CLIMATE : INVESTORS TAKE ACTION

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CONTENTS

KEY POINTS

A growing number of investors integrate climate change into asset management

The mobilisation of investors against climate change that was reinforced by the UN Climate Summit in New York in September 2014 has steadily gathered steam in less than a year. Actions are being taken by influential players among the world's largest insurance companies, pension funds and sovereign wealth funds, particularly in North America and Europe.

Four types of investors' strategies: shareholder engagement, exclusion, green investments and low carbon portfolios

In its survey and analysis of this movement since autumn 2014, the Novethic research centre has observed that climate change is being addressed in four main ways: green investment, exclusion of sectors or businesses harmful to the climate, shareholder engagement with carbon-intensive companies, and portfolio decarbonisation. Over 800 entities had made such engagements by summer 2015, 250 more than at the beginning of the year. That number is expected to increase even further at the approach of the COP 21, which will be held in Paris in late 2015.

Carbon risk is the primary driver of a movement initially driven by ethical investors

Initially ethical investors were the driving force behind the movement, but their impact was modest because their assets were limited. The movement's character changed when major financial players who wished to limit their carbon risk exposure got on board. The concern here is stranded assets, that is, assets of GHG-intensive companies that could rapidly depreciate in value when their activities are called into question in the coming years. This is especially the case in the fossil-fuels sector, starting with coal.

The pressure from civil society is mounting

Investors are now feeling two kinds of pressure. First, they are being targeted by environmental NGOs, which want investment in fossil fuels to be shifted entirely to renewable energies. Second, they are under pressure because they have a crucial role to play in financing the energy transition in the global economy. In France, this is reflected by an article in the energy transition law adopted in July 2015 that requires French institutional investors to measure their carbon footprint and report on their integration of environmental and social criteria.

Actions by investors* to integrate climate change in their portfolio management.

	February 2015	May 2015	July 2015	% sample
Portfolio carbon footprint	56	77	**94**	**12%**
Low carbon passive management	5	8	**10**	**1%**
Engagement initiatives	182	250	**291**	**36%**
Divestment	194	243	**364**	**45%**
Green investments	266	304	**336**	**42%**
Total	550	710	**806**	

Source : Novethic 2015

*Investors may combine several strategies

In just a few months, climate change has become a subject of intense debate in the financial sector because limiting global warming to a maximum of 2°C has progressively entered the global economic and political agenda. More and more studies are showing that if the increase is greater than this, the climate will become a systemic risk whose magnitude no one can really gauge yet. This is why in April 2015 the G20 finance ministers asked the Financial Stability Board (FSB), a global financial watchdog, to take up the subject and report its findings in September.

The concepts

The debates revolve around several concepts, most of them developed since 2010.

Carbon risk

This concept has gained widespread acceptance since 2014. Carbon risk is the notion that climate change poses financial risks by threatening the profitability of carbon-intensive sectors, with fossil fuels topping the list. A growing number of investors want to adjust their asset allocation strategy for this risk, which is related to the notion of stranded assets.

Stranded assets

"Unburnable Carbon", a study published by the Carbon Tracker Initiative in 2011, was the first in-depth investigation of the financial risk posed by publicly listed companies in the fossil-fuels sector, which are often heavily represented in stock market indexes. "Unburnable Carbon" demonstrated that these companies' business models and their market valuations, which are based on the exploitation of their proven reserves, were incompatible with the carbon budget available to limit global warming to 2°C. The report concluded that future climate regulations would likely render this business model unsustainable and result in substantial asset write-downs at these companies.

The question has thus become how to evaluate these so-called stranded assets. This concept acquired scientific support with an article published in Nature in January 2015. Drawing on the work of two researchers at University College London, it explained that 35% of oil reserves, 52% of natural gas reserves, and 88% of coal reserves will have to remain in the ground if global warming is to be limited to 2°C. These unexploitable reserves are a threat to the future market valuations of companies in the fossil-fuels sector because as stranded assets, they could suddenly lose a large share of their value.

- **Coal, the *bête noire* of investors**
Considered the energy source most harmful to the climate and therefore the one with the most vulnerable business model, coal is the main target of studies warning investors about the risks of stranded assets.
A Stranded Assets Programme was set up at the University of Oxford's Smith School of Enterprise and the Environment in 2012. It has published several studies focusing on coal, including a recent one surveying the highest-risk companies in the coal industry. Based on the International Energy Agency's recommendations for limiting global warming to a maximum of 2°C, it concludes that Indian companies, older Soviet-era and Chinese companies have the greatest stranded-assets exposure. It also looked closely at Australia, which produces 56% of its electricity with coal, or 16% more than the world average. Any new regulations on GHG emissions would thus strongly impact Australia's coal industry.
Mercer, a UK consultancy, published a study in June 2015 showing that investors will be winners or losers depending on whether they anticipate climate change. It notes that stranded assets will have the greatest effect on the industrial sector and particularly on companies whose value is based on coal. Mercer thus concludes that depending on the scenario, returns in the coal sector could decrease by 18% to 74% over the next 35 years.

In the United States, President Obama has coal in his sights. The Clean Power Plan he presented in early August calls for the closing of one third of the country's coal-fired power plants. In March 2015, the NGO Carbon Tracker Initiative had already published a report, "The U.S. Coal Crash: Evidence for Structural Change", highlighting the collapse of the coal industry, whose benchmark index has plummeted 75% in the last five years.

• Gas, next in line

Following the aggressive campaigns against coal and oil, the next energy source targeted could be natural gas, despite industry lobbyists' efforts to present it as the indispensable fuel for the energy transition. The UK-based NGO Carbon Tracker Initiative contends that natural gas is also at risk of becoming a stranded asset and that large-scale gas projects could prove much too costly to be profitable. It has published a study warning investors of the risks looming in the 2025–2035 period. It predicts that three quarters of the projects that the largest oil and gas companies plan to carry out by 2025, at a cost of $283 billion, would not be viable because demand would likely increase only by 10% in a scenario limiting global warming to 2°C.

