Climate Change

Russell Investments

Accessing energy transition opportunities in private markets

Committing capital to combatting climate change via private markets

The threat of continued climate change presents very real financial risks to investment portfolios, both in regard to existing assets as well as future investments. Opportunities exist today – and the investable universe continues to expand – to commit capital in private markets on a global scale to benefit from the energy transition.

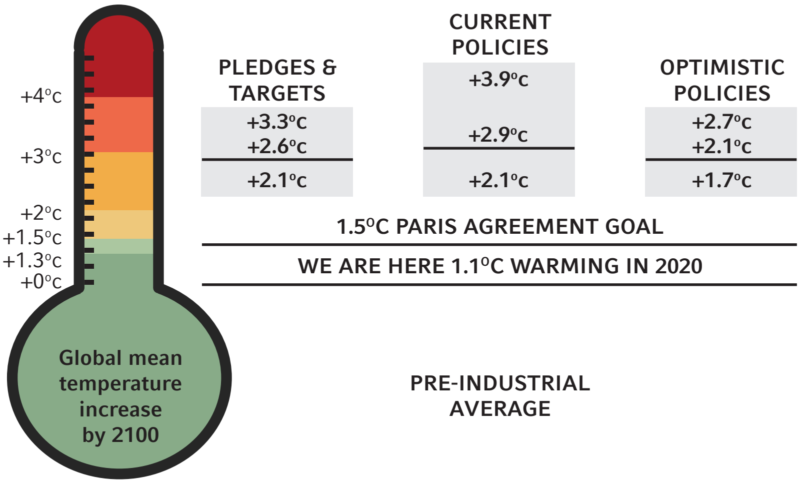
Not only can private markets offer compelling opportunities in terms of risk/return profile, but they enable strong influence over capital from a project standpoint.

This makes it a robust channel for targeting positive impact on environmental and social causes, including climate change.

Read more

Why now?

Climate change presents very real portfolio risks:



Source: Climate Action Tracker, December 2020.

Temperatures are likely to increase by 1.5°C between 2030 and 2052

Recent reports suggest we are significantly overshooting the targeted maximum 1.5°C cap for the rise in global average temperature increases, decided at the Paris Climate Agreement in 2015. According to the Intergovernmental Panel on Climate Change, global temperatures are likely to have already increased by 1.5°C between 2030 and 2052. Over the coming years, it is expected that this will have an increasing impact on markets.

Attractive investment opportunities are emerging: Targets to reduce carbon footprint are becoming more aggressive and the focus on delivering more sustainable energy via renewable sources has accelerated dramatically. Significant investment is needed to support this change (for example the United Nations estimate that at least $600bn annual spend is required on renewable energy by 2030 required to meet the Paris Agreement targets). We're identifying strong opportunities to support this change through investment, achieving environmental/ social impact, simultaneously with financial returns. We are seeing the most attractive opportunities within infrastructure and technology assets. These assets specifically target the slowdown of global warming, including wind and solar, as well as more niche opportunities; storage solutions, renewable natural gas, carbon sequestration, electrification, and climate resilience.

Futureproofing your portfolio: These types of assets are helping to support a more sustainable world, as well as acting as a form of a hedge to carbon risk in the broader investment portfolio.

Investing in making a difference: Investing in private markets can offer a more specific and targeted deployment of capital, as well as allowing for the expression of priorities and beliefs. For example, for those with specific ESG objectives, investing in private markets can be a strong channel to achieve measurable social and environmental impact, alongside any potential financial returns.

New Long-Term Equity (LTE) investments: Until recently, insurers that owned private assets faced higher regulatory capital charges compared to their listed peers. However, amendments by the European Commission's Delegated Regulation of 8.3.2019 with the introduction of *Article 171a* Long-Term Equity investments, has enabled a significantly reduced Solvency Capital Requirement (SCR) of 22% for both type 1 and type 2 equities (down from 39% and 49% respectively). For investments to be classed as LTE investments and receive the significantly reduced capital charge of 22%, the criteria outlined in *Article 171a* must be met.

Enhancing banks' and insurers' approaches to managing the financial risks from climate change: The Prudential Regulation Authority (PRA) Policy Statement (PS) is a response to the consultation paper (CP) 23/18 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change'.

The PRA proposal outlines how insurance firms should approach and manage the financial risks from climate change. The PRA guidelines have been grouped into the following categories, following feedback from firms:

Governance	Fully embed the consideration of the financial risks from climate change into their governance framework.
Risk Management	Address the financial risks from climate change through their existing risk management framework, in line with their board-approved risk appetite, while recognising that the nature of financial risks from climate change requires a strategic approach.
Scenario analysis	Where appropriate, firms use scenario analysis to assess the impact of the financial risks from climate change on their current business strategy, and to inform the risk identification process.
Disclosure	Develop and maintain an appropriate approach to disclosure of climate-related financial risks, considering not only the interaction with existing categories of risk, but also the distinctive elements of the financial risks arising from climate change.

Why take a multi-manager approach?

A multi-manager approach helps bridge this knowledge and time gap, giving efficient access to the more interesting segments of the investable universe

An efficient way to overcome the diseconomies of scale which exist:

Many of the most attractive opportunities within this space come in smaller deal sizes which are accessible by boutique, and importantly, specialist managers, but often sit below the investable universe for larger mainstream managers. Conducting robust due diligence on these types of managers, let alone multiple managers, can be challenging for institutional investors.

Diversification of the opportunity set:

A multi-manager approach provides access to a diverse set of opportunities across the full spectrum of climate-change-focused investments, without being restricted by an internal skillset.

First principles approach:

A multi-manager approach utilises a wide range of instruments and research, exploiting market inefficiencies and providing greater portfolio risk-return than standalone allocations.

Robust governance:

A robust investment process does not conclude upon investment. Continual oversight and interaction with fund managers ensure that managers are consistently aware of the expectations from both a financial and impact perspective and that both objectives are continually aligned.

Why Russell Investments?

Russell Investments has a strong heritage and has been actively investing capital in impact since 2015.

Russell Investments employs a team of alternative investment professionals with more than 20 years' investment experience across cycles and the breadth and depth of private markets. The team conducts research out of seven globally located offices, which is essential to ensure the team is on the leading edge of new opportunities.

Russell Investments believes responsible investing is a long-term approach that accounts for a wide range of complex factors. We have a firm commitment to ESG, with a robust process embedded throughout our business and investment process, including manager research and active ownership.

We have been an active member of the United Nations Principles for Responsible Investment (PRI) since 2009 (scored an A / A+ overall rating in 2020) and held an influential role on the committee which established the Limited Partners' Responsible Investment Due Diligence Questionnaire.

We routinely publish insights and research on responsible investing and ESG topics, which is supplemented by live market information sourced via our annual ESG survey. This survey evaluates our active managers to ascertain best in class and understand how the market is evolving. ESG is an integral part of our due diligence process across all asset classes as we view sound awareness of these factors and a robust process as integral to responsible, sustainable investing.

> *Actively investing capital in impact since 2015.*

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