

Investor climate action: The Inevitable Policy Response – Act Now

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Agenda

PRI AT A GLANCE

WHY CLIMATE IS IMPORTANT FOR INVESTORS

WHAT ARE INVESTORS DOING

WHAT NEEDS TO HAPPEN NEXT

PRI at a glance

Launched in April 2006 at the NYSE, the Principles for Responsible Investment has:

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UN PARTNERS:

UNEP FINANCE INITIATIVE
UN GLOBAL COMPACT



2200+ 82+

SIGNATORIES:

ASSET OWNERS,
INVESTMENT
MANAGERS
AND SERVICE
PROVIDERS



US\$ TRILLION:

ASSETS UNDER
MANAGEMENT



6

PRINCIPLES:

RECOGNISING THE
MATERIALITY OF
ENVIRONMENTAL,
SOCIAL AND
CORPORATE
GOVERNANCE ISSUES





CLIMATE CHANGE: KEY QUESTIONS INVESTORS HAVE



Will my portfolio be affected?



If yes, when will these changes hit?



How can I identify new market opportunities?



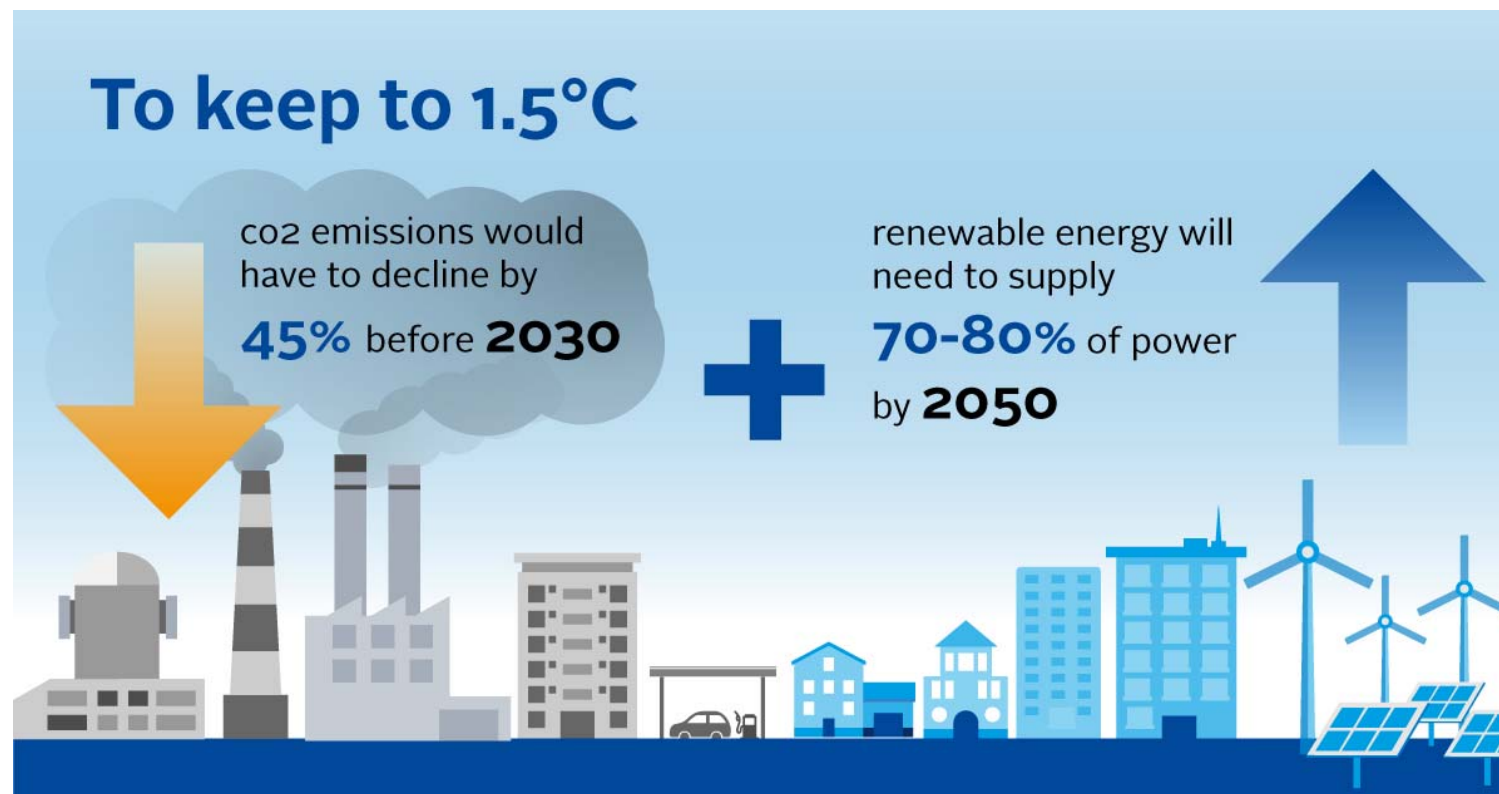
What are PRI signatories (my peers) doing?



