

ECONOMIC AND MARKET IMPACTS OF CLIMATE CHANGE

Presenters:

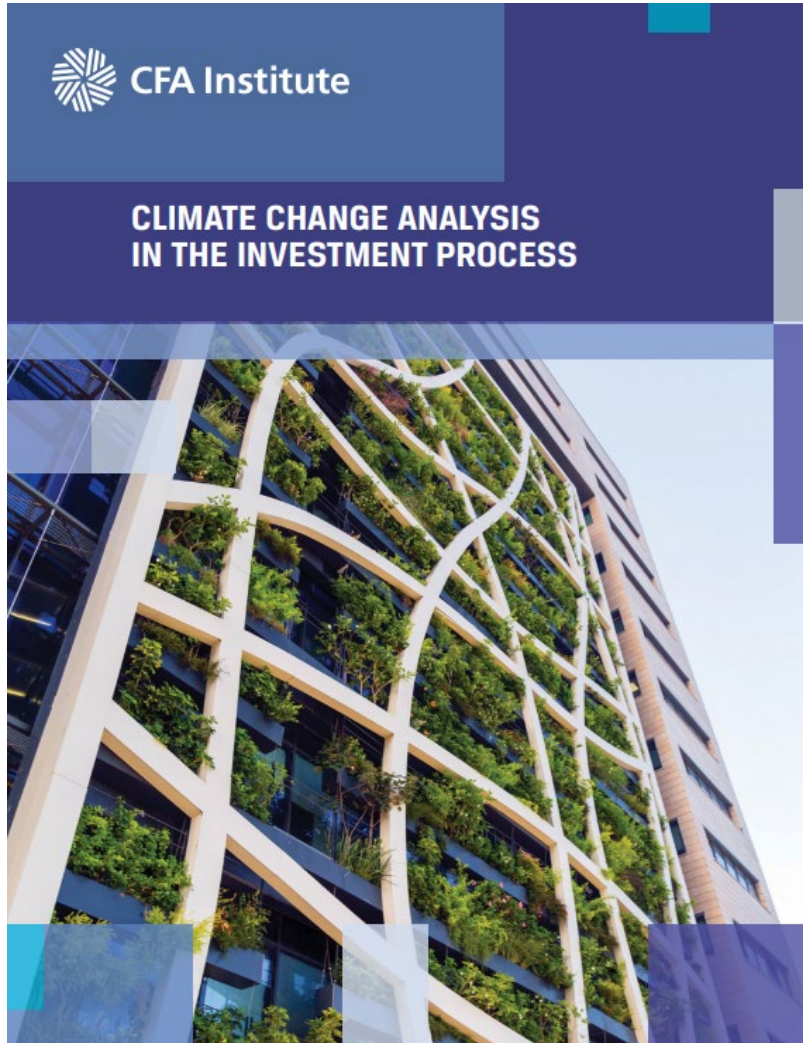
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CLIMATE CHANGE ANALYSIS IN THE INVESTMENT PROCESS

February 2021

Matt Orsagh, CFA

Senior Director, Capital Markets Policy



GENESIS OF THE PROJECT

Climate Change is one of the largest economic/market issues of our time.

It is important for our members and investors to understand the issue and have the tools available to integrate climate analysis into the investment process.



CLIMATE CHANGE ANALYSIS IN THE INVESTMENT PROCESS

- Climate Change Explained
- Economic and Market Implications of Climate Change
- Physical Risks, Transition Risks, and Opportunities
- A Price on Carbon: Carbon Markets
- Climate Change Investor Resources
- Scenario Analysis
- CFA Institute Member Survey
- Case Studies



