INVESTORS ACTING ON CLIMATE CHANGE

JUNE 2015

a survey conducted by novethic

February 2015: Novethic published the first study analysing investor commitment to climate change, which has gained particular momentum since the UN summit in New York in September 2014.

May 2015: Climate Finance Day on 22 May at the UNESCO headquarters in Paris marked a new step forward in the engagement of major investors (banks and insurers).

June 2015: Novethic updates its study. More than 700 investors have taken climate change-related initiatives. Their number has increased by nearly 30% in three months.

The two main factors motivating their commitments are the conviction that carbon risk exists and mounting pressure from civil society, which is pushing divestment, especially for coal.

Breakdown of strategies on managing risks linked to climate change

The main strategies adopted by companies to limit exposure to climate risk are, in order of importance, green investment, divestment of fossil fuel or/and of the most carbon-intensive companies, shareholder engagement for a low-carbon economy, and the measurement and publication of their carbon footprint.

	February 2015	May 2015	Proportion of panel
Green investment	266	304	42.8%
Divestment	194	243	34.2%
Engagement initiatives	182	250	35.2%
Carbon footprint	56	77	10.8%
Low carbon passive management	5	8	1.1%
Panel	550	710	

Highlights

More visible engagements are being made because people are realising that this event concerns make-or-break negotiations for limiting global warming to 2°C maximum.

- **Climate Finance Day** organised in Paris on 22 May was a key event. It brought together over 1,000 financial participants with the French President who explained that the practices of the most engaged investors had to become the standard in the financial sector.
- **France** has become the **first country to require public and private French investors to measure and publicly disclose the carbon footprint** of their portfolios through a provision in its act on the energy transition and green growth.
- **Very large French investors** are implementing a climate policy combining climate risk, green financing and divestment. **Caisse des Dépôts** has announced that it intends to devote €15 billion to the environmental and energy transition between now and end-2017 and is seeking to initiate shareholder dialogue focused on the climate. The **AXA** group has said that it wants to triple its green investments to €3 billion by 2050 and divest in coal to the tune of €520 million.
- **Investorsonclimatechange.org** This platform grouping the engagements made by over 400 investors from 30 countries, covering $25,000 billion and belonging to seven major investor organisations, including PRI, UNEP FI and IIGCC was launched in May.
- **The number of signatories of the Montreal Pledge**, which requires signatories to measure and publish their carbon footprint and the methodology used in that assessment, has increased by 35% in three months, while that of the Portfolio Decarbonization Coalition has risen by 50%.

Campaigns condemning fossil fuels, the development of which compromises the 2°C global warming objective, are growing, and many of them are directly calling on financial institutions to divest.

Go Fossil Free: Backed by the 350.org NGO, this movement organised the first Global Divestment Day on 13 and 14 February 2015. It unifies the initiatives taken by civil society, particularly those by US, UK and, increasingly, European universities. Civil society is placing increasing pressure on investors to divest in companies with the highest greenhouse gas emissions, chief among them companies involved in coal. Of the 31 institutions targeted by campaigns observed by Novethic since early 2015, more than 20 are universities. Not all of them have submitted to the demands but a considerable number have revamped their investment policies, including the University of Washington, which on 14 May said it was to exclude coal. The target of a particularly intense campaign, Oxford University, after a great deal of vacillation, finally announced on 18 May that it was now excluding coal and tar sands, but not all fossil fuels.

Keep it in the ground: Initiated by *The Guardian*, which is pulling out all the stops in the effort to discontinue the use of 80% of coal resources and over half of the world's oil reserves, the "Keep it in the ground" campaign is targeting two large global foundations in particular: the Gates Foundation and the UK foundation Wellcome Trust, with assets of $43 billion and $18 billion respectively. Only the second has decided to divest in the 200 top-polluting companies as established by Go Fossil Free and introduce shareholder engagement. *The Guardian*'s online petition has been signed by over 200,000 people.

L'appel de Paris: Launched in May by the Friends of the Earth and BankTrack NGOs, L'Appel de Paris calls on French banks to publicly commit to putting an end to their support for the coal industry and the extraction and burning of coal at coal-powered plants. It is asking for a statement as well as a detailed schedule and precise objectives for each of the banks' businesses and services, including credit, stocks and bonds issues, asset management and advisory services. Crédit Agricole has already stated its intention to "no longer finance coal mine projects and operators specialised in this activity".

