ClimateWise
REDUCING THE RISK FOR TOMORROW

What could excellence in incorporating low carbon decision-making in insurance and reinsurance investment strategies look like?

A framework for insurance asset managers that informs consideration of climate risks and opportunities across multiple asset classes

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About ClimateWise

ClimateWise is the global insurance industry’s leadership group to drive action on climate change risk. It was conceived of and launched by insurance industry Chief Executives in 2007 and our international membership now covers Asia, Europe, North America and Southern Africa. The group leverages the insurance industry’s expertise to better understand, communicate and act on climate risks. ClimateWise members undertake collaborations to support the ClimateWise Principles where action needs to be taken at the industry or system level. Collaborations may involve insurers, other industries, policymakers and academics. ClimateWise’s secretariat is provided by the University of Cambridge Programme for Sustainability Leadership (CPSL). Further information is at www.climatewise.org.uk and www.cpsl.cam.ac.uk.

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Executive Summary

Man-made climate change is arguably one of the most challenging risks to economic development ever faced. While there is certainty the impacts on the economy will be transformational, the response of the finance sector has been to look to others, be it market players or regulators, to address this risk first.

The purpose of this paper is not to make the case for climate change but to look at what action insurance investors should take when considering any new systemic risk, where historical data cannot provide the answers and where signals are not yet in the market. As an investment specialist are you assessing climate risk in the same way you are assessing other known and emerging risks?

Collaboration discussions with investors continually highlighted a paradox, where lack of data is often given as a reason for not considering climate risk in investment strategies; however the only way that such data can be effectively collected, is if a strategic approach to considering climate risk in investment is taken.

This paper looks briefly at the context in which insurers as institutional investors are operating. It then looks at the investment decision making process in terms of strategic asset allocation and asset liability management; thematic allocations and portfolio mandates and makes a series of recommendations for considering climate risk in each of these, in light of existing challenges and likely impacts on financial performance.

A. Context

- Why consider climate change in relation to investment activities?
- Why are the risks of climate change not already priced-in and, hence, reflected in investment decisions?
- What is the role for (re-)insurance investors?
- What is currently being done by investors?

Why consider climate change in relation to investment activities?

Materially the anticipated physical impacts of climate change are incontestable. The latest Intergovernmental Panel on Climate Change (IPCC)[1] report findings include the following anticipated physical impacts by the end of the 21st century:

- An increase in the frequency of category 4 & 5 tropical cyclones by 80%
- An increase by up to 37% in precipitation rates related to tropical cyclone low pressure systems
- An increase in the frequency of annual maximum 24-hour precipitation between 33% - 300%
- Global sea level rise between 0.5m – 1.9m

An increase in the length, frequency and/or intensity of warm spells or heat waves between 300% - 900%

On such time horizons it is easy to ignore that the actions we take now will affect this trajectory. Regulation can help to give a shorter term signal but all actors should be aware that even where regulation is lagging, long-term Greenhouse Gas reduction requires a fundamental change from business as usual that will see significant decarbonisation across power, transport, industry, property and agricultural sectors. (See Chart 1 below for the European Union's 2050 Low –Carbon Roadmap).

