

‘A Climate for Change’ A trustee’s guide to understanding & assessing climate risk

A report from Mercer Investment Consulting, on behalf of the Carbon Trust & the institutional Investors Group on Climate Change, aims to raise awareness of the relevance of climate change as a fiduciary issue for pension fund trustees, and to demonstrate opportunities for action.

Investment managers are beginning to recognise the potential impact of climate change on investments but lack of understanding of the links to financial risk are a barrier to trustee involvement.

Five key areas of risk are:

- Regulatory – the impact of legislation
- Physical risk – severe weather effecting insurance, agriculture, tourism etc
- Litigation – for companies responsible for large volumes of emissions
- Competitiveness – energy costs, consumer awareness
- Reputational – consumer backlash.

There are three distinct steps to action:

- Assess your understanding of issues, develop your investment position and review your investment policy
- Check whether your investment approach reflects your policy position and that your managers understand the issues
- Consider options such as a review of holdings, active ownership strategies or specific investments.

Tom Delay, Chief Executive of the Carbon Trust commented:

‘This report represents a significant move forward as we believe that a trustee has a fiduciary responsibility to address this issue. This means that even the most hard-nosed investors have to look at the financial impact of climate change, regardless of whether or not they personally view the environment as an important issue. It is vital that pension trustees, along with their investment advisers and investment managers, understand the different key types of risk associated with climate change and seek to address them to secure the performance of their assets through out the investment decision process.’

Jane Ambachtsheer, of Mercer Consulting, added:

‘It’s increasingly clear that long term asset performance can be affected by climate change. The stumbling block has often been what trustees can do about it. This report has been designed to overcome the issue by providing a step by step toolkit for trustees seeking to address climate risk.’

Copies of the report are available from www.thecarbontrust.co.uk or carbontrust@fishburn-hedges.co.uk

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