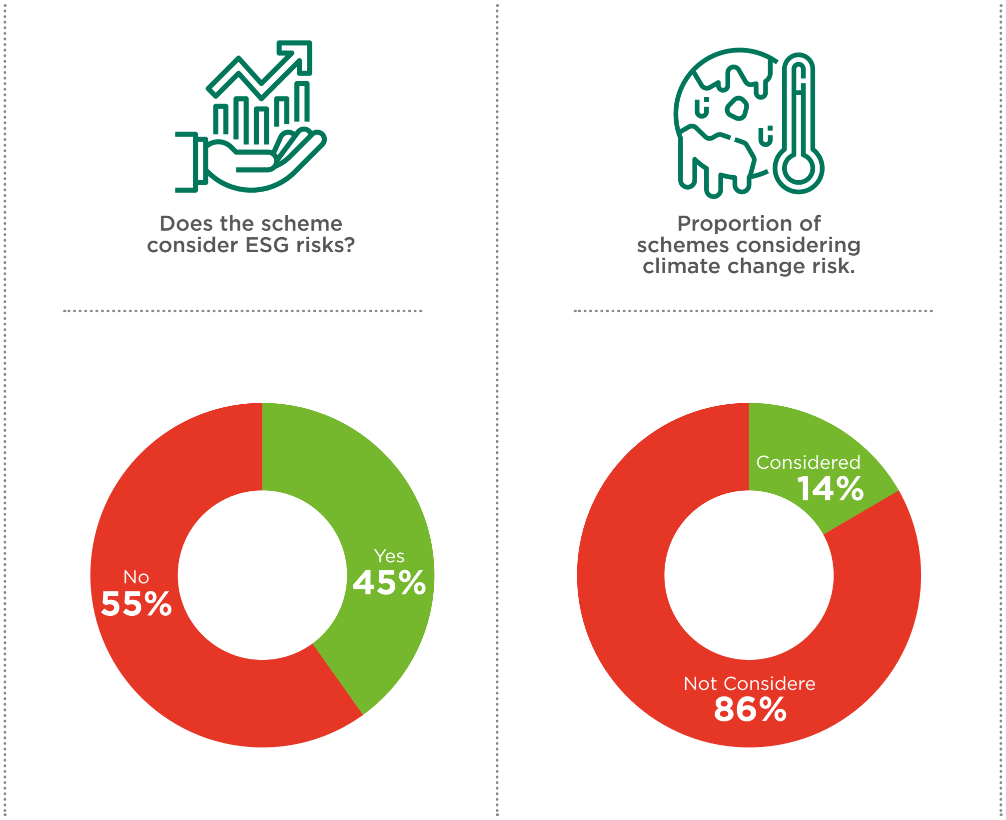
The following figure shows the same data broken down by investor type, which shows that almost all asset managers have an ESG policy or are developing one. In contrast, close to half of the commercial bank respondents have no policy. Seven of the nine commercial banks that responded to this question are based in the LAC region.

Figure 25 / Investor ESG or Sustainable Investment Policy Adoption – by Investor Type (n=74)



Based on a review of other survey findings the portion of responding investors with an ESG policy appears high. For instance, Mercer's 2018 review of European pension practices found that only 40% of the pension plans surveyed consider ESG risks and only 17% consider climate change risk (Figure 26)[26].This could be a reflection of the size of infrastructure investors targeted for the IDB survey which tend to skew towards the larger end of the spectrum and larger investors are known to be more likely to address ESG issues.

Figure 26 / Mercer European Asset Allocation Survey (Pensions Only) – Responsible Investment Responses

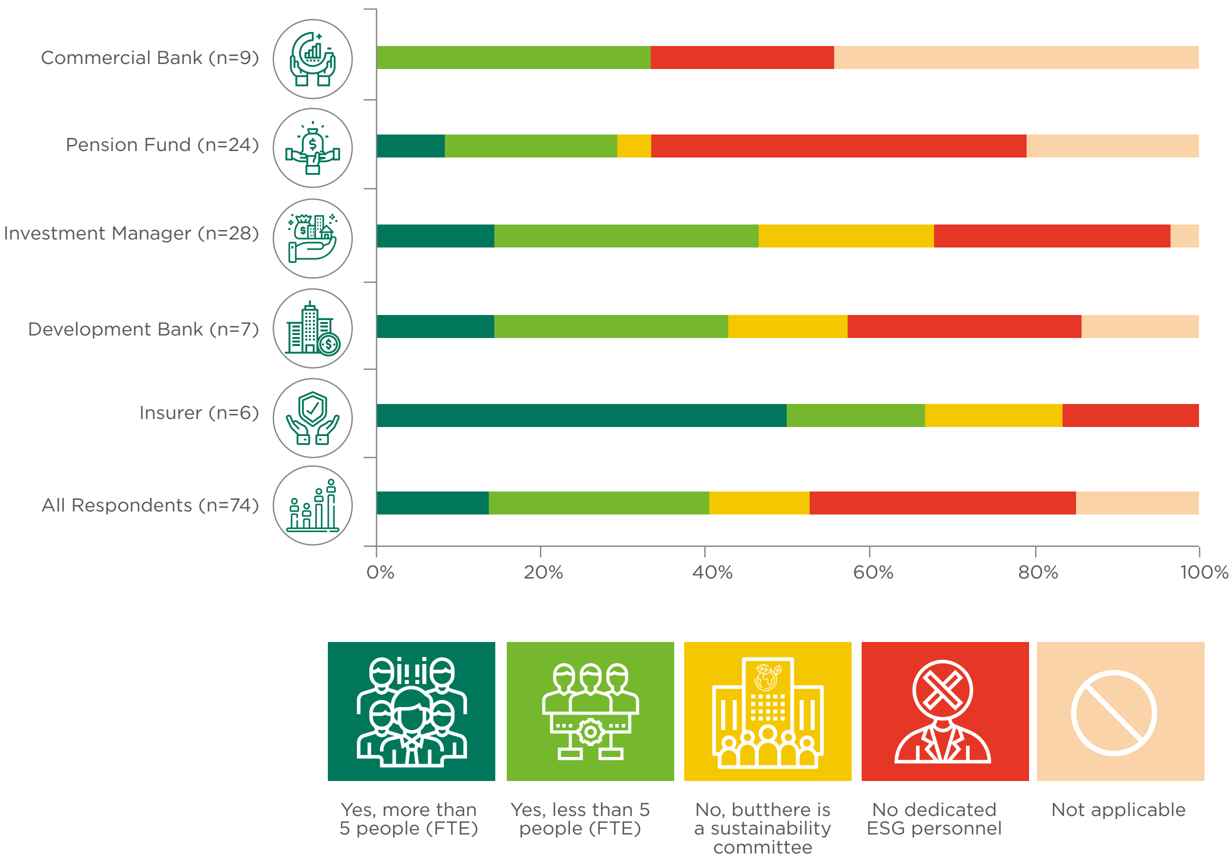


[26]Mercer; 2018 European Asset Allocation Survey – The 2018 survey gathered information on 912 institutional investors across 12 countries, reflecting total assets of around €1.1 trillion.

