At Aberdeen Standard Investments we invest responsibly, which is why environmental, social and governance (ESG) considerations underpin all our investment activities. Our goal is to make a difference – for our clients, the companies in which we invest and the wider world. A key part of our role is to keep our clients up-to-date with our thinking on the most pressing issues facing our planet. Here, Eva Cairns, ESG Investment Analyst, addresses arguably one of the biggest – climate change.

Our climate is changing

In recent years, we have seen an increase in costly extreme weather events such as storms, wildfires and floods. Natural disasters in 2017 caused overall losses of US$340 billion\(^1\) - the second-highest annual loss ever. At the same time, we are living through the hottest years on record.

A huge task ahead

A growing population is causing rising demand for energy and food. At present, that means burning more fossil fuels. This comes with an increase in greenhouse gas emissions (GHG), a major cause of rising temperatures. GHG emissions hit a record high in 2018. As they continue to rise in many regions, the fallout could intensify.

In an attempt to tackle the crisis, 180 nations signed the Paris Agreement in 2015. This accord pledges to limit temperature rises to “well below” 2°C of pre-industrial levels, and ideally aiming for 1.5°C.

To achieve this, however, global emissions must decline by 45% by 2030, and reach net zero by 2050. With current policies, we are on a trajectory for over 3°C warming by 2100.\(^2\)

“Climate-related risks to health, livelihoods, food security, water supply, human security and economic growth are projected to increase with global warming of 1.5°C and increase further with 2°C”

Special Report on Global Warming of 1.5°C, IPCC, 2018

The scale of the climate change challenge is immense, the urgency of action unprecedented. As asset managers, we have a vital role to help address these problems. This presents challenges – but also a wealth of opportunities for investors.

On a trajectory for over 3°C warming by 2100

Natural disasters caused US$340 billion losses in 2017

A Paris-aligned energy transition requires around US$3 trillion in investment every year

Global warming pathways

Potential future emission path fans show range between low and high estimates in gigatonnes of carbon dioxide equivalents (GtCO2e) of following policies, figures in brackets denote temperature change versus pre-industrial levels.

- No climate policies (4.1 - 4.8 °C)
- Current policies (3.1 - 3.7 °C)
- National pledges within Paris Agreement (2.3 - 3.2 °C)
- 2 °C pathway
- 1.5 °C pathway

Source: Climate Action Tracker (as of 2018)

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\(^1\)NatCat Service, MunichRe, accessed July 14 2019

\(^2\)Special Report on Global Warming of 1.5°C, IPCC, October 2018
Challenges and opportunities

The global economy needs to be decarbonised urgently. Nations will have to dramatically reduce the level of fossil fuel in the energy mix. Many have already started to do so. In China, for example, 20% of energy is due to come from non-fossil fuel sources by 2030. Even more ambitious policies are in place in the EU and UK. The transition undoubtedly presents challenges. As countries strengthen policies to reach Paris agreement goals, transition risks are becoming more material including:

- rising carbon prices - one of the most effective ways to encourage switching to cheaper low carbon sources
- stranded asset risk - where carbon-intensive fossil fuels become obsolete
- reputational risk – businesses that fail to demonstrate action will incur public and shareholder censure.

On the other hand, the transition also brings opportunities. Considerable sums of private capital are needed for the shift towards a low-carbon economy. The International Energy Agency (IEA) estimates that achieving a Paris-aligned energy transition requires around US$3 trillion in investment every year.

The growth expected of low carbon energy sources and technology is considerable, as shown in the graph above. Areas of opportunity for investors include:

- renewable energy
- energy efficiency & storage
- electrification of transport.

Then there is the opportunity to invest in climate-resilient infrastructure and technology.

For our part, assessing the risks and opportunities of climate change forms a core component of our investment research and approach to environmental, social and governance (ESG) integration. Through engagement, we can influence and channel our capital into businesses whose targets and strategies are aligned with the goals of the Paris agreement. Further, we collaborate with others, such as the Institutional Investors Group on Climate Change, to help effect change and support better disclosure.

Final thoughts...

Climate change is one of the most significant challenges of the 21st century and has big implications for investors. Countries have started to act. The energy transition is underway in many parts of the world. We are seeing policy changes, falling costs of renewable energy and a change in public perception. But we all need to do more to meet the targets set out in the Paris agreement. While challenging, this will create huge opportunities for businesses, economies and investors. The price for inaction, however, will be immeasurable.

Note: the impact of climate-related policies on emissions is highlighted in the ASI research paper ‘Going Green’ and the influence of climate change on asset allocation is explored in more detail in our paper ‘Strategic Asset Allocation: ESG’s new frontier’.

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<th>Energy transition growth scenarios</th>
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<td><strong>Wind and Solar PV generation</strong></td>
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For a more in-depth look at this vitally important topic, please go to our website: [https://www.aberdeenstandard.com/docs?edid=a91618f3-cf62-45ae-b744-4d581245b4bb](https://www.aberdeenstandard.com/docs?edid=a91618f3-cf62-45ae-b744-4d581245b4bb)

Eva Cairns
ESG Investment Analyst
Climate Change

“As asset managers, we have a critical role to play in providing finance for the transition to a low-carbon economy.”
Responsible Investing at Aberdeen Standard Investments

Everything’s Future – Invest today. Change tomorrow.

ESG considerations underpin all our investment activities. Our goal is to make a difference – for our clients, society and the wider world. ESG investment is about doing the right thing, while aiming to deliver long-term financial stability for our clients.

Active engagement

ESG investment is about active engagement, with the goal of improving the performance of assets we manage around the world. To do this, we have a team of over 50 ESG specialists spanning the globe. This on-the-ground resource means we can fully understand the investments we make for our clients, building detailed pictures of companies in which we invest and the markets in which we operate.

Responsible investing – part of our DNA since 1992

“By making ESG central to our investment capabilities, we look to deliver robust financial outcomes for our clients – as well as actively contributing to a fairer, more sustainable world.”

Euan Stirling, Global Head of Stewardship and ESG Investment

Our commitment

It starts with us, that’s why on top of our financial responsibilities to our clients, as a company we have committed to:

- eliminate all feasible single-use plastics in our buildings
- procure 100% renewable energy in our buildings
- cut our greenhouse gas emissions from energy use by 50% by 2030

We want to go further though, and while we continue to reduce, we have also pledged to offset our entire carbon footprint to become carbon neutral in 2020.

Visit us online

For further information, please go to aberdeenstandard.com
The value of investments and the income from them can go down as well as up and your clients may get back less than the amount invested.

Important information

Investment involves risk. The value of investments, and the income from them, can go down as well as up and an investor may get back less than the amount invested. Past performance is not a guide to future results. Tax treatment depends on the individual circumstances of each investor and may be subject to change in the future. We recommend that you seek financial advice prior to making an investment decision.

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