Why is climate important for investors?

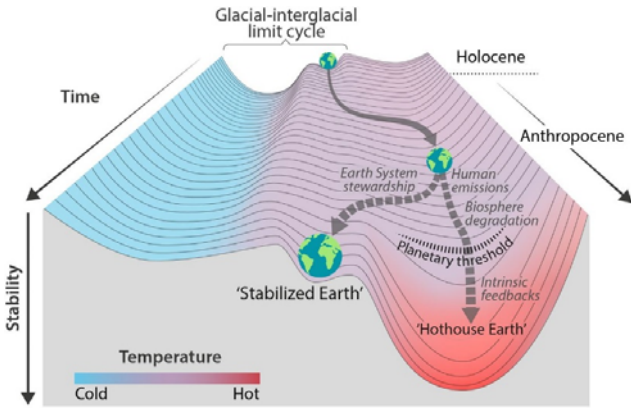
RELEVANCE ACROSS PORTFOLIOS

“Limiting warming to 1.5°C is possibly within the laws of chemistry and physics but doing so would require *unprecedented changes*” - Jim Skea, Co-Chair of IPCC Working Group III



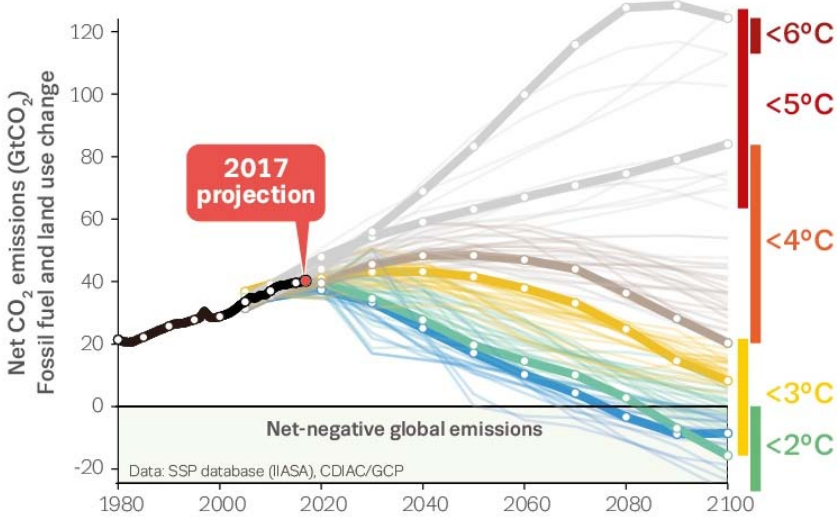
TWO TYPES OF CLIMATE-RELATED RISKS FOR INVESTORS

Physical risks – “hothouse earth”



Source: Trajectories of the Earth System in the Anthropocene, Steffen
<http://www.pnas.org/content/115/33/8252>

Transition risks

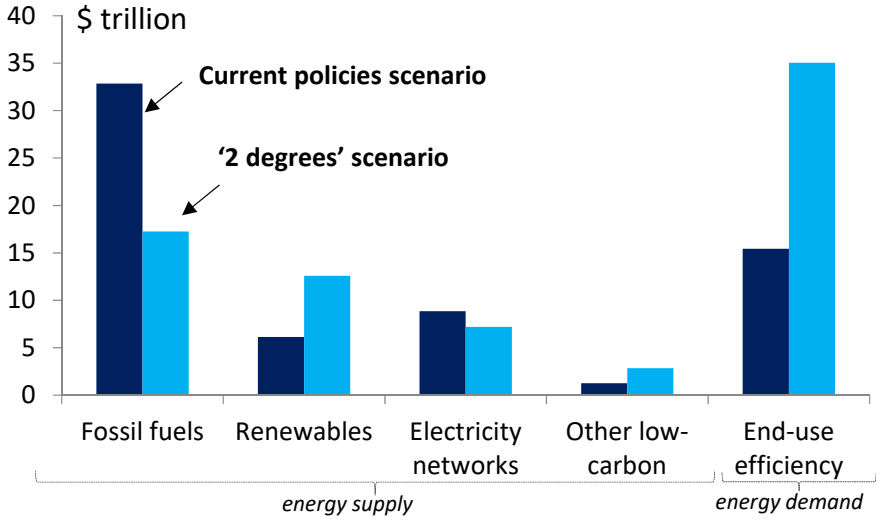


Source: Future Earth
<http://futureearth.org/blog/Budget2017>

INVESTMENT NEEDS

Transition risk

Investment needs under different scenarios, 2016-2040



- Energy sector requires about \$70 trillion investment over next 25 years
- Total capital re-allocation needed: \$26 trillion
- Markets need information to invest in line with climate targets and technology trends

Source: IEA(2016).



What are investors doing?

