

News Release

Contacts:

Bruce Lee (US Press Office)

+ 1 212 345 0553 bruce.lee@mercer.com

Mags Andersen/Alistair Peck (UK Press Office)

+ 44 (0)20 7178 3513 / 3143 mercer.pressooffice@mercer.com

Global investors collaborate on innovative climate change asset allocation study

Post-Copenhagen, global investors collaborate to consider the impact of climate change on strategic asset allocation

London, 9 March 2010

It is widely acknowledged that climate change will have a broad-ranging impact on economies and financial markets. What is less certain is what climate change will mean for institutional investors and how they can best prepare for this challenge, both from a risk and return perspective. To help manage these uncertainties, Mercer, together with 14 institutional asset owners and investors from around the world, the Carbon Trust and IFC, a member of the World Bank Group, recently launched a climate change strategic asset allocation study (the “study”) exploring the potential impact of climate change scenarios on asset allocation. The Grantham Research Institute on Climate Change and the Environment, together with Vivid Economics, have been engaged to lead components of the research on the economic and financial impact of climate change scenarios.

Some of the investor partners include AP1, APG, AustralianSuper, British Columbia Investment Management Corporation (bcIMC), CalPERS, CalSTRS, the Environment Agency Pension Scheme the Maryland State Retirement and Pension System, the Norwegian Government Pension Fund, the Ontario Municipal Employees Retirement System (OMERS), PGGM and VicSuper Pty Ltd.

The study has been structured using a scenario based framework to identify potential new investment opportunities and possible future risks related to climate change. Accordingly, it will consider a variety of climate change scenarios and map the potential risks and opportunities of these outcomes for returns on asset classes in different regions over the periods until 2030 and 2050. The research will explore volatility and correlations among asset classes, regions, and sectors under each scenario and consider each scenario’s impact on strategic asset allocation.

The study will culminate in a publicly available report, which will launch in the fourth quarter of 2010. Each study partner will also receive their own tailored report assessing the effects of the scenarios on its asset mix, highlighting both the investment risks and opportunities.

The release of the study findings should encourage financial intermediaries, such as investment managers, consultants and research firms, to develop tools, products and services that facilitate appropriate responses to climate risk scenarios.

Furthermore, the report will consider recommendations for policy-makers and industry bodies. Although financing arrangements did not feature prominently during the Copenhagen Summit discussions, they will be crucial for mobilising capital to help meet government targets to reduce emissions and provide the funding required for adaptation to the physical impacts of climate change. "The importance of private sector capital cannot be understated in the fight against climate change. Yet, mobilising those funds requires clear understanding of the climate risks and opportunities to help pension funds allocate capital appropriately," said Greg Radford, IFC Director for Environment and Social Development.

"We are very excited and proud to undertake this important climate change scenario analysis project together with our valued partners," said Andrew Kirton, Global Head of Mercer's Investment Consulting business. "Institutional investors will be better placed, in our opinion, to consider the implications of climate change for investment risk and returns at the total portfolio level as a result of this project. A scenario based approach will provide a new insight into current thinking amongst our project partners, many of whom are leading the charge in responding to the climate change challenge."

Norway's Finance Minister, Mr. Sigbjorn Johnsen, noted: "Climate change poses major socioeconomic and financial risks worldwide. The Norwegian government takes these risks seriously, also in the management of the Government Pension Fund. The climate scenario study is an important element in our effort to gain a deeper understanding of the robustness and sustainability of our long term investment strategy".

"I think we can all agree that climate change will have significant impacts on the global community. The big challenge is translating the impact of climate change into consistent effects on strategic asset allocation," said Jaap Van Dam, Chief Strategist at PGGM.

"This project is a natural successor to work by the Carbon Trust demonstrating that climate change is a key driver of value across different sectors," said Bruce Duguid, Head of Investor Engagement at the Carbon Trust. "This focus on asset classes, combined with previous work on sector impacts, should enable investors to reward opportunities that will thrive in a low carbon economy and help avoid fuelling further high carbon growth."

"It is of utmost importance for a large global pension fund like ours to assess the possible implications of climate change on the long term returns of our assets. This project gives us a unique opportunity to join forces with peers and climate experts to discuss this important issue and analyse how it could possibly affect our strategic asset allocation, the core in our asset management model," said Johan Magnusson, Managing Director of Första AP-fonden (AP1).

"APG attaches great importance to understanding the strategic implications of climate change for the pension assets it manages. We are therefore very pleased to be working with other leading investors from around the world on this project," said Angelien Kemna, Chief Executive of APG Asset Management.

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“Although we acknowledge that global warming will have wide-ranging impacts on economies and financial markets, long-term investors like bcIMC are uncertain what this will mean for our global investment strategy and how we can best prepare for this challenge, both from a risk and a return perspective. Our goal with this research project is to develop a better understanding of how to manage these uncertainties,” said Doug Pearce, CEO/CIO of BC Investment Management Corporation (bcIMC).

“We aim to use this project to directly feed into our investment strategy, fulfilling our fiduciary duty to manage the financial impact of climate change,” said Howard Pearce, of the Environment Agency Pension Fund.

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Note to editors

Additional press contacts

AP1 – Ossian Ekdahl, Head of Communications and ESG, +46 709 681 209, ossian.ekdahl@ap1.se

APG – Media Americas and Asia: Michel.Meijs@apg-am.com, Media Europe: thijs.steger@apg.nl

BC Investment Management Corporation (bcIMC) – Gwen-Ann Chittenden, Manager Corporate Initiatives, 250-387-4650, communications@bcimc.com

Environment Agency – Howard Pearce, Head of Pension Fund Management, +44 (0)1454 624332, howard.pearce@environment-agency.gov.uk

The Grantham Research Institute on Climate Change and the Environment – Bob Ward, Director of Policy and Communications, +44 207 106 1236

IFC – Katia Theriault, +202 458 9704 or +202 203 8223 (cell), ktheriault@ifc.org

Maryland State Retirement and Pension System – Dean Kenderdine, Executive Director, +410 625 5600

Norwegian Ministry of Finance – Information unit, +47 22 24 44 11, informasjonsenheden@fin.dep.no

PGGM - Corporate Communications Department - Diana Abrahams, +31 30 2779062, diana.abrahams@pggm.nl

VicSuper Pty Ltd. – Tamia Puchlenko, +613 9667 9701

Vivid Economics – +44 (0)844 8000 254, enquires@vivideconomics.com

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