

# Climate change and the challenge for business

**Actuaries Institute - Carbon Risk Fluency Series**

24 October 2017



Investor Group on  
Climate Change

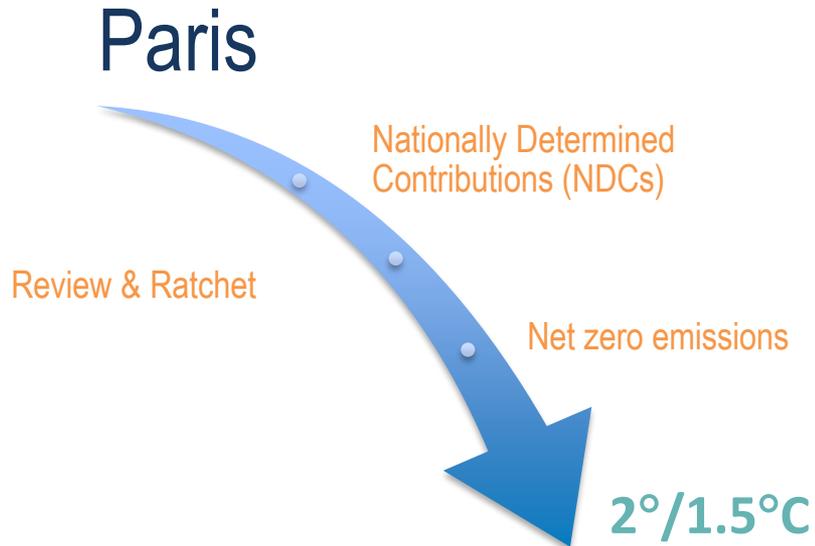
# Overview

## WHAT'S CHANGED SINCE PARIS?

1. **The drivers:** Understanding climate change as a financial impact.
2. **The regulatory imperative:** directors duties and fiduciary obligations
3. **Investor pressure:** if not for science or the law, do it for the money
4. **More than risk:** chasing opportunity
5. **2 degrees and counting:** Looking at adaptation and physical risk

# 1. The drivers

The Paris Agreement creates a pathway and a process for ongoing change. This is acting as an investment signal.



# President Trump...

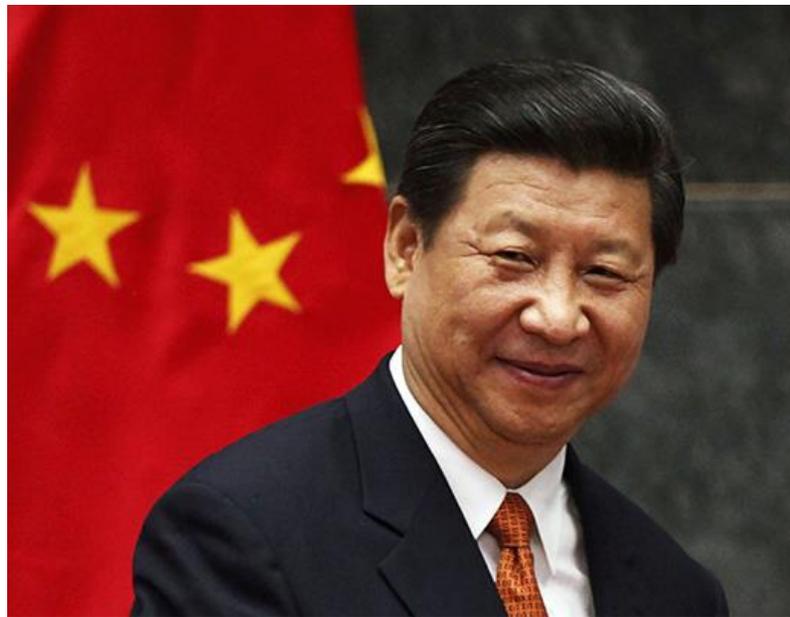


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# ...and President Xi Jinping

## An opportunity for new leadership?

- 25% of global emissions
- Ratified Paris Agreement
- Pledged to peak emissions by 2030
- Pledged to increase non-fossil fuel energy in primary energy 20% by 2030
- The largest share of global renewable energy investment
- National emissions trading scheme
- G20 climate finance program
- 19<sup>th</sup> Communist Party Congress (18 Oct)