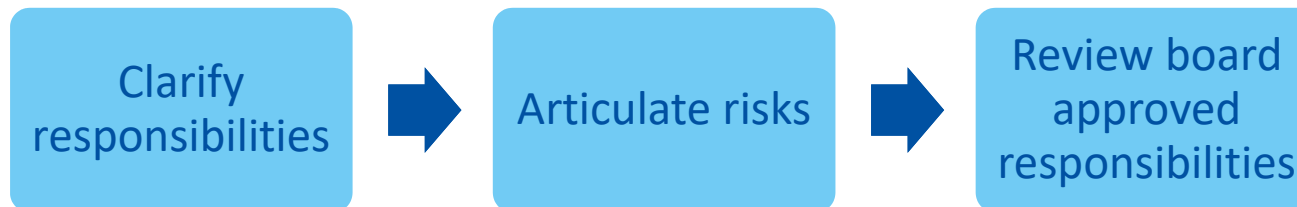
Investor example

Establishing a climate risk management process

CALSTRS

The Fund's investment team produces a Green Initiative Task Force report that is approved by the CIO and reported to the Board annually. [CalSTRS green report](#) It includes the Fund's climate-related actions across the following areas:

- Risk management with respect to climate impacts.
- Reviewing fund managers climate-related capabilities.
- Engaging with corporations on climate issues.
- Voting on climate related shareholder proposals.
- Climate related research efforts and participation.
- Allocation to low carbon, energy efficient assets.



Co-operative initiatives

Nearly 400 investors, representing US\$32 trillion in AUM participating including New York State Common, Cbus and APG, launched in September 2018



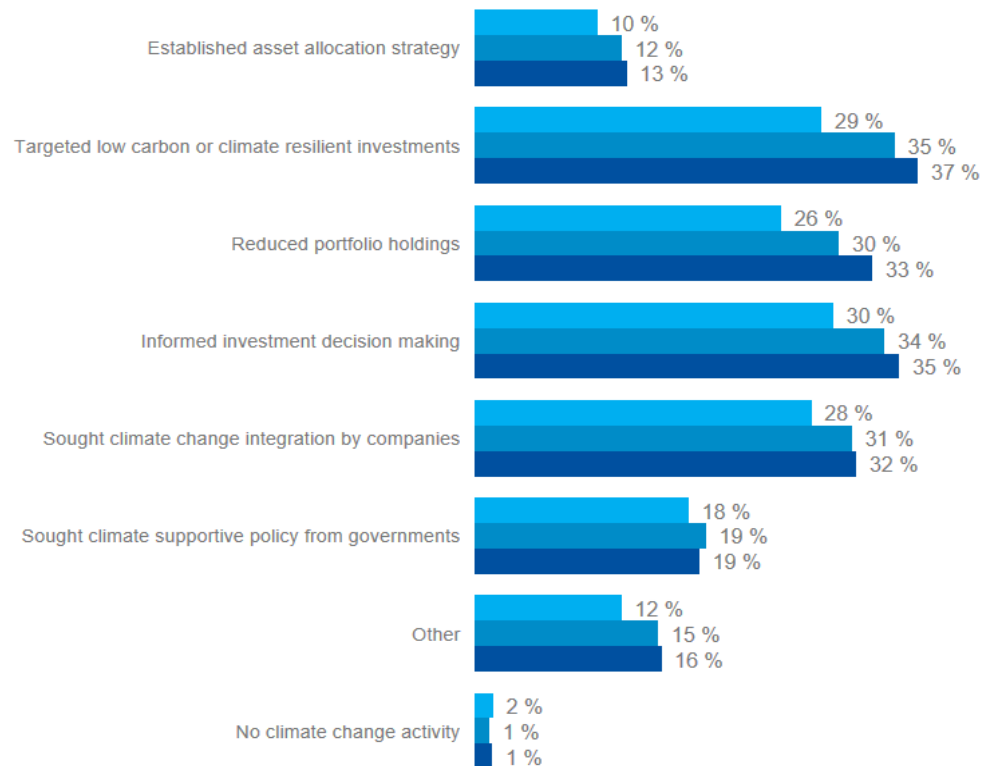
Investors are encouraged to act in:

1. Investment
2. Corporate engagement
3. Investor disclosure (TCFD)
4. Policy advocacy

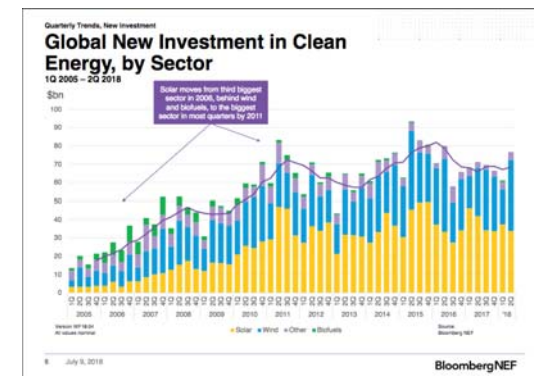
Investment in low carbon – US\$1 trillion

Activities used by signatories to manage climate-related risks and opportunities

● 2016 ● 2017 ● 2018



In 2018, over 400 signatories invested nearly US\$ 1 trillion in low-carbon investments including US\$ 800 billion in clean technology and green buildings





