



# 3º SEMINÁRIO INTERNACIONAL DE PREVIDÊNCIA COMPLEMENTAR

## TRENDS IN ESG FOR PENSION FUNDS

Realização:



Patrocínio:



Apoio:





## **Clarisse A. Simonek, CFA**

- 15 years in sustainable finance and auditing across asset owner and managers.
- Led network of renowned investment firms on climate risk and responsible investment.
- Advisor to UK and EM regulators on Green Finance and member of Standard&Poors' Global Scientific Council for Sustainable Finance.
- Academic advisor for the CFA on ESG Investing curriculum
- Masters in Sustainability. CFA Charter holder





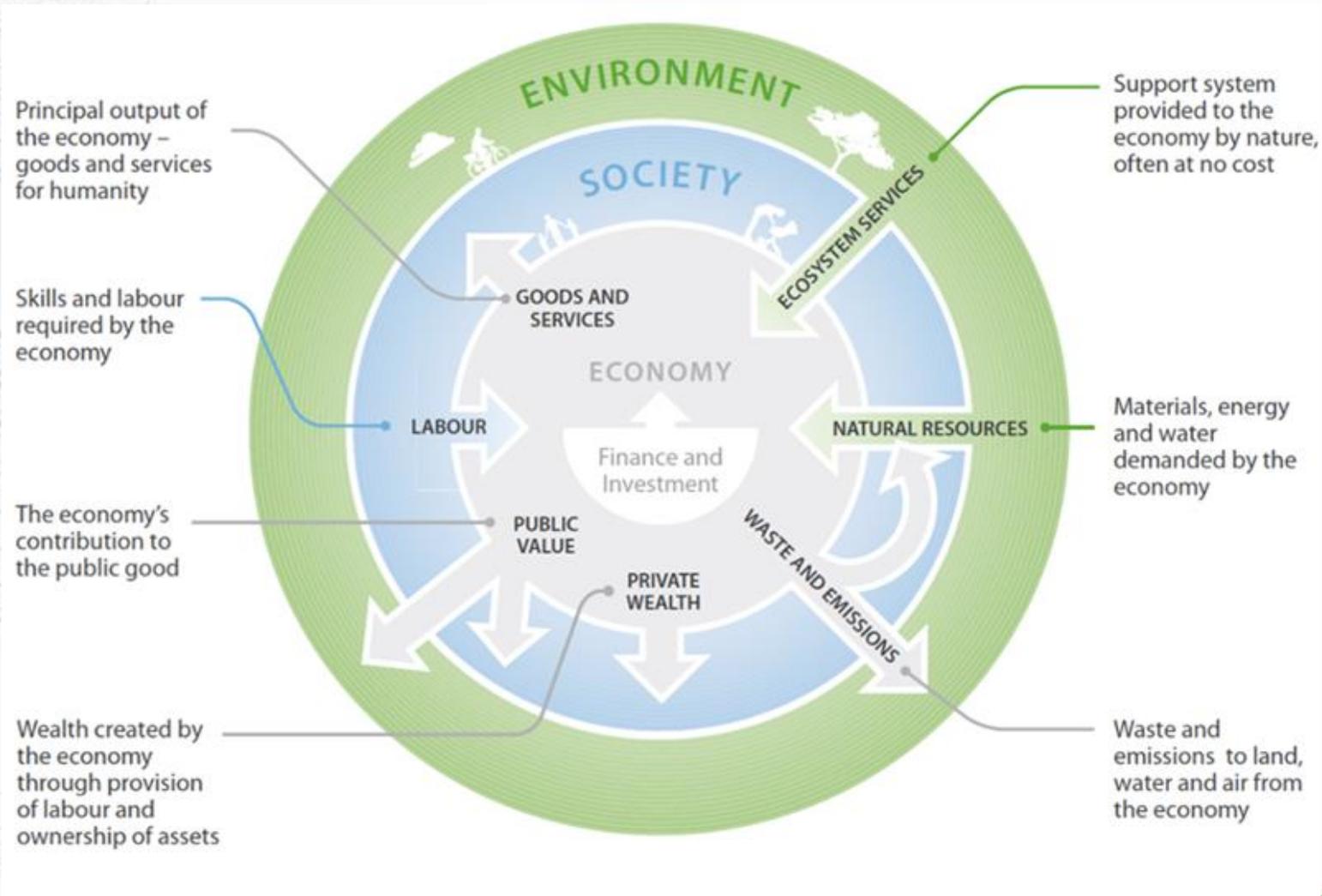
Managing assets where investors **acknowledge the relevance** of environmental, social and governance (ESG) factors.

Includes in their **investment decisions**, as well as their role as owners, with the **long-term return** of an investment portfolio in mind.

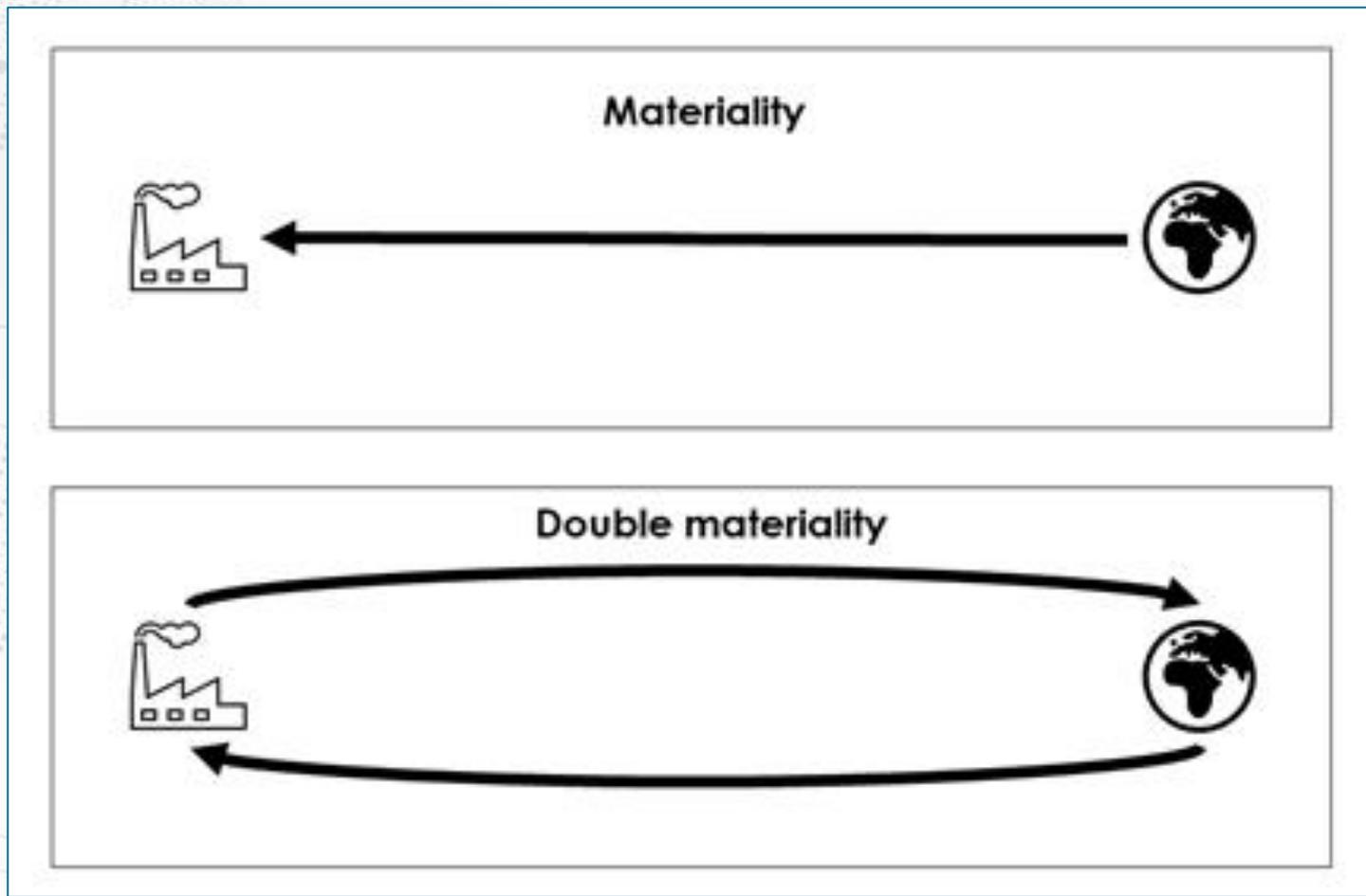
Linked with “responsible” and “sustainable” investment