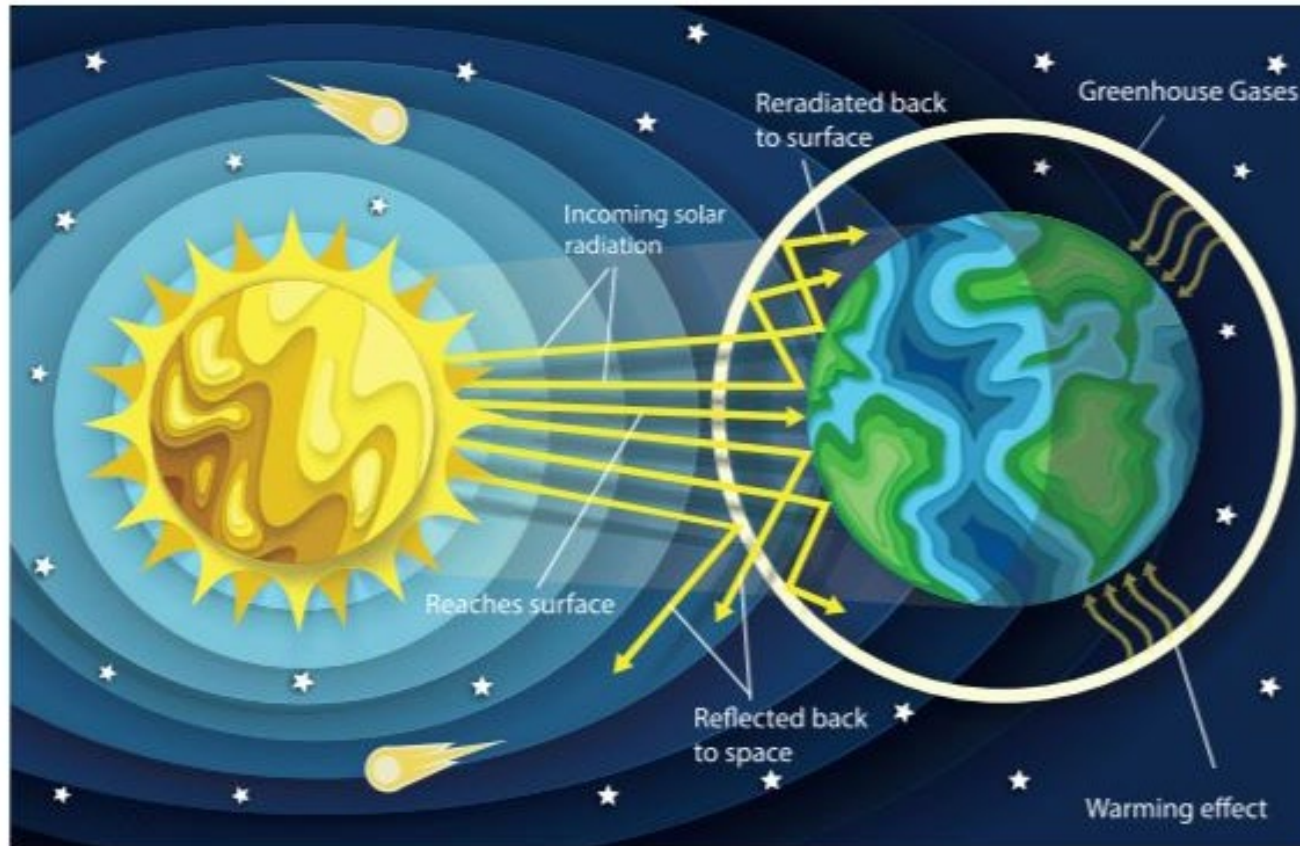
REPORT RECOMMENDATIONS

- **A price on carbon: carbon markets**
- **Carbon price expectations included in analyst reports**
- **Increased transparency/disclosure on metrics: SASB, TCFD**
- **Engagement with companies on risks of climate change**
- **Education within the investment management profession**
- **Engage Policymakers: Investor seat at this table**



CLIMATE CHANGE EXPLAINED

GLOBAL WARMING AND THE GREENHOUSE EFFECT



Source: SiberianArt/iStock/Getty Images.



