

# Financial News

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As Al Gore's movie "An Inconvenient Truth" vividly describes, the pace of climate change is accelerating and, with it, the risk of severe climate disruption. For long-term investors, assessing a company's ability to create enduring value depends on both financial analysis and analysis of other material, yet often non-traditional, factors. Climate change is one such factor that is a concrete business risk *and* opportunity for some industries, and an emerging issue for others. Researching how well companies are prepared for a lower-carbon world is plain common sense when looking at a long-term investment horizon. Investors of all stripes are beginning to price this into their investment decisions.

Markets, over the past five years, have increasingly recognized the true cost of doing business and the need to fully "price in" externalities such as pollution, and they are now beginning to incorporate the external cost of carbon dioxide emissions. This is happening through pricing mechanisms (price per ton of CO<sub>2</sub>) and government-supported trading platforms such as the Emissions Trading Scheme in Europe, which has spurred the growth of international carbon markets. Even without a regulatory framework in the U.S., voluntary markets are emerging, such as the Chicago Climate Exchange and state-level initiatives like the Regional Greenhouse Gas Initiative. These market mechanisms enable companies to calculate project returns and capital expenditure decisions with the price of carbon dioxide fully integrated.

The investment community, led by collaborative stakeholder groups pioneering the integration of sustainability into capital markets, is also responding to climate change by calling for more corporate attention and disclosure. Shareholder activism around climate change is on the rise; more than 110 climate change shareholder resolutions have been filed in the past four years. The Investor Network for Climate Risk, a network of investors concerned with climate risk, has been raising the issue within the most influential pension funds and encouraging them to pressure companies for more information on climate change preparedness. Plus, there is growing global support for the Carbon Disclosure Project, which brings together 211 institutions with \$31 trillion under management, to request companies disclose their greenhouse gas liabilities and their strategic approach to the climate issue.

In addition, the clean-tech venture market is witnessing unparalleled funds raised to invest in start-ups and private companies with technology to help our industrial system deal with climate change, especially in the areas of new materials, renewable energy and clean water. Plus, companies and financial institutions are investing in project finance for wind, solar, biofuels, and other infrastructure investments (such as desalination plants) to address the systemic impacts of climate change on water and ecosystem services.

A systemic view of climate change goes far beyond the focus on carbon dioxide emissions and physical, regulatory and reputational risks and opportunities. Ultimately, climate change is inextricably related to issues of poverty, public health, and urbanization/migration (among others). For example, water security and supply is a closely linked climate challenge. A recent study from India concludes that 40% of the world's population lives off of spring systems from the Himalayan glaciers, areas that are at risk of melting within the coming 50 years due to global warming. Climate change threatens the current fresh water supply in that region and puts pressure on other areas too. Water scarcity is already a problem for 1.2 billion people. By 2050, it is likely to be a problem for up to 3.6 billion.

The risks and opportunities presented by climate change are clearly material to the long-term health of our economic system. Companies that are part of the climate change solution may be able to enhance revenues, attract the best talent, reduce costs, and develop brand equity – all of which will translate into optimized shareholder value over the long run. Long-term investors will benefit from allocating capital to those companies that fully integrate climate change considerations into their strategies, cultures and operations as a means of both revenue maximization and risk management.

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