Networking Event: Environmental Change: Opportunities for Actuaries
Tessa Page

Sustainable Investment Consulting

13 September

Agenda

• The cynic’s view
• The reality
  – Pressures on clients
  – Services clients are seeking
• Does it really matter? Example
• Barriers and issues for actuaries and consultants
• Questions
The cynic’s view

I've exhausted advice on de-risking and fund managers. What's the next trend I can sell?

The reality – pressures on clients
UK pension fund perspective

<table>
<thead>
<tr>
<th>UK Stewardship Code</th>
<th>Scheme members</th>
</tr>
</thead>
<tbody>
<tr>
<td>UN PRI</td>
<td>Shareholders</td>
</tr>
<tr>
<td>Myners principles</td>
<td>Employees</td>
</tr>
<tr>
<td>Pensions Act amendment</td>
<td>Activists</td>
</tr>
</tbody>
</table>

- Media scandals
- Reputational risk
- Competition and peer pressure (“others are doing more”)
- Where’s the long term value?
- ESG factors can be financially material
- Responsible ownership can enhance value

Responsible ownership can enhance value
The reality - services clients are seeking

Common client comments and questions

Education: we have no idea where to start
Identify objectives & opportunities: help us develop policy and plan implementation
Integration: how do we work RI into the investment strategy?
Ownership: how should we vote on, engaging with and monitor investee companies?
Manager searches: help us find managers who will seek to benefit from ecological and sustainable development themes / limit our exposure to ESG risks
Alternative assets: how can we invest in private equity, property, infrastructure and even hedge funds in a responsible, sustainable way?
UN PRI: how can we incorporate the principles and achieve compliance?
Evidence: we like these 'responsible' ideas but need to maximise returns subject to acceptable risk. What's the evidence?
Climate change: what's our carbon footprint? How can we benefit from the expected growth in new technologies and services?
Sustainability: the sponsor is very committed to sustainability – should the scheme have a policy?

“Does it really matter?” - Example
Mercer Climate Change Study 2011

Key findings showed that by 2030:
- Investment opportunities in low carbon technologies could reach $5 trn
- Cost of impacts on the environment, health & food security could exceed $4 trn
- Climate change related policy changes could increase the cost of carbon emissions by as much as $8 trn
- Climate change could contribute as much as 10% to portfolio risk over the next 20 years

Conclusions for clients:
- Climate change increases uncertainty and needs pro-active management
  - engagement with policy makers is crucial to pro-actively manage the potential costs of delayed / poorly co-ordinated action
- Allocating to climate sensitive assets will help mitigate risks & capture opportunities

The Mercer Climate Change study was a collaborative project involving 14 global institutional investors, with support from the International Finance Corporation, a member of the World Bank Group, and Carbon Trust. Grantham LSE / Vivid Economics led components of the research on the economic impacts of climate change, and a research group comprised of industry practitioners and academics was consulted in the development of the model.
Barriers and issues for actuaries and consultants

This is a relatively new and complex area, and not all consultancies have the required knowledge, training and expertise.

Clients should not be the first to raise these issues with their consultants.

“Hard and fast” numbers or assumptions are hard to come by – can the actuaries cope??!

Not all clients are interested or convinced – the challenge lies in effective communication on a proactive basis.

Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.