

HEALTH WEALTH CAREER

**STOXX ANNUAL  
CONFERENCE –  
CLIMATE RISK  
MANAGEMENT**

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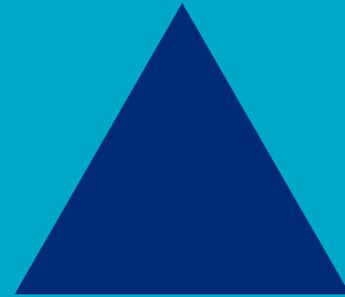
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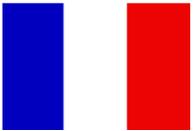
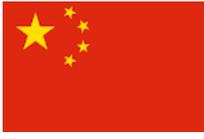
# AGENDA

- Regulatory developments
- Climate risk management approaches
- Developing your approach

# REGULATORY DEVELOPMENTS



# POLICY ACTIVITY: INVESTORS/CLIMATE CHANGE DEVELOPMENTS TO DATE - REGION & COUNTRY

	Institutional investors in France required to disclose how they are managing climate change risks.
	California's insurance commissioner calls for voluntary coal divestment and requires disclosure of fossil fuel company holdings.
	SEC issues interpretive guidance on disclosure related to climate change (2010) and insurance commissioners in six states continue to administer NAIC climate risk disclosure survey.
	The Financial Supervisory Authority in Sweden calls on the financial sector in Sweden to develop stress tests to capture climate change risks.
	The Dutch Central Bank calls for more transparency (carbon foot-printing and energy transition plans) to help financial institutions assess climate risks.
	European Systemic Risk Board report suggests that a “sudden-transition policy scenario” should be included in macroeconomic scenarios and in stress tests of financial institutions and the financial system as a whole.
	China's Green Finance Task Force was established in 2014, with multiple objectives – including supporting green investment in principle and practice. China's time chairing the G20 was also focused on green finance and Germany plan to continue that during their time.

# TASK FORCE ON CLIMATE DISCLOSURES

## PROBLEMS TO BE ADDRESSED



**SPONSOR:** Mark Carney, Chair of the FSB

**CHAIR:** Michael Bloomberg

### Three Problems:

1. Lack of a coherent financial reporting framework
2. Challenge for investors, creditors, and underwriters to use existing disclosures
3. Regulators struggle to assess financial system risks

### One Solution: a clear, efficient, and voluntary disclosure framework

<b>Phase 1</b>	<b>Complete</b>	<b>Phase 2</b>	<b>Complete</b>	<b>Phase 3</b>	<b>July 2017</b>
High-level objectives and principles		Draft recommendations delivered to FSB and G20; two-month public consultation (finished February 2017).		Recommendations to be finalised July 2017. Financial and non-financial companies to adopt for year end 2017.	

*NB: Jane Ambachtsheer represents Mercer on the TCFD*

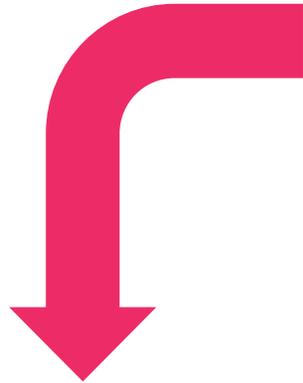


- **Governance** – The organisation’s governance around climate-related risks and opportunities
- **Strategy** – The actual and potential impacts of climate-related risks and opportunities on the organisation’s businesses, strategy, and finance planning
- **Risk Management** – The process used by the organisation to identify, assess and manage climate-related risks
- **Metrics and Targets** – The metrics and targets used to assess and manage relevant climate-related risks and opportunities