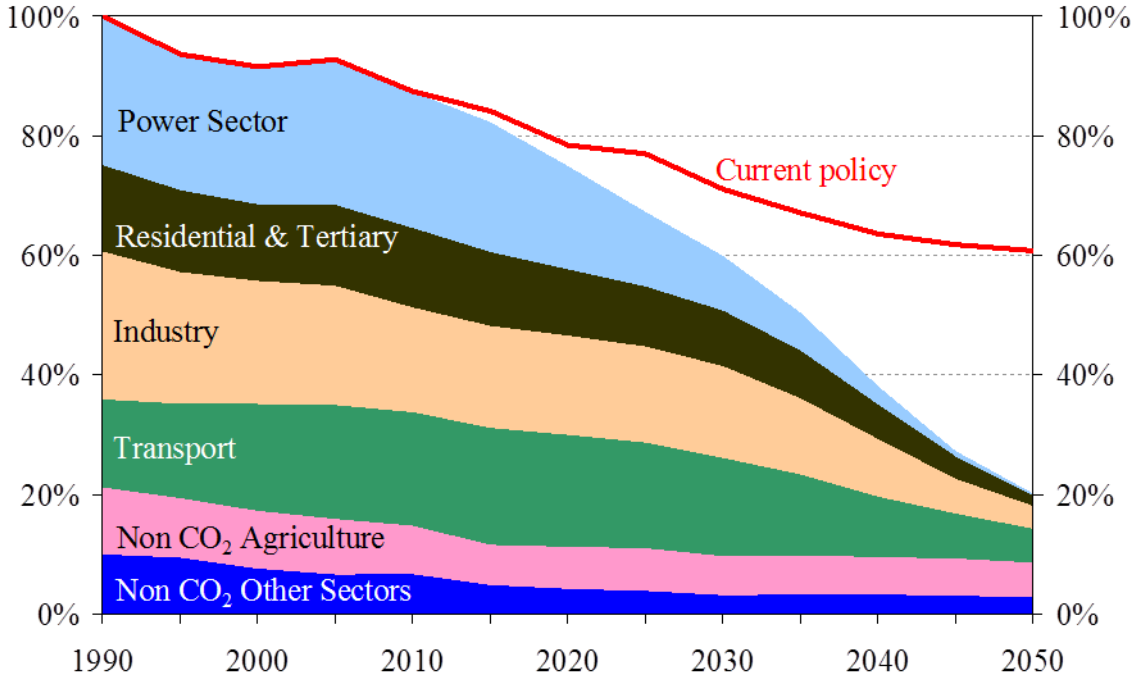
Outside of regulation public opinion is also important. The Carbon Tracker Initiative (CTI)[2] has highlighted that using more than 20% of listed coal, oil, and gas reserves over the next 40 years would emit enough carbon to raise global warming by more than two degrees celsius. Consequently the issue of "financed emissions" essentially measuring and reporting on emissions associated with financial services provided to clients is now on the agenda and guidance is currently being developed to serve as a supplement to the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard[3]. Discussions such as those within Seattle City Employee's Retirement System on divesting holdings in fossil fuel companies are also emerging.

[1] Intergovernmental Panel on Climate Change: Special Report on Managing the Risks of Extreme Events and Disasters to Advance Climate Change Adaptation (SREX)

[2] Carbon Tracker Initiative, *Unburnable Carbon – Are the world's financial markets carrying a carbon bubble?* (2011) and *Unburnable Carbon 2013 – Wasted Capital and Stranded Assets* (2013) - http://www.carbontracker.org/carbonbubble

[3] http://www.ghgprotocol.org/standards/scope-3-standard

Chart 1 - EU GHG emissions towards an 80% domestic reduction by 2050 (100% =1990)[4]



Not considering climate change will affect mid to long term risk-return performance, the cost of capital and overall financial stability.

Table 1 – Summary of impact of climate change on key market indicators

Market Indicator	Anticipated impacts of climate change if a risk-based approach is taken
Risk-Return performance	▪ Able to take advantage of anticipated improved returns in low carbon sectors[5] over longer term investment cycles[6] ▪ Able to avoid reduced returns and risk of stranded assets in high carbon sectors over longer term investment cycles
Cost of capital	▪ Able to avoid capital being diverted away from investments that would later yield significant upside
Safeguarding the stability and development of financial markets	▪ The International Energy Agency (IEA) estimates that investment and spending in low carbon energy technology needs to dramatically increase from current levels if we are to avoid dangerous climate change and the consequent costs, rising from US$260 billion in 2011 to US$1.15 trillion by 2030. Consequently investment allocation and portfolio management that takes into account climate risks and opportunities would support long term economic development and financial stability.

[4] Source: European Commission 2050 Roadmap

[5] Low carbon sectors are defined here as those which are likely to respond positively to material and regulatory climate impacts. High carbon sectors are defined as those which will respond negatively.

[6] The WEF definition of long-term investing is "investing with the expectation of holding an asset for an indefinite period of time by an investor with the capability to do so."

Why are the risks of climate change not already priced-in and, hence, reflected in investment decisions?

There is typically a sense of confidence amongst investors that if climate change affects corporate financial performance, it will be priced into valuations - essentially relying on an efficient market hypothesis.

