

The
Climate
Institute



Climate change: is a solution
closer than we think?



IF WE CAN ENCOURAGE SUPERANNUATION FUNDS TO SHIFT EVEN A SMALL AMOUNT OF THEIR MONEY TO LOW-CARBON ASSETS, IT IS POSSIBLE TO SEE BILLIONS OF DOLLARS REDIRECTED, CREATING A TIPPING POINT AND USHERING IN A SUSTAINABLE, LOW-CARBON ECONOMY.

With your support we can accelerate our investment work and unlock a hidden solution to climate change.

The Climate Institute has been engaging with the business and investment communities since 2007, looking for innovative ways to mobilise the capital needed to help tackle climate change.

We often talk about this work as a 'hidden' solution to climate change given its little understood potential to drive long-term, structural changes across the globe.

Now more than ever is the time to accelerate this work as our investment work starts to build momentum globally, and Australia's domestic climate policy faces a number of years of uncertainty.

With your help we can leverage the impact of our work to a scale that drives a tipping point in climate action in the investment world.

If you share our vision of a resilient Australia, prospering in a zero-carbon global economy, please contact us to discuss how you can help us unlock this potential solution to climate change.

support@climateinstitute.org.au or +61 (0)2 8239 6299



Superannuation funds: the key to climate change?

Climate change is the most high risk, high certainty event that will ever impact global investment.

Retirement funds worldwide are largely exposed and ill-prepared for the predicted re-pricing of carbon, let alone climate risks, with the casualties being ordinary 'citizen investors' and their retirement nest eggs.

Collectively worth more than \$30 trillion, global superannuation (or pension) funds make up the single largest consolidation of money in the world. These funds are at the very top of the wealth chain, dwarfing the richest individuals, the most successful companies and the most powerful governments.

Importantly, superannuation funds have a responsibility, and in many cases a fiduciary duty to its members, to manage the long term risks associated with climate change.

Yet over 55 per cent of these funds are estimated to be invested in high-carbon risk assets and less than 2 per cent in low-carbon solutions.

If we can encourage superannuation funds to shift even a small additional proportion of their money to low-carbon assets, it is possible to see billions of dollars redirected, creating a tipping point ushering in a sustainable, low-carbon economy.

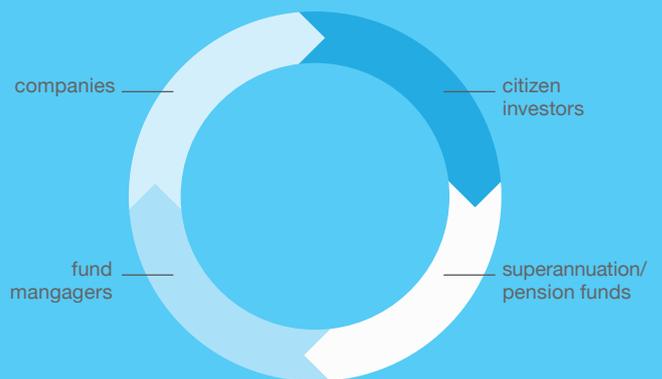
At The Climate Institute, we seek to engage and educate on issues related to superannuation/pension fund investment as a crucial part of our mission to create a resilient and prosperous zero-carbon economy.

Additionally, we provide fund members with the tools and information needed to prevent them becoming accidental investors in a high-carbon, high risk future. This enables them to take stronger action on a more sound, sustainable and financial basis.

Investor decisions dictate business decisions

The response of the investment chain is critical to business decision-making. This chain:

- + Defines the behaviour of investee businesses and the movement of capital;
- + Determines whether money is invested in low- or high-carbon assets; and
- + Either feeds or strangles companies of their oxygen-like capital.



For over five years The Climate Institute has been at the forefront in examining assumptions behind superannuation fund investment decisions and the extent to which climate risk is integrated.

We have conducted the world's first surveys of the practices of superannuation/pension funds and asset consultants, published a best practice methodology and helped create the Asset Owners Disclosure Project (described on page 4) - now surveying 1,000 funds globally.

