Executive summary

Pay now or pay later?

Addressing climate change sooner rather than later is in the best interests of investors and their beneficiaries

The investment industry is not acting swiftly and definitively enough on its net-zero commitments. As an industry we are not seeing the bold decisions needed, the infrastructure built to secure success, or the investing required today. The purpose of this paper is to provide evidence and analysis to support the climate beliefs required to drive increased action on climate. To demonstrate to the industry that we must pay now to address climate risks, or we will be required to pay more later.

It is an emergency

This paper evidences that climate change is an emergency. Humanity is no longer on a path towards 1.5°C warming, as the most 'optimistic' temperature rise scenario is 1.8°C by 2100.[1] If humanity continues along the 'business-as-usual' path that it is currently on it is likely that the temperature will rise between 2.7°C-3.6°C. If historical underestimations of climate change, political lobbying that is influencing the pace of action and the fact that humanity can only run one path into the future are taken into account, the latter temperature prediction is even more likely. The authors of this paper believe that we have a choice between an immediate and rapid transition of the economy to net-zero carbon, or an inevitable transition of the climate to a state that scientists have deemed unsafe.

We have all the evidence we need to act

The world is already experiencing warming of 1.2°C. At this temperature rise the physical risk impacts, experienced across the world have been numerous and severe, highlighting that as an industry we have all the evidence that we need to act. If we also account for climate tipping points and acknowledge the importance of addressing systemic risk, there is even more impetus to act now with the tools that the industry is equipped with rather than waiting for improved data and analytics.

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Reframing the transition as a net benefit

If the industry acts now there will be costs, but these will be materially less than those arising from a late transition or no transition at all. If climate tipping points, that could magnify the costs of inaction, are considered we could see a 50-60% downside to existing financial assets in a business-as-usual scenario where climate risks are not addressed. In contrast, **taking action to transition to a well below 2°C world might lead to a loss of 15% of existing assets** which could be partly offset by the positive benefits from new primary investment. Taking action to steward a highly co-ordinated and orderly-as-possible transition of the economy could, potentially, further mitigate transition costs.

The authors of this paper believe that we have a choice to act now and minimise further climate change, or to delay action to preserve the economy in its current form and suffer the consequences. These will include both the increased costs of adaptation and physical impact risks globally far beyond those occurring currently. If humanity hopes to limit warming to well below 2°C we must see a full implementation of all announced climate targets by governments but also a recognition by the investment industry that we are part of the economic system that can and must address it.

The actions that the investment industry can take are largely out of the remit of this paper. However, the Thinking Ahead Institute has already made several suggestions:

- A six-step action plan for net-zero
- Investment beliefs to change the climate trajectory (adopt the stop, substitute, siphon framework, develop new investment conventions, and commit to meaningful collaboration)
- We've decided to address climate change: getting our own house in order (address and direct internal resources towards climate action)
- 3D net-zero mandates (revisit external resources and consider 3D investing mandates)
- How much of the climate problem does the investment industry own, and what should it do about it? The answer is a lot more primary investment (more primary investment)
- Beyond ESG: System solutions for sustainability (adopt and apply systems thinking)

[1] "The CAT Thermometer", *Climate Action Tracker.*