However a number of barriers prevent this from happening:

- **Restrictions in conventional valuation models which tend to rely on historical data**

When something is hard to quantify it can be easy to ignore. Institutional investors rely on ratings to measure investment grade risk but ratings agencies are naturally conservative if there is a limited long term-performance history on which to draw.

- **Short-time horizons for investment management that make it challenging to measure the impact of longer term risks and cause misaligned incentives**

This affects both understanding of risk and incentives to manage them. Reporting and managing to quarterly results clearly restricts the ability to create more favourable long-term results. Uncertainty in financial markets due to the financial crisis has resulted in investors focussing to an even greater extent on risk factors over the short to medium term.

- **Lack of fund manager expertise on climate change implications and experience with more illiquid assets**

Understanding how to translate climate risks and opportunities into actionable investment decisions requires new skills and dedicated resources that can take years to build up.

- **A potentially unsupportive and uncertain regulatory backdrop**

The lack of a meaningful carbon price distorts comparison of risks between low and high carbon investments. According to the IEA's 2012 World Energy Outlook, fossil fuel subsidies amounted to $523 billion in 2011, up almost 30% on 2010 and six times more than subsidies to renewables. The long timeframes required for infrastructure project development also mean that businesses and investors are particularly vulnerable to regulatory changes. Finally the links between economic price signals and financial regulation may not always align.

It is therefore no surprise that currently climate impacts on investments are being missed.

What is the role for (re-)insurance investors?

Insurers have long term liabilities and consequently have a need to match these with longer term assets where the cash flows are aligned with re/insurance business activities.

The impacts of climate change cut across investment classes (introducing changing correlations between classes to those previously experienced) and also have global impacts. Consequently traditional diversification efforts by either asset class or geography are likely to be frustrated. The concept of universal ownership is that large insurers should have an incentive to reduce negative externalities and increase positive externalities across their investment portfolios through strategic asset allocation, active ownership and policy engagement. [8]

[7] http://www.worldenergyoutlook.org/publications/weo-2012/#d.en.26099

[8] There are relatively few asset owners that are active in promoting the universal owner philosophy. According to 'Universal Owners: Opportunity Beckons and Leadership Calls, Roger Urwin, Rotman International Journal of Pension Management, 2011 ' there are only 6 funds with expressed statements connected to universal ownership.

What is currently being done by investors?

Over the last few years, there has been an increase in coordinated efforts to encourage the integration of Environmental, Social and Governance (ESG) factors into firms' valuation and investment making processes with many institutional investors signing up to the Principles for Responsible Investment (PRI) and insurers signing up to the ClimateWise Principles which include incorporating Climate Change into investment decisions[9]. Many investors are also part of regional organisations comprising the Global Investor Coalition on Climate Change[10].

Surveys of those who say they already practise sustainable investing show that the depth of integration varies considerably with evidence failing to demonstrate consistent strategic approaches. Few investors are also encouraging appropriate disclosure on climate change risks from companies.

In comparison to Pension Funds, Insurance Funds have to date come under far less scrutiny from their customers and shareholders. Consequently in most cases sustainable investment is limited to responsible investment teams and not integrated in mainstream funds.

B. Options for considering climate change in investment decisions

- Strategic Asset Allocation and Asset Liability Management (ALM)
- Thematic allocation options
- Portfolio Mandates

In order to take a strategic approach to considering climate risk it is necessary to consider the range of ways that risk is addressed within investment decision making before deciding which areas company strategy should prioritise.

i. Strategic Asset Allocation and Asset Liability Management (ALM)

1. Within the asset liability management process, the definition of the strategic asset allocation balances the investment positioning against return targets consistent with levels of acceptable risk and within defined regulatory constraints. As a systemic risk climate change is likely to affect the variance within and also correlation between traditional asset classes. This has implications for the methodologies used to assess that risk.

9 See Annex for more detail on the respective Principles

10 The four regional organisations are the: Institutional Investor Group on Climate Change (Europe); Investor Network on Climate Risk (North America); Investor Group on Climate Change (Australia/NZ) and the Asia Investor Group on Climate Change (Asia)

2. Recent research[11] has identified the application of Monte Carlo based approaches whereby asset class returns and liabilities can be modeled together using forward based simulations to support a dynamic asset allocation strategy. Advanced stochastic approaches such as these are able to accommodate multiple risk factors and are not restricted (like Modern Portfolio Theory) to assumptions of normal distributions, but of course raise issues around model construction and data availability.

