Climate Change and Sustainability: How Investors Can Profit

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Climate change is one of the greatest challenges of our time and it is one that investors, in particular global investors, have to confront. The failure of the Copenhagen Summit changes nothing about this incontrovertible fact; ecology and economy have long been inseparable elements in the climate change debate. Ever since the groundbreaking "Stern Review on the Economics of Climate Change," published by the British economist Sir Nicholas Stern in October 2006, the question of the economic consequences of climate change has become one of urgent importance. Stern forecasts that the business-as-usual case for climate change will cause an annual loss of more than 5% of global growth up until the middle of this century—a figure that corresponds to $2,200 billion. However, Stern assumes that these costs can be reduced to just 1% of global GDP per year ($445 billion) if immediate action is taken at national and international levels, and carbon emissions from energy generation are reduced by at least 60% until 2050. If one compares the costs of taking such action with those of inaction, the only logical economic move is to invest in climate protection.

Not only risks but also opportunities

Climate change brings with it not only risks but also numerous opportunities. Stringent climate protection opens up considerable commercial potential for companies, and even entire economies. New technologies will prevail; new economic sectors will expand. Sustainable innovative solutions are needed, with "sustainable" meaning that we conduct ourselves in a way that satisfies the needs of this generation without costing the coming generations their livelihood. In the investment context, "sustainability" means retaining the value of assets and generating the most reliable and consistent returns possible from them. The focus of sustainable investment lies on its future prospects—not only economic, but also ecological, social, and ethical aspects. However, its primary objective is to minimize risk—a purely and unashamedly financial consideration, and not to appease the investor's conscience. Acting ecologically minimizes risk, lowers costs, and promotes a lasting positive development. One example of this is the conservation of energy and resources; the economic aspects here are plain to see. Good risk management safeguards the financial standing of a company in times of crisis, while social considerations help keep its employees healthy and productive, thus making it more competitive.

Climate change and sustainability

Climate change and sustainability have a long tradition at Munich Re. We began systematically researching climate change, from its causes to its consequences, in 1974—more than three decades before it became a topic of public interest. Today, our research activities in this field are concentrated in our Corporate Climate Centre. We recognized the benefits of sustainable

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investment very early on and consequently defined it as being a key consideration across all levels of investment management. Munich Re was involved in developing the United Nations Principles for Responsible Investment (PRI), presented at the New York Stock Exchange on April 27, 2006, and was the first German company that signed up to the PRI. As Munich Re's asset manager, we at MEAG observe the PRI in every strategic and tactical investment decision we make, right down to each individual sale and purchase. A large share of the equity and corporate bond portfolio we manage is invested sustainably. When dealing in government bonds, we account for sustainability aspects by using a self-developed rating system.

Climate change and sustainability are megatrends of the twenty-first century. Whether in reinsurance, primary insurance, or asset management, we analyze the risks and opportunities and make use of the insights gained, wherever they apply. Sustainable investment criteria help identify profitable, and ecologically and socially responsible corporate strategies that do not enter into incalculable risks and that can therefore succeed over the long term. For investors, the immediate payback lies in low performance volatility and a steeper growth curve, but at the same time, we are also helping to limit climate change by getting involved in activities at a political level, by establishing environmental standards within our own company, and by honing the awareness of our staff about ecological issues. Climate change is a social obligation for us all. At MEAG, we actively accept the responsibility we have with regard to the coming generations, while at the same time making the best of the financial opportunities that arise from these megatrends.

Biography

After studying business administration and economics in Germany and the US, Dr. Thomas Kabisch worked for four years at Lehndorff Vermögensverwaltung, before moving into the securities and funds division at Vereins- und Westbank. In 1992 he was elected into the executive board of listed ALBINGIA-Versicherungsgruppe. There he was responsible among others for the Investments, Finance and Internal Audit divisions until 1999.

Dr. Kabisch was chosen to set up and run MEAG as CEO in April 1999. He is responsible for mandate management and central functions. As Chief Investment Officer of the group, he is also in charge of research and the investment process. He served and serves on the boards of various institutions abroad and in Germany.