Natural gas is a relatively new subject for investors, however, and few of them have yet to make engagements regarding their asset allocations in this sector.

Campaigns

NGOs target investors

The environmental NGOs are directly targeting investors to get them to change their strategies by taking their assets out of fossil fuels and using them to finance the development of renewables. They are urging investors to divest and to take action through shareholder engagement, particularly in the oil sector.

• Go Fossil Free

Go Fossil Free, a movement backed by the NGO 350.org, is active to varying degrees depending on the country. It organised the first Global Divestment Day on 13 and 14 February 2015. The movement coordinates actions by civil society, particularly at American and UK universities and increasingly at European ones as well, to persuade these institutions to divest from the world's 200 most polluting companies on the list compiled by the NGO. More than 680 Go Fossil Free campaigns have been aimed at institutions around the world, with universities the target in 480 of them. Not all have yielded to the pressure, but Novethic has counted about forty of them that have committed to reviewing their investment policies. For example, Warwick University, in the UK, announced on 8 July 2015 that it would invest £14 million (€19 million) of its endowment in funds that exclude fossil fuels. The movement is starting to gather steam in Europe, Australia and Canada, but most of the universities that have made divestment commitments are American.

• Keep It in the Ground

The British media group The Guardian is supported by 350.org in this campaign. Keep It in the Ground is aimed more specifically at the world's two largest foundations, the Bill & Melinda Gates Foundation and the Wellcome Trust, which have endowments, respectively, of $43 billion and $18 billion (€39 billion and €16 billion). This initiative criticizes the foundations for the contradiction between their public health objectives and their investment policies: both have shareholdings in GHG-intensive companies. Over 226,000 people have signed The Guardian's petition. Bill Gates has refused to divest from fossil fuels, but has promised to invest $2 billion (€1.8 billion) in renewable energies and in research to combat global warming. The Wellcome Trusts says it prefers to act through shareholder engagement with high-emissions companies.

• ***L'appel de Paris***
Launched in May 2015 by Friends of the Earth (France) and BankTrack, this campaign calls for French banks to commit publicly to excluding all sectors involved with coal, from its extraction to its combustion. It asks them to publish a detailed agenda and precise exclusion objectives for all their businesses and services – lending, issuing of stocks and bonds, asset management and consulting services. Crédit Agricole has already stated that it will "no longer finance coal mining projects or operators in this sector".

• **Asset Owner Disclosure Project (AODP)**
The strategy of this Anglo-Australian NGO is to regularly publish a ranking of the world's 500 largest asset owners based on the integration of climate change in the management of their assets (totalling \$40 or €36.5 trillion). The latest classification, published in April 2015, shows that half of them totally disregard climate risk. Convinced that if these 500 financial institutions implemented ambitious programmes of climate risk prevention, limiting global warming to 2°C would be a feasible objective, the AODP is exploring the possibility of taking legal action against pension funds that ignore this risk. The first action could be taken before the end of 2015. This ranking is also intended to reward the good performers, though fewer than ten asset owners obtained the top rating (AAA).

International meetings

A number of high-level international meetings held since autumn 2014 have revealed how investors are mobilising.

• **The UN summit in New York (23 September 2014)**
To mobilise the major players in the global economy, UN secretary-general Ban Ki-moon held a summit at which he urged the financial community to participate actively in the fight against climate change. Over 370 investors answered his call by signing the Global Investor Statement on Climate Change, which recognises the impact of climate change on their investments. Some of these investors have already gone ahead and committed to reducing the carbon footprint of their portfolios through multiple initiatives.

• **Climate Finance Day (22 May 2015)**
The theme of Climate Finance Day, held at UNESCO headquarters, was how to shift the trillions of dollars managed by the financial sector into a low-carbon economy. The New Climate Economy report says that between \$89 trillion and \$93 trillion will have to be allocated by 2030 for the transition to a green economy. Major financial players attending the conference made engagements to contribute to the fight against climate change. For example, Caisse des Dépôts Group is going to invest €15 billion in the ecological and energy transition by 2017, while AXA said it would triple its green investments to €3 billion by 2020 and divest €500 million from coal.

• **COP 21 (30 November – 11 December 2015)**
COP 21, which will be held in Paris from 30 November to 11 December 2015, is expected to set the stage for new engagements. Some investors are already actively lobbying authorities in their home countries and urging the signature of a global agreement on limiting the global temperature rise to 2°C between now and 2100.

INVESTORS MOBILISE AGAINST CLIMATE CHANGE

The Novethic research centre has been analysing investor mobilisation since autumn 2014. At end-July it had identified 806 investors on five continents, with more than €28,5 trillion in assets, who had made climate change commitments of one kind or another, ranging from the recognition of the financial impact of climate change to the implementation of concrete actions to measure and reduce carbon emissions.

