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I was in London early this month where I witnessed the Extinction Rebellion rally in full swing. It was an extraordinary sight. The movement's supporters came from all walks of life. It could have easily been mistaken for a fun run if not for the placards railing against the environment crisis.

To these individuals, and others who joined them around the world, the climate change threat is real and must be resolved immediately.

In the world of investing, the mindset is starting to change. One of the loudest advocates for ethical investing, Australian Ethical Investment, believes financial advisers must protect their clients from the financial ramifications of climate risk – while doing good for the environment.

Michelle Baltazar

Michelle Baltazar
Director of Media & Publishing

Clear and present danger

Climate change now poses a tangible threat to traditional investment portfolios. Advisers have a responsibility to protect their clients from what is now a completely foreseeable risk.

The environmental risks of climate change are well documented. In the long term we can expect more extreme weather events, rising sea levels, more climate refugees and greater food security risks.

Evidence is also mounting about the financial risks of climate change. ASIC commissioner John Price says climate change is a "foreseeable risk facing many listed companies in the Australian market in a range of different industries." The corporate regulator has also confirmed it will be treating climate risk as a key governance and disclosure priority. The Reserve Bank says investors in carbon-intensive industries are "exposed to risk that climate change will diminish the value of their investments." Meanwhile, APRA is pushing financial companies to run climate-risk tests on potential investments. Directors of financial institutions are also vulnerable to legal challenges if they fail to address the potential exposure of their firms to climate-related risks.

Nowhere is this more evident than in the case of 24-year-old Mark McVeigh who is suing his super fund REST. Mark is alleging that the information REST provided about its management of climate-related risks didn't meet its disclosure requirements and due diligence risk duties. In a hearing set down for October, REST will argue that climate risk is "only one of many material factors that may be considered by Australian investors". Board members of the $57 billion industry fund may be called to give evidence.

If Mark wins his case, it could compel super funds to review the way they invest when it comes to climate change. But regardless of the outcome, it's time for the financial services industry to wake up to the immense power at its disposal. Australia's super assets are now bigger than our national GDP and global pension assets are forecast to soon eclipse the global economy. As a result, super funds are becoming 'universal investors' who will start seeking returns that benefit society. That means they will be focused on improving investment returns on an absolute basis, thereby creating a better environment for their members to eventually retire into. It's clear that super funds must be active when it comes to major or material risks – not just because ignoring climate risk could leave them open to future legal liabilities, but because it's within their influence and therefore a responsibility. What's more, by continuing to put their money into fossil fuel companies, they're missing out on opportunities offered by fast-growing alternatives such as renewable and clean energy companies.

Declaring an emergency

On 1 May 2019, the UK parliament made history by declaring an environmental and climate emergency. This was followed shortly afterwards by the Irish government's declaration of a climate and biodiversity emergency. In Australia, the ACT government has made a climate emergency declaration, and both the Sydney and Melbourne councils have officially declared a climate emergency. Yet, despite this level of urgency, at a federal level Australia still lags the world when it comes to real action to mitigate climate change.

There's compelling evidence that unless the entire globe acts on climate change now, we're heading for catastrophe. To lessen the impact, global leaders agreed in Paris in 2015 to keep the global temperature increase well below 2 degrees celsius above pre-industrial levels. To reach this goal, we need to eliminate the burning of fossil fuels.

A 2018 survey by The Australia Institute found 73% of Australians are concerned about climate change and 70% want the government to replace old coal plants with clean energy. What's more, as signatories to the 2015 Paris Agreement, Australia has committed to act to limit global warming to below dangerous levels.

To meet our obligations, the Climate Council estimates we'll need to leave 90% of our coal reserves unmined. At this point in time, our economy and energy production still rely largely on fossil fuels – and both individual and institutional investors continue to invest heavily in the old economy (namely, coal and oil) ignoring the financial risks of this strategy

The quote

As an adviser, you play a key role in helping your clients invest in line with their values, while protecting their wealth from climate risk.

So how can you, as an adviser, help your clients invest in a way that avoids the financial implications of climate risk and benefits from the solutions?

Avoiding risk and doing good

By seeking out environmentally responsible investments you can help your clients avoid the growing financial risks of climate change. At Australian Ethical, we do not invest in coal or oil. Instead, we actively work to create a sustainable future for Australia, investing in solar, wind, geothermal and hydro renewable energy companies. We understand that tackling climate change goes way beyond fossil fuels. That's why we invest in companies and sectors that help decarbonise our economy – from food production and transport, to recycling and waste management.

We exclude all companies whose main business is fossil fuels. We also measure the impact of our investments and are transparent about the results. According to MSCI ESG Research, the carbon intensity of our investment portfolio continues to decrease and is now 70% less than the benchmark. Our proportional investment in renewable energy remains six times greater than the global share market, and the renewable generation capacity of our portfolio of power companies is projected to grow at the rate needed to limit warming to 1.75°C.

Starting a conversation about climate risk

As an adviser, you play a key role in helping your clients invest in line with their values, while protecting their wealth from climate risk. You can also help them understand and make informed decisions about renewable investments. So why not start a conversation with your clients today about investing for their financial future as well as the future of the planet? FS

Watch the video on www.fsitv.com