CARBON MARKETS

A **cap-and-trade** system places a limit on total emissions but allows participants to trade permits and credits for carbon use, thereby setting a market price.

A **carbon tax** is a fee applied to each unit of greenhouse gas emissions. Finding the right level is key:

- too high, damages economy
- too low, no behavior change



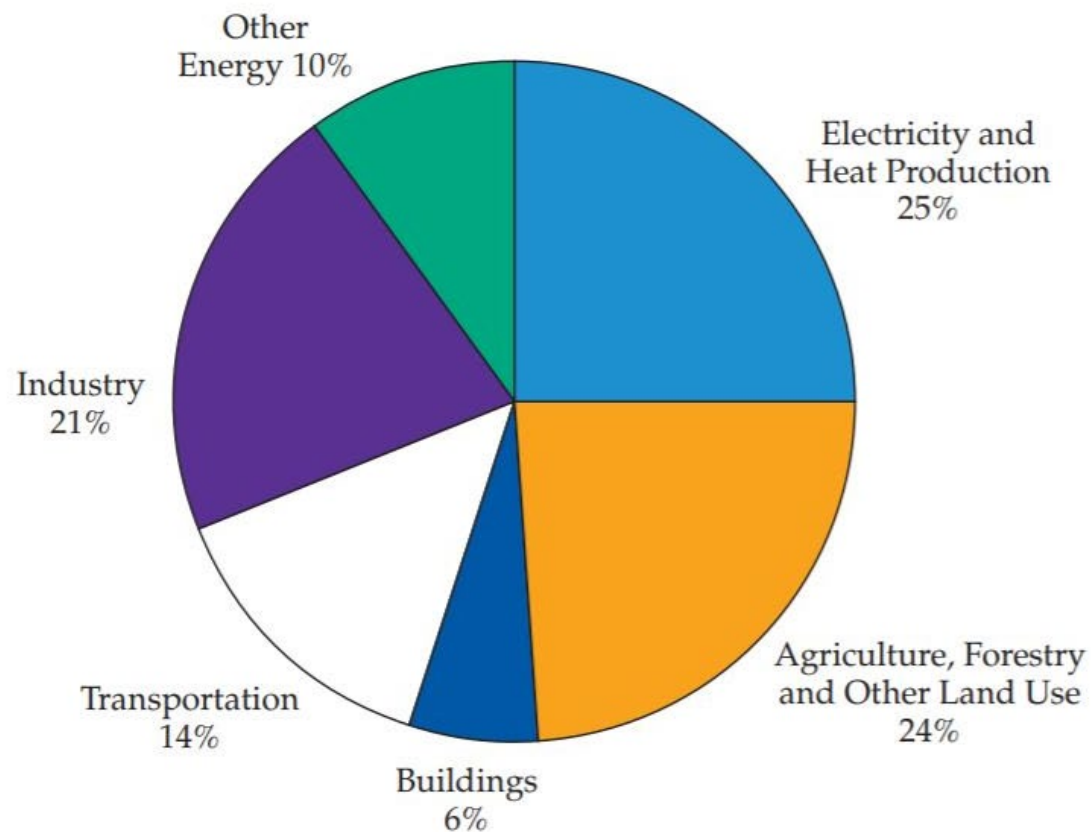
CLIMATE SURVEY RESULTS

- March 2020
- 2,913 Responses
- 76% of respondents said it is important or very important.
- Only about 13% said that having such a view was unimportant.
- 40% of respondents incorporating climate into the investment process



ECONOMIC AND MARKET IMPLICATIONS

GLOBAL GREENHOUSE GAS EMISSIONS BY ECONOMIC SECTOR



RISKY BUSINESS

At the moment, global GDP is around US\$100tn. At a growth rate of 2% a year, global GDP would reach around US\$500tn at the end of the century. A loss of even 7% ... would still leave the level of GDP in 2100 over four and a half times higher than today.

However Climate Change isn't a cost that will come due all at once 80 years from now.