Investor commitment to support just transition

Launched at COP24

89 investors

collectively representing

USD \$ 4.7

trillion

of assets under
management

Climate change and the just transition
A guide for investor action

LSE THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

Grantham Research Institute on Climate Change and the Environment

INITIATIVE FOR RESPONSIBLE INVESTMENT

HARVARD Kennedy School
THE HAUSER INSTITUTE FOR CIVIL SOCIETY
at the Center for Public Leadership

In partnership with
PRI Principles for Responsible Investment

UN GLOBAL COMPACT

Climate Action 100+



climateaction100.org

Climate Action 100+

Investors engaging companies to:

GOVERNANCE

Implement a strong governance framework which clearly articulates the board's accountability and oversight of climate change risk

ACTION

Take action to reduce greenhouse gas emissions across their value chain, consistent with the Paris Agreement's goal of limiting global average temperature increase to well below 2 degrees

DISCLOSURE

Provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

PRI ON
CLIMATE



300+

INVESTORS SIGNED UP

30+

US\$ trn

ASSETS COMMITTED

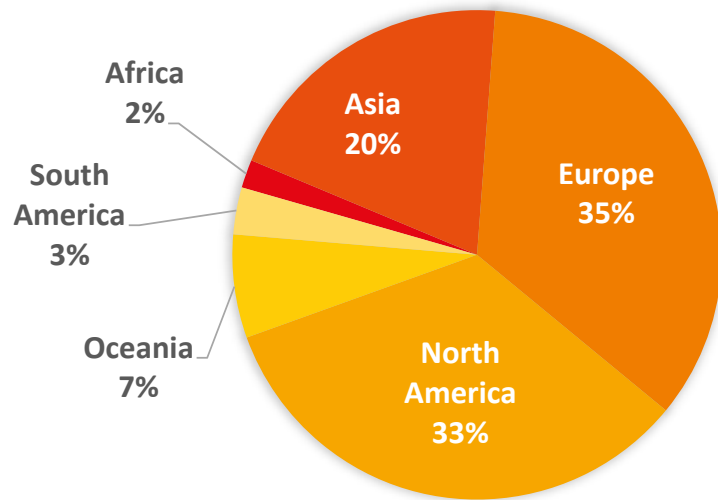
13 CLIMATE
ACTION



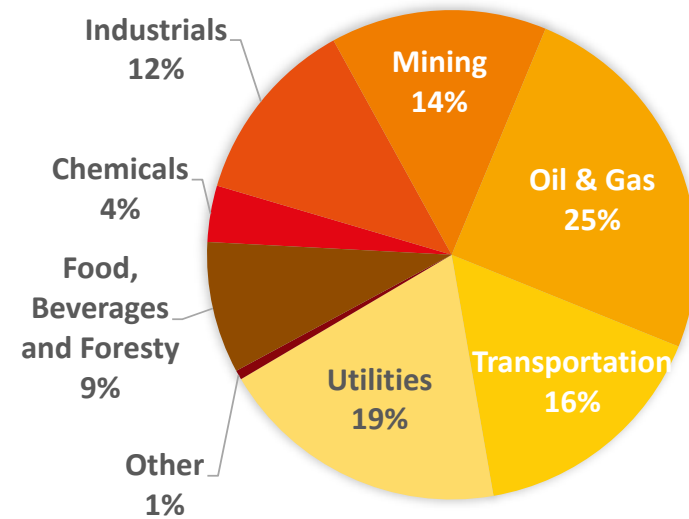
Climate Action 100+

161 Focus companies targeted for engagement

Focus companies by region



Focus companies by sector



TCFD - breaking the tragedy of horizons



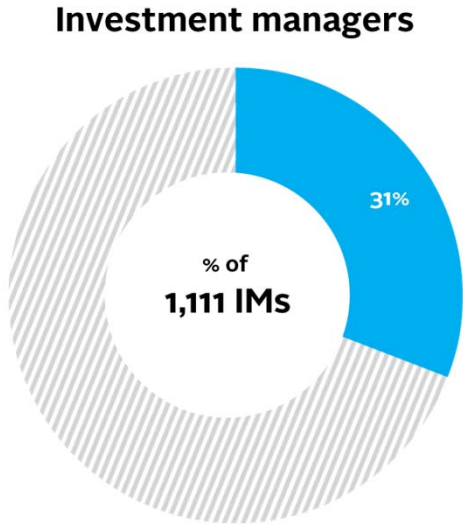
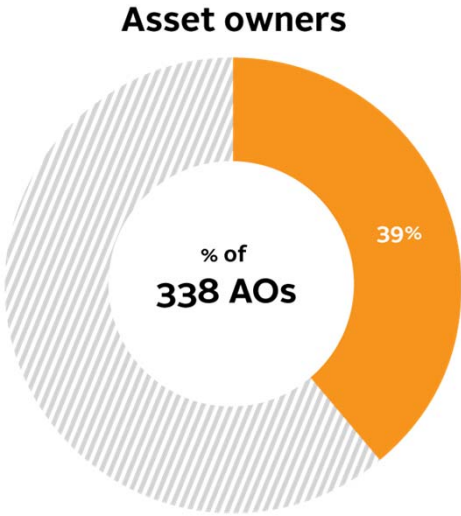
“The more we invest with foresight,
the less we will regret in hindsight”

Mark Carney, Governor of the Bank of England and former Chair of
the FSB

How have investors been responding to TCFD?

