

Responsible Investment update

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Aon's Responsible Investment Network

We are delighted to have welcomed over 200 members to our network of institutional investors.

Aon's Responsible Investment Network holds inaugural meeting

We held our first meeting, which focused on climate change and the tools available to investors seeking to understand the climate-related risks they are exposed to, on 27 November. Our featured speakers were Kajetan Czyz, programme director at the Cambridge Institute for Sustainability Leadership's Investment Leaders Group, and Mark Jeavons, senior economist at Aon.

Kajetan's [presentation](#) covered the Intergovernmental Panel on Climate Change (IPCC) report on the impact of global warming of 1.5 °C and explored the role that technology and legislation can play in driving change.

Mark explored how academic research can support assessments of the climate risks faced by investors and highlighted the part scenario analysis can play in such analysis.

If you were unable to attend the meeting but would like to know more, you can find links to the meeting materials and additional resources [here](#).

The Responsible Investment Network's next meeting

Our next meeting, *Putting Responsible Investment into Practice*, will be held in London on 21 February. We will explore some of the challenges investors are facing with regards to addressing this area and intend to have a number of network members discuss the actions they have taken in their own portfolios and how they have overcome some of the challenges they faced.

Click [here](#) to register as a member and receive more details of this and future events.

Climate change

UN holds 24th Conference of Parties on climate change

Delegates from 196 countries and the European Union met in Poland in early December to negotiate the implementation of the 2015 Paris Agreement. A number of technical issues were hammered out by negotiators, including the ways in which emissions will be measured and reported.

No agreement was reached on the way emission targets will be increased over time. This issue will be considered at next year's summit, which will be held in Chile between 11–22 November 2019.

Aon's Weather, Climate & Catastrophe Insight report highlights perils of climate change

Aon's annual report on the impact of global natural disaster events, [Weather, Climate & Catastrophe Insight: 2018 Annual Report](#), aims to help businesses, communities, governments and the re/insurance industry to boost their resilience and address the long-term implications to climate risk. It highlights the growing risks from climate change and increasing impact of natural disasters, as well as the growing proportion of costs that are not covered by insurance.

Figure 1: Average global economic losses are growing

(2018 USD billions)



Source: Aon, *Weather, Climate & Catastrophe Insight: 2018 Annual Report* (2019).

Marked by intense tropical cyclone landfalls, record-breaking wildfires, severe drought, and widespread seasonal flooding, 2018 natural disaster events led to economic damage of \$225 billion. Pay-outs from public and private insurance groups covered just \$90 billion of the economic cost; the fourth highest annual total for the industry on record. The last two years were also the costliest back-to-back years for weather disasters. The combined economic toll was \$653 billion, with insurers covering roughly one-third of the cost.



As populations move and weather patterns shift due to climate change, the financial risks posed remain material and are likely to grow over coming decades. From protecting against wildfires to the long-term impacts of drought stakeholders can use these findings to better understand the scale and threat of these risks.

We encourage investors, lenders, pension trustees, insurers and policymakers to explore how they can best manage and respond to the increased risks of climate change using industry knowledge. This includes using climate change scenarios to take a forward-looking view on the transition and physical risks posed by climate change and their impacts on assets and liabilities.

The Bank of England to consider including climate impacts in its bank stress tests

The Bank of England (BoE) is considering whether the impact of climate change should be included in the biennial component of the stress tests it conducts on the UK's largest banks.

Citing the need for bank executives to increase their engagement on climate change and transition risks, coupled with a lack of comprehensive risk mitigation strategies and plans currently, the BoE's Financial Policy Committee has decided to consider whether climate change should be incorporated into the 2019 exploratory scenario.

The BoE's *exploratory scenario* — introduced in 2017 — is an additional scenario designed to test the resilience of the financial system to risks that may not be neatly linked to the financial cycle. The 2019 assessments will commence in September 2019 and the Bank expects to publish the results in June 2020.

