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INSIGHT

**Towards a resilient and
sustainable economy**

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A WORLD OF INSIGHT

INVESTORS TAKING ACTION TO SUPPORT A SUSTAINABLE ECONOMY

Investors are directing capital towards the projects and companies that will remain viable in the transition to a low-carbon economy, a major international conference was told.

Large investors are not waiting for others to take action on climate change but are directing their capital towards sustainable projects and sectors and away from unsustainable activities, experts told a recent international conference of two United Nations bodies.

The UN Principles for Responsible Investment (UN PRI) and the UN Environment Programme Finance Initiative (UNEP FI) held a joint conference in Melbourne on 11 December 2019, hosted by National Australia Bank, that brought together institutional investors, banks, insurers, government and academia to discuss building a more resilient financial system.

“The future of finance is sustainable finance and those who don’t adapt will be left behind,” Fiona Reynolds, Chief Executive Officer of the UN PRI, told the conference. “The smart money is already on the move.”

Reynolds, the former head of the Australian Institute of Superannuation Trustees and now based in London with the UN PRI, said Australia’s inaction on climate change has “not gone unnoticed” by international investors. She pointed to the recent decision by Sweden’s central bank to sell off bonds issued by some Canadian provinces and Australian state governments because of those nations’ climate footprints¹.

Reynolds also cited a new FTSE Russell government bond index that adjusts weights based on each country’s resilience to climate change has rated Australia as underweight, meaning investors should hold fewer Australian government bonds relative to those of the other 21 nations in the index².

“I’ve been to a number of international discussions talking about how the impact of climate change on sovereign risk is underestimated. Climate risks are increasingly likely to affect the long-term investment horizon of sovereign bond investors,” Reynolds said.

The Principles for Responsible Investment have been signed by 2,500 asset owners and investment managers with US\$90 trillion in assets under management, representing just over half of all institutional investment money. In Australia, 150 asset managers have signed up, making Australia the fifth largest market after the US, UK, France and Benelux (Belgium, the Netherlands and Luxembourg).

Board members of the PRI who attended the conference include asset owners from large European pension funds and California State Teachers Retirement System (CalSTRS). Those who manage pensions and retirement savings, including Australian superannuation funds, stressed the importance of managing suitable investments for the long-term – for the world into which their members and beneficiaries will retire in 10, 20 or 30 years’ time.

1. <https://www.riksbank.se/en-gb/press-and-published/speeches-and-presentations/2019/floden-riksbank-selling-bonds-for-climate-reasons/>

2. <https://www.ftserussell.com/press/ftse-russell-launches-first-climate-risk-government-bond-index>

‘Do we focus on the near-term costs of change, or do we look for the opportunities?’

Eric Williamson, EGM, Corporate Finance, NAB.

Engaging with companies

The financial sector has taken a range of steps to assess physical risk across portfolios, engage with companies about their plans to transition to a low-carbon economy, and make climate-related financial disclosures against global common reporting targets.

“Investors are actively directing capital towards mitigating and adapting to climate change,” said Eric Williamson, Executive General Manager, Corporate Finance, at NAB. “Investors and financiers are asking, ‘Do we focus on the near-term costs of change, or do we look for opportunities that will deliver sustainable growth over the long term?’”