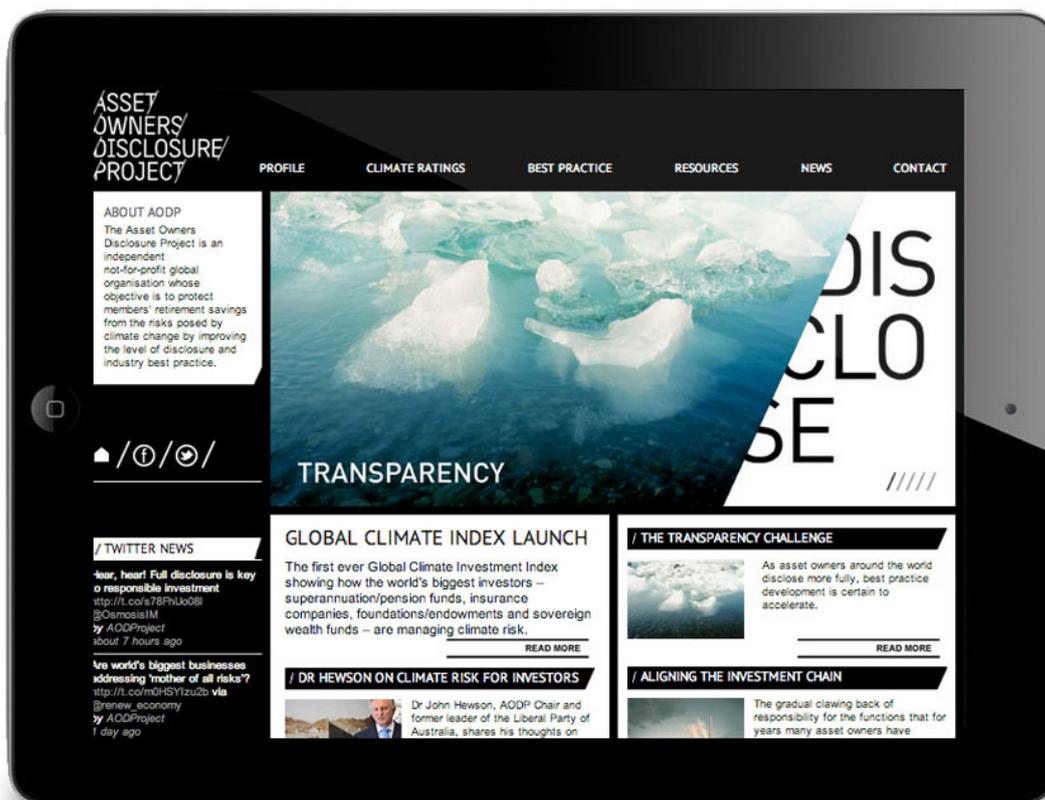
There is an emerging awareness within the business and investment communities of the climate and carbon risks but disclosure, advocacy and active ownership have been patchy.

By engaging with these communities to improve the understanding of risks associated with climate change and the opportunities in tackling it, we believe we can instigate large-scale change.

In 2007, The Climate Institute partnered with the Australian Institute of Superannuation Trustees to put together the world's first survey of investor skills, practices and goals in relation to the management of climate change risks and opportunities.

We have also undertaken shareholder activism work with the Australian Ethical 'Climate Advocacy Fund' in relation to carbon price assumptions and the participation of companies in the Carbon Disclosure Project.

Following is a brief explanation of our other pioneering projects: the Asset Owners Disclosure Project; The Vital Few; the Australian Carbon Bubble report; and the Climate Change Best Practice Methodology.



“If policy makers cap carbon emissions, the risk of ‘unburnable assets’ could have a significant impact on the valuation of some companies. It is worth recalling that the investors are in so many cases people like you and me.

The Asset Owners Disclosure Project estimates an average of over 55 per cent of pension funds’ portfolios is being invested in high carbon assets or sectors greatly exposed to climate change physical impacts and climate change-related regulation. The looming choice may be either stranding those assets or stranding the planet.”

*Mr. Angel Gurría, Secretary-General,
Organisation for Economic Co-operation and Development (OECD)*

The Asset Owners Disclosure Project

The Climate Institute is both the Australian partner and a supporter of the Asset Owners Disclosure Project (AODP) - a global independent not-for-profit organisation whose objective is to protect members’ retirement savings from the risks posed by climate change.

