

# Climate and systemic risk workshop

What it is, and why your organisation would benefit



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# Catching up with reality

## Catching up with reality

Investment insight May 22, 2024

## Catching up with reality

- Our understanding of climate, systems and risk has taken a big step forward, and
- Reality is changing rapidly

**Investment beliefs which were set several years ago are likely to be out of date**

- 196 nations ratified the legally binding Paris Agreement
- A 2024 survey showed 77% of climate experts believe the world will warm by at least +2.5C

- Theoretically, we are on a path to net-zero emissions by 2050
- Not seeing the necessary level of action

**This could have implications for an investment organisation's net-zero pledge**

**Organisations should actively consider whether their investment beliefs need to be reviewed / refreshed**

# Pre-reading on systemic risk

## Pre-reading

Thinking Ahead Institute

Systemic risk | deepening our understanding  
Where it comes from, how it grows, and the difficulties in managing it

A photograph of a modern, illuminated walkway or bridge stretching into the distance, leading towards a city skyline at sunset. The sky is a gradient of orange and blue.

Thinking Ahead Institute

Systemic risk | adapting our practices  
Why systemic risk is of growing concern, and how we can retool our risk models and reshape our investment practices and portfolio construction to address it

A photograph of the Golden Gate Bridge at sunset, with low fog or mist in the foreground. The bridge's towers and cables are silhouetted against the warm, orange sky.

## Systemic risk – deepening our understanding

- The paper explains the power of models to shape our thinking and therefore our actions
- Reality is best modelled as a System and as a set of inter-related sub-systems
- Risk management must be a continual, through-time process

## Systemic risk – adapting our practices

- The paper discusses the growing concern around systemic risk, and how we can modify our risk models, investment practices, and portfolio construction to address it

## Climate and systemic risk workshop

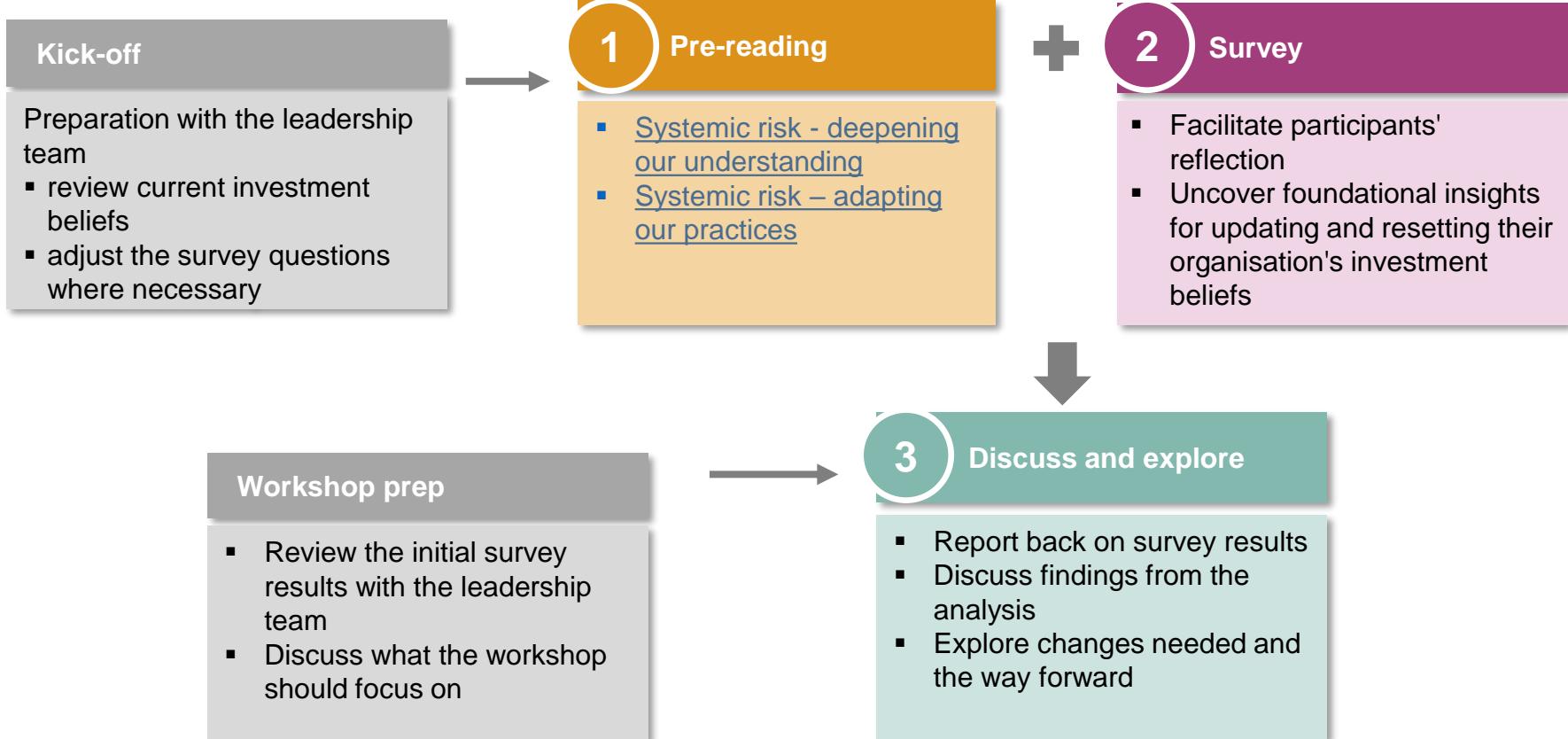
Output | a “go / no-go” decision on beliefs revisit