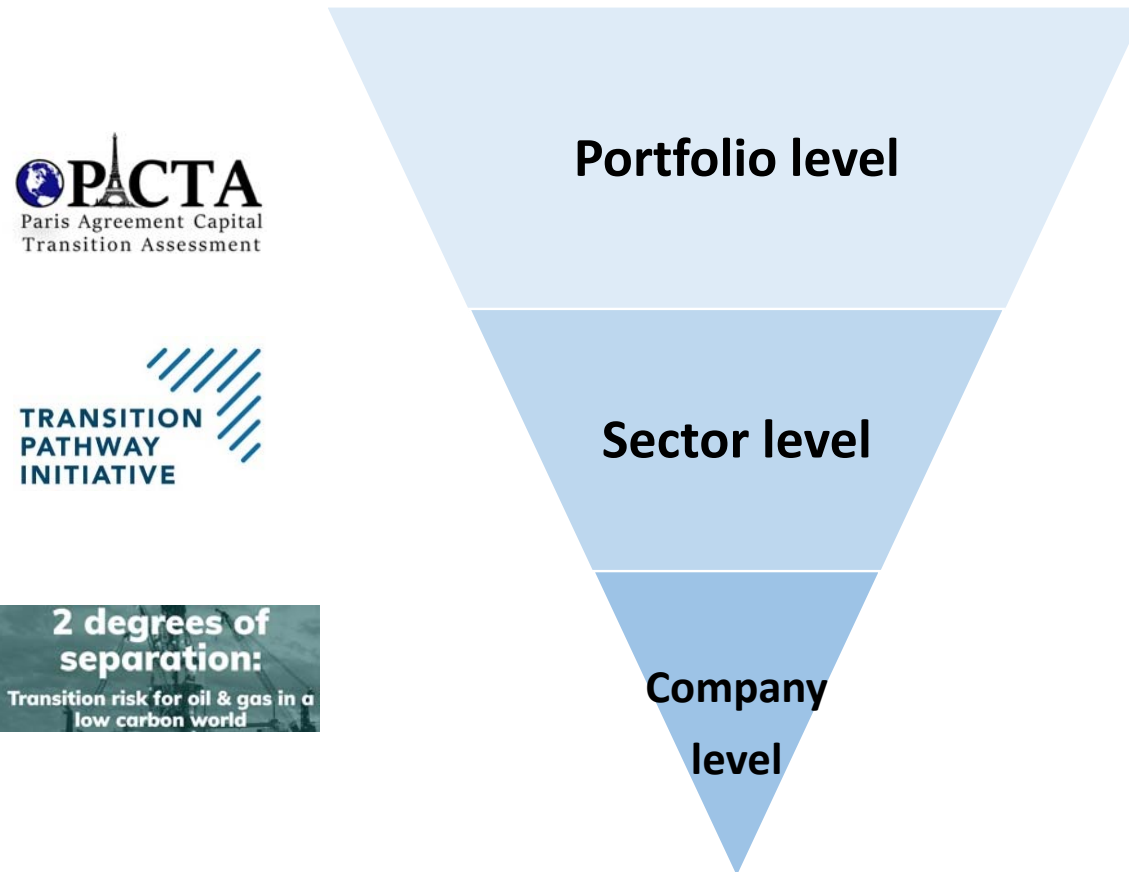
Number of responses to the PRI 2018 climate indicators