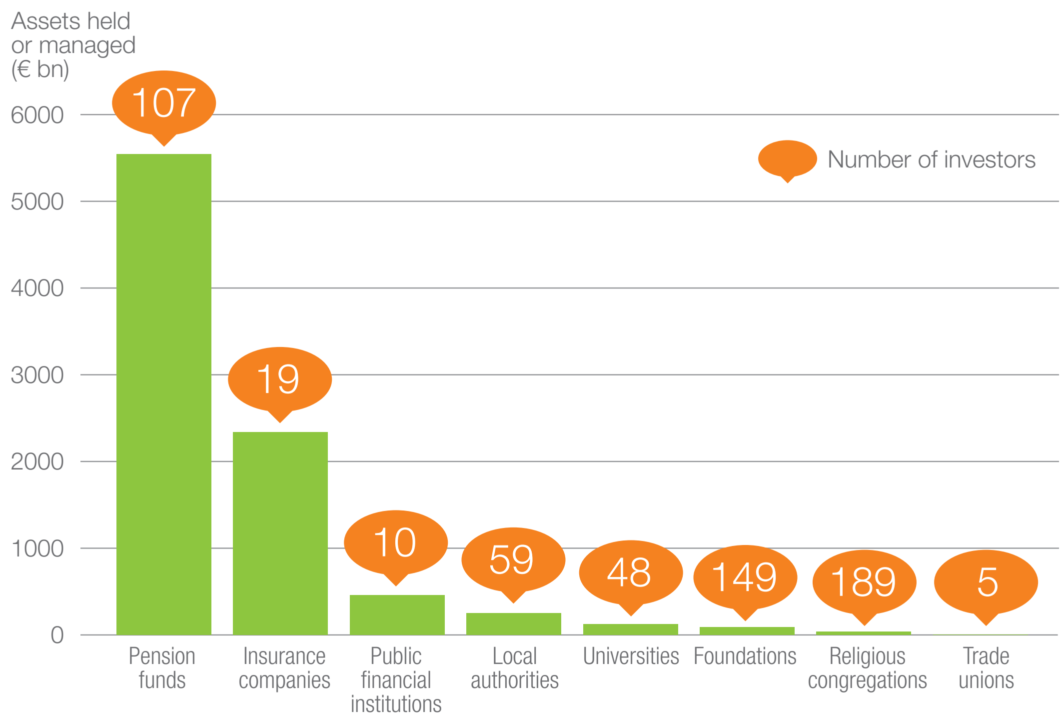
Characteristics of the investors in the Novethic sample

The 806 investors identified are not only the signatories of climate declarations but also those who adopted policies such as low carbon index management, shareholder engagement, divestment and green investment. They make up 73% of asset owners and 27% of asset managers. The analysis focuses primarily on the practices of asset owners, since they have the key role of mandating the investments.

The 586 asset owners who make up 73% of this sample can be divided into eight categories and their engagements into two types of strategies:

- **Ethical investors:** numerous (450), but with modest assets.
- **Long-term investors:** 136 pension funds, insurance companies and public financial institutions with very substantial assets that are engaged in pioneering initiatives to decarbonise portfolios and finance an ecological transition.

Breakdown of assets by type of asset owners

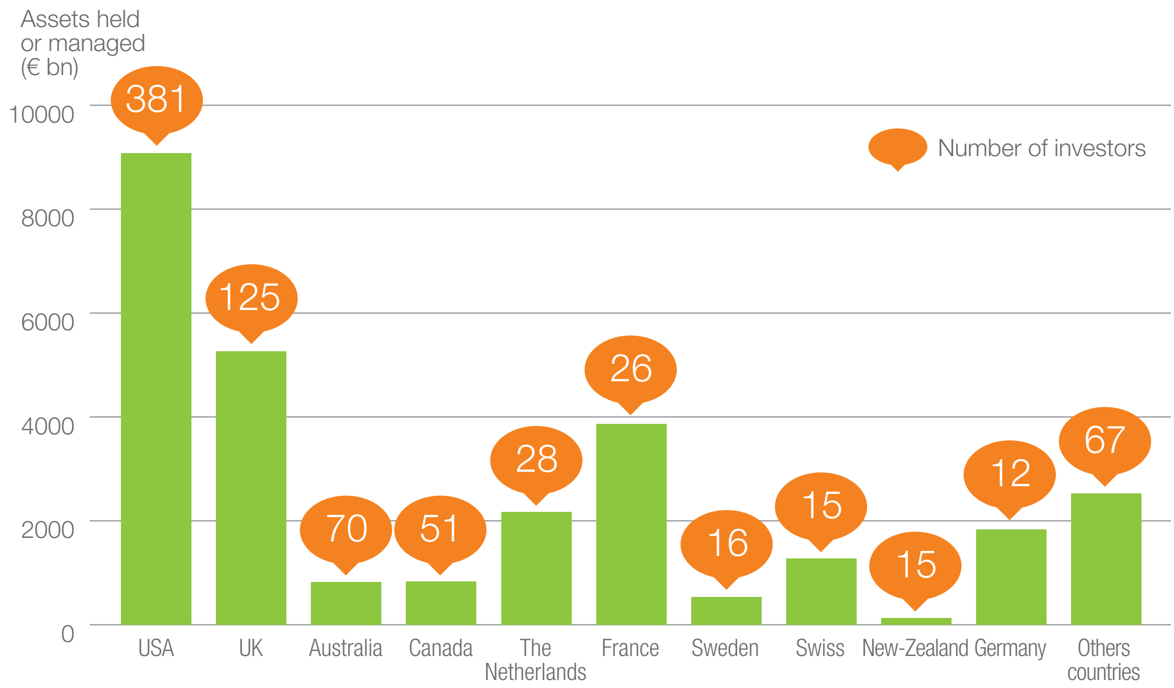


Source : Novethic 2015

An international movement still dominated by the United States

Investor mobilisation against climate change is now an international movement, but one still dominated by American investors, who are more numerous and more highly endowed. It combines ethical investors such as religious institutions and foundations, large pension funds such as CalPERS and CalSTRS in California, as well as insurance companies.

Breakdown of investors active on climate change by country



Source : Novethic 2015

Mobilisation of European responsible investors

In Europe, investor involvement and the types of responsible investing break down along geographic lines. The countries with the most responsible investors are the ones where responsible investing is most developed. The British tend to prefer shareholder engagement, while responsible investors in the Nordic countries and the Netherlands are carrying on with their strong and longstanding commitment to the financing of green technologies.