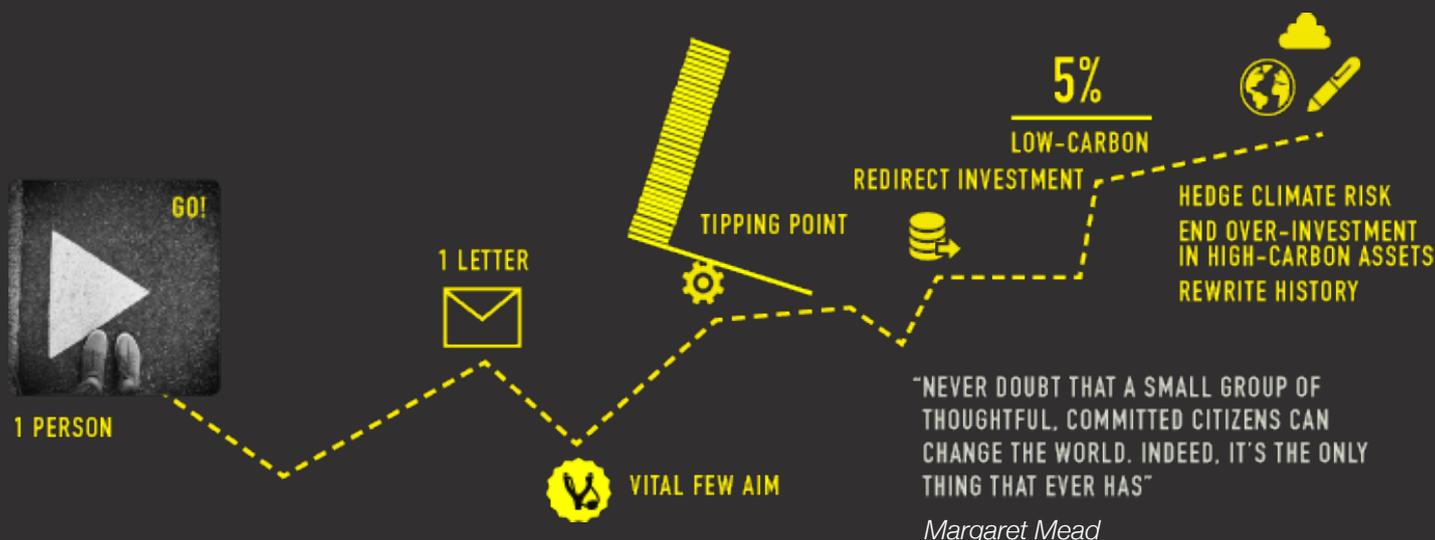
Offering the world’s only independent examination of pension and superannuation funds, the AODP provides valuable research and tools to asset owners to support them in the transition to an investment world in which the impacts of climate change will become ever more integrated into their core decision-making processes.

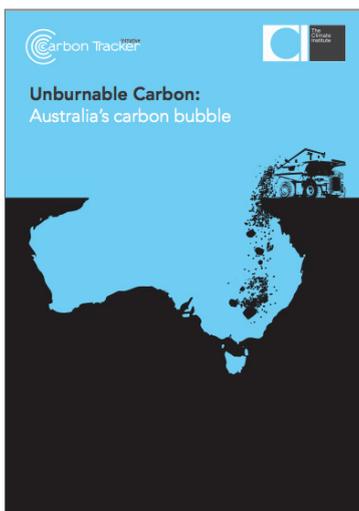
The AODP also helps asset owners to redress the huge imbalance between high-carbon assets (50-60% of a portfolio) and low-carbon assets (typically less than 2%), as well as re-aligning the investment chain to adopt long-term investment practices.

The Vital Few

The Vital Few is a project of the Asset Owners Disclosure Project. It is a community of superannuation/pension fund members who have been inspired to take action to ensure investments made on their behalf provide for their future prosperity – both financially and environmentally.

By demanding their funds tell the truth about what percentage they are currently investing in high-carbon assets and asking them to hedge climate risk by increasing low-carbon investment from less than 2% to 5%, the group seeks to re-redirect billions of investment dollars and create a tipping point for the transition to a low-carbon economy.





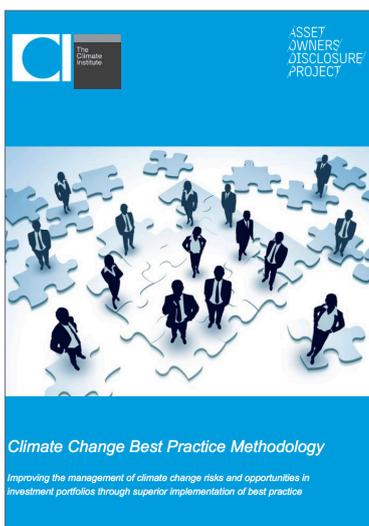
The Carbon Bubble:

In April 2013 The Climate Institute, in partnership with Carbon Tracker, produced groundbreaking research on the impacts of a carbon budget on Australian companies.

The report found that investments in Australian coal could easily turn into stranded assets that cannot be sold in a world acting on climate change.