These 480 investor have \$42.4 trillion AUM



Climate scenario analysis tools developed with PRI

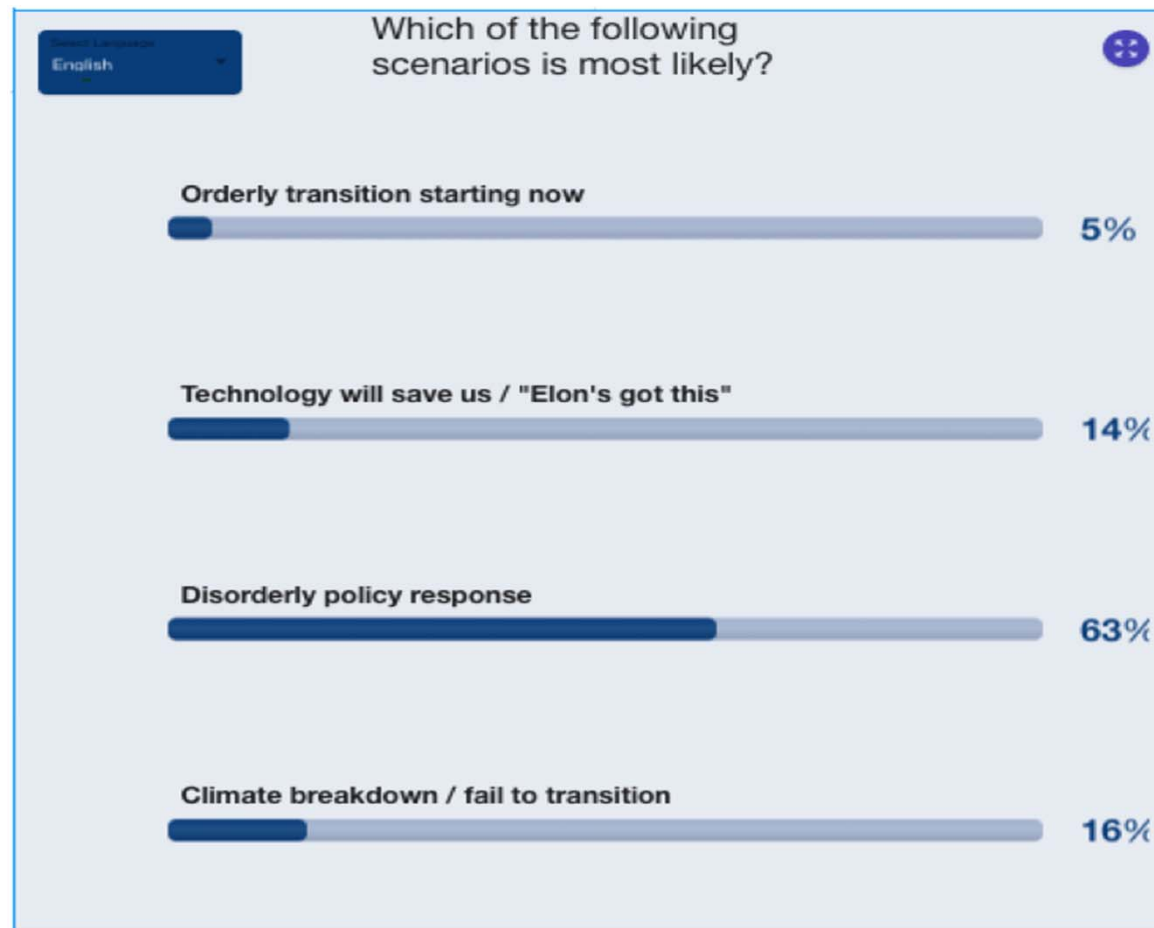
Enabling investor forward-looking climate risk assessment





What needs to happen next? The Inevitable Policy Response

What scenario do global investors expect?



The Inevitable Policy Response: Act Now

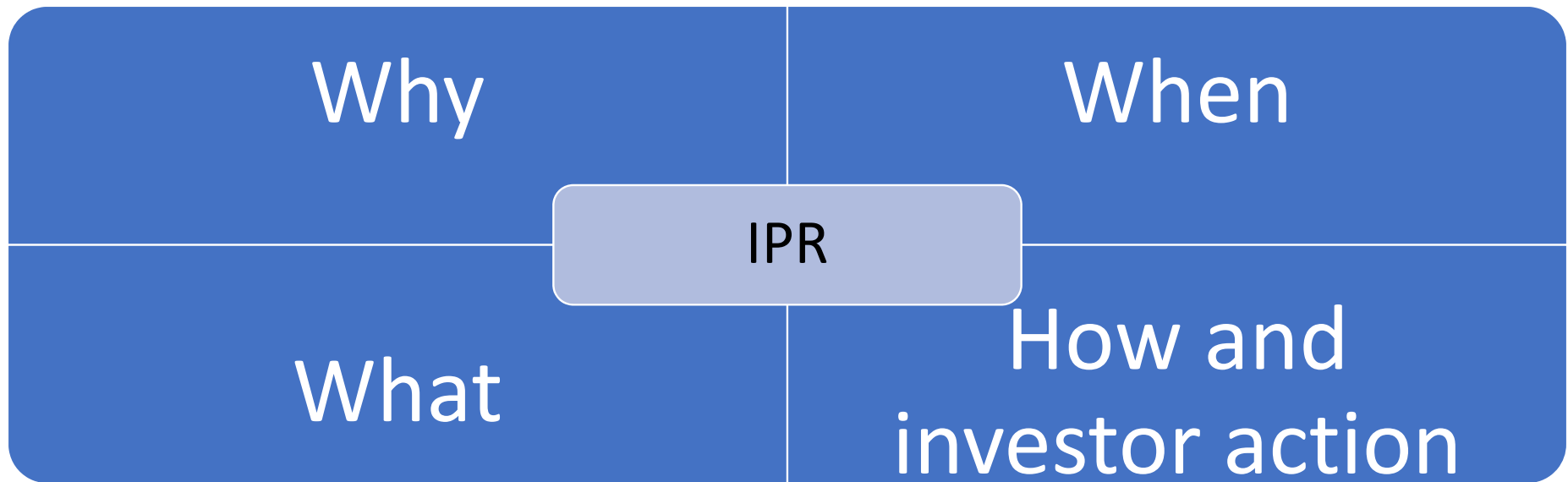
A PRI perspective on the future launched in September 2018