Special Report

Risky business: the climate and the macroeconomy

- Climate change is a slow-moving process, but it is no less dangerous for that. It is likely to be one of the key defining features of the coming decades. The longer action is delayed the more costly it will be to deal with the issues. Moreover, a delayed policy response opens us up to potentially catastrophic outcomes, which might be impossible to reverse.
- This report examines climate change in three sections: the mechanics of climate change; the impact of climate change; and the response to climate change.



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From human activity to CO ₂ emissions	5
From CO ₂ emissions to CO ₂ concentrations	6
From CO ₂ concentrations to temperature	7



JEREMY GRANTHAM – THE RACE OF OUR LIVES

“Capitalism also has a severe problem with the very long term because of the tyranny of the discount rate. Anything that happens to a corporation over 25 years out doesn’t really matter to them. Therefore, in that logic, grandchildren have no value.”



CLIMATE CHANGE – PHYSICAL AND TRANSITION RISKS

Physical

- Increased heat stresses
- Increased coastal flooding
- Increased and more powerful hurricanes/typhoons
- Extreme weather events
- Ocean warming/acidification
- Loss of biodiversity
- Loss of habitat
- Loss of food
 - Production of staple grains all likely to be stressed in coming decades
- Immigration – Refugee Crisis

Transitions

- Our economies will change
 - Risks/Opportunities



WHAT INVESTORS CAN DO

- Educate themselves on the economics of climate change and understand the implications of a heating world on their investments.
- To perform this analysis, investors need better data and better reporting standards around climate related data.
- Engage with companies and policymakers to inform best practices and standards for climate related disclosures.



PANEL DISCUSSION

ECONOMIC AND MARKET IMPACTS OF CLIMATE CHANGE



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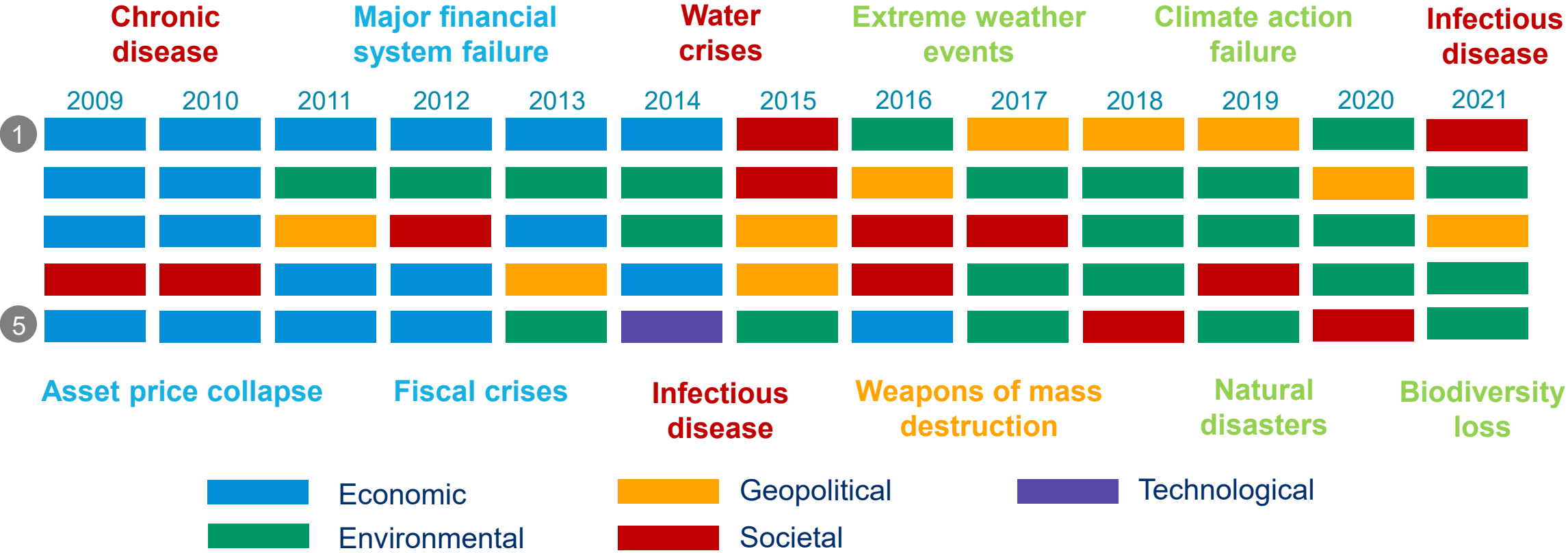