# Economic interdependencies

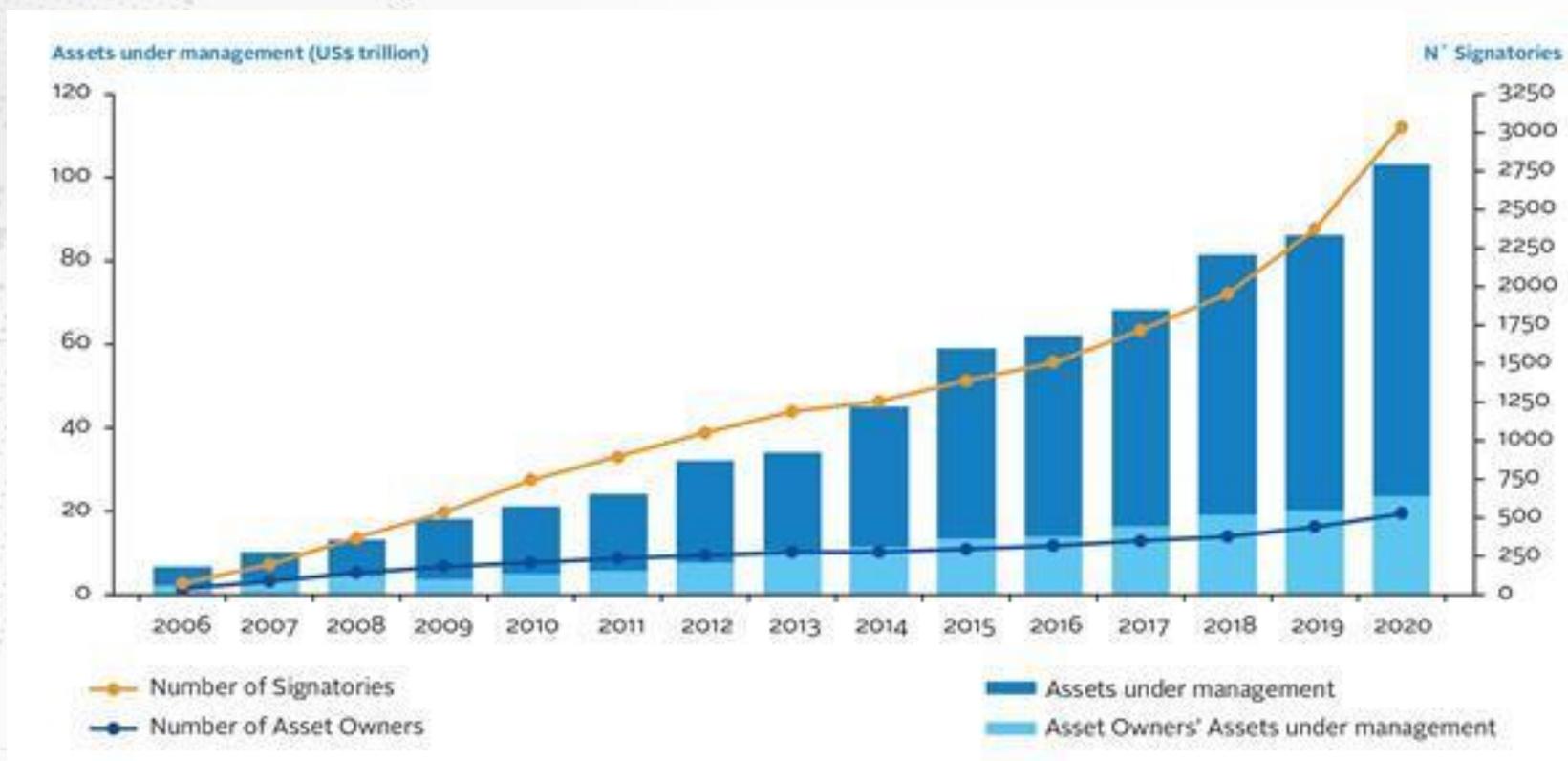


# New perspectives: double materiality



Source: European Commission



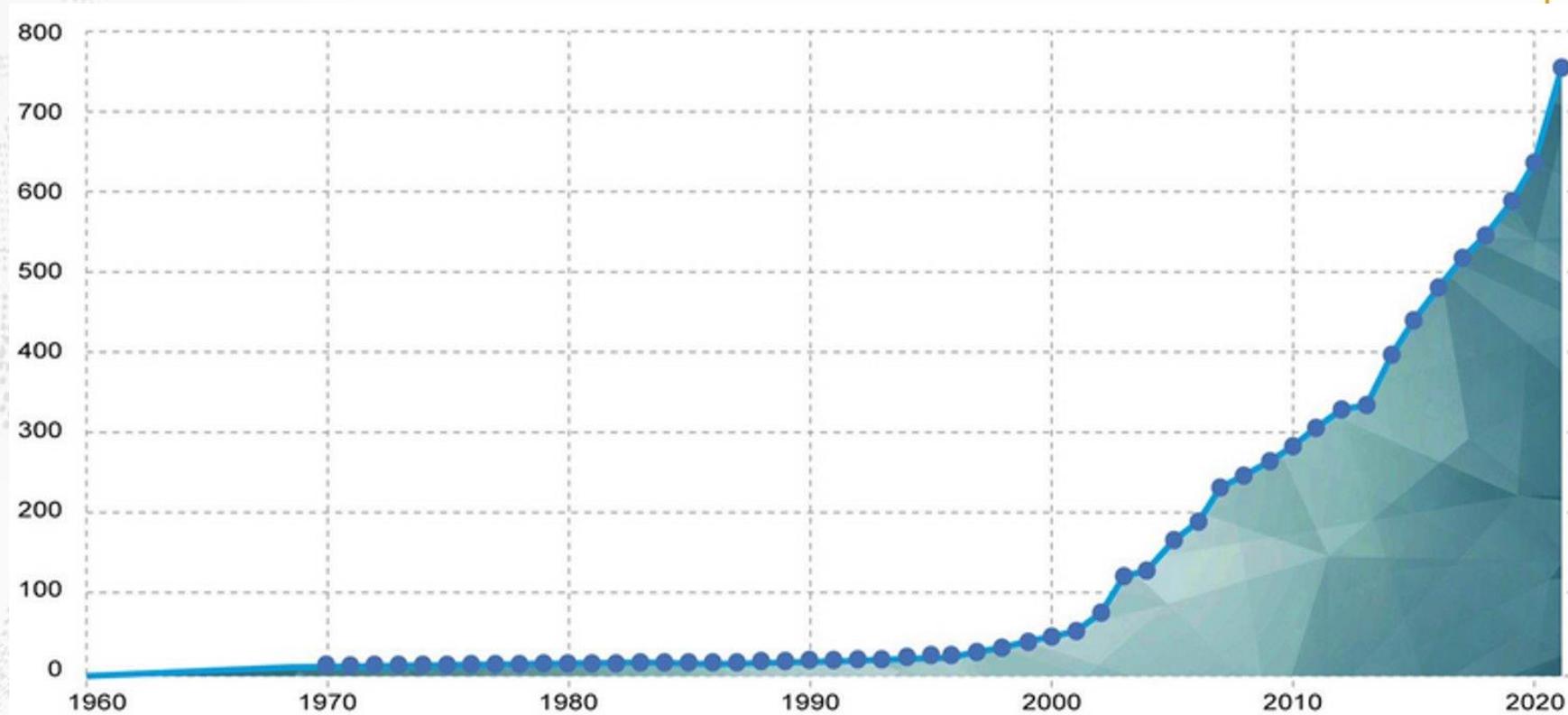


Source: PRI



## Sustainable investment regulation globally

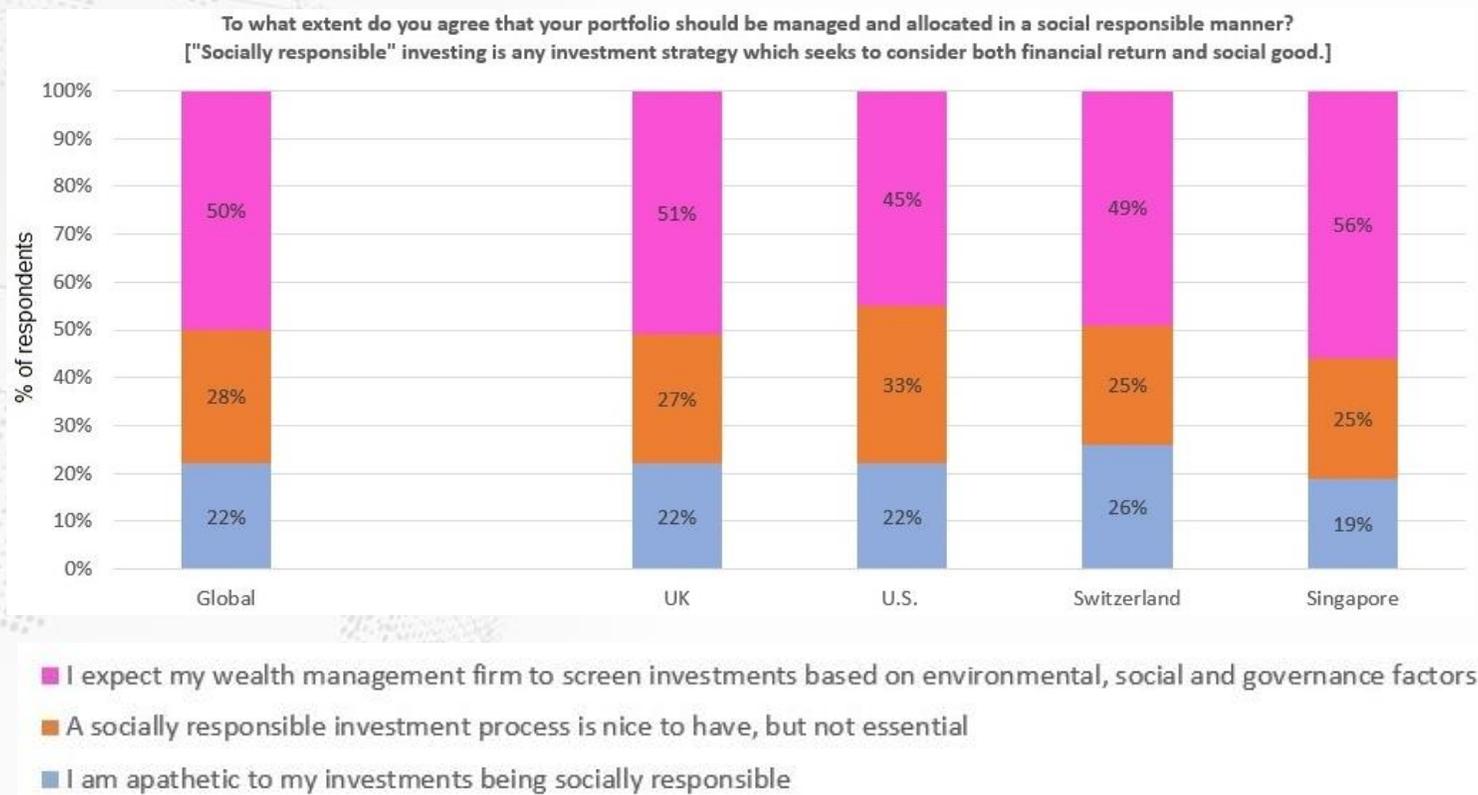
