Corporate Responses to Climate Change

8 February 2018

Pauline Vamos – CEO, Regnan
Drivers of corporate responses
Pressure from investors concerned with climate change

Stewardship

- Systemic risk borne within portfolios / stranded asset risk caused by climate change

- Superannuation funds are increasingly concerned about the general quality of life provided to members as they retire
Pressure from investors concerned with climate change

Increased focus on fiduciary duty

Globally

- Principles for Responsible Investment
- Task Force on Climate-related Financial Disclosures
- Landmark speech by Governor of the Bank of England, Mark Carney

In Australia

- Legal opinion published by Noel Hutley SC
- Landmark speech by APRA’s Geoff Summerhayes
Pressure from investors concerned with climate change

Member and community expectations

Divestment

- Market Forces campaigns (such as Medibank)
- University endowment funds campaigns
- High profile divestments e.g. NYC Pension Fund, Norwegian Sovereign Wealth Fund

Shareholder resolutions

- Exxon
- Santos
- Origin Energy
- BHP
Investor responses

Values vs value – shaping responses

Values

How does my investment activity contribute to climate change?

Value

How can we limit climate change, as well as its financial impacts, through better management of its risks?

Value

How will climate change affect my investments or portfolio?
Investor responses

Can be viewed as a continuum – where investors sit influences actions they take.

Values

- Wholesale divestment – e.g. of fossil fuel stocks
- Carbon footprinting
- Shareholder resolutions

Value

- Integration of environmental information into investment decision making
- Company engagement
- Selected divestment – e.g. of energy generators demonstrating poor transition plans
Opportunities

It’s not just about risk

➤ Upside
  ➤ Seeking alpha
  ➤ Emerging technologies e.g. renewables
  ➤ Emerging financial instruments e.g. green bonds

➤ Differentiation for funds
  ➤ Fund members’ expectations are changing e.g. demand from millennials and women
The role of advocacy

Involvement in public dialogues

- Shaping policy
  - Formal submissions
  - Policy-focused publications

- Awareness raising
  - Through the media
  - Among fund members

- Investor communiques
  - E.g. Larry Fink letters to CEOs

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Sustainable investment

LGS is leading the way in responsible investment in Australia. We believe this approach helps minimise risks and generates better long-term returns for our members.

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Larry Fink to CEOs: Contribute to Society or Lose BlackRock’s Investment

BlackRock CEO Larry Fink has written a letter to CEOs detailing his requests for corporate stewardship as the firm moves toward shareholder activism year-round.

January 16, 2018
Company responses
Physical impacts

We’re already seeing physical impacts affect earnings and ‘business as usual’

- **Insurance**
  - Increasing frequency of extreme weather events have put pressure on margins

- **Gaming**
  - Tatts Group has experienced declining revenue associated with horse race cancellations due to bad weather

- **Retail**
  - Myer has suffered losses as a changing climate has impacted winter apparel sales
Physical impacts

We’re already seeing physical impacts affect earnings and ‘business as usual’

- **Mining**
  - Rio Tinto lost production worth more than $1.2bn due to an intense La Niña event impacting the Pilbara during the 2016/17 wet season

- **Health care**
  - Ansell and Blackmores have had to diversify their supply chains for latex and krill oil respectively – used in key products – due to changing climates
Some examples of company responses

Adapting to a changing climate

- Aurizon – Australia’s largest rail freight operator – has been adapting to increasing severity and frequency of extreme weather events

Source: Aurizon Sustainability Report 2017
Some examples of company responses

Adapting to a changing climate

- **Infrastructure**
  - Brisbane Airport – Anticipating sea level rise and storm surges

- **Property Sector**
  - Barangaroo South – Planning for extreme heat, rain and wind, as well as energy and water restrictions

- **Banking**
  - NAB – Considering climate change impacts in assessment of default risks in loans to the dairy sector
Gaps and areas for improvement
Disclosure

Scenario analysis – relevant to investors and companies alike

- Quality is patchy
- Very little is done on physical risks
- Many readers aren’t able to adequately assess disclosures

We’d like to see scenario analysis disclosures that:
  - Look at all risks
  - Are clear about the assumptions made – and processes for if and when they change
  - Make clear how decision points are built into time horizon
    - When to revisit action/trigger points? At what point is a scenario considered to be playing out or not?
Disclosure

There’s a lot of scope for upskilling both in the way climate disclosures are *produced* and the way they are *assessed*.

Investors will increasingly be demanding quality disclosures from companies:

- As their capacity to understand disclosures improves.
- As they move to assess risks within their own portfolios.

Aviva Investors demands greater climate change disclosure

UK fund house to vote against companies that do not reveal their global warming risks.

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Company-Investor engagement

Increased activity, but skills gaps remain

- More activity focused specifically on climate change
  - Shareholder resolutions
  - Company-investor engagement meetings
- Emphasis moving from emissions intensity to transition
- Adaption requires more attention
- As disclosure improves, so too will quality and impact of engagement

*The Sydney Morning Herald*

'There's nowhere to hide': companies warned on climate risks

AUSTRALIAN SUPER HEAD OF GOVERNANCE When it comes to corporate Australia and climate change, 2018 is shaping up as a perfect storm.
Quality is important

If corporate responses are to positively impact climate change

- Responses need to better consider **physical risks and adaptation**
- Need efforts to be focused on those actions that will have the most **impact**
- **Academia well positioned** to improve quality of responses – research/analysis can inform corporates and identify areas of most concern
- Companies need to be **held to account**
  - Whether that be investors (and financiers) interrogating company disclosures or company boards holding management to account
  - Not possible unless investors and boards have the skills to do so – we need to urgently close this skills gap
Thank You