### Workshop objectives:

- deepen workshop participants' thinking with climate beliefs in light of the evolving understanding of climate issues and their impact on investment portfolios
- identify potential inconsistencies between the organisation's stated investment beliefs and its investment practices/approaches
- enhance understanding and awareness of the importance of better integrating sustainability and systemic risk factors into investment decision-making processes

# The climate and systemic risk workshop



## Workshop surveys

### Main workshop questionnaire

- This survey comprises a total of **30 questions** and has been designed for **senior level executives and portfolio managers**
- It covers a mixture of factual-based and contextual questions on the following topics: our perspectives, investment actions, and investment beliefs

### Optional questions

- A 10-question short survey to be answered based on participants' current views and then repeated to capture their future views
- The opinion-based questions cover four dimensions: wealth, wellbeing, human and ecosystem

# Main questionnaire (1)

## Question statements

Our perspectives		Questions
Questions		
1	Our organisation's purpose and mission require us to incorporate sustainability in our investment decisions.	5 A net zero portfolio in a world that does not achieve a net zero outcome will still be exposed to the significant systemic financial risks associated with physical climate risks.
2	Climate change is a systemic risk that will adversely impact all asset prices, even those with low or zero carbon intensity.	6 Our current form of capitalism encourages investee companies to prioritise profits over planetary health.
3	Transition risk will be higher than the market currently expects.	7 Our beneficiaries' time horizon and the current level of systemic risk (in breach of 6 of 9 planet boundaries; consuming 1.7 earths) create ethical problems for us.
4	Physical risk will be higher than the market currently expects.	8 Such ethical problems carry implications for how and what we communicate with our beneficiaries.
		9 Such ethical problems carry implications for how we invest.

## Main questionnaire (2)

### Question statements

Investment actions		Questions
Questions		
10	Our organisation can and should manage our public market investments to have a positive real-world impact, alongside seeking return and controlling risk.	15 The investments for the transition will not be particularly profitable so may require an element of concessionary capital (non risk-adjusted-return maximising).
11	Our organisation should use carbon offsets to aid, and/or accelerate the climate transition.	16 Our organisation dedicates adequate engagement resources towards addressing climate change with our investee companies.
12	Investing via market indices will not adequately manage climate risk.	17 Our organisation's engagement efforts with our investee companies help to address climate change in a meaningful way.
13	Our organisation can and should manage our private market investments to have a positive real-world impact, alongside seeking return and controlling risk.	18 Our organisation dedicates adequate engagement resources towards public-policy-level (systemic) engagement to address climate change.
14	Net-zero scenarios assume rapid growth in carbon capture and storage (CCS). Our organisation should invest in CCS technology as it will be a powerful tool to address climate change.	19 Our organisation's engagement efforts at the policy level help to address climate change in a meaningful way. 20 What is the most effective approach to address sustainability issues? (Ranking question)