Twenty-fold increase over 20 years in climate change or relevant environmental laws globally.



Source: PRI

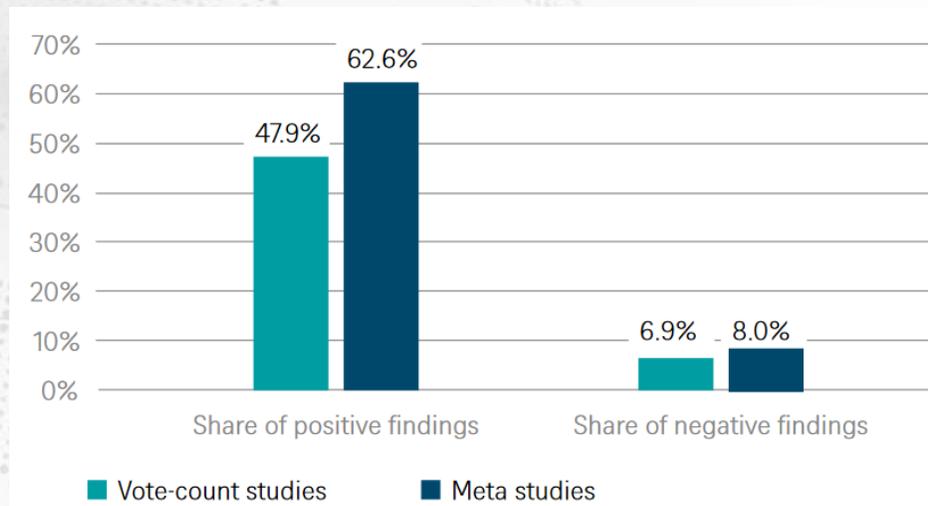


# Driven by client demand



Source: FactSet





Source: NYU, DWS, Oxford

### Rockefeller Asset Management & NYU Stern, 2021

- >1000 studies
- 58% found a positive relationship between ESG and financial corporate performance.

