Investors step up engagement with fossil fuel companies

As climate negotiations continue, investors raise questions for boards of oil and gas companies around the world

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As countries gather in Lima to build momentum towards an international climate deal, the global investor community has today published a guide outlining expectations for fossil fuel companies on growing carbon asset risks as they prepare to step up their engagement with the industry in the coming year.

Seeking to safeguard their investments from uncertain fossil fuel demand, emerging technologies and policy interventions, investors are concerned that current business strategies being pursued by some oil and gas companies may not be sufficiently sustainable.

"Major trends are shaping a new direction in favour of low carbon energy systems and it is a critical time for the oil and gas sector," states the *Investor Expectations: Oil and Gas Company Strategy* document, developed by IIGCC in Europe, Ceres' INCR in the US, IGCC in Australia/New Zealand and AIGCC in Asia, which collaborate on joint initiatives as the Global Investor Coalition on Climate Change (GIC). "Capital allocation decisions being made now will determine the future profitability of the sector. We would like to see resilient business strategies that have been sufficiently stress tested to prepare for the next decade and beyond."

"The appropriate response of policy makers to deal with climate change will impact the profitability of more carbon intensive energy assets over time. We recognise the economic and financial case for such future policy changes, so we are in favour of lower carbon intensity capex plans in the energy sector today. Active and engaged investors are key to supporting this transition." said Stephanie Maier, Aviva Investors and Head of IIGCC's Corporate Working Group.

The document aims to further stimulate and facilitate more meaningful discussions of climate risk by a larger number of investors and oil and gas companies. Recommendations for company board and management consideration outlined in the *Investor Expectations* include:

1. Clearly define board and management governance of climate change risks and implications of energy transition dynamics.
2. Ensure business model is robust and resilient in the face of a range of energy demand scenarios through appropriate stress testing.
3. Embed 'stress testing' for climate risk within key business processes and investment decisions.

4. Communicate publicly the company's view of and response to its material climate change risks and opportunities and the key assumptions underpinning this.
5. Ensure there is broad oversight and transparency of the company's lobbying activity and political spending on this topic and related energy and regulatory issues.

"We need to know how fossil fuel companies - and particularly the boards which are accountable for overseeing these companies - see the future of demand, how that view aligns with the carbon reductions being agreed to by governments around the world, and to what extent there may be stranded assets due to either a commitment by governments or a shift in demand," said Anne Simpson, Director of Global Governance for the California Public Employee's Retirement System (CalPERS), the largest public pension fund in the U.S.

Further engagement by investors on climate risk comes at a critical time, with negotiations on a global climate agreement continuing in Lima ahead of the Paris conference next year. Investors want to see strong climate action. At the UN Climate Summit in September more than 350 investors representing over $24 trillion in assets called on governments to develop an ambitious international agreement, including meaningful carbon pricing and an end to fossil fuel subsidies. The recent decline in oil prices, which is squeezing company earnings is also elevating investor concerns about future spending in expensive, risky projects that will be unprofitable if oil prices are not substantially higher.

"Investors want to ensure oil and gas companies are prepared for changing market dynamics and the risks they pose to profits. This document will help do this by supporting a constructive dialogue between investors and the companies they own," said Stephanie Pfeifer, Chief Executive of IIGCC.

"This initiative is an example of the market working to respond to climate change. Thorough scenario testing, risk analysis and transparency by fossil fuel companies will help investors avoid misplaced faith in both endless fossil fuels growth and universal divestment," said Nathan Fabian, Chief Executive of IGCC Australia and New Zealand.

The Investor Expectations of Oil and Gas Companies was developed by the IIGCC with support from Ceres' INCR, IGCC and AIGCC. It builds on the Carbon Asset Risk (CAR) Initiative, through which 75 investors managing more than $3 trillion in assets engaged with 45 of the world's largest fossil fuel companies. The CAR initiative is coordinated by Ceres and Carbon Tracker, with support from IIGCC and IGCC, which lead engagement with fossil fuel companies in Europe and Australia/New Zealand respectively.

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About Institutional Investors Group on Climate Change (Europe)

The Institutional Investors Group on Climate Change (IIGCC) is a forum for collaboration on climate change for investors. IIGCC's network includes over 90 members, with some of the largest pension funds and asset managers in Europe, representing €9trillion in assets. IIGCC's mission is to provide investors a common voice to encourage public policies, investment practices and corporate behaviour which address long-term risks and opportunities associated with climate change. Visit www.iigcc.org.

About Ceres' Investor Network on Climate Risk (United States)

The Investor Network on Climate Risk (INCR) is a North America-focused network of institutional investors dedicated to addressing the financial risks and investment opportunities posed by climate change and other sustainability challenges. INCR currently has more than 110 members representing over $13 trillion in assets. INCR is a project of Ceres, a nonprofit advocate for sustainability leadership that mobilizes investors, companies and public interest groups to accelerate and expand the adoption of sustainable business practices and solutions to build a healthy global economy. Visit www.ceres.org.

About Investors Group on Climate Change (Australia/New Zealand)

IGCC is a collaboration of 52 Australian and New Zealand institutional investors and advisors, managing approximately $1 trillion and focusing on the impact that climate change has on the financial value of investments. The IGCC aims to encourage government policies and investment practices that address the risks and opportunities of climate change, for the ultimate benefit of superannuants and unit holders. Visit www.igcc.org.au.

About the Asia Investor Group on Climate Change

The Asia Investor Group on Climate Change (AIGCC) is an initiative set up by the Association for Sustainable and Responsible Investment in Asia (ASrIA) to create awareness among Asia's asset owners and financial institutions about the risks and opportunities associated with climate change and low carbon investing. AIGCC provides capacity for investors to share best practice and to collaborate on investment activity, credit analysis, risk management, engagement and policy. With a strong international profile and significant network, including pension, sovereign wealth funds insurance companies and fund managers, AIGCC represents the Asian voice in the evolving global discussions on climate change and the transition to a greener economy. Visit http://aigcc.asria.org/.