November 2018
For professional investors only.
Please read the important disclosures at the back of this article.

TOWARDS GREATER CLIMATE RISK TRANSPARENCY

Hanneke Smits
Chief executive officer

Why we welcome, support and report in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

In October 2018, the UN Intergovernmental Panel on Climate Change (IPCC) released its Global Warming of 1.5°C report,[1] urging rapid and unprecedented changes to global emissions over the next 12 years in order to keep global warming to 1.5 degrees Celsius. It was a disturbing read and probably the most urgent call to action ever heard from thousands of scientists. Combine this with WWF's 2018 Living Planet Report released last week,[2] which underlined a shocking 60% decline in wildlife populations over just 40 years, and it is clear that the demands we are placing on the planet are unsustainable.

It is important to be aware of how the investments we make are managing environmental, social and governance (ESG) issues. Responsible investment has been integral to our investment process since our inception in 1978, when we began actively voting our clients' shares. Today, ESG analysis is integrated in our investment process across all our strategies, and in this context we often engage with the management of companies that we invest in. We also offer focused ethical and sustainable investment strategies.

With the mountains of scientific evidence, we agree that man-made emissions are contributing to the accelerated change in the Earth's temperature, and that any rise in global temperatures above 2 degrees Celsius could result in irreversible, catastrophic changes to the global environment. For many years our work has included engaging with companies to understand the risks posed by climate change to the successful delivery of their business strategies, and to push for better disclosure on their management of carbon risks and opportunities. We are members of the Institutional Group on Climate Change (IIGCC),[3] and active members of the Climate Action 100+[4] programme, which is a five-year initiative led by investors to engage systemically important greenhouse gas emitters and other companies across the global economy. In May 2018, working with other global investors, we spearheaded a letter calling for the global oil & gas industry to take more action on climate change.[5] In June 2018, during New York Governance Week, I chaired a panel discussing how effective corporate engagement can have an impact on climate change, alongside former head of the UN Framework Convention on Climate Change (UNFCCC) Christiana Figueres and Professor Xi Li from the London School of Economics. Also, for the second year running, Newton signed the Global Investor Statement to Governments on Climate Change.[6]

[1] http://report.ipcc.ch/sr15/pdf/sr15_spm_final.pdf
[2] https://www.wwf.org.uk/updates/living-planet-report-2018
[3] http://www.iigcc.org/
[4] http://www.climateaction100.org/
[5] https://www.ft.com/content/fda63c26-5906-11e8-b8b2-d6ceb45fa9d0
[6] https://theinvestoragenda.org/wp-content/uploads/2018/06/GISGCC-FINAL-for-G7-with-signatories_-update-4-June.pdf

To better understand how our investee companies are thinking about climate change, we have joined more than 500 other global institutions in supporting the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.[7] The recommendations provide a useful governance and reporting framework to help companies identify and disclose the potential financial impacts of climate-related risks and opportunities on their businesses. However, while we are encouraging the companies in which we invest to report in line with the recommendations, it became clear to us that we too needed to explore what climate change will mean for our clients' investments and our own assets. Therefore I commissioned Newton's first step in TCFD disclosure, our recently published 2018 disclosure report, which can be viewed at newtonim.com/tcfd-uk.

I am particularly pleased that we have been able to identify that our total Scope 1, 2 and 3 emissions, which take into account the emissions from all our clients' investments, are 26% below those of a multi-asset benchmark, and that 51% of our clients' utility investments are in renewable energy.[8] Throughout 2019, we plan to undertake further work to enhance our disclosure, including more extensive climate-related scenario analysis to assist in identifying climate-related investment risks and opportunities. We will issue an updated version of our TCFD disclosure report during 2019. Exploring this complex area will be a journey, which we, along with the rest of the industry, are only just beginning. Nevertheless, we only have one planet, so it is vital that we continue with urgency. Reporting in line with the TCFD recommendations is a first step, and as Bank of England Governor Mark Carney said recently, "with better information as a foundation, we can build a virtuous circle of better understanding of tomorrow's risks, better pricing for investors, better decisions by policymakers, and a smoother transition to a lower-carbon economy".[9]

[7] https://www.fsb-tcfd.org/
[8] As at 31 December 2017
[9] https://www.bankofengland.co.uk/-/media/boe/files/speech/2018/a-transition-in-thinking-and-action-speech-by-mark-carney.pdf

Want to find out more?

Please contact our consultant relations and business development team:
Tel: 020 7163 3984
Email: newton.institutional@newtonim.com

Important information