2012 Investor Action Plan on Climate Change Risks & Opportunities

**Introduction**
Climate change and the global shift to a low-carbon economy present both significant opportunities and material risks for investment portfolios.

Investing in cleaner technologies and more efficient resource use can be a pathway to profit and prosperity, boosting global economic growth and creating jobs while also providing competitive returns to investors. Opportunities to invest in climate and clean energy solutions are available today, as investors develop new investment products and practices. Global investment in clean energy soared to over $240 billion in 2010, up from about $50 billion in 2004, reflecting the significant long-term investment prospects of clean energy. Related global megatrends such as population growth, increasing energy demand, and water and resource scarcity also create new investment opportunities.

Climate change also presents significant risks and economic costs, which require serious attention from investors. Extreme weather events that affect virtually all sectors and asset classes have been linked to climate change. Global greenhouse gas emissions increased by record amounts in 2010, and carbon dioxide concentrations in the atmosphere have reached record levels. These trends suggest that the adverse impacts the changing climate is already having on the global economy – and therefore on investment portfolios – will likely grow larger, further increasing the risks for investors and companies, as well as the costs of adaptation.

There are many actions that investors and companies can independently and proactively take to seize low-carbon opportunities and address climate risks, but policy leaders also play a crucial role. Climate risks can be reduced and low-carbon opportunities expanded with well-designed and effectively implemented long-term climate change and clean energy policies.

Prudence, common sense, and fiduciary duty compel investors to address the opportunities and risks posed by climate change. Accordingly, to the best of their abilities and consistent with their fiduciary duty, investors will:

**Manage Investments to Address Climate-Related Risks and to Seize Opportunities**

1. Analyze and manage climate risks and opportunities in portfolios

   **Opportunity:** Some leading asset owners and managers are addressing climate risks and opportunities in their portfolios, but there are still many asset owners and asset managers that are not, despite the fact that there are pragmatic steps investors can take immediately to begin the process of identifying, analyzing, and managing these risks and opportunities.

   **Commitment:** Investors will take affirmative steps to incorporate climate risks and opportunities into their investment processes and portfolios, including using material climate risk information disclosed by companies in their investment decision-making and adopting more of the best practices exemplified by leaders in this area. To facilitate this, asset owners and asset managers will participate in an international survey in 2012 of their climate-related investment practices. INCR and its global partners the Institutional Investors Group on Climate Change (IIGCC) and the Investor Group on Climate Change (IGCC) will then produce a report within the next year that highlights leaders and best practices in incorporating climate risks and opportunities into the investment process across all asset classes.
2. Integrate climate risk considerations into external manager procurement and monitoring

**Opportunity:** Many asset owners have not yet integrated climate risk factors into their procurement and contracting with asset managers in relevant sectors of their investment portfolios. Identifying material climate risk factors and applying them in the procurement, monitoring, and evaluation of externally managed funds is a necessary part of addressing these risks.

**Commitment:** Asset owners will work to identify material climate risk factors and, where relevant, integrate them into Requests for Proposals (RFPs), investment management agreements, and investment manager monitoring and evaluation processes, and asset managers will develop their capabilities to address these risks.

3. Invest in low-carbon solutions

**Opportunity:** Even with rising global investment in clean energy and increasing numbers of low-carbon investment options, current levels of investment in climate-friendly technologies such as renewable energy are not commensurate with the scale of the long-term potential investment opportunity presented by global energy transformation, nor with the levels of investment needed to avoid substantial climate-related impacts on long-term investment objectives.

**Commitment:** Investors, when adjusting their asset allocations and balancing and diversifying their portfolios, will research and, if appropriate, pursue low-carbon strategies and products with competitive risk-adjusted returns across all asset classes. Investors will also encourage their investment consultants to develop and provide expertise on low-carbon strategies across all asset classes, including global equities, fixed income, infrastructure, real estate, and private equity.

4. Accelerate integration of energy efficiency into investment decision-making

**Opportunity:** There are promising energy efficiency financing solutions coming to market, but challenges currently exist in terms of both designing the financial instruments and ensuring adequate deal flow for profitable large-scale energy efficiency investments. Many investors also have not taken full advantage of opportunities to consider energy efficiency as a factor in investment decision-making across asset classes, including investments to reduce energy use in their real estate investment portfolios.