Climate and Pensions Legal Initiative: The Asset Owner Disclosure Project (AODP) reviews the way in which the world's 500 largest financial institutions are integrating climate change into the management of their assets (worth a total $40,000 billion). It publishes an annual ranking of the companies. The latest ranking, released in April 2015, shows that half of the institutions completely disregard climate risk. Estimating that the maximum 2°C global warming objective would be possible if these 500 players introduced ambitious climate change prevention programmes, AODP has launched an initiative to review the possibility of legally attacking the pension funds that disregard the risk. The first such case could be made before the end of the year.

Divestment campaign targeting Danish pension funds: Six Danish pension funds (for teachers, engineers, lawyers, architects and veterinarians) concerning roughly 200,000 workers for a total €32 billion have had resolutions calling on them to divest as quickly as possible (and no later than 2018) in the 100 largest coal companies and engage dialogue with the others. The resolutions were rejected by the heads of the pension funds, which refuse to divest, preferring instead to take engagement initiatives with companies. They also intend to examine their exposure to carbon risk.

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Divestment campaigns may target fossil fuels as a whole or coal in particular, this last being considered as one of the most polluting. The table below is based on an analysis of investor decisions as observed by the Novethic research centre.

Main exclusions

	2014	2015	Change 2015/2014
List of 200 most polluting companies	158	33	21%
Coal	14	8	57%
Unconventional oil and gas	4	3	75%
Fossil fuels	18	2	11%

Divestment statements

	2014	2015	Change 2015/2014
Number of investors having committed to divesting	157	33	21%
Number of investors having divested	40	7	18%

Coal may not be the only sector under fire, but it is the most emblematic and controversial. Environmental NGOs denounce the harm wreaked by coal on the environment and stress the non-stop decrease in its financial value. The US coal index has lost 75% of its value in five years, and globally speaking the coal index is falling fast against the major benchmarks (see graph).

Figure III: Stowe Global Coal Index as Compared to Global Benchmarks

Norwegian Fund makes emblematic change

Called on by environmental NGOs back in spring 2014, the Norwegian Pension Fund, with over €800 billion in AuM, was recently questioned by the parliament on its fossil fuel investment strategy. Talks initially focused on a strategy of excluding the most polluting companies on a case-by-case basis and the rise of climate-focused shareholder engagement. But in late May, and by unanimous vote, Norway’s MPs decided that the Fund would henceforth exclude coal.

Shareholder engagement gathers speed

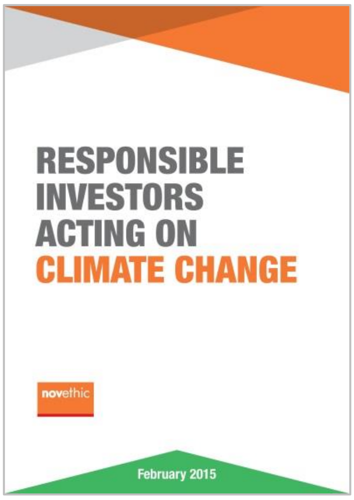
The 2015 annual general meeting season has been marked by a high number of resolutions on carbon risk, targeting oil companies in particular.

- The resolutions have been backed as a whole by the most engaged responsible investors in the area.
- Significant variations have been observed in the votes obtained by the resolutions, which call for companies to take climate change into account in their strategies in several different ways.
- Those variations are a result of the attitudes of the directors. The directors of BP, Shell and Statoil called for support for the resolutions, which went on to obtain almost 100% of the votes. Those at Chevron and Exxon were opposed to the resolutions, which took under 20% of the votes.
- The resolutions have put the issue of the profitability of oil exploration – and the future of companies focused purely on this endeavour – firmly on the agendas of annual general meetings. They have also indirectly shown the progress made by renewable energies in terms of competitiveness.

Green investments: focus on green bonds

Green financing is expanding but the trend is hard to quantify since the nature of such financing is diverse and the statements made cover a broad range of investments (spanning renewable energies and green funds). The most closely followed market is that of green bonds, preferred by investors looking to make green investments. With the market booming and expected to reach $100 billion by the end of the year, more and more questions are being asked as to the environmental qualities of the proposed projects. For example, nearly 30 investors have signed the Statement of Investor Expectations for the Green Bond Market (CERES). The Climate Bond Initiative is keeping a close eye on this market and has started to provide certification ensuring that the funds raised by the green bond have indeed served to finance “climate change solutions”.

JUNE 2015: UPDATE OF THE REPORT CONDUCTED BY NOVETHIC RESEARCH CENTRE



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