Two-thirds of asset managers have some ESG resources (dedicated staff and/or a committee). Pension funds show a lower prevalence of dedicated ESG resources, but in Mercer's experience typically only very large pensions have capacity for such resources. Most pensions are more likely to rely on their asset managers and/or external support to address ESG. Commercial banks reported the lowest allocation of dedicated ESG resources, which correlates with the fact that half of the commercial bank respondents have no ESG policy. Interestingly while two thirds of respondents said they have an ESG policy, only ~50% indicated the existence of ESG resources or a sustainable investment committee. In fact 22% of respondents have an ESG policy but have no dedicated resources in place to implement or monitor its contents.

As an aside, while a lack of separate dedicated resources is generally a negative, some firms elect to address ESG integration through training of existing staff and by making it a core part of each analyst's job description for instance. If done properly this can be a more effective method of achieving ESG integration than via the establishment of a separate ESG team. Though in these cases at least a sustainable investment committee comprised of appropriately senior representatives would be required to support policy development and alignment[27].

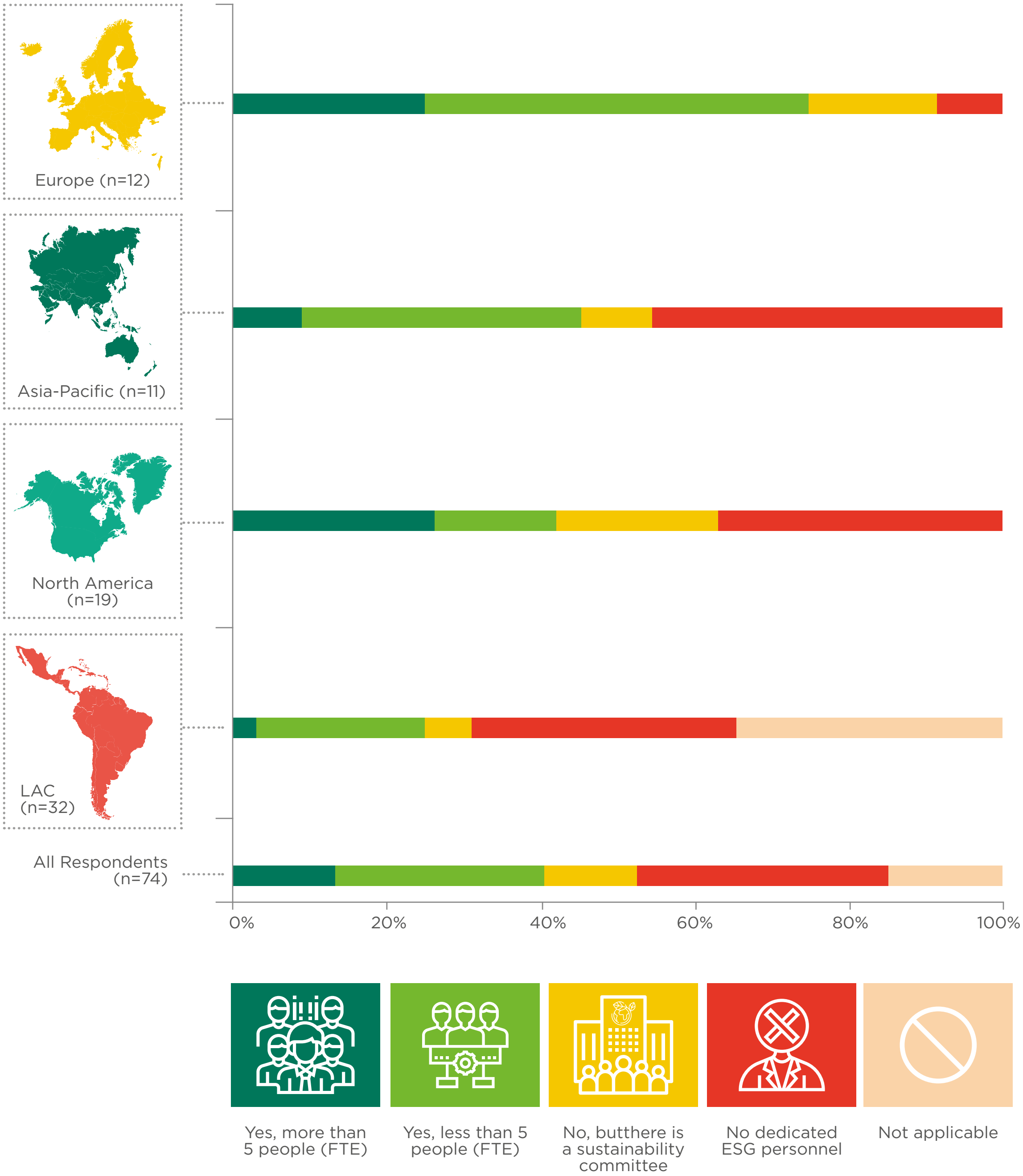
Figure 27 / Prevalence of ESG Resources – by Investor Type (n=74)



[27] There are many different approaches to ESG integration which Mercer has observed. For a typology of ESG integration methods see: IRRC Institute and Sustainalytics; How Investors Integrate ESG: A Typology of Approaches; 2017.