In order to prevent global temperatures from rising more than 2°C, there is a finite amount of fossil fuels that can be burnt. This is the carbon budget. This carbon budget is a mere 20-40% of known fossil fuel reserves. If only 20% of known fossil fuel reserves have economic value, there will be a significant impact on the value of companies with large quantities of these reserves on their balance sheets.

The carbon 'bubble' relates to the build-up of risk in carbon-intensive assets or investments that are exposed to rapid devaluation if social, political, regulatory or technological developments enable achievement of this limit to warming. Just as sub-prime investments were based on the assumption of permanently rising house prices, carbon bubble investments assume relentless demand for fossil fuels.



Climate Change Best Practice Methodology:

An action plan for super funds to better manage climate change risk.

The Climate Change Best Practice Methodology is designed to fill the gaps in the knowledge of super funds to manage climate change risk, and help them gear-up for action.

Asset owners around the world are recognising that climate change is an investment risk with a unique profile. It's long-term but also high certainty and high impact.

The physical and policy impacts from climate change already affect specific assets and asset classes, and have the ability to create sudden, widespread re-pricing of global markets, which may drive down values across all asset classes.

Therefore, climate change represents a unique challenge for asset owners to account for such risks in their existing portfolios, as well as take advantage of new emerging markets.

Launched by The Climate Institute in 2010, the Climate Change Best Practice Methodology is a step-by-step guide designed to give asset owners the tools to implement a programme which raises their standard of climate change management. Combining fundamental quantitative analysis with carbon risk research, it helps create the optimal risk/return profile for their investment portfolios.

Looking ahead



AS AUSTRALIAN CLIMATE CHANGE POLICY FACES CHALLENGES AND UNCERTAINTY AND THE WORLD CONTINUES TO HEAD TOWARDS MORE THAN 4°C OF WARMING, NOW IS A GOOD TIME TO BE REDOUBLING OUR EFFORTS TO MAKE ONE OF THE 'HIDDEN' SOLUTIONS TO CLIMATE CHANGE BECOME A REALITY.

Time to accelerate our investment work

Over the next two years we are looking to accelerate the solutions focus that we have been undertaking since 2007. We need to dramatically increase the pressure on certain parts of the investment world to bring forward the tipping point we believe will be created when more than 5% of global investments are directed at the low-carbon economy.

Our planned approach continues the work we have been undertaking – influencing the top of the investment chain to instigate large scale change as to how they manage climate risk, whilst also going from the bottom up to get pension fund members (ie you!) to pressure their funds to change.

We have already seen this approach work on a relatively modest scale, now we have the opportunity to step this up and drive change on a global scale.

How you can help us build a zero-carbon world



WE HAVE SPENT FIVE YEARS WORKING OUT WHAT NEEDS TO BE DONE, AND STARTING THE CHANGE. NOW WE NEED ADDITIONAL FUNDS TO HELP US SIGNIFICANTLY INCREASE THE SCALE, SPEED AND MOMENTUM OF THAT CHANGE.

There are a number of ways our investment work can be supported:

1. Core support

This is particularly important as it gives us the most flexibility to target our efforts where they can be most effective.

2. AODP funding

Support directed here will be used to drive the Asset Owners Disclosure Project (AODP) and will focus on influencing the top of the investment chain. The AODP has recently expanded out of Australia to go global but we urgently need funding to ensure Australian leadership in the project continues.

3. Helping fund our Climate Corporate Governance work

We are currently expanding our work to drive investments into the low-carbon economy from superannuation funds and asset owners. We want to increase the focus on investment decision making processes and their integration of carbon as well as climate risks.

Funding directed here will help us rapidly scale up our projects in this area.

Are you ready to create a zero-carbon world?

If you share our vision of a resilient Australia, prospering in a zero-carbon global economy, please contact us to discuss how you can help us unlock one of the the hidden solutions to climate change.

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About The Climate Institute

Established in 2005, The Climate Institute is an independent not-for-profit research and communications organisation with a vision of a resilient Australia, prospering in a zero-carbon global economy.

We are primarily funded by donations and philanthropic support, which ensures we maintain the necessary independence and freedom to provide truthful analysis and an objective perspective unencumbered by vested interests.

Climate change is the most formidable global challenge of our era – one that requires solutions at every level. For our part, we employ a strategic approach across business, the community and Government to seek the solutions that are needed now more urgently than ever.

To learn more, go to www.climateinstitute.org.au



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*Vital Few and AODP graphics created by Glider.
The imagery used in this document has been photographed
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