### DWS, 2015

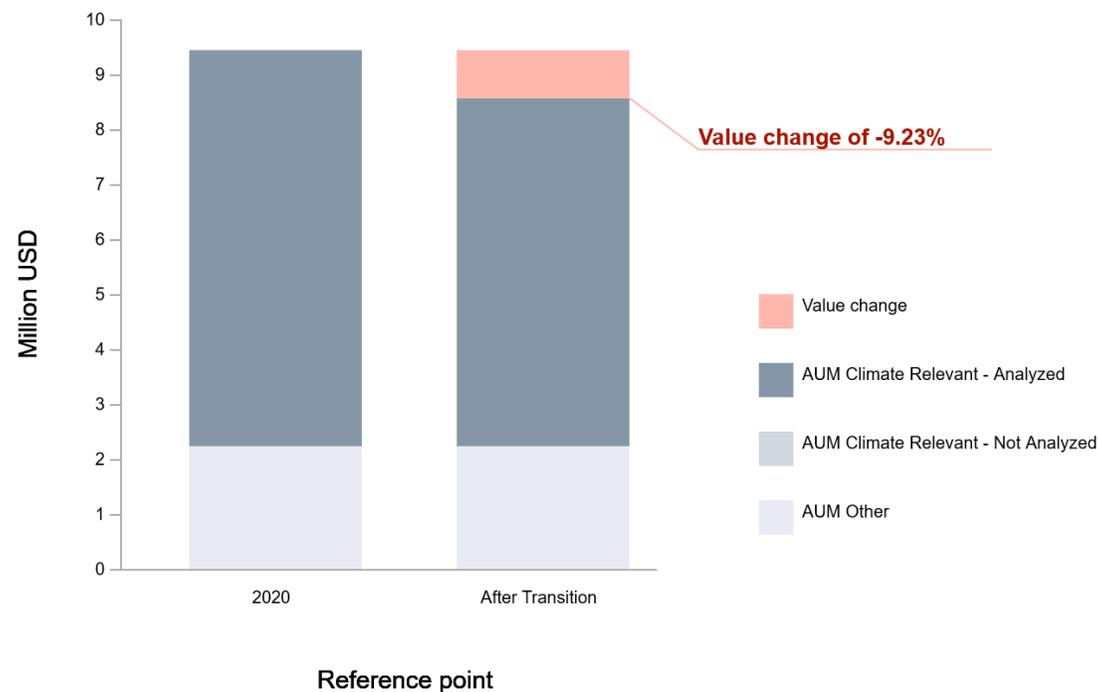
- 2000 studies
- > 60% found a positive relationship between ESG and financial performance.

### Arabesque & Oxford, 2014

- 200 studies
- 80% found strong sustainability practices have a positive influence on investment performance.



## Potential Value Changes for Climate Scenario Analysis (Inevitable Policy Response, 2030)



Source: PACTA





Climate-related market sentiment could lead to economic losses of **45% in equity portfolio and 23% in fixed income portfolio.**

**50% is “unhedgeable”:** asset owners are exposed unless system-wide action is taken to address the risks.

Source: CISL

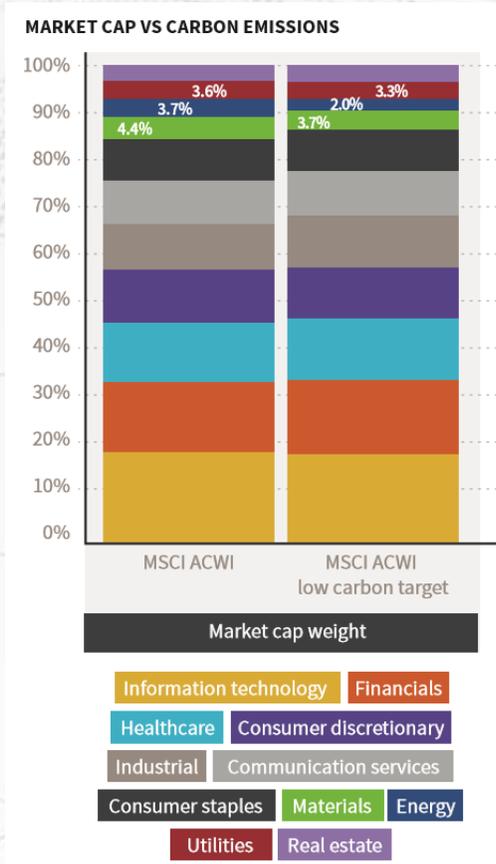


### **\$209.1 billion New York State Common Retirement Fund Advisory Panel on climate risk appointed on March 2018**

The Fund should establish a climate solutions investment program and increase funding with a proactive approach to climate risk and opportunity.

The Fund should establish minimum standards to measure the readiness of its investments for climate change impacts and the transition to a low-carbon economy. These standards may vary by asset class, sector of the economy or geography, but could be used to construct indices, evaluate managers, direct engagement and define exclusion from the Fund's portfolio.





- Reduces carbon emissions of the portfolio by 75%.