# CLIMATE RISK MANAGEMENT APPROACHES



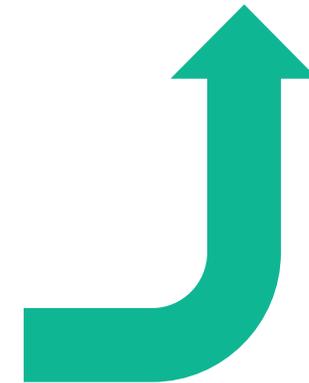
# HOLISTIC CLIMATE RISK MANAGEMENT PORTFOLIO RISK ASSESSMENT METHODS



## TOP-DOWN

- Asset-Liability Modeling
- Manager Monitoring / Selection Process

Investment Risk Management Strategy



## BOTTOM-UP

- Company, Sector, and Geographic Analysis
- Direct investment process

# TOP DOWN APPROACH: THREE KEY QUESTIONS

1. How big a portfolio **risk / return impact** could climate change have?

2. What are the **risks and opportunities**?

3. What **action** should investors take?



# INVESTING IN A TIME OF CLIMATE CHANGE

“The report ...is, to date, the most comprehensive from an asset-allocation perspective...”

The New Economics of Climate Change, The New Yorker, July 2015

16 Investor Partners

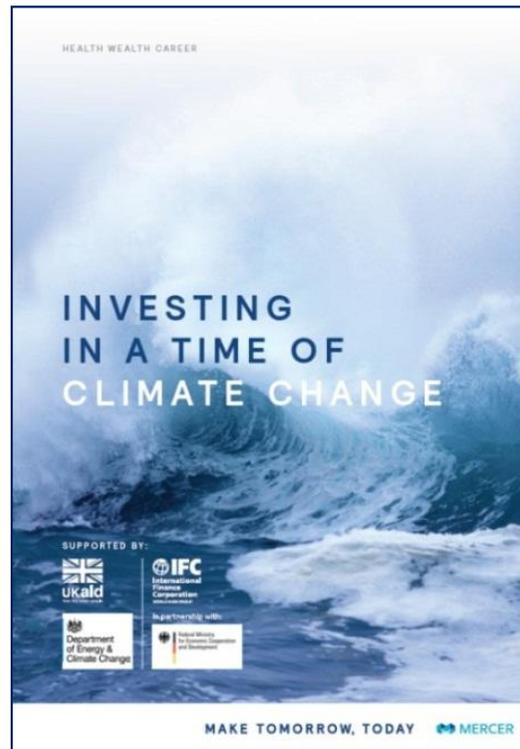


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2 Sister Companies

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13 Expert Advisors



2 Public Partners

**IFC**  
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Finance  
Corporation  
WORLD BANK GROUP

**UKaid**  
from the British people

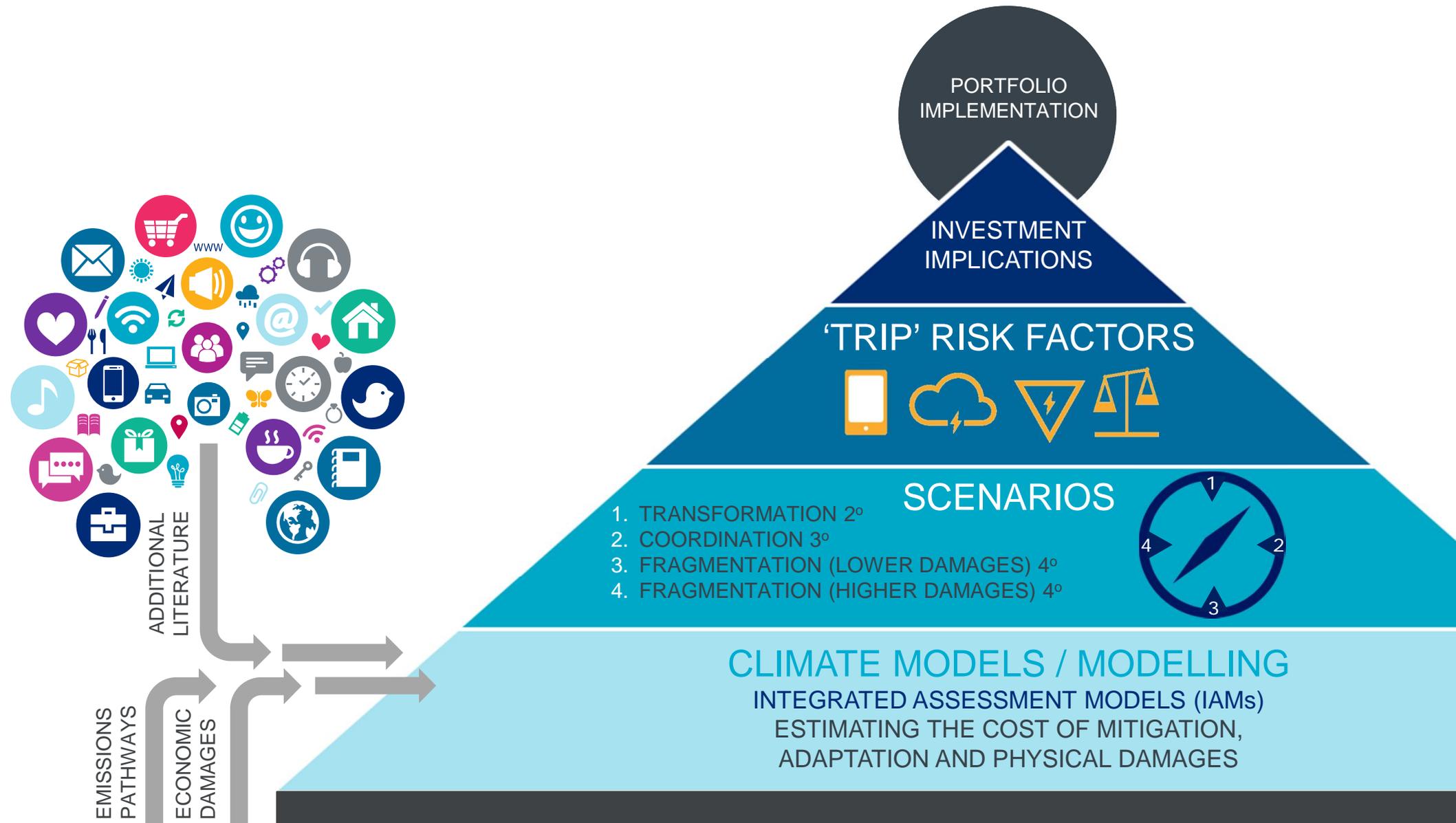
Federal Ministry  
for Economic Cooperation  
and Development

Department  
of Energy &  
Climate Change

A novel top-down framework for considering climate change risks

# MERCER'S MODELLING PROCESS

## ASSESSING CLIMATE CHANGE RISK



# INVESTING IN A TIME OF CLIMATE CHANGE

## 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 2°C (Transformation) scenario need not harm total diversified portfolio returns out to 2050.

