

# Investment News

## Monthly Bulletin from the Insurance & Investment Team

August 2017

### Last Month in Brief

The UK's annual inflation rate has dropped from 2.9% to 2.6% in June, the first decrease since October 2016. This was largely attributed to a fall in fuel prices. The drop was unexpected, as the inflation rate had previously risen since the EU referendum result last June as a result of the increase in the cost of imported goods following the weakened pound. The rise in the UK state pension age is to be brought forward seven years; the government intends to legislate for it to now take place between 2037 and 2039. The government announced that this change will save the taxpayer £74 billion by 2045/46 and reduce the projected GDP spend on state pension from 6.5% to 6.1%.

Recent figures from Eurostat show a 0.6% growth in the Eurozone in the second quarter of the year. This figure brings the annual growth rate to 2.2%, and unemployment levels are at the lowest since 2009, suggesting improved economic health. The IMF forecasted that the economy in the Eurozone will grow faster than expected, with GDP increasing by 1.9% in 2017.

The European Commission and the Italian government agreed on a state bailout for Banca Monte dei Paschi di Siena. The bank will receive €5.4 billion, giving the government a 70% stake.

The US economy grew at an annual rate of 2.6% in the second quarter of the year. Consumer spending increased by 2.8% in the quarter, up from 1.9%. The IMF revised its forecast for US growth in 2017 down to 2.1% from 2.3%.

Chart 1: Equity Indices

Equity markets were stable over the month



Chart 2: Sterling Credit Spreads

Credit spreads narrowed over the month

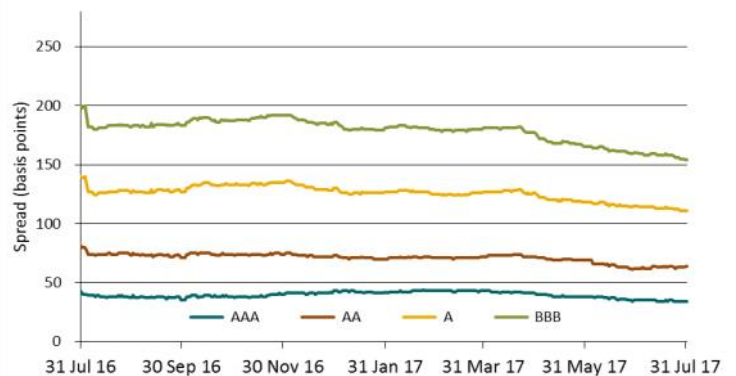


Chart 3: Gilt Yields

Nominal gilt yields were stable over the month

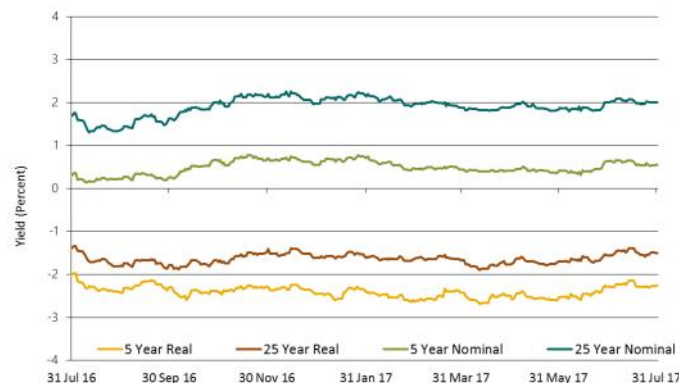
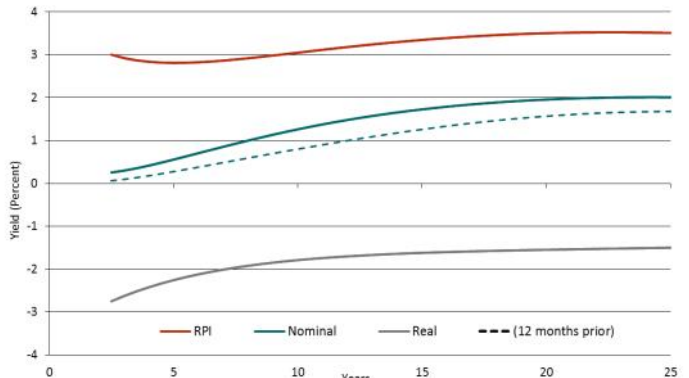


Chart 4: Gilt Spot Curves\*

The yield curve remains upward sloping



\* Data for the real and inflation gilt spot curves prior to 1st January 2017 is temporarily unavailable from the Bank of England

Source: Financial Times, MSCI, Merrill Lynch Bank of America and Bank of England. Note real gilt yields are not displayed this month as their calculation methodology is under review.

