

# Green Intermediary Asset Pricing

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**Abstract** Can environmentally-minded investors impact the cost of capital of green firms even when they invest through financial intermediaries? To answer this and related questions, I build an equilibrium intermediary asset pricing model with three investors, two risky assets, and a riskless bond. Specifically, two heterogeneous retail investors invest via a financial intermediary who decides on the portfolio allocation that she offers between a green and a brown equity. Both retail investors and the financial intermediary can tilt towards the green asset, beyond pure financial considerations. Perhaps surprisingly, the green retail investor can have significant impact on the pricing of green assets, even when she invests via an intermediary who does not tilt: a sizable green premium –that is, a lower cost of capital– can emerge on the equity of the green firm. This good news comes with important qualifications, however: the green retail investor has to take large leveraged positions in the portfolio offered by the intermediary, her strategy must be inherently state-dependent, and economic conditions or the specification of preferences can overturn or limit the result. When the financial intermediary decides (or is made) to tilt instead, the impact on the green premium is substantially larger, although it is largest when preference are

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aligned with retail investors. I also study what happens when the green retail investor does not know the weights in the portfolio offered by the intermediary, the potential impact of greenwashing, and the effect of portfolio constraints. Taken together, these findings highlight the central role that financial intermediaries can play in channeling financing (or not) towards the green transition.

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