

Investors, Climate Risk and Forceful Stewardship

ThinkTank Hosted by Preventable Surprises

OLIVIER CASSARO • DR. RAJ THAMOTHERAM • BILL BAUE

Objective This week-long virtual dialogue engaged thought leaders and practitioners globally to explore how investors can best address big climate risk. Bringing together "positive maverick" participants from different disciplines, stakeholder groups and geographic regions, this ThinkTank was designed to help shape a shared strategy for "Forceful Stewardship" that makes maximum use of the post COP21 environment, including the 2016 Annual General Meeting season and beyond.

ThinkTank Statistics

77 Participants from **15** Countries

577 Posts in **6** Discussion Tabs

3 Surveys (38% to 78% participation rates)

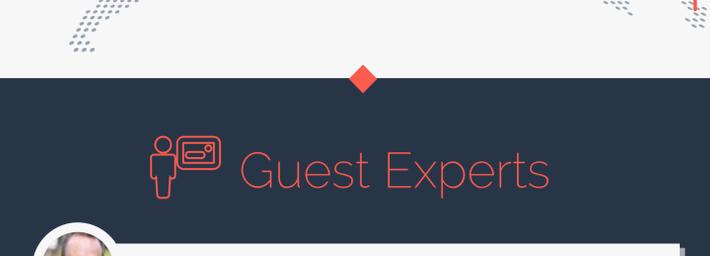
1 Interactive Matrix

4 Guest Experts

Participant Demographics



Geographic Distribution of Participants



Guest Experts



Andy Pitman

IPCC LEAD AUTHOR & REVIEW EDITOR ON THE ROLE OF CLIMATE SCIENCE

“The uncertainty is therefore mainly linked to what we as a species choose to do, not uncertainty in the science.”



John Rogers

FORMER CEO, CFA INSTITUTE & INVESCO ON FIDUCIARY CAPITALISM

“My brief definition [of Fiduciary Capitalism] is a system of investment decisions based on intergenerational equity, in which negative externalities are minimized and positive ones maximized so as to benefit owners across time.”



Andrew Winston

AUTHOR, THE BIG PIVOT ON SHORT-TERMISM

“Investors are measured on absurdly short-term metrics with inflows/outflows from funds often based mainly on very recent performance ... which then creates a reaction in the business world to create very short-term incentives for top execs, which drives their short-term behavior.”



Bob Massie

CO-FOUNDER, INVESTOR NETWORK ON CLIMATE RISK ON THE MODEL OF THE SOUTH AFRICAN DIVESTMENT MOVEMENT

“The South African divestment movement demonstrated that millions of individual actions, each of which might seem inconsequential, can aggregate to become a massively effective mechanism for social and political transformation from below.”

Key Survey Conclusions

- General consensus that **reducing carbon emissions is essential**. Split view regarding whether it is possible.
- Institutional investors engaging assertively with companies and governments to change their core business strategies and implement effective policies for **low carbon business plans** remains the overall favorable strategy, with strong confidence in the impact of pushing for low-carbon business models and plans.
- There is a general consensus that setting a legal precedent is both essential for bringing about **large behavioural change** but that it is also only part of the solution.
- Hard client demand from asset owners in the form of **clear RFP's and monitoring** thereof is considered the optimal strategy an investor should engage with to become a 'future maker'.
- Consensus that **passive investors** must play a greater role.
- Sell-side research, central bank research & scientists** are considered key partners to further understand the implications of climate damage curves and the non-linearity of climate disruption, with polarised views about the expert role of NGOs.

Forceful Stewardship Hypotheses Change in Support From Pre- to Mid-Event Survey



Institutional investors, like many organisations, are badly prepared for the warmer or more by that we are currently on track for (average 4°C warmer or more by the end of the century). **FROM 80% TO 100%**



Whilst we are aware of the serious case for setting the ceiling on warming at 1.5°C, we believe that the most important thing for institutional investors to do now is to fully engage in system change to support a 2°C ceiling or maximum of 450 ppm. **FROM N/A TO 91%**



We believe that the climate related portfolio value at risk for diversified institutional investors is already significant, and will become very significant by 2030s, given the climate disruption that we are currently on track for. **FROM 24% TO 77%**



We believe that a rapid transition to a low-carbon economy will significantly reduce big climate risk and that this transition could be structured towards long term cost-neutrality for diversified investors. **FROM 60% TO 80%**



We believe that fossil fuel company directors face a conflict of interest in advancing a rapid transition to a low-carbon future. Diversified investors are uniquely positioned to reduce or perhaps even eliminate this conflict. **FROM 52% TO 75%**



We believe that fiduciary capitalism requires a fundamentally different risk management approach with a focus on the prevention and mitigation of risks which are catastrophic and systemic. **FROM 74% TO 91%**



We believe that forceful stewardship (i.e. fit for purpose given big climate risk) requires very significantly improved collaboration between diversified investors and also collaboration with informed non-investment specialists (e.g. scientists). **FROM 63% TO 97%**

Most Supported "Key Takeaway" Categories

- Sector Focus -

Demand Side of Fossil Fuels

28 Votes for 4 Comments

“Focusing on fossil-fuel demand-focused industries is inherently more attractive than the supply-side, because if success is achieved, it will help to reduce emissions, which helps to build momentum. Utilities, Auto and Energy intensive industry (e.g. steel, cement).”

Supply Side of Fossil Fuels

22 Votes for 3 Comments

“There's far too little attention paid to the oil sector. The central fact (and this was not the case last century) is that today's and tomorrow's oils are increasingly heterogeneous in terms of their make up and climate impacts. It's imperative that you "know your oil" for both private and social reasons. Seems to me that investors are in the drivers seat here, not the government.”

Insurance & Reinsurance

17 Votes for 3 Comments

“Strong pitch for a focus on the insurance sector... a concerted engagement campaign by investors focused on US (and global) insurers would have a high chance of success, and that success would have a large impact on the climate problem.”

Agriculture

10 Votes for 1 Comment

“We also need to focus on agriculture. What level of meat & dairy consumption is consistent with a two degree world? Why are investors backing growth in meat/ dairy producing assets?”

Litigation

30 Votes for 8 Comments

“The ultimate goal for litigation is to change outdated behavior and processes, which does not necessarily require winning cases in court. While favorable court decisions can drive change, settlements can also establish new models that serve as precedent elsewhere.”

Policy / Regulation

24 Votes for 7 Comments

“COP21 seems an excellent place for Forceful Stewardship to be launched publicly. We need a clear message, well-supported, underwritten by people and entities that are credible. This week is a very good start. We should try to make a splash in Paris.”

Communication

21 Votes for 11 Comments

“Where is your 2 Degree Business Plan? is a perfect umbrella proposition here as it is easily understandable by investors...”

Alliances

17 Votes for 8 Comments

“My framing of the system [focuses on] the four key players who own the money; citizen savers; asset owners; investment managers; and companies. I encourage a focus on the asset owners who I suggest are the most influential of the four. NGOs can inform/influence the 4 key players. Regional (or global) investor groups would seem key.”

Diversification

Interesting Contrarian Idea

“I don't think 'Best bang for buck' necessarily means sector focus. Like portfolio risk management itself... we need diversification of approach to flush out the challenges.”

“I think ... this second approach, which is to plant a number of seeds and see which ones flower ... is right for several reasons. First, different strategies will appeal more or less forcefully to different constituencies. Second, these are not sealed systems; they are dynamic and the very act of targeting one area will affect the ease/value of others.”



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