The USGCRP releases its Fourth National Climate Assessment

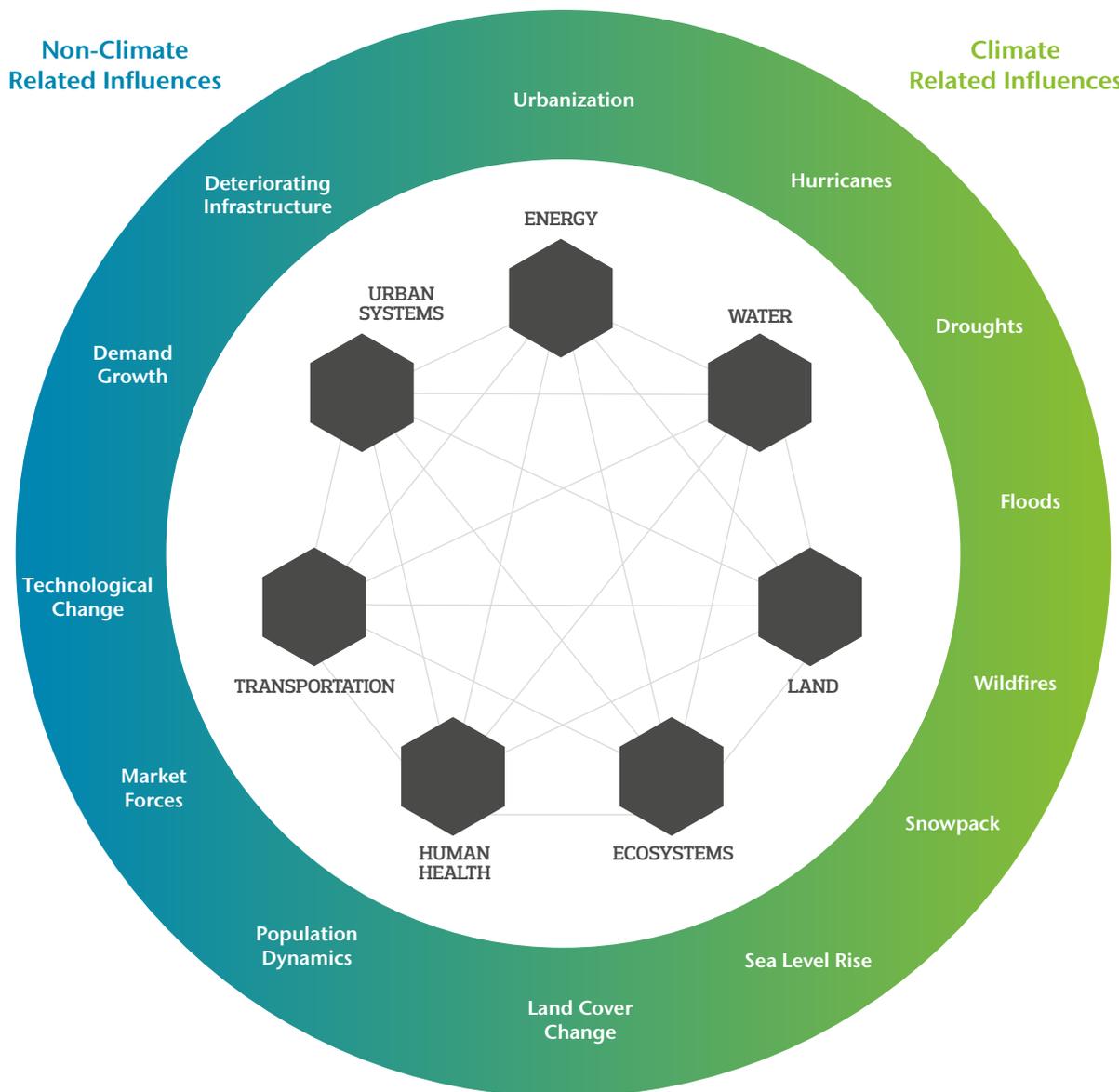
The U.S. Global Change Research Program (USGCRP) — a group of federal U.S. agencies with a mandate to coordinate research in climate change and its impacts on society — released the second part of its *Fourth National Climate Assessment* in November. Its first report, which was released in 2017, concluded that it is “extremely likely” that human activities are the dominant cause of the observed warming since the mid-20th century.

The USGCRP’s second report sets out its analysis of the impacts of climate change on the United States. Echoing the alarm sounded by the Intergovernmental Panel on Climate Change a month before the release of its own report, the USGCRP notes that one cannot

assume that future climate conditions will resemble current conditions in any way; there is clear and compelling evidence that global temperatures are rising rapidly and that the effects will only intensify without additional action.

The report’s authors acknowledge the limitations of their analysis due to the complex and wide-ranging effects as climate change. Figure 2 serves to illustrate the fact that climate change does not act on systems in a vacuum; we live in a complex, interrelated world in which changes in one sector lead to unanticipated changes in another. The findings of USGCRP may prove to be too conservative.

Figure 2: Interactions between climate and non-climate factors



Source: USGCRP, *Fourth National Climate Assessment, Volume II* (2018).

Legislative, regulatory and industry developments

Reminder: new SIP requirements

As highlighted in our previous newsletter, a number of key changes to the Statement of Investment Principles (SIP) are set to come into effect on 1 October 2019. While the Regulator has not yet issued its guidance on the new requirements, it is important for trustees of DB and DC pension schemes to consider how their schemes may be affected.

Action: Trustees of DB and DC pension schemes must review their SIPs in advance of 1 October 2019. Trustees of DC schemes must also meet additional disclosure requirements.

