

HEALTH WEALTH CAREER

# DIVEST INVEST EUROPE WORKSHOP

MANAGING CLIMATE RISK  
IN INVESTMENT  
PORTFOLIOS

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# SETTING THE STAGE

## WORLD ECONOMIC FORUM – GLOBAL RISKS REPORT

### Climate change: #1 impact risk in 2016

#### Likelihood

	2012	2013	2014	2015	2016
1st	Severe income disparity	Severe income disparity	Income disparity	Interstate conflict with regional consequences	Large-scale involuntary migration
2nd	Chronic fiscal imbalances	Chronic fiscal imbalances	Extreme weather events	Extreme weather events	Extreme weather events
3rd	Rising greenhouse gas emissions	Rising greenhouse gas emissions	Unemployment and underemployment	Failure of national governance	Failure of climate-change mitigation and adaptation
4th	Cyber attacks	Water supply crises	Climate change	State collapse or crisis	Interstate conflict with regional consequences
5th	Water supply crises	Mismanagement of population ageing	Cyber attacks	High structural unemployment or underemployment	Major natural catastrophes

#### Impact

	2012	2013	2014	2015	2016
1st	Major systemic financial failure	Major systemic financial failure	Fiscal crises	Water crises	Failure of climate-change mitigation and adaptation
2nd	Water supply crises	Water supply crises	Climate change	Rapid and massive spread of infectious diseases	Weapons of mass destruction
3rd	Food shortage crises	Chronic fiscal imbalances	Water crises	Weapons of mass destruction	Water crises
4th	Chronic fiscal imbalances	Diffusion of weapons of mass destruction	Unemployment and underemployment	Interstate conflict with regional consequences	Large-scale involuntary migration
5th	Extreme volatility in energy and agriculture prices	Failure of climate-change mitigation and adaptation	Critical information infrastructure breakdown	Failure of climate-change mitigation and adaptation	Severe energy price shock

■ Economic 
 ■ Environmental 
 ■ Geopolitical 
 ■ Societal 
 ■ Technological

Source: World Economic Forum, *Global Risks 2016*


# MERCER'S 2015 CLIMATE CHANGE RESEARCH FOUR KEY FINDINGS

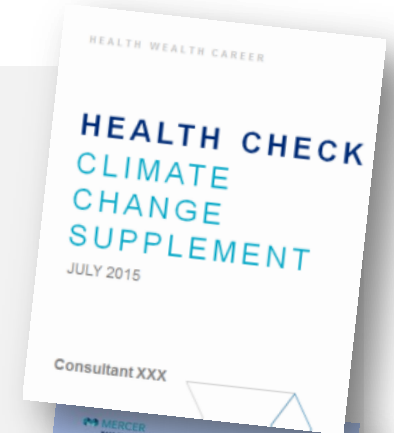
1. Climate change will have an impact regardless of scenario.
2. Potential sector impacts are most meaningful – particularly over the next 10 years to 2025.
3. Asset class impacts can also be material – and vary by climate scenario.
4. A 2oC (Transformation) scenario need not harm total diversified portfolio returns out to 2050.

*Commissioned by 16 investors  
representing \$1.5 trillion AUM*

Available at: <http://www.mercer.com/insights/focus/invest-in-climate-change-study-2015.html>

