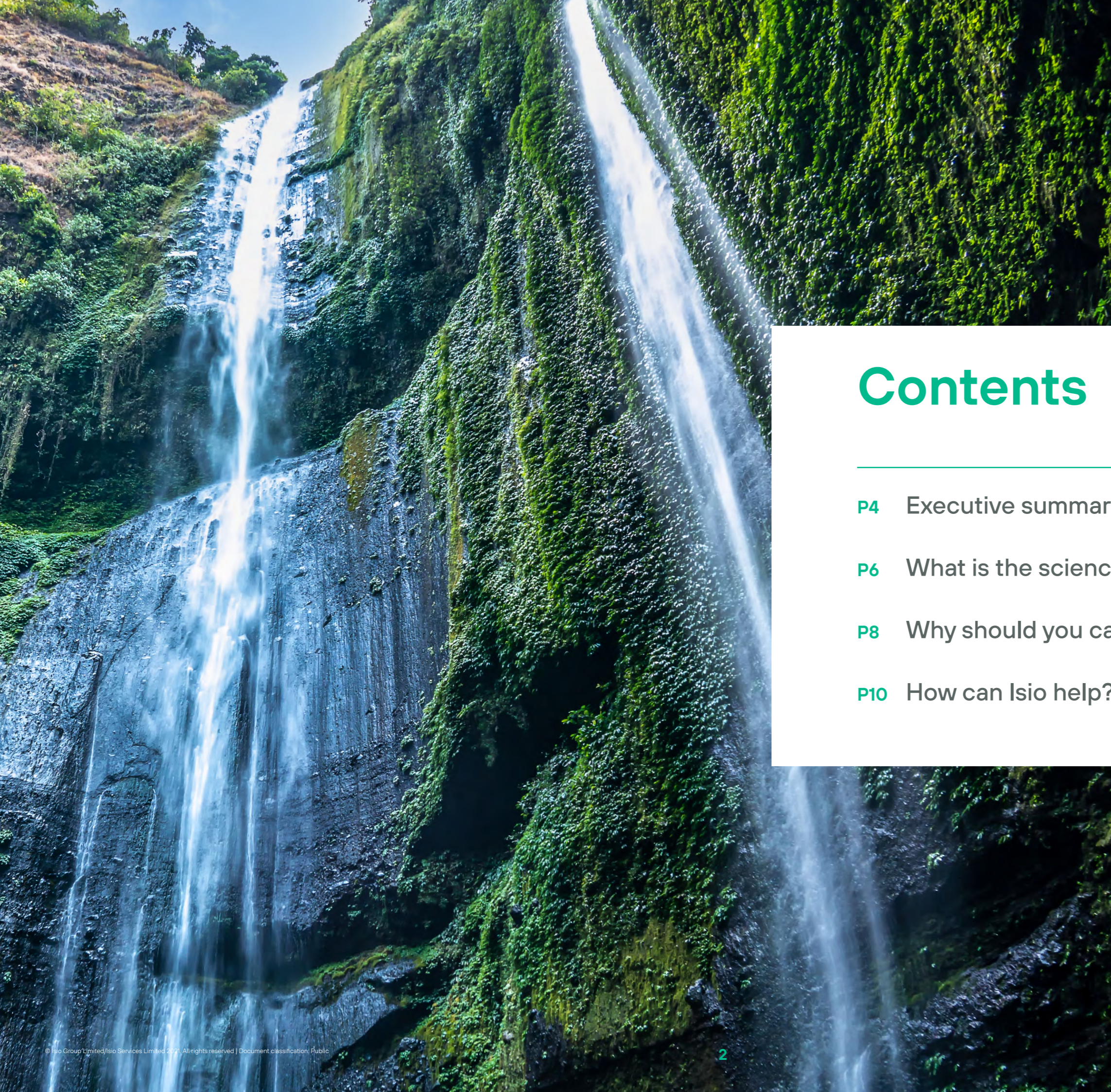






Climate change and your portfolio – the time to act is now!

How can Isio support you on
your climate journey?

isio.



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Climate change is at the top of everyone's agenda, from investors, to governments and companies. As the climate change landscape continues to evolve, we set out the latest science, climate-related risks and opportunities for investors, and how Isio can help you on your "Climate Impact Journey".

Executive Summary

We start with the question...

What is the science telling us?

It is not up for debate anymore and the verdict is loud and clear. The planet is warming to unsustainable levels as a direct result of human action. The recent 2021 report released by the IPCC (Intergovernmental Panel on Climate Change) sets out an urgent call to humanity to address the climate emergency, with the impacts of climate change already widespread and accelerating.