Aon has helped a number of pension scheme trustees assess the changes they need to make to their SIPs. Please get in touch with your investment consultant or the [Responsible Investment](#) team for help with your scheme.

Government responds to EAC's paper

The Government has responded to the Environmental Audit Committee's (EAC) paper, [Greening Finance: embedding sustainability in financial decision making](#). An important recommendation made by the EAC was for the Government to clarify in law that trustees and company directors have a duty to protect long-term value and should be considering environmental risks.

While the Government accepts that trustees have such a duty — and has tabled legislation to this effect — it notes that these regulations do not apply to company directors directly. The Government notes that institutional investors have a duty to consider the long-term risks and opportunities associated with their investee firms and that this provides a natural push towards long-term thinking on the part of investee firms.

The Government rejected the EAC's recommendation to make it mandatory for trustees to seek members' views — a recommendation that was also considered but ultimately not adopted by the DWP during its consultation — citing the duty to deliver a return to members over the relevant time horizon as being trustees' primary concern and one that could be at odds with a requirement to seek members' views.

European Commission continues work on the implementation of its sustainable finance action plan

The European Commission has continued its work on the implementation of its EU-wide strategy on sustainable finance, as set out in the *Action Plan on Financing Sustainable Growth*. The action plan, which the Commission adopted in March 2018, sets out to:

- reorient capital flows towards sustainable investment, in order to achieve sustainable and inclusive growth;
- manage financial risks stemming from climate change, environmental degradation and social issues; and
- foster transparency and long-termism in financial and economic activity.

In May 2018, the Commission tabled a package of legislative measures to implement key parts of its action plan. The Commission has formed a *Technical Expert Group (TEG)* to help it develop key parts of its action plan, including:

- an EU classification system (**“taxonomy”**) to determine whether an economic activity is environmentally sustainable;
- an **EU Green Bond Standard**;
- **benchmarks** for low-carbon investment strategies; and
- **guidance** to improve corporate disclosure of climate-related information.

The group expects to complete its report on all four areas by June 2019.

AMNT and UKSIF publish trustee guidance on investment consultants

The Association of Member Nominated Trustees (AMNT) and the UK Sustainable Investment and Finance Association (UKSIF) have published their joint guide on holding investment consultants to account on their ESG advice. The report, [Holding Investment Consultants to Account: a Guide for Trustees](#), provides recommendations and best practices for trustees and investment consultants to enable the former to judge the quality of the ESG advice of the latter.

Since June 2017, the AMNT and UKSIF have engaged with sixteen investment consultancy firms — including Aon — to examine their commitment to the Pensions Regulator's guidance on ESG. In July 2018, the investment consultants were asked to provide an update on the work they have done to meet this commitment and outline their plans for continued engagement on ESG. You can read our update [here](#).

The guide provides a practical framework for trustees and consultants. It sets out a number of services that trustees should expect their consultants to be able to provide, including (but by no means limited to):

- provision of training at trustee level on ESG;
- development of trustee beliefs on ESG, including stewardship;
- development of ESG policies or the incorporation of ESG considerations into existing policies (including the SIP);
- incorporation of ESG considerations into internal governance mechanisms, including non-investment areas; and
- provision of more advanced ESG advice, including for example climate change scenario modelling and stress testing.

We wholeheartedly welcome and support the AMNT-UKSIF's findings and recommendations and look forward further engagement with both organisations as they continue their important work in this area.

Aon in the news

- ▶ [Aon boosts responsible investment team](#)
- ▶ [Institutional investors are split on responsible investing](#)
- ▶ [What's driving growth in impact investing?](#)
- ▶ [Re/insurers can help solve challenge of 'chronic climate risk': Aon](#)
- ▶ [How responsible investment can improve member engagement](#)

Links to materials

- ▶ [Weather, Climate & Catastrophe Insight: 2018 Annual Report](#)
- ▶ [U.S. Fourth National Climate Assessment: Vol. II](#)
- ▶ [Greening Finance: embedding sustainability in financial decision making](#)
- ▶ [Government response to Greening Finance: embedding sustainability in financial decision making](#)
- ▶ [Holding Investment Consultants to Account: a Guide for Trustees](#)
- ▶ [Aon's update to the AMNT-UKSIF](#)

For your diary

Date	Event
5 February	Aon Pensions Conference Series: Manchester (includes RI workshop)
21 February	Responsible Investment Network meeting, London
26 February and 2 April	Aon Pensions Conference Series: London (includes RI workshop)
5 March	Aon Pensions Conference Series: Bristol (includes RI workshop)
12 March	Aon Pensions Conference Series: Birmingham (includes RI workshop)
19 March	Aon Pensions Conference Series: Leeds (includes RI workshop)

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About Aon

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