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

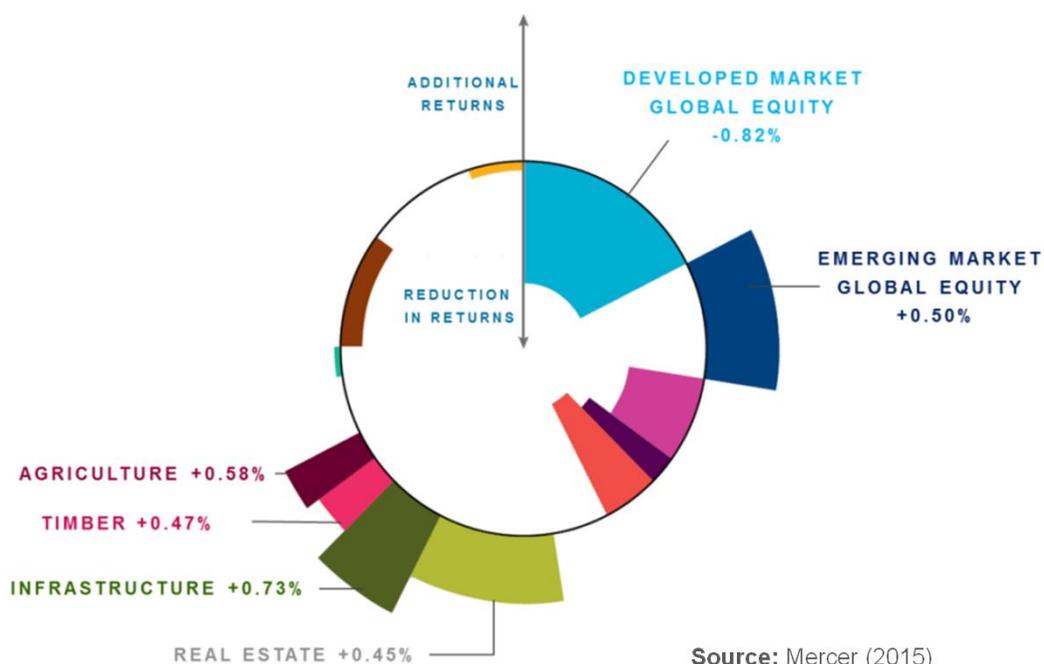
# ASSESSING CLIMATE RISK

## INVESTOR IMPLICATIONS – 2°C SCENARIO

### What is the investment risk from climate change?

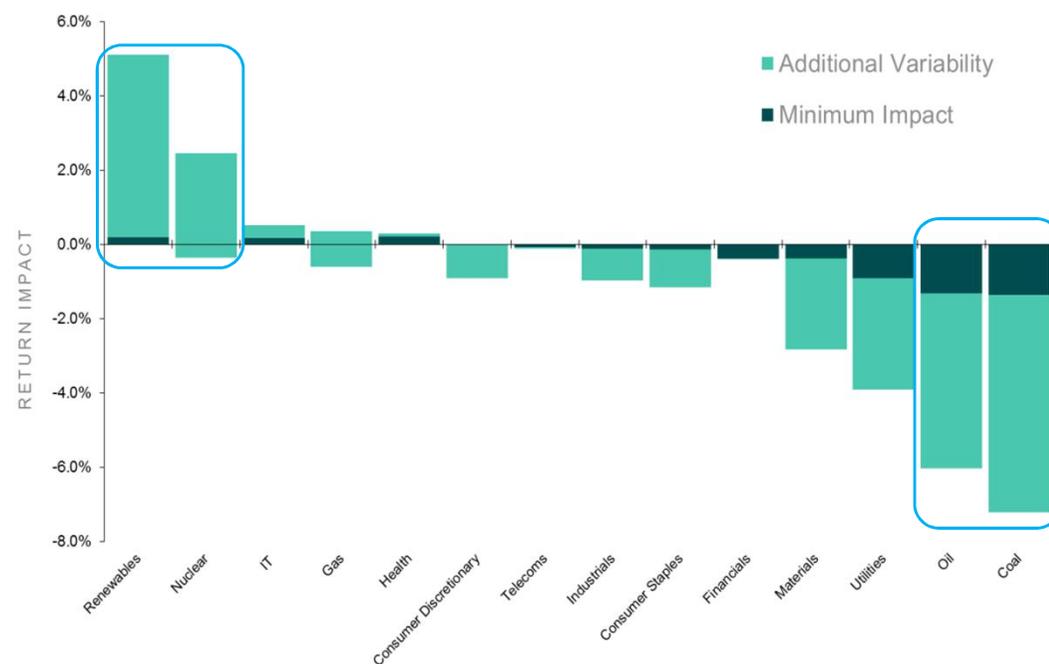
- 2°C scenario has greatest near-term (i.e. 10 year) impacts
- **Asset classes** and **sectors** matter
- Investors should review exposure to “at risk” sectors e.g. Energy, Utilities