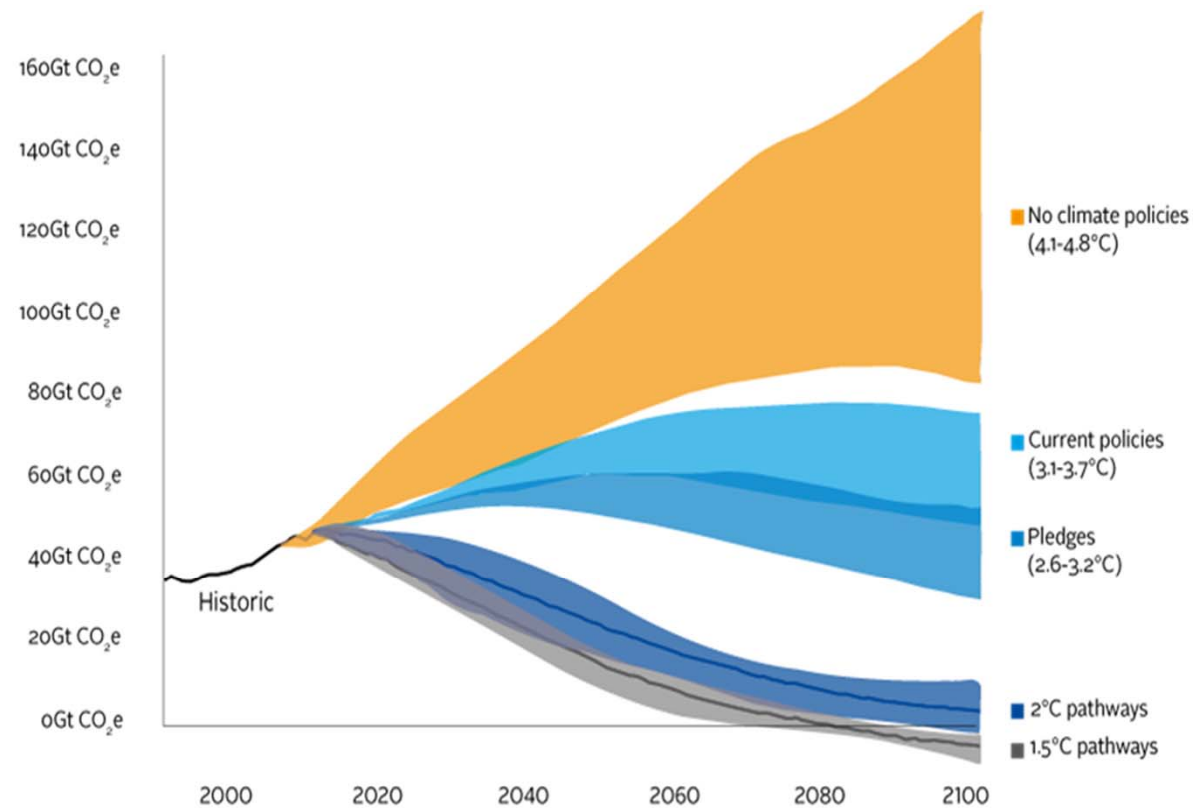
- The PRI is aware that the longer the delay in climate policy action, the more forceful and urgent the policy will inevitably need to be.
- The PRI is supporting the development of a body of work on an inevitable, rapid and forceful climate policy response.
- This will help institutional investors take action and implement processes to build resilience across investment portfolios, now and into the future.

The Inevitable Policy Response: Act Now (IPR)

- Forceful policy response is needed in light of likely overshoot of the Paris Agreement
- PRI, Energy Transition Advisors and Vivid Economics

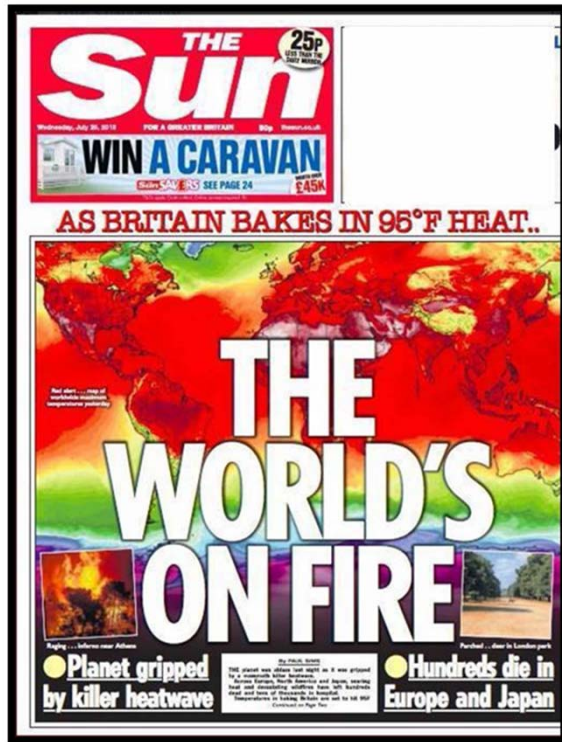


Why? The World is not on track for Well below 2°C



Study	Temperature Rise Range by 2100
Climate Action Tracker (2018)	2.6 - 3.2°C
IEA INDCs Scenario (2015)	2.6°C
UNEP Gap Report (2017)	At least 3°C
Roglej et al (2016)	2.6 - 3.1°C
Average	2.7 - 3.2°C

What could drive a forceful policy response?