# Australia's position



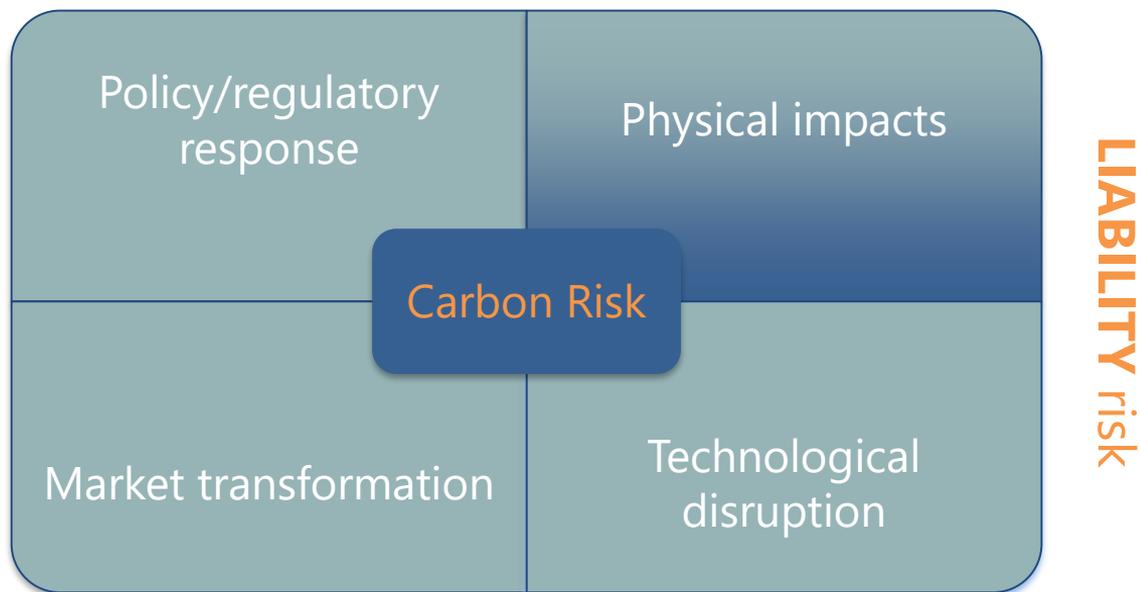
# The other big fish in the pond

The Task Force on Climate-related Financial Disclosures (TCFD) will develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers and other stakeholders