10 YEAR MEDIAN ANNUAL RETURN IMPACTS – ASSET CLASSES

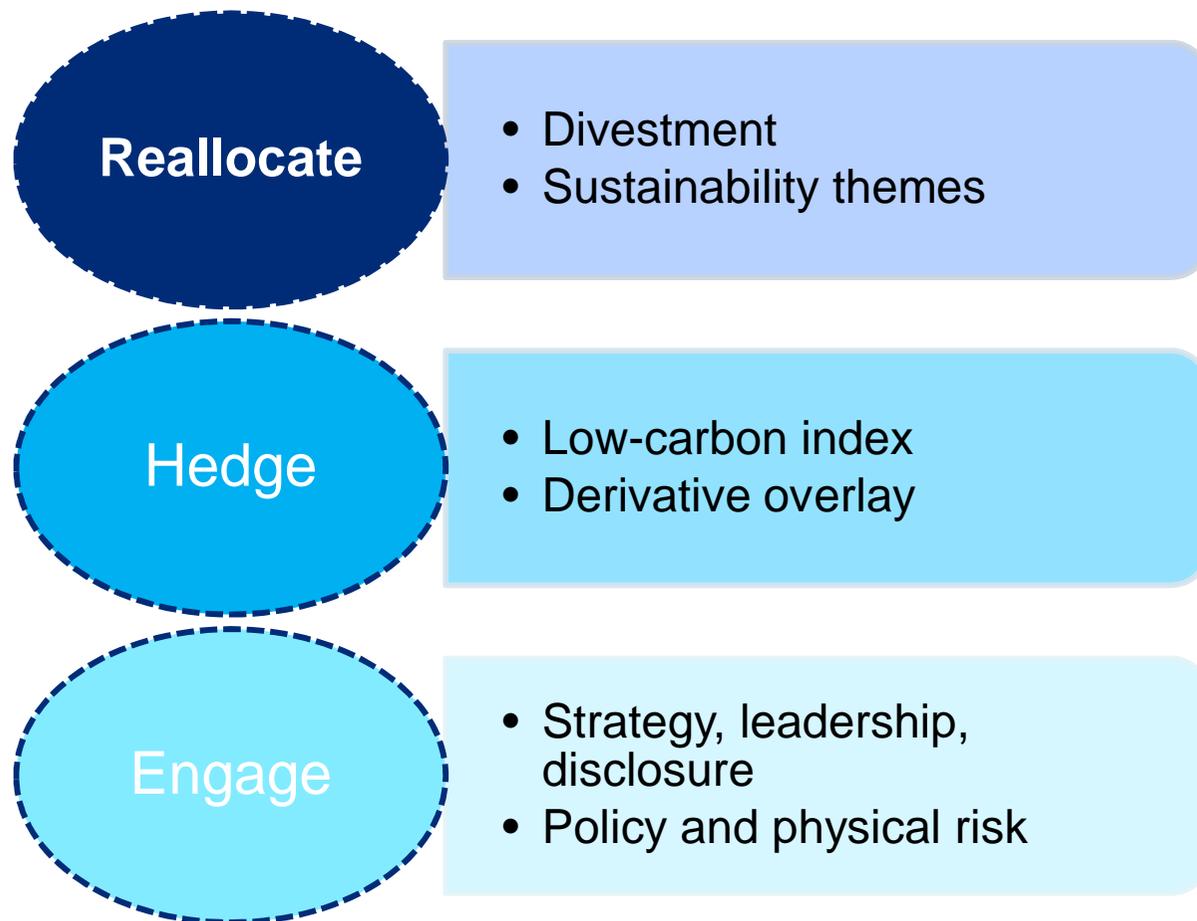


Source: Mercer (2015)