## Janus Henderson INVESTORS

### Global Sustainable Equity Fund

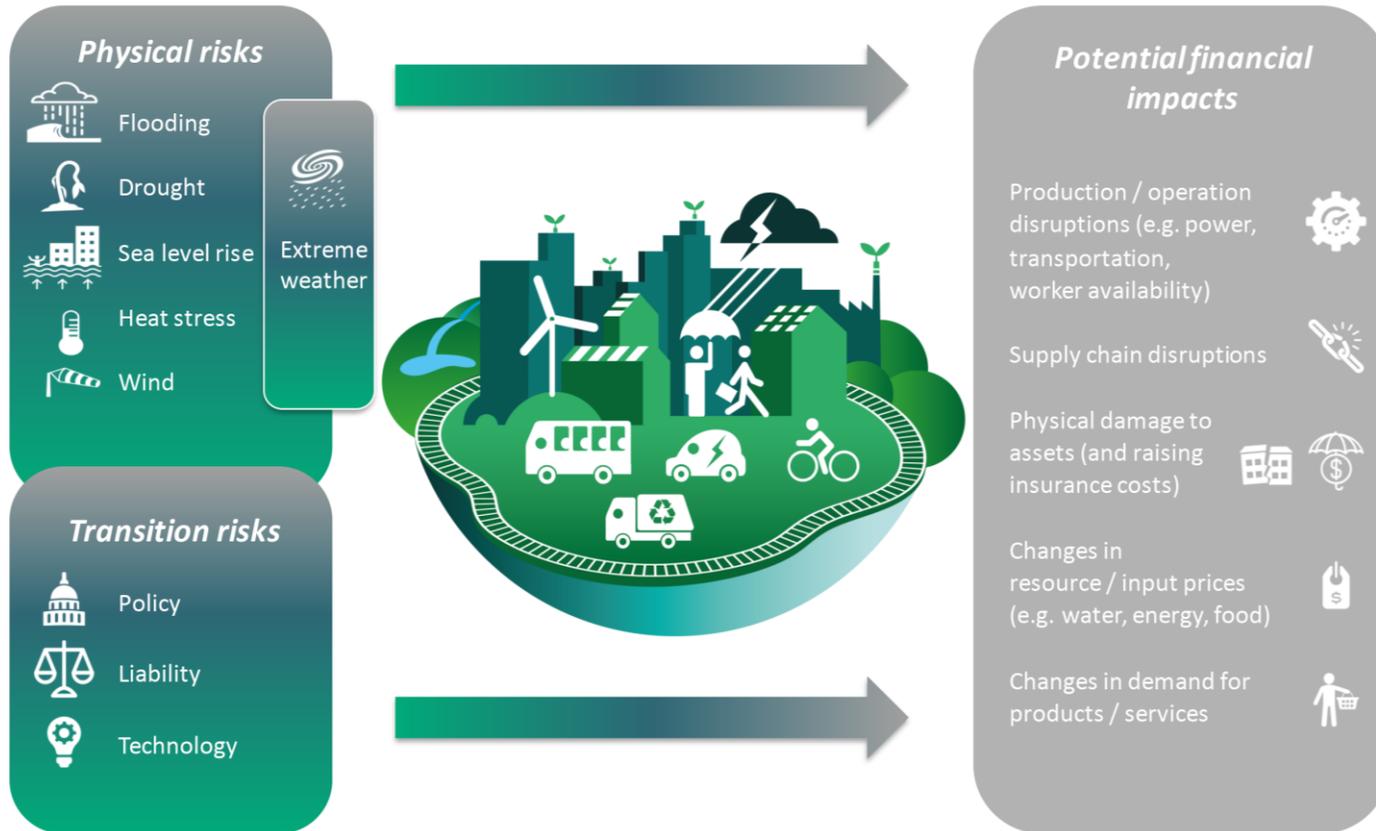
- Takes a low-carbon approach: ~20% of companies in the portfolio are committed to net-zero.

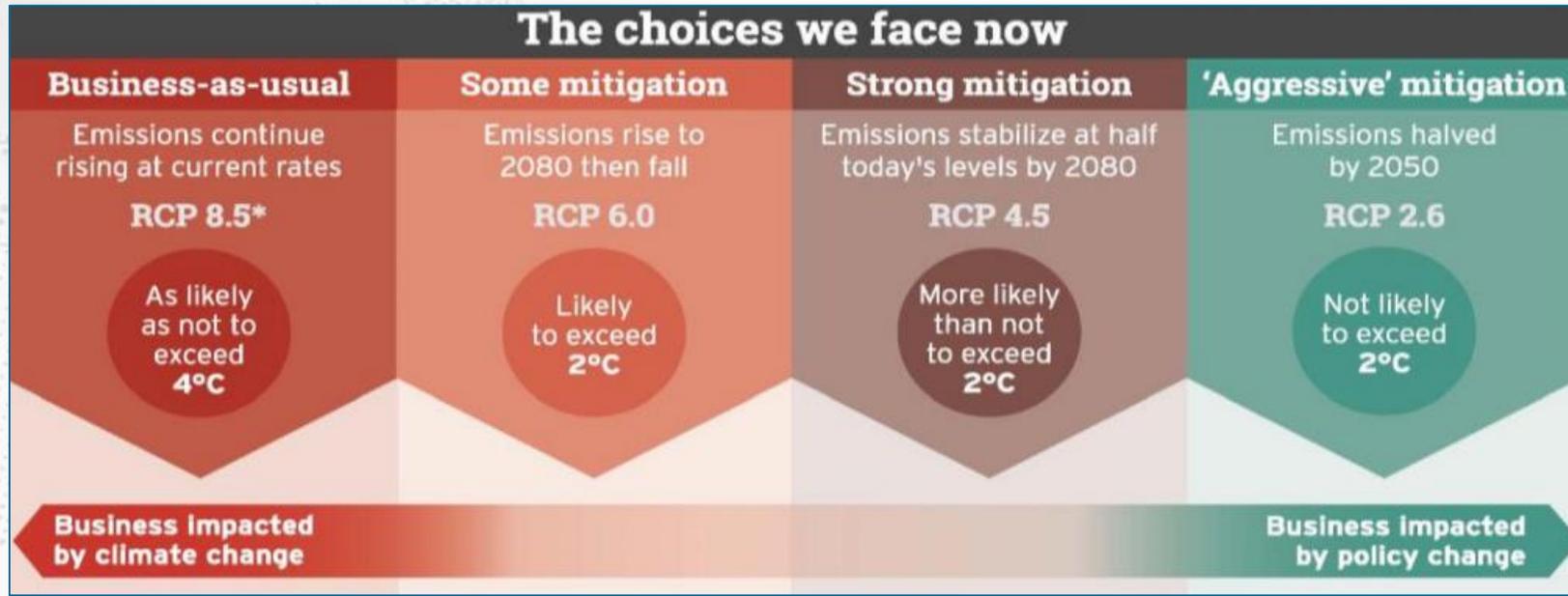


### Sustainability Fund

- Focused on resource efficiency, renewables, sustainable transport and environmental services.
- Generated 4,000MWh of renewable energy and avoided 218,000 tons of GHGs.