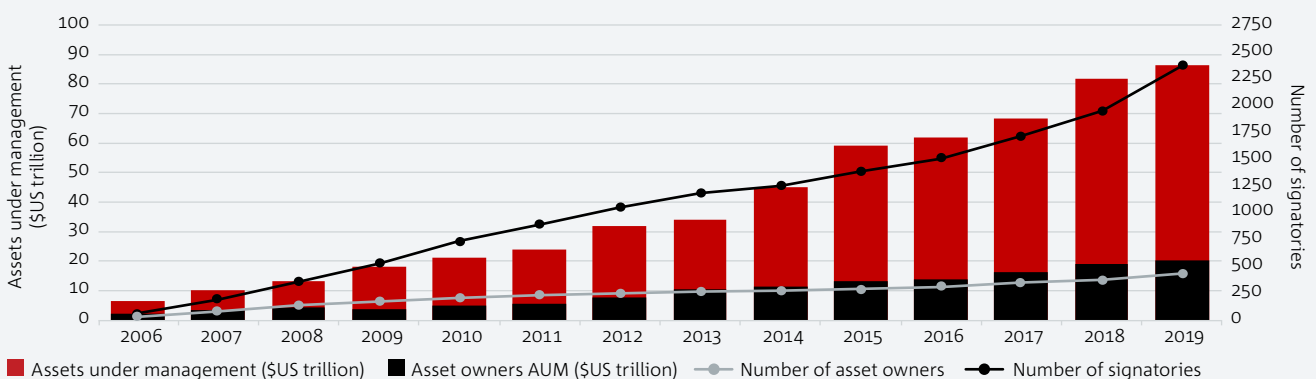
He said NAB has been mobilising capital to support the transition towards a low carbon and sustainable economy for many years, providing A\$9 billion

of financing to the renewable energy industry since 2003 to deliver 130 clean energy projects – totalling some 19 GW of clean energy from renewable sources. “We have a key role to play in the orderly transition to a low carbon economy,” he said.

In November 2019, NAB increased its environmental financing commitment from A\$55 billion to A\$70 billion by 2025, among other commitments. NAB acknowledges that climate change is increasingly important to the community and recognises opportunities for the bank and its customers in the transition to a low-carbon economy.

Since 2015, NAB has cumulatively provided nearly A\$34 billion of this commitment.

Rise in responsible investment 2006-2019



Source: Principles for Responsible Investment website (<https://www.unpri.org/pri/an-introduction-to-responsible-investment/what-is-responsible-investment>).

A WORLD OF INSIGHT TOWARDS A RESILIENT AND SUSTAINABLE ECONOMY

The private sector will be critical to helping raise the trillions of dollars needed globally to meet the SDGs.

The role of the private sector

United Nations Environment Programme Finance Initiative is a partnership between UN Environment and the financial sector that addresses environmental, social and governance concerns relevant to the finance sector and its role in the real economy.

The aim of the conference held with the UN PRI was to update the finance sector in Australia on the rapidly emerging global agenda on sustainable finance, following an initial UNEP FI conference in Sydney in July 2018.

Participants shared the view that the private sector will be critical to helping raise the trillions of dollars needed globally each year to achieve the objectives of the Paris Agreement and the United Nations Sustainable Development Goals (SDGs)³.

The conference heard an update from the Australian Sustainable Finance Initiative, a group of more than 80 banks, insurers and investors including superannuation funds which has been established to realign the finance sector to support the transition to a more resilient and sustainable economy.

“We’re pleased to be part of ASFI, which is aiming to embed sustainability considerations into financial markets and mobilise capital in what is a critical decade ahead. It’s an ambitious body of work, drawing on progress already made in the UK, Europe and other countries,” said NAB’s Williamson.

3. <https://www.weforum.org/agenda/2016/07/blended-finance-sustainable-development-goals>



Australian Sustainable Finance Initiative

At the conference, the Australian Sustainable Finance Initiative (ASFI), a collaborative initiative supported by insurers, superannuation funds, investment managers and banks released its first progress report identifying six critical challenges that Australia’s financial services sector must address in order to navigate risks and opportunities for Australia’s future resilience, prosperity and wellbeing.

The report, [Developing an Australian Sustainable Finance Roadmap – Progress Report](#) is the first output from a process involving over 130 individuals from more than 80 organisations across all parts of financial services, as well as academia, civil society and government.

Australia’s financial system has a critical role to play in contributing more systematically to Australia’s transition to addressing these challenges.