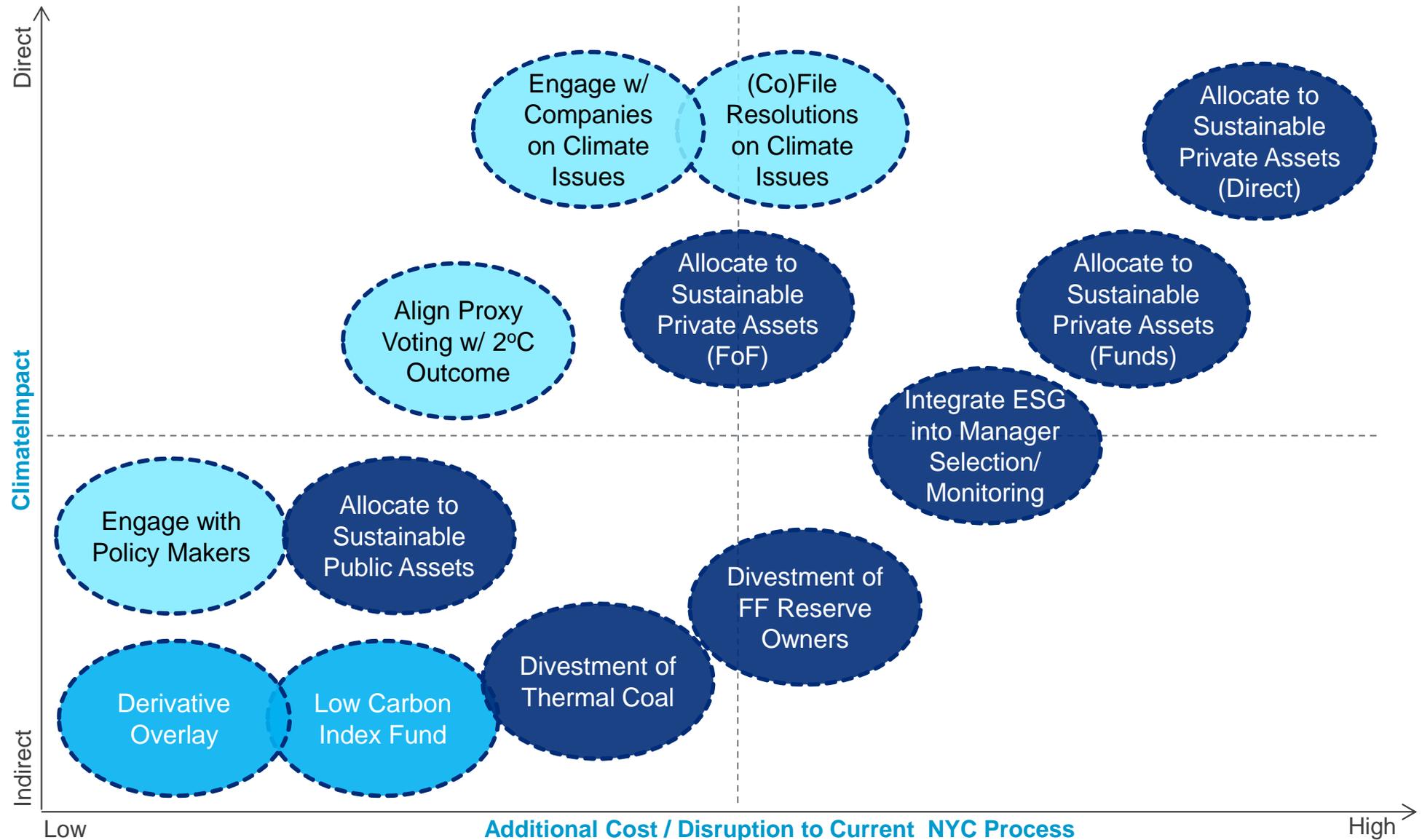
10 YEAR MEDIAN ANNUAL RETURN IMPACTS – SECTORS



# CLIMATE RISK MANAGEMENT PORTFOLIO IMPLEMENTATION OPTIONS



# PORTFOLIO RISK MANAGEMENT OPTIONS CLIMATE AND OPERATIONAL IMPACT



# ALLOCATE TO SUSTAINABILITY

## KEY THEMES



### RENEWABLE AND ALTERNATIVE ENERGY

Solar, wind, wave, biofuels, and geothermal technology

### SUSTAINABLE RESOURCE MANAGEMENT

Soil management, sustainable farming, and forest management



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### WATER INFRASTRUCTURE AND TECHNOLOGIES