# Risks: incoming via physical & transition risks

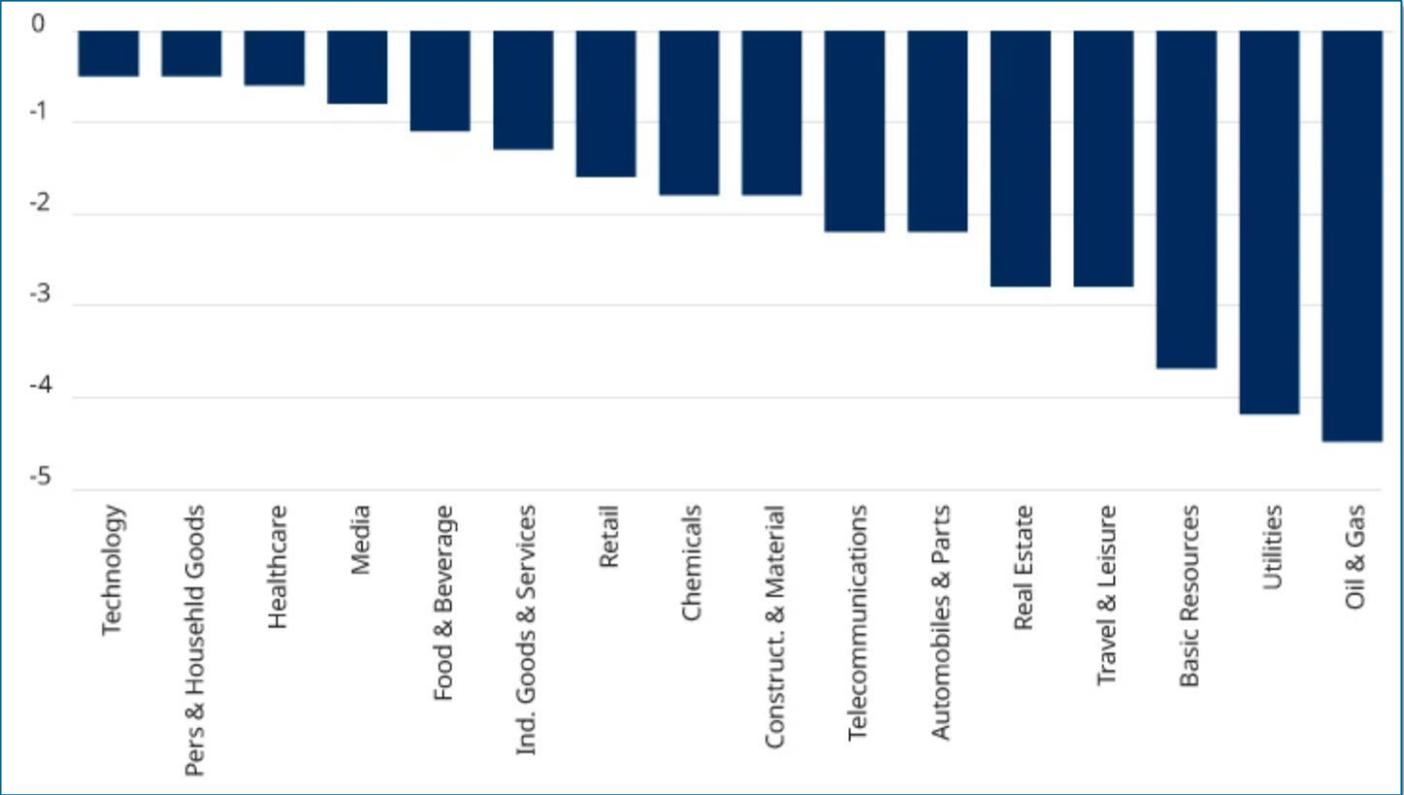




Source: TCFD



# Physical risk: variation across sectors



Source: Schroders





Americas

## Drought may force Brazil to ration power, says Vice President Mourao

2 minute read

Reuters

Economics

## Water Crisis Is Compounding an Inflation Time Bomb in Brazil

By Martha Viotti Beck  
28 June 2021, 09:00 BST

FEATURE

## How Brazil's drought impacts the ICT industry

Bnamericas

Published: Thursday, June 03, 2021

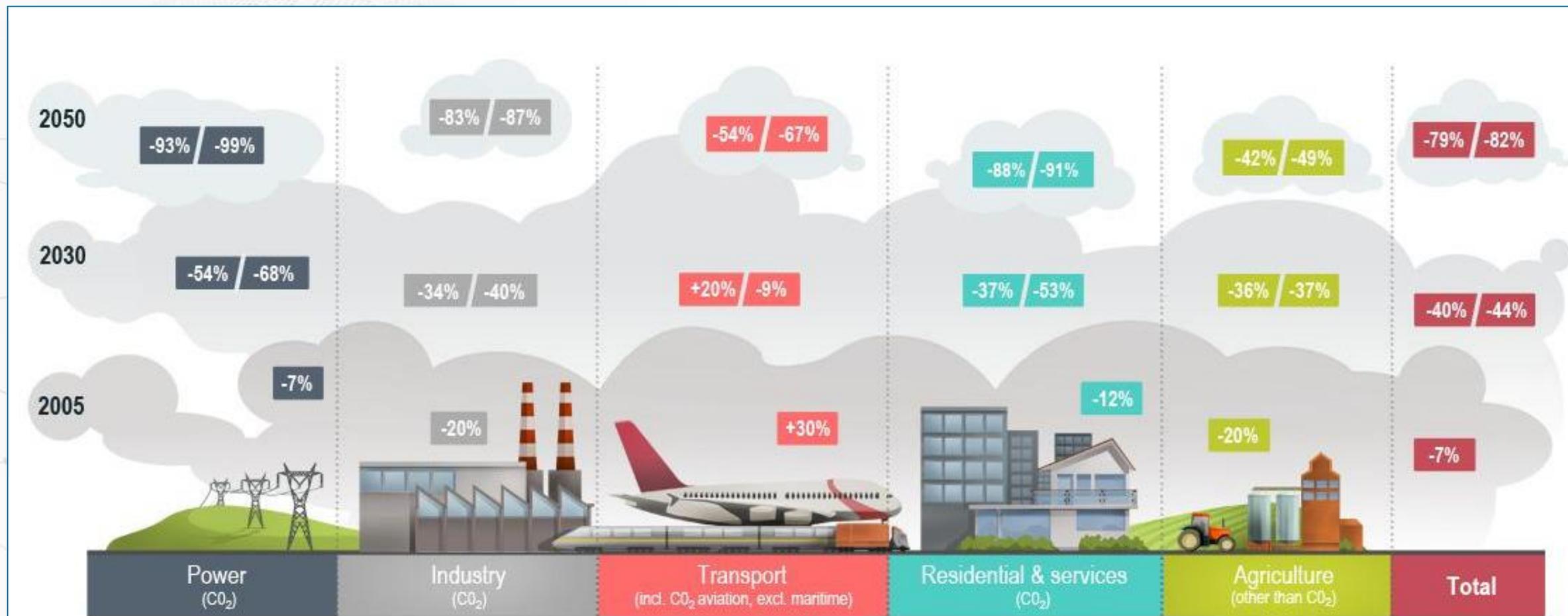


Source: Bloomberg, Reuters, BN Americas



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# Transition risk: Different across sectors