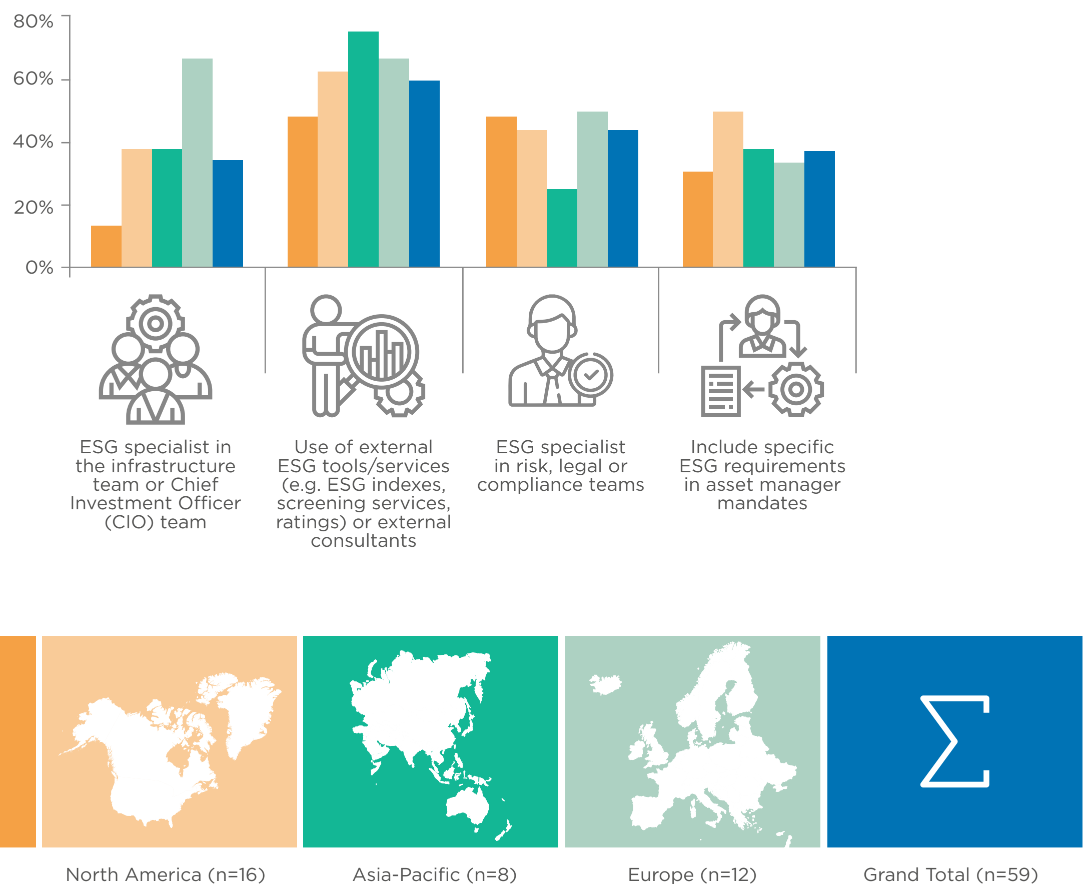
The following figure shows the distribution of responses by the region in which the respondent's headquarters is based. Of the 11 LAC respondents that chose "Not applicable", 9 do not have an ESG policy, the other 2 (a pension fund and a development bank) do have an ESG policy. Only 30% of LAC respondents have a dedicated ESG resource which is indicative perhaps of a dearth of ESG expertise in the region.

Figure 28 / Prevalence of ESG Resources – by Region of Respondent Headquarter (n=74)



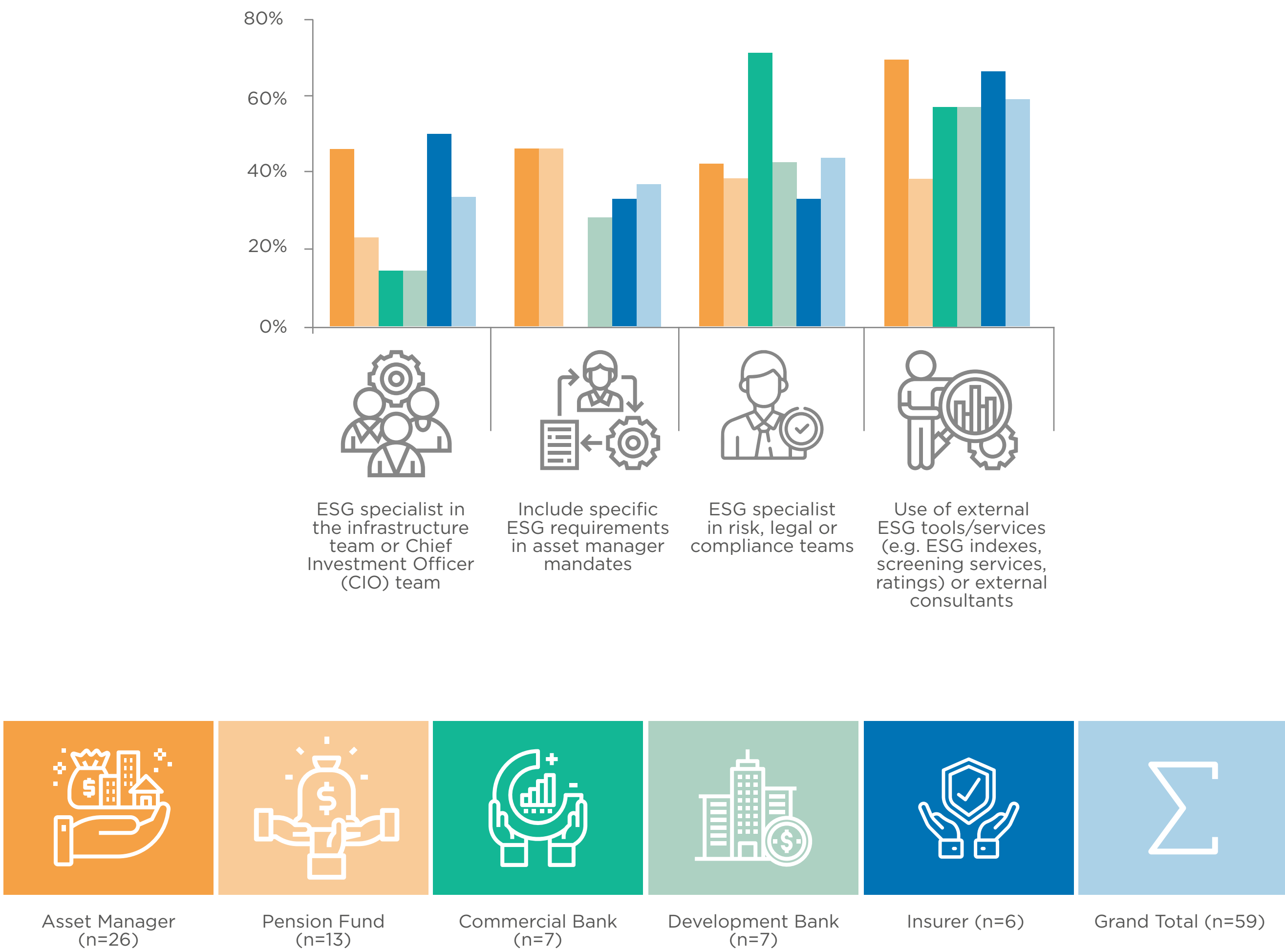
The following figure table outlines the types of resources used for Infrastructure ESG analysis. **Over 60% of European respondents (all of which have an ESG policy) have an ESG specialist in the infrastructure team or in the CIO office. In contrast, the LAC respondents rarely have either**. The absence of an ESG specialist in either the infrastructure team or the CIO's office could be an indication that ESG is still considered a compliance/legal issue (as opposed to core to the due diligence and/or investment process). The use of external ESG tools/services could be due to limited internal resources, but it could also be a reflection of the importance of ESG in the due diligence and/or investment processes.

