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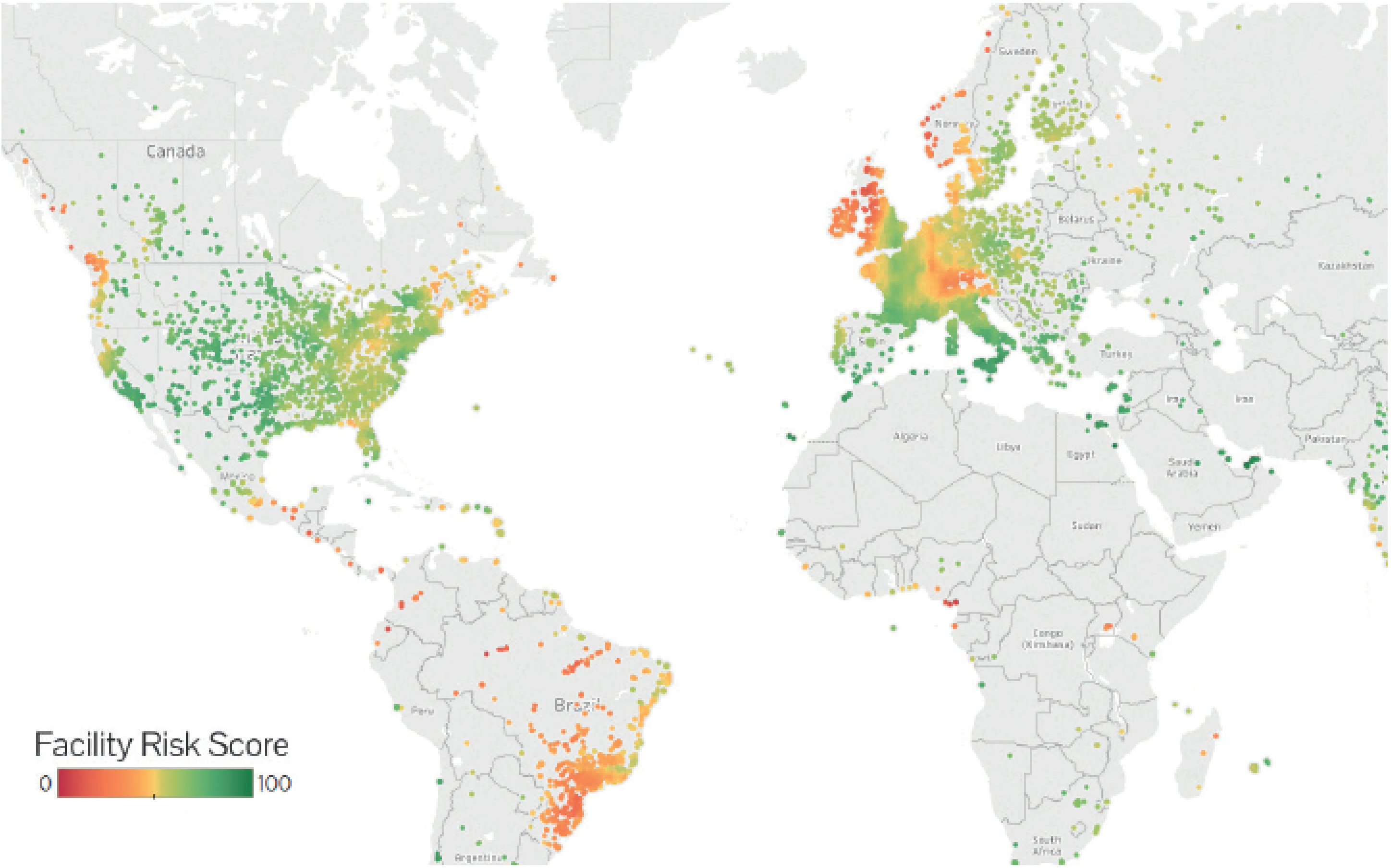
Physical Climate Risk in Equity Portfolios

Posted on November 8, 2017May 1, 2020 by Emilie Mazzacurati

November 8, 2017 – 427 REPORT. Four Twenty Seven's Equity Risk Scores help investors identify climate risk exposure in their portfolios and design new investment strategies. Our methodology tackles physical risk head on by identifying the locations of corporate production and retail sites around the world and their vulnerability to climate change hazards, such as sea level rise, droughts, floods and tropical storms, which pose an immediate threat to investment portfolios. This jointly published report explains our equity risk scoring methodology, features a relative risk ranking of CAC40 companies and discusses particular vulnerabilities in Asia.

Figure 4. CAC40 facilities and extreme precipitation risk



At COP23 Four Twenty Seven and Deutsche Asset Management jointly released a report featuring a new approach to climate risk management in equity portfolios. [*Measuring Physical Climate Risk in Equity Portfolios*] showcases Four Twenty Seven's [Equity Risk Scoring] methodology, which identifies hotspots in investment portfolios by assessing the geographic exposure of publicly-traded companies to climate change.

This comprehensive, data-driven scoring effort culminates in a composite physical risk score that allows for comparison and benchmarking of equities and indices. This integrated measure provides a point of entry to understand and address climate risk, engage with corporations and identify risk mitigation strategies. "This report is a major step forward to addressing a serious and growing risk that investors face. To keep advancing our efforts, we believe the investment industry needs to champion the disclosure of once-in-a-lifetime climate risks by companies so we can assess these risks even more accurately going forward," said Nicolas Moreau, Head of Deutsche Asset Management.

Figure 3. Best and worst-in-class in France's CAC40

Key Takeways

- Four Twenty Seven's equity scoring methodology includes Operations Risk, Supply Chain Risk and Market Risk, accounting for differential vulnerability to climate hazards between industries, asset types and locations.
- Four Twenty Seven screens each corporate site for its exposure and sensitivity to a set of climate hazards including extreme precipitation, sea level rise, hurricanes, heat stress, water stress and wildfires.
- To calculate Supply Chain Risk and Market Risk, Four Twenty Seven uses companies' financial data, such as revenues and production.
- China leads the world in terms of coastal risk, with 145 million people and economic assets located on land threatened by rising seas, and countries throughout Asia are particularly vulnerable to climate risk.
- The Thailand floods of 2011 led to vast repercussions across industries, including car manufacturers, Thailand's rice industry and even tourism.

Read the report and contact us for more information about our products for financial institutions and corporations.

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Four Twenty Seven's ever-growing database now includes close to one million corporate sites and covers over 1800 publicly-traded companies. We offer subscription products and advisory services to access this unique dataset. Options include data feeds, an interactive analytics platform and company scorecards, as well as custom portfolio analysis and benchmarking.

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