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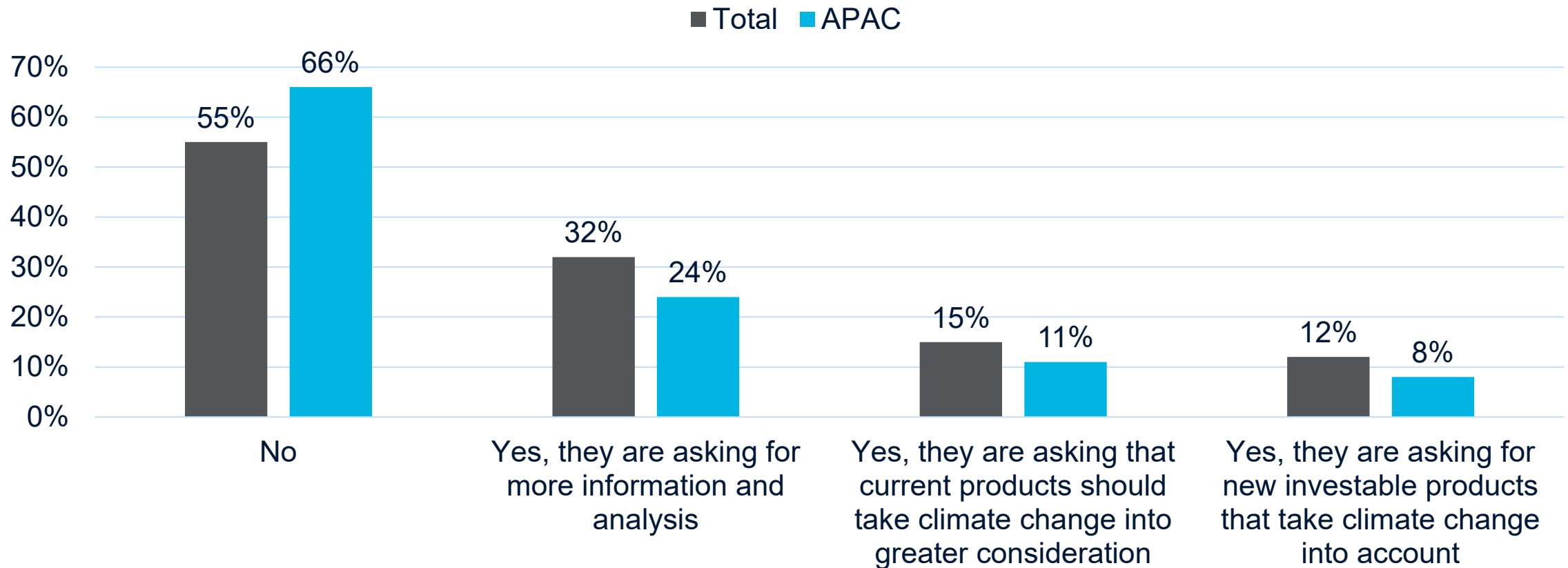
THE EVOLVING RISK LANDSCAPE: 2009-2021

Top five risks in terms of potential impact



CLIENT DEMAND ON CLIMATE CHANGE

Are clients asking more from you on climate change?



Note: N=2,427

Source: Climate Change Analysis in the Investment Process, CFA Institute 2020

THANK YOU