# MERCER CLIENT INTERACTION ON CLIMATE CHANGE

2011  2016+



- GENERAL AWARENESS
- BUILDING INTEREST

**Health check  
Strategy review**

- LINK WITH REGIONAL STOCHASTIC MODEL
- INTEGRATES WITH STANDARD MERCER RISK REVIEW REPORTING

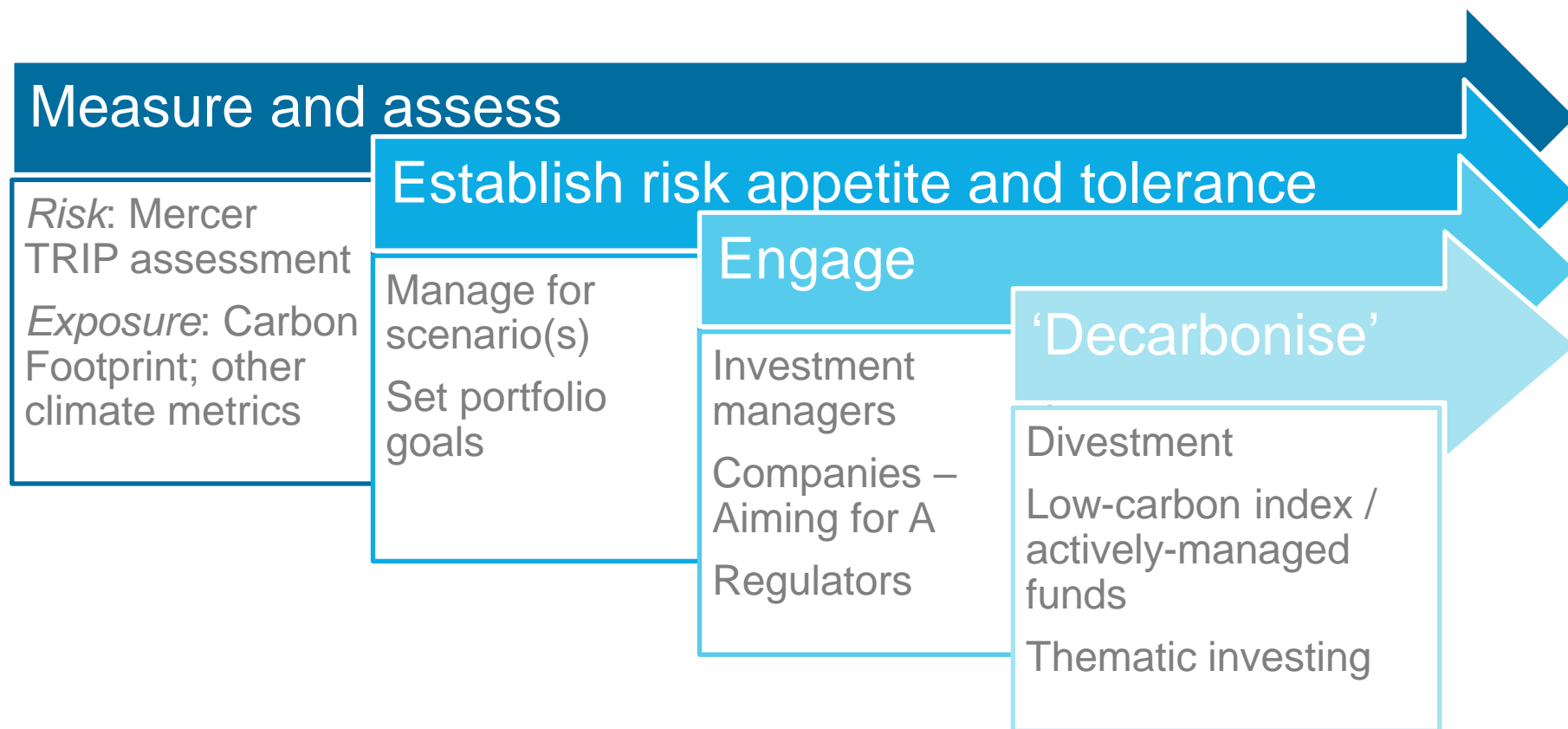
**Tailored climate risk report**

- MEASURE CLIMATE RISK EXPOSURE
- REVIEW BELIEFS, POLICY, ACTIONS
- PORTFOLIO ALTERNATIVES
- REPORTING

**Other climate services**

- BOARD EDUCATION AND BELIEFS WORKSHOPS
- CARBON FOOTPRINT ANALYSIS
- REAL ASSET ENVIRONMENTAL RISK REVIEW
- LOW-CARBON INVESTMENTS

