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:

- **2** UN PARTNERS: UNEP FINANCE INITIATIVE UN GLOBAL COMPACT
- **2200+** SIGNATORIES: ASSET OWNERS, INVESTMENT MANAGERS AND SERVICE PROVIDERS
- **82+** 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?
"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 et al.
http://www.pnas.org/content/115/33/8252

Transition risks

Source: Future Earth
http://futureearth.org/blog/Budget2017
INVESTMENT NEEDS
Transition risk

- 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

Investment needs under different scenarios, 2016-2040

- Energy supply
- Energy demand

Source: IEA(2016).
What are investors doing?
**Investor example**
Establishing a climate risk management process

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
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 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)
Climate Action 100+

161 Focus companies targeted for engagement

Focus companies by region

- Europe: 35%
- Asia: 20%
- North America: 33%
- South America: 3%
- Oceania: 7%
- Africa: 2%

Focus companies by sector

- Oil & Gas: 25%
- Transportation: 16%
- Utilities: 19%
- Mining: 14%
- Other: 1%
- Food, Beverages, and Forestry: 9%
- Chemicals: 4%
- Industrials: 12%
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

- Portfolio level
- Sector level
- Company level
What needs to happen next?
The Inevitable Policy Response
What scenario do global investors expect?

- Orderly transition starting now: 5%
- Technology will save us / "Elon's got this": 14%
- Disorderly policy response: 63%
- Climate breakdown / fail to transition: 16%
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

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<thead>
<tr>
<th>Why</th>
<th>When</th>
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<td>What</td>
<td>How and investor action</td>
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IPR
Why? The World is not on track for Well below 2°C

<table>
<thead>
<tr>
<th>Study</th>
<th>Temperature Rise Range by 2100</th>
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<tbody>
<tr>
<td>Climate Action Tracker (2018)</td>
<td>2.6 - 3.2°C</td>
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<tr>
<td>IEA INDCs Scenario (2015)</td>
<td>2.6°C</td>
</tr>
<tr>
<td>UNEP Gap Report (2017)</td>
<td>At least 3°C</td>
</tr>
<tr>
<td>Roglej et al (2016)</td>
<td>2.6 - 3.1°C</td>
</tr>
<tr>
<td>Average</td>
<td>2.7 - 3.2°C</td>
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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”.

1. Climate plans submitted
   Countries submit their first round of climate pledges (NDCs). Some cover the period up to 2025, some up to 2030.

2. Facilitative dialogue
   To take stock of collective efforts of countries in relation to the long-term goal of the agreement and to inform the preparation of the next round of pledges.

3. By 2020
   Countries with 2025 targets communicate their second round of climate pledges, while countries with 2030 targets communicate or update their pledge.
   New climate pledges will then be submitted every 5 years.

4. Global stocktake
   On mitigation, adaptation and finance.

5. By 2025
   Countries submit their third round of climate pledges.

6. Second stocktake
   2030
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-base 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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