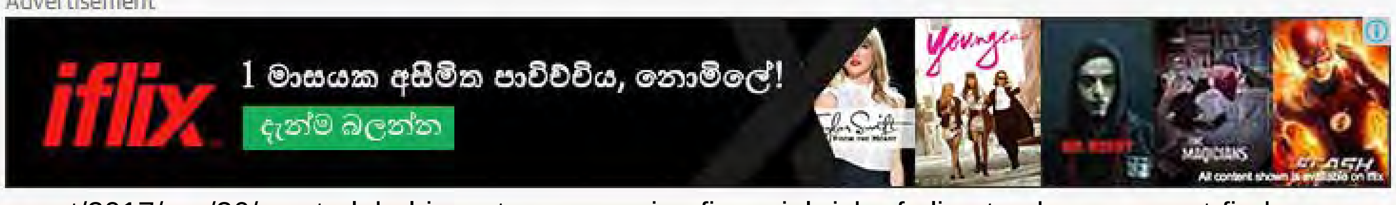
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Climate change

Most global investors recognise financial risk of climate change, report finds

Global index reveals 60% of asset owners are now taking some action, but warns there is still 'enormous resistance' to managing climate risk

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Penguins in Antarctic are vulnerable to climate change. Three of Australia's big four banks are currently reviewing their exposure to fossil fuels in response to climate change. Photograph: John B. Weller/AFP/Getty Images

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For the first time a majority of global investor heavyweights recognise the financial risks of climate change, according to the results of a major global index rating how investors manage such risks.

But despite the advances, the Asset Owner Disclosure Project chairman, John Hewson, has warned there is still an "enormous resistance" to managing climate risk.

The AODP releases its fifth global index on Wednesday, ranking the world's largest 500 asset owners and, for the first time, the 50 largest asset managers on their performance managing financial risks associated with climate change.

Asset owners and managers were scored on governance and strategy, portfolio carbon risk management and metrics and targets, and graded as leaders (A-AAA) rating), challengers (B-BBB), learners (C-CCC), bystanders (D-DDD) and laggards (X).

The index found that 40% of asset owners and just 6% of asset managers were classed as laggards, meaning they had a scored zero on the measures for managing and disclosing climate risks.



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The report concluded that "the scales have tipped", as 60% of asset owners are now taking some action.

Of the 500 asset owners, there are now 34 leaders, 34 challengers, 44 learners and 187 bystanders, an increase in all categories since the last year compared with laggards, which fell from 246 to 201 in number.

Australia and New Zealand were among the 10 best-performing countries, which were all in Oceania and Europe.

Asset owners in Australia and New Zealand average B compared with an average D across Asia. Australia's Local Government Super ranked first among asset owners in the world and First State Super ranked third, both with a triple A rating.

But Hewson said there was still "enormous resistance" among Australia's asset owners because they tend to "take a very short-term focus, and rely on short-term remuneration, so they won't take a medium to long-term challenge on easily".

Hewson said asset owners tended to have a "herd instinct" and many people saving for retirement haven't focused on the risk of a climate-induced financial crisis and exercised their concern through choice of fund.

"The government downplaying the need to transition to renewables doesn't help … It's not conducive to a serious assessment of risk, that's for sure."

The former Australian opposition leader warned a climate change-induced financial crisis would be a "global phenomenon and is a global risk", agreeing with the former US secretary of the treasury Hank Paulson that the risks dwarfs even the US subprime mortgage crisis that precipitated the global financial crisis.

According to the AODP report, nearly one in five asset owners have staff focused on integrating climate risk into their investments, two in five (42%) incorporate climate change into their policy frameworks, and 13% of asset owners now calculate portfolio carbon emissions, up from 10%.

However assessing the risk of stranded assets is still quite an advanced tool used by only 6% of the index.

All three asset managers in Australia and New Zealand rated D. Macquarie, the sole Australian investment manager included in this index, rated a D.



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The report said this was "a cause for concern giving its impending acquisition of the UK's Green Investment Bank" and called on it to "dramatically improve its climate credentials".

Hewson called for regulators to mandate disclosure of climate change risks, suggesting the Bloomberg taskforce on climate-related financial disclosures and other G20 processes will "inevitably" lead to such disclosure.

"The solution should be disclosure first, because once [asset owners and managers] admit this is the risk they're running, naturally they'll want to manage it."

Hewson also praised the Australian Prudential Regulation Authority for warning in March that individual directors may be financially accountable for failing to factor in losses from climate change, commenting "that's shaken them up a lot".

Three of Australia's big four banks are currently reviewing their exposure to fossil fuels, including their lending practices to households and farmers, in response to climate change.

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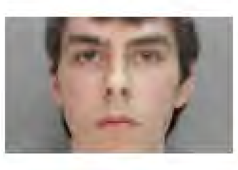
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