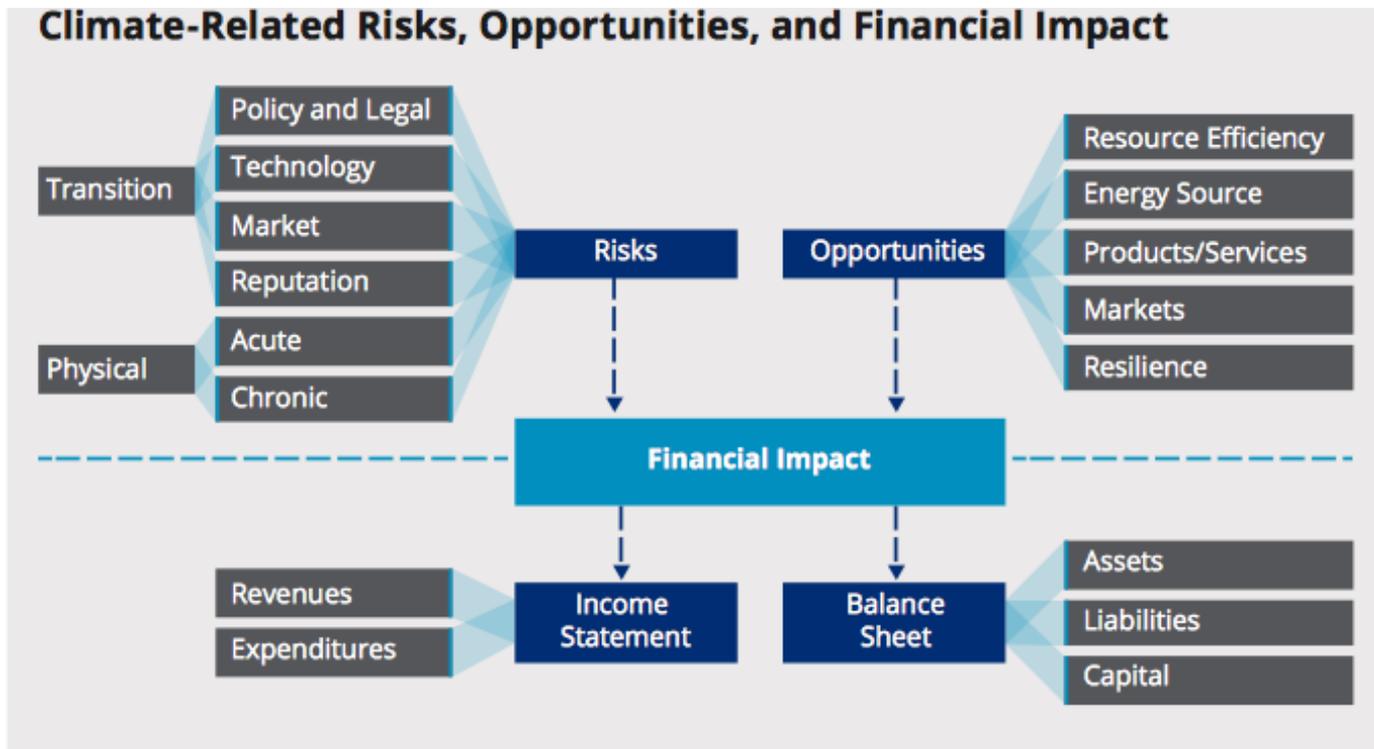


# Understanding carbon risk

**TRANSITION RISK** and **PHYSICAL RISK** dimensions



# Quantifying carbon risk & opportunity



## 2. The regulatory imperative

### Noel Hutley QC & Sebastian Hartford

Published a legal opinion in November 2016 setting out why directors should consider climate risks as part of the duty of care and diligence they owe to the company under Australian Corporations law.

### Geoff Summerhayes – Executive Board Member APRA

In February 2017, gave a speech stating that the regulator sees climate change as having financial risks which are 'foreseeable' 'material' and 'actionable' and which investors have an obligation to manage.

## 3. Investor pressure

Investors are taking steps to:

- 1. Identify and exit / manage high risk investments or assets**
- 2. Identify and pursue low carbon opportunities**
- 3. Engage more with the companies they invest in**
- 4. Align their portfolios with 2 Degrees /Net Zero Emissions**

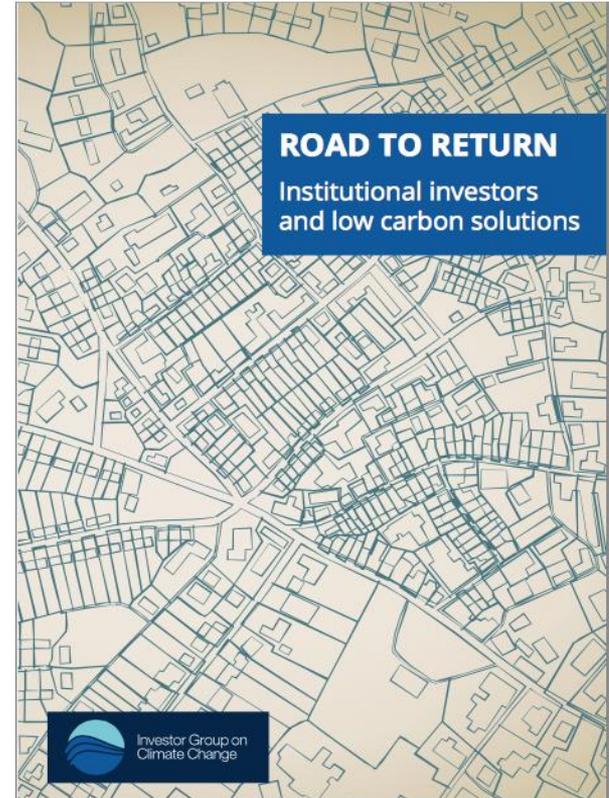


## 4. More than risk management

In June 2017, IGCC surveyed Australian and NZ investors representing A\$328bn in AUM.

Included super funds, asset managers & sovereign wealth funds.

[www.igcc.org.au](http://www.igcc.org.au)



# A couple of quick examples

## Investa Commercial Property Fund (ICPF) Green Bond

- April 2017, 10 year, A\$100m Green Bond issuance
- Proceeds to be fully allocated against a portfolio of low carbon buildings
- Issuance was oversubscribed.
- 'Certified Climate Bond' by the Climate Bonds Initiative

## UniSuper's Global Environmental Opportunities option

- Targets companies that provide environmental products and/ or services
- Invests in a portfolio of global shares benchmarked against the MSCI Global Environmental Index.
- For companies to be included on this index, at least 50% of business revenue must come from environmentally beneficial products and services

# 5. Two degrees = two degrees

- **Physical risk** (both acute and chronic) not understood enough.
- **Focus increasingly turning** to how to invest in adaptation



# Global investor collaboration is growing



# To sum up...

1. The Paris Agreement is a major market signal (that's not going away)
2. Carbon risk is financially material – and becoming more so
3. Investors are looking to minimize their exposure to investments with high carbon risk
4. And looking for low carbon investments
5. Either way – we will need to adapt
6. Change is coming – **FAST!**



# Thank You



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