

## Bren Group Project Proposal: **Climate Index**

Client: AIG

Faculty Sponsor: Charles Kolstad

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**Problem Statement:** Green investment funds have been popular over the past decade as a way of providing an opportunity for socially responsible investors to both invest their resources and benefit from their view that social responsibility pays off in the long run. Indications are that some of these green mutual funds (composed of “green” companies) have performed well. To our knowledge, no index funds are available that specifically target investments that are “climate friendly.”

**Project Objectives:** The goal of this project would be to develop a specialized climate-focused institutional investment index product that incorporates GHG emissions performance or other climate change related considerations in its investment selection criteria. This would involve (1) researching the structure and content of existing sustainability or climate related investment products of this type (e.g. DJSI, FTSE 4 Good, KLD Climate 100, other related fund products); (2) providing empirical research to support the hypothesis that eco-efficiency and environmental sustainability leads to superior investment returns and (3) suggesting methods and criteria to develop a new index product that benefits from GHG emissions performance. There is obviously a management component to this project; there is an environmental science component in determining the climate consequences of firm practices.

**Project Significance:** Green mutual funds have been a successful way to channel significant investments into environmentally friendly practices. This can have an impact on environmental performance. If this project is successful, it could have an impact on encouraging firms, via the market place, to independently undertake climate-friendly practices. It will also offer the client, and others, the opportunity to develop a new and potentially profitable financial product. (It should be pointed out that the benefits of this project are far more broad than just AIG.) Furthermore, the research and data gathering associated with the project should help the ongoing debate on the efficacy of green funds.

**Background:** This idea originated with AIG-Environmental’s Climate Change program, AIG Global Investment Group’s Global Equities Division and Project AIGGIG’s Sustainability Working Group. AIG is one of the world’s largest insurance and financial companies, headquartered in New York.

**Stakeholders:** This research has far-reaching implications, not only in the financial community but also in the climate community.

**Possible Approaches and Available Data:** There has been some work on the desirability and performance of green funds. In fact our Dean Aigner has done work in this area. Data on company financial performance are readily available. Some data on

environmental performance are available, though more may need to be collected. Primary data collection should not be necessary.

**Deliverables:** We expect to address the three questions raised in the project objectives above.

**Clients:**

Principal Contact:

Hans Danielsson

Senior Managing Director

Global Equities

AIG Global Investment Group

70 Pine Street, 10<sup>th</sup> Floor

New York, NY 10270

Ph: 212 770-9401

Alternate contact:

Alice LeBlanc, Director

Climate Change Programs

AIG-Environmental

175 Water Street, 12th floor

New York, NY 10038

ph: 212 458-6347

fax: 212 458-6200

**Anticipated Financial Needs:**

Summer internship for one or two students: AIGGIG Global Equities is interested in providing this opportunity.