

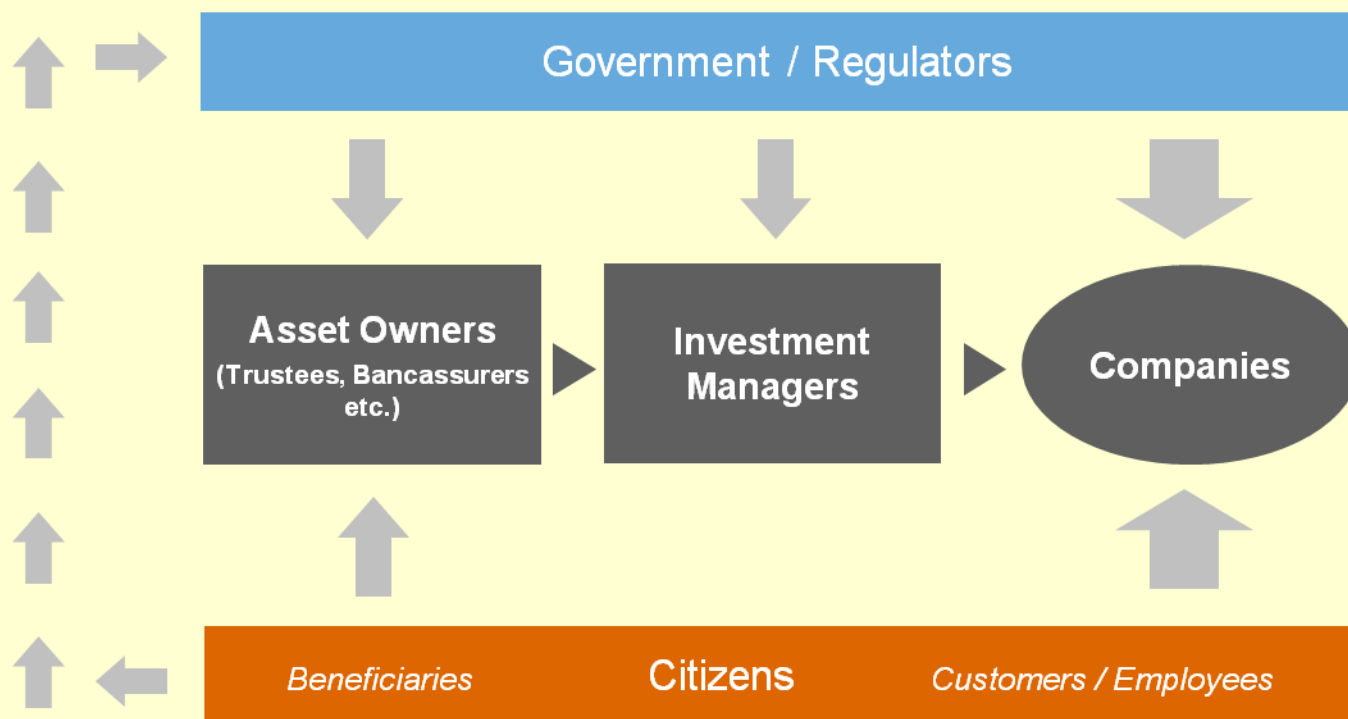
*Environmental Resources: Where does ethics  
end and finance begin?*

Mike Clark

Director, Responsible Investment, Russell Investments

- The long term finance sector – the key players
- Values vs value - ethics and fiduciary duty
- It's all about (long term) risk (and return)
- The regulators are coming
- Climate change risk and actuaries

# Who owns the money? Four key players



| ESG integration   | Socially Responsible Investment (SRI)  |
|---|--|
| <ul style="list-style-type: none"><li>▪ Sustainable financial value</li><li>▪ Mainstream, it took a while</li><li>▪ Aligns with fiduciary role</li><li>▪ Internalise economic externalities</li></ul> | <ul style="list-style-type: none"><li>▪ End-investor has values beyond only financial goals</li><li>▪ Often leads to security exclusion</li><li>▪ Pooled fund challenges</li></ul> |

