

EdenTree SRI Expert Briefing – January 2016



The Global Risks Landscape in 2016

Q. What is the Global Risks Landscape?

A. Every year, the World Economic Forum (WEF) publishes an updated version of its Global Risks Landscape, where it looks at the likelihood and impact of economic, environmental, geopolitical, societal and technological risks over a 10-year framework. The results emerge from the Global Risks Perception Survey of 750 members of the WEF multi-stakeholder community. The WEF is an independent not for profit organisation which aims to improve the state of the world through co-operation between the public and private sectors. At the beginning of each year it also organises the WEF Annual Meeting in Davos, Switzerland, where decision-makers from across the world meet to discuss and collaboratively shape the global, regional and industry agendas for the year ahead.



Q. So what are the main risks in 2016?

A. Global risks, if they are not recognised and managed may have significant negative impacts for business, industry or countries within the next decade. In 2016, the failure of climate change mitigation and adaptation ranks as the most impactful future risk. For the first time since the beginning of the risk survey in 2006, an environmental risk tops the list, which shows increased awareness but also increased urgency to build environmental resilience. Related to climate change, the risk of water crisis, extreme weather events and natural catastrophes has increased. The global refugee crisis and large-scale involuntary migration are also high on the list, contributing to societal instability, the highest risk in terms of likelihood. Economic risks including unemployment, energy price shocks and asset bubbles remain on the radar. The WEF also highlights that many of the risks are highly interconnected, increasing further the potential negative impact if these events do occur. Notable also, is the reduced likelihood of geo-political crises, including inter-state conflict, failure of national governance and state collapse. The impact of weapons of mass destruction remains high on the radar, ranking as the second most impactful risk in 2016.

Top 10 risks in terms of Likelihood	Top 10 risks in terms of Impact	Categories
1 Large-scale involuntary migration	1 Failure of climate-change mitigation and adaptation	<ul style="list-style-type: none"> ◆ Economic ◆ Environmental ◆ Geopolitical ◆ Societal ◆ Technological
2 Extreme weather events	2 Weapons of mass destruction	
3 Failure of climate-change mitigation and adaptation	3 Water crises	
4 Interstate conflict	4 Large-scale involuntary migration	
5 Natural catastrophes	5 Energy price shock	
6 Failure of national governance	6 Biodiversity loss and ecosystem collapse	
7 Unemployment or underemployment	7 Fiscal crises	
8 Data fraud or theft	8 Spread of infectious diseases	
9 Water crises	9 Asset bubble	
10 Illicit trade	10 Profound social instability	

Q. How have the risks evolved since 2006?

A. Over the last ten years, economic risks have ranked at the top of the list eight times, covering asset price collapses, fiscal crises and major systemic financial failures. 2015 switched the focus, when water crises appeared for the first time as a societal risk, and now in 2016, failure of climate change mitigation and adaptation marks the first environmental risk to top the list. In general, environmental risks now represent 40% of the 10 most likely risks. As the world prepares to embrace the “fourth industrial revolution”, technological risks also become more important. The theft of data and data fraud, as well as cyber-attacks, have both been given an above average likelihood in recent years.

Q. The failure of climate change mitigation and adaptation tops the list for 2016, what does this mean?

A. Many of the risks highlighted in the report, whether economic, environmental, technological or even geopolitical and societal are material for businesses and may represent operational as well as reputational or regulatory risks for businesses and are thus also relevant for investors. The failure of climate change mitigation and adaptation has reached the top of the list, just a month after global climate negotiations took place at the COP 21 in Paris. Under a ‘business as usual’ scenario, temperatures are expected to rise well above the recommended limit of a 2°C increase. This represents a threat to water supply and food security as well as the cause of more frequent extreme weather events, affecting millions of people and negatively impacting business operations, not least the insurance industry.

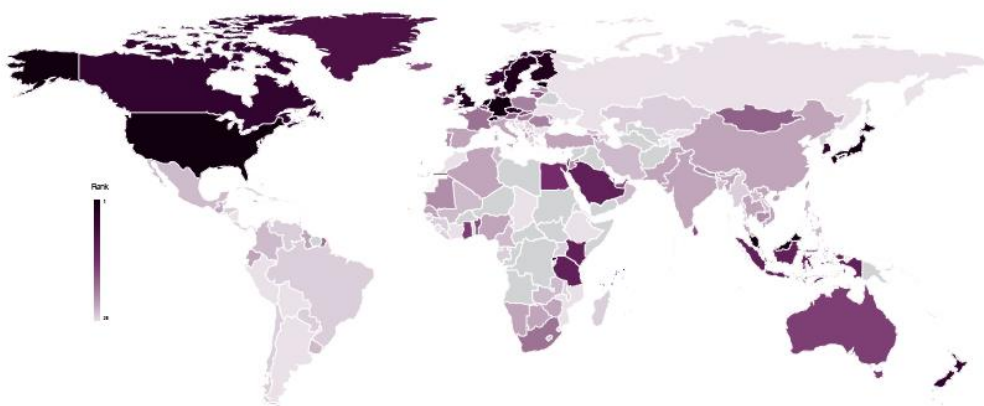
Q. How does EdenTree manage climate change risks?