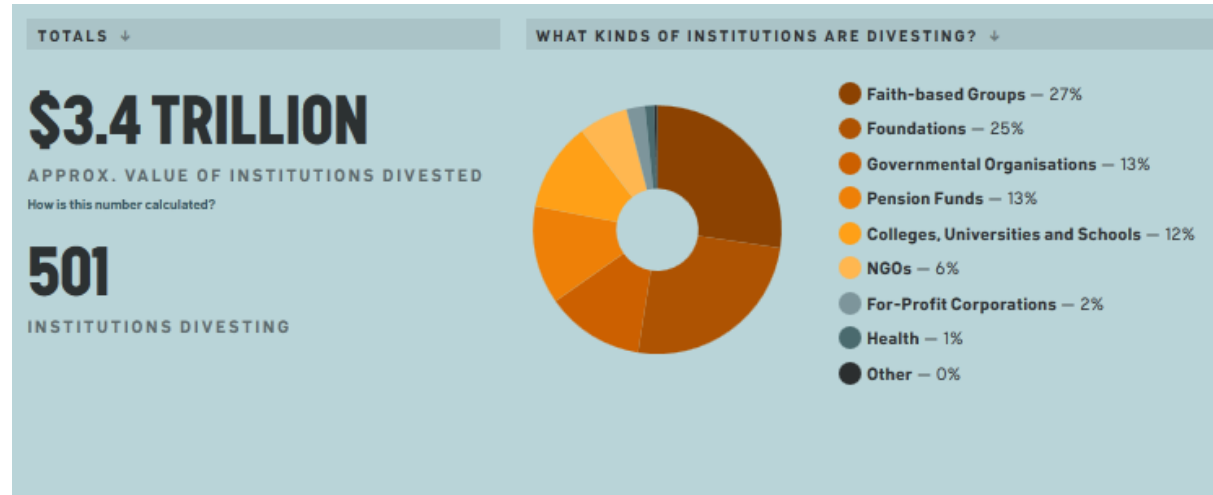
# PROACTIVE CLIMATE RISK MANAGEMENT



# SETTING THE STAGE FOSSIL FUEL DIVESTMENT

In **Sept. 2014** 181 institutions and 656 individuals representing **>\$50 billion** in assets had committed to divest

**68X increase** in AUM of divested institutions **less than 1.5 years later** (as of Jan. 2015).



Faith-based groups and mission-driven foundations dominate count, though large public pensions drive up AUM (Norway, CalPERS, CalSTRS account for about 40% of the total)

## NOTABLE DIVESTMENT COMMITMENTS



Source: [www.gofossilfree.org](http://www.gofossilfree.org) (as at Jan 22, 2015); As documented in *Measuring the Growth of the Divestment Movement* (2015), see: <http://bit.ly/1j6ohCt>

# WHY DO SIGNATORIES DIVEST (UK/US)?

## THE DIVEST INVEST PLEDGE


Divest Invest signatories have pledged to divest from fossil fuels and invest in climate solutions, because...



**Ethical:** We do not want our investments to undermine the work of our philanthropy and grant making.



**Financial:** We are gravely concerned about the risks posed to fossil fuel investments by likely changes to policy *and* by the increasing competitiveness of the alternative energy market.



**Political:** We want to send a loud, public signal to governments, policy makers and business leaders about the future we want them to enable.