Figure 29 / Resources used for Infrastructure ESG Analysis – by Region of HQ (n=59)



The following figure shows the same response data by investor type. Commercial banks are the most likely to treat ESG as a compliance issue. Asset managers and insurers are most likely to have ESG expertise on the investment team and to access external resources. Overall investors are still more likely to outsource ESG assessment or treat ESG as a compliance issue than embed ESG assessment into core due diligence or investment management functions.

Figure 30 / Resources used for Infrastructure ESG Analysis – by Investor Type (n=59)



Respondents were also asked about their use of third-party certifications at the asset level, in order to ensure that infrastructure assets perform as intended. As noted in the figure below, approximately **20% of respondents require use a certification in some cases, while over 30% indicated that they perform their sustainability certifications internally, especially in Europe and North America where they typically have dedicated staff resources (Fig 31). Nearly half of all respondents do not require yet a certification.**

Figure 31 / Use of Certifications – by Region of Investor HQ (n=47)

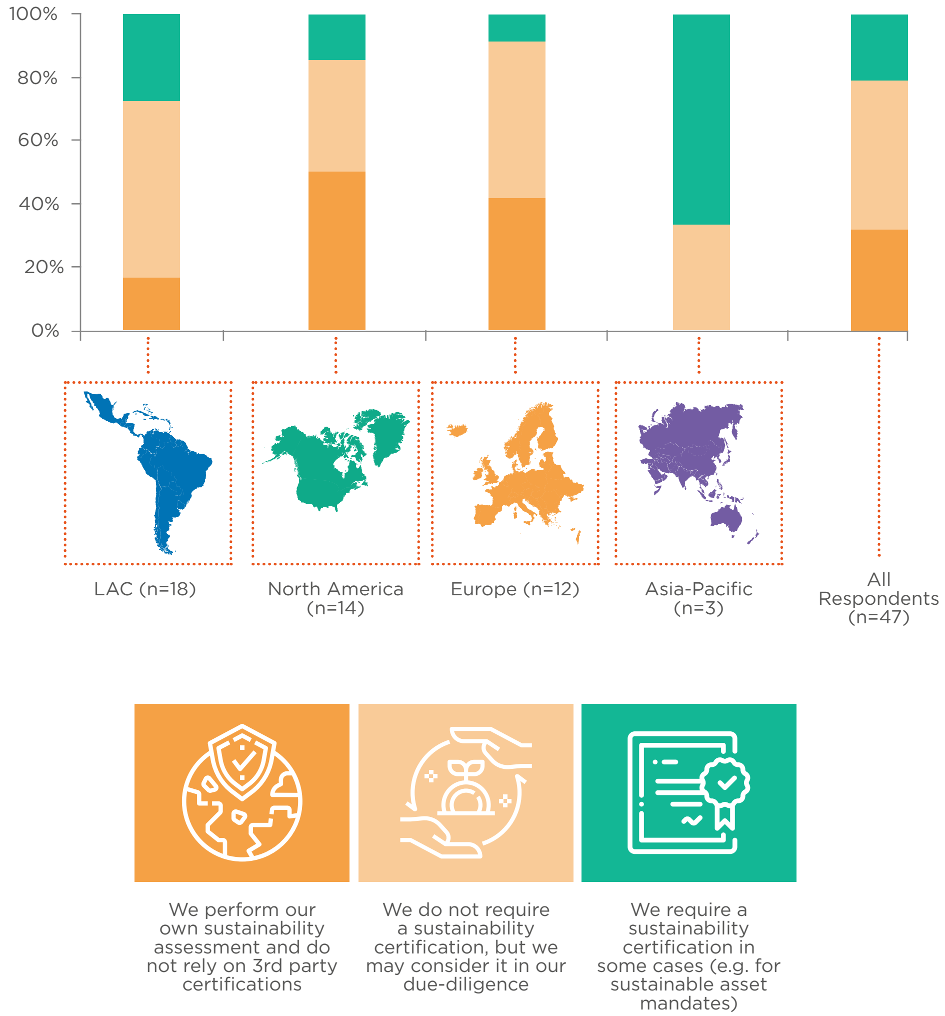
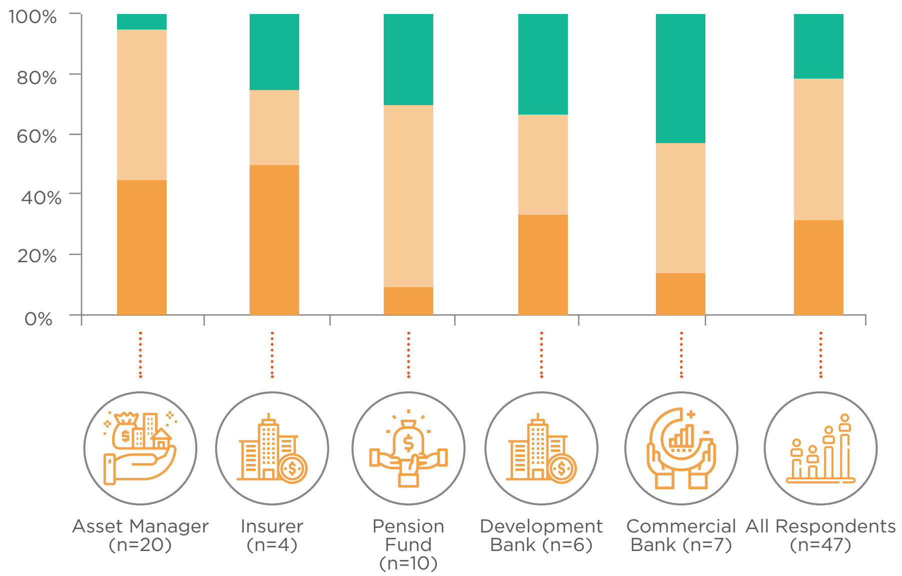