A. When looking for investments, the Amity positive pillar of environmental management is key to addressing business ability to reduce its impact on the environment and limit its contribution to greenhouse gas (GHG) emissions. We look for companies that have a good understanding of their environmental impact and have a strategy in place to manage it. In 2015, EdenTree became a member of the Institutional Investor Group on Climate Change (IIGCC), which brings together 120 European members with total AUM of EUR 13 trillion. IIGCC aims to engage with public policy makers on behalf of investors in order to facilitate the transition to a low carbon economy. Through our collaborative work with the Principles of Responsible Investment (PRI), we also engage with companies on their environmental impact. The Amity Funds have no exposure to mining and very little exposure to oil, which means the Funds have a low carbon impact and are stranded asset adverse. We are actively scoping the possibility of conducting a carbon footprint of the Amity Funds and will make an announcement in due course.

Q. Which other risks highlighted in the Global Risks Landscape are material for EdenTree?

A. In an increasingly digitalised world where big data is continuously growing, cyber security is an important issue for businesses in all sectors, especially in developed countries. Cases of cyber-attacks and data losses have frequently been in the news in 2015 and this is expected to persist in the future as well. However, many businesses do not appear protected against these new technological risks. In 2016 one of our Amity Insights will therefore look more closely at cyber security and its associated risks.

Figure 4.6 Cyberattacks, rank



Biodiversity loss and ecosystem collapse has been highlighted as one of the most impactful risks. People, businesses and countries are dependent on natural capital and ecosystem services. Yet, climate change and human activity are threatening biodiversity levels and ecosystem functions. The challenge will be to protect and conserve biodiversity whilst sustaining ecosystems at current levels. Our second Amity Insight in 2016 will look at natural capital and how, despite its value, is often insufficiently or poorly valued by companies.

After rising to the top in 2015, water crises rank as the third most impactful risk in the 2016 survey. Looking at a longer term horizon however, water crises remain of the highest concern over the next decade. As a direct consequence of climate change and weak water governance, water crisis will represent a major challenge for economic development. While the world strives to accommodate a growing population, water demand is projected to exceed sustainable supply by 40% by 2030, further increasing water stress. We wrote about this in an earlier insight in 2012 (Thirsty Planet), and will return to water as a theme in 2017.

The EdenTree SRI Team

We have a specialist in-house Socially Responsible Investment (SRI) team who carry out thematic and stock-specific research to identify ethically responsible investment ideas for our range of [Amity Funds](#). Headed up by Neville White, Head of SRI Policy & Research, and supported by Associate Fund Manager Ketan Patel and Responsible Investment Analyst Esmé van Herwijnen, the team is also responsible for creating an on-going dialogue with companies, allowing us to engage on a wide variety of ethical and socially responsible investment concerns. For investors, it's an added layer of assurance that client money is being invested in companies that are operating in a responsible and sustainable way. Our ethical and responsible investment process is overseen by an independent Amity Panel that meets three times a year, and comprises industry and business experts, appointed for their specialist knowledge.



EdenTree - Ethical Investment Specialist



Since launching the [Amity UK Fund](#) in 1988, EdenTree has taken a leadership role in managing ethical investments through our research, engagement and strong fund performance. Consequently, we were delighted to receive the Moneyfacts Award for Best Ethical Investment Provider 2015, the seventh consecutive year of winning this award. We were particularly pleased to win as it is voted for by the Adviser community. In 2013, the [Amity UK Fund](#) was rated 'Highly Commended' in the Investment Week Climate Change and Ethical Investment Awards. We were also awarded Money Observer Best Ethical-SRI Bond Fund for the [Amity Sterling Bond Fund](#); the [Amity UK Fund](#) won Best Equity Fund in the 2014 Money Observer Ethical/SRI category, and we were nominated for an award in the category of Best Thought Leadership Paper on Sustainable Investing, in the Investment Week Sustainable Investment Awards 2014. Today we offer six SRI funds under our Amity brand, four retail funds and two for charity investors, covering the major markets and investment classes.

Further information

For further information on EdenTree's SRI range of Amity Funds please contact your EdenTree Business Development Manager, visit www.edentreeim.com or call our IFA support team on 0800 011 3821.

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