France ranks sixth in the number of responsible investors, but third in terms of assets, with about €4 trillion. Climate engagements are thus being made mainly by large investors. Topping the list are the Fonds de Réserve pour les retraites (FRR) and the civil servant additional pension scheme Établissement de la Retraite Additionnelle de la Fonction Publique (ERAFP). In the spring, Caisse des Dépôts Group and the insurance group AXA took strong stands on the financing of the energy transition and the fight against climate change. Other investors are likely to join them, since Article 173 of France's Energy and Ecology Transition Act (TEE) creates for the first time a legal obligation for asset owners to calculate their carbon footprint, from 2017 onwards.

Even though North Sea oil is the source of Norway's wealth, its sovereign wealth fund (the Government Pension Fund Global, GPFG), the world's largest asset owner (€785 billion in assets), has adopted a climate change strategy under pressure from the country's parliament.

Although an ad hoc board had defined an ethical investment strategy since 2004, the GPFG only started thinking about climate change in spring 2014. Environmental NGOs began campaigns predicated on the notion that a fund supported by fossil fuels should be able to reduce its carbon footprint by excluding large extractive companies and financing the energy transition. This position gathered backing in parliament. An initial report, published in late 2014, recommended that the fund adopt a mixed strategy of shareholder engagement, green investment and exclusion on a case-by-case basis of companies doing the greatest harm to the environment. In February 2015, the GPFG announced that it was removing twenty-two high-CO_2-emitting companies from its portfolio. In June 2015, the Norwegian parliament voted unanimously to require the fund to exclude coal (it is now forbidden to own shares in companies that derive more than 30% of their revenues from coal). Shareholder engagement is also an important component of its strategy, and it has committed to allocating NOK50 bn (€5.5 billion) to green investments.

The GPFG often sets the tone for responsible investing, and its low-carbon investment strategy could serve as an example and be widely copied by other international investors.

Canada and Australia: investors go against the trend

Many committed investors are from countries where extractive industries are a significant part of the local economy. In Australia and Canada, for example, the governments are reluctant to join the fight against climate change, but many investors in these countries feel differently.

In Canada, large asset owners such as British Columbia Investment Management Corporation (bcIMC), OTPP (Ontario Teachers' Pension Plan, "Teachers"), OPSEU Pension Trust, and the Caisse de Dépôt et de Placement du Quebec, have undertaken concrete initiatives to fight against climate change. These may include divestment, shareholder engagement or green investments. The Go Fossil Free movement is also very active in Canada: 19 campaigns urging universities like the University of Toronto (CAD1.81 billion (€1.49 billion) in assets) and McGill University (CAD1.45 billion (€1.02 billion) in assets) to divest from fossil fuels have been conducted, and six more are planned.

ANALYSIS OF INVESTOR STRATEGIES

Investors' climate strategies are designed to satisfy two requirements that have a combined impact: to limit their exposure to fossil fuels and carbon-intensive companies, thereby reducing their carbon risk; and to finance the energy transition through investments in green projects.

Often the first step in decarbonising a portfolio is to measure its carbon footprint to calculate the amount of emissions being financed. There are then four techniques for reducing emissions: investment in low-carbon funds; shareholder engagement, mainly with fossil fuel producers; exclusion of companies or sectors that are most harmful to the environment; and thematic environmental investment.

Actions by investors to integrate climate change in their portfolio management

	Number of investors*	% sample	Assets held or managed (€bn)	% sample
Portfolio carbon footprint	94	12%	8,548	30%
Low carbon passive management	10	1%	1,851	6%
Engagement initiatives	291	36%	11,882	42%
Divestment	364	45%	3,665	13%
Green investments	336	42%	19,388	68%

Source : Novethic 2015

*Investors may combine several strategies

1. Portfolio decarbonisation

Carbon footprint measurement

This concept dates back several years. For example, in 2008, the Australian pension fund VicSuper disclosed its carbon footprint. Australia confirmed its forerunner status with an initiative of the Australian Institute of Superannuation Trustees (AIST), which did carbon footprint comparisons for 15 large pension funds between 2009 and 2012.

Novethic has counted 94 investors in total who have now committed to measuring their portfolio's carbon footprint, and almost 60% have already done so. To assist them, specialised companies have been set up in this field, too (Trucost in the UK, SouthPole in Switzerland, EcoAct in France for example).

Although carbon footprint measurement is becoming more common and offering an effective way to mobilise investors, it is not exempt from criticism. In particular, it suffers from a lack of agreement on the methods of calculating the indirect emissions produced by a portfolio's assets (companies, infrastructures, buildings, etc.).

- **Portfolio Decarbonization Coalition**

Co-found by the UNEP Finance Initiative (UNEP-Fi) and the CDP, the Portfolio Decarbonization Coalition is a multi-stakeholder initiative whose slogan is "Mobilizing financial markets to drive economic decarbonisation". Its founding signatories are the Swedish pension fund AP4 and the French asset manager Amundi. Investors who join the Coalition agree to calculate the amount of assets they will decarbonise. The goal is to have decarbonised $100 billion in investment and to have calculated the carbon footprint of $500 billion by the time the Paris Climate Conference is held in late 2015. There are no restrictions on the methodology or asset classes, but the information concerning both must be disclosed. The total for the PDC's members at present is $50 billion. There are several French members, including the FRR and the ERAFP.

- **Montreal Carbon Pledge**

In the same vein, the PRI launched the Montreal Carbon Pledge at its annual conference in Quebec on 25 September 2014. The goal is to sign up investors with combined assets of $3 trillion before the COP 21. The signatories agree to measure, disclose and reduce the carbon footprint of their portfolios.

Among the first signatories are pioneers in responsible investing such as the French pension fund Etablissement de la Retraite Additionnelle de la Fonction Publique (ERAFP), PGGM in the Netherlands, CalPERS in the US, AP1, AP3 and AP4 in Sweden, Bâtirente in Canada, and the Environment Agency Pension Fund (EAPF) in the UK along with asset managers like France's Mirova. They have been joined by about fifty others, bringing the initiative's total membership to over sixty.