Figure 32 / Use of Certifications – by Investor Type (n=47)



For LAC infrastructure investors using a certification or third party data source to assess the sustainable characteristics of assets is increasingly possible and perhaps desirable. GRESB Infrastructure among others have started to develop benchmarking tools which enable assets (and funds) to be compared against one another using a variety of criteria. There may also be a growing imperative for investors to assess the sustainability of assets in LAC in particular given the lagging quality of assets in the region versus other developed regions: regional scores for GRESB's 2018 assessment of over 200 individual assets globally show that South American assets score lower than North American and Australian assets on average but better than Asian and European assets (note, no LAC region breakdown available)[28].

Finally, over 60% of respondents stated that they do not disclose climate change-related risks and opportunities, with the percentage rising to over 80% for LAC Investors. As the FSB Task -Force on Climate-related Financial Disclosure Recommendations (TCFD)[29] isare still in early days of digestion by industry and investors this is not surprising. However more emphasis will need to be placed on the TCFD by regulators and investors in order to see these disclosure figures improve.

[28]https://gresb.com/2018-infrastructure-results/
[29]https://www.fsb-tcfd.org/

Figure 33 / Climate Change-related Risks Disclosure – by Region of Investors' HQ (n=74)

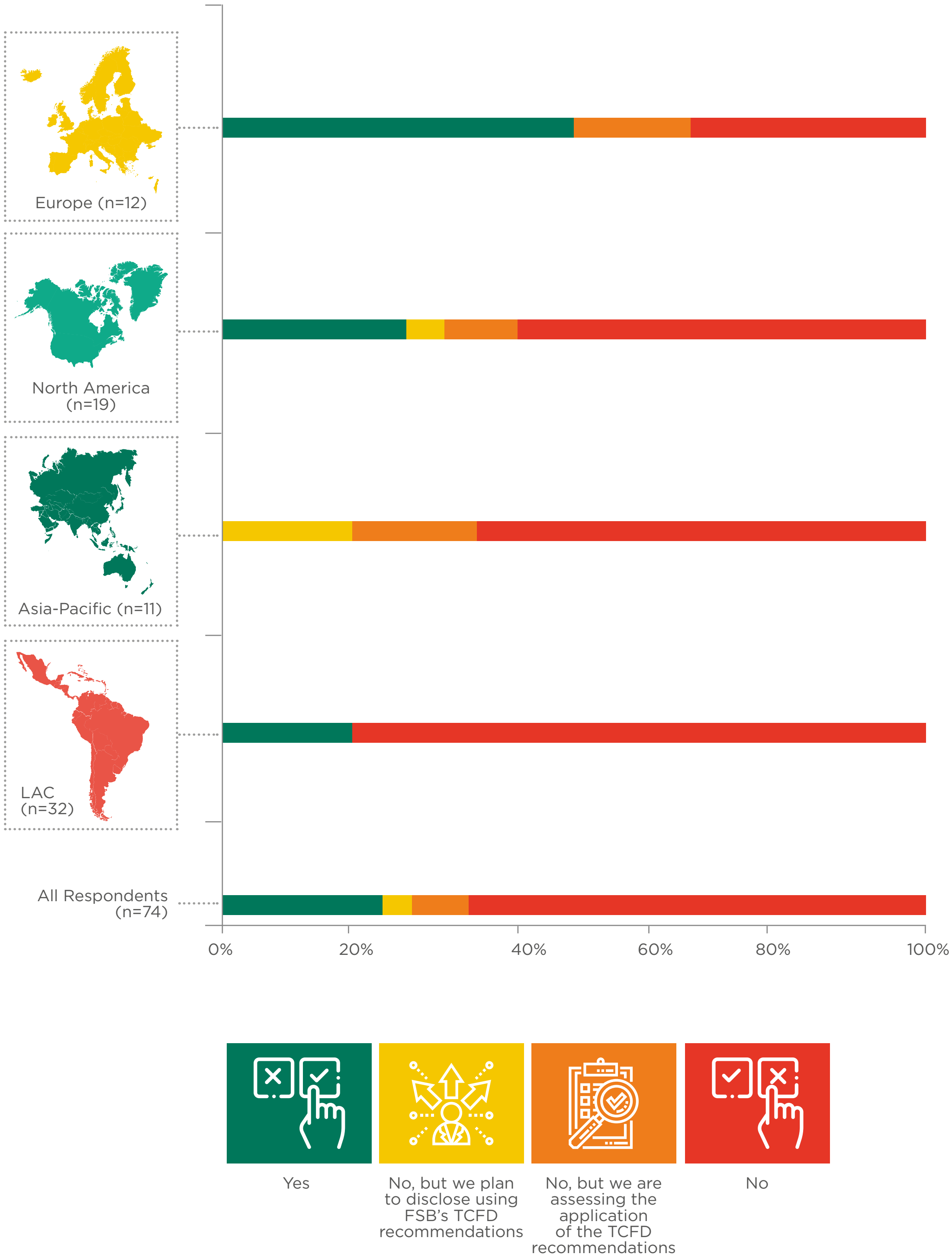
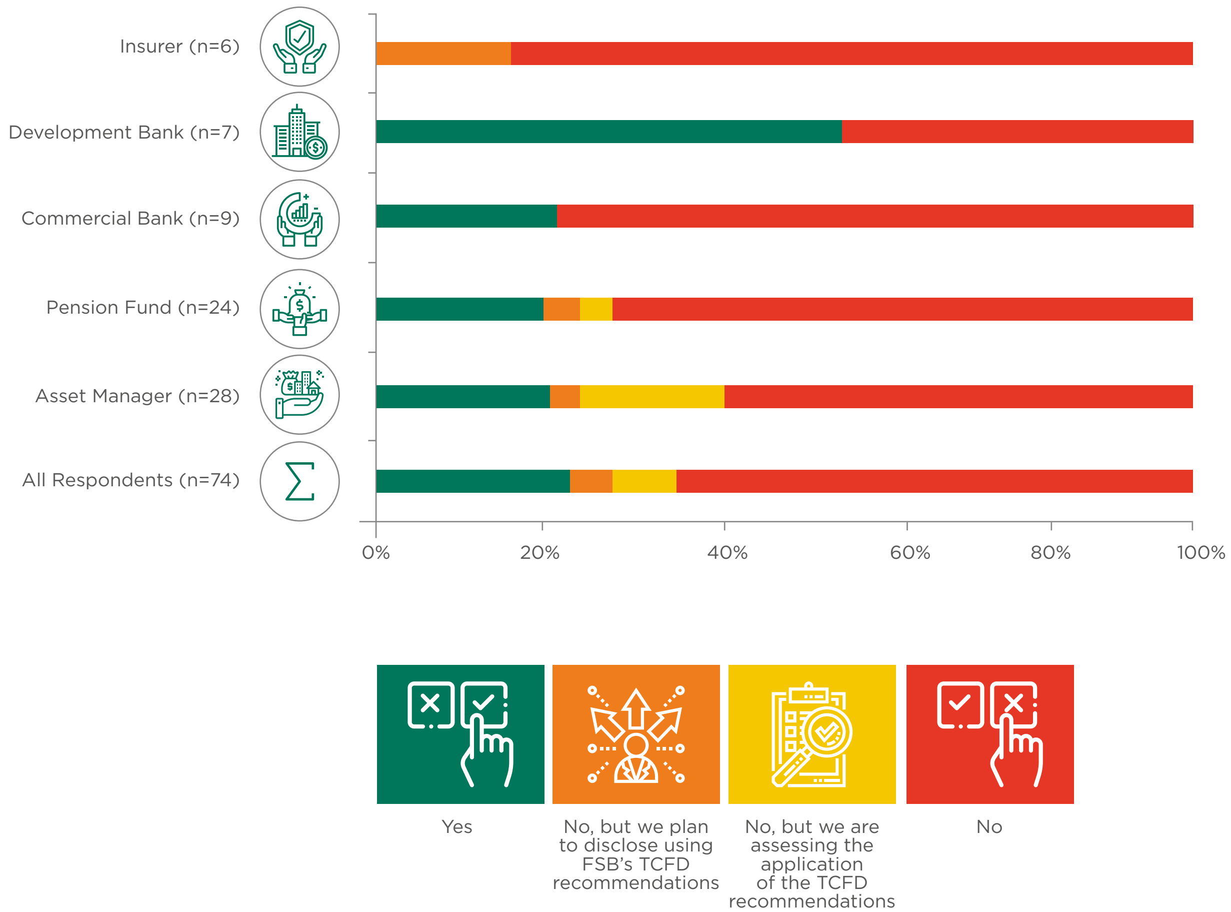
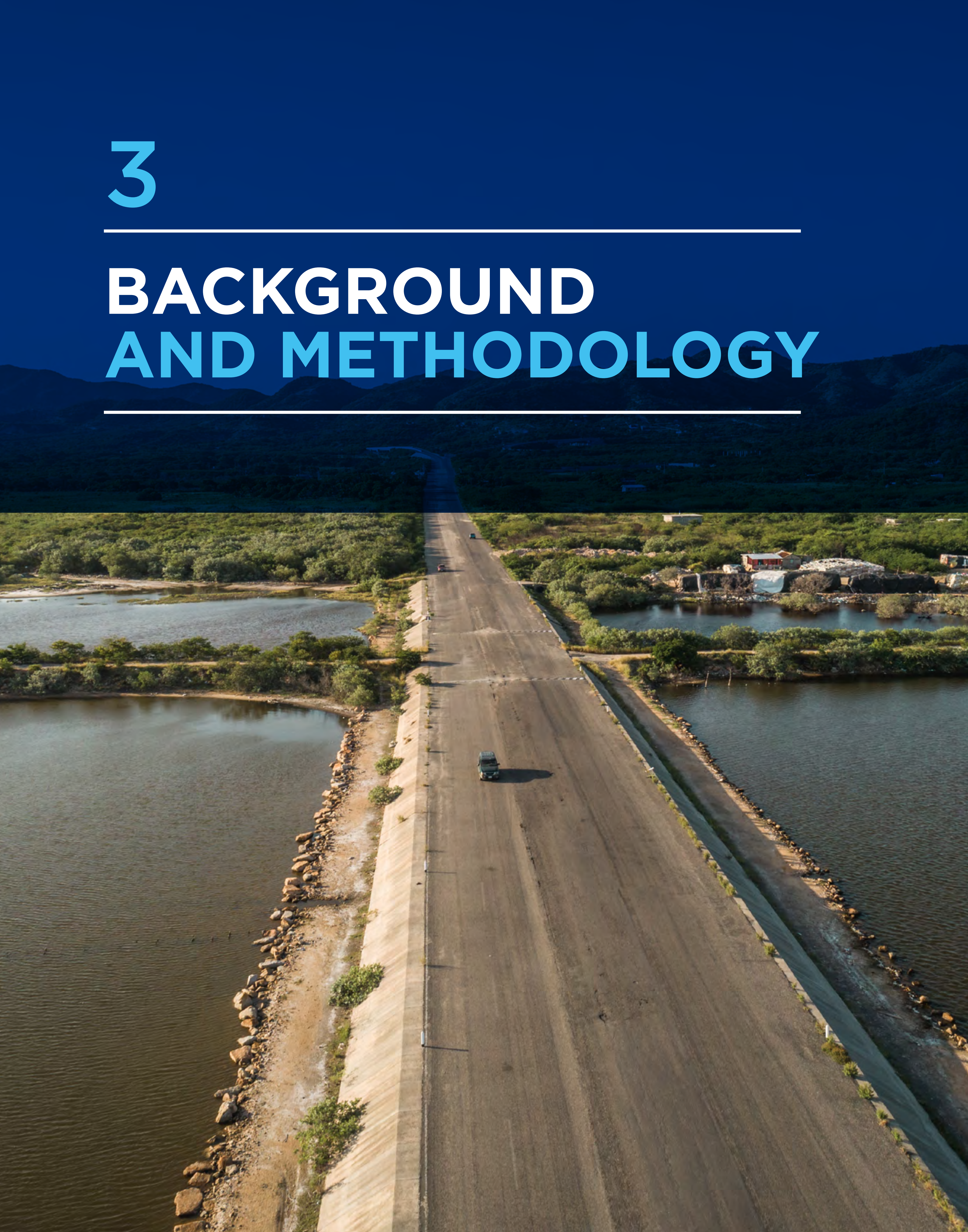


