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# Managing the growing risks and opportunities from climate change

## Guidance for fund managers in emerging markets

A report from Forum for the Future commissioned by  
CDC Group

Executive Summary  
October 2010



CDC is the UK's development finance institution. Owned by the UK government's Department for International Development, CDC provides capital to invest in promising businesses, with a particular focus on sub-Saharan Africa and South Asia. By supporting the private sector, CDC contributes to long-term poverty reduction in developing countries.

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Forum for the Future, the sustainable development charity, works in partnership with leading business and public sector bodies, helping them devise more sustainable strategies and deliver these in the form of new products and services.

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# Executive Summary

All companies, no matter what sector or geography they are in, will feel the impacts of climate change. We are already seeing increasing numbers of weather shocks around the world: this is perhaps the most obvious risk for direct operations and for supply chains. But it may not be the most immediate.

Many companies are experiencing increased current costs as regulation seeking to reduce future climate risk comes into force. And as consumers change their behaviour, companies are also increasingly affected by changes in the market for their products and services. Supply chains will increasingly be judged (and priced) on the basis of their carbon content. Products and services will be evaluated on their relative carbon performance against their direct competitors.

The broader aspects of climate risk and opportunity shift the discussion from the long-term and theoretical to the present – making climate risk an important part of strategy in the near term. The impacts will certainly be felt to a greater or lesser extent over the 5-7 year timeframe of the average private equity investment. They will, without question, be a factor in the price that a buyer will pay for the investment at the end of that period.

Longer-term, the performance of a company will depend on whether its products and services are compatible with a world where carbon emissions are severely curtailed. Companies that can't or won't adapt will struggle, but there are many opportunities for those that are able to innovate.

All investors need to be armed with a new set of questions for their target or existing investee companies – to assess how climate change will affect their commercial performance of companies and the value of any investments.

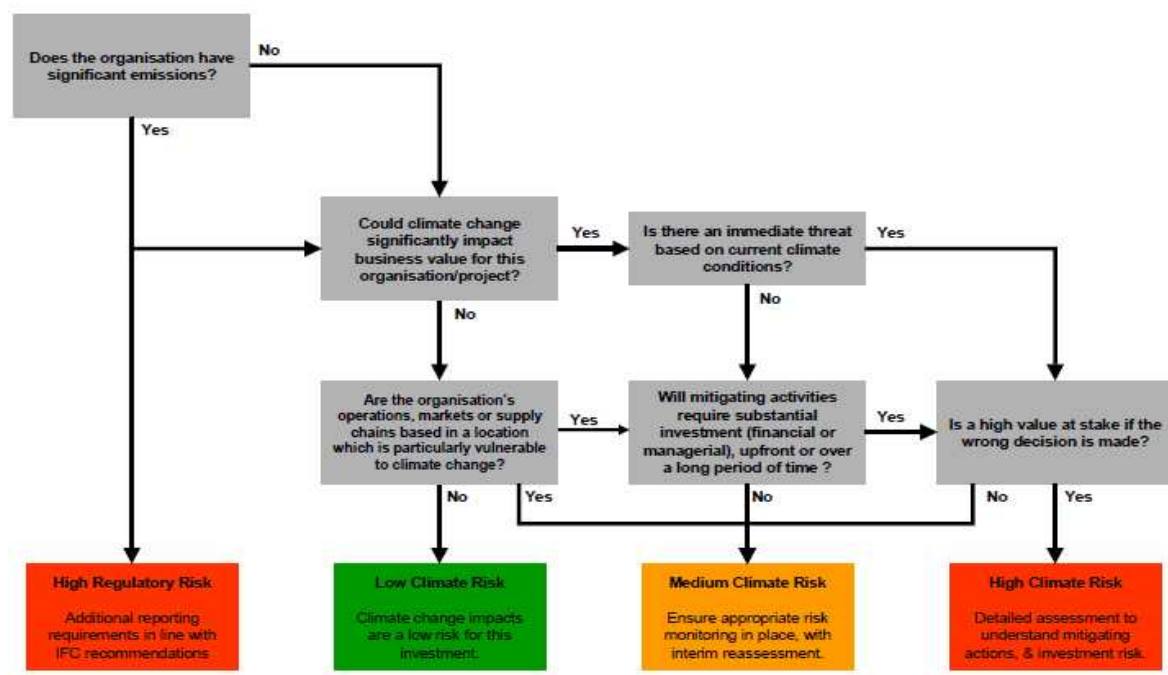
- How exposed is the company to the physical risks from climate change?
- Are the company's supply chains at risk from climate change?
- Are the company's products and services aligned with the need to move towards a low-carbon economy?
- Are there opportunities for the company to develop innovative low-carbon products and services?
- Might the company's operations be affected by reductions in the availability of water?
- Will the company have access to energy at a competitive price?

To safeguard the value of the investments in their portfolio, fund managers need to:

- (1) understand the exposure of their investments, current and proposed, to climate change, and
- (2) engage investees to make their investment propositions and their companies more resilient to climate change.

Fund managers can make a quick assessment of the likely level of risk of a particular investment by applying this decision tree.





More detailed guidance is provided in the main report to help assess of the risks and opportunities for each individual company.

- **Tool 1** provides guidance on the types of questions private equity fund managers should ask of investee companies to ascertain how well they understand and are prepared for the implications of climate change and the transition to a low-carbon economy.
- **Tool 2** considers how private equity fund managers should gather information from their portfolio companies and report it in summary form to the investors in their fund.
- **Tool 3** looks at specific sector risks and opportunities.
- **Tool 4** provides some pointers to the specific risks arising from certain locations.
- **Tool 5** suggests where private equity fund managers can go for guidance on generating additional income from the emerging carbon finance markets.

Armed with this guidance, private equity fund managers in emerging markets (and other types of investors elsewhere in the world) will be able to make better investment decisions. It is hoped this will result in portfolios that are more resilient to the physical, regulatory and competitive challenges that climate change will bring.