3. Two recent reports utilized the anticipated risk associated with climate policy to consider the impacts of climate change on asset allocation up to 2030:

a) Mercer[12] employed a proprietary model to assess the sources of risk in a forward looking hypothetical investment portfolio. They calculated that up to 10% of total portfolio risk could arise from climate policy (compared to 72% associated with the equity risk premium)[13]. This was based on the idea that climate policy (polices affecting technology, adaptation and mitigation) will introduce greater variability into asset classes.

b) DB Climate Change Advisors[14] assessed climate change risk using a similar approach focusing on market economic risk combined with assessments of technology and climate policy risk. They then applied a climate risk adjusted approach to asset allocation achieving an improved mean return compared to a 'standard' portfolio (without climate change considerations):

	Mean Return
Standard portfolio	8.73%
Climate risk adjusted approach	9.39%

This led to a decision to increase the allocation to low carbon sectors (clean energy, energy efficiency, water and agribusiness) within asset classes to 6% compared to a 2% global market capitalization. Based on their simulation they anticipated a 5% excess return from low carbon sectors leveraging an extra 0.4% return to the whole portfolio.

4. Identifying climate sensitive assets can therefore highlight both unanticipated risks and probabilities of achieving target returns that should influence allocation decisions.

Actions that should be taken

- Form a view on climate change risk; understand if existing ALM and SAA methodologies capture this view an- monitor and support developments in risk based asset allocation methodologies. Assessment of complex future risks with limited historical data availability may be suited to including consideration of a greater number of risk factors including climate change risks.

- Review methods for identifying positive low carbon assets held within the portfolio (potentially as a separate class) to facilitate benchmarking and performance analysis going forward. This may ultimately lead to a target investment level for climate related classes.

[11] Risk-Profiling Defined Benefit Pension Schemes, Michael A.H Dempster, Matteo Germano, Elena A Medova, James K Murphy, Dermot Ryan, Francesco Sandrini, The Journal of Portfolio Management, Vol. 35, No. 4: pp. 76-93, 2009.
[12] Climate Change Scenarios - Implications for Strategic Asset Allocation, Mercer, 2011 www.mercer.com/climatechange
[13] Ibid, pg. 16
[14] Investing in Climate Change 2010, DB Climate Change Advisors:
http://www.dbcca.com/dbcca/EN/_media/InvestingInClimateChange2010.pdf

ii. Thematic allocation options

5. Thematic approaches to investment arise out of active decisions to expose a portfolio to a particular theme or trend to enhance investment performance. In the context of climate change this could involve altering asset allocations to climate sensitive assets to either generate an excess return or hedge exposure to climate risk. Since it involves a decision to deviate from a modeled allocation it therefore also implies a responsibility on the decision maker to be able to justify the risks and returns resulting from the strategy.

6. Infrastructure, real estate, private equity and some commodities have been assessed to be highly sensitive to climate change.[16] While traditionally fixed income instruments have made up the bulk of insurers' investment portfolios the potential for diversification and enhanced returns has seen a greater recent focus on alternative investment classes.

Real estate is an asset class where impacts of climate change have already been felt in vulnerable areas, particularly coastal areas.

- At the highest level, investors should identify and understand their exposures to geographic regions that are known to be at risk of physical damage.
- At the market level investors should attempt to understand local risks associated with changes in planning policy and climate change related regulations, such as building regulations and energy performance requirements.
- At the company level portfolio managers should understand the optimal use of climate friendly technologies

This may include a re-weighting of exposure to certain geographical locations, markets and asset types.

In the UK, for example, the Investment Property Databank (IPD) Sustainability Index should enable investors to monitor the relationship between environmental performance and financial returns. IPD are also developing a new benchmarking service, known as EcoPAS, which will enable the contribution of environmental variables to property investment performance to be assessed and compared across individual assets and portfolios.

