



Investor collaboration on climate change: the work of the IIGCC

The prima facie case for investors to be concerned about climate change is obvious. Climate change is, arguably, the most serious environmental threat facing the planet. It is expected to have significant economic impacts, directly through, flooding and extreme weather events, for example, and indirectly through new regulatory or fiscal measures to limit greenhouse gas emissions. Virtually all sectors of the economy are likely to be impacted, including utilities, insurance, tourism, property, transport, construction, retail and agriculture/food.

Insight places a high priority on engagement with companies in which it invests on (climate change.) We encourage companies to develop appropriate systems and processes to manage the risks posed by climate change, and we analyse the investment implications of climate change for specific companies and sectors. For example, we have done extensive analysis on the risks and opportunities of the European Union's Emissions Trading Scheme (EU ETS) for European electricity utilities.

We recognise that we also need to work with other investment managers to address some of the market-wide risks associated with climate change. We therefore participate in, or support, a number of collaborative initiatives focused on climate change. This article focuses on one of the most important initiatives in this regard – the Institutional Investors Group on Climate Change (IIGCC).

IIGCC was established as a forum for collaboration between pension funds and other institutional investors on climate change. IIGCC presently has some 25 members, representing assets of approximately £1 trillion. It is served by a secretariat and governed by a steering committee, on which Rory Sullivan represents Insight.

IIGCC has three key objectives:

- To provide its members with the knowledge and tools to assess the investment implications of climate change.
- To encourage investors to integrate climate risk into investment analysis.
- To communicate investors' interest in climate change to public policy makers.

IIGCC aims to leverage the influence of individual organisations and to focus its effort on areas where collaboration provides clear benefits over individual organisations working on their own. One specific advantage of IIGCC is that it helps ensure that companies are not pulled in different directions by different investors who fail to co-ordinate.

IIGCC's activities to date have focused on company and broker engagement, property investment, trustee training and public policy. IIGCC has published investor briefings on how climate change could impact the construction, aviation and electricity utilities sectors, and has actively encouraged brokers to conduct more research on the investment implications of climate change.

In relation to property, IIGCC has built links with leading and influential property industry bodies, in particular the Investment Property Forum (IPF), and has organised several briefing events for property fund managers to encourage property investors to take proper account of climate change in property investment portfolios.

To help trustees, the IIGCC, with support from the Carbon Trust, commissioned Mercer Investment Consulting to develop training materials for pension fund trustees on the fiduciary aspects of climate change. The details are available at www.thecarbontrust.co.uk/carbontrust/about/about5_3.html.

The aim of the training materials is to raise awareness amongst pension fund trustees about the relevance of climate change as a fiduciary issue and to explain how they should address climate change in their investment processes. For example, the materials provide guidance on how trustees can assess their preparedness to respond to climate change, the exposure of their investments to Investor collaboration on climate change: the work of the IIGCC climate change and the competence of their investment managers to assess and manage these risks to their investments.

Finally, IIGCC's public policy work – much of which has been led by Insight – has sought to ensure that public policy makers take into account the long-term interests of institutional investors in their decision-making process and responses to climate change. IIGCC's view is that a lack of clarity in public policy will lead to companies excluding (or reducing the importance of) climate change as a factor in their decision-making. Without clear long-term (i.e. 20 year plus) greenhouse gas emission reduction targets, two distinct sets of issues need to be considered.

The first relates to the direct risks of climate change to investments: a failure to respond effectively will increase the risks associated with extreme weather events and other changes in the climate. The second is that taking a longer-term approach allows government to develop and implement policy measures that move towards a low carbon economy, while minimising disruptions to existing business activities

(e.g. avoiding the need to retire capital stock much earlier than planned).

IIGCC has therefore held several discussions with policy makers and opinion formers to become better informed of existing and forthcoming public policy developments and to present investors' views. IIGCC hopes that this dialogue will enable investors and policy makers to better understand the linkages between finance and climate change, thereby delivering policy that is both effective and efficient. This dialogue will be of particular importance over the next year, given that, in 2006, European governments will announce their National Allocation Plans for Phase 2 of the EU ETS, discussions will start in earnest around the

'post-Kyoto' (i.e. after 2012) international policy framework on climate change and the Stern Review on the Economics of Climate Change will be published.

In conclusion, collaboration with IIGCC has proved to be an important complement to – but not a substitute for – our other activities on climate change. IIGCC has provided a vehicle to broaden the group of investors that work on this issue and has allowed investors to send a strong, unified signal to government and to companies that investors are concerned about climate change and that investors wish to be actively involved in climate change policy discussions.

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