

Questions from Councillors

Question from Cllr Jon Orrell, Dorset Council

I have read the book Moving Beyond Modern Portfolio Theory and it is clear that its treatment of risk as the volatility of market prices is inadequate. MPT has no interest in the source of that volatility, such as climate risk. Academic research makes it clear that climate risk is almost certainly mispriced by financial markets. There is a risk of a Minsky moment and sudden change in markets, like Lehman, as climate impacts exceed earlier predictions? **How do your advisers incorporate that research in their advice regarding your Strategic Asset Allocations?**

Response:

The pension fund's external advisers are aware of the climate related risks you highlight and incorporate that into their advice regarding Strategic Asset Allocation and associated training for Pension Fund Committee members.