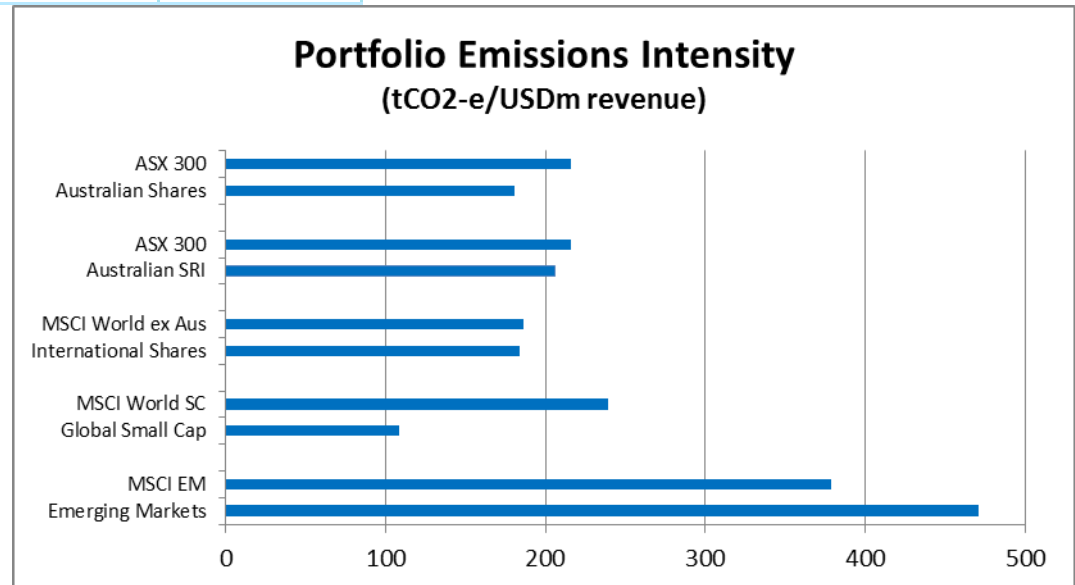


# MERCER CARBON FOOTPRINTING

## CARBON INTENSITY

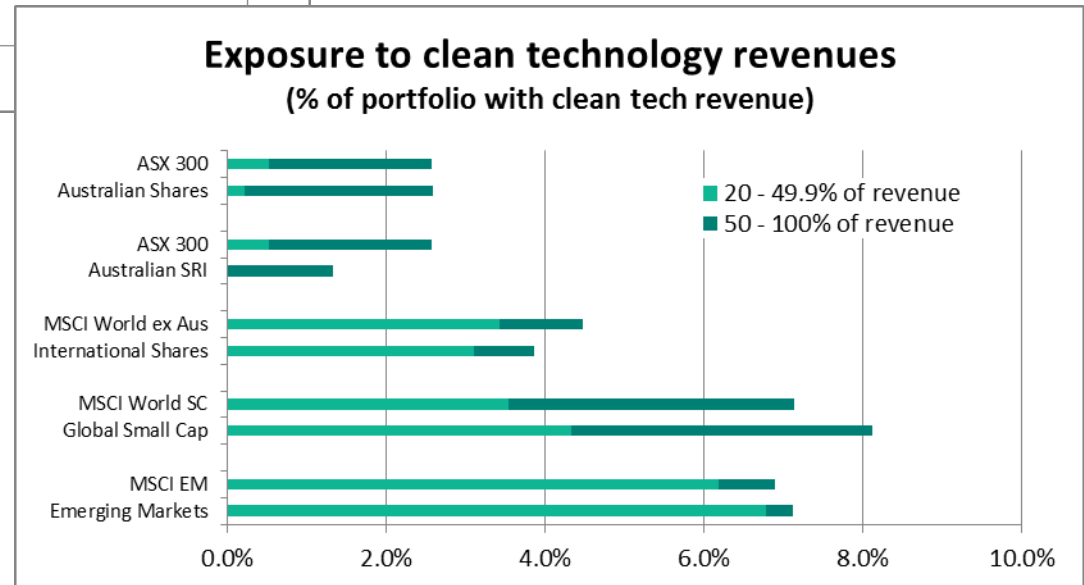
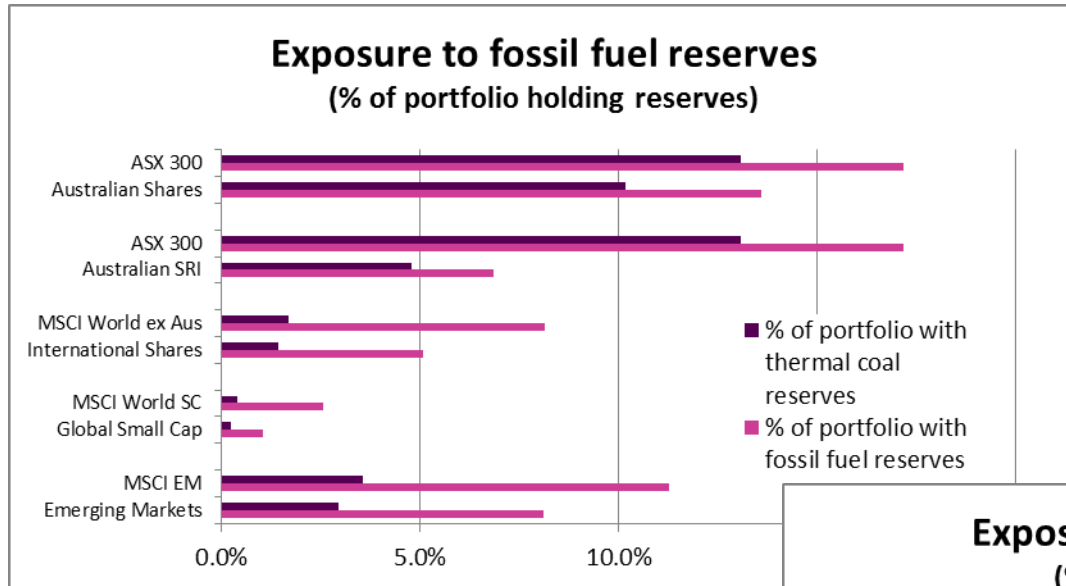
Portfolio Emissions Intensity of ABC Fund (tCO2-e/USDm revenue)

