

Climate Risk Management

Sources, Exposures, Metrics and Management

2 INSIGHTS

1. The next 15 years will be different than the past. The open question is how adverse the future climate will be
2. Climate risk scenarios are 15 and 20 years in length, which is a new type of financial planning for businesses

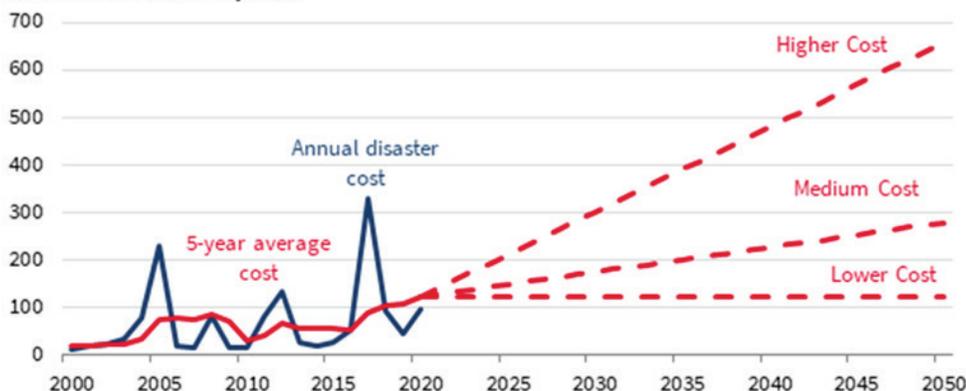
FACTS

- Businesses face increased climate risk (heat, wildfires, floods, hurricanes)
- The US has experienced increasing costs from severe weather events
- The future has even higher costs
- There is a tight connection between climate risk and credit risk, as severe weather can disrupt revenues and cashflows

Cost of Climate & Weather Disasters in the United States

Historical: 2000–2020, Illustrative projections: 2021–2050

Billions of dollars (CPI-adjusted)



Source: [Council of Economic Advisors, The White House](#)

CLIMATE RISK IS NOT SPREAD EVENLY

After experiencing a super hot summer, a month of wildfire smoke or intense flooding, climate risk becomes personal. But yet it remains difficult to comprehend two key aspects of our future.

First, climate risk is uneven. Some geographies and some businesses will suffer more than others. For investors, this creates a new valuation dynamic for winners and losers, with the associated profitable trading opportunity. Expect the financial markets to scrutinize climate risk exposures carefully.

Second, climate risk has a long horizon. There will be summers that are not very hot. But over the coming years, more summers will be super hot than ever before.

For businesses, this means winners will mitigate risk relative to peers and will do it cost-effectively over a long period of time.

Climate risk creates valuation, credit, revenue, supply chain and location exposures. Get ready for disruption. And don't fly blind. Get the data, run the stress tests.

Share of Companies Exposed to Climate Risk



Source: [DWS](#)

READ THE RESEARCH

- [Climate-Related Risks and Opportunities](#), The Council of Economic Advisors, The White House
- [Climate Financial Risk 101](#), Resources for the Future
- [Climate Financial Risk, Measurement Methodologies](#), BIS

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