

# Climate Change

## Fact Sheet for Investors



### The Problem

Climate change is a critical threat to the global economy as well as to all life on our planet.

Climate scientists widely agree human activities, particularly carbon emissions, are the primary cause. Realizing the perilous state of the environment, world leaders finalized the Paris Agreement (COP21) in December 2015, a landmark climate pact where signatories from nearly 200 countries made a commitment to keep the rise in global temperatures below 2°C. Although warming greater than 2°C above the pre-industrial average is referred to as “dangerous climate change,” many scientists now believe the environmental and social risks associated with dangerous climate change will happen at 1°C.

In October of 2018, the Intergovernmental Panel on Climate Change (IPCC) published a special report on the impacts of 1.5°C of global warming above pre-industrial levels. The report indicates human activities are estimated to have already caused approximately 1.0°C of warming, and we are on track to surpass 1.5°C as early as 2030 if greenhouse gas emissions continue at their current rate. The IPCC’s models show surpassing the 1.5°C threshold will likely to lead to catastrophic environmental, social, and economic impacts.

From the 2018 IPCC report, the Food and Agriculture’s (FAO) Work on Climate Change also notes, in 1.5°C scenario, that 122 million additional people could experience extreme poverty by 2030, mainly due to higher food prices and declining health. The State of Food Security and Nutrition in the World (SOFI) cites the changing climate as a key driver behind the sudden rise in the global number of hungry people - up 17 million to 821 million in 2017. Global warming is already impacting agriculture and changing weather patterns are exacerbating the issue of water scarcity in both the developed and developing world.

Environmental disasters associated with weather and climate change are already becoming more frequent and occurring closer to home. In 2017 alone, the U.S experienced a historic number of severe weather and climate related disasters such as tropical cyclones, storms, floods, drought, wildfires and a major crop freeze. The cumulative cost of these events reportedly exceeded \$300 billion USD.

### Your Investments

Climate-related events disrupt investment markets and erode companies’ long-term profitability. Mercer, an investment consulting firm, concluded that continued delay of climate change policy action could cost investors trillions of dollars in the coming decades.

The extent of future climate change depends on what we do now to reduce emissions. Responsible investors in Canada are seeking investment options that reduce the impact of climate change and provide competitive financial returns.

As we are a major producer and exporter of fossil fuels, high carbon industries play a large role in the Canadian economy. This presents a unique challenge to Canadian investors.

Organizations such as Carbon Tracker, warn that current estimates of fossil fuel reserves being accounted for by global energy companies are five times the allowable carbon budget necessary if we are to limit our exposure to climate risk. Regulatory and market responses to climate change and the transition to a low-carbon economy make it imperative that investors assess the financial impact of energy companies reducing their reserves in the future.

By aligning investment decisions with efforts to reduce emissions, Canadians can help to mitigate climate change while reducing their exposure to associated risks.

Many Canadians invest in greenhouse gas emitters in their RRSPs, pension plans and other investments. As an investor, you can help to reduce the effects of climate change through your investment decisions.



Photo courtesy of Gerard Van der Leun on Flickr

## Canadian Investors Have Options

### Best-of-Sector Investments

Your advisor can help you choose mutual funds and other investments that invest in companies with environmental and social policies and practices that address issues such as greenhouse gas management, reduction targets, emissions intensities and water use.

### Direct Shareholder Action

Several mutual fund companies use shareholder engagement strategies, such as meeting with senior executives at oil and gas companies, to encourage better practices. Canada's responsible mutual fund companies are among the world's leaders in bringing forward shareholder proposals to press companies to consider the environmental, social and financial risks associated with oil sands production.

### Environmental or sustainability-themed Investments

To limit global warming and avoid the worst impacts of climate change, the International Energy Agency estimates that an additional \$44 trillion in clean energy investment is needed through 2050. That's an average of \$1.3 trillion per year over the next 34 years compared to a 'business as usual' scenario. Through mutual funds or other investments, you can invest in companies involved in energy efficiency, renewable energy, green infrastructure, clean fuels, low-carbon transportation infrastructure, and companies providing adaptive solutions to climate change.

### Low Carbon and Fossil Fuel-Free Investments

Carbon pricing has led many financial analysts, environmental campaigners, and others to warn about the risk of 'stranded assets' in the energy sector. Fossil fuel assets can become 'stranded' as production becomes unprofitable. In Canada, low oil prices, the possibility of increased regulation and public pressure, both domestic and international, poses additional risks.

### Green Bonds

Investors can invest in climate-related bonds which help mitigate climate change through clean tech, improved energy efficiency initiatives, transit projects and infrastructure. According to a 2017 report by the Climate Bonds Initiative \$895 billion USD in these bonds had been issued worldwide. More than \$221 billion of those were labelled green bonds.

### Advocacy

Through membership in the Responsible Investment Association, your advisor is supporting our members' public policy initiatives to address global climate change. For more information, visit: [www.riacanada.ca](http://www.riacanada.ca).

*"Done right, carbon abatement is cheap insurance against catastrophic risk – too good a bargain to pass up."*

**-Bloomberg View; Insuring for Global Warming's Surprises; July 31, 2014.**

## For More Information

Follow these links to learn more about climate change and responsible investment.

[Clean Trillion Report](#) (2018, Ceres)

[Climate Change: The Investment Perspective](#) (2016, EY)

[Reporting Climate Resilience: The Challenges Ahead](#) (2018, CDP)



### About the RIA

The Responsible Investment Association (RIA) is Canada's industry association for responsible investment. RIA members include fund companies, financial institutions, asset management firms, asset owners, advisors, research firms, consultants and others who practice and support the incorporation of environmental, social and governance (ESG) factors into investment decisions.

Learn more at [www.riacanada.ca](http://www.riacanada.ca)