The signatories' carbon footprints are to be publicly disclosed after September 2015, the deadline set by the Montreal Pledge's sponsors.

- **A legal obligation in France**

Article 173 of the Energy Transition Act adopted in July 2015 makes France the first country to require asset owners to measure their carbon footprint and to report how much they are investing in the energy transition. These obligations will be effective from 2017 on condition that the implementing decrees have been published before the end of 2015.

Low-carbon passive management

The idea that a relatively easy way to decrease indirect emissions in a portfolio would be to invest in the so-call low-carbon index funds emerged in 2014. Index providers have developed these indices for investors who are looking for financial performance near their benchmarks, no sector-based exclusion, and low carbon intensity for their portfolios. Though relatively well covered in the media, they are not widely used: the ten investors identified by Novethic (mainly pension funds) who do so represent only slightly more than 1% of the sample.

These innovations are being driven by the criticism of passive asset management's contribution to global warming. The UK-based Carbon Tracker Initiative takes the view that stock market indices epitomise the notion of carbon risk. As proof, it points to the weight of fossil fuel companies in the major stock market indices. For example, Total has one of the highest market capitalisations in the CAC 40. The massive investments in the major conventional indices in fact contribute to the financing of fossil fuels. The growing awareness of this phenomenon and the related risks are increasing the demand for low-carbon indices.

- **Low-carbon indices**

The main providers of stock market indices such as Euronext, FTSE-Russell and MSCI all now offer low-carbon indices. The carbon footprints of these indices are smaller than those of traditional indices because of the selection or overweighting of the least-polluting companies in each sector. Their sector-based allocation is not fundamentally called into question, however, in contrast to the ex Fossil Fuels indices. The latter are used by investors who practice an exclusion policy, while the low-carbon indices are better suited to a best-in-class approach.

This was the approach adopted by the pension funds AP4 and FRR when they joined the Portfolio Decarbonization Coalition. They turned to MSCI to reduce the carbon footprint of their passive management mandates, with each making a €1 billion allocation. The MSCI Low Carbon Leaders series developed for them with the asset manager Amundi exclude 20% of the high-carbon-intensive companies (provided they do not represent more than 30% of the companies in a sector) and companies with 50% or more of their reserves in fossil fuels. This strategy reduced the CO_2 emissions of the portfolio by 45%.

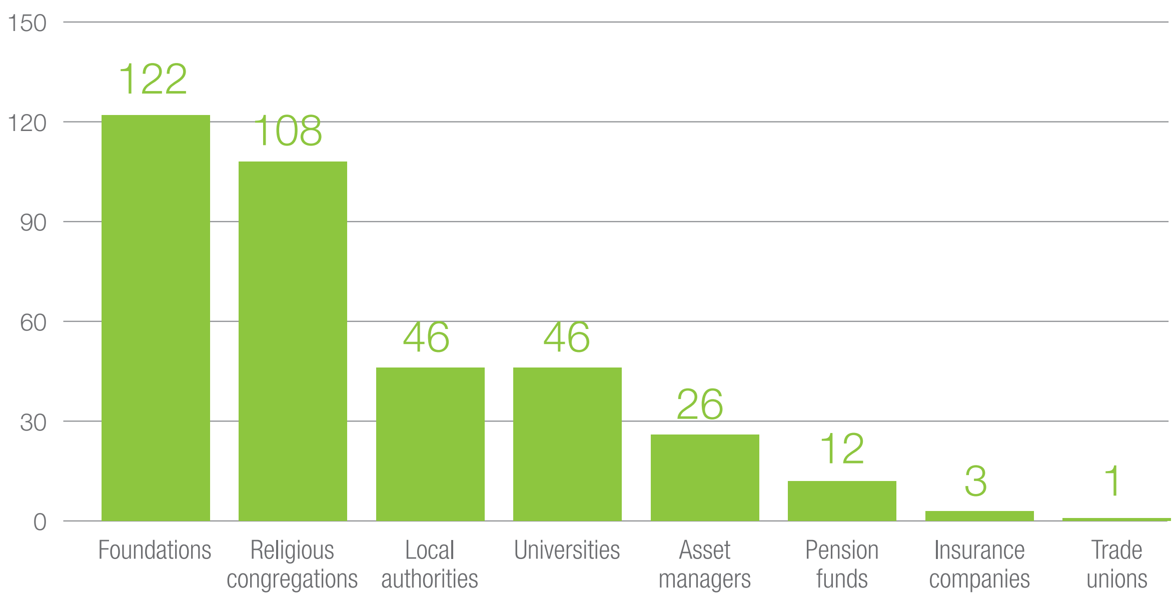
These indices are not immune to criticism. For example, the American oil company Chevron was among the top ten in the MSCI Low Carbon Leaders index at end-2014 even though it had received the Public Eye award for shameful corporate behaviour from Greenpeace and the Bern Declaration at Davos in January 2015.

2. Divestment

Divestment from the extractive sector is an approach that originated in the exclusionary practices of ethical investors, who refuse to finance companies whose businesses conflict with these investors' values. They still make up the largest number of investors who divest from companies they consider harmful to the environment, though they are gradually being joined by public authorities, universities, some asset managers and pension funds.

This strategy is being increasingly employed. Novethic has identified 364 investors around the world who have committed to divesting, including about sixty who have already done so. There were only 194 in February 2015, meaning their number has increased by almost 90%.

Type of investors involved in divestment



Source : Novethic 2015

There are two approaches:

- **Exclusion of all fossil fuels:** Novethic counts 84 investors who use this approach. Some of them adopted it on their own, like PensionDanmark or Australia's Future Super and UniSuper, while others did so under pressure from movements like Divest/Invest, which advocates divestment from fossil fuels and reallocation of assets to low-emissions sectors.

