Climate Risk is Investment Risk

This publication is designed for on-screen viewing.

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1. Introduction

The world is worried about climate change – how it impacts on our environment, our health, life opportunities.

Increasingly the financial world is seriously worried about how climate change impacts on investments – and that in turn affects our shares, our Super Fund, our bank accounts and insurance premiums.


Larry Fink

Larry Fink, Head of BlackRock – the world's largest asset manager, has stated in letters to investors that,

'climate risk is investment risk'.

He also said that this would bring about a reallocation of finances and new opportunities for investment, particularly renewable energy. 'Green' investing can support a post COVID-19 recovery.

The past year has seen ambitious net zero emissions targets announced by USA, China, the EU, Japan and South Korea—as well as the reinstatement of the Paris Agreement by USA..

'Net zero' emission targets mean we will still be producing some emissions, but they will be offset by processes such as tree planting, that reduce greenhouse gases already in the atmosphere.

More financial regulators are making climate risk disclosure mandatory, central banks are stress testing for climate risk and policymakers around the world are tyring to achieve climate goals.


Fiona Reynolds

Fiona Reynolds is the Managing Director, of the United Nations Principles for Responsible Investment (PRI).

This organisation has 1350 signatories and represents over $US45 million worth of assets.

Fiona, who was also a former CEO of the Australian Institute of Superannuation Trustees, has said

'anyone who fails to accept that climate sustainability has moved into the mainstream and was being embedded in financial regulations, would soon be left behind.'

So, how do major investors, and the small, make investment decisions now?

2. Environmental, Social and Governance (ESG) Calculations

The finance world uses ESG calculations.

These take into account how environmental; social and governance factors impact a business. ESGs help determine the financial performance of companies.

Companies are [increasingly using ESGs] as part of their analysis to clarify risks and growth opportunities.

The Responsible Investment Association of Australia found in its 2020 Benchmark report, that over 10 years, Australian share funds which were using ESGs to help choose investments produced an average 2.2% better performance than other share funds.

This can add up to a significant figure. These companies also often contained less risk as investments.

The first major ESG investment measure was established in 1999. The Dow Jones Sustainability Indices (DJSI) analysed economic, social, governance and environmental factors altogether.

The DJSI assess issues such as climate change mitigation, labour practices, supply chain standards and corporate governance. Now companies view it as a badge of honour to receive a good DJSI rating.

Individual investors can also use ESGs to reduce portfolio risk and generate opportunities for good investment.

3. What issues do ESGs cover?

Environment

- How does the company mitigate now, and into the future, their greenhouse gas emissions?
- How do they consider their impact on Earth?
- Are they involved with making or using renewable energy?
- Do they produce green products and technologies?
- What are their climate policies and plans?

Social

- Their treatment of and impact on employees, customers, consumers and suppliers.
- Do they have an ethical supply chain?
- Human Rights/Social Justice
- Gender ratios
- Diversity and inclusion.

Governance

- How good is the Board and senior management?
- How does business relate to stakeholders?
- Transparency of communications
- Accountability
- Gender make up of Board and senior management.

ESGs can be complicated by factors such as a company scoring highly on governance, but not climate or social.

4. Types of Investment

Socially Responsible Investing means that you may totally exclude investments, such as fossil fuels, from your investment decisions.

An impact investor is prepared to accept less of a financial return, at least for a period of time, in order to see social and environmental benefits.

5. Help with research

You may not need to do all this research yourself. Organisations like Market Forces have already done the hard lifting for you.

Market Forces examines banks,

superannuation funds and companies for their climate decisions and investments.

Market Forces wants institutions and companies to invest with respect for the environment, utilise investment money to deliver solutions to environmental problems and be accountable as custodians of client's money.

You can look up banks, superannuation funds, insurance policies, companies and see where they are making investments on your behalf.

6. What about Super?

Even if you are not an individual investor you can have an investment impact. You can make decisions about your money - your superannuation, your insurance, - based on the climate risk of the business.

One of Market Forces well-known campaigns at present is trying to convince Super Funds to divest from coal and gas.

Australians may despair that the Federal Government is not seriously tackling climate change and we will be left behind the rest of the world in terms of the investment market.

The good news is that business is embracing more climate sensitive investment strategies.

The Australian Super industry, worth around $3 trillion dollars, is a significant world player.

The 'Climate League 2030 " made up of major Australian superfunds and investors, is calling on investors, insurers, banks and companies to sign up to a climate goal stronger than what the Federal Government calls for.

7. Final Thought

Together, big and small investors, we can make financial decisions good for ourselves and for the planet.

Many thanks to Suzanne Lees from the Zonta Club of Melbourne on Yarra for collating this useful information

www.zontasaysnow.org.au
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