# Fiduciary duty

## How bounded is your responsibility?



- (Pension fund) asset owners will typically have a fiduciary duty to their beneficiaries
  - Duty of alignment
  - Duty of care
- Common law vs statute law
- Fiduciary duty can be interpreted narrowly
- Change underway, though slow
  - “Freshfields” Report (2005)
  - UK: Law Commission Report (2014)
  - *Fiduciary Duty in the 21<sup>st</sup> Century* (2015)
  - *Resource Efficiency and Fiduciary Duties of Investors* (2015)
- France: Article 173
- Bounded responsibility

# This pension scheme thinks climate risk is a financial risk



- › ...the objective is to ensure that our Fund's investment portfolio and processes are **compatible with keeping the global average temperature increase to remain below 2°C** relative to pre-industrial levels, in-line with international government agreements.
- › We have set ourselves three targets for 2020:
  - › **Invest 15 per cent** of the fund in **low carbon, energy efficient** and other climate mitigation opportunities.
  - › Decarbonise the equity portfolio, reducing our exposure to “future emissions” by **90 per cent for coal and 50 per cent for oil and gas by 2020** compared to...as at 31 March 2015.
- › **Support progress** towards an orderly transition to a low carbon economy through actively working with asset owners, fund managers, companies, academia, policy makers and others.

# What about the Scheme Actuary?

## Here's how one scheme did it



“Our pension fund has had a responsible investment policy in place for several years.

We believe our portfolio is more resilient to some future risks (especially environmental) than the average UK pension fund.

So, how might your actuarial valuation of our pension fund reflect that, and give us a financial benefit?”

# He thinks there's a risk issue too

- Three risks:
  - Physical
  - Transition
  - Liability
- Support for Green Bonds
- Bank of England research work stream



Mark Carney, BoE Governor  
Speech to insurers, Lloyds, Sep 2015



And then...196 nations...

# Nations Unies

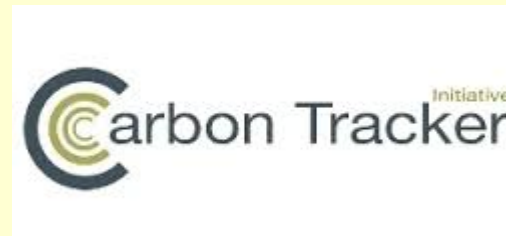
## Conférence sur les Changements Climatiques 2015

COP21/CMP11

Paris France



# Who else is helping?



# Diversification – not always a free lunch

## Collective Engagement and Shareholder Resolutions



2015



2016



# The policymakers, regulators (and the lawyers!) are coming

- FSB (Carney chair) G20 recommendations
- Taskforce for Climate-related Financial Disclosure (Bloomberg)
- China (G20 chair) requests OECD work on fiduciary duty
- Climate Pensions Legal Initiative
- Commonwealth Climate Law Initiative



*“You will disclose...”*



# What are insurance companies doing?



- Many have great insights on climate change risk
- Insurance companies are asset owners too
- Are their investment strategies helping manage risk downwards?
- UNEP FI Principles of Sustainable Insurance
- California Insurance Commissioner's call for coal disinvestment

# What are investment consultants doing?



- University of Oxford Smith School Sustainable Finance Programme Working paper: *Investment consultants and green investment: Risking stranded advice?*
  - Expansion of green investment is hindered by both demand and supply factors in the investment consultancy industry
  - Both asset owners and investment consultants desire less short-termism, yet often remain fixated on it
  - Narrow interpretation of fiduciary duty
  - Investment beliefs offer opportunity for improvement

# So, what price carbon?!

| Year | Price (\$) | Range (\$) |
|------|------------|------------|
| 2020 | 24         | 10-50      |
| 2025 | 43         | 20-75      |
| 2030 | 79         | 40-120     |
| 2035 | 116        | 50-200     |
| 2040 | 179        | 60-300     |
| 2045 | 239        | 75-400     |

Source: Stranded Assets Forum participants (Clark)

- Climate change risk leads to climate asset risk
- Some pension schemes are responding
- But is it (all) fast enough?
- Actuaries are involved on the liability side
- Can actuaries do more on the asset side?