

COMMENTARY

## The World Is Starting to Pivot on Climate. It's Not Enough.

By **Michelle Dunstan, Lisa Sachs, and Art Lerner-Lam**

*About the authors: Michelle Dunstan is chief responsibility officer at AllianceBernstein. Lisa Sachs is director of Columbia University's Center for Sustainable Investment. Art Lerner-Lam is senior advisor to the deans of Columbia's new Climate School.*

Heat waves and wildfires rage throughout the western U.S., amid an unprecedented drought. Record-breaking flooding sweeps through Europe and central China. An increasing loss of lives, livelihoods and property marks these events and others like them. And a growing consensus in the scientific community finds that much of this disastrous surge would not be happening if not for underlying changes in Earth's climate. It's as if the planet is putting an exclamation point on a pivot away from business as usual, as we now acknowledge the physical and economic risks of climate change accruing to all sectors of the global economy.

That pivot is now underway. Shareholders and courts have put oil majors on notice, while the International Energy Agency pub-

lished a "we're out of time" manifesto, declaring no headroom for new oil production. The U.S. Securities and Exchange Commission is preparing to issue rules on climate disclosures, following other jurisdictions from around the globe.

We would be mistaken to think that such a rapid course correction is enough to meaningfully address the global climate crisis that will fundamentally alter the way societies and markets operate.

This realization is particularly acute after a year that has taught us preparing for, and responding to, a challenge of this scale is a marathon, not a sprint. But unlike the race that athletes have confronted for millennia, the course is constantly changing, and everyone will need to help each other over the finish line in time.

The coronavirus pandemic showed us that reaction to crises is much costlier than preparation. With the climate crisis, we may not have the ability to invest in a recovery as we pass various natural tipping points. Understanding the facts, working to reduce uncertainties, and recognizing that there may be unpredictable surprises all contribute to preparedness, resilience,

and better outcomes for all of us.

Knowledge, and its transparent distribution, is the key to successfully responding to a global crisis. It's created by basic, unfettered research that becomes actionable—both in a solutions-oriented framework or serendipitous application. Either can invigorate changes in society, but there must be room for both to prosper.

The pursuit of catalyzing academic research and discovery into decisions facing businesses, governments, and society is the foundation of the partnership between our two organizations—Columbia University and AllianceBernstein. Capital allocation and engagement with issuers can be augmented by connecting investors to a base of climate knowledge such as the Columbia Climate School, due to launch this fall. For faculty and scientists, research that is more focused, via early and regular interaction with the financial sector, leads to greater impacts and better allocation of capital to products, services, and companies that have the best potential for long-term success and viability.

We see an emerging consensus around how investment decisions

could be better connected to the imperative of transitioning our global energy systems to net zero carbon emissions by mid-century. Consideration of these factors is not just “nice to have” but increasingly fundamental, impacting financial performance and altering cash flows and the valuations. Evaluating and quantifying the risks of climate change, combined with better identification of the opportunities, leads to improved financial decision-making, enhanced outcomes and more-resilient businesses

We must ask the right questions, bring different constituencies into the discussion, and above all, set standards for action that do not lose sight of the long-term goal.

For our organizations, the overarching questions are: How do we achieve the transition to a low-carbon economy, keep our national and global economies within planetary boundaries, and elevate global standards of living? How can we best support the complex scaffolding of knowledge, policy and

regulatory frameworks, incentives, and allocation of government and investor resources to achieve this goal? We don’t have all the answers, but the path forward is clear.

First, collaboration among traditionally siloed stakeholders is imperative to achieving a global low-carbon transition. Although our colleagues in academia and asset management work with an array of collaborators and clients, this dynamic must move from transactional to systematic to lead to the co-production of knowledge, broadening perspectives to a spectrum of solutions.

Second, the changes in behaviors needed to address climate must occur across all communities and sectors. This requires granular interactions that acknowledge the nuanced nature of climate-change impacts in order to build tailored approaches to resiliency. In turn, these interactions can steer collaborative research toward inherently more applicable and scalable solutions.

Third, the global transformations that are needed across sectors and communities require the coordinated actions of business, individuals, policymakers, courts, and finance. Active investment managers, through interactions across sectors, industries, asset classes and regions, will play a central role in facilitating the necessary transformations. Their ability to reallocate investment capital can have a huge impact on the transition to net-zero emissions, and the financing of new critical infrastructure for clean energy generation, storage and distribution.

Finding solutions to any global challenge to humanity is a marathon, not a sprint. More precisely, it’s a collective marathon, run by governments and social, cultural and economic constituencies, sometimes in competition, but often in collaboration.

A sprint is exciting. But we will all need to plan for the future—together—if we want to win the race.