Breckinridge CAPITAL ADVISORS

Latest IPCC report underscores urgency of climate action for investors and businesses

Authors

ROB FERNANDEZ
DIRECTOR, ESG RESEARCH

ANDREW TERAS
DIRECTOR, MUNICIPAL RESEARCH

Key Takeaways

In late February 2022, the Intergovernmental Panel on Climate Change (IPCC), a body of experts convened by the UN, released the most detailed look yet at physical threats posed by global warming. It concludes that nations aren't doing nearly enough to protect cities, farms, and coastlines from the hazards that climate change has already unleashed, such as record droughts and rising seas. It also speaks to greater disasters in store as the planet keeps heating up. Robert Fernandez, CFA, director ESG Research, and Andrew Teras, director, Municipal Research, discussed the report to highlight Breckinridge's approach. An edited version of their conversation follows.

Robert Fernandez: The IPCC report was notable in so many respects. Did one or two findings strike you as the most compelling?

Andrew Teras: There were more than a few, but the report confirmed climate risks that we consider every day in our research. Those were the findings I found most pertinent from investment viewpoint. For example, the report says that hundreds of millions of people could struggle against floods while millions more will confront deadly heatwaves and water scarcity from severe drought. The potential economic and financial effects that follow from these disasters are material risks.

How about you?

Rob: The report draws a pretty clear picture that people unable to adapt to enormous environmental shifts will end up suffering unavoidable loss or flee their homes. Most think that this kind of dislocation on a global scale, will further increase tensions between rich nations and poor nations, which are much more exposed to climate risks than rich countries. The report found that between 2010 and 2020, droughts, floods and storms killed 15 times as many people in countries in Africa, Asia, and elsewhere, compared to the wealthiest countries. These are serious concerns from a climate equity perspective.

Andrew: I also believe the report's assessment of the North American region validates our efforts to integrate climate risk analysis into our municipal ESG research process. It states that cities in the region are being impacted with increasing severity and frequency by storms or other natural event made worse by climate change. The report also warns about the failure of meeting the 1.5 degrees Celsius goal: key risks to North America will intensify by mid-century.

Rob: You are referring to the Paris Agreement of 2015. At that time, world leaders vowed to limit total global warming to no more than 1.5 degrees Celsius by 2100 compared with preindustrial levels.

Achieving the 1.5 degree-goal would require nations to all but eliminate their greenhouse gas (GHG) emissions from fossil fuels by 2050, but most are far off-track and are not making the necessary progress.

Breckinridge stands behind the Paris Agreement goals and the IPCC assessments. As you said, we integrate climate risks into our ESG analysis of municipal bonds. We also do that for corporate bonds and mortgage backed securities too.

Andrew: Right, climate risk analysis is integrated in through bottom-up research consistent with our environmental, social and governance (ESG) frameworks, and our overall investment process.

These efforts help to keep climate risk front and center in our work with clients who share the concerns.

Rob: Our analytics and ESG client reporting helps document our work. Breckinridge reports according to a framework of the Task Force on Climate-Related Financial Disclosure to our stakeholders on climate issues material to our business.

Andrew: Our issuer engagement efforts also contribute to climate risk mitigation.

(See Breckinridge's 2021 issuer engagement report *Addressing the Materiality of Climate Change Risk through Issuer Engagement here*).

Rob: Agreed. Direct engagement with bond issuers can be a two-way street for our analysts. We learn more about subject like the issuers' emissions reduction strategies; their views on the business risks associated with transitioning to a low- or no-carbon economy; and their considerations of climate equity as they mitigate and manage climate risk.

Andrew: And, in turn, issuers get our investment analysis perspective about the financial risks of climate change that they face. And we share our views on why ESG is valuable to us as an investment consideration.

Rob: The opportunity we get to work independently and collaboratively with industry and investor initiatives and policies also advance the goals of the Paris Agreement. I agree with your point that, in many ways, the work we are doing on climate risk from an investment perspective is meaningful.

Andrew: Another way everyone can reduce the contributions their actions make to climate change is to consider new ways to conduct business.

We strive to mitigate climate-related risks in our business operations through sustainable practices and supply chain and risk management planning.

We are working to improve accounting of Scope 1 & 2 GHG emissions and, to the extent possible, material Scope 3 emissions. These are goals a lot of the bond issuers we analyze are working on, too.

Rob: Climate policy is integrated into our governance practices at the board level. The company's Benefit Director is responsible for including climate risk and other initiatives on the board's agenda and facilitating climate-related board actions like resolutions.

(See Breckinridge's 2021 Corporate Sustainability Report *Persistence Toward Progress here*)

Andrew: The IPCC report is clear. The report's conclusions show that climate change is a material investment risk. It reinforces our belief that we must continue to enhance our ability to measure physical as well as transition risks and seek to investment in climate solutions. There is no time to waste.