Figure 34 / Climate Change-related Risks Disclosure – by Investor Type (n=74)



3

BACKGROUND AND METHODOLOGY



In late 2016 and the first quarter of 2017, the Inter-American Development Bank (IDB) commissioned Mercer on a multi-phased project with the aim to understand the industry state of play regarding Sustainable Infrastructure ("SI"), review the barriers preventing deeper adoption of best practices, and identify tangible next steps to address the funding gap for SI (the "2016/17 Project"). The three-step approach was:

1. Map the landscape of global infrastructure initiatives
2. External interviews – understand Investor perspectives
3. Internal interviews – understand IDB staff perspectives

The IDB Group defines sustainable infrastructure[30] as infrastructure projects that are planned, designed, constructed, and operated in a manner to ensure economic and financial, social, environmental (including climate resilience), and institutional sustainability over the entire life cycle of the project.

1. Economic and financial sustainability – sustainable infrastructure generates a positive net economic return, taking into account all benefits and costs over the project life cycle, including positive and negative externalities and spillovers. In addition, the infrastructure must generate an adequate risk-adjusted rate of return for project investors.

2. Environmental sustainability – Sustainable infrastructure preserves and restores the natural environment, including biodiversity and ecosystems. Sustainable infrastructure projects are (or should be) sited and designed to ensure resilience to climate and natural disaster risks.

3. Social sustainability – investments should meet the needs of target groups and ensure that all affected stakeholders can participate throughout the project cycle ensuring we minimize negative social impacts, adhere to labor and human rights, and preserve cultural resources.

4. Institutional sustainability – sustainable infrastructure is aligned with national and international commitments, including the Paris Agreement, and is based on transparent and consistent governance systems over the project cycle.

A key outcome of the 2016/17 Project[31] was the recognition that IDB Group's aspirations regarding mobilizing private investment in SI would benefit from greater engagement and strengthened relationships with investors in LAC (both domestic investors and international investors active in LAC). In order to facilitate relationship-building, Mercer developed a brief qualitative assessment of investors' profiles and a survey/questionnaire to characterize investors' asset allocation preferences, investment appetite biases (in terms of maturity and seniority), and risk-return requirements. This report summarizes the findings from the survey responses.

Methodology

The survey questions were distributed to over 500 investment owners and managers of different size and location, including approximately:

1. 150 asset managers identified using Mercer's Global Investment Manager Database
2. 240 Mercer contacts with infrastructure exposure (including 40 from Mexico)

[30]What is Sustainable Infrastructure? A Framework to Guide Sustainability Across the Project Cycle, IDB Group (2018)
[31]Building a Bridge to Sustainable Infrastructure (2016) & Crossing the Bridge to Sustainable Infrastructure (2017)

3. 100 pension funds with assistance from ABRAPP[32]

4. Other outreach by the IDB Group

Mercer received 138 survey responses in total, of which 42 were discarded due to:

- 31 were minimal responses (survey was aborted early in the process)
- 3 from consultants or other advisory service firms
- 1 duplicate (two different responses the same organization)
- 7 from Japan provide limited responses to infra questions

As a result, 96 survey results were used for analysis, or a 19% response rate. Of the 500 contacts targeted for the survey, approximately 150 of them are based in LAC, which yields a higher response rate for LAC based organizations of approximately 28% (42 respondents out of about 150 contacts).

As noted above, in most questions we attempted to filter out the responses from LAC investors specifically, so as to provide the most strategic and targeted advice to IDB Group in terms of evaluating investor profiles and preferences.

[32] Associação Brasileira das Entidades Fechadas de Previdência Complementar. ABRAPP is the Brazilian Association of Closed Entities of Complementary Pension Plans

APPENDIX A
Survey Questions

Figure 35 / Survey: Investor Appetite for Sustainable Infrastructure Opportunities

Investor Profile

1. The region of your organization's head office	[one response only – required] a. North America b. Latin America & Caribbean c. Europe d. Asia-Pacific e. Africa
2. Which category best describes your organization (or the operating unit that is involved in infrastructure financing / funding)?	[one response only – required] a. Pension Fund b. Sovereign Wealth Fund c. Endowment/Foundation d. Investment Manager e. Commercial Bank f. Development Bank g. Insurer h. Other (please specify) ________________
3. Does your organization invest in infrastructure assets (via equity and/or debt-related instruments)?	[one response – required] a. Yes b. No

NOTE: If the response is No to the above question, the next two sections are skipped, and the respondent is directed to the 'Social and Environmental Considerations' section, after which the survey ends.

4. If your organization invests in infrastructure assets, please indicate the following:	• Current allocation of infrastructure assets (% of total assets) __________________ • Target allocation of infrastructure assets (% of total assets)____________ • Current % of infrastructure assets targeted for LAC___________