	ABC Fund	Benchmark	Difference
Australian Shares Core	180	216	-16.3%
International Shares Plus	210	186	13.2%
International Shares Core	184	186	-1.2%
Global Small Cap Shares	108	239	-54.8%
Emerging Markets Shares	470	379	24.1%

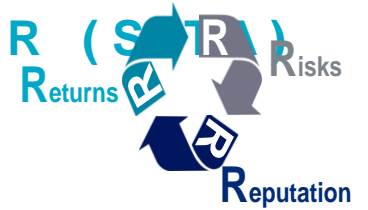


# MERCER CARBON FOOTPRINTING

## CLIMATE RISK AND OPPORTUNITY EXPOSURES



# TOOLS FOR ASSESSING DIVESTMENT SENSITIVE INVESTMENT TOPICS ANALYSER (S<sup>T</sup>R)



## LINKING BELIEFS & INVESTMENTS

Reset

<b>1. SELECT AN INVESTMENT TOPIC:</b>		<input type="text" value="Tobacco"/>
		<small>If 'Other, please specify...</small> <input type="text"/>
<b>2. BELIEFS</b>		
Our organisation's set of beliefs in respect of this topic is:	<input type="text"/>	<= As reflected in your organisation's core mission, objective, beliefs etc.
Our organisation believes future returns from this sector will be:	<input type="text"/>	<= Based on the evidence provided or widely available.
<b>3. RISK &amp; RETURN</b>		
If our organisation divests, the effect on our <b>investment risk</b> will be:	<input type="text"/>	<= Mercer to provide performance & risk information based on your portfolio.
If our organisation divests, the effect on our <b>investment return</b> will be:	<input type="text"/>	<= Answer this with reference to the previous answer.
If our organisation divests, the effect on our <b>investment objective</b> will be:	<input type="text"/>	
<b>4. REPUTATION</b>		
Our organisation's members / customers would expect us to:	<input type="text"/>	
Our organisation's peers are doing:	<input type="text"/>	
The public profile/awareness of this topic is currently:	<input type="text"/>	
<b>5. NEXT STEP TO CONSIDER:</b>		<input type="text"/>

**MAKE**



**TOMORROW,  
TODAY**