But how does this relate to investments...

Why should you care as an investor?

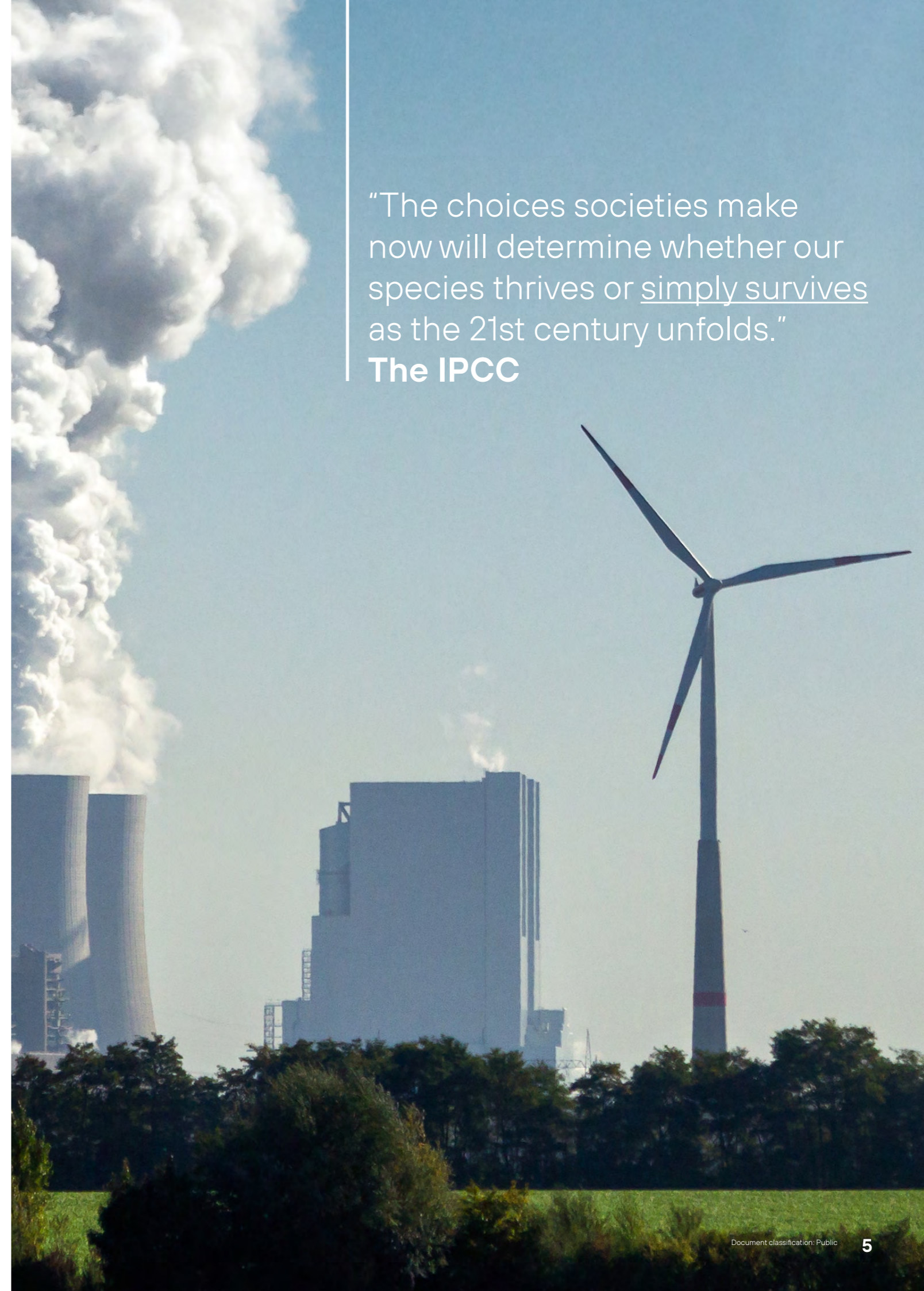
Because it is the right thing to do – not just from a moral point of view but also an economic one. Estimates vary, but under business as usual, climate change could cost up to 20% of global GDP each year (Stern). Conversely, an orderly transition to meet the Paris Agreement could bring about net benefits for the global economy in the near-term.

Investors are under increasing scrutiny from regulators and peer groups to help bring about the transition to a lower carbon economy. The transition and physical risks from climate change will mean risks and opportunities for portfolios, which investors should be aware of.

