World Investment Forum 2018

Smart Beta: Passive Investment Strategies for SDGs

Opening remarks
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Welcome to the session on Smart Beta: Passive Investment Strategies for SDGs.

Passive investing is a strategy that tracks the returns of a price index, such as an established market benchmark.

The amount of money today using a passive investment strategy is very large.

> Today, passive investment funds manage over $8 trillion or about 20 per cent of total investment fund assets, up from 8 per cent a decade earlier.
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> In the US, passive investing strategies are used for more than $4 trillion worth of assets, roughly 43 per cent of all US equity fund assets—a big jump from just 24 per cent in 2010, and a mere 12 per cent in 2000.

As passive investing has grown more popular, new sub-categories have been introduced, including "smart-beta" indices, which are focused on specific fundamental factors, which can include social or environmental factors.

> Smart-beta strategies are now very large in their own right: in the US alone, they surpassed $1 trillion in assets last year and comprise roughly an 18 per cent share of the overall passive investment market.

Portfolio investment that track one or more market indices is expected to cover 22 per cent of global assets by 2020.

This focus on passive investment and the use of new ‘smart beta’ strategies, is unlocking new potential for introducing sustainability factors into investment indices.

By incorporating social and environmental factors into popular investment indices, we have the opportunity to channel large sums of investment into SDG sectors.

When the SDGs were launched, UNCTAD identified an enormous investment gap of $2.5 trillion in developing countries alone, needed to meet the global goals. To overcome this investment gap, we must work to mobilize all forms of investment finance and innovate new ways to unlock the power of capital markets for sustainable development.

The objective of today’s session is to explore the potential for ‘smart beta’ passive investing to contribute to financing the SDGs.

This multi-stakeholder session, organized in collaboration with Carbon Tracker and the Global Reporting Initiative (GRI), has brought together key market actors involved in the development of equity indices and asset management including stock exchanges, institutional investors, big financial data and index companies. In an interactive dialogue, experts should explore how technological improvements, big data, and improved corporate reporting can allow passive investors to better support the SDGs.

Issues for the debate:

- What are the trends in passive investment and how can these be applied to investing in sustainable development?
- What role does corporate ESG data play in the further development of investment in the SDGs?
- What opportunities exist for sustainability indices? What lessons have been learned from the development of gender indices, fossil-free indices and other pioneering products?

With our line-up of experts today, and all of you in the audience, we want to explore these questions.

Thank you all for joining us today and I look forward to the outcome of your discussions.