- **Targeted approach to fossil fuels exclusion:** Novethic identifies more than 250 investors who have committed to divesting from the 200 companies in the oil, gas and coal sectors deemed to have the greatest carbon-risk exposure. This list is published by the Go Fossil Free initiative. About forty investors, notably in the Nordic countries, exclude only coal or, in certain cases, oil sands and shale sands as well.

Sector-based exclusion is now more than an ethical approach

The divestment movement has grown beyond the original core of ethical investors, spurred by the divestment campaigns of environmental NGOs and the growing perception of carbon financial risk, notably in the coal sector, where substantial asset devaluations have already occurred, particularly in the United States. This is leading traditional investors to adopt sector-based exclusion policies.

- **First success of divestment campaigns**

Though divestment campaigns like Go Fossil Free and Keep It in the Ground, sponsored by 350.org, enjoy media visibility and help fuel the debate, they are chiefly successful at persuading universities to apply across-the-board exclusions. Many of their targets still prefer shareholder engagement as a way to persuade companies in the fossil-fuels sector to revise their business models. That was the case with Wellcome Trust, which refused to divest despite The Guardian's campaign targeting it.

- **Legal obligations to divest**

Policymakers are also beginning to mobilise. A proposed law in California would oblige CalPERS, America's largest pension fund, and CalSTRS to divest from coal. The CalPERS portfolio has a fairly high exposure to fossil fuels, with holdings in Consol Energy Inc., Peabody Energy Corp., and Alliance Resources Partners LP. California's aim is to be a leader in the fight against climate change, and it would like to use its pension funds to set an example for the rest of the world. A similar law under consideration in the State of New York would require the New York State Common Retirement Fund to divest from fossil fuels by 2020.

Politicians on the other side of the Atlantic are taking action, too. After the Norwegian parliament voted in June 2015 to require the sovereign wealth fund to divest from coal, the London Assembly asked the London Pensions Fund Authority (£4.8 billion (€6.7 billion) in assets) in July to exclude coal from its portfolio and to make a substantial contribution to the financing of an ecological transition.

- **Voluntary divestment**

Though still fairly rare, investors are beginning to take initiatives without pressure from civil society or government authorities. For example, the French insurer AXA announced in May 2015 that it intended to reduce its investments in the coal industry by €500 million by excluding companies that did more than 50% of their business in this sector. The Norwegian insurance company KLP, which has more than €50 billion (NOK470 billion) in assets, is also fighting global warming by excluding coal from its portfolio, as is Australia's UniSuper (AUD50 billion (€34 billion) in assets).

Divestment is generally seen as a response to a climate imperative, since a massive decline in fossil-fuel use will be necessary if global warming is to be kept below 2°C. This is the case with the Guardian Group, which no longer invests in fossil fuels, as well as the Australian pension fund Christian Super, and the American asset manager Green Century Capital Management. However, more and more investors are viewing divestment from fossil fuels primarily as a safeguard against carbon risk and a means of protecting their financial assets. In this way, they are fulfilling their fiduciary responsibility, an aim expressed in the ads run by the UK insurer Aviva in late July 2015.

Most divested companies

Breakdown of investors by type of fuel divestment

	Number of investors*	% sample
Fossil fuels	84	22%
The Top 200 Fossil Fuels Companies	253	65%
Coal	38	10%
Oil sands or shale gas	12	3%

Source : Novethic 2015

* Investors may combine several types of fuel divestment

Coal is not the only sector targeted, but it is today the most emblematic and the most controversial. Coal is the victim of two phenomena: the action of environmental NGOs, which condemn its harmfulness to the environment, and the steady decline in its financial value. The Dow Jones Total Market Coal Sector Index has lost 75% of its value in five years and fallen behind the world's major stock market indices. Novethic has counted 38 investors who are committed to divesting specifically from the coal sector.

3. Shareholder engagement

Not all investors are convinced that divestment is the right approach. Many believe that to change the situation and compel the most carbon-intensive companies, starting with those in the fossil-fuels sector, to improve the prevailing business model, it is better to use their rights as shareholders.

Direct dialogue

Investors may engage in a dialogue privately, individually or collectively with the management of targeted companies to express their climate-related concerns and ask them to take steps to reduce their impact. By informing companies of their expectations, such an approach can yield significant results, especially when the investors have a substantial equity interest. This is the approach taken by the Caisse des Dépôts in France, for example.

Filing resolutions at general meetings of shareholders

Shareholders show their concerns about climate change publicly either by filing resolutions or by voting down ones proposed by the management that seem very risky: for example, if they involve unconventional and very costly projects.

General meetings in the oil sector in the spring of 2015 did not always go smoothly. The major oil companies were challenged concerning the resiliency of their business models and their capacity to protect themselves from carbon risk due to the high probability of stranded assets.

The principal climate-related resolutions filed by shareholders in the oil sector

Subject / Company (country)	Shell (UK)	BP (UK)	Statoil (Norway)	ExxonMobil (USA)	Chevron (USA)	Chesapeake Energy (USA)	Marathon Oil (USA)
Demand for reporting about lobby related to environmental matters				Rejected 21%	Rejected 27,9%		
Demand for climate expert on board				Rejected 21%	Rejected 27,9%	Withdrawn	
Demand for reporting about carbon risk	Adopted 98,91%	Adopted 98%	Adopted 99,95%			Rejected 11,50%	Rejected 36,30%
Demand for a change in strategy in light of carbon risk			Rejected 0,24%	Rejected 9,60%	Rejected 8,20%		Withdrawn
Demand for increasing dividends in light of the growing potential for stranded assets				Omitted	Rejected 3,20%		

Source : Novethic 2015

Some resolutions were withdrawn after the board reached an agreement with shareholders. This is the case for Marathon Oil: the Nathan Cummings Foundation asked the company to set a plan to measure, mitigate, disclose and set quantitative reduction targets for methane emissions, and the resolution was withdrawn after Marathon Oil agreed to address this issue.

