

2009 UN Climate Change Conference



Robert Brooke Zevin Associates is a signatory to the Investor Statement on a Global Agreement on Climate Change along with 180 other investors representing over \$13 trillion in assets. A follow-on conference was organized at the United Nations which we attended on January 14th and heard speakers such as UN Secretary Ban Ki-moon, Al Gore, and George Soros as well as many Treasurers of state pension funds.

Compared to previous events, the conversation evolved from looking at the science behind climate change and the risks of inaction to the opportunities for investors as a result of dealing with climate change. This has had the effect of piquing interest from large institutional investors. Previously, many of them had ignored climate change as an investable theme as they saw it purely as an environmental issue. It was gratifying to see Ban Ki-moon so personally engaged in the issue and also surprising to see Ted Turner (present in his capacity as the Chairman of the United Nation Foundation) so captivated by the discussions that he stayed for the full day of proceedings.

Investment implications

The lack of agreement in Copenhagen has led some to conclude that investors will pause in their climate change related investments. The head of Deutsche Asset Management refuted this, saying that interest from investors has never been higher - an agreement is clearly in the works so capital is being mobilized in anticipation. He described climate change as the 'single biggest investment trend of his lifetime' given that the shift to a low-carbon economy will require the creation of new technologies, industries and jobs on a massive scale. To this end, Deutsche Bank has over \$4 billion of their clients' assets invested in their climate change products and considers it a strategic asset allocation decision. He was one of many investors from the very large institutions present who described how we are at the beginning of witnessing an economic transformation with massive value creation (e.g. smart grids) and destruction (e.g. fossil fuel dependent technologies). He did express a note of caution to countries who continue to fail to provide regulatory, transparency, longevity, and certainty surrounding carbon emissions. Investors will be focusing on the quality of these regulations provided by individual countries as disparities will, over time, translate into large differences in the amount of investment capital countries attract and the jobs they create in renewable and other climate change industries.

The Copenhagen Accord recognizes the scientific view that an increase in global temperature above 2 degrees will produce serious and irreversible climate change. In order to avert this increase, McKinsey Consultancy suggested that the US will need to fully electrify its economy (including a switch from combustion engines in cars to fully electric cars) as well as convert to a zero emissions power sector by 2050. To achieve the advances in competitiveness in order to make this possible, there will need to be big changes in regulation in order to provide certainty and stimulate large scale investment. McKinsey also estimated that they expect the market size of clean tech developments to increase to over €2 trillion globally by 2020 from €50 billion in 2008. This sector with the highest compounded annual growth rate (CAGR) is expected to be transport, growing at nearly 30% a year to be worth €325 billion in 2020 from €15 billion in 2008. Other sizeable investible opportunities will occur in the IT service industry (18% CAGR from €6 billion to €45 billion) and construction (7% CAGR from €87 billion to €180 billion), as well as the energy industry (13% CAGR from €79 billion to €345 billion).

One of the key sticking points in Copenhagen was the reluctance of many developed countries to make

specific long-term financial contributions to enable developing countries to deal with climate change. The recent conference brought together the Treasurers of many state pension funds as these funds could be vital providers of long term capital for solutions to fight climate change. At the conference, ATP, the large Danish pension fund scheme spoke about their pledge of €1bn (2% of assets) to a new climate change fund to be invested in emerging economies, mostly in infrastructure projects. The fund will operate to standard private sector conditions and only invest in projects that are expected to deliver appropriate risk-adjusted rewards however these risks could be mitigated if a credible global policy framework on climate change is established. It is also a challenge to identify the right deals and get suitable sustainability screening on investments. To this end, the fund has been in discussion with other large pension funds, the development banks for Africa and Asia and UN institutions to identify suitable investment projects. George Soros also spoke about the logistical hurdles of developed countries providing the \$100 billion a year commitment in the Copenhagen Accord to address the needs of developing countries. He suggested a possible solution involving the Special Drawing Rights (SDRs) from the IMF which would lend \$100 billion to a Sustainable Development Reserve which would jump start climate change mitigation and adaptation projects.

Successful companies will need to look at their long-term liabilities as a result of climate change and protect their shareholders against these effects while developing new revenue sources to take advantage of the economic shifts. However, environmental liability disclosure by companies currently is not consistent or comparable and not necessarily even reliable. After years of stalling, in February the Securities and Exchange Commission (SEC) released guidance to companies on mandatory disclosure of climate change risk which will be a big help to investors. In their filings to the SEC, companies should discuss potential material risks to their operations or financial results but disclosure on climate change and carbon dioxide emissions so far has been weak and uneven making it difficult for investors to assess climate risk. The new guidance from the SEC is the first economy-wide climate risk disclosure in the world and clarifies what the companies should be disclosing. This includes the impacts on their business of pending or actual climate change legislation and regulation, the impact of international accords and treaties relating to climate change, actual or potential physical impacts of climate change, as well as any indirect consequences of business trends such as decreased demand for a product that produces significant green house gas emissions. Companies should take the SEC's guidance as an opportunity to review the adequacy of their controls in terms of identifying, measuring, reporting, and disclosing climate change risks.

We are positioning client portfolios to take advantage of these trends by investing in companies which help provide solutions such as wind or solar power equipment as well as participating in company dialogues to encourage greenhouse gas emission disclosure and mitigation. In December, we co-filed a shareholder resolution on behalf of some of our clients who held legacy positions in Exxon to ask the company to set greenhouse gas emissions reduction goals to bring it in line with its peers.

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