Irrigation, storage, treatment, drainage, and flood protection

### POLLUTION CONTROL

Pollution control solutions and environmental testing



### WASTE MANAGEMENT AND TECHNOLOGIES

Recycling processing, hazardous and general waste management



### ENERGY EFFICIENCY

Storage plus power network, industry, building, and transport efficiency



### ENVIRONMENTAL SUPPORT SERVICES

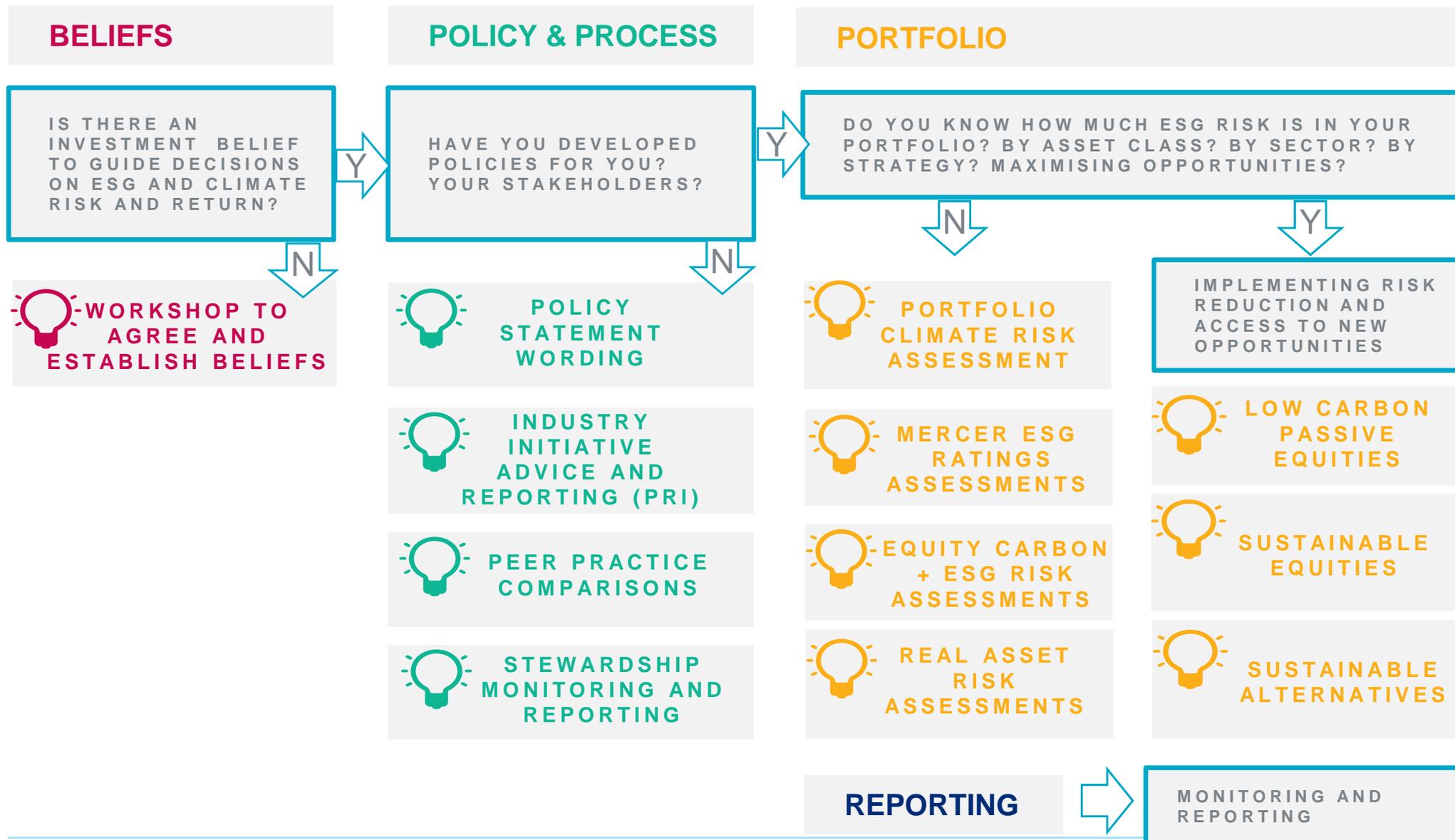
Environmental consultancies, carbon trading, and diversified environmental services

# DEVELOPING YOUR APPROACH



# INTEGRATING CLIMATE CONSIDERATIONS

## WHAT NEXT?



# FUTURE MAKER OR FUTURE TAKER?

Climate-Unaware  
'Future Takers'

Ignore risks and opportunities linked to climate scenarios, to the **potential detriment of long-term returns**

Climate-Aware  
'Future Takers'

Consider climate risks across portfolios, **taking action**

Climate-Aware  
'Future Makers'

Build upon the **Climate-Aware Future Taker** position and make a concerted effort to influence systemic, market-wide outcomes



Which category best describes your approach?



**MERCER**

**MAKE TOMORROW, TODAY**