• The success of the "Strategic resilience for 2035 and beyond" resolution

At the annual general meetings of BP in London in April, Shell in the Netherlands in May, and Statoil in Norway, shareholders filed a climate change resolution titled "Strategic Resilience for 2035 and Beyond". Submitted by the coalition of UK investors Aiming for A and backed by ShareAction, the resolution calls for the three companies to be more transparent with regard to their carbon-risk strategy. It requests in particular that the companies:

- do stress tests to assess the compatibility of their business models with the objective of limiting global warming to 2°C;
- reform their bonus systems so as no longer to reward activities harmful to the climate; and
- commit to reducing their emissions and investing in renewable energies.

This resolution was approved, with more than 98% of the votes at BP and Shell and 99.5% at Statoil in favour of it, but this outcome remains exceptional. Part of the explanation is that the three companies asked their shareholders to vote for the resolution. While this overwhelming support obliges these companies to alter their strategies, it is not enough to fundamentally change the situation. Adopting the resolution "Strategic resilience for 2035 and beyond" did not prevent Shell from drilling in the Arctic, whereas all specialists agree that it represents a major risk for the environment.

- **A less favourable climate in the United States**

Unlike their European counterparts, the American companies Chevron, Exxon, Chesapeake Energy and Marathon Oil urged their shareholders to vote against the resolutions concerning climate risk (appointment of climate experts to the board, a higher cap on dividends due to carbon risk, etc.). Several factors account for the difference in attitudes on opposite sides of the Atlantic.

It is partly due to the different rules for filing resolutions. In the UK, a resolution must be backed by a coalition of shareholders holding at least 5% of the voting rights, while in the United States, all it takes is for a shareholder to have a stake worth $2,000 or 1% of the capital. Thus, in the United States resolutions tend to have less support when they are filed.

The type of resolution also influences the voting: the more hostile it is, the less chance it has of being adopted. For example, in the United States, the resolution asking for a higher cap on dividends due to carbon risk was voted down by a very large majority at Chevron and withdrawn at ExxonMobil.

As for shareholders, the British coalition Aiming for A that was formed to back the "Strategic resilience for 2035 and beyond" resolution gave shareholders more leverage to win approval of their demands. Despite a public campaign sponsored by the NGO As You Sow, support was more limited for the resolutions at Chevron and ExxonMobil asking for the appointment of a climate expert to the boards of directors.

- **A strategy still little used in France**

In France, shareholder engagement is still not a widespread practice. Pressure from civil society is less strong than in the UK or the United States.

No resolutions concerning climate change were filed by shareholders at Total's annual general meeting in May. Reacting to this situation, the UK-based NGO ShareAction launched a campaign in late June targeting several large oil companies and Total in particular. This campaign, titled "Clean Words, Dirty Lobby", condemns the "greenwashing" techniques employed by the oil companies, which consist in publicly expressing a readiness to fight climate change, while simultaneously working with lobbying groups to exert pressure on policymakers to minimise environmental protection measures.

- **All carbon-intensive sectors are targeted**

Though actions aimed at the major oil companies garner the most media coverage, investors are in fact targeting all sectors to reduce the carbon emissions of their portfolios. That is why the CDP has launched the Carbon Action initiative. This collaborative engagement initiative involving 304 investors with more than $22 billion in assets is taking aim at 17 of the leading GHG-emitting companies. These companies are being urged to define and disclose carbon-reduction objectives in line with those recommended by the scientific community and set by Europe's governing bodies. Other initiatives like the IIGCC sector-specific guides help promote shareholder dialogue.

Dialogue is for example an approach used by Norway's Government Pension Fund Global (GPFG). It is particularly effective in this case because the GPFG is the world's largest private-sector shareholder, meaning that companies are attentive to its requests.

4. Financing the energy transition

Limiting investors' carbon risk is one objective, but the main goal is to develop a low-carbon economy. The idea is to rechannel an increasing share of assets into green investments, starting with those divested from fossil fuels.

This is the approach advocated by the Divest/Invest movement, which, as its name indicates, wants to combine divestment from carbon-intensive companies with substantial green investments.

336 investors identified by Novethic, or 42% of the sample, have made or intend to make green investments. Their strategies are diverse, with investments ranging from renewable energy production or energy efficiency to green bonds. Sixty per cent of them have also adopted a divestment policy, signalling a genuine desire for combining both strategies to reduce the carbon footprint of their portfolios.

In recent months some investors have publicly announced substantial commitments, with the largest amounting to billions of euros.

The largest green investments commitments

Some actors made significant promises in terms of green investments. This is the case for example for the GPFG, which committed to invest NOK50 bn (€5.5 billion) in this sector. But this amount only represents about 1% of the total assets held by the biggest wealth sovereign fund of the world. This is why the WWF-Norway is calling on the Norwegian sovereign wealth fund to invest 5% of its portfolio in renewable energies. Other investors of more modest size have promised to invest a larger part of their funds, such as the Environment Agency Pension Fund (€3 billion) who committed to allocate 25% of its assets to low-carbon economy.