- Falling costs of low carbon technology
- Need for certainty by all stakeholders
- Companies calling for a carbon price
- Civil society unease at weather trends
- Climate science research into impacts
- Security issues – migration, food and water

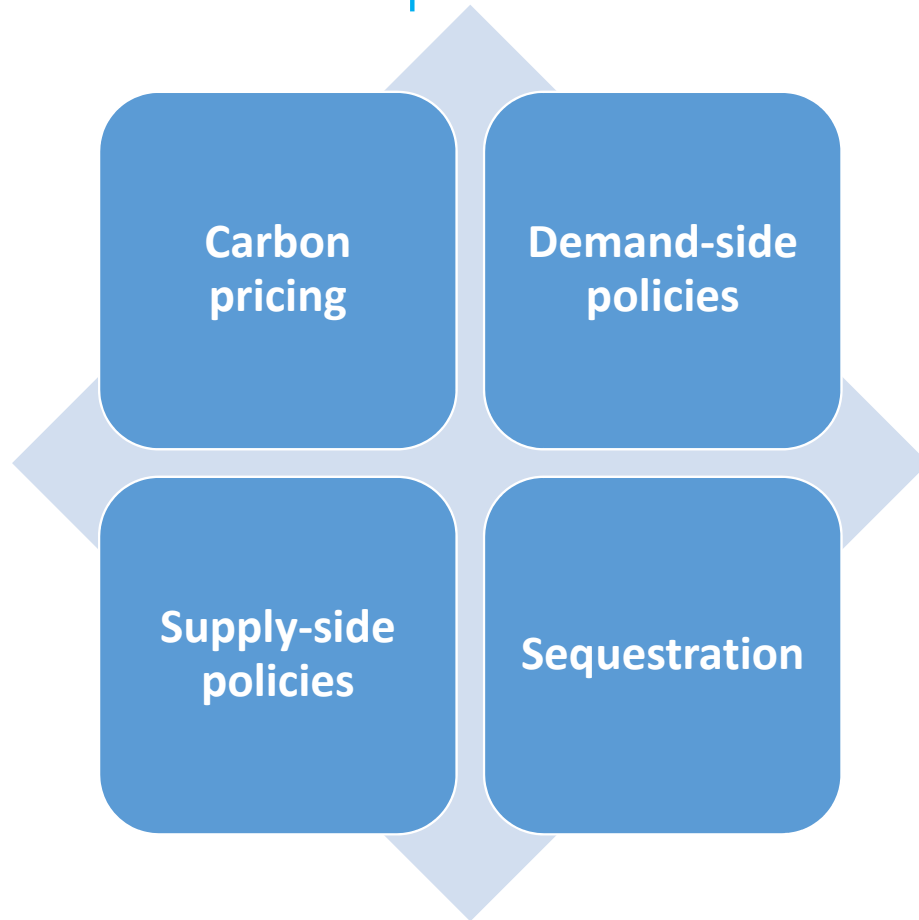
When? Paris 2025 pledges for 2030 Implementation

Timeline: How countries plan to raise the ambition of their climate pledges

The Paris “ratchet mechanism” is designed to steadily increase ambition over time, ensuring that the world reaches net zero emissions in the second half of the century and keeps temperature rise “well below 2°C”.



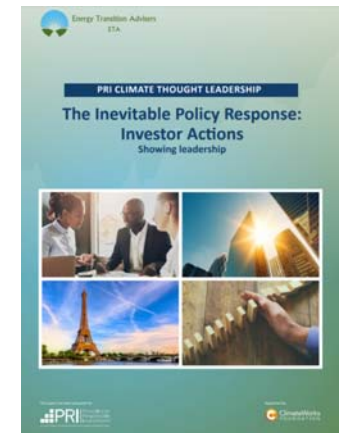
What forceful policies are needed to limit global warming?



1. Steep rise in carbon prices
2. Regulation and standards to change behavior and encourage energy efficiency
3. Incentivise clean technologies and energy
4. Nature-based solutions and negative emissions technologies (e.g. CCS) will become increasingly important

Act Now message to investors

- **Act now** – the later and the greater the gap the more the volatility.
 - Policy makers can adopt forceful policies
 - Companies can both innovate in clean technologies
 - Investors can adapt their strategies
- **Intended 2019 research and action programme by PRI**



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