Source: EU



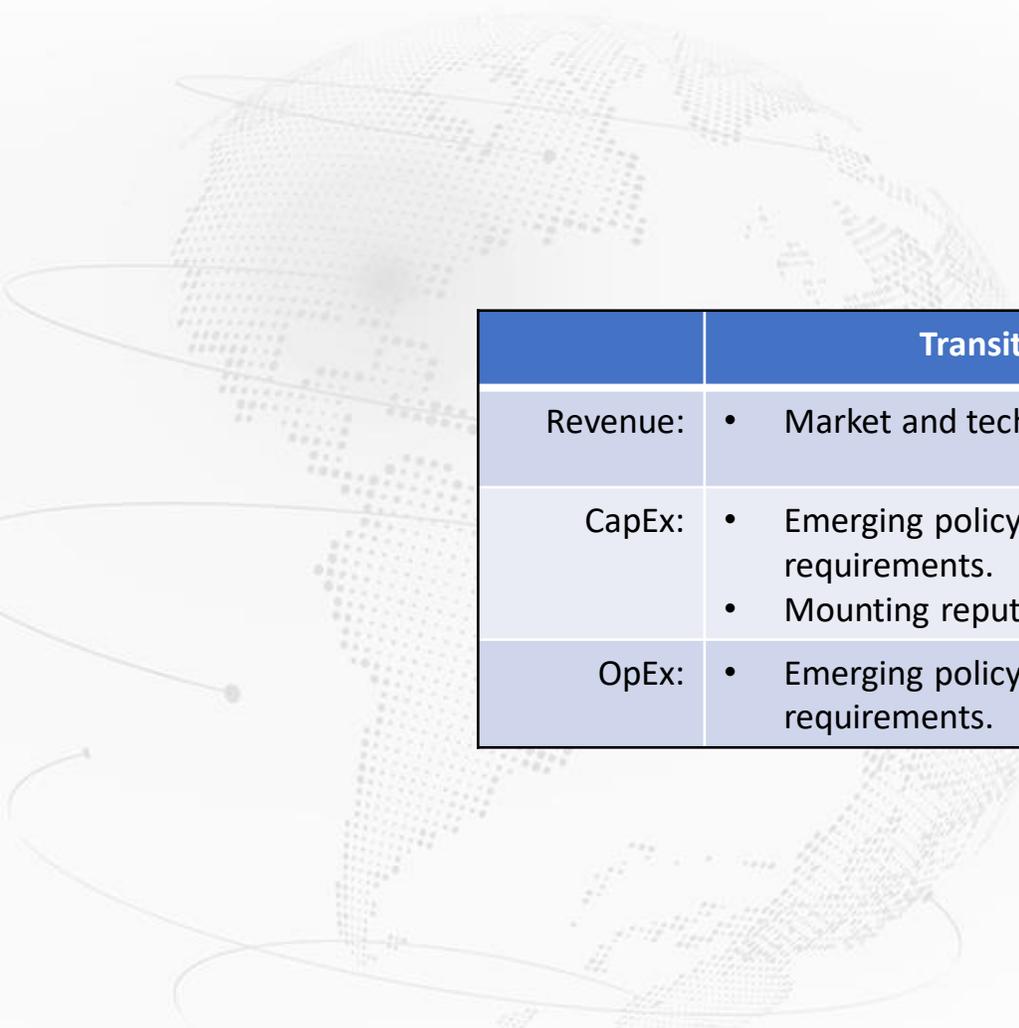


1. Assess impact at the sector level.
2. Re-apply at the asset level.
3. Incorporate into financial models.

Sub-sector	Asset Types	Geo	Paris Agreement (NDCs)		2oC Scenario	
			2030	2040	2030	2040
Coal	Coal-fired power plants	U.S.	Med Risk	Med Risk	High Risk	High Risk
		EU	Med Risk	High Risk	High Risk	High Risk
		India	Med Risk	Med Risk	Med Risk	High Risk
Gas	Gas-fired power plants	U.S.	Minimal	Minimal	Low Risk	Med Risk
		EU	Low Risk	Low Risk	Med Risk	High Risk
		India	Minimal	Minimal	Minimal	Minimal
Nuclear	Nuclear power plants	U.S.	Med Risk	Med Risk	Low Risk	Low Risk
		EU	Med Risk	Low Risk	Low Risk	Low Risk
		India	Med Opp	Med Opp	Med Opp	Med Opp
Renewables	Utility-scale wind and solar farms	U.S.	Med Opp	Med Opp	Med Opp	High Opp
		EU	Med Opp	Med Opp	Med Opp	Med Opp
		India	Med Opp	High Opp	Med Opp	High Opp
Oil	Pipelines and associated midstream infra	U.S.	Med Risk	Med Risk	Med Risk	High Risk
		EU	Med Risk	Med Risk	Med Risk	High Risk
		India	Minimal	Minimal	Minimal	Low Risk
Gas	Gas distribution infrastructure	U.S.	Low Risk	Low Risk	Med Risk	High Risk
		EU	Med Risk	Med Risk	Med Risk	High Risk
		India	Low Risk	Low Risk	Low Risk	Low Risk
Aviation	Airports	U.S.	Minimal	Minimal	Minimal	Minimal
		EU	Minimal	Minimal	Med Risk	Med Risk
		India	Minimal	Minimal	Med Risk	Med Risk
Roads	Toll roads	U.S.	Minimal	Minimal	Minimal	Low Risk
		EU	Minimal	Minimal	Minimal	Low Risk
		India	Low Risk	Low Risk	Low Risk	Med Risk
Shipping	Ports	U.S.	Minimal	Minimal	Minimal	Minimal
		EU	Minimal	Minimal	Minimal	Minimal
		India	Minimal	Minimal	Minimal	Minimal
Mass Transit Systems	Railways, subways, trams (excludes bus)	U.S.	Low Opp	Low Opp	Low Opp	Low Opp
		EU	Minimal	Minimal	Minimal	Low Opp
		India	Minimal	Minimal	Minimal	Low Opp
Buildings	Hospitals, schools, nursing homes, mills	U.S.	Minimal	Minimal	Minimal	Minimal
		EU	Minimal	Minimal	Minimal	Minimal
		India	Minimal	Minimal	Minimal	Low Risk
Water utilities	Water treatment, desalination facilities	U.S.	Minimal	Minimal	Minimal	Minimal
		EU	Minimal	Minimal	Minimal	Minimal
		India	Minimal	Minimal	Minimal	Minimal
Telecommunications infrastructure	Television broadcast towers, wireless communications towers, cable systems, satellite networks	U.S.	Minimal	Minimal	Minimal	Minimal
		EU	Minimal	Minimal	Minimal	Minimal
		India	Minimal	Minimal	Minimal	Minimal

Source: University of Cambridge





	Transition risk	Financial drivers
Revenue:	<ul style="list-style-type: none"><li>• Market and technology shifts.</li></ul>	<ul style="list-style-type: none"><li>• Consumer and market demand (e.g. preference for electric cars).</li></ul>
CapEx:	<ul style="list-style-type: none"><li>• Emerging policy and legal requirements.</li><li>• Mounting reputational pressures.</li></ul>	<ul style="list-style-type: none"><li>• Property, plant or equipment related costs (e.g. emission reduction technologies).</li></ul>
OpEx:	<ul style="list-style-type: none"><li>• Emerging policy and legal requirements.</li></ul>	<ul style="list-style-type: none"><li>• Regulatory and compliance costs (e.g. emissions monitoring, carbon pricing).</li></ul>