7. Investment in **infrastructure** (private equity and debt) is increasingly attractive as an ALM strategy that delivers steady income streams, often index linked with low correlations to other classes. Of alternative assets in 2012, Pension Funds allocated 9% to Infrastructure while Insurers allocated 5%.[17]

8. Infrastructure is at the core of attempts to decarbonize and also adapt to climate impacts. The sectors with the greatest growth opportunities are likely to be in:

   - Energy – renewables, Carbon Capture and Storage, transmission and distribution networks, decentralised electricity and heat generation
   - Transport –rail and bridge replacements, sustainable drainage systems, electrification including electric cars and battery charging and replacement points.
   - Water and waste – water storage and biogas

[16] Ibid 12
[17] Global Alternatives Survey 2012, Towers Watson

9. The sectors where reducing GHG emissions are expected to have the greatest impact on reducing costs are Electricity, Oil & Gas , Industrial Metals & Mining and Construction & Materials sectors.[18]

10. Low correlation with other asset classes, predictable cash flows and inflation linked benefits have been identified as important characteristics of infrastructure and consequently **renewable energy assets**. Recent analysis[19] applying an asset allocation optimization to give minimum variance assigned a portfolio weighting to wind energy of 21%. While a proportion as large as this is unlikely to be practical, it suggests that raising shares above current typical levels of investment might add value.

11. Hedging is a technique that has been employed as a response to certain risk types such as foreign exchange and interest rate risk. Acquiring low carbon holdings could provide greater value to offset negative impacts on high carbon holdings affected by climate change risks. For example Norway's Government Pension Fund is reported as setting themselves a 5-6% allocation to low carbon assets as a hedging strategy.[20]

12. Regulatory risk stemming from a lack of clarity in terms of environmental and climate policy ambition, and retroactive changes to support mechanisms can create uncertainty about risks and opportunities.[21] More can be done to overcome challenges through the development of suitable investment vehicles and increasing levels of information and expertise to facilitate direct investment.

Actions that should be taken

- Review strategies for investment to ensure that they consider both the climate sensitivity of the relevant class as well as the upside potential for superior return and diversification. Where practicable sub-categories (e.g. green infrastructure) of the classes that are climate sensitive should be identified and quantified to facilitate further investigation.

- Identify and report publicly on climate sensitive holdings. This could be strengthened further by linking holdings to assessment of potential climate change risk (i.e. the climate holdings acting as a hedge) and/or targets for positive low carbon assets.

- Support developments that will facilitate greater holdings of positive low carbon assets such as the development of suitable investment instruments and initiatives designed to pool financial resources according to different phases of risk.

[18] Universal Ownership – Why environmental externalities matter to institutional investors, UNEP FI PRI, 2010
[19] Blowin' in the wind : the role of renewable energy in portfolio diversification, Frederik Burns, Portfolio Institutional, 2012.
20 Climate Change Best Practice Methodology; http://aodproject.net/index.php/best-practice and Climate Change Scenarios Tailored Report - Norwegian Government Pension Fund (Global), Mercer, 2012
http://www.regjeringen.no/pages/1934920/GPFG_Mercer_March2012.pdf
[21] OECD Working Paper 23, The Role of Institutional Investors in Financing Clean Energy, Christopher Kaminker, Fiona Stewart, 2012.
http://www.oecd.org/environment/WP_23_TheRoleOfInstitutionalInvestorsInFinancingCleanEnergy.pdf

iii. Portfolio Mandates

13. The investment mandate provided to investment managers is a key aspect of the overall investment process. The mandate should, reflect the requirements of the investors including proper consideration of climate change concerns and relevant time horizons.

14. Historically issues such as climate change have often been regarded primarily as an ethical matter, whereby a mandate could exclude certain companies or categories because of concerns held by the investor. Other strategies have now developed, including identifying best in class, integration and direct engagement with the organizations to encourage change/improvement. These approaches are typically considered more broadly than climate change, as Environmental, Social and Governance (ESG) or Responsible Investment (RI).

15. Reports from FairPensions in 2011 and 2012[22] acknowledged the widespread acceptance of the principle of RI but highlighted that it has not yet translated into standard investment practice. Two important factors behind this concern were considered to be the lack of clarity over who is responsible for ESG issues, combined with a herd approach that encourages similar action (or lack of action) through the investment process. In this context it is clear that asset owners are well positioned to ensure that managers and others take proper account of these concerns through the defined investment mandate.