So, what should you do as an investor...

How can we help?

We can help you plan and execute your "Climate Impact Journey". This would start with education on the science and economics of climate change which will help you set bespoke climate objectives. We can then advise you on the design and implementation of an investment strategy in line with your objectives.

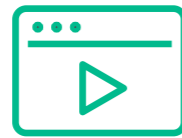


"The choices societies make now will determine whether our species thrives or simply survives as the 21st century unfolds."

The IPCC

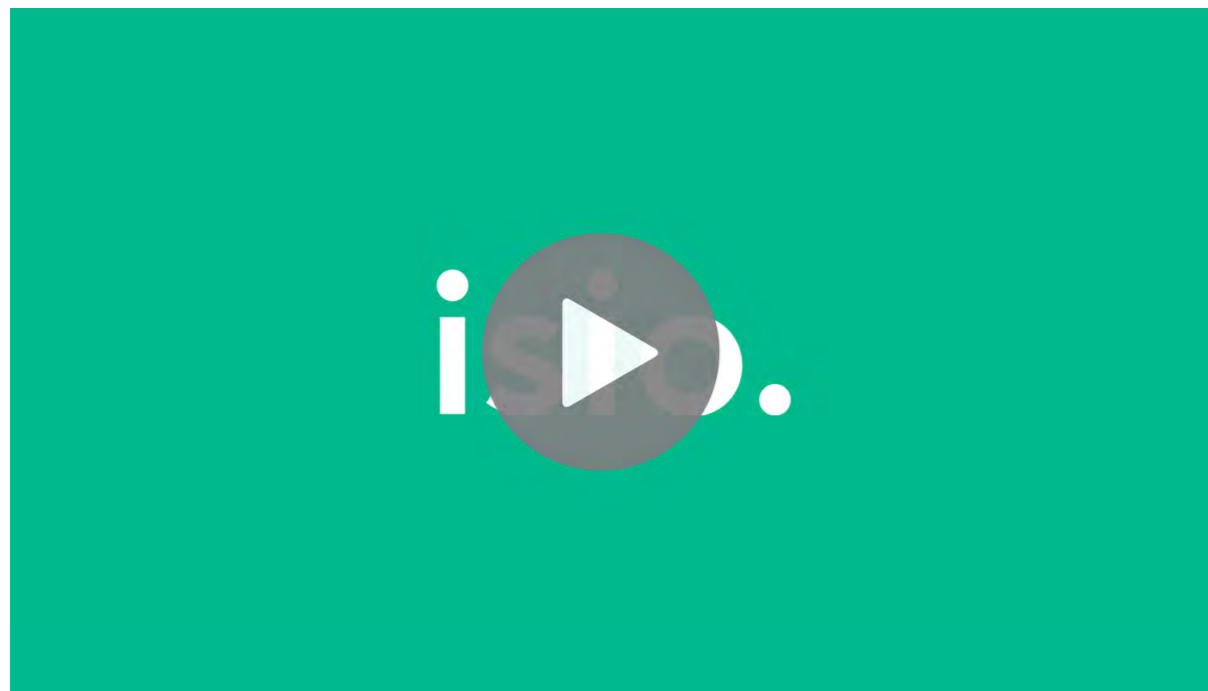
What is the science telling us?

Climate science is not necessarily straightforward given the uncertainty within climate models, but the link between human activity and climate change is unequivocal.



Listen to our experts Cadi and Julia explain why climate change should matter to you.

5 minute watch!



The video provides a quick summary of the facts. But in short, the 2021 IPCC report sets out a **code red for humanity** as continued greenhouse gas (GHG) emissions (from a reliance on fossil fuels and intensive farming, compounded by deforestation) is resulting in rising global temperatures, with **catastrophic impacts**. Shifting weather patterns and extreme weather events are set to accelerate, as seen for example in the recent wildfires; tearing apart communities, damaging natural capital returns, and destroying company offset opportunities.

Business as usual could mean up to 20% of GDP losses each year, with the image below depicting the costs of the ten worst climatic events of 2020.



Major equity indices such as the FTSE 100 and S&P 500 indices are aligned to 3.1°C and 3.0°C pathways respectively.

We need to respond by **decarbonising** rapidly to safeguard the planet and achieve the Paris Agreement (global temperature rise kept below 2°C with ambitions towards 1.5°C above pre-industrial levels).