## Main questionnaire (3)

### Question statements

Context		Questions
Questions		Questions
21	Government incentives, in most countries, mean the response to climate change will remain inadequate until extreme pressure to act builds up.	24 Climate change will correlate with insurance risks, so we should expect insurance to be withdrawn, affecting consumers and corporations.
22	As stewards of a diversified portfolio, we should consider the impact of our investee companies on systemic risk.	25 Most spending on adaptation will not yield a financial return, which poses a risk to future returns.
23	The future environment will favour the taking of active risk.	26 Investing in a manner that supports biodiversity, while also addressing climate change, is important to my organisation's purpose and mission.
		27 Investing in a manner that supports a just transition is important to my organisation's purpose and mission.

## Main questionnaire (4)

### Question statements

#### Investment beliefs re-set required?

Questions	
28	Our investment decision-making actively refers to and reflects our current beliefs.
29	Our organisation will need to, and will, significantly and rapidly change our skills mix to address future challenges.
30	Our organisation's current beliefs on climate and systemic risk are fit-for-purpose.

## Sample output: Our perspectives

n 10

Our organisation's purpose and mission require us to incorporate sustainability in our investment decisions.



Conviction Score

0.2

Physical risk will be higher than the market currently expects.



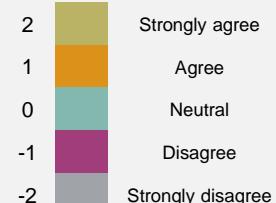
0.4

Transition risk will be higher than the market currently expects.



0.7

Conviction Score Range



## Optional questions on current and future views (1)

### Question statements – run 1 (current views)

*The **context** we would like you to consider is all **8 billion humans** and their planetary ecosystem.*

*Based on your current views, please indicate to what extent you agree or disagree with the following statements*

Wealth – Wellbeing	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Wellbeing (max score = 25)
1. Considering both developed and developing countries, economic growth is essential	5	4	3	2	1	
2. Inequality is an inevitable cost for human progress	5	4	3	2	1	
3. Market-based capitalism is the best system for generating non-financial wellbeing	1	2	3	4	5	
4. Income is the most important component of well-being	5	4	3	2	1	
5. Wealth, rather than non-financial wellbeing, is the most important measure of success in life	5	4	3	2	1	Wealth (min score = 5)

Human – Ecosystem	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Ecosystem (max score = 25)
6. Systemic risk is often overstated and does not pose a significant threat to humans	5	4	3	2	1	
7. We will always have sufficient technologies and innovation to ensure human survival	5	4	3	2	1	
8. Human wants (as opposed to needs) have damaged the ecosystem and therefore we have a duty to repair it	1	2	3	4	5	
9. In the trade-off between economic development and degrading natural capital, it is always appropriate to prioritise economic development	5	4	3	2	1	
10. The legal system is increasingly recognising the rights of non-human entities, which is good	1	2	3	4	5	Human (min score = 5)