5. Are you an asset manager that manages a portfolio or fund that is entirely focused on infrastructure investing?	[one response – required] a. Yes b. No
6. If you have invested in LAC infrastructure, which countries have it been in? Select all that apply.	[multiple responses permitted – required] a. Argentina b. Brazil c. Chile d. Colombia e. Mexico f. Peru g. Not applicable h. Other, please specify__________
7. How do you typically invest in infrastructure in Emerging Markets? Select all that apply.	[allow more than one response - required] a. Direct investment, independently b. Direct investment, but in partnership c. In collaboration with development banks d. Intermediated investment (fund / fund of funds) e. Listed securities f. Not applicable g. Other, please specify __________
8. With respect to infrastructure in Emerging Markets, in which asset classes do you typically invest? Select all that apply.	[allow more than one response – not required] a. Listed equity b. Private equity c. Listed debt d. Private debt e. Other(s), please indicate ________________
9. If you invest directly in Emerging Markets, do you act as an anchor investor, or do you have constraints in this regard? Select all that apply.	[allow more than one response – required] a. We sometimes serve as the anchor investor b. We require at least one other anchor investor c. We will not take more than a certain % of the asset/project value (please specify the % below) d. We cannot take more than a certain % of the issuer balance sheet (please specify the % below) e. Not applicable
10. Further to question above, please indicate your exposure constraints, if any.	Max % in asset / project value _______________ Max % of the issuer balance sheet ___________
11. Which sectors in Emerging Market infrastructure would you most likely invest in? Select all that apply.	[allow more than one response – required] Water and sanitation Conventional Energy (coal, oil or gas) Renewable Energy Electric transmission & distribution networks Transportation (airports, roads, ports, rail, etc.) Telecommunications Real Estate Social (hospitals, schools, etc.) Other (please specify) ____________
12. To undertake a potential infrastructure project in LAC using debt instruments, what is the minimum international credit rating you would seek?	[one response only – not required] a. AAA b. AA c. A d. BBB e. BB f. B g. <= CCC h. Not rated

13. To undertake a potential infrastructure project in LAC using debt instruments, what is the typical maturity accepted?

[one response only]

a. <3 years
b. 3 - 5 years
c. 5 - 10 years
d. 10-30 years
e. Other _______________

14. With respect to LAC infrastructure, what is your preferred transaction size for investments in debt instruments?

[not required – mainly because of the 3rd item]
Minimum ($USD million): _________
Maximum ($USD million): _________
Maximum international exposure allowed in portfolio, if applicable (% of total assets): _____________

Barriers to Investments

15. For infrastructure investments in LAC, which risks would cause you to walk away from a deal if not mitigated? Select up to three.

[allow up to three responses - required]

a. Political / Regulatory risk
b. Macro-economic risk
c. Governance risk (e.g. corruption, scandal)
d. Environmental and/or social risk
e. Exchange rate / currency risk
f. Interest rate risk
g. Liquidity risk
h. Demand/operating risk
i. Construction / completion risk
j. None of the above
k Other (please specify) ___________________

16. To address 'deal-breaker' risks (as per question above), which risk mitigation instruments would you consider for undertaking infrastructure investments in LAC? Select up to three.

[allow up to three responses – required]

a. Political risk insurance
b. Currency hedging
c. Interest rate hedging
d. Liquidity guarantee
e. Credit guarantees
f. Construction guarantee
g. First loss protection / Subordination
h. Weather risk insurance
i. Letters of credit
j. None of the above
k Other, please specify _______________

17. What are other barriers to reaching your target allocation for Emerging Market Infrastructure investments? Select up to three

[allow up to three responses - required]

a. Our inadequate experience in some regions
b. Our inadequate experience in infrastructure
c. Our lack of internal human resources
d. Lack of investable projects that meet our risk- return objectives (bankable projects)
e. Lack of acceptable credit rating
f. Lack of available data to conduct full analysis
g. Other, please specify __________________
h. None of the above

Social and Environmental Considerations

18. Does your organization have a formal Environmental, Social and Governance (ESG) Policy and/or Sustainable / Responsible Investment Policy?

[required – one response only]

a. Yes, and it expressly addresses climate change
b. Yes, but it does not expressly address climate change
c. No
d. Not yet, in progress

19. Does your organization have dedicated ESG personnel (full-time equivalent [FTE])?

[required – one response only]

a. Yes, less than 5 people (FTE)
b. Yes, more than 5 people (FTE)
c. No, but there is a sustainability committee
d. No dedicated ESG personnel
e. Other, please specify ____________
f. Not applicable

20. In which manner do you consider or rely on asset-level environmental certifications (e.g. Green Bond certification, ESG ratings) in your investment process?

[required – one response only]

a. We do not require a sustainability certification but we may consider it in our due-diligence
b. We require a sustainability certification in some cases (e.g. for sustainable asset mandates)
c. We perform our own sustainability assessment and do not rely on 3rd party certifications
d. Other, please specify ____________
e. Not applicable

[optional - leave space to respond]
If you do not rely on asset-level environmental certifications, please indicate why not ____________________________________
____

[allow more than one response – not required]

a. ESG specialist on the infrastructure or Chief Investment Officer (CIO) team
b. ESG specialist in risk, legal or compliance teams
c. Use of external ESG tools / services (e.g. ESG Indexes, screening services, ratings) or external consultants
d. Include specific ESG requirements in asset manager mandates
e. Other ____________________

22. Do you disclose climate change related risks and opportunities?

[one response only – required]

a. Yes
b. No, but we plan to disclose using FSB's TCFD recommendations
c. No, but we are assessing how we could implement the TCFD recommendations
d. No
e. Other, please specify ____________________

NOTE: Investors, regulators and stakeholders are increasingly asking for climate risk disclosure in order to better evaluate the materiality. For instance, the Financial Stability Board's (FSB) Task Force on Climate Related Financial Disclosure (TCFD) recommendations apply to companies and investors globally, setting forth a four part framework – Governance, Strategy, Risk Management and Metrics/ Targets – for them to utilize in assessing and reporting in financial filings on the management of climate related risks and opportunities.

FOR MORE INFORMATION CONTACT INTER-AMERICAN DEVELOPMENT BANK

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ABOUT THE INTER-AMERICAN DEVELOPMENT BANK

The Inter-American Development Bank is a leading source of long-term financing for economic, social and institutional projects in Latin America and the Caribbean. Besides loans, grants and guarantees, the IDB conducts cutting-edge research to offer innovative and sustainable solutions to our region's most pressing challenges. Founded in 1959 to help accelerate progress in its developing member countries, the IDB continues to work every day to improve lives.

ABOUT IDB INVEST IDB

Invest, the private sector institution of the Inter-American Development Bank (IDB) Group, is a multilateral development bank committed to supporting Latin America and the Caribbean businesses. It finances sustainable enterprises and projects to achieve financial results that maximize economic, social and environmental development forthe region. With a current portfolio of $11.2 billion under management and 330 clients in 23 countries, IDB Invest worksacross sectors to provide innovative financial solutions and advisory services that meet the evolving demands of its clients. As of November 2017, IDB Invest is the trade name of the Inter-American Investment Corporation.

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