

## Preface

Over the past several years, financial markets have been affected by geopolitical tensions, trade disputes, macroeconomic trade-offs and the global expansion of government debt. At the same time, climate change and its effects have become ever more evident. Against this backdrop, public investors have intensified efforts to enhance their strategic asset allocation and risk management processes. These efforts have included the adoption of more sophisticated scenario analysis and the continued integration of climate considerations into investment strategies. Meanwhile, the desire to protect against climate-related risks – while also supporting sustainability goals – has presented both challenges and opportunities for public investors.

On a positive note, central banks have largely succeeded in bringing inflation back to near target levels, while avoiding destabilising price-wage spirals and, thus far, a “hard landing” scenario. However, higher real interest rates have significantly raised the cost of capital, while many economies continue to run fiscal deficits amid contracting central bank balance sheets. Central banks now face critical decisions on balancing tariff-driven inflationary pressures with a deteriorating growth outlook.

To foster the debate on strategic asset allocation and risk management, along with climate-related concerns and sustainability, the Bank for International Settlements and the World Bank – jointly with the Monetary Authority of Singapore and the Bank of Italy – organised the Ninth Public Investors Conference. The conference was held on the premises of the Monetary Authority of Singapore from 12 to 13 September 2024, with participants from 35 public and private institutions from across the world. The Ninth Public Investors Conference aimed to promote the exchange of innovative ideas among practitioners and academics, knowledge-sharing and collaboration across organisations, and the development and dissemination of best practices in public investment management.

The conference proceedings published in this book comprise most of the papers presented at the conference, including some of the most up-to-date research and ideas on public asset management. This publication aims to provide valuable insights for academics and researchers, regulatory and oversight bodies, public pension and sovereign wealth fund managers and, notably, central bankers.

The book is organised into three parts, each reflecting the major topics debated during the conference:

- Part 1 is dedicated to climate risk and sustainability. The first paper describes four specific frameworks for institutional investors to align equity portfolios with net zero pathways, analysing their strengths and weaknesses. The second paper measures carbon emissions in commodities portfolios and proposes a methodology to reduce them. The third paper examines transition risk by comparing and evaluating climate transition risk metrics.
- Part 2 addresses topics related to sustainable finance. The first paper studies trading by equity mutual funds and compares environmental, social and governance (ESG) funds with conventional funds, testing their commitment to ESG strategies. The second paper examines the risk-

return profile of sustainable strategies in the euro area, focusing on the equity “greenium”.

- Part 3 addresses topics related to portfolio construction and portfolio management. The first paper offers full-scale optimisation as an alternative portfolio construction technique to identify and select optimal portfolios. The second paper examines the implementation and performance evaluation of an ensemble model to forecast the yield curve. Finally, the last paper presents a methodology for incorporating a regime-based approach into portfolio optimisation for fixed income portfolios.

This book would not have been possible without the contributions, first and foremost, of the presenters at the Ninth Public Investors Conference. The editors are grateful for their permission to publish their original work in this volume. We also wish to acknowledge the hospitality of the Monetary Authority of Singapore and the funding provided by all sponsoring institutions that made the conference possible. We also thank the many participants, reviewers and staff from multiple institutions whose insightful comments and efforts contributed greatly to the preparation of this book, including Mario Barrantes, Nicola Faessler, Brittany Elizabeth DiMonte and Margarita Sanchez.

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