16. Active ownership (i.e. including voting) involves interaction with companies which are part of the investment portfolio on corporate governance and other issues (such as the management of climate change risks) after the asset allocation decisions have been made. The traditional focus on identifying and realizing operational improvements aligns well with climate change related goals such as energy efficiency and emissions reduction. A recent study[23] provided evidence that a well co-ordinated and constructive engagement process may have a positive impact on financial performance of the companies and ultimately on the investment performance. Following successful engagements a one-year abnormal positive return of 4.4% was observed (with zero for unsuccessful engagements) with most positive market reaction to themes relating to corporate governance and climate change (7.1% and 10.6%).

Actions that should be taken

- Ensure that the appointment process for investment managers (and other related parties such as consultants) recognizes their ability to consider climate change as a key risk. This could form part of a wider ESG remit. The assessment of managers by asset owners should consider how they address climate change considerations, which specialist data and models they use for this purpose and how this is integrated into their existing models and activities.
- Given the rapidly evolving nature of understanding of climate change risks it should be ensured that these issues routinely feature in periodic reporting and manager performance reviews, possibly within broader ESG reports.
- Request confirmation that when managers undertake research on future risks, climate related issues are considered (including the downside and upside risks associated with climate sensitive asset holdings). Collaboration between climate finance experts and financial intermediaries is likely to be needed to support this.
- Where engagement on ESG issues forms part of the mandate it should be confirmed by managers that climate risk/opportunity issues are within scope. The managers should be challenged to provide concrete examples of the engagement process with respect to climate change concerns. This should include engaging with regulators.

[22] Protecting our Best Interests :Rediscovering Fiduciary Obligation, Christine Berry, FairPensions, March 2011 and The Enlightened Shareholder: Clarifying Investors' Fiduciary Duty, FairPensions 2012

[23] Active Ownership, Elroy Dimson, Oguzhan Karakas, and Xi Li, 2012. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2154724

C. Successfully taking forward a low carbon investment strategy

To take forward the actions in this report requires leadership to respond to uncertain risks. Clark and Urwin identified 12 attributes of well governed funds[24] of which mission clarity is key to navigate a transition. Without a high level mission it is difficult for the appropriate enablers in governance, culture and information to change and consequently influence policies around drivers, mandates and managers.

We asked two insurance investors Allianz and Storebrand what influenced them to take the step to think strategically about low carbon risk and what have been the challenges overcome?

A. Allianz

Over the past five years, climate change considerations have been integrated slowly but steadily into core business areas of Allianz – as a company, as an investor and as a financial services provider. In our experience, it is key to have both top level Board support to create visibility and set the framework for company activity matched with investing in core capacity building to ensure bottom up take-up and buy-in at the operational level.

The Board decided that climate change was important to performance but that because of the uncertainty in quantifying impact an evolutionary approach was needed. However in effect implementation will never be "finalised" as this is a long-term journey.

To build capacity we invested in the development of:

- a centralized climate change competence centre with independent legal status (Allianz Climate Solutions/ ACS) which was given a mandate to communicate for the Group on climate change issues.
- a Group-wide holistic climate change strategy, making the link between climate change and key functions of Allianz.
- a Group ESG Board which bundles the experience from senior management members of different Allianz Group functions such as Investment Management, Asset Management, Risk Management, Communications and Allianz4Good (our corporate responsibility function) and directly interacts with local ESG managers.

Setting up a dedicated team/project owner to function as incubator/competence centre for sustainable solutions has been instrumental in raising the strategic stakes for climate change within Allianz. The gradual build-up of in-house expertise has given room for innovative project development and to flexibly adjust to new regulatory developments. ACS facilitated the establishment of a solar investment strategy in 2008 which today is being implemented by Allianz Capital Partners. To date, Allianz has invested over EUR 1.3bn in renewables. It remains crucial that there is close coordination between business units and the central competence unit (ACS/ ESG Board).

As with all incubation processes, the risk is to be running against the stream before an idea becomes mainstream. Also as business priorities and political emphasis on climate change shift, constant follow-up is required. We continue to work on how to lock-in efforts undertaken and how to keep up climate change as a priority topic.