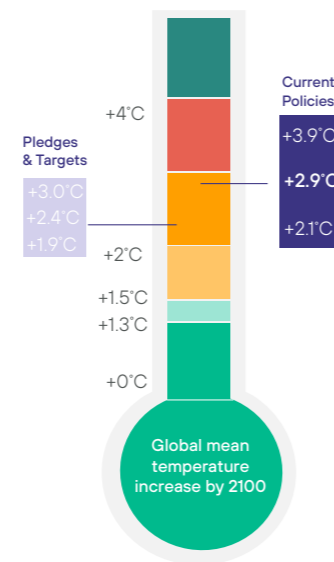
Why should you care as an investor?

Investors can no longer afford to ignore climate change. We highlight below four key reasons why.



Regulatory Landscape

Current global policy commitments would result in temperatures rising by 2.9°C above pre-industrial levels by the end of the century, which is insufficient to meet the Paris Agreement objective. In November 2021, global governments will meet in Glasgow and are expected to produce a slew of new global climate legislation, to narrow the gap to a well below 2°C or 1.5°C scenario.



Ambitious Action*

- 1.5°C 2025-2044
- 2°C Avoided
- 3°C Avoided
- 4°C Avoided

High-carbon pathway**

- 1.5°C 2018-2037
- 2°C 2032-2051
- 3°C 2055-2074
- 4°C 2075-2094

Notes: *SSP1-1.9 **SSP5-8.5 Source: IPCC 2108.05

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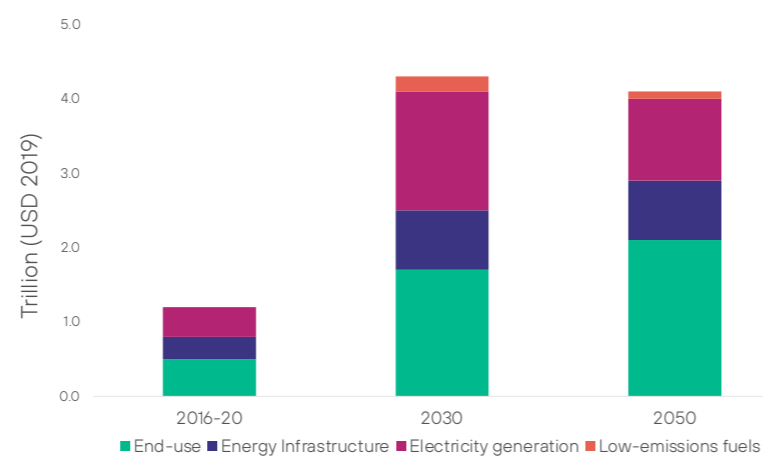
Risks - Physical & Transition

Physical risks arise from acute and extreme weather events and chronic shifts in weather patterns. Where companies do not invest in adaptation (and perhaps even if they do), climatic impacts could lower company revenues and increase costs.

Transition risks arise from the transition to a lower carbon economy. Companies will need to re-align processes and policies with low carbon practices, e.g. carbon efficient machinery.

Climate Opportunities

As the world seeks to decarbonise and adapt to the physical impacts from climate change, it is important to identify those companies or assets best placed to profit from such opportunities. For example, low carbon transport, or profiting from shifting agricultural zones and trade routes. There is a trillion dollar opportunity from clean energy investment alone (IEA, see image)



Collective Action

There is market momentum, with investor initiatives engaging with the world's largest polluters, sharing resources, designing frameworks, and agreeing collective action. There is a growing expectation from all responsible investors to address climate risk, in an environment where inaction could lead to reputational damage and in some cases legal action.



“Believe in the power of your own voice. The more noise you make, the more accountability you demand from your leaders, the more our world will change for the better.”

Al Gore, Former US Vice President

How can we help?

We have outlined below how we can help investors implement a “Climate Impact Journey”.



Agree beliefs, policies & targets

- Expand ESG beliefs and policies to include practical climate-specific targets



Implementation

- Consider any potential changes to the manager line-up in light of changes to the investment strategy
- Set and review climate targets within each mandate



Education & training

- Sessions on climate change and its relevance to investors



Consider strategy changes targets

- Develop an investment strategy considering the current portfolio, your objectives, and climate-related risks and opportunities
- This will typically include considering new climate friendly asset classes such as renewables and forestry



Monitoring & reporting

- Regular reporting of agreed climate metrics against targets
- Support on regulatory requirements such as TCFD and Implementation Statements



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This paper predates the recent FCA anti-greenwashing regulatory changes effective from 31st May 2024.

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