**Commitment:** INCR will convene a multi-sector meeting with labor, pension funds, asset managers, cities, and companies to discuss how to scale up energy efficiency investment substantially within the next two years and to identify investment opportunities across asset classes. Investors who have not yet done so will also incorporate energy efficiency in their investment decision-making and pursue cost-effective opportunities to profitably improve the efficiency of energy use in directly and indirectly held real estate portfolios.

5. Assess and manage water risks and opportunities in portfolios

**Opportunity:** Evidence indicates that climate change contributes to floods, droughts, and extremes in precipitation, posing not just direct physical risks but also risks to municipalities, agriculture, electric utilities, and companies reliant on sufficient water quality or quantity for their operations and their supply chains. While some leading investors have undertaken serious water risk analysis across their portfolios, more investors need to do the same. There is also insufficient investment in resilient, job-creating, low-carbon water infrastructure and technologies to replace aging, inefficient infrastructure and meet the needs of a growing global population.

**Commitment:** INCR will issue by the end of 2012 an analysis of corporate disclosure of water risk in SEC filings and a report on ways to scale up innovative financing mechanisms that recognize the combined water and energy benefits of sustainable public water infrastructure, with the attendant economic development and job creation benefits. Investors will research and, if appropriate, pursue cost-effective integration of water-related risks across all investment classes, using tools such as the Ceres Aqua Gauge, and will explore investment opportunities in low-carbon, sustainable water technologies and infrastructure.
Improve Corporate Practices on Climate Change & Sustainability

6. Encourage companies to improve disclosure, governance, and practices on climate change and sustainability at both the corporate and supplier level

**Opportunity:** Many companies have not taken adequate actions to respond to the risks and opportunities presented by climate change mitigation and adaptation – including in the areas of governance, compensation, emission reduction goals, mitigation strategies, emissions inventories, evaluation of physical risks of climate change, adaptation strategies, disclosure, supply chains, and public policy – and many institutional investors have not prioritized climate and sustainability issues in their company engagements.

**Commitment:** Investors will encourage companies worldwide to improve their practices on climate change and sustainability by meeting the *Institutional Investors’ Expectations of Corporate Climate Risk Management* – issued by INCR, IIGCC, and IGCC – and by using the *Ceres Roadmap to Sustainability*. Investors will engage as shareowners with companies that fall short. Recognizing that for many companies the largest climate and energy risks and impacts lie in the supply chain, investors will also encourage companies to request increased disclosure on these issues from their direct suppliers.

Pursue Effective Climate Change & Clean Energy Policies

7. Support international, national, sector-specific, and sub-national policy action

**Opportunity:** While there has been meaningful climate and clean energy policy progress at the city, state, regional, and national levels, as well as some measured international policy progress at the recent UN climate change negotiations in Durban, further domestic and international action is needed to adopt effective climate and energy policies – i.e. climate and clean energy policies that are long-term, well-designed, and well-implemented – that provide stable incentives and price signals to incentivize private sector investment in low-carbon assets.

**Commitment:** INCR and its international partners reaffirm the recommendations for governments in the *2011 Global Investor Statement on Climate Change*, signed by 285 investors representing assets of more than $20 trillion, and will work with investors and governments to support policies – sector-specific and comprehensive – at all levels of government that promote the transition to a low-carbon economy, economic growth, and job creation, with a special focus on advancing energy efficiency and renewable energy in the electricity, transportation, manufacturing, and other sectors.

8. Work with regulators and others to ensure companies disclose material effects of climate change on their businesses

**Opportunity:** Companies in virtually every industry face environmental, health, and safety risks that can threaten the enterprise, and the only way investors can adequately evaluate these risks is if companies disclose them. Recent catastrophic incidents, including offshore drilling, mining, and nuclear accidents, reaffirm the need for investors to receive honest, transparent information on the risks that are faced by the companies in which they invest, including reporting of material climate change risks.

**Commitment:** INCR and its members will continue to encourage the U.S. Securities & Exchange Commission (SEC) to improve climate risk disclosure. Investors will encourage authorities in other countries to enforce or issue reporting requirements to ensure that companies disclose the material environmental, health, and safety risks they face. Investors will also participate actively in the development of integrated reporting standards to incorporate climate and other sustainability factors into companies’ annual reports. In addition, investors will encourage stock exchanges worldwide to develop listing standards for public companies on climate change and sustainability disclosure.