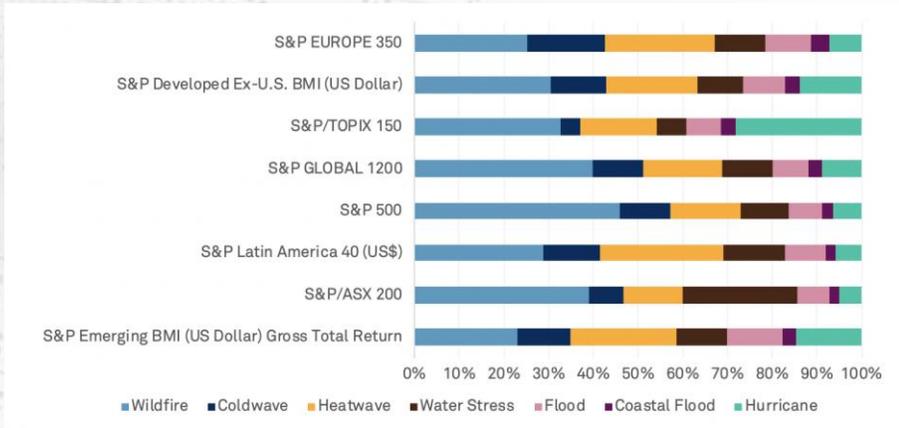
= “Stranded assets”



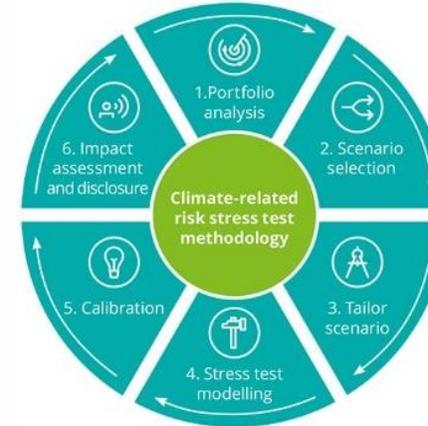
# Risk data: multiple providers



## Climate risk ratings

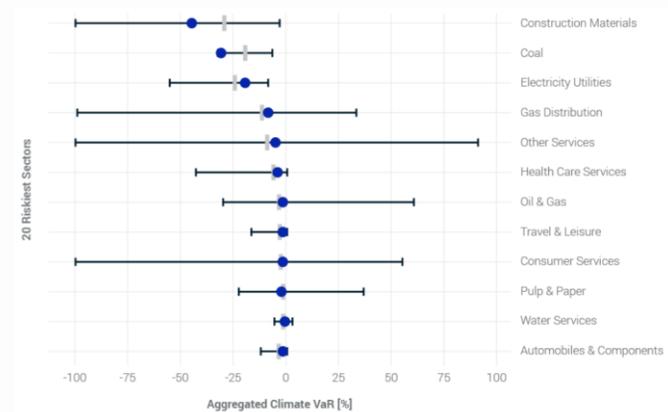


## Scenario analysis & stress testing



Biodiversity measurement

Source: S&P



Value at risk





Survey by Previc with pension funds:

- 80% believe that the integration of ESG improves the financial return of investments
- 70% believe that there are not enough ESG-friendly options to compose the portfolio -> **best-in-class + corporate engagement**
- 40% do not see demand by beneficiaries -> **member engagement**

Vivest (former Funcesp) with R\$ 30bi in AUM began to integrate ESG in fixed income and real estate; to be rolled out in credit. Redrafting voting policy to include ESG.

Funccef is in its final phase of defining ESG strategy and themes

*"Climate change is the Tragedy of the (time) Horizons; once climate change becomes a defining issue for financial stability, it may already be too late"*

*- Mark Carney, Financial Stability Board*



*'Both climate change and the transition to a carbon neutral economy pose substantial challenges for the economy and the financial system, with the potential to affect growth and inflation.'*

*- Christine Lagarde, European Central Bank*





## Significant rollout of regulation: worldwide



Resolution 4661/18 requires private pension funds to consider ESG risks; Instruction 6 indicates that ESG assessment should be conducted at a sector level



Fed recognised that climate change “may cause investors to update their perceptions of the value of assets ”.



Pension funds must publish their impact on climate.



Financial products must disclose how they manage sustainability risks and impact on society and environment.



Financial institutions will need to disclose environment-related information



Develop **consistent** climate-related financial risk **disclosures** for use by companies in providing information to investors, lenders, and insurance underwriters in understanding **material risks**.



# Materiality: double materiality



Source: European Commission



## G7 agree on 'historic steps' to make climate reporting mandatory

By Matt Mace | edie.net

7 juin 2021



Source: Euractive



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## Sustainable finance regulation: report



Source: TCFD



## Sustainable finance regulation: risk mitigation

- Insurance stress test (BoE, 2019)
- Financial sector biodiversity stress test (DNB, 2020)
- Top-down, economy-wide stress test (ECB, 2021)
- Banking stress test (BdF, 2021)
- Banking stress test (BoE, 2021)
- Biannual financial sector-wide stress test (BoE, 2022)
- Bottom-up, supervisory stress test for individual banks (ECB 2022)
- Own ECB balance sheet stress test (ECB 2022)



## Sustainable finance regulation: risk mitigation

### ECB economy-wide stress test (23 Sept '21)

- Physical risks over a 30-year time horizon; 4m firms worldwide and 1,600 euro banks under 3 climate scenarios
- Findings:
- flooding is the primary risk in the north and east; heat stress and wildfires affect southern areas; **risk is concentrated in certain sectors - agriculture, water supply, electricity and gas, and mining.**

### New York Fed researchers (24 Sept '21)

- Transition risk for banking sector
- 27 banks, account for 80% of oil and gas loan market share
- E.g. **Citi would have needed to raise to \$73 billion last year to restore a prudential capital ratio under the climate stress scenario**



The tests...may lead financial institutions to look more closely at whether they need to hold more capital to cover potential losses from climate-change risks.

In the longer term, we expect climate stress tests to feed into prudential capital requirements.

**More financial institutions are likely to start shifting their balance sheets away from some of the sectors most exposed to climate-change risks, such as manufacturing, electricity, construction, transport and real estate.**

- Fitch Ratings



Regulators are conducting ‘ESG diagnosis’:

- Define an ‘ESG standards’
- Initial review of the market
- Facilitated training to identify ‘state of affairs’ as well as barriers
- Redefine expectations of next steps
- Training for regulator and financial institutions on global best practices, next steps in that jurisdiction and how to address key gaps



The graphic features a background image of a snow-capped mountain range under a clear sky. The text is overlaid on this image. At the top left is the PRI logo. In the center is the UN Environment Programme and Finance Initiative logo. At the top right is the text 'In partnership with:' followed by the WWF and Global Optimism logos. The main title is 'Net-Zero Asset Owner Alliance 2025 Target Setting Protocol'. Below this, three key points are listed: '16 members announce firm targets', '1.5°C based on science', and 'Annual Progress report'. At the bottom left is the hashtag '#netzero-finance' and at the bottom right is the website 'unepfi.org/net-zero-alliance'.

**PRI** Principles for Responsible Investment

**UN** environment programme | finance initiative

In partnership with: **WWF** GLOBAL OPTIMISM

## Net-Zero Asset Owner Alliance 2025 Target Setting Protocol

**16 members**  
announce  
firm targets

**1.5°C**  
based on  
science

**Annual**  
Progress  
report

#netzero-finance

[unepfi.org/net-zero-alliance](https://unepfi.org/net-zero-alliance)





## 3º SEMINÁRIO INTERNACIONAL DE PREVIDÊNCIA COMPLEMENTAR

**Thanks!**

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Realização:



Patrocínio:



Apoio:

