



Institute
and Faculty
of Actuaries

Climate Asset Risk – It's all about Governance now

Mike Clark

Founder Director, Ario Advisory

7 June 2017

Today's agenda

- Assume the science is resolved – so climate is now a risk issue
- The long term financial system – four key players
- Climate risk and governance – who makes which decisions?
- Pension fund trustees (and other asset owners) are **central**
- Examples of good practice
- How are the regulators doing?
- How are you doing?

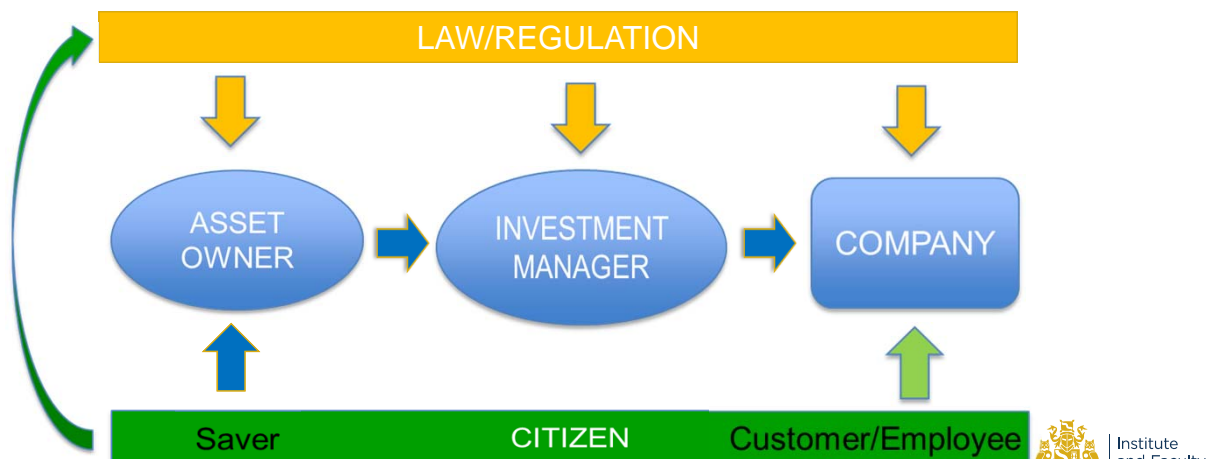


Institute
and Faculty
of Actuaries

7 June 2017

2

The long term investment system is simpler than you may think



7 June 2017

3

Pension fund governance: climate risk

How important are pension fund trustees?

- What **decisions** do they make?
- What **oversight** of delegated decisions do they carry out?
- What **investment beliefs** inform their activity?
- How are they exercising their **fiduciary duty**?
- How do they view **value creation**?

7 June 2017

4

Pension Fund Trustee Board - Decisions and Beliefs

- Decisions
 - Take investment advice
 - Set investment policy and objectives
 - Set strategic asset allocation (really, **strategic risk allocation**)
 - Appoint investment managers and monitor them
 - Proxy voting: Do or delegate?
- Trustees' **investment beliefs** inform these decisions
- Do these investment beliefs include climate change risk? If not, why not?
- Do trustees over-delegate management of climate risk?



Institute
and Faculty
of Actuaries

7 June 2017

5

Fiduciary Duty - A case of “Bounded Responsibility”?

- Often interpreted (too) narrowly
- UK Law Commission Report (2014): *The Fiduciary Duties of Investment Intermediaries*
 - DWP response seen as disappointing
 - Recent guidance from TPR encouraging
- ClientEarth QC opinion
 - Highlights legal risk
 - And the legal risk of advisers



Institute
and Faculty
of Actuaries

7 June 2017

6

Climate change, a financial issue for this pension scheme

- ...**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%** 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**...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

• Source: Environment Agency Pension Fund



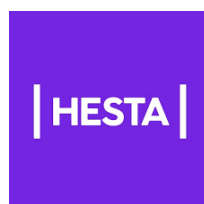
Institute
and Faculty
of Actuaries

7 June 2017

7

Other pension funds are on the same journey

HSBC 



AP FJÄRDE AP-FONDEN
Fourth Swedish National Pension Fund



 CalPERS

R4FP
Retraite
additionnelle
de la Fonction
publique



Institute
and Faculty
of Actuaries

7 June 2017

8

The power of ownership and collective engagement



GLENCORE

RioTinto



7 June 2017

9

Remember this?



7 June 2017

10

How are the regulators and policymakers helping?



Climate Change Act 2008

FINAL DECREE ON THE IMPLEMENTATION OF ART 173 OF THE FRENCH LAW
ON THE ENERGY TRANSITION FOR GREEN GROWTH -
CLIMATE AND ESG DISCLOSURE FROM INSTITUTIONAL INVESTORS



Institute
and Faculty
of Actuaries

7 June 2017

11

Good initiatives abound!



ACCOUNTING FOR
SUSTAINABILITY



Institute
and Faculty
of Actuaries

7 June 2017

12

Actuaries' role in all this

- Resource and Environment Board
- IFoA representation on Advisory Council of Sustainable Finance Programme at University of Oxford's Smith School
- Actuarial valuation/funding in a client's climate change policy (2 years ago...)
- COP21 attendance
- IFoA response to FSB's TCFD Recommendations
- **Risk Alert**
- Practical Guide for pensions actuaries on resource and environment issues



Institute
and Faculty
of Actuaries

7 June 2017

13

Conclusions

- Climate change is a risk (and an opportunity)
- Risk and finance lie at the core of actuarial expertise
- Leading pension funds (and other investors) are managing this risk
- Regulators have it on the radar
- So, it's simply another governance issue!
- **How are you dealing with it?**



Institute
and Faculty
of Actuaries

7 June 2017

14

**Questions****Comments**

The views expressed in this presentation are those of invited contributors and not necessarily those of the IFoA. The IFoA do not endorse any of the views stated, nor any claims or representations made in this presentation and accept no responsibility or liability to any person for loss or damage suffered as a consequence of their placing reliance upon any view, claim or representation made in this presentation.

The information and expressions of opinion contained in this publication are not intended to be a comprehensive study, nor to provide actuarial advice or advice of any nature and should not be treated as a substitute for specific advice concerning individual situations. On no account may any part of this presentation be reproduced without the written permission of the IFoA.



Institute
and Faculty
of Actuaries