	Latest	Previous		Latest	Previous
CPI (annual change)	+2.6%	+2.9%	Base rate	0.25%	0.25%
PPF 7800 funding ratio	89.1%	86.8%	\$/£ exchange rate	1.32	1.30
Halifax house prices (monthly change)	-0.2%	-1.0%	VIX (volatility) index	10.26	11.18

For monthly published indices "Latest" and "Previous" refers to the two most recently published statistics, otherwise numbers are quoted as at the month end.

## Task Force on Climate-related Financial Disclosure

### What is the Task Force?

Climate change is now widely recognised as one of the most material risks facing humanity, with the potential to have significant social and economic implications. Governments, organisations and investors, including insurers and pension schemes are now wanting to take actions to mitigate their exposure to climate change risks.

To give an indication of the scale of risk to the global economy a recent study by the London School of Economics found that climate change could reduce the value of global financial assets by \$2.5tn with the figure potentially rising to \$24tn in a worst case scenario.

The G20 finance ministers and Central Bank governors therefore tasked the Financial Stability Board (FSB) to look into the implications of this faced by the financial sector as climate related policy and regulations are tightened. Following this request the FSB announced the creation of the Task Force on climate-related financial disclosures (TCFD or the Task Force) chaired by Michael R. Bloomberg and with global industry leaders as members.

Mark Carney, Governor of the Bank of England and FSB Chair, stated that the primary objective of the Task Force was to develop voluntary, consistent climate-related financial guidelines for use by companies in providing relevant information to stakeholders.

In June 2017 the Task Force released its final recommendations report which set out its guidelines on climate-related disclosure for companies and investors to consider.

### What has the Task Force recommended?

The Task Force made a distinction between the two main types of climate risk: “physical” risks relating to damage caused by the climate itself; and “transition” risks arising from efforts to mitigate climate change by reducing greenhouse gas emissions. The aim of the disclosure recommendations is therefore to get clarity on how organisations are exposed to these risks.

In particular, the Task Force’s recommendations focus on how an organisation reports on climate related risks in the following key areas of their business: governance, strategy, risk management, and metrics and targets (see Figure 1).

**Figure 1: Disclosure requirements**

Image source: Financial Stability Board - [www.fsb-tcfd.org](http://www.fsb-tcfd.org)



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The Task Force believes organisations should use scenario analysis to assess the business, strategic and financial implications of climate-related risks and opportunities. They have suggested that organisations use a scenario based on a 2°C or lower outcome (in line with the Paris Accord), plus any scenarios which could materially impact on their business (for example zero emissions targets impacting on the car industry). These scenarios will give investors the tools to assess resilience to climate change.

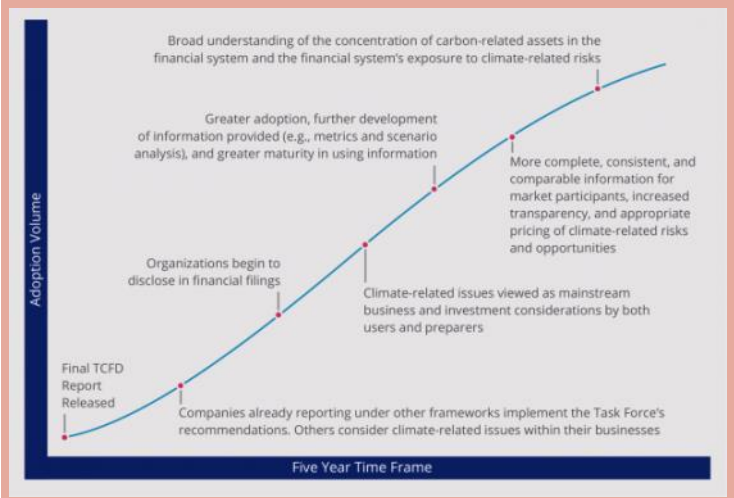
The Task Force has also published supplemental guidance for the financial and non-financial sectors, noting the difference between these. The hope is that the more support the Task Force can provide the more experience organisations will have in preparing climate-related financial disclosures. Over time this will improve the quality and consistency of information disclosed.

### How has the Industry reacted to the Task Force's recommendations?

Adoption of the recommendations is only voluntary and therefore to be successful the Task Force will hope that the take up is widespread. The illustrative implementation plan in Figure 2 shows how the Task Force hope adoption and understanding develops.

**Figure 2: The Task Force's illustrative implementation plan**

Image source: Financial Stability Board - [www.fsb-tcfd.org](http://www.fsb-tcfd.org)



So far the Task Force’s recommendations have been positively received, with many organisations and financial institutions signing a statement of support. For example Ben van Beurden, the CEO of Royal Dutch Shell plc (Shell), stated his support for the work undertaken by the Task Force highlighting the need for companies to be transparent on climate-related issues.

The Task Force hopes the initial positive response from the industry will continue to result in a broader understanding of climate-related risks and opportunities. Companies unwilling to comply with the recommendations risk being left behind as investors question the apparent lack of transparency.

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