## Optional questions on current and future views (2)

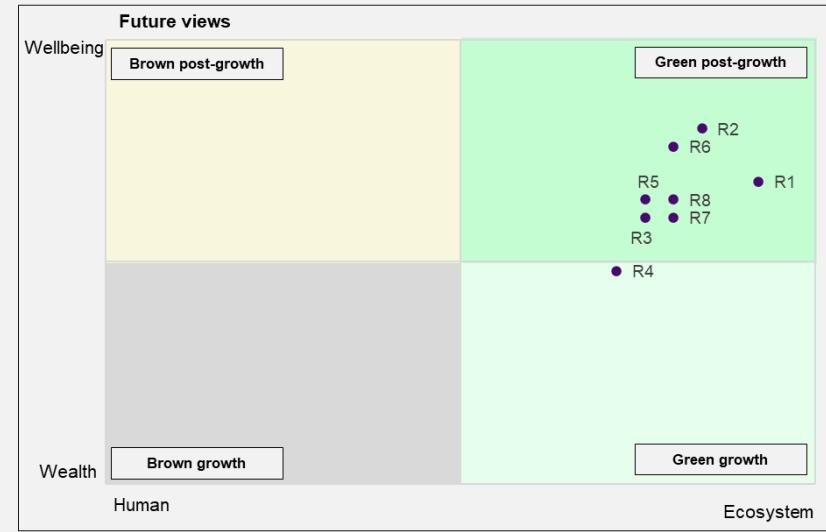
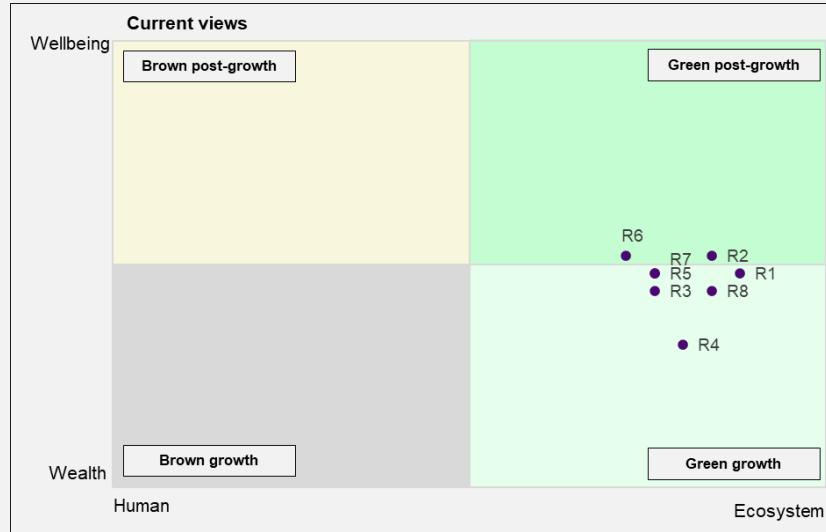
### Question statements – run 2 (future views)

Now place yourself in 2050 alongside **10 billion humans** (?) and their planetary ecosystem. **Global warming is higher** – and you can decide by how much. Please indicate to what extent you agree or disagree with the same previous statements

Wealth – Wellbeing	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Wellbeing (max score = 25)
11. Considering both developed and developing countries, economic growth is still essential in 2050	5	4	3	2	1	
12. Inequality is still an inevitable cost for human progress beyond 2050	5	4	3	2	1	
13. Market-based capitalism is still the best system for generating non-financial wellbeing in 2050	1	2	3	4	5	
14. Income is still the most important component of well-being in 2050	5	4	3	2	1	
15. Wealth, rather than non-financial wellbeing, is still the most important measure of success in life in 2050	5	4	3	2	1	Wealth (min score = 5)

Human – Ecosystem	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Ecosystem (max score = 25)
16. Systemic risk remains overstated and does not pose a significant threat to humans by 2075	5	4	3	2	1	
17. We will always have sufficient technologies and innovation to ensure human survival beyond 2075	5	4	3	2	1	
18. Human wants (as opposed to needs) have damaged the ecosystem and therefore we have a duty to repair it	1	2	3	4	5	
19. In the trade-off between economic development and degrading natural capital, it remains appropriate to prioritise economic development	5	4	3	2	1	
20. The legal system is still recognising the rights of non-human entities in 2050, which is good	1	2	3	4	5	Human (min score = 5)

## Optional questions on current and future views – sample output



- Sample size = 8
- Overall (mean):  $x = 19.9$ ,  $y = 11.5$
- ~75% of respondents falling under Green growth
- ~25% falling under Green post-growth

- Sample size = 8
- Overall (mean):  $x = 20$ ,  $y = 16.3$
- ~12.5% of respondents falling under Green growth

# Benefits of the workshop

## Updated perspectives

Questions cover recent developments in climate change and systemic risks, to test if the organisation's current investment beliefs remain relevant and informed by the latest insights

## Resource allocation

Identify opportunities to enhance alignment with updated perspectives



## Improved alignment

The workshop serves as a vehicle to discuss opinions and perspectives on challenging or high-uncertainty subjects, enhancing a shared understanding of systemic risk and the impact of climate change

## A short exercise

to help the leadership team decide if their investment beliefs should be adjusted or rewritten.

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