

## CONFERENCE SUMMARY

### CLIMATE RISK: BACK INTO FOCUS



**JONATHAN BAILEY**  
HEAD OF ESG INVESTING



**CHRISTOPHER KOCINSKI**  
NON-INVESTMENT GRADE CREDIT



**HENDRIK-JAN BOER**  
GLOBAL EQUITIES TEAM GROUP HEAD



**MODERATED BY – EDWARD JONES**  
UK INSTITUTIONAL BUSINESS

#### KEY POINTS

- We use modelling to understand where the transition and physical risks lie
- We have specific engagement objectives that we monitor to track a company's progress on ESG issues
- Impact investing needs to be part of the solution

#### Exclusion and engagement

Jonathan described how our top-down modelling capabilities help us to understand where climate change-related risks lie and to monitor the risk profiles of our portfolios. We identify two types of risk. Transition risks derive from changes in policy, consumer behaviour or technology that add costs or remove or create opportunities for a company. Direct physical risks are posed by trends such as increases in sea levels, or acute issues like hurricanes or wildfires.

We realise these changes are happening sooner than we might have envisaged and that they will grow in importance and visibility, Jonathan explained. We want to understand what exposure a company has and what protections have been put in place to reduce potential damage. We can then price this into our view of the security and compare our portfolio risk profiles with benchmark risk profiles. Once this top-down analysis is done, we can study specific companies and how committed they are to managing transition risks, and engage to help make improvements.

That said, there are some investments that don't make sense at all from an economic or climate perspective, Jonathan argued. For example, all of our US-registered mutual funds, closed-ended funds and international UCITS are now prohibited from making new investments in companies that derive more than 25% of their revenues from thermal coal mining or are expanding new thermal coal power generation.

#### Engagement works

Hendrik-Jan acknowledged that the world is full of corporates that have neglected the seriousness of these issues. However, he noted that this attitude is diminishing rapidly and emphasised that his global equities strategy looks for corporates that are proactive.

The most important tools are to have specific engagement objectives to pursue, and to track a company's progress toward those objectives over time, Chris explained. This makes it systematic and relatively simple to identify management teams that are serious about these issues. He said that his team finds management to be extremely responsive to partnering with fixed income asset managers.

## ESG does affect security pricing, but we need improved data and reporting

Chris highlighted that sustainable-linked bond issuance has been growing over the past few months and evidence shows a slight advantage in the cost of capital for sustainable-linked issuance relative to traditional issuance.

Hendrik-Jan added that rating agencies, investors and data profilers still have a long way to go to expand their knowledge. He mentioned a seafood farming company based in the Faroe Islands that has built an energy plant using waste and manure from its main business. It significantly reduced the company's CO<sub>2</sub> footprint, but this fact was not included in its annual report.

Acquiring all the details from companies can be challenging, but regulators are stepping in, Jonathan noted. For example, the adoption of the Task Force on Climate-Related Financial Disclosures in the UK, Canada and possibly the US will require more disclosure from companies.

## Building back "greener" after coronavirus

The coronavirus crisis has led to behavioural shifts that are likely to persist, Jonathan observed, but there is clearly also pent-up demand for previous activities, such as travel and leisure activities. That means we are likely to see a bounceback in emissions, but policymakers have taken a clear view on climate and built that into programs, such as the ECB's commitment to raise the proportion of green bonds in its asset purchases and the stimulus package outlined by the new US administration.

## Making an impact as well as managing risk

Jonathan highlighted that impact investing needs to be part of the climate solution as much as company and portfolio risk reduction. Every company has a role to play, he argued: every company has a carbon footprint, influences supply chains and shapes consumer behavior. For us at Neuberger Berman, that means working to create investment strategies that generate positive outcomes with at least the same financial risk-and-return expectations. This is going to be a key part of solving the climate crisis—and we are excited to play our part.

This document is addressed to professional clients only.

United Kingdom: This document is a financial promotion and is issued by Neuberger Berman Europe Limited, which is authorised and regulated by the Financial Conduct Authority and is registered in England and Wales, at Lansdowne House, 57 Berkeley Square, London, W1J 6ER.

European Economic Area (EEA): This is a marketing document and is issued by Neuberger Berman Asset Management Ireland Limited, which is regulated by the Central Bank Ireland and is registered in Ireland, at MFD Secretaries Limited, 32 Molesworth Street, Dublin 2.

Switzerland: For qualified investors use only. This document is provided to you by Neuberger Berman Europe Limited.

Neuberger Berman Europe Limited is also a registered investment adviser with the Securities and Exchange Commission in the US, and the Dubai branch is regulated by the Dubai Financial Services Authority in the Dubai International Financial Centre. Neuberger Berman Europe Limited is an authorised financial services provider with the South African Financial Sector Conduct Authority, FSP number 45020.

This document is presented solely for information purposes and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security.

We do not represent that this information, including any third party information, is complete and it should not be relied upon as such.

It should not be assumed that any investments in securities, companies, sectors or markets identified and described were or will be profitable.

Any views or opinions expressed may not reflect those of the firm as a whole.

All information is current as of the date of this material and is subject to change without notice.

Indices are unmanaged and not available for direct investment.

An investment in this product involves risks, with the potential for above-average risk, and is only suitable for people who are in a position to take such risks.

**Past performance is not a reliable indicator of current or future results.** The value of investments may go down as well as up and investors may not get back any of the amount

invested. The performance data does not take account of the commissions and costs incurred on the issue and redemption of units.

The value of investments designated in another currency may rise and fall due to exchange rate fluctuations in respect of the relevant currencies. Adverse movements in currency exchange rates can result in a decrease in return and a loss of capital.

Tax treatment depends on the individual circumstances of each investor and may be subject to change. Investors are therefore recommended to seek independent tax advice.

No part of this document may be reproduced in any manner without prior written permission of Neuberger Berman Europe Limited.

The "Neuberger Berman" name and logo are registered service marks of Neuberger Berman Group LLC.

NEUBERGER	BERMAN
-----------	--------

**Neuberger Berman**  
Lansdowne House  
57 Berkeley Square  
London W1J 6ER  
United Kingdom

[www.nb.com](http://www.nb.com)