



COP23 Event, 15. November 2017

Two Years after Paris: Are Investors on Track?

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Moderator: **Dr. Maximilian Horster**, Managing Director, ISS-Ethix Climate Solutions

Panelists: **Prof. Dr. Lars Tutt**, Department of Finance, Evangelical Church in the Rhineland
Bas Wetzelaer, Responsible Investment Officer, ACTIAM
Dr. Kevin Schaefers, Member of the Steering Board, FERI Cognitive Finance Institute



Dr. Maximilian Horster: *Lars Tutt, how far does climate change affect your organization and how do you deal with that?*

Prof. Dr. Lars Tutt: Why does climate change affect a church? We feel very responsible for the integrity of God's creation. Therefore, it is our obligation to make this planet a place where living is enjoyable also for future generations. This is why climate related investments matter to us. What we have to keep in mind is: We do not work with money that we feel is our own but it is money that is entrusted by our members. With each and every Euro we spend, we have to be able to explain why we spend it in the way we did. And in fact, we are in the position to explain to our members why we spend money in the way we do. And climate sensitivity is a very important matter to all of our members. It is because it directly affects their lives. So it is an important focus although we have to say this is not very new to us. **The integrity leads us to be a conscious investor with regards to ethics and sustainability for a long time.** We have quite a track-record of this. Sustainability and ethical investment is kind of a finger print of church investors.

Dr. Maximilian Horster: *Have you ever received any push back from your members in terms of missing financial return?*

Prof. Dr. Lars Tutt: **I think there is no contradiction between financial return and sustainability. They both supplement each other.** Sustainability leads to a certain strategy that avoids certain risks. Take the example of climate change: You know the discussion about stranded assets. We do not have a problem with stranded assets in our portfolios, because we do not invest in companies that have climate change-linked stranded assets. Sustainability strategy is in line with risk averse strategy. And the church is a very risk averse investor. It is a matter of risk, of revenue, and of reputation.

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Dr. Maximilian Horster: *Bas Wetzelaer, your house has started measuring investment impact early on. How did this come about?*

Bas Wetzelaer: ACTIAM is a Dutch fund and asset manager with more than € 50 billion Assets under management (AUM). Our approach changed a little bit in terms of sustainability, too. We started to integrate negative ESG-criteria in the beginning of this century. Then the financial crisis of 2008, among other drivers, did make a change for us. Our clients not only recognized our financial return but also more and more wondered about the positive ESG impact. To illustrate this point, our clients asked: When buying green or social bonds, how can we know its actual social and environmental impact? Anno 2017 we can provide them with figures regarding “installed renewable energy capacity” or “jobs secured” not only for them but also for us to ensure that we, as an asset manager, keep growing in the industry of sustainable investing.

Dr. Maximilian Horster: *Mr. Schaefers, FERI is not an impact investment house, yet you are an engaged voice when it comes to responsible investments. How does this match?*

Dr. Kevin Schaefers: Indeed, FERI is a traditional asset manager, managing more than 32 billion € for institutional and private investors. But for more than ten years we also offer our clients sustainable and responsible investment solutions. Since 2014, FERI is a signatory of the UN PRI. Sustainability is an important subject for us. **With our think tank, “FERI Cognitive Finance Institute”, we analyze from a more scientific point of view also climate change related issues, such as the transition to a low-carbon economy.**

In my experience, investors take a stronger interest in the subject. It is becoming more and more relevant for them. However, we have to keep in mind that the market size of sustainable investments in Germany is fairly small, at the most 10% of all assets. But it is growing.

Dr. Maximilian Horster: *When you are saying there is growing interest in the subject, is that mainly from families? Do you see this interest also for institutional investors? Are there certain geographies or age groups that have a greater affinity than others?*

Dr. Kevin Schaefers: I advise clients on both sides, institutional investors, such as foundations and churches, and families. Concerning the families, more often women and members of the younger generation are interested in the topic. They actively ask us: **How can we invest climate friendly or decarbonize our portfolio? How can we use our investments as a tool to support the UN Sustainable Development Goals (SDGs)?** Etc. As regards institutional investors, it is worthwhile mentioning that churches in Germany focused on ethical and sustainability criteria in

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their portfolios long before large German asset managers “discovered” this subject. It seems to me, that the development on the institutional side is mainly driven by regulatory requirements. But that’s fine, too.