Jacki Johnson, co-chair of ASFI, said: “It is the conviction of ASFI that, by realigning the financial services sector to support greater social, environmental and economic outcomes for the country, we can navigate the risks and opportunities presented by these challenges to deliver resilience, prosperity and wellbeing for all Australians, now and in the future.”

Self-interest and the greater good

The conference was told that investors will require increasing amounts of information from the companies they invest in to decide how well the companies are positioned for the transition to a low-carbon economy.

“The role of the financial sector is to allocate capital. It is to decide which companies, which projects, get financed and which do not get financed,” the conference heard from one of the European pension funds.

“What investors really need to understand is whether a particular company, or a particular project, or particular business model is sustainable, in the sense it is viable in a low carbon economy,” the fund executive said.

At this stage it was hard to predict the extent to which existing business would be able to adapt to a low carbon economy, or whether new businesses would emerge to fill the gap.

The fund manager noted this was a rare case where the self-interest of fund managers to produce reliable returns for their investors will be aligned with the interests of the broader society. “If you make a correct judgment you will protect your own investment -- and also be doing society a service by holding back financing for projects that are not viable.”

Insurance sector on the front line

The issue of adapting to the impacts of more extreme weather events featured highly in a panel session on insurance.

“For a number of years, the insurance industry has been saying there is a case to invest in resilience and adaptation, when you think about how much governments have to spend to bail out communities after these events,” an insurance executive told the panel.

“We have to reduce the risk through both adaptation and mitigation, including building homes initially to a higher standard so they are more able to withstand events such as fire and cyclones,” she said.

In the weeks following the conference, the bushfire emergency spread across several states, burning 8.4 million hectares, destroying 1,800 homes and displacing thousands of people⁴.

“If you make a correct judgment you will protect your own investment.”

European fund manager

4. As at 7 January 2020, <https://www.theguardian.com/australia-news/2020/jan/07/record-breaking-49m-hectares-of-land-burned-in-nsw-this-bushfire-season>

A WORLD OF INSIGHT TOWARDS A RESILIENT AND SUSTAINABLE ECONOMY

Investors moving from talk to action

“We are seeing the very real and live and immediate impacts of climate change,” said Simon O’Connor, Chief Executive of Responsible Investment Association Australasia. “It is no longer some intangible long-term threat. The threats are immediate, they’re happening now, and they are economic in nature.”

The conference heard the growing influence of regulators around the world was flowing through to Australia, with countries moving from ad hoc policies to comprehensive sustainable finance strategies in many countries, including the European Union, the UK, Canada, Singapore and Hong Kong.

“Despite what might seem like a dire backdrop, I actually believe a lot of tailwinds are blowing in our favour,” O’Connor said. He cited a growing list of sustainability advice from securities regulators, central banks, insurance and banking bodies around the world.

“There is so much global momentum around sustainable finance at the moment, we are seeing this through a long list of initiatives and guidance from global central regulatory bodies that are shifting the global financial sector settings and frameworks. And that is rapidly flowing down the pipe to us here in Australia,” he said.

The Reserve Bank of Australia and the Australian Prudential Regulatory Authority stepped up their warnings in 2019 about the risks of climate change for the economy and for financial stability, stressing that a massive redistribution is required to decarbonise the economy.

“Our investment community is moving from talk to action. We’re moving to positive outcomes in how we engage with companies, with boards, and in how we choose who we do invest in and don’t invest in,” O’Connor said.



Principles for Responsible Banking

A panel at the UNPRI conference discussed the [Principles for Responsible Banking](#), which were launched recently by 130 banks from 49 countries, representing more than US\$47 trillion in assets.

These six Principles require banks to be more transparent about how products and services create value for customers, clients, investors, and society. As a founding signatory to the Principles, NAB participated in the core group of 30 global banks that developed the Principles.

The Principles provide the framework for a sustainable banking system, and aim to help the banking industry demonstrate how it makes a positive contribution to society. Signing up commits the signatories to meeting all the Principles over the next four years.

To view a summary of NAB’s progress against the Principles, [click here](#).

Get in touch

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