Investor	Country	Type	Amount	Timeline
Allianz SE	Europe	Insurance company	**€500 m**	In 2015
APG AM	Netherlands	Asset manager	**€2 bn every year**	2016 - 2018
Aviva Plc	United Kingdom	Insurance company	**£500 m every year (€708 m)**	2015 - 2020
Axa	France	Insurance company	**€3 bn**	2015 - 2020
European Investment Bank	Europe	Public financial institution	**25% of lending portfolio (€19.1 bn in 2014)**	Every year
Bill and Melinda Gates Foundation	USA	Foundation	**€1.8 bn**	2015 - 2020
CalSTRS	USA	Pension fund	**$3.7 bn (€3.34 bn)**	2019
Govermnment Pension Fund Global	Norway	Pension fund	**NOK50 bn (€5.5 bn)**	-
Caisse des Dépôts Group	France	Public financial institution	**€15 bn**	2014 - 2017
PFZW	Netherlands	Pension fund	**€16 bn**	2015 - 2019
PKA A/S	Denmark	Pension fund	**€1.5 bn**	In 2015
Zurich Insurance Group	Swiss	Insurance company	**€1.8 bn**	In 2015

Source : Novethic 2015

Investing in renewable energies and energy efficiency is a winning bet

Green investment mainly goes to the financing of low-carbon projects or renewable-energy infrastructures. 45 investors in this study said they had made investments in energy-saving technologies. This category includes real estate development, smart grid and energy-efficiency projects. Novethic has counted 91 investors who say they have taken stakes in renewable energies (wind, solar, biomass, etc.), notably through private equity or infrastructure investments.

While the instability of the fossil-fuels market is making this sector less and less attractive, renewables are on a roll. In 2013, investments in renewable energy infrastructures exceeded those in the fossil-fuels sector for the first time. Bloomberg New Energy Finance calculates that investments in wind, solar, hydro and biomass energies likely totalled \$187 billion, compared with \$157 billion in natural gas, oil and coal. Owing to the sector's rapid growth, installations are costing less, making renewables more competitive than fossil fuels and enhancing their appeal to investors.

Green bonds: growing demand and a more structured market

Investment in these bonds issued to finance environmentally beneficial projects is another strategy to finance a low-carbon economy. Green bonds totalling \$36 billion were issued in 2014, a threefold increase over 2013, and the Climate Bonds Initiative reports that the figure was already \$19.31 billion for the first half of 2015.

Novethic identified over 110 investors who had decided to invest in green bonds. They are primarily large asset managers and pension funds. American asset owners like CalSTRS, Trillium and TIAA-CREF were among the first to buy green bonds, and the asset managers BlackRock and Mirova have also said they plan to increase their holdings in this market.

Green bond issuers are diverse. Until recently, they were mainly development banks like the World Bank and the European Investment Bank, but increasing numbers of local authorities and companies are now issuing green bonds, too.

Demand is growing rapidly in this market, and investors are now asking for safeguards. They want proof that these bonds actually benefit the environment. The publication of the Green Bonds Principles in January 2014 was a first step in structuring this market. These principles lay out guidelines for issuing such bonds. They are backed by most of the underwriting banks, the largest issuers, and 22 investors active in financing the low-carbon economy. Among them are CalSTRS and TIAA-CREF in the United States and Zurich Insurance Group, which announced publicly in July 2014 that its aim was to become the largest investor in green bonds by purchasing \$2 billion of them.

The enthusiasm for green bonds is reflected by the Investor Statement on Green Bonds and Climate Bonds (September 2014), sponsored by the Climate Bonds Initiative with the support of CERES and the IIGCC. The members of this group, who have combined assets in excess of \$2 trillion, commit to promoting the growth of this market. On the list of the 17 signatories are CalSTRS, AP1, AP2, AP3 and AP4.

Denmark sets the example

Denmark can serve as a model, particularly when it comes to renewable energies. Its goal is to be carbon neutral by 2050. By 2035, all electricity and heat is to be produced with renewable energies. Since the energy sector has the highest emissions rate, it is a central focus of the Danish climate change programme, and investors are actively helping to finance the energy transition.

For example, two of the country's largest pension funds, ATP and PensionDanmark, have taken notable initiatives in this area. Together they have invested more than €1 billion in a wind farm in Denmark. Danske Capital and PKA A/S, with AuM of €100 billion and €27 billion, respectively, have also made significant green investments and are committed to making even more in the future.

TOOLBOX

Platforms on investor actions

- Investors on Climate Change (PRI, UNEP FI and IIGCC)
  investorsonclimatechange.org
- Institutional Investors Group on Climate Change (IIGCC)
  iigcc.org
- Nazca, Non-State Actor Zone for Climate Action (UN)
  climateaction.unfccc.int
- Low Carbon Registry (IIGCC)
  globalinvestorcoalition.org/form-registry

Guides to act on climate change

- IIGCC investor guides
  iigcc.org/publications/category/investor-guides

Investor statements on climate change

- Global Investor Statement on Climate Change
  investorsonclimatechange.org
- Investor Statement on Green Bonds & Climate Bonds
  climatebonds.net/files/files/Investor_Statement.pdf

Engagement coalitions

- Aiming for A
  shareaction.org
- Carbon Asset Risk Initiative
  ceres.org/issues/carbon-asset-risk
- CDP's Initiative Carbon Action
  cdp.net/en-US/Programmes/Pages/Initiatives-CDP-Carbon-Action.aspx

Investor initiatives

- Montreal Carbon Pledge
  montrealpledge.org
- Portfolio Decarbonization Coalition
  unepfi.org/pdc

Main study providers

- 2° Investing Initiative
  2degrees-investing.org
- Carbon Tracker Initiative
  carbontracker.org
- Mercer
  mercer.com
- Oxford University's Program about Stranded Assets
  smithschool.ox.ac.uk/research-programmes/stranded-assets

Campaigns

- Asset Owner Disclosure Project (AODP)
  aodproject.net
- Divest Invest
  divestinvest.org
- Go Fossil Free (350.org)
  gofossilfree.org
- Keep it in the ground (The Guardian)
  theguardian.com
- Call for banks to do the Paris Pledge
  doTheparispledge.org

CLIMATE : INVESTORS TAKE ACTION

A study of Novethic's research center
conducted by Marie Simon
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Novethic, a part of the Caisse des Dépôts Group, is a French research centre on Responsible Investment. Founded in 2001, Novethic analyses the major trends and conducts studies on specific ESG topics. Novethic's SRI and green fund Labels provide a reliable reference point for responsible investment funds available on the European market. www.novethic.com