Dr. Maximilian Horster: *The Evangelical Church in the Rhineland started focusing on impact, on responsibility. The money should ideally help the world or, at least, produce “no harm”. However, now we are talking about risk. I think both, Actiam and FERI, do not have the same mandate to better the world – unless, of course, their clients asked them to do so. But with climate change now being considered a material risk, your mandate should include the topic. Is that a fair view?*

Dr. Kevin Schaefers: Definitely. Climate change has become a financial category for asset managers. The **process of decarbonizing economies includes significant financial risks but investment opportunities as well**. However, from a more philosophical point of view, investing can also be perceived as a human activity. Hence, it should be in line with **minimum ethical standards**, just like other human activities and interactions. In my opinion, investing is not something outside the realm of ethics. If sustainable investing is financially rewarding, even better, but in some cases conflicts between financial and sustainability goals are possible.

Prof. Dr. Lars Tutt: To me it is quite the same: If somebody invests in an ethical and responsible way or only for financial reasons and from a risk point of view: **What matters are the results of these investments**. If the banking industry and the financial institutions need a focus on risk, we can relax and can say, ok that contributes to our way to invest ethical and sustainable.

Audience: *I am interested in the question of strategic risk which suddenly turns financial backing of business model-shifts into good investment opportunities. So how do you make money in systemic shifts?*

Dr. Kevin Schaefers: In our first study, together with WWF Germany, we focused on the risk side of decarbonization. And in our latest study, published with ISS-Ethix Climate Solutions, we drew our attention to investment chances. The transition to a low-carbon economy offers interesting sector related investment opportunities, for example, in the area of **power supply, energy storage, transportation, agriculture/ food, and buildings**. But it is almost needless to say, that every single investment idea has to be well analyzed beforehand. The transition to a low-carbon economy is a disruptive process. It will change our economies in a substantial way.

Dr. Maximilian Horster: *Prof. Tutt, I sense some disagreement here?*

Prof. Dr. Lars Tutt: You always have to be cautious about the opportunities in ethical and sustainable investing. Take, for example, Green Bonds. You often find bond

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issuers that simply split their business in a clean and a dirty site. The clean site then issues green bonds, and you can be sure that all the money you will invest in this part of the company will be used to build a solar park or another green energy source. The rest of the money you invest on the dirty site will directly go in financing the export of coal. It is not really a "climate opportunity" to invest in a company that absolutely has no focus on climate sensitivity, when it issues these kind of bonds.

Dr. Maximilian Horster: *If you want to raise climate awareness among end investors, does this require a top-down regulatory approach where the regulator says "This is what you have to show your clients before they invest"?*

Prof. Dr. Lars Tutt: The increasing amount of CSR-reports out there indicates that there is a certain management focus on sustainability, also because investors demand this type of information. There is a shift even though it is not sufficient. As investors, we can make our voice heard: Our strategy is based among others on active shareholder engagement. And this is a very valuable tool specially for church investors to influence management decisions on areas such as climate risk disclosure. This has an impact and it is very hard for the management to ignore these voices.

Dr. Maximilian Horster: *Dr. Schaefers, should the government introduce specific transparency regimes or should the asset management industry self-impose such transparency initiatives?*

Dr. Kevin Schaefers: I think that some regulation might help in this respect, since we are running out of time concerning the achievement of climate goals. **But the crucial point is that sustainability topics are so far not part of the standard education and qualification process of financial advisors, at least not in Germany.** This is the reason why many financial advisors do not actively address this subject. They feel in parts uncomfortable talking to their clients about it. Therefore, I think regulation alone will not help unless there will be training and education on sustainability at the same time.

Prof. Dr. Lars Tutt: Proper transparency requires robust impact measurement. We are, however, far from a measurement standard. The solution for church investors is to look at one metric consistently, whatever it is. That could be a footprint as well as an intensity metric, whatever is appropriate for you. Stick to that and try to continuously improve your portfolio. This is basically the suggestions we make, because we do not feel comfortable with any one solution that would work for all sorts of investments.

Dr. Maximilian Horster: Bas, standardization of impact measurement is a topic for you in the Netherlands as well, right?

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Bas Wetzelaer: Yes, a group of Dutch investors have developed a harmonized impact reporting methodology. Not only for equities, but also for government bonds, real estate and private equity. We try to have a coherent methodology to measure carbon exposure and set certain targets that we do want to achieve. A common language is very important. In the end, our clients have the possibility to compare the carbon performance of ACTIAM to the performance of other asset managers.

Dr. Maximilian Horster: Thank you to the audience and all panelists for an engaging discussion. I wish us all an interesting and successful COP23.