[24] Best-practice pension fund governance, Gordon Clark and Roger Urwin, September 2007

B. Storebrand

Long term asset management is at the core of Storebrand's products. As a long term investor, creating returns means investing sustainably across asset classes, industries and regions. Storebrand's approach is to increase investments in assets that are better positioned – relative to peers – to meet global challenges such as pressurised ecosystems and significant population growth, while retaining an economically sound business model. In 1995 a strategic business decision was made to establish a pioneering Storebrand/Scudder Environmental Value Fund. Since then, the scope – of both methodology and topics – has expanded to Group wide integration of ESG, leading to Storebrand being recognised as the FT/IFC Sustainable Asset Owner of the Year in 2011. There is still further to go but in our experience the tone at the top, client demand and organisational visibility have been key to our progress.

National context required a strong tone at the top

It is worth noting that the national context has not been particularly enabling. In the late 1990s and early 2000s, Norges Bank Investment Management (NBIM) publicly stated that sustainable and responsible investing was not compliant with securing financial returns. Within Storebrand, there were also strong voices supporting this view.

The establishment of Ethical Guidelines for the Government Pension Fund Global (GPFG), also known as the Petroleum Fund, in 2004, became a watershed moment for the investment industry in Norway. Almost instantly, an ethical minimum standard was established for banks, pension funds and insurers. Thus, Norway is often perceived as being advanced when it comes to sustainable investing. However even today, the public debate – and subsequently the action taken by asset owners and managers – is mostly centred round exclusions and ethics. Although ethical standards and exclusions can be an important first step, the introduction of such mechanisms cannot be said to play a significant role in the integration of ESG.

In this landscape, a strategy of sustainable investments would not have survived without clear directions from the Executive Committee and the Board. In particular, the competence and engagement of Storebrand's CEO until 2012, Idar Kreutzer, secured and developed the position as a leading sustainable asset owner.

Responding to and shaping client demands

A key driver for this leadership was client demand and particularly the different perspective of Swedish clients. In Storebrand there is a close relationship between the asset manager and the asset owner (life insurance Norway/ Sweden). Pensions and life insurance are core products, and the asset owner is the dominating client for the asset manager. Thus, the mandate from the asset owner is central to integrating ESG. A recently set 5-year target of improving ESG quality for the whole life insurance portfolio is setting the direction in this regard.

The acquisition of Swedish pensions company SPP in 2007 has, in many ways, been a catalyst to Storebrand's development of sustainable investment strategies. SPP immediately adopted sustainable investing as a differentiating factor, and have been successful in engaging with its' clients and broader group of stakeholders. Sweden has a significantly more mature savings market than Norway, and thus clients are more concerned with the quality of their investments. Demand and engagement from Swedish clients has confirmed and reinforced our strategic direction, and was also an important argument for ESG integration.

Although a flagship sustainable investment product may only meet the needs of a small niche, it is our experience that such a product also plays an important role in engaging and educating clients, as well as informing a narrowly focused public debate. Our own flagship 'Storebrand Trippel Smart' invests in global equities – in a best of sector approach – and has enabled us to further develop the debate we have with stakeholders; it's not always good or bad, renewable or non-renewable, ethical or unethical. Such a product also plays a crucial role in building in-house ESG competence and capacity for wider integration.

Organisation and governance
Operationalising top level leadership has been achieved in a number of ways:

- Firstly ensuring that Group Sustainability is part of Group Strategy enabled strategic discussions on sustainable investments with the Executive Committee (EC) and the Board, which ultimately led to the decision to integrate ESG.

- Within the Asset Management business, organising the team of ESG analysts as part of Front Office was a crucial move for integration. While Storebrand does not have in-house financial analysts, being physically located in the same office space was helpful to establish dialogue between ESG analysts and portfolio managers. Participation in the Asset management EC was also an important enabler prior to integration.

- Presentationally ensuring that the ESG team were on the organisational chart of Front Office also had a strong effect, in the sense that ESG was no longer viewed as a niche, but crucial to asset management – both internally and externally.

Annex One: Principles for Sustainable Investment

CLIMATEWISE PRINCIPLE 4: Incorporate Climate Change into our investment decisions

4.1 Consider the implications of climate change for company performance and shareholder value, and incorporate the information into our investment decision-making.

4.2 Encourage appropriate disclosure on climate change from the companies in which we invest.

4.3 Encourage improvements in the energy-efficiency and climate resilience of our investment property portfolio.

4.4 Communicate our investment beliefs and strategy on climate change to our customers and shareholders.

4.5 Share our assessment of the impacts of climate change with our pension fund trustees.

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